



WEEK 2

THE SOCIETAL ROLE OF BUSINESS

Managing Sustainability
BMA6105

Learning Outcomes

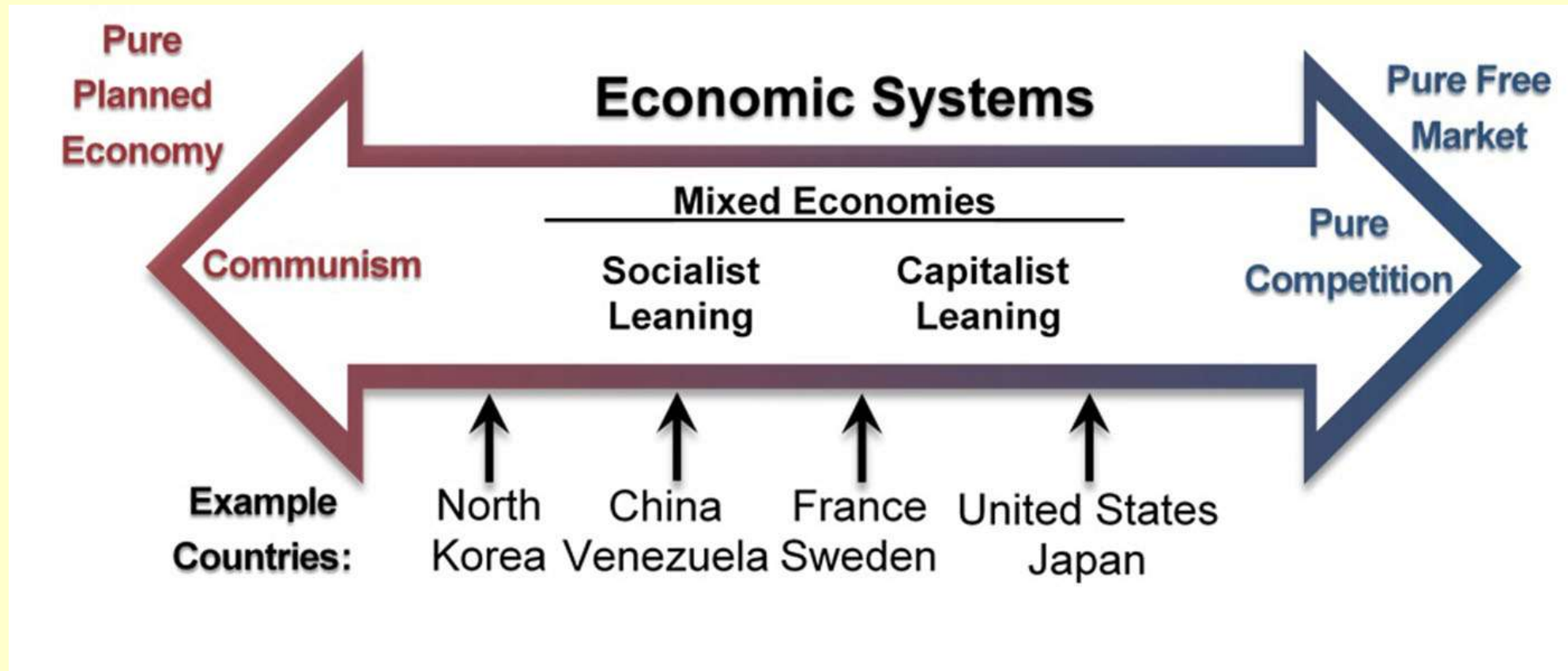
- Review of alternative forms of economic organisation (capitalism to communism)
- The 'single bottom line (profit)' argument (Friedman)
- Social critiques of the 'only profit' position
- Perspectives on business beyond profit
 - Progressive Capitalism
 - Triple Bottom Line
 - Natural Capitalism
 - Doughnut economics



Alternative systems of social organisation: Ownership and Allocation

		Resource Allocation	
		<i>Market</i>	<i>Command</i>
Resource Ownership	<i>Private</i>	Market Capitalism	Centrally Planned Capitalism
	<i>State</i>	Market Socialism	Centrally Planned Socialism

Alternative systems of social organisation: Planned-to-market spectrum



The societal role of business: broad social benefits of economy

- Engine of economic growth (leading to higher incomes)
- Provides useful work (determined by meeting market demand)
- Generation of products and services (greater diversity in meeting needs)
- Wealth accumulation (personal incentive to productivity)
- Productivity increases (driven by competition)
- Capital investment and development (expanding skills and capabilities)
- Technological innovation (increasing technological capabilities)
- Economic purpose – increasing human welfare through opportunities for earning income and engaging in exchange

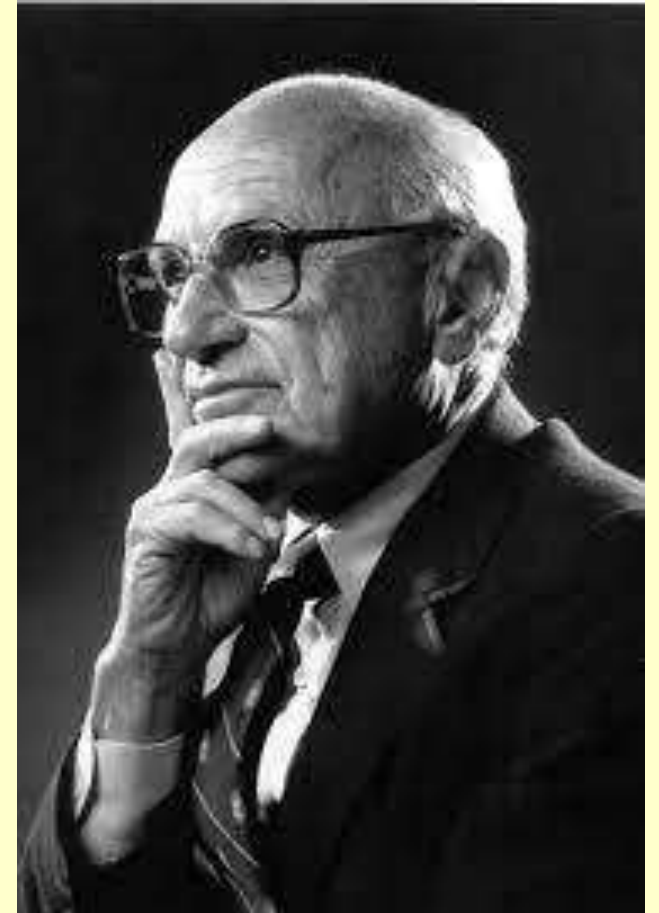
The societal role of business: broad social concerns

