

# Can Corporations be Sustainable?<sup>1</sup>

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Corporate sustainability is defined as “a business approach that creates long-term consumer and employee value by... taking into consideration every dimension of how a business operates in the social, cultural, and economic environment” – according to Wikipedia.<sup>i</sup> “Transparency, employee development, and resource efficiency” are identified as key strategic principles of corporate sustainability. The United Nations Brundtland Commission's definition of sustainable development seems to be generally accepted in the sustainable corporate world: “Sustainable development meets the needs of current generations without compromising the ability of future generations to meet their needs as well.” This basic definition is also used in references to sustainability in this paper: *Sustainability is the ability to meet the needs of the present without diminishing opportunities for the future.*

Corporate sustainability has evolved from more traditional references to ethical business practice. Phrases such as corporate social responsibility or CSR, corporate conscience, corporate citizenship, social performance, and sustainable responsibility are all similar in meaning to corporate sustainability.<sup>ii</sup> Social responsibility was particularly popular in the late 1960s and 1970s by corporations that adopted the term “stakeholder”<sup>iii</sup> to express responsibilities to their employees, customers, suppliers, and others essential to their success. More recently, corporate sustainability seems to have evolved into a broader concept that encompasses the other phrases. The other phrases tend to be “added-on” to traditional business policies, whereas true corporate sustainability embraces social and environmental dimensions of sustainability as well as the obvious economic dimension of for-profit corporations. The ecological, social, and economic “triple bottom line” is commonly associated with the ideal of corporate sustainability.

The reality of corporate sustainability seems a bit different. In 2011, *Ernst and Young* surveyed “corporate executives and thought leaders” about corporate environmental strategy. The results revealed corporate perspectives somewhat different from a true triple bottom-line.<sup>iv</sup> In the survey, 65% of the respondents stated their chief financial officer had become involved in sustainability decisions. This would be expected, as sustainability depends on economic viability. The respondents also cited “cost reductions” (74%) and “managing risks” (61%) as two key drivers of their company's sustainability agenda. An even greater number (80%) thought that “new revenue opportunities” would be a major driver of sustainability initiatives in their corporations. Social and environmental concerns were primarily reflected as a need to maintain good relations with the public and with current and potential stockholders who have social and environmental concerns – more about public relations than sustainability.

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The inescapable challenge of corporate sustainability in for-profit corporations is their obligation to serve the “common interests” of their investors. Unfortunately, the only “common interest” of investors in large, publicly-traded corporations is their interest in increasing the economic returns on their investment, either through dividends or appreciation in stock values. There are no commonly-held or widely-shared interests in the social and ecological dimensions of the triple bottom line of corporate sustainability. *Real* people have social and ethical interests, as well as economic self-interests. However, a corporation is not a real person, regardless of persistent rulings of the Supreme Court suggesting otherwise. A corporation has no personhood other than the personhood of its investors.

The basic problem is that investors in large, publicly-traded corporations typically are scattered all around the world and have different nationalities, ethnicities, cultures, and religions, and thus have countless different social and ethical values. They obviously have social and ethical values, just not social and ethical values *in common*. In addition, many individuals invest through pension funds and mutual funds and don't even know how much of which corporations they own at any given time. High-speed electronic trading has made a mockery of corporate personhood, as many large corporate investors groups may own shares in a given company for only a fraction of a second. There is no possible opportunity for a person to express his or her social and ethical values in such cases. The only common value of such corporate investors is a purely economic value: The desire to increase the economic value of their investments. Large, for-profit, publicly-traded corporations are purely economic entities; they simply lack the ability to express the social and ethical values of their investors.

Even if corporate employees and society in general are considered as “stakeholders,” they are stakeholders only in the sense that they affect and are affected by the decisions and actions of the corporation. If corporation executives attempt to reflect the values of such stakeholders in their decisions, they confront the same problem as they face with corporate *shareholders*: their stakeholders have no *common* social or ethical values. Furthermore, even if shareholders and stakeholders shared common values, they might still disagree about how much emphasis should be placed on social or ecological values relative to economic values. As a result large, publicly-held corporations are left with no logical alternative other than giving the highest priority to maximizing economic returns for their investors.

