



Principles for profit:

how good principles bring long-term profit **Corporations can contribute to a sustainable and just society and be accountable to their stakeholders; they can embody principles for profit**

Friends of the Earth inspires solutions to environmental problems which make life better for people

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- a unique network of campaigning local groups, working in over 200 communities throughout England, Wales and Northern Ireland**
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The challenge

Corporations affect most aspects of our daily lives, from what we eat - through supermarkets, to how our economy is run - through the World Trade Organisation (WTO). Corporate power is shaping the planet our children will inherit. This is a huge responsibility, but also a moment of real opportunity. Friends of the Earth can work with corporations to halt the current tide of unsustainability, create a fair and just society, claw back some of our most precious resources and stem climate change. This is what the public wants. And companies don't have to be unprofitable to make a change for the better.

Friends of the Earth believes corporations needs to put principles first to ensure long-term profits. They need to focus on:

eco-innovation
social accountability
political responsibility

Corporations can contribute to a sustainable and just society and be accountable to their stakeholders; they can embody principles for profit.

The problem

The pursuit of short-term profits is a fundamental obstacle to the achievement of sustainable development. In our global marketplace, the poor are getting poorer and resources are being depleted in an unsustainable way.

Limits on resources use are necessary to sustain a healthy environment. Threats to sustainability include climate change (despite improvements in energy efficiency we still burn too much fossil fuel), the increasing scarcity of water, the loss and fragmentation of biodiversity (deforestation continues apace in the tropics), and the build up of toxic pollutants in the environment. These threats are likely to get more severe as powerful pro-market institutions such as the WTO push for increased global trade and consumption; rejecting calls to assess the environmental and social impacts of such trade.

Global wealth and economic growth rose spectacularly in the last century but inequality and environmental degradation also increased. Since 1980, the world's poorest countries have seen their share of world trade plummet by 40 per cent to less than 0.5 per cent, while company profits soared. More than a billion people live on less than \$1 a day. And despite recent international debt relief, developing countries still paid £158 billion in debt repayments in 2000 to their developed neighbours.

Of the 4.4 billion people living in developing countries two-thirds have no basic sewage, one-third has no access to clean water, one-quarter inadequate housing and one-fifth leave school before they are 10 years old.

How we got here

Unrealistic economic models

Current economic models are based on absurd concepts of perfection in terms of information flow and allocation of resources. The 2001 Nobel prize for economics went to three US economists who showed that market systems are in fact fed imperfect information. They were convinced that Governments

need to play a stronger role in the market to prevent damage from imperfect information, and to enable resources to be allocated efficiently.

Market madness

The stock market used to be the primary source for raising capital for companies. But now only five per cent of international transactions on the stock market are trade related. This means 95 per cent concern currency speculation. Currency speculation and unnecessary futures trading (such as derivatives) can destabilise national economies - they were identified as a major reason the 1997 currency crashes in Thailand, Malaysia, the Philippines and Indonesia were so severe.

Failure of shareholder value

Investment managers are required to maximise shareholder value for their members, which in general is taken as maximising financial returns of the company invested in. But shareholder value is a poor indicator of a sustainable company as it only measures what is bought and sold on the market and nothing else. Those values seen as most important to society - such as the need for community, trust, fairness, a clean environment and so on - are marginalised by companies and investors. The result is a global economy that breaches environmental limits and increases inequality.

Investors capitalism

Short-term assessments of the financial worth of a company (such as quarterly reports) can have a devastating and destabilising impact on a company's share price. This problem has been made worse by the rise of investor capitalism: fund managers now control significant shares and demand quicker and higher returns on their clients' investments. This in turn forces companies to focus on short-term profit rather than improving its environmental and social performance.

Power without principles

Corporations are now far more influential than possibly at any time in history. More than half of the top 100 world economies today are transnational corporations in Europe, the US and Japan. Huge corporate economies bring with them huge power. In 1999, the sales of the UK's biggest company, BP Amoco, were bigger than the gross income of most of the countries it operates in, including the resource-rich developing economies of the Philippines, Malaysia, Chile and Pakistan. In the same year, the sales of one of the world's largest companies, US-based General Motors, placed it within the top 25 world economies.

Corporations can use their power to maintain, or strengthen, the status quo of short-term gains. This makes them, often unwittingly, complaint in the unsustainable development path we are on - pushing the vicious cycle of polarising wealth and poverty. Companies can exert influence on public policy in many ways: by direct contributions to political parties; by sponsoring research; by establishing programmes at universities; by hiring former civil servants to lobby their former departments; and through membership of scientific and other advisory committees, such as the Global Climate Coalition which lobbied against the Kyoto Protocol.

