# Does Amazon's push to be a better, greener employer matter to markets?

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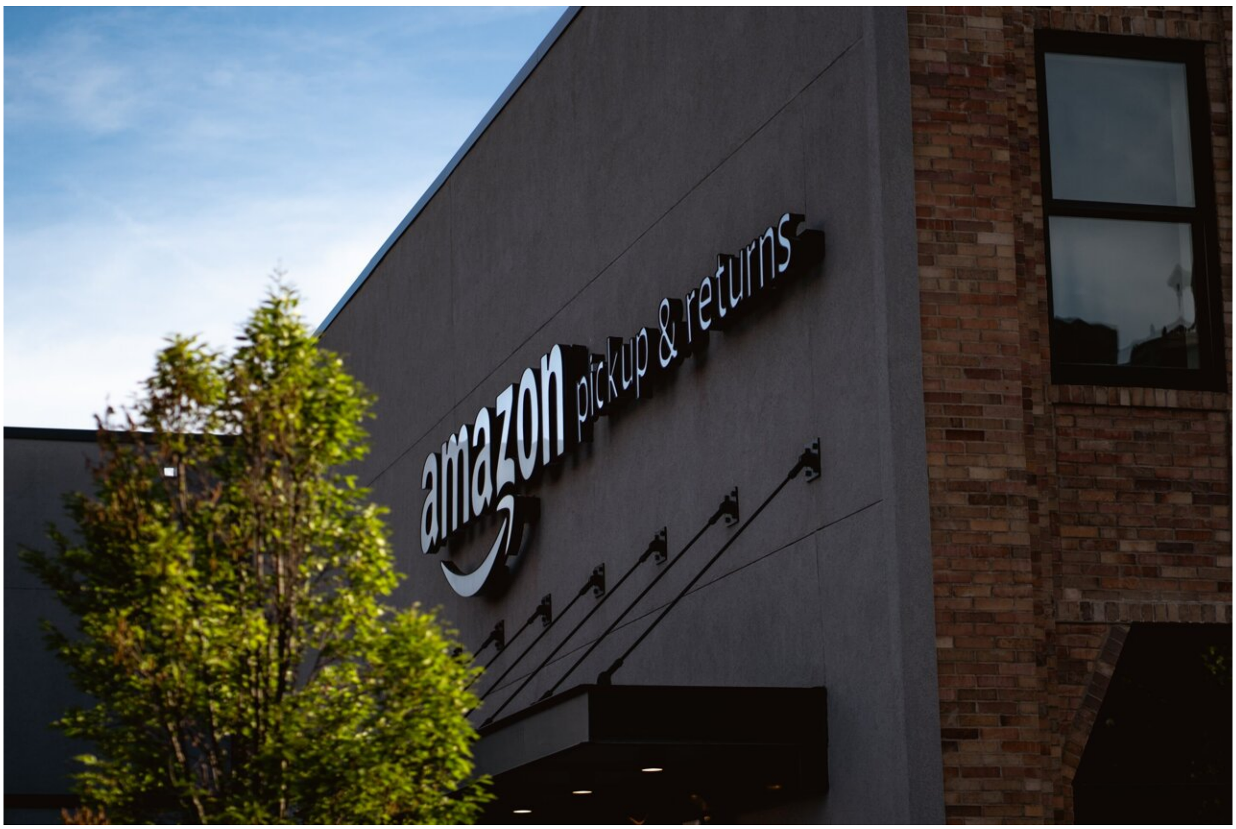


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This summer, Amazon lost an A.

Morgan Stanley Capital International, or MSCI, a New York-based investment research firm, dropped Amazon from a grade A rating to a BBB in August.

MSCI uses that scale—which runs from AAA to CCC—to tell investors how well a company is doing on several non-financial factors that may matter to shareholders, like carbon emissions, executive pay and diversity.

The scale is part of the world of ESG—a type of investing that is billed as a way for shareholders to put their dollars toward companies that align with their values. E stands for environmental, S for social, G for governance. Workforce diversity and equity, customer satisfaction and labor relations are captured in the social catchall, while governance references board composition, executive compensation and political donations.

MSCI is one of dozens of firms that rank companies on ESG factors, hoping to help other firms make decisions about which companies to include in stock portfolios that are organized around ESG metrics. Those firms market the portfolios to investors as a way to use stock holdings to further their personal values.

Amazon is included in some of the largest ESG funds, like BlackRock and Vanguard. It's not listed in Fidelity's climate action fund but it does have a spot in the firm's women's leadership fund. Amazon's 11-person board of directors includes five women.

But in August, the tech and e-commerce giant lost points in two ESG indicators: MSCI downgraded the company and the Science Based Targets initiative, a United Nations-backed organization that acts as a watchdog of corporate climate goals, removed Amazon from its list of companies that have committed to net zero emissions targets.

As Amazon faces increased pressure to reduce its impact on the climate and improve working conditions in its warehouses, two issues that fall squarely into E and S, the change raised the question: Could Amazon lose its status in the world of ESG investing?

The short answer: Probably not.

"I don't think it makes a difference," said Ann Terlaak, a business professor at the University of Wisconsin-Madison. Tensie Whelan, a professor from New York University, said the "average fund" would likely continue investing in the company.

Daniel Hanson, the head of the U.S. Sustainable Equity team at Neuberger Berman, a firm that has invested in Amazon since 2022, said the change wouldn't impact his firm's decision.

Neuberger Berman uses third-party indicators—like the MSCI ranking system or the Science Based Targets initiative endorsement—as part of its research when determining where to invest but never as a deciding factor.

