Brunswick SOCIAL VALUE Review

The Role of Business in Society

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The Backlash Issue

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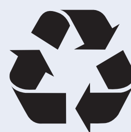

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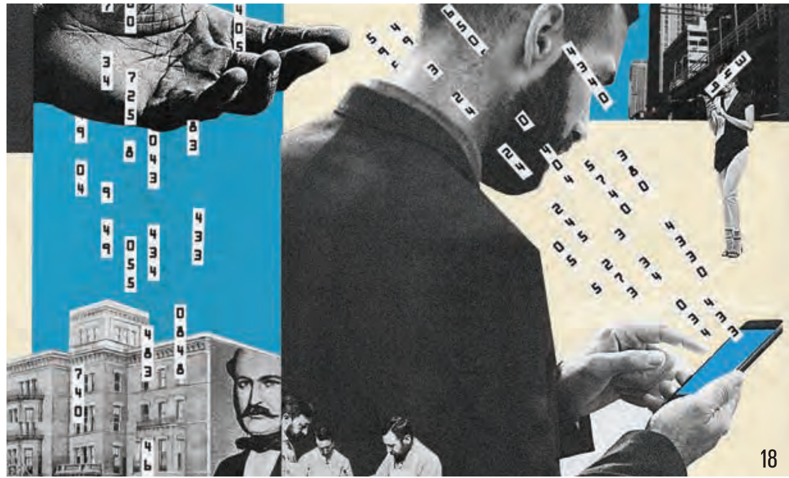
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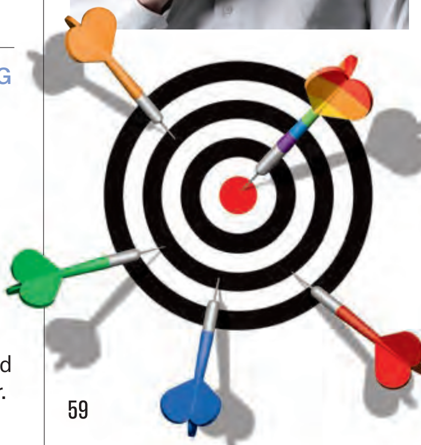
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Welcome to this edition of the *Brunswick Social Value Review*, which we established with a clear mission: to look at how companies are responding to the growing pressures to show that they are part of the solution to the world's great challenges, and deliver financial value alongside social value, hand in hand.

Since we launched this publication in 2020, societal issues have continued to rise up the boardroom agenda, and the conversation about ESG has exploded into the mainstream media. After years of rapid growth, 2023 saw a substantial backlash against the very idea of ESG: It has been labeled by some as "woke capitalism" and decried as an anti-democratic plot by global elites.

It's an unlikely outcome, when you think about it, that a specialist subject focused on non-financial reporting and disclosure of material risks has become a central fault line of political debate—but that's what's happened, and it's created uncertainty for business leaders. There seems to be a fire hose of issues on which leaders are expected to take a point of view. The question of when to speak out on an issue, and when to stay silent, has created a new kind of jeopardy—and this edition provides perspectives on this.

In our view, the question is what you're doing. Many companies already have extensive strategies in a range of areas from climate to DEI, from circular economy to inequality. What happens now? Business leaders may need to re-explain the commercial drivers of their companies' sustainability commitments, to show why these pressing societal issues have now become critical business issues.

In this issue, we aim to find the signal in the noise. We analyze political narratives, media coverage and central criticisms of ESG, and offer perspectives grounded in business reality. Emmanuel Faber, Chair of the International Sustainability Standards Board, offers his view of how ESG will continue to evolve. Systemiq founder Jeremy Oppenheim gives us a masterclass in systems change.

ESG is showing up in financial situations such as IPOs; our colleagues Dan Lambeth and Kanhai Parasharya illustrate how this

FOREWORD

PHOTOGRAPH: QIAOZHI M/GETTY IMAGES

plays out and explore the reasons behind it. Support for DEI initiatives is strengthening, not receding. Investors are increasingly interested in LGBTQ+ inclusion, according to Open For Business. We look at what's driving this.

This being a global phenomenon, we map existing and emerging ESG-related regulation around the world. Hong Kong Partner Stacey Chow speaks with a prominent Asian investor group on steps to avoid greenwashing. In Beijing, QC Liang interviews experts on energy transition in China, the world's second-largest economy.

In recent years, the resilience of businesses has been tested by weather. A combination of floods and droughts in Asia disrupted global semiconductor supply chains, while the failure of rains that feed the Panama Canal caused major disruption to global trade. We even debated calling this *Brunswick Social Value Review* edition "The Resilience Issue." Investors and business leaders need a systematic way to understand the new landscape of risks, and it is this that's led to the emergence of ESG. It is a strategy for survival.

Yet ESG is evolving. It may well turn out that the bundling of so many important issues into one framework is untenable and that the term itself outlives its usefulness.

Whatever we call it, one thing is clear: The forces that have fueled the rise of ESG are growing ever more pressing and are reshaping the way businesses operate. Societal issues are now business issues. Being a better business today—a stronger, future-proofed business—means becoming resilient in the face of the multiple, interconnected crises the world is facing.

Whatever term we use—ESG, or sustainable business, or just good leadership—this edition aims to show that the need to engage seriously with societal issues is here to stay. What you'll see in this issue is that—the backlash not withstanding—leading companies are sticking with it. ◆

LUCY PARKER, Senior Partner, and **JON MILLER**, Partner, lead the firm's ESG & Sustainable Business practice.

In this issue, we aim to find the signal in the noise.

BEYOND the BACKLASH

ESG HAS BEEN HAVING A ROUGH TIME LATELY. A SUSTAINED backlash is under way—primarily in the US and in some other major markets such as the UK. Following years of rapid growth and hype around all things ESG, this shift has created uncertainty for many companies. • While many of the criticisms are based on real concerns, the real picture for companies tends to be much more nuanced than such critiques suggest. One thing is clear: Backlash or not, from climate change to inequality, the fundamental issues that have driven interest in ESG are directly linked to company performance and will only continue to intensify. This means engagement with social and environmental issues will become more, not less, critical to business resilience and long-term value creation.

2023 was the year of the backlash for ESG. Here's our perspective on **8 KEY CRITICISMS** driving most of the debate, to help companies move beyond it in 2024. By **LUCY PARKER JON MILLER, JOSEPH DOYLE** & **ZAMZAM OSMAN.**

ILLUSTRATION: DAVID PLUNKERT

THE CRITICISMS:

1 "ESG is a financial flop— the returns are not there"

Loud is the narrative that the financial performance of ESG funds' is weakening amid high inflation, high interest rates, market uncertainty, energy anxiety, war and political backlash.

- "ESG funds certainly perform poorly in financial terms."—*Harvard Business Review*, March 31, 2022.
- "ESG outperformance narrative 'is flawed', new research shows."—*Financial Times*, May 3, 2021.
- "The only healthy endgame for ESG is another acronym: RIP. And it will not be a moment too soon."—Aswath Damodaran, finance professor at NYU's Stern School of Business.

OUR PERSPECTIVE: A key challenge to ESG investing is the varied availability of relevant, consistent and predictive ESG data. This means ESG returns and risks may not be easily quantifiable—leading to many different takes on the correlation between ESG integration and performance. Fundamentally, it comes down to a question of short-term versus medium- and long-term perspectives—and returns.

As environmental and social issues continue to intensify, they will become increasingly critical to business resilience. Incorporating ESG factors will therefore be key to positive risk-adjusted returns over the long term. As McKinsey underlines, "what some critics overlook is that a precondition for sustaining long-term value is to manage, and address, massive, paradigm-shifting externalities."

Beneath the noise, many investors buy into this logic:

- Despite outflows, global sustainable funds grew 15% in 2023 over the previous year, according to a report from the Morgan Stanley Institute for Sustainable Investing. The report finds these funds also outperformed all other asset classes for the year with median returns of 12.6% compared to 8.6% for traditional funds.
- Sustainable bond sales saw the most active January since the inception of the green debt market: "Global sales of green, social, sustainability and sustainability-linked bonds totaled $149.5 billion," Bloomberg finds.

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PERCENT OF S&P 500 COMPANIES NOW PRODUCE SOME FORM OF ESG REPORT, ACCORDING TO McKINSEY.

- In the US, 81% of institutional investors plan to increase their allocations to ESG products over the next two years, almost on par with Europe (83.6%), PwC reports.
- The *Financial Times* adds: "Many investors think that the US Inflation Reduction Act will help sustainable stocks to do well over the coming years."

2 "Companies are stepping back from ESG—as if from a fad"

In the third quarter of 2023, mentions of DEI initiatives and sustainability on US-listed companies' earnings calls decreased by 31% year-over-year—the fifth consecutive quarter of decline, according to Forbes.

OUR PERSPECTIVE: While companies are becoming more considered in their communications on ESG issues, evidence suggests that where there is a clear, material link to value-creation initiatives, actions and investments are continuing apace.

In 2022, PwC found 87 FTSE 100 companies use ESG in at least one of their incentive plans. Forty-nine have an environmental metric in the bonus structure and 54 have a social metric. Ninety percent of S&P 500 companies now produce some form of ESG report, according to McKinsey. And 87% of corporate leaders believe ESG initiatives are "very" to "extremely" important to their businesses' long-term success, says EY.

3 "ESG ratings are simplistic, confused and inconsistent"

Critics of ESG point out that a single company can receive wildly different—and in some cases head-scratching—ratings. A tobacco company can rate higher than EV-pioneer Tesla, for example. When S&P Global dropped ESG scores from debt ratings, replacing a numerical score with a short narrative text, some commentators said this shows ESG ratings "are not that reliable," according to the *Financial Times*.

OUR PERSPECTIVE: ESG is a developing field, and these are intrinsically complex topics to measure. On top of this, ESG ratings have been developed very fast. It's not surprising that they might lack the clarity and rigor applied to long-established financial metrics. But ratings aren't the only form of ESG information. Companies must undertake materiality assessments, seek feedback from investors and disclose relevant information for investors regarding risk exposure. In any case, given the pressing need for investors and companies to understand the risks related to environmental and social issues, it is very likely that frameworks and data will mature fast.

87 PERCENT OF CORPORATE LEADERS BELIEVE ESG INITIATIVES ARE "VERY" TO "EXTREMELY" IMPORTANT TO THEIR BUSINESSES' LONG-TERM SUCCESS, SAYS EY.

4 "ESG runs counter to fiduciary responsibility"

You've heard this before. It's an argument expressed eloquently by political writer Peter Roff in *The Times Record*: "If… fund managers use their positions to push policies that work against their ability to obtain the highest return on investment for their shareholders, they are abusing their power and turning their back on their fiduciary responsibility."

OUR PERSPECTIVE: Legal opinion holds that integrating ESG considerations into decision making and investment analysis is clearly permissible and indeed may even be necessary.

In a 2005 report for the United Nations Environment Programme Finance Initiative, global law firm Freshfields Bruckhaus Deringer concluded that "Conventional investment analysis focuses on value, in the sense of financial performance ... [T]he links between ESG factors and financial performance are increasingly being recognized. On that basis, integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions."

5 "ESG is politically motivated ideology"

ESG is a political position typically associated with the left.

OUR PERSPECTIVE: In response to this challenge, businesses should be clear that commercial imperatives, not political ideology, drive their engagement with ESG issues. Business action on climate is motivated by financial, operational and market considerations. On the one hand, the increased frequency of natural disasters driven by climate change can disrupt supply chains and cause massive damages. On the other hand, the global response to climate change is dramatically shifting the business environment. To give just one example of each:

- The insurance giant Munich Re saw losses of $120 billion from natural disasters in 2022, exceeding their $100 billion benchmark for the second year running. The company noted that "climate change is taking an increasing toll. The natural disaster figures for 2022 are dominated by events that, according to the latest research findings, are more intense or are occurring more frequently. In some cases, both trends apply."
- Even as the country continues to grow in fossil

fuel energy supply, China looks set to double its renewable energy capacity by 2025, reaching its 2030 goal five years ahead of time, according to the report by Global Energy Monitor.

- The Inflation Reduction Act (IRA) is already profoundly changing the US energy industry, according to ING, with $271 billion of investments announced during the first 50 weeks. Goldman Sachs estimates that total US investment unlocked by the IRA could reach $3 trillion.
- The EU is set to mandate that all major companies publish climate transition plans, outlining how they will deliver on their net zero targets and support the economy-wide transition to net zero. The UK government has already done this.

Similarly, business engagement with the "S" in ESG is driven by commercial considerations. Data collected by Open For Business (see Page 59) shows that commitment to inclusion, whether LGBTQ+, gender, ethnicity or other facets of DEI, is not "woke ideology," but rather well-established best practice for running a productive, innovative workplace.

Economies—both at the national and city-level—and companies have better economic outcomes when they implement policies of inclusion and non-discrimination. For instance, a recent analysis of the MSCI World Index by the *Financial Times* found that companies with more gender-balanced workforces outperformed their least-balanced peers by as much as 2 percentage points annually between 2013 and 2022.

ECONOMIES—BOTH NATIONAL AND CITY-LEVEL—AND COMPANIES **HAVE BETTER ECONOMIC OUTCOMES WHEN** THEY IMPLEMENT POLICIES OF INCLUSION AND NON-DISCRIMINATION.

6 "Climate action is anti-consumer and anti-growth"

Corporate environmental commitments, in particular climate-related goals, are being dismissed as "woke," and contrary to the interests of consumers or the economy: "It's time that businesses that are out of step with the sentiments of most Americans pay a price for their standing up for woke special interest instead of consumers," Leonard A. Leo, co-chair of the Federalist Society, wrote in *The Washington Post*.

OUR PERSPECTIVE: For every challenge that places ESG as anti-growth and anti-consumer, there is analysis showing climate action driving falling costs for consumers. There are many commentators in the financial community highlighting that it unlocks huge growth opportunities for companies. For example:

- The trend in falling renewable energy prices is remarkable, and many consumers are already feeling its benefits. The International Energy Agency (IEA) estimated that EU electricity consumers are expected to save €100 billion during 2021–2023 thanks to additional electricity generation from newly installed solar PV and wind capacity.
- The drive to improve energy efficiency to reduce carbon emissions is also producing strong cost savings. For example, since 2010 gains in energy intensity have averaged 1.7% a year, saving about 10 times as much primary energy as solar and wind

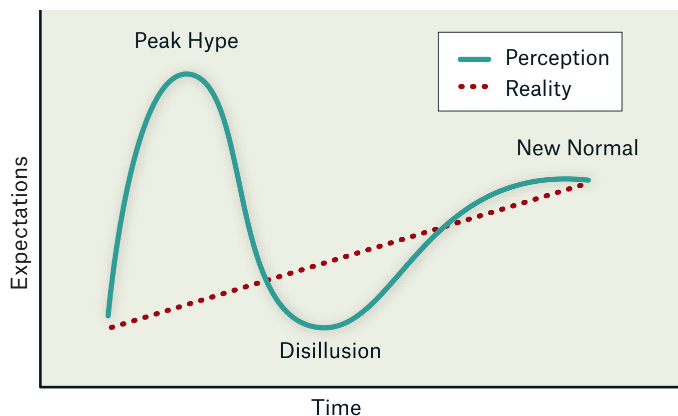
THE FUNDAMENTAL DRIVERS OF ESG REMAIN, AND ARE INTENSIFYING

MAJOR SOCIAL AND ENVIRONMENTAL ISSUES have become critical issues for business and are now key to business resilience and license to operate (see page 21).

It's not hard to understand why; the evidence is mounting for all to see. Weather events are hitting critical supply chains and making business planning extremely challenging. Climate change will have cost companies $1.3 trillion by 2026, according to Forbes.

If current trends continue, such costs may soon come to seem small: Swiss Re estimates that one in five countries are at risk of their ecosystems collapsing, spelling catastrophe for food and water security—and cost volatility.

When considering the ESG backlash it's helpful to recall the "hype-backlash" cycle developed by Gartner Group to describe the dotcom boom and bust.



As a simple illustration, the green line captures the swings in the conversation and debate around ESG that many have experienced in recent years, while the dotted red line reminds us of the general upward trend in business practices.

We are undoubtedly past "peak hype" on ESG, where expectations exceeded reality following many years of progress on sustainable business. We may now be in a period of general disillusionment, marked by disagreement and confusion. But E, S and G activities in business will continue to respond to fundamental shifts in the global economy, and become increasingly core to driving successful business performance.

As Brunswick's Pru Bennett and Rory Macpherson argue on page 16, "with a rise in investor scrutiny, it follows that material ESG factors are no longer peripheral concerns, but are at the heart of business strategy and the board agenda."

The factors driving performance on ESG issues are ultimately about delivering long-term, sustainable profitability, managing risk and adapting to a shifting landscape of opportunities. As the hype falls away, we expect the field to mature and define a "new normal."

GRAPHIC: PETER HOEY

added, according to IEA's data. This ultimately helps cut bills for both companies and customers. The trend is set to accelerate in the years ahead as more renewables are brought onto the system, creating a virtuous circle.

• Mark Carney, former Governor of the Bank of England, founder of the Glasgow Financial Alliance for Net Zero, and the UN Special Envoy on Climate Action and Finance, has described net zero as the "greatest commercial opportunity of our time." Explaining this remark, he says: "Climate change is an existential threat. We all recognize that, and there's increasing urgency around it. But the converse is, if you are making investments, coming up with new technologies, changing the way you do business, all in service of reducing and eliminating that threat, you are creating value. Companies, and those who invest in them and lend to them, and who are part of the solution, will be rewarded. Those who are lagging behind and are still part of the problem will be punished."

7 "ESG has no meaningful impact on the issues"

Some critics say ESG allows leaders to pat themselves on the back for results they haven't really achieved. As *The Economist* put it in late 2022, "Most companies can win the gains of appearing green while avoiding the cost of decarbonising by paying lip-service to green goals."

OUR PERSPECTIVE: The actions that companies take within their ESG strategies are typically not at a scale or substantive enough to make a dent on the social and economic challenges we face today. Again, this is a question of maturity. As companies move to adopt ESG, their approach tends to mature in three stages:

• Baseline ESG is where companies begin to grapple with this increasing demands from investors. It's the start of the journey. It involves an assessment of the material risks associated with societal issues, and a commitment to metrics, targets and transparency on key societal issues.

• Companies move to Strategic ESG, becoming more proactive. They set a roadmap including the capital expenditure and investment involved in stepping up to ESG issues and the returns for doing so. They focus on innovating products and practices, and long-term supply chain resilience. They build ESG issues into their corporate strategies.

• Impact ESG moves beyond measuring risks and opportunities to also accounting for the impact of business operations and strategies on the issues themselves. In other words, they are looking at how ESG works both ways—double materiality, in the jargon. This is being incorporated in the regulation in the EU.

> Data shows that commitment to inclusion, whether LGBTQ+, gender, ethnicity or other facets of DEI, is not "woke ideology," but rather well-established best practice for running a productive, innovative workplace.

8 "Companies talking about purpose have 'lost the plot'"

Critics of ESG are also likely to take issue with "corporate purpose," which has become a recent theme of the ESG discussion. The criticisms are broad: that articulating purpose beyond profit is a distraction from the shareholder; that it is sloppy thinking; that it is disingenuous. "A company which feels it has to define the purpose of Hellmann's mayonnaise has in our view clearly lost the plot. The Hellmann's brand has existed since 1913 so we would guess that by now consumers have figured out its purpose (spoiler alert—salads and sandwiches)," said an investor in Unilever (owner of the Hellmann's brand) in the UK newspaper *City AM* last year.

OUR PERSPECTIVE: Many will recognize validity in these criticisms—but that does not invalidate the notion of "corporate purpose." Following clear principles, and linked closely to a company's core business, defining a purpose can help drive effective corporate culture, governance and performance:

• Focus also on the how. To many, purpose is all about "why we exist." But differentiation often comes from how you deliver. ESG is concerned with being clear that how you deliver does not have significant external costs for society and the planet.

• Think of "purposes"—not just a singular purpose. Companies play different roles in the lives of different stakeholders. They provide livelihoods for employees, products and services to customers, and profits to shareholders. It can be simplistic to reduce this down to a single purpose statement. What can be more useful is to instead describe broadly the role in society that a company plays. Working to improve environmental and social impacts may be one of the purposes the company commits to, but that does not make it *the* purpose of the company.

• Remember, purpose is not set in stone. Knowing that purpose is not immutable is empowering. Purpose can evolve as the world evolves. Markets get disrupted, sectors become redefined and the needs of stakeholders change over time—and so the opportunity to create value inevitably changes, too. Thinking of purpose as a future-facing trajectory frees a company to redefine what it wants to be today—and tomorrow. ◆

JON MILLER is a Partner and founder of the Open for Business coalition. **LUCY PARKER** is a Senior Partner and, with Jon, leads Brunswick's ESG & Sustainable Business practice. Jon and Lucy are co-authors of *Everybody's Business: the unlikely story of how big business can fix the world* and *The Activist Leader.* **JOSEPH DOYLE** is a Director and **ZAMZAM OSMAN** is an Account Director at Brunswick. All are based in London.

ESG Regulation Around the World

Surveying global ESG regulation can be a bit like looking at a spattered Jackson Pollock canvas: a lot going on, some of it striking, but tough to comprehend all at once. Particularly suitable is the painter's 1947 "Sea Change"—for one is certainly underway today in ESG regulation. • In October 2023, Sustainable Fitch, a company that's part of the credit ratings agency Fitch Ratings, estimated "there are 100 different disclosure regulations in place or under development around the world." Companies are struggling to keep up—research by KPMG found that three out of four companies worldwide feel unprepared for coming ESG regulation. • The EU and US attract a disproportionate amount of attention when it comes to the topic—the EU because it is in the vanguard of legislating ESG, and the US because of its fiercely politicized and polarized debates. In between those two extremes lies the rest of the world.

> The global picture is complicated and in flux. But the momentum is clear.

Around the ESG World in THREE LAWS

NIGERIA, INDONESIA AND BRAZIL aren't the names that come to mind when one thinks of ESG regulation. Yet they are home to almost a combined 700 million people, and a look at some recent ESG-related laws offer a glimpse of just how differently countries are approaching the issue.

PHOTOGRAPH: JAMES MARSHALL/GETTY IMAGES

Name: Guidelines for Implementation of the IFRS Sustainability Disclosure Standards.

Authority: Financial Reporting Council (FRC) of Nigeria.

In a nutshell: A bit of background is helpful to understand what's going on in Nigeria. The International Sustainability Standards Board (ISSB) was created at COP26 to help meet the demand for a global standard for sustainability disclosures. It is part of the International Financial Reporting Standards (IFRS) Foundation.

Nigeria will be implementing the ISSB's IFRS S1 and S2 standards that deal with sustainability disclosures. The S1 standards apply to a wide range of ESG issues; the S2 standards are more focused on climate. "Together, these standards play an important role as a benchmark for global sustainability reporting efforts," the Cambridge Institute for Sustainability Leadership wrote.

Nigeria's FRC announced its intention to be an early adopter of the standards at COP27, being the first African nation to do so.

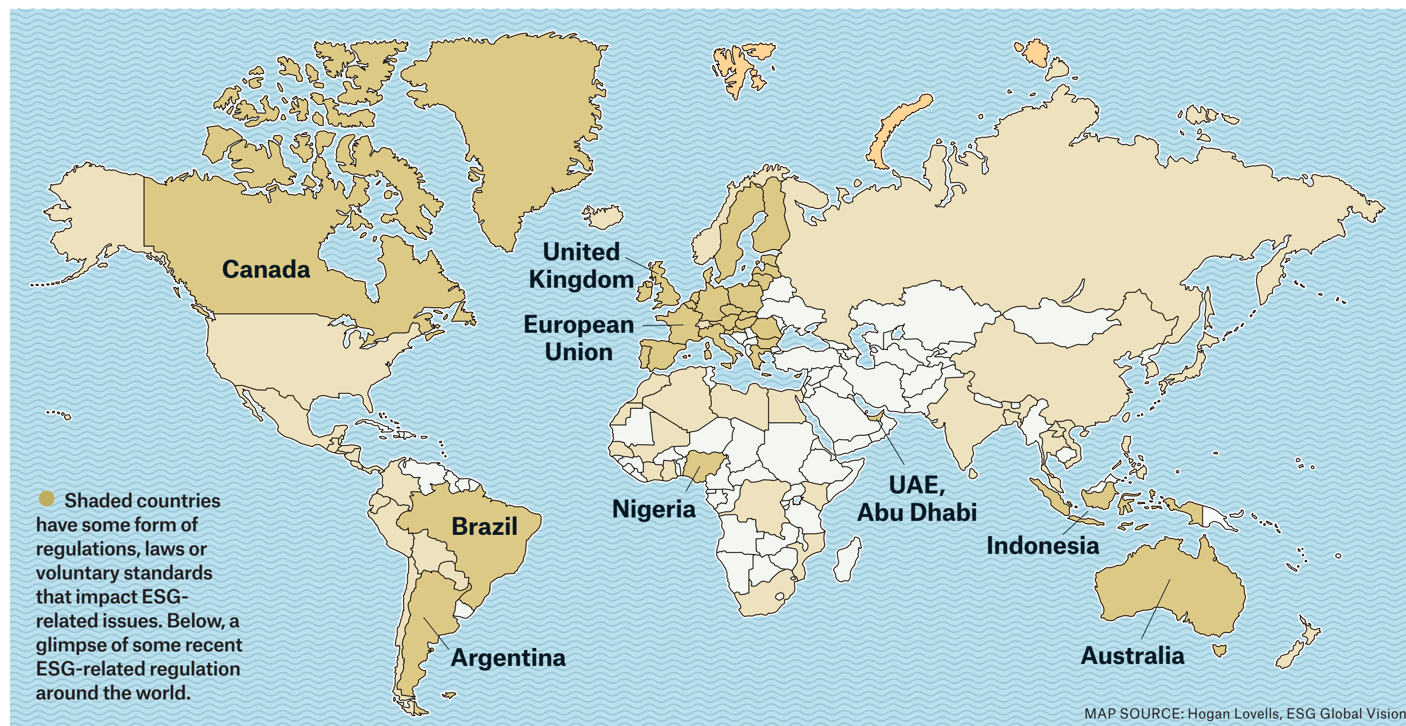
Status: Proposed.