- Central concerns exist alongside the expansion of economic activity:
- Highly uneven process of development
- Rising inequalities, between and within countries
- Limited concern for intergenerational issues
- Considers only financial measures of success
- Not responsive to needs of low income citizens (low market demand)

Milton Freidman (1970)

‘The social responsibility of business is to increase profits’

- Argues for a private profit view of business purpose
- Based on four connected arguments
- (1) shareholders own the business, they want profit and value returned to them
- (2) shareholders can decide themselves to allocate the wealth they receive from the business to charitable/good causes
- (3) business managers are not good judges of social or charitable need, nor good at trying to meet these needs
- (4) government should provide basic needs and systems, but play a limited role



Milton Friedman (1970)

Responses to Friedman

- Responses to Friedman concern the question of what role civil society, government, and business together should take in shaping the actions and functioning of the economic system:
 - (1) Setting the limits of acceptable activities by business (what level of profits are reasonable, what activities does society permit, how should businesses be regulated)
 - (2) Shaping the objectives and measures of success for business beyond profit maximisation (would society simply flourish more if businesses meet other objectives, e.g. social needs and care for employees)

Seven responses to Friedman

1. Economic externalities

- An externality is a cost (or benefit) that is caused by a producer that does not impact directly on that producer
- For example, a steel factory polluting a river does not bear the cost of fish killed by the pollution; that cost is borne by the fishermen
- The price of the fish killed may be more than the steel produced, but the steel firm only concentrates on its own profits
- Externalities can affect society at large. This leads to choices and opportunities that make individuals richer but society poorer overall



Seven responses to Friedman

2. Optimal scale of the whole system

- The economic system may be good at allocating resources to different activities efficiently – but there is no limit to the total size of the economy: it is assumed that GDP can continue to rise indefinitely
- Ecological economists point out that even an optimally laden boat sinks if you load it with too much weight
- The weight of negative impacts is in danger of overloading the earth's natural support systems



Seven responses to Friedman

3. Disconnect between GDP and happiness?

- For individual societies (countries), if we start with low incomes then becoming richer makes us happier
- But, common measures of happiness since 1950 indicate that since around 1970s, the proportion of very happy people has tended to decline as income increases
- The broad picture is that once a good level of income is achieved, yet higher levels of income do not seem to make societies any happier

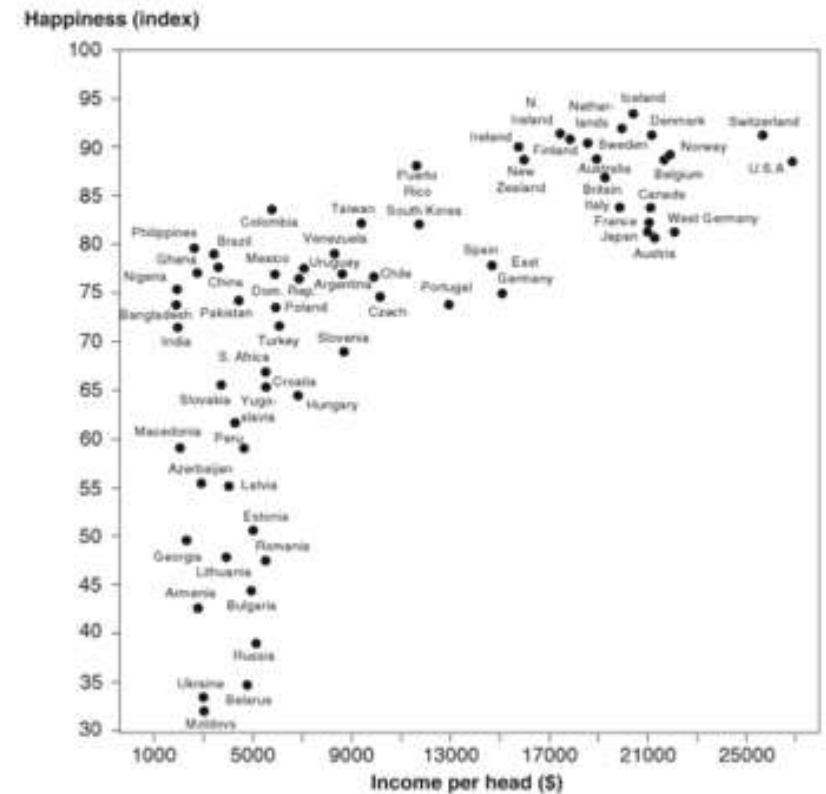


Fig. 2.2 Income and happiness across countries

(Source: Richard Layard, Income and Happiness, Lionel Robbins Lecture, March 2003, <http://cep.lse.ac.uk/events/lectures/layard/RL030303.pdf>)

