

S (as in, ESG) Gets Real

Featuring: **Meggin Thwing Eastman**, Research Editorial Director

Adam Bass ([00:03](#)):

This is MSCI Perspectives, your source for weekly research insights as investors respond to the COVID-19 pandemic. I'm your host, Adam Bass. And today is November 12th, 2020. This week, the S of ESG investing, of course, stands for Social, quantifying societal issues that affect investment decisions. In 2020 there's been no shortage of issues to consider, including the knock on effects from the pandemic and the growing awareness by investors of the inequalities around the globe. To help us get a handle on all this, we spoke with Meggin Thwing Eastman, MSCI's Global ESG Editorial Director. Meggin, thanks for being here. I know it's been a long time coming and we're really happy to have you.

Meggin Thwing Eastman ([00:51](#)):

Thanks. It's great to be on the program, Adam.

Adam Bass ([00:53](#)):

Today, we want to focus a little bit more on the social issues that have come up, linked with COVID and the pandemic and everything that that's meant, whether it's isolation, job loss, taking care of kids as they go to school at home, or just the unimaginable fact that more than a million people have died and that's just so far. In the midst of all this, the pandemic has highlighted and brought to the fore a lot of long-term inequalities such as racial inequality, for example. As someone who spends her time looking into these issues, how do you start to take it all in?

Meggin Thwing Eastman ([01:35](#)):

You're right, Adam, that there is a lot here and it is hard to see your way through all of the disparate parts of it. There's stuff at the company level. So you've got Black Lives Matter and protest for racial equality. And that comes back to pressures on companies to look in the mirror and say, "What are we doing? What could we be doing better?" Employees coming to their management and saying, "What are our recruiting practices? Can we do better on this?"

Meggin Thwing Eastman ([02:03](#)):

And then you have something that's much more systemic, which is that, all of the inequalities that you've mentioned, economic and racial and gender and ability and everything else, feed into an overarching phenomenon around the globe through society that does affect business as well as individuals. But the way that it does it, is not necessarily obvious invisible in the day-to-day. Even when they're still in the festering stage, when they're not erupting, you've got all these ingredients of value, value creation, talents, the ability to start businesses, to grow businesses, to be creative, all of that stuff, that if you've got structural systemic inequalities in a society, by definition, you're not able to tap into all of that. And so there's value. And if you could find a way to address some of the inequalities to lessen them, then there could be benefits to everybody, including to investors, especially those with long-term investment horizons and portfolios where they hold a lot of the economy.

Adam Bass ([03:17](#)):

There's a lot there too. So how have we seen companies react?

Meggin Thwing Eastman ([03:22](#)):

We've seen really the gamut of responses. If we take Black Lives Matter and social unrest around racial inequalities as an example because it's been so visible, you saw a rush of companies coming out with statements that they supported this in the immediate time when the protests were most active. But the question of what they're doing underneath that beyond the level of the statement, what are they actually making changes in how they operate, that's much more difficult to get at on any kind of scalable metric, because a lot of it has to do with transparency and what they disclosed.

Meggin Thwing Eastman ([04:03](#)):

So you have a handful of high profile examples like was the case at Reddit where I think it was the CEO, long-time founder and CEO who had stepped down to effectively make space for someone else to come in, a person of color to come in and take that position of power at the company. We have seen in the investor world, some large investors saying that they're going to be taking a closer look at proxy statements and board makeup in the way that they vote. So that's one angle of things at companies.

Meggin Thwing Eastman ([04:35](#)):

You hear anecdotal stories. It's about what companies are doing in forming partnerships with industry groups for underrepresented minorities to improve their recruiting capabilities, or moving to blind resume review or things like that. But to get comprehensive statistics about that and see across a whole universe of companies, how things have changed, I think it's still early days for that.

Meggin Thwing Eastman ([05:01](#)):

Another example that we could look at would be the masses of layoffs that have happened. And given what's happened in the economies of many countries and to companies, businesses, many of which just shut off overnight among lockdowns, layoffs may well have been necessary in the short-term. Some have just laid people off and that's it, that's the end of it. But you do see some different examples between companies that have been really thoughtful about it and thought through who gets laid off? Are they only furloughed? Are they fully dismissed? How does this fit into a larger strategy of workforce transformation over time and what the future of their workforce might be?

