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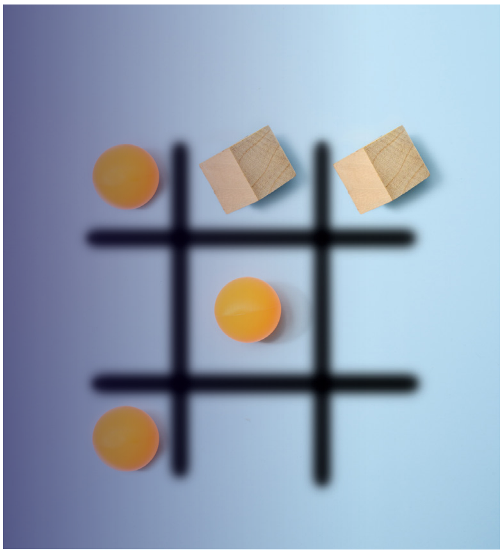
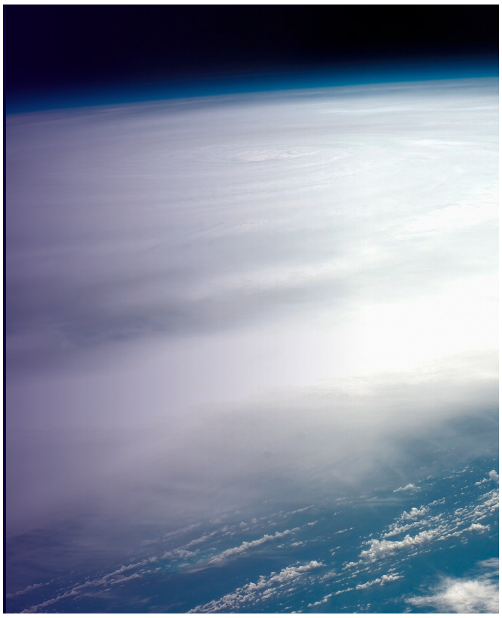
Anticipate, Innovate, Transform

The Future of Corporate Responsibility

CONTENT





THE FUTURE OF CORPORATE RESPONSIBILITY

BY CYNTHIA E. CLARK, GUEST EDITOR

When we think about the future of corporate responsibility, we think about not only what might be, but what has been. For a long time, the conversation centered around corporate social responsibility (CSR) and typically involved highlighting actions that furthered some social goal that was both beyond the interests of the firm and what is required by law. More and more, managers face challenges that require them to take an integrated approach that balances legal, economic, ethical, environmental, and societal concerns across a variety of stakeholders. Today, responsibility is no longer about discrete actions but rather a set of long-standing efforts to create value and adhere to purpose.

At the same time, managers exist in a society where certain fundamental problems, such as worsening environmental degradation and social inequality, are central factors driving increased corporate engagement. These can, at least in part, be directly attributed to corporate activity. As a result, many believe there is a corresponding responsibility on the part of corporations to do something about these problems. Historically, we have been able to tell when a company is being irresponsible (e.g., "greenwashing" or causing other types of harm). In fact, as I argued in a previous article, there are various degrees of harm that can elevate a firm's irresponsibility.[1] But what we mean by responsible behavior (and what label we use) has somehow become a focus in and of itself.

Over the past decade, we've seen an increase in discussions about what it means to be a responsible business. Many businesses use the term "sustainability" to cover all their responsible business practices. Others use environmental, social, and governance (ESG). Not surprisingly, questions have emerged about how and whether these terms relate. Some believe that while CSR aims to make a business accountable, ESG criteria make the business's efforts measurable. ESG is tied to various sustainability reporting frameworks, whereas CSR can consist of brand- and culture-building statements. And yet, according to news from this year's World Economic Forum *Annual Meeting* in Davos-Klosters, Switzerland, executives and boards of directors are seeking new ways to tout corporate responsibility while omitting the term "ESG" to avoid alienating investors, customers, and employees. One factor is the wave of anti-ESG legislation in the US during 2023 and similar anti-ESG sentiment brewing in Europe.

Although ESG has generally been aimed at capital and growth building, ESG investing has faced challenges, too. The use of "ESG" in corporate earnings calls, whose content is an indicator of company goals, is at its lowest since 2020.[2] Rolling the three ESG pillars into a single rating has allowed carbon-intensive companies to log positive ESG scores, and some mutual funds and exchange-traded funds have been accused of greenwashing, using ESG in their fund names with no corresponding change in their investment holdings.[3]

Still, it's hard to argue that a business acting as a good citizen in the communities where it is located, paying taxes on the profits it makes, and compensating employees fairly is *not* a responsible business. Partly because of this recognition, some business leaders recently argued in the *Wall Street Journal* that the term "responsible business" should be used instead of CSR or ESG.[4]

Amid these concerns, sustainability and accountability still matter to many consumers and investors, as well as to employees. Gen Z and Millennials, for instance, show a preference for purpose-driven companies. Many would leave their current job for one that has a more positive impact — even if it impacts their pay — according to the latest "Business in Society Report" by Bentley University and Gallup. A full 71% of workers under age 30 took that stance. And 29% of them said they would even accept a 10% pay cut to do more meaningful work.[5]

SUSTAINABILITY & ACCOUNTABILITY STILL MATTER TO MANY CONSUMERS & INVESTORS, AS WELL AS TO EMPLOYEES

As a result, the contemporary context of corporate responsibility involves a deep and wide set of concepts and tasks. Fundamentally, it involves working with multiple stakeholders and a range of disciplines. Managers then face decisions around how to take ownership of a number of company impacts throughout the value chain, including design, production, marketing, sales, and communications. And because corporate responsibility is tethered to calls for greater accountability, managers must also consider how their corporate governance framework serves to encourage, restrict, and ultimately shape the company's relationship with society.

IN THIS ISSUE

Navigating these cross currents is a challenge for management. In this issue of *Amplify*, we explore the conflicting pressures governments, shareholders, customers, and workforces are exerting on firms and their leaders in emerging corporate responsibility strategies involving ESG issues.

In our first article, Ryan Flaim and Maureen Wolff offer detailed advice on how to combat anti-ESG sentiment. Acknowledging that ESG has become a political tinderbox, the authors say companies can still reap the benefits of their ESG initiatives. They suggest a three-pronged solution that starts with closely aligning ESG goals with corporate strategies, as Trane Technologies and Adidas have done. Second, tell a cohesive, integrated ESG story, including how your company refers to these efforts (use "ESG" or maybe go with "impact" or "sustainability"), using KPIs and case studies and ensuring your metrics are validated. The latter is not only the best antidote to greenwashing accusations, it's also been shown to lead companies to make more carbon-emission reductions than companies that don't externally verify their data. Third, Flaim and Wolff advise taking a proactive, creative approach to stakeholder engagement. One-on-one meetings with analysts and stewardship teams, ESG investor briefings (perhaps less controversially called "Sustainability Days"), and developing employee ambassadors could all be in the mix. Recent backlash doesn't necessarily mean an ESG strategy isn't relevant, assert the authors. Rather, by focusing on strategy, transparency, accountability, and performance, ESG can be a meaningful competitive advantage and an enabler of responsible business.

Next, Ryan M. Bouldin and Elizabeth Levy look at corporate responsibility through the lens of product design. The authors point out that when sustainability considerations are incorporated at the end of design, inefficiencies and excess costs often result. One reason these efforts come so late is that two-thirds of chief sustainability officers report through functions far from product decisions, such as corporate affairs, general counsel, or HR. Bouldin and Levy suggest a new framework for incorporating corporate responsibility into product design; its categories include equity and justice, transparency, health and safety impacts, circularity, and climate and ecosystem impacts. The authors explain how this method results in an inclusive design process that embodies corporate responsibility. Done this way, product design would include verifying worker protection, specifying greenhouse gas emissions alongside chemical and material-safety data, and choosing chemicals and materials for their lack of hazards. Finally, the authors note, although companies should be transparent about their circularity goals, they should not market their initial efforts as sustainable, as this could open them up to greenwashing claims.

In our third article, Punit Arora considers how companies might live up to various environmental commitments, a topic where we need more insight. Arora takes us into the motivation behind corporate environmental disclosures — specifically the practices of greenwashing and "brownwashing" and their relationship to innovation. The author points to brownwashing firms, which are either content with their sustainability performance or hesitant to acknowledge it for fear of backlash. These firms don't exhibit a significant appetite for what Arora calls "ecovation" (the relationship between environmental disclosure and environmental innovation). At the other end of the spectrum are "greenwashers," companies that express false environmental commitments. Although the press is keen to report on these instances, Arora points out that we don't yet have data on the long-term effects of greenwashing. What the author calls "green highlighting" may be the answer: a balance of substantive action with symbolic disclosures that research suggests makes firms more likely to live up to their environmental commitments. Companies with this approach need to take note of three things: (1) firms with high visibility are more likely to gain consumer recognition and loyalty in response to ecovation; (2) firms that have been underperforming on ecovation for years are more likely to indulge in greenwashing than to make actual improvements, and (3) strong regulations increase firms' exposure risk, making ecovation the more feasible option.