Seven responses to Friedman

4. Buddhist economics

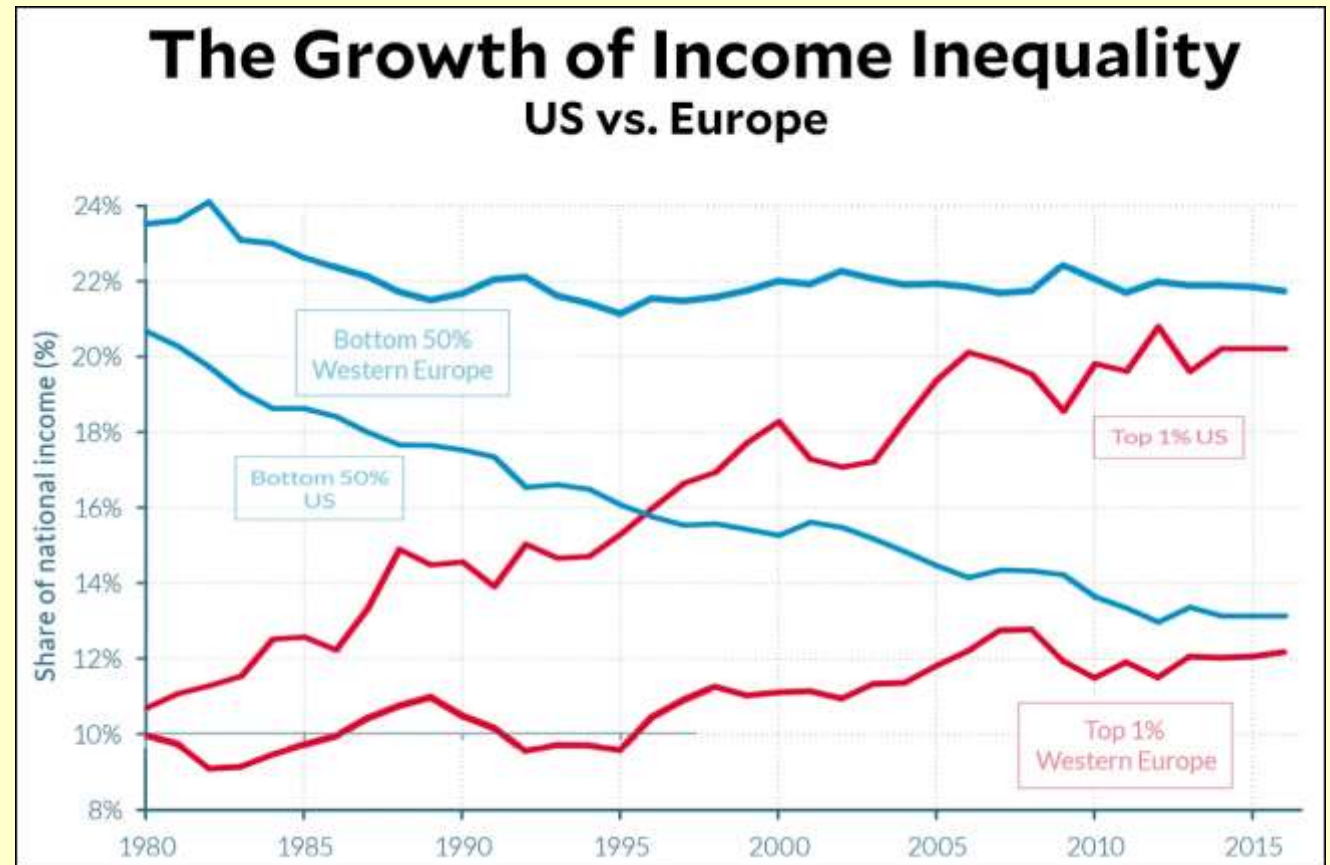
- Emphasis on the rewards from work itself – not just the income from work
- Championed by EF Schumacher in his celebrated book ‘Small is Beautiful. A study of economics as if people mattered’.
- Key points of Schumacher’s argument:
 - Work itself is not a cost, it is a contributor to a good life
 - Work should not be minimised, it should contribute to a fulfilling life
 - Salary should not be compensation for boring work
 - Work itself should be made interesting – this will have a far greater effect on human flourishing than more and cheaper commodities



Seven responses to Friedman

5. Rising inequality

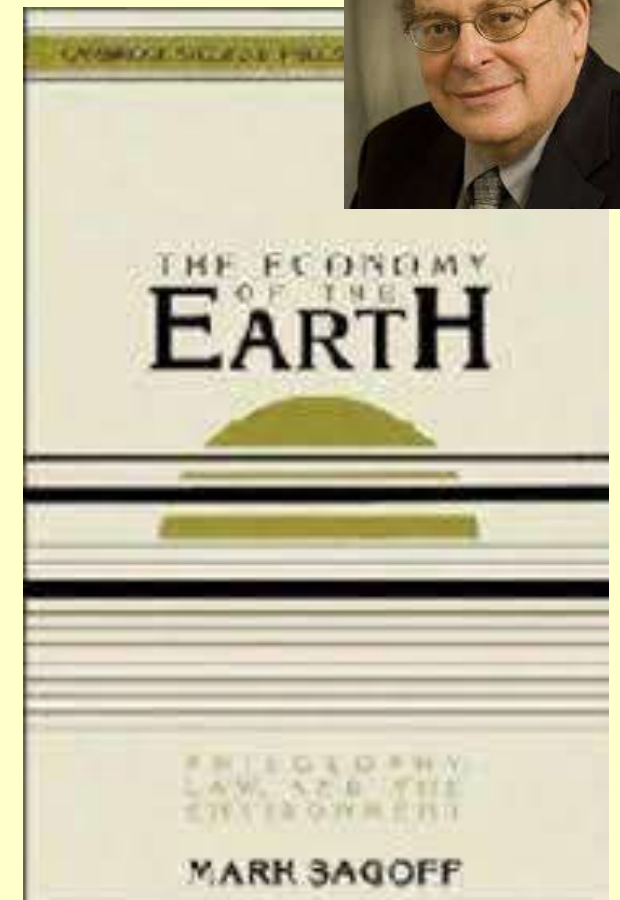
- The issue of rising inequality in wealth distribution is connected with rising levels of national wealth or income over time
- The share of the total income generated by a country that is received by the richest 1% has been steady rising since the 1980s
- The share of total income received by the bottom half has been falling, particularly in the USA



