

# ESG:

## an acronym for Christians to embrace?

*Gary Cundill explores the concept of Environmental, Social, Governance and finds that it is a messy one, difficult to define, and yet increasingly important to investors. How can Christians respond to it? Gary suggests we should be sceptical, as ESG is used to conceal some doubtful ethics and make palatable an underlying first priority of financial returns; and yet, we might rejoice at such concern for God's creation.*

For those who read the financial pages the acronym 'ESG' has become almost ubiquitous. 'ESG comes of age' was the heading above the missive penned by Harvard Business Review's editor-in-chief a couple of years ago<sup>1</sup>. Today it's difficult to find a financial- or business-focused newspaper that doesn't refer to ESG somewhere in every edition. Typing 'ESG' into the search field of the *Financial Times* pulls up more than 2 000 articles dealing with matters as diverse as private prisons and palm oil.

### What does ESG stand for?

Environmental, social, governance – these are not trivial matters. The intersection of business and environmental, social and governance issues matters to society. The approach that an oil company took to managing safety had tragic consequences not only for employees and their families and for the environment in the Gulf of Mexico in 2010, but also for the behavioural health of those living in affected areas. Notorious governance failures

at Worldcom and Enron resulted in the loss of many jobs and employees' pension savings, and the overhaul of the USA's financial regulatory approach.

And 'ESG' is far from being a fringe issue. A little while back *The Economist* noted that the proportion of institutional assets that are linked to the tracking of ESG indicators is large (\$3 trillion) and growing<sup>2</sup>.

McKinsey brought together 'ESG-oriented investing' and 'sustainable





## ESG for bankers The balance to be struck

Photo: MSCI

investment' and put the figure at \$30 trillion<sup>3</sup>. Underlying this is a growing interest in ESG by investors, regulators and civil society.

But what has this to do with the Christian faith? ESG may matter to society at large, but does it matter to God? Is the idea of ESG just one more concept dreamt up by a financial services industry to increase its margins; just another marketing ploy to justify fees that are under pressure by increasingly sceptical investors? Is it just another green buzzword, complementing or perhaps replacing other terminology such as sustainability, social responsibility, or corporate citizenship? Is it one more arrow in the quiver of the greenwashing brigade, allowing investors to sleep better at night as they fondly hope that their money is – at the very least – doing no harm in the markets? Is it a call to arms for Christians, reminding us that we should be at the forefront of movements concerned about the earth and about the people who live on it, and who decry the way that many companies are currently governed? Or is it something else entirely?

ESG is a messy concept, of course, and that alone should warn us that any view we take will almost certainly need to be a nuanced one. The acronym is applied widely, but also wildly and vaguely—'What does ESG stand for?'

