Lone Star Resilient Investment Forum Conference:

"ESG and Investing in an Era of Unprecedented Change"

April 7, 2021

Interview with **Dee Smith**, Founder and CEO, Strategic Insight Group and board chair of the Lozano Long Institute of Latin American Studies/Benson Library

Interviewed by **Marianne Dwight**, Of Counsel, Michael Best & Friedrich, LLP

Transcript of interview video (available at https://youtu.be/oNKfs1GhUX4) :

- Hello, everyone. My name is Gabriel Eckstein, and I'm a professor here at the Texas A&M School of Law. And I'm also the Director of the Energy, Environmental, and Natural Resource Systems Law Program. On behalf of Texas A&M University School of Law, I want to welcome everyone to a Lone Star Resilient Investment Forum Conference on **ESG and Investing in an Era of Unprecedented Change**. And I want to recognize and thank Michael Best & Friedrich, LLP and Strategic Insight Group for their support and engagement in organizing this event.

The world around us is changing, and changing rapidly. Most pressing on our minds right now is the COVID-19 pandemic and resulting economic upheavals, to which, seemingly, in the blink of an eye, entire world has succumbed to. But while changes to our social, economic, and environmental fabric have been occurring since the Industrial Revolution, it certainly seems that these are occurring now more rapidly and forcefully than ever in the past. Devastating storms and horrific fires, mounting inequities in our society in crises of governance and public participation, both are all symptoms and outcomes of our rapidly evolving economic, social, and political systems that are struggling to adapt to the changes.

So how do we deal with these challenges? How do we balance the visions of progress, growth, and technology with the goals of sustainability, equity, and harmony? This is the purpose and objectives of this conference.

We are here today to explore and consider how the private and public sectors can engage with the broader community, expand and grow the economy, and create opportunities for innovators and investors, while at the same time ensure that every member of our society can enjoy the fruits of these miraculous changes and can actively participate in the process of change. And that we do so in a way that ensures that our children, and our children's children, can do so equally and equitably in the same way that we aspire to. Now, with this in mind, I would like to turn the podium over to **Marianne Dwight** of Michael Best & Friedrich, LLP to say a few words of welcome.

- Thank you, Gabriel. I appreciate that. And I look forward to [INAUDIBLE] with this conference today and tomorrow. And I look forward to working with each and every one of you. And hopefully, we'll have some interactions and some questions.

I just want to say a few things. And that is, I want also want to thank Michael Best. I want to thank Strategic Insight Group, and of course, Texas A&M School of Law. And of course, A&M is my alma mater.

And with that, ESG, Environmental, Social and Governance principles, as outlined by Gabriel, have become ever more important in today's society. And so I look forward to our interview and our panelists in discussing how that is interwoven throughout our economy and the finance industry. So I would like to welcome **Dee Smith**, who is the CEO and the founder of Strategic Insight Group.

I've known Dee about 15 years. And Dee, this is our first annual Texas A&M University School of Law hosted Lone Star Resilient Investment Forum. And in particular, what we're going to be discussing is ESG and investing in an era of unprecedented change, as described by Gabriel.

What I want to also say about Dee is that Dee is a Renaissance man. And he is not only the founder and CEO of the Strategic Insight Group, which is a global intelligence firm, but he also chairs LLILAS/Benson, which is the Institute of Latin American Studies in the Benson Library, which is located in the University of Texas, as well as he is a member of the Chatham House. And he also is a long-standing member of the Council on Foreign Relations. Dee has also been a presenter of a TV series, which is "A World on the Brink," which is also very interesting. And you can see that if you go on his Strategic Insight Group website.

So Dee, I know that you have been involved throughout your career in many different types of geopolitical matters. And so given what the focus of this particular forum is, the era of unprecedented change, I want to talk about that. I want you to kind of describe what that means to you as it relates to the matters today.

- Sure. Well, thank you very much, Marianne, for your kind words. And let me apologize for my coughing. Texas allergies are at a maximal point, I think, and I'm certainly feeling them today.

But yes, it's a very interesting question. And I'd like to start out by saying that what I want to do when I talk here today, and really any time, is to avoid being, or to try to avoid being, polemical or political, and to be analytical. And being analytical forces us to look at what is going on, what the cause is of that, maybe the proximate causes or the ultimate causes are. And it challenges your thinking. So you may have to think about things that are uncomfortable, that violate the left/right divide that seems to be so prevalent today.

So with that prelude, let me just talk about what systemic change and the kind of changes that we're seeing are today. And I think that if you boil it down, the reason that change is so unprecedented is that our systems are so complex. And we've created a world that's been knitted together by technology and all of the things that technology has brought us in a way that has never existed before in the history of humanity. And the complexity of this world is overwhelming.

