

Do Social Concerns Get Overlooked in Terms of ESG?

Draft to launch the discussion

Introduction:

Major topics of social concerns for investors are the following ones:

- Respect of Human and Labour rights in the invested companies/projects and in their Supply Chain
- Health & Safety in the production process
- Health & Safety of the products once the Customers are using them

Examples:

- 1) We have been presented yesterday with VW case study. The main take-aways were:
 - VW has violated the Clean Air Protection Act and committed an environmental offence, they have lied and cheated US authority
 - VW through misleading and false advertisement has cheated consumers who bought diesel cars thinking they were not polluting. As a matter of fact, the cars emitted 40 time more NOX2 gases on the road than what was dissimulated by tests in laboratory.
- 2) Takata's faulty airbags causing 12 deaths among motorists and a lot of accidents raised a big issue of H&S of products.
- 3) Pharmaceutical industry: Glaxo Smith Klein in 2012 agreed to plead guilty to criminal charges of illegally marketing drugs and withholding safety data from U.S. regulators. The drugs are: two antidepressants (Paxil and Wellbutrin) and Avandia, a diabetes drug.
- 4) Human Resources: organization culture, capacity to manage change, diversity, etc... see Ueber sexual harassment cases not condemned by top management, Amazon's exploitation in its logistic and shipment activities,

Questions to the delegates:

- Do you think that social issues get overlooked in terms of ESG issues? In other terms, is there an issue for S being less considered by investors than the other two dimensions: E and G?
- Which are the reasons for this?

Let's discuss following possible reasons.

- S issues don't have an immediate impact on stock prices with the exception of evident reputational damages (i.e. the textile industry outsourcing production in Bangladesh factories and the big reputational risks to big textile brands resulting from the Tazreen factory fire in 2012 with over 100 dead employees or from the collapse of Rana Plaza in 2013 with over 1,000 dead employees, mainly women)?
- S issues are too complicated and require a lot of resources to be analyzed?
- S issues are difficult to be measured quantitatively and to be standardized?
- S issues seem to be country specific and require a cultural and anthropological approach which is not easily found?
- S issues are very industry specific, such as access to medicines, land grabbing, community and indigenous rights in infrastructure projects?
- Given the fact that NGOs are very sensitive to S issues, do you think that they can be leading investors towards more aware attitudes towards social issues?
- Do you recall some case studies where social issues raised by NGOs have then become investors' awareness? Given the fact that there were positive outcomes in the past (i.e. the campaign for access to retroviral medicines by religious investors in the '90s in South Africa, or the increasing recognition and protection of indigenous rights in some big infrastructure, mining and oil&gas projects).

- If there are representatives of AOs and AMs in the panel, it would be interesting to share their experience on how they have handled social issues in their analysis and engagement activities? If they recall examples which you want to share with the audience?
- Mega-trends such as Artificial Intelligence can be considered S factors?
- What about the impacts of M&A activities on S factors? And the dismissal of employees to cut costs?
- What about de-localization and re-localization? Adidas will make shoes manufactured by robots back in Germany (Speedfactory in Ansbach)? Are Telcos or Pharma disrupting R&D activities?

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