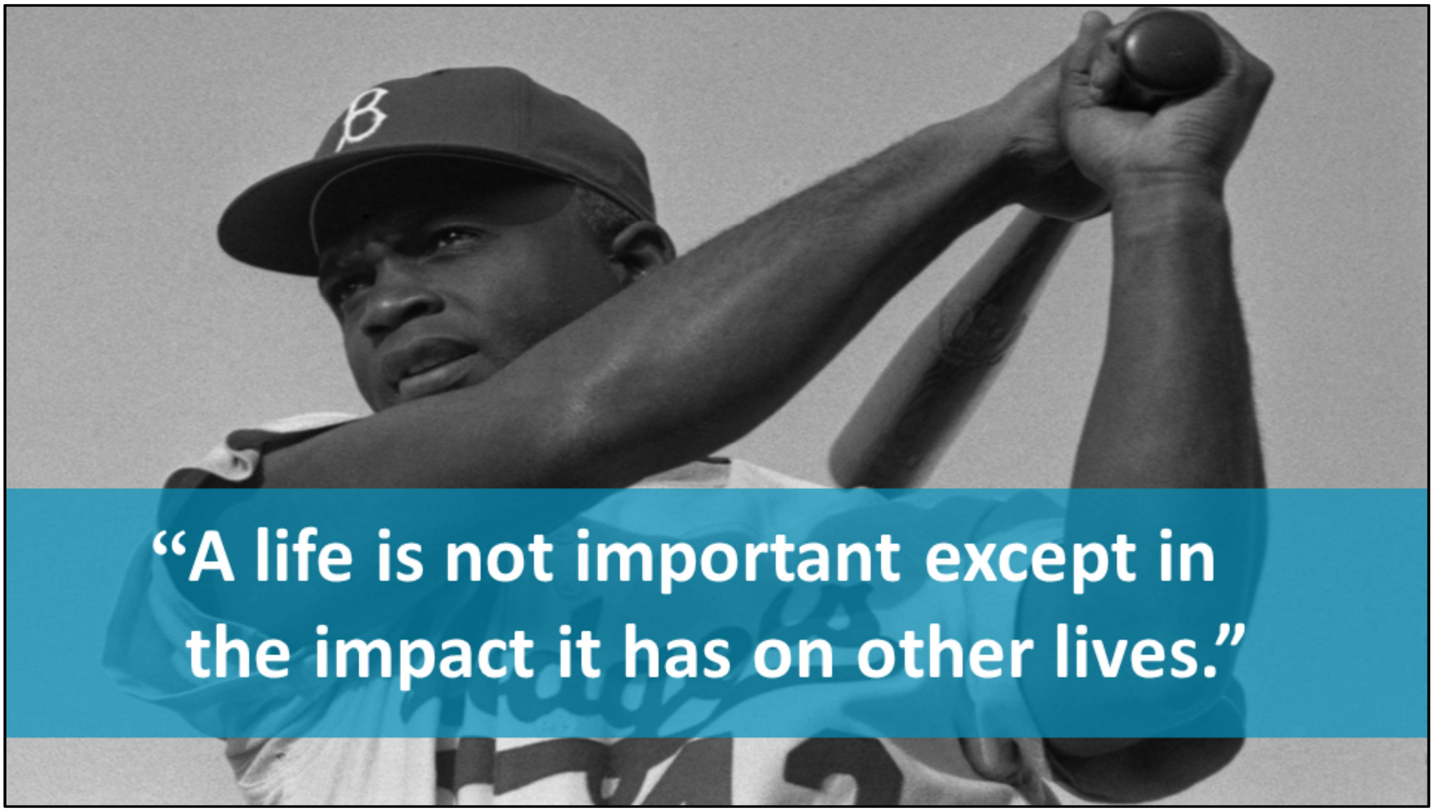


Doing Good is Good Business
By Stephen Boland, BComm, CFA | Equity Analyst

I’ve got family just outside of Los Angeles. A few years ago, when I was visiting, we went to a baseball game at Dodger Stadium. Just before the game started, the team unveiled a statue of one of its greats – Jackie Robinson.

Jackie Robinson was a terrific ball player – a league MVP, a six-time all-star, and a World Series champion. But what he’s best known for is breaking the colour barrier. In 1947, he became the first African American to play Major League baseball in the modern era.

His statue at Dodger Stadium includes a quote. It says: “A life is not important except in the impact it has on other lives.”

I try to think about this in my personal life, but I believe it can also be applied to companies. Companies have a tremendous impact on others. They impact their employees, their communities and the environment.

This impact gets considered in ESG investing. That stands for environment, social and governance. ESG investing has gained prevalence, and it essentially looks at whether a company is a good corporate citizen. More and more, we're being asked, "Is this something we consider?" The answer is yes.

We have long considered a company's behaviour when making recommendations. In fact, I think you have to when making long-term investments.

