Investors are increasingly looking to portfolios for both returns and commitment to larger standards.

Attention can come for curious reasons. A serious actor becomes known for snappy Twitter messages, a safe car is touted for style, an innovative restaurant is recognized for its line, not its food. In recent weeks, Etsy, the newly public online market of craft and vintage goods, has attracted attention for: creating new competition for Amazon and eBay, its sharp post-IPO share price decline and its status as a “B Corporation.” But without expressing any opinion on the merits of the stock, we think an important takeaway from Etsy is its place in a broader trend—the gradual mainstreaming of environmental, social and governance (ESG) ideas within the investment process.

Another Level of Commitment
As a B Corp, Etsy has made a commitment to meet environmental, social, transparency and accountability standards as well an explicit pledge to consider all stakeholders, including not just shareholders, but the environment, workers and the community at large. There are over 1,200 such companies worldwide, according B Lab, the non-profit that certifies them for B Corp status. Of these, Etsy is the largest to have gone through the IPO process, with a $3 billion market capitalization at the end of its first day of trading.

B Corps represent an evolution of the modern corporation. To become a B Corp, companies must not only have thoughtful programs in place addressing environmental, community and workplace practices, but a commitment to transparency, reporting, assessments and random on-site reviews.

While this may seem onerous to some, many B Corps tout distinct competitive advantages with regard to retaining talent, reducing turnover and providing products and services that meet unmet needs in the marketplace. Another requirement of B Corp certification is to incorporate as a Benefit Corporation at the U.S. state level, which includes amending governing documents to incorporate these attributes into the company’s overall corporate structure.

Integration and Reporting of ESG Are Growing
We see Etsy and other B Corps as an ongoing demonstration of increasing interest in the integration of social and environmental criteria into daily business decision making. The commitment of many companies is already evident in the growing level of reporting on ESG issues (see display), as well as increased adherence to the Carbon Disclosure Project and other initiatives designed to create greater transparency on ESG issues.
Responsibility ➔ Quality

Our team has long believed that “responsibility is the hallmark of quality.” So we think that a focus on environmental issues, employment practices and diversity initiatives, community relations, supply chain and product integrity can be an important way to gain clarity on the nature of a given management team and corporate culture. Along these lines, we applaud the phenomenon of B Corps and hope that their success highlights the value of ESG. At the same time, we understand that labels don’t necessarily equate to underlying fundamentals. “Accidental fame” can grace both the talented and the talentless, and the challenge for a portfolio manager is to identify which is which.