Focusing businesses on doing good

A synthesis of literature and identification of interventions to focus business on environmental and human well-being

Introduction and summary of interventions

In this topic of the Big Ideas Project we seek to identify what changes could lead to the ecosystem of businesses being dominated by those which are focussed on delivery of human and environmental well-being. By businesses we mean organisations, generally for profit and legally incorporated, that bring together human and other resources to produce products or provide services. When we refer to businesses we include businesses big and small, but when we refer to corporations or TNCs we are referring to very big businesses only.

We recognise that there are other important (and undervalued) providers of products or services, for example the unpaid and informal economy, but do not consider them in detail in this topic.

We particularly look through the lens of the role of businesses because it is, by and large, business activity that accounts for most traditionally recognised economic activity. And we suggest business has had a significant role in co-creating the economic systems within which we operate. Much of the focus is also on big business, by which we mean businesses with significant market share which operate across territories, because of their dominating role in markets and the influence they have on smaller businesses as well as politics and policy (even though smaller business are by far the bigger number and account for the majority of economic activity).

The recommendations we arrive at, if implemented, would lead to greater business diversity in nature and scale and are, we believe, pro-enterprise, pro-competition and pro-innovation. We suggest that they would significantly change, and possibly even transform, the dominant capitalist system we currently operate in. We resist the temptation to give the changed system a new label!

The literature we reviewed in order to arrive at our recommendations was identified by soliciting recommended reading from a number of experts in the field. This was added to through an on-line literature search of both academic and non-academic literature.

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a The focus is primarily on public limited companies (shareholder owned enterprises) but our scope includes all for-profit enterprises, mutuals and cooperatives, sole traders and large privately-held businesses, limited liability and other partnerships, and even state-owned enterprises and quangos.

b Ecosystems services, which provide trillions of dollars worth of services are not captured in traditional measurements of economic activity, and nor is the contribution of unpaid work (e.g. care work often carried out by women).
The structure of the synthesis is as follows:

- Section one – context (p 3-12)
- Section two – big business (p 13 – 29)
- Section three – SMEs (p 30- 32)
- Section four – different business models: cooperatives & social enterprises (p 33 – 35)
- Section five – disruption (p 35 - 37)
- Section six – discussion, conclusions and recommendations (p 38 - 45)

We conclude the report by suggesting one Big Idea and two enabling interventions. We welcome feedback on these. In coming months we will seek to develop our thinking on these through collaboratively developing ‘think-pieces’ with others.

Our big Idea is:

A transformational agenda for the growth of purpose-driven businesses, particularly cooperatives, social enterprises, and sharing businesses, but also other purpose-driven businesses such as B-corporations (and within these particularly SMEs).

And the enabling interventions are:

To break-up national, regional and global oligopolies. These oligopolies not only wield excessive power in the market-place - hindering and preventing a greater diversity of businesses – but the literature suggests they wield excessive influence on policy and politics. Anti-trust legislation exists in many jurisdictions but regulators have been remarkably complacent.

The evolution of global regulation for TNCs. Such regulation should ensure that TNCs adhere to high social and environmental standards, they report on their impacts globally, that they pay their taxes, that they can be held to account for transgressions (including directly by victims and in jurisdictions other than where harm was caused), and that their lobbying is reduced and fully transparent.

We welcome feedback on these and the reports contents. Please send any comments to Mike Childs at mikechilds@foe.co.uk
Context

In this section we briefly outline the environmental and social challenges we face as a society, put this in context with a brief review of economic systems, provide data on the business context, particularly on the increased concentration of market domination through the emergence of oligopolies, and we briefly outline the current (weak) economic drivers for sustainability. This section aim to provide the backdrop to the rest of the paper in which we concentrate on how to foster business activity on long-term sustainability.

1.1. Environmental and social context

Research suggests that a number of planetary environmental boundaries are being crossed due to human activities\(^\text{1}\). The Intergovernmental Panel on Climate Change has identified serious environmental and social impacts from current and future global warming\(^\text{2}\), and that emissions from fossil fuel use needs to reduce by at least two-thirds by 2050 if dangerous\(^\text{3}\) climate change is to be averted\(^\text{3}\).

Although the proportion of people living in extreme poverty (less than $1.25 a day) is said to have fallen from 47 per cent in 1990 to 22 per cent in 2010 – a statistic that has been criticised for statistical sleight of hand\(^\text{4}\) - around one in eight people in the world remain chronically undernourished. Nearly one in six children under age five is underweight and one in four is stunted as a result.

Income inequality continues to increase in most OECD countries\(^\text{5}\), although levels of inequality are greater in most emerging economies. For example, in Germany, Denmark and Sweden the income gap between rich and poor\(^\text{d}\) is 6 to 1, it is 10 to 1 in Italy, Japan, South Korea and the UK, 14 to 1 in Turkey and the United States and 25 to 1 in Mexico and Chile, and greater still in most emerging economies\(^\text{6}\). Thomas Piketty’s recent book has ignited the debate on inequalities through his analysis of wealth. He suggests that without significant interventions, for example in the form of a wealth tax, wealth inequalities will continue to widen as a result of the tendency of returns on capital exceeding economic growth\(^\text{7}\). In other words those with higher levels of wealth will continue to get richer faster than those with limited wealth. Christine Lagarde, Managing Director of the IMF, pointed out that “the 85 richest people in the world, who could fit into a single London double-decker, control as much wealth as the poorest half of the global population – that is 3.5 billion people.\(^\text{8}\)”

The idea that we cannot continue as we are doing should not be controversial. Indeed even at the heart of the UK establishment there is recognition that the situation is no longer tenable. For example, in a speech on Inclusive Capitalism this year the Governor of the Bank of England Mark Carney stated\(^\text{9}\):

*“Societies aspire to [the] trinity of distributive justice, social equity and intergenerational equity for at least three reasons. First, there is growing evidence that relative equality is good for growth. At a minimum, few would disagree that a society that provides opportunity

\(^\text{1}\) The identification of “dangerous” climate change is a political and societal judgement based on what losses are seen to be acceptable and level of risk is acceptable. The level of 2 degrees warming is generally stated to be the threshold, although many scientists, developing countries and civil society groups argue that 1.5 degrees of warming from pre-industrial levels is a better threshold.

\(^\text{2}\) as measured by average income of the richest 10 per cent compared to average income of the poorest 10 per cent
to all of its citizens is more likely to thrive than one which favours an elite, however defined. Second, research suggests that inequality is one of the most important determinants of relative happiness and that a sense of community – itself a form of inclusion – is a critical determinant of well-being. Third, they appeal to a fundamental sense of justice. Who behind a Rawlsian veil of ignorance – not knowing their future talents and circumstances – wouldn’t want to maximise the welfare of the least well off?....There is also disturbing evidence that equality of opportunity has fallen, with the potential to reinforce cultural and economic divides. For example, social mobility has declined in the US undercutting the sense of fairness at the heart of American society. Intergenerational equity is similarly strained across the advanced world. Social welfare systems designed and enjoyed by previous generations may prove, absent reform, unaffordable for future ones. And environmental degradation remains unaddressed, a tragic embarrassment now seldom mentioned in either polite society or at the G20." (p2)

Carney’s remarks were a response to the Inclusive Capitalism initiative of the Henry Jackson Society10 which emphasises education for employment, better support for start-ups and SMEs, and long-term corporate management and governance. This has been trenchantly criticised as placing too great a focus on enhancing the potential for upward mobility in an unequal society as a means to reduce social discontent11, and too little focus on improving the conditions of the disadvantaged, or reducing the gap between rich and poor. In other words it can be perceived as motivated to preserve capitalism, rather than transforming it.

Nor was Carney attacking the capitalist system per se but, within the context of the conference he was speaking at, he was in effect calling for a significant reform of capitalism so that it can deliver greater equality, social mobility, intergenerational equality and environmental sustainability. Likewise Piketty does not condemn capitalism per se but instead calls for its significant reform because of its inbuilt tendency to create inequality. Some would argue that reshaping economies to deliver great equity, social mobility and environmental sustainability would result in a transformed system that could no longer be called capitalism. We discuss this briefly in the next sub-section, noting however, that in this work Friends of the Earth is less interested in labels than in outcomes.

1.2. Economic systems

It may appear (from a Western European or US perspective) that in recent decades market capitalism has become hegemonic, indeed even in the broadly neo-liberal forms supported by both left and right wing parties in the US and many European countries.

However, this perception is misleading in several respects. First it rather ignores the diversity of models of capitalism active in the modern world, none of which are pure free-market capitalism, but rather hybrid systems in which both state- and community-based organisations play important roles to different degrees. Second it overlooks continuing interest in serious proposals for alternative ‘non’ or ‘post-capitalist’ systems, not all of which maintain the tradition of Marxist challenges to capitalism. Thirdly, it overlooks the growing area of critiques rooted in an environmental perspective, but increasingly expanding their scope to challenge potentially fundamental or critical aspects of modern capitalist systems. This section briefly explores challenges to the dominant economic model based in these three areas, arguing however that none of them offer a plausible, simple and direct option for transformative system change.
Actually existing models of market capitalism are remarkably diverse: the differences between Anglo-Saxon neo-liberal capitalism, European social-democracy, Chinese state capitalism and economic managerialism in Latin American countries such as Bolivia are far greater than the differences between existing Anglo-Saxon systems and the proposals of reformists such as Mark Carney for ‘inclusive’ or ‘responsible’ capitalism. Ha-Joon Chang\textsuperscript{12} highlights how many of these differences rest in ideological claims about the functioning of capitalism which are used to justify policies which sustain the interests of existing elites and wealthy states. For example Chang reveals the inefficacy of ‘free-market’/neo-liberal policies for poor country development compared with state intervention and strong industrial policy. He also debunks claims that poor countries suffer a deficit of entrepreneurialism, rather a lack of the necessary infrastructures and supportive state investments that can facilitate what he describes as ‘collective’ entrepreneurship. Chang – like Piketty subsequently - also highlights the damaging economic effects of inequality of real opportunity caused by inherited (dis)advantage. We highlight these to emphasise the scope for interventions in the current system (and to suggest the possibility that interventions and reforms could be carefully selected to also support cultural change which facilitates the development of purpose-led business models).

Recent research highlights how different languages shape corporate cultures\textsuperscript{13} in particular in terms of their long-term consideration of the future. This presumably also contributes to the international variation in models of capitalism. However, it also suggests that norms and culture may be more powerful tools for transformation than typically recognised.

The diversity of forms of capitalism also highlights issues of global economic coordination. Institutions such as the World Bank, WTO and IMF act as agents for global convergence of economic systems. Their influence is undeniable, enforced through tools such as structural adjustment and investor-state dispute settlement mechanisms, but the surviving diversity suggests that such pressures are not irresistible. On the other hand, this suggests that moderating those pressures for global convergence would create more opportunities for experimentation with economic and business models.

Joseph Stiglitz has argued that far reaching reforms are necessary to ‘make globalization work’\textsuperscript{14} including a set of trade system reforms that focus trade on supporting human development through preferential treatment for developing countries, increased freedom of migration, and reform of non-tariff and technical barriers to trade. He also argues for intellectual property system reforms, targeted debt relief, reformed sovereign bankruptcy procedures and radical reforms of the global reserve system to replace the current de facto dollar reserve system. We hope to explore these topics in more depth in future Big Ideas papers on innovation and finance respectively, but note here that such reforms would inevitably shift the global balance between different forms and cultures of capitalism.

Stiglitz also proposes measures to mitigate the negative impacts of multi-national corporations and enhance their potential benefits, including regulations to reinforce corporate social responsibility, global regulation of cartels and monopolies, measures to reduce the scope for corruption, and reforms to corporate governance to align corporate incentives with the public interest, such as stakeholder accountability and access to justice for harms in the home country courts of multinationals. Stiglitz argues that “eventually we should be working toward the creation of international legal frameworks and international courts” (p207)
Wright explores the prospect for transformative change delivering social empowerment in modern capitalist economies. Amongst other possibilities he examines two models of comprehensive system alternatives: Michel Albert’s participatory economics (‘Parecon’) and John Roemer’s market socialism. Parecon would eliminate both private ownership and market relations, utilising modern technology to facilitate participatory planning of economic activities based in social ownership of all resources and productive capacity. Market socialism on the other hand simply seeks to eliminate private ownership of the means of production by replacing conventional equity shares in companies with a coupon based system in which all citizens are issued with an equal allocation of coupons which can only be invested in company shares (which in turn cannot be purchased in any other way).

Wright concludes that even if systems like Parecon or market socialism were viable long-term alternatives to market capitalism, the combination of redistributive impacts and the material transition costs make it almost inconceivable that such ‘ruptural’ transformations could be delivered and sustained in a democratic system. Such proposals have typically been inspired by social critiques of capitalism, and intended to deliver social empowerment.

In recent years, social critiques of capitalist economic models have been joined by a growing range of environmental critiques which typically argue that continued economic growth is incompatible with protection of critical environmental and ecological systems. Early versions of this critique focused primarily on depletion of physical resources used in the economy: more recent ones place much greater emphasis on damage to critical earth systems (and to the productivity of renewable resources) by by-products of economic activity, most notably greenhouse gases.

Here we neither endorse nor reject the claim that economic growth cannot continue indefinitely without causing dangerous climate change. We note that there are credible analyses to support such a claim (e.g. Jackson suggests that avoiding dangerous climate change requires a reduction of the carbon intensity of economic growth 130-fold by 2050) as well as evidence to suggest that particular ways of tackling climate change could lead to additional economic growth (e.g. New Climate Economy). We note however that the latter does not actively seek to deliver the degree of global equity embodied in Jackson’s calculations. For our purposes here it is worth noting that changes in business activity suggested by New Climate Economy (for example) would be (theoretically) driven by a high carbon price, and both winning agreement to such policy and implementing it would appear easier in an economy with more purpose-led businesses reflecting the public interest.

Some environmentalist critiques echo Marxist approaches to capitalism that predict its collapse as a result of inherent contradictions. Paul Gilding argues that commodity price spikes and financial crises are early warnings of collapse driven by resource scarcity and environmental damage. On the other hand OECD forecasts reviewed by Mason suggest that these factors may exacerbate global inequality and slow economic growth, but without disrupting the whole system.