And so you have, as a result, you have two things happening. You have many things happening. But I think you can categorize them into the rubric of change and of risk. And change, because when you create a complex system that's tightly interwoven, change begins to become a fundamental characteristic of it. Now, things were always changing.

But as you have things that start to influence each other more and more, and you get these feedback loops, and they're complex feedback loops because everything is interacting with everything else, you have a phenomenon that has become called nonlinear change. And what that means is that change does not occur in a way that is easily predictable.

And the more elements that you have tied together and that are influencing each other, the less predictable it is. And it in fact, it becomes what some people refer to as radical change. And what that means is a specific meaning. It means that the change goes towards conditions that are further and further away from what our expectations were. So they depart more and more from what we've known in the past and what we thought the future was going to look like.

And there's been a lot of work in the last part of the 20th century on complex systems. And this is one of the great conclusions of it, is that when you have these systems where you tie so many things together, you create a non-linear type of change. And it's very hard to predict.

- So Dee, I want to interrupt you there. You've talked about several concepts, so I want to kind of break these down into some of their particular parts. So you've talked about change and unprecedented change. Of course, change has occurred throughout our human existence. We've had different times where there's been some-- I guess at that time, might have been unprecedented change, insofar as we know, I guess, in that regard.

But here we are. And in some of the opening remarks from Gabriel, talking about what's happened as a result of the pandemic, and a global pandemic as it were-- and so why don't you talk a little bit about what are some of the risks and the changes, which I think are kind of intertwined themselves, vis a vis what's happening because of the pandemic.

- Absolutely correct. They are. And risks have taken on a different level and a different characteristic than we had perceive them to be in most of the past. They're increasingly-- there are these two terms, exogenous and endogenous And exogenous means from the outside, and endogenous means from the inside.

And we find that risk is increasing in both domains now. So you're getting more risk from the inside, and more risk from the outside. And I think you can see that in a lot of the societies around the world and a lot of the systems around the world. They're also--

- Now, Dee? When you say increased risk, are you saying they're are new risks? Are these new, or different?

- They are new. And I'll give you a couple of examples. So one would be just the recent blockage of the Suez Canal. When you created a highly complex, hyper complex system, you can have a single point of failure like that that can cascade through the whole system.

Now, we were very lucky that that happened right before what's called a supermoon tide, a very, very high tide. If the timing had been different, that boat still might be there. And it was starting to have massive effects on global trade.

We can go into that. But leave that for the moment. It was it was absolutely-- it was potentially catastrophic. The thing to think about with that is that that was an accident. And it was some known effects of when large ships go through small canals, in terms of effects of the waves that they create on themselves.

But the next time, it might be an intentional act. It might be an act of terrorism. And you can see how vulnerable the system is. And in the past, we did not have systems that were so tightly coupled-- is the term that people who study this use-- that they created vulnerabilities that didn't exist before. And so that is one way in which you find these risks being different. So that would be the cascading effect of them.

But there are other ways in which risks are different. And they use these terms long-tailed and fat-tailed. And basically, what that means is that they can have very long-standing, lingering effects. And these effects can go beyond direct effect to what are second order effects, third order effects, fourth order affects. The technical term is "n order of effects."

And those are knock-on effects, if you want to use that term, that are not necessarily predictable from if you just think about the event itself. They are also interacting. And that was beginning to happen with the Suez Canal.

I think that's happened with many of these other risks. The pandemic is a good example of that, as it affects all sorts of other things, that then affect other things. And they multiply. They produce other things similar to themselves.

And so you have all this whole universe of different kinds of risks that exist because we've created such complex systems. And that is makes them much more difficult to understand, difficult to predict, and difficult to deal with. And one of the things we've learned about highly complex systems is they're inherently unstable. They're inherently fragile.

And there is an inverse relationship between efficiency and robustness that I think people have not understood until recently. That a system that's very, very efficient-- just in time, inventory, and so forth-- is not very robust, because if that inventory gets broken, then the whole thing can collapse. And so we're going to be, I think, going through a period where we are reassessing whether we want to dial the dial all the way to efficiency, or whether we need to dial it back some to being more robust and more able to cope with these unpredictable changes.

- So let's talk about this efficiency versus robustness that you just discussed. Because, exhibit A, I guess, is the pandemic and the distribution of-- first, it was PPE. And then, because the distribution channels were broken, if you will, for many reasons, there were other things that were affected by it. And then now we have the vaccine rollout. So let's talk about how that has affected society and affected how we operate.

