Helpdesk Report

Knowledge, evidence and learning for development

Incentivising responsible business

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Question

What is the evidence that incentives and sanction mechanisms (from consumers, investors, governments, or civil society) drive responsible and inclusive business practices and investments that respect human rights of workers and protect the environment?

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The K4D helpdesk service provides brief summaries of current research, evidence, and lessons learned. Helpdesk reports are not rigorous or systematic reviews; they are intended to provide an introduction to the most important evidence related to a research question. They draw on a rapid desk-based review of published literature and consultation with subject specialists.

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1. Summary

This report summarises evidence of the effectiveness of each of the following influences for incentivising businesses to adopt more responsible practices:

- **Customer pressure: strong incentive**. Consumers increasingly care about environmental and social impacts, and the expectations of consumers both in high- and low-income countries are a significant influence on the behaviour of companies.
- **Transparency and reporting schemes: weak incentive**. Voluntary transparency and reporting schemes are increasingly widespread, but provide only a weak incentive to businesses if they do not contain mechanisms for engagement or enforcement.
- **Shareholder activism: strong incentive**. Shareholders and investment management firms exert strong influence over publicly traded companies by engaging with management or voting on shareholder resolutions.
- **Workers' and managers' values: weak incentive**. The degree to which workers' and managers' personal values influence companies' business practices is unclear, but there is no strong evidence of clear influence.
- **Business performance benefits: strong incentive**. There is increasingly robust evidence that improving environmental and social standards can improve companies' long-term financial performance.

Limitations and scope

This report attempts to estimate the strength of the evidence available for each of these influence pathways, but in the time available for this short report it has not been possible to undertake a comprehensive review of the literature on each type of incentive. A comprehensive literature review, evidence map, or similar product could provide a higher degree of confidence in the strength of the evidence in each area.

The scope of this report has been agreed to focus on a range of external drivers that may incentivise businesses to voluntarily adopt more responsible business practices. The scope excludes laws, regulations, and mandatory requirements such as those embedded in legal arrangements like trade agreements.

Terminology

When discussing responsible and inclusive business practices, and particularly when quoting from or paraphrasing from the literature, this report also uses the following terms which are commonly found in the literature:

- **Corporate social responsibility** (**CSR**) refers to voluntarily incorporating environmental and social concerns into a company's business practices.
- **Environmental, social, and corporate governance** (**ESG**) is a term used in the business and investing literature, which also refers to these issues as '**non-financial reporting**' in contrast to traditional corporate reports which have until recently discussed business operations in primarily financial terms.

2. Customer pressure

There is good evidence that the expectations of individual retail consumers and business customers, in wealthy countries and in developing countries, play a significant role in influencing the behaviour of companies.

Customers' **purchasing choices** have long been influenced by environmental and social concerns. 'Consumers care not only about the price and quality of products and services, but increasingly about environmental and social 'footprints' as well' (United Nations Global Compact & Bertelsmann Stiftung, 2010, p. 20). Some twenty years ago, IKEA adopted a code of conduct for its suppliers in response to customers in its stores asking 'how a given product has been produced, who has produced it and where' (Andersen & Skjoett-Larsen, 2009, p. 79). More recently, a consumer survey for the UN Global Compact in 2014 found that 21% of North Americans, 27% of Europeans, and 39% of Africans and Latin Americans report that they often or always consider sustainability when selecting products and services (Accenture, 2014, p. 9). A meta-review of academic, NGO, and business literature in 2017 found that sales and marketing benefits were consistently cited as reasons for adopting sustainability standards, mentioned by 98% of the sources reviewed (Molenaar & Kessler, 2017, p. 5).