Wrapping up the issue, Oana Branzei, Dusya Vera, and Kimberley Young Milani take a deep dive into leadership in the eye of the "ESG storm." The authors look at how today's frames change tomorrow's leaders and leadership, a critical aspect of the future of corporate responsibility. The stakes on leading responsibly have never been higher, they write, with leading business outlets warning companies about getting ESG "just right" while calling on leaders to "act purposefully." How leaders solve this paradigm will change the future of corporate responsibility, say the authors. They then describe a framework that can help leaders see the future as the poly-activation of character dimensions and argue that as leaders activate a broader expanse of dimensions, including temperance, integrity, drive, and deep collaboration, their judgment becomes stronger, and additional futures open up. And as more character dimensions are exercised, the futures' leaders become more inclusive, collaborative, and sustainable — with or without the letters E, S, and G.

We hope this issue of *Amplify* exposes the need for a more nuanced approach to corporate responsibility and puts you on the path to improve decision-making in your organization around this important topic.

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About the guest editor

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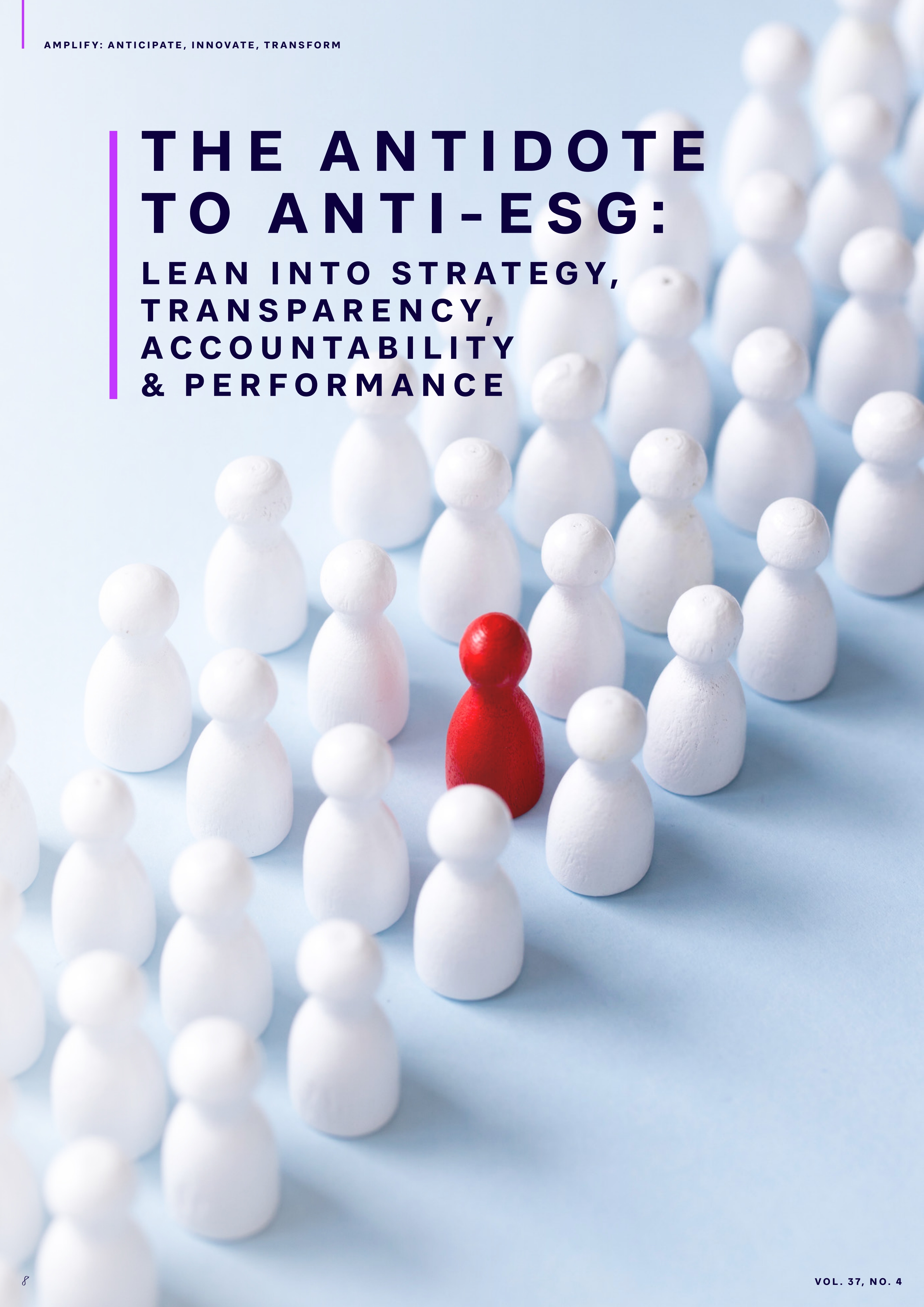
Cynthia E. Clark, PhD, is an internationally recognized corporate governance expert spanning multiple industries, including real estate, financial services, mutual funds, and community banking. She has served on several corporate boards and multiple committees, including audit and finance, nominating and governance, and disclosure committees. Throughout her career, Dr. Clark has focused on analysis of activism, ESG, public disclosures, and data privacy. She provides research insights on such high-profile projects as the Gender Diversity Index and the Census for Women Directors and Executive Officers. Dr. Clark has worked with multiple CEOs, C-suite executives, and boards of directors at myriad organizations, such as Cutter/Arthur D. Little, Choate, Hall & Stewart, KPMG, BDO, Morgan Stanley, State Street Corporation, the Hershey Trust Company, and Origin Bank. She is a Governance Fellow with the National Association of Corporate Directors; a member of the Society for Governance Professionals, the Society for Corporate Compliance & Ethics, and the Private Directors Association; and is active in 50/50 Women on Boards. Dr. Clark is a former bank executive overseeing mutual fund clients and served as a senior investment advisor for a securities firm in New York City. She is the author of three books: *Giving Voice to Values in the Boardroom*; *Business & Society: Ethical, Legal, Digital Environments*; and *Trust Diffusion: How Creating Climates of Trust Influence Organizational Effectiveness.* Dr. Clark has been published in top publications, such as *Harvard Business Review, Sloan Management Review, Strategic Management Journal, Business Ethics Quarterly*, and *Journal of Business Ethics*. She has been widely cited in the media on governance issues, including *The Wall Street Journal*, NPR, *Institutional Investor*, *The Boston Globe*, CNN, *Forbes,* and Reuters. She is the John. W. Poduska Professor of Governance at Bentley University. Dr. Clark earned a bachelor's degree from Boston College, a master's degree from Northwestern University, and a PhD from Boston University. She can be reached at https://cynthiaclarkphd.com and experts@cutter.com.

THE ANTIDOTE TO ANTI-ESG:

LEAN INTO STRATEGY, TRANSPARENCY, ACCOUNTABILITY & PERFORMANCE



Authors

Ryan Flaim and Maureen Wolff

In the not-so-distant future, thoughtful and strategic environmental, social, and governance (ESG) disclosures will be at the heart of sound business practices for companies of all sizes. Yet anti-ESG sentiment and heightened scrutiny make disclosing ESG factors rife with challenges. In the vast, complex land of ESG reporting, how can companies avoid political backlash and reap the many benefits of touting their ESG impact?

Two decades after the United Nations (UN) Global Compact coined the term "ESG" in a paper titled "Who Cares Wins," the notion of institutional investors using ESG factors to gauge corporate performance has become a political tinderbox. A firestorm of bills, regulations, and boycotts has swept through state legislatures, prompting many companies to back away from publicly promoting their ESG initiatives.

But that doesn't mean ESG is dead. Rather, the anti-ESG wave presents an opportunity for companies to pause, assess their ESG strategy, and shift their approach from a check-the-box compliance requirement to a strategic initiative centered on creating tangible value for stakeholders while mitigating market risk.

With a variety of regulatory bodies pushing for complex disclosures and transparency around performance and targets, it is only a matter of time before companies of all sizes in all geographies will be required to shift from voluntary to mandatory reporting on their impact across various ESG factors, including climate-related risks. Although being required to disclose will likely be the catalyst for many companies to act, those who wait until the requirement deadlines arrive will be forced to play catch-up with their peers. Why?

