Pavan Sukhdev: The role of business and labour

ETUI conference cycle: The social-ecological transition

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In the second of the ETUI’s conferences on ‘the social-ecological transition’, economist and former banker Pavan Sukhdev was invited to Brussels to explain his vision for a new type of corporation. Philippe Pochet, General Director of the ETUI, opened the event, highlighting that it was aimed at examining the role of business and labour, but that he expected the talk would be more about “business and enterprise,” a subject that was “clearly very important if we wish to achieve any goal in the reduction of CO2 emissions and other pollutants”.

He then welcomed the guest speaker, explaining that Mr Sukhdev had “trained as a banker and economist”, yet since 2008 he had become “one of the most important thinkers in the field of the ecological economy” after writing UNEP’s ground-breaking study *The Economics of Ecosystems and Biodiversity (TEEB)*. He is now a regular advisor to the European Commission and most recently wrote a new book regarding cooperation 2020 and how big businesses should be reorganised, added Mr Pochet.

Before handing over the floor to Mr Sukhdev, Mr Pochet explained that the keynote speech would be followed by interventions from Jozef Niemiec, deputy secretary of the European Trade Union Confederation (ETUC) and Martina Bianchini, chair of the International Chamber of Commerce’s Green Economy Task Force, before opening up the sessions for debate and questions.

Pavan Sukhdev, founder of the sustainability consultancy GIST Advisory and author of ‘Corporation 2020: Transforming Business for Tomorrow’s World’ thanked the ETUI for the invitation to speak and noted that he was speaking as the European elections were underway. This was “exciting”, he said, and asked if “deliberations about the social-ecological transition and the role of labour and the new corporation” were being discussed under the auspices of the elections. If not, he asked, “what were politicians thinking?” Mr Sukhdev warned that if the world is “negligent” in regard to these issues, then “the future looks very uncertain and dangerous and we are walking on shifting sands [which means] instead of building bridges and trying to create stability, we are creating more risk and concern and uncertainty”. The social-ecological transition is of “deep importance,” he said, and should be “at the heart” of the elections.

Mr Sukhdev said that he was going to talk about corporations, which he sees as being at the core of today’s economy. As alluded to by Mr Pochet, Mr Sukhdev, explained that he used to be a “career banker”, but that he decided to turn his “hobby” of green economics into his day job as he wanted to do something positive about his environmental concerns. He said that given his knowledge about the state of the world, he would have found it difficult to explain to his grandchildren that he hadn’t done anything except read and write about these concerns. “We don’t have too much time, but is it ethically right for me not to do so much because I have a day job called banking?” he had wondered, he told the audience.

When talking about the green economy, Mr Sukhdev underlined the need to not only look at the concept in terms of the environment, but also to remember that it is clearly defined by the UN as having a social and equity context. The green economy should therefore be based around: increasing human well-being;
increasing social equity; not worsening reduces ecological scarcities; and not worsening environmental risk, he said. “All these four things have to happen for the economy to go green.”

The next question is then to determine who currently delivers the economy, said Mr Sukhdev. He agreed that lots of actors played a role, including households, NGOs and corporations. But given that the private sector globally accounts for 60-70% of GDP and jobs, and 75-80% in the US, it must play the leading role in tackling the environmental, social and labour challenges of today, he insisted. “It is the private sector that is driving the economy and the green economy,” he said. “If we want a green economy, we also need a new corporation 2020” – a green economy can’t be achieved without a green corporation, underlined Mr Sukhdev.

The main premise of his book and his model for change is the importance of getting all companies, rather than the few currently in existence, to have “the good genes” of corporation 2020. Unfortunately, most firms still have the “bad genes of corporation 1920,” rued Mr Sukhdev.

The main feature of corporation 1920 companies is the pursuit of size over anything else, he said – highlighting the “bulking up” of corporations between 1970 and 2010. “Size demonstrated success,” he noted. This growth was aided by the ability of companies to: access cheaper, more plentiful resources; to move manufacturing to countries where it was subsidised; and to secure demand from the richest customers. All this was possible because of changes in technology, said Mr Sukhdev. One of the main technological advances was the introduction of the bar code, he suggested, since it meant that products could be sold everywhere, their components were identifiable and traceable, and companies could “re-configure supply chains pretty much at the drop of a hat based on supply and demand”.

De-regularisation, which allowed, for instance, the standardisation of containers, and more recent technological breakthroughs such as the internet, also “helped multi-nationals to become model of success,” he said, allowing them to become larger, more profitable and therefore create happier shareholders.

