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# COMPANIES AND SUSTAINABILITY: BEING CLEAN OR CONTRIBUTING TO THE TRANSITION?

FRANCK AMALRIC

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Author: Franck Amalric.
Reviewers: Marc Campi, Laetitia Maman and David Alcaud.

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# INTRODUCTION

In a recent interview with *Le Monde*, Patrick Pouyanné, CEO of TotalEnergies, was asked about Total's lack of ambition in terms of reducing $CO_2$ emissions, which certain NGOs and investors are criticising. He replied as follows:

> *We have to act responsibly and influence our ecosystem. We have, for example, a million customers whose heating systems use heavy fuel oil in France. I could sell off that part of the business, but it wouldn't make a bit of difference to the climate issue. I think it is preferable for TOTAL to help them switch from fuel oil to gas, heat pumps or wood-fired boilers*[1].

By selling off its heavy fuel oil business in France, TotalEnergies would reduce the greenhouse gas (GHG) emissions for which it is considered responsible, and therefore become "cleaner" according to the current corporate social responsibility (CSR) criteria. However, if the operator taking over this activity were to carry on with it as it stands, the GHG emissions from the business would be unchanged. The fact that TotalEnergies would become cleaner would therefore do nothing to decarbonise the French economy.

M. Pouyanné thereby reveals a mismatch, or even a conflict, between companies' strategies that aim at making themselves 'cleaner', and the transition of economies towards sustainability.

This disconnect runs through today's debates and practices on the accountability of economic actors with regard to the sustainability stakes. In several key sectors that are particularly polluting (or dependent on polluting industries) and supply products or services that are essential for the welfare of the population or for the economy to function - energy, finance, transport, etc. - the demand on companies to be «clean» seems inappropriate for two reasons:

1. there is a consistency issue between corporate strategies and economic transformation paths at a territorial level (region, country, world);
2. the scope is too narrow, given the role companies might play in their industry's transition towards sustainability and that of the wider economy.

Let us consider the Energy Sector. The companies that are praised for being clean are tiny in relation to France's energy needs; the major players - EDF, ENGIE, TotalEnergies - are criticised for not being clean, but provide most of the energy on which our lifestyles depend. Who can contribute the most to the emergence of an industry that is compatible with sustainability? These small players, admittedly clean but with little power or

1. «Patrick Pouyanné, CEO of TotalEnergies:» The question of the sustainability of oil companies is on the table «», Le Monde, June 20, 2020.

agency? Or the most powerful, but currently «dirty» players? For the latter, the criterion of «cleanliness» is clearly not the best angle of approach on the question of their sustainability responsibilities because it does not cover the contribution these companies can make to the transition.

We can also consider the example of the financial sector - banking, insurance, asset management companies. By financing (or insuring) economic activity as a whole, their environmental record is necessarily the reflection of the French economy's record: it is poor (compared, for example, to the commitments made by France within the Paris Climate Agreement)[2]. Each of the players could therefore become "cleaner" if they stopped supporting the most polluting sectors of the economy, something that was started with the coal industry. But is this strategy well suited to helping achieve sustainability?

The strategy will have no impact on economic reality if polluting companies obtain financing from other financial bodies; and if it does have an impact, it risks disrupting entire industries that produce goods and services that are essential to the current economic structure, such as haulage companies, and eroding public support for the transition. The Banque de France, during the climate stress test exercise carried out in 2021, clearly identified the risk of mismatch between the overall supply of products or services provided by private players who aim to be «clean», and the needs of economic players that provide essential products and services[3].

It is not surprising that M. Pouyanné voiced the 'cleanliness' versus 'transformative contribution' disconnect in answer to a question about climate, since the systemic nature of the climate crisis reveals that thinking about corporate social responsibility in terms of cleanliness is insufficient. In a recent statement, ADEME stressed that the concept of carbon neutrality only makes sense in terms of the world as a whole, not at the level of a region or an organisation[4]. If no player can claim to be «clean» or «sustainable» or «net zero» *on their own*, it is because their responsibility cannot be restricted to being clean, and each player must take on a wider responsibility to contribute to the creation of a decarbonised economy.

This is the key point. This disconnect calls into question one of the key tenets of the prevailing CSR rhetoric from NGOs, investors, rating agencies and consultancy firms: that aiming to be clean is how a company contributes to achieving sustainability. In fact, the prevailing corporate social responsibility (CSR) standards today, which we will refer to as "conventional", were developed precisely to assess the level of a company's «cleanliness», i.e. its capacity to control its external impact and to take into consideration the interests of its stakeholders. The problem is that this conventional CSR is also presented as the contribution of companies to achieving sustainability, which is fallacious, both in practice and in theory.

For there to be consistency between «corporate strategy» and «economic transformation», we need a vision of corporate social responsibility

2. For example, an OXFAM report on GHG emissions attributable to CAC40 companies concluded that 'French banks are the most polluting companies'. Oxfam (2021) Climate: CAC Degrés de Trop Le Modèle Insoutenable des Grandes Entreprises Françaises (CAC Too Many Degrees The Unsustainable Model of Large French Companies), Paris, Oxfam. https://www.oxfamfrance.org/wp-content/uploads/2021/03/rapportOXFAM_CACdegresdetrop_VFF.pdf

3. See ACPR (2020)« Présentation des hypothèses provisoires pour l'exercice pilote climatique » (Presentation of provisional assumptions for the climate pilot exercise), Paris, Banque de France, in particular § "2.2.5 The process of achieving consistency".

4. ADEME (2021) « Les Avis de l'Ademe. La Neutralité Carbone. » (The Opinions of Ademe. Carbon Neutrality). Ademe, Paris.

that is more closely linked to the issue of sustainability. The philosopher François Vallaeys leads the way:

> *Since the current system is not sustainable, as humanity's ecological footprint increasingly exceeds the planet's biocapacity, the mission of any socially responsible organisation has to be about transforming the system and not about fitting in with the system, trying not to harm it (not to be to blame for damage)*[5].

In fact, many companies, partly as a result of examining their corporate mission, are already making commitments in this direction and going beyond the scope of conventional CSR. Symptoms of the current evolution are that they produce *Sustainability Reports* rather than CSR Reports; they rename their dedicated teams Mission, Commitment or Sustainability; and managers who were formerly CSR Directors, become Sustainability or Sustainable Development Directors.

Legislation also encourages companies to think of their social responsibility beyond conventional CSR. In France, the 2019 Pacte law, by introducing the purpose and status of "Mission Company" into legislation, calls on companies to think about their relationship to society beyond taking into account their social and environmental impacts; at the European level, the regulation on taxonomy, published in June 2020, aims to make how companies contribute to addressing 6 major environmental objectives[6] more transparent.

Practice therefore outstrips theory, and there is no theory to inform practice, or to assess, support and strengthen corporate commitment to a more sustainable world.

The aim of this document is to provide conceptual foundations for developing Strategies Contributing to the Advent of Sustainability (SCAS), not to be confused with strategies for contributing to sustainable development goals. The expression is not terribly elegant, but at least it is clear: the social responsibility of a company that we are discussing here is not to be 'clean' (or 'sustainable') on its own, but to contribute to a collective process aimed at moving society towards sustainability.

To do this, we start from an outline theory on the evolution of societies towards sustainability, based on the key distinction between, the "activity of the economy" on the one hand, and the "structure of the economy" on the other. This distinction makes it possible to problematise the issue of sustainability and to take into consideration the level of society's empowerment to respond to it (see section 1). Please note that the term empowerment is used in this document to indicate the degree to which players take on responsibility.

Thanks to this frame of reference, tested by our research and development work, we will show that the limits of the predominant conceptual framework of conventional CSR lies in the fact that it derives from an analysis of market failures in a **static** vision of the economy, whereas the challenge of sustainability is to imagine a **transformation** of economies towards a new desirable state (see section 2).

5. François Vallaeys, *Pour une Vraie Responsabilité Sociale. Clarifications, propositions. (Towards True Social Responsibility. Clarifications, proposals.)* Presses Universitaires de France, Paris, 2013, p.17

6. These are: a) climate change mitigation; b) adaptation to climate change; c) sustainable use and protection of aquatic and marine resources; d) the transition to a circular economy; e) prevention and reduction of pollution; f) protection and restoration of biodiversity and ecosystems. Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18, 2020.

Finally, we put forward a generic structure of SCAS with two main dimensions: contribution to the collective empowerment process; contribution to the transformation of the structure of the economy (see section 3).

The scope we put forward for corporate social responsibility is therefore wider than, and provides an operational response to, the limitations of conventional CSR.

# 1.

# THINKING THE ECONOMY FOR SUSTAINABILITY

## 1.1. ECONOMIC ACTIVITY AND STRUCTURE

Let's go back to the start. The concept at the heart of the sustainability issue is that economic activities are eroding the natural bedrock on which the economy stands, and that this erosion threatens to extinguish hopes for future economic progress. The report by the World Commission on Environment and Development, known as the «Brundtland Report» after the former Norwegian Prime Minister who chaired the Commission, put it this way:

> *We have in the past been concerned about the impacts of economic growth upon the environment. We are now forced to concern ourselves with the impacts of ecological stress – degradation of soils, water regimes, atmosphere, and forests - on our economic prospects. (1987: 11)*[7].