Seven responses to Friedman

6. Setting limits to environmental costs/prices

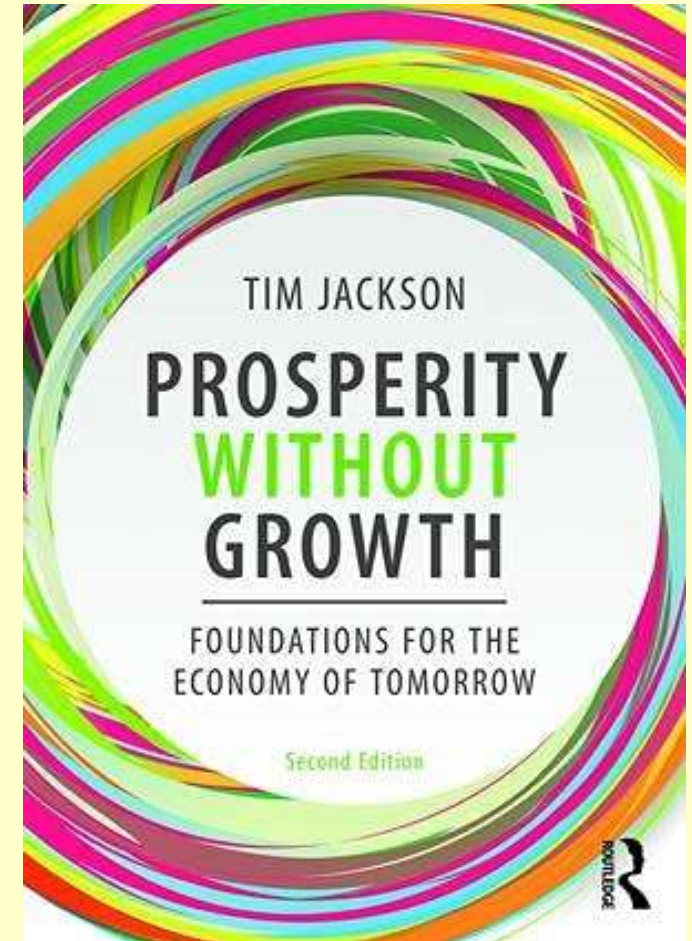
- A number of potentially profitable activities are deemed socially unacceptable to society and made illegal to trade, for example selling human organs
- It is deemed inappropriate to use prices and markets to allocate these goods, we decide to use other means (ie systems of voluntary donation of organs following patient deaths)
- Philosopher Mark Sagoff famously asked if use of some aspects of the environment should similarly be protected and not for trade/sale in his book 'The Economy of the Earth' (a 'strong sustainability' position)
- This would strongly limit opportunities for profit involving estimates of costs/value of natural assets



Seven responses to Friedman

7. The 'post consumer' society?

- A post consumer society sees the potential for 'prosperity without growth' if we acknowledge that prosperity (ie human flourishing) is only weakly linked to increases in material goods
- Instead, it puts an emphasis on well-being linked to experiences, relationships, individual opportunities and creativity, and social connectedness
- Argues that it is not possible to aim for a world with universal adoption of Western lifestyles, due to many absolute resource constraints
- Offers a new perspective on what the economic system should be trying to do



'Social' limits to growth debate: Failure of GDP as a measure of success

- GDP only deals with traded goods and services. Misses out:
 - 'black' economy
 - informal economy
 - subsistence economy
- Does not account for non-market benefits/costs
- Includes negative impacts in calculation (eg repairing crashed cars)
- Not adjusted for local circumstances
- Calculates natural asset depletion as income
- Does not address environmental sustainability – could measure at best very weak sustainability

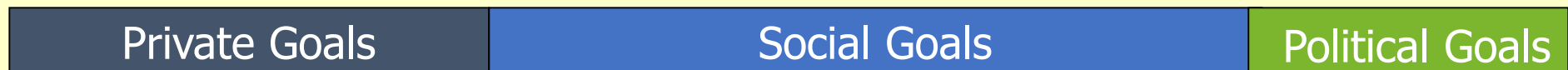
Can we bring the two sides of this debate together?

- We need stepping stones to reconciling the current situation:
- A business system in balance with ecological and social systems
 - Progressive capitalism
- Guidelines for business to operate within these systems:
 - The triple bottom line for business
 - Natural capitalism
 - Doughnut Economics
- Key models and frameworks
 - The circular economy (Week 3)
 - Regenerative/restorative/ecological/sustainable/circular/natural business models (Week 4 and on)

Alternative forms of social organisation under capitalism



◀ 'The Social Economy' ▶



Progressive capitalism (1)

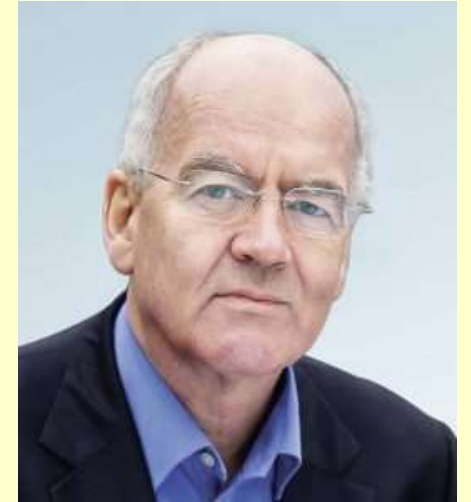
- The idea of progressive capitalism is one way we can attempt to use business capabilities with more emphasis on social mission:
- Starts with the core organising components of a capitalist system:
 - private property
 - capital accumulation
 - wage labour
 - voluntary exchange
 - a price system
 - competitive markets

Progressive capitalism (2)

- Manage the core components of the economy with greater control and involvement from government and civil society:
 - An emphasis on social justice, defined as fairness (equality in treatment and opportunity, equality of rewards)
 - A stakeholder rather than shareholder view of business objectives (business to meet needs of all relevant parties)
 - Government (supported by civil society) to be active in controlling and directing business to socially beneficial objectives
 - Calls for a new 'social contract' between business and wider society, with business guided towards social and environmental as well as private goals