Timeline: Announced in November 2022, launched in July 2023 and confirmed via a notice for document submissions in October 2023.

GONE GLOBAL: ESG-RELATED INTERVENTIONS

According to law firm Hogan Lovells, more than 75 different countries and territories have "regulations, laws and voluntary standards that impact ESG-related issues in each jurisdiction." The scale and scope of those ESG-related interventions vary widely.

Some countries have dated laws pertaining to the environment; others have legislation spanning a huge range of ESG-related issues. The map's most powerful takeaway might be its most obvious: how common ESG-related standards and laws have become.



ARGENTINA: Sustainable and ESG Collective Investment Products (General Resolution 885/2021).

NIGERIA: Guidelines for Implementation of the IFRS Sustainability Disclosure Standards.

INDONESIA: Indonesia Green Taxonomy Edition 1.0.

ABU DHABI, UAE: Sustainable Finance Regulatory Framework.

CANADA: Green and Transition Finance Taxonomy.

BRAZIL: Resolution 193 (IFRS Sustainability Disclosure Standards).

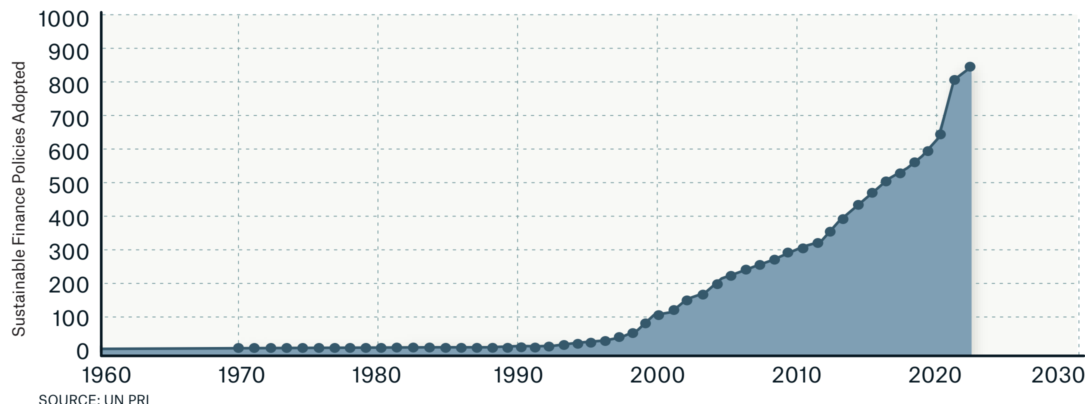
UNITED KINGDOM: Sustainability Disclosure Requirements (SDR) and investment labels.

EUROPEAN UNION: Corporate Sustainability Due Diligence Directive.

AUSTRALIA: Australian Sustainability Reporting Standards—Disclosure of Climate-related Financial Information.

THE PACE IS QUICKENING

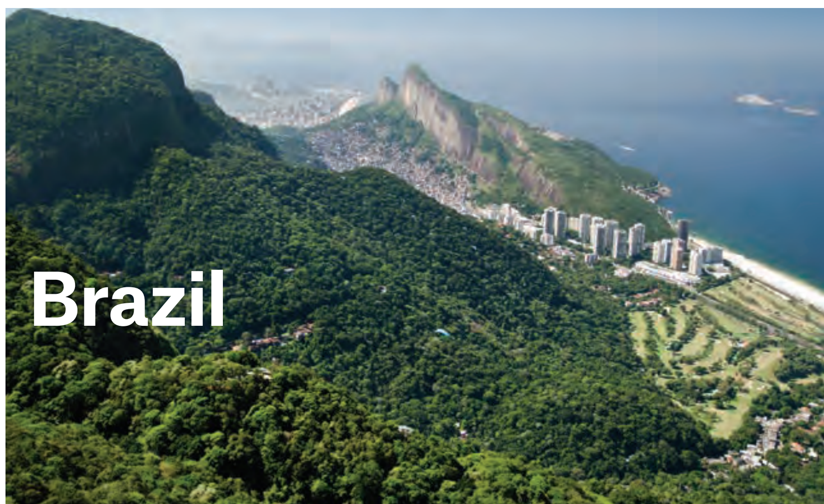
Research by ESG Book, which provides ESG data and technology, found that ESG regulation has increased 155% over the last decade. In sustainable financial regulation, the UN's Principles of Responsible Investment, an international network of financial institutions whose signatories manage more than $120 trillion, found that 2021 saw more than double the amount of "new or revised policy instruments" than any year before it.



SOURCE: UN PRI

155 PERCENT INCREASE IN GLOBAL ESG REGULATION OVER THE LAST DECADE.

GRAPHICS: PETER HOEY



Name: Resolution 193

In a nutshell: The Brazilian Ministry of Finance and Brazil's finance regulator, the Comissão de Valores Mobiliários (CVM), announced that the ISSB's IFRS disclosure standards will be incorporated into Brazil's regulatory framework. The CVM issued Resolution 193, which allows listed companies and investment funds to use the ISSB standards for sustainability-related disclosures. For the first year of voluntary reporting, the CVM will adopt the current ISSB standards before moving to the Portuguese translations of the IFRS once they are completed.

Status: In effect.

Timeline: Announced in 2023; companies can disclose information as per the ISSB standards from 2024; disclosing using those standards is mandatory from 2026 for Brazilian listed companies and other CVM-regulated entities.

Name: Indonesia Green Taxonomy Edition 1.0

Authority: Indonesian Financial Services Authority (OJK)

In a nutshell: A voluntary act that encourages financial sectors to classify green activities using a traffic light system, as well as monitor credit and investment flows, and mitigate greenwashing.

The taxonomy was designed as a "living document" to acknowledge the ongoing transition. It can also accommodate new sectors, and evolve along with international benchmarks.

Status: In effect.

Timeline: Introduced in January 2022.

PHOTOGRAPH: RIGHT, ADITYA IRAWAN/NURPHOTO VIA GETTY IMAGES. TOP: EDULEITE/GETTY IMAGES

... And the Rest of the World

This list goes on. Without leaving the first letter of the alphabet, you could look at Abu Dhabi's Sustainable Finance Regulatory Framework, Argentina's general resolution on Sustainable and ESG Collective Investment Products, or Australia's Sustainability Reporting Standards—Disclosure of Climate-related Financial Information.

ESG regulation also continues in both China and India. *Institutional Investor* points to the Indian government's "policy commitments around renewables, healthcare and financial inclusion," while a 2023 report from Morrow Sodali, an advisory firm, concluded that "the Chinese market has been undergoing an increasingly more visible transformation in terms of its commitment to ESG."

Three Headliners for 2024

In a crowded field, three pieces of ESG regulation are set to stand out in 2024.

FIRST, the EU's seismic Corporate Sustainability Reporting Directive (CSRD), which went into effect at the start of the year. It will require around 50,000 companies in Europe to start reporting on their climate impact.

SECOND, the UK's Sustainability Disclosure Requirements (SDR) will go into effect at the end of May—rules meant to combat greenwashing in the financial sector. It was created by the Financial Conduct Authority, a financial regulator, to make sure that firms' "sustainability-related claims are fair, clear and not misleading." It will also shape how financial products can be labeled, named and marketed "so products cannot be described as having a positive impact on sustainability when they don't."

FINALLY, the US's Securities and Exchange Commission in March released its long-awaited rules around climate disclosure and ESG investing—rules that many expect to face legal challenges.

A Tipping Point?

At the World Economic Forum Annual Meeting in Davos this year, Emmanuel Faber (see Page 25 for our interview), said that the world faces "a regulatory tipping point."

"The reason is that while new measures are being introduced to promote sustainability reporting, they are not all being implemented in the same way across regions," the *Financial Times* explained. "That means the world is either heading towards increased fragmentation, which will be hard for companies to navigate, or momentum may emerge for a more unified model." ◆

As the debate around ESG has become increasingly politicized and co-opted to suit partisan narratives, the concerns that the term encapsulates remain undeniably at the heart of conversations around strategy happening in boardrooms all over the world. Such concerns occupy a necessary aspect of decision-making related directly to investors' perceptions of the company's financial prospects.

In this regard, it is worth stepping back from the arguments to take in a larger view: where the ESG concept came from, why it has become fundamental to the investment process, and why now, more than ever, it remains an important topic for the boardroom.

A LARGER PERSPECTIVE REVEALS GROWING INVESTOR PRESSURE ON THE UNDERLYING ISSUES. BY BRUNSWICK'S **PRU BENNETT** AND **RORY MACPHERSON.**

The RISE of ESG in the BOARDROOM

KEY DRIVERS & TURNING POINTS

While religious ethics and social movements have advocated for responsible business practices since at least the 17th century, socially responsible investing gained traction in the 1980s, driven by concerns about business governance, environmental degradation, human rights abuses and corporate scandals. The stage had been set in the 1960s and '70s, when public outcry over pollution and the dangers of chemicals such as DDT, which had been deemed safe by the industry, led to the formation of the Environmental Protection Agency in the US.

In 1984, the Union Carbide chemical disaster in Bhopal, India led to thousands of deaths, yet was just one of a number of significant high-profile environmental and social disasters that arose during the decade, additionally causing damage to both reputation and market value. These, in turn, resulted in a broad push by both investors and civil society for companies to be financially responsible for costs that had previously been borne by external stakeholders.

In 1985, in response to a wave of so-called "greenmail" payouts—in which minority shareholders threatened a hostile takeover to force leadership to buy back shares at a premium—a handful of public employee pension funds banded together to form the Council of Institutional Investors. Also in 1985, Bob Monks founded proxy advisor Institutional Shareholder Services (ISS) with the goal of helping asset owners carry out their fiduciary obligations in a thoughtful and informed manner.

Damaging financial collapses marked the ensuing decades. The 1997 Asian financial crisis, the collapses of Enron and WorldCom in 2001 and 2002, and the 2007–2008 global financial crisis continued to draw scrutiny and led to greater regulatory oversight, such as the Sarbanes-Oxley Act. They also sparked investor and social activism.

These also led to the development of reporting frameworks to provide more transparency of companies' exposure to environmental and social risks. A myriad of reporting frameworks arose, including the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Task Force for Climate-related Financial Disclosures (TCFD) and, most recently, the International Sustainability Standards Board (ISSB).

IMPACTING THE BOTTOM LINE

Over this period, the rise in focus on ESG has correlated with an intriguing shift in the makeup of market capitalization of listed companies. According to research conducted by Ocean Tomo, tangible assets as a proportion of market value of S&P 500 companies have fallen from 83% in 1975 to just 10% in 2020. Conversely, intangible assets have risen from 17% of market cap in 1975 to 90% in 2020.

INTANGIBLE ASSETS HAVE RISEN FROM 17% OF MARKET CAP IN 1975 TO 90 PERCENT IN 2020.

Clearly, the significance of these intangible assets in company valuations warrants a closer look. Intangible assets are generated from:

HUMAN CAPITAL This is often the most important asset of a company. Attracting and retaining talent leads to greater productivity and lower turnover costs, resulting in lower costs, higher revenues and sustainable returns for shareholders.

INTELLECTUAL CAPITAL Organizations that recognize and invest in intellectual capital create sustainable competitive advantages that are hard to replicate. They are often also better placed to integrate new technologies that can disrupt or improve productivity and profitability.

SOCIAL CAPITAL Buy-in from local communities and other stakeholders that are impacted by the company's operations is critical to maintaining license to operate.

ENVIRONMENTAL CAPITAL Minimizing impact to the environment enables companies to maintain licenses to operate and lowers exposure to punitive regulatory charges.

With about 90% of the market capitalization of S&P 500 companies in intangible assets, it is here that value can be created and destroyed most easily by management, hence the increased focus by investors on issues related to human capital, environmental capital, social capital and intellectual capital.

Findings from recent Brunswick interviews with active investors provide further insight into the growing relevance of ESG. While they continue to primarily base their investment decisions on the quality of board and management, and the future financial performance of the company, we found a greater appreciation of the impact that material ESG issues can have on those expectations, and a growing investor appetite for disclosure about material ESG issues and how they are managed.

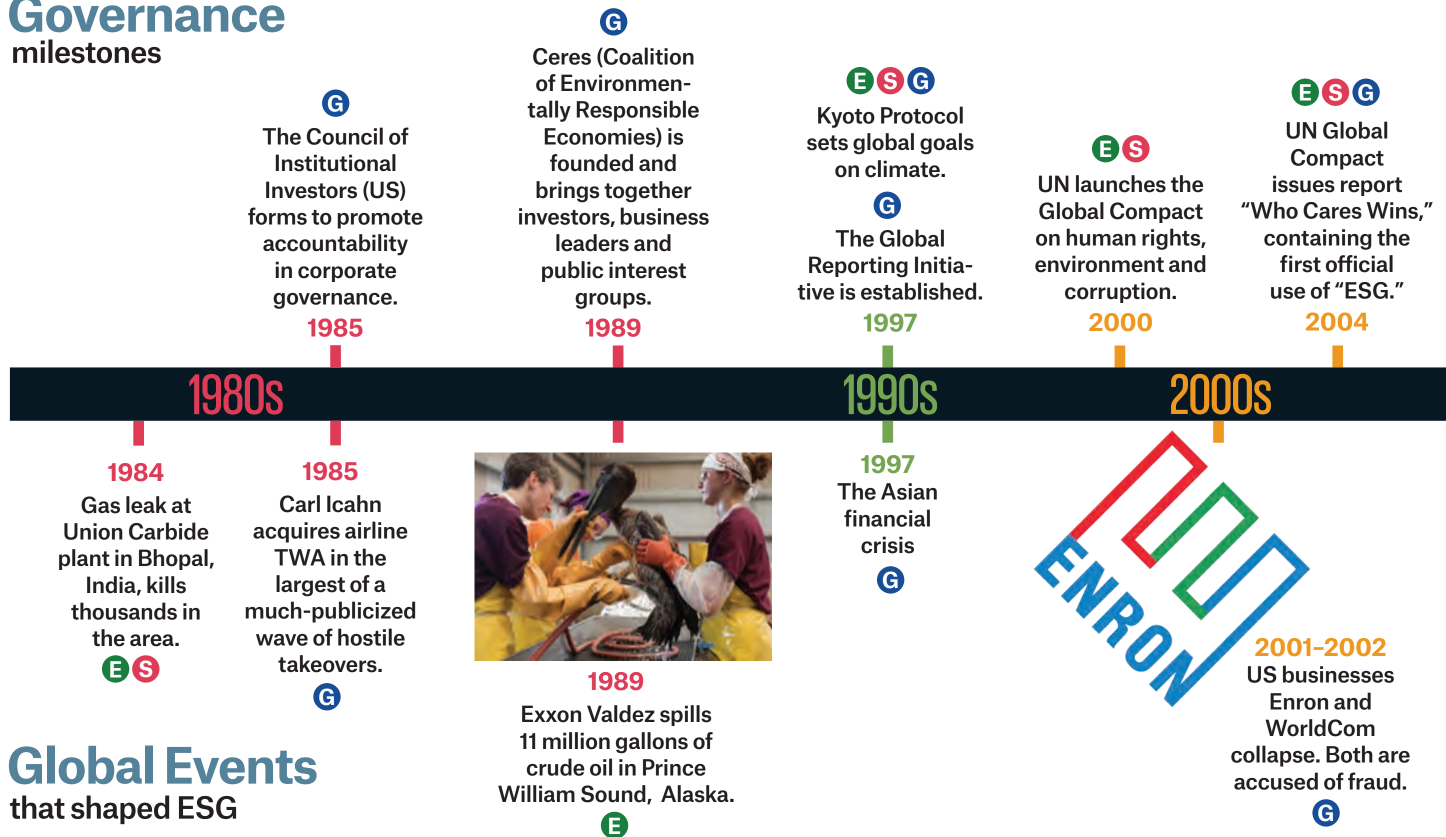
Those topics with the potential to impact future cash flow and therefore company value were the chief concerns. Increasingly, investors ask questions such as:

- Will poor environmental management lead to regulatory challenges, fines and potentially a loss of license to operate and lower profits?
- Will transitioning mining vehicles from diesel to electric result in lower fuel costs?
- Will strong diversity, equity and inclusion programs improve the workplace environment, and lead to greater employee retention in a talent-constrained market and, hence, lower costs?

ILLUSTRATION: DAVID PLUNKERT

The EVOLUTION of ESG

ESG's roots reach back at least to the 17th century. This timeline offers a few highlights in the global corporate relationship with environmental, social and governance concerns over the last 40 years.



- Will inaction on decarbonization lead to higher costs as carbon prices are imposed, and increase the potential for stranded assets?

Pension funds and other investors with long-term investment horizons are particularly interested in understanding the risks associated with companies that externalize costs in order to maximize short-term profit, at the expense of long-term planning. Companies that ignore external ESG costs are perceived to be unsustainable in the long term; highly exposed to regulatory changes, penalties and fines; and at greater risk of damaging reputational shocks. Thus they risk destroying value—particularly in the longer term.

ESG IN THE BOARDROOM: A CALL TO ACTION

With a rise in investor scrutiny, it follows that material ESG factors are no longer peripheral concerns, but are at the heart of business strategy and the board agenda, directly correlated to long-term value creation as well as destruction, resilience and reputation. So how should boards ensure they are on top of ESG?

> With a rise in investor scrutiny, it follows that material ESG factors are no longer peripheral concerns, but are at the heart of business strategy and the board agenda.

1. Get the skills right

Given the breadth and complexity of ESG issues, it is critical that boards have the diversity of skills and experience needed to evaluate risks and opportunities. Investors are increasingly focused on the board skill matrix and are willing to vote against the election of directors or put forward new directors who have a skill set that is otherwise lacking.

This occurred in 2022 when a relatively small institutional investor, Engine No. 1, put forward three independent director candidates and succeeded in getting majority support for the appointment of the candidates to ExxonMobil's board—all of whom had diversified energy experience while the incumbents had none.

2. Establish a fit-for-purpose governance structure

There is a clear trend toward stand-alone board sustainability committees comprising a majority of independent directors and independent chair—elevating the deliberation of such issues to the highest

PHOTOGRAPH: COCO ROBICHEAUX/ALAMY STOCK PHOTO

E S G
UN launches Principles for Responsible Investment (PRI)
2006

S G
A subprime mortgage crisis sets off the global financial crisis, resulting in a sharp decline in global economic activity.
2007

E S G
The International Integrated Reporting Council (IIRC) is established.
2010

E
Task Force on Climate-Related Financial Disclosures established.
2015

E S G
Convergence begins on existing ESG frameworks: SASB, GRI, CDP, IR, etc.
2020

E S G
The International Sustainability Standards Board is established at COP26.
2021

E S G
The EU's Corporate Sustainability Reporting Directive (CSRD) goes into effect, requiring companies to start reporting on their climate impact. China aligns its regulations with EU.
2024

2010s

2020s

2014
"Lava Jato" probe uncovers massive corruption at Brazil's Petrobras.
G

2018
The science-based Intergovernmental Panel on Climate Change (IPCC) releases its Special Report on Climate Change.
E

2020
COVID-19 pandemic sparks reevaluations of corporate policies toward employees and communities.
E S

The killing of George Floyd sets off global protests for racial equity.
S G

levels of the company. Similarly, board committee charters are increasingly referring to specific ESG factors for consideration. This includes audit committee charters, which often refer to climate change risk; nomination committee charters, which refer to the need to consider sustainability skills and experience in succession planning; and remuneration committee charters, as ESG metrics are increasingly forming part of at-risk pay.

3. Consider the broader stakeholder impact

While shareholders remain a centrally important audience, it is imperative that boards take a multi-stakeholder approach to evaluating sustainability matters that have the potential to impact operations, reputation and value.

An example of the importance of understanding key stakeholders is Rio Tinto's destruction of two 46,000-year-old caves with significant aboriginal archaeological cultural heritage in 2020. The subsequent fallout led to the company's CEO and a number of senior executives to resign. A federal government inquiry into the causes of the destruction found that Rio Tinto's role in the destruction was "inexcusable," highlighting that just because something is legal, does not mean it is without serious repercussions, or that it is the right thing to do.

4. Integrate into strategy

With ESG contributing so much to the value of a listed company, it is vital that material ESG matters are incorporated into corporate strategy. As the board is responsible for the approval of strategy and oversight of its implementation, it is incumbent on it to ensure that ESG risks and opportunities are addressed.

While ESG continues to be the subject of vigorous debate, there should be no doubt about the relevance of material ESG matters to boards and investors. With greater ESG disclosure requirements becoming law, increasingly savvy and knowledgeable investors, and the constant scrutiny of media, regulators and local communities, ESG matters are set to remain a fixture on the board agenda—and integral to any strategy. ◆

PRU BENNETT is a Partner with Brunswick and formerly was head of Investment Stewardship for BlackRock APAC. **RORY MACPHERSON** is a Partner specializing in corporate reputation and sustainability. They are founders of Brunswick's Sydney, Australia office.

PHOTOGRAPHS: TOP CLOCKWISE: DANIEL ACKER/BLOOMBERG, LAUREL CHOR, VANDERLEI ALMEIDA/AFP VIA GETTY IMAGES

ILLUSTRATION: LINCOLN AGNEW

The INVESTOR CASE

ESG analysis is establishing itself as core business practice despite entrenched efforts to dismiss it, say Brunswick's DAN LAMBETH & KANHAI PARASHARYA.

In May 1847, the head of the Vienna Maternity Hospital, Ignaz Semmelweis, insisted that medical students should wash their hands before entering a maternity clinic because it would help reduce maternal mortality. His experiment resulted in far fewer women dying. However, the message Semmelweis carried to his colleagues—that "death particles" carried by "unholy" unwashed hands were the prime cause of then-rampant childbed mortality—was rejected and ridiculed, and he was dismissed from the hospital. It would be another 40 years before the practice of handwashing was accepted and adopted.

Semmelweis's story is a lesson for both sides of the ESG debate: Clear communication of facts is the key to broad acceptance of potential good. Semmelweis had more than a revolutionary idea to save lives—he had data to back it up. Yet he failed to convince his fellows in the profession who were predisposed to trust the status quo.

ESG represents a financial breakthrough that can challenge traditional investment theses, aspects of which may be based on dogma and lack of

transparency. Many are realizing we need to go beyond such assumptions and semantics, and fuse the best of traditional investment outlooks with relevant environmental and social factors. There is growing evidence of ESG analysis becoming standard practice across different financial situations.

The number of ESG-related deal announcements has risen sharply in recent years, with a record number in 2021. In these M&A deal announcements, specific references to ESG, sustainable finance or other sustainability issues figure prominently as a primary rationale or component of the deal. Even as high interest rates slowed down dealmaking generally, ESG-related deals rose in 2023 compared to 2022.

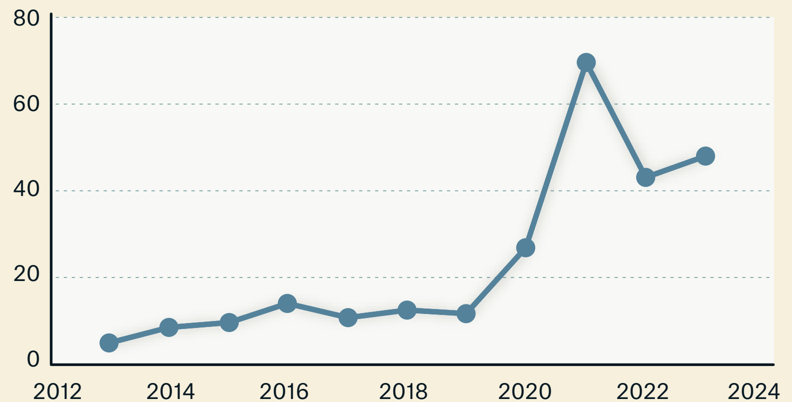
M&A DEALMAKERS now review ESG issues as standard practice. Investors have canceled M&A deals or reduced purchase prices due to material findings related to ESG. That's because focusing on ESG factors in the due diligence process enables acquirers to better identify financial risks and opportunities—not to mention comply with regulatory requirements. Thorough ESG due diligence identifies issues that are relevant to a wide range of stakeholders, including the pressure groups and NGOs who may oppose a deal. Shareholders are more engaged and willing to push back on proposals for ESG reasons. Robust integration of environmental and social factors in deal strategy can offer a path to resilience in the face of resistance.

In addition, ESG is relevant for price and valuation. As green M&A activity rises, competition for environmentally friendly assets increases, driving up prices. Green targets with better growth prospects command higher valuations.

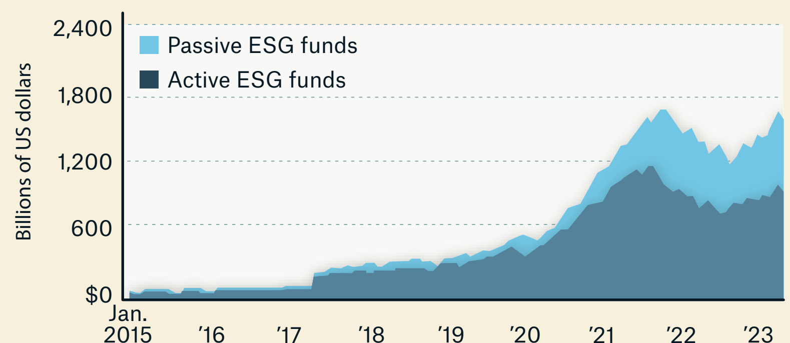
COMPANIES PREPARING FOR IPOs are featuring ESG performance prominently in roadshow marketing. Neglecting sustainability considerations risks failing to engage ESG-focused investors. ESG funds in Europe in particular now account for over 20% of asset management market share.

In a recent European study, a link was identified between ESG communications and the pricing and valuation of IPOs. The study found that "a significant relationship" between an IPO's pricing and evaluation and its ESG communications. Another study from the US revealed that voluntary ESG disclosure reduces the risk of IPO failure and enhances long-term IPO performance. The study also suggested that IPOs with higher ESG scores are less prone to failure, with social and governance performance playing a significant role. In the US in 2023, more than 20% of new securities filings with the SEC included references to ESG.

