

It's OK to be different



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'Activist investors' are never far from the front page in their efforts – often frustrated – to change how a company is run, despite only having a minority stake in the business. But while the concept of an 'activist investor' is not new, what is new is how in recent months they seem to be making Environmental, Social and Governance (ESG) generally, and Diversity, Equity and Inclusion (DE&I) specifically, their principal battlegrounds. Indeed in the US in particular, such 'conflicts' are unprecedented.

Take, for example, the conservative activist investor Vivek Ramaswamy. Ramaswamy, with the support of Peter Thiel, the co-founder of PayPal, recently sent letters to the CEOs of Apple and Disney as part of an anti-ESG campaign. In the letters they urged the recipients to refrain from making political statements on behalf of their companies, or making hiring decisions based on race, sex, or political beliefs.

An opponent of ESG investing, Ramaswamy's Strive Asset Management seeks to combat what he sees as pressure on companies to consider liberal politics before the bottom line; he wants to use the power of shareholder votes to refocus large companies on maximizing profit and shareholder value, a goal which he says boardrooms have strayed from.

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Separate the substance

Of course, one's view of this depends on how you see ESG as a force for change. But we're in interesting times and the US mid-term elections demonstrate that it's very easy for ESG to become highly politicized. This is despite the fact that the term 'ESG' itself is far from being a household concept, and those that might have a vague notion of its meaning are still wondering what happened to CSR!

Let's try to separate the substance from what has become a politically charged anti-ESG conversation and start by asking a fundamental question: what is the true purpose of a company? Are companies simply there to make money for the shareholders? Or do we believe that companies should create value for all of their stakeholders, to benefit not just a privileged few, but a much wider society?

Quite understandably, there are those who feel that companies should be run to generate profit and profit only. Those who adhere to this principle will define their fiduciary duty accordingly and will make investments judged against this singular principle: to make money.

Quite understandably also, there are those who see the role of companies in a very different light. There are business leaders and their supporters who believe that organizations exist to use effective market-based mechanisms to create prosperity for everyone involved. To that end, they will view their fiduciary duty through a somewhat different lens.

But who is right and who is wrong? Should one point of view be applauded and the other chastised? Does it have to be, as George Orwell wrote in *Animal Farm*, 'Four legs good; two legs bad', or can opposing ideas co-exist in harmony?

The highly polarized world in which we live makes it hard to believe, but the reality is that different ways to run a business have always co-existed. And it shouldn't be forgotten that it's ultimately shareholders who decide the rationale for a company's operations, as they invest according to their own views and objectives. What is particularly interesting, however, is that if we look at the most successful and longest-established organizations, they tend to be those who see their role as being more than 'just' creating shareholder value in isolation. US-based Campbell's and Heinz are two traditional companies that illustrate this point well. They have been successful in adapting to seismic changes within their respective markets over the last 150 years and shaping their offering because they put stakeholders at the centre of what they do and their vision of fiduciary duty.

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The danger of weaponizing ESG

But there is another element to the anti-ESG movement to consider; that it has been weaponized. This is something that my colleague David Pritchett discussed recently when he [commented](#) on the sharp increase in resolutions relating to racial and civil rights and pay equity.

The debate hasn't been helped by the way in which the anti-ESG movement uses the terms ESG, ESG investments, and ESG orientation to mean whatever they want them to mean to support their own arguments. In practice ESG requires assessing the risk profile of an organization against recognized ESG criteria. This is something that the European Union has seen value in for it has regulated and created clarity around the term.

In practice we apply filters to how we judge organizations on their ESG standards. On pollution, for example, we may consider an organization's ESG profile and whether its anti-pollution policies are acceptable. This can be seen as 'negative filtering'. The polar opposite is to apply a positive filter and use a risk assessment profile. Rather than 'anti-pollution' we might consider an organization's pro-active and demonstrable investments in renewable energy.

It could be argued that these are two sides of the same coin. There's nothing wrong in being in either camp – either being 'pro' or 'anti' ESG. But we must recognize that the anti-ESG movement is more often than not fuelled by a lack of understanding of where risk evaluation and outcome orientation truly lay. It's not surprising. As NYSE president [Lynn Martin](#) recently noted, some companies are trying to water down ESG regulations: "I don't think anyone can argue the positive effects that, for example, diversity and including additional diversity has had on business... [but] environmental is a bit stickier..."

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“ It's therefore perfectly fine to hold opposing views as they can co-exist – and in harmony too. But for this to happen we need to subscribe to the idea of informed debate, the essential attribute of a functioning democracy.”

The moral is that we shouldn't preach. We shouldn't try to convince others at all costs that our own point of view is superior, neither should we disrespect them because they think differently to us. This naturally brings us back to acknowledging the fundamental need for diversity, equity and inclusion in everything we do in society, in the workplace, in our families and in our communities.

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