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* In this respect it echoes abortive attempts in Sweden to use a share-levy system to transfer the overall ownership of corporations into the hands of workers (imposing corporation tax in the form of an annual share-levy, such shares being transferred to a ‘wage-earner’ funds at regional and workplace levels, gradually increasing the overall share of the company in the hands of such funds) (Wright, 2010). However this approach was much less ‘ruptural’ in nature, attempting a gradual transition. However the proposed share-levy funds in Sweden were first emasculated by business opposition, and then abandoned by a subsequent right of centre government.
In addition, environmental critiques of capitalism have spawned or supported a number of proposals for reform that merit at least brief consideration. These include proposals for changing the leading indicators of progress such as GDP, recently endorsed by the high-powered Sarkozy commission report, for shorter working weeks and/or unconditional citizens’ incomes as a means of breaking the consumer rat-race; for valuing ecosystem services and natural capital in economic systems; and for debt relief, and constraints on the creation of new debt at individual and national levels. The critique of indicators such as GDP emphasises the apparently growing divergence of economic growth from other measures of wellbeing or human progress, particularly in wealthy countries. It is argued that negative impacts of environmental degradation and social inequality, for example, on wellbeing are not registered in measures of economic growth. It is also suggested that economic indicators carry great weight with politicians and decision makers, and argued that replacing them with adjusted or alternative indicators would reshape policy, reducing the focus on growth and thus also reduce the negative side-effects of the pursuit of growth. However, as our examination of business models makes clear, there are other drivers for economic growth, and alternative indicators could be expected to have only limited (although valuable) impacts.

The indicators critique also highlights how economic measures are misleading as they exclude informal work (especially household and subsistence work, which is carried out mainly by women, and/or people of colour). This also implies that the full value of certain business models, particularly communal or peer-to-peer sharing approaches is also overlooked. Indicator reform may therefore also assist with the recognition and promotion of new business models.

There is convincing evidence that neo-liberal capitalism as promoted by US/UK and key international institutions cannot deliver the goals of justice and sustainability that the Big Ideas project aspires to realise. Whether it requires merely reform, or transformation, remains an open question. But there are also few if any plausible proposals for alternative systems. The most significant shifts in economic systems appear to have arisen not through revolution or reform, but through what Wright calls ‘symbiotic’ transformation. He illustrates this with the example of social democratic models of so-called Nordic capitalism. Here the greater inclusion of women in the workforce (for example) delivered benefits to the capitalist system, but also helped enhance gender equality, and empowered women to collectively act for relevant political goals. Approaches such as indicator reform and support for sharing economy business models could be similarly symbiotic with the interests of certain groups within the capitalist system.

This should not be taken as a position ‘for’ capitalism, rather a recognition that different economic models have pros and cons which are not just economic but also social, environmental and political. In the real world the political dimension is often the overriding one here: neo-liberals will go to the wall on markets not because they think the economic benefits are so huge, but because they see them as a fundamental expression of freedom; and opponents of marketization in Latin American countries resist not so much because of the environmental or distributional disbenefits, but because they see capitalist markets as constraining existing freedoms in unacceptable ways. Advocates of these positions will not suddenly agree when this is pointed out, but it does suggest wider spaces for the evolution of economic models.

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\(^1\) See, for example, Positive Money: http://www.positivemoney.org/our-proposals/
and transformation of economic systems than a purely economic perspective might identify. For example, the possibility that non-capitalist economic models might better protect important freedoms can be reasonably explored.

More importantly, this conclusion suggests that we should seek interventions which change the practices of economic and business organisations in ways that both reduce the negative effects of neo-liberal capitalism and change organisational cultures and norms in ways that support purpose-led business models.

1.3. Business context

In considering how to address the problems outlined above it is necessary to consider the current business context.

In this we particularly focus on transnational corporations\(^9\) as the 'big beasts' in the business world whose power has increased considerably over recent decades. However we do this in full awareness that SMEs are a very considerable part of national economies; for example in the EU 99 per cent of businesses are SMEs and account for two-thirds of private sector employment and produce more than half of GDP\(^{26}\). However, the economic and political influence of these TNCs (including their influence on SMEs) thrusts them to the centre-stage when seeking solutions.

There are tens of thousands of TNCs. It has been estimated that TNCs account for a quarter of global GDP\(^{27}\) (recognising that GDP is but one of the measures of societal contribution, and a poor one at that). The vast majority of these are companies traded on stock exchanges, although around 650 are state-owned (including some of the biggest), and some are privately-owned (e.g. Cargill, Koch Industries).

The composition of the largest TNCs has changed over time, with fifty of the 500 top companies now brand retailers compared to none twenty years ago. One-third of global gross domestic product (GDP) and 70% of all employment and economic activity in developed countries is now said to be tied to retail\(^{28}\). That said, the biggest companies remain financial. The 2014 Forbes list of the top 2000 companies names the top 3 as Chinese, with the USA and China sharing the top 10 between them. Asia (674) has more of the top 2000 companies than the USA (629) and Europe (506) whereas a decade ago the USA had over half of the total\(^{29}\).

It has been suggested that there is considerable cross-ownership of TNCs, with significant concentration of ownership. Academics Vitali et al\(^30\) suggest 737 TNCs hold 80 per cent of the value of all TNCs and as few as nearly 147 TNCs have forty per cent control of the entire TNC holdings. These 147 also have almost full shared ownership of themselves. They call these deeply interconnected corporations 'super-entities' in the global network of corporations. Of these, they observe, three-quarters are financial entities (banks, insurance companies, etc.).

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\(^{8}\) In this report we use the term TNCs as a catch all for transnational corporations and multinational companies, although we recognise that there are difference between the terms with transnational corporations run as an international organisations whereas multinationals are generally country based with subsidiaries in other countries.
Another example of super-entity – and as we see below there are potentially many - can be observed when it comes to fossil fuels, with 63% of cumulative worldwide emissions of industrial CO₂ and methane between 1751 and 2010 attributed to just 90 entities (50 leading investor-owned, 31 state-owned, and 9 nation-state producers).31

1.4. Oligopolies

The emergence of super-entities is mirrored by the rise of global oligopolies (a large proportion of market share in the hands of a small number of companies) with the resulting market and political influence this implies.

Globally, and in many global regions and nations, oligopolies exist in very many sectors. Academics Collis and Carr’s analysis of 50 industries reveals extremely high global concentration ratios where the four biggest companies control 40% or more of trade. They state that economists find that by the time the four largest players in an industry achieve a combined market share approaching 40% oligopolistic collusion emerges. The sectors identified by Collins and Carr include music, beer, soft drinks, aircraft, PCs and more. Others have identified the existence of oligopolies in the seed market and pesticides.32 The American Antitrust Institute has suggested that an oligopoly of fertiliser producers have likely acted in a coordinated fashion to raise prices, to the detriment of competitors and consumers.33 And the oligopoly position of retailers in many countries is also well documented - for example in Europe 5-firm concentration levels had risen by the mid 2000s to an average of more than 50% across the EU-15 and to an average 3-firm level of more than 40%, although the authors suggest this is likely to be an underestimate. A global big-4 oligopoly is also seen in auditing and accounting, with these companies dominating the accounting of global big business - and exerting enormous influence over both business strategies and business models throughout the global economy - through their management consultancy services.37

As an illustration of scale, many TNCs are now larger in size than many countries, for example, the budget of Wal-Mart bigger than that of Norway and Exxon-Mobil bigger than Thailand, although their power and influence is exercised in a very different way from nation states.

This concentration of market share and the size of these TNCs raises a serious issue of whether they hold too much power, economically and through their influence on politics. Conventionally, in capitalist systems, the argument against oligopoly is that it concentrates market power, benefiting companies at the cost of consumers. Concentration also potentially strengthens companies’ hands in negotiations with labour. It also contributes to technological lock-in and stifling of innovation, which may have serious environmental consequences. Finally it hands enhanced political influence to corporate lobbies. In a paper to be published later this year academics Gilens and Page argue that economic elites and business groups have substantial influence on U.S. government policy whereas average citizens and mass-based interest groups have little or none. The annual gathering of the World’s top political leaders and business leaders at Davos in Switzerland is perhaps testimony to this influence. This is an important issue, which we turn to later (See Box 1 – corporate power and policy influence).

Beyond political influence - which although not democratic may be wielded for good or bad – is the issue of companies becoming too big to fail. Mark Carney identified the repercussions of this, in the context of banking:
“Perhaps the most severe blow to public trust was the revelation that there were scores of too-big-to-fail institutions operating at the heart of finance. Bankers made enormous sums in the run-up to the crisis and were often well compensated after it hit. In turn, taxpayers picked up the tab for their failures. That unjust sharing of risk and reward contributed directly to inequality but – more importantly – has had a corrosive effect on the broader social fabric of which finance is part and on which it relies” (page 6)\textsuperscript{39}.

He went on to suggest that the leaders of the G20 have endorsed measures to end too-big-to-fail in banking, including measures to reduce the risk of collapse and ensure private creditors stand in front of taxpayers when banks fail. Others, including the Deputy Governor of the Bank of England\textsuperscript{40} and the IMF dispute this. Christine Lagarde, Managing Director of the IMF, said that industry push-back is part of the challenge in solving too-big-to-fail\textsuperscript{41}.

A question is whether too-big-to-fail extends beyond banking. The G20 asked the Financial Stability Board, in consultation with the International Organization of Securities Commissions, to identify other financial institutions that may be too-big-to-fail (for example, investment funds). They are currently in the process of doing so\textsuperscript{42}. Too-big-to-fail is however not simply a matter of size, it is also about (perhaps even more importantly) interconnectedness. The Vitali study\textsuperscript{43} cited above which identified 147 super-entities may be prime examples of companies that may be too-big-to-fail because the consequences of doing so could be very large given their connectedness. Three-quarters of these are finance businesses.

We have not found any academic studies on companies that may be too-big-to-fail outside of finance, although it is likely they will exist in highly concentrated sectors (for example, in pharmaceuticals, retailing, energy and mining). For example, in the UK the closure of a major food retailer would have immediate and potentially devastating effect, and also in the UK the disruption of the small number of firms by fuel tax protests had major implications. In the USA General Motors and Chrysler was seen to be too-big-to-fail and were rescued by a combined $60+ billion bailout. A systematic global analysis of ‘too-big-to-fail’ would be prudent, including analysing the risks of sudden failure. National governments should also consider such analyses.

Whilst some academics have suggested this growing concentration of both economic power and wealth was accurately predicted by Marx over 100 years ago as a natural outcome of capitalist systems\textsuperscript{44}, oligopolies, and indeed monopolies, are not new.

The first antitrust laws date back to the 1890’s in the USA as a result of “trusts” (or holding companies) being created to bring together all the firms in a particular industry, such as The Sugar Trust, The Tobacco Trust, The Steel Trust. These trusts were very large enterprises that dominated their industry and in some cases production worldwide. The opposition to the trusts came mostly from farmers who protested against the high cost of rail transport to take their products to the cities. It led to the passage of the first anti-trust law in 1890. But the formation of oligopolies was only temporarily reduced. In the 1960s anti-trust regulators became active again, for example targeting AT&T and IBM. Damanpour reports that the case against IBM never made much headway and was dismissed in 1982. He states that although tough antitrust laws have been in place in the United States for more than a hundred years they have only been enforced sporadically\textsuperscript{45}.

In the EU anti-trust laws are intended to prevent horizontal or vertical agreements that fix prices directly or indirectly; agreements on conditions of sale, investments, production or
delivery quotas; joint sale offices; market sharing agreements; collective boycotting, and agreements that isolate market segments. It should be noted that they are not intended to protect stakeholders other than customers, nor to address other downsides of oligopoly, such as policy influence or inhibition of innovation. The effectiveness of these laws and regulators is debatable.

The OECD notes that whilst in theory laws prohibit collusion that raises prices, restricts output or divides markets they do not prohibit conscious parallelism – that is firms in an oligopoly imitating their rivals on prices and in other ways without reaching an explicit agreement, e.g. price matching by supermarkets to the advantage of consumers but potentially the detriment of suppliers, or price matching by the Big 6 energy companies in the UK to the disadvantage of consumers. Despite this the OECD claims that oligopolists have a strong incentive to avoid anti-competitive co-operation.

Box 1 - Corporate power and policy influence

Have corporations co-created with governments the social or environmental problems we now face or have they largely been operating within the rules and regulations set by governments and the norms within the cultures within which they operate?

This is obviously a hot topic of debate and, as shown below, there are a number of books and academic papers which firmly put the blame for the social and environmental crisis at the door of corporations. However, a more nuanced position would be that:

- while there are some, perhaps many, corporations which have very successfully influenced politics and policy at national, regional and global level in order to ensure economic interests are prioritised above social and environmental concerns,
- and while there are also some corporations which deliberately seek to influence public thinking and culture through misinformation (an example would be Exxon-Mobil on climate change) and/or heavily promoting an individualistic consumer-culture,
- and some that simply accept trade association positions (often the lowest common denominator, as demonstrated by Unilever’s decision to leave Business Europe),
- not all corporations are actively seeking to influence policy and politics or culture in this way, and many smaller businesses are not directly influential in politics or policy at all (although, as above, their trade associations may be).

There is therefore a danger that big business or business as a whole (big and small) is tarred with the same brush. That would be wrong. But also what would be wrong would be to deny the very negative social and environmental impacts that a proportion of corporations have had. It is these, not all businesses, which are rightly charged with co-creating the environmental and social challenges the world now faces.

- In the US Gilen and Page (cited above) identify the substantial role corporations have on US policy. David Korten’s book When Corporations Rule the World makes the charge that much of the world’s ills result from largely corporate influence on politics and power. Historians Phillips-Fein and Zeilzer also argue that business has had a very substantial influence through the decades, although not always got its way. Benjamin Waterhouse’s book Lobbying America: The Politics of Business from Nixon to NAFTA
suggests that in the 1970s and 1980s the business community successfully promoted a fiscally conservative, anti-regulatory, and market-oriented policy agenda to Congress.

