Chapter 8
Effects of Sustainable Supply Chain Management on Responsible Investment Through ESG Indicators

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ABSTRACT

Besides financial indicators, investors started to utilize sustainability performances of companies in their decision making. With this awareness and trend, the number of ESG data providers increased in the last decade after the global recession. This chapter compares mainstream ESG providers with an emphasis on how they cover, provide, analyze, and disseminate these ratings that are invaluable for investors. The impact of sustainable supply chain practices on the ESG indicators and its consequent effect on the investor is also discussed. This study compares the issues and indicators covered by major ESG providers, and link them to sustainable supply chain measures. The synergetic and symbiotic relationship between responsible investment and sustainable supply chain management is called to attention.

INTRODUCTION

The myopic attitude of financial investors over short term profits have been discussed widely on academia and professional platforms over the last few decades. The long-term well-being of corporations, their corporate governance, how they organize their operations and their decisions that affect not only shareholders but all stakeholders have been debated. As the findings supported that those corporations that emphasize environmental, social and governance(ESG) factors in company decisions turn out to be also successful on financial performance, these nonfinancial ESG indicators drew further attention.

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ESG also serves as guidelines by which supply chain management strategies should be built from bottom-line to top. ESG criteria can serve as standard model for environmentally friendly, socially acceptable, and ethical supply chain activities. Jenks (2011) states that these criteria apply both internally and externally in procurement, sourcing and supplier relationship management related actions. Although simply reporting about sustainability and ESG outcomes does not mean progress is made towards being more sustainable and having an overall positive impact on environment and society, nevertheless ESG reporting has promoted a move toward better understanding of the relationship between economic growth, social well-being and environmental awareness.

This study aims to address the growing emphasis in responsible investment through the use of ESG indicators in investment decisions along with the prominence on sustainability in supply chain management. Previously studied in different disciplines, these concepts have become inseparable. Initiatives to improve the sustainability of an organization inevitably lie in enhancements in its supply chain, and these will positively affect ESG ratings of the organization. Similarly, actions taken to be more attractive for investors pass through sustainable supply chain initiatives. Thus, a synergetic and symbiotic relationship is being proposed between responsible investment and sustainable supply chain management.

INVESTOR INTEREST IN SUSTAINABILITY REPORTING

United Nations (UN) supported an independent body of international network of investors advocating Principles for Responsible Investment(PRI) in 2005. Shortly after, in 2006 this organization of investors developed and announced the six Principles for Responsible Investment and called their peers, other institutional investors to become signatories and adopt their six principles for responsible investment. The PRI encouraged investors to take environmental, social and corporate governance issues into account within the investment process and to disclose their own performance on these issues.

The United Nations Environment Programme (UNEP) is defined as the environmental conscience of the UN which was established in 1972 after the Stockholm Conference on the Human Environment with the mission to encourage economic growth compatible with the protection of the environment. In 1991, the UNEP joined forces with a small group of commercial banks and launched the concept of the UNEP Finance Initiative (UNEP FI). This initiative promoted the banking industry's awareness of the environmental agenda. In 2017, the UNEP Finance Initiative has more than 200 member institutions including not only commercial banks but also investment banks, venture capitalists, asset managers, and multi-lateral development banks and agencies from over 40 countries.

UNEP FI studied the link between economic development, environmental protection, and sustainable development. The UNEP and financial institutions worked together to better understand today's environmental, social and governance concepts and how they relate to finance. This initiative studied these ESG issues in detail. UNEP FI (2005) report explained why ESG considerations are important in financial decisions. UNEP FI (2006) report lists an impressive summary of research that supported presence of a strong link between good ESG performance and good financial performance. Unal and Çoşkun (2015) mention the continuing research on this issue and offer examples as studies of Ameer and Othman (2012); Kim (2013); Churet and Eccles (2014); Cornett, Erhemjamts, and Tehranian (2014).