



For love of the game: (Re)Thinking Sustainability



Aadil Omar
HEAD OF EQUITY RESEARCH



KEY TAKE-AWAYS

- *People naturally opt for sustainable choices when that choice is iterated over time: their intuitive decisions are based on rewards in relation to how sustainable an activity is. Short-termism usually has sub-optimal results.*
- *The spirit of sustainability is akin to an infinite game, where there are no winners or losers, only ongoing interaction that benefits all sides. This is opposed to a finite game which has rules, and participants have a short-term win/lose mindset.*
- *If people approach sustainability with the aim of winning, there is an incentive to cheat. This can lead to serious harm, as in the VW “Dieselgate” scandal. Short-termism and self-interest trumped sustainability.*
- *The flood of money into “sustainable” investments now gives people an incentive to cheat by “greenwashing” or hyping their funds, exacerbated by the complexity of measuring sustainability. Investors need to be aware of this risk.*

Hear the word “sustainability” and you are likely to imagine the whirring blades of a windmill out at sea or the glint of photovoltaic solar panels as they shimmer in the mid-day sun. Keep your eyes closed a little longer and you dream of futuristic cities adorned with water-efficient vertical gardens, teeming with electric vehicles like bees through a hive.

Sustainability, as a concept, has become synonymous with visions of the future and is a natural bedfellow of acronyms such as ESG (Environmental, Social and Governance) and UNFCCC (United Nations Framework Convention on Climate Change). To be clear, these are positive associations, and I support the agenda and goals articulated by the agencies championing these causes. But this is not an article about frameworks or fund characteristics – rather, I am hoping to dive a little deeper into the spirit of sustainability.

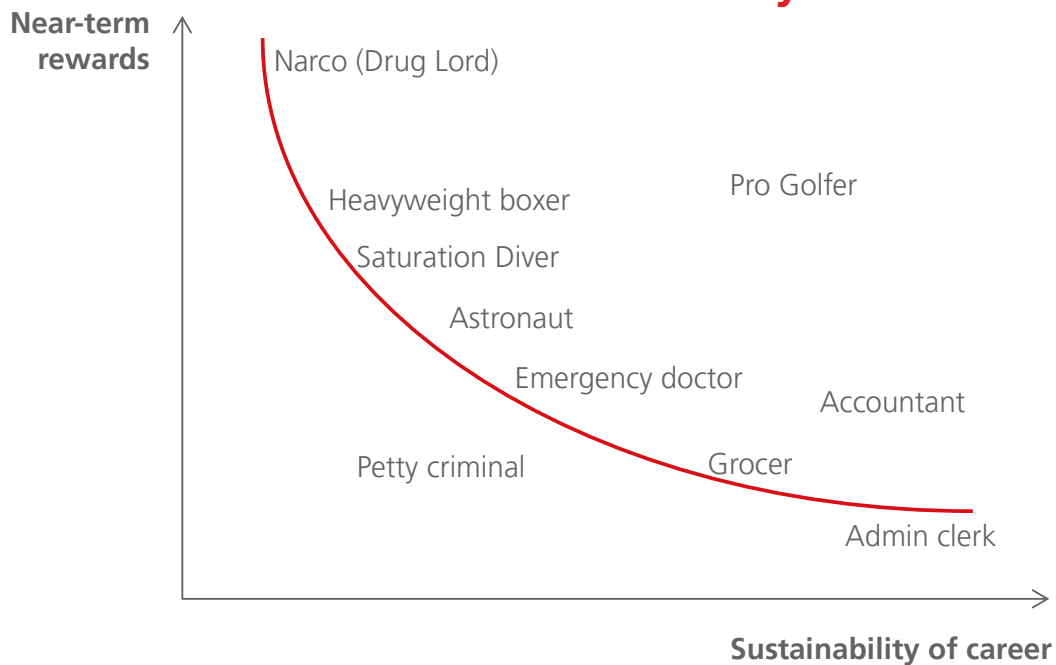
Sustainability is intuitive when we’re not thinking about it

The characteristic of sustainability can be broadly defined as the ability to

maintain at a certain rate over time. As far as the practicalities of life are concerned, people easily grasp the concept of sustainability. We make intuitive decisions based on rewards in relation to how sustainable an activity is.

Take career choice as an example: most people would appreciate that while it can be financially (or socially) lucrative to pursue a career as a drug lord, the longevity of such a career would fall short of a less lucrative choice – a plumber, for instance. A self-interested economic agent (also known as an econ) would weigh the benefits accrued in a particular choice against the length of time one is able to carry out the activity. With a few notable exceptions, sustainability should be negatively correlated to short-term gratification, as illustrated in Graph 1. More generally, we can understand that the less threatening a job is, be it exposure to harm or requiring specific attributes, the more sustainable it should be.