The concept suggests that there is something like a 'natural capital' that underpins the workings of the economy, at least in part[8]. Beyond that, it suggests we make the distinction between the "activity" and "structure" of the economy.

The activity of the economy refers to all economic activities - production, consumption, and distribution of products and services. (To clarify: the activity of the economy is a macro-level concept, while economic activity is micro level.) It is measured by indicators such as the Gross Domestic Product (GDP), income or jobs. This activity has social repercussions which are

7. As a reminder, this Commission was set up under the aegis of the United Nations to review the relationship between economic development and the environment. It put forward the concept of «sustainable development». The publication of this report led to the organisation of the Earth Summit in Rio in 1992. The publication of the Commission's report is therefore a founding moment in international debates on sustainability.

8. Getting the economy's dependence on "natural capital" recognised is the great intellectual battle that ecological economics has been waging since the early 1990s.

measured, for example, by objective or perceived well-being indicators, as well as environmental consequences (pollution, etc.) which in turn can have an impact on people's well-being.

In contrast, the structure of the economy includes factors that, like natural capital, underpin, facilitate and regulate the activity of the economy.

The Brundtland report defines the issue of sustainability as meeting "the needs of the present without compromising the ability of future generations to meet their own needs". In other words, the aim is to ensure that the activity of the economy provides social welfare without eroding the quality of the structure that supports the activity.

## 1.2. FACTORS SHAPING THE ECONOMY

Once the concept of the structure of the economy has been established, it is necessary to detail its component parts. "Natural capital» is one, but by no means the only one.

Sustainable development economists have identified three other major factors, in addition to demographics, which we are excluding from our scope of analysis here[9].

The second (after natural capital) is human and physical capital. It includes all the available knowledge and techniques, physical capital, as well as infrastructures that facilitate transactions and economic activities.

Another key factor is the set of regulations that facilitates and frames the deployment of the activity of the economy, and partly determine its social and environmental impacts. It includes the so-called "strong" regulations put in place by countries, as well as the "soft ones" that derive from self-regulation by economic stakeholders[10].

The framework is rounded off by a fourth factor which, although less frequently mentioned, is equally key: culture. Here the term includes individuals' preferences and the social norms that influence the behaviour of economic players.

The "structure of the economy" therefore includes, in addition to demographics, 4 major factors that condition how the activity of the economy is deployed: natural capital, human & physical capital (knowledge / techniques / production units / infrastructure), regulations, and culture. The overall outline is shown in Figure 2 on the next page.

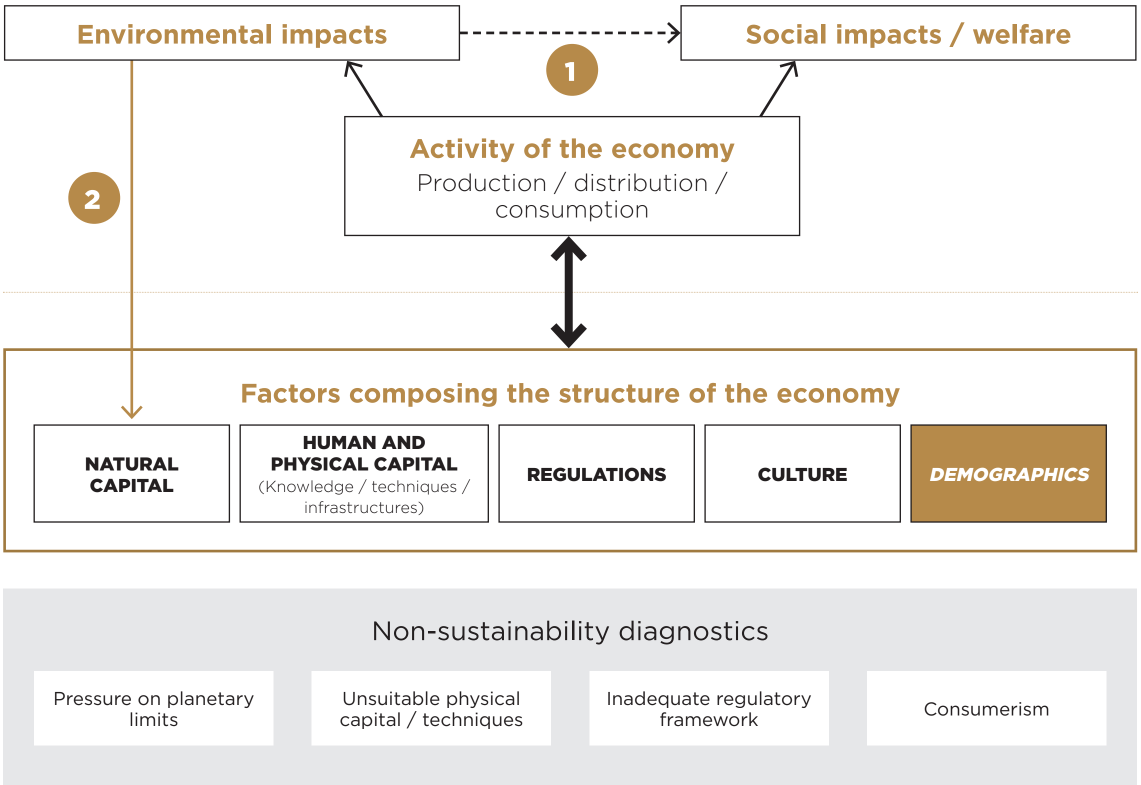
## 1.3. THE ISSUE OF SUSTAINABILITY: A MORE IN-DEPTH ANALYSIS

As recalled above, the issue of sustainability stems from a significant depletion of "natural capital". While there has been a lively debate among economists about the degree of interchangeability between one type of capital and another, i.e. the extent to which the destruction of natural capital can be compensated for by the accumulation of human and physical capital (buildings, machinery, knowledge, technology, know-how, etc.), the prevailing view today is that the maintenance of a certain level of natural capital is essential for the activity of the economy.

However, as pressure on the environment stems from the activity of the economy, and as the latter depends on the economic structure, environmental non-sustainability questions the pertinence of the other factors that shape the economy in terms of achieving the objective of sustainability.

9. See for example the synthesis of Partha Dasgupta on the question of biodiversity. Partha Dasgupta (2021) *The Economics of Biodiversity: The Dasgupta Review. Abridged Version.* London, HM Treasury.
10. For example, many players in the financial sector have recently committed to voluntary initiatives to align their activities with a Net-Zero trajectory, such as the *Net Zero Insurance Alliance*, for example.

Figure 1. Thinking the economy for sustainability




Notes: 1. The upper part of the diagram (above the dotted line) corresponds to the conventional field of study of the economics of welfare, which is concerned with how to organise economic activity in order to optimise the welfare of the population. The concept of externality in particular was developed in this context.

2. The impacts of human activity on the environment are of two types: (1) Certain environmental impacts are problematic in that they directly affect the welfare of the population; (2) others are problematic because they erode the natural capital on which economic activity depends; these are the issues surrounding sustainability.

Without going into detail here, this reassessment concerns for example:

- The possibility of continuing to use, and thus generating a return on, certain assets (physical capital) because of the environmental impact inherent in their use. The debates on stranded assets show that part of the existing physical capital, far from being able to compensate for the deterioration of natural capital, is made obsolete by environmental concerns;
- The need to change the existing regulatory framework (obvious example: absence of carbon tax at a sufficient level);
- The consumerist culture that dominates in «rich» or emerging countries and that seems incompatible with observing planetary limits.

For this reason, a path to sustainability requires a transformation of the economic model, i.e. a transformation of the various elements that make up the structure of the economy.

## 1.4. IMPACTS OF THE ACTIVITY OF THE ECONOMY ON ITS STRUCTURE

The economy's activity and structure are obviously in a two-way relationship, in the sense that they influence each other: the economic structure conditions the activity; at the same time, economic activity (all economic activities) has an impact on the elements that structure the economy.

It is important to note that the influence exerted by economic agents on the structure of the economy is partly rooted in their freedom: the freedom of individuals to form their preferences, i.e. to decide for themselves how they wish to

Table1: Relative impacts of individuals, companies and the State on the factors that structure the economy

| **Factors shaping the economy** | | **Individuals** | **Businesses** | **State** |
|---|---|---|---|---|
| **Human and physical capital** | Knowledge / technology | | Massive R&D investments | R & D orientation / impact limited by mismatch between national policy and global markets, partly offset by major European projects + abandonment of industrial policies |
| | Infrastructures aimed at reducing transaction costs | | Example: leading companies in the use of digital technology to facilitate economic exchanges (Amazon, Uber, etc.) | Traditionally a state domain (roads, railways, ports and airports, etc.) |
| **Regulations** | "Hard" | Support for political programmes | Lobbying | Exclusive domain |
| | «Soft» (i.e. «Market standards») | | Exclusive domain, which is becoming more and more significant due to the disconnect between national political structure and global markets | Incitement through threat of state regulation |
| **Culture** | Individual preferences | Critical analysis of personal preferences | Massive investments in advertising | Some actions, mainly on health issues (prevention campaigns) |
| | Social norms | Involvement in the evolution of social norms | Ditto | Limited action via transparency obligations |

meet their basic needs (e.g. mobility patterns, choice of diet), shapes culture; and the freedom to engage in entrepreneurship and innovation impacts physical & human capital as well as, indirectly, culture.