In July 1998, for example, Friends of the Earth revealed that half the members of the Government's advisory panel on genetic food had close links to biotech industry. And Lord Sainsbury still sits on the Government's GM policy committee even though he has commercial interests in GM.

The public demands

Two out of three people believe companies should do more than make a profit; that they should contribute to broader societal goals, such as good labour practices, business ethics, environmental impacts and a responsibility to society at large.

The Millennium Poll on Corporate Social Responsibility

The Millennium Poll on Corporate Social Responsibility surveyed 25,000 citizens in 23 countries across six continents. Citizens in 20 out of 23 countries thought companies should do more than just make a profit. In the UK, only 17 per cent thought a company's main role was to make a profit while more than double (39 per cent) thought companies should set higher standards and help build a better society.

The need to shift corporate thinking is not just a moral one: consumers are increasingly demanding an ethical approach to investment and sustainability. It is estimated that in the UK we spend more than £8 billion a year on ethical products or services: ethical funds (£3.3 billion), ethical banking (£3.5 billion) and non financial products and services such as organic food and bleach-free household goods (£1.38 billion). Most people believe they have influence as a consumer, but don't have enough information to make an informed choice and use this influence (*see Who are the ethical consumers?* in Further reading).

One area that will become increasingly important in terms of influencing corporate behaviour is rising support for socially responsible investment. Surveys have shown that around three-quarters of UK pension fund holders want their funds to be used to encourage socially responsible behaviour by companies. With around one-third of the UK stock market owned by pension funds, this can translate into significant pressure on companies to be accountable for their behaviour.

It is clear that business need not be part of the problem - but more than that, their customers would like them to lead the way in the solution. Profit with principles is possible and practical (as well as desirable). And those corporations who don't do something may well lose their customers altogether.

Even if corporations can be blamed to some extent for the current model of unsustainable development, this does not mean they have no role to play in building the new sustainable model. They have a crucial one. In fact, if businesses want to survive, they must embrace this role and transform themselves.

There is a need for political change. Progressive business leaders need to find new allies to help them deliver what their customers want - a sustainable long-term future. They need new strategies to create the right policy environment for sustainable business. They need to work with organisations such as Friends of the Earth and use their power to encourage the Government too to put principles first, for long-term profit.

Where now?

20th century corporations =
Profit driven...
Best Practice...

21st century corporations =
Socially responsible...
Eco-innovation...

Shareholder focus...

Financial reports...

Corporate spin...

Stakeholder focus...

Sustainability reporting...

Political responsibility...

A sustainable economy

A sustainable economy is the transformation of our current, market-driven economy to one that is sustainable but also competitive. A modern sustainable economy will create wealth and employment, and supply the goods and services to meet our needs within environmental limits. The Government is the cornerstone of this economy - it makes the laws that all of society lives by - and companies need to make it clear they expect these laws to lead to a sustainable future.

The policy framework

Corporations need to help the Government determine a new role for business through taxation and regulation. Corporations should use their influence and power responsibly.

To shift ethical or socially responsible goods and services from their niche market and help the UK move towards a sustainable economy, the Government needs to remove taxation from social 'goods' (such as labour) and add it to environmental 'bads' (such as pollution). This will help ensure the environmental and social costs of goods and services are reflected in their price.

The idea of a tax on currency speculation has been put forward by international non government organisations (NGOs) - such as War on Want and Friends of the Earth. This "Tobin Tax", which is supported by nearly 300 economists (*see War on Want research in Further reading*), would dampen excessive currency valuations and could provide up to £250 billion for international development.

Beyond social responsibility to accountability

Corporate social responsibility has been described in a European Union Green Paper as a concept where companies voluntarily act to commit to a better society and cleaner environment. Friends of the Earth applauds those companies that recognise their broader social responsibilities and act on them. But voluntary initiatives by a few companies will not address general bad corporate behaviour or environmentally damaging business practices. There needs to be legislation so all companies are accountable for their environmental and social impacts.

In summer 2000, the OECD catalogued more than 230 codes of conduct, ranging in scale from single-company codes to the Global Compact between the UN and some leading multinationals, covering everything from baby-milk to bath water.

But voluntary codes hold no legal weight. Most have little if any independent verification or rights for stakeholders to challenge claims made by companies. As a result many codes of conduct's primary function is to protect the company's reputation and brand value. The Millennium Poll shows the public are sick of such spin - they want companies to truly embody the values they feel are important.

Governments should enable companies to be more transparent and accountable to society.

