Conclusion: the road ahead to the Sustainable Company

Sigurt Vitols

This conclusion summarises the main contribution of this volume to the current debate on the problem of short-termism and the need for long-term sustainable investment. As this is the third book in the trilogy of Sustainable Company books, it also takes the opportunity to review the contribution of the series as a whole and to outline further work to be done on the 'road ahead' to the Sustainable Company.

The primary aim of this volume is to bring a stakeholder point of view into the discussion on long-term investment. As indicated in the introduction to this book, the Great Financial Crisis (GFC) has revived the longstanding critique that financial investors have a tendency towards short-term speculative investments which, if unchecked, will ultimately lead to crisis; this short-termism operates to the detriment of the long-term investments needed to promote 'high-road' strategies by companies and to fulfil societal needs. The GFC made clear that the dominant economic reasoning is not at all about efficiently-operating free markets, but rather about the dominance of financial and multinational corporations over the market. What is new about the current debate is firstly its spread beyond one 'type' of capitalism (as in the past the debate has been focused mainly in the Anglo-Saxon 'liberal market' economies) and secondly the inclusion of the dimension of sustainability, rather than just economic competitiveness.

The first contribution of the volume is to point out the inadequacy of the policy proposals currently being made by the mainstream in Europe. Similar to many national governments and other international organizations, the European Commission has acknowledged that there is currently a serious problem regarding a shortage of long-term investments needed to support 'smart, sustainable and inclusive growth' and that measures need to be taken to address this. In the area of corporate governance the main policy initiative of the Commission is the Proposed Directive revising the Shareholder Rights Directive. However, as the chapter by Johnston and Morrow indicates, the Commission's proposal has not gone far enough towards what would be needed to support the Sustainable Company, as it is centred mainly on 'shareholder empowerment'. The chapter by Williamson, while focusing on the UK context with the Kay Review of Equity Markets and Long-term Decision Making, highlights the kind of thinking underlying mainstream analyses of short-termism and the weakness of their voluntaristic policy proposals throughout the world.

The second contribution is to strongly link the dimension of investment time horizons with the issue of sustainability. Habbard's chapter in particular shows that pension funds, as managers of workers' retirement savings, should in principle be the class of investor with the greatest ability to invest long-term and with the greatest interest in socially- and environmentally-friendly investments. Given the size of pension fund capital, the reallocation of a relatively small proportion of funds under management could have a major impact by helping develop the mechanisms and critical mass needed for investments in clean energy and sustainable infrastructures. This means that current trends in the organization of the financial system, which include a lengthening of the investment chain, need to be countered as they weaken the exercise of workers' voice in corporate governance and magnify the tendency of investors to focus on short-term financial performance. The chapter by Klec and Mum as well as the one by Van den Burg further develop this theme and indicate the current state of trade union activism vis-à-vis pension funds, including current best practice and the barriers to the exercise of workers' voice. Pension funds are thus arguably the most promising class of investor to mobilise for long-term sustainable investment and should therefore be highly prioritised in the policy agenda to promote the Sustainable Company. On the other side of the time horizon scale, the chapter by Botsch shows that financial transaction taxes (FTT) are a relatively simple but at the same time very effective means for discouraging short-term speculative behaviour in the financial system without impeding growth.

While most analyses of short-termism acknowledge that the problem is multi-dimensional whose solution requires a package of policy measures,[1] the third contribution of the book is to broaden the discussion of

1. The European Commission for example argues that there is no 'magic bullet' for developing and diversifying long-term investment (European Commission 2014: 3).

measures needed above and beyond what the mainstream is proposing. In particular the chapters by Cremers and Kowalsky discuss the role that workers can play, since they are the stakeholder that typically has the greatest interest in the long-run survival of their company, including the development of sustainable production processes and products. Cremers argues that the rights of workers to information on environmental and social matters within the company need to be seriously upgraded so that workers can be a well-informed stakeholder. Workers' involvement thus becomes part of a strategy to open up decision-making and to make corporations more accountable for their actions. Kowalsky discusses the needs for a far-reaching reform of European legislation to support European minimum standards for worker involvement, a step which the ETUC has called for and is currently developing proposals for. The chapter by Mückenberger also reaches beyond the mainstream focus on investment in publicly-traded company securities by highlighting the role that International Investment Agreements (IIAs) could play; specifically, the European Commission could use its new powers to negotiate IIAs with other countries which define mandatory environmental and social standards in international investment.