- Employees are keenly interested in understanding how their organizations address the social and climate issues that matter to them.
- Procurement teams are increasingly requiring transparency in areas such as a company's diversity profile, environmental impact, and supplier relationships.
- Institutional investors are making decisions based on factors like corporate governance, climate risks, and workforce diversity.
- Environmental risk is being recognized as financial risk. Politics aside, it is impossible to ignore the potential impact on the financial and operational performance of businesses across virtually all industries, including the effect of natural disasters on the insurance industry and of water shortages on manufacturing operations. The World Economic Forum projects the global cost of climate damage per year could range from US $1.7 trillion to $3.1 trillion by 2050.[1]

> **THE ANTI-ESG WAVE PRESENTS AN OPPORTUNITY FOR COMPANIES TO PAUSE, ASSESS THEIR ESG STRATEGY & SHIFT THEIR APPROACH**

An effective sustainability strategy can serve as a powerful tool to showcase a company's competitive advantages, shape positive perceptions among stakeholders, and support financial performance (see Figure 1).[2] In contrast, poorly executed strategies put companies at risk of being accused of misrepresenting ESG claims ("greenwashing") and/or delivering mixed messages.

So what's the recipe for doing it right when it comes to sustainability disclosures and communications? From our experience, the best of the best take an approach that delivers on the three hallmarks explored in this article.

1. ANCHOR ACTIONS TO A COMPREHENSIVE ESG STRATEGY WITH A SCALABLE FOUNDATION

Start by aligning your ESG goals with your corporate strategy. Articulate how ESG considerations integrate into your company's strategic planning to manage risk and create growth opportunities. This exercise will be different for every organization, but climate-transition planning, carbon footprint reduction, employee health and safety, supply chain due diligence, and cybersecurity risk management are among the common priorities.

To identify which ESG areas are top priorities for your company, conduct a materiality assessment, peer benchmarking study, or gap analysis. Standards from the International Sustainability Standards Board (ISSB), International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards, and Sustainability Accounting Standards Board (SASB), as well as the Corporate Sustainability Reporting Directive (CSRD) and the UN Sustainability Development Goals (SDGs), can be a great starting point.

Many companies will uncover a significant level of ESG activity already underway and can identify high-risk ESG areas that may have been historically under-resourced and could benefit from prioritization. For each item, management and the board should identify, develop, and disclose the actions being taken to manage risks and opportunities.

Investing in a scalable foundation ensures your team has the needed resources to advance ESG efforts effectively and with a strong ROI. Characteristics of a scalable foundation include:

- Oversight and accountability at the board and management level
- An ESG task force with cross-functional representation (e.g., legal, finance, investor relations, HR, supply chain, marketing) and sponsorship from an executive leadership team member to help shepherd the effort

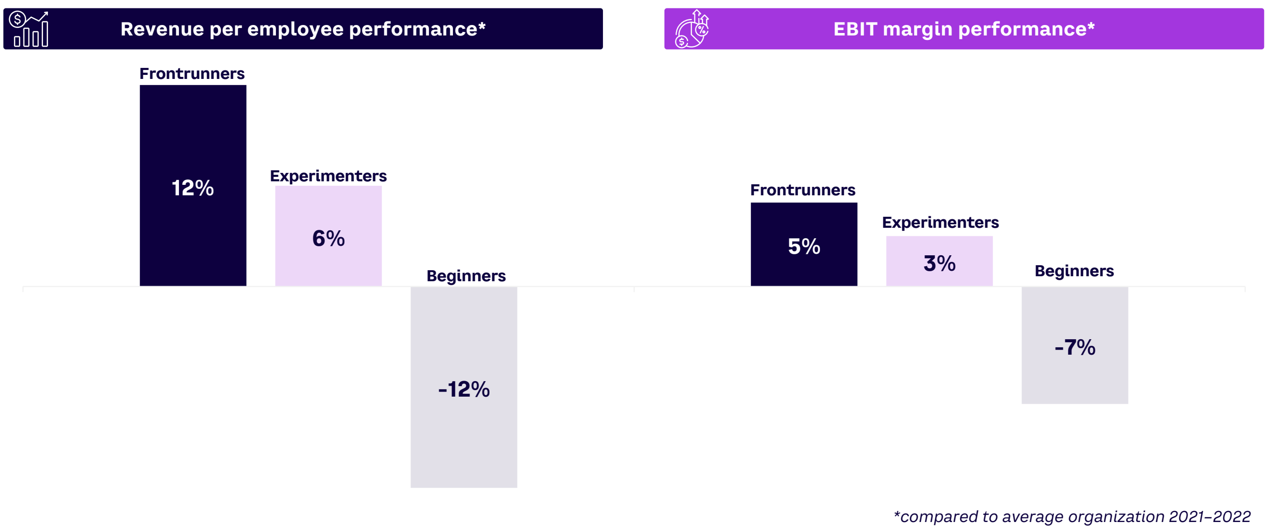


Figure 1. Companies with more mature sustainability programs realize better revenue and EBIT margins (adapted from Capgemini)

- Adequate resources to support the in-house team (may include training to enhance ESG expertise or adopting a digital platform for collecting, aggregating, and validating ESG-specific data)

When it comes to a well-constructed, fully embedded ESG strategy, Trane Technologies gets a gold star.[3] The company's sustainability strategy is clear the moment you land on its corporate website and includes clear commitments, goals, and progress across the ESG issues that the company has identified as critical risks and opportunities.

Another exemplar, hailing from the much-criticized apparel industry, is Adidas.[4] The company has done an impressive job of formulating a well-defined sustainability strategy that takes a clear position and is supported by actions around the issues that matter to its most important stakeholders: its customers. The company's commitment to increasing its use of recycled and reused materials, extending the wearable life of its apparel, and reducing its environmental footprint has been applauded by consumers and serves as a competitive advantage.[5]

2. TELL A COHESIVE, INTEGRATED ESG STORY

Crafting a message that captures the full breadth of your ESG strategy and related activities is a complex undertaking. An integrated approach that includes dynamic content helps you connect with your stakeholders, respond to disclosure requirements, and enhance your impact.

Select your words thoughtfully. Take the time to debate internally whether your efforts are best referred to as "impact," "ESG," or "sustainability." These terms mean different things to different people, and what is most appropriate for your company will depend on many factors, including how your program is structured, which audiences are most important to your company, and what messages you are trying to communicate.

Amid the recent anti-ESG backlash, more companies are using terms like "sustainability," "impact," or even "ESG impact." When delivering your message to investors, consider how the terminology varies across sustainable investment categories like socially responsible investments (values-based), ESG-themed investments (value-based), and impact investments (outcomes-based).[6]

In your narrative, identify the ESG factors that matter most for your company. A particularly effective tactic is to use a pillar construct to define your focus areas. Your pillars should link to your strategy, showcase your culture and brand, and speak to your key stakeholder groups. You can add depth and context to your disclosures through key performance indicators (KPIs) and accompanying case studies and stories. KPIs offer quantifiable metrics to assess performance, while case studies contribute qualitative insights that illustrate the real-world impact of your initiatives.

Taking a "report card" approach to disclosures by providing milestones and periodic updates can help establish credibility and trust. Chesapeake Energy provides a nice example of this with its "Net Zero Roadmap," which lays out key actions the company has taken and shows future milestones that will help it deliver on its goals.[7]

Disclosing ESG achievements and targets is serious business and should be treated as such. All metrics must be validated, and all targets must be real (not just rhetorical). Consider setting science-based targets to add a layer of precision and enhance the credibility of your efforts. You might also engage a third-party auditor, which not only adds credibility but has been shown to improve results. Recent research by the Massachusetts Institute of Technology (MIT) Sloan School of Management, based on data from sustainability tech platform Clarity AI, demonstrated that "companies that verify their emissions by third-party auditors initially demonstrate higher carbon emissions (13.7%) and intensities (9.5%) — but ultimately make more reductions in the future — than those that do not externally verify their data."[8]

Not vetting claims or releasing goals without plans to support them can result in greenwashing accusations, increased legal scrutiny, and reputational damage. In 2023, Nestle, Coca-Cola, and Danone made headlines when they were accused by European consumer organization BEUC and two environmental groups of promoting misleading recycling claims.[9]

Companies that do it right make sustainability an integral part of their long-term strategy, not an afterthought. This becomes apparent when an ESG narrative is seamlessly integrated across communications platforms. The ideal mix depends on several factors, including where you are in your

ESG journey, what stakeholder groups are top priority, your budget, and your timeline. A sustainability report is often the first place to start. If you are early on in the journey, it may be best to start with a sustainability section on your website. Incorporating the message across other content (your annual report and proxy, employee communications, and investor presentations, among others) demonstrates your commitment. Design elements like imagery, infographics, and callouts help break down complex concepts. You might also consider viewer-friendly content like visual fact sheets, brochures, and videos.

