



CV SPOTLIGHT *(Change)*

(Release #82, Year 2023)

ANTI-ESG

UPPER CASE “ESG” versus lower-case “esg”

“ESG GROWING FAST”

“esg a mess”

April 17, 2023

*“Leader and followers are both following the invisible leader – the common purpose...”
...Mary Parker Follett*

QUESTION FOR MANAGEMENT:

“Do people in your ecosystem especially like conducting business with your company more so than most and, if so, why?”

“ESG” and “esg”

I am officially joining the Anti-ESG movement – or more precisely the anti-esg movement.

SO WHAT ???

I am not sure if I have actually moved much at all but, rather, the “movement” has moved. “ESG” has gone mainstream and been co-opted.

The actual wisdom-based thinking deeply underlying “ESG” is still growing with exceptional momentum dating back to at least the early 1960s but there is also a growingly confusing mess on the surface to contend with!

This is a normal occurrence when humans intersect with major change. Nothing in any way surprising. The pattern repeats over and over and over...

Sometimes I find it useful to distinguish between an upper-case lettering of an idea versus a weakened lower-case real-world reconstruction of that idea. So... there is an upper-case all-caps “ESG” (the deep underlying ideas and action spring from that) and there is lower-case small-caps “esg”. The ideas behind “ESG” are alive and well and growing even though they are hidden in plain sight. “esg” – on the other hand – is a mess. It’s easy to get lost.

ESG AS SATAN'S WORK ?

I recently read of a state lawmaker who described ESG as “Satan’s work”.

I thought... “I haven’t heard THAT too often” and I am trained as a change student and aspiring bridge builder to lean into anomalies so I decided to dwell on his words.

“If he means using ESG to deceive others about the virtue of your entity or to gain a competitive undeserved edge via false marketing or the proliferation of mediocre data portrayed by providers as useful, well, I can see where he might be coming from...”

In fact, this lawmaker described the intentions behind ESG as...

“all laudable”

I didn’t expect that! I had wondered if he might be some extreme version of “leave business alone no matter what the damage to the world and I don’t believe in climate change and the disaster it will wreak on humanity” fundamentalist who might even WANT a bad world!! (I have been told about these types on CNN you know...☺)

But he specifically said the intention was all laudable. Maybe he had just used atypical words here in 2023 but wanted a better world just like I did??

It could be that he is pro-upper-case “ESG” but like many against lower-case “esg”. And maybe he doesn’t think the only path to upper-case ESG outcomes is via the tarnished road of lower-case “esg”.

I have written two anti-lower-case-“esg” myself last summer: CV SPOTLIGHT #35 and #40.

A WAYPOINT: WHERE ARE WE ?

A quick history of “ESG” and “esg”.

ESG has veered toward becoming a meme. From our change lens, this is by no means surprising in any way at all.

POINT #1: NON-LINEAR GROWTH OF UPPER-CASE "ESG"

Back in 2017, we suggested we had crossed over into ESG Release 2.0. Socially Responsible Investing (SRI) or Triple Bottom Line Investing constituted Release 1.0 about 35 years earlier. We suggested we would accelerate to Release 5.0 inside 10 years' time. The pace was accelerating. (PIP ADD: my current assessment is that we are even ahead of my schedule. In part, the pandemic was an accelerant.)

POINT #2: REDUCING EMOTIONAL DISTANCE IN DAILY BUSINESS

We defined the accelerating pace of change as a re-connection of business with societal well-being. Our thinking is that business – especially global and scaled business – has normalized emotional distance in its ecosystems.

Emotional distance translates into business generating far more negative externality than positive externality. Society instead aims to choose its economic system to, specifically, generate positive externality so this is a problem.

(PIP ADD: we suggest that the transportation revolution started an acceleration toward normalizing emotional distance when business and local society were somewhat quickly separating. People in your hometown literally didn't know one another's business anymore and localized social penalty dropped. In English, you could be a bad actor in your business and not face any social penalty in your local day-to-day community. Eventually, forces such as TV meant we didn't really care as much about being part of the local community anyway! Robert Putnam's "Bowling Alone" chronicles this phenomenally important shift.)

POINT #3: ZEITGEIST SHIFT

Additionally, the zeitgeist has shifted. The zeitgeist now calls on business to be the creator of societal change. This may or may not be "right". It doesn't matter too much. It's here to "deal with". This zeitgeist shift has been building for decades. It isn't a fad. Governments are seen by so many as incapable and incompetent systems. **Business is viewed as getting stuff done. The zeitgeist shift is, in part, a backhanded compliment.**

POINT #4: OUTCOME OF COMPETITION NOT "HOPE"

We suggested all along that **ESG Release 5.0 would spring from competition not "hopefulness"**. At the heart, we study change for a living. "Hopefulness" is a terrible change framework. When "hopefulness" is a leading argument for why change will occur, the odds of change actually occurring approaches 0%.