Meggin Thwing Eastman ([05:40](#)):

Airbnb was a particularly well covered one and in the media where the company did lay off a bunch of people fairly early on in the pandemic, but was really transparent about it and communications for management, and very clear about their reasoning of who and why how and what recovery might look like?

Meggin Thwing Eastman ([06:00](#)):

There are other issues like health and safety, which is one where companies have really had to adapt because jobs that used to look pretty safe, grocery checkers and that sort of thing, hairdressers suddenly aren't so safe anymore, but a lot of them are also low paid jobs too. And so it's a double whammy for those workers where either they're getting laid off, or they get to go to work and keep a low paycheck, but suddenly they're exposed to the possibility of getting COVID. Whereas then a lot of the companies that have done better through the pandemic or those where their workers can work from home, they didn't have to shut down. And working from home, of course, is also safer and those professions tend to be the better paid, better educated professions.

Adam Bass ([06:48](#)):

And there's a lot of these companies, particularly tech companies. I remember reading stories about many of them saying, "You know what? We're either going to rethink whether people come back to the office at all or part-time," so these trends may not just be for the duration of the pandemic it seems.

Meggin Thwing Eastman ([07:12](#)):

You're totally right about that. And yeah, it is mostly tech where you see companies jumping to we're never coming back to the office, we'll see whether that's shortsighted or not. But I think a lot of understanding about how work gets done and what's the most effective and productive way to do it and what adds stress and that kind of thing, that we have learned a lot. And just even going into the pandemic, you had those that were already pretty well set up to let people work from home. And you had companies where working from home wasn't really a done thing. And so they had to scramble to make it possible.

Meggin Thwing Eastman ([07:49](#)):

And so I think you're going to see over the coming year and years, companies' going to sort themselves out into groups where all these changes in how they do business and how workers get their work done might open up some cracks in the foundation, so to speak. And how successfully a company can transition through the pandemic and out the other side of the pandemic and beyond the pandemic, it's going to come down to how much trust and transparency there is through the organization.

Adam Bass ([08:24](#)):

Interesting that it's coming at a time where for years, at least a couple of decades that trust, the connection between employee and employer, if anything has seemed to be breaking down, people jumping jobs, companies not feeling, they need to be as loyal, pensions going away. What about investors who are peeking in and watching all of this happen and trying to make assessments? Maybe in their personal lives, they feel, "Okay, I understand all of these issues that we're talking about and I'm doing what I can in the way I live my life, how I volunteer, give money, et cetera. But when it comes to my role as investor, what can I really do about it? How does it affect me?"

Meggin Thwing Eastman ([09:11](#)):

So there's two pieces of that. So one is how does it affect me, which I would read as how do these kinds of issues pose risks to me into my portfolio and what should I be keeping an eye

on? And then the second part of it is what can I really do about it? And that part, I think also has two parts because one is, what can I do about the risks? And the other is what can I do to try and help contribute to solving this issue? And those might be related, but they are separate objectives.

Meggin Thwing Eastman ([09:41](#)):

So and the first one, how does it affect me? You can see specific things come up with companies a bit like we talked about in the beginning where there are protests in the street over racial inequalities, and that's transmitting into the nowadays virtual company cafeteria and the boardroom, and companies are having to address it in their strategy and are making some changes. So that's the kind of thing where you want to be looking at your holdings as an investor and see which companies have long-standing problems, say, in a repeated lost [inaudible 00:10:18] hostile workplaces, or repeated allegations of unfair labor practices, or failure to pay over time, or whatever it is.

Meggin Thwing Eastman ([10:30](#)):

If you're an investor who has an engagement program, a shareholder engagement program, you might want to talk to some of those companies about what they're doing to try and lessen the risks that something is going to erupt for them. You might also want to look at their management practices. What kind of policies do you have in place? What new things are you doing? What are those employee engagement surveys say if you're doing them?

Meggin Thwing Eastman ([10:54](#)):

So that's at the company level. But then there's also, I mentioned earlier on this big systemic risk that you can't really address at the company level that you can really only think of at a broader level. And that's where we're starting to see investors getting a little bit more creative experimenting a little bit. We're seeing, for example, a real burgeoning this year in the offerings of social bonds, which are like green bonds, but for social causes. So it might be to build social housing, or to build a school, or invest in some other kind of community poverty alleviation program. We've seen COVID bonds actually, a type of social bond specifically aimed at alleviating the negative impact of COVID. So these social inequalities that we've been talking about layoffs and so forth.

