Five Corporate Sustainability Challenges That Remain Unmet

By Wayne Visser

There is no doubt that business is doing far more than ever before to tackle the sustainability challenge, for example by recognising its social responsibilities, reducing its environmental impacts, guarding against ethical compromises, making its governance more transparent and being more accountable to its stakeholders. Evidence appears in plain sight: a plethora of voluntary codes, management systems by the truckload, volumes of sustainability reports, socially responsible indices and funds, and an increasingly conscious business press.

All well and good, but – and this is a "but" that could prove to be a showstopper - all of this activity has failed to turn the tide on some of the most crucial inhibitors to sustainable development: ecological decline, poverty, greed, trust, and hope. Without significant progress on these five issues, the corporate sustainability crusade is doomed. In this article, I present evidence of these gaps that still exist and propose the shifts that are needed to address them.

The Eco Gap

According to the World Resources Institute's latest report, World Resources 2002-2004: Decisions for the Earth – Balance Voice and Power, one billion people depend on fish for protein, yet 75 percent of the world's fisheries are over fished or fished at the biological limit. Some 350 million people are directly dependent on forests for their livelihoods, yet global forest cover has declined by 50 percent since pre-agricultural times. More than 40 percent of the world population live in water-stressed basins and 65 percent of global agricultural lands show soil degradation. This is not about saving cute fluffy animals or pretty flowers; this is the stuff of survival, which is the true meaning of sustainability.

The link back to business is obvious. It is our consumptive lifestyle, which companies are spending more than $446 billion annually to stimulate with advertising, a nine fold increase since 1950. And we aren't showing any signs of slowing down; just the opposite in fact. Private consumption expenditure topped $20 trillion in 2000, a fourfold increase since 1960. Approximately 60 percent of this consumption is by only 12 percent of the world's population, namely those living in North America and Western Europe. If we are seeing rapid environmental decline now, what is going to happen when 10 billion more people convert to the Western consumptive lifestyle? Something's got to give.

The point is that, despite all the efforts of companies in shifting towards sustainable strategies, the numbers are all still headed in the wrong direction. And partly, we permit this to happen by allowing business to skate away with mere cosmetic makeovers when wholesale transformation is needed. For example, how many corporate sustainability reports disclose cumulative emissions? None. They report on annual emissions, which often lure the reader (and management) into a false sense of security. The figures may be declining from year to year, but if you fill a glass with polluted water at a slightly slower rate, ultimately it is still going to overflow.

If we are going to avoid hitting the wall of ecological thresholds, beyond which our life support systems begin to collapse, we need to hold business to much higher standards of judgment. To give us even a fighting chance, two fundamental shifts are going to need to occur:

- Eco-efficiency (of the factor-four and factor-ten variety) will need to be incentivised (positively and punitively) by government and other stakeholders to become an unavoidable imperative rather than a "nice-to-have"; and
- The tyranny of the financial markets and their unrelenting pressure for corporate growth and short-term returns to shareholders will have to be challenged by ethical investors and the broader circle of affected stakeholders as an unsustainable model.

The Poverty Gap

The latest United Nations Human Development Report (2003) has good news and bad news. On the positive side, average life expectancy in the developing world has increased by eight years over the past three decades, illiteracy was nearly halved to 25 percent, and in East Asia the number of people surviving on less than $1 a day fell by a similar percentage just in the 1990s. There are individual success stories too: In South Africa, the number of people without access to safe water was halved in just seven years (1994-2001), and in China the population living in extreme poverty was reduced from 33 percent to 18 percent in nine years (1990-1999).

Nevertheless, 54 countries are poorer now than in 1990. In 21 a larger proportion is going hungry. In 14, more children are dying before age five. In 12, primary enrolments are shrinking. In 34, life expectancy has fallen. If global progress continues as the same pace as in the 1990s, only the Millennium Development Goals of halving income poverty and halving the proportion of people with access to safe water by 2015 stand a realistic chance of success, mainly thanks to China and India. At the current pace, Sub-Saharan Africa would not attain the Goals for poverty reduction until 2147 and for child mortality until 2165. For HIV/Aids and hunger, trends in the region are heading up, not down.