Some corporations consider their customers as stakeholders in the corporation. Customers who share common social and ecological values certainly have the ability to influence the decisions of a corporation through their purchase decisions. If customers are willing to pay sufficient premiums for sustainably-produced products and services, the sustainable corporation might then be able to maximize profits without compromising its social and ecological sustainability. Such customers would be deemed “economically irrational” by economists, but real people routinely make irrational economic decisions. A growing number of consumers are willing to make irrational economic decisions for the sake of social and ecological sustainability. Admittedly, this represent a step in the right direction; but even socially and ecologically minded customers cannot ensure corporate sustainability.

The profit maximizing corporation in a competitive economy will always have an economic incentive to squeeze more profits out of the system by minimizing costs of labor, raw materials,

and other business expenses and by charging profit maximizing prices to their customers. They will make ecological and social investments – such as renewable energy, pleasant workplaces, and charitable contributions – only to the extent that such investments are expected to yield positive net “economic” returns. This is commonly called “picking the low hanging fruit” and characterizes the dominant strategies of corporate sustainability. Corporations must give priority to shaping their “economic environment” over sustaining their social or ecological environments. Unfortunately, it is inherently cheaper *economically* to extract and exploit than to renew and regenerate. Sooner or later, competitive pressures will force the profit maximizing corporation to betray its commitments to social and ecological sustainability.

We have seen this tendency most clearly perhaps in organic foods. Independent farmers and small cooperative businesses built the organic movement by maintaining the confidence and trust of like-minded organic customers. As the organic market grew, and large food corporations gained control, those trusts often were betrayed. Organic standards today are maintained only through the force of laws and regulations, which are under constant corporate challenge as being too strict. Sustainable corporations must be willing to share in the essential social and ecological investments to ensure sustainability; meaning corporations must share in the “economically irrational” decisions of their like-minded workers, suppliers, and customers. The large, publicly-traded, for-profit corporations have no incentives to make such non-economic investments.

Family corporations and closely-held corporations do not confront the same challenges as large, publicly-traded corporations. Family members and owners of closely-held corporations may share deeply-held social and ethical values. They may all agree to give equal consideration to the social, ecological, and economic performance of their corporations. They may well be willing to sacrifice some level of economic return in order to make the investments in society and nature that are necessary to ensure long run sustainability. Of course, they also have the ability to disagree, or may agree to maximize profits. Cooperative corporations and the new “B-Corps” or benefit corporations also represent possibilities for creating sustainable corporations, as will be discussed later. But, the large, for-profit, publicly traded corporations that dominate today's economy are not and cannot be sustainable.

A general perception persists in the sustainability community that the economics of sustainability is no different from contemporary, neoclassical free-market economics. If individuals and businesses were simply better informed about the economic consequence of their decisions, maximizing profits or individual self-interests would ensure sustainability. Virtually all corporate sustainability programs today appear to be based on this premise. This would explain why financial risks, cost reduction, and new “green” market opportunities are ranked by corporate leaders as the top three drivers of corporate sustainability. This would explain why today's sustainable corporations suggest, if not promise, that being a sustainable company will not compromise their economic bottom line or returns to investors. This perception is also prevalent and persistent among many prominent non-corporate advocates of sustainability. They believe economic incentives are adequate to ensure sustainability, or at least would be if people were better informed and the market economy worked more *efficiently*.

*Ecological* economists believe we not only need efficient markets, we also need to “get the prices right” by *internalizing* the social and ecological *externalities* of our economic activities.

