

ESG FROM VALUE TO VIRTUE: LAUDATO SI

Environmental deterioration and human and ethical degradation are closely linked: Concern for the environment thus needs to be joined to a sincere love for our fellow human beings and an unwavering commitment to resolving the problems of society. We are faced not with two separate crises, one environmental and the other social, but rather with one complex crisis which is both social and environmental and needs for a new culture of responsibility, integral and integrated conversion, and international dialogue for the common good. (Laudatio S; Pope Francis).

Nowadays is impossible to go through a journal or economic digital media without coming across the almighty acronym of ESG.

Everything is ESG, all companies are setting ESG strategies, the biggest asset managers are raising trillions in ESG funds, what used to be infrastructure investments are now ESG “infra like”, ESG consulting firms and ESG analytical tools mushroom ubiquitously, even market regulators are compelling non-financial information to disclose ESG facts.

When we consult Wikipedia, this is what we find:

***Environmental, Social, and Corporate Governance (ESG)** is an evaluation of a firm’s collective conscientiousness for social and environmental factors. It is typically a score that is compiled from data collected surrounding specific metrics related to intangible assets within the enterprise. It could be considered a form of corporate social credit score. Research shows that such intangible assets comprise an increasing percentage of future enterprise value. While there are many ways to think of intangible asset metrics, these three central factors together, ESG, comprise a label that has been adopted throughout the United States financial industry. They are used for a myriad of specific purposes with the ultimate objective of measuring elements related to [sustainability](#) and societal impact of a company or [business](#).*

“Collective conscientiousness .. metrics related to intangibles.” sounds a bit *whishy* *washy* for a burgeoning industry of more than \$30 trillion .. the answer is that behind it all, there is real market value. Value which transcends reputation, brand awareness or investment allure, it is a value that goes directly to the bottom line and more importantly to the capitalization value of incumbents.

ESG has become the ultimate market artifact to propel valuations and is the offspring of previous similar attempts from triple-bottom-line, CSR and shared value theories and practices.

The past worldwide adoption of Corporate Social Responsibility (CSR) policies and strategies can be understood as part of the global spread of management concepts, ideologies, and techniques trying to address and expanded social and political role and responsibility of corporations and the quest for a new value proposition.

CSR, as the context in which it operates, has been a dynamic and evolving concept, which has relentlessly moved from ethics, to compliance, from philanthropy to strategic transformational shared value and finally to ESG which is the present last frontier.

The concept of Shared Value was first coined by Michael Porter and Mark Kramer in their Harvard Business Review article (2006), “Strategy and society: the link between competitive advantage and corporate social responsibility” followed by "Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society, (2011).

For Porter & Kramer (2006), “societal needs not just conventional economic needs define markets”. Social harms do create internal cost and externalities for companies. Addressing them in a strategic way can be a colossal way to generate new value. Their value proposition is not about redistribution but expanding the total pool of economic and social value. They Identified and expanded the connection between societal and economic progress and based their approach in a whole set of policies and operating procedures affecting corporate strategy, risk management and all value chains. Success or failure needs to be redefined in accordance to a totally new understanding of value.

They opened up a totally new dimension where philanthropy as the current strategy of using shareholders money to secure some reputational limited and short term objectives, is replaced by a more holistic, long term and collaborative paradigm of creating long term and sustainable innovation, markets, new products and services, while reducing externalities and fostering new value along the supply chains for all their stakeholders', ie. Creating shared value.

The challenge is to be able to integrate CSR into overall management strategy, make a business out of citizenship, attuned to social needs, align interests, create and sustain a broad legitimacy, create shared value and transparently and responsibly communicate with all stakeholders.

All these will translate into increased reputation, greater innovation, resilience, financial sustainability, strategic anticipation, adaptability and a competitive advantage, becoming the ultimate value creators: emotional value, experiential value, social value, and of course, financial value.

These lofty goals are the bedrock of what we now understand as ESG: a combination of a set of goals driven by different values and embedded into corporate strategies fundamentally to support further creation of wealth while preserving and enhancing their license to do business.

ESG is thus, the new "golden fleece" without which whole sectors are deemed to be "stranded assets" and a scheme cozily managed from same old management and market structures now blessed by all public bodies and society at large...could be said, same dummy with a different attire, although a new and beautiful one.