For this reason, in an economy based on freedom, the state cannot claim a monopoly of influence on the economic structure. This shared influence is all the more reduced as foreign private players can, even without being present on national soil, influence the economic structure: individuals' preferences are shaped by globalised media; the R&D strategies of large companies take into consideration the possible roll-out of their future products or services on a global scale; and the environmental repercussions are also global.

Moving the economic structure in a desired direction therefore requires a collective empowerment process involving the players who have an influence on the structure. The state cannot act alone, as much for reasons of capacity as of legitimacy, because it cannot do so without significantly encroaching on the freedom of individuals and economic agents.

Finally, even a superficial analysis reveals the relative importance of the role that companies must play in this process, due to their high level of influence on the economic structure compared to that of individuals or the State (see table 1).

This influence includes, in addition to environmental impacts:

- the impact of marketing and advertising on individual preferences and social norms;
- business investment in R&D, as well as in infrastructure to reduce transaction costs and thereby organise markets;
- the influence of companies on regulations, through their lobbying activities and the creation of non-state market regulations ("soft" regulations).

## 1.5. THE LEVEL OF SOCIETAL RESPONSIBILITY FOR SUSTAINABILITY

No country in the world - with the possible exception of a few Central American countries - currently meets the conditions for sustainability, i.e. achieving a high level of human development while at the same time observing planetary limits in due measure. An evolution of the economic model is therefore required, along a trajectory that leads to a level of activity of the economy that is compatible with the principles of sustainability[11].

We have a collective responsibility to future generations to develop the economy in this way. At the end of his foreword to the eponymous report, Gro Harlem Brundtland noted in 1987:

> *The Commission has completed its work. We call for a common endeavour and for new norms of behaviour at all levels and in the interests of all. The changes in attitudes, in social values, and in aspirations that the report urges will depend on vast campaigns of education, debate and public participation.*

Yet the very appeal for responsibility suggests that the empowerment of a country's players to collectively transform the economy towards sustainability is by no means obvious. Since then, practice has shown that it is in fact very difficult to achieve. Brundtland therefore called on various societal players to participate in raising this level of empowerment:

11. Need we mention that the direction and scale of the development required is, for a country like France, completely unprecedented?

> *To this end, we appeal to «citizens» groups, to non-governmental organizations, to educational institutions, and to the scientific community. They have all played indispensable roles in the creation of public awareness and political change in the past. They will play a crucial part in putting the world onto sustainable development paths, in laying the groundwork for Our Common Future.*

The corollary of Brundtland's message is that without empowerment of all players, there can be no transformation of the economy towards sustainability.

The level of empowerment of the players in a given territory or a country is therefore a third factor - in addition to the activity and structure of the economy - that any theory on society's evolution towards sustainability must take into account. Let us call this third factor the "level of societal empowerment" (for transforming the economy towards sustainability). This encompasses the political will that drives political leaders, the level of accountability of economic organisations such as companies, as well as that of individuals, as citizens or as economic players.

The theory on factors that determine the level of societal empowerment for sustainability is much less established than on the factors that shape the economy. Without claiming to be exhaustive, we can however identify the following three factors.

### 1.5.1. Conception of the future

The first is the level of awareness of the issue of sustainability, which we can describe in terms of the prevailing «conception of the future» in society.

The sustainability issue opens up the future. We can no longer write or think about the future as the linear pursuit of continuous progress, as it has become dependent on how we manage the environmental impact of the economy's activity. Today, the future is written in the form of scenarios, the publications of the IPCC being just one example.

Communicating this new way of thinking about the future to the population and to economic and political leaders is an important step in raising the level of societal responsibility. Because, as the philosopher Jean-Pierre Dupuy theorised, raising awareness of the catastrophic nature of certain scenarios is useful in instilling the desire and will to be involved in bringing about a desirable scenario, that of sustainability[12].

### 1.5.2. Mobilising responsibilities

Another significant factor concerns the relative level of stakeholders' empowerment. The process of empowerment occurs as a result of a call to action, but not all actors automatically feel it applies to them.

One of the key messages that the 150 citizens of the Citizen's Climate Convention wanted to 'tell French society' is precisely that everyone must be involved:

> *we all need to fundamentally change our behaviours to leave our children and grandchildren with a viable planet. We must act faster and with greater force than to date (...) It cannot be left up to others to make the effort. Citizens, public authorities, economic stakeholders, NGOs, we all need to show solidarity in the face of the*

12. See Jean-Pierre Dupuy (2002) *Pour un Catastrophisme Eclairé* (For an enlightened catastrophism). Seuil, Paris.

> *climate emergency, by making social justice one of the driving forces behind our thinking*[13].

The degree to which the various stakeholders are engaged is therefore another significant factor in the level of societal responsibility, and could be measured, for example, by the percentage of stakeholders who feel involved.

#### 1.5.3. Social acceptability of the transition

The final factor that we will consider here: the social acceptability of the transition.

The expression covers two types of acceptability: the acceptability of acting in a responsible manner, answering the call to do so. We can understand the need to act, hear the call, and yet choose not to act. This may be out of pure selfishness; but it may also be the result of being subjected to conflicting imperatives.

And then the acceptability of the transition undertaken by the whole community and whose consequences we can feel.

The carbon tax in France provides an illuminating example of the problem of social acceptability. The vast majority of the French population wants the government to act decisively to reduce greenhouse gas emissions. For economists, the most efficient way to do this is to introduce a significant carbon tax. However, the political authorities had to its introduction in the face of public opposition. For the momentum of the economic structure's transformation to be sustained, the transition it triggers must be perceived in a generally positive way by the population. There can be no sustainable transformation over time if the subsequent transition does not feed the process of empowerment.

### 1.6. PATHS FOR SOCIETAL CHANGE TOWARDS SUSTAINABILITY

We can now model how the economy evolves as the result of interactions between these three major factors - economic structure, activity of the economy, level of societal empowerment for sustainability.

A first model, illustrated in Figure 2a, corresponds to what the authors of the Brundtland report imagined: the call for accountability should raise the level of societal empowerment to a sufficient level to bring about a transformation in the economic structure, which would lead to changes in the economy's activity so as to reduce its environmental impact.

But this model is incomplete on two fronts: it neglects the impact of the economy's activity on economic structure, as well as the impact of that activity on the level of societal empowerment for sustainability. As we have seen, the impact of activity on the structure is significant; and as we will see below, the activity also has a potentially significant impact on the level of societal empowerment for sustainability. It is therefore advisable to consider a transition model that takes these interactions into account, as illustrated in figure 2b.

The experience of recent decades - the Brundtland Report was published in 1987! - shows that scientists' concerns about the state of the world, and their many calls for stakeholders to take responsibility, are not enough to sufficiently raise

13. Citizen's Climate Convention (2020) The Proposals of the Citizen's Climate Convention. Paris. p. 9. https://www.lecese.fr/sites/default/files/pdf/Convention/ccc-rapport-final.pdf

the level of societal empowerment. According to the extended model, the failure of our societies to respond to the challenge of sustainability is then explained by the double influence of economic activity on the structure of the economy: a direct influence as discussed in the previous section; and an indirect influence via the level of societal empowerment.

Thus, the great challenge of sustainability is to imagine and set in motion a process involving synergy between these different dimensions. In particular, the conflict between 1) the need to introduce radical changes to the economic structure, and 2) the level of societal empowerment that will partly result from these changes via the economy's activity, needs to be anticipated and addressed effectively. The synergy is triggered when the evolution of the economy's activity contributes to raising the level of societal empowerment.

