NEW PARADIGMS FOR CORPORATE LIABILITY

ESG AND SOCIALLY RESPONSIBLE INVESTMENT POST-COVID-19

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INTRODUCTION

The covid-19 pandemic is not only a major public health crisis, but the kick-start of an irreversible change in the global economic order. The coronavirus is bringing about profound changes in the functioning of the global economy, especially in labor relations, market liquidity, and demand in specific economic sectors, due to isolation measures around the world.

The private sector is being called upon to play a central role in responding to the crisis, as important as that assumed by governments (at the federal, state, and municipal levels). Businessmen and executives wonder how long this situation will last and what the new normal will look like when it passes. Alain Bejjani, CEO of Dubai's Majid Al Futtaim (MAF) trade conglomerate, told McKinsey & Company that:

> *Some organizations have traded their long-term sustainability for short-term results. When a crisis like covid-19 arises, if you have a strong culture and a sense of purpose in which leaders are inspired every day, you can weather the storm better than most.*

Most companies have accelerated the process of implementing remote work; others are forced to innovate in order to operate in their markets, offer new products, or change the structure of the productive chains in which they are found. Many are focusing more on building a positive image, and the concept of reputational risk takes on greater relevance. It suffices to observe in the media the offer of products and services that provide a space for the promotion of initiatives to combat the virus. All companies will need to adapt, and the most flexible and resilient will come out ahead.

If, at first, the economy needs to reinvent itself to respect the conditions imposed by the fight against the pandemic, we may predict that, in the near future, greater internal cohesion in organizations around purpose, culture, and value – and acting in accordance with environmental standards and good governance practices – will be an imperative for the corporate world. And companies that have been applying these concepts will have an important competitive advantage.

The covid-19 pandemic made explicit the need to rethink responsible investment. Companies that have consistent policies for implementing good environmental, social, and corporate governance practices (known by the acronym ESG – Environmental, Social, and Governance) have been showing great competitive advantage over others. First, because those who did not apply these principles are being forced to adapt to the "new normal" during the crisis, that is, in a situation of greater financial stress and with less possibility of experimentation and validation; second, because "responsible" companies are proven to be more efficient.

Organizations that are unable to articulate purpose, value, and culture and that continue to reject the new standards of social responsibility will have less access to financing mechanisms. We are living the awakening of the new paradigm of corporate and financial liability.

CONCEPT AND ADVANTAGES OF RESPONSIBLE INVESTMENT

Responsible investment, in general, is understood as the integration of aspects of the ESG in the central factors of organizations' performance and in investors' evaluation of financing. These aspects include a number of items that traditionally would not be part of the financial analysis of companies and projects, thus designating a broader idea of generation of value.

The term first appears in the 2004 *Who Cares Wins* report, when then UN Secretary General Kofi Annan wrote to 50 officers and CEOs of the world's leading financial institutions, inviting them to integrate ESG principles into the financial market. This culminated in the creation of PRI (Principles for Responsible Investments), a UN initiative.

ESG principles involve various aspects, which can be divided into five categories, as shown in the figure below:

Responsible investment can be leveraged by allocating available resources in the financial market to companies that implement ESG in their activities and are in compliance with a series of UN recommendations. PRI advises market players, such as investment fund managers and private equity firms, on portfolio analysis and capital allocation decision-making.

Initially, investors were reluctant to apply the ESG concepts, partly because of regulatory arrangements regarding the fiduciary duty of investors, traditionally understood as the obligation to maximize return on investments. However, a large number of studies and empirical evidence suggest that investments in companies or projects that implement sound ESG practices tend to be more efficient and therefore more interesting from a financial point of view.

A 2019 report[1] released by Standard & Poor's shows that companies focused on ESG issues have reduced operating costs, improved employee productivity, mitigated project risk potential, and created new revenue opportunities. The report points out that ESG analysis, precisely because it contemplates the interests of stakeholders other than shareholders and creditors, may capture remote and less quantifiable risks and opportunities that, although not relevant to a company's creditworthiness at that time, may be so in the future. The report also indicated two consistent works relating ESG practices to improved financial performance.

The first[2] of them, one of the most comprehensive empirical studies ever conducted, was conducted by the University of Hamburg in 2015 and aggregated almost all academic reviews between 1970 and 2014, combining results from over 2,200 individual studies. The study pointed to a positive relationship between ESG and performance in more than half of the situations analyzed. This correlation referred to all asset classes – stocks, bonds, fixed income, and real estate – and was found in both developed and emerging markets. According to S&P Global, this study captures a broad view of corporate financial performance and includes tax and accounting, market, operational, perceptive, growth metrics, and risk management performance.

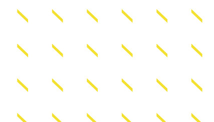
Conducted by Harvard Business School, the second study[3] found, over 20 years, better future stock performance and higher growth in accounting for profit in companies that consistently consider material sustainability factors (as defined by the Sustainability Accounting Standards Board) in their operations, compared to those with low performance in these matters.