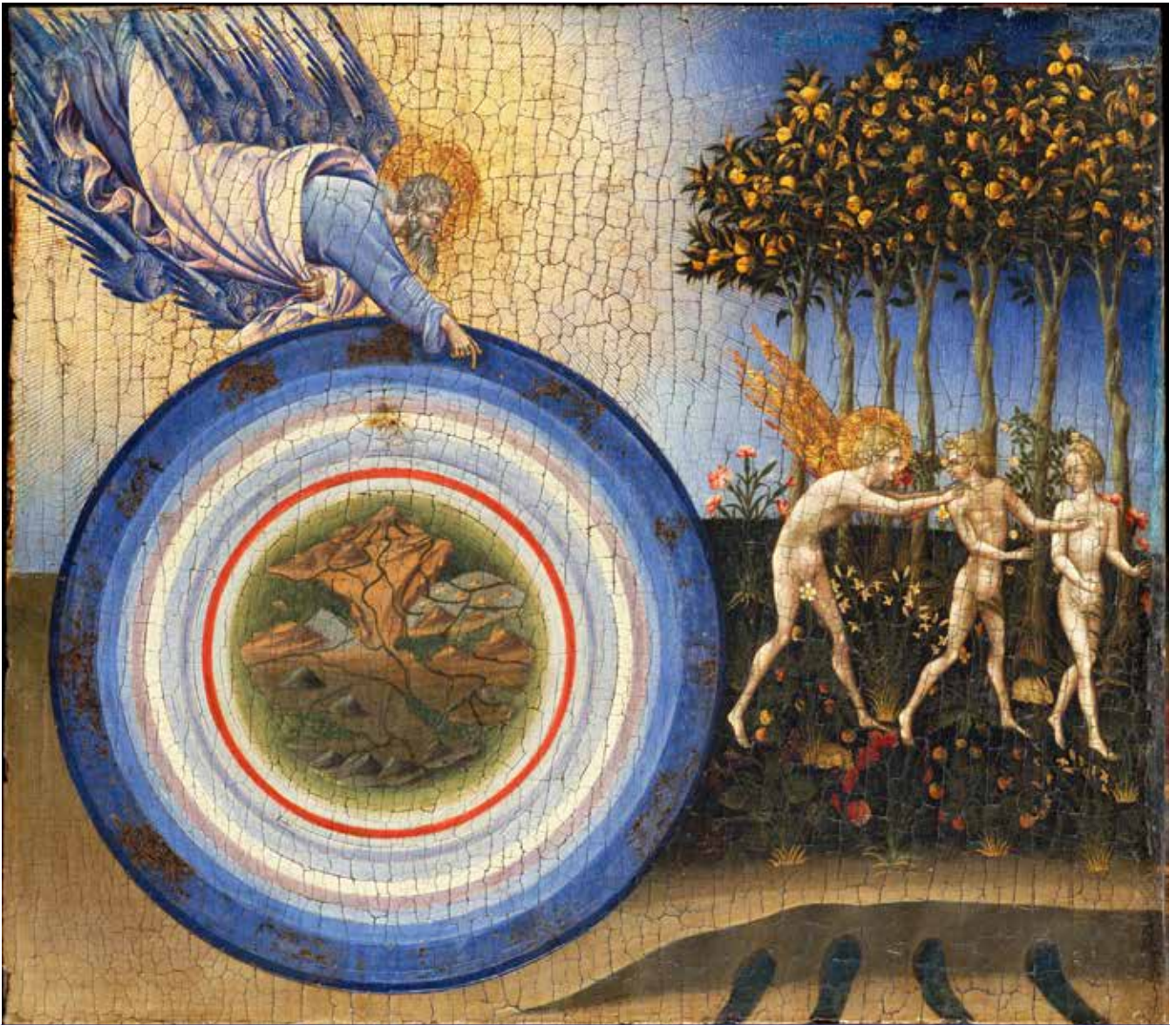
was *The Economist's* slightly plaintive question not long ago<sup>4</sup>. You'll hear people speaking sometimes glibly about ESG issues, ESG risks, ESG ratings, ESG signals, ESG factors, ESG investment, ESG policies, ESG metrics, ESG engagements and even ESG personnel. Environmental, social and governance aren't even the same parts of speech, the first two being adjectives and the last a noun. Yet merely because a concept is muddled doesn't mean that it is not important, or that it doesn't at least represent something that is important. For example, the term 'sustainability' is notoriously difficult to define, at least in a meaningful and practical way, but fewer and fewer people would now argue that it is irrelevant<sup>5</sup>.

So, given its messiness, what is there about this acronym that we can state with confidence? I'll restrict my comments to the corporate context, and won't consider ESG's meaning at government or supra-government levels—this article is, after all, appearing in *Faith in Business Quarterly*. I would suggest that the first two letters can most helpfully be taken to mean company environmental and social performance – non-financial performance, in other words; how does a company impact, positively and/or negatively, on our environment and on our society? Most of us have some level

of familiarity with company financial performance. It's typically reported in terms like profit and loss and in ratios such as return on equity. Reporting company non-financial performance is arguably more complex, but progress is being made in establishing recognised ways of describing it. These include metrics ranging from tonnes of CO2 equivalent emissions to ratios of executive pay to that of the rest of the company's workforce.

The third letter, 'G', refers to corporate governance, and you would think after all the reams of writing in recent years about this topic we'd have an accepted definition. But we don't. What we do have is a multiplicity of definitions that may be allocated to one of two main camps, groups of individuals and organisations that may have vested interests in accepting a particular definition of corporate governance. The first of these camps we can call 'board-centred': these folk (and yes, you will find company directors tend to show up here) see corporate governance as fundamentally something that the board of directors is and does. The second of the camps we might call 'stakeholder-driven'. People in this group understand corporate governance to be something that essentially relies on the actions of players outside of the company: regulators, NGOs, auditors, and the media<sup>6</sup>.





### 'Because it was God who made it'

The Creation of the World and the Expulsion from Paradise, Giovanni di Paolo, Siena, 1445, Metropolitan Museum of Art, New York

Of course, I don't know in which camp you the reader may prefer to reside and so, to avoid the risk of alienating half of you, I'll adopt an inclusive approach: for this article's purposes, corporate governance is 'how the company is run'. A simple definition such as this starts to really show why ESG is such a messy concept. Many people see 'ESG' as almost another way of saying 'green', or 'sustainable' (see McKinsey above), or 'responsible'. But how companies are run doesn't just impact on their environmental and social performance; how they are run is the primary determinant of their financial performance as well. So, when an investment analyst tells you that she is concerned about a company's

'ESG', is the analyst troubled that the company is buying cotton cultivated by forced labour? Or that the company's audit committee chair doesn't know what he's doing, and that large-scale financial fraud is being perpetrated to the detriment of the pension fund she's advising? Who's to know? A potentially unhelpful acronym indeed.