Reputational concerns are an important incentive for adopting codes of conduct, creating monitoring systems alone or with partners, or otherwise improving corporate governance in relation to environmental and labour protections. 'Numerous studies reveal how pressure by consumers (both individual and institutional), media, activists, regulators, shareholders, and others threatens the reputation of the brand or company' (Berliner, Greenleaf, Lake, Levi, & Noveck, 2015, p. 200). A study involving interviewing or surveying 71 leading global companies found that 97% of the respondents cited reputational risk resulting from public exposure of worker abuse in the supply chain or company operations as the biggest driver for action on modern slavery (Lake, MacAlister, Berman, Gitsham, & Page, 2016, p. 8). Retail brands selling to individuals are 'especially vulnerable to negative publicity about social or environmental conditions in their supply chain' (Andersen & Skjoett-Larsen, 2009, p. 76), but retail customers' expectations also translate into requirements for companies further down global supply chains. Companies that operate in a business-to-business mode also report 'growing pressure from their business customers to provide assurance on what they are doing to address modern slavery' (Lake et al., 2016, p. 9).

Consumer pressure can be mobilised in response to specific incidents which threaten to harm a company's reputation, and can be coordinated and amplified by civil society groups, the media, or in collaboration with other kinds of organisations. For example, in 2014 a Thai company (Charoen Pokphand Foods) supplying prawns to European and American supermarket chains was accused of using fishmeal obtained from fishing boats operated by slaves to feed their prawns, and public pressure forced the supermarkets to withdraw its products (Gold, Trautrims, & Trodd, 2015, p. 4). In 2009, an international network called the Worker Rights Consortium undertook a year-long campaign to improve labour standards in garment factories in Honduras. The campaign linked garment workers with students and administrators in North American universities, which were major customers of branded garments, and led to significant improvements in labour standards across Honduras (Arengo, 2019).

As consumers, particularly in wealthy countries, become more conscious about sustainability issues, firms use **certification and labelling schemes** as signalling devices and to develop a

green reputation (Schleifer, 2017, pp. 690–691). There has been a large increase over the past decade in the number of certification, labelling, and standards schemes, reflecting ‘a demand among consumers, buyers and producers to address common environmental and social concerns’ (Lernoud et al., 2018, p. xviii). The Ecolabel Index, for example, identifies 463 different labelling schemes in 199 countries and 25 industry sectors (Big Room, 2019). Unfortunately, however, the proliferation of labelling schemes ‘creates confusion for consumers and the industry and is standing in the way of genuinely sustainable consumption’ (Changing Markets Foundation, 2018, p. 7).

As certification schemes are voluntary, and as there is a wide range of schemes available, companies and industries can adopt schemes of varying rigour depending on their objectives. Customers unfamiliar with the details of certification schemes may not be able to make fully informed choices. In Brazil, for example, in the early 2010s, the sugarcane industry aimed to sell to European markets, and adopted a rigorous environmental certification scheme to satisfy EU requirements, while the soy industry, responding to high demand from China which had little interest in sustainability issues, elected not to pursue certification (Schleifer, 2017). A study of 575 coffee farms in Latin America examining the recent proliferation of new ‘in-house’ certification schemes (schemes operated by firms such as Starbucks, Nespresso, and others for their own supply chains, rather than independent certifications like Fairtrade and Organic) found that farms operating under in-house certifications showed better environmental performance than non-certified farms, but ‘do not display substantially better social conduct than non-certified farmers’ (Giuliani, Ciravegna, Vezzulli, & Kilian, 2017, p. 307).

3. Transparency and reporting initiatives

Many voluntary initiatives are attempting to increase transparency about companies’ performance on environmental and social issues. These initiatives are normally predicated on the assumption that companies will compete to obtain better rankings and reduce reputational risks, and intend to ‘harness the power of the consumer to demand and use the information to help prevent slavery and exploitation’ (Nolan & Bott, 2018, p. 53). Although participation in these schemes has been popular, the literature suggests that at best it is ‘uncertain what impact this has had on actual corporate behaviour’ (Baghuis, 2018, p. 8) and that at worst such initiatives ‘are generally insufficient to regulate corporate conduct’ (Nolan & Bott, 2018, p. 52).