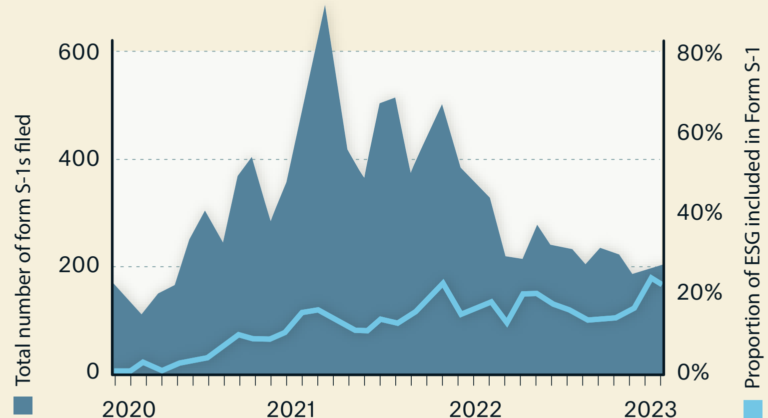
ESG-RELATED DEALS



THE DECLINE OF ESG INVESTING?



RISING INTIMACY OF ESG AND IPO



GRAPHICS: PETER HOEY

THE PUSHBACK & THE REALITY

Clearly, not all investors are sold on ESG. In 2023, more money was pulled from global ESG funds than went into them. A 2019 study by researchers at the University of Chicago questioned whether ESG funds outperform their counterparts, while American investors have gone to court arguing that ESG investing violates fund managers' legal obligation to maximize investment returns.

Yet certain major investors now exclusively evaluate companies based on specific ESG criteria, directly influencing a company's access to investment opportunities. ESG ratings offered by companies such as MSCI, Sustainalytics and ISS are used to determine ESG Indices (the basis for ESG passive funds). Fund managers are developing increasingly sophisticated proprietary methodologies for ESG portfolio decision-making. Companies with low ESG ratings or involved in ESG controversies risk damage to market capitalization and reputation, as well as exclusion from investment by some investors.

Research by Bank of America found that ESG funds are quick to cut their exposure to controversial stocks—a 2023 analysis found that 65% of ESG funds liquidated or cut their position in a stock by one-quarter after an ESG controversy.

Rating agencies, proxy advisors, sell-side analysts and regulators all require company information on factors such as climate, water, biodiversity, consumer affairs and board diversity. Little wonder that ESG-leading companies are resourcing senior roles and functions to ensure effective reporting in support of investor engagement, share price performance and cost of capital. A company's entire value chain is impacted by ESG considerations.

While 2024 saw a marked drop in ESG-related shareholder resolutions, that might be because ESG issues are being better managed both by companies and asset managers—better ongoing engagement between companies and investors means fewer difficult, controversial resolutions at AGMs. Another reason for a drop in shareholder proposals could be that asset managers want to avoid the political risk of appearing to "boycott" certain stocks. Instead, they are engaging with companies. While environmental activism has been more prominent in recent years, social activism is set to drive the ESG agenda with many investors now engaging on issues such as diversity and employment policies.

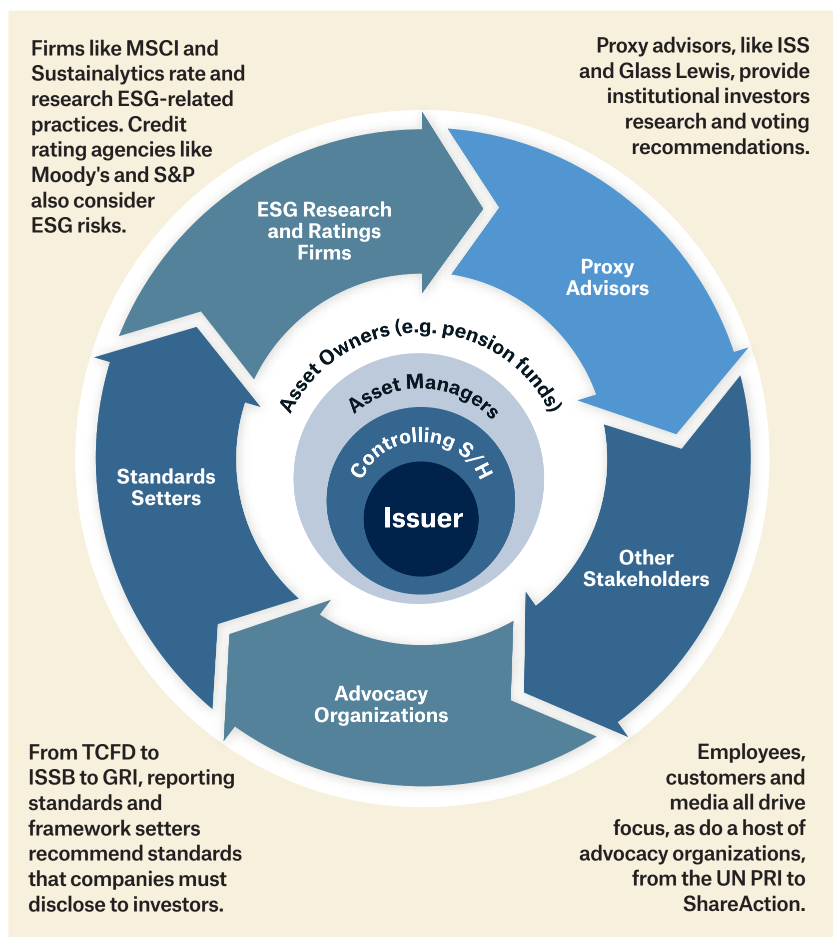
COMMUNICATION MATTERS

Semmelweis's observations about the importance of handwashing were a breakthrough, yet he himself may have helped prevent its adoption. His data set was limited to outcomes in his own maternity ward over one year. His language describing the benefits was imprecise. Personally, he was described as intolerant of criticism and capable of distorting others' views. All of that made it easy for the medical community to dismiss his observations for another four decades.

Many mothers died needlessly despite a known, available alternative. It is difficult to imagine smart, decent doctors defending such an unacceptable status quo. ESG advocates should both take heed and take heart: Data and reality have a way of winning in the end, but poor communications can create costly delays.

Companies today risk repeating one of Semmelweis's mistakes: relying on others to perceive data objectively, regardless of how it's presented. The importance of a strong ESG narrative, underpinned by clear evidence, has grown along with the backlash. Accumulating credible research and analysis can allow ESG to take its place alongside traditional financial and investment theses, rather than appear to replace them. ◆

THE OVERVIEW OF THE FINANCIAL ESG ECOSYSTEM



DAN LAMBETH is a Partner in the Financial Practice Group at Brunswick in London and formerly led JP Morgan's sustainability practice in Europe. **KANHAI PARASHARYA** is an Executive in the Financial Practice Group in Mumbai.

The RESILIENCE Imperative

Around the world, climate-related disruptions are no longer theoretical risks, but here-and-now realities for business. By **JON MILLER.**

WE LIVE IN A TIME OF INTERCONNECTED crises, and it's the growing intensity of those issues, looked at through the lens of investors, that has propelled the rise of ESG.

Fundamentally, ESG has emerged as a way for investors to assess the resilience of business in the face of these intensifying challenges.

"Resilience" comes from the Latin *resiliens*—to "jump back." In business, it means the ability of a company to respond and adapt quickly to disruptions that threaten people, operations, reputation and profit.

Of course, investors need a way to understand the resilience of business amid societal disruption. They need to know the degree of exposure companies face to environmental and social risks. Investors must be able to assess how well companies can resume operations after a disruption. Investors need broadly to understand a company's vulnerability to major external trends.

This has been driven by climate. Climate impacts have often been seen as futuristic. But they are no longer remote risks; they are realities businesses face today. Three in 10 businesses worldwide have already experienced operational impacts from climate change, according to a report by Deloitte.

In this section we offer snapshots of recent climate-related disruptions that have challenged businesses's resilience.

Tourists visiting Sun Moon Lake in Taiwan during a drought in 2021 found only a dry lake bed.

PHOTOGRAPH: BILLY H.C. KWOK/THE NEW YORK TIMES/REDUX

The TECH INDUSTRY Faces Climate-Related Disruption

Taiwan's semiconductor industry, which dominates the global microchip marketplace, has faced repeated water shortages due to drought, threatening tech supply chains. In Malaysia, a typhoon caused unprecedented flooding, impacting a critical node in the global semiconductor supply chain—chips are sent to Malaysia for packaging before being shipped to the US and Europe. The knock-on effects of these disruptions have been far reaching, causing some US automobile manufacturers to suspend production.

The growth of cloud-based AI services is expected to dramatically increase tech-related water use. Server farms rely on vast amounts of water for cooling, and water use is projected to grow at a compound annual growth rate of 5.6% until the end of the decade. Some companies are already exploring alternative approaches—such as Microsoft's Project Natick, which is submerging server farm modules in the North Sea.

Water Shortages

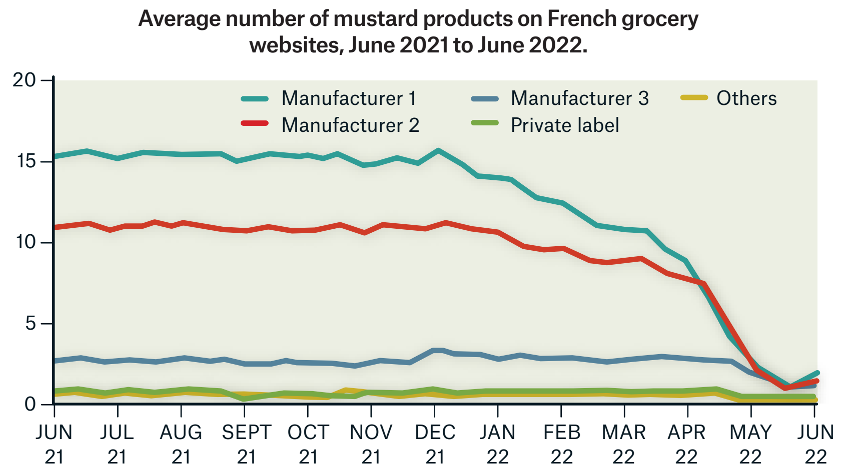
Dent the Resilience of the Consumer Goods Industry

Better water resource management is one of three key ESG metrics that drives financial performance for consumer goods companies, according to a study by Boston Consulting Group. Enhanced conservation of water use alone correlated to higher earnings of 3.1 percentage points.

In 2022, a drought in Canada disrupted global supplies of mustard seed—a staple ingredient for food manufacturers. France, for instance, depends on Canadian imports of mustard seed. Analysis by NielsenIQ showed an 88% drop in the availability of mustard products for French consumers.

Bloom stage mustard field in Ponteix, Saskatchewan, Canada.

DROUGHT IMPACT



Source: Data Impact by NielsenIQ

88 PERCENT DECLINE, FROM 2021 TO 2022, IN MUSTARD PRODUCT AVAILABILITY FOR FRENCH CONSUMERS.

VINDICATION

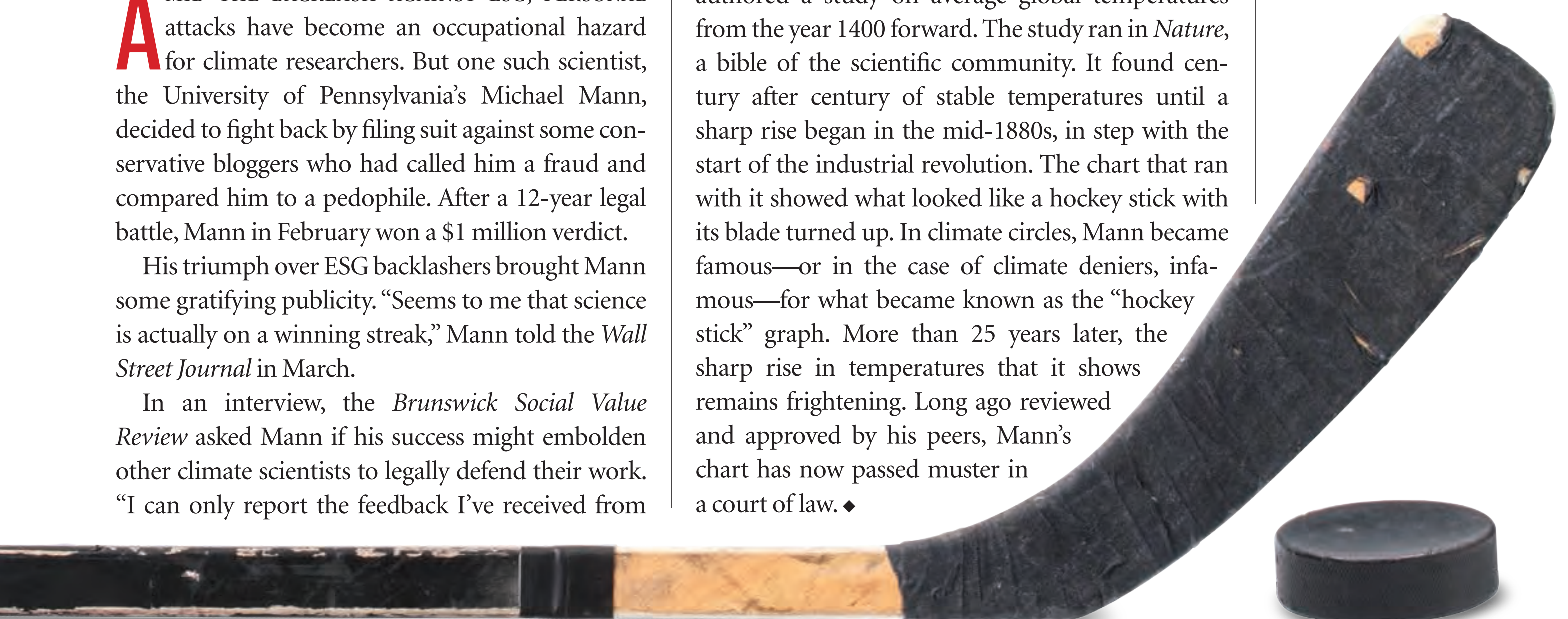
AMID THE BACKLASH AGAINST ESG, PERSONAL attacks have become an occupational hazard for climate researchers. But one such scientist, the University of Pennsylvania's Michael Mann, decided to fight back by filing suit against some conservative bloggers who had called him a fraud and compared him to a pedophile. After a 12-year legal battle, Mann in February won a $1 million verdict.

His triumph over ESG backlashers brought Mann some gratifying publicity. "Seems to me that science is actually on a winning streak," Mann told the *Wall Street Journal* in March.

In an interview, the *Brunswick Social Value Review* asked Mann if his success might embolden other climate scientists to legally defend their work. "I can only report the feedback I've received from fellow scientists. And it has been rather effusive," says Mann. "Numerous colleagues have told me that they see this as a win for science and the scientific community, and that they find it reassuring."

As a postdoctoral researcher in 1998, Mann co-authored a study on average global temperatures from the year 1400 forward. The study ran in *Nature*, a bible of the scientific community. It found century after century of stable temperatures until a sharp rise began in the mid-1880s, in step with the start of the industrial revolution. The chart that ran with it showed what looked like a hockey stick with its blade turned up. In climate circles, Mann became famous—or in the case of climate deniers, infamous—for what became known as the "hockey stick" graph. More than 25 years later, the sharp rise in temperatures that it shows remains frightening. Long ago reviewed and approved by his peers, Mann's chart has now passed muster in a court of law. ◆

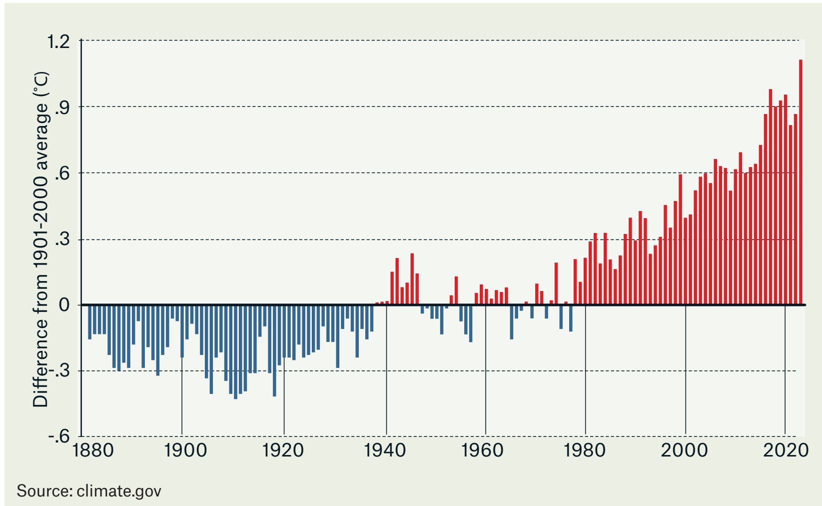
A climate scientist's very good day in court.



PHOTOGRAPHS: LEFT, WALIK/GETTY IMAGES; CONTRIBUTOR:DESIGN PICSINC/ALAMY STOCK PHOTO

GLOBAL AVERAGE SURFACE TEMPERATURE

Around the world, heat waves are already affecting businesses—very often by disrupting transportation. One estimate placed the cost of extreme heat in the US alone at $100 billion a year—a figure that is projected to climb (as temperatures do as well).



ROADS: Extreme heat places greater strains on roads, engines and tires. Its effects can be measured everywhere from increased fuel consumption to cracked concrete and melted asphalt. One estimate from the US Senate concluded that the additional road maintenance caused by extreme heat could cost a total of $26 billion by 2040.

AVIATION: Heat waves are more likely to ground flights than cold weather or storms. Aircraft performance is degraded by low air density, making it harder for planes to take off. Planes get 1% less lift with every 5.4°F (3°C). As one report concluded, to deal with extreme heat, "The airline has a few choices: Fly with less fuel, luggage or people."

TRAINS: Steel absorbs heat easily and steel rails can reach temperatures of 140°F (60°C) in a heatwave. This now happens with increasing frequency; the steel expands and buckles, causing significant travel disruption. This isn't only a problem for commuters—many businesses rely on rail freight in their supply chains.

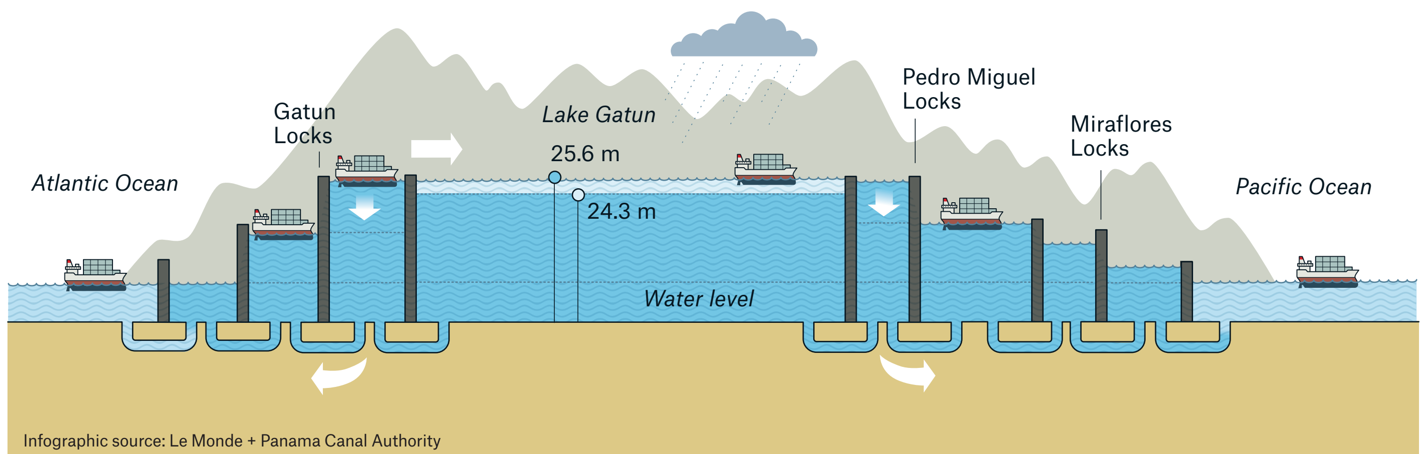
Texas Freeze

Estimated to Cost $300 Billion

An ice storm in Texas in 2021 caused the worst involuntary blackout in US history, which led to shutdowns in technology and manufacturing plants, as well as severing supply chain links with the Pacific Northwest. Even a year later, businesses were reported to be struggling to recover from economic losses caused by damage to machinery and buildings. The Federal Reserve Bank of Dallas estimated the storm cost the state economy as much as $130 billion—and that statewide measures to prevent a similar failure (such as winterizing oil and gas wells to prevent them from freezing) would total as much as $200 million annually.

LOW RAINFALL DISRUPTS GLOBAL TRADE

The volume of ships passing through the Panama Canal has been dramatically reduced by a severe drought, resulting in disruption to global shipping. The canal relies on water from rainfall, and has been down to a capacity of 16 ships a day. In normal times, 40% of US container traffic passes through the canal. In the UK, the media reported delays on goods such as iPhones and exercise bikes as a result of the drought, as well as increases in the costs of some foods. As Bloomberg reported, the world faces a shipping traffic jam that could cost up to $270 billion.



GRAPHICS: PETER HOEY. PHOTOGRAPH: JOE RAEDLE/GETTY IMAGES

Friday 29 July 2022 The Guardian | World

'It's not drought, it's plunder'
Mexicans without clean water as drinks firms use billions of litres

Lillian Perlmutter
Mexico City

The water truck parks on a block, a 10-minute walk uphill from Rocio Vega Morales' house, for 15 minutes at most. She has no clue what time the *pipa* will arrive

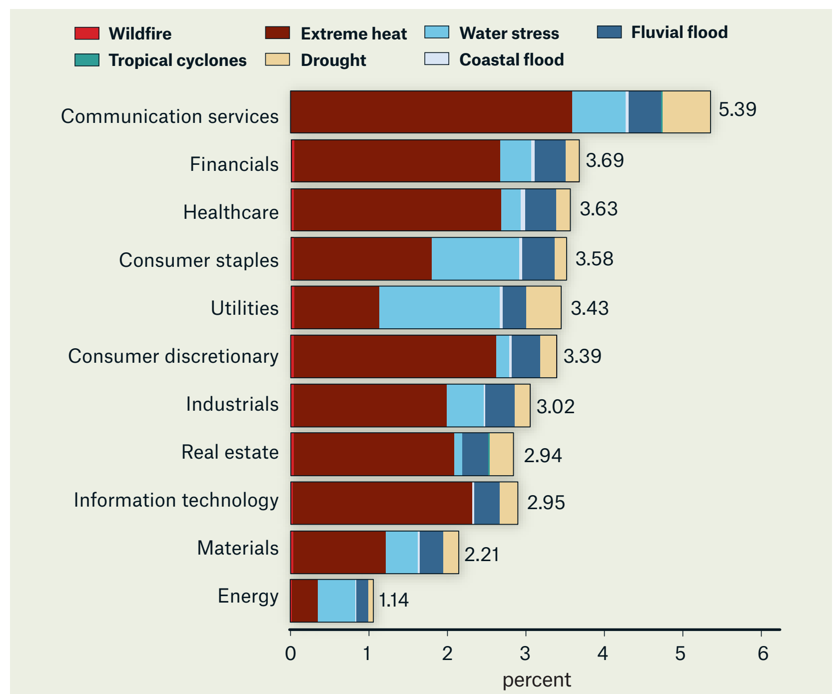
Mexico Drought

Leads to Reputation Hit for Drinks

In 2022, community organizations in Mexico called for a global boycott of beverage companies that continued to extract groundwater even as the country struggled with a historic drought and parts of Mexico City were being supplied by water trucks. The global media headlines thrust beverage companies into the glare of international inquiry and protests popularized the slogan, "No es sequía, es saqueo" ("It's not drought, it's plunder").

That particular drought ended, but water availability has remained a critical issue into 2024.

Many of the companies named by the global press have extensive water sustainability strategies, with explicit goals for managing and reducing water use and detailed reporting. Many also have water stewardship programs, working with local communities to preserve watersheds and increase access to drinking water. In the face of sustained and severe drought, these commitments may go some way to protecting their reputations with more sophisticated stakeholders, but mainstream opinion may be less understanding. ◆



A severe drought may wipe out an entire crop, while a nearby call center isn't affected. Each sector's risk profile will cause knock-on effects for financing, insurance and investing. The above analysis by S&P Global estimates the sector impacts in the 2050s.

GRAPHIC: PETER HOEY. PHOTOGRAPH: KATHY DEWITT/ALAMY STOCK PHOTO

ISSB'S Emmanuel FABER

A TITAN OF BUSINESS ASSUMES THE LEADERSHIP OF A SUSTAINABILITY NONPROFIT. BY **PASCAL LAMY,** CHAIR OF BRUNSWICK EUROPE.

PHOTOGRAPH: ERIC GARAULT/PARIS MATCH/CONTOUR BY GETTY IMAGES

After decades of bringing unity of standards to financial reporting around the world, the International Financial Reporting Standards Foundation was tasked to help establish a sister effort. At the COP26 gathering in Glasgow in 2021, the Foundation helped create the International Sustainability Standards Board, or ISSB.

In less than three years, ISSB has come a long way on its mission to standardize sustainability reporting around the world. To state what should be obvious, sustainability reporting matters no less than financial reporting. Weak financial reporting could be hazardous to investor financial security. Weak sustainability reporting could be hazardous to the future of humankind.

Chosen and recruited to serve as ISSB Chair is Emmanuel Faber who, during four years as Chairman and CEO of Danone, became famous for initiatives to combat climate change and inequality, including reporting a GHG emissions-adjusted earnings per share.

From an office in Frankfurt, Faber runs an ISSB board that has sister offices around the globe, including Beijing and Montreal. In June of 2023, the ISSB released its first two International Sustainability Disclosure Standards, the first covering "General Requirements for Disclosure of Sustainability-related Financial Information" (IFRS S1), and the second covering "Climate-related Disclosures" (IFRS S2).

In February, Faber participated in an interview with Brunswick Senior Advisor Pascal Lamy, who is Chair of Brunswick Europe and Vice President of the Paris Peace Forum. Faber discussed the progress, strategies and prospects for the ISSB. In describing sustainability as a new form of accounting, Faber said: "Financial accounting counts a lot of things, but not everything that counts."

What keeps you running?

What keeps me going is the conviction that business doesn't make sense unless it's sustainable. That's a belief I've held for 30 years, ever since I first became the CFO of a listed company at the age of 28.