Figure 2a: Model of the economy's evolution towards «simple» sustainability

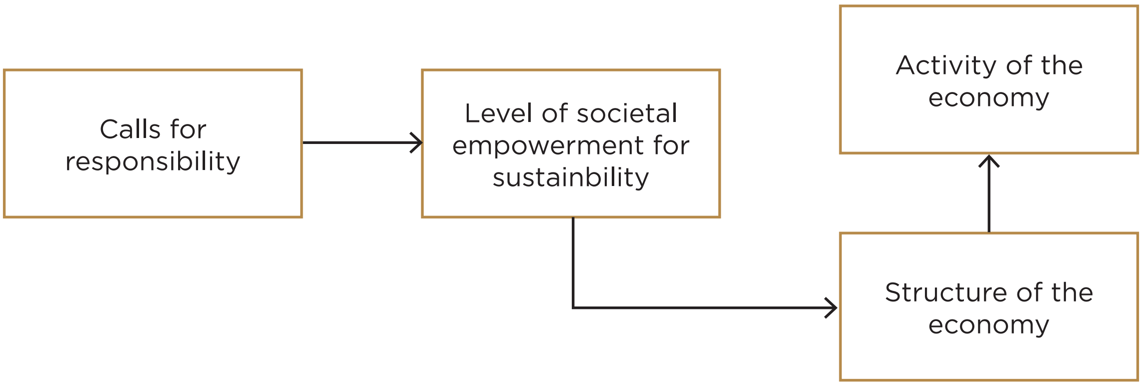
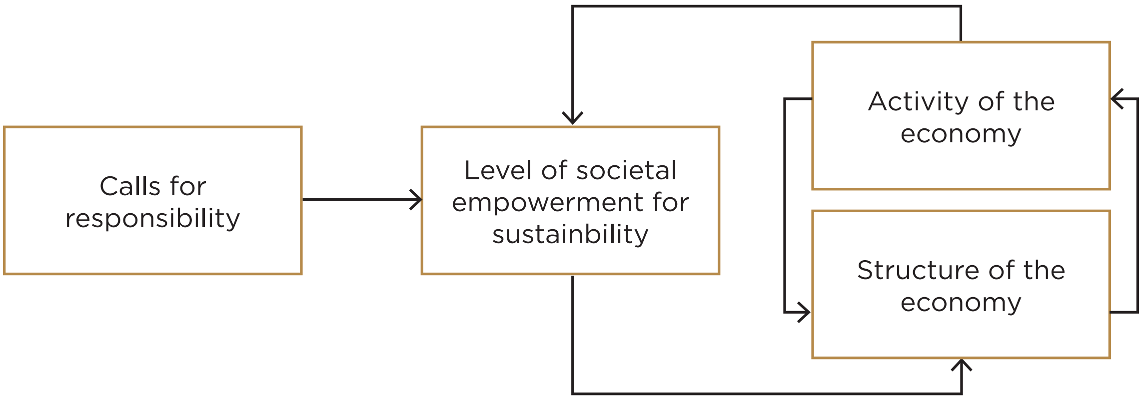
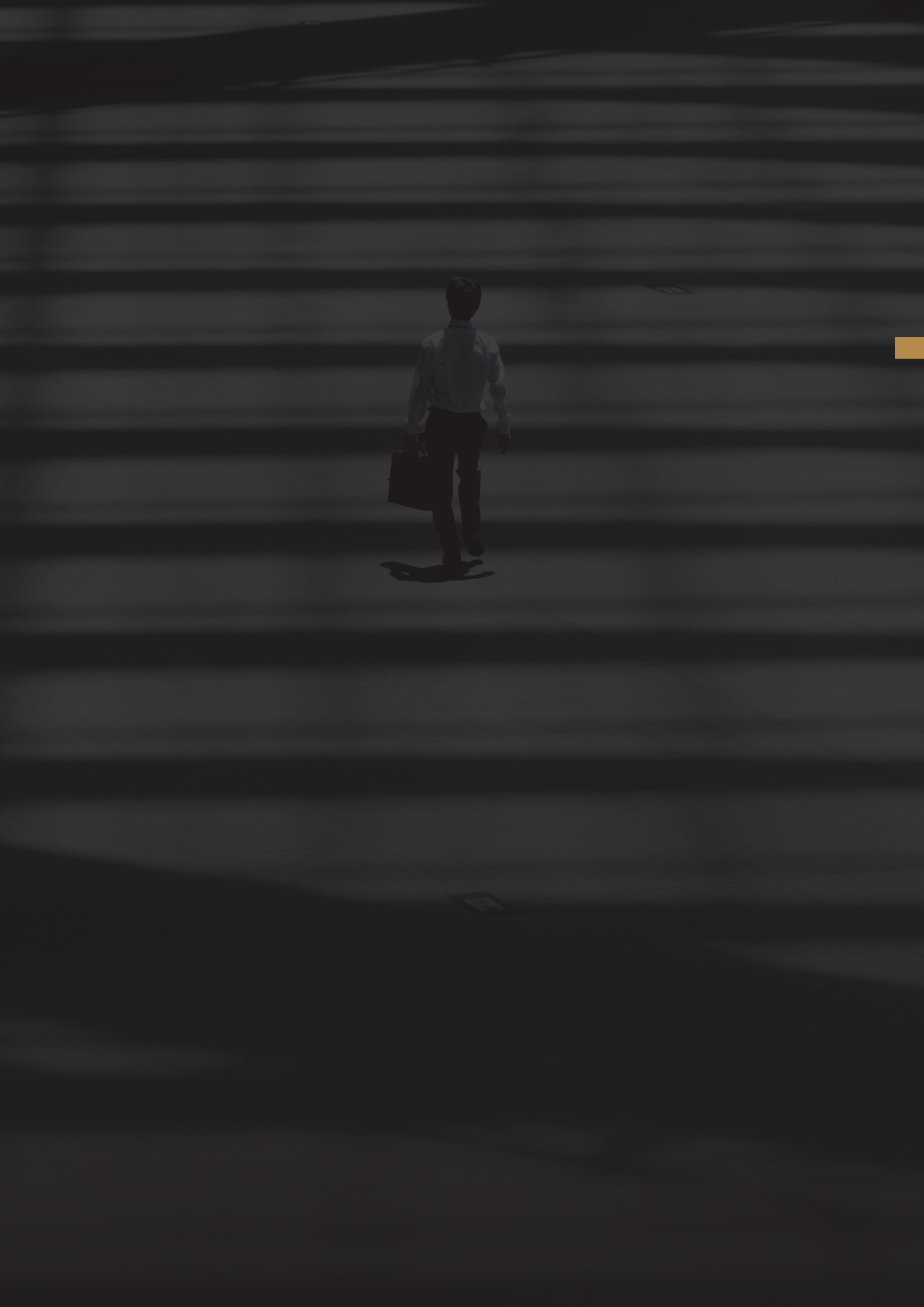



Figure 2b: Model of the economy's evolution towards "broader" sustainability





# 2.

# CORPORATE RESPONSIBILITY: ORIGINS AND LIMITS OF "CONVENTIONAL" CSR

## 2.1. THE LIBERAL FRAME OF REFERENCE

Debates on the role of businesses and their social responsibility are old, existing alongside the development of the economy for a century. While the first major publications on the subject date from the early 1930s, the essential theoretical benchmark is the position expressed by Milon Friedman in 1962, and again in an article which became famous in 1972. For Friedman, the only responsibility of a business is to maximise its profits. Michael Jensen, professor at Harvard Business School, then elaborated on this position in a series of influential academic articles published from 1975[14].

Let us therefore remind ourselves of the main elements on which this position is based.

In a free economy, i.e. one that is not administered by public authority, economic activity is the result of the actions of a myriad of stakeholders - consumers, investors, companies of all sizes - who act according to the possibilities and incentives defined by the structure of the economy.

Political philosophers and liberal economists argue that the responsibility of the state is to define the regulatory framework for the economy's activity (regulations on property rights and business creation, regulation of the external impact of the economy's activity, etc.) and that, within the established institutional framework, economic players are free to pursue their own interests.

What objective should companies then pursue? Economists approach this question by taking as a benchmark objective the optimisation of resource allocation within the economy, so as to best meet the needs of individuals. In response, they set out a theoretical framework with two main characteristics: it is static in that it does not take into account the reciprocal influence between the economy's activity and structure;

14. This is the case not only of academic work, but of debates close to public policies. See the Notat Sénard report, geared towards proposing an alternative to the excessive financialisation, in their eyes, of the company.

it assumes an ideal economy in which markets function properly, in the sense that there are no market failures[15]. Out of this theoretical framework the proposition emerges that it is by aiming to maximise its profits that a company best contributes to the interests of society as a whole[16].

The two characteristics require some comment.

### 2.1.1. Static framework

We have seen that to think about the issue of sustainability, we have to pay attention to the interaction between the economy's activity and its structure.

In contrast, the framework of neoclassical economics used by Friedman and then Jensen is focused on economic activity. The structure of the economy, and thus the interaction between activity and structure, is outside the scope of their thinking (in more technical terms, these factors are said to be exogenous to the model). Thus, the framework pays no heed to innovation; it assumes that the state has free rein to intervene for the common good, outside of any influence from economic activity; and consumer preferences are unchanging and thus determine the production of goods and services (the principle of consumer sovereignty).

These assumptions were justified given the goal at the time: to develop a model that made it possible to clarify the theoretical virtues of markets and the role of companies within them[17]. But they lose their validity when it comes to analysing the possible contribution of businesses to the transformation of the economy[18].

### 2.1.2. Lack of market failure

There is no need to go into the details of economic theory on market failure here; it is sufficient just to clarify its function in debates on corporate social responsibility.

The central question is to know to what extent it is socially legitimate for a company (or any other economic stakeholder) to "harm" another player. Answering "never" cannot be correct, because economic activities and transactions require making decisions that harm others: raising the prices of products harms consumers; closing a business harms the people who were employed there; innovation hurts competitors; etc. Ronald Coase, recipient of the Nobel Prize in Economics, had stated in his classic article on market failures that *'[n]othing could be more "anti-social" than to oppose any action which causes any harm to anyone*'(1960: 18)[19].