- It's a wonderful example. And it's a live example. And I think it has unfolded in a way nobody predicted. Some of the risk that people thought would be really important have not appeared. And for example, food shortages were widely predicted in any kind of pandemic situation. For most of the world, that has not been a huge issue.

Other issues though, have been much more difficult than predicted. And I think the effect on inequality, the effect on employment, the effect on certain businesses, which have just been more than decimated by it-- the hospitality business, travel, and so forth-- and the long range effects. And this is this fat-tailed and long-tailed effect.

Will business travel, for instance, ever go back to what it was? I think it probably won't. And I was a person who was on a plane a week. And I just hear from everyone I talk to, well we can do so much on these Zoom calls, like we're on right now, that yes, we will travel some. But it won't be the same.

And there are whole lines of business, like conferences, that may-- the really good ones will happen, but the other ones may be Zoom conferences. And so this, again, this is a great example of these cascading effects, is that that affects all the people who are serving those, the caterers, and the hotel personnel, and so forth. So this thing has a huge multiplicative effect.

But I would like to go a little bit farther in talking about the pandemic, because I think it illustrates something that goes directly to the heart of ESG and the things we're talking about. And that is that the science in the pandemic was an A plus. I mean, the fact that we were able to come up with vaccines, multiple vaccines that work, in less than 12 months, that we were able to genetically sequence this stuff on a realtime, ongoing basis, that this whole world of mRNA, messenger RNA vaccine technology just blossomed, it's extraordinary.

And that happened because for the most part, with some exceptions, but for the most part, scientists were able to work in cooperation with each other. There were not huge barriers to the exchange of information. It happened very fast and very smoothly. And barriers were taken down to publication of papers before they'd been reviewed, and so there was just this huge flow of information.

Now, on the other hand, the politics of it were an F minus, using the American grading system here. It involved, as you say, people hoarding protective equipment, hoarding vaccines, not sharing information, falsifying information. These systems, both in the US and in the EU, were assigned to the state level, which obviously means something different in the EU than it does in the US. But nevertheless, what happened was a Darwinian struggle to get, first, protective equipment, and then therapeutic equipment, like respirators, and now vaccines occurred.

So it's not like there weren't things that weren't known about this. There were programs. The CDC had one, the World Health Organization had one. There are documents that have been discovered back to the 16th century about basic protective measures. Cover your face, don't get in large gatherings. And those things became politicized.

So I think you have two paradigms of human endeavor there. The science side was amazing. The political side was just a total failure. And I think that's an exemplar of what's going on in society.

- So let's talk a little bit more about that, because although it was politicized, but it really brought up what has been there for a long time, meaning the human nature aspect of this and this feeling of individualism versus nationalism. And you can take that within-- and we saw all the differences between communities, small communities, cities, states, the US, versus other countries, and how their reaction and their actions, as a result of this pandemic, this global event that we're still in.

So in talking about that, how does that affect this feeling-- we talk a little bit about globalization and the global economy. But then how does that translate into our own economy and throughout the finance industry?

- It's a huge question. And you've pulled out about 15 really interesting topics that I know we can't cover all of which in this brief period we have. But I think that you've hit the nail on the head about some of the things that are going on and what I think of as the rise of ESG.

And yes, you can-- one lens-- and this is where it could get political and polemical, but I'm going to use it analytically. One lens to look at this is community versus individual, because there are two sides of the human animal. And on the one hand, we are individuals, and we have individual interests. On the other hand, we can't do everything alone, and we certainly can't deal with issues like the pandemic, which was in many ways the first truly global, realtime, non-financial crisis. We can't deal with those as individuals or even as individual states.

And this gets into a lot of things about what are called vaccine politics. And I hate the word politics in this, because as long as there are large segments of unvaccinated people, that gives the Coronavirus a pool to replicate an experiment in and create-- and we know that it's a highly adept at creating variants.

And so as long as you leave people unprotected-- now, at the same time, you've got another kind of politics that's going on, where people are objecting to the vaccine on various grounds, philosophical and moral grounds that they've defined. And that's fine. But this is where you really do come down to the difference between individuals, and small groups, and large groups. And how do you mediate that? And I don't think anybody has the answer to that yet, but I think that we're moving very quickly into a space where these questions are being asked, and debated, and reinterpreted, so that you have a kind of impatience with the systems that have existed that have not shown themselves to be efficacious in some ways.

And so I think when you take this home to ESG and then the investment world, you're talking about a whole range of issues that people are-- how do I put it? There's a change in the wind. I guess there's a change in the spirit of the times, the zeitgeist. And I think that this is being seen in political terms. And I think that-- and those debates are fine, and I wouldn't ever take away anybody's right to say anything they need to, or want to, or believe.