The very first paragraph of ISSB's first set of Standards says, "The value that a company creates for itself and for its shareholders is inextricably linked to the value that it creates, erodes or protects for others." This is the new language of accounting. This is what keeps me running.

"What keeps me going is the conviction that business doesn't make sense unless it's sustainable."

What kind of reception have the Standards met, IFRS S1 and IFRS S2?

There is a lot of traction. One month after the Standards were issued, they received the endorsement of the International Organization of Securities Commissions (IOSCO). IOSCO called the Standards fit for purpose and called for jurisdictions to adopt them. It has 135 members and encompasses 95% of the global market capitalization. IOSCO is also chairing our Monitoring Board, whose members include the EU Commission's Vice President, the Chair of the US SEC, the Chinese Vice Minister of Finance, et cetera.

At COP28, our Standards were endorsed by a flurry of business organizations around the world representing more than 10,000 large companies. They were also endorsed by more than 70 individual investors, and investor membership organizations totaling $120 trillion worth of assets under management.

Less than six months after the IOSCO's endorsement, the jurisdictions that are currently publicly consulting on draft standards based on ours, or have decided to adopt them, already represented close to 50% of global capitalization, excluding the US. From another angle, the 20-plus jurisdictions with which we are very actively engaged account for more than half of global greenhouse emissions.

To be clear, we do not impose standards on anyone. We propose the Standards for mandatory adoption by jurisdictions, and for voluntary use by companies and investors.

In the US, an SEC climate ruling is said to be coming soon. We have had regular exchanges with them. The SEC is very focused on avoiding the burden of multiple reporting for US companies. I would say that for US companies, there will be significant alignment between whatever climate rule will be issued by the US and what we do.

This widespread embrace isn't surprising because the ISSB Standards, our products, are responding to market needs. We listened to about 30,000 people that we engaged with, and we received nearly 1,500 letters of comments during a four-month public draft exposure period. These exposure drafts were deeply important as we finalized what became the Standards.

The Standards have been published at a time when the mood of the public, as well as business and politics, has shifted. How do you explain this shift and does it influence your work at the ISSB?

During the last two years, events in some juris-

dictions have certainly politicized the debate, and globally some of the dynamics have changed.

What hasn't changed is the substance. I was in California last June when two large insurers announced they would stop issuing any new home insurance policies in the state because of floods and fires. As you know, Pascal, the banking system depends on insurance. It's the basis for a loan.

Another example: Frankfurt, where my office is located, is 40 kilometers from the Rhine River, an essential trade route in Europe. Twice in recent summers, the Rhine ran nearly dry, and traffic had to be cut. That disruption caused inflation that we're still paying for. In China, a factory employing hundreds of thousands had to close due to lack of water, to prioritize a nearby large city.

This is reality, not politics. Disruption of this kind is a growing factor in the value chains of companies. I find no CEO or CFO who is not aware that climate change is affecting business now. What I tell them is that my goal isn't to save the planet. It's to save business. It's about creating business resiliency.

If there's a bear in the forest running at you and your friend, you don't have to outrun the bear. You just have to outrun your friend. Similarly, if your company's climate resilience plan is better than your competitor's, you will gain a cost-of-capital advantage. And that advantage will fund your transition.

But to do this, you need a language. As it stands, ESG metrics are reported in 500 different languages. The results are not assurable by auditors. They're not reliable enough to make decisions. They're not comparable. That's why the ISSB is creating an assurable, bankable system that will allow for investor conversations about market/price allocation. There's a need, now more than ever, for a language that describes sustainability in strategic terms, and that helps CEOs and CFOs develop more resilience.

Business leaders may know that their future success depends on ESG factors, but what if public opinion isn't convinced?

About a year and a half into the backlash, you are seeing signs of the anti-anti-ESG backlash, wherein market participants are protesting about politicians restricting our freedom to use the asset manager of our choice. It's back and forth.

But honestly, the train has left the station. California—a state with a GDP about the size of Germany's—last year passed two climate bills, referencing ISSB Standards. Brazil has said ISSB Standards would be mandated from 2026. Turkey has said '24. Japan said '25. Singapore said '25. Korea said '27. Hong Kong is into it. The UK is currently debating it, as is Canada. At COP27, Nigeria became the first African nation to say, "I will adopt." Kenya is currently looking at its adoption roadmap, along with various countries in Latin America and Southeast Asia. And the EU has adopted its own set of standards that are interoperable with ours.

> "The day a climate report moves capital markets—this is what success looks like for us."

PHOTOGRAPH: JOEL SAGET/AFP VIA GETTY IMAGES

PASCAL LAMY is Vice President of the Paris Peace Forum and Chair of Brunswick Europe. He also coordinates the Jacques Delors Institutes (Paris, Berlin, Brussels). From 2005 to 2013, he served two consecutive terms as Director General of the World Trade Organization.

When we speak to stock exchanges, the Tokyo Stock Exchange, the London Stock Exchange, they understand that there are negative externalities related to sustainability that aren't reflected in a company's valuation. Those negative externalities appear as beta and volatility in the market. By having a global language for disclosing vulnerabilities to, and hedges against, those negative externalities, we can reduce that beta and improve the reliability of the market. That's why 60 different stock exchanges supported us at COP28.

Is the final purpose, in a nutshell, to change the metrics of value creation in global markets?

Of the need to build sustainability into valuations, Mark Carney said a long time ago: "You need two things to succeed: committed and courageous public policy, and well-informed capital markets."

Success will come the day that climate reports are understood to contain value-changing information. The day a climate report moves capital markets—this is what success looks like for us. And climate is just the start.

The global value of listed bonds plus equity is $400 trillion. That's four times the global GDP. If the global capital markets are informed with the metrics needed to make the right decisions, then those markets are the best ally of smart policy for transitioning towards more sustainable economics.

Are you optimistic that this system of standards will work?

We don't have the luxury to be pessimistic. I was on stage recently when some young activists marched in and said what they had to say. Silence fell over the audience of about 1,000 people, and you could feel a certain nervousness, "What does this mean?"

From the stage, I said, "These could be my children or yours, actually. We have not convinced them that we are delivering a desirable future. That's why they are here."

Unless you believe that the next generation doesn't count, you have to listen to what they have to say. It's not that they know the truth. They probably don't. But you don't either. In that shared ignorance lies an opportunity to connect. ◆

How to Avoid GREEN

Corporate claims around climate change are coming under increasing scrutiny in Asia. A report co-written by the Asia Investor Group on Climate Change (AIGCC) outlines the steps companies and investors need to take to avoid greenwashing.
By **STACEY CHOW.**

GLOBALLY, CORPORATE CLAIMS AROUND SUStainability and climate change have come under intense scrutiny. The gap between corporate pledges and concrete actions is being challenged, and claims are questioned for their credibility as well as impact. Accusations of greenwashing are increasingly prevalent, with regulatory enforcement, litigation and investor activism all on the rise. • To understand the issue of greenwashing in Asia, Brunswick's Stacey Chow interviewed Asia Investor Group on Climate Change's CEO Rebecca Mikula-Wright and Director of Policy Anjali Viswamohanan about a recent report the AIGCC co-authored with the nonprofit ClientEarth titled, "Greenwashing and how to avoid it: an introductory guide for Asia's finance industry." The report outlines the regulations in different markets across Asia, practical guidance on how to prevent greenwashing and the implications of these trends for corporates with a presence in Asia. • In this interview, Mikula-Wright and Viswamohanan emphasize that transparency in reporting, accountability of actions, internal alignment and "radical collaboration" are the keys to ensuring a company is seen as credible on climate change.

What motivated AIGCC to collaborate with ClientEarth on this report on how to avoid greenwashing?

REBECCA MIKULA-WRIGHT: AIGCC members tell us what priorities they need to address within their businesses, as it relates to addressing climate change in their portfolios. It started coming up as something that investors were thinking about. We always try to get ahead of issues before they become more mainstream. In our policy and regulatory engagement around the region, the issue of greenwashing was coming up in discussions. This report aims to provide a practical guide for investors.

ANJALI VISWAMOHANAN: Since the first version in English was released last April, there's been some very positive response—not only from companies and investors but also from regulators to understand where the concerns are.

We've since produced regional versions. We did one in Japanese last year, with a chapter that's focused on what's happening in Japan on greenwashing. We are planning to do another one in Chinese this year. Everyone is interested to understand where the enforcement actions are happening, what the future trends are likely to be and what they should be watching out for. All this information is important for regulators, investors and companies.

What are the different types of greenwashing and the consequences for companies or financial markets? On the flip side, what consequences would greenhushing cause?

AV: What we've done in the report is talk about where the enforcement trends have been on greenwashing, in terms of classifying greenwashing cases. We see greenwashing at an overall entity level in terms of brand greenwashing—what an organization pitches about what they are and what they're trying to do. Then there's a sub-layer to that, product-level greenwashing, where you say that you have a "green product," but it's not based on proper evidence. The third

ILLUSTRATION: TOMASZ WALENTA

type is greenwashed financing, where a company says that financing is being put into green objectives when it is not. And last is financial reporting greenwashing, where a company's financial report shows claims in accordance with green objectives, when they're actually not.

We're seeing cases in each of these four categories across the globe. Greenwashing is a big risk because incorrect information distorts where capital is going, making it challenging for investors to understand the performance of companies. This results in an uneven playing field and reduces investor confidence.

With greenhushing, entities are underreporting on sustainability or ESG to prevent more scrutiny. This is a rising trend that we're seeing across different types of stakeholders: governments, companies and financial institutions.

For Asia, the opportunity for ESG, sustainability and transition is huge and leaders in the space can attract capital. The opportunity cost of greenhushing is high so we don't see it as a huge risk, but there might be companies that do it.

RMW: Investors have been asking companies for many years about disclosure. If the companies themselves don't disclose, investors will make their own assumptions, which could be incorrect. So it's in companies' best interests to disclose and be as transparent as possible, particularly on climate. As part of the Climate Action 100+ initiative, there's a clear ask for the disclosure of governance and business strategy to reduce the emissions across companies. With greenwashing now surrounding that, it really highlights the issue of the lack of reporting. This is going to come more to the fore when we see the mandatory reporting that's currently voluntary in many markets come through. We are trying to get ahead of that to support disclosure.

WASHING

> "GREENWASHING IS A BIG RISK BECAUSE INCORRECT INFORMATION DISTORTS WHERE CAPITAL IS GOING, MAKING IT CHALLENGING FOR INVESTORS TO UNDERSTAND THE PERFORMANCE OF COMPANIES."
>
> Anjali Viswamohanan

Globally, research shows that up to 40% of green claims are misleading. How prevalent is greenwashing across the Asia-Pacific region? What are the two stages of greenwashing you've outlined in the report?

RMW: In terms of the growing claims, it's hard to quantify as it's not being tested by regulators yet across Asia. We are seeing it being tested in markets like Australia, for example, with the regulators cracking down. It could be very similar and there might be an opportunity to get ahead with that disclosure piece. Asia is in an early stage in terms of how companies are greening their work and the development of taxonomies. That will provide the greater guidance people are looking for, but we cannot wait for that. It's definitely going to get there, but it's just about how effectively it's been tested. It remains to be seen but regulators are certainly aware of this and conscious of the risks.

AV: On the two stages of greenwashing, we are seeing claims being made at the company level that get translated into information that goes into the product level that financial institutions are creating, and then that gets into the broader market. But there are a number of ways to guard against those risks translating from a company level through more engagement between companies and financial institutions to understand where companies are heading with this and what they are using that money for.

At the financial institutions level, there needs to be more diligence on what products they're putting out there. That's also helpful because a number of regulators are putting in guidelines that financial institutions need to follow to ensure they meet the objectives they claim. It's working in multiple ways to guard against it, at a company level but also at a financial institutional level, to prevent it from getting into the market.

The report mentions that greenwashing does not require intentionality. Can you talk about that?

AV: At first, in response to consumer activism, companies wanted to use certain terminology such as "clean," "green" or "reusable"—and perhaps they thought these words accurately described the products. But increasingly over time, there is more scrutiny over what companies are saying and there's a need to prevent this sort of misinformation from getting into the market. So now you need to focus on disclosure, to ensure that whatever claims you are making, you are able to provide information to back them up. I think they're looking at it at two levels: What you need to do internally to back a claim, and then what you are putting out in public. And I think that's a good approach.

RMW: A lot of this is about capacity building within corporates and across the organization. This is not only the remit of an ESG or sustainability person or the marketing department. It needs to be a

company-wide approach, across the board level and embedded within the entire organization. Everybody needs to be on board internally and have the correct internal governance systems in place.

How are government authorities in the Asia-Pacific region looking at greenwashing? How do these regulations and enforcement actions differ from other regions such as the EU and the US?

RMW: Investors have been asking regulators globally for a consistent approach to disclosure and regulations across global markets. It takes a lot of capacity, time and resources for them to have to comply if regulations are different in every single market. So we've been coordinating the advocacy around the need for global comparability across disclosure standards. We now have the International Sustainability Standards Board (ISSB), which is looking to be adopted across markets, and mandatory climate disclosure coming in and other ESG disclosures as well. We're seeing taxonomies, ratings of product and fund labeling starting to evolve around identifying and preventing greenwashing.

Markets such as Japan, Singapore, China, Hong Kong, Thailand, India and the Philippines have all enacted laws to prevent greenwashing at this point. Other laws are also coming in to address potentially deceptive claims that are not specifically labeled as greenwashing. In China and Australia, we've seen cases of regulators really increasing enforcement of environmental regulations, and they're signaling they're going to continue to do that. Overall, I think there's heightened awareness from regulators.

AV: Some markets are looking at this through a different lens. For instance, some are looking at service providers that are providing ratings or classification of companies. We've seen a crackdown in India on ESG ratings providers. Obviously, the concerns for regulators globally are quite similar—you want to protect your economy and ensure that capital is flowing to enable the transition. In terms of overall trends in Asia, a number of markets are making it easier to enforce greenwashing-related claims. For example, South Korea has draft legislation that will penalize companies for greenwashing. This trend is percolating across Asia.

RMW: In Australia, we've also seen heightened awareness for the financial sector, around product-disclosure statements, net-zero claims and other language being used. There's been a broad sweep of different claims that have been aired. It's a bit of a shot across the bow for companies, a wake-up call to take this seriously, to be specific with their claims, focus on better disclosure, governance and frameworks, in advance of these disclosure regulations.

“WE ARE RUNNING OUT OF TIME AND REGULATIONS ARE CATCHING UP, SO THE PRESSURES ARE COMING FROM ALL ANGLES.”

Rebecca Mikula-Wright

In the US and parts of the EU, we are seeing a rising backlash against ESG and ESG investments. Do you think Asia will avoid this trend?

RMW: Globally, there is still a very large cohort of support towards ESG and growing funding flows at a global level. In the US, it's quite politically motivated and that connection has been made well by the media. The EU is starting to enforce some of the regulations that are coming in.

There are actually some lessons from this type of backlash. As economies and industries are transitioning, how are those workforces being consulted? It's really critical that workers understand what the transition means to them, in terms of potential job losses, new opportunities and why this needs to be done. So different stakeholders need to be brought into those conversations to avoid potential conflict.

The impacts of climate are escalating in Asia, it's affecting businesses and daily lives. The need to act is only increasing and along with that, the need to increase the communication, particularly from government at all levels down, so there's more understanding of why there's a need to act and the benefits of countering climate risks to societies and economies.

There's actually a really good opportunity for Asia to learn the lessons from other markets and get it right. Asia is also very good at leapfrogging and can use the disclosure frameworks to do so.

What challenges do financial institutions face if they're unable to fulfill their net-zero commitments, particularly across Scope 3 emissions?

RMW: Investors who signed up to these initiatives actually have an advantage, because of the process we've gone through with them to create the frameworks to really test this, to make sure it works in practice. It really takes them on that journey, the runway to net zero. Scope 3 is the big challenge out there at the moment, but it's not unlike the governance conversation we were having five, 10 years ago. We're starting to work through the Scope 3 challenge of not having the data, by exploring how to engage with a company's supply chain to obtain that data. That's becoming part of the structure of mandatory reporting.

AV: It's important to acknowledge that investors cannot achieve their net-zero targets in a way that benefits society if policy does not actually support the achievement of net zero overall. So investors

PHOTOGRAPHS: COURTESY OF AIGCC

need to be actively engaging with policymakers on this, so that investors, companies, policymakers can move together.

If a company is accused of greenwashing, how would their boards be impacted?

RMW: This will vary by jurisdiction, but we see potential actions taken against fiduciaries around failing to manage or disclose risks. Investors are already holding companies and directors to account through voting as part of the normal shareholder process. This trend raises the question around the governance of the board—how it's operating top-down. Are goals fully embedded throughout the organization, and what are the implications for trustees for failing to act? We've seen shareholder lawsuits in Australia that come back to accountability at the board level.

What will be the next frontier for greenwashing claims?

AV: We are already seeing some of the trends in the net-zero space. There's a need to watch out for "transition washing," more accountability in how money is being provided as transition finance helps high-emissions corporations with a clear, accountable transition plan. There's greenwashing by association, where a company in your portfolio is engaging in greenwashing and, by association, your institution is being accused of greenwashing. You need to engage with companies in your portfolio to ensure that what they're telling you is actually right based on disclosure.

Another one is greenwashing via offsets. We're seeing more guidance being provided to anyone that's committed to net zero regarding where you can use offsets credibly. We are also seeing greenwashing claims by competitors—where a company accuses a rival company, leading to investigations.

There are now claims being made in the area of nature, and more accountability is needed for these claims. There are going to be a number of frontiers where greenwashing will come up, as the level of involvement of companies and investors in transition really expands.

RMW: Another area is the attention on the capital expenditure towards targets—that disclosure is very low right now. Investors are also looking at "just transition" and how companies are incorporating the "social (S) element" around people, the jobs related to the transition of a business or industry.

Additionally, investors are asking for greater clarity around lobbying activities and whether a company's lobbying activities are positive or negative towards climate. It's really around the transparency and disclosure.

"INVESTORS NEED TO BE ACTIVELY ENGAGING WITH POLICYMAKERS ON THIS, SO THAT INVESTORS, COMPANIES, POLICYMAKERS CAN MOVE TOGETHER."
Anjali Viswamohanan

What advice would you provide to companies on how to prevent greenwashing?

AV: The report covers this in specific detail. At a very high level, companies should ensure the accuracy of any statement they're putting out that has a link to ESG or sustainability. It has to be credible and make sense internally. They also need to go back and look at past statements they've made to ensure they are aligned with what the company's doing now. More transparency is key; provide as much information as possible on the objectives that you're trying to integrate into the product you're putting out on the market.

There's a need to ensure that action is integrated across the whole of the company and not just one department, to ensure that you have the capacity to act internally on what you have promised externally. In the case that you don't have the information to substantiate a particular aspect of what you're saying, be upfront and clear about why you don't have that detail.

It's important to know that regulations and guidelines around greenwashing are evolving fast, so monitor what is being discussed in each jurisdiction that you are active in and be aware of what the expectations are. If you've made a net-zero commitment, know the expectations of how you're supposed to act and make sure you're meeting them.

Lastly, look at the fiduciary duty and your legal duty internally to ensure that your whole process is covered.

RMW: I would add that investors have really reaped the benefits of collaboration by working on these challenges together. So I would encourage companies to look to do the same within their industries—use their industry bodies (associations) to help them get across these regulations, to collaborate with investors and regulators.

We are running out of time and regulations are catching up, so the pressures are coming from all angles. We need these sort of radical collaborations—between investors and companies, and also between policymakers and regulators—to become the norm so that we can achieve what we have to on climate.

If we get the individual collaborations within those different groups, and then collectively as well, that's when we can really move the dial and make the progress that we need to on climate. ◆

STACEY CHOW is a Partner in Brunswick's ESG & Sustainable Business Practice, based in Hong Kong. She was previously at the World Economic Forum and the World Bank, with nearly 20 years of experience in sustainable development and public-private partnerships.

B CORP Takes Root in APAC

ENTREPRENEURS IN SINGAPORE AND HONG KONG ARE SEEING ADVANTAGES TO THE STRUCTURED COMMITMENTS A B CORP STATUS PROVIDES. **DANIEL DEL RE** REPORTS.

In the early 2000s, a small group of US entrepreneurs found themselves disillusioned with the lack of safeguards around a socially responsible business they had built from scratch and then sold—only to see its social commitments dismantled by the new owners.

They decided to do something about it. In 2006, they created a new, certified incorporation structure, the so-called benefit corporation or B Corp. Together they founded the first B Lab, to help other entrepreneurs and businesses adopt and maintain the status.

B Labs have since spread all over the world, including the Asia-Pacific region, where interest in the concept is growing, spurred on in part by the rise of demand for transparency around environmental, social and governance activity.

In the APAC region, Australia and New Zealand have over 650 certified B Corps between them. Meanwhile China and Japan, the region's two largest economies, have fewer than 50 each. So the regional B Corp movement has been both growing but slow to gather steam. Entrepreneurs and movement insiders in Hong Kong and Singapore are lately working to turn that around.

B Corp certification enshrines some environmental or social purpose as a fundamental objective, alongside profits. It also provides transparency in reporting and helps manage stakeholder expectations toward outcomes that are good for the community, environment and investors.

Though overshadowed by the broader ESG movement, the number of B Corps has grown steadily to nearly 7,000 worldwide, with most located in North America and Europe. The list includes multinationals such as Nestlé and Patagonia.

B Corps in the APAC region span a range of industries from hospitality and cosmetics to software design and apparel. Most are small or medium-sized private businesses, but many sell products globally. A handful have listed on stock exchanges in Australia, Hong Kong and Singapore.

One reason B Corp certification is becoming attractive to these entrepreneurs is that both the rigor and transparency are seen as ways to better compete on a global stage, according to Gilbert Lee, Co-Chair of B Lab Hong Kong and Macau, the local B Corp certifying group.

"The B Impact Assessment [that companies undergo to become certified] could be used as a management tool to guide strategic development," says Lee. "It is very prescriptive, very detailed."

The assessment is updated every three years or so, keeping companies on their toes. "It makes you run a better business," says Lee, who runs a B Corp offering

ILLUSTRATION: TOMASZ WALENTA

executive leadership training. "That appeals to young and less-developed companies in Asia."

As sustainability credentials come under more scrutiny from investors and regulators, companies in Asia also see the third-party validation and ongoing requirements of B Corp certification as a way to avoid charges of greenwashing. That naturally extends to the multinationals that are their customers. Those companies are accountable for sustainability within their supply chains and the B Corp badge helps reassure them that their APAC vendors won't get them into trouble.

Lee aims to have 100 B Corp certified companies in Hong Kong by 2027, up from 25 today.

Founded in 2013, the Hong Kong-based fitness and wellness business The Art of XYZ elected to become a B Corp in 2021. Among its other advantages, the structure helps define its approach to employee compensation.

"We have a vision of creating an environment where employees can also be investors, receiving compensation based on equity in the business," said XYZ founding instructor Bridge Hudson. A Vancouver native, he says his own values are in line with this goal. "I believe businesses and corporations have a responsibility to lift up and improve the lives of their employees."

XYZ has recently raised capital from a local high-net-worth investor who was attracted in part by the company's B Corp status.

Meanwhile, Singapore currently counts 41 locally headquartered B Corps and that number is set to grow. "It's definitely gaining momentum," says Keith Tan, a tech entrepreneur whose "fulltime side gig" is running B Lab Singapore. "We're getting a lot of inbound inquiries, still primarily from small- to medium-sized enterprises."

A native Singaporean, Tan is working to set up partnerships with the Singapore Fashion Council and other local industry associations to promote B Corp certification. Food and beverage businesses as well as fashion firms are top targets.

For these companies, B Corp's "Business for Good" logo on product labels can act like a seal of approval. It's especially appealing to local firms looking to break into popular export markets, such as Australia, the European Union, New Zealand and the United Kingdom, says Tan.

Tan is also promoting B Corp certification in the finance sector. "There are several fintech firms among the 'pending Bs' in our stable," he says. "They tend to be consumer facing, and fintech as a sector has a strong impact focus because of the democratization of finance and access to markets."

B Corp certification is attractive to Asia-Pacific entrepreneurs for the rigor and transparency it provides, allowing them to better compete on a global stage.

Another motivation for Singaporean entrepreneurs is financial. Many institutional investors, including the growing number of impact investors and family offices in Singapore serving the affluent, want to invest sustainably.

B Corp adoption in Asia could be poised to get a big boost if local stock exchanges recognize certification as a way for companies to satisfy ESG listing requirements. Both B Labs in Hong Kong and Singapore have met with the local exchanges, but there is no immediate prospect of a regime to recognize certification.

Gilbert Lee hopes that a critical mass of locally headquartered B Corps will motivate the Stock Exchange of Hong Kong to take certification seriously over the new few years.

When asked how B Corp certification can compete with market-based ESG frameworks popular with listed companies, Lee points to two factors. One is that certification requires a broader view of stakeholder value than market-based ESG frameworks focused on non-financial risk factors.

The other factor comes down to a defining aspect of the B Corp movement.

"Disclosure-based regimes rely on what companies choose to report," said Lee. "We believe it's better to have third-party verification." ◆

DANIEL DEL RE is a Partner in Brunswick's Hong Kong office and a former journalist.

HONG KONG ENTREPRENEUR Bridge Hudson is a founding instructor at a health and wellness studio owned by The Art of XYZ, one of a wave of B Corp businesses appearing in the city.

PHOTOGRAPH: COURTESY OF XYZ

The RED DOT BECOMING a GREEN HUB

"SINGAPORE HAS SURVIVED AND PROSpered by making ourselves relevant to the world," said Lee Kuan Yew, the country's founding Prime Minister, in 1999. "In the last century, we traded in spices … After independence in 1965, we moved into simple manufacturing. Now, we are in wafer fabs, pharmaceuticals and Asian currency units. As the world economy changed, so did we."

Once more, Singapore is changing to align itself with the global economy, this time positioning itself to become—in its own words—"a leading center for Green and Sustainable Finance in Asia and globally."

In an almost literal sense, that might not seem like big news. By land mass, Singapore is one of the smallest countries on earth—it is slightly larger than the Federated States of Micronesia—and home to less than 6 million people, or .07% of the world's population.