By discussing the dimensions and possible solutions to the problem of short-termism in our financial system and corporate sphere, this volume thus rounds out the work of the Sustainable Company series. As outlined in the first book in the series (Vitols and Kluge 2011), long-term sustainability-oriented investment is one of the six key elements of the Sustainable Company. However, along with the reform of company law to strengthen worker participation (Vitols and Heuschmid 2012) it is probably the most difficult among the six to realise, not only because of the complexity of the problem but also because of the political power of those forces opposing fundamental financial reform. As such the topic is worthy of a full volume to allow detailed discussion of the issues.

With this series the GOODCORP expert group has completed its outline not only a 'vision' of a stakeholder-oriented alternative to the still-dominant shareholder value model of corporate governance, but also the main policy initiatives that would be needed to move our companies in the direction of greater sustainability. The six core elements of the Sustainable Company – a company commitment to the creation of 'stakeholder value' instead of shareholder value, company strategies and roadmaps for sustainability, the exercise of stakeholder voice in corporate governance, the disclosure of social and environmental company information, sustainability-oriented remuneration and long-term sustainable investors – are all 'real', if in some cases existent only in embryonic form. The action agenda for the 'road ahead' to the Sustainable Company thus consists of strengthening these six elements where they exist and of spreading these elements to companies and countries where they do not yet play a role.

Regarding further research, the GOODCORP group is now moving on to a focus on the analysis of worker rights and the exercise of workers' voice in specific EU Directives. Studies of worker rights under the EU Takeover Bids Directive and the EU Cross-Border Mergers Directive are near completion. Through country and company case studies the effectiveness of different legal rights as well as the need for legal reform and the improvement of practice in specific types of situations have been identified.

In terms of the broader stakeholder community, areas where there is a need for future research includes more specific work concretising more specifically which reforms in the financial system could encourage long-term sustainable investment. Secondly, more work could be done identifying the role that stakeholders other than workers, such as certain types of NGOs, could play in exercising 'stakeholder voice' in corporate governance and company affairs. Finally, further work could be done to develop the theory of the stakeholder firm, a task which was addressed in the second Sustainable Company volume by Hagen and Mulder (2012).

An analysis of the current political situation in Europe and elsewhere indicates a rather mixed picture which underlines the urgency for proposing stakeholder approaches to corporate governance such as the Sustainable Company. Since the peak of the GFC in 2008, we have in many ways returned to 'business as usual' regarding the power of finance and multinational corporations and their use of neoliberal ideologies to dominate the agenda in the political sphere. Political parties that have traditionally worked closely with trade unions and could support a stakeholder approach to corporate governance have as a whole become weaker rather than stronger at the polls. However, on a positive note, the public at large has become much more critical regarding finance, executive remuneration practices and our current economic institutions. Furthermore, official institutions such as the European Commission, the OECD, and other international organizations have moved away from the euphoric embracement of shareholder value corporate governance characteristic of the 1990s and early 2000s. A further positive sign is the persistent criticism of the shareholder value model of corporate governance in the academic world. Notable progressive initiatives include: the activities centred around the Research Group on Companies, Markets, Society and the Environment at the University of Oslo, which include the Sustainable Companies project (Sjåfjell 2012);[2] the Modern Corporation Project, run out of the Cass Business School;[3] and the Purpose of the Corporation Project, led by Frank Bold.[4] Notable also is a shift in thought on corporate governance among some of the leaders in the academic mainstream, including Colin Mayer, former Dean of the Saïd Business School (Mayer 2013) and John Kay, head of the Kay Review of UK Equity Markets and Long-Term Decision. The fact that these critical voices remain loud even though the beginning of the GFC is eight years behind us signals that the crisis of the shareholder value model is real and that a window of opportunity for the Sustainable Company has arrived.

References

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2. See http://www.jus.uio.no/english/research/areas/companies/ for details on these activities.
3. For information on this project see: https://themoderncorporation.wordpress.com
4. For more information see: http://www.purposeofcorporation.org/en