- In the EU Friends of the Earth Europe argues that, based on intelligence gained from Freedom of Information requests "fossil fuel and heavy industry interests used their privileged access, huge financial resources and insider influence to convince EU decision-makers to sacrifice ambitious climate action for 2030." Another report revealed two-thirds of DG Enterprise's advisory groups – whose work often forms the backbone of new legislation - are corporate-dominated.

Globally David McKnight highlights the political influence of business leader Rupert Murdoch, including on issues such as climate change. Famously Noreena Hertz, in her book *The Silent Takeover*, exposes the co-creation of globalisation by some corporations and governments, particularly trade rules, suggesting that governments are impotent in the face of corporate power.

### 1.5 Economic drivers for sustainability context

Within this context of increasing inequalities and environmental degradation, together with the emergence of global oligopolies and corporate power, it is worth assessing what external economic drivers for sustainability may exist.

Most obviously, environmental externalities are often poorly captured in economic signals to business (for example, the EU Emissions Trading Scheme), not captured at all (for example, the Australian removal of its carbon tax) or the signals point in the opposite direction (for example, fossil fuel subsidies increasing and dwarfing subsidies for renewable power). In countries such as the UK the proportion of revenue raised by green taxes has declined over recent years.

Whilst it is important to recognise that environmental externalities cannot be accurately or perfectly quantified (for reasons as diverse as ecological system complexity to philosophical and value differences), what is clear is that at the present time economic signals from governments to businesses are close to non-existent or perverse.

Of course, other economic signals exist for businesses, most notably the increasing competition for commodities, increasing prices, fears of physical or imposed shortages (which perversely tend to accelerate resource grabs and exploitation), and predictions of future costs. It is these drivers that have been the main reason for the EU to put resource efficiency centre-stage in its economic growth agenda, which in turn may (or may not) lead to regulatory and economic signals to TNCs and other businesses operating within the European Union (although the signals may not shift the behaviour of these TNCs globally, and certainly there is plenty of evidence of TNCs operating to different standards in different parts of the world).
2. **Transnational corporations for good or bad**

We have already seen that we face very substantial and pressing environmental and social challenges. We have suggested that these challenges have been significantly, although not entirely, co-created by governments and some corporations (not all businesses). This is not to deny the role of others in creating the social and environmental problems we face: consumers (and voters) must share some responsibility. However as we saw in our Big Ideas Consumption topic, business and marketing have a significant influence on consumer behaviour\(^60\).

Looking forward we need to consider whether the many thousands of TNCs, the super-entities and the oligopolies are a problem or opportunity (or both) in terms of addressing the type of problems that Carney\(^61\) outlined.

This section summarises three common views on this:

- TNCs will willingly deliver sustainability;
- TNCs are here to stay and need encouragement/regulation to deliver sustainability;
- TNCs are a barrier to sustainability and should be eliminated.

#### 2.1. TNCs will willingly deliver sustainability

Within this category there are two basic propositions, the first is that TNCs will willingly deliver sustainability, have the capabilities to do so (and are more likely to do so than SMEs or nationalised businesses because they want to succeed in the long-term), and government’s role is to facilitate their action through supportive measures and/or simply get out of the way (a proposition that begs the question why the vast majority of TNCs are not already focussed on sustainability). The second is that governments are unable to work together effectively to solve global problems and that therefore TNCs - with their capacity, power and influence - will need to lead on addressing economic, social and environmental challenges whether we like this proposition or not.

Academic Jerry Patchell\(^62\) belongs to the first camp. He suggests that what made the Montreal Protocol so successful was the existence of an oligopoly of companies involved in CFCs. He suggested that as the protocol was being negotiated DuPont voluntarily began to develop alternatives forcing its rivals to follow suit (although an earlier analysis by Friends of the Earth disputes this interpretation, instead suggested that this was in response to proposed national regulation\(^63\)). He believes that the global reach of TNCs and their capacity for research offers the best chance of addressing climate change. He says the biggest 700 multinational corporations make up half of total global R&D spend and two-thirds of R&D spend in the private sector. He suggested “If every large multinational corporation demanded that its facilities and those of its suppliers reduced their greenhouse gas emissions by just five percent each year, or by some other substantial, self-determined goal, the results would ripple across the global economy”\(^64\).

Likewise Alice Korngold, author of *A Better World Inc.*, suggests only global corporations have the resources, global reach and self-interest to build a better world. Whilst she accepts that some of the corporate sector have been responsible for creating human rights abuses, environmental degradation and economic injustices, global problem solving is good for
business she says, with companies profiting from problem solving, mitigating risks from resource scarcity, and reducing costs.\textsuperscript{65}

Zoeteman belongs to the second camp, stating that: \textit{“Global governance of issues such as climate change, biodiversity loss, labour, fisheries and forests, involving nearly 200 nations, is extremely complex. After 2000, governments have experienced considerable difficulty establishing an infrastructure for global governance issues… corporations experience more directly the expectations of the consumer and have less freedom to risk failure”} (page 128).

He goes on to say \textit{“Not all people will be happy with the idea that common global concerns should be handled by multinational corporations alone. This is not going to happen, of course. A portion of the corporations will lag behind and need legal incentives … Governments also have to solve monetary, financial and other global governance issues … Governments will have to define boundaries within which corporations can operate … [and] take care of standards, codes and harmonisation of regulations between nations”} \textsuperscript{66} (page 128).

In other words, governments must play a facilitator role for progressive big business whilst using rules and regulations to improve the performance of laggards (although as we see later attempts to institute standards at the global level have failed due in large part to opposition from big businesses, even those that may be viewed as more progressive)\textsuperscript{h}.

Some business groups also argue for active Government. The Tomorrow\textsuperscript{’}s Company project – a collaboration between companies and NGOs\textsuperscript{i} - says: \textit{“Tomorrow\textsuperscript{’}s global companies should work with governments, non-governmental organisations (NGOs) and others to create stronger frameworks of law and regulation for the world\textsuperscript{’}s markets”}. Their report calls for ‘redefining success in terms of lasting positive impacts for business, society and the environment’, setting strategies and using metrics to pursue such success, embedding values, pursuing self-regulation, and working with others (governments, NGOs etc) to deliver better frameworks of law, regulation and agreements\textsuperscript{67}.

Paul Polman, CEO of Unilever, likewise sees corporations playing a leading role. He states that: \textit{“If business is to regain the trust of society, it must start to tackle the big social and environmental issues that confront humanity, especially at a time when governments seem increasingly to be caught in shorter and shorter election cycles and have a hard time internalizing the global challenges in an increasingly interdependent world”}.

He cites as a progressive move ahead of regulation the example of 30 companies at Rio committing to report on the natural capital (biodiversity, water, etc.) related to the activity of the company\textsuperscript{68}. Polman is not an isolated example. Paul Bulcke, CEO of Nestle, echoes similar themes, highlighting what he sees as the longer-term focus of big business in comparison to governments\textsuperscript{69}.

\textsuperscript{h} Such apparently contradictory opposition can be explained if apparently progressive businesses are able to charge premium prices to a subset of ‘concerned’ consumers. In this case a higher level regulatory playing field appears to threaten their current competitive advantage in these markets. However without regulatory standards it is largely impossible for customers to distinguish genuine progressive practice from ‘greenwash’, and thus sustained voluntary advantage in such markets is impossible, whereas incrementally rising regulatory standards would validate voluntary efforts, and create new spaces for social innovation.

\textsuperscript{i} Members include: ABB, Alcan, Anglo American, BP, Ford, Infosys, KPMG, McKinsey, Standard Chartered and SUEZ.
Academics Dauvergne and Lister take a more nuanced view, instead suggesting that whilst big brand companies can make a significant contribution to achieving sustainability, their potential should not be over-stated. They say that while big global brands such as Wal-Mart, Coca-Cola, McDonald’s, HP, and Nike are, in the absence of well-developed and enforced international environmental standards, driving corporate sustainability rules through their global supply chains, they are also still engaged in selling more and more consumer goods which is unsustainable. The drive for this voluntary action is, they suggest, partly from the need to protect consumer reputation, a need which is much weaker or absent in extractive industries, for example. Moreover, such voluntary approaches are also mobilised by business lobbies to avoid the imposition of national or international regulation. At the grand scale even the Global Compact can be seen as an effort to prevent the development of binding rules under a corporate accountability convention. However, it should also be acknowledged that an increasing number of businesses, whilst recognising consumer pressure as a major driver, also see a business need to shift from ‘demand-led’ supply chains to ‘supply-constrained’ chains.

2.2. TNCs are here to stay but need encouragement/regulation to deliver sustainability

This second category of view on the TNC is perhaps the most prevalent. Within this we look at the range of measures proposed to influence TNCs, including some largely voluntary proposals to extend the purpose of businesses beyond profit, other voluntary measures to address sustainability issues, suggestions for addressing short-termism, other cultural challenges, business incentives for sustainability, and lastly regulation (including reporting).

The purpose of the corporation

Businesses obviously do more than make money. For example, they employ many people (80 per cent of employment in the UK is by private businesses). But the view that their primary and overriding purpose is to make money for their shareholders (or other owners) is widely held, even though many of the largest TNCs may state their core purpose is beyond making money (for example, 3M: To solve unsolved problems innovatively, Wal-Mart: To give ordinary folk the chance to buy the same things as rich people, Walt Disney: To make people happy). Economist Milton Friedman famously wrote that “the one and only one social responsibility of business is to increase profits. Anything less is pure and unadulterated socialism” (quoted in ref). This view - which was highly influential for several decades, has more recently spawned charges that corporations have a pathological need to pursue profit and power, relentlessly and regardless of the harmful consequences it might cause to others. It is now openly being challenged by politicians, civil society and many businesses, particularly in the wake of the banking crisis. For example:

- The Aldersgate Group in the UK – an alliance of leaders from businesses, politics and civil society (including Friends of the Earth) - argues that businesses have a significant role in contributing to the six characteristics of what they call ‘an economy that works’. The six characteristics are high employment, equal opportunity, wellbeing at the core, low carbon, zero waste and enhancing nature. For each category they identify actions businesses can take now, and actions that Governments can take to facilitate business action. They identify that a number of the company members are “committing not only to doing less harm but making a
“net positive” contribution to society” (page 8). They identify that businesses need to think and act in the long-term, be innovative and work towards inclusive societies with strong communities. Through this work it is clear that these companies at least, which include a number of TNCs, are prepared to explicitly state that they have a purpose in addition to generating shareholder value. TNCs such as Nestle state that they are doing this through ‘Creating Shared Value’ with the communities they “serve”.

- The ‘public benefit’ or B Corporation concept emerging in the United States results from a number of States having created legislation enabling companies to explicitly designate their purpose as to provide benefit broader than just raising income for shareholders. Governor Markel, of the State of Delaware blogged: “On July 17, I signed into law a bill enabling the formation of a new type of corporation that is hard wired to compete to be the best in America at being the best for America. These new Delaware public benefit corporations will harness the power of private enterprise to create public benefit. In the short term, they will create high quality jobs and improve the quality of life in our communities…Some of the most innovative and fast growing private companies in America…will be among the first to register as Delaware public benefit corporations on August 1st when this law goes into effect. These businesses, and over 100,000 like them, are profitable, but consider profit to be the means -- not the exclusive end goal -- of their business. They see profits as a means to fuel growth in social impact as well as to generate attractive returns for stockholders.” B Corp businesses are required to balance ‘the pecuniary interest of stockholders, the best interests of those materially affected by the corporation’s conduct, and the identified specific public benefit purpose.’ They are required to report on their overall social and environmental performance. And they are required to identify in their certificate of incorporation a specific public benefit purpose the corporation is obligated to pursue.

- The Purpose of the Corporation project established by law company Frank Bold seeks to redefine corporate purpose explicitly beyond “making as much profit as possible within the law regardless of whether that is expressed as being in the short-term or the long-term. This can be thought of as re-incorporating society into corporate purpose.” The project emphasizes that this is a stepping stone to reform of national company law and national or international corporate governance standards to reflect this purpose.

- A new law has been passed in India which requires big businesses (not SMEs), to set up a Corporate Social Responsibility Board Committee and donate 2 per cent of profits to charity.

- The Law Commission in the UK, which was asked by the government to consider whether the fiduciary duty required pension fund companies to maximise returns above environmental, social or other ethical considerations, stated that pension fund trustees do not have to maximise returns in the short-term at the expense of risks over the longer term. It said that although the financial return should be the predominant concern other subordinate concerns can be considered as long as there is no risk of significant financial detriment to the fund. NGOs such as Friends of the Earth have a long track record of seeking to achieve changes to fiduciary duty, with
some success, including through the UK’s 2006 Companies Act which was described as “the biggest shake-up of company law for 150 years”82.

These examples indicate that a very significant change of view is emerging globally, which can be seen also as a sociological or cultural shift. Milton Friedman must be turning in his grave!

Renowned economist Joseph Stiglitz, in a recent speech, argued that all businesses need a purpose beyond making money for shareholders, and that at its very basic level it should be to ‘do no harm’ (mimicking the purpose of medicine). In the same speech he catalogued a whole range of business sectors that would fall short of this most basic purpose83.

Academics Loorback and Wijsman also sense a shift, suggesting “there are signs of a more fundamental change towards sustainable business strategies in which economic profit is essentially linked to creating social and ecological value” (page 20). They cite Herman Miller, Wal-Mart, Unilever and InterfaceFlor as making decisions to make profit through embracing sustainability, developing a new business culture and reshaping the markets in which they operate.84

Yet it appears that this apparent shift in purpose by some, although laudable and perhaps constrained by under-cutting competitors, still remains restricted to at best a small number of pioneers. For example, Caprar and Neville report on a survey conducted in 113 countries which revealed that whilst 70 per cent of business leader respondents believe sustainability is important to their companies it only ranked only eighth in importance on the management agenda85. It seems like the dominant corporate norm is still that social and environmental action is secondary to the corporate bottom line, and is therefore only undertaken if there is an economic benefit flowing from it. This aligns to the view of shareholder primacy (perhaps Milton Friedman can rest easy)86.