Initiatives that merely require disclosure without active engagement or regulatory consequences appear not to be a sufficient incentive to induce companies to change practices significantly (Nolan & Bott, 2018, pp. 57–59). A George Washington University study (Aaronson & Wham, 2016, p. 18) evaluating four supply chain disclosure initiatives (the Dodd Frank Conflict Minerals and Publish What You Pay Provisions, EU Conflict Minerals Supply Chain Transparency Regulation, California Transparency in Supply Chains Act, and UK Modern Slavery Act) found that these initiatives:

- were expensive to implement;
- had not led the bulk of firms to report, and the ones that do report only make broad statements and general commitments;
- require transparency about supply chain practices but say little about how firms should behave;
- do not yet appear to have changed corporate behaviour, although they have led firms to discuss how to address supply chain problems;

- have disappointed many of the activists who called for them;
- can help governments and activists monitor those firms that do report, but firms are not providing the right kind or sufficient information to facilitate effective monitoring; and
- can do little to empower workers.

The **Global Reporting Initiative** (GRI) is an independent international initiative founded in 1997 to develop and manage a set of corporate sustainability reporting standards covering a range of economic, environmental and social issues. The standards include guidance on what should be covered, with varying levels of 'core' and 'additional' performance criterial and levels of reporting (Siew, 2015, p. 182). The GRI is the most popular framework for corporate responsibility reporting, used by more than 3,500 organizations in more than 60 countries (Williams, 2018, p. 7) including two-thirds of the world's 250 largest companies (Blasco & King, 2017, p. 28).

Studies investigating the impact of companies' participation in the GRI report mixed results. One study comparing CO_2 emissions produced by 64 companies in five different industry sectors over six years found no statistically significant difference between companies that were part of the GRI reporting system and those that were not, suggesting that 'GRI reporting, by itself, has no direct impact whatsoever on companies' sustainability performance', at least as measured by CO_2 emissions (Belkhir, Bernard, & Abdelgadir, 2017, p. 151). Another academic study analysing the content of 933 GRI reports from seven industries across 30 countries found that the reports tended to be surprisingly uniform across all industries and countries, failing to reflect the issues that were most material for companies' operations and stakeholders. The authors conclude that GRI reporting has been successful in prompting outputs, but not in promoting real outcomes, and that 'it is unlikely that GRI reporting will result in measurable contributions towards problem-solving in the areas the company reports on' (Barkemeyer, Preuss, & Lee, 2015, pp. 313, 324). On the other hand, a more recent study looking at a wider range of environmental performance indicators did find that 'the higher environmental reporting index is correlated with higher actual environmental score', indicating that environmental reporting was linked with performance (Bednárová, Klimko, & Rievajová, 2019, p. 10).

The **UK Modern Slavery Act** (2015) requires large companies operating in the UK to publish an annual statement describing the steps they have taken to ensure that slavery and human trafficking are not present in their operations or supply chains, or if no steps have been taken, companies must issue a statement stating that fact. Details of what should be reported are not mandated, and there is no fixed penalty for failing to publish the statement (Nolan & Bott, 2018, pp. 52–53, 57).

Compliance with the Act appears weak. An independent registry reports that only 23% of the disclosure statements registered fulfilled even the three most basic requirements of being published on the company's website with a link from the home page, signed by a director or equivalent, and containing a statement that the report has been approved by the company's board (Business & Human Rights Resource Centre, 2019). A campaigning organisation reviewing a selection of companies' statements found 'that many of these statements are not compliant with the basic requirements of the legislation and that the majority do not address in substantive detail the six topic areas listed in the Act' (CORE Coalition, 2017, p. 8). Another analysis of approximately 230 companies' statements found that most were non-specific and did not identify priority risks, and many contained very similar wording, suggesting the use of common templates or model statements (Ergon Associates, 2016, p. 1).