The question then, is if it is sufficient to sustain the huge transition it purports to embody: climate change, a new sustainable social and economic harmony, and a new paradigm of corporate and collective governance?

Groucho Marx famously said "these are my values, but if you don't like them, I do have others" .. there is in truth something problematic with "values" as they report to something which in essence is static in that space and time, a set of principles translated

into metrics, scores, data which report on the “as is”, but agnostic as to what should be in the future.

Values are the prism from which we can analyze the present and take moral decisions but are not by themselves enough to change or condition the future, as at that time, there might be other competing values.

What is more troubling about values, is their inability to facilitate a scale, gradient, or primacy amongst them. Which value should come first, which one is more sacred or urgent than the other ..?

ESG combines three different and quite distinct realms, informed by a set of different applicable values: Environmental protection, social concerns mostly focused on diversity, human rights and customer transparency/suitability and corporate governance as balance between different kind of investors, stakeholders and managers...quite a noble but realistically unattainable task from a mere value driven perspective.

What we need is something different, something to glue in a virtuous circle all those three ESG elements, something with unquestionable immanence and permanence and as true sustainable propeller of action towards a vision and a mission for a better future.

And here is where we need to revert to Pope Francis for guidance and rescue.

Laudatio SI is an extraordinary piece of wisdom and pedagogy. It seamlessly combines the pillars of the social doctrine of the catholic church (subsidiarity of the estate made possible with an increased personal citizen responsibility, defense of the private property which comes with a “social mortgage”, priority election for the poor and discarded..) within a true ESG holistic analysis of our world and natural capital as an amazing gift entrusted to human kind, the sacred dignity of every human being, and a new international governance to make it happen based on the pursuit of the common good.

Not only it aptly describes the symptoms of our present difficulties but also offers practical guidance and spiritual support to overcome them.

The Pope strives for a simultaneous change of mind (cultural revolution and reset of values), and a conversion of heart (social love driven by virtues) which will make possible a new governance system based in dialogue and engaged and inclusive conversation towards the common good, uniting environmentalism with human ecology and a governance ecology.

Laudate SI offers a complete social and governance taxonomy which comes to complement the sustainable taxonomy, the only one we already have. It truly offers a blueprint for expanding ESG beyond its present boundaries and limitations.

What comes next are brief excerpts from the encyclical to highlight those points:

Authentic human development has a moral character. *It presumes full respect for the human person, but it must also be concerned for the world around us and “take into account the nature of each being and of its mutual connection in an ordered system”.*

*If we approach nature and the environment without this openness to awe and wonder, if we no longer speak the **language of fraternity and beauty in our relationship** with the world, our attitude will be that of masters, consumers, ruthless exploiters, unable to set limits on their immediate needs.*

*The urgent challenge to protect our common home includes a concern to bring the whole human family together to seek a **sustainable and integral development**.*

*We need a **new dialogue** about how we are shaping the future of our planet. We need a **conversation which includes everyone**, since the environmental challenge we are undergoing, and its human roots, concern and affect us all.*

Climate change *is a global problem with grave implications: environmental, social, economic, political and for the distribution of goods. It **represents one of the principal challenges facing humanity** in our day.*

Human beings *are creatures of this world, enjoying a right to life and happiness, and **endowed with unique dignity**. So we cannot fail to consider the effects on people’s lives of environmental deterioration.*

*The social dimensions of global change include the effects of technological innovations on employment, social exclusion, an inequitable distribution and consumption of energy and other services, social breakdown, increased violence and a rise in new forms of social aggression, drug trafficking, growing drug use by young people, and the loss of identity. Some of these signs are also **symptomatic of real social decline, the silent rupture of the bonds of integration and social cohesion.***

***The human environment and the natural environment deteriorate together;** we cannot adequately combat environmental degradation unless we attend to causes related to human and social degradation.*

*Today, we have to realize that **a true ecological approach always becomes a social approach;** it must integrate questions of justice in debates on the environment, so as to hear both the cry of the earth and the cry of the poor.*

*Inequity affects not only individuals but entire countries; it compels us to consider an **ethics of international relations.***

*We need to strengthen the **conviction that we are one single human family.** There are no frontiers or barriers, political or social, behind which we can hide, still less is there room for the globalization of indifference.*

