Arison Center ESG Center - Launch Event

Environment, Society and Government as Business and Social DNA

15.5.24

Good evening, everyone,

I am very excited to stand here and address you, such a distinguished and impressive audience, at an event that marks the launch of the Arison Center for Environment, Society and Government. First, I would like to thank you for your participation here. I don't take that for granted. We at the innovation, great importance in maintaining an ongoing relationship with industry, a connection that will enable and contribute to the quality of its activity and the ability to influence and contribute to the Center, which will hopefully lead, contribute and bring value, on the economic, economic and social levels, contributing and taking part in aspects of research, teaching, innovation and industry practices in various sectors.

The Center, funded by the Arison Foundation, is the first university center in Israel to deal with ESG, and our goal is to act through research, teaching and connections with industry in order to integrate environmental, social and governance considerations into the **core business** of corporations, and therefore, there is great importance in the very location of the Center in the School of Business Administration when one of the academic directors of the Center is Professor Niron Hashai, Dean of the School.

Although the Center is located in the School of Business Administration, with the understanding that this is the initial and natural meeting point for dealing with the subject, the Center is committed to and deals with the subject in a multidisciplinary manner by integrating all the disciplines relevant to the subject and represented at Reichman University – including law, when it should be noted that one of the academic directors of the Center is Professor Eli Bukshpan, a faculty member at the Radzyner School of Law, and other disciplines such as sustainability, Government, economics, entrepreneurship, psychology and communication. From these fields of knowledge also comes a group of twenty interns – students from all university schools – who work in teams and are partners in casting the foundations of the center, through the establishment of a blog that has just gone live, through a team engaged in writing a model for effective implementation programs, an indices team, a digital media team and more.

We are engaged in theoretical and applied research in the field, we have created and will create courses and curricula (such as the intern program) for students who will be future managers, we build training for managers within the framework of the university's executive training, and we initiate round tables, seminars and conferences to create a dialogue with the business sector.

ESG stands for environmental, social, and governance, and refers to a set of criteria used to evaluate a company's performance and impact in these three key areas. Investors, businesses, and other stakeholders are increasingly considering ESG factors as part of their decision-making process, as they believe a company's approach to ESG issues can impact its sustainability and financial performance in the long run. In addition, some financial institutions and regulatory bodies may encourage or require companies to disclose ESG performance and initiatives as part of their reporting requirements and it is quite possible that capital requirements and risk profile will be derived from this.

Today, ESG has become a critical aspect of business practices and investment strategies, reflecting a growing awareness of the interplay between environmental, social and governance issues and the company's long-term success and sustainability. As global challenges such as climate change, social inequality, and corporate responsibility continue to gain prominence, ESG is expected to remain an integral part of the corporate landscape.

The need to address environmental, social and governance issues that could have a substantial impact on long-term performance, value creation and increasing the probability of building a sustainable economy remains as relevant as ever. The onus is on boards and management to continue to develop strategies that promote superior performance and long-term value creation and ensure markets value these efforts.

Boards of directors today need to look at environmental and social impacts as much as financial performance and make decisions from this broad perspective. In practice, this means that boards of directors and managements need to vastly increase their observation and engagement, and in addition to the more traditional tasks, they should expand their knowledge and discussion into issues such as land use, energy, water and emissions; human rights, equal opportunity and diversity; As well as ethics and other internal standards that apply not only within the enterprise, but also to the organization's supply chain.

And here I turn to everyone in the hall. Implementing ESG is a leadership agenda. It is part of a world of moral leadership. It's part of a culture. It is true that it will be part of the organizational DNA. Its realization requires individual and collective leadership by shareholders, boards of directors, management, investors and funders, policymakers and other stakeholders. It seems that we are at a time when each of the players must step up and take leadership, when this leadership can drive a sustainable economy.

If there's one certainty in ESG, it's **change**. 2024 and the coming years will bring with them predictable and unforeseen events, some of which will surely change the ESG landscape permanently. To successfully navigate this complex and diverse space, companies should consider steps such as adopting more integrated and diverse approaches to ESG, including by identifying internal ownership of the issue, building internal controls, Setting budgets for external expertise and mapping cross-jurisdictional regulatory requirements. Understanding the ESG implications of business relationships may also be increasingly important, as may internal training and coordination.

As ESG and the nature of ESG conversations continue to evolve, organizations that approach environmental and social risks and opportunities while balancing creativity, curiosity, and strategic focus, while listening to a variety of stakeholder perspectives, may best navigate ESG and the challenges and questions it poses, bring about corporate value and work to promote a sustainable economy, environment, economy and society. And this is not about compliance. It's a world you're looking forward to Beyond Compliance.

It is essential to add a few words about **sustainability**. Sustainability is any field that will ensure a sustainable future. A non-wasteful society, an egalitarian society, a society that is not polluted by lies and exploitation.