Business has a crucial role in addressing poverty, but until now it has abdicated active responsibility in a number of ways. It has argued that economic growth naturally leads to development: yet UN statistics find no obvious or automatic linkage. Secondly, business often lays responsibility for the alleviation of poverty at the doorstep of government, not the private sector. And thirdly, companies have pointed to their charitable activities as their contribution to the solution. (In the US, for example, corporate giving in 2002 totalled $12.8 billion, or 1.8% of pre-tax profits). In fact, business must get far more actively involved if any headway is to be made on poverty reduction, and it is in their best interests to do so.

How many companies even know the status of progress against the eight main Millennium Development Goals in the areas in which they operate? Surely, if there are priority indicators of sustainability, these are it. Unless the development needs are tackled at a local level, conditions will not improve. I'm not saying business alone is responsible, or can achieve results on its own, but at least companies should be tracking performance against the Goals and their contribution to making a difference on each dimension. Recent publications by the International Business Leaders Forum and the World Business Council on Sustainable Development are full of excellent, pragmatic advice on how business can begin to tackle poverty more effectively.

The Governance Gap

One is tempted to ascribe issues of equity or social justice to the North-South divide; that the gap between rich and poor, which has widened in the last 50 years despite global economic growth, merely reflects differences between developed and developing nations. But this masks not only the inequity within industrialised societies like America, but also the role that business has played in perpetuating and exacerbating the problem. The issue of executive pay, which has dominated the headlines with the governance debate heating up, makes this complicity clear, as the facts and figures demonstrate.

According to Business Week's Annual Executive Compensation Survey, the pay ratio between average workers and large company CEOs surpassed 300-to-1 in 2003, up from 282-to-1 in 2002 and just 42-to-1 in 1982. Between 1990 and 2003, CEO pay rose 313%, compared with profits rising 128% and average worker pay increasing only 49% (just ahead of inflation at 41%). If the minimum wage had increased as quickly as CEO pay since 1990, it would today be more than three times its current level. During 2003 alone, average CEO pay was $8.1 million, up 9.1% from the previous year, a year in which the US employees' pay inched up only 1.5% and the economy shed 410 000 jobs.

The Institute for Policy Studies and United for a Fair Economy suggest an even more sinister twist. In their report, Executive Excess 2002: CEOs Cook the Books, Skewer the Rest of Us, the CEOs of

23 large companies currently under investigation for accounting irregularities earned 70% more from 1999 to 2001 than the average CEO at large companies. By contrast, the value of shares at these 23 companies shrunk by $530 billion, or roughly 73% of their market capitalisation, and 162 000 of their employees were laid off in 2001 alone. To drive the point of greed and excess home, one final statistic: It would take one Haitian worker producing Disney clothes and dolls 166 years to earn what CEO Michael Eisner was earning in one day in 2001.

How sustainable are these intra-company inequities? Will disenfranchised masses at some point rise in popular revolt? Can companies claim to embrace principles of equity and fairness in their sustainability reports while simultaneously widening the income gaps among their own staff? We need to reach a stage of maturity in capitalism where these manifestations of personal excess are questioned rather than celebrated, where equitable income distribution is one of the measures of success, and where governance systems link executive pay far more strongly to the creation of holistic stakeholder value.

The Trust Gap

In 2002, the World Economic Forum unveiled the largest public opinion survey on trust that has ever been conducted. Their report called Voice of the People, based on 36 000 interviews across 47 countries on six continents rendered statistically valid results representing the views of 1.4 billion citizens. Respondents were asked to rate their level of trust in 17 different institutions "to operate in the best interest of society." Global companies are the world's third-least trusted institutions in the world and large national companies are the second-least trusted. (Parliament/congress was least trusted.)

A more detailed follow-up survey in 2003 conducted in 15 countries revealed that executives of multinational companies are the second-least trusted of eight categories of institutional leaders. Asked how their levels of trust in executives had changed over the past year, only 10 percent of the public claimed their trust had improved for domestic companies and 11 percent for multinationals, while 44 percent and 38 percent respectively reported declining trust. This is despite all the rhetoric and action in the past few years by companies regarding stakeholder engagement, corporate transparency and public accountability. The clear message is: It's not working.