Investors and private equity firms have been paying attention to this positive relationship between ESG and financial performance. In 2017, for example, a group of investors managing $2.8 trillion in assets requested that the Securities and Exchange Commission (SEC) issue standards regarding disclosure on human capital management in companies' financial statements. This group was based on the results of a study by the consulting firm Aon Hewitt according to which a 5% increase in employee commitment to the employer led to a 3% increase in company revenues the following year.

[1] S&P Global. *The ESG advantage: exploring links to corporate financial performance*, 2019. https://www.spglobal.com/en/research-insights/articles/the-esg-advantage-exploring-links-to-corporate-financial-performance.

[2] Gunnar Friede, Timo Busch e Alexander Bassen, "ESG and financial performance: aggregated evidence from more than 2,000 empirical studies", *Journal of Sustainable Finance & Investment*, 5:4, 210–233, 2015.

[3] Harvard Business School. *Corporate Sustainability: First Evidence on Materiality*. https://dash.harvard.edu/bitstream/handle/1/14369106/15-073.pdf?sequence=1.



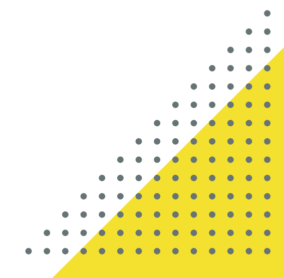
The same study revealed that revenue for women-owned companies had grown 103 percent in the U.S., and that companies of various genders around the world would be 15 percent more likely to outperform competitors, according to American Express data. In yet another example of this type, Unilever demonstrated opportunities to generate value for its new sustainability-focused brands, which achieved growth rates 50% higher than the others in 2016.

Another report,[4] released by Morgan Stanley in 2017, found how the occurrence of ESG risk events materially affected the performance of the companies' shares, as shown in the figure below. According to the publication, oil spills and explosions at mining companies can harm shareholders, while inadequate governance and accounting controls can hinder the long-term success of large companies. For Morgan Stanley, incorporating ESG factors into investment analysis can mitigate these risks.

ESG RISK EVENT	DATE	1 YEAR (%)*
Scandal in the energy sector	08/14/2001	-99.6
Scandal in the telecommunications sector	03/11/2002	-98.6
Upper Big Branch coal mine explosion	04/05/2010	-52.7
Deepwater Horizon oil spill	04/20/2010	-28.2
Automobile recall (airbag defect)	01/21/2014	-53,5
Scandal in the pharmaceutical sector	08/05/2015	-91,5
Carbon emissions from automobiles	09/20/2015	-26,4
Average loss of value to shareholders 1 year after the event		**-64.4**

Source: Bloomberg. November of 2016. *Past performance is no guarantee of future results.*
* Loss of value in one year (%)

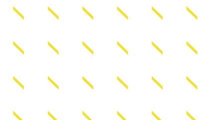
[4] Kristian Heugh e Marc Fox. *ESG and the Sustainability of Competitive Advantage*. Morgan Stanley, 2017. www.morganstanley.com/im/publication/insights/investment-insights/ii_esgandthesustainabilityofcompetitiveadvantage_en.pdf.



In late 2019, a report[5] from McKinsey & Company identified five ways in which ESG factors can create value for companies, either by (i) facilitating revenue growth, (ii) reducing costs, (iii) minimizing regulatory and legal interventions, (iv) increasing employee productivity, or (v) optimizing investments. The figure below shows some examples cited.

	STRONG ESG PROPOSAL	WEAK ESG PROPOSAL
Growth in revenue	Attract B2B and B2C customers with more sustainable products. Gain better access to resources through a stronger community and government relations.	Lose customers due to practices opposed to ESG or generate the perception that your products are unsustainable. Lose access to resources due to fragile relations with the community and workers.
Reduction of costs	Lower energy and water consumption.	Waste and high costs of waste disposal.
Regulatory and legal interventions	Achieve greater strategic freedom through deregulation. Obtain subsidies and support from the government.	Suffer restrictions on advertising and points of sale. Penalties, fines, and actions for execution.
Increase in productivity	Increase motivation of employees. Attracting talent through greater social credibility.	Deal with "social stigma", which may restrict the acquisition of talent. Lose talent due to absence of a consistent purpose.
Optimization of assets and investments	Improve return on investment with better capital allocation to the long term (for example, more sustainable equipment). Avoid investments that may have less return in the long term due to environmental problems.	Idle assets as a result of premature reductions. Stay behind competitors who have invested in lower consumption of energy.

[5] Witold Henisz, Tim Koller e Robin Nuttall. *Five ways that ESG creates value*. McKinsey and Company, 14/11/2019. https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value.



Implementing ESG practices can boost consumer preference for products and services. This same McKinsey & Company report indicates that more than 70 percent of consumers in various industries – including automotive, construction, electronics, and packaging – say they would pay 5 percent more for a green product if it met the same performance standards as the non-green alternative. It also shows that almost half (44%) of the companies surveyed identify business and growth opportunities as an impulse to start their sustainability programs.