Sustainability is not just a world of pollution and emissions in manufacturing. Sustainability is also an important component in soft and behavioral aspects. Incitement and lies, fraud and breach of trust are social pollution. When there is an attack on rationality, on knowledge building, on research, data, and analysis, a society is born in which the concept of truth evaporates and disappears. In a society where there is no truth, no values, no vision for the future, there is also no mutual guarantee. There are only interests. A society in which there is no mutual guarantee and truth will not exist. Where there is no mutual responsibility and meaning, there is no existence.

Sustainability is not only about preserving the existing or preventing damage, it is also about building the new. What is scary is the grip of misconceptions that have created damage such as the perception of maximizing short-term profit for shareholders only. The withdrawal from the ability to look hard at the price, to think of alternatives, creates stagnation and stagnation, not to mention deterioration. Some things must disappear to reboot systems. In rebooting the business and social model, we need less coverage and PR, and more courage. We need leadership and responsibility.

In order to work towards a sustainable future, it is necessary to act at a higher intensity to transition industry to green industry, inter alia, by developing incentive mechanisms that accelerate the adoption of sustainable technologies, creating partnerships between industry leaders, policy makers and research institutions in order to foster innovation and work methods for implementing green technologies, setting the binding regulatory frameworks and adopting circular economy principles for waste reduction, Promoting resource efficiency and minimizing environmental impact.

Sustainability is another name for responsibility. How do you accept responsibility and turn ideas into actions? This is a strategic process.

The degree of our responsibility today will determine the future of future generations.

And with a **sustainable business model**, it is important to address aspects of business continuity and operational resilience. Combining business continuity and operational resilience with ESG principles is essential to fostering sustainable, responsible, and resilient businesses. By considering environmental, social, and governance aspects, companies can proactively address risks and disruptions, ensuring long-term viability and positive impact. Practices such as the adoption of renewable energy, diverse supply chains, employee wellbeing and crisis communication programs demonstrate the commitment to ESG-compliant strategies. In addition, conducting climate risk assessments, diversity and inclusion initiatives, and ethical supply chain audits demonstrate the commitment to environmental sustainability, social responsibility, and ethical governance. Through these initiatives and ongoing scenario planning, companies build adaptability and demonstrate transparency, improving stakeholder trust and resilience. By adopting these practices, businesses position themselves to thrive in an ever-changing landscape, contributing to a sustainable and prosperous future for both their organizations and the global community.

And a few words to emphasize the meaning of **the social** that the letter "S" represents. In this context, it can be noted that the connection and interfaces between society and society, and the benefits that these two worlds can derive from each other, have become very significant at this time in the world, and especially in Israel, with regard to the crises we have been experiencing over the past year.

The scope of the 'S' has gradually expanded, reflecting the evolving business environment in which businesses and markets are increasingly interconnected and interdependent. above and beyond human rights; labor issues; workplace health and safety; and product safety and quality, 'S' factors now also integrate the impact of modern supply chain systems and technology adoption across all business sectors.

Looking ahead, it now seems, more than ever, that a company's reputation – its "operating license" – will be a function of how it operates and manages its stakeholders.

Officers of the companies they lead need to build and maintain successful relationships with a wide range of stakeholders. These relationships will be successful and lasting if they are based on respect, trust and mutual benefit. Accordingly, company culture should promote integrity and openness, value diversity, and be attentive to the opinions of shareholders and broader stakeholders.

And of course, it should be remembered and noted - many corporate crises are actually failures of the 'S'.

Looking more closely at the 'S', the transition to a low-carbon economy will bring about profound changes in the world of work – some industries will close or shrink, while others will grow and transform, and workers will be required to possess a skill set not previously required of them.

The cross-sectoral changes required in the transition to a low-carbon economy are very extensive. They cross the avenues of society, and include the replacement of existing skills, jobs, and occupations with new ones. The transition to a low-carbon economy has the potential for significant economic growth in the medium and long term, but in the short term the process may harm various populations, particularly workers in polluting industries and the secondary workers who support these industries – workers who are characterized by low employment skills to begin with and belong to low socioeconomic deciles. Without attention to the people who will be affected and required to adapt, the move is liable to exact a price that will cause injustice to the workers, alienate them from the process, and threaten social resilience in Israel and the success of the move. Therefore, it is necessary to ensure that the transition from the existing economic system to the new one will be a just transition that will help all stakeholders and partners get through it, and ensure minimal harm and casualties from it and during it.

And this is the place to note a precedent-setting ruling by the European Court of Human Rights on April 10, 2024, that lax climate policies by governments are a fundamental violation of human rights. According to the court, the severity of the threat of climate change — and the urgency of preventive response — show that governments can and should be held accountable for their lack of adequate action. Climate change can only be tackled through a combination of government policies ,incentives, business innovation and investment. Leadership on both sides needs to look beyond the short term and pave the way for broad economic change.

