January 11, 2020

Dear Ketan,

The attached GSC deck suggests several changes. Everyone in our group has deep expertise and experience on various financial and sustainability issues. My expertise is in ESG research, System Change Investing (SCI) and whole system approaches to sustainability, system change and the SDGs. My suggestions are based on this experience.

From 2003 to 2009, after I developed the first SCI model, I presented the concept over 50 times at conferences and schools, including Harvard, Yale, MIT, Wharton, Columbia and Stanford. To illustrate different ways to address system change, in a separate email, I’ll send presentations I gave at the Harvard Business School in 2004, MIT in 2006 and Cambridge University in 2018. I’ll also send cover sheets for all the presentations.

I put SCI on hold in 2009 because I felt I didn’t have enough information about how to achieve system change using a whole system approach. It took several years to research and write this. You’ll see many similarities between the HBS, MIT and Cambridge presentations. The difference is the extensive system change knowledge underlying the latter.

Problems Versus Causes and Solutions

There is no one right way to present this information to the financial community. Your presentation has a lot of excellent information about systemic problems. Some general solutions are shown (i.e. focusing on all stakeholders and forms of capital). I think it would be helpful to discuss high-level root causes and systemic solutions. This would provide a unifying, simplifying, clarifying theme. Emphasizing problems is like focusing on waves on the ocean, rather than the systemic forces creating them. It can seem overwhelmingly complex.

Shortening the problem discussion and emphasizing root causes and solutions can give asset managers a much clearer understanding of what’s happening and what needs to change. As a result, I suggested moving some slides to an appendix and adding a few about causes and solutions. One school of thought might say discussing solutions could scare CEOs away and make them less likely to attend a UN collaboration. But we will be discussing solutions once they get there. I think they’d appreciate having a basic understanding of potential solutions and the types of work they might do.

Capitalism Versus System Change

Another key issue is how we frame up our work. There are many capitalism reform efforts. We’d be in good company. However, there are several potential problems with this framing approach. To illustrate, capitalism largely is a philosophy. It is agreed that the approach involves private sector production. But beyond that, it largely is subjective and debatable. For example, opinions vary about the purpose of capitalism or role of government and regulation. This subjectivity can lead to endless debates – the perfect strategy for vested interests seeking to block change.
In addition, focusing on capitalism continues the root cause of all major problems – reductionism. There is no separate economic system. It is illusory to think of it this way. The economic/political system is one system, which is part of the larger societal system, which in turn is part of the larger whole Earth system. In reality, all major aspects of society are connected. Focusing on one part, such as the economy, produces unintended consequences and counterproductive actions, as we’ve seen throughout human history.

Also, focusing on capitalism seems to set up a battle between it and other ‘ism’ words or philosophies. It’s as if we’re trying to defend capitalism from those who want to replace it with socialism. But capitalism should not be the focus. It is not what we ultimately mean or want. We should focus on objective reality, not a subjective philosophy. Mostly we want a thriving human society living in harmony with each other and nature over the very long-term. We can and should include capitalism in our framing and discussion. But many years of experience researching and presenting this issue indicates that it would be more effective to lead with the concept of system change.

System change is a neutral term. It has no baggage, as capitalism and other philosophies do. We can be very precise and clear about specific systemic problems and solutions. We can present many systemic issues in ways that are not debatable (within the realm of logic). This enables us to move much more quickly into essential action. To illustrate, two system change principles are: abide by the laws of nature and enforce the rule of law. These principles frame up nearly all necessary higher-level systemic changes. And they are not debatable. No one could rationally argue that we should violate the laws of nature or allow companies to cause harm.

System change also integrates consciousness in a logical way. Consciousness is a foundation of Future Capital. System change framing, especially global system change framing, recognizes that the root cause of major problems is reductionism (lower consciousness, separatist thinking). The foundational solution is whole system thinking (higher consciousness, integrated thinking). Higher consciousness is important. But if it doesn’t lead to effective action, it will mean little. System change is the most important and least addressed potential result of higher consciousness. Consciousness is part of our Future Capital DNA. But with the bottom line-focused financial community, we’re better off focusing on critical action (system change).

If we launch another capitalism collaborative, we will not be doing anything new. Over the past 40 years, there have been many economy-focused (i.e. reductionistic) reform efforts. Several had local success. But few, if any, were successful at the higher levels needed to resolve major challenges. If we continue this reductionistic approach, we’re likely to achieve the same limited results.

We ultimately do not mean or want capitalism reform. Let’s be clear and say what we mean and want – global system change for the common good, or simply system change. As we discussed, we could use capitalism framing to get asset managers in the room. But then we’d quickly have to change the focus if we wanted effective, timely results. System change is a simpler, clearer concept. Therefore, I suggest that we use it.

