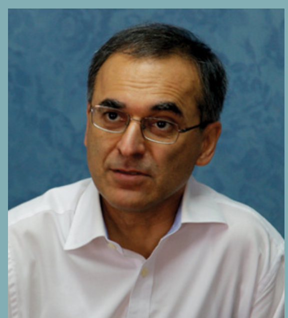
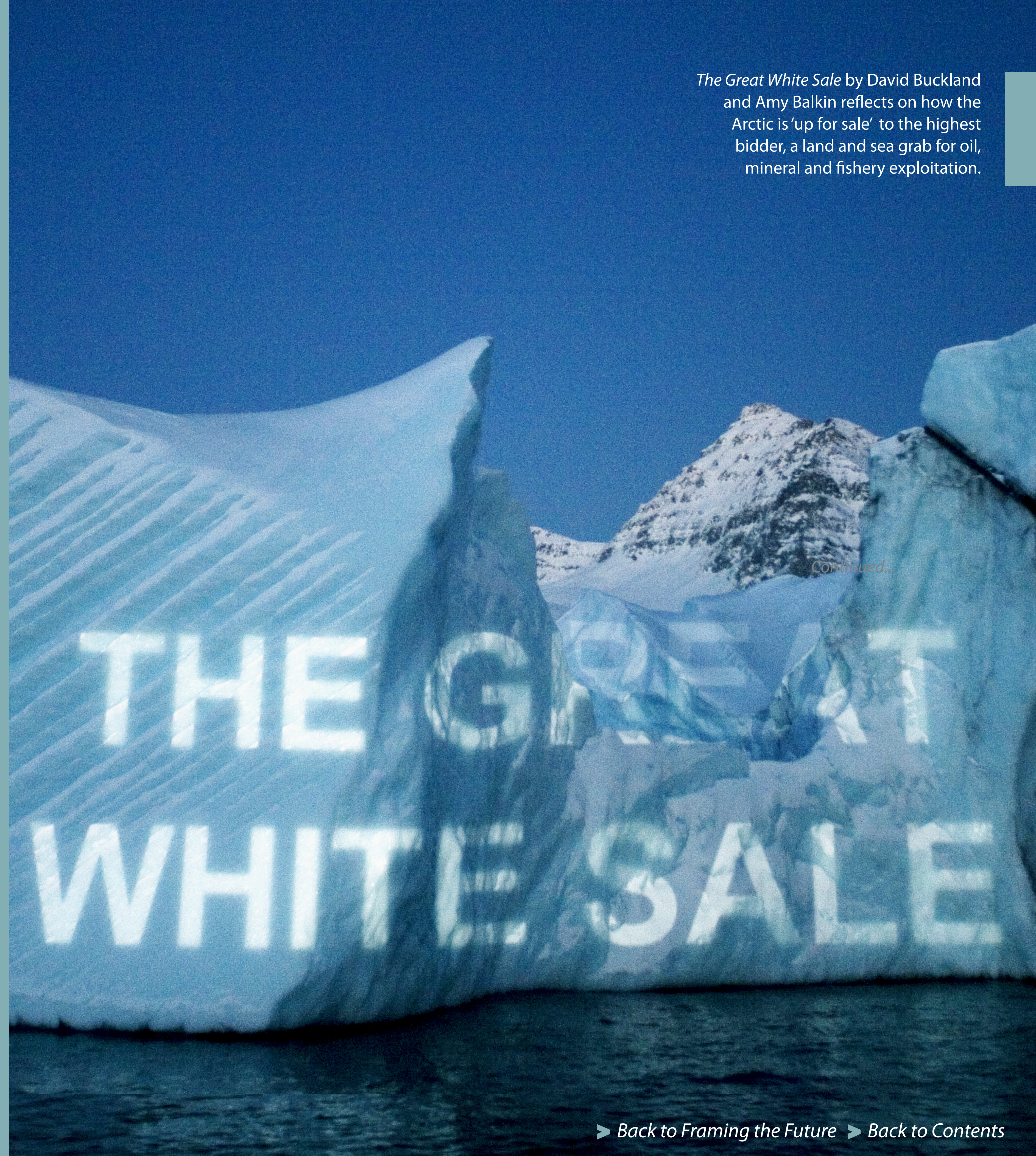


Can today's corporations deliver tomorrow's economy?

