Campaigning groups point the way to smarter deals

by **Robert Blood, Sigwatch**

NGO influence over policy and business is growing. Robert Blood, the founder of specialist NGO consultancy Sigwatch, looks into what this means for dealmakers.

From climate change to corporate taxation to human rights, campaigning groups like Greenpeace, Oxfam and Amnesty International are making the policy weather across the world. What they say about companies and industry sectors has a major impact on corporate reputations and is an early indicator of issues to come.

A growing number of investors are using data from activist campaigns not only to screen potential deals but to track trends, with implications for investing. Activist campaign data can also help identify new investment opportunities, by identifying companies with above average ESG performance.

Campaigning groups have never been more powerful at changing policy debates and getting their concerns into the public eye. When issues grab the headlines seemingly out of the blue, it is almost always because clever campaigners have worked to put them there.

Corporations are made high profile targets in these campaigns, putting them very publicly on the spot to embarrass them into changing their behaviour, or playing 'good' companies off against 'bad' through judicious doling out of praise and criticism.

NGOs are not just influencing policy direction, they are disrupting entire industries. The reason Europe has virtually no GM crops, a stuttering shale gas sector and the world's largest renewable energy generating capacity per capita, is down almost wholly to campaign groups. NGOs, be they global, national or local, are immensely influential and are having a measurable impact on business and society.

This has been so for over a decade in Europe and North America, but it is also increasingly the case in Latin America and is beginning to happen in Asia and Africa too.

If investors can no longer ignore the impact of NGOs, can they learn from them to gain market advantage? We believe they can, especially in these three areas:

1. SCREENING PROBLEM COMPANIES

Investors are increasingly using issues campaigning data to flag up companies with potential ESG or reputational problems that could affect their value or suitability for including in funds with exclusion criteria. NGO campaigns are particularly effective at finding problem firms. Unlike media outlets, NGOs are rarely afraid to call out misbehaviour wherever they find it. Their local partners mean intelligence on even obscure or unlisted companies will filter up, especially if such companies supply to better known firms. Within days of the Rana Plaza factory collapse in Bangladesh in 2013 which killed over 1,000 garment workers, most of them women, NGOs in Europe and North America knew from local partners which western brands had been sourcing from the building.

These firms were then aggressively targeted to make them morally responsible for paying compensation to the victims' families. Some firms apparently did not know they had been sourcing from the building until NGOs confronted them.

2. FORECASTING FACTOR TRENDS

As one of the most important initiators of new societal and policy trends, NGOs provide the means to unpick factors that are affecting industry sectors, and also to identify which companies are riding, or resisting, these trends. NGO-driven trends can be macro, such as the switch away from meat eating (something we foresee will be the next plastic), with implications for every part of the food industry and agribusiness, or the pressure on internet companies to protect users' digital privacy, which is forcing the sector to rethink its business models.

They can also be micro: for example, campaigns against chemicals in the environment are forcing apparel brands to look for new ways to provide functional fabrics with, for example, water- and stain-resistance. This is affecting the chemical industry as well as the textile sector. Sigwatch quantifies NGO pressure across nearly a thousand such factors on a daily basis to help investors track these trends and see which businesses and sectors are most affected.

3. IDENTIFYING CORPORATE SUSTAINABILITY LEADERS

Managers of ESG-weighted and criteria-based funds have been mainly concerned with keeping the "wrong" investments out. A newer trend is to seek out firms that should be added in, on the grounds that they are "super right".

"ESG-positive" weighting is based on the hypothesis, which investment managers like Arabesque say has been confirmed by research, that firms which prioritise sustainability and ESG performance benefit from lower cost of capital, higher cash flows and operational efficiency, and surpass their peers in investment performance.

NGOs provide a unique and independent insight into which firms could be over or underperforming on ESG, because they often focus campaigns on exposing "bad" companies and "praising" good ones.

In the last few years, campaigners have become sophisticated at separating the corporate sheep from the goats, and their commentaries on corporate behaviour can be quantified to create indices of companies they admire or despise.

SAINTS, SINNERS AND DEMONS

When we analyse firms by the amount of praise and criticism they get from NGOs, we find companies tend to fall into one of six distinct types.

"Saints" receive only or almost only praise from campaigners - Ikea and Wholefoods for example. "Sinners" get mostly criticism (all extractives and chemical firms and most banks) while "Demons" get a lot of criticism – examples are Monsanto and currently, the major oil and gas pipeline operators in the US and Canada.

"Changemakers" like Unilever get almost as much praise as criticism: they are criticised to make them act, then praised for their actions. "Responders" are aspiring Changemakers, with a less favourable ratio of praise to criticism. Many leading FMCG brands are either "Changemakers" or "Responders", as are some banks, but notably, no extractives or heavy industrials.

It is these kinds of insights, provided by closely observing what NGOs are saying about companies across the world, that enable investors to identify out-performing and changing firms long before their behaviour begins to affect the annual indexes like Corporate Knights and FTSE4Good.