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15. Without going into details here, let us recall that the two major theorems of welfare economics on the efficiency of markets (under certain conditions) are based on a static framework.
16. See in particular Milton Friedman (1962): '' The view has been gaining widespread acceptance that corporate officials and labor leaders have a "social responsibility" that goes beyond serving the interest of their stockholders or their members. This view shows a fundamental misconception of the character and nature of a free economy. **In such an economy, there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game**, which is to say, engages in open and free competition, without deception or fraud.g Similarly, the "social responsibility" of labor leaders is to serve the interests of the members of their unions. It is the responsibility of the rest of us to establish a framework of law such that an individual in pursuing his own interest is, to quote Adam Smith again, "led by an invisible hand to promote an end which was no part of his intention"'. Friedman, Milton (1962) Capitalism and Freedom. Chicago: The University of Chicago Press.
17. John Kenneth Galbraith, professor at Harvard, worked to criticise the capacity of neoclassical economics to explain the workings of the American economy by questioning the last two assumptions.
18. This negligence obviously has other consequences which we mention in passing here. One is to nurture the illusion that the State, and citizens via democratic institutions, would have the full and sovereign capacity to structure the economy, since this structure is reduced to regulations alone. One of the causes of the crisis of modern democracy: this gap between the discourse and the loose grip of the State (and therefore of democracy) on the structure of the economy and by extension on the activity of the economy and the experience that people have of it. Another is to reduce the scope of state regulations to the organisation of markets and the management of externalities, neglecting the regulation of the impact of economic players on the structure of the economy.
19. Coase, Ronald H. (1960) 'The problem of social cost', Journal of Law and Economics 3 pp. 1-44

Sports competition offers us a good analogy. A boxer is allowed to hurt his opponent in a boxing ring, it is even his objective; but he is not allowed to use his fists outside the ring.

The same principle is applied in the economic world: harming a competitor in a well-organised market is legitimate; harming others by exploiting market failures is not, or at least not automatically. Identifying market failures therefore becomes a means, and even a prerequisite, for questioning the social legitimacy of economic actions that harm others.

## 2.2 THE CONVENTIONAL CSR FRAMEWORK

### 2.2.1. Origin

The conceptual framework of corporate social responsibility (CSR) that prevails today was developed in the mid-1990s, in a very specific dual historical context: 1) the emergence of the issue of sustainability following the Brundtland Report in 1987 and the Earth Summit in Rio de Janeiro in 1992; 2) the acceleration of economic globalisation following the fall of the Berlin Wall (1989), the conclusion of the Uruguay Round of world trade negotiations (1992) and the creation of the World Trade Organisation (1995)[20].

Some key milestones: in 1997 Jon Elkington published *Cannibals with Forks* which popularises the concept of the Triple Bottom Line and the idea that corporate performance should be assessed in three dimensions - environmental, social and economic - rather than just the economic one; the Global Reporting Initiative (GRI) was created the same year and developed the first extra-financial reporting standards, adopting this three-dimensional structure; the United Nations Global Compact was created in 2000, and in the same year the OECD revised its «OECD Guidelines for Multinational Enterprises», initially developed in 1976.

Why should a company suddenly embrace social responsibility and voluntarily improve its impact on society? In a context where the principle that the sole responsibility of the firm was to maximise its profits (or shareholder value) prevailed, answering this question implied exposing a flaw in the neo-classical view embodied by Friedman.

The flaw that was identified is the existence of market failures, combined with the failure of the state to address them. The real economy includes a multiplicity of market failures: externalities, i.e. negative effects generated by economic activities that are not regulated by markets or regulations (pollution, etc.); or information disparities between different economic players, such as between a company and its customers on product quality. However, if the State does not intervene when there are proven market failures, the question of corporate responsibility resurfaces. This is the central tenet of conventional CSR: the company cannot abandon all responsibility for the impact of its actions because it is the responsibility of the State to put in place the appropriate regulations to address market failures. Lack of action by the State renders the company responsible for its own actions, and more specifically for the sometimes unwarranted manner in which it harms certain individuals or groups.

The connection to the consequences of economic globalisation is obvious. Globalisation redirected production on a global level to countries with relatively little state capacity or willingness to impose market regulations. In fact,

20. The Uruguay Round took place under the aegis of the GATT (General Agreement on Trade and Tariffs) established at the end of the Second World War to promote international economic exchanges.

all the major campaigns led by NGOs against multinationals in the 1990s, which stimulated the development of conventional CSR as reputation risk management, were aimed at the exploitation by large multinationals of market failures: on the promotion of infant milk as an alternative to breastfeeding (South Africa), working conditions in textile sweatshops in South and Southeast Asia, oil tanker pollution in the Gulf of Guinea, etc.

The link to environmental damage is also clear, since much (but not all) of the damage results from externalities, and pollution is the prime example of externalities in economics textbooks. Hence the fact that conventional CSR often refers to sustainable development. But this theoretical comparison is fallacious: because the economic theories of sustainable development - which aim, as we have seen above, at the preservation of natural capital over time - differ from the theory of externalities (respectively arrows 2 and 1 in figure 1).

**Conventional CSR, by taking as its theoretical basis the existence of market failures rather than challenging the static nature of the economic frame of reference, tends to make businesses responsible for their detrimental effects rather than incentivising them to contribute to the advent of sustainability.**

### 2.2.2. Nature of liability

The very fact that CSR is thought of as companies self-regulating their unwarranted negative impacts (because they are linked to market failures) on certain people or on the environment reflects a very specific concept of responsibility - responsibility by attribution, i.e. being held responsible for the impact of one's actions. It is a matter of addressing the 'ethical' problem of one party harming another in an improper way, as the effect occurs outside of any regulatory framework. And this responsibility must be shouldered «in isolation», to use François Vallaeys' expression.

The nature of this responsibility is directly linked to the concept of stakeholder, defined as any group or person that can impact, or is impacted by, the company's activities: its customers, employees, suppliers, investors, or the local communities in which it operates[21]. Conventional CSR, which stems from economic theory, is logically going to be close to management theories that view the role of the company as being at the service of all its stakeholders, and not just its shareholders[22] (stakeholder versus shareholder capitalism).

This convergence has accelerated in recent years. In 2019, 181 leading US CEOs in the Business Roundtable pledged to work for all their stakeholders, customers, employees, suppliers, local communities where they operate, and shareholders[23]. In response to a request from the International Business Council, in 2020 the World Economic Forum published the report entitled *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation* presenting a list of indicators to objectively measure the performance of companies in favour of their stakeholders[23]. Among these indicators, several

21. According to the classic definition of Freeman (1984): a stakeholder is "any group or individual who can affect or is affected by the achievement of the organizations objectives (pp.46)". Freeman, R. Edward (1984) Strategic Management: A Stakeholder Approach. Boston: Pitman.
22. See https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans
23. The report is available here: https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation.

are borrowed from the conventional CSR-inspired Global Reporting Initiative.

#### 2.2.3. Définitions

The most precise definition of conventional CSR in the theoretical perspective that we have just presented is that of professor and consultant Michael Hopkins:

> *'Corporate Social Responsibility is a process that is concerned with treating the stakeholders of a company or institution ethically or in a responsible manner. 'Ethically or responsible' means treating key stakeholders in a manner deemed acceptable according to international norms' (Hopkins 2014: 1)*[24]

However, other, better-known definitions by major organisations express a broader ambition.

The European Commission defines CSR as «the responsibility of enterprises for their impact on society»[25]; the *International Standard Organisation*, in its ISO 26000 dedicated to CSR, defines it as the responsibility of an organisation for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:

- contributes to sustainable development including the health and the welfare of society
- takes into account the expectations of stakeholders
- is in compliance with applicable law and consistent with international norms of behaviour
- is integrated throughout the organisation and practised in its relationships.

However, these broader definitions are not based on a conceptual clarification of why a company should take on a social responsibility other than in relation to the market failures outlined earlier. These definitions are therefore confusing and convey the mistaken idea that conventional CSR constitutes a company's contribution to the achievement of sustainability.

## 2.3. LIMITATIONS OF THE CONVENTIONAL CSR MODEL FOR SUSTAINABILITY

The conventional model of CSR as the voluntary internalisation by companies of negative externalities results from an analysis of the economy in a static framework. It is therefore paradoxical that CSR could also be presented as the corporate response to a challenge - sustainability - whose main concern is the transformation of the economy.

In other words: while the issue of sustainability is one of intergenerational justice, the conventional CSR model was developed to think about the relationship, and responsibilities, between stakeholders of a company within the same generation. Extending this model to include the interests of future generations does not work well, if at all.

#### 2.3.1. Are future generations a stakeholder in the company?

Let us consider the climate issue to highlight the limits of the conventional CSR model in terms of taking into account the interests of future generations.

24. Hopkins, Michael (2014) "What is CSR All About?", Aspirare, I (1), pp. 1-21.
25. European Commission (2011) "Corporate social responsibility: a new EU strategy for the period 2011-2014", Brussels.

Conventional CSR treats $CO_2$ emissions as externalities. The company would thus have a «responsibility as liability» to reduce these emissions as much as possible. But two questions immediately arise: responsibility towards which stakeholder? And what wrong would the company be responsible for?

The stakeholder involved is hard to identify. Answering «all the inhabitants of the world, present and future» or «future generations» empties the notion of 'stakeholder as key business partner' of its substance. If everyone is a stakeholder, then the rightful business partner is the politicians who represent the whole population.

