The Durable Corporation: Re-examining sustainability in an era of global governance

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For more than 20 years the starting point for any discussion of sustainable corporate activity has been the Brundtland Report. Its concern with the effect which action taken in the present has upon the options available in the future has directly led to glib assumptions that sustainable development is both desirable and possible and that corporation can demonstrate sustainability merely by continuing to exist into the future. There have been various descendents of Brundtland, including the concept of the Triple Bottom Line. This in turn has led to an assumption that addressing the three aspects of economic, social and environmental is all that is necessary in order to ensure not just sustainability but to also enable sustainable development. It is our argument that these conceptions is not just incorrect but also positively misleading through an obfuscation of the key issues and have led to an inevitable outcome of fallacious complacency. It is therefore time to re-examine the legacy of Bruntland and to redefine what is meant by sustainable activity. In order to do this we reject the accepted terms of sustainability and sustainable development, preferring instead the term durability to emphasise the change in focus. From this we argue for a rejection of the Triple Bottom Line as insufficiently refined for practical use, suggesting instead alternatives developed from our own work.

The starting point must be the currrent situation of business world. Why we are talking about the currrent situation of business? There are a number of factors:

Globalisation: The phenomenon known as globalisation is a multidimensional process involving economic, politic, social and cultural change. However the most important discussion about globalisation is related to the economic effect it has upon countries. Globalisation in the economic and financial markets is a recognized international fact in the 21st century for all countries. The globalisation process has dynamic, critical and inevitable consequences for institutions, business and the environment, especially for developing countries.

Although in theory globalisation implies the free movement of capital and labour as well as the free movement of goods through trade, in practice it is the ease of movement of capital which has been primarily manifest. This liberalisation of trade in financial assets is often called financial globalisation. In our concept, globalisation increases competition, competition increases risk and create new risks for business ......

And required to deal with this is efficient management and risk management. Financial stability and market discipline are the main factors required to combat the inevitable, and most of the time, uncontrolled effects of globalisation. Therefore, until market discipline becomes more effective in ensuring sound financial systems, closer regulatory oversight will be key to increasing the benefits and limiting the risks of globalisation Contagions and crises are the downside of financial globalisation

Financial crisis, business failure and scandals and “stakeholder rights&expectation” reguired regulation and international standart to protect financial stability, business success and ınverstors&stakeholders right.

Good governance part of this reguirement It is more than regulation , laws and some internationl standarts. Corporate govenrance necessary to solve some of these problem which I mention before. Good governance is of course important in every sphere of the society whether it be the corporate environment or general society or the political environment. Good governance levels can, for example, improve public faith and confidence in the political environment. When the resources are too limited to meet the minimum expectations of the people, it is a good governance level that can help to promote the welfare of society. And of course a concern with governance is at least as prevalent in the corporate world. Good governance is essential for good corporate performance and one view of good corporate performance is that of stewardship and thus just as the management of an organisation is concerned with the stewardship of the financial resources of the organisation so too would management of the organisation be concerned with the stewardship of environmental resources.

Risk management, efficient management, regulation, ınternational standards and corporate governance ....These are necessary all for sustainability and for sustainble business.

Sustainbility: So what is sustainbility and what does the term mean? Although it is over 20 years old the starting point must be the Brundland report – its definitions have been universally accepted. Sustainability is concerned with the effect which action taken in the present has upon the options available in the future.

And it says... If resources are utilised in the present then they are no longer available for use in the future

All corporations are becoming concerned about their own sustainability and what the term really means. Such sustainability means more than environmental sustainability. Consequently the trajectory of all of these effects is increasingly being focused upon the same issue.

The problem with Bruntland is that its concern with the effect which action taken in the present has upon the options available in the future has directly led to glib assumptions that sustainable development is both desirable and possible and that corporation can demonstrate sustainability merely by continuing to exist into the future.

And also to the myths of sustainability

- Sustainability is synonymous with sustainable development
- A sustainable company will exist merely by recognising environmental and social issues and incorporating them into its strategic planning

Both are based upon an unquestioning acceptance of market economics predicated in the need for growth

One of the most used words relating to corporate activity at present is the word sustainability. Indeed it can be argued that it has been so heavily overused, and with so many different meanings applied, to it that it is effectively meaningless. It is therefore time to re-examine the legacy of Bruntland and to redefine what is meant by sustainable activity. It is the purpose of this presentation to challenge these cosy assumptions through challenging the accepted wisdom and thereby to reopen the debate and refocus upon the key issues.