They admit to so-called market failures or situations where market prices fail to reflect the full economic impacts of decisions on natural and human resources – meaning nature and society. They propose various government tax incentives and regulations that would force businesses to consider the “full economic costs” of their decisions. While more efficient markets and internalizing externalities both are *necessary*, they are not *sufficient* to ensure economic sustainability. The inherent danger in focusing on market-based strategies is that we risk allowing the necessary to become an obstacle to the sufficient. In other words, we may simply slow the rate at which our economy and society continue moving in the wrong direction – until it's too late to change course.

The strategies of market efficiency and internalizing externalities are based on an understanding that it would be more economical in the “long run” to protect, renew, and regenerate the natural and human resources that ultimately must sustain the economy. As a general statement, this is true. All economic value is derived from nature by way of society. There is no place to get anything other than from nature – earth, water, air, and energy. Once we move beyond self-sufficiency, we become dependent also on society to transform the things of nature into things that have economic value. If we deplete the productivity of nature and society, we will destroy the only possible source of economic value. In the long run, there can be no conflict between sustainability and the economy. Corporate sustainability makes “good economic sense.” That what Alan Greenspan thought about the financial sustainability of the large corporate financial institutions prior to the economic collapse of 2008. That's what the executives of corporate sustainability companies still seem to think today.

The fundamental problem is that impersonal economies place an economic premium on the present over the future. The promise of receiving a smaller economic return next week or next month may be far more valuable than the promise of receiving a larger return deferred until next year or the next decade. This is why many consumers willingly pay interest when they borrow money and others expect interest when they loan them money. This is why investors give priority to investments that promise quicker returns over those for which returns will be deferred further into the future. At an interest rate of 7%, a given amount of money ten years in the future is worth only half as much as the same amount of money today... because money invested at a compounded interest rate of 7% will double in value in ten years.

With respect to the economics of investing for “long run” economic sustainability, a given monetary benefit or cost not expected until 100-years in the future has less than 1/1000<sup>th</sup> as much economic value as the same amount of money expected tomorrow. Obviously, investments made for the benefit of future generations cannot compete successfully with investments promising positive economic returns next week, next year, or even next decade. At a typical corporate rate of return of 15%, values of investments double every five years, which discounts expected future costs and returns even more severely. This is why many corporate planning horizons only extend five-to-seven years into the future. Anything beyond that is of little economic consequence. The executives of the large financial institutions were making “good economic decisions” in 2007. With their expected rates of return on investments, their economic planning horizons were weeks or months, not years or decades.

The planning horizon for sustainability must extend across generations. Products and services have economic value only if they are scarce, meaning there is not enough available for everyone to have all they want without giving up something else, usually money. Admittedly, as the resources of nature – minerals, water, air, energy – become depleted or degraded, they become *scarcer* and thus more economically valuable. More *efficient* markets would be capable of reflecting increasing economic values more effectively, thus providing increasing economic incentives to conserve, ration, and find renewable substitutes for nonrenewable resources. But, things of nature often become ecologically and socially scarce long before they become economically scarce. The best current example perhaps is global climate change. By the time protecting the global climate becomes economically valuable it may well be too late to reverse the process. Likewise, if we wait until the degradation of society through economic inequity becomes economically valuable society may lack the collective civil capacity to restore itself.

To ensure long-run economic sustainability, societies must be willing to give priority to values that are purely social or ethical in nature and thus are non-economic in nature. There is simply no economic value in doing anything for the sole benefit of someone else or for society as a whole, certainly not for the benefit of those of future generations. This is not a market failure or lack of efficiency; markets can only reflect economic values. Internalizing externalities can only assign dollar-and-cent costs and benefits to those things that have *economic* value. Sustainability is about intergenerational equity: Meeting the needs of both present and future generations. The needs of future generations can never be given anything approaching equal consideration when decisions are based solely, or even primarily, on economic value.