*The problem is that **we still lack the culture needed to confront this crisis.** We lack leadership capable of striking out on new paths and meeting the needs of the present with concern for all and without prejudice towards coming generations.*

*There are too many special interests, and economic interests easily **end up trumping the common good.***

*Human life is grounded in three fundamental and closely intertwined relationships: with God, with our neighbor and with the earth itself. This implies a relationship of **mutual responsibility between human beings and nature.***

***A sense of deep communion** with the rest of nature cannot be real if our hearts lack tenderness, compassion and concern for our fellow human beings.*

Concern for the environment thus needs to be joined to a sincere love for our fellow human beings and an unwavering commitment to resolving the problems of society, Hence every **ecological approach needs to incorporate a social perspective** which takes into account the fundamental rights of the poor and the underprivileged

the Church does indeed defend the legitimate right to private property, but she also teaches no less clearly that **there is always a social mortgage on all private property**, in order that goods may serve the general purpose that God gave them.

Our immense technological development has not been accompanied by **a development in human responsibility, values and conscience**. we cannot claim to have a sound ethics, a culture and spirituality genuinely capable of setting limits and teaching clear-minded self-restraint.

There is an urgent need for us to move forward in a **bold cultural revolution**.

There can be no renewal of our relationship with nature without a **renewal of humanity itself**. **There can be no ecology without an adequate anthropology**.

When we speak of the “**environment**”, what we really mean is a relationship existing between nature and the society which lives in it.

We are faced not with two separate crises, one environmental and the other social, but rather with one complex crisis which is both social and environmental.

We urgently need a humanism capable of bringing together the different fields of knowledge, including economics, in the service of a **more integral and integrating vision**.

Our difficulty in taking up this challenge seriously has much to do with an **ethical and cultural decline** which has accompanied the deterioration of the environment. Men and women of our postmodern world run the risk of rampant individualism, and many problems of society are connected with today’s self-centred culture of instant gratification.

in addition to a fairer sense of intergenerational solidarity there is also an urgent moral need for a renewed sense of **intragenerational solidarity**”

In this sense, **social ecology is necessarily institutional**, and gradually extends to the whole of society, from the primary social group, the family, to the wider local, national and international communities (the governance factor).

An integral ecology is inseparable from the notion of **the common good, a central and unifying principle of social ethics**. The common good is “the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfilment.

The notion of the common good also extends to future generations. We can no longer speak of sustainable development apart from **intergenerational solidarity**.

The environment is part of a logic of receptivity. It **is on loan to each generation**, which must then hand it on to the next”. **An integral ecology** is marked by this broader vision.

We need to see that **what is at stake is our own dignity**. Leaving an inhabitable planet to future generations is, first and foremost, up to us.

True statecraft is manifest when, in difficult times, we uphold high principles and think of the **long-term common good**.

Today, in view of the common good, there is urgent **need for politics and economics to enter into a frank dialogue** in the service of life, especially human life, demanding a greater sense of responsibility for the common good from those who wield greater power.

We human beings above all who need to change. We lack an awareness of our common origin, of our mutual belonging, and of a future to be shared with everyone. This basic awareness would enable the development of new convictions, attitudes and forms of life. **A great cultural, spiritual and educational challenge stands before us**, and it will demand that we set out on the long path of renewal.

Postmodern humanity has not yet achieved **a new self-awareness capable of offering guidance** and direction, and this lack of identity is a source of anxiety

The emptier a person's heart is, the more he or she needs things to buy, own and consume. It becomes almost impossible to accept the limits imposed by reality. In this horizon, a genuine sense of the common good also disappears

*Today, in a word, **“the issue of environmental degradation challenges us to examine our lifestyle.** It is a return to that simplicity which allows us to stop and appreciate the small things, to be grateful for the opportunities which life affords us, to be spiritually detached from what we possess, and not to succumb to sadness for what we lack*

*The existence of laws and regulations is insufficient in the long run to curb bad conduct, even when effective means of enforcement are present. If the laws are to bring about significant, long-lasting effects, the majority of the members of society must be adequately motivated to accept them, and personally transformed to respond. **Only by cultivating sound virtues will people be able to make a selfless ecological commitment.***