But at the same time, when you have an event like the pandemic, which is, I think, a lot of people see as a shot across the bow, or as a dress rehearsal for some of these larger problems, like climate change-- I know that's a controversial issue. But let's leave that aside for a moment and just talk about pollution. Because ESG means environment, social, and government. So it's not just about climate, it is also about pollution and related elements.

And there are huge issues there, the microplastics that have just pervaded the world. They're inside all of us. Pollution of the oceans, various many, many other problems we could talk-- this is not the purpose of this conversation to iterate the problems.

But I think that there is a rising level of impatience and anger on the part of people. And I think you see this-- it's very interesting, because one of the things that's happening-- and as you know, I'm involved in a whole lot of policy discussions, which has changed very much under the world of COVID. In fact, it's easier. I don't have to go to New York, or D.C., or London any more. I just sit here in my library, and it all comes to me.

But one of the things that has surprised, I think, the Left in recent times, the Left and the Democrats, is how angry a lot of social activists are at them. And their response, the response of the Left is, but we've done everything you asked. We changed all these policies, we put in new language, we're talking about it in a different way.

And the reaction that the activists give, is yes, that's the problem. You're just talking about it. The talk is changed, the actions haven't. And I think something similar is going on in the world of ESG investing and ESG consciousness. I think that there are a lot of people who are now saying, it's not enough to change the policies. It's not enough to change the way you're talking about it. This concept of "greenwashing," which has become more and more current in recent days.

But it's that a lot of talk and no action is not what people are going to put up with. And so you see these things, like 145 organizations that are trying to make the US take steps to shut off the money to fossil fuel firms. And you see these issues that are very different from what it was even a year ago. And I think it is connected to the pandemic, and to the things that happened there, and the shock to the system that all of this had. But I think we're entering new territory.

- Yeah so let me take a little bit of what you said, and let's talk about a little bit on the investment side. Because obviously, the issues regarding the environmental, social, and governance, each of those have-- and some of the issues that are attendant to those-- have been around before the pandemic, right? And so they have sort of kind of become more highlighted, if you will, during this time of the pandemic and the things that we, as a global society, have had to deal with.

But it becomes a little bit more difficult when we are trying to talk to investors. And I'm talking from the large institutional investors to the smaller high net worth individuals or others who are investing, and banks, throughout the finance industry. And it's hard. You can't just do a hard stop, and to say, we're not going to do this, because some of them are in the private-held funds and commingled vehicles. They hold these for 10 to 15 years, so they can't just say no.

But there's a lot of folks out there that are saying, OK, you need to look at ESG. You look at how a company is looking at the environmental risks that are involved, the social risks that are involved, and then also the governance. But to operationalize it is much more difficult.

And how you take all those risks into consideration is also difficult, because you have to have the information. You have to have all the data. And it's not always apparent. And so I think we are going into a new area. And how we're going to deal with that is going to be quite interesting.

It's also an opportunity, I believe, to take all this into consideration. And we're going to have to determine how we're going to do it, how it's going to happen on a day to day basis, and how it's going to affect our economy as a whole in our society. So what I'd like to talk to you now and ask you about-- we've talked a little bit about some of these risks, we talk also about value, versus value investing, versus values, and so a little bit between the shareholders, take the shareholders into consideration only, or should we also take into consideration just the shareholders plus the entire community at large?

- Right, and so that's a really critical point that I think is becoming one of these vectors of change. And they're now even talking about EESG, so its Employees, Environment, Social, and Governance. And this gets to the idea of stakeholders rather than shareholders.

And of course, the shareholder approach is something that goes back to Milton Friedman the neoliberal economics, and Reagan, and Thatcher, and that era. And it was a revolutionary concept at the time. And the question is, how relevant is that concept to our own time?

And this-- there are two or three general principles I'd like to touch on quickly here, because I think that they're problematic in terms of what they do to our discussion of these things. And let's-- you mentioned large cities and smaller ones, urban and rural. And there are very different outlooks in urban places and rural places.

And rural places are smaller. Everybody knows everybody, to a certain extent. Everybody's similar to a certain extent. There's a different set of values that's about means not ends. It's about duty, and it's about a certain kind of self-sustaining independent community.

Big cities are large, obviously. They're cosmopolitan. You meet a lot of people every day you've never met before. Your communications and your living is transactional rather than about relational things as it is in smaller communities. And so these two things have a-- and I think it's more about utility than duty.