In fact, "future generations" are not mentioned in the usual stakeholder lists, nor in statements such as that of the American Business Roundtable in 2020. The topic is even ignored by academics, as the authors of a recent academic article on the subject were surprised to note: '*Despite being a key aspect in the debate on sustainability, future generations have largely been ignored by business ethics*'[26].

Another difficulty: the notion of "impact" when defining a stakeholder implies a relationship of cause and effect. Establishing this link is the basis of the concept of responsibility (by attribution) that links the company to its stakeholders.

However, in the case of climate, it is impossible to establish a relationship of cause and effect between a company's GHG emissions and the consequences of climate change for specific people. No company, even those that emit the most GHGs, has a direct impact on the climate. The impact only comes from the accumulation of GHGs by a multiplicity of parties.

The philosopher Michel Bourban, in his book 'Penser la Justice Climatique', writes:

> *the conventional idea of the principle of non-harm is no longer sufficient to account for the multiple ways in which our actions cause harm to others. Climate change falls into the category of 'new damage': it represents an aggregated damage from the cumulative effects of the actions of a very large number of parties who have no intention of harming others.*
> *While the individual emissions of the Americans, Europeans, Chinese and Indians are (almost) harmless, once they are added to the anthropogenic greenhouse gas emissions already in the atmosphere, they contribute to harming people who may be on the other side of the globe and people who do not exist yet. No individual action is the sole cause of the harm; however, each of them contributes to the emergence of an adverse impact. The human rights violations caused by the emitting activities are therefore systemic: they are the product of the cumulative effects of both individual actions and social institutions that are not the sole cause of the harm*[27].

The climate issue therefore leads us to consider a company's responsibility in a completely different way to what the conventional CSR model

26. Daniel Arenas, Pablo Rodrigo (2016) "On Firms and the Next Generations: Difficulties and Possibilities for Business Ethics Inquiry", Journal of Business Ethics, 133 (1), pp. 165-178
27. Michel Bourban (2018) Penser la Justice Climatique (Thinking Climate Justice). Paris: Presses Universitaires de France. pp. 90-91

proposes[28]. More broadly, it suggests that there is a difference in nature between the impacts of a business on its (immediate) stakeholders, and its impact on the structure of the economy.

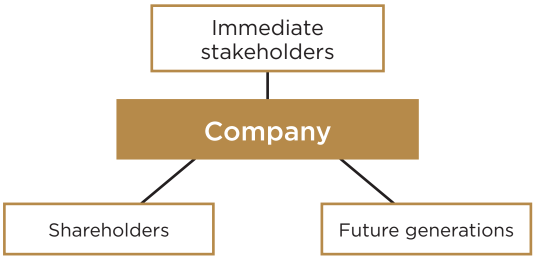
### 2.3.2. Who is looking after the interests of future generations?

CSR was developed in part to take into account the expectations of all the company's stakeholders, as opposed to the idea that the company serves only its shareholders (stakeholder vs shareholder capitalism). Consulting stakeholders, on an ad hoc basis or more regularly in dedicated committees, has therefore become a necessary step in the development of CSR strategies.

Generally speaking, the practical conduct of these exercises quickly reveals dissension between stakeholders. Each stakeholder expresses various expectations that diverge in part from each other: economic expectations (e.g. lower product prices vs. higher wages); expectations in terms of recognition and being treated with respect (e.g. no fraud, etc.); and ethical expectations that other stakeholders are also treated with respect. Any business must strike the right balance between these different expectations.

Now imagine that a proxy, for example a non-governmental organisation, represents the interests of future generations and is concerned with the influence of the company on the economic structure. The company will now have to find a fair balance between the demands or expectations of 3 categories of "stakeholders": the shareholders, the (other) immediate stakeholders of the company, and this representative of future generations.

Figure 3.




However, there is no reason to think, in principle, that a convergence of views on what the company should do could be achieved between these three groups. At the risk of oversimplifying: since at the level of society as a whole, the present generation is incapable of giving due consideration to the interests of future generations, why should we imagine that at the level of a company, shareholders and other immediate stakeholders would take into consideration the impact of the company on future generations? On the contrary, should we not expect, as at the level of society as a whole - where the pursuit of growth without regard for future generations can reconcile conflicting social interests - that stakeholders will agree by disregarding the long-term implications on the economy's structure?

The conventional CSR model provides a framework for dialogue between shareholders

28. The Net Zero Initiative, led by the Shift Project with the support of several large companies, supports this point. By questioning the very idea of carbon neutrality at the level of a company, this initiative in fact called into question the simplistic idea that the contribution of a company to the transition to a low-carbon economy could be limited to "Internalising externalities", i.e. to reduce its own GHG emissions. By contrast, this contribution is implemented in three dimensions: the reduction of GHGs in its immediate perimeter of influence; helping others reduce their emissions; and the development of carbon sinks. See Carbone 4 (2020) Net Zero Initiative. A Framework for Collective Carbon Neutrality.Paris. https://www.carbone4.com/wp-content/uploads/2020/04/Carbone-4-NZI-Guidelines-april-2020-2.pdf

and other immediate stakeholders in the company. But there is nothing in the model that situates this dialogue with regard to responsibility towards future generations. Stakeholder capitalism promises to reconcile a company's stakeholders around a common project; but it offers no guarantee of accountability to future generations. As the philosopher François Vallaeys writes, «there is no necessary relationship between the satisfaction of stakeholders' interests and the promotion of sustainable development, global public goods or the general interest» (ibidem, p. 30). It is for this reason that the ISO 26000 standard distinguishes the interests of stakeholders from those of society. According to the standard, the company must consider its impacts on stakeholders AND on society as a whole from a sustainability perspective - which makes the underlying conceptual framework somewhat blurred.

### 2.3.3. What is the potential for leading the CSR way through example?

Let us now look more closely at the idea that CSR could transform the economy towards sustainability by spreading good practices of (voluntary) internalisation of externalities. In this case, the economy's activity could evolve without changing its structure, thus legitimising the disregard of corporate influence on the economic structure in the conventional CSR model. And this idea sits easily with what we called the "simple" evolution of the economy towards sustainability (cf. figure 2a).

It should be remembered here that companies operate in a competitive context, which partly limits their ability to act responsibly (in the sense of conventional CSR). If the company takes into consideration its social and environmental impacts, this generates additional costs which can harm its competitiveness in its various markets.

The usual response to this objection is that CSR performance can be a source of differentiation and economic performance for a company, when the company's stakeholders (especially its customers and employees) express ethical (and not just economic) expectations, or when it anticipates changes in regulation. The famous CSR business case is therefore based on structural elements of the economy - the preferences of stakeholders (culture) and regulations[29]. This type of CSR is not ethical, it's just good business management.

It follows that the horizontal spread of good CSR practices is constrained either a) by a lack of good corporate management, or b) by a lack of accountability of stakeholders or the State. Since hypothesis a) is not very credible in the medium term in an intense competitive context that forces companies to improve continuously, we are left with hypothesis b), the most credible, both for these theoretical reasons and empirical reasons.

But this leads to a contradiction: saying that the dissemination of good CSR practices depends on the ethical expectations of stakeholders or the implementation of new regulations means that it depends on factors shaping the economy. This brings us back to the issue that the hypothesis we started from - the possibility of transforming the economy through the dissemination of good practice - was intended to avoid, namely the question of the influence of companies on the structure of the economy

29. See, for example, Amalric, Franck and Jason Hauser (2005) 'Economic drivers of corporate responsibility activities', Journal of Corporate Citizenship, 20: 27-38.

(directly or indirectly through the level of societal responsibility).

In short, the idea that the economy will be transformed through the voluntary adoption of good CSR practices by one company after another is inoperable in a competitive context, as the ability of companies to adopt these practices is in fact dependent on the structure of the economy.

# 3.

# CONTRIBUTIONS OF A COMPANY TO THE ADVENT OF SUSTAINABILITY

We saw in the introduction that the conventional CSR model does not shed light on a number of dilemmas that confront companies today in the face of the sustainability challenge, nor does it account for the most innovative practices in this area. The reason for these shortcomings is that the framework in which this model was developed does not consider the interaction between the activity and structure of the economy, while this interaction is at the very heart of the issue of sustainability.

As an alternative, we argue that thinking about corporate social responsibility for sustainability should focus on the contribution a company can make to the transformation of the economy. This responsibility derives from the observation that the issue of sustainability requires a transformation of the economy's structure, and that this transformation cannot occur without the involvement of parties who have an influence on that structure, including companies.

In order to detail what this responsibility consists of, we will use as a reference the process of society's evolution towards sustainability presented in section 1, and illustrated in figure 2b.

We deduce that a company's social responsibility (to contribute to the advent of sustainability) is divided into two main categories, each comprising a certain number of themes:

1. Contributing to raising the level of societal empowerment for sustainability
    - Contributing to opening up the future
    - Contributing to the empowerment of all parties
    - Contributing to making the transition socially acceptable
2. Helping to transform the structure of the economy
    - Reducing the negative impact / increasing the positive impact of its activities on natural capital
    - Contribuing to the development of human and physical capital in alignment with the issue of sustainability

- Contributing to the evolution of regulations in favour of the transition
- Contributing to the cultural evolution required for sustainability

We will look at the type of commitments a company could make in each of these areas. However, we are not looking to draw up an exhaustive list. Instead, we want to establish the relevance of these areas by showing that they inform either societal expectations in terms of corporate social responsibility, or initiatives taken by companies in favour of sustainability that are difficult to explain in the context of conventional CSR. The whole therefore provides a solid conceptual framework for the development of strategies to contribute to the advent of sustainability.

