Declaration of Intentions

How can you better assess a firm's commitment to ESG?

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Intentionality, the best-practice quality in ESG and impact investing, is where capital is allocated purposefully to be exposed to, participate in or catalyze positive change. But, as the aphorism goes, the road to hell is paved with good intentions. How then, as a gatekeeper, does one assess the substance of stated intentions to assure there is more than deliberate or accidental 'greenwashing'?

This question comes up more and more as principled public statements are made by leaders in financial services. Firms are making declarations or becoming signatories to guidelines, frameworks and organizations that embody targets and processes for sustainability and positive change. We have to deconstruct these statements and commitments to assess how deep that sense of purpose actually runs into the ethos and practices of these companies.

The following are a few avenues of inquiry that can lead to better understanding of where a firm falls.

With whom or to what is a financial services firm aligning itself, and how is that manifested in operations, services and solutions?
First, become familiar with major organizations and convenings such as the Sustainability Accounting Standards Board, the United Nations Principles for Responsible Investment, Ceres and the US SIF establishing frameworks, standards, and guidelines, and inquire as to how those have been embraced within the firm under evaluation. Getting out the checkbook and becoming a member or a signatory is a start but tells us very little about what the firm has actually done with it. There should be evidence of a warm embrace of what these organizations actually stand for.

Is there a two-way street of support and commitment between leadership and the product chassis within the firm?
Portfolio management teams should operate in an environment where they do not have to buck the culture to authentically deliver on their ESG/impact mandates. Going the other direction, top-down corporate declarations should be expressed in actual products and services available to clients.

To what extent is there a trajectory of improvement that is operationalized and observable?
Define the line between rhetoric and signals of real change. The conditions should be set for improving sustainability firm-wide. A firm that acknowledges the climate emergency but still allocates significant capital to carbon-intensive businesses without a roadmap for reducing and ultimately eliminating that exposure is not ready to be counted as sustainable.

Are there policy inconsistencies in areas such as proxy voting?
Engagement teams that are permitted or, ideally, encouraged to reach beyond individual ESG products to carry the enterprise's sustainability voice forward – regardless of the investment mandate – demonstrate a real commitment to these ideas.

What is the nature of philanthropic engagement and is it consistent with declarations of intent around sustainability?
Philanthropy can give an analyst insight into the soul of a firm. It can show whether it is laundering its reputation or productizing ESG concepts for sale, rather than expressing a genuine culture of positive change. Look beyond totals donated to ask where corporate philanthropy is directed. Philanthropy solely focused on furthering the strategic interests of the firm in a tax-efficient way is not the same as representing the hearts of stakeholders to make the world a better place. And philanthropic services for clients such as consulting on family foundations or offering donor-advised funds ought to be geared around aligning principles and purpose in investment with granting and not solely oriented around protecting wealth. In the end, starting from a place of good intentions is valuable but where they go and how they get there matters just as much. ■