And obviously, they all contain elements of the other. But there is a distinction. And they breed different kinds of responses, because they're two different environments that require different kinds of characteristics to succeed in, in the same way that the tools, and the techniques, and the knowledge you need to survive in the desert is different from what you need to survive in the jungle. They're just two different environments.

But what we've done, as you say, we've operationalized it by saying one's good and one's evil. And they're not. They're simply two responses.

And so I think when we talk about values, it's so easy to slide down this hill of "My values are good, your values are not." And I think that what we have to keep in mind is the environment that people are speaking from. And what would our values be if we had to move to that environment? What I know about surviving in the desert wouldn't serve me much good to survive in the jungle.

So that's one thing to say. The second thing to say is there's this concept called hyperobjects which I think is useful now. And hyperobjects are-- it's a concept that was developed in the last couple of decades by a fellow at Rice University in Texas, where we're both sitting. And they're a concept of massively connected relational objects.

They're agglomerations. They're almost inconceivably large. They're not local in space or in time. They stretch across time. They're massively distributed.

And there are various examples of them. Some people say Styrofoam is a hyperobject. Radioactive waste is a hyperobject. Civilization is a hyperobject.

But I think when you get into these questions of how do you parse these problems of divestiture, even if you decided to do it for the reasons that you've just iterated, investments are long-horizon, and so forth-- but also, you can't just turn off use of fossil fuels. We have a fossil fuel based civilization. And it's going to take a long time to move away from that.

And so I think if you think of that as a hyperobject, if you think of this is so many things connected, so-- you know, as we were talking earlier, in such an enormously powerful way, in such an enormously complex way, it helps to be able to conceive of why change is so difficult and why it takes so long.

That being said, another thing we know about complex systems is they reach what are mathematically known as catastrophe points, where change is very sudden. It builds, and builds, and builds, and then suddenly, you're in a different state. So in considering all these things, I think we have to look at those things.

But when it comes down to how do you deal with this as an investor, I think that of all the ESG or EESG elements, that governance is the-- and you and I have talked about this before-- is the most important. Because going back to the pandemic, what failed in the pandemic? Really, governance. I mean you can put all the politics into that basket. That's what failed. The other things didn't.

And so we may be at a point in history where our technical capabilities, and certainly our ability to influence the world as a species, have far exceeded and developed far more rapidly than our political capabilities. That's a real problem. And I don't certainly have an answer to it. But I think we have to identify the problem.

And I think the problem is one of governance. And I think you have to start small. And so a lot of these issues, I suspect, in the ESG world, are going to be tackled through focusing on governance and using that to then address the other issues. Because that's where the buck stops. It's all based on the people.

- Well, it starts and stops there, right? So--

- That's right.

- I guess with governance, first and foremost is the need to have all kinds of folks at the table. And you have to be at the table-- and then you have to be willing to discuss it and willing to have other viewpoints. But I think also what's key to governance is having the information and the data. And so that entails folks who are willing to impart that data. They're willing to part with what they have.

I know that there are many folks that are willing to say on Facebook, or Twitter, a restaurant that they love, a meal that they love, and all that. But to really talk about their livelihood, and their business, and their ability to make money, I think it becomes a whole different issue. And then if you're a public type of entity, like a public corporation where you have certain reporting requirements, some of those things are out in the open, but you still have many, many, many things that are not.

And so how do we deal with these issues of governance. And what tools are investors going to need in order to be able to make sure that those themselves that they're implementing it, and then the folks that they're investing with, that they themselves also are implementing it?

- Yes, another great set of questions. You know, there's this saying, and I've just blanked for the moment on who said it, but it's very difficult to get someone to believe something when their livelihood depends on not believing it. And so it's a tall order. And unfortunately, one of the characteristics of our species is we only do things when we absolutely and positively are forced to do it. As someone said, America will always do the right thing after it's tried everything else.

And I think that these issues are going to require some real cognitive change, or some real cognitive challenge. For one thing, it's giving up nostalgia. Because I think people have a really hard time dealing with change. And I think one of the things that is most problematic, and goes into these political equations, is the simple disbelief, you know, "That can't be true. It can't be changing that way. I've based my whole life on believing this."

Also the idea that it's somehow immoral to consider information that challenges what you believe. And in fact, it's not that it's immoral. It's that it is emotionally very painful for most people to give up belief, as that little saying shows.

And it's also very threatening. People feel very, very threatened by massive change. And now we have a world filled with nothing but massive change. So everybody feels threatened on almost every front. And that's a really difficult situation.

