A quarter century of corporate sustainability-What have we achieved?

Summary of main points from lecture 1, 15 September on corporate sustainability at BI Norwegian Business School

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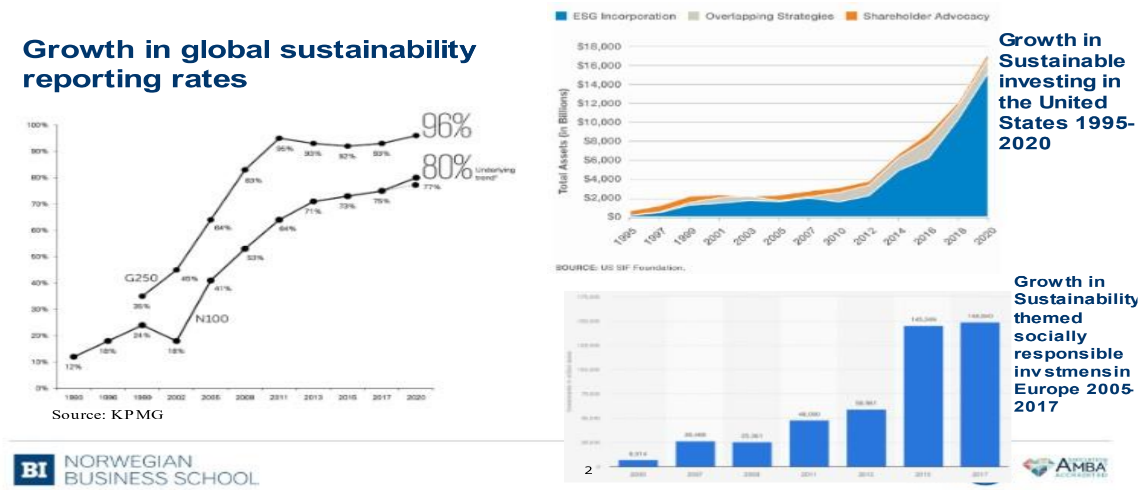
Staging a transformation

It would appear that business at the turn of the the 20th century century is attempting a major transformation as it converts itself from profit seeking — to corporate sustainability. Let me throw in some observations, building, in part on my latest book *Governance and Business Models for Sustainable Capitalism* (open access)[2]

Corporate sustainability – a megatrend

It started in the 1990s, but continued through the early 2000s when Corporate Sustainability grew into a business megatrend. This trend has manifested itself in: massive growth in corporate sustainability reporting in annual reports (fig 1 - left); massive growth in ESG investing (environmental, social and governance) both in US and Europe (fig 1 right); and in mushrooming of sustainability- fora and indicators such as Global compact, Ethical Trading Initiative, FTSE 4 good, Dow Jones sustainability etc.

Figure 1: Corporate sustainability – a megatrend



A central argument has been sustainability can be profitable in itself, the so-called business case: This allowed for a settlement of the discord between the old doctrine of profit seeking and the new doctrine of sustainability, although the resolution remained uneasy.

And Business academia have followed suit

Almost every business discipline - strategy, finance, logistics, accounting, marketing, innovation, human relations have developed their sustainability theory (figure 2)

[2] https://www.taylorfrancis.com/books/oa-mono/10.4324/9781315454931/governance-business-models-sustainable-capitalism-atle-midttun

Figure 2: Corporate sustainability in academic business disciplines

Just to take a couple of examples: the British scholar and entrepreneur John Elkington expanded financed centred accounting by launching the triple bottom line, where social and environmental concerns were included.

Edward Freeman expanded the strategic perspective from shareholder to stakeholder capitalism, by transcending the exclusive focus on owners by bringing in other parties: workers, communities, affected citizen groups, NGOs/CSOs. Interestingly, he thereby introduced ideas that were previously central to Nordic industrial thinking already in the 1960s and published by the Swedish professor Eric Rhenman in 1964.

