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Social responsibility and transparency: can investors influence companies?

Paul Severin

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The bribery scandal at FIFA has shown what huge reputations risks companies may face if they do business with partners that do not care about environmental, social, and corporate governance standards (ESG). The discussion about ESG has therefore gained in importance over the past months. The investors play an important part in this context, as they can themselves nudge companies towards social responsibility and transparency. Gerold Permoser, Chief Investment Officer of Erste Asset Management (EAM) in Vienna explains why the so-called engagement is important.

Mister Permoser, eleven FIFA officials have recently been arrested, and president Josef Blatter has stepped down. Why is engagement also crucial in the context of sponsoring?

Gerold Permoser,
Chief Investment Officer (CIO) of Erste Asset Management in Vienna.

Permoser: Sponsors such as Adidas, Sony, and Visa have recognised the great reputation risk: scandals around bad working conditions, inconsistencies with regard to the award process of sports events, and allegations of corruption also come with negative effects on companies that support FIFA financially. Therefore sponsors have now publicly asked FIFA to clarify the background behind the award of the World Cup finals to Qatar and its terms as well as to focus more strongly on the aspect of sustainability in the preparations. The shareholders of Adidas went so far as to demand the termination of the sponsorship agreements with FIFA at the annual general meeting.

It is clear to see that shareholders, on the basis of their vote, have the power to effect change in the company. Long before shareholders voice their concerns at AGMs, investors can try to enter into a direct dialogue with the companies, for example within the framework of engagement activities. This facilitates an ongoing, structured, and sustainably successful dialogue for both sides.

Will engagement remain important, or is it just a fad?

Permoser: Of course not every engagement project causes the company to change its ways according to our wishes. That being said, engagement processes tend to show effects quite frequently. On the one hand companies can learn a lot about the expectations of sustainably oriented investors, on the other hand the inaccessibility to dialogue tends to be no good strategy when it comes to confronting a critical public. If for example an asset management company excludes a company from the investment universe due to the insufficient outcome of the engagement process, this step comes with a negative signalling effect, and the interest by the media tends to be a comprehensive one. Companies know this, which facilitates a dialogue of equal partners. The goal of the engagement process is of course to facilitate concrete improvements of the ESG factors. The exclusion from the investment universe can also trigger a change of attitude in the company, which in turn may cause it to resume the engagement dialogue. This means that engagement is not only a fad, but should and does lead to changes in the company over the long run. This is also important for investors: they, too, should pursue a long-term engagement process. The goal is to create sustainable change rather than to force a short-term event that is beneficial to the quarterly figures.

How can companies be convinced of ESG standards?

Permoser: As already pointed out, engagement happens in a dialogue of equal partners. This process helps the companies involved understand their status quo in terms of environmental, social, and corporate governance issues, and what opportunities of improvement are available to them. Companies are happy to take this offer. According to our engagement partners, the response rates of companies in developed countries are close to 60%. While in emerging countries companies tend to take the offer of a dialogue less frequently, the tendency is rising here, too. Also, no company wants to be seen as reluctant to dialogue or to be excluded by a large asset management company on the grounds of bad ESG standards. Companies have found out that sustainable investors are often long-term investors and are therefore more and more willing to meet their requirements. Lastly, engagement is also a very good method for companies to manage and reduce their ESG risks, because as part of the engagement process we jointly develop concrete measures to this end.

Find the latest issue of our ESG Letter here: www.esgletter.at

Paul Severin

Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

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