The concept of the Triple Bottom Line

- The concept was introduced by sustainability consultant John Elkington in his book
 ‘Cannibals with Forks: The Triple Bottom Line of Twenty-First Century Business’



The three components of the Triple Bottom Line thinking are:

Social – Environmental – Economic

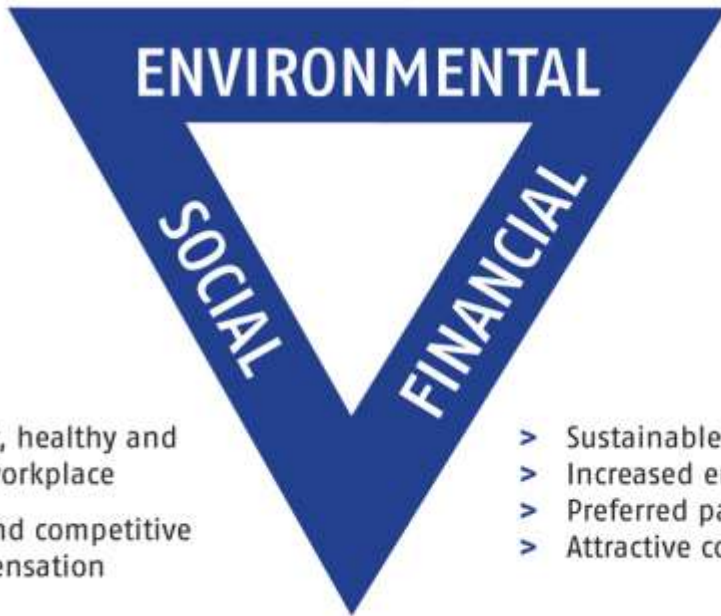
People – Planet – Profit

- The TBL is a framework for evaluating the success of a business that goes beyond financial success (ie profit) to include social and environmental factors
- The TBL captures the spectrum of values, issues and processes that companies must embrace in order to minimize any harm resulting from their activities and to create economic, social and environmental value



Summary of the triple bottom line

- > Entities operate with the lowest possible impact on the environment
- > Environmentally friendly initiatives supporting or relevant to our business

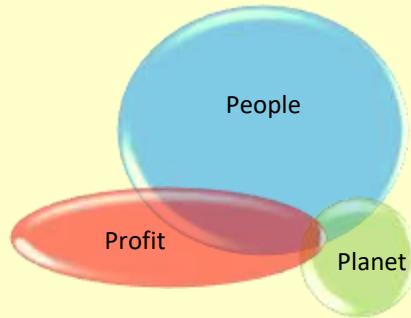


- > Happy, healthy and safe workplace
- > Fair and competitive compensation

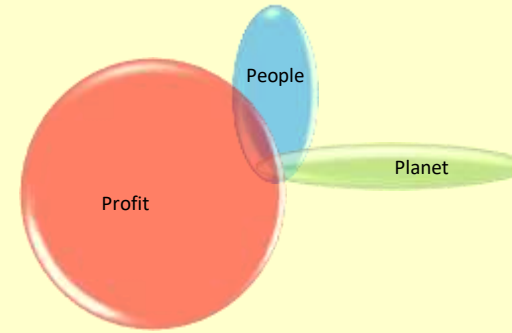
- > Sustainable and predictable growth
- > Increased enterprise value
- > Preferred partner
- > Attractive company for investment



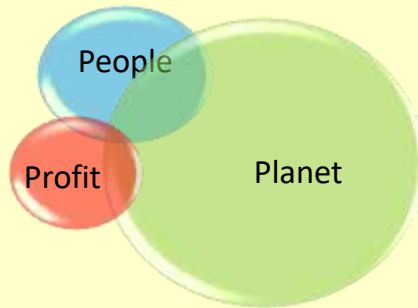
Evolution of the Triple Bottom Line



Social enterprise



Private business



Eco-entrepreneurship



TBL business

The TBL: A framework for evaluating business success

- At an accounting level, TBL thinking can be used to develop and measure appropriate criteria to assess organisation's performance in meeting the TBL mission

Sample MultiCapital Scorecard

- Human
- Social & relationship
- Constructed
- Internal financial
- External financial
- Non-financial
- Natural

BOTTOM LINE	AREAS OF IMPACT	Progression score (A)	Weight (B)	Weighted score (A×B=C)	Fully sustainable score (B×3=D)	Gap to fully sustainable (D-C)	Area of impact bottom line (C÷D)	TRIPLE BOTTOM LINE
SOCIAL	● Living wage	1	1	1	3	2	33%	-25%
	●●● Workplace safety	-1	5	-5	15	20	-33%	
	●●● Innovative capacity	-1	2	-2	6	8	-33%	
ECONOMIC	● Equity	2	5	10	15	5	67%	62%
	● Borrowings	2	1	2	3	1	67%	
	●● Competitive practices	1	1	1	3	2	33%	
ENVIRONMENTAL	● Water supplies	3	3	9	9	0	100%	53%
	● Solid wastes	1	2	2	6	4	33%	
	● The climate system	1	5	5	15	10	33%	
OVERALL PERFORMANCE				23	75	52		31%

NOTE AREAS OF IMPACT SHOWN ARE PURELY ILLUSTRATIVE AND ARE ALWAYS ORGANIZATION-SPECIFIC. WITH THE EXCEPTION OF "NATURAL," THEY USUALLY INCLUDE INTELLECTUAL CAPITAL.
SOURCE THOMAS & MCELROY LLC

Natural Capitalism: 'The next Industrial Revolution'

- Based on the work of Hunter and Amory Lovins at the Rocky Mountain Institute
- Heralded by former US President Bill Clinton as 'a very big deal'
- Four principles of Natural Capitalism
 - Radically increased resource productivity
 - Biomimicry: closed loops, no waste, no toxicity
 - Shift from production of goods to flow of services
 - Reinvest in natural capital