The consulting firm addresses some practical examples, such as the case of the multinational 3M, which has long understood proactivity towards environmental risks as a source of competitive advantage. The company has saved US$2.2 billion since 1975, when it introduced the "Preventing Pollution pays" program, avoiding pollution, reformulating products, improving manufacturing processes, redesigning equipment, and recycling and reusing waste.

According to the report, a major water utility achieved savings of nearly $180 million per year thanks to initiatives aimed at improving preventive maintenance, refining spare parts inventory management, and combating energy consumption and sludge recovery. Another example refers to FedEx, which intends to convert its entire fleet of 35 thousand vehicles into electric or hybrid units. By the time the report was published, 20% had already been converted, reducing fuel consumption by more than 50 million gallons.

An article[6] published in April of this year by the asset management arm of Credit Suisse also points to concrete evidence of higher financial returns from ESG integration. According to it, most investors consider the inclusion of ESG criteria a way to increase the returns of a portfolio or the best way to mitigate its risks. The article refers to studies that confirm the positive correlation between a company's sustainability and its financial performance.

The positive correlation is based on market data,[7] such as the comparison of performance between the broad MSCI Emerging Markets Index and the MSCI Emerging Markets ESG Leaders Index. Investors who chose the ESG stock index achieved a 14.65% higher performance since its launch in October of 2014 until the end of 2018, with an annual return in excess of 3.19% compared to other companies.

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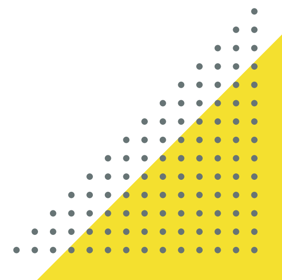
[6] Credit Suisse. *Credit Suisse Asset Management gets serious on ESG*, 29/4/20. https://www.credit-suisse.com/ch/en/articles/asset-management/destination-esg-202004.html.

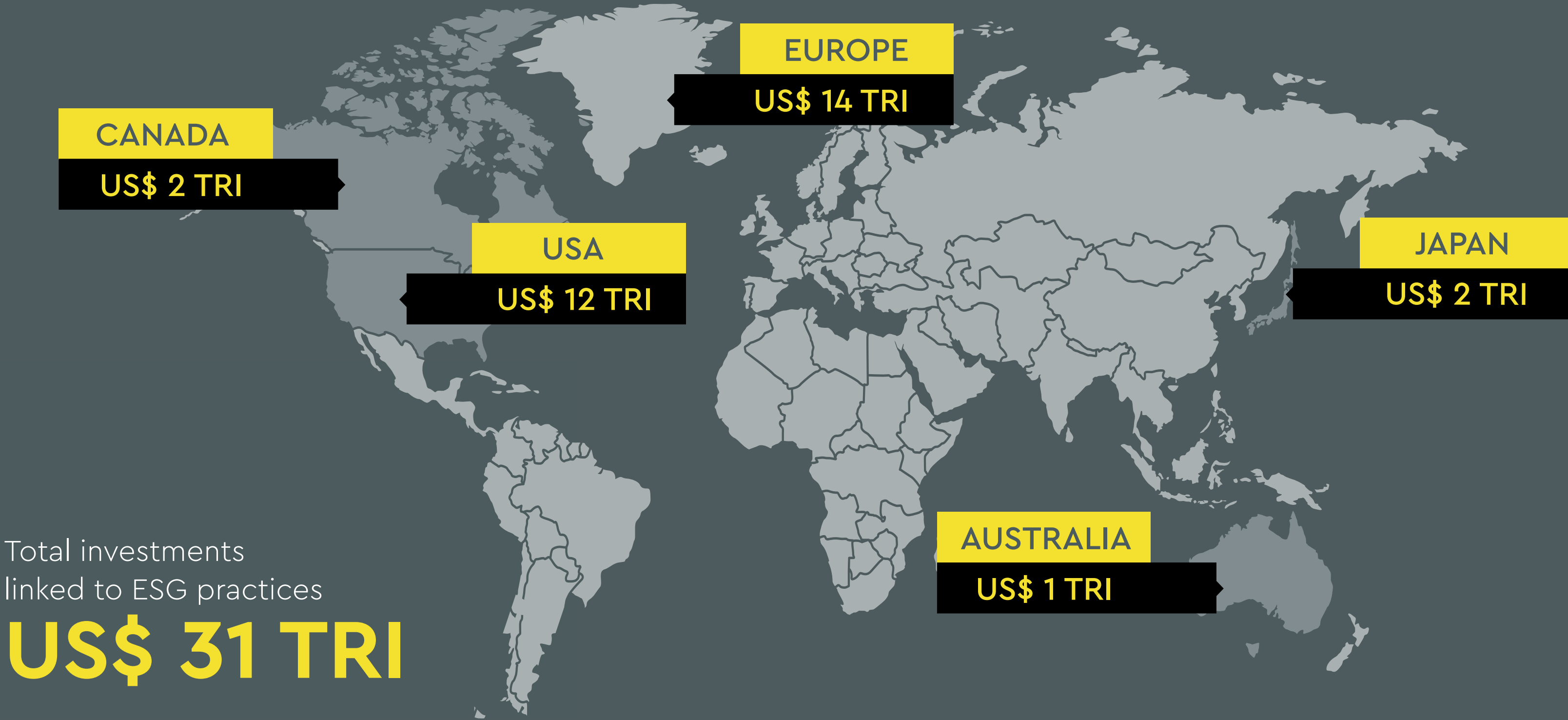
[7] Dados da MSCI de 31/10/14 e 31/12/18.