As we go along, we will notice that the prevailing CSR standards pay little or no heed to the issues we identify - for the theoretical reasons explained above.

But before that, let's start with a few remarks about the nature of the accountability being set in motion here.

## 3.1. RESPONSIBILITY BY MISSION

The impact of businesses on the level of societal responsibility for sustainability, or on the structure of the economy, is significant (see table 1) but much more diffuse than the direct impacts for which the company must assume a "responsibility by attribution". Apart from a few rare exceptions, businesses do not directly impact the structure of the economy; they collectively shape it without any specific agenda being pursued by any of the players.

The American philosopher Iris Marion Young has shown that there is a form of responsibility linked to the fact that the structure of society, and of the economy in particular, can generate forms of injustice, without it being possible for any particular player to be considered responsible (in the sense of responsibility by attribution) for these injustices[30]. This other form of responsibility involves taking some responsibility for moving the structure of the economy in a desirable direction. Let us call it, as François Vallaeys does, "responsibility by mission".

While responsibility by attribution concerns the company's direct, proven social and environmental impacts, responsibility by mission concerns the potential contributions of a company to the development of societal capacity to transform the economy and its structure.

Exercising responsibility by attribution, which is ethical, is at odds with the immediate economic interests of economic agents; exercising responsibility by mission is, by contrast, at odds with the free rider syndrome that tends to undermine all collective action: since a multiplicity of players contribute to structuring the economy, and even if the company has a clear interest in change to the economic structure, is it not tempting for each party to shirk its own responsibility and wait to benefit from the actions of others?

However, there is a considerable number of examples of collective actions that work thanks to the empowerment of actors and despite the temptation 'to be a free rider': participation in democratic elections; voluntary blood donation; collective management of natural resources; etc. These examples demonstrate that the pursuit of individual interest (free rider syndrome) is not an insurmountable obstacle to the emergence and

29. Iris Marion Young (2011) *Responsibility for Justice.* Oxford : Oxford University Press.

development of collective empowerment processes, and can be offseet by developing commitment norms.

This perspective helps us understand the recent involvement of a large number of companies in the fight against climate change, notably through collective initiatives such as the various Net-Zero alliances in the financial sector[31].

## 3.2. CONTRIBUTING TO RAISING THE LEVEL OF SOCIETAL EMPOWERMENT FOR SUSTAINABILITY

There are many ways in which companies can participate in the process of collective empowerment required to transform the structure of the economy, influencing other players. The European regulation on sustainable finance, through transparency, aims to transform economic transactions into vehicles of accountability, even though in the past market extension has been criticised for its disempowering effect.

### 3.2.1. Contributing to opening up the future

Businesses, because of their strong communication power, have a role to play in making people aware that unsustainable economies are shaping the future.

As a sign of this, some have been criticised for denying the issue of sustainability, funding pseudo-scientists, think tanks or even symposia with the aim of questioning the very existence of climate change or the responsibility of human activities for this change[32].

Since then, things have changed significantly. By supporting the Paris Climate Call, or by signing the Business Ambition for 1.5°C, several hundred very large companies recognise 1) the reality of climate change, 2) the responsibility of human activity for this change, and 3) that the desirable future is a scenario that keeps the rise in temperatures significantly below 2°C[33]. It is no mean achievement by the Paris Agreement to have developed a future scenario that has gradually been accepted as the only desirable one.

In the same vein, when L'Oréal sets itself the goal of «Transforming our business and bringing it within planetary boundaries», it endorses and helps spread the work of the Stockholm Resilience Center on these limits. By writing that

> *'Global warming and environmental changes will lead to potentially permanent degradation of human and natural habitats. Sea levels, melting glaciers, ocean warming and acidification as well as extreme weather events are on the rise. With higher stakes must come stronger commitments.'*

the company conveys scientists' worried outlook on the state of the world, and adds its voice to the many calls for players to take responsibility[34].

31. As shown above, the responsibility of a company in the fight against climate change is not a responsibility by attribution, but rather a responsibility by mission. The problem of climate change is structural in nature for which no player bears immediate direct responsibility. There is therefore no major conceptual difference between corporate impact on the climate, and corporate impact on individual preferences and social norms
32. In particular the 2015 book by Naomi Oreskes and Erik M. Conway, *Merchants of Doubt: How a Handful of Scientists Obscured the Truth on Issues from Tobacco Smoke to Global Warming,* Bloomsbury Press, New York.
33. 1,200 non-state parties have signed the Paris Appeal, see http://www.parispledgeforaction.org/. In September 2021, 700 companies had signed the Business Ambition for 1.5 ° C. See https://sciencebasedtargets.org/business-ambition-for-1-5c.
34. L'Oréal (2020) L'Oréal for the Future. *Our sustainability commitments for 2030 Paris*

### 3.2.2. Contributing to empowering all stakeholders

Saying that the future is open and that everything must be done to avoid the predicted catastrophes, is a first step. The second is to build desirable possible futures. And this can be done in a more or less responsible way with respect to the objective of raising the level of societal empowerment for sustainability.

One risk to be avoided here is «solutionism», i.e. to make people believe that there are miraculous solutions that do not require all the players in society to take responsibility. In an essay reported in the Financial Times, the former head of sustainable finance at BlackRock, the world's largest financial asset manager, lamented the fact that the current enthusiasm for sustainable finance was counterproductive because it made people believe that finance would solve the major sustainability challenges we face. Rather than stoking the necessary collective empowerment process, it would, on the contrary, help to extinguish it[35].

The proponents of technological solutions are creating a similar risk. Technological innovation is no doubt part of the solution, and companies bear a responsibility to orient their R&D in this direction - we will come back to this later. However, there is a difference between presenting these innovations as a contribution, among others, and presenting them as the solution that would absolve other actors of any accountability. For example, the current craze for electric vehicles, because they reduce GHG emissions (provided that electricity is produced in a carbon-free manner), should not obscure the environmental problems associated with use of these vehicles and push aside the necessary debate on mobility.

Similarly, the commitment of the players in the aeronautics sector to develop a «green aircraft» is to be welcomed. However, this commitment should not be used as a screen to avoid any societal debate on the use of the plane or on the taxation of kerosene, or to challenge the industry's long-term growth assumptions.

By imagining its own future, for example when preparing strategic plans, any given company contributes to the construction of our common future. It is a fundamental dimension of a company's social responsibility to think about its own future with this common future in mind.

### 3.2.3. Contributing to making the transition socially acceptable

Companies produce and supply goods and services that meet the basic needs of the population - food, energy, housing, clothing, entertainment, mobility, etc. - or ensure the smooth functioning of the economy - supply chains, distribution, financial services, etc. In addition, all businesses provide a working environment in which women and men use their skills, generating income for their employees, business opportunities for their suppliers, tax revenues for local authorities and the State, and dividends for their shareholders.

One way in which companies can contribute to making the transition socially responsible is by anticipating the transition in order to build resilience to the disruptions that the transition will inevitably trigger. Companies that are caught unaware by the effects of the transition risk going out of business, with economic and social

35. *Financial Times* article: Robert Armstrong, "The ESG investing industry is dangerous," August 24, 2021; essay: Tariq Fancy "The Secret Diary of a 'Sustainable Investor' - Part 1", August 20, 2021, available at https://medium.com/@sosofancy/the-secret-diary-of-a-sustainable- investor-part-1-70b6987fa139.

consequences that could erode the social acceptance of the transition. This is one of the reasons why regulators today ask financial institutions to take sustainability risks into account: what is at stake is the resilience of these institutions, of the financial sector as a whole, and therefore of the transition process. As the European Banking Authority writes, 'The determination of the EU legislators to fundamentally change the way in which EU economies work should encourage institutions to approach ESG risks from a strategic perspective'[36].

Another contribution of companies to the social acceptability of the transition: the development of new products or services to meet the needs of the population with a smaller environmental footprint than current products or services. This ties in with the theme of investing in R&D that we discuss below.

## 3.3 HELPING TO TRANSFORM THE STRUCTURE OF THE ECONOMY

### 3.3.1. Reducing the negative impact / increasing the positive impact of the company's activities on natural capital

This is the most obvious and best documented topic. It is well addressed by the conventional CSR criteria: greenhouse gas emissions, consumption of raw materials and renewable resources, impacts on biodiversity, etc. We therefore feel it is unnecessary to comment on it here.

### 3.3.2. Investing in human and physical capital

Businesses play an important role in the development of new infrastructure, knowledge and new techniques. Innovation, in particular, is at the heart not only of any business development strategy, but also of economic growth and the transformation of the structure of the economy[37].

And yet this dimension slips through the net of the conventional CSR model for the reasons outlined above. Organising extra-financial reporting according to the Environment / Social / Governance (ESG) classification does not help either, since R&D investments do not fit into any of these three categories. Thus, the major international standards on CSR reporting only assign very limited importance to corporate R&D policies[38].