Natural Capitalism (1)

1. Resource productivity

- Increasing resource productivity
 - Eco-efficiency, or doing more with less, win-win solutions
- New profit opportunity for business
 - By developing new production techniques
 - Cleaner technology

2. Biomimicry

- Redesigning business process to reflect the circularity of biological systems
 - industrial ecology model
 - remanufacturing to closed-looped business systems
 - no waste or toxins to be sunk back in nature
 - substitute non-renewable with renewable resources

Natural Capitalism (2)

3. Service and Flow

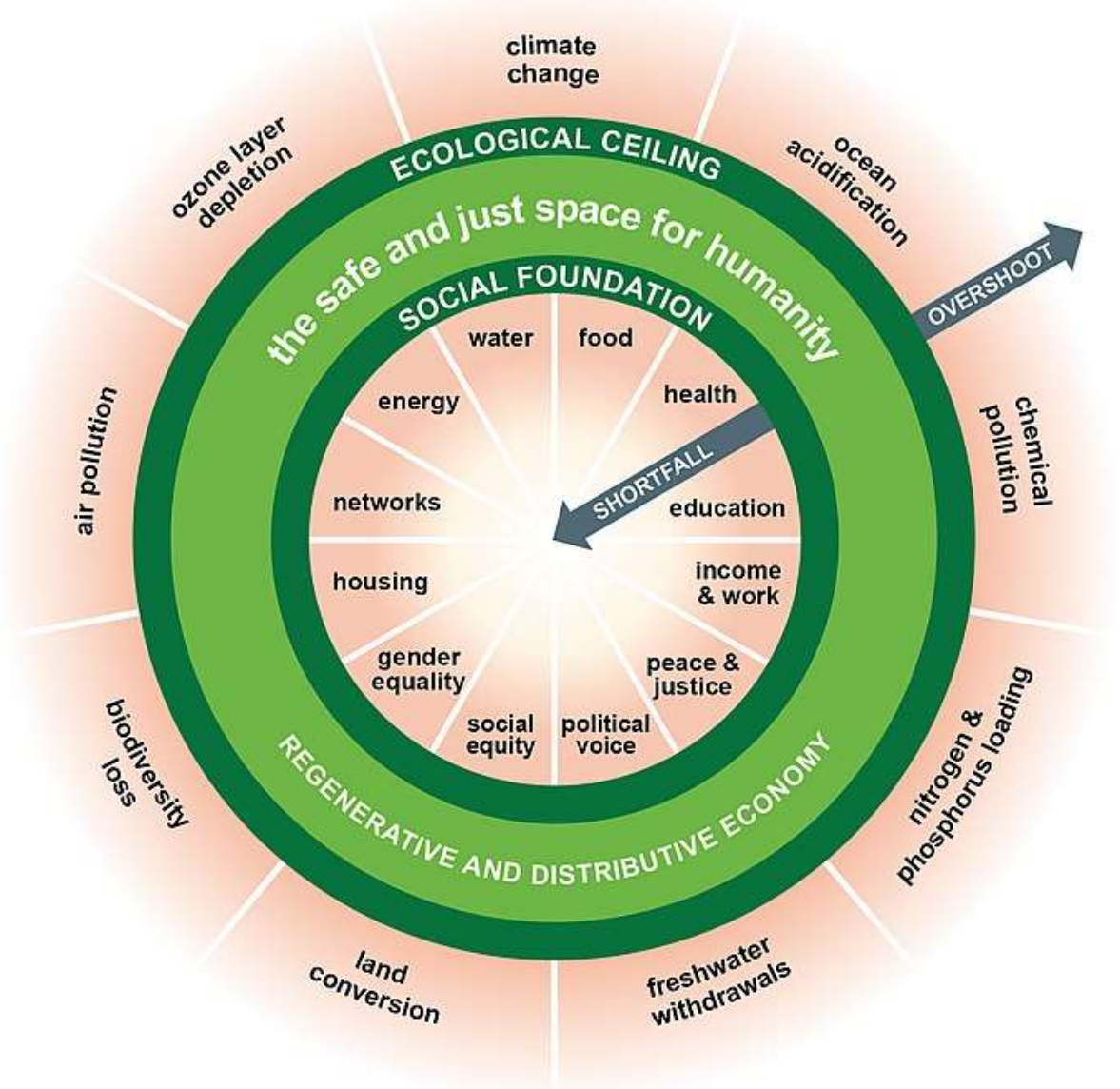
- Shifting the measure of affluence from goods acquisition toward the provision of quality, utility and performance
- Service-Leasing business models
 - From product manufacturers to service providers

4. Investing in natural capital

- Ecosystem services and natural resources need to be restored, sustained and expanded after decades of degradation
- Reward and invest in businesses that achieve the first three principles i.e. sustainable businesses

The framework of 'doughnut economics'

