

Fox Rothschild Podcast

Franchise Fundamentals: Positive Contributions to Society Are a Key to Financial Success (Part 1)

Featuring John Gotaskie

Narrator: We're talking today on Fox Rothschild's Franchise Fundamentals Podcast with [John Gotaskie](#) in Pittsburgh. Our topic today is part one of John's insights into Environmental, Social and Governance, known as "ESG" for short. John represents clients in a variety of corporate, venture finance, franchising, licensing and distribution as well as in bankruptcy and commercial litigation. He's also editor of Fox's [Franchise Law Update blog](#). John, congratulations on another installment of your long-running podcast series.

Gotaskie: Thank you. It's really great to be back sharing important insights for the industry.

Narrator: John, you and [David Colvin](#) of Fox's Philadelphia office recently led an International Franchise Association [webinar](#) about the trending concept of [ESG](#). Please tell our listeners more about the concept and what they need to know.

Gotaskie: ESG trends are sweeping into businesses from the context of broader society, largely due to pressure from stakeholders, including investors. ESG issues reflect seismic shifts in public perception of business by evaluating how much a company pursues desired social objectives in addition to traditional financial profitability. ESG represents the convergence of how, in many cases "doing the right thing," so to speak, can result in achieving positive financial results. At the same time – and I think this is the real key part – ESG analysis helps a franchisor manage risk by assessing how the three key factors of environmentalism, social utility and governance impact a company's overall financial performance. ESG analysis, therefore, can really provide insight into a company's sustainability and long-term economic value.

I know that this sounds touchy-feely, but it really is an investment strategy. By taking into consideration non-financial factors that supplement traditional, bottom-line financial metrics and data, studies show that companies embracing ESG measures tend to be less risky and more profitable investments.

Narrator: John, who are the key stakeholders in ESG initiatives?

Gotaskie: I think that Larry Fink at BlackRock a few years ago said it best: The key stakeholders are people who want to "prosper over time." He said, "Every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders."

The four major stakeholders of any franchise company of course are its investors, consumers, employees and suppliers.

Narrator: Let's go deeper into the question of stakeholders. How does ESG impact or involve investors?

Gotaskie: It's really about how altruism is in a symbiotic relationship with capitalism. ESG factors are an important measure of long-term financial performance, and are of interest to all current and prospective investors because these factors have really been shown to lower investment risk and at the same time increase investment returns.

ESG-focused funds generally outperformed the S&P 500 in 2020. Today, 90% of millennial investors are committed to investments that reflect their own values. One estimate is that more than \$50 trillion in ESG assets could be under management by 2025.

Narrator: Let's shift to how ESG can motivate consumers.

Gotaskie: That's a great question. ESG factors increasingly are driving where consumers purchase goods and services. In 2018, for example, 48% of consumers surveyed said they would change spending habits to reduce environmental impact. This metric increased to 73% in 2019. These consumers reported that they would pay an astonishing 35% premium for goods produced by environmentally friendly brands.

Narrator: How does ESG impact a franchisor's employees?

Gotaskie: Let's face it: We all know right now that attracting and retaining good employees is one of the hardest and most critical factors in a company's success today. There's a very tight labor market. In some instances, the failure to develop a reliable, loyal workforce can advance or cripple a franchisor and its franchisees. The issues at play are fair pay; benefits and perquisites; of course, diversity and inclusion; training and education; and finally, low environmental impact.

Narrator: What about suppliers?

Gotaskie: With respect to suppliers, today's investors are a little different than a decade ago. Same with consumers and employees. They're all looking at the entire supply chain. Franchisor's want — no, need — to make sure that their supply chain matches their public face. In that context, there are a host of ways a franchisor and its suppliers can truly benefit. Working together to reducing environmental impact. Compliance with child labor laws. Appealing working conditions. Business transparency. All of these steps and more, at the same time as being attractive, reduce reputational risk. A franchisor's diligence, audits and compliance will minimize that reputational risk, and as I mentioned, studies have shown increased financial performance.



Narrator: Well, unfortunately, we're about out of time for today. John, thank you for your time today. Listeners, be sure to check out part two of John's podcast on ESG. To confidentially discuss how your organization might benefit from incorporating ESG into its management strategy, you may contact John Gotaskie in Pittsburgh at 412.394.5528 or at jgotaskie@foxrothschild.com.

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