*When there is a general **breakdown in the exercise of a certain virtue in personal and social life, it ends up causing a number of imbalances, including environmental ones***

*A commitment this lofty cannot be sustained by doctrine alone, without a spirituality capable of inspiring us, without an **“interior impulse which encourages, motivates, nourishes and gives meaning to our individual and communal activity”***

*For this reason, the ecological crisis is also a summons to **profound interior conversion.***

*So what they all need is an **“ecological conversion” or change of heart***

*The ecological conversion needed to bring about lasting change **is also a community conversion.***

***Inner peace is closely related to care for ecology and for the common good** because, lived out authentically, it is reflected in a balanced lifestyle together with a capacity for wonder which takes us to a deeper understanding of life.*

*We are speaking of **an attitude of the heart**, one which approaches life with serene attentiveness.*

Love for society and commitment to the common good are outstanding expressions of a charity which affects not only relationships between individuals but also “macro-relationships, social, economic and political ones.

Social love is the key to authentic development: *“In order to make society more human, more worthy of the human person, love in social life – political, economic and cultural – must be given renewed value, becoming the constant and highest norm for all activity.*

If this new “integral ecology” calls for overriding its static “value” driven approach and a new one anchored on virtues needs to be developed, then, we possibly need to redefine what ESG stands for.

Engage Societal Good could do.

Virtue is predominantly a verb, an action which bears fruit and informs values and transform character and then the heart. Only by doing do we move and change.

There is nothing more powerful as truly engaging your realities for it signifies a donation of oneself and builds the necessary blocks for a much needed empathy.

Only when we do engage, we can relate and then understand and start a conversation, an integrative dialogue with the alter. It fosters a dual movement of inner reflection and affection and an external opening and confidence; it helps to jumpstart a dual track authentic relationship.

When we understand that society is just the sum of every and all human beings, all of them possessing a unique dignity and subjected to same degree of respect, justice and love, and further that we are all bound together as a big commonality entrusted to take good care of the nature and environment we all share and received without personal merit and have the moral obligation to govern and pass on to future generations if possible even in a better condition and that such endowment is nothing other but our common good, then we could rightly assume that Engaging Societal Good is in total

alignment with a new transcendent and virtuous integrated human and environmental ecology.

A new ESG construct has been born.

But how could we replace the old for this new ESG understanding? What sort of corporate function will it be able to steer? What sort of corporation, management leadership and strategy will this new ESG favor?

The world is not just rapidly changing it is starting to operate differently within an increased complexity which calls for new leadership, organizational and management paradigm.

The above can be condensed under the term we coin as “*Accelerexity*”.

Accelerexity is defined as the incremental complexity derived from accelerated changes due to among other drivers, interdependence, digital and big data revolution, and the power of global supply chains.

What *Accelerexity* tries to graphically summarize is that the corporation is in a constant flux, going from crisis to crisis, mostly focusing on short term results, operating under mostly rigid and disconnected units, merely reacting to the constant changes to its business context and often contradictory requests from its stakeholders.

Not only that, but Companies are also now perceived to be the most powerful institutions and are thus held increasingly responsible for employment, environment, welfare, innovation and growth, replacing the government as the guardians of economic wellbeing.

Corporations, willingly or not, are becoming political actors thereof, not only do they need to understand the nuisances, ambiguities, timing and unstable consensus of the “power play” but also, they need to defend themselves from the public opinion, stakeholders pluralistic and more often than not conflicting interests and from the state itself zealous of the shared power and influence.

Multinational companies are thus under fire to find the better synergy between a centralized corporate governance framework, a dynamic decision-making process, a decentralized strategic revision system and a global coordinated sustainable footprint, reputation and stakeholders engagement management practice, while being true to their role as a de facto political actor and maintaining a difficult equilibrium with the state and the rest of its crucial interdependencies.

They are constantly weary of striking the right strategy at the right time and within the right leadership.

Bill George (2004) argues: "We need authentic leaders... We need leaders with the courage to build their companies to meet the needs of all their stakeholders, and who recognize the importance of their service to society."

In that same wavelength both Robert Greenleaf (2002) and Ken Blanchard (2003), among others, developed the concept of Servant Leadership as a soft power-based style looking at fulfilling stakeholders needs and ambitions through a culture of responsible engagement.