Meggin Thwing Eastman ([11:46](#)):

And then we also see, over the last couple of years really and growing, investors to the UN Sustainable Development Goals as a framework, not something you can invest in directly, but as a framework for thinking about the kinds of business models and the kinds of corporate activities that can collectively contribute to making things better.

Adam Bass ([12:09](#)):

How are companies doing in terms of disclosure around how they track to the UN SDGs?

Meggin Thwing Eastman ([12:15](#)):

A lot of the targets set by the UN are not things that companies can explicitly target themselves. So it's a lot of adjacent actions. And different companies report them in different ways because there is no standard. So what we've done at MSCI is to consult all of the indicators that the UN has identified and to map out basically proxy or equivalent kinds of information that we can get or that we can estimate, both positive contributions to each of the goals and things that companies might do that would well be the opposite of contribution, undermine the goals.

Meggin Thwing Eastman ([12:57](#)):

A lot of that information is stuff that we can get piecemeal through company's own disclosures about their SDG focused activities, but also about what they tell us about their own business. How did they make their money? What is the business model? And then other kinds of information from other sources. So whether that's media, whether that's NGOs, whether that's the things that companies say not in their formal reports, but in conversations with the presser and earnings calls and so forth.

Adam Bass ([13:29](#)):

And it sounds like, especially if you're looking at earnings calls, statements, et cetera, the advances in technology must be truly helpful there?

Meggin Thwing Eastman ([13:40](#)):

They really are. It's interesting to be able to go in and try to measure who's saying what and who's doing what? And you're absolutely right that the natural language processing, and AI, and unstructured data processing technologies have really given us a lot of tools to work with

there. We did an interesting experiment. I guess it was earlier this year, looking at the SDGs and what companies had to say about them, and then what they were actually doing that we could determine it from their business models and revenue streams and so forth. And were able to break a universe of companies out into groups of those who are... We're actually doing a lot. Their whole business might be around green technology or life-saving medications, or like I said, lending to small and medium-sized enterprises, that kind of thing that that's quite empowering, but then they don't actually say anything about the SDGs. And then you have others that say a lot, but weren't necessarily doing that much. And then, of course, you had the others that were both walking the walk and talking the talk.

Adam Bass ([14:45](#)):

Yeah, certainly these advancements are important across the board for investing and ESG Investing. It feels like for something like the S issues, the social issues, which can tend to be a little tougher to really put your finger on and quantify that these advancements would be even more important and allow you to speak about them in ways like we are today, or in other research that you're doing that may not have been as possible before, or at least as possible to do as with the environmental or governance portions. Is that fair to say?

Meggin Thwing Eastman ([15:26](#)):

I think it probably is. There is a lot about the social issues. So this is community relations, it's employee relations, it's customer relations where companies don't report quantitative data. So yes, a lot of what we're trying to do with the new technologies and new sources of information is to measure things we couldn't measure before. And some of that is about getting alternative data sets where it's unstructured and we can structure it and get insight out of it. And then really the combination of new data sets and new data processing technologies to allow us to extract and measure information we couldn't get before.

Adam Bass ([16:07](#)):

Meggin, thank you so much for joining us. This has been a fascinating conversation and we hope to have you back soon.

Meggin Thwing Eastman ([16:14](#)):

Thanks very much, Adam.

Adam Bass ([16:16](#)):

That's all for this one. Our thanks to Meggin and to all of you for joining us. Be sure to join us next week. We'll talk with Author and Strategic Advisor, Lukas Neckermann. We'll talk about Future Mobility. That's the rates for an automated, electrified, and shared transportation value chain.

Lukas Neckermann ([16:34](#)):

The real revolution that's going on is not that we're just evolving the automotive value chain that we're creating a brand new one. It's the emergence of a brand new industry called mobility.

Adam Bass ([16:46](#)):

Remember, it takes just a moment to subscribe to the podcast, leave a comment, or share with a friend. Until next week, I'm your host, Adam Bass. And this is MSCI Perspectives. Stay safe everyone.

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