

## ENVIRONMENTAL SOCIAL AND GOVERNANCE SUSTAINABILITY- KA MUA, KA MURI

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Investing in sustainability requires legacy thinking; for organisations seeking more robust and sustainable operations, time-honoured and holistic perspectives may offer inspiration.

### ABSTRACT

Sustainability is a dynamic concept in the corporate world. The intensifying public demand for responsibility and transparency in business is initiating new collaboration, integral to corporate social performance. Governance and investment decisions require reliable information based on quantitative and qualitative data, and calls for new ways to look back and to look forward. In Aotearoa New Zealand, the tradition of kaitiakitanga (guardianship) may offer time-honoured, traditional insights into new and dynamic ways of doing business in a more balanced way. The unique contribution of this paper is in its synopsis of Environmental, Social and Governance (ESG) sustainability ratings as a measure of corporate social performance with a novel view on how kaitiakitanga (guardianship) and taonga (treasured things) can redefine performance by augmenting visionary governance.

### NOTIONS OF SUSTAINABILITY – ESG SUSTAINABILITY RATINGS

From a management standpoint, the notion of sustainability seems to be evolving. In the not so distant past, arguably many corporations derided environmental initiatives as fringe or as an opponent to profitability; but profit at all costs has its consequences. Many firms began to self-regulate in response to global eco-accidents and scandals. Corporate social responsibility (CSR) grew in momentum, and the three pillars of 'people, planet and profit' with the triple bottom line became one means of evaluating CSR. Nowadays, consumers are demanding more transparency and less rhetoric. Environmental, social and governance (ESG) ratings are a means of measuring ethical sustainability impacts of an investment in a firm. ESG scores represent a valuable new source of data for investment decisions, impacting both return and risk potential. Yet there are many providers of ESG ratings and methodologies vary greatly among providers; they should be comparatively explored (Huber et al., 2017). With careful integration, ESG data can have important benefits for investors and management (Malinak et al., 2018). As there is a significant and positive financial correlation between ESG ratings and return on assets (Peiris & Evans, 2010), sustainability is becoming a legitimate and evidential corporate social performance (CSP) tool that provides a level of accountability to a variety of stakeholders.

## THE ESG INTEGRATION FRAMEWORK

The current trend for greater corporate transparency is a seemingly irreversible force. Decision-makers rely on ESG ratings provided by third parties, and the ratings can have huge financial implications. In response, a universally acknowledged ESG framework was established in 2005 through the Principles for Responsible Investment Initiative (PRI) and included a research level within a security level and inside a portfolio level (CFA Institute & Principles for Responsible Investment [PRI], 2018). The research integration consists of three components: information gathering, materiality analysis, and active ownership assessment. The *Guidance* document gives the holistic definition of ESG integration is “the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions” (CFA & PRI, 2018, p. 9). The Framework is not a perfect process; it is a reference for integration and analysis techniques that firms should customise. To mitigate the inherent subjectivity of ESG data, ISO standards can be used to measure ESG factors along with sustainability reporting and assurance methods (Rezaee, 2016).

## ARTIFICIAL INTELLIGENCE

Traditional analytical methods abound for such adaptation but artificial intelligence (AI) is now being employed to filter swathes of data on factors that most relate to performance (Cherrington et al., 2019b) including economic and ethical indicators (In et al., 2019). AI is a new technology in the financial technology and investment industries, where it can be shown that data which includes ESG ratings are effective tools for constructing portfolios and selecting stocks, especially for long term value creation (Malinak, Du, & Bala, 2018). The benefit for firms is a clearer vision of how to allocate scarce or threatened resources through models or novel insights; deep learning advances can help realise a multitude of sustainable opportunities (Cherrington et al., in press). Nevertheless, the more data that investors access, the greater is the number of sources used (some of questionable accuracy), and true clarity about firms at the forefront of sustainability may actually diminish. This hunger for data and the ability of AI to ‘learn to learn’ and filter big data (Karelberg, 2018) is creating radical transparency for firms. As the dynamic nature of environmental problems, such as climate change progress and accelerate, AI innovations may prove vital in approaches to ESG interpretation.