Although we are all exposed to the effects of climate change to one degree or another, change is unlikely to affect everyone equally. For example, disadvantaged populations will be more affected by living in areas characterized by a lack of shade and open spaces, low-standard construction, and dilapidated infrastructure; Households from weaker socioeconomic backgrounds will continue to find it difficult to afford to cool their homes in the summer; Adults without family support, single-parent families, and minority populations are characterized by greater vulnerability in general, and to climate change in particular. Hence, in the absence of appropriate preparedness actions, climate change is expected to impose an excessive burden on the weaker populations in society, perpetuate social gaps on economic, gender, ethnic, and health levels, and increase inequality.

And it is worth remembering and mentioning that **the climate crisis** is the defining challenge facing humanity.

And the climate crisis and its consequences connect us to aspects of **rehabilitation**, rehabilitation that is unfortunately relevant to us after and following the events of the October 7th. We are concerned, inter alia, with rehabilitation after a disaster. Rehabilitation requires short-term solutions to long-term challenges. Due to the growing concern around the world in light of the many disasters that occur and are expected to occur, disaster recovery management has become a developing field that is slowly rising to the top of the research and management priorities. "**Resilience**" is increasingly seen as a key competence related to rehabilitation management in disaster-affected areas, where a comprehensive understanding of barriers to proper management of rehabilitation and recovery can lead to the development of policies that help prevent delays in the rehabilitation process and, as a result, strengthen public resilience. In this context, we will mention "sustainable rehabilitation" – rehabilitation that focuses not only on rebuilding the affected areas, but also on promoting long-term sustainability in the construction process, and paying attention to environmental responsibility and community resilience that were neglected in the past.

In order to develop sustainable operations and technological developments, it is important to create a market for **sustainable financing**. A precondition for creating this market requires appropriate regulation, i.e., to establish regulation and principles for financing activity, and finally, there is a need to create appropriate financial instruments, a market in which the government will be involved, incentives and clear policy, banks, institutional entities and the private sector, knowing that projects maturing, mainly in climate, are long and have a high risk profile.

In this context, it is important to briefly refer to **taxonomy** – a system of classifying economic activities according to their contribution to central environmental goals, and according to scientific criteria and quantitative thresholds. The taxonomy aims to create a unified language that enables financial actors such as investors, companies, and issuers to define and identify activities as environmentally friendly, contribute to sustainable renewed activity, encourage environmental investment, and expand access to sustainable finance. It is also designed to reduce the phenomenon of green washing, which is a method of misrepresenting sustainability-related practices or features related to the sustainability of investment products that undermines fundamental confidence in sustainable finance and poses a risk in providing protection to investors and market integrity.

And before concluding my remarks, it is impossible not to mention the existence of **pockets of resistance**, positions and insights that challenge the worlds of ESG and its implementation. Recall the resistance motivated by the need for financial compromises required by ESG implementation; concerns about overregulation; skepticism about ESG indicators; The tension between a short-term focus on managing a firm and the long-term ESG management; different challenges specific to different industries; incompatibility with the interests of shareholders, for some of them preference for maximizing profits in the short term; and concern about the company's competitive positioning as it focuses on implementing ESG principles and objectives. And since there is no single truth, and in this aspect, life is not dichotomous, it is right to hold a dialogue on these issues and work to find the golden path, as much as possible, to maximize the value given from the different worlds.

A few final words:

1. Although we as a state and society are in a complex situation, and perhaps precisely because of this, now is the time to deal with environmental, social and governance issues, when these should become an essential component in the conduct of business corporations, and our goal at the Center is to be a central body that leads there.
2. Purpose-driven companies incorporate ESG principles into their strategies not only to drive profit, but also to create meaningful and sustainable value for all stakeholders.
3. Studies have shown that organizations that adopt and implement ESG standards are more resilient to risk and more likely to succeed in the long run. They also provide higher returns to shareholders.
4. ESG will never replace financial performance as the primary driver for company valuations. However, it is increasingly proving to lower the cost of capital for companies, while playing an extremely important role in companies' risk management frameworks.
5. As we navigate the ESG landscape in 2024, collaboration between stakeholders, including governments, businesses, investors and civil society, is key to driving meaningful change.
6. A strategy of hope is attributed to leaders who promise a better future for their people and society. Those who present a vision, talk about how it is possible to realize it, and that it can be done together, and then find the way and tools to implement.
7. This is our shift. Passivity on the subject is not a relevant alternative.
8. The cost of "not acting" may be higher than the cost of "acting."
9. Businesses are right, and even obligatory, to take responsibility and positively impact their human and physical environment – in my view, this is part of the "license to operate".
10. In conclusion, successful implementation of these processes may have a positive impact on the quality of life and society. We see our role in

general and in the center in particular – not as preventing illness but as spreading health.

Together let's build a sustainable future.

Thank you.

Yair Avidan

Head of Arison Center for ESG Advisory Board