Five in 10 use ESG Factors When Buying Products or Services, Making Investment Decisions

The recent revelations by Wells Fargo of the creation of up to two million unauthorized accounts since 2011 has thrust corporate governance back into the spotlight. Perhaps not since the financial crisis of 2007-2008 has a company undergone such intense scrutiny of its corporate policies and ethics. Since then, numerous Wells Fargo employees have come forward to share their stories of the high-pressure environment that led to this behavior. As expected, Congress has launched hearings, the Department of Justice has been issuing subpoenas and even the Labor Department has started a "top-to-bottom review" of potential labor violations.

After closing at $49.90 on September 8, WFC shares have fallen 11.3% through the close on Friday, September 30. As investors, poor corporate governance can have an adverse effect on share price. But there is also research that shows that companies with strong corporate governance, as well as those who are good stewards of the environment and upstanding social citizens, may generate above-average investment returns.

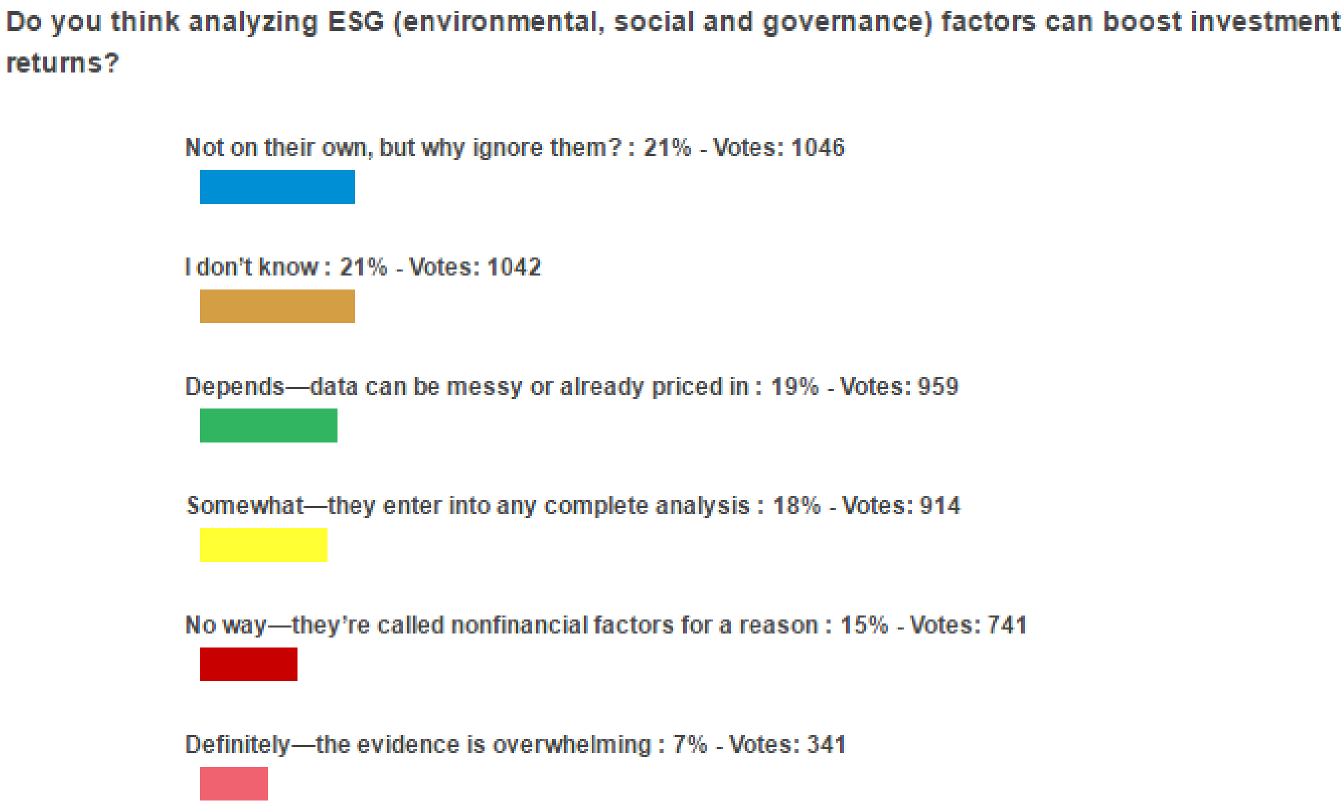
This is the realm of "ESG" investing, which stands for environmental, social and governance. There is growing evidence that suggests that ESG factors, when integrated into investment analysis and portfolio construction, may offer investors potential long-term performance advantages. ESG has become shorthand for investment methodologies that embrace ESG or sustainability factors as a means of helping to identify companies with superior business models.