The **California Transparency in Supply Chains Act** has required large retailers operating in California since 2012 to report on how they manage their supply chains to address risks of slavery, forced labour, and human trafficking, including how they audit and control their suppliers, how they hold employees and suppliers to account, and how they train employees and management on human trafficking and slavery. Companies are not required to take action on these issues, only to report on what they do, and there is no fixed penalty for non-compliance (Nolan & Bott, 2018, pp. 53, 57).

The civil society organisation KnowTheChain argues that the Act is difficult to apply and monitor because of a lack of clarity about which companies are subject to it, and that companies' disclosure statements contain 'a significant number of inconsistencies between the law's requirements and what was actually being publicly displayed' including that 47% of the reports examined did not disclose sufficient information in all of the areas required by the Act (KnowTheChain, 2015, p. 6)

Both the California and UK initiatives have been criticised as showing 'a trend towards cosmetic compliance reporting rather than substantive reporting' (Nolan & Bott, 2018, p. 53) and of falling 'short of any serious effort to combat their target human rights violations' (Nolan & Bott, 2018, pp. 53, 55).

The **Corporate Human Rights Benchmark** ranks 200 of the largest publicly traded companies in the world operating in four sectors with a high risk of human rights abuse: agricultural products, apparel, extractives, and information and communications technology manufacturing. The Benchmark calculates an overall score of 24% (based on points awarded for performance across multiple themes and indicators), with one quarter of the companies scoring less than 10% and half failing to meet any of its five basic criteria for human rights due diligence, which it describes as a state of affairs that 'should alarm governments and investors' (Corporate Human Rights Benchmark, 2019, p. 4). Although companies that have been included in the index since it began in 2017 have improved their performance (from 18% to almost 32%), companies added to the index more recently have brought the average down. Overall, most companies demonstrate low human rights standards, a failure to implement the UN Guiding Principles on Business and Human Rights, and/or a lack of disclosure and transparency (Corporate Human Rights Benchmark, 2019, pp. 4–6).

An **EU directive on non-financial reporting** will require large companies in the EU to disclose social, environmental and diversity information, but the process of transposing the directive into the laws of EU member countries has been slow and its impacts are only expected to begin to become visible in 2019 or 2020 (Blasco & King, 2017, p. 12). The EU directive will require companies to report, but it does not impose a requirement to change practices or undertake due diligence (Nolan & Bott, 2018, p. 54).

One trend which may be promising is the increasing number of large companies practicing **integrated reporting** – that is, integrating information about environmental and social performance into their annual reports which formerly contained only financial information. This gives corporate responsibility information much greater prominence to investors. 78% of the world's 250 largest companies now do this (Blasco & King, 2017, p. 21). This trend has been driven mostly by increasing shareholder interest in sustainability, but has also been influenced by guidance from the Sustainability Accounting Standards Board and, in the USA, by securities regulations requiring climate change related disclosures (Blasco & King, 2017, p. 23).

4. Shareholder activism

Shareholders of publicly traded companies have the right to be involved in corporate governance, but most shareholders do not take an active interest. When the majority of investors in a company are passive, a minority of 'activist' investors who hold a relatively small proportion of shares (sometimes as little as 1% to 3% of shares) can exercise influence over the company by voting on (or merely threatening to vote on) motions for corporate decision making which can include selection of company directors or calling for strategic changes. Most activist shareholders use their power for short-term financial gain by requiring companies to take actions that influence share prices or otherwise affect shareholder value, but others (of interest for the purposes of this report) attempt to influence company practices in favour of positive environmental, social, or corporate governance goals (Losasso & Dellecker, 2018, pp. 8–9).