Boken’s work also challenges whether this apparent shift in a small number of TNCs is truly sustainable or only partially so. He identifies a number of business types that chart a progression from increased eco-efficiency through to greater social objectives (fair trade, sharing, and longevity) through to deeper organisational changes that repurpose the business towards meeting social and environmental purposes above shareholder value. The implication of his work is that for businesses to be truly focused on sustainability they need a fundamentally different approach in how they are organised as well as in what they do. The pioneer big name corporations are, when judged against Boken’s business types, still only at the beginning of a long transformational journey which, if they continue along the road, will fundamentally challenge their business model of maximising product sales.

Bocken suggests it is more likely to be new start-ups and small businesses that adopt these more transformational business models, and it is these that will ultimately force TNCs to fundamentally change87 (we look at disruption in section 5).

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1 Many will be surprised to see a company such as Wal-Mart cited positively, pointing towards a history of wide-ranging negative environmental and social problems and a cost-cutting philosophy which militates against reasonable social and environmental standards. See, for example, S. Praekesh Sethi, The World of Wal-mart, 2013, http://www.carnegiecouncil.org/publications/ethics_online/0081. Without reporting standards that not only require businesses to report their social and environmental impacts, but also impose comparable standards and demand audit and verification of claims made, it is difficult for consumers, investors and policy-makers to see through ‘green-wash’.
Other voluntary action

Beyond voluntary moves by a limited number of TNCs to identify a purpose beyond profit, there are other voluntary initiatives (as we saw in our analysis of the governance of the global commons\textsuperscript{88}). The higher profile examples include the Forestry Stewardship Council (FSC), the Roundtable on Sustainable Palm Oil (RSPO), and the Ethical Trading Initiative (ETI) (we look at voluntary transparency and reporting in a later section).

The effectiveness of the FSC in preventing deforestation and increasing sustainable management of forests is much debated in the academic press and amongst civil society. Since the formation of the FSC in 1993 it has expanded rapidly to now cover over 182 million hectares worldwide, a significant area although still tiny compared to around 4 billion hectares of forest globally. FSC is supported by some leading conservation groups, for example WWF, whilst others have left the scheme due to their concerns regarding its effectiveness, for example, FERN\textsuperscript{89}. In a bitter debate a NGO watchdog on the FSC has even been created called FSC-Watch, which consists of a group of people, including FSC founder Simon Counsell, who are “very concerned about the constant and serious erosion of the FSC's reliability and thus credibility” and produced a list of the 10 worst things about the FSC\textsuperscript{90}.

The RSPO is a much newer initiative, established in 2004 by WWF, Unilever and others. It covers around 2 million hectares of land with 16\% of palm oil produced globally certified by the RSPO\textsuperscript{91}. Palm oil plantations are rapidly spreading leading to loss of rainforests and peat land resulting in large release of greenhouse gas releases. Greenpeace have been very critical of the RSPO, saying “Many RSPO members are taking no steps to avoid the worst practices associated with the industry, such as large-scale forest clearance and taking land from local people without their consent. On top of this, the RSPO actually risks creating the illusion of sustainable palm oil, justifying the expansion of the palm oil industry”\textsuperscript{92}. Evaluating such roundtables against deliberative criteria, an academic appraisal of the RSPO and the Roundtable on Responsible Soy found they fell short on both inclusion and on the effectiveness or consequentiality of their outputs\textsuperscript{93}.

The ETI includes global companies with thousands of suppliers, international trade union bodies, specialised labour rights organisations and development charities. It aims to improve the working conditions in global supply chains and is motivated in part at least through drivers such as securing future supply chains and maintaining a civil society ‘licence to operate’. ETI company members require their suppliers to comply with a code of labour practice. An assessment of the ETI found the scheme had some positive impact on workers in visible areas such as health and safety but minimal impact on issues such as freedom of association and discrimination. Downward pricing pressure on supplies led to suppliers saying they couldn’t afford to increase standards as much as they would wish. The assessment said that the ETI had contributed to increased welfare but was not a substitute for regulation\textsuperscript{94}.

At the heart of the debate on voluntary initiatives are two issues, their effectiveness of their activities, and whether their existence makes stronger state-led regulation more or less likely. We return to this in our conclusions.
Short-termism

These voluntary actions – purpose of the business, supply-chain management – demonstrate that it is possible for companies to think beyond short-term profit-making. However short-term profit seeking is said to be endemic, with the banking crisis prompting much debate around the dangers of short-termism to business sustainability.

The UK Government commissioned a review by John Kay into the short-termism of equity markets. In his report he laments examples such as ICI, M&S, BP, RBS, etc. as illustrations of how short-term thinking can lead to bad long-term business decisions. The prioritisation of shareholder dividends to keep the market happy has, he said, too often trumped investment, safety, reputation with customers, and product innovation. In his view such behaviours damage the company’s market position and reduce its value in the longer term.

Some researchers have suggested that short-termism is psychologically hard-wired into our brains and reinforced through society. For example, Pahl et al suggest that because the human brain developed in a time when humans were largely concerned with their direct environment (e.g., foraging for food) and immediate dangers (e.g., from predators) we are geared to prioritize the short-term. They say this is reinforced because evolutionarily we are used to living in small groups based on immediate face-to-face relationships, making it difficult for us to respond to events that are long-term or distant.

Andrew Haldane, the Executive Director of Financial Stability at The Bank of England argues that contemporary society is normalising short-termism in new ways, with shorter time spent in marriages and jobs, and positing that this may influence our cognitive processes. He cites a 2011 PWC survey of top executives which revealed the majority would chose a low return option sooner (£250,000 tomorrow) rather than a high return later (£450,000 in 3 years). This, he suggested, amounted to an annual discount rates of over 20%. In earlier work for our Big Ideas topic on consumption we have seen how even our own identity is more fluid and subject to short-term reinvention than it was 100+ years ago (with both positive and negative results).

The Oxford Martin Commission for Future Generations likewise bemoaned short-termism pressures, particularly on politicians that requires them to consider 24/7 news, social media and short-term election cycles.

Polman describes the short-termism of markets as a treadmill that distorts behaviour and priorities. He famously jettisoned quarterly reporting by Unilever, must to the chagrin of many in the investment community. Barton & Wiseman cite a survey of more than 1,000 board members around the world which found:

- 63% of respondents said the pressure to generate strong short-term results had increased over the previous five years (i.e. pressure is getting worse).
- 79% felt especially pressured to demonstrate strong financial performance over a period of just two years or less.

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4 The prospect that higher discount rates (and greater short-termism) reflect a psychological phenomenon in which people are acknowledging that their future selves are no longer really ‘them’, should not be ignored.
• 44% said they use a time horizon of less than three years in setting strategy but 73% said they should use a time horizon of more than three years (i.e. some at least recognise they should use a longer time horizon).

• 86% declared that using a longer time horizon to make business decisions would positively affect corporate performance in a number of ways, including strengthening financial returns and increasing innovation.

It was reported at the 2014 Purpose of the Corporation Conference that in 1960 the average holding period of stock in the S&P 500 was eight years but today it is four months\textsuperscript{101}. Cremers et al suggest different figures of institutional holding durations being around 18 months\textsuperscript{102} whereas Barton suggests the average holding period for U.S. equities has dropped from seven years in the 1970s to around seven months now\textsuperscript{103}. Forum for the Future’s Alice Chapple said the long-term at the moment is anything longer than seven or eight months\textsuperscript{104}. Whichever estimate of duration of stockholding is most accurate it is clear stock holdings are currently not for the long-term\textsuperscript{1}. Barton also suggests that the average Western CEO tenure has dropped from 10 to six years since 1995 despite the complexity and size of companies growing\textsuperscript{105}.

ShareAction – a UK based not-for-profit NGO which aims to encourage the financial industry to take sustainable development seriously – points to an apparent contradiction of pension fund short-termism when pension funds are inherently long-term investors. They state that many of the savers currently being automatically enrolled into defined contribution schemes will not begin to draw their pensions for 40 or 50 years. They suggest “Fiduciary investors will naturally want to give serious thought to how they are protecting their beneficiaries’ long-term best interests, which may not be well served by short-term returns achieved at the expense of the economy’s ability to generate sustainable returns in the future” (page 9)\textsuperscript{106}.

Peter Cox, who led a review into short-termism for the UK’s opposition Labour Party, suggested the distance between savers and fund managers is a particular problem, with the presence of many intermediaries leading to “ownerless capitalism” (page 21)\textsuperscript{107}.

Clearly short-termism is a significant and entrenched challenge; although it has not been proven that it is so strong an influence that it prevents stock-listed companies taking their environmental and social responsibilities seriously. The fact that a few TNCs publicly state they will take these responsibilities seriously indicates that this challenge should not be overstated or used as an excuse. However it is a real challenge and a number of suggestions have been made for remedies, including:

• Barton (Global Managing Director of McKinsey & Co) and Wiseman (President of the Canada Pension Investment Board) suggest that pension funds, insurance firms, sovereign wealth funds and mutual funds need to operate like owners of the corporations they invest in – which, they suggest, they are not doing. They call on these funds to invest their portfolio after defining long-term objectives and risk appetite. They say Singapore’s sovereign wealth fund takes this approach while maintaining a publicly stated 20-year horizon for value creation. And they suggest that equity investors should

\textsuperscript{1} It is important to note that in the literature cited, most of the change is attributed to cultural factors, not simply to the introduction and growth of automated high-frequency trading.
develop a range of approaches to engaging with companies, so that as the size of their stake rises they move from monitoring and coalition building to acting like owners, often with board representation.

- The Aspen Principles are a consensus position amongst some leading companies, investors, and corporate governance professionals to operate to a number of voluntary principles including: define metrics of long-term value creation, focus corporate communications around these, and align company and investor rewards in line with them\(^\text{108}\).

- Mark Carney criticises compensation schemes that delivered large bonuses for short-term returns which encouraged individuals to overvalue the present and heavily discount the future. He suggests the UK’s Financial Stability Board has developed the principles for sound compensation practices to align incentives with long-term risks. He also says the Bank of England has adopted a new code for banks prescribing deferred variable performance payments (i.e. payments depend on longer-term success), introducing the ability to reduce deferred bonuses when subsequent performance reveals them not to have been fully deserved, and paying bonuses in stock rather than cash\(^\text{109}\). He further suggests that where problems of performance or risk management are pervasive, bonuses should be adjusted for whole groups of employees \(^\text{109}\). He could have added how the practice of paying multi-million pound termination payments for failing bosses is hardly an incentive for responsible long-termism\(^\text{110}\).

- Companies such as Novo Nordisk, which is, by market capitalisation, the largest company in Scandinavia, has a dual class share structure with a foundation that controls minority shares vested with voting rights 10 times stronger than ordinary shares. This is not novel, several hundred companies in the USA are said to have such an approach (examples include Ford and Google). Gregor argues that this enables a stronger voice for the long-term to be heard\(^\text{111}\), and although this may be true in cases, other consequences are also possible. For example the poor corporate governance at Hollinger International when under the control of Conrad Black demonstrates potential repercussions of a result of poor director accountability resulting from weighted voting rights\(^\text{112}\).

- Peter Cox has suggested Capital Gains Tax on shares could be tapered, in a series of yearly steps, from a rate of 50% in year one to 10% after year ten and/or liability for tax on dividends could be reduced, in a series of yearly steps, from the prevailing rate of income tax in year one to 0% after year ten. Quarterly reporting should be abandoned he says. And wider employee share ownership should be supported.

- The Group of 30 - a select group of very senior private and public sector executives, plus some academics - has suggested sovereign wealth funds could represent a set of potential long-term investors but some are mandated to focus on fiscal stabilization and thus instead hold large shares of cash or low-risk government debt. They suggest policy

\(^{\text{108}}\) However, the effectiveness of stock options as incentives has been questioned and the use of stock options to reward CEOs may even be negatively correlated with corporate performance (see, for example, Cooper et al 2009 http://online.wsj.com/public/resources/documents/CEOperformance122509.pdf; and Sanders, 2001 DOI: 10.1002/hrm.1005). Clearly careful design of such mechanisms would be essential.
makers need to address regulatory and other barriers that currently constrain and limit the ability of these investors to provide long-term finance\textsuperscript{113}.

- Professor of Management Studies at the University of Oxford’s Sai\textsuperscript{i}d Business School, Colin Mayer\textsuperscript{114} argues that companies need to put less emphasis on the interests of short-term stock market speculators and more on other stakeholders. He suggests three key tools: first, issuing different classes of share, with only those held for at least five years – getting voting rights. Second, clearly articulating their interests and values, particularly to their customers. Third, having an independent board responsible for ensuring they adhere to these values.

In this review we do not intend to discuss in depth all these various suggestions, although some do appear in our final recommendation (section 6). But there are other cultural issues that need addressing beyond short-termism, and we now turn to these.

\textit{Other Cultural issues}

There has been much said about the strong influence of organisational culture – in terms of attitudes and behaviours - leading to the financial crisis, for example:

- Paul Polman, CEO of Unilever said, that at heart there was a collective loss of moral compass with too many putting self-interest ahead of the interest of the greater good\textsuperscript{115}.

- Mark Carney, Governor of the Bank of England said that “\textit{purely financial compensation ignores the non-pecuniary rewards to employment…This reductionist view of the human condition is a poor foundation for ethical financial institutions needed to support long-term prosperity}” (Page8). Going on to say that boards and senior management need to promote a culture of ethical business, and that staff must be grounded in strong connections to their clients and their communities\textsuperscript{116}.

Whilst the financial crisis is still very fresh in the mind for many - particularly those innocent victims who are suffering from the resulting austerity measures – it is important to recognise that this was not a result of a sudden change in culture, instead it was the result of chronic behaviours in Anglo-Saxon business culture. In different regions of the world corporate culture is said to be very different to the Anglo-Saxon culture which was blamed for the financial crisis.

The Chartered Institute of Management Accountants note that Governments or wealthy individuals or families are still the dominant shareholders in many Asian companies, particularly in China, suggesting that whilst they face their own obstacles to success, they are generally spared the pressure of day to day changes in stock value, and cultural traditions give heightened responsibility to employees, community, suppliers, and country\textsuperscript{117}.