Weekly Reader Question

While ESG has become a popular buzzword among institutional investors, with pension funds, mutual funds and the like building investment policies around ESG factors, we were curious to see whether ESG factors are a consideration among individual investors. So last week we posed the following question to our readers:

Do you think ESG (environmental, social and governance) factors can boost investment returns?

Here are the results:



The largest segment of the 5,043 participants (21%) believe that ESG factors do not have a direct impact on investment returns. With only four fewer votes, one-fifth (21%) said they do not know if ESG factors can boost investment returns. Another 15% said they do not believe ESG factors have any bearing on investment returns. There are also 19% of respondents who feel that the data is unreliable or already priced into asset prices to be actionable for investors.

Only 25% said that ESG factors have some impact on investment returns–18% believe that ESG factors can have somewhat of an impact while 7% say that ESG factors have a definite impact on investment returns.

Weekly Special Question

For our weekly special question, we pivoted slightly. We wanted to know if ESG factors play a role in individual consumer choices–whether or not someone buys a company's products or services–as well as investment decisions. So we asked the following:

Do a company's policies on its corporate governance, the environment or social issues impact your decisions to buy its product or services or invest in it?

In all, 817 readers responded to this question. Among them, 54.8% said that a company's corporate governance, environmental or social policies impact whether or not they buy its products or services or invest in it. Of these, the majority–67.4%–were not specific as to whether ESG factors impacted their buying behavior or investment decisions.

For those who were specific, 80.1% said a companies governance, environmental or social policies do impact their decision to invest in them. Only 19.9% said that these factors play a role when shopping for products or services.

Interestingly, 27 respondents (3.3%) specifically mentioned Wells Fargo. Other companies or sectors mentioned directly were Hobby Lobby, Chik-fil-A, Enron, Caterpillar, Exxon Mobil, BP, cigarette companies, and the banking sector as a whole.

Here is a sample of the responses we received:

- "A good product at a good price remains the logical answer. If a company policy bothers you, protest. You can't straighten out a company by driving it out of business. You will be responsible for job and ancillary losses. That's a social disservice."
- "Absolutely! Aside from pure socially responsible investing, it's important to know what type of corporate citizen a company is and whether their values align with good corporate responsibility."
- "Absolutely. I do not invest in oil and gas companies and pay attention to social issues as well. Corporate governance is a little harder to evaluate, but I think all these things should be taken into account when deciding on companies to invest in or buy products from."
- "Not in the past, but it will from here forward."
- "Judge a company by its finances only."
- "NO WAY! No independent thinker would allow such a political idea to enter into their stock selections! And if it did, they are the reason the market is so volatile!"
- "No! You have to have products that people want and people who know how to run a company. I am not interested in their personal beliefs. Those are personal. I invest for return not feel good stuff."
- "No. The vast majority of companies would score poorly, leaving little to invest in."
- "It's already in the mix! "The Market" already has all pertinent data that is known; in the mix we see as the current price! Which of course can change in the blink of an eye as soon as new information becomes known and "is perceived as relevant!"

Want to weigh in? Participate in our weekly member poll, updated every Tuesday, and see the results online at http://www.aaii.com/memberquestion.