

# Corporate sustainability: Where do we go from here?

Summary of main points from lecture 2, 15 September on corporate sustainability at BI Norwegian Business School

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## OUTLINE – lecture 2

The virtue of hypocrisy

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The IT/AI is a case in point.

Bringing the state back in

Industrial standards and partnered governance

Two examples

From globalization to bi-polar rivalry and regionalization

Contours of a new cold war?

Liberal capitalism at stake

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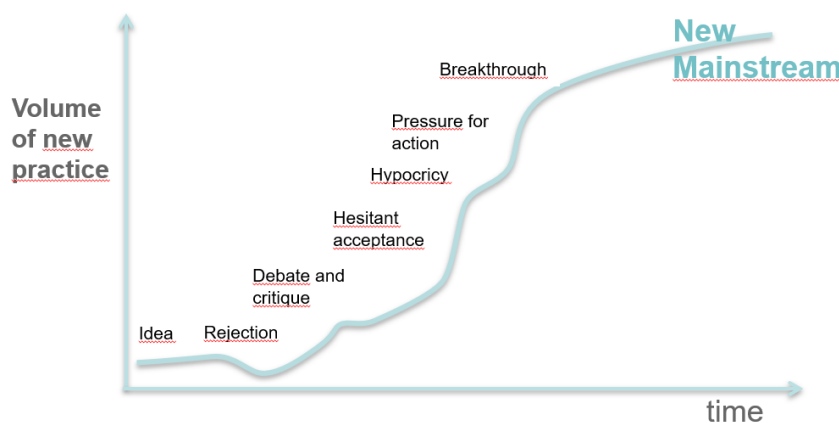
Following a quarter century of corporate sustainability where do we go from here? I Cannot claim to have the ultimate answers, but let me through in a few ideas to start the debate, building, in part on my latest book *Governance and Business Models for Sustainable Capitalism* (open access)<sup>2</sup>

### The virtue of hypocrisy

I shall start out with a somewhat provocative argument: the virtue of hypocrisy.

I piggy-back on the French philosopher François de La Rochefoucauld: who has argued that “Hypocrisy is a tribute vice pays to virtue.” But hypocrisy is not necessarily a negative force. On the contrary hypocrisy, in fact often constitutes an important step of in a visionary cycle<sup>3</sup> (figure 1) which, if successful, typically: 1) starts as novel idea, 2) which might be rejected, 3) but then reappears and 4) hesitantly gets accepted, and 5) then is hypocritically supported by actors who pretend they adopt the idea, but do the opposite, until 6) the hypocrites are forced to walk the talk, and the idea breaks through into practice and is established as the new mainstream.

Figure 1: The visionary cycle: A cultural transformation perspective



### Oil industry's engagement to solve the climate crisis

To take one example, the European oil industry has now become a mega-hypocrite. In an almost incredible set of announcements, it has come forward with visions of solving the climate crisis. With great pathos, Helge Lund, Chairman of the Board, BP in the 2019 annual report, proclaimed that:

*We enter a new decade with a new company purpose: to reimagine energy for people and our planet. We have also set a new ambition: to become a net zero company by 2050 or sooner, and to help the world get to net zero.*

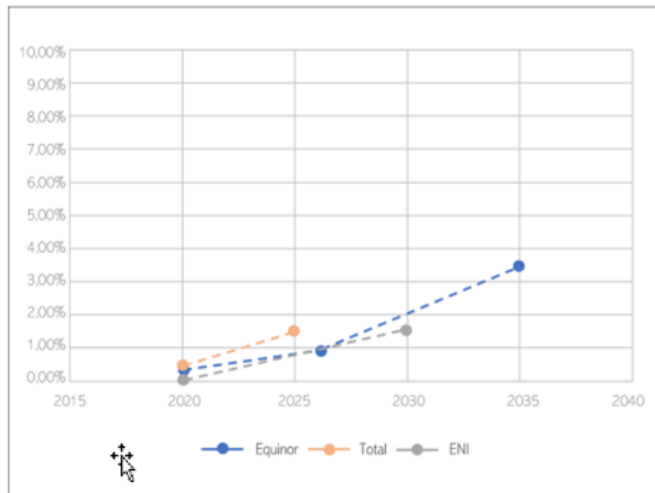
Becoming “net-zero in CO2 by 2050” has now become a cliché for European oil companies, including Equinor. Yet the plans for installation of renewables are seriously lagging behind. An analysis of European oil and gas majors showed plans nowhere near these ambitions. For those who even

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

<sup>3</sup> I have to thank Nina Witoszek for co-inventing this idea with me in our book on eco-modernity'