Shareholder activism has increased in the past ten years, having emerged first in the USA but now also growing in Europe and Asia (Losasso & Dellecker, 2018, p. 10). Attempts to measure its extent provide varying estimates. J.P. Morgan's most recent annual report on shareholder activism recorded 651 campaigns in 2018, 51% in the USA and the remainder in Europe, Asia, and Australia, but does not disaggregate calls for responsible business practices from other possible shareholder objectives such as mergers, acquisitions, selection of directors, or other business decisions. A 2013 report found that nearly 40% of shareholder resolutions submitted to Russell 3000 companies in the USA were related to ESG[1] issues (Proxy voting Analytics 2014, cited in Grewal, Serafeim, & Yoon, 2016, p. 7); another report indicates that the proportion of resolutions addressing ESG issues has risen from around 33% in 2006-2010 to more than 50% by 2017 (Institutional Shareholder Services, n.d., cited in Eccles & Klimenko, 2019). The responsible business shareholder activism network As You Sow reports between 400 and 500 shareholder campaigns in the USA on environmental, social, and sustainability issues each year since 2010 (Welsh & Passoff, 2019, p. 5).

There has been little research on shareholder activism in sub-Saharan Africa (Adegbite, Amaeshi, & Amao, 2012, p. 391) but shareholder activism appears to be much less established as an approach to corporate governance. In **Nigeria**, there is a legal framework to support shareholder activism, and shareholders' associations have arisen to promote small shareholders' interests, but corruption is widespread, making corporate governance a difficult challenge, and most shareholder activism appears to be aimed at extracting wealth from companies or holding executives to account rather than at promoting responsible business practices (Adegbite et al., 2012; Adegbite, Jones, & Uche, 2016). In **South Africa**, shareholder activism is a fairly recent phenomenon but has become established as a way for shareholders to hold companies to account and to pursue ESG objectives (Davids & Kitcat, 2019). Shareholder activism is rarely conducted through formal shareholder resolutions, with most activism being conducted through questions, negotiations, and informal, often private, discussion with company management (Viviers, 2016, pp. 357–358). The current iteration of the King code of conduct on corporate governance in South Africa, adopted by the Institute of Directors in Southern Africa, encourages shareholder activism, so this approach to putting pressure on companies is expected to continue to increase in importance (Davids & Kitcat, 2019).

[1] Environmental, social, and corporate governance; commonly used in the investing and business literature to refer to responsible and inclusive business practices

Campaigns for responsible business practices are usually led by pension funds, investment managers with a focus on sustainability, religious groups, or other coalitions of like-minded investors, usually on the grounds that long-term sustainability is in the best interests of the investors they represent (Losasso & Dellecker, 2018, p. 11).

Campaigners are becoming more assertive and influential (J. P. Morgan, 2018, p. 6), and there is good evidence that shareholder activism is effective at influencing corporate behaviour, although its influence is often informal and indirect. Large investment managers often engage with companies informally and privately to influence them, discussing issues of concern and even providing guidelines to companies, rather than engaging in open confrontation in the form of a shareholder resolution (J. P. Morgan, 2018, pp. 6–7; Losasso & Dellecker, 2018, p. 13).

Formal resolutions on ESG issues which are voted on by shareholders at a company's annual general meeting do not usually receive majority support, with votes of around 20% in favour of such motions being typical (Grewal et al., 2016, p. 2; Losasso & Dellecker, 2018, p. 12). The proportion of shareholders supporting such motions has been increasing rapidly in recent years, and there appears to be increased willingness on the part of companies to work with activist shareholders to resolve issues before they are brought to a vote (Papadopoulos, 2019). However, shareholder motions that fail can often still persuade management to adopt changes (Grewal et al., 2016, p. 2; Losasso & Dellecker, 2018, p. 12). Resolutions that achieve the support of even 10% of shareholders are still considered influential, and resolutions that achieve support of 20% or more 'send a clear message to corporate management and tend not to be ignored by any company' (Losasso & Dellecker, 2018, p. 13). A Harvard Business School study concluded that 'filing shareholder proposals is effective at improving the performance of the company on the focal ESG issue… even though such proposals have rarely received majority support, they have still had an effect on corporate management' (Grewal et al., 2016, p. 4).