Graph 1: The higher a career's short-term reward, the lower its sustainability



SOURCE: Prudential Investment Managers

For readers interested in trivia

The question of career sustainability really hit home recently when I learned of a fascinating way of earning a living – a task known as saturation diving. Saturation diving is one of the most demanding, dangerous, and well-paid commercial jobs that exists today. A diver breathing pressurised gas accumulates dissolved nitrogen in their body tissues. If allowed to come out of solution too quickly, they could suffer decompression sickness. Saturation diving is a technique developed to overcome the loss of time involved

in decompressing the human body when surfacing from the depths of the blue. It involves divers living in a pressurized environment (chambers) for up to 28 days while on tour of duty. The risks of such a job are obvious to someone with even partial familiarity of deep-water diving. But for readers interested in understanding why such a job probably won't make the list of sustainable careers, have a look into the Byford Dolphin Accident¹, a gruesome but fascinating incident if ever there was one.

Infinite games

James Carse introduced the differentiation between finite and infinite games with his widely influential title “Finite and Infinite Games”, first published in 1986.

“There are at least two kinds of games. One could be called finite, the other infinite. A finite game is played for the purpose of winning, an infinite game for the purpose of continuing the play”².

Finite games are played for the purpose of winning. They are played by participants who obey rules, recognise boundaries, get judged and announce winners. Finite games can be hacked, the rules bent (or broken) and they can be tactfully gamed. They are theatrical, necessitate an audience and require judgement.

An infinite game exists for the purpose of continuing play. There is no rule book – the strategies employed in infinite games are geared to keeping the game alive, not beating an

opponent. Infinite games are not trying to outrun the march of time, but rather to exist beyond the scope of time-bound objectives.

An example of the two in the same domain would be the finite game of a debate versus the infinite game of a conversation. In a debate each side tries to undo the argument structure of the other with the objective of being announced the winner (either explicitly in contest or through public opinion). A friendly conversation, on the other hand, is an infinite game engaged in by participants who have no agenda beyond the utility of conversation. There is no judges panel to award points for credible arguments, nor is there a social benefit for the party who speaks more (or less). The objective is self-contained. In the words of novelist Michael Shaara, it is done “for love of the game”.

Liar, liar

By now we can probably see the golden thread of sustainability as the essence of an infinite game. When we approach

¹The Byford Dolphin accident, serving as a stark reminder of the dangers of saturation diving, involved the loss of four divers’ lives and resulted in the formation of the North Sea Divers Alliance, created by the relatives of the victims.

²Carse, James. Finite and Infinite Games (p. 3). Free Press. Kindle Edition.

an activity without an agenda, we abandon the win/lose mindset, and the activity stands unburdened. I've always been intrigued by the vocabulary used to describe the labour of vocational activities such as those of a medical doctor – we say a doctor practises his craft, as opposed to completing a job. The subtlety is suggestive of an infinite game – perhaps because tending to the ill will never be complete.

The sting in the tail for this analogy of finite versus infinite games lies in the strategy employed by participants. More particularly, when people approach what should be an infinite game with a finite game mindset, the consequences can range from mildly annoying to existentially risky. I am sure you've had the unfortunate experience of attempting a casual conversation with some nit-picker, only to have them silently keep score by correcting your grammar, pointing out your unsubstantiated generalisations and accusing you of poorly constructing arguments. The next conversation will surely be confined to talking about the weather if you're unable to avoid them.

Greater consequences, however, arise when people try to defeat the common and professional decencies required for a well-functioning society. Two of the more recent high-profile situations come to mind:

- The Volkswagen emissions scandal: Also known as Dieselgate, the incident involved deliberate actions on the part of the VW group to misdirect regulatory authorities as to the noxious emissions of diesel-powered vehicles. VW intentionally programmed diesel engines to activate their emissions controls during laboratory testing using what is known as a defeat device. The diesel-powered vehicles emitted up to 40 times more nitrous oxide in real-world driving as compared to lab tests.
- The Wells Fargo account fraud scandal: This was a controversy brought about by the creation of millions of fraudulent banking accounts on behalf of Wells Fargo clients without their consent (or knowledge). Under pressure from supervisors, Wells Fargo employees would open accounts without customer consent in an effort to meet sales targets.