In terms of how you make this happen, I think it's-- all of these problems-- or there's another intellectual device called a "wicked problem." A wicked problem, and this goes back to the '70s, is a problem with so many parts, and so many interacting parts, and so few clear lines of progress that you can spell out that don't create other problems, that they become very difficult to conceptually appreciate and to solve. And I think this is a wicked problem. It's also a hyperobject. I know I'm using all these exotic terms, but I think they're worth looking up and thinking about.

But it's going to be an evolutionary process. But it's almost going to happen at the speed of a revolutionary process. And I think you're going to find that again, it's this change in the wind. I mean there is a lot of younger-- some of it's demographic too. Younger Republicans are much more green than their elders. And a lot of the changes that happen will simply be changes that happen over time, as some people age out and other people age up.

And this is why, I think, a key thing here is that this is going to evolve on an ongoing and probably escalating, accelerating basis. And I know that a lot of companies want safe harbors. They want to know, just tell us what we've got to do, and we can do it, and then we're legally protected. And I think the problem with that-- I can understand why they want that. I mean, everybody does.

But the problem with it is the situation itself is changing in so many ways and in so many unpredictable ways, that those goalposts are going to continue to move. And the excuse that well, you told us this, and then now you're saying, five years later, that's not it. It's going to be like that legal line of attack, well, you should have known. It's your business, you should have known, you should have had your eye on the ball, and so forth. And you're the lawyer, not me.

But I think that's going to be the ethos of it. And I think what is going to happen is that as issues having to do with the environment mount, let's just say, and you could say social as well, and things happen, and there are more bad storms, or fires, or what have you, people are going to look for somebody to blame. And whether or not it's XYZ Corporation's fault, they are going to be the big piggy bank to go after and to blame.

And so I think that corporations have to really have their eye on the ball and really take an interest in it, and a profound and a demonstrable real interest. It's putting their best foot forward and doing the things the best as we know today, and to change tomorrow, so that they can defend themselves and so that their investors won't be dragged into a huge headline risk along with them.

And I have had several conversations recently with clients-- and our clients are exactly what you describe. They're very large investors, globally, who are really concerned about this. And this issue-- one way that I think you can guarantee yourself problems is with greenwashing, is with saying you're going to do something, and then not actually doing it. And that will be detectable, and it will be detected, and it will be proved, and it will land you in really hot water.

- Yeah. I want to talk about a couple things here--

- Oh, one other thing I want to add. This is why I think a lot of large, publicly held companies in the green space, and in the space that is brown, the non-green space, are perhaps overvalued right now. I think that if I were investing in that world, I would look at small, privately held companies that are developing really innovative approaches.

And rather than-- I think you do have a danger-- not only the headline risk, that you have the danger of overvalued stocks, overvalued companies in this larger space of that. But please, I interrupted you. Sorry.

- No, no, no. Well, a couple of things that you said, and just to respond to this, is that I-- someone was telling me the other day that they feel like ESG is a fad, and that there's always been corporate responsibility. Now they're calling it ESG. And I'm not so sure it's a fad.

I do think that there are some folks that have kind of gotten on the bandwagon. And therefore, they're saying we're doing everything with ESG. That's what I kind of hear you saying. Even though, if you start looking at the details, maybe not so, or at least not as much as they say they are.

And that's what becomes a little bit more difficult, because the definitions, and the construct within which it is, is not well defined. And so therefore, entities, corporations, investors alike, and others, don't know where-- when they say they're doing ESG, you know, they may not. Or they can say, I've given all this money to nonprofits, but I'm still over here expanding my footprint, my carbon footprint. I'm still doing that regardless.

And then it becomes difficult. It's like moving the Titanic to a certain degree, or moving that big ship that was in the Suez Canal. It becomes a lot more difficult to move on a-- you can't just move on a dime. And if you do that, then you're going to have other-- as you talked about the interconnectedness, you're going to have other results from that.

So something that you said to me the other day was that you talked about change, the change the world to suit yourself versus changing ourselves to suit the world. And so there's got to be some way that we can hit a middle ground with that. And what is your response to how to attain that?

- My response to all this is that it's process, and that it is going to be an ongoing process. And I think that this issue that you mentioned at the start of what you were saying of standards and metrics, and not being defined-- and I know that that is a subject of enormous frustration for a lot of companies, because they say, well, we don't have the metrics. We can't know if we're meeting them.

And of course, the problem is that when you have a situation that is changing unpredictably and in an accelerated fashion, the metrics are always going to change. And so what do you do about that? Well, I think there are approaches. I mean, I think you focus on process rather than on results. You focus on when you do have goals in mind, you make the goals about changing, not fixed in goals.

