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MARKETING IS KILLING ESG. HERE'S HOW WE CAN SAVE IT.

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Of all the things that Tesla founder Elon Musk did or said this year, his declaration on ESG – the acronym for Environmental, Social and Governance – may not have been the most newsworthy.

But it is among the most interesting.

In May 2022, the world's most iconic electric vehicle manufacturer was de-listed by S&Ps influential ESG index for a "lack of a low-carbon strategy" and violations of "codes of business conduct" including poor conditions in its California factory and reports of racism.

Musk (who may or may not be the owner of Twitter by the time this article appears) Tweeted his outrage about being de-listed while Exxon, one of the world's largest oil and gas producers, was still included. "ESG is a scam," Musk wrote. "It has been weaponized by phony social justice warriors."

Without endorsing Musk's scathing review, there is something to what he's saying.

ESG is certainly not a scam. But the more and more we use the term "ESG" to measure and influence the broader impacts of businesses on the planet and the people who live on it, the further we seem to get from its true meaning.

The origins of ESG: dreaming the impossible sustainability dream

Throughout the 20th century, some of the world's greatest thinkers had made efforts to find a definition of sustainability that could be applied to business. The goal was to find a way of mobilizing investors – the lifeblood of business – to influence the way companies and other entities treated the planet and the people who live on it.

In the 1950s and 1960s, big pension plans and trade unions in the United Kingdom and United States looked for ways to use their vast resources to impact social issues. In the late 1970s, the so-called Sullivan Code attempted to guide U.S. companies on ways they could influence their counterparts operating within the apartheid regime in South Africa. In the late 1990s, Fortune Magazine created its first list of the "100 Best Companies to Work For," which ranked employers on social responsibility metrics.

It wasn't until 2004 that the term ESG – which had been creeping into a number of different discussions of investing and social responsibility – became entrenched as the shorthand for a company's performance on all issues related to sustainability. This was largely accomplished in "Who Cares Wins," a report produced by a consortium of government agencies, universities and banks under the auspices

of the United Nations Environment Programme Finance Initiative.

Fast forward nearly two decades and ESG has become an eclipsing presence in business. As the public has become more aware of the underlying principles, private companies, investment firms and banks are scrambling over each other to get an ESG designation. Various entities have been created just for the purpose of assigning these designations.

The value of such a designation is clearly demonstrated by Musk's angry rant. In today's business world, you are either listed as ESG compliant, or you are being looked at with skepticism by consumers, investors and journalists.

The eroding meaning and value of ESG designations

As ESG entrenched its place into the mainstream of business and investments, it began to lose a lot of its original meaning and impact. This was the conclusion of Paul Clements-Hunt, one of the original authors of the UNEPFI report the first coined the term. Hunt told Fortune magazine in March 2022 that the ESG fund industry in particular was headed for a "shakeout" now that the term has been reduced to little more than marketing "fairy dust."

"Anybody who uses ESG, sustainability or green purely as a marketing device is really heading for trouble," Clements-Hunt told the magazine. "You'll see a developing queasiness from marketing departments where, perhaps, ESG funds aren't all what they're cracked up to be."

Clements-Hunt referenced a decision by Morningstar Inc., a leading provider of financial data, to remove more than 1,200 funds from its European sustainable investment list after a detailed investigation of disclosures to investors and annual reports. Morningstar determined that it needed to tighten its criteria for designating a fund as sustainable. The funds that did not qualify under these new criteria represented more than US $1.4 trillion.

Neglecting the 'S' and 'G' and focusing too much on the 'E'

In particular, professionals working and delivering projects understand that the three components to ESG are incredibly interdependent. Although it is possible to make progress on any one component, true sustainability only comes from equal attention to all three. That is not happening right now.

In marketing campaigns and surveys of businesses and funds, it is quite clear ESG has become shorthand for environmental sustainability.

A 2022 survey by Global Data, highlighted in a report from the Project Management Institute, showed that two-thirds of executives respondents indicated that

COVID-19 had heightened their awareness of, and attention to, ESG, and 69 per cent plan to change policies or practices in the next five years to achieve ESG objectives.

However, there is an imbalance in the approaches being taken by the respondents. The same survey found that the vast majority of respondent organizations (69%) had ranked environmental goals (battling climate change and pollution) as their top priority; only 16 per cent identified social impacts and 15 per cent identified governance.

Companies, funds and other institutions trying to slap the ESG label on their enterprises are, it appears, putting all of their ESG eggs in the "environmental" basket. It's not hard to figure out why that is; climate change represents a clear and present existential threat to our planet. Without rapid and robust attention, we may lose our ability to maintain a liveable environment. Depending on who you talk to, we may have already arrived at that point.