Besides the financial performance per se, from the perspective of attracting investments in the market, companies that apply ESG standards also present a concrete advantage. This is because there is a growing tendency to prioritize these companies in capital allocation.

Assets invested according to ESG-related strategies reached $31 trillion in 2018, according to data from the Global Sustainable Investment Alliance (see figure below).

INVESTMENT IN ESG BY REGION

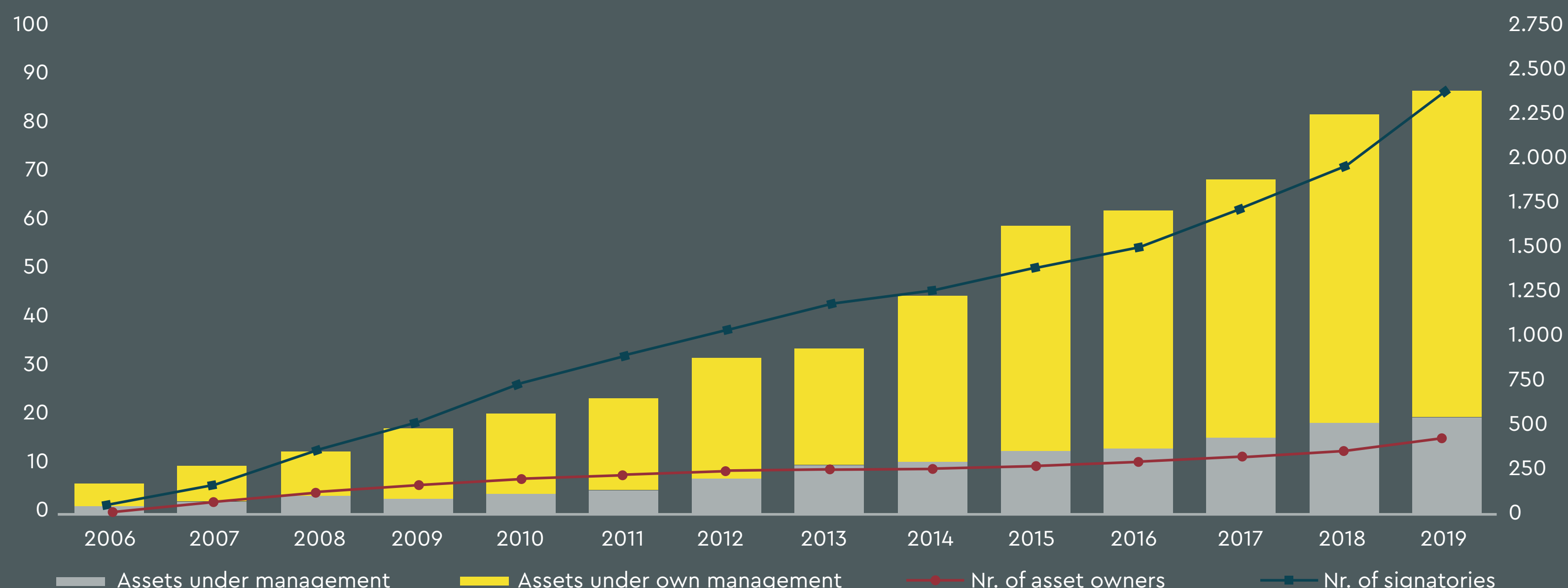


Total investments linked to ESG practices

US$ 31 TRI

Source: GSIA 2019; *Credit Suisse Global Investiments Returns Yearbook*, 2020.

PRI data show an even more expressive reality. The number of investors, banks, and private equity managers who are signatories to the PRI has increased considerably and, as a result, the assets under their management have also grown, as illustrated in the figure below. The signatories to the PRI implement, in some way, ESG factors in their analysis and investment decisions.