And I think there are ways that you can articulate this. And as I say, I think bring on people who are directly affected, and who are part of the thing that you're dealing with. And this is sounds like it's unrelated, but I'm on the board of a wonderful museum in Cody, Wyoming, Buffalo Bill Center of the West. And we have a Plains Indians Museum. And a few years ago, we created a system where half of our board, by mandate, is representatives of a Plains Indian tribes.

And so they have a real voice in what we do. Now, that's just a museum. But you can actually modify your governance so that you do take into account the stakeholders and the people this is affecting. And it's simply a problem of numbers. I mean, the pressure to do this is going to become irresistible. And so you're going to be better off if you actually take the bull by the horns and make proactive changes, than waiting until you're forced into changes with all the headline risk, and reputational risk, and legal risk, and financial risk that that entails.

So this goes back to this issue of nostalgia and just saying, I'm in my place, and I'm not going to move, as Texans often say-- as a fourth generation Texan, I can criticize my own state, which I love, but nevertheless. You can't just hold your ground like that anymore. There are times in life when holding your ground is perhaps useful. But there are times when it is not. And this one of the times when it's not.

- Right, right. Well, Dee, thank you very much. I think we've got some questions. And I thought that we might want to take some of those questions. So as I-- so I was going to try to see if I can-- OK, give me a--

- While you're looking at that, I'll give a plug for a friend of mine and a person that I think does some very interesting thinking, Peter Atwater. And his focus is sentiment. And that's a word we haven't used yet. But I think that it captures, in one word, a lot of what's going on.

And when sentiment changes, that's what moves markets. And anyone who looks at the history of markets, and the history of bubbles, and from the tulips on, or probably even before, understands that. And the sentiment has changed, in my estimation, in my analysis of this matter, of the ESG element.

And that is why it's not a fad. I think people are threatened and scared across the board. And while they think that there's lots of things they can't do anything about, this is something they can. And so I just don't see it reverting to pre-existing conditions. I just don't, analytically. I'm not being political. Just analytically, I think the conditions have changed.

- So I think one of the questions that we have is discussing about COVID as a catalyst. Or is it more of a deterrence for ESG? That was one of the questions we have at this point.

- I would say that it's absolutely a catalyst, because I think that the way people see it is that it is an exemplar of the risks of a whole bunch of things that are happening, from hyper-urbanization to the-- I mean, one of the things-- and here's a little piece of information that is not widely known, and I will say it even though we're in this session, not under Chatham House rules.

One of the things that is probably connected to the rise of the pandemic is the fact that there was another epidemic before that that affected pigs, African swine influenza, and African swine fever, that hit China very hard and really torpedoed its protein supply. And so it's not well known, but the Chinese government, my information is that they actually encouraged greater capture and sale of wild animals to supplement people's protein. And of course, you have such a large population.

And a lot of the intensive agriculture that was happening with these huge pig farms, and so forth, as well as the transport of pigs from one place to another within China and outside of China, it really exacerbated the rise of this swine fever. And therefore, it created the conditions where a lot more wild animals were being captured and sold. The Chinese didn't shut those down after the pandemic appeared.

But these are the sorts of links that I think people are going to pull out more and more. And I think that what they go to is a realization that the E in ESG, which is Environment-- and again, I would say it is not climate change, exclusively. It is pollution, and all these-- the urban, rural, I mean the urban/wild frontier, where cities more and more penetrate into the wild and bring us in contact with animals that hold pathogens that never entered a sizable number of humans before, or if they entered any humans, they were too isolated, and so forth.

And I think that people aren't stupid. And I think they are going to make that connection. And I think it has actually buttressed interest and heightened interest in ESG. That's just my interpretation. I could be wrong. But that is how I see it.

- So I want to draw your attention to something we talked about earlier about governance. And so let's talk a little bit about voting rights, and equality, and those things. What do you think about those impacts that they would have on governance?

- You know, that's another example of nostalgia. And there's I'll take just a minute to talk about this, the thought device that a fellow named David Friedel, who's an archaeologist studying the collapse of ancient Maya civilizations, whom I've worked with for a number of years-- and he came up with this hypothesis that a society creates a definition, a way of thinking about the world, that describes why is life the way it is, why are our values the way they are. And it makes life make sense.

And at the point that those things get established, they do make sense. But then things change, and change, and change. And when the changes accumulate enough, the lived experience of life no longer matches the description. And people panic. And so that creates this crisis.

And there are three responses. He said, there's transformation. You come up with something completely new, and that's the best response, because it enables you to go on.