One company that delivers on strong ESG communications is Dick's Sporting Goods. The company's sustainability strategy hinges on creating enterprise business value with a focus on topics identified through a prioritization assessment. Dick's defines its sustainability strategy through four brand-forward pillars: "Leveling the Playing Field," "Clearing Hurdles," "Raising the Bar," and "Protecting the Home Court." Within each pillar, the company identifies specific goals, provides metrics to quantify progress, outlines key initiatives, and acknowledges where it has more work to do. The company has an impressive integrated communications package, including a visually compelling sustainability report (its "Purpose Playbook"), a user-friendly sustainability website, and a comprehensive one-page sustainability summary.[10]

3. ENGAGE STAKEHOLDERS PROACTIVELY & REGULARLY

Taking a proactive, creative approach to stakeholder engagement can amplify the impact of your ESG communications and generate feedback to enhance your plan and actions. Although the board should ultimately oversee ESG strategy as part of overall risk management and accountability, keeping management and the board updated through frequent ESG briefings is an important element of your engagement strategy.

Engaging investors beyond your sustainability report and public disclosures is important as well. This can include one-on-one meetings with portfolio managers, analysts, and stewardship teams. You also can identify and target funds that might take a position in your company based on your ESG strategy. ESG investor briefings (sometimes called "Sustainability Days") are an efficient way to allow a range of investors to engage with management and subject matter experts on sustainability efforts. These events can be virtual, in-person, or hybrid and can focus on your overall ESG strategy or drill down into actions of particular interest to your investors.

Your employees can be the best ambassadors of your ESG initiatives, especially if you engage with them and allow them to contribute. Providing channels that empower their participation in and influence on your program is key. This can include funding employee resource groups, offering frequent employee surveys, and getting creative with contests and competitions for employees to drive ESG initiatives important to them.

Customer engagement varies widely depending on the nature of your business. If you have a B2C model, for example, integrating ESG into your marketing, email campaigns, and social media can be very effective.

Procurement teams have increasing responsibility for building de-risked, robust, diversified supply chains. For this reason, it is important to consider a strategy for keeping key customers' procurement teams informed about your ESG efforts.

Although it is typically not advisable to allow your strategy to be dictated by third-party rating agencies (e.g., Institutional Shareholder Services [ISS], Glass Lewis, or Morgan Stanley Capital International [MSCI]), it remains important to ensure proxy advisors and rating agencies understand — and give credit for — your ESG efforts. To that end, it's important to ensure your ESG profile is up to date and accurate on each of their platforms and to engage with them directly when warranted.

As you work toward delivering on your long-term goals, proactive stakeholder engagement helps you demonstrate progress, gather feedback, identify issues, and course correct as needed.

THE BOTTOM LINE

When linked to risk mitigation and value creation and amplified by strategic, transparent, and compelling communications, an ESG strategy can be a meaningful competitive advantage and an essential enabler of responsible business. Investors consider ESG in investment decisions, regulators require ESG disclosures, consumers are motivated by ESG-related actions, procurement teams are considering ESG practices in purchasing decisions, and employees are demanding ESG strategies and actions. By focusing on strategy, transparency, accountability, and performance, companies can demonstrate the value-creating impact of key ESG efforts on their business.

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THE FUTURE OF CORPORATE RESPONSIBILITY BEGINS WITH PRODUCT DESIGN

Authors

Ryan M. Bouldin and Elizabeth Levy

In the post-COVID world, companies face a host of conflicting demands from consumers, employees, and investors. Customer interest continues to be driven by new channels, such as social media and influencers. Employees are flexing their power with management in ways not seen for decades. Investors continue to demand innovation and growth of both top and bottom lines.

One concern increasingly key to all these groups, albeit expressed differently, is sustainability. Companies are addressing sustainability in a variety of ways, but they often fail to do so in the product-design phase, to their detriment.

A 2023 survey by PDI Technologies of 1,000 US consumers found that 74% consider the environmental impacts of products they buy, and 68% are willing to pay more for products perceived to be environmentally friendly. This is up from 64% in the prior version of the survey two years before, despite inflation and rising prices overall.[1] This is especially true of Gen Z (those born between 1997 and 2012), as reported by the World Economic Forum, with three-quarters preferring sustainable brands.[2]

In addition to being an important consumer group, Gen Z is a growing labor force that companies cannot afford to ignore. Gen Z and Millennial employees increasingly factor climate into their career decisions. A 2024 Bentley University/Gallup report of more than 5,000 Americans shows that 25% of females and 22% of males would be willing to leave their jobs and take a 10% pay cut to work for an organization that had a greater positive impact on society.[3] Gen Z is also willing to pressure their employers on environmental issues, highlighting the fact that companies cannot ignore the concerns and preferences of their current and future labor force.

Globally, investors also express a deep interest in sustainability issues. A 2024 report from Morgan Stanley's Institute for Sustainable Investing shows that 85% of individual investors in the US and Europe and 77% globally are interested in sustainable investing.[4] Regardless of the dramatization and politicization of ESG (environment, social, and governance) in the US Congress and the press, investors continue to consider sustainability issues in their decisions.[5] US Securities Exchange Commission (SEC) Chair Gary Gensler stated, "Investors representing literally tens of trillions of dollars support climate-related disclosures because they recognize that climate risk can pose a significant financial risk to companies."[6]

GLOBALLY, INVESTORS EXPRESS A DEEP INTEREST IN SUSTAINABILITY ISSUES

UPSTREAM CHOICES, DOWNSTREAM EFFECTS

Combined, the consumer, employee, and investor pressures mean everyone from executives and corporate boards down to product line managers should consider sustainability as material to their business. In particular, companies that sell physical products must consider the human, environmental, and economic impacts of these products, both upstream in production and downstream during use. For these companies, decisions made in the design phase have long-reaching consequences. When sustainability considerations are incorporated at the end of design (as is the norm), inefficiencies and excess costs may result, as well as a shadow of inauthenticity.

For example, a cursory glance at recent S&P 500 sustainability reports reveals a near-universal interest in addressing carbon emissions and a growing interest in plastic pollution. These concerns are in line with consumer preferences and concerns about climate change and ocean pollution, and both directly result from design choices and processes.

Many of the product-specific sustainability challenges companies face occur at the beginning and end of a product's lifecycle. For example, for some companies, Scope 3 climate emissions (those captured throughout a company's entire value chain) can be greater by an order of magnitude than those in Scope 1 and 2.[7] In some countries (e.g., US), disclosure of Scope 3 emissions is voluntary; in others, it is already mandatory (e.g., UK).

These downstream effects are the furthest from executives and decision makers and beyond policy setters' reach. As a result, companies struggle to understand their true impacts, much less manage them, and often feel they have little control over these areas. This results in companies viewing and managing sustainability as a risk, rather than part of larger corporate strategies.

Too often, sustainability efforts come late in the product-design process, appear bolted on, and are relegated to corporate functions far from upstream choices. This may be due to the lack of importance placed on the role itself. A 2023 Weinreb Group survey found that although a third of chief sustainability officers report directly to the CEO, most of the rest report through functions far from product decisions, such as corporate affairs, general counsel, investor relations, or HR.[8]

To address stakeholders' sustainability concerns, some companies are marketing the potential of their products to fit within a circular economy. However, doing so using existing products and business models involves significant constraints and often results in solutions that environmentalists call "end of the tailpipe"(treating the symptoms rather than addressing the root cause). Companies that launch recycling programs after years of producing significant amounts of waste and fast-fashion companies that launch resale sites are examples of well-intended but poorly planned sustainability efforts geared toward risk mitigation.

When sustainability efforts are made in haste, companies open themselves up to being accused of "greenwashing" or lacking corporate responsibility. The efforts may be based on an honest commitment to good corporate responsibility and may attempt to address important issues for company stakeholders, but if they are not implemented successfully or communicated transparently, the substandard results and public scrutiny can lead to internal paralysis and resistance to future sustainability efforts.

For example, Keurig, the company behind the ubiquitous K-cup single-serve coffee pods, has long grappled with the issue of waste and recycling. Its efforts to encourage pod recycling in Canada (claiming that peeling off the lid and emptying the grounds made them eligible for recycling) led to both a backlash and government fines.[9]

Even companies that pride themselves on their corporate social responsibility are not immune to intense criticism for product failures. Johnson & Johnson's values statement says, "We believe our first responsibility is to the patients, doctors and nurses, to mothers and fathers and all others who use our products and services." This commitment, as well as the company's overall reputation, has been called into question due to the company's involvement in the opioid epidemic and the link between its iconic baby powder and ovarian cancer.

Addressing these complex problems requires a holistic, inclusive approach in which solutions are rooted at the beginning of the process, rather than trying to solve the problem after a product like the single-use coffee pod is already in use. Companies can do this by addressing full value chain sustainability during the product-design process.

WHY PRODUCT DESIGN MATTERS

In product-driven companies, the journey toward sustainability and better corporate responsibility should begin with the product-design process. Design choices significantly influence supply chains, the primary source of emissions for many companies. They also impact the attributes of the product during and after its useful life, far down the value chain. Additionally, design specifications such as performance criteria and material selection play pivotal roles in determining the impacts of products and services on people and the planet.