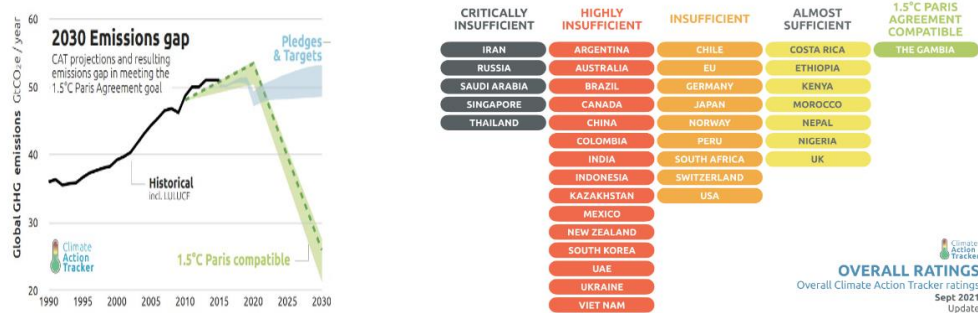
announced plans, projected installed renewable energy constituted a negligible share of total production (figure 2)

Figure 2: Projected installed renewable energy as a share of total production<sup>4</sup>



But Governments are also good hypocrits. In meeting their mitigation targets (Nationally Determined Contributions) (NDCs), only one country is engaging sufficiently, only 7 are almost sufficient. Most are insufficient, highly insufficient and critically insufficient in their climate actions (figure 3)

Figure 3: Governments far from meeting their targets (NDCs)<sup>5</sup>



In other words, both business and politics have reached the hypocritical stage, and we now need strong mobilization of both monitory and parliamentary democracy to tip this hypocritical momentum into action from vice to virtue.

But is this viable under the current economic and energy warfare between Russia and Europe? I believe it is. In the short run we need a survival-strategy where all energy sources have to be

<sup>4</sup> From Midttun et al (2022) Energy Policy...

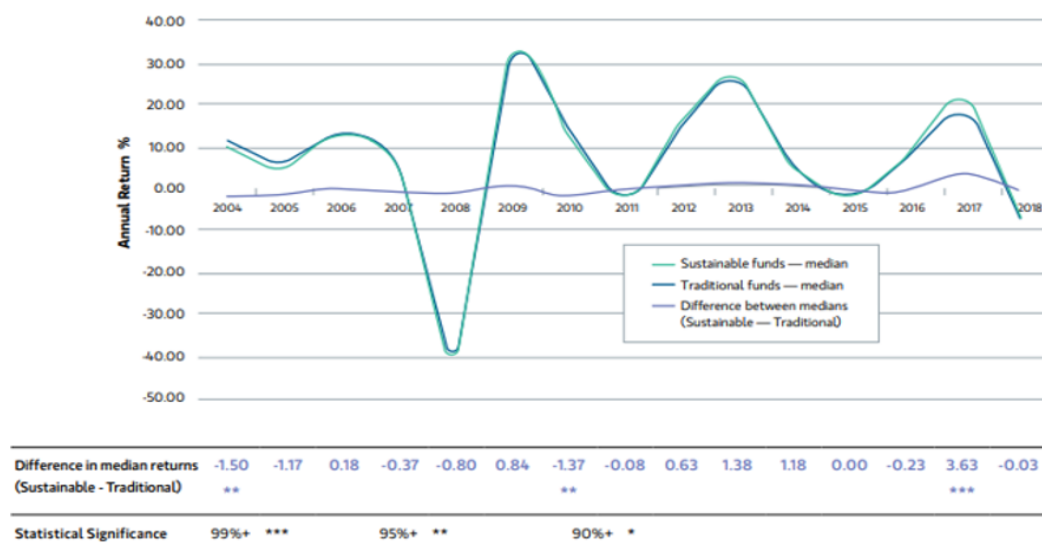
<sup>5</sup> <https://newclimate.org/resources/publications/climate-action-tracker-global-update-climate-target-updates-slow-as-science>

mobilized, whether brown or green. In the long run the war dramatically speeds up Europe's green energy transition both at the micro (household) and macro (societal) levels.

## Can finance drive sustainability going forward?

Some see *the finance sector as a major force for sustainability*. The idea is that portfolio managers prioritize 'green stocks' and thereby reward green transition: Financial elites are now engaging massively behind this under ESG<sup>6</sup> investment strategies, and this is attractive to them since ESG funds make as much money as their 'normal' benchmarks (figure 4).