Yet Singapore's position as a financial hub in the region—and in the world—means that its actions will be felt far beyond its borders. As President Barack Obama said while in office, Singapore "punches above its weight." Singapore's vision for sustainable finance—an investment approach that considers ESG factors—coupled with its actions to realize that vision, suggest that ESG can be driven by pragmatism, not political ideology. Singapore has a reputation for its practical, results-driven approach to governing. "Good government is pragmatic government," Lee Kuan Yew famously said. To put it slightly differently, if Singapore didn't believe sustainable finance would deliver real results, it wouldn't want to become a world-leading hub for it.

Singapore wants to become Asia's—and the world's—sustainable finance center. That's a big deal for ESG proponents—a possible model for blending ambition with pragmatism.

In fact, the country has been explicit about the value it believes this will create. The Monetary Authority of Singapore (MAS), the country's financial regulator and central bank, estimates that the ASEAN region needs $200 billion in green investments annually until 2030, and that there is opportunity to be realized in being the hub that fosters such investment. Meanwhile Singapore's Economic

Development Board calculates that becoming a hub for carbon-emissions trading could generate more than $5.5 billion for Singapore's economy by 2050. The Asia-Pacific region is projected to have the fastest growth of ESG-related assets under management globally between now and 2026. "Sustainable finance is a key thrust of Singapore's development as a leading international financial center," said Chia Der Jiun, Managing Director of the MAS, in a 2024 speech.

In typical Singapore fashion, its approach to becoming that hub has been patient, thorough and effective. In 2015, the Association of Banks in Singapore launched the Guidelines for Responsible Financing. Two years later, Singapore issued its first green bond, and the UN Environment Programme published a report "Singapore as a Green Finance Hub for ASEAN and Asia." In 2019, the Monetary Authority of Singapore launched the Green Finance Action Plan.

The MAS has since launched "Project Greenprint," which it describes as "initiatives that aim to harness technology and data to enable a more transparent, trusted and efficient ESG ecosystem to enable green and sustainable finance." It has also launched an ESG Impact Hub, which brings together ESG FinTechs, financial institutions and leading companies. The Hub looks to help "expedite the growth of Singapore's ESG ecosystem," and includes initiatives ranging from KPMG's ESG Business Foundry to Google Cloud's Point Carbon Zero Programme.

The list goes on. As the law firm Latham & Watkins wrote in August 2023, Singapore "has implemented a wide range of ESG-related regulation and policies, including a green taxonomy, green and

An aerial view of the Fountain of Wealth in Singapore.

At right, Tim Adams, CEO of the Institute of International Finance, who believes sustainable finance represents a large and growing opportunity.

PHOTOGRAPH: TOP, MONGKOL CHUEWONG/GETTY IMAGES

The IIF CEO on the Case for Sustainable FINANCE

Members of the Institute of International Finance span 60 countries and include almost every recognizable bank, exchange, insurer and asset manager in the world. The organization lists sustainable finance as one of its top priorities. The IIF's CEO, Tim Adams, told the *Brunswick Review* in an interview last year: "There are a large and growing number of business opportunities for our member firms in this space. If a $100 trillion global economy is going to transition to a different energy mix at a historic pace, you've got to pay for it. And the financial services industry writ large ... is instrumental to intermediating the trillions that are going to be necessary."

sustainable finance grant scheme, green bond principles, ESG skills training subsidy, mandatory ESG disclosure requirement and government sustainable debt issuance."

Those—along with yet other initiatives—are paying off. PwC called Singapore "a sustainable asset management hub" in a 2023 report. Other headlines that appeared last year: "Singapore has taken a major step towards becoming Asia's ESG hub"; "How Singapore is positioning itself as Asia's carbon hub"; "Singapore leads green finance and helps other countries follow suit."

Laws, standards and practices that emerge in Singapore will affect many of the world's largest, most recognizable companies. PwC tallies more than 1,100 licensed and registered fund management companies in Singapore, with a combined $4 trillion under management.

A host of Western multinationals—Johnson & Johnson, Unilever, VF Corporation and Disney, to name a few—have their regional headquarters in Singapore, along with pretty much every major tech company. Long viewed as a gateway to Asia for the West, Singapore has also become a springboard for Chinese companies looking to broaden their business and expand globally. For more than 20 years, DHL has published a Global Connectedness Index that "measures globalization based on international flows in four domains: trade, capital, information and people." Singapore has never ranked out of the top five.

Singapore's leaders are clear about the country's desire to play a leading role in the region. "Singapore's own emissions are small but as a major financial centre for the region, we will do our part," said Deputy Prime Minister and Minister for Finance Lawrence Wong in 2023. "We will do everything we can to advance the development of green finance in Asia." Glimpses of how it is fulfilling that promise can be seen in everything from Singapore and China establishing a Green Finance Taskforce, to the MAS forming a network with seven other central banks called the Central Banks and Supervisors Network for Greening Financial System.

In a speech at COP28, Ravi Menon, former Managing Director of the MAS and now Singapore's first Ambassador for Climate Action, discussed the Finance for Net Zero (FiNZ) Action Plan, which he called "Singapore's blueprint to mobilize capital for Asia's transition." That FiNZ plan emphasizes phasing out coal plants in Asia. "Asia accounts for 50% of global greenhouse gas emissions, of which a third is from coal-fired plants," Menon said. "In other words, one out of every six tonnes of greenhouse gasses emitted into the atmosphere comes from a coal plant in Asia."

The FiNZ plan highlights another aspect of Singapore's approach to all things ESG-related: employing creative solutions to produce economically viable outcomes. To help fund the phase-out of coal-fired plants, for instance, the FiNZ plan calls for blended finance—mixing philanthropic capital and private sector investments. The logic: Philanthropic capital can help improve the returns (and lower the risk) of investing in environmentally important but economically uninspiring projects.

In pursuit of that same goal—phasing out coal plants—the MAS partnered with McKinsey to examine "how high-integrity carbon credits can be utilized as a complementary financing instrument." In other words, Singapore's government partnered with the private sector to pioneer a way to retire "young" coal-fired power plants that is practical and economically viable—both for sustainable investors and the owners of those plants.

Singapore continues to lead on this kind of detail-oriented work. It has partnered with the United Nations Development Programme and Global Legal Entity Identifier Foundation to "develop digital ESG credentials for micro, small and medium-sized enterprises [MSMEs] worldwide." That will make it simpler for MSMEs—of which there are more than 70 million in Asia alone—to report their ESG data. That, in turn, could make it easier for these smaller companies to access ESG-directed funding and also tap into global supply chains, as many large companies now require their suppliers to disclose ESG data.

At a time when headlines can make it seem like the world is retreating from all things ESG, Singapore shows there's more to the story. If ESG has often been undermined by hyperbole, Singapore is poised to bolster its credibility by linking lofty ambitions to concrete taxonomies and transition plans, science-based pathways and standardized data. It is the kind of work that doesn't always make for exciting headlines, but which can deliver real outcomes—exactly the kind Singapore has a reputation for delivering. ◆

SUNITHA CHALAM and **PRAVEEN RANDHAWA** are Partners in Brunswick's Singapore office. Sunitha, who serves as the Office Head in Singapore, spent 11 years in the Singapore Foreign Service. Praveen has more than 25 years of global communications experience, including more than a decade in the Singapore Public Service. **EDWARD STEPHENS,** a Director based in Dallas, lived and worked in Singapore for almost a decade.

From Insult to Inspiration: The LITTLE RED DOT

After a foreign head of state dismissively referred to the country in the late 1990s as a "red dot"—which is how Singapore can appear on a map, given its small size—the insult soon became a kind of rallying cry. The current Prime Minister, Lee Hsien Loong, has said that the remark served "as a vivid and valuable reminder that we are indeed very small and very vulnerable. The little red dot has entered the psyche of every Singaporean, and become a permanent part of our vocabulary, for which we are grateful." When Singapore celebrated its 50th anniversary of independence in 2015, the logo for the occasion featured "SG 50" inside a red dot.

Workers install solar panels at a new 4 million kilowatt energy base in Ordos, Inner Mongolia, China.

PHOTOGRAPH: COSTFOTO/NURPHOTO VIA GETTY IMAGES

CHINA'S "Pragmatic" Energy Transition

Two experts on the country's Green energy program talk to Brunswick about the climate roadmap of the world's second-largest economy.

As a fast-growing economy and the world's second-largest by GDP, China's energy transition was always viewed as a critical component of the global push away from coal and fossil fuels. Over the past decade, the country's efforts have yielded significant achievements. It now leads the world in solar panel production and wind energy and has made important strides in distributed energy implementation. In February, Chinese stock exchanges announced the government was instituting regulations requiring publicly traded companies to publish sustainability reports by 2026, in part to counter the emerging trends of greenwashing.

Brunswick recently spoke to two leading experts in China's energy transition, Huang Shaozhong and Feng Liwen, about the nation's progress and expectations for corporate leadership. Huang is a research fellow of China Energy Research Society (CERS) and Chair of Carbon Neutrality Industry Cooperation Division under CERS. Previously, he was a senior expert for World Bank programs, and was Director-General of the Northwest Regulatory Bureau of National Energy Administration in China. Feng is Vice Chair of the Carbon Neutrality Industry Cooperation Division of CERS. She is founder and chair of China Energy Net, China's most influential non-state think-tank for the energy industry.

The following is translated from an interview by Brunswick's QC Liang and June Deng.

Congratulations on your fruitful experience at COP28. Xie Zhenhua, China's then-Special Envoy for Climate Change, stressed at that summit how important it is that each country explore its own optimal transition path and that China's path will be different from that of more developed countries. What does that path look like?

FENG LIWEN: Mr. Xie gained lots of respect internationally with his vision, and decade-long service as China's Special Envoy for Climate Change. While China has set a clear goal of achieving peak carbon before 2030 and carbon neutrality before 2060, we have to be pragmatic in defining our roadmap and the pace of our transition.

Every country is at a different stage of development. China operates with strong macro-policy planning cycles, and local governments and communities have mapped out their transition strategies to address their own challenges at the local level.

HUANG SHAOZHONG: Healthy policy incentives are essential in bringing down industry bottlenecks. The cost of solar energy has now come down to below the cost of coal-based power—that's a fundamental change. We have seen other very encouraging progress: China's installed capacity for wind and solar energy exceeded that of coal for the first time at the end of last year.

China's macro-policy regulator, the National Development and Reform Commission (NDRC), is rolling out new plans to promote solar energy from towns and cities to rural areas. We hope by 2030, solar panels will be installed on 50% of all household rooftops. By then, the way power is generated, transmitted and traded will be drastically different.

How can companies set their own goals and paths for energy transition to achieve the country's carbon reduction goal?

FL: This question should be approached from the standpoint of production. The evolution in production driven by new energy represents a fundamental transformation of the traditional dependence on energy sources.

High-efficiency solar cell production technology and the manufacturing of large-scale energy storage devices are two good examples. They have significantly reduced the production costs and increased the efficiency of new energy, thereby promoting its widespread application. Data, as an important new factor of production in the new energy field, enhances energy production and utilization efficiency through intelligent management and optimization operations. The development of smart grids exemplifies the integration of data technology with new energy production.

"While China has set a clear goal of achieving peak carbon before 2030 and carbon neutrality before 2060, we have to be pragmatic in defining our roadmap and the pace of our transition."
Feng Liwen

The focus provided by the transition has led to new products and application scenarios, such as the widespread adoption of electric vehicles. These new products are not only changing people's lifestyles, but also offer more choices and possibilities for energy consumption.

So that is the broad view: Energy transition should be driven by a combination of technological revolution and market transformation. It not only improves the efficiency and sustainability of energy production, but also promotes the transformation of social relations for production facilities, providing a powerful impetus for achieving green development goals.

Your organization has been aggressively engaged in promoting the best practices of carbon reduction. What examples do you have at the corporate level?

HS: Our work focuses on energy transition, and within this area, several examples stand out. Chinese energy companies have been making significant investments to boost the supply of renewable energy, vigorously reducing the percentage of coal-fired power, and the contributions of multinational companies are notably recognized.

The Chinese state-owned enterprises State Power Investment Corporation (SPIC), Huaneng Group and CHN Energy have dominated the top three positions on the global solar-asset ownership ranking. Also, SPIC recently announced a $5.85 billion investment plan in northeast China to produce fuel from hydrogen that is generated from wind power.

FL: Among the multinationals, Budweiser APAC has emerged as an industry leader in its sustainability efforts to achieve RE100 (100% renewable electricity) across its operations in China. They have made impressive strides in reducing carbon emissions and transforming three of its local breweries to carbon neutral to date.

BASF is another noteworthy example. Its 25-year green energy purchase agreement, signed last year, marked a significant milestone in China's renewable energy landscape. Despite the higher costs associated with green energy, the decision to transition reflects a long-term dedication to making a positive impact on the country and the planet.

These companies' substantial efforts have positioned them as thought leaders in the energy

transition and they have been actively communicating their best practices in public forums.

What is China's vision for distributed energy, and what are the opportunities for companies?

HS: Distributed energy and a centralized power grid are both key pillars of China's energy strategy. Usage scenarios, and the tools and the relationships that exist between those two pillars, should determine the solutions and the opportunities for companies. In China, several localized carbon-neutrality zones are leveraging distributed energy.

The most advanced project now is the Ordos Net-Zero Industrial Park in Inner Mongolia. The park is combining large solar energy arrays with desert ecological protection. It's the largest such project in China and now hosts the largest battery factory in the region. It is also home to the largest green hydrogen production base in China.

In many of these projects, China is keen to learn from global best practices. For example, there has been strong interest in combining wind power and aquaculture, which is a strategy that is fairly common in Europe.

China reopened the trading market for voluntary greenhouse gas emission reduction. How do you view the significance of this initiative, and how can multinationals take advantage of this development and actively participate in carbon emission reduction trading?

"We hope by 2030, solar panels will be installed on 50% of all household rooftops."

Huang Shaozhong

HS: That's true. Recently the Chinese government published rules for certifying the first batch of greenhouse gas voluntary emission reduction projects, and also designated nine accreditation institutions covering the electric power and forestry sectors.

For the time being, China Certified Emission Reduction focuses on four types of projects: forest carbon sinks, grid-connected solar thermal power, grid-connected offshore wind power and mangrove revegetation. Project types will be expanded in the future by specifying project methodologies. In the future, as the carbon market matures, more sectors, and even individuals, will be able to participate.

FL: It's important to emphasize, though, that carbon credits are not commodities. But green power is readily tradeable. No matter where they operate, companies should focus on building green power to achieve their carbon neutrality goals more quickly. ◆

QC LIANG is a veteran communications specialist based in Brunswick's Beijing office. He was head of global branding for TCL and Secretary General of TCL Charity Foundation. **JUNE DENG** is an Associate in Beijing, advising clients on public and regulatory affairs. She was previously with the research arm of Caixin, a top-tier media outlet in China.

A farmer walks through a rural village in the shadow of a wind farm in this photo from 2009. China became the world's largest wind energy provider in 2010.

PHOTOGRAPH: RIGHT, FREDERIC J. BROWN/AFP VIA GETTY IMAGES

Familial

FOOTSTEPS

KEN SHIBUSAWA is Japan's leading voice on stakeholder capitalism. The Brunswick Senior Advisor reflects on the ESG landscape today, opportunities ahead for Japanese companies, and the legacy of his famous ancestor, called "the father of Japanese capitalism."

"THE ENTREPRENEUR WHO BUILT MODERN Japan" is how one biographer characterized Eiichi Shibusawa, a man who built more than 500 businesses and 600 social enterprises. Shibusawa's prodigious output—he started Japan's first bank in 1873, its first insurance company in 1879 and was involved in building schools and hospitals—helped bring a unique form of capitalism to the country.

"He didn't introduce capitalism into Japan for personal profit, but because he saw capitalism as a way to usher in a new era, to change Japan into a modern society," says Brunswick Senior Advisor Ken Shibusawa, Eiichi's great-great-grandson. "In fact, he didn't use the word 'capitalism,' which translates to into present-day Japanese as *Shihon shugi*—shihon is capital. He called it *Gappon*, which carries this sense of integration—what we today call stakeholder capitalism: Everybody has a role to play to create the value of a company."

Shibusawa has been a prescient voice on stakeholder capitalism in recent decades. In addition to his role at Brunswick, he is CEO of Shibusawa and Company, a strategic advisory firm for alternative investments, ESG and SDG alignment, and human resource development. He is founder and Chairman of Commons Asset Management mutual fund, delivering long-term investment opportunities to Japanese households, advisor to The University of Tokyo President, a Visiting Professor at Seikei University, Director of the Japan Association of Corporate Executives and a Steering Committee Member of UNDP SDG Impact. He serves on Prime Minister Fumio Kishida's "New Form of Capitalism" panel.

Speaking with Brunswick's David Ashton and Masato Ui, Shibusawa reflected on ESG and stakeholder capitalism, noting the opportunities and challenges for Japanese companies. Asked how his great-great-grandfather might view today's landscape, he said, "Morality had to be integrated with the economics. ESG obviously didn't exist in 1873, and Eiichi Shibusawa wasn't an ESG investor, but his thinking was very aligned with it." This article first appeared in the *Brunswick Review's* 2022 Japan Edition and here has been lightly edited and updated.

How has the mix of the ESG issues evolved since you started working on it?

For me, people really started taking notice of ESG around 2004, in part because of what was going on across Europe and in the United Nations. The formulation of UN PRI [Principles for Responsible Investment] in 2006 was a big thing—and then when the GPIF [Government Pension Investment Fund] signed the PRI in 2015, that was a big movement here in Japan for ESG.

Up to that time, CSR [corporate social responsibility] was the buzzword. In Japan there were securities brokers and other players already in the space, but that was more in retail investing, and you could say much of it was essentially marketing. ESG involved the institutional investors, which was a big shift.

In the 20th century, Japanese companies appreciated their effects on the environment and on society. But it was through their products, and never really addressed directly through the capital markets. With ESG, it was an initiative by the capital markets to directly address externalities which until then had been overlooked—the "E" and "S" of ESG. That, for me, is the real genesis of it.

Technology obviously helped it come to the fore. The concept of externalities existed in the 20th century, but in the 21st century you were no longer just reading about it; you saw it in the palm of your hand every single day, with vivid images.

It was around ESG's emergence in Japan that you launched Commons Asset Management, right?

Yes. My partners and I launched in 2008 and started investing in 2009, so around the time when ESG was gaining awareness. We never called it an ESG fund, but we were looking at the same thing: going beyond short-term profits to examine how the company operated in a multi-stakeholder world, across generations, for the long term. Our thinking was: Stakeholders are important for the sustainable value creation of a company; and if the value creation of the company is sustainable, across generations, that leads to long-term value creation for the shareholder.

ESG has evolved even within the last decade. I remember a discussion about 10 years ago where a Japanese corporate told me, "Everybody says 'ESG' these days, but all they talk about is G." The rationale for that focus on the "G" was, unless the corporations have good governance and can hold management accountable for their decisions, there won't be any meaningful action on the "E" or "S." The "G" was also easy to measure: You look at about three or four numbers—outside directors, independent directors,

board diversity, ROE—and you can get a sense very rapidly whether this company has good "G" or not.

Then the "E" came next. Not only because of the impact on the planet, but also because of its impact on companies: droughts, fires, hurricanes—conditions that materially hurt profits and create risks. And again, the "E" has a strong metric component to it, the science behind carbon emissions. In Japan, the government set a carbon-neutral commitment for 2050, which was a big move—it's a target that companies in Japan can now try and align themselves with. I think former Prime Minister Yoshihide Suga saw that addressing these environmental issues wasn't just a cost that a company has to endure, but a new growth strategy for many of them, an investment for future sustainability and new growth.

You've talked about "E" and "G"; what about "S"?
That's the question. It's a conversation I've been having with people over the last decade, and one that's really taken on a new importance in recent years: What do you measure in the "S," and how can you measure it with the same precision? Five years ago, for instance, the social sector would talk about human rights, but no one really in the Japanese corporate sphere talked about human rights.

Now it's not only NGOs focusing on human rights, but also investors. The pandemic, as we all know, disrupted supply chains. That brought a lot greater focus to those supply chains and the people involved in them—the farmers, the factory workers. It became apparent how important they were to a company's ability to create value.

When it comes to the "S," I see supply chains as key for companies. Particularly when you start getting into upstream and downstream in those chains; then you get into externalities that companies didn't have to think about before, when their main concerns were simply suppliers being low-cost.

It's now common for Japanese companies to disclose ESG information when asked by regulators, investors and other stakeholders. Rather than merely responding to requests, how can companies use ESG to enhance their reputations?
I think it's important to integrate the ESG process into the corporate mindset, the culture, the values.

In the past, I know a lot of Japanese companies have adhered to *Sanpo Yoshi* [roughly translates to "three-way satisfaction," implying "good for the buyer, good for the seller, good for society"]. It's a great slogan and it's a great way of thinking about things, but to be a global standard it needs the discipline to measure what "good" is, exactly. You can measure what the good was for the seller, right? And for the buyer you could ask, "Are you satisfied with our product, our service?" And you could measure that. But who at the company is being paid for working for society? And how are you measuring the "good" for society?

If there's the discipline to measure what the good is for the seller, the buyer and society, then I think it has global resonance. But until there is, we need to go beyond the slogan.

I know that slogans are important. And I know that for some companies, *Sanpo Yoshi* really resonates. But for it to resonate with investors and other stakeholders, we need to have more discipline to say, "What is 'good' and how can we measure it?"

"A company that is serious about integrating ESG into its philosophy and strategy is demonstrating its commitment to build trust not only with shareholders but with the various stakeholders it creates value with."

How do investors view the Japanese government's initiative to promote ESG, particularly their investment in human capital?
It depends on the type of investors. Some are focused on short-term stock prices and ROE—they're not interested in those ESG areas, at all. They might actually see it as a cost to the corporation. That's not to say they're barbarians or anything like that, but those are their priorities. Long-term investors, on the other hand, typically value the conversations you can have with corporations regarding ESG.

That's why it's important to shape the narrative, which is easier said than done. You have to have the same disclosure for investors whether they hold a share for one day or 10 years—they still have the same rights as an investor. But I do think the company should have the awareness to shape the narrative and say, "We would like these kinds of investors to be our shareholders."

And if certain shareholders don't agree to that, they can sell it or push for change. But you make that decision and communicate accordingly.

You advocate for this philosophy of capitalism that your great-great-grandfather brought to Japan. What do you think he would make of today's ESG trend?
If you look at his writing, he essentially said that if management loses trust from enough shareholders, then it has to step aside. Answering to the wishes of shareholders is not anything new. That's governance, right? He didn't call it governance back then, but that's what it was. The key point he grasped was the importance of trust. That was why you needed to integrate morals with economics: to build trust with your partner, with society. It's the same with

ESG today. The institutional framework can often become about reporting and box-ticking. But that's not the goal, it is the means.

A company that is serious about integrating ESG into its philosophy and strategy is demonstrating its commitment to build trust. And companies that build that trust will be obviously more robust and have a higher chance of creating sustainable value going forward.

This philosophy has long been part of Japan, yet many Japanese companies today are being measured or evaluated on ESG by frameworks created outside Japan. How do you reconcile that?

Japanese companies, or rather Japanese people in general, are very good at following rules. The problem is they don't always think about how the rules are being formed. And they can complain about a rule being made by somebody else somewhere far away. But the reason they complain about it is they're so serious about complying with it.

I was a moderator for a panel on ESG. And on the panel was a European CEO who had lived in Japan for a long time. I asked him about the different cultural sensibilities between Europeans and Japanese. And he said that Japanese companies were very serious about sustainability, very methodical—but because they are so methodical, it takes them a long time to make the commitment, and then even longer to make much progress toward the goal. Europeans, he said, on the other hand, commit to a goal and essentially figure out how to do it afterward. Though that approach also isn't without its risks.

Japanese business leaders have tended to avoid speaking on political and societal issues. Increasingly, this neutrality isn't popular with a global audience. How can they develop more compelling narratives and better engage in a global marketplace?

The CEO. That's my answer. The CEO needs to be engaged in that narrative because it's not just storytelling but having the commitment to that story, to building and executing it. The CEO has to be upfront. And they have to take the punches because not all people are going to be happy with the narrative. But who's the one person at the company in a position to take those punches? The CEO.

How do you feel about the future of ESG in Japan?

Unlike in the US, there has been no pushback on ESG from either asset owners or politicians. In fact, there is a small yet growing interest in "post-ESG."

> "Unlike in the US, there has been no pushback on ESG from either asset owners or politicians. In fact, there is a small yet growing interest in 'post-ESG.'"

This concept of generating measurable environmental and social impact with financial return has attracted increasing attention at the highest levels. In November 2023, the government established the "Impact Consortium" with major business organizations, industry groups, impact startup groups and regional organizations. The Japanese stock market is experiencing record highs, for the first time in 34 years. The press portrays low confidence in Prime Minister Fumio Kishida in the polls, yet it is obvious the markets approve of his economic policies. His "New Form of Capitalism," which includes investment-related tax break reforms for retail individual investors, has sparked wide interest.

You've had such a varied career. I'd be interested to hear what inspired you to join Brunswick?

I started out my financial career as a trader at investment banks and a global macro hedge fund; I was focused on the short term. Starting your own business and having kids and a family at the same time definitely shifts your perspective, and I realized I needed to start thinking about sustainability, for the longer term—certainly longer than the next quarter.

I started my own company in 2001, and then the investment fund, Commons Asset Management, in 2008. That's how the journey started. Commons was formed right after the boom of activism here in Japan. I'd be sitting in a meeting with the company, and I felt what the activist would be saying is economically rational. But you could see the shutters coming down—the company was closed for business. That's when I thought, "Well, logic doesn't move a company." You needed more dialogue rather than monologue. How do you create that dialogue?

I couldn't have that conversation with a company as an individual investor. But as a collective voice through a fund, you can have that long-term conversation. That led me to explore: What is the value of the company? Financial value, that's very easy to understand, very logical. You can see the numbers, and it is a common language. But there's this sort of other emotional, non-tangible, non-financial value that's important.

Brunswick was an extension of that journey. I'd started thinking long term, which had led me to try to figure out what the corporate value of a company was. The opportunity here is to communicate that value to people outside the company, or even within the company, in ways that they understand. There are so many "good" things here in Japan, but so few people know about it outside of Japan because these stories aren't being told in ways that resonate. ◆

DAVID ASHTON is a Partner who helped create Brunswick's research and insight practice globally. He later helped to launch the firm's Tokyo office, where he is currently Office Head. **MASATO UI** is a Director in Tokyo with significant experience in financial services and public policy. Previously, he worked at the Bank of Japan, the Ministry of Finance and PayPal.