In general, those who are concerned about sustainability need to understand that economic relationships are fundamentally different from social and ethical relationships. *Economic* relationships are individual, impersonal, and instrumental. Economic value is *individual* in that it accrues to individuals and not to families, communities, or societies as wholes. An economy is nothing more or less than a collection of individual economic enterprises and organizations. An economic relationship is *instrumental* because it is a means to a further end, specifically, to gaining something of greater economic value. This is the reason it makes no economic sense to invest in anything if the payoff is deferred until after you are dead and why the economy gives priority to the present over the future. Finally, an economic relationship is *impersonal* because if we can't buy, sell, or trade something to another person, it has no economic value.

Social relationships also are *instrumental* in that they depend on reciprocity or expectations of receiving something in return. Unlike economic relationships, the expectations from a social relationship may not be specific with respect to what, when, or where. Regardless, if we expect to have a friend we must be a friend. The value of social relationships is not economic, because social relationships are inherently *personal* in nature. A social relationship with one person is fundamentally different from a social relationship with another person, even if both are friends, family members, or neighbors. Social relationships cannot be exchanged or traded to another person. Social value is *interpersonal* in that it depends on relationships among specific persons.

Perhaps most important with respect to sustainability, social values naturally evolve into ethical values. Ethical values are a particular culture's interpretation of morality or the basic principles or laws of nature that govern all relationships. A societal or community ethic is a code

of conduct that applies to all people in all situations within that community or society. A cultural ethic evolves over time from a society's collective experiences from personal social relationships. As social relationships become less personal, people begin to understand the personal values they receive as individuals arise not just from their personal connections but from all of the interconnectedness within their families, communities, societies, and humanity as a whole. This is the process by which *personal* social values evolve to *impersonal* ethical values.

Ethical relationships are *communal*, *non-instrumental*, and *impersonal*. Actions that are purely ethical in nature are *not an instrument* or means of acquiring some further ends. The ethical act is its own reward; the benefits are immediate. Ethical relationships produce nothing of economic value to be exchanged or traded to anyone else; ethical relationships are clearly non-economic. Unlike social relationships, purely ethical relationships show no preference for specific individuals or persons – they are *not personally* discriminatory. Ethical relationships are *communal* in that what is ethically right or wrong in a relationship with one person is right or wrong in relationships with other people, including all other people of both present and future generations.

The social and ethical values that sustain positive personal relationships within families, communities, and societies evolve into impersonal ethical commitments of responsibility, equity, and justice for those of future generations. Ethical values can also evolve out of personal relationships with nature. Thus ethical values evolve to guide relationships with non-persons – to earth, air, water, forests, lakes, streams, rocks, or other species. Stewardship of nature is an ethic that has evolved out of past human relationships with nature. Social values of trust, kindness, and courage also evolve into commitments to treat nature in ways that are honest, fair, responsible, respectful, and compassionate toward those of future generations. Concerns for the whole of society and the future of humanity are neither economic nor purely social in nature; they are fundamentally ethical concerns.

There may well be economic value associated with doing things for the common good of society or for humanity. It's easier and often less costly to do business with people we know and trust. In economic jargon, the “social capital” embodied in trust reduces economic “transactions costs.” Businesses can also “do well” financially by “doing good.” Some people will pay premium prices for ethically or socially-responsibly produced products, as in the cases of organics and Fair Trade. Again, this is “picking the low hanging fruit.” Necessary but not sufficient. As philosophers and ordinary people throughout human history have known, the economic value of social and ethical relationships are almost insignificant in comparison to the social and ethical values that give quality, purpose, and meaning to human life. Sustainability is about valuing those things of greatest value.

In summary, more efficient markets would more accurately value scarce economic resources but will not ensure economic sustainability. Internalizing externalities would ensure that all economic values are reflected in market prices but cannot ensure the social or ethical investments necessary for sustainability. The ecological health and productivity of nature and society can be sustained only by people expressing their social and ethical values through their individual and collective choices and actions. This is hard, cold economic reality.