**Our Approach to Asset Managers**

Will we get more than one chance to meet with asset manager CEOs? What should we say when we meet with them? It’s clear that we’ll discuss the need for system change (or capitalism reform). If we do that well, they’ll probably agree that system change is needed. Their next question almost certainly will be, what should I do about it? Should we suggest only one longer-term option that is outside their core business and involves collaboration with competitors on the most complex issue they’ve ever addressed? Or should we give them a fuller response that includes unilateral and collaborative action?
As Mark said, asset managers are at different levels of ESG and sustainability awareness and action. For those who are new to these areas, a meeting at the UN, where they learn about leading-edge ESG approaches and explore collaborative system change, might be their preferred option. However, for those who are aggressively involved in ESG and sustainability (or eloquently greenwashing about them), they probably would prefer a broader strategy that includes short-term unilateral core business action and longer-term collaborative work.

Collaboration is essential for achieving system change. The UN is an excellent convener. The financial community can powerfully drive system change. For all these reasons, we should aggressively pursue and promote UN financial community collaboration on system change. But we also should be realistic about likely outcomes and time frames.

UN and financial sector initiatives, such as PRI, often take a long time to produce meaningful impacts, in part because financial organizations are structured to compete, not cooperate. With my whole system change, SCI and ESG experience, I could develop a strawman for the UN event that identifies important system change principals and actions for the financial community. This could accelerate the development of collaborative commitments and solutions.

But consensus building often pushes agreement down to the lowest common denominator and takes several rounds of review. System change done through a whole system approach (probably the only way it can work in our interconnected world) is vastly more complex than anything the UN and financial community has done, including the SDGs. This will further lengthen implementation and results time frames.

Unilateral system change action will be preferable to at least some asset managers for several reasons. Most importantly, it is based on their core business (investing) and can provide substantial financial and competitive benefits. Asset managers can go at their own pace, rather than wait for competitors to agree. For asset managers already marketing ESG funds, integrating system change into their investment approaches requires only minor adjustments.

No company can achieve system change on their own. But large asset managers in particular can strongly drive and incentivize it. Rating companies on system change performance encourages them to join collaborative system change efforts. In other words, short-term unilateral system change strategies can increase demand for and accelerate longer-term collaborative efforts. As a result, when meeting with asset managers, I suggest that we give them unilateral and collaborative options.

**System Change Investing**

SCI is the most powerful short-term driver of system change. When citizens are divided, the corporate and financial sectors are the most powerful segments of society. These sectors largely are controlled by investing. It is the core business of asset managers and many other financial institutions. SCI uses this core business to drive system change. In addition to being powerful, it is easy to implement. SCI is based on the proven, well-established ESG-SRI approach that many asset managers are aggressively employing.

ESG models and funds often are improved. I frequently updated Innovest ESG models, for example by adding metrics and changing weightings, when experience showed this would increase alpha. Several strategies can be employed to minimize or eliminate the need for premarket testing and accelerate implementation. For example, SCI includes ESG. The system change portion of ESG/system change ratings can be dialed down to very low levels initially, even less than one percent. This essentially eliminates the risk and uncertainty of a new approach.
The key SCI issue is sending the system change signal from owner/investors to companies. This is achieved even when system change is a small percentage of the financial/ESG/system change analysis. SCI could be used as an enhancement to existing, well-established ESG funds. Further enhancing SCI credibility, the developer of the approach has a strong track record of pioneering new ESG approaches (positive screening) and developing ESG ratings that consistently increased investment returns.

I saw nearly 20 years ago that system change would dominate the SRI, corporate sustainability and general sustainability fields at some point. I’ve been preparing for it ever since. The time has arrived. John Elkington is converting his Triple Bottom Line approach to “Tomorrow’s Capitalism”, and Aviva is working with him.

Asset managers that integrate system change into their ESG strategies will be seen as the global SRI leaders. This will enable them to attract new clients and increase assets under management. I have high confidence that I can oversee the production of SCI ratings that enhance investment returns. I did it for many years at Innovest. MSCI ESG ratings continue to produce alpha, in part by using models that I developed. Asset managers can increase profits, investment returns, assets under management and reputation with SCI. Providing these benefits and enabling asset managers to compete more effectively through unilateral core business activities will be appealing to many financial organizations.

SCI seems perfectly aligned with Future Capital. It is a new paradigm, higher consciousness approach that switches the focus of ESG-SRI from company change and symptoms to system change and root causes. It uses capital (the most powerful lever in society) to drive system change (the most important action needed to achieve sustainability and the SDGs). As far as I know, no one is doing it yet. But someone will soon. It is the most significant ESG-SRI enhancement since positive screening was introduced over 20 years ago. We have the opportunity to pioneer a new, orders of magnitude more powerful SRI strategy.

The above ideas explain and frame up the changes I’m suggesting to the GSC deck. I look forward to working with everyone on our team on unilateral and collaborative financial sector system change strategies.

Best wishes, Frank