But competition is often an exceptional driver of innovation/change. This competition reflects that power is moving rapidly toward the end nodes in the system. This is happening because of the Quantum Changes in (1) connection and (2) access to information. The smartphone exemplifies the shift in power to the end node. The end nodes will lean toward those who establish great relationships via genuine care for others in the ecosystem. We created a framework called the "Relationship - Transaction - Relationship". Translated: If you have a strong relationship, the opportunity to enjoy a specific transaction moves up significantly. If you don't have relationship, you are spam... the odds of a successful transaction approach zero.

(PIP ADD: To test this idea: Perhaps you might receive 100-200 emails a day. You likely respond first to email from those you have a strong relationship with. Those who you don't know get deleted swiftly. Two ends of a spectrum: strong relationship to spam. This is the brutal world of competition-meets-email. Relationship is a critical variable. Generating greater relationship is linked to the degree perceived that the "other" actually cares about what is best for you and doesn't merely look at you as a means to THEIR ends.)

POINT #5: GOVERNMENT AS VITAL BUT KLUTZY REGULATOR

There is a major role for governments in pushing through regulatory change. **Industries and general global industry are typically systems incapable of self-policing.** This is very hard work that is typically conducted poorly. The system can't arrive at wisdom-based places. There are too many self-interested parties. And even if they could arrive at wisdom-based places the process is too slow to keep up with change! And... the atomic units of the economy tend to operate more so based on the "letter of the law" (e.g. hiring phenomenal tax lawyers to exploit unintended legal gaps and loopholes) as opposed to the "spirit of society".

POINT #6: BACKLASH IS THE NORMAL PATTERN IN CHANGE

Using our change lens, we typically expect backlash to form. In this case, as the pace of change in ESG accelerated, it is not surprising that an "Anti ESG" movement would emerge. This is really a sign of the power and pace of the change itself. In 1990, for instance, there was little need for "anti-SRI" movement as SRI itself was so powerless to even gain much attention or to widely threaten any current power structure. So "anti-ESG" is dependent on the existence of the mainstream success of the "ESG" movement even if the movement has devolved into lower-case "esg". This is a typical change pattern.

POINT #7: ESG DEVOLVES INTO A MEME

We would also expect any powerful shift to have the power to devolve into a meme. ESG has.

I see memes as unfortunate. Memes simultaneously lead to and also reflect co-opting. Most all memes dilute the power of the original wisdom as they go mainstream too quickly. Instead of the wisdom being internalized deeply and steadily, when a shift to meme occurs, the wisdom is distorted. Eventually, few can recall what the original wisdom even was.

For most people, this "meme shift" – from initial wisdom to diluted mockery of the original idea -- goes unnoticed. Instead, a group reacts with anger! The anger might be due to the "greenwashing" fake virtue, the box-checking ridiculousness, the misleading marketing, the "knowingness" involved in outcomes-based targets... and on and on...

Often these complaints are exactly, precisely, fully shared by the initial advocates of the trend now faced with backlash!!!! Sometimes, the original advocates will stay on board the distorted movement thinking it is the best chance for change even in its severely diluted/distorted co-opted state.

With all this in mind, please register me in the Anti-ESG camp or, more precisely, the "anti-esg" camp, if you would.

POINT #8: UNDERLYING DRIVERS ARE GROWING

The good news – as far as I am concerned -- is that the underlying drivers aren't changing inside the confusion and wisdom-less activity and disheartening mainstreaming and co-opting...

The underlying premise (again) is

#1 ZEITGEIST: EXPECTATION OF BUSINESS

The zeitgeist growingly expects business to be a significant conscious participant in reducing the emotional distance in its ecosystems which will naturally then (1) reduce negative externalities, (2) increase positive externalities and (3) advance society.

#2 COMPETITION

This will happen through competitive forces as power is moving rapidly away from controlling/gatekeeping centers toward the end node as an outcome of the twin Quantum Changes of (1) connection and (2) information access. The shift from Porter's Five Forces to Porter's Shared Value exemplifies this competitive direction.

#3 RELATIONSHIP

The competitive forces will favor those that generate strong ecosystem relationships. Strong relationships will be, in part, a function of (1) "trust" and (2) belief that the "other" party actually cares about something more than themselves. "Connection" is universal and in itself valueless. "Relationship" – on the other hand -- can be pure magic. Connection experienced quantum change. Relationship did not. Fewer companies will be able to use power-leverage as "gatekeepers" in the same way they once did... What was previously admired as a "great business" in this gatekeeper/power/leverage sense even somewhat recently will growingly seem potentially despicable. Use of power/leverage will be examined for possible abuse. Suspicion will be a default.

