

## CEP Magazine – November 2022



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### Focus on a longer-term strategy

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By Gerry Zack, CCEP, CFE, CIA

Much has been made lately about whether environmental, social, and governance (ESG) as we know it is already failing and about to go away, only to re-emerge with a new twist and a new label. Most valid criticism revolves around the misguided expectation of an immediate and measurable return on investment, a ridiculous concept that won't disappear by coming up with a new name.

The combination of ratings, standards, and the push for disclosures that are then used to evaluate companies and executives has resulted in a system ripe for game-playing. How many E, S, and G boxes can we tick off, and how can we get a better score? How can we disclose some things and not others? It can easily become focused on the short-term return on an organization's ESG efforts and an attempt to accomplish too many goals in too many areas. That will doom a company—as well as the goals associated with ESG—to failure. It reminds me of the games that charities can play to improve their ratings, which focus on metrics that don't come anywhere close to measuring mission-based accomplishments.

Alison Taylor is Executive Director at Ethical Systems, Adjunct Professor at the New York University Stern School of Business, and someone I greatly respect. And as she points out, “I think that a lot of our ESG efforts, and business ethics efforts in general, are less to do with actually being more ethical than creating a defensive shield to protect the company from regulatory and reputational risk. This tends to mean that we spend vastly more effort producing glossy reports and arguing over disclosure than actually taking action. Treating ESG as a scoring system to access more capital is understandable, but if you believe there are real problems to be solved, it is extremely counterproductive. I advise companies not to strategize or manage to ESG ratings but to focus on a few genuinely business-critical issues. This is hard and involves ignoring a lot of unhelpful noise and advice.”

Doing the right thing, or making meaningful change, does not mean ignoring financial goals. But it does mean identifying and focusing on a few of the most important issues for your organization, as Alison suggests, and incorporating them into a long-term strategy that aims to make progress. This requires a commitment from the top since meaningful efforts still aren't captured well in the current system of metrics.

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