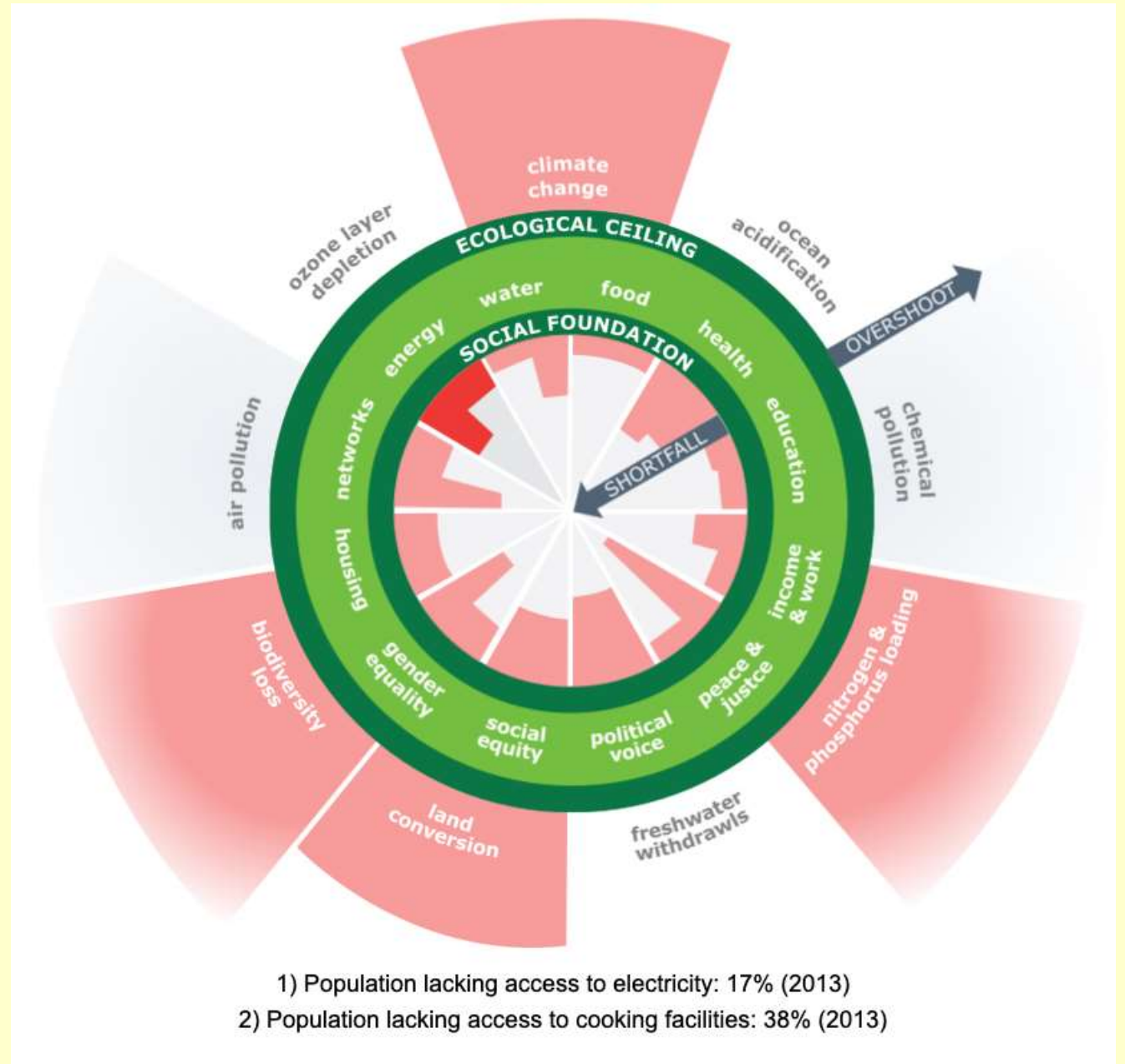
- Presents two dimensions within which human society needs to flourish:
- The 'Ecological Ceiling'
- The 'Social Foundation'
- Provides for human needs within environmental and social boundaries
- Developed by economist Jackie Raworth



Raworth, K., 2017. *Doughnut economics: seven ways to think like a 21st-century economist*. Chelsea Green Publishing.

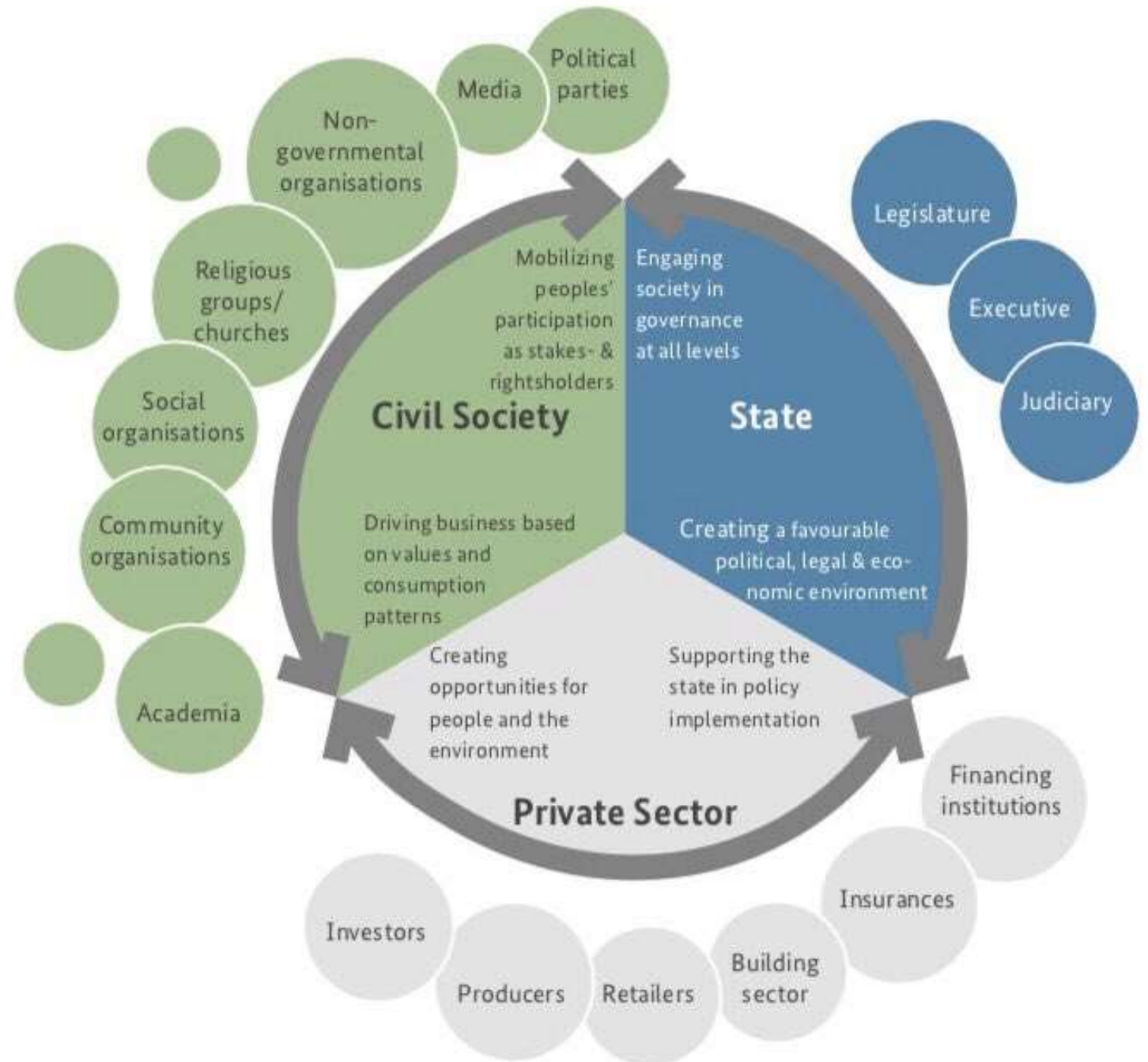
Current analysis of the 'doughnut'