Milken Institute CEO RICHARD DITIZIO

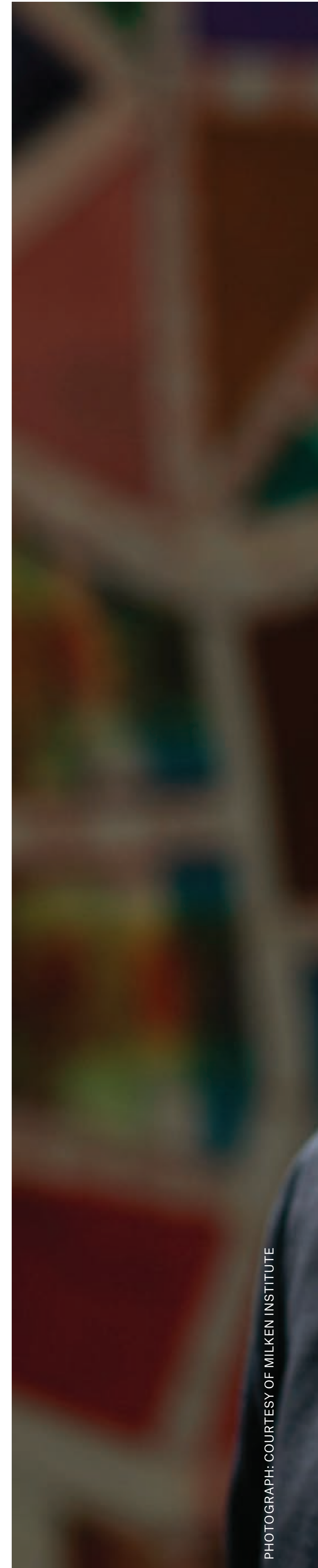
Decades of careful listening inform his leadership. By **TANISHA CARINO** & **MOLLY MILLERWISE MEINERS.**

EVEN AS RICHARD DITIZIO, CEO OF THE MILKEN Institute, agreed to speak with the *Brunswick Review*, he expressed a preference for listening. "Too often people approach trying to discover something about another person by doing all the talking, which makes learning something near impossible," he says. "One of my favorite quotes is 'You can't say something you don't already know,'" a thought he attributes to Susan Scott's *Fierce Conversations*.

It was during a long career in banking that Ditizio developed his devotion to listening. As the CEO of Citi Private Bank, he clearly paid close attention to clients—some of the wealthiest people on the planet.

"Our success in that business had everything to do with understanding what was really important to our clients," he said. "It's almost silly to think that someone with billions of dollars—money they will never be able to spend—is only concerned about incrementally beating various stock indices or other benchmarks."

Many of those clients, says Ditizio, were searching as much for meaning as returns, and trying to develop a language to pass on a value system to their



PHOTOGRAPH: COURTESY OF MILKEN INSTITUTE

children. "If you are going to inherit more money than you'll ever make on your own, it's very hard to craft an independent identity away from that extraordinary wealth, because every document you ever sign, every attorney your parents introduce you to—it's all about protecting this thing that you had nothing to do with creating.

"Children wonder, 'Who am I beyond the person inheriting all this? Are my friendships and romantic relationships about me or the money?' For me and for them, leaning into philanthropy reframed the experience of great wealth from what money can buy to what money can do. Whether it was cancer research or animal welfare, philanthropy allowed that second generation to carve a lane for themselves."

It was this philanthropic mindset that led Ditizio to the Milken Institute.

Since joining in 2011, Ditizio has overseen Milken's growth to 320 employees operating out of seven offices worldwide: Los Angeles, Washington, DC, New York, Miami, London, Abu Dhabi and Singapore. "It's only natural that Milken would have expanded across the globe because the issues on which we work tend to be resonating everywhere," he says. "Despite the current geopolitical conflicts unfolding around the world, the technology and connectivity that we as children couldn't have imagined have made our children true global citizens."

The Milken Institute is a pioneer of the concept that global challenges can benefit from a gathering of high-level leaders—from corporate boardrooms to the highest levels of government and philanthropy. The Milken Institute hosts more than 250 events annually, including major conferences in Singapore, London, Abu Dhabi, New York, Los Angeles and Washington. Its Founder and Chairman, Mike Milken, has been so giant a figure in medical research, education, public health and access to capital that *Fortune* once called him "The Man Who Changed Medicine."

From his Los Angeles office, Ditizio spoke with Brunswick Partners Tanisha Carino (who formerly headed FasterCures at the Milken Institute) and Molly Meiners, both based in the firm's DC office.

The Milken Institute Global Conference has long viewed familiar problems—economic, health-related—through a new lens. Yet some might be surprised to see gun violence on the conference agenda. How is the Institute thinking about the issue and what role can it play in solving it?

As I travel around the world this issue comes up all the time, since the problem tends to be particularly American. In Japan, someone asked me, "Is it true that you train kindergartners what to do if a shooter walks in to kill them?"

That took me aback, but unfortunately, it's true. I think we've become immune to the wrong things. When Columbine happened in 1999, it was literally on the front page for weeks. People just couldn't fathom this had happened. Now there are more mass shootings than days in a year—656 in 2023.

I was getting increasingly frustrated and thought, "What could the Institute do?" We have access to all of these leaders and huge pools of capital around the world—could we catalyze this connectivity into action? We started some work on gun violence at the 2023 global conference and later held a multi-sector symposium in San Francisco to discuss potential solutions.

When I think about Mike [Milken] pointing out that our conference brings together the managers of $32 trillion in invested assets, I can't help wondering if there is a financial lever we could pull on this issue without entering the political fray over gun rights. When I was a kid in New York, cigarettes were a dollar a pack. Now, they're $15 a pack. Transposing this thought on assault rifles, the current cost of an AR-15 is around $400. Since statistically we know that the next mass shooter is likely to be a young person with limited means, would access to that type of weapon change if the cost were $4,000?

I also worry about the mental health implications of the generation now entering the workforce having grown up with active shooter drills—are corporations and leaders prepared for this new dynamic? I don't think so.

> "Are you sincere? … Don't say something because it's expedient and then drop the ball."

The pandemic proved that private sector leaders can play a crucial role in responding to a societal crisis. How should CEOs think about and navigate societal challenges as they arise?

A tenet of mine is that your primary dimension as a leader is emotional. Smart is easy. People with tactical or operational knowledge are accessible and plentiful. Being the emotional leader of an organization, while difficult, is really what you're called to do.

This became especially clear during COVID, in part because, counterintuitively, working from home actually lowered the barriers between employees and executives. Most CEOs are not readily available to all employees. When I was CEO of the private bank at Citi, you almost had to go through a labyrinth to find me. The physical layout of offices often is designed to discourage people from coming to see top executives.

Above, Ditizio moderating a gun violence prevention panel at the Milken Institute Global Conference; below, he meets the Prime Minister of Malaysia; left, with Michael Milken.

But during COVID, suddenly everyone's on the same two-inch box on the screen. There's a democratization of access to you, the CEO. And because younger people grow up in a social media environment where they're used to letting you know instantly what they're thinking or feeling, there was this barrage of incoming questions and concerns from employees at every level of the organization.

Let's not forget that loneliness was also at epidemic proportions during COVID. People were looking to their leaders for how they should feel. I can't know in a granular way what every single person is doing day to day, but I do know that they're looking to me for a conveyance of mood. How am I responding to these issues that come across the transom? It gives them some sense of how they might feel, better or worse, about something troubling.

Many CEOs were ill-prepared for that, since most tend to be drawn from a pool of quantitatively or operationally trained people. And yet now, they were being tasked with showing their own vulnerability being emotional leaders of their organization. Not everyone was prepared for that.

That naturally spills into, "Should CEOs step into social issues?" Their opinions are requested on everything, after all.

Two things I would say on that. One, younger people in particular want an alignment of their personal value system with the value system of the organizations at which they work, at which they shop, et cetera. If you're not going to be leaning into that alignment, attracting and retaining talent is going to be very difficult, particularly against the backdrop of a 3% unemployment rate in the US.

At the same time, while your client base and employees expect you to step into issues, we see so much backlash when corporations actually do. That's challenging for me personally, especially around DEI issues, since that has been an important tenet for me over my whole career. I often think organizations assume their internal DEI policies solve the problem. But you can't have a set of rules and value systems in your employee handbook that vaporize the moment your employees walk out the door. For example, if you are operating in geographies that do not afford protections for certain people, I think it's up to the corporation to speak up. You have to use your voice and platform to push the issues that are important to you as an organization and to you as the CEO.

Sometimes I think we forget the power of one voice to make a difference, but that seems to be how all significant change starts.

When is the right time for a CEO or executive like yourself to engage?

This is something with which all CEOs I speak with are wrestling. It comes up often and quickly. Are you going to say something about Ukraine? Are you going to say something about an election … pick your topic.

My first litmus test is: Are you sincere? As an example, research shows that very little of the billions of dollars committed toward racial equity after George Floyd's murder has been spent productively—or at all. There's no accountability to it. Don't say something because it's expedient and then drop the ball. People are their principles, and your employees can see right through that.

Secondly, I think there's a big difference between external communication and internal communication. I don't think the world is waiting to hear what I think about what's happening in any part of it. But I do think that my employees might be looking to me for some signals about what they should be feeling or how the Institute might leverage its resources toward a solution. If I'm horrified by an attack, if there's an issue I want to speak on, then doing so might give employees the emotional space to feel how they're feeling about it.

Given all the bad things that are going on in the world, it's hard not to respond to those that are most acute. But you also can't respond to every one, because then it's diluted.

The Milken Institute's Global Conference has been a signature global event for more than 25 years. How does it maintain its special sauce—that is, its distinctiveness and impact?

You can go to a finance conference. You can go to a health conference. I think one of the differentiating advantages of the Global Conference, which is now approaching its 27th year, is really that mix of content: health, philanthropy and finance. That mix had its value, in some odd way, validated by COVID.

In the early days of COVID, when the push was to get PPE to the front lines, it was the philanthropic community that stepped up. Generally, philanthropists do tend to be first to the party because their capital is the most agile. They don't have to have a board meeting. They don't have to have a congressional session. They can move their own money in the direction they want to. And you saw that in the earliest days of COVID.

Then what started out as a health crisis immediately turned into a financial one. Economies were shutting down around the world, and we were very much in the trenches, advising different governments—local, state and foreign. Everyone was grappling with some version of the same question: "What should the fiscal response be while we're struggling with the global shutdown wrought by a virus no one's ever seen before?"

Then, because no one had billions of glass vials, needles or other items that suddenly were needed, corporations began to activate what philanthropists don't have—logistics, factories and production lines. Remember the earliest iterations of the vaccine needed to be kept at sub-zero temperatures. Philanthropists don't have refrigerated trucks or rail cars, but corporations do.

> "If you are operating in geographies that do not provide protections for certain people, I think it's up to the corporation to speak up."

TANISHA CARINO, a Partner in Brunswick's Washington, DC office, has held healthcare leadership positions in government as well as the private and nonprofit sectors. **MOLLY MILLERWISE MEINERS** is a Brunswick Partner based in Washington, DC. Previously, she served as Chief Communications Officer of the US International Development Finance Corporation.

As you had more accessible versions of vaccines available, you had to lean into the corporate and finance communities to figure out, "How are we going to activate production to get billions of shots into arms? How will we manufacture the formulas? How will we pay for all of this?"

Then, because this was still a risk to society, governments around the world had to get involved since they have mass distribution capabilities and the ability to make it free for everyone.

This was similar to the HIV/AIDS trajectory. In the earliest days, largely because the people most affected had no political voice, philanthropists were the first ones to really help with AIDS. Then, there were some antiretrovirals and modest success with AZT at first, and better iterations down the line.

Then, when it was about to burn its way across Africa, you had to have PEPFAR [the US President's Emergency Plan for AIDS Relief], when George Bush pushed that program through and saved millions of lives.

This ability to see multifaceted problems from different angles is what frames why people come to this conference, and understanding these intersections, we try to view issues in a very pragmatic way.

Tell us about the new center you're opening in DC that's devoted to the American Dream.

Despite everything that is challenging about America, despite everything that is messy, there's a lot that's positive, and we want to celebrate that. What we're trying to do is extract from this messiness some beacon of hope.

While we're amplifying the stories of those who have achieved their own version of the American Dream, we're very sensitive to all the communities who have never felt like they could fully participate. How do we address those who, because of the color of their skin, their religion, or the person they're in love with, felt they were not included in what the nominal American Dream was for everybody else? We hope to make it an engaging, interactive experience for visitors to learn from others and craft their own journeys.

Certainly part of Mike's legacy is the notion that access to capital lifts people into a life they might not have had; education and a rule of law which fosters an entrepreneurial spirit are worth fighting for; and that access to good healthcare allows people the healthspan to enjoy it all.

The new center is essentially a project wrapped in hope and aspiration, and we're looking forward to opening it in 2025. ◆

ESG CHECKUP in BRAZIL

As a practical matter, long-term success demands ESG discipline, says **DR. JEANE TSUTSUI,** CEO of Brazilian medical diagnostics company Grupo Fleury. She speaks with Brunswick's **ROBERTA LIPPI** and **DANIEL WIEDEMANN** about her journey.

Dr. Jeane Tsutsui, CEO of Grupo Fleury, one of Brazil's leading medical diagnostic businesses, began her career with the company in 2001 as a cardiologist. The daughter of Japanese immigrants—her father a merchant, her mother a homemaker—she was the first doctor in the family, and did post-doctoral research at the University of Nebraska Medical Center.

She earned an MBA in research, development and innovation and, in 2007, Fleury invited her to lead a research and innovation specialty, starting her down a management path. She has since also served as Chief Medical Officer.

In 2021 she was named Grupo Fleury's CEO.

"Perhaps the link here is a connection with purpose," she told us in an interview from Fleury's newly opened headquarters in São Paulo. "It's something I really believe in. As a doctor, you have an impact on a patient's life, even many patients. But as a manager of a health company, you have an impact on a whole sector, on society. So the connection with purpose continues."

Founded 98 years ago, the company is a standard bearer of the health sector in Latin America. Under Dr. Tsutsui's watch, Fleury completed a transformative merger last year with Hermes Pardini group, consolidating its position as the third-largest healthcare company in Brazil. Fleury shares are traded on the São Paulo stock exchange and the group's current market value is about $1.8 billion.

The company is highly regarded for its transparency and performance for ESG. Fleury has long factored in strong governance and social engagement to ensure it can best deliver its services to Brazil's highly diverse population. But it also has now set net-zero targets for 2050 and biological waste reduction targets of 20% by 2025.

"Those targets are challenging and force us to always innovate," Dr. Tsutsui says. "We are structuring our decarbonization journey towards a net-zero commitment so that we are clearer about our challenges in this regard. Waste generation is the company's main environmental aspect.

"We are confident that, with the necessary energy and discipline, the company will mobilize to achieve the targets set."

In the interview below, Dr. Tsutsui describes the challenges of managing more than 22,000 employees, 4,900 doctors and almost R$7 billion ($1.4 billion) in gross annual revenue. She also shares with us her views on the evolution of ESG and the pressures on her business to meet changing standards. True sustainability, she says, implies a long-term profitability that can only exist on a firm foundation of social and environmental engagement.

How did your career as a doctor lead you to become CEO of a multibillion-dollar company?
The mindset of a cardiologist, who thinks systemically about the cardiovascular system, ends up being quite interesting at a time of so many challenges in the health system. We bring a systemic vision to the way we think about Fleury's strategy today. We're building a health ecosystem. We have added more layers of common responsibility to our work, such as the ESG targets and expanding access to healthcare. Companies today aren't just focused on profits for investors; they're focused on all stakeholders. That means being able to adjust your tactics and your strategy to fit the changed expectations.

How do you view some of those changed expectations, like DEI, for instance?
Being a CEO means not just thinking of yourself as a manager, but you also need to set up complementary teams that bring you other skills and competencies.

So, you have to see and value diversity in your team leaders. You need diversity to be able to push beyond individual abilities. That's the beauty of diversity, that you can bring in people with different profiles and mindsets so that they complement each other, and together you have a better-performing team.

We are naturally diverse because of our national presence. Brazil is increasingly debating the challenges of creating an equal, safe and welcoming environment for all people in society. But more than just ensuring expression and respect for people's uniqueness, valuing diversity and inclusion involves an ongoing search for cooperation and solutions that matter to everyone, everywhere, to create collaborative and inclusive environments in which people feel good and safe to be who they are. That reflects the diversity of all the markets in which we operate.

There are areas that we still need to work on. For instance, nearly 80% of our employees are women. As you get higher, above coordinators, it's 60% and in C-suite it's 30%—we also have representation on the board. Our Elas na Liderança ("Women in Leadership") program is set up to encourage and develop more talent, focusing specifically on Black women. This is a challenge we have, this intersection of women in leadership and equality for Black women.

How do you counter those who see a lack of merit-based promotion in affirmative action?

First, the role of Elas na Liderança isn't to just automatically move Black women into leadership. Rather, we develop a group of women so that they can compete and take on leadership positions. The issue is often that women don't lack ability, but they do lack opportunities for development. Often they don't compete for these positions because of that.

Is affirmative action worth it or not? Each organization has to find its own way. Our position is, we are a company that looks for excellence in service, technological excellence, medical excellence, while we also understand that developing and bringing in this diversity is part of a mission, a culture, and that it has advantages. We don't have quotas. What we do is discuss the importance of diversity and performance, and we encourage that discussion and the results that it can bring. That discussion helps us to broaden the pool of talent we're choosing from.

Your company is recognized for its commitments to ESG generally. Can you talk about how that aligns with your operations?

Fleury has been working on the issue of sustainability for more than 20 years. It started with a focus

on the quality of our services, and that led to the whole aspect of really having a vision of strategic sustainability, a very clear positioning of social impact. This is a story built up over 20 years that has rewarded Fleury's culture in many ways. I don't think it can be built overnight. It really is a journey that needs time to progress and mature.

When we look at ESG in Fleury today, it has a very large strategic weight in all aspects of the business. The board's ESG committee is led by the chairman of the board of directors, for instance. That shows you how important this is in strategic and governance terms. I participate all the time in the discussions of ESG as a strategy and we have an executive director of strategy and ESG. It permeates the entire business with metrics for executives deployed throughout the organization.

For many companies, the E, the environmental, is the most important aspect. But for us, for our sector, it's social. Increasing access to healthcare is incorporated into the business model—that's a clear social concern and a business concern. In order to do this and to have a financial return, you need to be more productive, because otherwise there will come a time when resources are too scarce. That motivation encourages a sustainable approach, in a way that translates to all stakeholders.

In the past, social programs were thought of more as philanthropy. That's changed and today incorporating it into the business model guarantees the sustainability of the initiatives. It's not a dichotomy, either I do this or I make a profit. As leaders, we have a responsibility to demonstrate that.

We have a series of clear metrics and objectives in each of the environmental, social and governance areas, which we monitor against a series of international parameters. We're recognized by inclusion in the ISE (Corporate Sustainability Index) of B3, the main stock exchange in Brazil, and the Dow Jones Sustainability Index. It requires attention, diligence. There's an internal educational aspect of changing the culture and an interaction with the public that we work on all the time.

We have a lot to learn still. Because we approach it as a journey, as I said.

You mentioned board-level engagement on ESG. Can you tell me how that came about? Did you need to sell them on it?

No, as I say, we began from the issue of the quality of our services, so our social framework—and later, environmental—arose from there. As soon as we became a publicly traded company, with very strong governance, this became something that the board of directors started to monitor more closely, with structured metrics, and started to push this agenda a lot in general. Our ESG committee was formed in 2021 as a continuation of that.

I don't believe that this can be imposed on a company; there is an aspect of culture that is important for this journey, the involvement of all levels of the organization. The top leadership needs to be committed to ESG for it to take shape, while at the same time the combination of a culture, where this is already discussed and incorporated over time, helps you boost the speed and impact that you have on ESG in the organization.

The market is constantly evolving, and pressures from various stakeholders are part of this dynamic. You see that especially in the US. However, it is a fact that resources are scarce and the international community needs to reach a consensus to mitigate the risk of scarcity now and for future generations. It is necessary to invest in a long-term vision.

The backlash against ESG in the US—do you see any of that reaction in Brazil and in the South America region?

We haven't identified any resistance to ESG goals in the national environment. What we can identify is specific resistance to change in general, because there are organizational cultures that favor or hinder change. Recent history shows us that the companies with the greatest difficulty in adapting are the most vulnerable to market fluctuations and social changes.

In closing, I'm curious to know if there was anyone in particular who inspired you in your career?

It's not so much one person, but a set of things and people that over time allow you to develop as a person, as a leader, as a manager, as a professional in different areas. You're always looking for inspiration, to be energized and motivated, because day-to-day life sucks energy. Business is very results-oriented. It's hard work. As a leader, that's part of my job, in fact, to inspire others and to have the time to do so.

You can learn and be inspired by mistakes as well as successes. Everyone wants to talk only about the good things. But you need to have people tell you about mistakes too, their mistakes and yours—people who give you tough messages and make you reflect on your career. Those are the people who, in the end, help you to develop. ◆

"We haven't identified any resistance to ESG goals in the national environment. What we can identify is specific resistance to change in general."

DANIEL WIEDEMANN is a seasoned communications specialist and a Director in Brunswick's New York office. He was nominated twice for an International Emmy Award and led the North American news operation for Brazil's largest television network. **ROBERTA LIPPI** is a Partner and Head of Brunswick's São Paulo office. She is a former news correspondent with Brazilian leading publications, including Valor Econômico, Gazeta Mercantil and Folha de S. Paulo.

PHOTOGRAPH: COURTESY OF GRUPO FLEURY

ONE OF THE STRIKING CHARACTERISTICS OF companies seriously committed to tackling major environmental and societal issues is how today they talk about driving for system change.

The phrase has entered the corporate lexicon in the last few years. It is a term often used, but a concept that remains difficult to grasp. Brunswick Senior Partner Lucy Parker spoke with Jeremy Oppenheim, Founder of Systemiq, a B Corp that works to mobilize systems change to build more sustainable societies. Their conversation explores what systems change means in practice and why business leaders need to get actively involved.

A MASTERCLASS in SYSTEMS CHANGE with

JEREMY OPPENHEIM, Founder and Senior Partner of Systemiq, offers his views on how corporates can benefit from looking beyond traditional walls to become "system shapers."

What does it actually mean for a business to be involved in systems change?

First of all, there's a very complicated question: What do we mean by "the system"? In our world at Systemiq, we think about specific systems: the energy system, the mobility system, the nature and land-use system—with food a huge part of that—the finance system, the built-environment system, the health system and so on. The systems by which we produce, consume and innovate the products and services at the heart of our society. That's where we focus.

We think of systems as ways of organizing what are not just economic activities, but also social, cultural, technological and political processes, to achieve a set of private and public outcomes.

So, although it can sound a bit boring and definitional, it's worth being very clear what we mean as a system. Then, the work we do is essentially within a system which has been designed to—or rather, it's typically not designed to but has evolved to—achieve a certain set of outcomes. But then, over time, that system begins to underperform—and becomes riddled with contradictions.

Can you paint me a picture of that in practice?

The food system, which has evolved, in part by design, to produce as much food as cheaply as possible, is a good example. That was the right imperative in the 1970s and 1980s—and it has been hugely successful, feeding over 8 billion people. But the food system is also a victim of its own success. Today, that food system is beset with $10 trillion worth of contradictions—from its negative impacts on health all the way through to its harmful consequences for climate and environment. Throw on top challenging debates about "food security" in the context of a global food system and you get into a complex set of trade-offs.

As a result, the key "systemically important" players, both private and public, now have to grapple with these contradictions and trade-offs, whether it's to improve overall system performance, improve market design or renew their own license to operate.

SYSTEMIQ

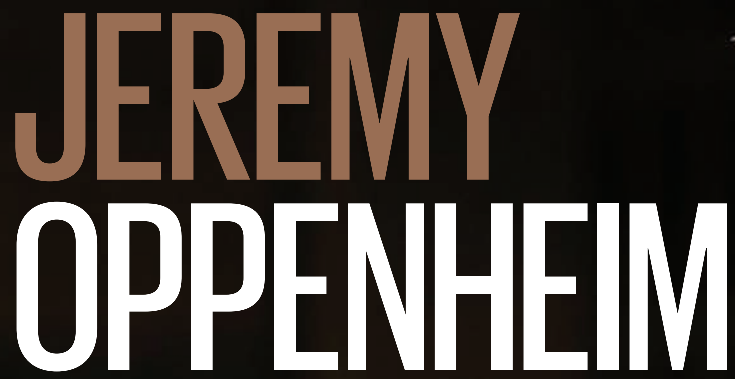
SYSTEMIQ WORKS TO transform five systems that shape how we live and work: energy, nature and food, materials, urban areas and finance.

It approaches transformation through advising entrepreneurs, building coalitions, accelerating innovation and catalyzing large-scale capital.

Collaboration runs through all of Systemiq's work—partnerships with leaders in civil society, investors, government, business and finance.

"The world has the knowledge, technology and financial resources to build a better economy," Systemiq's website reads. "But change isn't happening at the scale or speed required. Systemiq exists to dramatically accelerate that change."

PHOTOGRAPH: COURTESY OF SYSTEMIQ


JEREMY
OPPENHEIM

So the key is that it's not just a business, but the system itself that is underperforming?
Yes. Those contradictions are where the existing system is generating a series of costs that were previously hidden but have now become sufficiently visible and large that they bring into question whether the system is functioning well.

System change happens when three things occur: the costs of sticking with the current system become too high; when the potential benefits of switching systems become sufficiently tangible to enough actors; and when the politics of protecting the existing system weaken. The contradictions simply become too large, the vested interests that would normally protect the existing system are perceived as a losing battle by enough players. That tips the political and economic calculus, accelerating the shift to new power structures and new economic models—a shift perceived in hindsight to be "inevitable."

Many business leaders believe "the system" isn't their problem and that their job is just to run their business. Why do businesses need to get involved in systems change?
Because we're at a point today where many of our key economic systems are unstable. If you just sit there as a business leader and say, "I'm indifferent to the way in which this system is likely to evolve," I think you're asleep at the wheel. Whether you're an investor, a policymaker, a business leader—you're asleep at the wheel. You have a responsibility, not just to understand the different pathways the system could take, but also to think through how those different pathways might affect your business.