Figure 4: Median Total Returns of Sustainable and Traditional Funds<sup>7</sup>



But has green finance, like the oil industry, only reached the hypocrisy stage? Unfortunately, ESG portfolio managers are now accused of greenwashing by adding a few symbolic green stocks onto otherwise standard profit centred portfolios. Desiree Fixler, former head of ESG for Deutsche Bank's asset management, went public last August with the message that DWS was misleading its clients with bold sustainability claims that did not stand up to scrutiny (Financial times 25 april 2022).

When it comes to social sustainability, finance's own social profile is far from exemplary. The top echelons enjoy super- high wages/earnings and financial tax parading is blooming like never before. Since 2014, the number of groups in Norway anchored in a tax haven has increased by 78 per cent (Statistics Norway 2022).

## Stepping up collective action for sustainable transition

Some sustainability issues are too big for business alone and call for stepping up collective action beyond the corporate-government divide

*The IT/AI is a case in point.*

Leaving it all to the corporates takes us down a risky path where:

<sup>6</sup> ESG: Enviornmental, financial and governance

<sup>7</sup> [https://www.morganstanley.com/content/dam/msdotcom/ideas/sustainable-investing-offers-financial-performance-lowered-risk/Sustainable\\_Reality\\_Analyzing\\_Risk\\_and\\_Returns\\_of\\_Sustainable\\_Funds.pdf](https://www.morganstanley.com/content/dam/msdotcom/ideas/sustainable-investing-offers-financial-performance-lowered-risk/Sustainable_Reality_Analyzing_Risk_and_Returns_of_Sustainable_Funds.pdf)

- the network economics of major IT-driven industries has created massive oligopolistic money-machines for elites to pocket super-incomes.
- And some of the AI based platform companies are delivering gig jobs with weak worker-rights.  
(Uber, Fodora etc)

In a broader transformative perspective, there is potential for an alternative path (figure 5):

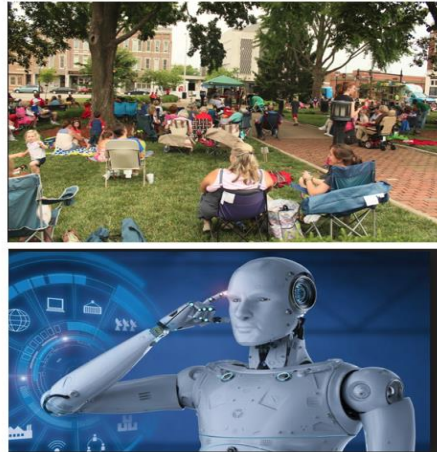
- AI offers nothing less than possibilities to free humans from trivial work
- It may allow us to develop a parallel to the old Athenian Agora economy, with free men and women debating politics and engaging in creative arts, with the help of robots as their slaves

*Figure 5: The agora economy/society*

Athenian Agora based on slaves



Modern Agora based on AI



To stage this type of transition, we need purpose driven innovation where democratic and corporate resources are mobilized together.

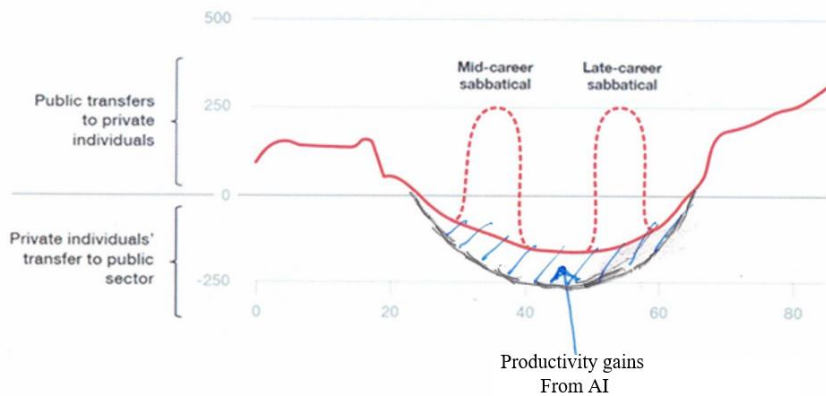
We could allow *Civic-creative sabbaticals as a starting point*

- In line with sabbatical traditions in academia where you now get 1 year leave for personal professional development after six years of work.
- Citizens could have sabbaticals for civic-creative development, and thereby develop themselves.
- And at the same time consolidating socially sustainable societies.

And sabbaticals could be phased in gradually as productivity gains from AI are achieved.