A simple example is the use of polyvinyl chloride (PVC) in product specifications, such as packaging. PVC is used in a variety of products, as well as in clear clamshells, blister packaging, shrink wrap, and food packaging. The choice of PVC for packaging material can link a company's supply chains to the production and transportation of toxic vinyl chloride, the exposure of workers and consumers to endocrine-disrupting chemicals, an inability to recycle the product, and a disposal pathway that can produce some of the most toxic human-made substances. Consumers share this concern, and many consider the environmental impact of packaging in purchasing decisions.

In many ways, companies evade scrutiny and corporate responsibility because the chemicals, chemical processes, and materials they use in the production of their products are not tested for human safety and are loosely regulated by the federal government. Additionally, because of lax regulation, harmful chemicals are ubiquitous in society and the environment. This continues despite nearly 30 years of evidence of the significant body burden from chemicals in products in our most vulnerable populations and growing evidence of health impacts from chemicals in the environment.[10] Given their ubiquity, any harm these chemical entities cause to the environment or humans is unlikely to be traced back to their products.

A recent example is the growing awareness of the risks of PFAS (per-and polyfluoroalkyl substances), which have been used globally in consumer-facing products for decades, often to provide nonstick or stain-resistant properties. Until recently, chemicals were generally regulated one by one, rather than as a group. Since there are nearly 5,000 PFAS, companies have long shifted their product formulations to less widely used members of the PFAS family to evade scrutiny and slow-moving regulations.

For example, the outdoor industry has long relied on waterproof protection from PFAS. Many companies shifted their formulations over the last decade from C8 PFAS to lesser-known C6 PFAS and then to C4 PFAS formulations. Although research is ongoing about the full extent of human-health impacts, the US Center for Disease Control and Prevention (CDC) reports that PFAS exposure has been connected to high cholesterol levels, poor liver function, some cancers, and low birth weight.[11] In response, the EPA is taking actions to reduce PFAS exposure, including enhanced reporting of PFAS production, use, and release, as well as new drinking water standards.[12]

NEW FRAMEWORK FOR CORPORATE RESPONSIBILITY VIA PRODUCT DESIGN

Recently, an interdisciplinary group of 20 experts from industry, government, academia, and nonprofits developed a framework for a more sustainable product development process.[13] The group's mission was to establish a definition for the field of sustainable chemistry, but the results are directly applicable to a holistic, sustainable product-development process.

The framework's categories include equity and justice, transparency, health and safety impacts, circularity, and climate and ecosystem impacts (see Figure 1). Although it is not prescriptive, the framework provides a new modality for guiding the thought process in design by embedding considerations of safer materials and better working environments, as well as open and honest communication on product content — all with the goal of more sustainable products.

When done correctly, this method can lead to circularly designed products: those with end-of-life and product-renewal plans. Note that the business model to support the circularity is put in place up front, rather than bolted on at the end. In addition, eliminating toxins in the product-design phase reduces the chances of toxin exposure for workers and consumers throughout the value chain.

Current design paradigms often focus on profitability, particularly the twin drivers of cost minimization and market maximization. This approach results in the exclusion of sustainability considerations in the design phase. Using the proposed framework would result in an inclusive design process that embodies the essence of corporate responsibility. Products would be built only after authentically engaging with stakeholders and verifying the protection of workers and marginalized groups along the value chain. Greenhouse gas emissions would be specified alongside chemical and material safety data and included in the chain of custody. Chemicals and materials used in production would be selected for their lack of hazards and preferentially incorporated into circular products.

As companies work toward a product-design process that encompasses a commitment to corporate responsibility, they must be transparent about their goals, the steps they are taking, and where they are in the journey. If companies choose to immediately market their initial efforts as sustainable, they will open themselves up to greenwashing claims. In fact, there are recent calls to abandon the use of the term "sustainability" altogether due to misuse by companies, particularly those in the fashion industry.[14]

THE FUTURE OF CORPORATE RESPONSIBILITY

The future of corporate responsibility is intrinsically tied to the product-design process. As companies strive to address their products' environmental and societal impacts, they must shift from reactive sustainability efforts to proactive integration of sustainability principles into their design processes.

This shift requires a holistic approach that considers all stakeholders and prioritizes transparency, equity, and justice. By doing so, companies can avoid greenwashing accusations while meeting the needs of consumers, employees, and investors. This transformation is not just an ethical imperative but a strategic necessity in a world increasingly conscious of the environmental and social footprints of products.

Figure 1. Framework for incorporating corporate responsibility into product design

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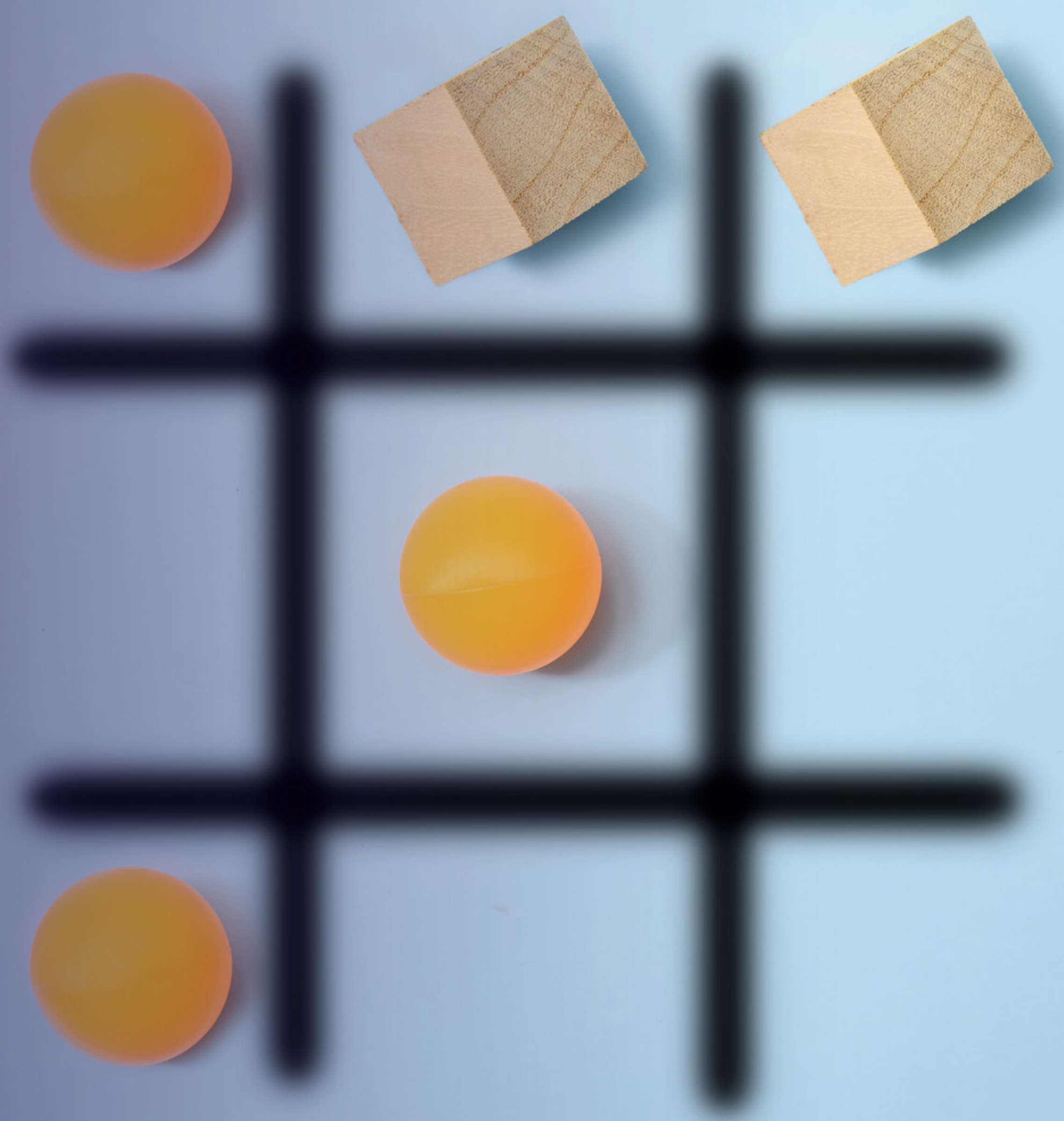
DO CORPORATE ENVIRONMENTAL DISCLOSURES LEAD TO INNOVATION?



Author

Punit Arora

Firms are under increasing pressure to disclose their environmental performance, resulting in some exaggerating their results and others underreporting them.[1,2] At one end of the spectrum is "greenwashing": firms exaggerate or fake eco-friendliness to influence stakeholder perceptions, conceal bad business practices, lower exposure risk, or alleviate competitive pressure.[3,4] Examples include Volkswagen's falsification of vehicle emissions data, Coca-Cola advertising its PlantBottle, and Innisfree labeling a plastic bottle wrapped in paper a "paper bottle."[5-7] These examples suggest that firms often use greenwashing as a substitute for real change and innovation.

