ESG. A Transcending Initiative or Scam?
by Charles B. Wendel

The *Observer Business* website states "Investors care about the ESG (environmental, social and governance) profiles of large corporations more than ever." Given the amount of writing and hype around this topic, that is undeniably true.

But has hype and the eternal desire of consultants and advisors to find a new feeding ground for fees taken prominence over the value of this initiative? Are corporate leaders, often susceptible to the next shiny toy, being manipulated by internal staff and external service providers?

As the *Observer* reports, "In 2019, S&P Global, the ratings firm behind the S&P 500 Index, introduced a new benchmark called the S&P 500 ESG Index, a weighted selection of about 300 public companies the firm believes have achieved a good balance between financial return and sustainability performance." Sounds good. But in this year's ESG Index Tesla was dropped and "the firm assigned a higher ESG score to Exxon Mobil, the largest oil and gas producer in the U.S., and included it in this year's index." And even more surprising, "Along with oil producers, weapon manufacturers and tobacco companies are still included in some ESG funds."

A University of Massachusetts study said Tesla generated more air pollution than Exxon Mobile and Marathon Petroleum. S&P cited issues of racial discrimination, working conditions and driver-assistant safety issues. You can guess Elon Musk's reaction: "Exxon is rated to ten best in world for environment, social & governance (ESG) by S&P 500, while Tesla didn't make the list. ESG is a scam. It has been weaponized by phony social justice warriors." The article also quotes the head of a consulting firm that provides advice in his area: "The decision to remove Tesla is an illustration of how arbitrary and flawed the ESG rating and indexing system has become."

Again, quoting the *Observer*: "In its 2021 "Impact Report" "released in early May, Tesla said current ESG reporting focuses too much on a company's risk/return profile and not enough on social and environmental impact. "Individual investors—who entrust their money to ESG funds of large investment institutions—are perhaps unaware that their money can be used to buy shares of companies that make climate change worse, not better."

As Musk and others question the value of ESG initiatives, many service providers are focusing on what they see as a major revenue opportunity. Some examples:

- This week KPMG issued a "Regulatory Alert," highlighting hurdles related to the EC's recent Diversity Assessment Report.
- PwC offers consulting that positions ESG as not "just a responsibility. It's a mindset and an opportunity for growth. But knowing where to start can be overwhelming." In other words, they are there to help.
- And, no surprise, McKinsey offers a framework in an article "Five Ways that ESG creates value." That article also mentions "ESG-oriented investing has experienced a meteoric rise—global sustainable investment now tops $30 trillion." Just imagine the consulting dollars that can be sifted from that total.

The McKinsey article does provide a helpful definition of each aspect of ESG:

“The E…includes the energy your company takes in and the waste it discharges, the resources it needs and the consequences for living beings as a result.”

“S…addresses the relationships your company has and the reputation it fosters with people and institutions in the communities where you do business. S includes labor relations and diversity and inclusion.”

“G…is the internal system of practices, controls, and procedures your company adopts in order to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders.”

There is nothing new about ESG. It represents clever repackaging of areas that many companies, including financial services firms, have been dealing with forever. That’s where the scam kicks in. For years (or likely decades) what good company has not been reviewing its efficiency, its reputation, and its internal and external practices without the ESG label?

During the last century I co-wrote a book titled Business Buzzwords. The book defined the major buzzwords of that era, identified the creators of those words, and offered a perspective on their value.

ESG is a marketing concept, a newly designed buzzword, not a suddenly discovered path for growth.

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