Lin et al also suggest that wider connections are more important in Chinese businesses, although they suggest this can also have downsides, for example they suggest important political relationships can outweigh pressures from consumers and others for environmental actions (although the heightened priority to the environment recently given by the new political leaders of China may reverse this situation)\textsuperscript{118}. Interestingly foreign companies in China are expected to take corporate social responsibility more seriously than domestic companies\textsuperscript{119}.  


Paul Hemp, Head of global thought leadership at TNC HCL technologies, says that cultures based on values identified by employees and others are essential for successful business, citing the successful turn-around of IBM as a case example. He says it is necessary to “Replace command-and control with values-based management: Instead of galvanizing people through fear of failure, energize them through hope and aspiration. Inspire them to pursue a common purpose based on values they help to define. Ask them what’s blocking them from living those values—and launch change initiatives to remove obstacles” (page 25)

Julia Wolf found, based on her study of 92 German companies, that a culture of employee integration into decision-making improves sustainability outcomes, stating that “to the extent that a firm will understand and absorb the knowledge and experience of its employees, the outcomes of organizational change for sustainability and the firm’s economic performance will be better” (page 98). Similar finding were described in the UK’s Trade’s Union Congress’s report on what the UK could learn from German industrial policy. Will Hutton’s recommendations for the UK to develop a ‘stakeholder economy’ were also in part based upon the success of worker involvement in business decision-making.

This cultural shift, towards values, stakeholder engagement and employee involvement is very different to the shareholder first model taught by most MBA schools.

The FT recently carried a damning article of this MBA focus on shareholder primacy. It stated that “While there is growing consensus that focusing on short-term shareholder value is not only bad for society but also leads to poor business results, much MBA teaching remains shaped by the shareholder primacy model … The dominance of shareholder primacy in business schools is a relatively recent phenomenon”. For most of the 20th century, schools emphasised the theory of managerialism … [which] treated company executives as stewards entrusted with running organisations that had economic and social purposes.

It appears clear that beyond removing the pressures for short-termism a much deeper cultural shift is also necessary, one which orients management and staff towards approaches, attitudes and behaviours directed by, as Paul Polman says, a moral compass. But businesses are also under other pressures beyond demanding short-term shareholders, particularly the competitive world within which they operate. Do competitiveness pressures help or hinder social and environmental performance? Are larger incentives needed to help businesses overcome competitiveness challenges?

**Business level incentives**

Competitiveness opportunities are sometimes posited as a reason for businesses to take sustainability seriously, for example by the EU in its resource efficiency strategy. But in general the evidence suggests that these opportunities are either poorly recognised, or

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* This is a broader critique of MBA teaching of which this is just one aspect, other aspects being the broad neo-liberal package of primacy of corporate finance, share option compensation, etc. We do not intend to go into this further in this paper

* This is not about imposing one single 'organisational culture', but ensuring that whatever culture business leaders support to encourage staff commitment, it must be underpinned by wider social and moral aspirations. Organisational cultures that resist racial or gender diversity, for example, would not be compatible with such a shift.
outweighed by other pressures of competition which encourage short-term exploitation of environmental and social resources.

The MacArthur Foundation states in its latest report on the circular economy that “Circular business models will gain an ever greater competitive edge in the years to come because they create more value from each unit of resource than the traditional linear ‘take-make-dispose’ model … Accelerating the scale-up promises to deliver substantial macroeconomic benefits, as well as open-up new opportunities for corporate growth. The materials saving potential alone is estimated at over a trillion dollars a year.” So far, relatively few businesses have wholeheartedly accepted and adopted ‘circular’ models despite apparent growing scarcity and rising costs of material inputs. More conventional business strategies have been deployed (for example seeking new sources of supply, and making strategic alliances in supply chains).

In a similar way, academics Boiral et al consider whether taking action on climate change is really a win-win for business (in their study of 300 Canadian manufacturing companies). They find that although data suggests that win-win is the reality, the dominant discourse of win-lose (for example, at international climate negotiations) trumps this in the minds of the majority of corporate leaders. They conclude that governments need to do more to push action, even though in theory the rewards for reducing carbon emissions are high enough to take action anyway.

Globally the McKinsey and Company cost curves for greenhouse gas abatement continue to point to enormous potential reductions in greenhouse gases and negative cost (i.e. economically beneficial savings), most of which are not actively pursued. The obstacles are likely to be cultural, for instance, managers get more kudos for innovation and market expansion than for cost-cutting and carbon saving.

Beyond cost saving there are other incentives, as Shehaan points out, including risk reduction, product innovation, new market opportunities, brand/culture benefits, and the increased possibility to shape the rules of the game for other businesses.

At face-value this would suggest that there are incentives a plenty for businesses to improve their performance and an ample supply of low-hanging fruit. But change can be difficult and there may be a myriad of reasons why businesses do not respond to these opportunities, often cultural in nature. For example, opportunity costs for businesses and individual career advancement, excess optimism that scarcity will be overcome through technology or other means, crowd behaviour (if business associates are not responding), etc. Stronger incentives may help overcome these barriers, but we must also examine how the responsiveness of business to incentives could be enhanced (in economic terms, changing the elasticity of response). There is a paucity of governmental incentives for sustainability across the globe, and perverse incentives exist, particularly regarding fossil fuels.

Some have suggested that internalising externalities should be the approach in order to correct market failures, either through carbon taxes or similar, for example the International Monetary Fund. Others argue that estimating externalities is nigh on impossible because ecological (and social) systems are so complex and poorly understood, because of the different values people place on the environment, and anyway incentives should be purposed towards achieving goals rather than assuming the market will behave rationally (which as we saw above, with many cost savings not pursued, it doesn’t). And others see commodification through pricing as morally wrong. These are very deep differences and it is
probably impossible to find an incentive structure that would please all and work. Not surprisingly perhaps Friends of the Earth advocates an approach of putting in place an effective mix of regulatory and financial incentives to achieve policy outcomes (and making complementary interventions designed to make businesses more receptive and responsive to such incentives). In other spheres this is common across the political divide, for example in law and order where penalties exceed the economic damage caused by an action.

Proponents of increased taxes on resources and pollution often argue that these should be offset by reducing taxes in other areas, for example jobs (so-called Ecological Tax Reform). Often the level of taxes promoted under this banner is to achieve identified policy outcomes (e.g. targeted reduction in pollution, as opposed to internalising externalities).

The argument for increased incentives is predicated on a recognition that even companies motivated by profit are not always economically rational, otherwise they would have already taken advantage of negative cost opportunities (for example, in energy efficiency). And in addition, much deeper change is also necessary beyond the currently cost-saving low-hanging fruit. For these to materialise stronger and smarter incentives are needed (in turn both stimulating, and reinforced by, cultural changes).

Proponents of sustainability (including those in business), regardless of their position on internalising externalities or ecological reform, would all broadly agree that economic signals are still currently far too weak to encourage businesses to fully move towards sustainability.

But whilst economic incentives may at times be the appropriate tool to deliver necessary environmental and social change, at other times different approaches may be better, for example regulatory approaches or psychological or sociological techniques such as peer-group learning. In particular, if the obstacles to change are not economic, then increased financial incentives would generate windfall profits alongside greater action. Smarter regulatory models are needed, especially those which combine incentives and sanctions. Whilst businesses have tended to be supportive of the theory of balanced market measures such as ecological tax reform (although often in practice opposing them), there has been an almost universal opposition to greater levels of regulation, particularly by TNCs at the level of binding global standards.

**Regulation**

Regulation has a role in shifting environmental and social behaviour in TNCs, particularly if voluntary action is largely ineffective at a sector level (as we have seen above). Yet currently regulation\(^p\) does not produce powerful enough drivers to do so, as witnessed by the failure of the vast majority of TNCs to take sustainability seriously even where economic analyses suggest that action would enhance profitability.

For example academics Escobar and Vrendberg argue, based upon their study of fossil fuel TNCs, that sustainable development pressures will not force fossil-fuel TNCs towards sustainability strategies because there is a lack of clear regulation and enforcement mechanisms globally. They say country managers for the TNCs will respond differently

\(^p\) Regulation at national and regional level has had a much stronger effect over many decades, for example in terms of pollution from factories as a result of the 1956 Clean Air Act in the UK and the EU’s 1996 Integrated Pollution Prevention and Control Directive.
depending on domestic pressures but many of the countries they operate in are likely to have weak regulatory environments.\textsuperscript{129}

The NGO Global Policy Forum has documented the history of moves to regulate TNCs. They identify that in July 1972 the Economic and Social Council (ECOSOC) of the UN requested the UN Secretary General to appoint a Group of Eminent Persons to study the role of TNCs, their impact on development and their implications for international relations. The result led to a draft Code of Conduct for TNCs aimed at establishing a legally binding international framework defining the responsibilities of TNCs towards their host countries, creating more transparency in their structure and activities, and preventing tax avoidance, price manipulation or other non-competitive or harmful business behaviour. They state that by the mid-1980s more than 30 codes of conduct covering various corporate sectors and practices were under consideration but few of them were finally adopted because of corporate opposition and the emergence of free-market thinking as the dominant political ideology (which as we saw earlier was an ideological change in part driven by some corporations).

They identify that one of the last attempts to introduce international corporate regulation was made at the 1992 Earth Summit but this was defeated and instead, in 2000, a voluntary Global Compact emerged which identified non-enforceable values and standards for TNCs to operate to. The Global Compact was supported by a large number of major TNCs.\textsuperscript{130}

The OECD Guidelines on Multinational Enterprises, which were first published in 1976, were also updated in 2000 and have been updated once again in 2011. These guidelines cover a range of issues, from human rights, to environment, to taxation, to consumer interests.\textsuperscript{131} The guidelines are also non-binding.

And more recently, when the Commission on Human Rights adopted a resolution on human rights and TNCs, the United States were one of three countries to reject it, making clear they would not support any moves that created norms or codes of conduct for TNCs. Instead the UN appointed John Ruggie to develop proposals to address the issue. He produced a set of Guiding Principles on Human Rights which represent existing consensus on the interpretation of international human rights law in a business and human rights context: in other words, what this law requires States to do.\textsuperscript{132} Although the Principles confirmed that TNCs should bear some responsibilities for the implementation of human rights, they were strongly criticised by Human Rights organisations for being weak or insufficient and lacking enforcement mechanisms.\textsuperscript{133} In June this year the UN Human Rights Council (UNHRC) voted to start work on developing an international, legally binding instrument to regulate the activities of Transnational Corporations (TNCs) with respect to human rights, a move that was welcomed by many including Friends of the Earth International.\textsuperscript{134} However the USA and the EU have made it clear they oppose such a move (as has John Ruggie himself),\textsuperscript{135} and this would imply a substantial legal shift in making companies themselves, rather than states, direct subjects of international law (which might bring disbenefits as well as benefits).

Whilst binding global rules remain the norm in some other fields - for example Paul and Garred note an increasing number of binding trade agreements at the international level - and a willingness to address TNCs tax avoidance plans (which the European Commission has suggested has cost EU countries €150 billion per year)\textsuperscript{137} there has continued to be opposition to globally binding rules on TNCs to protect human welfare and the environment.
Some TNCs and other businesses of course spend vast amounts of money lobbying governments, so perhaps the reluctance to regulate should not be too surprising. For example, according to NGO Share Action in 2013 in the US alone companies spent US$1.61bn on lobbying Congress. Of this, the oil and gas industry spent $71.1m on lobbying efforts, with electric utilities’ spending $67.5m – the third and fifth highest lobbying outlays by sector respectively\textsuperscript{138}.

The battle for global binding environmental and social standards for TNCs looks set to continue in the years ahead, not least because of the patent failure of many TNCs to abide by voluntary guidelines, as documented by Amnesty International and many others\textsuperscript{139}.

Even the basic issue of company reporting has been a long-standing battle-ground. Civil society organisations have campaigned for mandatory transparency – for example, on emissions of health-threatening pollutants, supply-chain impacts, etc – in the belief that companies that measure these in order to report them are then more likely to take action to reduce them, and also that putting the data in the public domain will create public pressure on companies to improve performance. NGO campaigning has ranged from national level, for example in the UK by Friends of the Earth’s Right to Know campaign for an industrial pollution, through to global campaigns (for example, at the Earth Summit in 2002) on company transparency.

Some initiatives have been backed by progressive businesses, particularly those involved in ethical or socially responsible investment, such as the global Corporate Sustainability Reporting Coalition convened by Aviva in 2011 in advance of the Rio+20 summit\textsuperscript{140}. Businesses on the whole have fought against mandatory action, in part at least due to cost and complexity issues, potential for misuse, commercial confidentiality and in some cases to avoid public scrutiny. Others resist global reporting requirements from ideological opposition to ‘global government’. The psychological, cultural and sociological reasons for resistance are underexplored. Nonetheless, it seems likely that the reasons against reporting, some of which are real and some of which may be spurious, are outweighed by the public interest in reporting.

It is certainly clear that voluntary reporting is not widespread, Stubbs et al report, whilst 95% of the world’s 250 largest TNCs undertake some form of sustainability reporting only an estimated 2000 or so of the total 60,000 TNCs do so\textsuperscript{141}.

Ultimately it is likely that company environmental/social/sustainability reporting will become the norm. For example a review of 30 countries by KPMG found that mandatory and voluntary reporting is spreading. The review found:

- A total of 142 country standards and/or laws with some form of sustainability-related reporting requirement or guidance;
- Approximately two thirds (65%) of these standards can be classified as mandatory and one third (35%) as voluntary;
- A total of 16 standards with some form of reporting requirement at the global and regional level.

Large scale voluntary initiatives include the Global Reporting Initiative\textsuperscript{142} and the International Integrated Reporting Council (which aims to produce a global standard for voluntary reporting)\textsuperscript{143}. For some these may constitute attempts to put off mandatory
reporting, but the (very slow) direction of travel is towards mandatory reporting, and in some cases the availability of voluntary standards might facilitate regulatory approaches. Business scholars Ioannou and Serafeim found that national regulations mandating sustainability disclosure stimulated different levels and forms of disclosure in different countries, with Danish regulations merely increasing Global Compact membership, but South African and Chinese regulations increasing disclosure, and particularly via adoption of GRI guidelines. It is likely that the digital revolution will hasten disclosure to common rules and standards as increasingly TNCs will be unable to keep their impacts hidden from the world’s eyes, as Tapscott and Ticoll argue in their book, *The Naked Corporation*.