Pavan Sukhdev

UNIVERSITY OF CAMBRIDGE
25 YEARS
PROGRAMME FOR SUSTAINABILITY LEADERSHIP

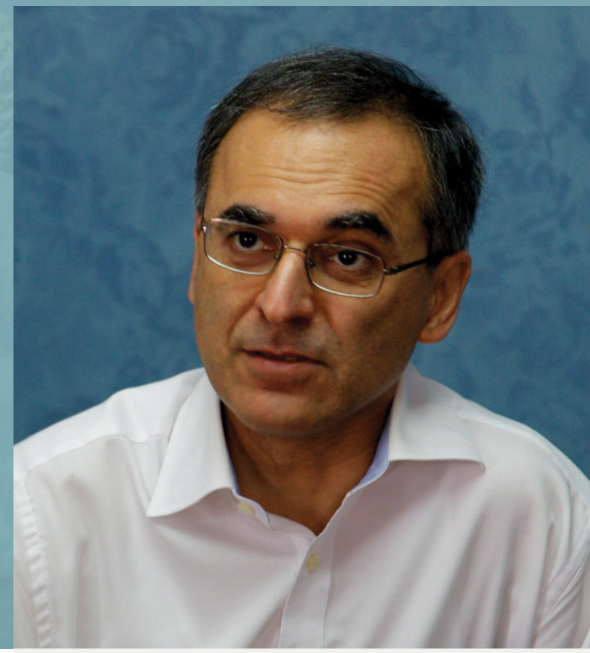


The Great White Sale by David Buckland and Amy Balkin reflects on how the Arctic is 'up for sale' to the highest bidder, a land and sea grab for oil, mineral and fishery exploitation.

Back to Framing the Future
Back to Contents

Can today's corporations deliver tomorrow's economy?

Pavan Sukhdev



Pavan Sukhdev is Founder-CEO of GIST Advisory, which helps governments and corporations understand and manage their impacts on natural and human capital. A career banker, he has spoken at World Economic Forum meetings at Davos in 2010 and 2011, led UNEP projects The Economics of Ecosystems and Biodiversity and the Green Economy Initiative, and is a Visiting Fellow at Yale. His new book, *Corporation 2020* is available from Island Press, www.islandpress.org.

As nations entered Rio+20 to negotiate around the theme of a "green economy in the context of sustainable development and poverty eradication", I was left confused. UNEP's report *Towards a Green Economy* defined a "green economy" as one which increases well-being and social equity whilst reducing environmental risks and ecological scarcities.[1] In other words, a green economy *must* reduce poverty and inequity. So why did the UN feel the need to reiterate this as a tautology in the central theme in the run-up to Rio? By definition, an economy cannot be a 'green economy' *unless* it reduces poverty and achieves the goals of sustainable development.

Perhaps this overemphasis reflects some internal doubt over how far governments really can negotiate a new economic paradigm, given that we live in a world where two-thirds of the economy is private sector, and free markets predominate? Planetary boundaries, like the laws of physics on which they are based, do not seem negotiable either. And they are being approached (and arguably breached) across several critical axes – including greenhouse gas emissions, changes in the nitrogen cycle, freshwater use, land use, food security, the depletion of ocean fisheries, and the decline of coral reefs.

Significant changes are urgently needed within the next decade in the way we deal with the Earth's resources. But the continuing failure of inter-governmental efforts to contain greenhouse gas emissions and to halt or even to slow down the rate of biodiversity loss points to the need to recognise the vital role of the private sector in determining economic direction and resource use globally. The corporate world needs to be brought to the table – but as responsible planetary stewards, and not value-neutral agents free-riding their way to global resource depletion. Here are the reasons why.