Stakeholders, including workers, local communities, customers and NGOs, must be given the right to challenge companies and bring them to account. Indeed some argue that companies should have to

earn the ‘licence to operate’ in the community and those that fall below certain standards should have their licence removed.

One approach suggested is that of a ‘**stakeholder council**’ with representatives of each stakeholder group who would act in a supervisory role to the board. The council, as shareholders formally used to do, would have a say in the appointment and pay of directors as well as key policy issues. Essentially the council would ensure the company actually reflected the views of all their stakeholders as well as act as an early warning system for future company policies and projects.

A socially responsible company

In the old company model, leaders were valued for increasing company profits. In the socially responsible model a new type of leadership is required: one that places environmental sustainability and social justice at the heart of its business, and that recognises companies have a positive role to play in shaping our world but that their voice is only one of many.

With the right leadership, companies can play a public role in lobbying governments to introduce policies and legislation that support a sustainable economy and reflect progressive community values. Through their day-to-day operations as well as their influence on the media, government and scientific community, businesses can create opportunities for a fair, just and sustainable society. They need to focus on three key areas:

eco-innovation
social accountability
political responsibility

Eco-innovation: delivering the 10-fold (or more) improvements in eco-efficiency that are necessary to bring resource consumption within environmental limits, while tackling inequity, and doing so without adopting excessively risky technologies such as nuclear power or genetic engineering. This means companies will need to seek radical rather than incremental innovations. Many will need to reinvent themselves as something entirely different. Oil companies, for example, will have to think about diversifying in a world where most of the fossil fuel reserves we know about must be left in the ground to prevent unstable climate change.

Example - Vestas which is the world’s leading manufacturer of wind turbines, benefits from Denmark’s long-held commitment to renewable energy. Internally, Vestas’ environmental management system has been certified to international standards, and is working on certification to the BSI Occupational Health and Safety standard. In terms of its own energy needs, 74 per cent of the electricity Vestas purchases is now from ‘green energy’ sources. The company is at the cutting edge of technological innovation to ensure we have renewable energy sources, including links between wind power and fuel cells. Vestas provided the turbines for the UK’s first offshore wind farm at Blyth.

Social accountability: becoming responsive and responsible to all the different company stakeholders in society - consumers, employees, communities and investors - in all their various needs, thus relegating shareholders to just one interest among many, and one whose interests are deepened beyond the merely financial. This will require new approaches to corporate governance and

transparency that will address these various demands and secure the 'public licence to operate' on which, in the long-term, companies depend. For example, meeting the needs of local communities will be a real challenge to mineral-extraction companies used to buying out (or simply evicting) opposition.

Example - The Co-operative Bank which offers ethical banking products and services to their customers, reports on the social impacts of its operations and regularly surveys stakeholders for their views on controversial and emerging issues. The Co-operative Bank has an ethical policy which has been developed following extensive consultation with its customers, with regard to how their money should and should not be invested. The ethical policy covers areas including human rights, the arms trade, animal welfare, fair trade, ecological impacts and money laundering. The Bank regularly re-appraises customers' views on these and other issues.

Political responsibility: using political influence in the collective interest of stakeholders and the public, and doing so openly - in particular by promoting a level playing field of regulation, nationally and internationally, rather than promoting liberalisation at all costs. This means that companies will support, rather than oppose, international environmental agreements and advocate environmental tax reform and smart regulation. For example, many companies now support the Kyoto Protocol as it will reduce the impacts of climate change while giving businesses certainty over their investments.

Example - There are very few companies who are open about their political lobbying as The Body Shop is, particularly around social and environmental issues. It has publicly supported campaigns to improve its own industry (such as banning animal testing from its own products). It has also supported campaigns for the environment (such as the Stop Esso campaign to encourage Exxon to take action on climate change) and for social justice (such as working for the Ogoni people in Nigeria, the 1998 global campaign with Amnesty International on human rights, and the launch of The Body Shop Human Rights Award in 2000).

Conclusion

Our global population is soaring towards 10 billion and yet three quarters of us still live in disadvantaged communities. Disputes over access to fresh water, our most precious resource, are increasing as it becomes more scarce. Major environmental challenges such as climate change could substantially alter Earth, from what we can grow to where we can live.

In such a climate, companies cannot afford to reinforce the status quo. They need to look beyond the today to the tomorrow. If they don't, first their customers will desert them and finally there will be no more resources left to exploit.

These challenges will require companies to play a new, and difficult role; one that reflects progressive society values and sustainability. Companies that recognise their stakeholders as key to their survival can work with the Government and organisations, such as Friends of the Earth to build a sustainable future. Call Friends of the Earth on 020 7490 1555 to discuss principles for profit.

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