Let's put our own ethical views aside and think about it from an investment standpoint. If someone buys a stock and plans to sell it in six months, they may or may not be interested in a company's behaviour. They probably won't be around to see the consequences. But we often own companies for five or 10 years, or more. We're more likely to experience the impact – good or bad – of a company's actions.

We don't want a company dumping chemicals in a lake; eventually they're going to have to pay to clean it up.

We don't want a company mistreating employees; turnover is costly, and so is bad morale.

We don't want a company cutting corners on safety.

Remember the BP oil spill? In 2010, an oil rig exploded in the Gulf of Mexico. Eleven people died, 100 million gallons of oil leaked and 1,000 miles of coastline was damaged – that’s the same distance as Vancouver to San Francisco.

An independent report on the incident stated, “This disaster was preventable [but BP] did not possess a functional safety culture.” Others said it simply: the company was too focused on short-term profit.

BP’s stock was cut in half following the explosion. Since then, the company has paid $70 billion in lawsuits, fines, remediation and other costs. To put that in perspective, BP’s market cap today is $75 billion.

Bad behaviour can have consequences.

On the other hand, being a good corporate citizen can pay off.

Starbucks is a great example. Starbucks has long put corporate responsibility and humanity at the heart of everything it does.

When I started learning about Starbucks, I could see it was a fast-growing, profitable coffee chain. But I didn’t really understand what made it special.

Then I went to an Investor Day in Seattle, and Howard Schultz presented. Howard was CEO at the time and had built the company from four stores to tens of thousands.

To quote Howard Schultz, he said “Our promise to you is that every single day, we get up and we do everything we can to exceed the expectations of our people, our customers and all of you.”

When I saw Howard, he reminded us that Starbucks was the first company in America to provide comprehensive health insurance to all employees – including part-timers.

He then told us about the time he visited a store and a barista came up to him and broke down in tears. This barista had been living in her car when she applied for a part-time job at Starbucks. Her husband was sick and they couldn’t afford his medical bills. Getting a job at Starbucks changed her life.

She went on to become a District Manager, bought a home and has two kids.

Source: Starbucks

Taking care of employees is a core value of Starbucks, and the result is that employees are more likely to take care of customers.

That connection between you and the employee when you visit a Starbucks is key to your experience. If it goes well, you’re more likely to go back, and you’re more willing to pay a premium.

It becomes a cycle – Starbucks earns a good profit, and that allows them to keep supporting employees. Like last spring during COVID lockdowns, baristas were paid whether their stores were open or not.

Unilever is another example. They sell Dove soap, Ben & Jerry's ice cream, Degree deodorant and a number of other household names.

Ten years ago, Unilever created a Sustainable Living Plan. It was a set of targets and strategies to grow the business and reduce its environmental footprint. Unilever was one of the first big consumer product companies to truly consider the environment in a meaningful way.

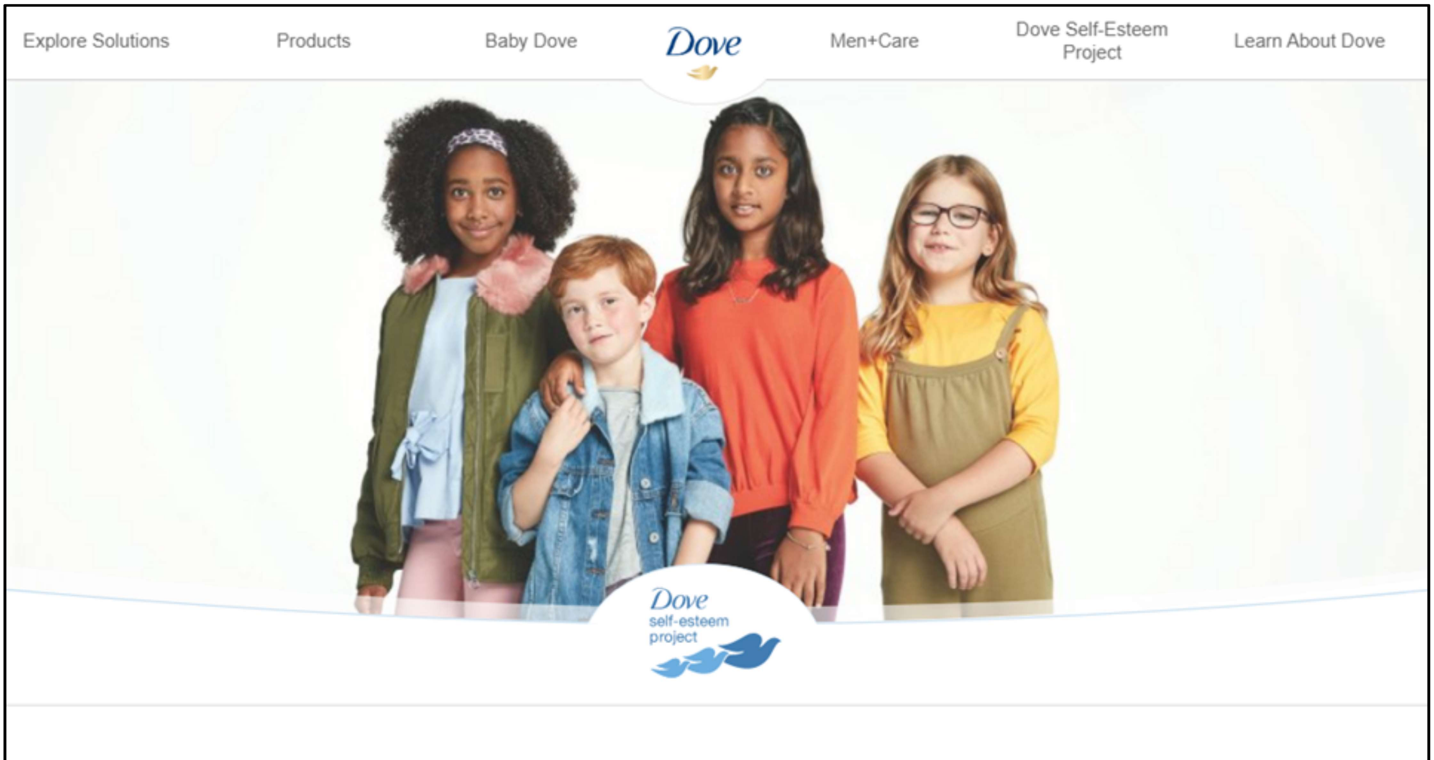
I remember they were criticized at the time. People told them to focus on profit, not the environment. Unilever showed that you can do both.