There is a growing sentiment in many sectors of society that the 'rules of the game' need to be changed, so that corporations are enabled to compete on the basis of innovation, resource conservation, and satisfaction of multiple stakeholder demands.

The private sector produces almost everything we consume, generating 60 per cent of global GDP. An equally high fraction of jobs globally are provided by corporations. Their advertising drives significant consumption demand. Their production feeds this demand and drives economic growth. Their growing profits and assets are the main magnets for global investment.

These are the good sides of today's corporations – but there are also the bad. Corporate externalities – the unaccounted costs to society of doing 'business as usual' – of just the top 3,000 listed companies amount to an estimated US$2.15 trillion, or 3.5 per cent of GDP, every year.[2] Corporate lobbying frequently influences national policies and politics to the detriment of the public good. Advertising often converts human insecurities into product wants, wants into needs, and needs into excessive consumer demand which has already made humanity's ecological footprint exceed the planet's bio-capacity by over 50 per cent.[3] We are now living by consuming the earth's capital, not its interest.

And yet the free market model remains the rallying cry of many in the private sector. But what they mean by 'free market' is actually the 'status-quo market'. Around $1 trillion a year in perverse subsidies (for fossil fuels, unsustainable agriculture, unsustainable fisheries, etc), and barriers to entry for newcomers and alternative products maintain 'business as usual' while obscuring the associated environmental and societal costs.

There is a growing sentiment in many sectors of society that the 'rules of the game' need to be changed, so that corporations are enabled to truly compete on the basis of innovation, resource conservation, and satisfaction of multiple stakeholder demands – rather than on the basis of who can best influence government regulation, avoid taxes, and obtain subsidies for harmful activities. These rules of the game include policies regarding accounting practices, taxation, financing and advertising practices, which can result in a new corporate model which I call **Corporation 2020.**[4] This new genre of corporation can forge a green economy – one that increases human wellbeing and social equity, decreases environmental risks and ecological losses, and still generates profit.

Corporation 2020 defines the direction today's corporation needs to take to secure itself and become a force for positive change in the economy, society, and the natural environment. It must evolve to create not just financial capital for shareholders, but also human, social and natural capital for all – thus promoting and sustaining the wellbeing of human populations and ecosystems. **Corporation 2020** describes four essential planks of global change: disclosing externalities, resource taxation, accountable advertising, and limited leverage.[5] Each plank seeks a significant outcome in terms of institutional reform, and delivering

Planetary boundaries are being breached in terms of climate change, the nitrogen cycle, ocean acidification and coral reef losses, which will in all likelihood impoverish and destabilise societies which are already poor and stressed...

Continued...

For the new corporation, externalising costs will be bad for reputation, bad for business, and hence a bad idea for CEOs and investors alike.

each outcome is the joint responsibility of different governance institutions together with corporate leaders and first-movers.

Disclosing externalities

Accountancy bodies (IASB, FASB, ICAEW, etc) will have to research and evolve methodologies for measuring the most material corporate externalities (negative externalities in the realm of GHG emissions, water use, land use, pollutants, etc, and positive externalities in the areas of employee education and training, etc) and then formulate guidance and standards for disclosing them in the annual financial reports of corporations. This will provide the missing information needed by corporate managers, governments, civil society, consumers and investors to differentiate their responses to different corporations. The UK Institute of Chartered Accountants (ICAEW) has already launched a global coalition, the TEEB for Business Coalition, with the support of the Gordon and Betty Moore Foundation, and the UK and Singapore governments, with the aim of evolving such methodologies and standards worldwide.

Accountable advertising

Advertising associations, encouraged by consumer protection agencies and NGOs, will have to create more 'information' value in their advertising as against 'selling' value. Social media is already changing who determines advertising today (it is more consumer-driven, less producer-driven) but this trend must be accelerated by institutional support and industry leadership, actively encouraged by industry associations. Penalties and incentives need to be considered to promote 'selling good, not just good selling'.