Companies following the 1920 corporation model also tend to participate in “active lobbying... to make their competitive advantage sure,” and to push out competitors, said Mr Sukhdev. “Lobbying is not new,” he agreed, telling the story of how companies such as General Motors “lobbied aggressively” to keep lead in fuel, ensuring that the anti-knocking agent was not legislated out until the 1980s even though its dangers were being written about in 1919 and 1920 by professors at the universities of Harvard and Yale. “There were other anti-knocking agencies, such as ethanol,” said Mr Sukhdev, but as ethanol had no patent, companies could not make money from its use. “General Motors made money from lead, and lobbied aggressively and misrepresented the impacts on human health– even though workers were dying in factories,” he said.

Lobbying per se though does “not have to be a bad thing,” qualified Mr Sukhdev. “NGOs do it,” he commented. Rather the key question is: “what are you lobbying
for?” and if it is simply to preserve profits, this is problematic, he suggested. Another issue with corporation 1920 firms is that they can “leverage [finance] without limits,” a problem that has been at the root of all recent recessions, said the economist. He acknowledged that companies “need to be able to borrow” to grow their businesses, but asked “how much?” He lambasted the fact “the fund manager has become the conscience of society – god help us”. The idea that the fund manager “is deciding the direction of the economy...is not smart”. Mr Sukhdev insisted that there are ways of controlling how much a company can borrow and for what purpose, but that these checks and balances and not currently happening.

The fact that the advertising industry is “without ethics” and there is “no means of controlling advertising” also needs to be rectified, according to Mr Sukhdev. Advertising is “seen as a way of freedom, almost a rights issue,” he said, criticising the industry’s ability to “convert our insecurities into wants” and to “create a want and a need out of nothing”. Mr Sukhdev accused advertising and marketing of “praying on us and forcing us to make decisions”. To illustrate his point, he held up his Blackberry, which he said still worked perfectly after five years. That he had not had to replace it was “great for him” and he would have been willing to pay as much as 1000 dollars for a phone that lasts, but “nobody sells longevity; nobody sells the ability not to have to replace something every six months,” he lamented. “What is price and what is value?” he asked, suggesting that “in general price is high and value is low; profits are driven by volume and volume is driven by advertising”.

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Pavan Sukhdev

With these points in mind, Mr Sukhdev impressed upon his audience the need for both micro- and macro-policy reforms if a green economy is to become reality.

Part of the policy reforms should include the demand for greater focus on the “negative externalities” of a product, such as the health impacts of car emissions, he said. “If we look at total externalities, the true cost of the top 3000 companies
is estimated at 2.15 trillion dollars per annum. The most obvious impacts are greenhouse gas emissions, fresh water extraction, pollution, over use of national resources, waste, and heavy metals [from the] usual industries,” he said.

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If this is then extrapolated to the global picture and planetary boundaries, as set down by the Stockholm Resilience Institute, then the situation is not good, he underlined. Mr Sukhdev highlighted in particular the “calamitous” biodiversity loss and over-use of nitrogen. “Nobody know what happens when these boundaries are hit,” he said. He compared the situation to the continual hitting of a glass of water, which will eventually fall and the “new state of equilibrium will be water on carpet and it will not get back in glass.” He added: “scientists worry about pushing equilibrium” as once lost, the planet will probably be unable to regain its previous state.

Through his consultancy Mr Sukhdev now spends “all my time helping corporations and institutions to move in this direction,” namely getting them to make micro changes whereby they “get out of the fixation of shareholder value” and instead think “in terms of stakeholder value”. This means looking at and reporting on what the company is doing for its customers and for society. Mr Sukhdev wants it to become the norm for companies to rate more than simply shareholder value, but also to report on human capital, for example, the fact they are providing people with jobs and skills. “That is when you get the changes,” he said.

The CEO of a corporation 2020 will therefore “have to think more broadly” in terms of what he wants and expects from his company and ensure that all capitals of a company: “physical, human, social and natural”, such as the gardens, fields and forests they own, are reported on. “A company can help and influence all its capitals and should report on all of them,” he said, noting that at the moment, companies generally only report on “that top little box” dealing with privately owned capital, such as factories, buildings, securities and cash.

This is vitally important as the corporation is not only “the biggest economic agent of our time, but also the biggest cause of the problems that scientists are predicting we are facing including climate change,” insisted Mr Sukhdev.
“Measuring and reporting on externalities is therefore not just a nice thing to do, but critical,” he said. This is not a new idea. The world’s oldest companies were created as corporations to carry out the work of the state, Mr Sukhdev told the audience. “The idea of a wider corporation with a social purpose has been in abeyance, but we need to measure externalities and it is time for it to come back. People said it was too difficult, but it can be done and it is being done”.