They created win-win solutions.

For example, they reduced packaging. They found a way to put the same amount of deodorant in a smaller can. And, they created concentrated cleaning products so you can buy a smaller bottle and add the water at home.

Unilever wins – they spend less on packaging and transport because the product is smaller and lighter to ship. And, the environment wins. Unilever has cut waste per consumer use by one-third over the last decade.

The Sustainable Living Plan has become core to Unilever, and its scope has expanded.



Source: Dove.com, Unilever

Unilever is building positive messages into its brands.

For years, Dove has tried to promote better self-esteem. They've partnered with psychologists to create self-esteem workshops that have reached 60 million young people, and they run campaigns to challenge the negative views people have of their bodies.

Here's an example: Dove Commercial, "Change One Thing" (see 7:13 in the video)

That's a powerful message, and it's another win-win. Unilever has discovered that when a brand is progressive, it often sells better. Dove's revenue has been growing by 7% a year – which is almost unheard of, for a brand of its size.

Saputo is another example.

Saputo is one of the world's largest dairy processors. They buy milk from farmers and turn it into cheese. A lot of companies – as they get bigger, they try to squeeze suppliers.

Saputo grows by buying other processors, and when Saputo takes over, they often increase the price they pay for milk. It's great for the farmers, and they become more loyal. They offer Saputo more milk, which is processed into more cheese and higher-end cheese, which increases profits. This allows Saputo to keep paying an industry-leading price.

Corporate responsibility runs deep at these companies. It's in their DNA. And more companies are moving in a similar direction.

In another video, Fai Lee, our resource analyst, tells you about the transition General Motors is making to electric vehicles.

Utility company Algonquin Power is moving toward renewable energy – wind, in particular. The result is above-average growth as customers look to lower their carbon footprints.

And CCL Industries, they make product labels for companies like Unilever and Heineken. When a glass bottle is recycled, the label has to be removed. CCL created a label that washes off with less chemical, energy and water. The company is now investing tens of millions to bring this technology to labels for plastic bottles. It's hard to eliminate plastic, but there's a big opportunity to recycle it more, and that should create demand for CCL's solution.

Some of this may sound like feel-good corporate promotion. And there is certainly some of that out there. But ultimately, corporate responsibility matters, and perhaps more so today than ever.

The world is more connected thanks to the Internet. Companies can't hide bad behaviour like they used to. And our responsibility as a society is growing. More consumers are supporting companies that have a positive impact on the world and shunning those that don't.

Lastly, none of this is clear-cut. We all know companies that are bad corporate citizens but have excellent shareholder returns. And there are many well-intentioned companies that make poor investments.

Also, just like people, no company is perfect. We may even at times recommend a company that's done something questionable on the expectation of improvement. There will always be lots of room for debate – we all have our own views and priorities – and you can work with your advisor to build a portfolio that you feel good about.

But I believe there is a link between a company's behaviour and its desirability as a long-term investment.

Jackie Robinson was a great ball player and he moved the world forward. Not all our recommendations will have that impact, but generally speaking, doing good is good business. And we will continue to seek companies that step up to the plate and embrace that philosophy.

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