And I could go on around the circle……

But is it too good to be true?

This question brings me back to a visit to the United Nations at a workshop with the head of Global Compact – a new forum for sustainable business that Kofi Annan had just founded in 2000:

> *Arriving at the airport I went through the usual immigration protocol, which involved a pleasant chat with a nice officer who even gave me a complement for my colourful tie.*
>
> *She then asked me the standard question about what business I had in America, and I told her that I was visiting the UN to participate in a workshop with the Global Compact.*
>
> *So what is the Global Compact, she asked, and I told her that this is Kofi Annans attempt to engage with multinational companies to further sustainable development.*
>
> *As I spoke, her attitude changed, and she looked critically at me and said* ***"Do you really believe in that crap?".*** *Until then, I felt, she had considered me an interesting guy. Now she saw me either as outright stupid, or as a corrupt professor, eager to produce corporate ideology in return for some spoils.*

And yes, I understand her position, also evident in the works by Naomi Klein and a number of other critics of capitalism. But then, what are the alternatives? Capitalism has been part of the formula that made western societies wealthy, and neither Maoism nor the Soviet communism could match it. The fact that even Chinese communism now has adopted market capitalism speaks for itself.

Filling the policy gap under asymmetric globalization

But if capitalism needs to be civilized, why don't we simply regulate it? The answer is that the neoliberal wave from the 1990s and on introduced massive deregulation which soon fostered corporations with a global scale and scope. The problem was that politics could not follow suit. We were in other words faced with asymmetric globalization, where markets expanded while politics lagged behind.

The power, capacity and legitimacy of international institutions like OECD, WTO etc were too weak to impose coherent and efficient regulation of the global economy.

Corporate sustainability – a response

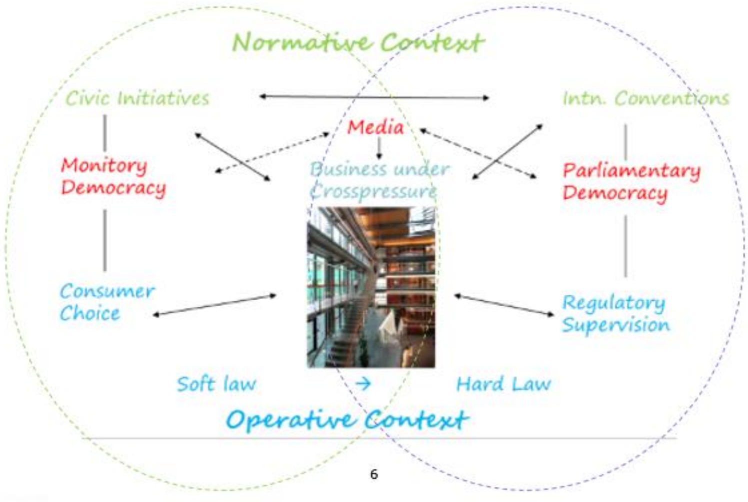
Corporate sustainability, I argue, emerged as an attempt to fill the regulatory gap. But even if there was a need to fill a regulatory gap, why should corporations bother to fill it? And I can come up with three arguments:

Firstly, driven by 'enlightened self- interest', corporations may have come to realize that they cannot press their commercial strategies to their limit. They might be getting themselves into more trouble than necessary and erode their license to operate.

Secondly, the business case argument entails that corporate sustainability should also be profitable

But **thirdly**, and most importantly a central factor behind corporate sustainability has been pressure from the media and civil society. The media and communication industry, together with the growth of Civil Society Organizations, like Greenpeace, Amnesty, Transparency, Norwatch etc. have, in fact created a new bottom up channel for political engagements: alongside traditional Parliamentary Democracy and regulatory governance. , which the British-Australian political scientist John Keane has termed 'Monitory Democracy' (Keane 2013). Business is thereby 'civilized' by a double pressure (fig 3).