"Brownwashing" is at the other end of the spectrum: firms hide or downplay their environmental achievements.[8] These firms may be reluctant to state their true environmental performance, fearing backlash from anti-sustainability activists. For example, last year, several major banks and financial firms told Bloomberg they were burying ESG (environmental, social, and governance) in their reports and "quietly recalibrating how they talk about ESG investing in the US, navigating around potential political fights in order to avoid losing lucrative business."[9] Often, these firms do not just underrepresent their current performance, they lose interest in innovating further.

In between these extremes are "green-highlighting" firms that find the right balance between improving their environmental performance and communicating their actions. For example, firms that perceive significant reputational risks if they are accused of greenwashing have a strong incentive to meet their environmental commitments and maintain legitimacy.[10]

Using the context of heavy-polluting industries in an Asian country, this article examines the relationship between corporate environmental disclosure (CED) and environmental innovation (known as "ecovation"). It suggests that firms avoid greenwashing and brownwashing, as both are associated with lower innovation than green-highlighting strategies.

WHY DISCLOSE ENVIRONMENTAL PERFORMANCE?

CED has both direct benefits (e.g., reduced litigation costs, fines, and tax concessions) and indirect ones (e.g., green signals that help differentiate a firm in the crowded marketplace). Similarly, CED comes with explicit costs (expenses paid for writing reports and green marketing) and implicit ones (such as alienating some targeted consumers).

There are more subtle implications for firm performance. For example, consumers can usually differentiate between authentic and fake green performance, which can lead to changing consumer attitudes toward a firm's products resulting in revenue decline.[11] This may lead to capital withdrawal by investors, reduced public trust, decreased brand value, and/or increased compliance costs from stepped-up regulatory scrutiny.[12,13]

Consumers and markets will notice the dissonance between messaging and action at some point. Therefore, although small levels of greenwashing can create initial gains, once this behavior crosses a certain threshold such that symbolic disclosures exceed substantive ones, it leads to reduced consumer trust and a period of prolonged underperformance.

CED & INNOVATION

The relationship between environmental disclosure and environmental innovation (ecovation) is more complex. At one extreme are brownwashing firms, which choose not to disclose their true environmental efforts.[14] As these firms are likely either content with their performance or hesitant to acknowledge it (fearing backlash from key constituents), they are unlikely to exhibit a significant appetite for further ecovation, despite their past positive performance.

At the other end of the spectrum are greenwashing firms. We know that greenwashing is often used to demonstrate false environmental commitments as a way to maintain social legitimacy,[15] but we do not yet understand its impact on firm reputation, stakeholder perceptions, or long-term performance (research has found evidence of both negative and positive effects).[16]

Some research suggests that reputational concerns and risks cause greenwashing firms to eventually graduate from greenwashing to "real" greening.[17] That is, some firms are pushed into innovation to ward off stakeholder pressure, loss of credibility, and reputational risks. For these firms, environmental disclosure that starts as a symbolic action may eventually create meaningful pressure that nudges the firm toward ecovation.[18] My research suggests this is more likely to be the case for firms known as "green highlighters," whose leaders know how to balance substantive and symbolic greening actions, as described below.[19]

STUDYING HEAVY-POLLUTING INDUSTRIES IN AN EMERGING ECONOMY

To better understand CED and ecovation, I obtained a sample of about 4,000 observations of large public firms in heavy-polluting industries in a large Asian country for the years 2013 to 2019 and analyzed it using advanced panel data regression methodology. This country's current economic development and imperfect regulatory environment make it a perfect setting for examining behaviors that are often substituted for real change and ecovation, such as greenwashing.[20]

Moreover, the country's focus on green, sustainable development causes heavy-polluting industries to face more stringent environmental regulations, bringing development opportunities. To meet the requirements of environmental regulation while satisfying the market's appetite for green products, both greenwashing and ecovation are emerging in these industries.

UNDERPERFORMANCE NEGATIVELY AFFECTS ECOVATION

Thus far, research has not definitively shown whether firms with abundant resources are more likely to ecovate. Some studies suggest these firms are more willing to innovate,[21] which implies that maintaining reasonable business performance is essential for ecovation. Other studies posit that because necessity is the mother of invention, firms may be more willing to innovate when confronting adversity.[22,23]

Some research suggests that it's not the performance itself that matters, it's the gap between actual and aspired performance that shapes firms' strategies and behavior, including environmental disclosures and innovation. However, research on how firms respond to the aspiration gap is still not clear. Some studies found firms that were not performing up to standards tended to avoid the level of expenditures needed for innovation; others found such firms were more likely to innovate their way out of their poorer performance.[24-26]

In the case of ecovation, I found that the level and the duration of underperformance both affect behavior. Firms that have been underperforming on ecovation for years are more likely to indulge in greenwashing than to make actual improvements.

This is in line with researchers who found that underperformance not only restricts the ability of firms to obtain necessary resources, it leads to conservative business decisions. Faced with persistent, repeated underperformance and associated weakened investor confidence/ capital investment availability, these firms choose conserving resources over investing in the future. Thus, a long underperformance period negatively affects innovation.

FIRM VISIBILITY & INNOVATION

Visibility refers to the extent to which a firm and its actions are known to its stakeholders.[27] High-visibility firms tend to be more responsible because of greater scrutiny by the media, nongovernmental organizations, and social movements. High visibility also reduces the level of information asymmetry between firms and stakeholders, promoting a fuller understanding of the company and its environmental disclosures.[28]

Because high visibility makes it difficult for companies to cover up greenwashing (as well as brownwashing), it increases the costs associated with false environmental disclosures. For example, perceptions of hypocritical behaviors among consumers and other stakeholders can result in strong consumer backlash.[29] The increased explicit and implicit costs associated with greenwashing and brownwashing force firms to adopt real change and innovation.

REGULATIONS AFFECT INNOVATION LEVELS

Although regulatory institutions do not directly affect the technical capabilities of the actors involved, governments tend to play an outsized role in shaping firm behavior.[30,31] This is especially true in countries with emerging economies: managing relationships with the government is vital to success because firms are dependent on governmental agencies for certificates/licenses, access to resources, and infrastructure services.

Thus, firms' willingness to innovate is affected by their resource needs and sustainability goals and external pressure from regulatory institutions. For instance, if governmental supervision forces firms to internalize negative environmental consequences, they may be nudged toward making effective changes. Firms that were planning to satisfy stakeholders via greenwashing are confronted with an increased likelihood of being discovered and exposed. In contrast, weaker supervision may enable increased greenwashing.

SO WHAT CAN STAKEHOLDERS DO?

This study of the complex relationship between CED and innovation showed that both greenwashing and brownwashing are associated with lower innovation than green-highlighting strategies.

My research suggests that some firms are unwilling to increase their ecovation investments because they perceive greenwashing will be easier and less expensive. Similarly, brownwashing firms are unwilling and/or unable to increase their environmental commitments, so their willingness to ecovate is inhibited. In contrast, firms that balance substantive action with symbolic disclosures are more likely to live up to their environmental commitments.

Underperformance duration, firm visibility, and regulatory effectiveness all influence the nature of this relationship:

- Underperformance duration is one of the main causes of low ecovation.
- Firms with high visibility are more likely to gain consumer recognition and consumer loyalty in response to their ecovation.
- The regulatory environment had a strong effect on ecovation. As a firm's exposure risk increases, it can no longer rely on faking environmental performance. This leaves ecovation as the more feasible option.

These findings have important implications. First, although greenwashing can produce benefits in the short run, it has negative long-term ramifications for companies and society. In the long run, society will benefit from more sustainable economies, which can only be achieved through companies faithfully fulfilling their environmental commitments.

Second, although we did not specifically consider the fallout of false representations (greenwashing or brownwashing), at the very least, executives should consider reputational harm and associated loss of consumer confidence in the firm, including personal risks for owners and executives (e.g., Tesla's recent difficulties).[32]

Third, strong regulatory environments are useful for producing accurate environmental disclosures: firms may disclose more environment-related information to differentiate themselves and gain stakeholder support. However, tight regulation and increased supervision may be needed to ensure that such disclosures are verifiable and appropriate to discourage greenwashing practices.

Actions such as formulating standards for environmental information disclosure, requiring companies to provide appropriate evidence for disclosed information, and improving the supervision mechanism of environmental protection should be instituted to enrich the content of environmental information disclosure.

