



IndexAmericas: A Breakthrough in Measuring Corporate Sustainability

Jerry Haar and Victoria Galeano

April 6, 2017

The first call by a multilateral bank directly to corporations to play an active role in the development of the region.

This year marks the 30th anniversary of the UN's Brundtland Commission Report, *Our Common Future*, advocating that business and society champion "sustainable development": meeting the needs of the present without compromising the ability of future generations to meet their own needs. A decade later, author and entrepreneur John Elkington coined the term "Triple Bottom Line," proposing that business goals were inseparable from the societies and environments within which they operate, and that companies can and should elevate "sustainability" as an integral part of their corporate missions; addressing social, environment, and financial impacts of their enterprises.

Whereas ten years ago corporations' focus on the triple bottom line was a choice, it is now a necessity. Thanks to the proliferation of the Internet, traditional and social media, NGOs and other advocacy organizations, corporate behavior is monitored and disseminated as never before. And for consumers, shareholders, and stakeholders in general, an enterprise's sustainability practices are increasingly important.

While there are many indexes of sustainability –Dow Jones's being the most prominent– there has not been an index that measures sustainability in emerging markets, where the environmental and social challenges are daunting and the variations in performance immense. Until now. This month the Inter-American Development Bank launched its Corporate Sustainability Index. While the Index includes the Americas only, it represents the first call done by a multilateral development bank directly to corporations to play an active role in the development of the region.

There are two other important features that set IndexAmericas apart from its peer indexes. First, it relies solely on publicly available information, unlike others that use self-compliance questionnaires. Second, the key source of the Index's rating is Thomson Reuters corporate scores, a valid and reliable ESG source. IndexAmericas' methodology ensures a high level of transparency and objectivity, while encouraging companies to enhance their disclosing practices, including those performed at the regional level.

Representing a new milestone in the trend of performance measurement, IndexAmericas zeroes in on the true essence of sustainability—*shared value*, in essence producing value for society not just for the commercial enterprise.

In practical terms, how does a firm benefit from inclusion in a sustainability index? First, being included in some of the most prominent sustainability indexes is a staple of good citizenship for corporations. It tells investors and consumers that the company takes sustainability seriously and has made substantial corporate investments in activities that redound to the triple bottom line. Second, shares of companies listed in such indexes are very often recommended for allocation in the investment portfolios of public and private pension funds as well as public- and privately-held corporations where responsible/sustainable investing is deemed highly desirable. Third, the path to becoming an industry leader in sustainability is full of rewards, not only because it increases access to capital but because it creates an internal corporate dynamic of transparency with all investors and stakeholders.

Companies that align corporate strategy and orient corporate investments towards the common good of all stakeholders and the environment not only ensure brand recognition but also pave the way for their own survival and future success. A number of studies, including a recent one by George Serafeim of Harvard Business School, have demonstrated that companies that show investments in material sustainability issues can be value-enhancing for shareholders.

But what kinds of investments in the triple bottom line should companies consider to boost their sustainability performance? Corporate investments in energy and water efficiency, waste reduction, and packaging and logistics improvement are all investment strategies that not only protect the environment but help companies save costs in the long run. Such efforts improve the operational efficiency of companies at all levels and disseminate benefits throughout the whole value-chain of production. The development of innovative products and services that are accessible and affordable for lower income markets, increases consumer welfare while represents new lines of revenues to the company. All factors considered by IndexAmericas in its performance assessment.

Since the end of the global economic recession in 2009, attention to corporate social responsibility along with sustainability, broadly defined, has grown dramatically. Sustainable investing is a thriving market, and indexes play a critical role in guiding investment decision strategies. The Inter-American Development Bank's IndexAmericas is a breakthrough tool for measuring corporate sustainability; and for a region with \$180 billion in foreign direct investment, multinational companies operating in Latin America and the Caribbean can benefit significantly from utilizing the new index to monitor (and adjust) their performance.

Jerry Haar is a business professor at Florida International University and a global fellow of the Woodrow Wilson Center in Washington, D.C. and Victoria Galeano is CEO of PRISSMA, a Washington, D.C.-based sustainability consulting company involved in strategy development, project innovation and project finance.