Comments of Wendi Goldsmith, PhD

These comments are offered based on my 40 years of experience applying socially and environmentally responsible investment criteria and governance approaches in multiple contexts. Professionally, I provide subject matter expert services in science, emerging technology, policy trends, and business decision frameworks grounded in good governance on environmental and social topics. Over the past twenty-plus years I have served as a Board Director for non-profits, private companies, and one joint venture involving a publicly traded corporation. My PhD is in Business and Social Sciences focused on decision process for sustainable development and climate change resilience. I am a Yale-trained Earth and Planetary Scientist and licensed professional geologist. My world view revolves around grasping that we need to make efficient and thoughtful use of finite resources on our planet, ensuring the viability of land, water, and atmospheric systems as well as fair distribution of benefits and impacts. I see renewables, conservation, multi-functionality, and circular economy as key trends for our successful future. During the past decade especially, observing private enterprise stepping further into leadership roles addressing evolving environmental, social, and governance has given me great hope about achieving sustainable development targets within a realistic timeframe. I have maintained a sizeable portion of my savings and retirement funds in socially responsible investment accounts since the mid-1980s, putting my money where my mind is. I want to make a case for continuing along that trajectory, not interfering with emerging growth trends in ESG-focused investments for retirement plans.

My first exposure was as a student activist in the 1980s advocating for academic institutions to divest from businesses whose activities were demonstrably supporting South African Apartheid government policies of repression and violence. This situation had prompted Reverend Leon Sullivan, a Board Director of General Motors, to pen a set of principles requiring racial equity for employees both inside and outside the workplace. At the time, General Motors operated important plants in South Africa (understood to be the largest employer of blacks in that country) and Sullivan, an African American minister, recognized a need and an opportunity to practice what he called “corporate civil disobedience” to apply pressure to correct those social problems. Sullivan not only urged General Motors to adopt the Sullivan Principles, but over a hundred US-based corporations signed onto them as well. Leverage would come from businesses remaining engaged and exerting demands on the South African government, rather than profiting from the unjust system of race-based disenfranchisement and violence. The Sullivan Principles became the cornerstone of the student divestment movement, awakening a generation of future managers, investors, and generally civic minded people to the need to take a broader view of evaluating the intertwined relationship of business decisions with societal issues of global importance.

Although the Sullivan Principles themselves became obsolete with the regime change in South Africa and concurrent release of Nelson Mandela and fall of Apartheid policies, the awareness continued to evolve. Today's corporate social responsibility can be seen as the way businesses speak about the alignment of their business practices with the interests of society affected through jobs, products, supply chain, environmental impacts, or any other recognized (or newly revealed) issue. In my view, the fact that businesses AND communities are starting to think, act, and cultivate awareness with much alignment based on shared concerns on these issues is a source of great hope and strength for all of us. Environmental and social topics are NOT separate from business interests, and are increasingly embraced by business leaders with expanding data and understanding. This is not a case of idealism imposed from outside businesses. The importance of this differentiation is that it highlights the aspects of sustainability that directly relate to improving tangible business performance (such as generating brand loyalty and attracting motivated young employees) and reducing risk (such as lost revenue due to flooded factories, media backlash from socially unacceptable incidents, or future regulations or buying trends running against GHG-heavy products). There are many examples where spending some time and attention to identify business-savvy corporate actions can save a lot of money, often for little or no initial investment. Changing industrial lighting, heating, motors, and other mechanical and electrical systems have been found through many large-scale studies to yield impressive returns on investment. Former Department of Energy Secretary of Energy and Nobel Laureate Steven Chu called these not only low-hanging fruit, but "fruit lying on the ground." In other words, for businesses to NOT take action on these items would be disadvantageous for business reasons as well as sustainability factors. If this is so obvious, then why isn't it already being addressed? Often it merely comes down to nobody scrutinizing energy bills that aren't rising because they're already built into the budget. But reducing energy consumption reduces GHG emissions (and environmental benefit), and also reduces brownouts and load-shedding which affect many US regions and international areas (a social benefit). There is so much opportunity to focus on ESG factors in the normal course of business decisions that one need not coax business people to take on areas of activity outside of what is already in their direct responsibility and self-interest. Many investors are pushing businesses to act in more sustainable ways, starting with demanding meaningful disclosure about social and environmental impacts of business operations. Best practices for corporate behavior certainly are trending towards gaining a tight understanding of social and environmental performance, and publishing information through formal corporate filings as well as internal management tools and marketing. Organizations such as the National Association of Corporate Directors (of which I am a member) is recognized as a leader on environmental and social factors considered crucial for sound governance.