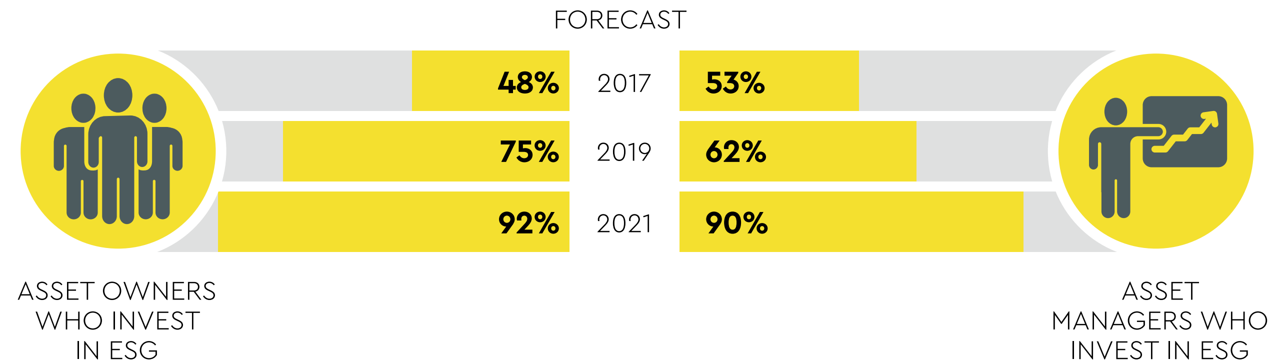
Source: ONU, *Principles for Responsible Investments*.

In a survey[8] in 2019, BNP Paribas, France's largest bank, spoke with 178 investors and 169 managers from North America, Europe, and Asia (90% of them representing assets under management of $1 billion to $25 billion; and 10%, assets worth more than $25 billion) to understand whether and how these investors and fund managers implement ESG in their capital allocation analyses.

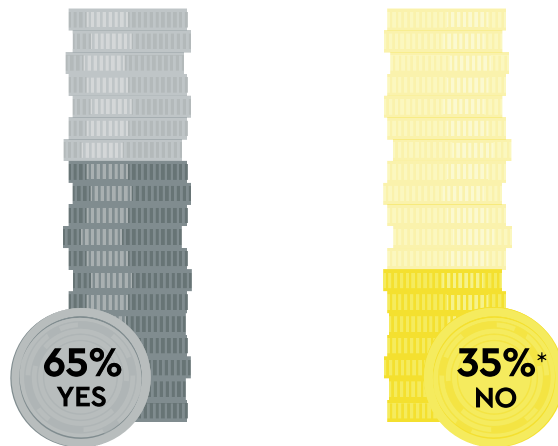
[8] BNP Paribas. *The ESG Global Survey 2019*. https://securities.bnpparibas.com/global-esg-survey.html.

The results show that 65% invested in responsible funds. Among the 35% who did not invest, 15% already had plans to invest and 7% only did not do so because of technical difficulties. Thus, of all the investors and managers who responded, only 7% said investing in responsible funds was not a priority, as shown in the figure below.

OVER 25% OF INVESTMENT FUNDS INVESTED IN ESG FUNDS OR RESPONSIBLE INVESTMENT



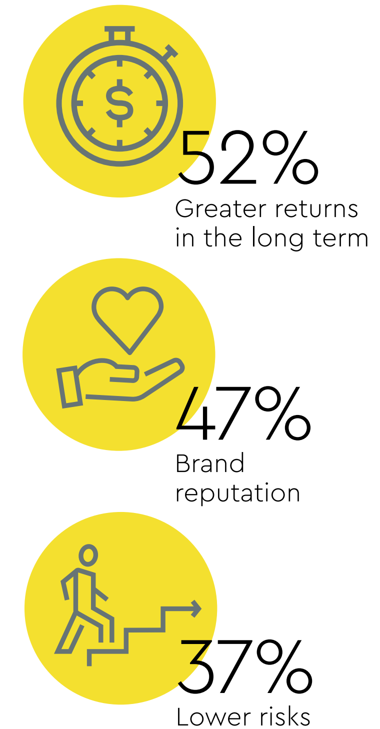
INVESTORS WHO HAD INVESTMENT PLANS LINKED TO ESG

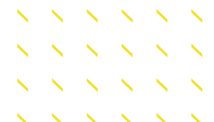


***20%** do not have plans (8% due to lack of data, 7% said that it is not a priority) | **15%** have plans to align.
Source: BNP Paribas. *The ESG Global Survey 2019*.

The survey also indicated that investors' main motivations for prioritizing the ESG portfolio were better for long-term returns, image and reputation, and mitigation of investment risk.

MAIN MOTIVATIONS TO INVEST IN ESG





IMPACTS OF COVID-19 ON RESPONSIBLE INVESTMENT

Historically, an increasing number of investors have been looking at companies under the lens of good environmental, social, and governance practices. With the covid-19 pandemic, ESG and responsible investment factors have become even more central to the process of evaluating an investment, with greater weight placed on corporate decisions regarding human capital, customers, suppliers, and society as a whole.

The pandemic highlighted structural weaknesses in the global economy and exacerbated the importance of the UN's Sustainable Development Goals. The crisis already leaves financing gaps that can only be filled with private capital. This scenario will certainly be an incentive for investors with a purpose, increasing the demand for responsible financing. In the process of overcoming the crisis and in an environment of greater regulatory incentive, more market uncertainties, and better resilience of sustainable investments, the demand for responsible investments has shown clear signs of growth.