## THE ESG RATINGS IMPLICATIONS

ESG ratings not only provide investors with a means of assessing sustainability for their investment decisions, they inform governance decisions and eventually filter consumer perception (Pagano, Sinclair, & Yang, 2018, p. 339). With the speed of social media and recommendation systems, perception can make or break a firm, and the long-term perspective that ESG ratings should afford is susceptible to being side-tracked. The very evidence that ESG ratings are meant to offer has been shown to lack convergence of measurement concepts, in that different ratings neither coincide in distribution nor in risk (In et al., 2019). ESG risk analysis also reveals that expected loss is highly correlated to the underlying data (Dorfleitner, Halbritter, & Nguyen, 2015). These factors imply a greater onus on the user of ESG ratings.

## LOOKING BACK TO LOOK FORWARD

Emerging themes over the decades of sustainability research link the '4Ps of sustainability research', where firms use principles and policies to instigate a more practice and performance-driven approach to sustainability efforts. Ethics are also playing a unifying role in the creation of sustainability value and in the evolution of business use of sustainability knowledge (Kordestani, Peighambari, & Foster, 2015). One of the current trends in ESG matters is for greater community involvement and stewardship, even in such areas as health and education (Kell, 2014). Firms are also taking a more holistic view of customer experience and sustainability. For example, Air New Zealand is looking back over more than 75 years in the airline industry connecting Aotearoa to their Pacific islands and the world. Their vision for at least another 75 years aims to "supercharge New Zealand's success socially, environmentally and economically" (Air New Zealand, 2018, p. 6). This bold vision inextricably links the success and performance of Air New Zealand with Aotearoa New Zealand and its people and their wellbeing; it looks back to look forward.

Could it be that Air New Zealand has realised that Te Ao Māori (the Māori world-view) has a unique place in our business culture? That may be a leap, yet Te Ao Maori is similarly interwoven; it is simple in its complexity.

Māori have a long history of being entrepreneurial and adaptable (Dawson, 2012) and continue to make their mark in business; Māori management "gives the concept of management an identity, a character, a face, a place, a time and an alternative source of management principles" (Mika, & O'Sullivan, p.6, 2014). The Māori whakatuaki (proverb) *Ka mua, ka muri* (look back to look forward) is commonly used and practiced in protocols so that traditional ways inform the new and build on a strong foundation. It involves communication, sharing, and being held to account while reaching out aspirationally. "If that sounds a bit grandiose, let's bring it down to earth" (Air New Zealand, 2018, p. 9). Trends in business come and go, but indigenous cultures have been reflecting upon and working collaboratively with the environment, society and 'governance' for a very long time.

## KA MUA, KA MURI – ALTERNATIVE SOURCES

What are these traditional practices and alternative sources of management principles that are relevant today? A full discourse is beyond the scope of this paper; a few noteworthy Māori concepts are particularly illustrative.

Taonga (treasured things) have evolved to mean the inclusion of land resources, seascape and prized objects; intangible things may be taonga, such as knowledge and tikanga (customary practices). Taonga are important indicators for Māori tribal identity, kaitiakitanga (guardianship) and mana (the supernatural force in person, place or object). In Aotearoa New Zealand, a landmark political decision granted legal personhood to the Whanganui river, connecting taonga and kaitiakitanga with legal dualism. Therefore, this is type of anthropocentric approach can play an emerging role in environmental management (Charpleix, 2018).

Taonga tuku iho (something handed down) is underpinned by te reo Māori (the Māori Language), tikanga and mātauranga Māori (Māori knowledge) and "stimulates new perspectives and allows evaluation of previously inaccessible ecological data, yet is currently undervalued and underestimated" (Wehi, Whaanga, & Roa, 2009).

Whakataukā (proverbs) are used to reprise truths or cultural norms into the current context, as *Ka mua, ka muri*. One of the most widely whakataukā used throughout all New Zealand (if only in its truncated form) is:

Hutia te rito o te harakeke. Kei hea te komako, e ko? Ki mai ki ahau, he aha te mea nui o te ao? Maku e ki atu He tangata, he tangata, he tangata.

