Kiernan, M. (2012) 'Why investors don't care about corporations' environmental performance', *GreenBiz.com*, 12 November [Online].

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Faithful and attentive readers will notice that a single thread of logic (I hope) runs through most of what I have written (and said) over the past two decades: the *capital markets*, i.e. investors, represent the single greatest – and most underutilized – weapon in the armories of those who seek improved environmental conditions.

The logic here is pretty straightforward – if generally completely ignored in practice:

1 Major corporations are arguably responsible for 70 percent or more of the environmental degradation going on around us continuously.
2 Those very same corporations, however, may well represent 80 percent or more of the potential *solutions.*
3 Corporations tend to be extremely sensitive and responsive to what they perceive to be the priorities of their investors, particularly those of the large, institutional variety.
4 If major investors made it clear that they demand improved environmental performance from companies, ergo that improved performance would become a high priority for corporate boards and executives, and environmental conditions would improve dramatically.

There is, sadly, just one tiny, microscopic flaw in that otherwise impeccable logic chain: At present, notwithstanding a growing volume of rhetoric to the contrary, major investors do *not*, in practice, pay much attention at all to companies' environmental performance. As a result, the entire argument falls apart, and excellent work by organizations including the UN Environment Program Finance Initiative and the U.N. Principles for Responsible Investment falls well short of its considerable potential impact.

But *why* don't investors really care? I have written an entire book attempting to answer that question, but to save Green Biz readers the punitive $9.95 price tag, it boils down to this: the vast majority of investors either:

- See no direct connection whatsoever between companies' environmental performance and their financial results; or
- Worse still, believe that there is one, but it is unambiguously a *negative* one.

Sadly, the fact that there is virtually no academic or empirical evidence to back up the latter belief is apparently of no consequence whatsoever. And the real tragedy of the situation is that investors are leaving *both* financial returns and potential environmental improvements on the table.

Which brings us to the core subject of today's article: the lamentable fact that there are no more egregious miscreants in this regard than the charitable foundations, particularly in the United States. My good friend and colleague Steve Viederman, himself a former foundation president, has been particularly forceful and articulate on the subject. As he has pointed out on numerous occasions, there is a *complete* disconnect at present between the two halves of the organizational "brain."

On the one side, we have the operational, grant-giving side, which typically dispenses 5 percent of the foundation's assets each year on worthy and important projects – many of them environmental. Some of the bigger ones dole out hundreds of millions per year to environmental causes. The real problem emerges on the *other* side of the house: the *investment* arm.

That part of the operation, entirely and unnecessarily divorced from the program side, is charged with investing the other 95 percent of the foundation's assets to generate the best risk-adjusted returns possible so that the program people can continue with the grant-giving. The problem is that the synapses between the two organizational brain hemispheres have been severed – or, more accurately, they never existed in the first place.

Given that U.S. foundations control over half a *trillion* dollars worth of investable assets, this is not a trivial problem. As a general rule, 95 percent of the organization's asset base is invested with *no* regard for the nature of the other 5 percent, which defines the foundation's mission.

One extreme but not uncommon example is health-oriented foundations investing in tobacco companies. Closer to home, almost no environmentally-driven foundations scrutinize their investment activities to ensure that, where possible, investments are made in the companies with superior environmental track records, systems, and contributions. I know personally of one major foundation that cheerfully pours tens of millions of dollars in operating grants into promoting greater awareness of the environmental and social impacts of investing – but it does not yet systematically assess such impacts in its *own* investment activities! In fairness, a number of the most progressive foundations *do* participate in so-called "program-related investments," but these typically make up only a tiny fraction of their investment programs.

Why don't charities make a greater effort to harmonize the two elements of the foundation's activities? It all goes back to the point made earlier: The investment professionals managing the foundation's assets remain locked into an increasingly obsolete (and usually entirely unexamined) investment paradigm that views the search for environmental excellence in companies as at best a waste of time, and – more frequently – as a recipe for reduced returns.

In adopting this approach – almost always by default and without questioning its core assumptions – foundations run a very high risk of reducing both their financial returns and positive environmental impacts. Foundation donors, beneficiaries, and even the general public (upon whose tax concessions foundations rely) deserve much, much better.

And so does the planet.