

# Positioning the ESG/Sustainability Initiatives with the Ethics & Compliance Programs

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Centre for **Advanced Research** in  
**Management and Applied Ethics**

**Ethics**  **Compliance**  
European Association

**#1**

# **What is really ESG?**

**Preliminary Remarks**



# What is ESG?

## 1 ESG was born out of and developed as part of the CSR / Sustainable Development movement.

'60s

'70s

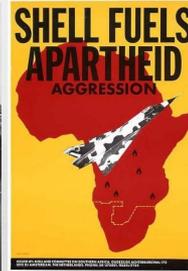
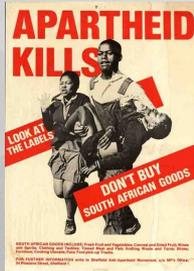
'80s

### socially responsible investment

The origin of ESG is in the investment decisions from the '60s, '70s and '80s to include/exclude companies or industries from investment portfolios as a result of global calls to **disinvest, divest and sanction** companies that support oppressive regimes (e.g. Apartheid) or war efforts (e.g. Vietnam War)

Increased awareness regarding environmental impact of business & industry contribution to climate change

- '30s-'80s
- \* The social responsibility of managers
- \* The social responsibility of companies



# What is ESG?

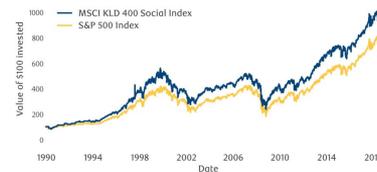
1 ESG was born out of and developed as part of the CSR / Sustainable Development movement.

'90s

## sustainable investment

**Domini 400 Social Index** is created (today: **MSCI KLD 400 Social Index**)  
**S&P Dow Jones Sustainability World Index (DJSI, 1999)**

**Figure 1: U.S. index comparisons**  
MSCI KLD 400 Social vs S&P 500



Source: Bloomberg (2019)

**Exhibit 2: Historical Performance of the DJSI World**

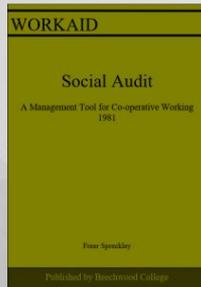


Source: S&P Dow Jones Indices LLC. Data as of Sept. 10, 2019. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

# What is ESG?

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'80s  
Environmental impact  
assessment (EIA)  
Environmental reporting



'90s

## sustainable development

UN Earth Summit, Rio de Janeiro (1992) - Agenda 21  
Kyoto Protocol (1997)

'00s

## sustainability reporting

**Global Reporting Initiative** founded (1997)  
**SA 8000: 1997** (Social Accountability International, established in 1989)  
**Triple Bottom Line Reporting** (1994!)

**Non-Financial Reporting Directive / NFRD** (EU, 2014)  
**Corporate Sustainability Reporting Directive / CSRD** (EU, 2023?), replacing NFRD  
**Sustainable Corporate Governance Directive** (EU, 2022?)

'10s

## What is ESG?

2 It was always about these 3 components



**PLANET**  
Environmental Performance



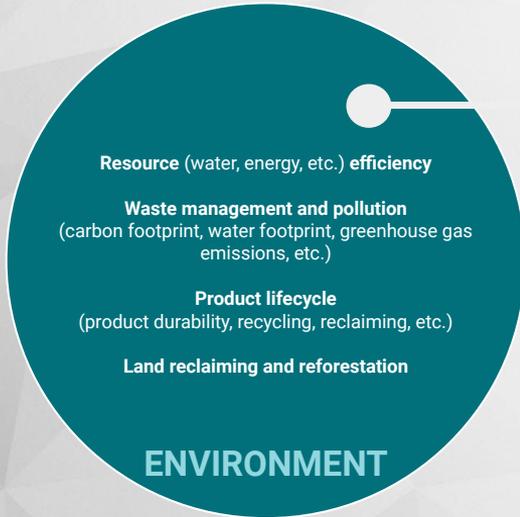
**PEOPLE**  
Social Performance



**PROFIT**  
Economic Performance

# What is ESG?

## 2 It was always about these 3 components



**PLANET**  
Environmental Performance



**PEOPLE**  
Social Performance



**PROFIT**  
Economic Performance

### 3 What is really ESG?

1. **A way of doing business?**
2. **A transparency tool** (reporting for investors/all stakeholders)?
3. **An accountability tool** (e.g. to clean the supply chain)?
3. **A peer-pressure mechanism** (from society)?