In practice, reporting standards are likely to be incorporated into law as part of national company law (or perhaps through stock market listing rules). The University of Oslo Private Law Department’s Sustainable Company Project argues that a much wider range of regulatory requirements on companies needs to be embodied in company law. They suggest that conventional regulatory approaches (including fiscal measures) will not be adequate or effective, especially at a global scale. Instead reforms in company law would drive changes in practices and norms. The project has published a series of working papers on the scope for reform in the company law systems of several key countries.

### 2.3 TNCs are a barrier to sustainability and should be eliminated

The third view on TNCs is that they need to be significantly reduced in size and power, and ideally eliminated. The latter – often dismissed as unpragmatic in the globalised world we live in – has a long philosophical pedigree.

Those that advocate reducing the size and power of TNCs do so for a variety of reasons, for example:

- **Vitali et al** suggested - based on their analysis of cross-ownership amongst TNCs - that for reasons of economic stability and to ensure fair competition it may be necessary to institute global anti-trust rules and regulation, perhaps coupled with taxation to discourage excess interconnectivity. They say this because they see deep interconnectivity as the main cause of fragility and systemic risks. The idea of greater competition is of course championed by many in business as well as across the political spectrum; this reduction or elimination of oligopolies at a global (and indeed regional or national) level is therefore not an idea championed by radicals alone. If instituted it would not eliminate TNCs.

- **Thierry Philopponat** from Finance Watch – a European NGO set-up as a public interest counter-balance to the lobbying of finance industry – suggests a hard size limit on banks may be necessary. He argues that at the very least banks in receipt of public subsidy should have their expansion capped, suggesting that once banks are bigger than $100 billion they lose economies of scale. Although again this would not eliminate TNCs.

There is of course no global antitrust regulator, although Damanpour suggests that the network of national antitrust regulators do cooperate. Christine Lagarde of the IMF proposes cross-border rules on megabanks.

However a number of international, regional and national NGOs hold positions that go beyond the dismantling of corporate power, holding a view that TNCs are not part of a sustainable future. They base their case on the numerous examples of TNCs causing significant social and environmental harm, plus the significant influence TNCs have on
political, social and environmental systems\textsuperscript{151}, and perhaps most importantly, a world view of more localised economies populated by smaller companies that are more in-touch with the communities and environments within which they operate.

This world view has a long pedigree, including EF Schumacher’s \textit{Small is Beautiful} published in 1973\textsuperscript{152}. Schumacher particularly looked to the importance of appropriate size and relationship to people. Many of the NGOs with this world view would therefore see the reduction of size and power of TNCs, \textit{together} with regulation and accountability, as stepping stones to a more localised and democratic future, although some may see these steps as too reformist and call for swifter more transformational actions to achieve their vision.

In the discussion and conclusion section (section 6) we identify our conclusions on these different views of TNCs (they will save the world; it will be necessary to require and incentivise TNCs to take environmental and social responsibilities seriously; TNCs should be reduced in size or eliminated). But it is also necessary to look at the role of SMEs and different business models, as well as disruption, if the question of how to make long-term sustainability mainstream is to be answered, and we turn to this in following sections.
3. SMEs

In this section we look briefly at SMEs, which tend to be privately-owned and operated for profit.

SMEs form a large part of countries' economies, for example in the EU they produce on average 58% of GDP\(^{153}\). The proportion differs from country to country, for example Will Hutton’s Ownership Commission found that in the UK the proportion of medium sized family firms in the economy is a fraction of that in Germany. This, they said, denied the UK a crucial source of innovation\(^{154}\).

Like TNCs, there will some of these who actively work to operate to high social and environmental standards and be part of the solution to global problems, but, also like TNCs, there will also be many whose standards fall well short of this. For example:

- The Environment Agency in the UK reports that SMEs are responsible for around a half of all serious pollution incidents\(^ {155}\), but also notes that they are visited by inspectors infrequently (once a year at most\(^ {156}\)).

- A report for the European Commission suggested SMEs are responsible for 64 per cent of environmental impact (measured by combined air pollutants and waste), in line with their contribution to employment and production (energy supply and transport are responsible for two-thirds of UK carbon emissions\(^ {157}\)). It also noted that the smallest companies were doing least to improve their environmental performance. An estimated 40-45% of SMEs are companies operating in sectors with known high impact on the environment they said (e.g. chemicals, metals)\(^ {158}\).

- SMEs are noted to experience proportionately more Health & Safety accidents than large businesses\(^ {159}\), with one small study for the Health & Safety Executive in the UK finding formal compliance levels ranged from 19.5% to 61%. The UK Trades Union Congress suggests SMEs have just as high an occupational illness rate as large employers, including those in 'high risk' sectors such as nuclear. However they suggest the true rate is often hidden because SMEs have a much higher rate of under-reporting of both injuries and ill-health\(^ {160}\).

SMEs are said to account for 99% of all EU enterprises, and in sectors such as textiles, construction, and furniture up to 80 per cent of employment. According to Spence and Painter-Morland supply-chain pressure is the major driver for sustainable practices, particularly from large businesses\(^ {161}\), which perhaps is not surprising if the very low frequency of inspection for regulators in the UK is the norm.

A European Commission report on SMEs and social/environmental improvements suggested it is the personal and ethical values of owners that are the stronger motivation for action. It also said that to drive change it requires work where SMEs are located. They conclude that “the challenge is big and the rewards are great. There are some 24 million SMEs in the European Union. The ultimate aim must be to positively affect the behaviour of a significant proportion of those enterprises” (page10)\(^ {162}\).

The Federation of Small Businesses (FSB) in the UK takes issue with those that hold the view that concern for social and environmental issues is the preserve of large businesses. They argue that small businesses are actively engaged in these issues and believe them to be important (as did a survey of firms in Switzerland\(^ {163}\)). A survey that they carried out
suggested 92% of businesses thought their businesses were socially and environmentally responsible, but also that they faced barriers such as time, ‘red tape’, and financial constraints. The FSB suggested that small businesses were naturally interested in social and environmental matters due to their connectivity to their local communities and local economy and their ownership structure (largely family-owned). They have a strong motivation to ‘put something back’ according to the FSB. They cite Environment Agency research which stated that ‘growing number of SMEs are concerned about the environment and are taking action to curb their environmental impact - 40 per cent now have an environmental policy in place, compared with 25 per cent in 2005.’ Like the European Commission, they stated the importance of owners’ personal values, saying that “85% of businesses cited personal views and beliefs as their motivation for undertaking environmental activities” (page 6). Perhaps surprisingly none of those responding to the FSB survey suggested supply-chain pressure as a reason for carrying out environmental or social changes. Their survey suggested that they needed guidance more than legislation, and they needed support for increased investment in R&D164.

A study by Williams and Schaefer into pro-environmental engagement of small businesses in the east of England also suggested the importance of managers’ and owners’ personal values, concluding that “public policy and business advice in this area should perhaps focus more strongly on personal values and a sense of being able to contribute to environmental protection in their engagement with small businesses” (page 173)165.

Research by Brammer et al suggests that barriers to SMEs giving environmental or social responsibility higher priority are a lack of resources (money, time) and skills to implement environmental practices; secondly, managers–owners find it hard to justify investment into environmental management as they say most customers are not willing to pay for environmentally friendly products and processes. They view environmental regulation as burdensome, although legislation appears to be one of the main drivers of environmental management amongst SMEs (contradicting other research that suggested supply-chain pressure or personal commitment are the greater drivers).166

This viewpoint on regulation as ‘red-tape’ and burdensome may explain why collectively, like TNCs, they lobby via trade associations against regulation even though they are not reportedly against social and environmental improvements. The issue that is often raised is the proportionate impact of regulation on small businesses. For example, EU trade association, UEAPME which represents 12 million enterprises with nearly 55 million employees, produced a position paper opposing proposals for the EU to adopt world leading greenhouse gas reduction targets for 2030, whilst recognising that many of their members were active in delivering the shift to a low carbon economy167.

With SMEs forming such a large proportion of businesses and economic activity, clearly it will be important to address the barriers which hinder their environmental and social performance, as well as recognising that their motivations are often related to the values of the owners, which is argued by the FSB to be beyond making-profit.

We now look at cooperatives and social enterprises which also look beyond profit as the only driver and through their operations and ownership structures embed a deeper purpose.
4. Different business models – cooperatives and social enterprises

Co-operatives - the majority of which are SMEs, but some much larger – are businesses operated for profit with profits shared amongst members. Social enterprises are businesses which prioritise addressing a particular social challenge above profit-making. Both different business models find favour amongst the public (for example, cooperatively owned wind-farms\(^{168}\)).

4.1. Cooperatives

Cooperatives are mutual organisations with a range of ownership models. For example, in the UK the largest (measured by turnover) are consumer-owned (examples being The Cooperative Group, and Nationwide Building Society), followed by worker-owned cooperatives (John Lewis and Mondragon) and finally cooperatives of businesses (business owned).

Cooperatives are globally wide-spread. For example:

- In rural India cooperatives serve the consumer needs of 67% of households, 40% of African households belong to a co-operative, and in China co-operatives provide 91% of microcredit\(^{169}\).
- There are about 1 million co-operatives in the world that serve over 1 billion members and employ more than 100 million people\(^{170}\).

The 300 biggest cooperatives in the world generate over $1.6 trillion in revenue. Of these 300 the biggest sectors are agriculture & forestry (29 per cent) followed by banking and credit unions (26 per cent). The largest share of revenue from these 300 is in France, which generates 28 per cent. This is followed by the United States (16%); Germany (14%); Japan (8%); Netherlands (7%); United Kingdom (4%); Switzerland (3.5%); Italy (2.5%); Finland (2.5%); Korea (2%); and Canada (1.75%)\(^{171}\).

Cooperatives claim that because they give individuals participation through ownership they are inherently more engaging, more productive, more useful and more relevant in the contemporary world. They also claim their business model creates greater economic, social and environmental sustainability. The model also, they suggest, creates opportunities for individuals to develop the skills and confidence for participation in their communities and societies. Jessica Gordon Nembhard collates a wide range of evidence of positive social and sustainability benefits of cooperative businesses, particularly overcoming market failures, for example in providing services and employment in otherwise marginalised communities\(^{172}\).

However, despite this, there is recognition that sustainability is not a term that is universally associated with co-operatives\(^{173}\) and there appears to be little if any detailed research comparing the social and environmental benefits and impacts of the cooperative business model with those of commercial models.

The Ownership Commission reported that most studies have found that employee-ownership (worker cooperatives) has a positive effect on staff wellbeing and on employee productivity as long as employee participation is good. The model is, they say, conducive to innovation and resilience. However despite these benefits they found “employee owned businesses face more regulatory and policy challenges than non employee owned businesses, and often have difficulties in obtaining favourable finance terms” (page 72)\(^{174}\).
Regarding customer-owner mutual, the Ownership Commission has suggested there is a widely held view that mutuals are poor business performers, with management which is less dynamic and more 'pedestrian' in attitude. They suggest this is because they are judged more on profit (which isn't the driving motive) as opposed to quality of service to their members. The recent turmoil at The Cooperative Group in the UK as a result of poor management decisions does however illustrate that the sector is not immune to poor performance (although the Cooperative Bank did not need to seek a government bail-out during the banking crisis).

It has been suggested that too often legislation is designed for businesses which are profit-oriented and/or shareholder-owned, and that few countries have good legislation for co-operatives. The Ownership Commission in the UK make numerous recommendations for policy changes.

In 2009, the Indian government amended its constitution to make the right to form co-operative societies a fundamental right. This move followed United Nations Resolution 56/11430 which urged governments to encourage and facilitate the establishment of co-operatives, and to take appropriate measures to create a supportive and enabling environment for the development of co-operatives.

In Kenya, gender quotas are now legally required of co-operative boards under the new constitution, which sets them ahead of traditional businesses.

### 4.2. Social enterprises

Social enterprises are even more explicit about a desire to drive social and/or environmental purposes. They are purpose-driven businesses. They operate in sectors such as health, social care, housing, education and waste recycling. The majority (52%) of UK social enterprises actively employ people who are disadvantaged in the labour market (for example: long-term unemployed, ex-offenders, disabled people).

In the UK they are predominately small businesses with only twenty per cent having a turnover in excess of £1 million according the Social Enterprise UK. Social Enterprise UK also states that close to a third of all social enterprises are three years old or younger and they have three times the start-up proportion of traditional SMEs. Their longevity is similar to that of more traditional SMEs, with around a quarter now operating for over 20 years.

Social Enterprise UK claims that social enterprises are more innovative than traditional SMEs, stating that 56% of social enterprises developed a new product or service in 2012 compared with 43% of SMEs.

38% of all social enterprises work in the most deprived 20% of communities in the UK, compared with 12% of traditional SMEs. This is a striking statistic which on its own illustrates what sets social enterprises apart from others.

They are also far more likely to be led by women than mainstream businesses, with 38% of social enterprises having a female leader compared to 19% of SMEs and 3% of FTSE 100 companies. In addition 15% of social enterprise leaders are from Black, Asian and Minority Ethnic communities.

Three quarters of social enterprises actively involve their beneficiaries or service users in decision making to a greater (40%) or lesser (34%) extent.
Social Enterprise UK states that almost 90% of social enterprises aim to minimise their environmental impact with only 3% of taking no action at all, which they say betters traditional SMEs where they said a third take no action to minimise environmental impact (a figure which may be disputed by the Federation of Small Businesses).

Social Enterprise UK also suggests that procurement policy and particularly access to funding are major challenges faced by social enterprises.

A 2014 report found that the failure rate of top social enterprises was lower than that of the top FTSE 100 companies.

4.3 Scale

As stated earlier, the vast majority of social enterprises and cooperatives are SMEs. Whether these models of business are able to scale-up effectively to deal with very large-scale capital projects – for example, transnational electricity grids, offshore wind farms - has not yet, as far as we can tell, been tested. However, as the Ownership Commission suggests, these models of businesses are under-represented in the UK economy and should be encouraged and supported to enable greater plurality of ownership models. Such a recommendation is based on an understanding that there can be benefits to economic resilience and adaptability from greater diversity of business models.