Pluck the heart from the flax bush - where will the bellbird be? Ask me, what is the most important thing in the world? I will reply, it is people, it is people, it is people.

Although many-layered, this whakataukū is like a gauge of sustainability. It underpins the need to balance the natural world with people (Tipene-Matua et al., 2009). The flax bush is a prodigious resource, an asset to be sustained, but it dies when its core is attacked; the bellbird's call is like that of a gifted orator. The answer is in the harmony of people within the environment. This profound whakataukū can be used to recall and weave a focused vision of sustainability.

Kaitiakitanga (guardianship) refers to the deep connection Māori have with the natural world. "The Māori resource management term kaitiakitanga is commonly used in legal or environmental contexts" (Kawharu, 2000, p. 349); it is a way of being with the environment as stewards and protectors (Barlow & Wineti, 1991, p. 173). Māori as tangata whenua (indigenous people) are increasingly involved in attempts to provide suitable cultural responses to environmental issues and have these rights under Te Tiriti o Waitangi (The Treaty of Waitangi). The relevance of kaitiakitanga in today's society is indisputable, yet empowerment of indigenous conservations and related aspirations still face many challenges. (Roberts et al., 1995). Meanwhile, the idea of kaitiakitanga is increasingly used in political discourse, to negotiate government policy. Kaitiakitanga weaves together ancestral, environmental and social fibres of identity, purpose and practice, therefore it cannot be fully appreciated without notions such as rangatiratanga (the right to exercise authority), mauri (life force), tapu (sacredness) and rāhui (ban or reserve) (Kawharu, 1998). The Māori concept of identity, being defined as 'of a mountain and of a river', is foreign to many in many contexts; reflections on the essence and implications of this way of being, in terms of business sustainability, can be confronting. Hence kaitiakitanga and whakapapa (genealogy) bind the relationship between human beings, the environment and spirituality realm - "reciprocity operates to maintain balance between all elements, a feature which perhaps distinguishes kaitiakitanga from other management regimes" (Kawharu, 2000, p. 367).

Mahi tahi (collaboration) is a vital mechanism for the practice and reinforcement of customs and processes, the transfer of knowledge, monitoring the environment and maintaining community interaction and resilience. These concepts are essential for manaakitanga (caring of others) and their environments (Lyver et al., 2018).

Te Tiriti o Waitangi establishes the principle of partnership between the Crown and Māori as an overarching tenet, from which other key principles have been derived (Te Puni Kokiri, 2001) and therefore Māori and the Crown are partners in resource management.

Ko tā rātou, ko te noho ā-Tiriti he rite ki te noho rangapū, arā, he wāhanga ki a koe, he wāhanga ki a au.

The Treaty is like a partnership, that is: you have a part and I have a part (Te Ururoa Flavell, 2006).

Firms must operate under the law, so Māori perspectives should inform investment and governance decisions. More than ever, organisations require innovative business approaches that deliver profits and create shared stakeholder value. A relational approach with Māori can reframe a "profit at the expense of communities and ecologies mentality" (Spiller et al., 2011). Kaitiakitanga, in its full connotation, has the potential to enrich approaches to governance, so that wisdom is consciously created through relationship.

## REDEFINING PERFORMANCE

Sustainable development is multi-faceted. ESG ratings, as a measure of sustainability, suffer from definitional complexity, measurement realities and interpretational issues (Escrig-Olmedo et al., 2014). Investors may prefer the simplicity of ESG ratings, but from a governance perspective, or for climate change mitigation, that simplicity may hide the knowledge to be gained by seeing a bigger picture. We have the means to capture complex interaction with traditional truths and wisdom (ka mua, ka muri) and through artificial intelligence and deep learning (looking back to look forward). The world faces daunting challenges. Single metrics cannot condense the complexities our environment, our society, that our leaders now face; a true account of our actions and decisions is required.

Whāia te iti kahurangi ki te tūohu koe me he maunga teitei.

Seek the treasure you value most dearly; if you bow your head, let it be to a lofty mountain.

This whakataukā is about pursuing lofty goals to attain what is truly valuable. Let us not be lazy, but rather aspire to a more holistic and all-encompassing vision of ESG sustainability.

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