Let me show how it could work in a simple life-cycle model building on a diagram presented by a former finance minister – Sigbjørn Johnsen in connection with his pension reform (figure 6)

*Figure 6: Sabbaticals and financial flows over the life cycle*



- The thick red curve illustrates **the transfer balance over a person's life** (from the state to the person as a child, then from the person back to the state as an adult, and then from the state to the person again as a pensioner)
- The shaded deepening of the curve at the bottom represents a potential AI productivity surplus
- Which could finance the two dotted peaks – representing novel civic-creative sabbaticals.
- As AI productivity increases, we could extend the sabbaticals.

How to implement an Agora reform is obviously a major question. However, the lack of discussion of such a utopia is seriously limiting a major path of AI utilization.

## Bringing the state back in

Even in less radical undertakings, there is a need to step up collective action. To achieve this, there is a case for bringing the state back in. However, the state could be brought in to play other roles than the traditional regulatory one. This includes:

- The service providing state: delivering education, health, energy, transport, security etc..
- The procuring state: contracting huge volumes of services and commodities from business sectors
- The transformational state – staging major societal transformation, such as the welfare state, the green transition and perhaps a civic-creative revolution
- But of course, also playing together with the regulatory state.

In all these capacities, the state engages extensively with business and can supplement and stimulate corporate sustainability. I have always found the corporate sustainability literature neglecting this dimension.

## Industrial standards and partnered governance

But also within the corporate world itself, there is a need for collective action. Corporate sustainability undertaken by individual businesses remains idiosyncratic and limited to one firm. And, as we have seen before, many firms (criminal and rent-seeking) do not have interests in sustainability at all.

In contrast, consolidation of *general* sectoral sustainability-standards, carry the promise of collective commitment with much broader effect.

Standards typically evolve in stages over time (figure 7):

- It may start with individual corporate responses to Civil society pressure,
- But it may eventually build up collective engagement by a whole industrial sector, where industry associations in collaboration with civil society develop sustainability standards.
- A further step towards strong sustainability commitment is taken when compliance with the standard is certified by a quality assurer – such as for instance Norske Veritas.
- and ultimately also the standard may also get political endorsement

At the end of this scale, we are into partnered governance, with government and business engaging together, which may be as effective as hard law. Standards are interesting alternatives to legislation in so far as they may consolidate practice with outreach beyond the jurisdiction of individual polities.

Figure 7: Trajectories of governance



## Two examples

In 1993 the Civil Society initiative - **the Forest Stewardship Council (FSC)** - offered certification of sustainable and ecologically-sound forestry. The forest industry responded with a set of sustainability initiatives to establish more “realistic” standards for sustainable forestry, and in this way embarked on an ecological upgrading. This resulted in the Sustainable Forest Initiative (SFI) in the North America, and The Programme for the Endorsement of Forest Certification schemes (PEFC) in Europe. As some publishers demanded certified paper, the standards became a commercial necessity for paper and forest industry.

**The Extractive Industries’ Transparency Initiative** emerged from a civil society campaign against BP and the Angolan government for hiding revenue from oil extraction, and ended up with the launch in 2013 of EITI as a standard against which countries could certify their resource management regimes.

But the EITI also relies on strong partnered governance with the state. The support from British and later from Norwegian government, and the endorsement by the G8, the Monetary fund and the



World bank, made membership attractive to many African, Latin American and some Asian countries that depend on world bank financing. Hence the pressure for transparent display of money flows, mounted on both industry and governments. However, there is a telling lack of membership from the oil-rich Arab countries, and large emerging economies like India, China and Brazil. Russia is also conspicuously absent.

I argue that a way forward for corporate sustainability might be to consolidate industrial standards, that become reference points for commercial contracting as well as financial investors, including the state in various functions (in procurement, service provision, transfers and financial investment). One might argue that the EU green taxonomy needs to develop into a standard to have its full commercial effect. Likewise the Norwegian 'Green Competitiveness' project would have become more implementable if it had developed the sectoral roadmaps one step further into dynamic sectoral standards.

## From globalization to bi-polar rivalry and regionalization

Corporate sustainability going forward will have to relate to the emergence of a stronger bi-polar rivalry that is shaping today's globalization. Russia's current occupation of Ukraine and its energy and economic war with Europe dramatically exposes the new bipolar world order, where the duo Vladimir Putin and Xi Jinping lead the authoritarian wing in contest against the liberal West (figure 8).