Some early studies of shareholder activism on ESG issues in the 2000s showed negligible or even negative effects on firms' environmental performance, but more recent studies in the 2010s have shown more consistently positive results (Grewal et al., 2016, pp. 11–12). Large numbers of success stories have been reported anecdotally: one firm that works with investors to support shareholder activism on ESG issues reported that they had made progress on about one-third of 1,704 initiatives launched in 2017 (Eccles & Klimenko, 2019). A Harvard Business School study in 2016 found that shareholder activism on sustainability led to increased transparency and more integrated reporting (Serafeim, 2015, cited in Grewal et al., 2016, p. 12).

There is also convincing evidence that shareholder activism on ESG issues can be beneficial for firms' financial performance. A study of the shareholder activist work of one large institutional investment manager in the USA (Dimson, Karakas, & Li, 2015) looked at 2,152 instances of engaging with 613 different companies between 1999 and 2009, in which 18% of the engagements were considered to be successful in achieving their intended goals. Companies where the engagements were considered successful showed positive stock market returns one year later: 'the average one-year size-adjusted abnormal return after initial engagement is +7.1% for successful engagements, but there is no adverse reaction to unsuccessful ones' (Dimson et al., 2015, p. 3261). Another study, which looked at the impact of shareholder resolutions on corporate social responsibility that passed by very small margins of votes, found that approving and implementing such resolutions significantly increases shareholder value. 'On the day of the shareholder meeting, a CSR proposal that passes by a narrow margin of votes yields an abnormal return of 0.92% compared with a CSR proposal that fails marginally', and subsequently

‘implementing a close call CSR proposal leads to an increase in shareholder value by about 1.77%’ (Flammer, 2015, p. 2). Not all studies confirm these findings, however: one study carried out in 2018 on the impact of shareholder proposals related to climate change found ‘no statistically significant impact on company returns one way or the other’ (Kalt, Turki, Grant, Kendall, & Molin, 2018, p. 3).

5. Workers’ and managers’ values

The degree to which workers’ and managers’ personal values influence companies’ business practices is a ‘highly contested point in management literature’ (Williams, 2018, pp. 3–4). There appears to be limited and conflicting evidence on this question.

Some studies argue that corporate social responsibility ‘is motivated by the organizational environment and as such, not by the existence of intrinsic values within a firm’ (Shnayder, Van Rijnsoever, & Hekkert, 2016, p. 213). However, there is some limited evidence, mostly from small scale studies, that suggests that a company’s approach to corporate social responsibility may be influenced by the personal values of managers and workers. A study of 473 Dutch corporate executives, for example, found that their values and beliefs had a significant effect on their companies’ corporate social responsibility performance. The study confirmed that the contribution of CSR to the long term financial performance of the company was a significant motive, but also found that CSR performance was higher where executives were inclined to perceive CSR as an ethical duty and were more concerned about meeting moral duties, and where executives are more altruistic (Graafland & Mazereeuw-Van Der Duijn Shouten, 2012, pp. 391–392). Another study finds that firms in the USA located in areas of higher social capital demonstrate higher levels of corporate social responsibility. The authors argue that this can be explained by the fact that some regions are more altruistic than others because of historic traditions and norms, and that managers are likely to be influenced by the norms of the region where they live, which in turn influences decisions at the corporate level (Jha & Cox, 2015).

Some authors have noted that the ‘**Millennial generation**’ (people born between 1983 and 1994) place a great deal of importance on corporate social responsibility, and argue that their increasing presence in the workplace may influence corporate behaviour. Deloitte, for example, argues that Millennials (and members of ‘Generation Z’, born between 1995 and 2002) ‘want all of the talk business gives to purpose to become meaningful action, and for business leaders to serve as agents for positive change. They expect business to enhance lives and provide livelihoods, but they don’t see enough businesses standing up and filling the void’ (Deloitte, 2019, p. 26).