According to Ernst & Young, in the *EY Global Risk Survey 2020*,[9] which monitors market data in real time, 79% of board members and executive boards of companies said in May that their organizations were not well prepared to deal with crisis events.

An article[10] recently published in a forum on corporate governance at Harvard Law School points out some ESG issues that will deserve special attention from shareholders and agents involved in the companies, such as oversight of risk management, critical incidents, and systemic risks by the executive boards. The crisis is testing the effectiveness and responsiveness of risk management policies and procedures that exist in many companies. The authors also point to issues of human capital and supply chain resilience and the business model, which will be tested in various respects. Some of them started to be analyzed with attention by stakeholders, such as executive compensation, dividend payments, share repurchases, consumer welfare, and impact on communities.

Among the various issues integrated in ESG factors, we highlight some that are in evidence during the covid-19 crisis and have had greater weight in the process of economic recovery.

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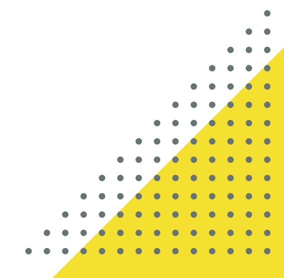
[9] EY. *EY Global Risk Survey 2020*. https://www.ey.com/en_ae/covid-19/covid-19-crisis-management-essential-ten-better-questions-to-ask.

[10] David M. Silk, David A. Katz e Sabastian V. Niles, da Wachtell, Lipton, Rosen & Katz. *Key ESG Considerations in the Crisis*, Harvard Law School Forum on Corporate Governance, 21/4/20. https://corpgov.law.harvard.edu/2020/04/21/key-esg-considerations-in-the-crisis/.



REPUTATIONAL RISK

A first element is the image and reputation of organizations, something that has been central to investors' analysis in the capital allocation process and is correlated to companies' financial performance.

Some practices observed during the crisis already indicate this change, such as the implementation of campaigns to combat the effects of the pandemic, replacement of advertising with a heightened focus on products to present companies' good practices and values, and the large amount of donations by traditional companies or their shareholders. Factors related to corporate behavior, especially in times of crisis, are already being associated with long-term performance and returns, from the way companies treat their employees, suppliers and customers, to their impacts on society. The attitudes of companies at any given time may have lasting consequences on their image, whether positive or negative.

Donations and structured social programs are not new to global brands, but reinterpreting the role and values of companies in a matter of days is the new element brought about by the global crisis. There are numerous examples of companies that have converted their factories in order to produce anti-coronavirus inputs, such as alcohol sanitizer, in the case of Ambev, or ventilators, in the case of General Motors. There are marketing efforts to support consumers during the difficult phase and donations to health professionals and small businesses.

The connection between company, brand, and values has become more important or more visible to consumers. In a study[11] by FleishmanHillard, the world's largest image and public relations consulting firm, 52 percent of consumers described employers who take better care of their employees as "very important" and 32 percent intend to buy from companies that took care of their employees during the crisis. The workplace has just undergone an instant overhaul, and the distance between "good employer" and "preferred brand" has become much smaller. Accordingly, brands should articulate not only what they do, but who they are. The consulting firm's conclusion is that, when done correctly, this will not only lead to a better perception of the brand by customers, but, when the economy recovers, it will also strengthen its reputation and sales and, hence, financial returns.

A number of consistent articles have been published in periodicals such as the *Harvard Business Review* to demonstrate the strong correlation between purpose and solid values, good image and reputation of organizations and financial returns. But cross-checking data from some recent studies, some of which already consider the effects of the pandemic, shows that this relationship will be even more incisive in the scenario during and after the pandemic.

During the crisis, 65% of UK consumers have already re-evaluated which products and services they value most, with 59% saying they don't plan to go back to their old shopping behaviors when the pandemic ends. Before the crisis, consumers were already ready to pay up to 19% more for "responsible" products,[12] and 88% had positive perceptions of companies that had an "excellent goal".[13]

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[11] FleishmanHillard True Global Intelligence. *How the global pandemic is sharing UK consumer attitudes and behaviour*, abril/2020.he global pandemic is

[12] Sally Blount e Paul Leinwand, "Why Are We Here?", *Harvard Business Review*, Nov-Dez/2019.

[13] Reputation Institute, *Global Trends in Reputation 2020*.

HUMAN RESOURCES

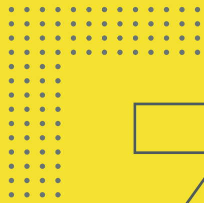
A second central element has been the concern with the welfare of employees, which has been pointed out by the world's largest consulting firms as the main aspect for overcoming the crisis without the company being affected.

Investment analysts who already incorporate ESG into their capital management have been realizing that companies that adopt a flexible work culture and with a higher appreciation of their employees will have less loss of productivity than others. Various studies prove that more satisfied employees are more involved in their work, which generates a concrete impact on the performance of the company itself and on the broader culture of the organization.