- Estimates of impact indicate that we are exceeding the 'doughnut' boundaries on a number of environmental and social criteria
- The overall picture varies across different dimensions and between countries



The key societal relationship: Private Business- State-Civil Society

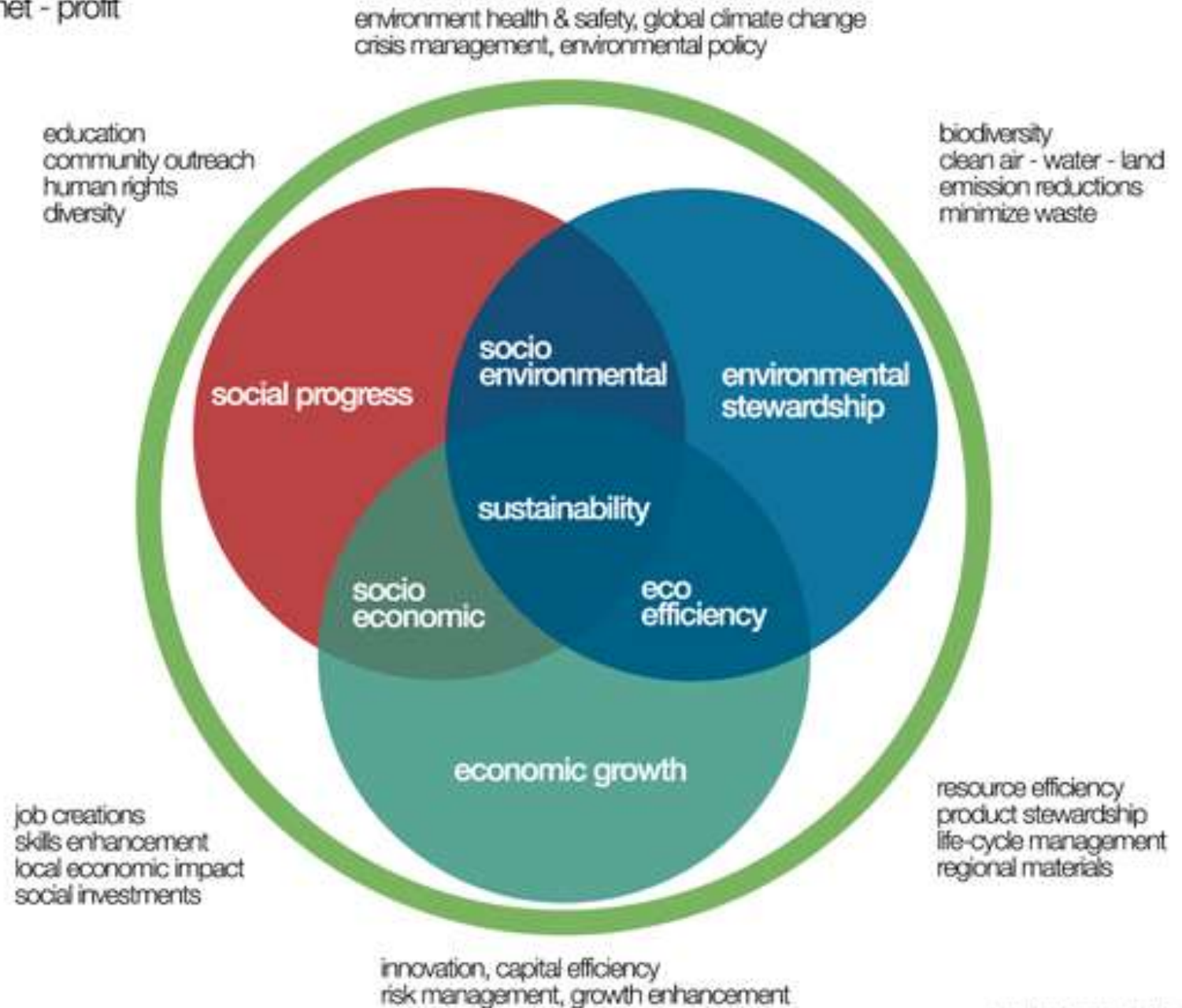
- Contribution/response to achieve 'progressive capitalism' will require action from three key active sectors of society, both individual and coordinated:
- Citizens (civil society)
- Businesses (private sector)
- Government (state sector)



THE TBL: An operating manual for 21st Century businesses

the triple bottom line

people - planet - profit



Summary

- The capitalist economic system has proven effective at raising incomes, expanding opportunities and stimulating innovation
- A focus on business profits alone ignores many arguments for other objectives for the economic system, and controls or limits that could be placed on how markets function and who they serve
- Progressive capitalism argues for a new 'social contract' between civil society-government-private business
- The Triple Bottom Line represents one core framework for encompassing social and environmental objectives alongside financial objectives
- Natural capitalism and doughnut economics both emphasise a change of standard business approaches to respond to new planetary and human opportunities and objectives for business