There have been various descendents of Brundtland, including the concept of the Triple Bottom Line. This in turn has led to an assumption that addressing the three aspects of economic, social and environmental is all that is necessary in order to ensure not just sustainability but to also enable sustainable development. And all corporations imply that they have recognised the problems, addressed the issues and thereby ensured sustainable development. Let us start with the Triple Bottom Line - 3 aspects of performance:
Economic
Social
Environmental

We argue for a rejection of the Triple Bottom Line as insufficiently refined for practical use. Our argument is that the problem of sustainability is not even understood, let alone addressed.

It is therefore time to re-examine the legacy of Bruntland and to redefine what is meant by sustainable activity.

These are the component of sustainability:
Societal influence, which we define as a measure of the impact that society makes upon the corporation in terms of the social contract and stakeholder influence;
Environmental Impact, which we define as the effect of the actions of the corporation upon its geophysical environment;
Organisational culture, which we define as the relationship between the corporation and its internal stakeholders, particularly employees, and all aspects of that relationship; and
Finance, which we define in terms of an adequate return for the level of risk undertaken.
These are all necessary in order to ensure not just sustainability but to also enable sustainable development. Moreover it is the balance between them which is crucial.

First we have been added new component for triple bottom line which is finance. We decided that we can not manage another issue (social, environmental organizational) without financial resources.

These can be described differently:
- Maintaining economic activity, which must be the central raison d'etre of corporate activity and the principle reason for organising corporate activity. This of course maps onto the finance aspect.
- Conservation of the environment, which is essential for maintaining the options available to future generations. This maps onto the environmental impact aspect.
- Ensuring social justice, which will include such activities as the elimination of poverty, the ensuring of human rights, the promotion of universal education and the facilitation of world peace. This maps onto the societal influence aspect.

- Developing spiritual and cultural values, which is where corporate and societal values align in the individual and where all of the other elements are promoted or negated; sadly at present they are mostly negated

Discussions of the Triple Bottom Line have recently been ubiquitous in terms of CSR reporting and in considerations of sustainability. Indeed the misdirection stemming from the Brundtland Commission has led to an assumption that addressing the three aspects of economic, social and environmental is all that is necessary in order to ensure not just sustainability but to also enable sustainable development. It is our argument that this conception is not just incorrect but also positively misleading through its obfuscation of the key issues and its inevitable outcome of fallacious complacency.

In order to explain we need to go back to the transformational process which describes corporate activity. This model assumes that inputs (of capital labour and finance) are used to make goods and services through the employment of the operational factors of production (eg employees, suppliers etc) in order to make goods and services with a resultant profit. The implications of this conventional view of the transformational process are that the inputs can be freely acquired in the desired quantities and that the operational factors of production are commodified.

Our model of sustainable corporate activity seeks to resolve this into on model which recognises both the transformational process within a corporation but also the distribution of the benefits as being equally significant to sustainability.

There are a number of problems with this economic view of corporate activity, encapsulated in the way that accounting for corporate activity has evolved.

- Firstly the economic view of corporate activity is that efficiency is all that matters – so economies of scale, deregulation of markets, globalisation etc
- Secondly efficiency is always equated as cost reduction – producing at a lower financial cost because finance is the scarce resource
- Thirdly cost reduction is sustainable – so business migrates around te world in search of ever lower costs of production – cheap labour and cheap raw materials
- And finally substitution is always possible – labour by technology, one source of energy by another. Etc.
- These are all incorrect.

The other main problem with the traditional economic view of corporate activity is the assumption that stakeholders are a part of the factors of production – to be used to provide the surplus which is distributed to the owners and investors of the corporation.

So employees and suppliers are merely a part of the production process; the effects of corporate activity can be externalised to society at large with impunity; the environment is a free resource to be used for financial gain. And the future – also a key stakeholder – can be neglected.

But it is still possible to talk about sustainable corporate activity!

Let us return to the transformational process and redefine the terms. When we say Capital then what we really mean is natural resources. Labour means people. While finance is unchanged.

We accept that value is created through corporate activity but a crucial part of this is the distribution of the effects – positive and negative – to all stakeholders. Including society, the environment and the future. Our argument is that this does not actually lead to corporate sustainability without a consideration of the distributional impact of the corporate activity. Thus in our model none of the stakeholders are merely factors of production but are also affected by – and hence concerned with the results of corporate activity, as described through the transformational process.