A recent[14] report from Morgan Stanley Bank, which analyzes covid-19's impacts on the corporate world, reveals that employees included in the highest engagement group outperform those in the lowest engagement group in different metrics, including indicators of customer satisfaction, productivity, and profitability.

Some research already correlates labor force cuts and long-term loss of productivity. In crisis scenarios, situations like this become even more sensitive. While licenses and waivers offer an immediate and often necessary solution to the economic downturn resulting from covid-19, the long-term effects of such responses can be even more damaging to organizations. A study published in the *Harvard Business Review* found that, after layoffs, there was a 41% decline in job satisfaction, 36% in organizational commitment, and 20% in performance among employees who remained at the company.

[14] Morgan Stanley. *Why the Coronavirus Puts a Lens on ESG Investing*, 6/4/20. https://www.morganstanley.com/ideas/coronavirus-corporates-esg-investing.



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ENVIRONMENTAL RISK

The third factor of growing importance is concern for the environment. Kristalina Georgieva, chief executive officer of the International Monetary Fund (IMF), demonstrates her intention to "make the [post-covid-19 economic] recovery greener," which includes promoting green finance and mobilizing private capital for sustainable investments among the IMF's objectives.

From a regulatory point of view, sustainability already represents an important global agenda and is subject to greater guidance by regulators from all regions. New regulations in the European Union will oblige financial institutions to provide customers and investors, from 2021 onwards, with metrics on transparency and appropriateness of exposure and risks to sustainability in investment products. The bloc also confirmed that green financing will be key to post-pandemic recovery in order to maintain control of its sustainability objectives. In Europe, Germany announced the launch of its first green security. The transaction received a demand five times greater than the total supply (33 billion euros against 6 billion).[15]

Brazil has been observing a significant awakening of the sustainability agenda in the financial market. According to a survey conducted by Sitawi,[16] 52 sustainable credit transactions have already been carried out by Brazilian companies (including green bonds, sustainable bonds, social bonds, and transition bonds), with a total value of US$ 3.5 billion. More recently, two innovative transactions have been announced that have their financial conditions linked to the fulfillment of sustainability goals, which became known as "post-fixed ASG" or sustainability linked-bond. Unlike green bonds, which are intended to finance specific projects, sustainability linked-bonds are linked to the company's environmental or social goals.

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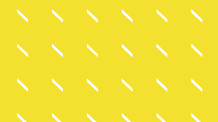
[15] Capital Reset. *A Alemanha vai lançar seu primeiro green bond — e deve abrir novo capítulo para o mercado*, 31/8/2020. https://www.capitalreset.com/a-alemanha-vai-lancar-seu-primeiro-green-bond-e-deve-abrir-novo-capitulo-para-o-mercado/

[16] Sitawi, *Operações Brasileiras Sustentáveis de Crédito*, 18/8/2020. https://docs.google.com/spreadsheets/u/1/d/e/2PACX-1vRDp7Z82Qovj9VuupGGQGSiBi66hQPdRL5ucb6kZ80HyjtQtVjjtf7Qekh99_DVs2FRG-8ADHE05ASP/pubhtml. Acesso em: 10/9/2020



The first of these innovative transactions, a R$ 530 million fund raising by FS Bioenergia[17] – Brazil's largest producer of exclusively corn biofuel – involved the first issuance of green Agribusiness Receivables Certificates (CRA) in Brazil, Real Estate Receivables Certificates (CRI) with rates linked to the achievement of "green targets", including carbon emission reductions under the National Biofuel Policy RenovaBIO, in addition to an ASG Post-Fixed Loan with Santander, through the issuance of Bank Credit Notes. In the latter two transactions, the cost of fundraising can be reduced for the company if all environmental targets are met.

The second[18] was announced by Suzano Papel e Celulose, to repurchase international debt securities, with a ten-year maturity, in a transaction linked to targets for reducing greenhouse gas emissions by 15% by 2030. The US$ 750 million issuance, maturing in 2031, set the lowest rate in the company's history for outside financing: 3.95% per annum, including a discount on the papers that were already on the market, traded at interest of 4.05% per annum. If the targets are not met, there will be an increase in the interest rate, which has been called a step up. The offer is coordinated by a syndicate of banks composed of J.P. Morgan, Goldman Sachs, Morgan Stanley, Bank of America, BNP, Crédit Agricole, MUFG, Santander, Rabobank, SMBC Nikko, Scotiabank, and Mizuho.

In early September, the Central Bank launched the Sustainability Dimension of the BC# Agenda to promote issues related to sustainable growth. The main initiatives involve social and environmental responsibility, climate risks, and the promotion of a culture of sustainability. At the end of the program's launch, the Central Bank signed a memorandum of understanding with the Climate Bonds Initiative (CBI). The president of BNDES, Gustavo Montezano, also publicly advocated that the bank and Brazilian companies begin to focus on innovation in green finance.