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LEADING IN THE EYE OF THE ESG STORM

Authors

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Many CEOs are no longer uttering the letters E-S-G.[1] Larry Fink, CEO of BlackRock, confessed, "In my last CEO letter, the phrase ESG was not uttered once, because it's been unfortunately politicized [and] weaponized. Our business was hurt. We lost $4 billion because of 90% misinformation."[2]

How do CEOs lead in the eye of the ESG (environment, social, and governance) storm? Silently, perhaps. One thing is certain: their character and judgment are tested as they face the tensions, trade-offs, and dilemmas of ESG while making decisions that impact the prosperity and sustainability of our future.[3]

In this article, we illustrate how today's frames affect tomorrow's leaders and leadership. Our work is based on a series of executive conversations designed to explore the influence and impact of leaders' character on corporate social responsibility (CSR).

Through three North Atlantic roundtables, hosted by the Ian O. Ihnatowycz Institute for Leadership at the Ivey Business School and The Long Run Institute (both located in Canada), we engaged with more than 50 top executives from a variety of sectors to explore leadership in the eye of the ESG storm.

We learned that top leaders tend to construct their ESG strategies through the lenses or frames of *Games* (with referees and rules), *Positions* (with some being deciders and some doers), or *Capitals* (with money overpowering other capitals).[4] Simply put, ESG strategies are neither given nor static. Rather, they evolve depending on the character dimensions of the leaders who envision and enact them (see Figure 1).

Although character is a holistic construct of 11 interconnected dimensions[5] (or virtues), we found that each frame elevates two character dimensions into a unique and dynamic tension: courage and humility, transcendence and humanity, justice and accountability. By living and leading amid these inner tensions, leaders evolve what CSR means to them, their boards, and their stakeholders. Elevating character compels many top leaders to radically rework ESG.

TODAY'S FRAMES AFFECT TOMORROW'S LEADERS & LEADERSHIP

Through the roundtables, we caught a rare glimpse at how leaders connect their inner and outer worlds as they brace for increasingly polarized CSR. We discussed the three lenses and learned that although the future of CSR may no longer explicitly contain the letters ESG, it is more purposeful than ever. Today's leaders can make tomorrow more responsible by turning inward and taking social responsibilities personally as they "triple down" on purpose.

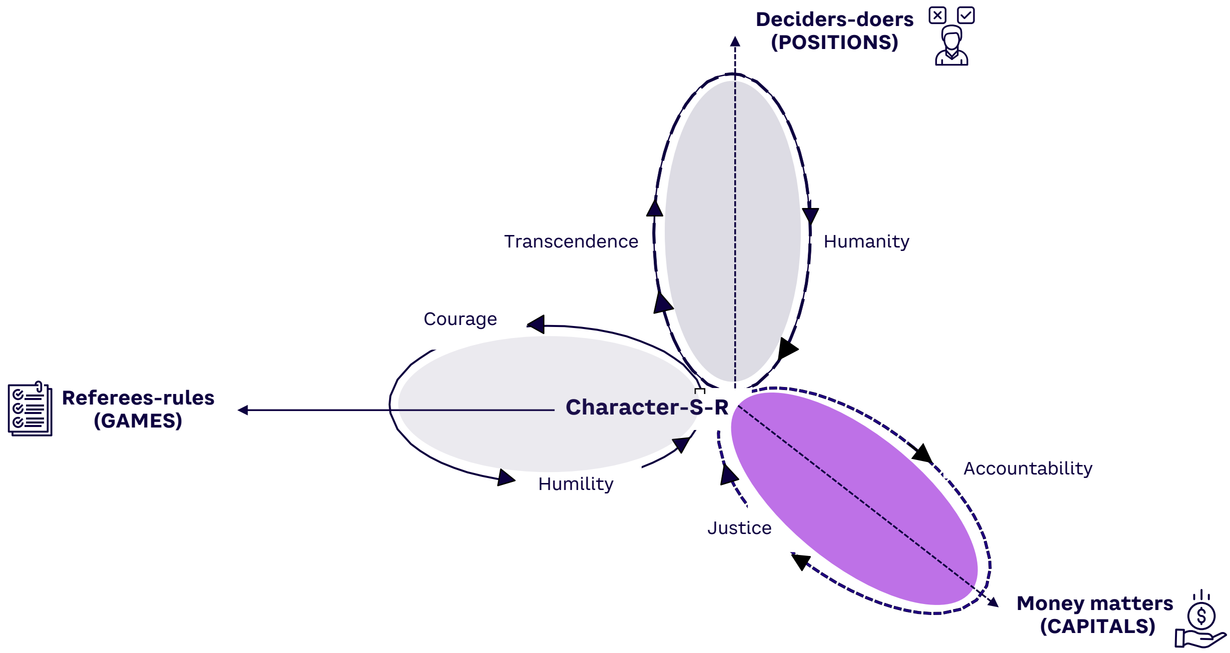


Figure 1. Framework for leveraging character to lead in the eye of the ESG storm

We call our framework Character-S-R to underscore that beneath every compelling commitment to ESG, there are deeply felt aspects of who one is and how one aims to show up as a leader. Strong, well-developed character is critical to any individual's performance, judgment, and success (in any job, at any level), but top leaders are often held to a higher standard. We expect those who safeguard our futures, feed our children, or invest our money to be of virtuous character. Departures from virtuous behaviors tend to be more visible at the top, too. What is often missed are the connections between who a leader is and how one leads. In the eye of the ESG storm, such connections cannot be taken for granted.

THE PURPOSE PARADIGM

In *Character: What Contemporary Leaders Can Teach Us About Building a More Just, Prosperous, and Sustainable Future*, authors Gerard Seijts and Kimberly Young Milani call on leaders to be the architects of "a more inclusive, sustainable, and resilient world."[6] Indeed, in an era of poly-crisis (multiple global crises) or even perma-crisis (an extended period of instability and insecurity), can organizations be reimagined as sites for expressing and pursuing purpose?

Research on organizational purpose is still in its infancy. But while the academic jury is debating whether purpose could be valuable to both organizations and society,[7] many leaders have already embraced purpose as essential to the challenges of our time.[8]

The need for responsible leadership is hardly new, but the stakes of leading responsibly have never been higher. Authors in leading business outlets such as *Harvard Business Review*, *Financial Times*, and *Forbes* are tightening the tension from both sides.[9-11] On the one hand, they warn about getting ESG "just right." On the other hand, they call on leaders to act purposefully.

Making purpose relevant for practice and bringing purpose into the boardroom when the world is "on fire"[12] can feel so daunting that some have described these tensions as the "purpose paradigm."[13,14] How leaders solve this paradigm will change the future of CSR.

The character dimensions and behaviors that leaders activate matter.[15,16] Character shapes the views we hold, the decisions we make, and our subsequent behavior. This can include:

- What we notice within the context we are operating
- How we interact with the world around us

- Who we engage in conversation and how we conduct those conversations
- How we interpret feedback from others
- What critical issues we choose to act on
- How we deal with conflict and disappointment
- Our willingness to examine and dismantle our own biases
- The goals we set for the groups or organizations we lead
- The kind of culture we allow to flourish within our organizations

3 FUTURES

Three analogies and visions of the future emerged among executives during the North Atlantic roundtables on leadership in the eye of the ESG storm:

1. When leaders brace for grand challenges with *courage* (brave, determined, tenacious, resilient, and confident) and *humility* (self-aware, modest, reflective, curious, continuous learner, respectful, grateful, and vulnerable), the future focuses on the rules and the referees in the game of CSR and ESG.
2. When leaders balance *transcendence* (appreciative, inspired, optimistic, creative future-oriented, and purposive) with *humanity* (considerate, empathetic, compassionate, magnanimous, and forgiving), the future looks bleak or bright depending on who serves whom.
3. When money matters above all else, and the tension exists between a sense of *justice* (fair and equitable, proportionate, even-handed, socially responsible) and a sense of *accountability* (taking ownership, accepting consequences, being conscientious and responsible), the future revolves around trade-offs among precious capitals.

Is one of these futures better for CSR? The key insight of the Character-S-R framework is that the future is plural, not singular. Most leaders tend to see the future through one of these three lenses at a given time, but many boardrooms have the capacity (perhaps even the duty) to engage all three futures at once.

Making more room for all dimensions of our character is not only the job of the purposeful CEO, it is a new form of work (we call this "character work"). As debates polarize the future of CSR, leaders may get quieter on ESG, but grow louder on purpose. Seen through a character lens, the poly-crisis that today's leaders face may not only seem a little more manageable but a lot more worthwhile.

GAMES (REFEREES-RULES)

Many ESG issues challenge the rules of the game (and often change them). Taking the game seriously requires respecting its rules, especially when the game remains unclear, and at least some of the rules are not favorable.

Leaders embracing this future keep their proverbial eye on the competition. They underscore the need for everyone to join the game and play by the same rules, not because the rules are always smart, but because even stupid rules can be improved through repeated plays.