Figure 3: Business challenged by parliamentary and monitory democracy



By chasing and exposing companies for environmental and social negligence, CSOs help raise the costs for Non-sustainable behaviour. But monitory democracy can also have an upside: By engaging constructively with CSO's corporations can benefit, and built good will from customers, communities and governments. Because Monitory democracy operates on the basis of moral appeal voiced by international civil society organizations, it is less restrained by territorial jurisdictions than national regulation.

Can corporate sustainability deliver?

While there are good reasons for companies to pursue corporate sustainability, there are predictively also serious limitations. Let me mention two:

Corporate sustainability – in the ethical periphery

Firstly, I argue, there is the problem that corporate sustainability is relegated too much to an **ethical periphery**, while it does not deal properly with the **commercial core**. This is what I call the doughnut problem of corporate sustainability

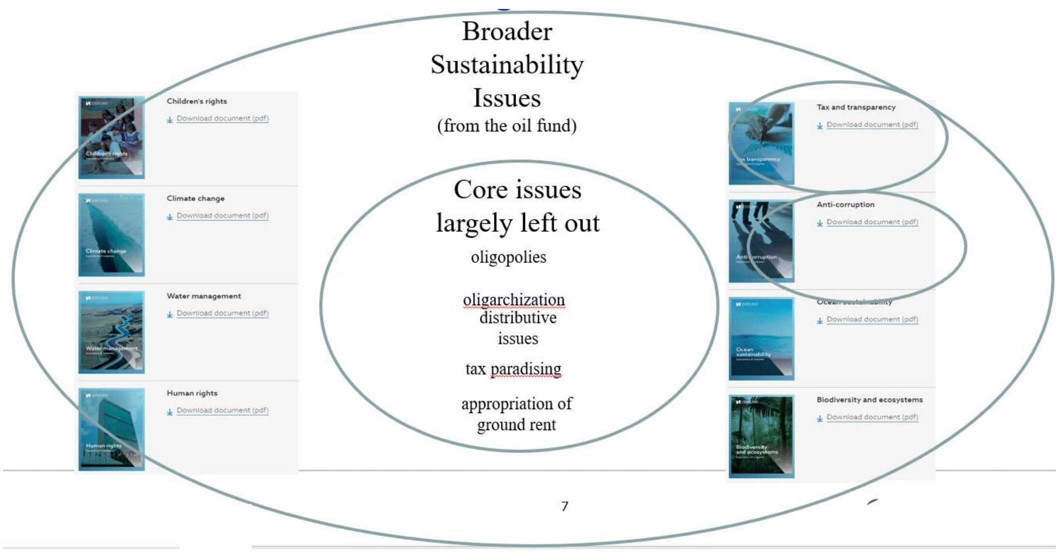
To take the Norwegian Oil fund/Pension fund as an example (fig 4), their corporate sustainability demands relate to:

> *children's rights, climate change, water management, human rights, ocean sustainability, bio-diversity and ecosystems.*

Core issues largely left out are:

> *weakly regulated 'network oligopolies' that skim off massive oligopoly rent, oligarchic wealth accumulation, massive growth in tax paradising. Ground rent appropriation, and fast growing wage differentials, and sometimes also technological issues such as the perils of electromagnetic radiation in telecommunication*

Figure 4: Corporate Sustainability : in the ethical periphery? How are we dealing with the core?



Admittedly, the Fund's sustainability expectations list anti-corruption, tax and transparency. But the approach is 'soft' and oriented at written proclamations. The Fund is here reliant on the lethargic international negotiations to establish effective regulatory regimes, and with respect to tax paradising, the Norwegian state – the Fund's owner - its actively expanding its use through its massive portfolio of state enterprises.

While the Corporate sustainability agenda is important and serves just causes, the neglect of strong engagement with core commercial issues indicates that Corporate Sustainability – even in the advanced practice of the Norwegian petroleum fund - must either be expanded, or supplemented by stronger regulation.