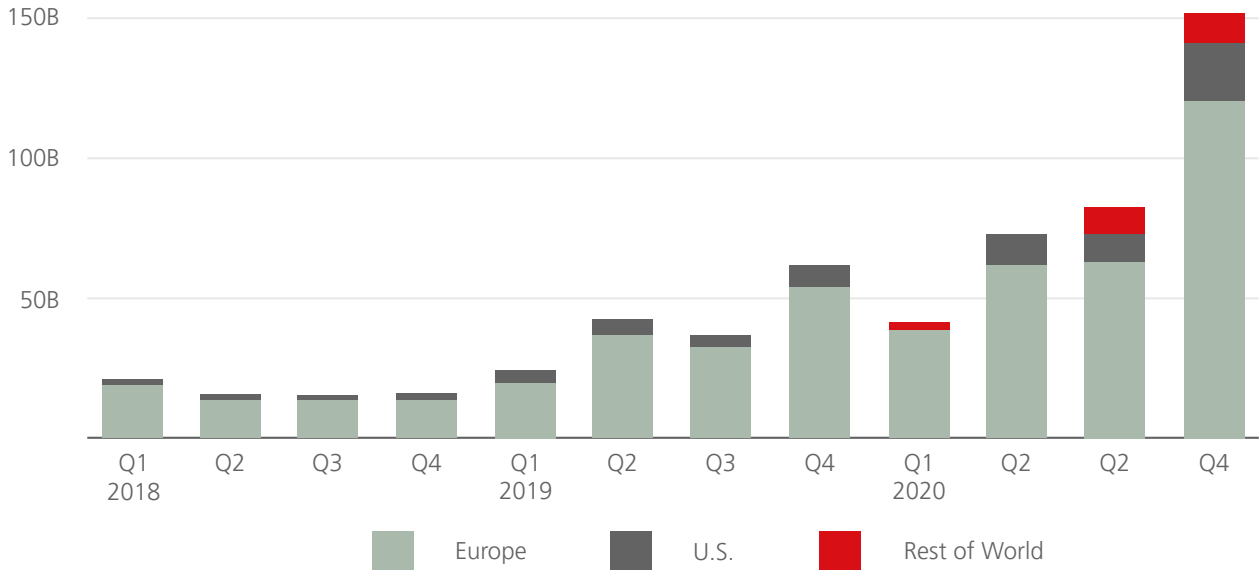
These accounts and countless others (many of which we will never hear about) illustrate the harm caused when short-termism and self-interest trump real sustainability. We often resort to moral judgements and character restorations as a way out of the quagmire, but these have limited effect. Understanding what game is being played, and why there might be an opportunity for people to cheat, may be a better starting point in reconciling the dilemma.

We respond to incentives

“Show me the incentive and I’ll show you the outcome” - Charlie Munger

Graph 2 below clearly illustrates the flood of global capital that has been drawn into funds that invest with a mandate of sustainability. These significant flows into ESG and related products have been a strong motivator for market participants to get the accolades necessary to participate in the windfall.

Graph 2: Sustainable fund flows surge past US\$150 billion
Flows into sustainable funds over time, US\$ billions



SOURCE: Morningstar

The desired outcomes and ultimate goals intended by the agents and agencies championing the sustainable agenda is not in question. Rather, the risk lies in the accreditation and categorisation of these investments. Given the detail and nuance involved in cataloguing thousands of products, accreditation agencies have no choice but to rely on checklists, logic rules and yes/no decisions. In so doing, we must accept that the risk of greenwashing – the process of creating an impression, even if false, of a product's environmental friendliness – and other methods of gaming the system are real. As capital providers and custodians, we may feel that the real responsibility of sustainability is a step removed from our activities, but this does not nullify the responsibility that lies squarely before us. Perhaps there is merit to re-fitting the lens through which we perceive the problem.

I want it all, and I want it now

I will conclude this article by striking one more anecdote that should be close to home for readers based on the African continent. The last two northern square-lipped rhinos on earth, Najin and Fatu, live in a 700-

acre, 24-hour armed enclosure in Kenya. The mother and daughter pair represent the only hope for this species' continued existence as scientists grapple with the ethical dilemma of artificial propagation. Even if we resolve to restore these majestic creatures on the African savannah, it may already be too late from a biological perspective.

Najin and Fatu stand as physical mascots for the relentless attack many species have been suffering as human activities demand ever-more of nature. Wildlife populations have plummeted by more than two-thirds in the last 50 years, according to a recent report by the World Wildlife Fund.

These stories are usually told from the perspective of nature's fight for survival, but in so doing we succumb to the myopic view. We should not view our relationship with nature as a win/lose game where one side is sacrificed for the benefit of the other. Our sustainability is incontestably dependent on our environment. Ecological and social destruction has a tipping point beyond which there is no return. We should remember

the farmer from Aesop's fables who wanted it all, before we lop off the head of our goose laying golden eggs.

There are no easy answers, but love is a good starting point

The questions, associated debates, missives and compromises related to sustainability are far too complex and nuanced to address in a few paragraphs. But I invite you, dear reader, to consider the usefulness of the infinite game as a framework to aid in unravelling some of these complexities. When you boil it down, sustainability is more akin to matters of the heart and is best served when you love the game. Sustainability is not something "won", but something that prevails over time. ■

With 15 years' investment experience, Aadil joined Prudential in July 2013 as an Equity Analyst. In August 2018 he joined a global equity hedge fund in London, before returning to Prudential in January 2020 as Head of Equity Research and joint-Portfolio Manager of the Prudential SA Equity Fund. He holds a BCom degree (Hons, cum laude) from the University of Pretoria and a Masters in Finance degree from INSEAD. He is also a CFA charterholder.