**Or just a trend that comes and goes?**  
like “corporate citizenship,” “shared-value,” etc.

## Current Situation

- 1 More and more companies appoint an ESG Committee / ESG Working Group**  
(without proper due diligence and integration + short-termism)
- 2 There is an increased focus on reporting (transparency?!)**  
(and less on doing things with integrity in all the aspects of the business)
- 3 New European legislation will change significantly the rules of the game**  
(with still unknown impact)

**#2**

## **A different approach**

**An inclusive perspective**



## An old question

What is the relationship between CSR and Ethics & Compliance (and Corporate Governance)?

In 2011 paper, *"Down with CSR! Up with Business Ethics!" Rethinking the Place of CSR in the Organizational Architecture*, I proposed an inclusive relationship between CG, E&C, and CSR, based on the idea of responsibility



## An old question

What is the relationship between CSR and Ethics & Compliance (and Corporate Governance)?

### Case Study



**SOCIAL / Social impact / Supply chain / Modern slavery / .Child exploitation**



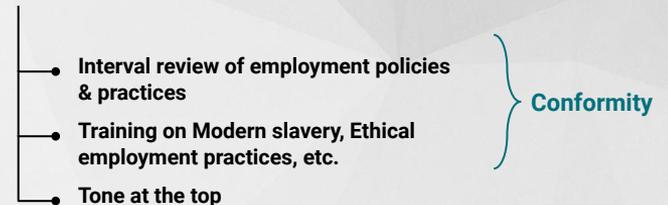
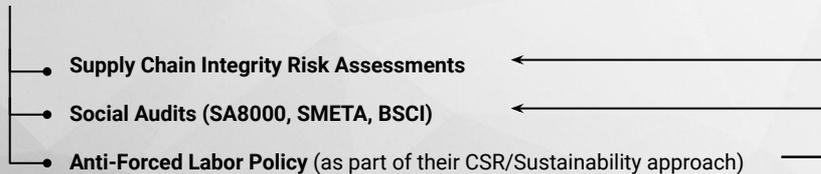
## An old question

What is the relationship between CSR and Ethics & Compliance (and Corporate Governance)?

### Case Study



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**#3**

## **The best approach**

**A comprehensive perspective**



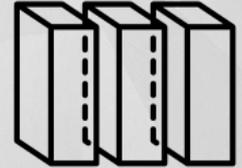
## What is G-R-E-C-S

An integrated and comprehensive approach to  
**Corporate Governance, Risk Management, Ethics & Compliance, and Sustainability**

Companies no longer afford to adopt *silos models*, that increase organizational bureaucracy and decrease responsibility at the expense of all shareholders and stakeholders.

**The Sustainability dept. has a strategy of its own, aligned to the business strategy, but manages localized projects** – planting trees and recycling caravans (greenwashing!), cause-related campaigns and funding programs (whitewashing!), entrepreneurial incubators, etc. -- **but another dept. is involved in supply chain integrity actions** (social audits, risk assessments, traceability mechanisms, etc.).

Companies need to be **not only responsive** to what society asks from them, **but to take the lead and transform** their architecture, processes and practices, products, supply and distribution chains to improve economic performance in an ethical way.