Whether or not such claims about diversity are correct, there are other benefits from increasing the presence of SMEs (including co-operatives and social enterprises) in the economy. For one, it is such enterprises that introduce most disruptive innovations, as we see in the next section.
5. Disruption

We have seen that significant change from business-as-usual is needed if long-termism and sustainability is to become the business norm. This implies more significant and rapid change than incremental improvements, important though they may be. It also implies more disruptive changes are necessary, as suggested by the UK Aldersgate Group which has suggested “the real breakthroughs come from ‘disruptive’ innovation that drives step changes” (page 26)\textsuperscript{179}.

Disruptive technological innovation is, of course, just one form of disruption. However as the drive to privately-owned and community-owned renewable power - which has resulted in the ‘big 4’ energy TNCs in Germany holding only 5 per cent of renewable energy production - demonstrates, technological disruption can also lead to system disruption\textsuperscript{180}.

Disruptive business models are another form of disruption. Many of the ‘sharing’ businesses that have formed over recent years have significantly disrupted the approaches of traditional businesses, albeit some following fairly traditional start-up for-profit models (e.g. Airbnb for accommodation, Uber for ride-sharing and Zipcar for car sharing). Others are adopting cooperative or social enterprise models.

Some of the most disruptive contemporary business models are those of peer-to-peer sharing business which are not-for-profit orientation and/or with no financial transactions at all, for example, product sharing (e.g. free-cycle and open-source innovation). On the former, Shareable.net lists tens of ways to share which in addition to social and environmental advantages bring financial savings to individuals (for example, the founder of the website, Neal Gorencio, estimates that he saved $17,000 in one year)\textsuperscript{181}. On the latter Nina Misuraca Ignaczak posted a blog on Shareable.net on 21 technologies that could decentralise the world, with many of these developed by and for open-source use and innovation\textsuperscript{182}.

These two sharing models fundamentally challenge the current profit-orientated economic system. They are also, as we highlighted in our Big Ideas Cities topic and Consumption topic, highly desirable for future sustainability.

Disruption is not of course always wholly positive. For example the advent of low cost airlines, such as Ryanair, significantly disrupted the business models of the existing airline industries but it also led to a significant increase in flights and aviation emissions (although arguably also opening up foreign holidays to poorer sections of society, thus reducing inequalities of opportunity).

Business academics Bower and Christiansen have said that disruptive innovations are most often pioneered by new entrants. Bergek et al suggest these new entrants tend to be ignored initially by incumbents, for whom the new approaches are financially unattractive relative to existing profit models and competing investment alternatives. Yet when the disruptive innovation starts to invade the mainstream market incumbents will realize the threat, although potentially too late to adapt and change\textsuperscript{183}.

The case studies of technological disruption succeeding are numerous (unlike business models and system disruption). Christian and Overdorf identify that the reasons for this include the nature of big business, which is often focused on incremental product improvements to increase market share, they look for higher profit margins than disruptive
innovations usually bring in the short-term, and they are not good at going for small markets where disruption is often nurtured\textsuperscript{184}.

Disruption industries can of course grow rapidly and grow very large. Google was started in a garage in 1998. It now has a market capitalisation of $173 billion and is one of a number of companies leading an information and communications revolution.\textsuperscript{185}

But Bergek et al also report on failures of disruptive innovations which they suggest were due to the performance standard of the disruptive innovation not being superior enough or offering a strong enough new aspect to convince consumers to shift preference. They also state that the incumbent industries were sufficiently established to make disruption difficult\textsuperscript{186}. An example for the latter would include social or technology ‘lock-in’. In technology the QWERTY keyboard is much cited and social lock-in may include transportation habits. Pilkington and Dyson suggest - based on their study into electric cars - that progress by disruptive businesses stalls if they don’t have the expertise and networks needed to develop their innovation fully\textsuperscript{187}. Obal suggests trust is a further challenge to new entrants. He states incumbents have trust relationships with their customers whereas, by their nature, new entrants do not\textsuperscript{188}.

Interestingly electric car manufacturer Tesla has opened up its patents to competitors because it was facing cost barriers for its batteries. Whilst originally it filed its patents because it was worried that bigger car manufacturers would simply copy its technology and drive it out of business, it has realised that much more money needs to be put into electric batteries to make them cheaper and more powerful. They concluded this needs the big TNCs to invest, whilst hoping that if they do Tesla will still be well placed to benefit from the cheaper batteries\textsuperscript{189}.

Social Enterprise UK, whose member companies are potentially a disruptive business model, has found that government procurement policies significantly hinder their success, as well as access to finance. They suggest that the lack of market competition in funding is a problem, with the dominance of a few major banks. They suggest more banks and regional banks would help, as would a range of alternative funding streams such as peer to peer, crowd-funding, community shares, etc\textsuperscript{190}.

This is not to say disruptive innovations, including disruptive business models, can’t start within big businesses, just that the dominant tendency is for them to start outside of big businesses, or businesses reorganising themselves so that they have an arm which is focused on innovation and somewhat separate from the rest of the business (although even in that case it is more difficult to envisage disruptive business models emerging this way compared to disruptive technologies\textsuperscript{9}).

But big business can adapt and survive.

Ansari and Krop point to a number of examples where big business has adapted, survived, and embraced disruptive technologies. For example, Microsoft was a dominant software firm from the pre-Internet era and has been able to adapt and maintain its position by controlling

\textsuperscript{9} Indeed it could be suggested that the inability of incumbents to understand the new business models associated with some new technologies is a key reason why such technologies are more often delivered by new entrants.
platform ecosystems\textsuperscript{191}, possible due to technological lock-in, or even social lock-in (users using Microsoft because most other users do, regardless of other technological options).

5.1. Supporting disruption

Innovation is a key part of disruption; although of course innovation can be non-disruptive (e.g. incremental product improvement). Governments can be at the forefront of laying the foundations – basic research, and infrastructures - from which disruptive innovation can emerge. For example, David Runciman points to the investments made by Governments in information technology and fracking\textsuperscript{192}.

Robin Murray found that whilst continental small firm and co-operative districts have developed relationships with university research capacity, etc. there is little UK economy-wide support for co-operative innovation\textsuperscript{193}. The cluster around Cambridge University is now the largest biotech and IT cluster in Europe, with over 1500 firms working with the University’s research expertise, although it is unclear how many of these are social enterprises or cooperatives (probably very few).

Peter Cox, in his review on short-termism for the UK Labour Party, bemoaned the paucity of research and development spending in the UK in comparison to other countries. He cited the case of graphene. He said that although the development of graphene has received Government research support to the tune of £60 million, UK businesses had only filed 54 related patents’, whereas Chinese organisations had filed 2,204 and the US 1,754\textsuperscript{194}.

Digital technology and social network approaches offer enormous opportunities for disruptive innovation to emerge. In their book "The Solution Revolution", William Eggers and Paul Macmillan highlight how social network Kaggle has 85,000 users who donate their time to overcoming problems, to great effect apparently\textsuperscript{195}. This collaborative approach to problem solving may be used by existing corporations to solve problems but it is also a powerfully potential fertile ground for disruptive technologies and approaches to emerge, say Tapscott and Williams in their book “Macrowikinomics”. They position this collaborative approach as a necessity to solving problems and delivering 21\textsuperscript{st} century solutions across the board, suggesting those that only look to better regulation and breaking up the banks are only addressing part of the problem\textsuperscript{196}.

What is clear from this very brief look at disruption (which we will look at in more detail in our innovation topic in the Big Ideas Project) is that in terms of disruption it is the SME scale business that is most important, that new business models also offer real possibilities, and that the digital age potential for collaboration could revolutionise how business is done. This informs our recommendations, which are identified in the next and final section.

\textsuperscript{191} We use this here as a measure of innovation, but within our Big Ideas innovation topic we will more fully explore the positive and negative roles that patents and Intellectual Property regimes play in innovation.
6. Discussion and conclusions

It is thankfully recognised by most people - even by those in the heart of the establishment - that we cannot continue with further environmental degradation, increasing inequalities and short-term thinking. Another course is necessary.

We suggest that what is most necessary in the world of business – those organisations that bring together labour and resources, and thereby help serve social needs – is to create the space so that innovative, disruptive and purpose-driven businesses (some of which may be TNCs but most will be SMEs) can flourish and compete fairly. We suggest it is from such businesses that the necessary transformational change will emerge in a world in which rapid social, economic and technological change often occurs much faster than politics and policy (as argued by Tapscott and Williams, and others).

It does however have to be recognised that currently the system is rigged against these businesses by allowing some businesses to cause extraordinary environmental and social harm with little or no consequence; by allowing global, regional and national oligopolies to dominate markets; and by allowing particularly big business excessive influence in politics and policy. It is necessary to intervene in these areas.

Intervening in the market to create space for innovative, disruptive and purpose-driven businesses we believe opens-up-up the possibility for an economic system that delivers wellbeing for people and the planet.

In reaching this conclusion we reject the suggestion that oligopolies (and their concentration of power) will rapidly drive sustainability. We believe this is wishful thinking. Apart from a small number of pioneers (which should be supported) there appears to be very limited appetite amongst the vast majority of TNCs to take on this role. We also reject, although understand, the view that ultimately TNCs should be done away with as a matter of principle, and therefore not surprisingly reject the view that 'small is beautiful' must be pursued without compromise. We take a more pragmatic view that the existence of TNCs is not per se impossible in a sustainable world but that their market, economic and political power needs significantly reducing and they should not dominate.

Instead we welcome efforts such as the advent of the B Corporation which seeks to re-orientate or repurpose business. That the literature reveals a widespread view that a sole focus on shareholder returns is inappropriate suggests a transformative change in mind-set may already be occurring. Yet we argue that this alone will not drive the bulk of TNCs to be sustainable. Far too often economic structures and governmental incentives point in the wrong direction (for example, perverse subsidies for fossil fuels) and even when incentives are in the right direction they are often far too weak (e.g. carbon pricing). Cultural, psychological, educational and sociological factors tend to constrain business decision makers within largely conventional business strategies and models.

Our introductory discussion of economic systems highlighted several features of the contemporary neo-liberal model of capitalism which are incompatible with a vision of sustainability and wellbeing for all by 2050. These include the system’s tendency to institutionalise inequality through the inheritance of wealth and associated political advantage\(^{197}\), and its perverse tendency to accelerate use of scarce environmental resources through competition, regardless of the possible presence of global environmental limits. This latter tendency has proved particularly pernicious in the case of fossil fuels and
associated climate changing carbon emissions. Both features are increasingly linked by analysts and scholars to the demands of a debt-led financial system for high rates of return. We plan to examine the financial system in more detail including questions of banking and debt nationally and internationally in a later phase of the Big Ideas Project.

In this paper we have focused on the nature of business enterprises and the models and paradigms they employ. We suggest that disruptive business models could transform the nature of the economic system in various ways, in particular by broadening the focus of value, such that businesses necessarily pursue social purposes, not financial profit alone; and by increasing stakeholder participation in business in ways that are socially empowering.

In other words we see it as possible and achievable to deliver a new economic model (which might be considered either a new form of inclusive capitalism or even post-capitalist) by reinventing business models. We acknowledge that there may be several major obstacles or objections to such a proposal, which we discuss briefly below: first, that these alternative models could not obtain the financial capital they need; second that because of the political power of vested interests, such models would remain disadvantaged by the neo-liberal framework of market, tax and regulatory arrangements that has been co-created by businesses and governments in the last three decades; and third that although alternative models might be attempted at small scales, it is implausible that they could be scaled up to a degree that transforms the global economy.

First, with respect to capital, it seems entirely plausible to argue that alternative business models could be financially sustainable and indeed profitable in abstract: but it could reasonably be suggested that (like cooperatives) such businesses would compete poorly for capital in current financial markets (or in a world where higher profits can be made by externalising environmental or social costs). Public financing (direct subsidies, insurance, credit guarantees etc.) through (progressive) taxation might provide one effective source of capital in such circumstances. Many governments are willing to provide capital support for certain technologies perceived as socially or environmentally desirable, even over fairly prolonged periods. In Canada government financial support has been provided for social economy operations, such as the umbrella organisation: the Chantier de l'économie sociale, and for cooperative childcare service providers where government subsidies make up the different between user fees and living wages for workers. But such models are everywhere limited and often under political pressure. In the longer term it seems likely that effective regulation would be needed globally to exclude business models which compete by externalising social or environmental costs, and that financial markets would need to be reformed (as we will address in the subsequent project), if business models driven by social purpose are to be able to raise adequate finance to deliver their potential.

The second objection highlights the domination of political systems by vested interests. This occurs in many domains, notably including the financial system, which now dominates most governments through threats to investment and trade in free-floating currency markets. It is also found at multiple scales: US politics is dominated by campaign finance from wealthy individuals and corporations. International economic politics is heavily influenced by corporate interests expressed through the WTO and many bilateral investment treaties.

1 UK Government financing of nuclear power offers one fairly extreme example; German feed-in-tariffs for renewables are another, shorter-term case.
which typically provide investor-state dispute mechanisms which can have a severe chilling effect on states’ willingness to impose regulations in the public interest, which is increasingly described as equivalent to ‘expropriation’ of corporate assets (a term previously reserved for the hostile nationalisation of businesses). The case for development and stronger enforcement of rules against monopolies and oligopolies rests strongly on the need to reduce the political power which flows from such concentrated market power; as well as on the argument that such concentration tends to allow business managers and owners to increase their welfare at the costs of the welfare of customers and workers. In this respect the proposal for stronger anti-trust rules is seen as a symbiotic, or subversive one - which apparently serves the interests of an influential group in the current system (in this case consumers), but simultaneously acts to reduce the political power of dominant vested interests.