So...

There will be ongoing resistance of many forms but the drivers haven't changed. ESG is just a name. It might seem faddish and easily defeated. (I would personally love lower-case "esg" to be defeated for sure!). But Upper-Case "ESG" started gaining power from a tiny base no later than 1962 with the release of the book Silent Spring in which a single citizen pushed back on the use of DDT in agriculture.

ONE PORTFOLIO MANAGER'S GROUNDING

There is new space emerging and available for professional investors.

There is a new lower-case "esg" space filled with box-checking busy work and bad data and false marketing. That space isn't so attractive.

Then there is an authentic "ESG" space for investors. The invitation is in being part of advancing society as an inherent aspect of generating returns. This is attractive. This is especially appealing to many emerging-generation investors. But it is also extremely important to many investors who have already "made their mark" or "found their seat" and want to contribute to societal advance. A key

problem is many aren't sure how to do it without just laboring in the lower-case frustration of "esg".

In confusion, I like to "work to my base".

In this case, that means to remember why we are doing this work to begin with!!! What was the inherent wisdom-based driver underneath it all?

One portfolio manager truly wanting to advance an authentic ESG process in January asked me:

"Why am I tracking all this 'S' data?"

I asked him if he might explain further.

He opened up a very detailed, multi-faceted, well-organized company spreadsheet. He had been tracking data on items like "Number of board seats held by women or minorities" for a number of years. He clearly had put effort into all this.

I asked him why he thought he was tracking it all.

He hesitated.

He then said -- from a place of frustration -- *because people in the system expect him to track it. He knows there is downside if he doesn't look like he is on top of this.* (PIP ADD: This is a classic lower-case "esg" reason to track data and highly unfulfilling. No wonder the frustration!)

I responded:

"Yes... that is one reason... the emerging system rightly or wrongly expects you to be aware of this data even if it is all preposterously circular in nature.... But what is the real reason you track this specific 'S' data?"

He deeply thought. He was puzzled. It was as if I was asking him a paradoxical riddle. I wasn't. I was asking for what was hidden in plain sight. I was, again, asking for the upper-case ESG answer.

After a silent minute, I offered the following:

"I think, we track this particular 'S' data you are showing me because 95% of the people in the world know that rampant discrimination and many forms of abuse have occurred in business across hundreds and thousands of years and still continue to today and most all of us think discrimination it is wrong... and we want to do something to end it... FULL STOP!"

We may have many disagreements about what "discrimination and abuse" exactly look like and there are different experiences and perspectives and emotions at work among 7 billion humans. This is really important. 7 billion humans will have widely different specific thinking! And that will absolutely be messy... and that messiness is important to recognize...

...but, at a basic abstract level, most everyone today agrees that "discrimination and abuse" are wrong and that we want them out of business. We agree on the abstract.

I asked him if he felt confident that everyone on the 25-person investment team would agree that discrimination and abuse is intolerable in

business. He instantly said "yes". I said, "I think so too". Anti-discrimination and anti-abuse as a powerful abstract is agreed. I don't want those who are truly pro-discrimination and pro-abuse in my business ecosystem.

Again... Many people will disagree about the specific situations in which discrimination and abuse is or is not occurring and what to do in response.... (PIP ADD: this type of messiness comes as part of upper-case "ESG" and is important as opposed to the mess of filling out forms and box checking of lower-case "esg").

I further answered the question I had posed:

"So... we are tracking all this 'S' data because we want to end discrimination and abuse. The problem is that we don't know how to adroitly measure discrimination and abuse so as to see if we are actually reducing it and where it exists and so we are flailing in our attempts to measure and this unfulfilling data is the result. So... we are doing things like tracking board seats which we all recognize now can be easily manipulated/gamed and is a small sample and likely non-representative because we don't know how to do it better. And tracking and measuring things that are poor proxies that incur massive tracking error to the real objective – ending discrimination and abuse – can be draining. But we do it because for now we don't (yet) know how to do it better. But as insufficient as this data is, we do it because we do deeply believe in the abstract of ending discrimination and abuse."

If we forget the real point – that we want to end discrimination and abuse – we will indeed get lost in the "esg" numbers as opposed to moving purposely with an "ESG" mindset.

...Pip

"One of the many misalignments that surface in times of ongoing rogue waves is the misalignment between our sense of who we are, of our values, of who we want to be, and the conventional path and metrics of success in our work. Narrowing this misalignment and metabolizing the cognitive and emotional dissonance it evokes is where transformational growth individually, corporately, and societally happens...and may be a serious competitive advantage. And this can't be done alone but only in webs of relationships..."

...Irwin Kula