There appears to be little concrete evidence on the extent of Millennials’ influence on corporate behaviour as workers or managers, but there is evidence of discontentment and idealism. A survey of 13,416 Millennials and 3,009 Gen Zs across 42 countries (mostly high-income countries, but also including Nigeria, South Africa, and several Asian low- or middle-income countries) that has been running for eight years has found increasingly negative opinions about business. Only 55% of respondents in 2019 said that business has a positive impact on society, down from 61% last year and more than 70% in the four years before that. The trend towards negative views was steepest in developing countries, where approval of business has dropped from 85% two years ago to 61%, compared with respondents in wealthier countries where approval has dropped from 66% to 50% over the same period (Deloitte, 2019, p. 11). Survey respondents increasingly say that businesses focus on their own agendas rather than

considering wider society (76%) and show ‘a continuing misalignment between millennials’ priorities and what they perceived to be business’s purpose’ (Deloitte, 2019, p. 11).

6. Business performance benefits

There is increasingly robust evidence from academic research and from major investment management firms that implementing sustainable business practices can be beneficial for companies’ financial performance.

Responsible business practices contribute to financial performance largely through the reduction of business risks. ‘Breaches of environmental regulations, human rights abuses or governance issues, such as corruption, can result in fines, directly impacting the company, but can also hurt reputation and lead to a significant loss of revenue if customers abandon businesses during a scandal’ (Nordea Equity Research, 2017, p. 2). Good ESG performance is also linked with innovations which can produce competitive advantages; good labour standards contribute to productivity and lower staff turnover costs; and diversity of leadership is linked with better overall management (Bank of America Merrill Lynch, 2016, p. 2).

Some studies find that corporate social responsibility detracts from financial performance. For example, Di Giuli and Kostovetsky (2014, p. 177) find ‘a negative correlation between CSR and future stock prices and operating performance. Other studies have found a positive relationships, no relationships, negative relationships, or variable (for example, U-shaped) relationships between corporate social responsibility and financial performance, but meta-analyses conclude that ‘a positive relationship is more common than other types’ (Galant & Cadez, 2017, p. 677).

A long-term Harvard Business School study found that ‘companies that developed organizational processes to measure, manage, and communicate performance on ESG issues in the early 1990s outperformed a carefully matched control group over the next 18 years’ (Eccles & Klimenko, 2019, p. 111). Nordea Equity Research finds strong and consistent evidence that ‘companies that score higher on ESG demonstrate better operational performance, with regards to both the level and the stability of returns’ since 2012, which they attribute largely to ESG performance indicating better risk management (Nordea Equity Research, 2017, pp. 2, 5). Bank of America Merrill Lynch has called ESG performance ‘the best signal we have found for future risk’ (Bank of America Merrill Lynch, 2017, p. 1), reliably indicating the likelihood of future volatility, earnings risk, price declines and bankruptcies, and reporting that ‘stocks that ranked within the top third by ESG scores relative to their peers would have outperformed stocks in the bottom third by about 18ppt from 2005 to today’ (Bank of America Merrill Lynch, 2016, pp. 1, 3).

An evaluation of the ILO/IFC ‘Better Work’ programme in the garment sector in Vietnam found that better working conditions were linked with higher worker productivity and higher factory profitability (International Labour Organization, 2016, pp. 30–31). Some factories participating in the programme saw profit increase by as much as 8%, the revenue-cost ratio across all factories increased by 25%, and firms experienced larger orders with more favourable contract terms (International Labour Organization, 2016, pp. 31–32). The ILO speculates that managers may lack capacity to change established practices, may view workers as dehumanised, or may lack the necessary information on the business case for improving working conditions (International Labour Organization, 2016, p. 33).

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