Three types of entrepreneurship and corporate responsibility

My second major concern with corporate sustainability builds on the well known economist, William Baumol's analysis of different forms of entrepreneurship: He talks about *Productive, Unproductive and Destructive entrepreneurship* Baumol's relevance for Corporate sustainability is that only productive entrepreneurship can carry corporate sustainability in any true sense.

This severely limits corporate sustainability as a tool. The shadow economy (tax evading) is estimated from over 20, down to 5-6% in Western economies. The massive engagement in rent seeking became apparent under the financial crisis, and still is probably substantive.

The criminal and rent-seeking parts of the economy can hardly motivated to engage in corporate sustainability.

Have corp?orations delivered on the triple bottom line: profit/growth, climate and social fairness?

The proof of the pudding is the eating. So, beyond all the profiling what has corporate sustainability delivered "on the ground"?

The Corporate sustainability trend has coincided with de-regulation and globalization, and there are hardly data that allows us to attribute effects to each factor. So all I can do is to look at development in this period related to the triple bottom line economy: as measured by growth, ecology:as measured by CO2 emissions; and social fairness: as measured by income development.

Growth

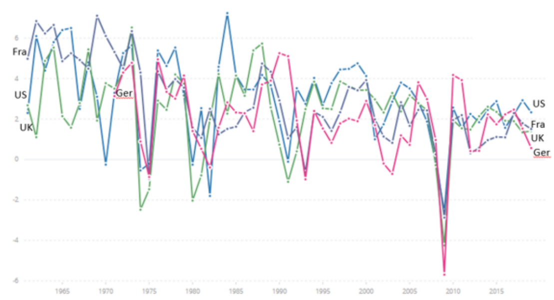
Growth as measured by stock value has been impressive and more the S&P stock market index has more than tripled since the early 1990s (fig 5 left side). But the development has been highly volatile, with steep downturns under the dot com bubble, under the financial crisis, and under the covid lockdown, and currently the Russian occupation and 'energy war' is again providing a setback.

GDP growth in major Western economies has, however, been declining over the same period, going down from around 4% in the 1960s and 70s, to between 1 and 2% in the 1990s and early 2000s (fig 5, right side). Like the stock market, the growth rates have been affected by bubbles and crises.

Figure 5: Economic Growth

Stock markets, S&P 500 index

GDP growth



World Bank (nd) World Bank national accounts data, and OECD National Accounts data files.
https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=US-GB-FR-DE&name_desc=false