However, there is also an awareness in the survey that focusing on environmental goals to the exclusion of social impacts and governance is a losing strategy. "Inadequate governance practices make it more likely that companies will fail to meet ESG goals," the survey stated.

You can see these concerns in many corners of the ESG universe. The world is racing to embrace electric vehicles (EVs) without building sustainable electricity generation they need to to recharge, or finding sustainable ways of producing the precious metals needed for EV batteries. Yes, EVs are better for the environment than fossil-fuel-powered vehicles, but there won't be a net gain in the war against climate change without green electricity and batteries.

Again, from a project management perspective, environmental goals cannot be pursued in a vacuum. They are not achievable without assessing the net social impact, and applying the best practices of good project governance. That appears to be a critical point that has escaped much of the corporate world.

16/6: How ESG helped Haiti after the 2010 earthquake.

In 2012, I was working as the director for the United Nations Infrastructure and Project Management Group. We were among the agencies who get called into to help countries rebuild after natural disasters. In my time with UNOPS, my team worked on more than 1,000 projects worth $1.2 billion in more than 120 countries. In every instance, we worked hard to bring the principles of ESG to our work.

And one of the cases was Haiti. Following the 2010 earthquake, there was an acute need for new housing. Thousands of homes had been destroyed, and 220,000 people lost their lives. In 2011, plans were drawn up to move people who

had been living in six internally displaced persons camp and resettle them into 16 newly rehabilitated neighborhoods. That's how the 16/6 project was born: 16 new neighborhoods for people living in six camps.

The challenges were immense. Haiti had suffered under years of misplaced humanitarian efforts that may have met immediate needs in the aftermath of natural disasters and war, but left little in the way of a lasting legacy. Aid agencies would arrive to provide whatever help they thought was best, with little involvement from locals. Projects that were not aligned with local needs were left to rot; others abandoned before completion.

If we were going to create new neighborhoods out of the earthquake's rubble, we had to do it in a way that was environmentally and socially sustainable, and which was managed through good governance. The goal was to involve the Haitian people in an effort to "build back better."

First, the project team made it a priority to have the homeowners involved in the reconstruction or restoration of their own homes. Training was provided by skilled professionals, not just on construction techniques but also on ways to maintain their homes when completed.

The 16/6 project would eventually create more than 15,000 working days of employment and UNOPS was able to get 95 per cent of the workforce from the local community. When the homes were completed, 150 new and fully trained construction workers had been added to the Haitian economy.

The repaired or reconstructed homes were completed to a standard that would make them much more resilient to future disasters. The materials chosen were from the most environmentally sustainable options available. Overall, the homes were built better, at a lower cost, and in a more sustainable manner.

However, even before UNOPS could start on home repair and construction, it was needed to deal with the social deficits. Most of the people in the neighborhoods the project was restoring did not pay for their electricity; most were taking advantage of unreliable and illegal connections to the grid.

UNOPS started by helping to establish community councils to oversee water, electricity, waste management and sanitation. These councils were key to helping residents change their habits and slowly leave the black markets for electricity. Residents were updated on the purpose and progress of 16/6 through door-to-door meetings and community settings.

There were also security issues to be resolved. Gang violence was a huge problem in these mostly abandoned neighborhoods. To help residents and the people working on home rehabilitation feel more secure, it was installed hundreds

of solar-powered streetlights and redesigned the neighborhoods to make better use of the land to alleviate conflict. Lights at night are one of the key aspects to reduce violence, especially among women and children.

The 16/6 project is an excellent example of how the three elements of ESG must always work in concert. We could not have just dropped into Haiti, built new homes for the homeless, and then left without any concern for the future. It was critical to help prepare the community for the move out of the camps, establish local governance, and ensure that the people moving into the new homes were able to get a lifetime of security from them.

CONCLUSION

For those of who us who have worked their entire lives managing projects to come as close as possible to the desired results, ESG has been a powerful tool to guide our efforts and help us meet expectations. At first, we were all extremely happy to see the principles of ESG extended to other areas of the business world. It was a sign of hope that finally, we might be able to change our business practices to ensure the environment, and the people who live in it, were treated as well as the people who own and invest in companies.

However, in our rush to embrace ESG, we've coloured outside the lines of the original concept. We've accentuated the focus on environmental concerns, while largely ignoring the social and governance aspects. And we've bastardized the whole concept of ESG, turning it from a potent tool of project management into a marketing slogan.

As we were able to show in 16/6, ESG is a valuable concept when all three aspects are working together. We would not have been able to meet the goal of creating new and sustainable communities without engaging the community and building new mechanisms to manage those communities. Only then could we turn our attention to ensuring the projects were environmentally responsible and sustainable.

ESG can help transform the world. But only if we remember that all three components are fully and completely interdependent.