The third objection suggests that such business models will never reach a scale at which they could supplant conventional models, and thus redefine the cultural landscape of capitalism. Transitions theory suggests to the contrary, that in the right circumstances niche innovations can do just this. When applied to products, such disruptive innovations do not necessarily perform technically ‘better’ than existing alternatives (at least initially), but typically redefine the market so that performance is defined and measured in different ways and with different metrics. The analogy is far from exact, but the opportunity for purpose-led business models is similar in this respect: they redefine what we might call the ‘social market’ in what we might expect from businesses. Similarly Wright highlights the theoretical potential for alternatives to expand from protected or subsidised niches (which he describes as ‘interstitial transformation’).

It seems possible therefore, that all three major objections to attempting to deliver economic transformation through the development and support of disruptive business models could be overcome. However there is no guarantee that even effective anti-trust provisions will weaken the political power of neo-liberal business lobbies adequately to then successfully promote effective social and environmental regulation, or indeed to win adequate public financial support for social business models. Thus additional measures to reduce the power of vested interests, including lobbying transparency rules, are likely to be essential.

Most analysis of possible economic transformation focuses on material interests: in other words, despite its efforts to change the system, it actually uses the language and framing of the existing system, rather than that of the desired transformation. This is clearly important in winning support within the current system, but can easily marginalise opportunities for change that are not recognised in the current paradigm.

In this paper we have made frequent reference to the social and cultural norms of business. We do not accept that businesses (any more than the humans that comprise these organisations) are purely rational self-interested entities. This is more often recognised by writers considering SMEs – at least with respect to sustainability practices – where it is perhaps easier to see that the business pursues goals in line with the values and culture of the owner or manager. But even the largest businesses are heavily influenced by culture, values and norms, and indeed, much of managers’ time is dedicated to building or

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1 This should not be read as implying that there are no circumstances where nationalisation (and associated expropriation) is appropriate. Many countries have excessively privatised public services, and new business models may not always offer a preferable alternative to renationalisation (especially for ‘natural monopolies’ like many utilities).
maintaining organisational cultures that are aligned with their expressed goals and strategies.

Our advocacy for disruptive business models based on social purpose is in part based on this understanding that humans are not only (or even primarily) competitive, but naturally collaborative, social beings, who find it rewarding and fulfilling to deliver social purposes, who obtain wellbeing not only from material consumption but from social belonging and from the support of a broader community. We also recognise that humans learn and relearn shared values through their daily practices. So in profit-led organisations, decision makers will support selfish and exploitative approaches (and through processes such as cognitive dissonance or system justification\textsuperscript{201} may even come to believe that they are ‘right’, and serve a ‘greater good’). On the other hand, in purpose-led organisations, decision makers can be expected to more naturally support collective approaches which reflect the public interest they serve, and come rather to justify those systems.

In other words the cultures of these different organisational models are distinctly different. This constitutes both a challenge to any process of conversion, and a potentially major benefit of such a shift. As we see when public services are privatised, or have market mechanisms introduced, culture is a scene of contest and conflict. The most important mechanism to take away here is that the process of cultural change is not inevitably unidirectional towards greater dominance of profit-led, market cultures. In purpose driven organisations it is theoretically possible for the better side of human nature to drive decisions, yet also collectively create wealth and wellbeing. However, simply establishing such models will not guarantee their success.

The nature of profit-led corporate cultures, and the psychological barriers mobilised to defend them, are clear factors discouraging businesses from responding to apparent incentives for enhanced sustainability practice. We are not claiming that they are the only barriers, rather than they are a pervasive obstacle: if status and rewards in business follow things like meeting sales targets, the development of new products or successful entry into new markets, it is easy to see that cutting costs by saving energy, or spending time compiling reports to particular standards will not attract the most ambitious corporate managers, or dominate business leaders’ agendas.

Thus smart regulatory systems which can win support from those being regulated must pay much more attention to norms and culture. This is not to suggest that changing norms should replace clear, measurable and enforceable regulatory standards, but that changing norms is necessary if such regulations are to inspire compliance rather than evasion or a ‘tick-box’ approach. Existing norms inevitably influence the perceptions of business decision makers about the potential and desirability of particular regulatory approaches, business strategies or models.

The importance of norms is all-pervasive in economic systems. Capitalism would grind to a halt if there were no norms of trust in transactions. And the institutional rules and systems must reflect this. As Ha-Joon Chang puts it “Assume the worst about people, and you’ll get the worst”. In other words, if institutions and rules presume selfishness and mistrust, they can make those problematic behaviours more common. This applies both to how corporate managers and staff should be incentivised, and to what we expect of the public in economic interactions. It does not mean we should abandon regulation and the rule of law, rather than we should design processes and institutions in ways that facilitate trust-building and cooperative behaviour.
Business models that encourage ‘purpose-led’ businesses (where those purposes reflect public interests) suggest opportunities that will reflect socially positive norms, and enable them to be reproduced. Another possibility for stimulating such norms in business might be a temporary, but renewable ‘license to operate’ issued through a regulatory procedure. Craig Bennett of Friends of the Earth has suggested that the rhetorical concept in Corporate Social Responsibility of a ‘social license to operate’ could be transformed into a real licensing procedure, perhaps associated with particular tax treatment, and repeated say, once a decade. Water utilities in the UK go through a re-licensing procedure with OfWat (The Office of Water Regulation) every five years. There are also parallels here with franchise provisions for private companies running e.g. train services. Exploring these might be helpful in anticipating risks in such a model. For instance, clarity would be needed both over the public benefits expected and over the role of the stakeholder base in such licensing decisions.

6.1 Our Big Idea.

Our Big Idea then, is for a transformational agenda for the growth of purpose-driven businesses, particularly cooperatives, social enterprises, sharing businesses but also other purpose-driven businesses such as B-corporations (and within these particularly SMEs). This will necessarily involve a change of rules, regulations (e.g. Japanese top-runner programme\textsuperscript{202} and car efficiency standards\textsuperscript{203}) and incentives – which will differ from country to country – and an ability of these businesses to access funds through government grants and loans. It will require, in countries such as the UK, an overhaul of the banking sector to promote regional, local and mutual banks focussed on broader societal goals and not short-term profit, together with broader changes in the finance sector. We give a non-exhaustive flavour of what changes may be necessary in box 2 below.

We see the B Corporation as a reforming move rather than a disruptive move, as is greater stakeholder involvement. But both are very welcome and necessary. Yet there is a deeper sense of purpose to societal wellbeing embodied in social enterprises, cooperatives, peer-to-peer sharing initiatives and (perhaps to a lesser extent) family-owned SMEs.

It is clear from the evidence in front of our eyes – the social and environmental damage being caused by business as usual – that disruption is needed. The literature is clear that disruption predominately emerges from small businesses. This speaks to the need for a healthy business ecosystem, not one dominated by big businesses.

This greater plurality of businesses has also been championed by Will Hutton’s Ownership Commission. They stated: “A plurality of ownership types and business models creates a corresponding diversity in forms of corporate governance; risk appetite and management; incentive structures; policies and practices; and behaviours and outcomes. It also offers wider choice for consumers through enhanced competition that derives in part from the juxtaposition of different business models...Variety is the evolutionary fuel in economic development as well as in biology... a dynamic market economy also needs a constant supply of vibrant new firms to replenish the stock. These will frequently emerge from the small and medium sized business sector, in particular family owned business, which are also the principal driver of innovation...”(Page19)

Currently there is a sense that the potential of these is partly constrained by rules and regulation largely written with big businesses in mind, and in part by the conservatism in the big banks (breaking-up the banks, regional banks and peer-to-peer lending may be important for increasing access to funds for these businesses). These barriers should be
removed and we should be aiming for a much great plurality of business ownership than we currently have.

In box 2 (below) we identify some of the changes needed to support the flourishing of innovative, disruptive and purpose-driven businesses.

**Box 2 - examples of changes to support the flourishing of cooperatives, social enterprises, sharing businesses and other purpose-driven businesses**

- B corporation legislation should become widespread and directors’ fiduciary obligations should be widened so that directors should have a ‘duty of stewardship’ to deliver this purpose rather than at present simply ‘have regard’ to any interest other than their shareholders. The tax regime should be adjusted to incentivise businesses to register as B corporations. Directors remuneration should also be focused on delivery of the purpose in the long-term not the short.

- Taxation should be designed to reward longer-term shareholding in companies, including influencing pension funds/sovereign wealth funds to focus on long-term rewards.

- Employee participation and ownership should be positively encouraged, as should the formation of employee trusts for business ownership. Stakeholder-focused business should become the norm (mimicking in part the Asian model).

- Mutu als should have the opportunity to choose a legally binding corporate form that enshrines the principle of “disinterested distribution”, as is common in some EU states, so that they cannot cash out because the assets must be transferred to another mutual. Being a mutual should confer tax advantages.

- Mutu als should be able to issue bonds to members and raise capital for community/public investment and infrastructure projects, and regional banks should be widespread (created, potentially through the process of breaking up banking oligopolies) and mandated to support disruptive technologies and models with a particular focus on SMEs, including cooperatives, social enterprises and sharing initiatives.

- Universities should be encouraged to reach out to social enterprise, cooperatives, and peer-to-peer open-source communities to help support the development of disruptive technologies and approaches, and encourage the clustering of these around university campuses. Likewise city libraries should become open-access hubs for the exploration of peer-to-peer and open-source innovation.

- The public sector must actively consider the broader objectives of the businesses it does business with through its purchasing decisions and structure its procurement so that it does not disadvantage purpose-driven SMEs. Local authorities, for example, should actively recognise the social and environmental benefits that purpose-driven businesses bring to their communities and encourage and support them bidding for procurement contracts, whilst also recognising their obligations of quality and value for money for tax-payers.
6.2 Enabling interventions

As identified earlier, for our Big Idea to succeed it will be necessary to remove barriers in addition to taking measures to support innovative, disruptive, purpose-driven businesses. We have identified two enabling interventions:

The first enabling intervention is to **break-up national, regional and global oligopolies**. These oligopolies not only wield excessive power in the market-place - hindering and preventing a greater diversity of businesses – but the literature suggests they wield excessive influence on policy and politics. Anti-trust legislation exists in many jurisdictions but regulators have been remarkably complacent.

Breaking-up oligopolies also helpfully reduces the ‘too-big-to-fail’ risk which has led to massive injections of tax money to prop-up private enterprises (for example, banking, US car giants). We suggest the ‘too-big-to-fail’ risk extends beyond banking to many other sectors where the market is dominated by a few players (for example, currently could Microsoft be allowed to fail?).

Our second enabling intervention is **the evolution of global regulation for TNCs**. Such regulation should be outcome-focused not overly prescriptive of process, and it should ensure that TNCs adhere to high social and environmental standards, that they report on their impacts globally, that they pay their taxes, that they can be held to account for transgressions (including directly by victims and in jurisdictions other than where harm was caused), and that their lobbying is reduced and fully transparent. It should evolve from the formation of national and regional regulators and from progress on TNC regulation through, for example, the UN’s Commission on Human Rights. Whether such global regulation can be enforced effectively without a global regulatory institution is an open empirical question. Although it seems plausible that a powerful regulator would be more effective in delivering such practices, it would also be more directly resisted by business and political lobbies. It may prove more practical to deliver such regulation in a polycentric way through reforms to national company law and stock market listing rules.

We recognise that this second enabling intervention is likely to be strongly opposed by many businesses, even some of the more progressive pioneer TNCs. They are likely to instead suggest more voluntary approaches. We recognise that voluntary approaches may in some cases lay the ground psychologically within business and political community for later regulation but argue that in very few cases will voluntary approaches be effective over time or at scale. In other words, voluntary action should be seen by all participants as the start of a journey to regulatory action in order to ensure full compliance and the adoption of new norms by all.

Achieving these changes – breaking-up oligopolies and global regulation for TNCs - in the face of the power wielded by these companies and the complacency of anti-trust regulators is of course a herculean task which may take decades. However the banking crisis has also opened-up opportunities to revisit this agenda.

In the true spirit of polycentric governance (see our Big Ideas paper on governance of the commons), national and regional action on business behaviour and oligopolies should proceed whilst the battle for global regulation is fought (they are not a substitute for global regulation, we suggest, as some countries and regions do not have the resources to fully constrain poor performance by some TNCs). This national and regional regulation should in
the first instance be deployed to influence the practices and behaviours of those TNCs that are most responsible for the social and environmental harm being caused (e.g. those 90 companies they have been responsible for two-thirds of all greenhouse gas pollution).

6.1 What does this add-up to?

Our Big Idea and enabling interventions are pro-environment, pro-social-justice and they are also pro-enterprise, and pro-innovation. It is and always has been possible to be pro-environment and pro-enterprise. Progressive business has nothing to fear from such an agenda, and indeed much to gain. It would lead to a greater diversity of businesses, a greater plurality, and TNCs much reduced in market-share and number. Through some of the suggested change the pressures from short-termism may be reduced.

This agenda, we think, will contribute to reshaping our economies away from consumer-orientated capitalism towards an economic system which has the wellbeing of people and the planet at its heart (whether the form to emerge is called inclusive capitalism, considerate capitalism or something completely different is largely irrelevant). In particular, the spread of purpose-led business models implies a significant evolution in business norms and culture, to more collective ones much more in tune with businesses’ stakeholders in wider society.

These interventions alone will not deliver well-being to people and the planet.

In many western democracies the individualistic world-view is now dominant, and it is a world-view that is spreading. Other changes will need to occur to turn this around so that the dominant view is one of cooperation and empathy between people and generations. In other Big Ideas topics we seek to address these issues, particularly in our topic on Consumption and Identity.

And, as we identified in our Big Ideas topic on Governance of the Commons, internet freedom is critical and in the context of businesses will undoubtedly increasingly expose poor environmental and social behaviour as well as reshape how businesses operate.

As noted earlier, it is also unlikely that such a transformation of business models will be possible in the absence of significant changes in financial systems. We plan to consider questions of how socially responsible or patient capital can be mobilised through engagement and divestment, and how monetary systems might be reformed to underpin economic activity in the public interest, in a future Big Ideas topic.

The changes identified here will also not deliver Schumacher’s ‘small is beautiful’ ethos as TNCs will still exist (although they will be much changed and fewer in number). So whilst they may be viewed as too timid by some, hopefully it will be recognised that they represent a very significant move in the Schumacher direction compared to where we are now (which is heading in the opposite direction).

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