A reconsideration of sustainability shows that when resources are limited then the way to manage sustainable development is through the more efficient use of those resources. Thus all corporations are practicing cost management and efficient operational management as a matter of course but also as a means of achieving sustainability.

Conventionally corporations grow by consuming more resources but redefining the problem shows us that natural resources are finite and are being fully committed at present – if not actually being over committed. So growth through the use of more natural resources is not possible. These are the scarce resource – not finance.

Consequently efficiency must be redefined away from financial efficiency and applied to the use of natural resources. Growth requires us to do more with less. So innovation, technology and R&D become more important. So we must redefine the transformational process to provide a more realistic description of the input resources used – and the potential for substitution and to highlight that growth must come through technological improvement rather than through the use of more resources,

Moreover in our model none of the stakeholders are merely factors of production but are also affected by – and hence concerned with the results of corporate activity, as described through the transformational process.

We deliberately use the term **distributable sustainability i**n order to reflect one of the key components of this argument. This is that true sustainability depends not just upon how actions affect choices in the future but also upon how the effects of those actions – both positive and negative – are distributed among the stakeholders involved. A central tenet of our argument is that corporate activity, to be sustainable, must not simply utilise resources to give benefit to owners but must recognise all effects upon all stakeholders and distribute these in a manner which is acceptable to all of these – both in the present and in the future. This is in effect a radical reinterpretation of corporate activity.

It is necessary to consider the operationalisation of this view of sustainability. Our argument has been that sustainability must involve greater efficiency in the use of resources and greater equity in the distribution of the effects of corporate activity. To be operationalised then of course the effects must be measurable and the combination must of course be manageable.

This can be depicted as a model of sustainability. This acts as a form of balanced scorecard to provide a form of evaluation for the operation of sustainability within an organisation. It concentrates upon the 4 key aspects, namely:

- Strategy
- Finance
- Distribution

- Technological development

Moreover it recognises that it is the balance between these factors which is the most significant aspect of sustainability. From this a plan of action is possible for an organisation which will recognise priorities and provide a basis for performance evaluation.

To summarise, sustainability requires a radical rethink and a move aware from the cosy security of the Brundtland definition. We therefore reject the accepted terms of sustainability and sustainable development, preferring instead to use the term durability to emphasise the change in focus.

We therefore also argue for a rejection of the concept of the Triple Bottom Line as insufficiently refined for practical use. Instead we introduce Square Theory as an appropriate vehicle for corporate strategic planning and for durable development.

This theory addresses all the aspects of corporate activity which are necessary for durability – and recognises their essentially symbiotic nature. So we can consider the transformational process in terms of technological development. Equally innovation is what leads to value added, and at the same time the two must be combined for sustainable growth to take place. This must be set in the context of the whole system which enables the regulation of activity and the distribution of effects. And we need also to consider its governance – and for us governance is about ensuring equity rather than merely managing processes. It recognises the need to take account of both the internal and the external – on an equal basis rather than through the privileging of corporate activity. It recognises the essential need to combine both the operational and the strategic levels of corporate activity, without either being more important.

The two key components of durability – or durable sustainability – therefore are efficiency and equity. But efficiency needs to be redefined to prioritise the efficient use of environmental resources rather than the efficient use of financial resources. And equity requires as a minimum the satisficing of all stakeholders, and not merely the provision of returns to owners and investors. These are the prerequisites for sustainable development.

Recycling is of course an integral part of the discourse of sustainability as far as environmental issues are concerned. The concept of recycling applies equally to corporate sustainability in terms of the recycling relationship with each stakeholder. By this we mean that a sustainable corporation needs to invest in all of its stakeholders in order to maintain and improve relationships between the company and its stakeholders but that the investment in stakeholder relations is returned to the company through being recycled. So a stakeholder who is well treated both receives benefit from the company and returns benefit to that company. For example employees will work better when they receive better conditions; similarly suppliers will reciprocate the receipt of good conditions while customers will pay a premium for quality. This can be considered to be renewable performance.

Biographies

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Their joint research is concerned with sustainability, sustainable development and wirh governance issues, and has to date led to 4 books and around 50 articles. They also edit Social Responsibility Journal (www.emeraldinsight.com/info/journals/srj/srj.jsp) and chair the Social Responsibility Research Network (www.socialresponsibility.biz).