That's not to say that other themes beyond those aligned with self-interest are not relevant, useful to businesses, and worth pursuing…merely that you don't need to have altruists leading companies in order to gain support for a sensible roster of identifiable business improvements that are smart on BOTH a financial and sustainability basis.

Perhaps more importantly, investors have every right to be able to evaluate and select (or reject) those investments which align with their personal preferences, ethical priorities, and religious beliefs. To deprive people of reasonable opportunity to choose individual investments or aggregated funds based on the diverse factors they find personally important would hinder both the investors and the businesses where they might invest. This flies in the face of the reality where a vast array of investment opportunities offer up proprietary management analysis as part of their branding to differentiate them from competitors.

One of the key investment considerations laid bare during the global economic disruptions of COVID-19 and other similar Black Swan or lesser impacts is risk management. It is not possible to separate the management of business risk from the factors falling under the ESG rubric. Risk management is a cornerstone of investment strategy. Some of the profound lessons learned after the 2008 market crash had to do with how gender representation (more so than age, race, and professional diversity) on Corporate Boards correlated with reduced financial losses. Researchers investigated psychological studies, testosterone level samples, and records of decisions made to identify patterns and contributing factors that led to greater risk-taking. This drove home a clear message that embracing responsibility at the governance level of the Boardroom was an asset for risk management, not a frivolous well-meaning gesture lacking business merit. France started pressing for greater inclusion of women on Boards, making this a legal mandate in 2011. Now less than a decade later, France leads Europe by a wide margin in Board gender diversity, inspiring multiple US states to follow suit. Now, of course Board gender diversity does not automatically resolve the universe of sustainability goals, but it does require a fresh roster of leaders seeking to ensure that business performance fulfills shareholder interests.

If sustainability metrics continue to exist apart from standard accounting practices and the business decisions that pivot around those numbers, they won't receive the same weight. Linking sustainability performance within a framework of established accounting practices could ensure that unified decision-making can be supported. Otherwise, there have been many examples where sustainability initiatives, reports, and recommendations are made, but not adopted, due to their failure to receive the high-level management consideration supported by the level documentation and analysis normally expected of similar decisions. Sustainability needs to be threaded throughout decision processes, not set up in some disconnected silo. Tackling decisions beyond financial factors and including non-equivalent metrics will require use of decision support tools. Multi-Criteria Decision Analysis is an increasingly popular approach to tackling this process in a transparent, complex, and yet streamlined manner.

Corporate Social Responsibility is differentiated by being voluntary in nature, not required via government regulation. But many regulatory initiatives including labor laws, industrial safety frameworks, environmental standards and permitting, and so on got their start as businesses, investors, and even insurers, plus other stakeholders called on parties to do things better. So you could say that CSR has a long historical background going back at least to ancient rules on Kosher food practices or Old English Law requiring unadulterated ingredients in beer and bread, and continuing to fit modern products and concerns. Many CSR systems have been started for specific situational contexts, and they all have trade-offs tailored for specific times and purposes. For instance, the Caux Round Table arose in the mid-1980s to convene corporations who shared concern over global trade competition. A chief concern was that unfair underpriced goods could start a race to the bottom in terms of wages, quality of goods, and even international relations. Once convened, as people discussed problems and opportunities the idea of environmental impacts became a focal point and the Caux Round Table is viewed as one of the leaders in bringing the topic to the mainstream business world.