

# CHAPTER 1

## Introduction

### Corporate Sustainability

For many people the concept of “sustainability”—meeting the needs of this generation while safeguarding those of generations to come—is synonymous with environmental protection and stewardship. However, those working in the space focus on three main pillars: economic, environmental, and social. This is what starts to separate an effort to balance or meet all three needs with “environmentalism.”

For businesses, the term “corporate sustainability” is broken into three related but slightly different categories: environment, social, and governance (ESG)—the concept being that much of what a business does economically has to be done ethically, transparently, and with proper checks and balances in place. For the purposes of this book, the term “sustainability” relies on the later definition because it is also focused on the need for the business to sustain, as well as the environment and the societies/communities in which it operates.

One need only to look back a decade to the Great Recession and the collapse of the global housing market to see an example of unsustainable economic business practices. There were many reasons for the collapse, which was primarily caused by a rise in subprime mortgage lending (selling housing loans to people with poor credit) and a massive increase in housing prices. Riding the wave up were financial institutions, regulators, credit agencies, and consumers (who did not want to miss out on easy credit and often did not understand the terms of the loans that they were being sold) as well as those who took advantage of the “easy money” to be made by buying and selling (flipping) houses while prices spiraled upward.

In 2015, the Environmental Protection Agency (EPA) discovered that Volkswagen had been cheating in emissions tests by intentionally

programming some of its vehicles to activate their emissions controls only during emissions testing, but to release up to 40 times the legal limits during real-world driving. The EPA determined that the cheating affected about 500,000 cars in America and 11 million worldwide. Regulators in multiple countries began to investigate the company and its stock price fell in value by a third in the days immediately after the news. Volkswagen Group CEO Martin Winterkorn resigned. Volkswagen announced plans in April 2016 to spend €16.2 billion (US\$18.32 billion) to retrofit the affected vehicles as part of a recall campaign. In 2017, Volkswagen pleaded guilty to criminal charges and the company was ordered to pay a \$2.8 billion criminal fine.

Perhaps the most tragic recent example of how the pillars interact was on April 24, 2013, when the Rana Plaza building in Bangladesh collapsed, killing more than a thousand underpaid garment workers producing clothing for fast fashion retailers such as H&M and Zara. Workers' complaints about the building security had been ignored on multiple occasions, and the day before the tragedy, cracks were discovered on the lower floors of the building, but the management decided to ignore the warnings.

## Why One Needs the Three Pillars

Sustainability is distinct in that it works to find solutions that balance (or meet) the three “pillars.” Making decisions that overbalance one (i.e., economic) can all too easily sacrifice the others. Focusing purely on even the most idealistic goals can lead to decisions that are grounded more in emotion than on facts. The imperative to address climate change is real, but focusing only on the promise of “renewable electricity,” as an example, can lead to some well-intended efforts with unintended consequences. The US Energy Information Agency (EIA) projects strong growth for wind and solar power in the United States, so that the total share of U.S. electricity generation produced by all renewables other than hydropower will increase from 10 percent of total generation in 2018 to 13 percent in 2020.<sup>1</sup>

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<sup>1</sup>US EIA. 2019. “EIA Forecasts Renewables Will Be Fastest Growing Source of Electricity Generation.” <https://www.eia.gov/todayinenergy/detail.php?id=38053>, (accessed October 12, 2019).

What this means is that fossil fuels will still provide most of the electricity generated in the United States. Coal and natural gas combined provided 63 percent of electricity generation in 2018 and EIA forecasts that they will provide 61 percent in 2020.

In fact, most of the greenhouse gas reductions in the United States have been due to the shift of U.S. electricity away from coal toward natural gas, which has grown faster than renewables. The EIA forecasts that this trend will continue, meaning that efforts to “keep it in the ground” run into the stark reality that the U.S. economy and the health and well-being of millions of people rely on doing the exact opposite and will for decades to come, absent major technological breakthroughs in both renewable generation and storage.

In October 2019, wildfires forced Pacific Gas & Electric to shut down the electricity to millions of Californians for several days. Those without backup power (i.e., generators) were cut off. Those with electric vehicles were faced with the possibility that they might not be able to leave the affected areas.