Mr Sukhdev cited Puma as one company that publishes externalities and Infosys, an Indian IT training company, which reports on positive externalities of over 1 billion dollars per annum. “45 000 people leave [Infosys] every year and carry knowledge and experience and human capital to the outside world,” said Mr Sukhdev. This is the “positive export of human capital,” he insisted, confirming that “human capital is not only about earnings” and that it is possible to measure, for instance, the positive impact of a company on skills and health. “This should be part of everybody’s reporting,” he said, saying that if a 6 billion dollar company can do it, anyone can. “Managers know they can do this,” he said, urging governments to wake up and reward companies for creating this human capital, rather than just focusing on the bottom line.

Another firm that he praised was Natura, a Brazilian natural cosmetics company. “They have an interesting sales model, they work entirely through housewives selling to friends and family,” he said. “This creates social capital, economic security for women and gender balance.” It has been shown that households where women earn have a higher expenditure on health and education, not drink, he added, positioning this as another “positive externality”.

Given the plethora of “big problems” faced by humanity, the concept that a company is “too big to fail” and must be bailed out in every case is “quite incredible,” commented Mr Sukhdev. The idea that governments “have got to save [these companies] is absurd,” he said, running through the chain of events that tends to mark a bail out. “Because of the cost of excessive leverage, the government steps in and then says it has run out of money and so it raises taxes,” he lamented. Mr Sukhdev repeated his frustration that “nobody is controlling leverage” and that “supply is too cheap”. To these, he added his annoyance that “hard work, goods are taxed”, while the “bad” such as resource depletion and carbon emissions are not taxed. “We are mis-incentivising by tax,” he said. “The logic is completely wonky.”

Moreover, he insisted that such an approach “cannot go on, because the tax base is declining: there are not more people getting higher paid jobs, there are not more companies making more profit because of markets and recession and so they will not be able to pay more tax”. He said that if governments thought that they could carry on raising “more income and company tax [they] need their heads examined.” Mr Sukhdev called on governments to carry out “lots of rethinking and to see if we can work our through to solutions”. But he insisted that rethinking shouldn’t mean delaying action. “We don’t have time to figure out what to do, we should have already sorted it out.” He added that there was lots of discussion about 2050, but suggested that focusing on this date was a “moral hazard...as we don’t have until 2050 to think”.

According to Mr Sukhdev, “we have until 2020” to get corporations up to speed and implementing the ideals of his corporation 2020. “These are not difficult changes and some companies are doing this as leaders. Today it is not a leadership challenge, but we have a ‘followship’ challenge,” he said, reiterating that other firms will only follow when governments implement changes to tax systems, advertising ethics and reporting. “This will not be a simple solution, but why should there be a simple solution, we have created difficult problems?” he questioned. “We have the genes of corporation 1920 and 2020 out there. It is up to us, the people in the public space to bring about change.”

But ultimately, he said that he was optimistic that “corporation 2020 will become the dominant gene and the dinosaurs will die.” He concluded: “The challenge is to make that future begin now”.

Philippe Pochet thanked Mr Sukhdev, summarising the keynote speaker’s emphasis on the need for change at both the micro and the macro levels. He also underlined the importance of governments in putting in place rules and not being naïve that enterprise will follow an idea without rules and regulations.

Mr Pochet then introduced the next speaker, Martina Bianchini. She said that her remarks would reflect the ongoing discussions taking place in the ICC, which she said were based on UNEP’s conclusions about the green economy. There was no one-size-fits-all single solution to building a green economy, she said, insisting that different countries faced different challenges. Governments should therefore provide a “green economy toolbox to help countries on the path to sustainable development”. The ICC therefore prefers to talk about a sustainable economy, with a green economy only used in the “aspirational sense,” explained Ms Bianchini. She said the ICC now had drawn up a roadmap towards sustainable development and would now develop a framework to allow the roadmap to become reality.

Responding specifically to Mr Sukhdev’s presentation, Ms Bianchini asked regarding the example of his Blackberry and its longevity, who was responsible for drawing up the boundaries about how to market a product. “Does the corporation need to educate the consumer, or is it the consumer who chooses?” she questioned. She also asked whether any company really was “too big to fail” and gave the example of Nokia, once a market leader in the mobile phone market, which had failed because it did “not innovate fast enough”.