Figure 8: Emerging Rivalry Between Democratic and Autocratic Regimes



Unlike the former Cold War, both sides now embrace market economics. The dispute is therefore on the political level and about values:

- For the West, human rights, civil liberties and democratic institutions are central parts of the value hierarchy.
- Authoritarian regimes emphasize values such as law and order, patriotic nationalism and obedience

This bipolar rivalry adds serious challenges for global corporations, and intriguingly, corporate sustainability is where the clash of norms and values is most pronounced. Sustainability measures



that the corporations have embraced under pressure from monitory democracy in the West, now become contentious in the East. And the authoritarians have now developed their own version also of monitory democracy. To take a couple of examples:

After strong pressure from Western civil society organisations, **Hennes & Mauritz** decided to stop using cotton from China's disputed Xinjiang region. However, a Weibo post by the Communist Youth League ignited Chinese national sentiments and, H&M quickly found itself deleted from the country's e-commerce sites, maps and social media platforms. The company must now keep a low profile to avoid further irritation with the Chinese authorities and in social media. But it must also avoid provoking buyers in Europe and the United States who remain concerned about Chinese human rights abuses. Mission impossible, it would seem.

At the same time, Eastern authoritarian companies face skepticism in the West due to a lack of transparency and connections to authoritarian governments.

Take the Chinese telecom and IT giant **Huawei**. It had ambitions to become the world's largest smartphone manufacturer and become a global leader in the rollout of 5G. However, in 2019, the company was blacklisted by the US, and banned from the US market. The Americans then put pressure on their allies not to give Huawei contracts for the 5G rollout, and the company was eventually frozen out in most Western countries.

### Contours of a new cold war?

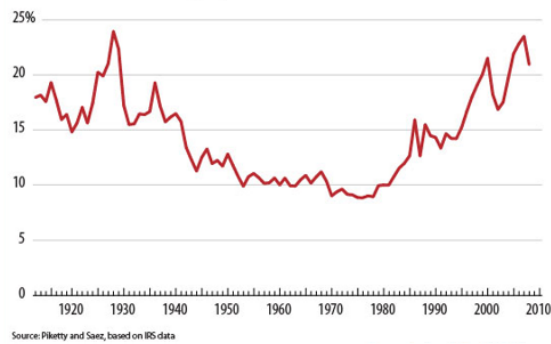
A likely consequence of the combination of common economic but divergent political systems is a world with selective collaboration and contestation. Sensitive sectors like military equipment and core infrastructure will develop more segregation, while sectors like health and climate may operate in a more collaborative model. Corporations may have to choose between authoritarian and democratic markets when profiling their sustainability, possibly developing multiple brands to facilitate this diversification.

### Liberal capitalism at stake

Against the background of the authoritarian-democratic divide, liberal democratic societies need to retain their competitive advantage, but also their soft power in terms of fairness, sustainability, and social inclusion. Growing inequalities are challenging the liberal social compact (figure 9), and illiberal democracy has been on the rise in several Eastern European and Western countries. They are responding to the frustration of the left-behinds or by growing anti-immigration sentiment.

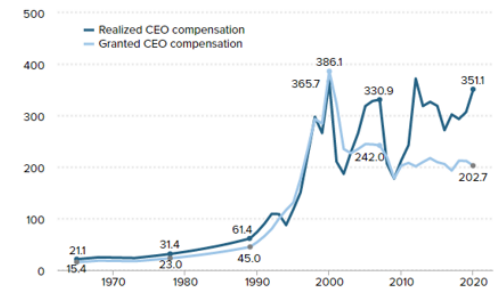
Figure 9: Towards new class societies?

Share of Total Pre-Tax Income Flowing to Top 1 Percent USA

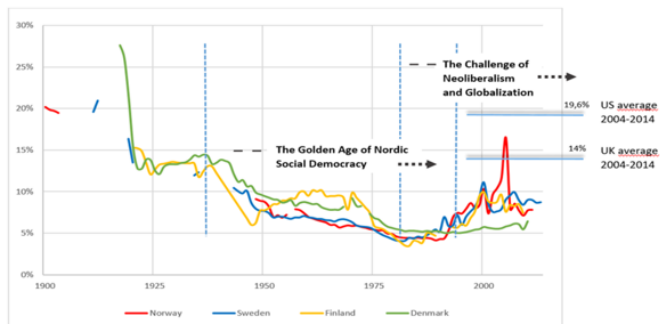


CEOs make 351 times as much as typical workers

CEO-to-worker compensation ratio, 1965–2020



<https://www.epi.org/publication/ceo-pay-in-2020/>



Only by reversing its increasing social discrepancies, tuning its economy to ecological realities, and cultivating its liberal democracy will the West be able to maintain its attraction as an alternative to the authoritarian world.

And I hope that, the increasing challenge from authoritarian competitors, in the new bipolar world, may provoke enlightened western corporate and political elites to take the task of ‘civilizing capitalism’ also socially, more seriously.