### Why should ESG matter to Christians?

So, taking it that ESG refers to company environmental and social performance, and how said companies are run: does this matter to Christians? Put like this, we probably know the answer intuitively. We don't even need

to go beyond the first verse of the Bible to know that our created environment matters, just because it was God who made it. And we don't need to read beyond the first chapter of the Bible to know that our society matters, because every individual in it carries God's image.

The impact of companies on that environment and that society therefore matters too.

And what about governance? It's not quite as simple to take a view on this, as discussion of limited liability companies was not something front-of-mind for the authors of our Bible. Nonetheless, we may certainly affirm two things with minimal risk of contradiction.

First, the Bible sets standards for the behaviour of people in society, and business enterprises form part of this society<sup>7</sup>. An adherence to the eighth and ninth commandments delivered at Sinai would address a large proportion of modern corporate governance failures. Jesus taught his disciples to pray that the Father's will may be done on earth<sup>8</sup>. This would include, I would suggest, the way that companies on this same earth are run.

Second, the Bible repeatedly points to the link between actions and results, perhaps most poignantly in the images of sowing and reaping<sup>9</sup>. This is not to say that the most ethically run company will be the most profitable for its shareholders<sup>10</sup>. Indeed, in Psalm 73 Asaph complained about the very visible prosperity of the wicked<sup>11</sup>. Yet, particularly in the longer term, how a company is run has a real impact on its financial performance, a point made recently in FiBQ<sup>12</sup>. As Christians we should keep in mind Paul's warning to Timothy that money should not enjoy our love<sup>13</sup>. Yet company financial performance still matters to us, as a company that is not financially sustainable is not sustainable in any


other way either. Financial returns are what enable most of us earn our living and to provide for the days when we may no longer be able to earn it. Governance therefore matters.

## What does this mean for us today?

So, to implications: as Christians we may rejoice at the prominence currently being enjoyed by this messy acronym ESG. Some who have significant influence in our society are using it to call out business leaders for practices that have often been winked at, practices that have led to negative impacts on the environment and our society. More and more, companies are having to disclose their environmental and societal impacts, as well as details of the internal checks and balances on the way that they are run. Disclosure does not necessarily mean improvement, of course, but shining a small light on bad practices can sometimes be remarkably effective<sup>14</sup>.

Rejoicing? Definitely. But as Christians we should also, I suggest, regard the prominence now being given to ESG with a degree of scepticism.

When Jesus despatched his disciples on a preaching expedition, he counselled them to be as wise as snakes<sup>15</sup> (presumably he had in mind the first verse of Genesis 3, where we're told that the snake was the epitome of subtlety/shrewdness/sensibleness). Many who have embraced the term ESG have little if any concern for the negative impacts many companies have on the environment and on society. This is particularly so if these impacts are only felt in a land far away. Many, too, have little regard for the ethical basis on which a company is run, simply that this does not impact negatively on the financial benefits they receive from the company<sup>16</sup>. ESG is a feel-good term, but a good feeling doesn't necessarily correspond to good actions or good outcomes.

ESG's a messy, perhaps clumsy term. But it refers to things that matter, that matter to God, and therefore should matter to us. And our response? Rejoicing, with scepticism. Some good, some bad, probably just about right for living in a fallen world. And hence a third implication, a call to prayer, that God may grant us discernment so that we may live wisely in sometimes evil days<sup>17</sup>, and that his will may be done here on this earth where we live. 

1 Adi Ignatius, 'ESG comes of age', Harvard Business Review, May-June, 2019 p. 14.

2 'Climate change has made ESG a force in investing', *The Economist*, 7 December 2019.

3 Witold Henisz, Tim Koller, and Robin Nuttall, 'Five ways that ESG creates value', McKinsey, 2019.

4 'Does ethical investment withhold capital from those that most need it?', *The Economist*, 27 October 2018.

5 Deuteronomy 22:6-7 does provide a neat illustration of sustainable practice, of course.

6 Ephesians 5:11 could be usefully placed above the desk of an investigative journalist!

7 On occasion business practices are explicitly referred to (e.g. Proverbs 11:1).

8 Matthew 6:10.

9 e.g., Proverbs 11:18; 22:8; Galatians 6:7.

10 Although the Bible often describes righteousness as a precursor to material prosperity provided by God (cf. Psalm 107:33-38).

11 Psalm 73:3.

12 Lupson, P. 2021. Men of Purpose, FiBQ 21.2, pp. 12-16.

13 1 Timothy 6:10.

14 cf. John 3:19-21.

15 Matthew 10:16.

16 And the transitoriness of financial returns is something about which the Bible has quite a bit to say (cf. Psalm 49:16-20).

17 James 1:5-8; Ephesians 5:15-17.



**Gary Cundill** researches, writes and speaks on sustainability-related topics, serves as a mentor to current and future leaders, and enjoys God's creation while hiking, fishing and sailing with family and friends.