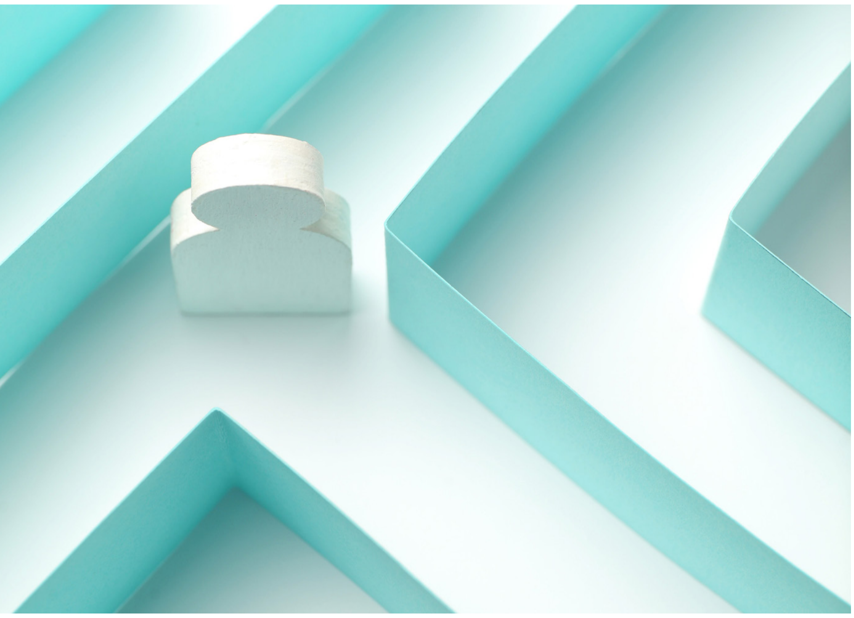
The future of CSR looks bright when the game is taken seriously. Refereeing the game while rules are being figured out becomes important. The leaders we met explained that playing new games requires both courage (to play the game when the rules are not yet fleshed out or understood by all) and humility (to accept the decisions of referees who may be figuring out the rules, or to call your own foul when it becomes clear that a rule has been violated).

As leaders co-activated courage and humility, they begin to see their competitors as collaborators in creating, evolving, and enacting the rules of the game. When players come to appreciate that the rules are far from perfect, and the decisions of referees may at times be flawed, they take up more, rather than less, responsibility.

They can choose to play more seriously, not because of the rules or the referees, but because they are committed to improving the quality and integrity of the game. As more competitors join in, and the number of serious players increases, the rules can improve much faster — and so can the decisions of the referees.

Leaders underscored the importance of rules and referees as separate from the players. They emphasized the difference between making the rules and playing by the rules. Players can choose to suffer some short-term imperfections for the sake of bettering the game for everyone in the long term. For example, leaders could co-activate courage and humility by:

- Creating circular ecosystems and innovative forms of collective action
- Moving from linear to circular to bio-circular to regenerative supply chains[17]



Without courage, no player would get into a game they know is far from clear to all, including the referees. Without humility, none would engage in continuous learning until better possibilities could be collectively found. Taking the game of the future seriously in a collective way can reveal previously unthinkable (let alone doable) recipes for CSR.

POSITIONS (DECIDERS-DOERS)

Conversations around the tension between purpose and profit highlight an uncomfortable social divide: those "in charge" are only a few, and thus the position to make consequential decisions is in limited hands. Viewed through a rigid decider-doer relationship, the future of CSR is one in which too many stand to lose in order for a few to win.

How can equality and equity become the new default? A new conceptualization of the economy as cooperative[18] draws attention to a so-called ROH (return on humanity).[19] What if we reversed the decider-doer relationship, which many feel lies at the root of human exploitation in capitalism? Could the future of work recast a subservient relationship into one of co-flourishing? Perhaps this analogy has been holding leaders back from their potential to serve, and shape, a much more inclusive future — one that celebrates our shared humanity.

Many ESG issues remain, of course, rife with inhumanities. Inhumanity sometimes serves as an impetus for change, stirring up a moral duty to do better. But too often, the damage done by business unfolds out of sight, remaining out of mind for most leaders. Nevertheless, many of the dynamics that today's businesses hinge upon and perpetuate are being brought to light, creating a growing awareness and discomfort in many leaders.

For example, no case can be made for unsafe recycling systems in the name of electronic overconsumption or for large swaths of people going hungry while a third of the food produced goes to waste. Yet such inequities persist due to the profound gap between this social reality and a viable business case.

Overcoming our current inertia will require deliberate decisions at scale. Some new cases have been created that take a more inclusive approach to business and generate benefits for a broader range of stakeholders, but they need to be created and employed more expansively. Many leaders are realizing that change begins with and behooves the "deciders." Those in charge today should change tomorrow's production systems.

Undoing past wrongs may not be in the job description of most leaders. But many can choose to call up more humane futures. Indeed, when leaders activate their humanity, they begin to invest in, and will seek returns on, humanity.

For the participants in the North Atlantic roundtables, AI was perhaps the most important and urgent arena for beginning to reverse this uncomfortable tension. It is not hard to fathom what a future with AI deciders and human doers would look like (it is rarely, if ever, a future anyone hopes to see). Nor is it hard to shore up commitments to actions that would safeguard us against such a future. Leaders have begun to prepare for futures where AI can be balanced by human empathy, listing human capabilities such as being collaborative, creative, resilient, and empathetic as key requirements for the future of work. They anticipate good returns from drawing such skills to their organizations.

The discomfort this lens engenders can be transformative: it is only when we deliberately reverse the lens and ponder both sides at once that we begin to truly value what we have taken for granted or ignored for too long: our shared humanity.

CAPITALS (MONEY MATTERS)

There are many kinds of capital (financial, human, social, intellectual, and so forth), but ESG polarization has made it all about the money. Where the money goes (or no longer goes) is seen by some as a tool to reallocate risks and even radically redesign the future. In fact, recent swings have made it harder and more costly for industries associated with ESG (or "C" for climate) risks, such as mining or oil and gas, to obtain capital.

Leaders and organizations increasingly feel caught between a "BlackRock" and a hard place. In other words, they are becoming more and more reticent to announce any type of ESG effort or initiative (even those already underway) to avoid backlash from anti-ESG stakeholders or prevent exclusion from investor portfolios. When even BlackRock can get blacklisted by US states that are moving to enshrine anti-ESG measures, it is a reasonable worry of less powerful firms that their commitments to decarbonize by divesting in fossil fuels could lead to negative outcomes in some areas.

Reducing all matters to money (particularly shareholders' money) skips over the importance of leaders' accountability for all the capital their operations rely on. However, when leaders balance a heightened sense of accountability with a sense of justice for the multiple holders of those capitals, the new future of CSR surfaces and is consequential. Asking "justice for whom?" and "accountability to whom?" becomes a central question.

In an era of poly-crisis, leaders must aim for a deeper understanding of how the underlying structure of capital still needs to change. Otherwise, the economies of the future cannot become less unjust in the near term and more just in the long term.

With a disproportionate amount of today's attention on "who has what," we all still have so much to lose. The times call for us to exact better ways of stewarding the resources we have long taken for granted before they completely collapse.

Taking their cue from abandoned fishing villages turned into hubs of sustainable tourism or the birth of the bio-economies in today's wastelands, many leaders are asking themselves what accountability for a radically different future means. What are the many capitals available if the future is reimagined as just and inclusive in the first place? What capitals can be valorized as we construct the futures we want instead of those we don't?

There are, of course, many who continue to enjoy the status quo and would prefer that little changes. There are many more, however, who have been disenfranchised by decisions that enriched the few by impoverishing the set of capitals we have and hold. The future of CSR hinges on leaders who can broaden their accountability in ways that enfranchise new stakeholders and encourage new ways to put their capitals to work for the greater good.

MOVING FORWARD

The Character-S-R framework offers an anchor to corporations adjusting to the winds of politically charged CSR.

Some leaders find ESG declarations too risky (or even a dirty word), but few can do without character dimensions like courage, transcendence, and accountability. Fewer still would want to be courageous without humility, transcendent without humanity, or accountable without justice, as it would certainly compromise both their judgment and subsequent actions.

Character can be easier to push and harder to hush than organizational commitments because of its proven position as a foundational component of leadership and its criticality to performance excellence and sustained individual and organizational well-being.

We invite leaders to preview the future of CSR as the poly-activation of character dimensions. For example, as leaders co-activate a broader expanse of dimensions, including temperance, integrity, drive, and deep collaboration, their judgment becomes stronger and additional futures open up. And as more character dimensions are exercised, future leaders become more inclusive, collaborative, and sustainable — with or without the letters E, S, and G.

We invite leaders to consider this: who they are influences the future they see, and the future they see influences who they become. Viewing the future as Games, Positions, or Capitals elevates situationally appropriate combinations of character dimensions while maintaining the activation of all character dimensions to ensure leadership efficacy. Being aware of how today's frames inspire and evolve tomorrow's leaders and leadership is, perhaps, the most critical aspect to the future of CSR and the flourishing of organizations, humans, and the planet.

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