But environmental standards are not just a public sector concern. An alliance between 68 CEOs of large companies from Germany and other European countries calls for a green economic recovery plan. The group's giant members include Bayer, Allianz, Schneider Electric, and Unilever Germany, employs 4 million people in various sectors, and has an average annual revenue of one trillion euros. Its leaders want the German government to promote economic recovery in the post-pandemic period following the course set by the Paris Agreement. The idea is that the medium and long term goals of recovery do not contemplate only economic stimulus, but contribute to "a resilient economy that achieves climate neutrality through innovation and competitiveness.[19]

[17] Sitawi, *FS Bioenergia capta R$ 530 milhões em operações verdes inéditas com parecer positivo da Sitawi*. https://www.sitawi.net/noticias/fs-bioenergia-capta-r-530-milhoes-em-operacoes-verdes-ineditas-com-parecer-positivo-da-sitawi/

[18] https://www.capitalreset.com/com-bonus-sustentavel-suzano-capta-com-menor-taxa-de-sua-historia/

[19] Valor Econômico. *CEOs alemães pedem um plano de retomada verde*, 6/5/20. https://valor.globo.com/mundo/noticia/2020/05/06/ceos-alemaes-pedem-um-plano-de-retomada-verde.ghtml

GOVERNANCE

Corporate governance issues sensitive to the board of directors and executive boards of companies, such as the accountability of shareholders and senior management for the guidelines for overcoming the crisis and the compensation of directors and executives, have also been in evidence during the crisis. It is essential that senior management understand the risks arising from the pandemic for the company and its stakeholders, and even more, that they take consistent positions, considering the needs of employees, suppliers, and consumers.

Many companies will fail in their short- and long-term incentive plan goals, which will directly affect executive bonuses. Even in situations beyond the companies' control, such as a pandemic, executives who receive generous bonuses after periods of losses to shareholders are not usually well regarded by the latter. Thus, executives who demonstrate exceptional ability to navigate their company during the crisis are expected to receive higher compensation.

For example, the Coronavirus Aid, Relief, and Economic Security Act (CARES), approved in March of 2020 in the US, obliges companies to limit salaries and bonuses for highly paid employees in order for them to obtain funds from the program.

The CARES Act also requires, in some cases, the maintenance of specific workforce levels for the duration of benefits and for a later period, something similar to the payroll subsidy program implemented by the Brazilian federal government, which prevents layoffs for a few months. Limitations on the payment of dividends were also imposed on companies that joined the program.

A recent report from *Valor Econômico*[20] indicated that, with ESG factors in the spotlight, a number of global companies have reduced dividend payments. The theory is that there is a tendency to ensure that employees, customers, and society as a whole are the first concerns of companies, unlike what used to occur in other recessions, when dividends were protected and operating costs and capital investments were reduced to a minimum to improve cash flow.

[20] Valor Econômico. *Com ESG na mira, pagamento de dividendos pode demorar a ser retomado*, 2/6/20. https://valor-globo-com.cdn.ampproject.org/c/s/valor.globo.com/google/amp/financas/noticia/2020/06/02/com-esg-na-mira-pagamento-de-dividendos-pode-demorar-a-ser-retomado.ghtml.

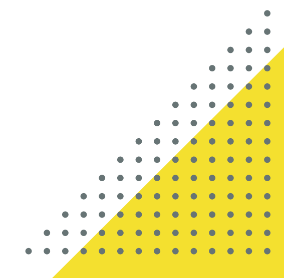
CONCLUSION

The paradigm shift that had been occurring in the wake of responsible investments and the implementation of ESG practices by companies accelerated due to covid-19. From the point of view of society, there will certainly be an even greater focus on companies' purposes. From a market and company performance point of view, evidence shows that ESG funds and stocks did better than investments with a purely financial focus.

This new scenario is leading the world's major investors to allocate a greater share of their funds to sustainable assets. An article published by the European bank Credit Suisse at the end of May revealed that since mid-February of this year the majority of ESG funds have exceeded their benchmarks, with the topics ESG and sustainability attracting strong volumes of funds. As Morningstar reported, in the first quarter of 2020, global investors invested a record US$ 45.76 billion in funds that operate in compliance with environmental, social, and governance practices. That compares to US$ 384.7 billion outlays on all funds.

In addition to traditional considerations regarding productivity, financial return, and risk management, companies will need to consider the resilience of their business model in different scenarios. Investors, employees, consumers, and other stakeholders examine how organizations are able to adapt their businesses to face future crises. Companies should assess how different environmental and social realities may put their business models at risk. Those who already observed ESG practices will have a great competitive advantage in this adaptation process.

The sustainability movement can no longer be interrupted. Even if public power and policymakers do not follow this direction, there is no doubt that the market-led forces and responsible investors that drive this movement will continue to gain strength. These trends are irreversible and global in scope, and governments can only accelerate or slow them down. Conscious ESG investment will be the new normal. Companies that fail to transform their business models will be replaced and unable to thrive in the corporate paradigm.



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