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Martina Bianchini
Ms Bianchini also queried Mr Sukhdev’s assertion of “wonky logic” in the sphere of taxation and banking and questioned what was actually “expected of the business community”. She suggested that companies were often in a no-win situation and that even if “they take the lead, they are accused of white or green washing”. There was, in general, she said, a “lack of trust between business and community” and pondered the need for a “new co-operation between businesses and the community”. Indeed, she suggested that companies, rather than governance, were driving change towards sustainable development,” but rued the fact that initiatives were “not mainstreamed and not sufficiently scaled up”. In short, “lots of good stuff is happening in the private sector... but at a macro-political level not enough is happening,” said Ms Bianchini. As a response, she called for “much more multilateralism and collaboration between governments” and for any mistrust towards industry to be put aside. Currently “not everybody is so interested in collaborating with the private sector” and this attitude is leading to “missed opportunities,” she claimed.

The next speaker on the panel to respond to Mr Sukhdev was Jozef Niemiec. He began his intervention saying that it was “inspiring to hear about a future economic model that takes into account nature, human capital and social aspects” and agreed that these aspects “should not be seen as a cost as they are at the moment”. He commented that it was also “inspiring to go beyond the reality and see what it is possible to do”. He endorsed Mr Sukhdev’s discussion of “methods and instruments that would help us measure the value of labour and social aspects and resources,” saying that this “is something very necessary”.

He added that he also agreed with Ms Bianchini’s conclusion that not only micro policies are needed, but also a “framework that allows us to have more transparency,” and bring about real change, not just “window dressing on companies”. He said that the trade unions would support a framework that can be “used by all,” but he questioned the usefulness of a voluntary approach, insisting on the need for “more obligatory rules”.

If Mr Sukhdev’s reporting aspirations were to become reality, it would bring about improvements for citizens and workers, agreed Mr Niemiec, but he suggested that for the moment at least the economist’s ideas were a mere “fairy tale” and that shareholders remain wedded to short-term externalities, namely profit, and were not interested in measuring human capital or skills. He asked Mr Sukhdev what should be done to change this. “You said changes are not difficult, but why are they not happening?” he asked.

Mr Niemiec said that innovation in the chemicals sector had come about because of the REACH regulations, “because we went for a rule”. He added: “The micro level is fine, it can show the example and lead, but to make it wider and apply it, we need to find a way to oblige others to follow the rule and improve the situation”. He questioned “who should be the engine of change: the state, corporate leaders, NGOs, trade unions?” He also asked where the money should come from to make the necessary transition and ultimately bring about “good quality jobs and the green economy”. Answers to the funding quandary were missing from Mr Sukhdev’s presentation, he said, most notably given that he used to be a banker.
Mr Pochet then opened the floor to questions, which ranged from picking up on Mr Sukhdev’s thoughts on diminishing corporate taxes to asking for his feedback on whether workers should be included on the boards of big companies. Other members of the audience commented on the need for collaboration between different global initiatives, asked how to compare the price of human capital in different countries and the role workers should play in the move to a green economy.

In his answers, Mr Sukhdev refused to accept that by marketing longevity companies would make less money by being able to sell fewer products, insisting that instead they could charge more for their products and offer, for example, free services within that price to keep their customers and their workers happy. Companies today are generally, “not focused on value, are not delivering value,” said, repeating his belief that they are concentrated instead on volume, without taking into consideration externalities, meaning that “everything is manufactured at a level cheaper than cost”.

And in terms of finding the finances to bring about change, Mr Sukhdev reiterated the fact that 1 trillion dollars are today being spent on subsidising fossil fuels, on the “brown economy”. He insisted: “We don’t need more money for a green economy...the green economy is not a beggar going round with a begging bowl, it just wants a level football field”.

As to how human capital should be measured in different countries. The “value of life is infinity,” said Mr Sukhdev. The problem is that financial capital is currently subsuming all other capital, he added. “We can’t print human beings, we can’t print nature. We can print money. The human is a being, not just cash flow.”

Mr Sukhdev agreed that “boards should have a stakeholder representative” and that he hadn’t “put enough effort in Corporation 2020 regarding workers”. His “willingness to be here is part of my effort to make that better,” he said. “We are moving away from shareholder to stakeholder capitalism, and so boards should have labour and other stakeholder representatives”. Indeed, he said that there were already labour and NGO representatives on the boards of certain companies, but that there was no pressure for all firms to follow this lead and so the status quo was slow to change.

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Jozef Niemiec
And this, he summarised, was the crux of the problem – the lack of pressure to force companies to make the social-ecological transition and join the green economy. “We have great examples, but these good companies are worth only 1% of GDP; the other 95-96% are still moving in wrong direction”. The rest will only follow “when accounting, tax and advertising is controlled” and this, said Mr Sukhdev, would only be achieved with micro and macro measures and when people across the board in all countries start working together.