



**InvestAssure**  
Sustainable asset management

# ESG in the New World Order

## *What Is ESG?*

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*P27 Web Debate: Thursday October 6<sup>th</sup>*

# Paul Wenman



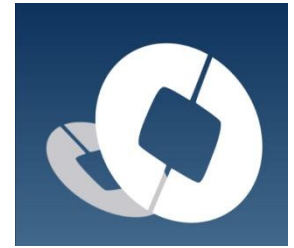
- 35 years in sustainability consulting
- 15 years with ERM as Director and Partner in Europe, Asia and USA
- 4 years as founding Director of E&Y sustainability services group
- 20 years running SourceAsia and InvestAssure
- Current focus:
  - corporate sustainability strategy
  - ESG risk management and assurance
  - Portfolio monitoring, particular focus on Asia-Pacific
- Education
  - B.Sc. Chemistry and Environmental Science (UEA)
  - M.SC. Meteorology and Climatology (Birmingham)

# Focus: three linked aspects



- Relationship with *Sustainability*
- How it incorporates *Values* into its frameworks
- How *Issues* are therefore prioritised and weighted in ESG frameworks.

# ESG does not = Sustainability



- ESG is a serious attempt to bring order and accountability to corporate sustainability
- It's so successful that we are seeing ESG become almost a core element of a company's licence to operate.
- But there's a common misconception that ESG is equivalent to sustainability.
- In my view it's not. ESG is different in various ways.
- For example, unlike sustainability, ESG has no economic element
- But ESG also has a challenge in remaining relevant to society's changing values

# ESG analysts vs society values



- Two drivers of corporate sustainability:
  - *Top-down* we have the financial world and governments driving ESG frameworks for measuring, reporting and rating performance
  - *Bottom-up* we have real sustainability driven pressures from communities and consumer markets.
- For ESG to become and remain a successful dynamic for sustainability, these need to be connected, there needs to be feedback.
- In my view there is too much top-down, not enough bottom-up.
- ESG ratings enshrine values assigned by analysts, not society
- This is a problem for ESG methodologies which need to quantify and weight different issues and then aggregate them into scores and ratings.

# Communities relate to issues



- Communities don't see 'ESG'. They see only issues
- Public opinion and values diverge around the world, something which sustainable development should take account of, e.g.
  - whereas about 65% of the public in Spain believe climate change is caused mostly by humans
  - in Canada, Australia and Germany it's about 50%
  - in Malaysia and Philippines it's only about 35%
  - In Indonesia, in the top 10 emitters, it's about 15%
- People prioritise issues according to their own value systems and needs – which vary massively around the world.
- They see 'sustainability' as meaningful, balanced progress, relevant to their own lives as well as to their descendants.
- Sustainability is not just about the future – it's also about immediate needs.

# ESG agenda needs to listen



- The world is upside down in many ways which are affecting people's lives.
- Energy supply, food supply, security, cost of living – some of the core building bricks of society are now all in doubt.
- Values are in flux as a result.
- These are the realities that ESG in the new world order needs to accommodate if it is to be a driver of sustainable development.
- So we should not see ESG as THE vehicle for delivering sustainable development.
- It's certainly now part of our sustainability toolkit.
- The challenge is to use it appropriately and responsibly.

# ESG as the great leveller?



- No. I see it the other way around really.
- I see sustainability being shaped by the changes we are seeing in energy, food, security and costs of living.
- I believe people's values are being driven by these changes and this will affect how sustainability topics are prioritised by communities around the world.
- The challenge for ESG is to stay tuned, listen in and adjust.



# New sustainability trade-offs



- Companies and governments are going to face new trade-offs, with risks and opportunities.
  - Are fossil fuels now having a reprieve of execution?
  - Will planning laws be relaxed to override community objections to renewables uptake?
  - Will increasing concerns about security make defence industries 'ethical'?
  - Will food companies have to re-structure their supply chains around more local suppliers, perhaps impacting on jobs and economies overseas?
- Growing decoupling of 'West'-aligned economies from China:
  - Will this trigger longer-term restructuring of supply chains?
  - This may actually allow companies to bring greater assurance to their responsible sourcing programmes
  - Perhaps even reduce their supply chain CO2 footprints.

# Keys to adaptive progress



- *ESG frameworks and rating systems will have to be flexible* and somehow adjust to these new realities if they are to mature from a business concept to a real driver of corporate sustainability and international sustainable development.
- *Stakeholder engagement and corporate responsiveness to their concerns* will be important to ensure that ESG programmes stay in touch with society's priorities.
- *We need to see tailored ESG frameworks* attuned more to sector-wide and regional issues.