That being said, some alternative corporate structures may be compatible with the requisites of corporate sustainability. Cooperative corporations, for example, might be good candidates for corporate sustainability. In cooperatives, each member theoretically has an equal voice in the decisions of the cooperative, regardless of the size of their investments. This gives like-minded coop members an opportunity to enact corporate policies that ensure the non-economic social and ecological investments, if they choose to do so. Employee-owned corporations have the same basic opportunity to create sustainable corporations. Obviously cooperative and employee-owned corporate structures do not ensure sustainability. The basic problem of cooperatives and employee-owned corporations is the same as for other corporations. As the number of members or owners grows, the corporation loses its ability to reach social and ecological consensus. The larger, increasingly diverse membership no longer shares a common set of social and ethical values. The cooperative or employee-owned corporation eventually evolves into something not very different from a large, for-profit corporation.

The new “benefit corporations,” or B-Corps, have been created in response to a growing understanding of the inherent lack of sustainability of large, publicly-traded, for-profit corporations. Ben & Jerry's Ice Cream has become the “poster child” for benefit corporations.<sup>v</sup> Ben and Jerry's was the epitome of a socially responsible, ecologically sound, economically viable, sustainable company. As long as the corporation was closely-held by like-minded owners, it apparently was an authentic triple-bottom-line company. While suffering some growing pains, the owners eventually sold out to the giant multi-national corporation, *Unilever*. Unilever assured Ben and Jerry customers there would be no changes in the basic mission of the company. However, changes under Unilever soon began to erode customer and public trust. Ben and Jerry's became a certified B-Corp in 2013, an obvious move by Unilever to regain consumer and public trust in the brand. Only Unilever knows if the motive was true corporate sustainability

Under U.S. law, a “benefit corporation” is a corporation that is required by law to create general benefit for society as well as for shareholders. “Benefit corporations must create a material positive impact on society, and consider how their decisions affect their employees, community, and the environment. Moreover, they must publicly report on their social and environmental performances using established third-party standards.”<sup>vi</sup> A “benefit corporation” is a legal status administered by the state. As of early 2013, twelve states had enacted the necessary state legislation. A “Certified B Corporation is a certification of benefit corporations that is conferred by the non-profit “B Lab.”<sup>vii</sup> There are some 600 Certified B-Corps in 15 different countries and 60 different industries.

The hope is that giving corporations the option of adding social and ecological responsibilities to corporate charters will give corporate executives the legal authority to give equal consideration to the social, ecological, and economic “bottom lines” essential for long-run economic sustainability. In addition, the hope is that B-Corp charters will give sustainability-minded shareholders the protection they need from hostile takeovers by large, for-profit corporations. Many corporate managers and stockholders know corporations ultimately must make social and ecological investments to ensure economic sustainability. They are searching for an economic environment that will allow them to express their social and ethical values in their business decisions. It's too early to conclude whether B-Corps will be successful in these regards; but it's certainly worth a try.

Finally, sustainable corporations are possible, even if not probably. Perhaps sustainable corporations – cooperatives, employee-owned, or B-Corp – will need “Councils of Stewards,” with equal representation of investors, customers, employees, suppliers, and society, with the responsibility and legal authority to veto unsustainable policies or hostile buy-outs. Regardless, the key to corporate sustainability ultimately depends on the willingness and ability of those who control the corporations to make the necessary non-economic social and ecological investments to ensure long-run economic sustainability. Some may question whether it is idealistic or naïve to expect such commitments in today's materialistic society. A few quotes from arguably the most respected economist of the 20<sup>th</sup> century, John Maynard Keynes, may provide some valuable insights. Back in the early 1920s, Keynes wrote, “the *economic problem* may be solved, or at least within sight of solution, within a hundred years. This means that the economic problem is not... *the permanent problem of the human race*.”<sup>viii</sup> Man's permanent problem will be “how to use his freedom from pressing economic cares ... to live wisely and agreeably and well.”