Limited leverage

G20 Governments and Central Banks will have to monitor and limit the leverage of major corporations. This is not just for banks (which they already do through capital controls), but also any other 'too-big-to-fail' companies with recourse to public funds in times of crisis – insurers, mortgage originators, carmakers, airlines, etc – to ensure that systemic risk from excessive or misused or mis-applied leverage is contained, as this has been the main driver of the last four major global recessions.

Resource taxation

G20 governments (specifically, their tax authorities) must implement changes in the lifecycle incidence of taxation: much more at the point of resource extraction (ie mining of fossil fuels and minerals) rather than at the point of sale (VAT) or of capital formation (Corporation Tax on profits). This will encourage material efficiencies, as against more mining and more volume.

There are other planks of change, such as controls to make lobbying transparent, and introducing new legal forms of corporation such as 'B-Corps'. I consider these useful and supportive, but not critical to the key outcomes that we seek.

The challenge is that these four planks of change are needed urgently, and simultaneously. Planetary boundaries are being breached in terms of climate change, the nitrogen cycle, ocean acidification and coral reef losses, which will in all likelihood impoverish and destabilise societies which are already poor and stressed. This could lead to large-scale migrations and losses of livelihood and life. Global political and economic disruptions are a natural consequence. Unless we can achieve a change in direction globally in a decade we may be acting too late. Therefore civil society, corporate leaders, advertising associations, governments, accountancy regulators and central bankers will need to combine forces and work in an unprecedented and collaborative way, and I believe the result will be a new kind of corporate DNA which gradually dominates and delivers transitions to a 'green economy'.

For this new corporation, externalising costs will be bad for reputation, bad for business, and hence a bad idea for CEOs and investors alike. Creating human and social capital in the societies in which they do business will become not a short-term cost and a CSR strategy, but a wise long-term investment in securing social licence to operate, especially valuable when operating conditions are changing fast, customer loyalty matters, and government intervention is not uncommon.

It is said that a pessimist is one who sees problems in every opportunity, and that an optimist is one who sees opportunities in every problem. By that reckoning, I am an optimist, as I do see in today's complex global problems an opportunity: creating an economy of permanence through an agent capable of delivering it, **Corporation 2020.**

[1] United Nations Environment Programme, 2011. *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication*

[2] Report prepared by Trucost, 2010. *Universal Ownership: Why Environmental Externalities Matter to Institutional Investors*

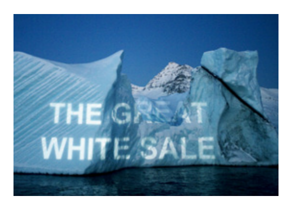
[3] WWF, 2012. *Living Planet Report*. http://awsassets.panda.org/downloads/1_lpr_2012_online_full_size_single_pages_final_120516.pdf

[4] See *Corporation 2020: Transforming Business for Tomorrow's World*, available October 2012 from Island Press. For more information about the book and the Corporation 2020 campaign, visit www.corp2020.com.

[5] These four planks appear as Chapters 4 to 8 in *Corporation 2020:* disclosing externalities, accountable advertising, limited leverage, and resource taxation.

The State of Sustainability Leadership is CPSL's annual thought leadership report, delivering insight and challenge from our world-wide network of business leaders, policymakers and academic experts. This year's edition, to be published in full in December 2012, is focused on the theme of business and the long-term – what leaders can do to understand and shape the future. CPSL is an institution within the University of Cambridge's School of Technology. www.cpsl.cam.ac.uk

UNIVERSITY OF CAMBRIDGE
25 YEARS PROGRAMME FOR SUSTAINABILITY LEADERSHIP



The series *Ice Texts* was created in 2005 and during subsequent Cape Farewell expeditions. "Two hundred years of human excess has resulted in increased CO_2 emissions causing the ice to melt. For the glacier it is barely a single breath, for our children the polar sea ice could be gone forever" (David Buckland). CPSL is proud to be collaborating with Cape Farewell, which works with artists and scientists on a cultural response to climate change. www.capefarewell.com