David Goleman (2013) says that "It is more important than ever for leaders to be self-aware and composed, focused and high energy, empathic and motivating, collaborative and compelling—in short, resonant."

He is one of many more, calling for a new leadership, a new mindset and new corporate behavior where emotional and social intelligence will become even more critical to building and maintaining the working relationships and resonance needed to navigate these globalized troubled waters and not only survive but excel.

Resonant leaders create positive relationships and engage others toward a common good. One of the most reputed consulting firm in this arena, Teleos Leadership Institute says that "These leaders are consciously attuned to people, focus them on a common cause, build a sense of community, and create a climate that unleashes peoples' passion, energy, and unified spirit. Resonant leaders also facilitate empowerment, acting in ways that leave the people around them (colleagues, team members, employees, suppliers, community members, etc.) feeling stronger and more capable."

Influential Annie McKee argues (2005-2008) a Resonant corporation “encourage collaboration and innovation, engage and motivate employees, builds trustworthy and lasting relations with its stakeholders, leads to improved overall performance” and we can add that also and ultimately contributes to its resilience as the inner strength, endurance and (i) capacity to sustain hardships and bounce back, (ii) confidence to undertake difficult changes and (iii) flexibility to adapt to new scenarios.

ESG governance then has to be more than a mere corporate function, it has to be the expression and materialization of a new understanding about the mission, vision and values of the corporation, and in order to really be integrated, it calls for a new leadership paradigm, a new capacity to engage and develop close and enduring relationships and building connectedness, an authentic leadership, firmly grounded in the corporation self-awareness as a responsible citizen and a political actor.

Part of the solution to this *Accelerexity*, power tension and new leadership style conundrum, is a new integrated concept of Corporate ESG, embedded under a new management paradigm based on a different form of understanding leadership, engagement, adaptation, attunement, governance, management, organization, education and care for the planet, a new virtue driven conception of the license to operate, hereby proposing a new ESG integrative functional definition:

Corporate organizational, management and governance integrated response to engage societal good, fulfill the firm’s authentic leadership as a responsible citizen and savvy political agent in increasingly complex, interdependent and accelerating obsolescence of business scenarios, with a view to adapt and shape the business context, engage and align its stakeholders interests, and inform strategy, thus reinforcing its legitimacy and reputation, building resilience and resonance, while creating shared long term value.

Answering to our initial question: a well-defined, structured, lead, internalized and integrated ESG Corporate function along these lines, will advance the corporation’s ability to inform, intermediate and influence, to generate legitimacy to support its reputation and resilience while effectively shaping their business and regulatory context catering for an *integrated ecology* and the common good.

We are convinced, that a wide adoption and internalization of a Corporate ESG function as here conceived and advanced, will contribute to breach current values and governance gaps, solidify an “integrated ecology”, contribute to a better management and leadership attunement inside the organizations, promote a healthier long term strategy orientation, counter and profit from the increased influence of stakeholders, build a most needed systemic resilience, and forge a more deliberative system, increased civil society participation and acceptable humanistic capitalism where financial results will also embed wider societal and sustainability global challenges, summing up, more resonant corporations.

I don't want to finish without citing Pope Francis prayer at the end of Laudate SI, hoping it shall bring hope, peace, and enlightenment.

A prayer for our earth

*All-powerful God, you are present in the whole universe
and in the smallest of your creatures.
You embrace with your tenderness all that exists.
Pour out upon us the power of your love,
that we may protect life and beauty.
Fill us with peace, that we may live
as brothers and sisters, harming no one.
O God of the poor,
help us to rescue the abandoned and forgotten of this earth,
so precious in your eyes.
Bring healing to our lives,
that we may protect the world and not prey on it,
that we may sow beauty, not pollution and destruction.
Touch the hearts
of those who look only for gain
at the expense of the poor and the earth.
Teach us to discover the worth of each thing,
to be filled with awe and contemplation,
to recognize that we are profoundly united
with every creature
as we journey towards your infinite light.
We thank you for being with us each day.
Encourage us, we pray, in our struggle
for justice, love and peace.*

**part of the text in this paper is literally borrowed from my Oxford Said Business School Global Business final dissertation on Corporate Diplomacy*