## Is Capitalism Inherently Unsustainable?

Capitalism is an economic model, one that allows people the opportunity to generate and retain one’s own wealth. Around the world capitalism offers a development model that works at improving quality of life (measured by longevity, health, financial prosperity). We must face two sobering realities: first, we haven’t figured out how to do that without sacrificing our planet (the environmental pillar) in the process, and secondly, that progress has not been universal or equitably distributed.

The idea of sustainability is based on a simple concept—that which can endure and last. Profits alone are not sustainable.

Simply put, when one compares the ecological footprint of countries with the human development index, it becomes obvious that we have a development path that successfully takes countries and people out of poverty, but it is at the expense of the planet. The lifestyles associated with development are massively resource consuming, using more resources than are available. Based on the resources on Earth, and the amount of consumption, the American lifestyle can be described as “five

planet living,” in Europe it is “three planet living” and in Saudi Arabia it is “six planet living.”

This is not sustainable because we will eventually run out of resources to continue to enjoy these benefits.

When it comes to the social pillar, we face an even more daunting challenge. While we have generated a huge amount of financial wealth, the gap between the richest and the poorest of us has not gotten better, it has gotten worse. The rising tide is raising only some of the boats and the others are being left further behind. That is not just morally “unfair”; it also is politically and socially destabilizing. The Occupy movement and the powerful “We are the 99 percent” message have very effectively demonized “excessive wealth” as selfishness run amok and reflects growing frustration and resentment that can be a precursor to violent (France in 1789 and Russia in 1917) revolution. It can even lead to nonviolent revolution such as in 1989 when social, economic, and political forces in the German Democratic Republic (GDR; East Germany) led to the fall of the Berlin Wall and German reunification and the dissolution of the GDR. There is some evidence that the current civil war in Syria may have been caused (or made worse) by an environmental crisis (drought) in the southern portion of the country, when those facing starvation fled to the cities to seek jobs and relief (social) and the government was unable (or unwilling) to help (a failure of governance).<sup>2</sup>

It would be too easy, and rash, to simply blame “capitalism” for these ills. One need only look at the environmental impacts of other economic models. The GDR was widely known as the “most polluted nation” in Europe<sup>3</sup> (hardly an advertisement for socialism). The lower standards for the same quality of life indicators (longevity, health, and well-being) demonstrated the failings of Soviet Communism (once, of course, the truth became known).<sup>4</sup>

<sup>2</sup>JSTOR Daily. 2019. “Climate Change and Syria’s Civil War.” <https://daily.jstor.org/climate-change-and-syrias-civil-war/>, (accessed October 12, 2019).

<sup>3</sup>Christian Science Monitor. 1984. “East Germany Disputes Its Status as the Most Polluted Country in Europe.” <https://www.csmonitor.com/1984/1005/100538.html>, (accessed October 12, 2019).

<sup>4</sup>Chicago Tribune. 1990. “Poverty, Hunger and Other Evils of Communism.” <https://www.chicagotribune.com/news/ct-xpm-1990-01-25-9001070410-story.html>, (accessed October 12, 2019).

The concept of fiscal responsibility and responsible management is an integral element within any corporate sustainability program. From the boardrooms of Enron to the Deepwater Horizon crew members who recognized the dangers of continuing to drill but were ignored, no effort of corporate accountability can succeed without individuals accepting responsibility for their own actions and behaviors and being empowered to act on those values.

Business sustainability therefore will require buy-in by management as well as employees, based on the mutual understanding that when businesses that are respectful of the environment and universally advancing of the human condition are also profitable, it creates a virtuous cycle, one in which the benefits outweigh the costs of that business. Management must also understand the risks associated with short-term thinking as well as engaging in practices that they must keep hidden to remain successful.

Fortunately, as we shall explore further, these trends are converging at the same time.

## Discussion Questions

1. The author cites examples of failures to illustrate the interdependence of environmental, social, and governance failures. Can you think of any examples where that balance has been successfully achieved?
2. Can you think of other examples when social or economic crises have led to political destabilization?
3. Is capitalism inherently unsustainable? Is it possible to take the “best” elements of capitalism, socialism and communism to define a “new” economic model? What would such a model look like?