As it turned out, Keynes was right. The “economic problem” has already been solved for the vast majority of Americans, as well as most of those in the rest of the so-called *developed* world. In fact, most Americans probably had as much material wealth as we actually needed as far back as the 1950s. A 2003 British cabinet office report concluded that “Despite huge increases in affluence compared with 1950, people throughout the developed world reported no greater feelings of happiness.”<sup>ix</sup> A 2004 review of more than 150 scholarly studies indicate that as developing national economies grow, beyond some very modest level of material well-being – around \$10,000 to \$15,000 per capita – there is little if any correlation between increasing wealth and the overall happiness or well-being of people in a nation.<sup>x</sup>

The research is simply confirming our common sense. Once our basic material needs are met – food, clothing, shelter, health care, – we know that the quality of our life depends far more on the quality of our relationships – friends, family, community, society – than on the quantity of income or wealth. Our happiness also depends on our having a sense of purpose and meaning in life. Without purpose and meaning, there is no sense of rightness or goodness in what we do. Once our basic economic needs are met, the pursuit of happiness, well-being, or quality of life is about developing the social and ethical dimensions of life, rather than striving for more income or wealth. For the vast majority of Americans, our economic problem has been solved.

It's time for Americans to look beyond sustainability as limits or constraints to our ability to pursue a desirable quality of life and focus instead on the unlimited opportunities for creating a new and better world of the future. It's time to seek balance and harmony among ethical, social, and economic values – the triple bottom line. It's time to awaken to a new economic reality: It is not a sacrifice to share with other people or to care for the earth. These things make our lives better. The social and ethical values of sharing and caring far outweigh any short run economic sacrifice. True corporate sustainability is not about generating ever-greater profits or wealth; it's about learning to live wisely, agreeably, and well. In the process of creating a better world, we should be able to create a sustainable corporation.

## End Notes

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<sup>i</sup> Wikipedia, “Corporate Sustainability,” [http://en.wikipedia.org/wiki/Corporate\\_sustainability](http://en.wikipedia.org/wiki/Corporate_sustainability) .

<sup>ii</sup> Donna Wood, “Corporate Social Performance Revisited,” *The Academy of Management*, 16(4), 1991.

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<sup>iii</sup> Edward Freeman and David Reed, “Stockholders and Stakeholders: A new perspective on Corporate Governance.” *California Management Review*, Spring83, Vol. 25 Issue 3, p88-106.

<sup>iv</sup> Ernst and Young – Greenbiz Group, “Six Growing Trends in Corporate Sustainability,” report of survey, 2011.

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<sup>v</sup> Huff Post Business, “Ben and Jerry's Becomes B-Corp Certified, Adds Credibility to Impact Investment Movement,” February 3, 2013, [http://www.huffingtonpost.com/2012/10/23/ben-and-jerrys-b-corp-impact-investing\\_n\\_2005315.html](http://www.huffingtonpost.com/2012/10/23/ben-and-jerrys-b-corp-impact-investing_n_2005315.html)

<sup>vi</sup> CRS Wire Press Release, “Maryland First State in Union to Pass Benefit Corporation Legislation, April 14, 2010.

[http://www.csrwire.com/press\\_releases/29332-Maryland-First-State-in-Union-to-Pass-Benefit-Corporation-Legislation](http://www.csrwire.com/press_releases/29332-Maryland-First-State-in-Union-to-Pass-Benefit-Corporation-Legislation) .

<sup>vii</sup> Certified B Corps, About B-Crops: “Powered by B-Lab,” <http://www.bcorporation.net/> .

<sup>viii</sup> John Maynard Keynes, *Essays in Persuasion*, (Miami, FL: BN Publishing – no copyright date) pp. 366-368.

<sup>ix</sup> Oliver James, “Children before cash; better childcare will do more for our wellbeing than greater affluence,” *The Guardian*, May 17, 2003. <http://www.guardian.co.uk/society/2003/may/17/children.healthandwellbeing> .

<sup>x</sup> Diener and Seligman, “Beyond Money,” *Psychological Science in the Public Interest*, 5 (1), 2004, 1–31.