There are now more and more opportunities for businesses to participate as "system shapers." If you walk into this territory as a business leader with the point of view that you can be part of the solution and you can help to resolve some of these contradictions, then there's huge potential to create value.

In fact, big businesses are an integral part of these systems, aren't they? The system is not just something around and outside them.
That's true. It's also true that even the biggest firms are not big enough to change those systems on their own. This new leadership mindset starts with the recognition that this change is happening around us. The externalities are now so large that they dominate the underlying characteristics of how the market would otherwise operate. If the externalities are small—take carbon, as an example—you could do a little bit of regulation, put a $20-30 price on carbon and the current system could continue to operate. But when the externalities become very large you can no longer just price them; you actually have to restructure the whole system. And this is exactly what's happening.

> "We are at a tremendous moment which is opening up the possibility of profound, not just incremental, systems change."

The power sector in particular is at the epicenter of this. The IEA and the Energy Transitions Commission will tell you that the system is about at a tipping point, in terms of capital allocation, of the speed and scale of technological change; fossil-based versus clean energy, plant and equipment and so on. It's essentially a transformation. But it's not neat and linear shifting from one thing to another. It's messy and complicated—one step forward and half a step backwards, with inherent complexities. But it's under way; it's happening. And it's spilling over into the whole economy.

Many companies remain focused on continuous incremental improvements, whereas your understanding of systems change is taking the opportunity for fundamental system redesign.
We are at a tremendous moment which is opening up the possibility of profound, not just incremental, systems change. Because more ambitious leaders, across both private and public sectors, recognize that this is a game of radical shifts, they are trying to figure out how to participate in and act as system shapers. The less ambitious, more incremental actors inevitably end up being system takers, either with no voice or playing a "last man standing" defense—that can be profitable in the short term. Whether you are a more confident player and believe that you can shape a positive outcome or you're a somewhat more cautious player who doesn't want this to just happen to you, you can't succeed without learning the new leadership moves required to get onto the system change dance floor.

In one sense, this is just a more holistic exploration of strategy—understanding the deep forces shaping the markets in which their business operates. But it's not just "strategy as usual," given the radically disruptive set of possibilities that open up as systems change.

Working on systems change is frustrating; the players don't align easily, things don't move fast enough. How do you think about those problems?
There are problems at every level, certainly. The historical bias and behavior and mindset of leaders as they've grown up is to focus on the competitive differences rather than on what they have in common,

not least with their industry peers. So, it is a staggeringly big and difficult mindset change to embrace the idea that you have got to work collectively.

It was hard enough when industry peers were collaborating mainly to create more technical standards and protocols. But we're now asking people to work collectively on a reset of absolutely everything. From how the markets will work, to the policies, to the investment strategies, to the way that we measure what's good and what's bad. We're asking people—in a sense, requiring people—to participate in collective processes which are resetting the entirety of their game.

This is an extraordinary shift. So what could go wrong? Everything! Because it's so hard.

It's hard to do this work in a way that is constantly building trust and substantive alignment, and in a way that doesn't create unworkable winner and loser effects. However, there is progress, though obviously it's too slow. But I don't see a single one of the businesses we work with saying: "I'm not playing; I'm out." They say that they're fatigued with this coalition stuff, that it takes time, that there's too much duplication of effort—to which they often unconsciously contribute.

> "This is an extraordinary shift. So, what could go wrong? Everything! Because it's so hard."

What we're starting to see is a flight to quality: What they want is to know that the collective platform is targeting a real problem, where the line between competitive and collective conduct is clear, where there are clear milestones and time-bound commitments, and where the initiatives have benefits for all the participating actors, rather than creating major asymmetric effects.

Our job is that as we develop areas for collective action, we do it in a way that helps it to work for companies—so that it becomes intrinsic to how they see what good strategy looks like; that it's integral to their view of how to lead a business well. ◆

The KEY to EFFECTIVE coalitions

A principal mechanism for systems change is working in coalitions. They now come in many varieties and Systemiq works with many different types, so we asked **JEREMY OPPENHEIM** for his point of view on what makes for an effective coalition.

What do you make of the proliferation of coalitions arising these days?

Coalitions have emerged in different forms. Some of them are obviously industry collaboration. In the mining sector, the International Council on Mining and Metals (ICMM), wonderfully led by Rohitesh Dhawan, is a very interesting example of an industry cooperating horizontally on certain pre-competitive issues. They have to deal with trying to adjust to a new set of expectations out there, but without a consistent global or even national regulatory framework. Yet they have investors and customers who care about how these companies perform in ways that go beyond just the short-term P&L. They're trying to work together to shape some voluntary governance for themselves that establishes what they want to stand for and how to act in a way that creates a collective benefit. The fact that the ICMM have got all their members signed up to move towards a nature-positive proposition is an example of how an industry can step up to make tangible progress.

If coming together around a shared challenge is where it starts, what makes for an effective coalition?

There's a tangible benefit they can get after and one that they cannot deliver on their own. There's a way in which they each can see themselves adjusting what they're doing and being able to deliver on that benefit so it's not an empty promise. And they can learn from each other. It matters too that it doesn't change the dynamics and competitive positioning of the players in the market; that's important. You put enough of these things together and you get a willingness to act collectively.

It's encouraging that a lot of effective work is deep down in the nitty-gritty of what actually needs to change operationally.

Yes. There are coalitions working in a lot more technical areas that may not be so visible in the public debate. So go into the fertilizer sector and you'll see the International Fertilizer Association, the IFA, working on very detailed technical standards that are designed to address concerns about the use of fertilizers in the natural environment. That work then feeds into interactions with regulators and the like. So don't imagine that the work is just about big public announcements. There's a lot of detailed effort that takes place behind the scenes that is really valuable.

Or, for example, it could be about packaging where you can see an industry committing to shift to a particular agreed set of labeling standards. You build the basis upon which there can be greater trust from the public that the industry is actually moving together to work on a challenge. And by doing that, you also begin to create some economies of scale for

suppliers. When they see there's a green standard on this form of recyclable or bio-plastic, then the potential for those suppliers to scale up is significant and their ability to get financing from banks and investors also goes up.

Every change is an important change. But would you agree that progress is often only incremental in the face of urgent need?

You could say that what I'm describing here has been going on for decades. The idea that industries come together to work on standards and metrics, safety issues and so on, that's been going on for a very long time.

What's so interesting to me is that there are now a growing number of organizations that are much more urgent about change. Take the Fashion Pact, which is working to improve the environmental performance of the end-to-end global fashion supply chain. Or a new collective, the International Sustainable Forestry Coalition, whose mission is to figure out how the forest sector can make the best contribution to building a sustainable bio-based economy.

Jon Miller and I wrote about this trend in *The Activist Leader*—the emergence of "activist coalitions." Is that what you're seeing too?

Yes, and what's also new is the extent to which the best collectives are looking to align industry interests with wider societal interests, in a way that is more transparent and open to public scrutiny.

However, while they're speeding up, even the most ambitious collectives find it hard to move at the pace which science tells us is needed to tackle the climate and nature challenges.

Nevertheless, they're consciously taking an activist stance on how the industry can contribute to the big challenges of our time—identifying transformation pathways and solutions, and developing new ways of measuring and assessing the performance of the industry. They enable their members to be more courageous leaders, not least given the predictable backlash that they will experience from some quarters.

This model also provides comfort to investors about good, forward-looking risk management. It strengthens the capacity of policymakers to act and regulate where voluntary action is not enough. And hopefully, it can build a new social contract between industry and the general public. What you and Jon call "activist coalitions" will play a mission-critical role in accelerating the system changes needed in the world. ◆

International Council on Mining and Metals

ICMM represents a third of their industry globally. Its position is that mining and metals are the bedrock of industries spanning renewable energy, sustainable transport, construction and technology, and will play a critical role in meeting sustainable development goals—but the pursuit of progress must not be at the expense of nature. Therefore, as part of its environmental strategy, ICMM is making commitments and developing metrics and practices to contribute to the Global Goal for Nature.

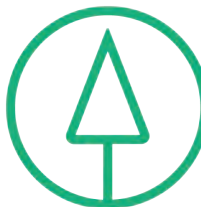
International Fertilizer Association

Founded almost 100 years ago, the IFA now has more than 450 members in roughly 80 countries, right across the value chain including producers, traders and distributors, along with agtech startups and non-governmental organizations. With a mission to promote the efficient and responsible use of plant nutrients, it brings together member organizations on areas of common interest to establish joint actions and positions on complex issues in the industry.

Consumer Goods Forum (CGF) Plastic Waste Coalition

With 40 leading companies in the production and retailing of consumer goods, one of CGF's priority areas for action is tackling the problem of plastic waste. Members have aligned behind the Golden Rules for Plastic Packaging, a set of voluntary and time-bound commitments in support of the New Plastics Economy Global Commitment. It supports Extended Producer Responsibility (EPR) for a circular economy, chemical recycling and a focus on priority markets for more effective waste management on the ground.

International Sustainable Forestry Coalition



ISFC is a new alliance, launched in September 2023 with 10 leading forestry companies that operate across 27 countries and together manage almost 22 million acres of land from Brazil to Indonesia, Estonia to Mozambique—with the aim of supporting growth that is compatible with climate and nature recovery imperatives. It advocates for a circular bioeconomy, embedding science-based principles in policy and incentives, and increasing benefits to rural and Indigenous peoples.

The Fashion Pact

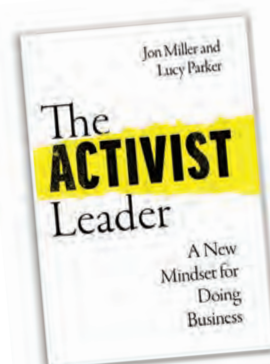
The Fashion Pact brings together many brands with an explicit commitment to CEO-led action. It has set specific targets across the three areas of mitigation: climate change, restoring nature, and protecting oceans and freshwater from the negative impacts of the industry. Guided by the fashion compass produced with MIT's Fashion Innovation Hub, the coalition's action focuses on what it sees as tipping points to lower impact production, including through the tiers of the supply chain, and significantly scaling the availability of lower impact materials.

An Activist Mindset in Systems Transformation

IN THEIR LATEST BOOK, Brunswick's Lucy Parker and Jon Miller outline nine steps for leaders to think like activists, one of which is to "drive for systemwide change." Below are two excerpts from the book, the first explaining businesses' rationale for working on systemwide change, and the second detailing how leaders can understand the systemic nature of the challenge—and how they can be part of the solution.

ILLUSTRATION: LINCOLN AGNEW

An excerpt from *The Activist Leader* by **JON MILLER** and **LUCY PARKER**



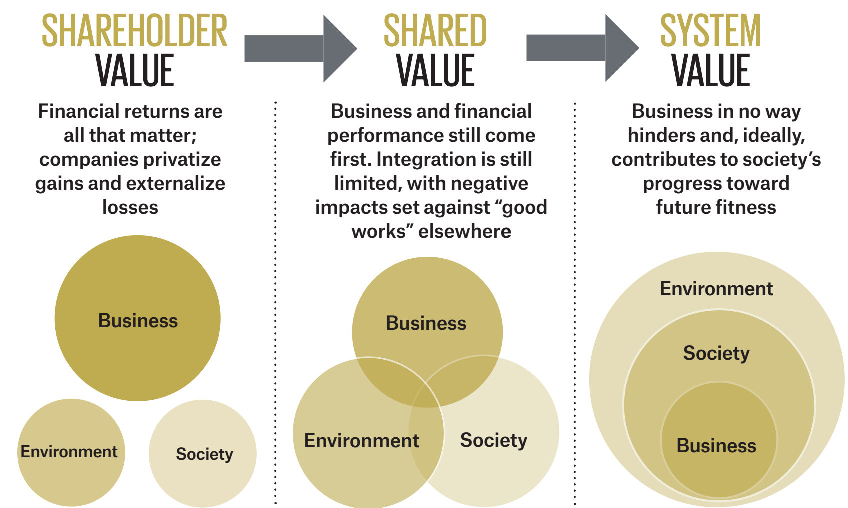
WHETHER IT'S CLIMATE CHANGE, OR INEQUALity, or waste, or any of the other big issues, it's become clear that systems are not just the context of the challenge; they are the challenge. Systems thinking has moved from the background into the foreground, and many of the players in those systems from all sectors of society have realized that isolated, unilateral action will never be enough.

Businesses are an inextricable part of today's major global systems: food or health, energy or transport, to name a few—it's hard to imagine these systems without companies of all shapes and sizes playing an intrinsic role. There's a dual rationale for businesses to work on systemwide change: It's both essential to achieving the company's own goals for

future sustainability, and it's the only way to deliver on the issue—any issue.

It's been a long road to get here. The illustration to the right shows how the notion of value has been evolving over the past two decades: from the historic model of shareholder value, where business, environmental and social value exist in separate realms; to the well-known idea of shared value where the areas overlap but remain unintegrated; toward a system-value model—where business is built into a broader understanding of societal and environmental value.

Making a contribution to drive change systemwide is a defining aspect of social leadership in these times. Business leaders with an activist mindset are looking for new ways of working with and through others to mobilize change. ◆



The long road to system value. Diagram from Future Fit Foundation.

How to Think Systems

Actively engaging to help create change in the system, not just in your business, is a radical shift in the nature of leadership. For people on the inside of businesses it demands a different way of thinking. It's possible to see some underlying principles at play. Inspired by the work of the late Donella Meadows, a scholar of systems theory, we've drawn out some key learnings as prompts to help think systems.

1 **Map out the ecosystem your business is a part of.** On any societal issue, the ecosystem is made up of the many organizations and interdependencies that enable your business to operate successfully. It starts with your value chain but encompasses innovators, academics, industry bodies, governments and policymakers, NGOs and community-based organizations—even customers and competitors. All the actors who have a stake in the system.

2 **Be clear about your role in the ecosystem.** The more well-defined your role, the easier it is to form meaningful collaborations and to understand the leverage you have in the system. What is the contribution your business could make? Where is your business an enabler, or a block? How do other stakeholders see your role and your potential to be part of developing solutions?

3 **Think about the edges of your company.** The "inside" and "outside" of a business is no longer as defined as it was; companies today are more like clouds of collaborations, networks and relationships. Proactively engaging at the edges of your business, the places where you interface with others, can increase your understanding of the ecosystem and prompt the possibility of new partnerships.

4 **Upend your model of innovation.** Systemic problems can't be solved in an R&D lab alone—solutions will come from the system itself. Starting your innovation out with the stakeholders closest to the issue enables you to more effectively identify the most acute pain points in the system and shape your strategy accordingly.

5 **Find the "leverage points."** Systems theory holds that there are places where a small shift in one area can produce a much bigger change across the system. These leverage points may be outcomes your business can influence positively—through procurement or innovation, for example. Seek out the interventions that may have a disproportionately positive impact on the issue.

6 **Create data flows and feedback loops.** Comprehensive ecosystem data are crucial to understanding the issue and tracking progress. That is likely to mean developing new data sets in areas the business has never considered before. And, as an ecosystem player, you probably have significant data that would be valuable to share with others, working in collaboration with independent third parties if necessary.

7 **Look for the pre-competitive spaces.** Critical societal issues usually present risks to entire industries, and companies have a shared interest in tackling them. For example, strengthening recycling infrastructure benefits all companies struggling with plastics waste; scaling up production of sustainable aviation fuel would be a significant step on the path to decarbonizing the entire aviation industry. Finding these opportunities is a route to accelerating progress in your business and systemwide.

8 **Use your philanthropy strategically.** Companies often find they can act across the ecosystem in alignment with their foundation or philanthropic efforts—through civil society partnerships tackling, for instance, environmental practices of smallholder farmers or economic resilience in local communities delivering measurable social impact to scale, generating new research on the issues and modeling new solutions.

9 **Get everyone on the same team.** All players in the ecosystem are potential partners, so take an open-minded and creative approach to who is involved. Don't rule anyone out—even the noisiest and most critical NGOs, even competitors when that makes sense. The opportunity is to bring people to the table and work in common cause, towards a shared goal.

10 **Don't let systems thinking stop action in your business.** By definition, systems are complex—and the issues are, too—so there's a risk that getting absorbed in system transformation takes away the impetus from action under your direct control. Pioneering new solutions in the core business is an essential contribution as well; it sets the bar higher for expected industry norms, shows what's possible that wasn't seen as possible before, and helps move the whole system forward.

Why INVESTORS are LOOKING at LGBTQ+ Inclusion

ILLUSTRATION: TOMASZ WALENTA

AN OPEN FOR BUSINESS COALITION STUDY FINDS CONNECTIONS BETWEEN TRANSPARENT REPORTING AND PROFITS FOR INVESTORS.

Corporate support for LGBTQ+ inclusion has been having a rough time lately—dismissed as a political agenda, a woke ideology. Many see it as a distraction from the fiduciary obligation to investors, or worse, as an unnecessary drain on the company's resources.

Yet research published this year by the Open For Business (OFB) coalition shows the opposite: LGBTQ+ inclusion is linked to greater profitability. The report, the organization's first Investor Guide to LGBTQ+ Inclusion, finds that transparent reporting on inclusion—still sorely lacking in many businesses even despite their stated intentions—is associated with stronger business performance.

The Open For Business coalition was launched in 2015 at the Clinton Global Initiative Annual Summit as a response to the growing global backlash against LGBTQ+ rights. The coalition now has 37 major businesses as partners, including Accenture, Brunswick, GSK, IKEA, Google, Microsoft, Virgin and Unilever. Since then, the coalition has worked

around the world to advance the economic and business case for LGBTQ+ rights.

"This is important research that backs up what Open For Business has been saying all along," says Jon Miller, Open For Business founder, co-author of the report and co-editor of this magazine. "LGBTQ+ inclusion is a hallmark of a well-run business—and investors are increasingly aware of this."

The Investor Guide analyzes the recent results of 290 of the world's largest listed companies across four countries: the US, UK, Australia and Germany. The researchers ranked the degree of LGBTQ+ transparency at each of those companies on a 13-point scale based on each company's reporting, and mapped that ranking onto the results.

The study found that the 25 companies with the highest LGBTQ+ transparency scores also have the higher profit margins out of the group. Average profit, as a percentage of revenue, is 2.3 times greater at those companies than at the 25 businesses scoring lowest on the transparency scale.

"This data confirms what many business leaders intuitively grasp," Miller says. "LGBTQ+ inclusion is about running a productive, innovative workplace and engaging a new generation of consumers. This makes for a resilient business—which is what investors care about."

Stronger commercial performance from LGBTQ+ transparency appears in company reporting in four discrete areas:

FINANCIAL PERFORMANCE: In addition to being 2.3 times more profitable than those with low LGBTQ+ transparency scores, the top 25 companies also had better share price performance, higher market valuations and stronger cash flows.

REPUTATION AND BRAND: LGBTQ+ transparency increases the chances for both corporate reputation and brand preference. Fourteen of the companies in the top 25 list were featured in *Fortune*'s list of the World's Most Admired Companies.

ACCESS TO LGBTQ+ CONSUMER SPENDING: Global LGBTQ+ consumer spending eclipses the GDP of leading economies such as Japan, Germany, India and France. LGBTQ+ transparency increases brand recognition for companies with strong LGBTQ+ policies and thus drives spending in their direction.

GREATER INTERNAL DIVERSITY: Creating LGBTQ+-inclusive work environments can help attract the best talent, sending a strong signal that a business is fair and meritocratic. More transparent companies have an LGBTQ+ workforce 1.5 times larger compared to those less transparent.

COMPANIES WITH THE HIGHEST LGBTQ+ TRANSPARENCY SCORES ARE 2.3 TIMES MORE PROFITABLE.

Perhaps more striking, given the ongoing backlash against ESG generally in the US, 92% of companies surveyed listed DEI as a material issue in their assessments for investors. This means companies believe poor performance on DEI could threaten the long-term viability of the business.

Three social concerns for the LGBTQ+ community were mentioned the most by companies in their materiality assessments:

HUMAN RIGHTS: Sixty-six countries still criminalize LGBTQ+ people, including 12 which impose the death penalty for consensual same-sex activity. In addition, for those reasons or because of other national crises, many LGBTQ+ people become refugees, where they are faced with new uncertainties and, often, the risk of further persecution in their new locations.

ACCESS TO FINANCE: LGBTQ+ people are less able to find appropriate financial support, including loans, banking services and credit. Many LGBTQ+ people also face higher rates of homelessness, poverty and pay discrimination. They are also more likely to be uninsured.

HEALTHCARE: The healthcare challenges include legal and nonlegal discrimination. In the US, 22 states outlaw gender-affirming care, for instance, and a survey in 2022 found that LGBTQ+ patients were more than three times more likely to delay or avoid medical care because of disrespect or discrimination from a healthcare provider.

The report lists ways that companies are finding to support the LGBTQ+ community through these obstacles. On human rights, more than 400 companies have signed the UN Standards of Conduct for Business against LGBTQ+ discrimination. Others have provided pro bono legal services or direct services in collaborations with civil organizations. Airbnb, for instance, partnered with ORAM (Organization for Refugee, Asylum and Migration) to provide 3,000 nights of safe, short-term housing to LGBTQ+ people displaced from Ukraine.

In finance, some banks, including Wells Fargo, have LGBTQ+ resource centers to address the community's challenges. Others are supporting and mentoring LGBTQ+ entrepreneurs. And in healthcare, actions range from helping transgender customers receive the care they need to sensitivity training for healthcare providers and increasing mental health services for the LGBTQ+ community.

INVESTOR INTEREST is Increasing

Despite a popular perception in the US that investors are backpedaling on social concerns, the research

finds that investment in companies based on their inclusion principles is still strong and poised to grow.

Of US investors, 45% are interested in investment products that advance LGBTQ+ inclusion. This figure is set to increase as younger generations become more of an investment force. Currently, over 60% of wealth in the US is held by individuals over 58. Meanwhile, 56% of Millennials and 67% of Gen Z (aged 18 to 26) investors favor pro-LGBTQ+ equity and inclusion products. This generational shift will also affect assets under management, normalizing expectations that are still regarded negatively by some older investors. A report by Morgan Stanley estimates that as younger generations continue to inherit wealth, the value of US assets under management by those interested in pro-LGBTQ+ products could increase by 42%. In other words, an additional $8.4 trillion of assets will be interested in pro-LGBTQ+ investment opportunities, over the current level of nearly $20 trillion. All of this indicates that investor demand, far from retreating, will increase in coming years.

Of the 13 points OFB measured for its LGBTQ+ transparency scale, five appeared the most frequently in the corporate reporting of top-ranked businesses.

- The existence of an LGBTQ+ employee resource group or network
- The results of an LGBTQ+ workplace equality index or award
- The existence of a supplier diversity program inclusive of LGBTQ+-owned businesses
- LGBTQ+ partnerships with civil society organizations
- LGBTQ+ benefits, for example, same-sex partner medical benefits, gender-affirming care, parental leave for same-sex partners who create a family through adoption or surrogacy.

IN THE US, **92** PERCENT OF COMPANIES SURVEYED LISTED DEI AS A MATERIAL ISSUE IN THEIR ASSESSMENTS FOR INVESTORS.

NINE KEY Questions

Armed with the results of the report, investors looking for LGBTQ+ inclusive companies can be prepared to ask specific questions of the businesses in which they invest. Below is a summary of the report's suggestions across nine key questions.

1 Are policies and procedures inclusive?
That means making LGBTQ+ rights an explicit part of anti-discrimination policies, healthcare coverage, employee and domestic partner benefits.

2 Is workplace culture managed proactively?
This can be observed in active LGBTQ+ employee network groups, inclusiveness training for all employees, representation in internal communications and role models in leadership positions.

3 Is inclusion managed along the employee life cycle?
This can consist of specific recruitment events for LGBTQ+ applicants, inclusiveness training for all employees and analyzing LGBTQ+ workforce data, including from exit interviews, for shortcomings.

4 Is inclusion incorporated along the value chain?
All aspects of procurement and marketing need to reflect the organization's dedication to inclusion. This includes ensuring supplier diversity and targeting certified LGBTQ+ suppliers.

5 Is community engagement meaningful?
Businesses can show support for LGBTQ+ civil society organizations through board service, partnership, sponsorship or philanthropy. Significant dates and events in the lives and cultures of the LGBTQ+ community are represented in the company calendar.

6 How is employee data collected and used?
Careful consideration should be given about what data is collected and why, and how it is shared, taking care to ensure the privacy and concerns of the LGBTQ+ community.

7 Is senior leadership engaged?
Role models and allies in top executive and board positions are a vital part of a business's commitment to LGBTQ+. Inclusion efforts within the business should be clearly accountable to the board and top executives.

8 Is the commitment to inclusive workplaces global?
The same LGBTQ+ policies and practices should be applied everywhere the business operates, even in countries opposed to LGBTQ+ rights.

9 What are the public engagement policies?
Public statements and advocacy to counter potential discrimination in society and to promote inclusion in the workplace are clear indicators of a business's commitment to LGBTQ+ inclusion.

"LGBTQ+ equality is a human rights issue, yes—and many businesses also look at it as a business issue," Miller says. "I hope this report gives confidence to companies who are committed to LGBTQ+ inclusion that there is a strong investor case backing them up." ◆

LISTEN Through the NOISE

THE TITLE OF THIS PANEL DISCUSSION OF SUSTAINABLE FINANCE EXPERTS SAYS IT ALL: THE FUTURE OF ESG.

ESG IS GROWING MORE CONNECTED TO BUSINESS performance, against a backdrop of challenge and polarization. That's the consensus of a panel of experts that convened in January by BritishAmerican Business, a trade association incorporating the British Chamber of Commerce in America and American Chamber of Commerce in the UK. The panelists, assembling by Zoom, included Brunswick Partner Jordan Bickerton. What follows is an edited transcript of their conversation.

DUNCAN EDWARDS: I'm the CEO of British-American Business, and it's a real pleasure to welcome you to this event today, the latest in our ongoing corporate citizenship and sustainability series.

ILLUSTRATION: LINCOLN AGNEW

Today, we're going to be talking about the future of ESG and if, and how, companies are evolving their approach to this issue. By way of context, we've been holding events in this citizenship and sustainability series broadly looking at ESG issues for a number of years.

We've done events where we've tried to look at the issue from the perspective of the corporation, from the perspective of regulators, of financial sponsors and of shareholders of course.