I certainly advocate the trend toward greater, rather than less, transparency and stakeholder accountability. Indeed, companies would do well to follow the guidelines set out in the AA1000 and Global Reporting Initiative standards. Yet this will be insufficient to sustain credibility and social license to operate. The crux of the matter, I believe, comes down to the purpose of business. So long as companies unapologetically continue to claim their primary purpose is to increase shareholder value, the public will always distrust them.

Ironically, the evangelically pursued profit purpose is a misnomer. Financial returns are the means to an end, not the end itself. Of course businesses need to be profitable, but that is not why they exist. Many successful business pioneers know this, but are compelled by expectations of the market to repeat the shareholder value mantra. We need more champions like David Packard, co-founder of Hewlett-Packard, who stated: "Why are we here? Many people assume, wrongly, that a company exists solely to make money. People get together and exist as a company so that they are able to accomplish something collectively that they could not accomplish separately - they make a contribution to society".

The Existential Gap

One of the biggest challenges facing business, especially in the booming knowledge economy, is how to keep their employees motivated, satisfied, committed and inspired. And yet this is precisely where companies are struggling. A survey by a London PR agency, Fish Can Sing, shows that two-thirds of all 18-35 year-olds are unhappy at work, and the proportion rises to 83 percent among 30-35 year-olds. These are young professionals with all the trappings of success – material rewards, prospects for rising rapidly up the corporate ladder, and luxury lifestyles. And yet one-in-fifteen has already quit the rat race and 45 percent are seriously contemplating a career change. So, what is the problem?

The researchers have invented a new psychographic group for these people, called TIREDs – an acronym for Thirtysomething Independent Radical Educated Drop-outs. Chief reasons for them opting out of their high-powered jobs are stress and lack of fulfilment. The survey report calls this the LDDR factor – they want Less Demand and Deeper Reward. And the American Dream no longer delivers. About a third of Americans report being "very happy", the same share as in 1957 when Americans were only half as wealthy.

One of the founders of existential psychology, Nazi-camp survivor Viktor Frankl, refers to this as a collective existential neurosis, or crisis of meaning: "Consider today's society: it gratifies and satisfies virtually every need - except for one, the need for meaning! This spreading meaning vacuum is especially evident in affluent industrial countries. People have the means for living, but not the meanings". And since many people are not getting a sense of meaning from the companies they work for, they are looking elsewhere. In any year six out of 10 adults in the US now work without pay for causes in which they believe. Patrick Dixon, Chairman of the Global Future Forum, sees the trend increasing. In the future, he says, "expect well-run nonprofits, led by spiritual refugees from corporate life".

This returns us full circle to corporate sustainability, because the sustainability agenda is an enormous opportunity to create meaning in the workplace, to give people something to believe in, and to set an agenda of hope. Research by The Corporate Citizenship Company shows that community involvement and wider corporate responsibility positively impact staff morale, motivation, commitment and performance. But we need corporate leaders who are prepared to go beyond merely reciting the business case for sustainability. They must embrace what Forum for the Future calls the "moral case". As management guru Charles Handy puts it: "We seem to be saying that life is about economics, that money is the measure of things. My hunch is that most of us don't believe any of this, and that it won't work, but we are trapped in our own rhetoric and have, as yet, nothing else to offer, not even a different way to talk about it."

Concluding thoughts

This article is a plea for us not to be complacent about corporate sustainability. Much has been achieved, but the most fundamental challenges remain. Let us not fool ourselves into thinking that we have turned the titanic around, when the iceberg still looms large straight ahead. But to change course, we need to reconnect with our passion for the sustainability ideal. Our predicament is not something we are going to rationalise or engineer our way out of. We need visionary leadership, heartfelt commitment and enduring hard work. And each of us, in our own way, in our own place, has a contribution to make. Unless you're planning to jump overboard, we're in this together. So let's get paddling!

Article reference

Visser, W. (2004) Five Corporate Sustainability Challenges That Remain Unmet. *Ethical Corporation*, Issue 31, July.

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Part of the WAYNE VISSER ARTICLES Series