

Reorienting companies to cope with the current crisis

From Shareholder Value to Sustainability

The current triple crisis we face, an ecological, financial and social crisis, clearly shows the limits to Corporate Social Responsibility and shareholder value as guiding principles for our companies. Comprehensive reforms are needed in order to reorient companies towards policies which are sustainable in the long run.

By Sigurt Vitols

Neo-liberalism has dominated corporate governance reform in Europe for the past decade and a half. The neo-liberal approach to corporate governance, that is to the way our companies are managed, monitored and regulated, has been based on the following elements:

- Shareholders as the dominant interest in the firm, based on the legal fiction that shareholder capital hires labor, purchases supplies, etc,
- Shareholder value as the optimal performance measure for companies, since the stock market is supposed to best judge future value,
- Stock options as a key mechanism for aligning the interests of managers and shareholders,
- Corporate Social Responsibility (CSR) as a voluntary approach to addressing the non-financial impact of companies.

The triple crisis clearly shows that we need alternatives in order to overcome the problems in the shareholder value approach:

- Stock markets are increasingly dominated by the short-term pursuit of speculative profits. Stock options therefore give managers an incentive to follow strategies with a chance of high payoffs in the short run at the expense of future growth. This can be seen most clearly in the case of the banking sector, whose imprudent lending practices were the root cause of the financial crisis.
- The dimensions of climate change and what we need to do to reverse it are ever clearer. However, the current plans of companies for emissions reduction are woefully inadequate for achieving climate protection goals as well as environmental sustainability.
- The Lisbon Strategy goals for more and better employment, on which there was a notable lack of progress even before the financial crisis, have suffered a serious setback in the past year and a half.

The sustainable company

A key part of any solution to this triple crisis will be to reorient companies away from short-term stock market performance towards ecological, social and financial sustainability. One alternative concept for corporate governance is the sustainable company. The sustainable company includes the following elements:

- A multi-dimensional concept of sustainability as the central guiding principle of the company,
- An externally verifiable reporting system adequate to measure progress on sustainability goals,
- The formulation of concrete sustainability goals and the development of a detailed strategy for achieving these goals,
- The alignment of management incentives within the company to support the achievement of these sustainability goals,
- The involvement of stakeholders and in particular employees in all of the above processes.

A key part of this effort will be to develop an alternative set of performance indicators measuring environmental, social and financial sustainability at the company level. These indicators are needed for goal-setting, for internal and external monitoring of company impact and progress on goals. These indicators could also be used for the development of incentives to orient management and employees towards the achievement of sustainability goals.

Major progress has been made in developing such indicators by the Global Reporting Initiative (GRI) and, for a narrower set of issues, by the Carbon Disclosure Project (CDP). The GRI, which is a multi-stakeholder organization including Non-governmental organizations, companies, trade unions and other organizations, has recently issued the third generation of reporting guidelines (G3) which include core, non-core and sector-specific indicators on a broad set of environmental, human rights, labor, community and other issues.

The CDP, which is a Non-governmental organization sponsored by institutional investors, develops an annual questionnaire which is sent out to listed companies. The primary goal of the CDP is to inform investors about the carbon-related risks they face when investing in a company.

The questionnaire the CDP sends to companies has numerous questions including topics such as the level of carbon emissions, company strategy and goals for reducing emissions, and whether there are financial incentives for managers and employees for carbon reduction.

Deficits of the voluntaristic approach

However, the current voluntaristic approach has a number of deficits which require action to overcome. The first is that it are mainly large listed companies which are participating, and even among these companies reporting is incomplete. Less than one third of the largest 600 European listed companies issued a sustainability or CSR report in 2008 which drew upon the GRI guidelines. Whereas the participation rate in the CDP was higher (three fourths of the top European 300 companies), a number of companies did not answer the questionnaire completely or else did not make the answers available to the public. Binding legal requirements for comprehensive reporting by companies on a broad set of criteria are needed, for example in Europe through an directive of the European Union on non-financial reporting.

Second, sustainability reporting is typically done after the fact and relatively few changes have been made in the way that companies have been run in order to create incentives for sustainability. Only a few companies have tied a substantial proportion of variable pay for top management to the achievement of goals such as the reduction of workplace accidents or environmental emissions. The CDP data for example shows that only about half of the responding companies have incentives for management and employees for reducing carbon emissions. In many cases these are limited to general improvement suggestion programs for employees. The number of companies with meaningful financial incentives for sustainability needs to be substantially expanded through political and investor pressure for the diffusion of best practice.

Third, we need to increase the power of long-term stakeholders in the decision-making structures of the company, particularly of employees who have the largest stake and a long-term interest in the companies they work for. Companies with em-

„We need to move beyond CSR, if we wish to reorient our companies towards sustainability.“

ployee participation, such as European Works Councils or board level employee representation, are more likely to participate in the CDP, to score higher on the CDP leadership index, to be included in one of the major sustainability indexes and less likely to have stock option plans for their top managers. Financial regulation also needs to be reformed to encourage shareholders to take a longer-term perspective that includes non-financial performance.

These changes, which involve more company regulation and increasing stakeholder power, represent major political and technical challenges which will not be easy to implement. However, we need to move beyond shareholder value and CSR if we wish to reorient our companies towards sustainability and to prevent our triple crisis from developing into a full-blown disaster.

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politische ökologie

Die Zeitschrift für Querdenker und Vordenkerinnen

Multiple Krise – Ende oder Anfang für eine gerechte Welt?

Mitherausgegeben von der Heinrich Böll Stiftung

Artensterben, Bankenpleiten, Klimawandel, Hunger und kriegerische Konflikte sind keine voneinander unabhängigen Krisen: Sie sind unterschiedliche Symptome einer einzigen großen Krise, die aus unserem wachstumsfixierten Wirtschaftssystem erwächst.

Die Autor(inn)en der *politischen ökologie*¹¹⁸ erläutern, was die aktuellen ökonomischen, ökologischen und sozialen Krisen eint. Sie fördern blinde Flecken der gängigen Bewältigungsstrategien zutage und diskutieren zukunftsfähige Lösungen.

- _Wie muss ein globaler Green New Deal aussehen, der seinen Namen verdient?
- _Was sind die Geschlechterdimensionen der Krise?
- _Welche Wege führen zu einem CO₂-armen Lebensstil?

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