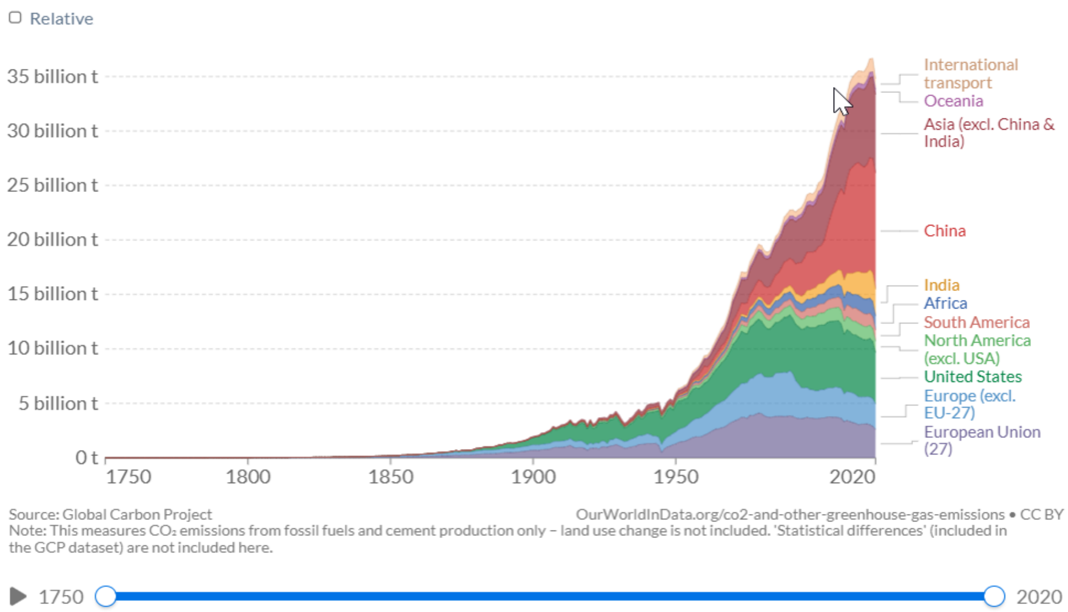
The climate crisis is not resolved

Climate-performance seems to be improving in the West, where Co2 emissions have been stabilizing and going down over the last couple of decades (figure 6).

However, Asia's carbon emissions are eclipsing Europe's and the US's.The challenge is now to stabilize and reduce sky-rocketing emissions while China, India and a number of other Asiatic economies are scaling up industrial modernity.

Obviously early industrialization in Asia is more messy than mature modernity in the West. However green technological leapfrogging is now available, and is badly needed to speed up green transition.

Figure 6_: Annual CO2 emissions from fossil fuels, by world region

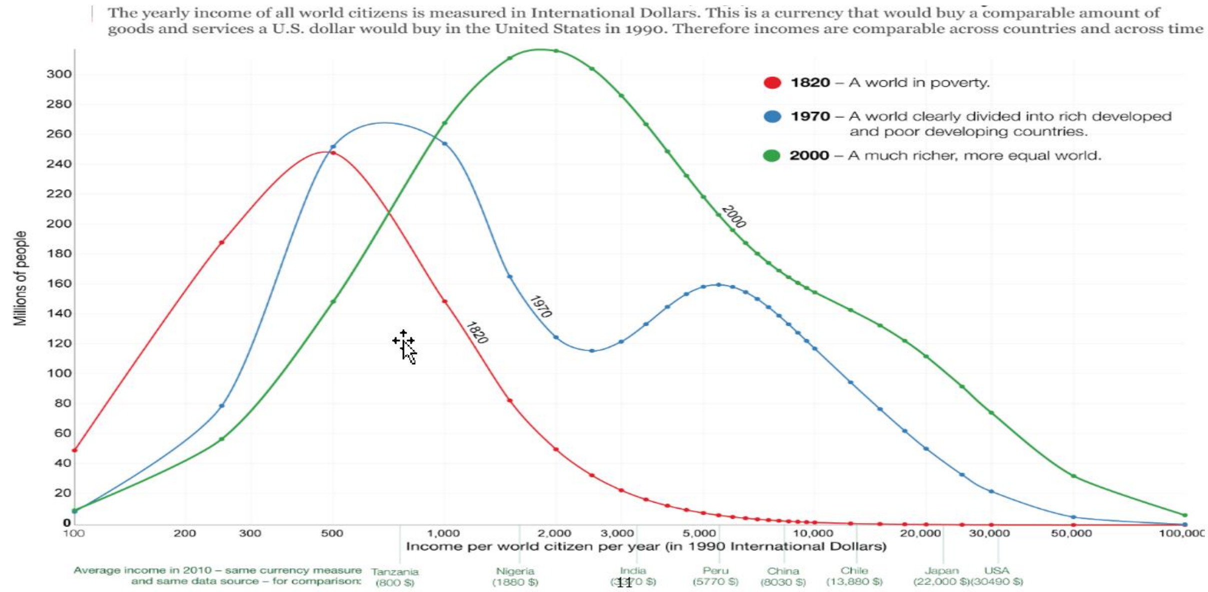


Source: Our World in Data

Fairness, welfare and distributive justice

When it comes to fairness the picture is also mixed. On the one hand, we find increased welfare at the global level, as the average income per world citizen increases through moderate growth in western economies, and massive growth inn emerging modern economies, particularly in Asia,figure7)