He likened the [decision-making process](#) to driving a car: Third-party indicators are the dashboard, where lights and numbers give the driver information about what's going on in the car. But relying only on that dashboard means drivers aren't looking out the windshield to see what's going on in front of them.

"That instrument panel is just a starting point," Hanson said. "I'm definitely going to look through the windshield down the road."

## Amazon's changing score

The Science Based Targets initiative, a United Nations-backed organization that validates net-zero plans, removed Amazon from its list of companies taking action on climate goals in August.

The net-zero standard requires companies reduce their climate impact to a negligible level, first by reducing greenhouse gas emissions and then offsetting pollution that remains with carbon-capturing initiatives, according to SBTi. To prevent global temperature from rising more than 1.5 degrees Celsius—a goal of the Paris Agreement—the agency said most companies should aim to halve emissions by 2030.

SBTi said it took Amazon off the list because the online retailer failed to follow through on its commitment to set a credible target for reducing carbon emissions. The removal followed a change in SBTi's policies that gave companies a six-month grace period to set a target before marking them as "commitment removed" on a public dashboard.

Amazon said the organization's requirements changed, making it "difficult" to submit a target in a "meaningful and accurate way." The company says it is still in contact with SBTi, as well as other organizations to set science-based targets.

Internally, Amazon has committed to eliminating or offsetting all of its carbon emissions by 2040. But, in the five years since it made that pledge, its total carbon footprint has grown—from roughly 51 million metric tons in 2019 to 71.5 million metric tons in 2021.

Amazon's carbon footprint declined 0.4% in the past year, dropping to 71.2 million metric tons in 2022, according to the most recent company data from July.

It's not clear what led to the change in Amazon's MSCI grade, nor is it clear whether it's related to Amazon's environmental goals or SBTi's endorsement. Most ESG ranking systems consider the exact formula for a grade to be proprietary information. MSCI did not respond to questions about what caused the downgrade.

Amazon said it believes the change in grade was due to a change in MSCI's system. The firm reclassified Amazon in March 2023—from the discontinued internet and direct marketing retail sub-industry to the consumer discretionary sector, where it now sits. That changed the weight of each pillar of E, S and G, Amazon said.

MSCI had raised Amazon's score in December, after two years at a "BBB," before knocking it back down six months later. Both scores place Amazon in an "average" ranking, above "laggard" companies but not quite a "leader" in MSCI's eyes.

## Variability in ESG

Because there is so much variability at each rung of the ESG-sphere—from how firms rank a company's ESG score to how funds decide which scores to look at—it can be difficult to knock a company like Amazon out of the running.

"There's a whole series of different approaches to sustainability in terms of investing," said Whelan, who founded the Center for Sustainable Business at NYU. "And within those different approaches, different fund managers use different tools and different ways of doing it. That's part of the challenge."

That benefits Amazon, Whelan said. Because the tech and e-commerce giant is so diversified, there are a lot of factors for firms to consider when giving it a score.

Hypothetically, if Amazon were to lose points for an increase in carbon emissions, it could gain points for a salary increase for its hourly warehouse workers. One falls into the environmental (E) category while the other falls into social (S) and the two could balance each other out.

Similarly, if Amazon were to be removed from one ESG fund, it is such a hot commodity on the stock market that it would likely still be included in others.

"There's a variety of sources fund managers are using to evaluate whether or not a company should be put on some sort of caution list. I don't think it's that black and white," said Maria Lettini, the CEO of U.S. Sustainable Investment Forum, a D.C.-based organization that includes investment firms, mutual fund companies, banks, credit unions and other financial institutions.

In some cases, Lettini said, ESG funds will hold on to a company even if it isn't meeting all its ESG benchmarks. If they sell, they risk someone else gobbling up the shares who isn't interested in ESG and won't put shareholder pressure on the company to take action.

"It's proven to be more effective to engage with a company to change their practices than to reduce your holdings in a certain company—only to be purchased by a company that may not care as much as you," Lettini said.

## A 'dangerous narrative'

After 10 years of teaching corporate sustainability, Terlaak, from the University of Wisconsin-Madison, has come to believe the ESG system isn't working the way it was supposed to.

Rather than acting as a way for investors to find companies that align with their values, the ratings have come to include almost every big-ticket company, from Amazon to Exxon. Because there is so much variability in the way ESG scores are calculated, the rankings have diminished in meaning, she said.

This can create a "dangerous narrative," Terlaak said, where companies avoid regulation because lawmakers assume the market will keep them in check.

"It allows us to look away from the heart of issues we need to undertake," she said. "Turning to the private sector for a solution to a problem as large and systematic as social inequality and environmental degradation is not a good idea."

"The private sector itself won't solve this. ... It won't change the trajectory we're on whatsoever."

The Securities and Exchange Commission recently put out new guidelines in an effort to combat what it calls deceptive, misleading marketing practices and "greenwashing" by investment funds. The new rule requires that 80% of a fund's portfolio matches the asset advertised by its name.

Republicans in the U.S. House of Representatives have started to push back against the ESG movement, arguing it poses a threat to the country's financial systems and is promoting investment decisions that are politically motivated and not transparent.

Bo Han, a professor at Seattle University, said it comes down to "how much does the fund manager really—wink wink—care about ESG ratings?"

"There's two incentives they can pursue: One is they care about ESG because they care about the world. The other is they care about ESG because investors care about ESG," he continued. It's still not clear which incentive wins out, Han said, but many fund managers "talk the talk much more loudly than they're willing to walk the walk."

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