**Human  
Resources**

**Sustainability**

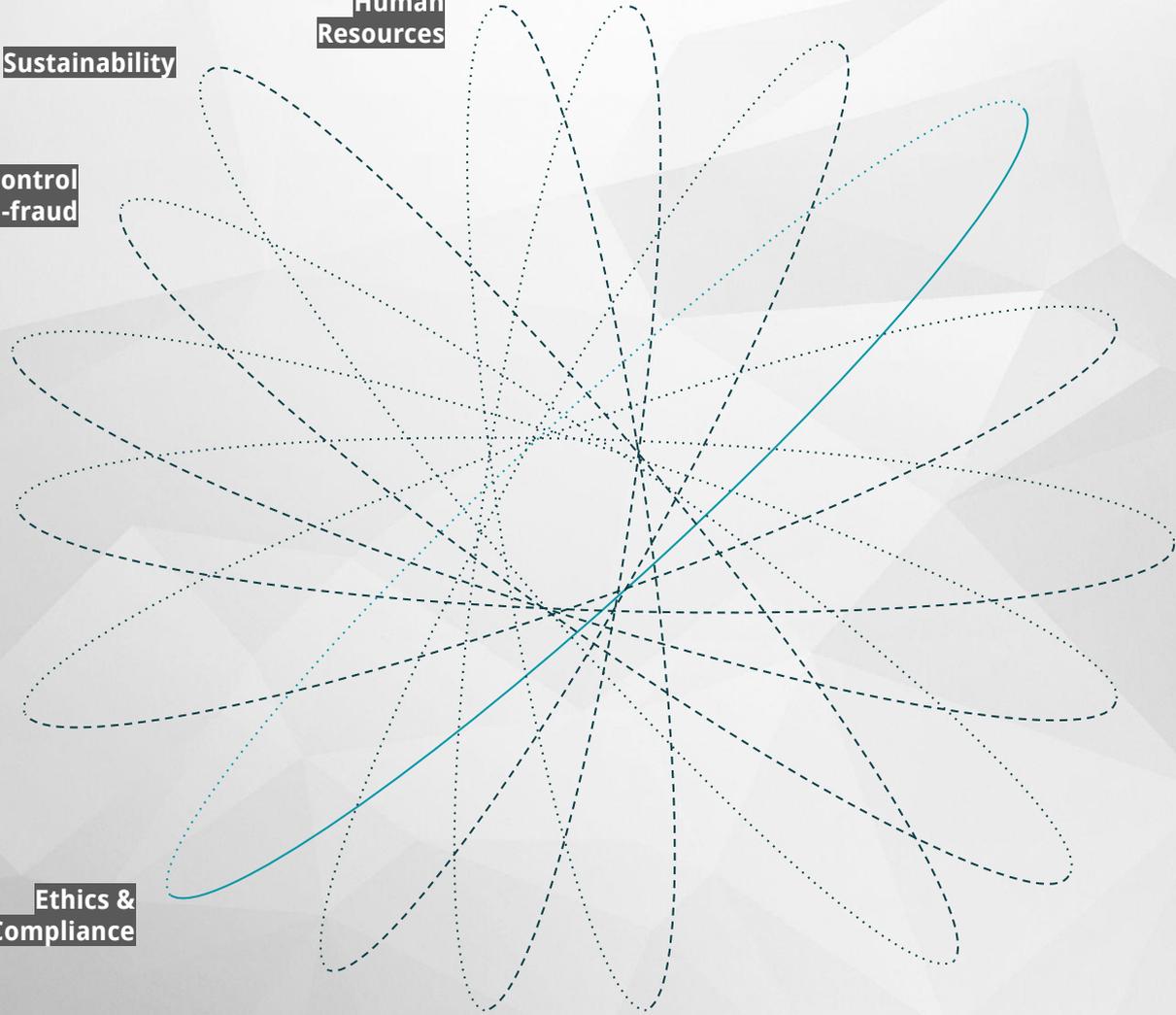
**Internal Control  
/ \* Anti-fraud**

**Legal**

**Risk**

**Organizational  
Governance**

**Ethics &  
Compliance**



**Sustainability**  
**Human Resources**

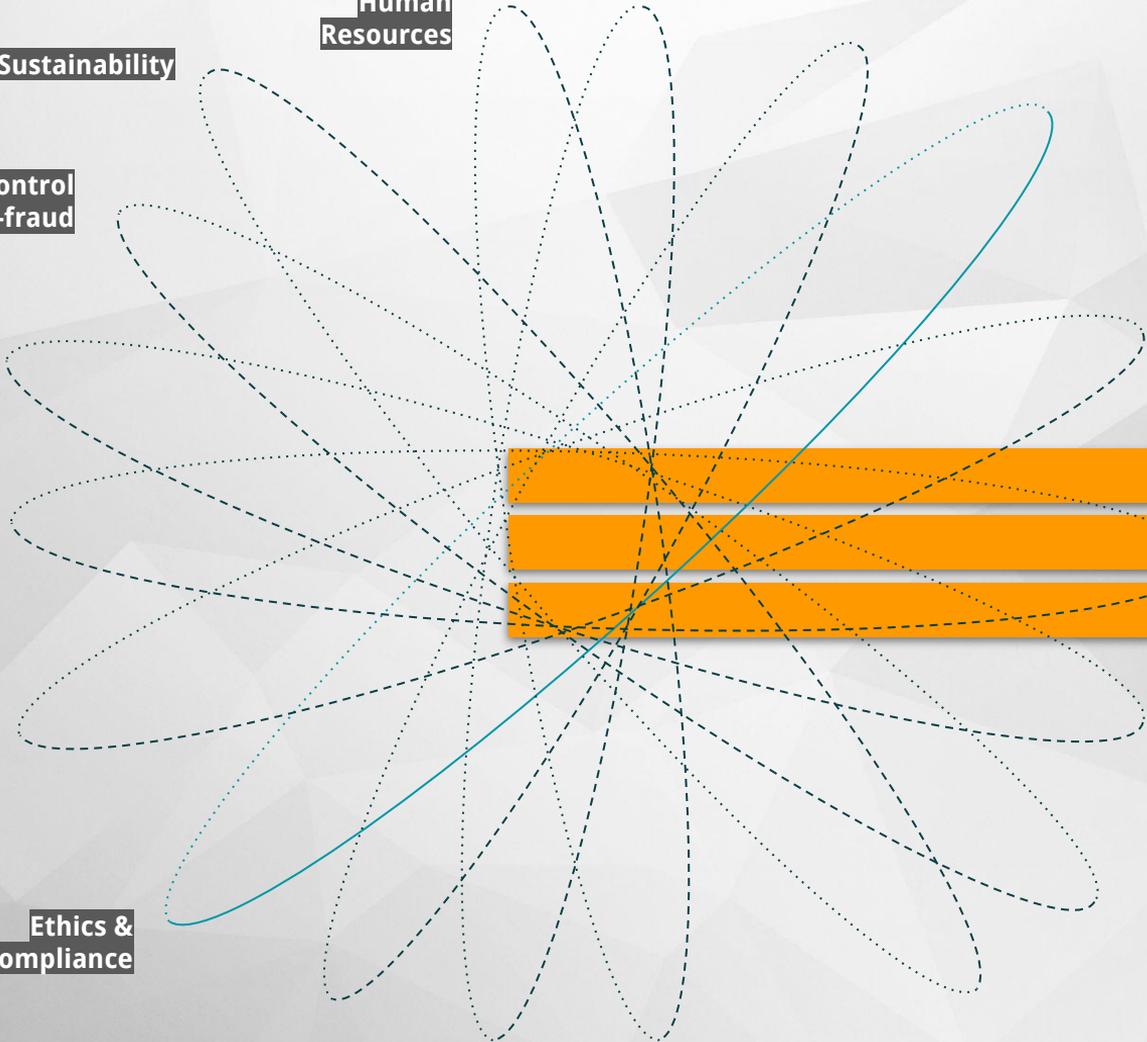
**Internal Control**  
**/ \* Anti-fraud**

**Legal**

**Risk**

**Organizational Governance**

**Ethics & Compliance**



-  **Internal Initiatives**
-  **Collective Actions**
-  **Transparency**

# Example

modern slavery				
Corporate Governance	Enlist <b>board members</b> behind MS policy and initiatives	Enlist <b>executives</b> behind collective actions	Provide <b>full disclosure</b> regarding audit findings related to MS	Communication
Risk Management	Do <b>risk assessments related to MS</b> throughout the supply and distribution chains, taking into consideration the local context for each supplier and its local impact		Do <b>reputational risk assessment</b> for MS disclosure and relative risks	
Ethics & Compliance	<p>Prepare <b>internal policies and procedures</b> regarding MS at corporate level and for all business partners &amp; 3rd parties</p> <p>Conduct <b>audits</b></p> <p>Communicate and train on <b>MS</b></p>	Contribute with <b>expertise and information</b> to local and/or global efforts to curb MS	Coordinate <b>ESG reporting</b>	Internal Control
Sustainability	Redesign the <b>supply chain</b> to be able to trace all supplier and check in real time their employment practices	Enlist in a <b>local or global effort to curb MS</b> (based on an effectiveness analysis)	<p>Report on the employment practices of the company and its suppliers</p> <p>Provide <b>traceability</b> for your products</p> <p>Stakeholder <b>engagement</b> regarding future initiatives</p>	
	Internal Initiatives	Collective Actions	Transparency	

# Integrity is not a cost nor an investment, but an excellence of character



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ETHICS and  
COMPLIANCE  
ACADEMY

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