Over the last four years, it seems to me that the direction of travel has been broadly going in one direction. But over the last year, that has changed.

In the US, a number of states have pushed back against anti-fossil fuel initiatives particularly, impacting asset managers that have taken anti-fossil fuel positions. In 2023, the number of funds that are dedicated to ESG or impact investing for the first time declined, and the amount of cash being invested through those funds also declined.

The Supreme Court's decision back in June to end Affirmative Action in college admissions has led to some reevaluation by companies of corporate DEI initiatives. And there have been a number of high-profile missteps in the social category, the S of ESG, which in some cases have led to loss of sales, loss of reputation, even the loss of the job of the CEO.

Open up financial newspapers and you'll see headlines like, "ROI is more important than DEI." And yet much of the world is still fully committed—in some cases, legally committed—to a greener future with dramatically lower carbon emissions. It feels that the journey is only going in one direction ultimately. And good companies want to do the right thing. They want to do the right thing for their employees, their customers and the communities within which they operate, as well as the right thing for their shareholders. It's a tricky environment to navigate.

To help us to do that, we have this fantastic panel: Jordan Bickerton, a Partner in ESG and Sustainable Business at the consultancy Brunswick; Amy Franzen, Co-Head of US Originations—Sustainable Finance at HSBC; Ulysses Smith, ESG Senior Advisor at Debevoise; and Kal Trinkner, a Senior Manager in the Climate Change and Sustainability practice at EY.

From your own experience and expertise in the ESG space in the US and UK, where do we stand now? Ulysses?

ULYSSES SMITH: Thanks for having me back for what has been a great series.

"It feels that the journey is only going in one direction ultimately. And good companies want to do the right thing."

DUNCAN EDWARDS
CEO, BritishAmerican Business

"The direction of travel is clearly towards treating ESG reporting & disclosure with the same level of rigor as you would financial information."

ULYSSES SMITH
ESG Senior Advisor, Debevoise

PORTRAIT ILLUSTRATIONS: THOMAS FUCHS

The direction of travel is clearly towards treating ESG reporting and disclosure—the information about your ESG commitments and performance that you're putting out in the world—with the same level of rigor as you would treat financial information.

To date, one of the main areas of focus for SEC enforcement action related to ESG matters is consistency between what's in your formal disclosure to the SEC versus what's in your sustainability reports or what's on the ESG page of your website.

If your sustainability report is grandiose or exaggerated as compared to what you've included in your SEC disclosures, that's greenwashing, right? The SEC has a dedicated task force investigating these cases; it's regularly sending out comment letters requesting information from corporates questioning such inconsistencies.

In Europe, you see major new regulatory developments that are ambitious and robust.

This year, 2024, we'll see the first year of implementation of the EU's Corporate Sustainability Reporting Directive, the CSRD. This is a milestone piece of regulation that will be implemented over the next few years in phases.

The first phase is playing out this year where essentially large-listed filers in Europe and groups above a 500-employee threshold will in 2025 have to include in their annual reports detailed and extensive sustainability reporting for the year 2024.

Meanwhile, we're awaiting the final text of the CSDDD, the Corporate Sustainability Due Diligence Directive. It will have a longer timeline in terms of implementation. But it will be a significant and transformative new regulation of not just European companies, but major companies around the world that have significant operations in Europe. CSDDD will require real governance transformations. It will require the implementation of due diligence policies and procedures, and reporting on social and environmental harm.

That's a real milestone.

In the US, there's the SEC's proposed Climate Rule, which has been a bit like the film "Groundhog Day," trying to decide whether, and in what form, it will appear or not. We've been expecting it for quite a long time. Meanwhile, California has a host of new climate-related disclosure laws and, elsewhere around the world, Singapore has new disclosure regulations, Hong Kong is working on disclosure regulation and the list goes on.

It's quite a vigorous environment—and this is just the legal and the regulatory side. We're also

seeing this year new biodiversity disclosures. The Taskforce on Nature-related Financial Disclosures (TNFD) just announced last week the first round of biodiversity disclosures. Something like 100 financial institutions, among others, will be disclosing under TNFD this year.

But at the same time, primarily in the US but not only in the US, you're starting to see a significant amount of pushback. It comes in the form of state-level regulations and laws in the so-called anti-ESG realm.

Those come in different forms, with some prohibiting asset managers from "boycotting" certain industries, placing restrictions around pension funds and other fiduciaries from considering ESG factors in their investment decision-making, and so on.

You're seeing investigations, subpoenas and Congressional involvement, all of which, I think, is likely to be amplified this year by the election cycle and the increased polarization we see.

DUNCAN EDWARDS: Kal, with legal obligations snowballing, how prepared are companies to fulfill the increased reporting requirements?

KAL TRINKNER: Hello, everyone, it's a pleasure to be here.

There is an ongoing debate at every company that I work with of, "Who should own regulatory ESG reporting?"

Is it the sustainability team who's been doing this for five, 10, 15-plus years in a voluntary capacity and they know the subject matter? Or is it finance, who, though overburdened, has spent the same number of years, if not more, establishing reporting processes in a regulated space?

Companies are figuring out that it's about getting the two groups in a room, identifying the skill sets that each group brings to the table, then defining a path forward.

We're also seeing the rise of a new position within companies: the ESG controller. Companies are stepping up hiring for this position, establishing an in-house resource who can speak sustainability, finance and regulated reporting.

Another common question facing sustainability teams today is, how do we leverage our existing IT systems to semi-automate or automate data collection? There are so many different vendors who are trying to solve ESG reporting that it's overwhelming. Ideally, this question gets the IT group as involved as finance in working to solve the new ESG reporting challenge.

"Stay the course on doing the work that's going to make your business more valuable by virtue of it being more sustainable."

JORDAN BICKERTON
Partner, ESG & Sustainable Business, Brunswick Group

DUNCAN EDWARDS: Jordan, you're an ESG advisor to corporations at a moment when a small mistake can blow up into a value-destroying debacle. How are you advising clients to own the challenge?

JORDAN BICKERTON: Wonderful to be with you this morning.

The most prominent missteps have come from inconsistency, where they said one thing and either didn't follow it through or subsequently were proven to be doing another thing. Or a decision was made that wasn't based on what was right for the business.

No matter what though, you're not going to please everyone. The extremes on both sides of this debate are so noisy, so passionate, so polarized, so motivated—you have to have a fairly thick skin. And when you've made a decision, you have to stay the course and recognize that you're not going to please everyone.

If it was the right move for your business, then it was the right thing to do. Our advice: Listen through the noise. It's important not to get distracted or brow-beaten.

Stay the course on doing the work that's going to make your business more valuable by virtue of it being more sustainable, more inclusive, more responsive to the changing world around you.

DUNCAN EDWARDS: What is your advice to companies on risk avoidance?

JORDAN BICKERTON: At Brunswick, we've advised management teams for many years on exactly these issues—risk mitigation and opportunity, reputation building and backlash. Basically, how do you navigate ESG?

I'd like to touch on four big shifts. The first is from focusing on ESG as a broad category, which was very in vogue over the past couple of years. You saw all kinds of financial products being labeled as ESG. You heard companies talking a good game about their commitment to this agenda.

What's changed in the last year is a focus on the specifics, finding the points where each of those letters—environmental, social, governance—intersects with business value.

We think a good way to de-risk is to focus not on the broad category, but on the point where these issues affect your business. In many cases, major asset managers have stepped back from using ESG publicly in their communications and in their engagement. But do they have transition investing units, which are putting significant capital to work in the energy transition? Yes.

If the first trend is the shift from the category to the specifics, the second is from stakeholder-led ESG to strategy-led ESG. The reason that's happening is that stakeholder expectations have diverged. California will soon mandate Scope 3 disclosure while Montana prohibits the consideration of climate factors in major energy projects.

At a moment when the stakeholder landscape is so fragmented, the only possible answer is, "Does this work for the business? What's the commercial argument for doing these things?"

We worked recently with a bank being called out by activists for financing fossil fuels while facing serious domestic pressure to finance more fossil fuels. How on Earth do you decide?

What the bank wound up doing was defining its expectations of fossil fuel clients, defining what their commitment to the transition should look like, and why and how that benefits the bank. In that way their approach shifted from stakeholder led to strategy led.

The third shift is from claims to credible action. We saw a lot of big, long-term claims about 2050 and making the world a better place. Those claims are hard to stand up as legal risk grows and reporting requirements get stricter.

As the reputation risks become greater, the question is, "What are you doing, and how do you prove it?" We're seeing lots of companies move from talking about 10, 15 years from now, to talking about the next year and leaning into the tangible progress they've made on a given issue.

The fourth shift is from a mass broadcast of one's ESG strategy to a more targeted approach. This is a result of greenhushing. Greenhushing is a trend wherein companies have been discouraged from talking about what they're doing on climate, and they've become reticent.

As this backlash ramps up, it's starting to occur in DEI as well. In the last earnings cycle, Q4 2023, we saw a 30% reduction in people using the term ESG on earnings calls compared to the past year. It doesn't mean that they're winding back from the action. Executives are becoming a lot more targeted in their engagement.

DUNCAN EDWARDS: Is it an option for companies to say, "We're going to obey the law and keep quiet about everything else"?

JORDAN BICKERTON: Absolutely. It's a choice that many companies do make. But it can be a real pity to look at it only from a risk mitigation perspective, because there is opportunity.

"There is an ongoing debate at every company that I work with of, 'Who should own regulatory ESG reporting?'"

KAL TRINKNER
Senior Manager, Climate Change and Sustainability, EY

"We are committed to helping our clients and prospects as they move along this transition to net zero."

AMY FRANZEN
Co-Head of US Originations—Sustainable Finance, HSBC

There are two areas where the opportunity is great. The first is in the war for talent. We hear a lot about younger employees wanting to work somewhere purposeful and holding their employers accountable and wanting to know, "What are they doing on climate? What are they doing on inequality and access?"

The second opportunity involves corporate innovation in products and services, particularly in the energy transition. Lots of our clients are working toward a place where in the next five years they can unlock real growth by being more sustainable, by being more inclusive.

DUNCAN EDWARDS: A question for Amy, as a bank that does business with companies engaged in the transition to new energy sources, how does HSBC see the landscape at the moment—either the opportunities or the challenges?

AMY FRANZEN: Thanks, Duncan. Great to be here and see everyone today.

At HSBC, we are committed to helping our clients and prospects as they move along this transition to net zero.

With our corporate clients, we're helping them learn about best practices, what others are doing in the industry, keeping up with regulations and what reporting requirements will be, and then helping them fund that transition.

I think some of the biggest trends we're seeing are in the renewable energy space. Specific financing structures that we're helping companies with are sustainability-linked loans, green loans and social loans. Also, in the public markets, our clients are looking at green bonds, social bonds and sustainability-linked bonds.

Then the other side of that is the emerging companies, the startups to which we've committed $1 billion in climate tech funding.

We're helping those startup companies all the way up to the large global companies that are multinational. HSBC operates in more than 60 markets, so we can help companies all over the world.

Also, as our global clients look into their Scope 3 emissions or their supply chains, we're helping them with financing solutions, such as sustainable supply chain finance programs. And that is encouraging their suppliers, either from an environmental or social standpoint, to continue to improve.

DUNCAN EDWARDS: Thank you all for your time and contribution to this discussion. ◆

GILLIAN TETT, THE SUPERSTAR *FINANCIAL Times* writer and editor, used to respond skeptically to press releases mentioning ESG. In fact, doubtful that companies cared all that much about the environment, society or governance, she would joke that ESG actually stood for "eye-roll, sneer and groan."

Yet as an anthropologist—Tett holds a PhD in social anthropology from Cambridge—she was skeptical of her skepticism. "One of the first precepts of anthropology is that you shouldn't view the world through your lens alone. It is beholden on you to see the world through other people's eyes, both to understand how the world works and to appreciate the limits of your own vision."

So she attended a few conferences on ESG, where Tett sensed the start of a fundamental shift in the way that business views its purpose—from an exclusive focus on shareholders to a broader concern for stakeholders like employees and the planet. That revelation led Tett to a bit of a transformation of her own. One of financial journalism's most diligent watchdogs—long before the 2008 financial collapse, Tett raised serious questions about credit default swaps and the like—she co-founded in 2019 the *Financial Times* newsletter and blog called Moral Money, dedicated to covering "the fast-growing, international shift towards ethical, sustainable and responsible investing."

US Editor-at-Large for the *Financial Times*, and a member of its Editorial Board, she also wrote 2021's *Anthro-Vision: A New Way to See in Business and Life*. Tett has served as Provost of King's College, Cambridge, since last October and was awarded an OBE for her services to economic journalism as part of the 2024 New Year Honours.

GILLIAN TETT

Sensing that ESG signaled a lasting shift in the corporate world, she co-founded a *Financial Times* newsletter called Moral Money. By **CHARLES PRETZLIK** & **TOM MATTHEW**.

In a recent visit to Brunswick headquarters in London, Tett said that Moral Money has become the newspaper's most successful "mini brand." She spoke before an audience to her former colleague Charles Pretzlik, a Brunswick Partner and former *Financial Times* Banking Editor.

Moral Money captured a zeitgeist. What insight gave you the vision and confidence to found it?
Much of my career has been about looking for blue sky in the information landscape, things I thought were interesting but that others deemed too geeky or dull to put on the front page.

In 2005, I became obsessed with credit derivatives and credit default swaps, which at the time was a lonely pastime. Until suddenly it exploded.

When it came to ESG and Moral Money, after Donald Trump won the 2016 election, and I was running operations in America for the *FT*, I started

PHOTOGRAPH: JOSE SARMENTO MATOS/BLOOMBERG VIA GETTY IMAGES

In addition to her *Financial Times* roles, Tett serves as Provost of King's College, Cambridge, in whose chapel she is shown here.

getting loads of emails from PR groups about ESG.

It was irritating because truly the only story that mattered was Trump, Trump, Trump, yet here came this stream of PR about ESG, and frankly it seemed like corporate reputation-washing.

Then one day I finally stopped and thought, "Having been trained as a cultural anthropologist, I should work out why I'm getting this tsunami of irritating emails that I keep deleting." That's when I started attending ESG conferences and listening to what people were saying about it.

And I realized that this frenetic email activity was actually one sign of a bigger zeitgeist shift developing in the corporate world. From tunnel vision focused on shareholders and profits, companies were being forced to adopt lateral vision and take stock of their relationship with society.

At the *FT*, I said I thought we should do something on this big zeitgeist shift. Initially the reaction was pretty negative because, as I say, ESG was generally thought to stand for "eye-roll, sneer and groan." But then in fact it was Nikkei, our Japanese parent company, who eventually said, "If you feel this strongly about it, here's a bit of money to start."

We launched the platform in the summer of 2019, very much on fumes. I brought in a few outside reporters. It was done as an experiment, a pilot to see whether it would work.

We got very lucky because we launched just as the Business Roundtable changed its own mantra from shareholder values to stakeholder-ism, as asset managers began talking about ESG and just before Greta Thunberg terrorized a whole bunch of middle-aged CEOs by campaigning about climate change and making all their kids start to campaign too.

Moral Money went off like a hockey stick, immediately became our best-performing mini brand and remains so today, far and away.

The team at Moral Money is an amazing group that includes reporters like Simon Mundy and Patrick Temple-West. Meanwhile, our parent company, Nikkei, has essentially imported a lot of the ideas of Moral Money and now has a big successful Japanese Moral Money franchise.

Now, our clients are facing a visceral and intense backlash to ESG. What do you think that means for business and the ESG movement?

It's not surprising that there's a backlash. Whenever you get innovation of any sort in finance—be it derivatives, leveraged loans, CLOs or green finance issues—there is extreme opacity, extreme fragmentation, extreme label confusion, because the whole thing's run like a cottage industry. Inevitably, there's excess hype.

We've seen all that in ESG. We've seen ESG advocates be very slow to admit that ESG is not a magic wand. It's not a free lunch. The idea that you can basically put a bit of ESG in your portfolio and automatically raise returns was always ridiculous.

To be credible, the ESG movement needs to talk urgently about the fact that there are always trade-offs, and often sacrifices. You can't always magically address the E and the S together to the same degree. I think in many ways there's a mistake to put them

into the same bucket. And data reporting systems are not yet at a point where they are completely unchallengeable. There will always be uncertainty around some of the data reporting.

History also shows that whenever you get any kind of first-world hype, you get a backlash. And we're seeing that right now, fueled particularly by rising prices of energy, cost of living, et cetera. Yet what I find really interesting is that even the right-wing politicians who say that they hate ESG—they haven't really formulated an alternative vision to ESG.

I've heard nobody saying that we should go back to a very rigid fundamentalist vision of Milton Friedman. Milton Friedman's ideas about shareholderism emerged at a very specific time in corporate history in America. In that period there was huge respect for authority figures and elites, be that CEOs, politicians or journalists.

In that era, in the 1970s, people still thought the government could do stuff because they'd come out of World War II when government did do stuff. And activists were so convinced that it was up to the government, not companies, to solve social problems that when Rachel Carson launched the whole Silent Spring movement in the 1960s and '70s around environmentalism in America, she did not even bother to try to talk to companies. She spoke to labor unions and government. And that was it.

Shareholderism emerged at a time of extreme corporate opacity when the only thing that the outside world knew about what companies were doing came from the annual shareholder reports or semi-annual shareholder reports.

Today, you've got extreme transparency around companies, rising transparency. You've got people finding ways to track emissions all over the place.

Today, you've got a real collapse of trust in authority figures and rise of trust in the peer group. And no one trusts government to do stuff. People are increasingly looking to companies and other groups to solve problems instead.

On top of that, you've got a world of rising geopolitical hostilities that mean that even on the right, or especially on the right, the relationship between business and society is being renegotiated. And companies are essentially being forced to comply with national security interests in all kinds of ways.

Essentially, you've got government being a lot more interventionist on the left and the right. And you have the social contract shifting in quite a fundamental way. As a result, to go back to my point about tunnel vision versus lateral vision, even companies that hate ESG do not to me seem eager to return to ignoring society at large, as Milton Friedman suggested. They understand that they need to look at their footprint in society as a whole.

"Even companies that hate ESG do not to me seem eager to return to ignoring society at large."

To cut to the chase, I think companies are in a very difficult situation. At the time we launched Moral Money there was widespread concern about greenwashing, about companies talking about ESG in lieu of actually doing anything. Now, in this era of backlash, we have greenhushing, wherein companies are taking action but not talking about it in public, for fear of political backlash.

The last point I'll make is that globalization is changing the regulatory framework. We used to talk about globalization creating a regulatory race to the bottom because different jurisdictions would compete to have looser rules to attract companies.

But if you look at what's happening with green audit right now, you're actually seeing what I call a "squeeze to the top." By introducing its rules, Brussels is basically forcing large companies to comply globally because it's too expensive to have different internal reporting systems.

It's a bit like GDPR, which came out of Brussels but essentially forced American tech companies to comply. Or what California did with auto emissions, forcing German car companies to comply even though they're not headquartered in California.

Most large companies, even if they hate ESG, even if they keep praying for Donald Trump to come in and bully the SEC into dropping its own climate reporting rules, most large companies are still going to have to comply, because of reporting requirements in other jurisdictions.

Is too much being expected of companies? Are companies being placed in impossible positions?
Probably society and journalists are expecting too much in terms of thinking that companies should have an answer for every problem or situation. Actually, I think a bit more honesty would probably go a long way. Companies could say, for instance, "We have huge empathy for the pain around X, Y and Z issue, but we don't think we personally have the tools to solve it."

Engagement with critics is vital. We may live in an age of transparency where people can get information about all kinds of things. But they can't always get it in a particularly balanced way. Engaging with people is one way of pursuing that balance. ◆

CHARLES PRETZLIK is a Partner in Brunswick's London office. Formerly a journalist and banker, he has extensive experience with media and capital markets. Additional reporting by **TOM MATTHEW,** an Executive in London.

COP28 What's Next

Fossil fuels flagged, carbon capture muted, new alliances formed, food systems on the table—Brunswick's **WOLFGANG BLAU & PHIL DREW** share key implications for business from the historic summit.

After tense final negotiations at the close of COP28, a historic agreement to "transition away" from fossil fuels made headlines around the world. The Dubai summit, and its many accompanying announcements and pledges, will have major implications for business.

"RATCHETED" TRANSITION

The original landmark climate agreement in Paris in 2015 included a "ratchet mechanism" to increase the level of ambition from countries toward limiting global warming. The next "ratchet" requires new national plans to be submitted to the UN by 2025, covering the period to 2035.

Under the COP28 ratchet decided in December, 198 parties are committed to developing new, enhanced national plans that will focus on limiting global warming to 1.5°C above pre-industrial times, with global emissions required to peak by 2025. As the world looks to narrow the emissions gap, companies will be under intensifying pressure to step up and show progress against their own near-term targets and transition plans, with more than 250 financial institutions expected to publish theirs next year.

There is a new narrative on fossil fuels. Oil and gas companies will be under increasing scrutiny from all stakeholders to set out how their business strategy is compatible with the transition away from fossil fuel during what the landmark agreement terms "this critical decade." At a minimum, this means recognizing their role in the move to net zero and demonstrating a contribution to the "deep, rapid, sustained emission reductions" required for an accelerating shift toward a net-zero energy system by 2050.

Integrated energy companies with exposure to hydrocarbons and clean energy may seek to harness this historic pivot to bolster the investor logic and potential reputational dividend behind green and clean energy solutions.

MOMENTUM BUILDING

Three standout announcements demonstrate the breadth and pace of change across sectors:

- The Industrial Transition Accelerator was launched. This is the largest single decarbonization initiative, an international, public-private collaboration involving 1,300 companies in heavy-emitting industries.

PHOTOGRAPH: COURTESY OF COP28

- A new wave of partnerships from the Breakthrough Agenda, an international alliance covering 60% of global GDP, will increase demand for low-carbon industrial products via the creation of international standards and technical and financial assistance in developing countries.
- Led by the Netherlands, a newly formed group of 12 nations including France, Spain, Finland, Denmark and Canada agreed to disclose their entire inventories of fossil fuel subsidies and share best practices on how to phase them out. The IMF estimates the global volume of fossil fuel subsidies at $13 million per minute throughout 2022.

By unanimous agreement, a smaller role for carbon capture technologies was outlined, reflecting the extent of economic and scientific challenges that carbon capture is facing.

TRANSITION FINANCE

Over the course of COP28, announcements, initiatives and mechanisms mobilized $83 billion in new finance. Yet a lack of progress on climate finance remained a major concern, especially among developing and climate-vulnerable countries, despite the landmark creation of a fund to support the "loss and damage" caused by climate change.

A major focus is on how to accelerate the flow of private capital to emerging economies to fund commercial projects, such as renewable energy. Following the work of Barbados Prime Minister Mia Mottley's Bridgetown Initiative, efforts are being concentrated on reducing the cost of capital and premium for foreign exchange risks. There is an opportunity for institutions to demonstrate leadership by helping tackle this challenge.

COP28 saw some notable steps forward for climate action where food is concerned: State and non-state actors united behind the Call to Action for Transforming Food Systems for People, Nature and Climate. Signatories commit to 10 priority actions to transform food systems and call for a set of time-bound, holistic and global targets by COP29.

Governments of 158 countries also committed to the UAE Declaration on Sustainable Agriculture, Resilient Food Systems and Climate Action. This marks the first declaration of its kind and means governments will embed food in their nationally determined contributions (NDCs) and will report back on this next year.

CORPORATE TRANSPARENCY

A new generation of tools to enable scrutiny of corporate action were launched on the margins of the summit. These go beyond traditional corporate datasets. Free and easily accessible to the public, they will allow scrutiny of individual companies at a new level of scale and detail. For example:

- The Net-Zero Data Public Utility is a database of company-level greenhouse gas emissions that makes analysis and comparison substantially easier for investors, analysts, regulators, NGOs and the media. It is backed by the UN, the International Sustainability Standards Board and the International Energy Agency, as well as private sector experts from the Glasgow Financial Alliance for Net Zero and Bloomberg.
- ClimateTrace, a satellite-based inventory of the source and location of greenhouse gas emissions, launched a significant expansion in Dubai to cover data from 352 million assets. It enables scrutiny of companies' self-reported emissions and the closure of data gaps from suppliers.

PRIVATE SECTOR CHALLENGES

COP28 saw an estimated 85,000 attendees, more than any previous summit, including a notable presence from major companies and investors. Yet a growing number of countries and climate stakeholders are questioning whether the enlarged summit is impeding the negotiations and whether COP is becoming too much of a "trade show." Calls continue for reform of the COP process more generally. Attendees in future years should:

- Be prepared to demonstrate a significant contribution to climate action
- Maintain a view of the role companies play
- Expect growing scrutiny of consumer goods companies—the closing document of COP28 called for "transitioning to sustainable lifestyles and sustainable patterns of consumption and production."

FUTURE BY MAJORITY

There has been substantial criticism of the fact that it took 28 COP summits to mention the central role of fossil fuels in causing climate change. This is largely because COP summits can only make unanimous decisions that can thus be blocked by a single country. Former US Vice President Al Gore said he plans to gather advocates to push for decisions to be approved by a supermajority of 75% of nations before COP29, to be held in November 2024 in Baku, Azerbaijan. Given that 127 nations wanted to see a full "phase-out" of fossil fuels, such a change of the voting rules—albeit unlikely—would further accelerate the energy transition.

The COP29 summit will also likely be focusing on climate finance and developing more instructive frameworks for accelerating and measuring the success of climate adaptation measures. ◆

OVER THE COURSE OF COP28, NEW ANNOUNCEMENTS, INITIATIVES & MECHANISMS MOBILIZED **83** BILLION DOLLARS IN NEW FINANCE.

WOLFGANG BLAU is the Global Managing Partner of Brunswick's ESG & Sustainable Business practice and an expert in climate communications. He is the Co-Founder of the Oxford Climate Journalism Network at Oxford University, an advisor to the UN climate division UNFCCC, and a visiting fellow of the University of Pennsylvania on issues of corporate climate strategies. **PHIL DREW** is a Partner and lead global client advisor of the Brunswick Climate Hub. Phil has advised many leading corporations on their climate change agendas and the UN Climate Change High Level Champions for COP25, COP26, COP27 and COP28. He also helped launch the Race to Zero and Glasgow Financial Alliance for Net Zero.

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