There's collapse. The collapse of the Soviet Union, in many of our lifetimes, is an example of that. They simply couldn't make the changes. And what they were promoting, what they were saying life was about, didn't make sense anymore.

And then there snapback. And snapback means you try to take reality and change it back to fit the old description. And of course, that's wrenching it back. And it never lasts long. And it creates a bigger crisis down the road, just kicks the can down the road.

But I think it's a useful way of thinking about things like voter suppression and so forth. People are simply trying to wrench the current reality back to an earlier definition, and an earlier-- and it simply can't work. And again, I'm not being political. It's just you can do it for a little while, and you will create a bigger-- it's like if you take that top on the pressure cooker, and just as tight as you can, eventually it's going to explode, and it's going to be a bigger explosion because more pressure is built up.

And this is, by the way, an issue with the end of the pandemic. And if you look at that previous major plague events, they were often followed-- during the plague, things get tamped down. Everybody's worried and wants to just stay alive. But a lot of the pressure that builds up, then when finally abates, it just explodes. And it really creates massive change.

At the end of the Black Death, that's really how the modern world-- one of the key elements, is that the people who were under the yoke of the feudal system said, we're not doing it anymore. And now, there's so few of us that we've got the power. You can have power by too few or by too many.

And so the whole thing collapsed, and a new kind of economy, which is basically the predecessor to the economy we live in, evolved. And so we already had all the yellow vests in France, and the protests in Chile, and a global social movement. That got put in the pressure cooker and tamped down by the pandemic.

What's going to happen in 2022 or 2023 when we really do get out from under this? And I think you could see-- and any attempt to try to snap it back is going to make that worse. And this is where I think it's just facing reality. Conditions change.

- So I have a two-part but one more question really. And then we'll have to have to wrap up. And so appreciate this, Dee.

- Well, I appreciate the chance to talk to you, always.

- But so let's talk just a little bit about what ESG does to the bottom line. And are we really reinterpreting what the bottom line is?

- That's another really good set of questions. There is growing evidence that ESG can actually enhance the bottom line. And that's for a variety of reasons that we probably don't have time to go into. For one thing, it can increase sales, as customers who want to support those values switch to companies that do. And there are various other reasons that it may.

So I think that the idea that it's inevitably something that's going to simply be a cost, and not a profit center, is yet another one of these nostalgic ideas, or at least an idea that's not taking into account the things that are occurring. And I think that's particularly true with companies that are-- and this is why I say what I'm really interested in are these young startup companies that are tackling problems in a different way. They're thinking outside the proverbial box. And they're not just trying to adjust things so that they can maintain-- keep doing what they're doing, but doing it in a different way.

So that's one issue. Are we redefining the bottom line? I think so, to some extent. And this goes back to your comment about value versus values.

And when we're talking about creating value, what is it we're talking about? Because in the neoliberal economics definition, you're talking about money, really. That's what it boils down to.

In a definition that may come into being in five years, 20 years, 50 years, however long it is, you may be talking about something different. You may be talking about enabling us to continue as a civilization. You may be talking about enabling US to continue its position in the world, or at least maintain a position that we would want to maintain. And those things may require a different way of operating.

And so you value-- and then, at the micro level as well, you may be talking about things that actually allow people to create an enterprise that other people want to support, instead of just feeling like they have to support it, in which case they'll find alternatives. So I think that value is going to be more about survival, about driving, about being able to look at your stakeholders, and not only your stakeholders but everybody else, and be able to say, we're actually-- we're helping solve the problem, not making the problem worse.

And we're at the very early stages of this. So it's too early to say what it will be. But you can say-- again, the change is in the wind. And I think there's a song in that somewhere.

But you know, the change is happening. And you know, as I say, I could be wrong, and the future cannot be predicted. But you can certainly see patterns. And that's where the pattern is going right now.

- Well, and hopefully, I think that ESG, or at least the principles, whatever we want to call it, should be interwoven into our decision making, our processes, our economy, and our way of life. Dee, I want to--

- Well, I think they have to. They have to. It will happen.

- Well, Dee, I really thank you very much for your participation. I know there probably might be some more questions at some other point in time. But I appreciate the discussion. I look forward to more discussion. And I think that will conclude for this part of the forum today.

- Well, thank you very much. And it's been really a pleasure to be here. And I appreciate the opportunity, and also appreciate the opportunity to co-sponsor this, for Strategic Insight Group to co-sponsor this with the University of Texas and Michael Best.

- I should say, Texas A&M.

- Texas A&M.

- Sorry. I apologize. Texas A&M and Michael Best.

- No worries. No worries. Thank you all. Marianne, Dee, thank you. That's a really wonderful way to start the program.