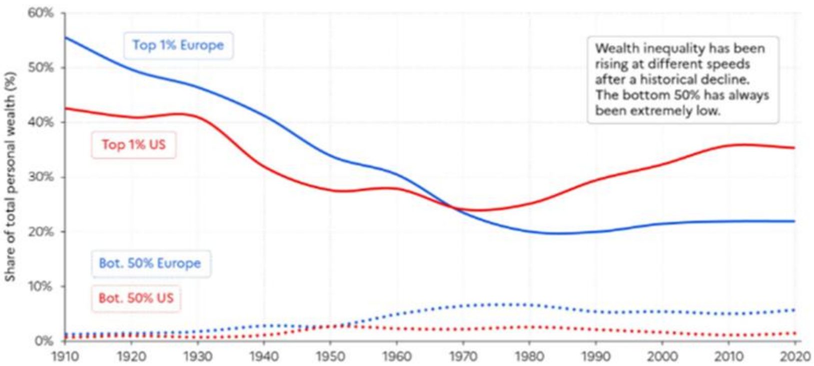
Figure 7: World Income Distribution in 1820, 1970 and 2000



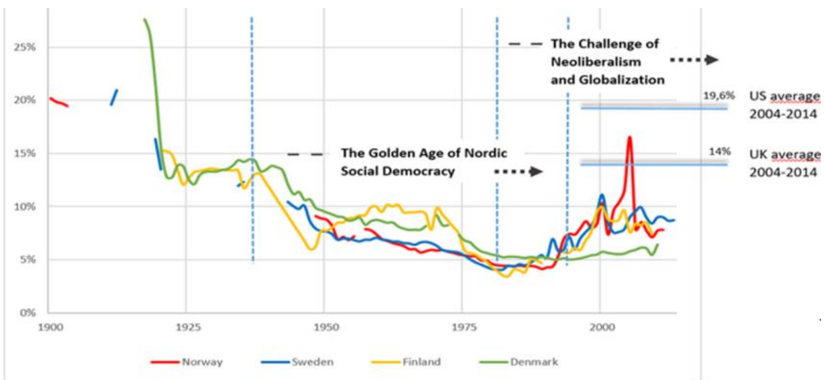
On the other hand domestic inequality has been on the rise. After having decreased until the 1980s inequality has increased in the 1990s and 2000s. And western economies are again heading towards class societies (figure 8).

Figure 8 Within country inequality on the rise

USA



The Nordics



Source: World Inequality Database (wid.world), 2018

Where does this leave us?

This leaves us with a mixed picture where corporate sustainability together with climate policies may have started change in the right direction in Western economies, but not in the newly industrializing East. Income distribution between countries has diminished – mostly through economic modernization in developing world, while within country fairness has declined. While economic growth in Asia continues, western growth, both in stock value and GDP is declining.

The horizons paradox

At the core of the corporate sustainability agenda, however a major challenge still remains: that of the time-horizon. Paradoxically corporate sustainability has great problems with the core of its own mission, namely to secure strategies that are viable in the long run. This is the very essence of the term 'sustainability'

The problem has been pointed out time and again, most recently by Mark Carney (ex head of the Bank of England). The decision-making horizons of business are not extensive enough to factor in its long term environmental and social implications. In fact, even the financial consequences of business strategies are at risk of being neglected by business's short term commercial perspective.

Furthermore, with respect to sustainability, even politics, is ridden by its relative short electoral cycles. The challenge is therefore, to translate long term sustainability into viable short term benefits along the path, or to generate lock-ins to agents or institutions with long term perspectives.

Ultimately, crises emerging out of short-term neglect of important long-term imbalances may become the correctives for necessary sustainability-oriented adaptation. However, crises come with suffering.