Companies, on the other hand, have understood that their investment in R&D is a central dimension of their sustainability policy. Safran, for example, the leading supplier to the aeronautics industry, manufacturing engines in particular, has committed to devoting 75% of its R&D to the development of "clean" aircraft.

### 3.3.3. Exercising a responsible influence on regulations

In a 1975 article, the great economist William Baumol concluded that one of the company's key responsibilities was not to interfere with the political process[39]. And, needless to say, big

36. EBA (2021) 'EBA Report: On Management and Supervision of ESG Risks for Credit Institutions and Investment Firms', EBA / REP / 2021/18, p. 16.
37. See in particular Philippe Aghion, Céline Antonin and Simon Bunel (2020) *Le Pouvoir de la Destruction Créatrice*, (The Power of Creative Destruction), Odile Jacob, Paris.
38. The Global Reporting Initiative (GRI) has written no less than 37 norms on various ESG aspects, none of which deals with investments in R&D or the development of new products (to be verified). The World Economic Forum Stakeholder Capitalism Metrics is more verbose: in its "prosperity" pillar, it includes an indicator measuring total R&D spending. In its explanatory text, the WEF explains that "companies have an important role to play in creating and marketing innovative solutions to respond to complex problems, and in particular significant breakthroughs related to the environment (eg sustainable supply chains and products) ". However, the WEF does not go so far as to look at the part of R&D that is in line with the objective of moving society towards sustainability.
39. Baumol, William J. (1975) "Business Responsibility and Economic Behaviour". In Edmund Phelps (ed.) Altruism, Morality and Economic Theory. New York: Russell Sage Foundation.

business has often been criticised for its political lobbying against further pro-sustainability regulation.

Nevertheless, this aspect ultimately receives little attention from prevailing CSR standards. The Global Reporting Initiative (GRI) devotes a standard to it (one of 37) but without emphasizing its particular importance. The indicator is adopted by the World Economic Forum in its Stakeholder Capitalism Metrics.

Here too, practice outstrips the theoretical framework and the standards. For example, members of the newly formed Net Zero Insurance Alliance have pledged to support government policies for a transition of economic industries to net-zero that is socially fair and in line with scientific recommendations. BP's Net Zero announcement in February 2020 includes a positive political lobbying commitment: "More active advocacy for policies that support net zero, including carbon pricing"[40].

### 3.3.4. Exercising responsible influence on culture change

Let us now address the most complex case: the cultural impact of the economy's activity on individual preferences and social norms. This is another major omission from the prevailing conceptual framework on CSR. And the main reason is that the theoretical basis on which CSR is based assumes that people's preferences are 'set', i.e. determined independently of economic activity itself.

One of the recurring debates on the transition to sustainability concerns the need to change individual consumer preferences, or not. The 'technological' solution aims to improve environmental efficiency to the point where there is no need to change lifestyles - which, by the way, does not automatically imply a change in welfare. However, studies on the subject show that the technological efficiency gains required to achieve sustainability without changing lifestyles would far exceed what can reasonably be expected from technological progress[41].

Cultural change is therefore key to achieving sustainability at two levels: 'economic' cultural change by the population, changing the way people choose to meet their needs and lead dignified and satisfying lives[42]; and 'political' cultural change of the population in support of public policy changes. Individual preferences therefore become a coexistence issue, a political issue[43].

It is therefore advisable to abandon the hypothesis that economic activity would have no impact on individual preferences. On this point, the debate is also ahead of the conventional CSR model.

As expected, the recent «Advertising and Ecological Transition» report, commissioned by the French Ministry of Ecological Transition, makes the following diagnosis:

> *The environmental impact of advertising has an even more pernicious component. Advertising does not only sell soap, clothes or cars, but also youth, beauty, social status. Apart from the incentive to buy a product, it takes*

40. See the press release, https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bernard-looney-announces-new-ambition-for-bp.html
41. See a recent opinion on the subject of the European Environment Agency: https://www.eea.europa.eu/publications/growth-without-economic-growth
42. We are not talking here about changes in lifestyles "imposed" by changes in the economic context, but rather of empowering individuals to adopt lifestyles that are more in line with the constraints of sustainability.
43. Recent debates on COVID 19 vaccination show the complexity and sensitivity of the subject.

> *us to an imaginary world of happiness through consumption. In the messages it broadcasts, the values conveyed are often far removed from those of sharing, solidarity and moderation. It peddles an image of happiness through acquisition*[44].

The Citizens' Climate Convention made a similar observation, and considered it 'essential to act on advertising in order to limit incentives to consume the most polluting products and to promote information and communication about eco-responsible products, services and behaviour' (p. 24 of the long version of the report)[45].

Less expected, and revealing of the shift in the debates, is the position taken by Entreprises pour l'Environnement (EpE), an association of several very large French companies. In its ZEN 2050 report, EpE also recommends «Reorienting advertising to shift consumer habits towards sustainable lifestyles». The argument is almost the same as that of the MTE report:

> *Through advertising, companies play a key role in shaping consumers' representations of desirable lifestyles. However, this flow of communication nowadays often leads to an overvaluing of high-emission equipment or services. Product communication could put a progressively positive emphasis on saving material resources for the satisfaction of needs, for example in favour of services. Companies could take voluntary action on two points:*
>
> *- Having underlying social representations in advertising tend towards those of sustainable lifestyles;*
>
> *- Having better consistency between the place of products in the advertising flow and their place in a ZEN path would progressively align consumption habits with desirable trajectories. (Entreprises pour l'Environnement (EPE), 2019).*

Several companies have already begun to address the subject, the most famous of which is Patagonia, with advertising campaigns urging us not to buy[46].

## 3.4. FIRST ELEMENTS FOR EMPIRICAL CONFIRMATION OF THE PROPOSED NEW FRAMEWORK

We have just shown that the framework we have proposed for assessing a company's contribution to the advent of sustainability (CAS) is an improvement on the conventional CSR framework when analysing the behaviour of companies in favour of sustainability ('positive' approach), as well as for detailing what they should do ('normative' approach). This framework also makes it possible to solve the other issue we mentioned in the introduction - the consistency between company strategies and the economic transformation paths at the level of a territory - because, by its construction, the CAS framework refers to an economic transformation dynamic within a given territory.

For the purposes of illustration, let's go back to the example of TotalEnergies.

45. Advertising has a very strong impact on the creation of needs and on consumption: we therefore believe that it is one of the main levers for changing consumer behaviour in a sustainable manner, because of its major role in the shaping of our lifestyles. ' (p. 24 of the long version report).

46. See also the recent launch (March 2021) of the "Reasonable Advertising Movement" by twelve marketing players: https://www.e-marketing.fr/thematique/media-1093/breves/acteurs-marketing-lancent-mouvement -reasonable-advertising-358327.htm.

The criticism of the company from the perspective of conventional CSR focuses on the impact of its activity on natural capital. However, the social desirability of reducing its activities is offset by the fact that it provides products that are essential to the economy running smoothly. From a transformation perspective, TotalEnergies cannot become clean faster than the rate at which the economy is moving away from its dependence on hydrocarbons, otherwise the transition will become socially unacceptable. This point is invisible from the perspective of conventional CSR, but is central to the alignment of corporate strategies with national and international strategies towards decarbonisation.

We then see a limitation of conventional CSR: thinking that TotalEnergies's shift towards cleanliness is the driving force behind the decarbonisation of the economy; that, in this case, supply creates demand.

The conventional CSR perspective also lacks the possible contributions that TotalEnergies can make to the process of collective empowerment, and to the transformation of the economic structure in order to reduce the demand for hydrocarbons. On the first point, NGOs have repeatedly condemned TotalEnergies' influence, but this point is lost in the CSR evaluation criteria[47]; and the second point is also invisible, even though TotalEnergies could use its influence to change its customers' preferences - as Mr Pouyanné envisaged in his interview.

We can therefore see how our contribution-to-the-advent-of-sustainability framework provides a more positive assessment of the social responsibility of a company like TotalEnergies, as opposed to the conventional CSR framework. This obviously does not imply giving TotalEnergies a blank check. On the contrary, the framework is also better for initiating a constructive dialogue with TotalEnergies on its social responsibility in relation to the issue of sustainability, and then holding the company responsible for its actions.

46. On the history of TotalEnergies's response to climate change, see Bonneuil, Christophe, Choquet, Pierre-Louis, et Benjamin Franta (2021) "Early warnings and emerging accountability: Total's responses to global warming, 1971-2021", Global Environmental Change, in press.

# 4. CONCLUSION: MOVING TOWARDS SUSTAINABILITY STRATEGIES

The conventional CSR model has led to the development of a whole raft of methodologies to help companies develop CSR strategies, from identifying issues, to defining objectives, to communicating their extra -financial performance. While this essay is not intended to offer a complete set of alternatives, here are some initial avenues for reflection on the topic, which are also the focus of some of the R&D work carried out within the Square Research Center.

## 4.1. IDENTIFICATION OF THE CHALLENGES: TOWARDS A "TRIPLE MATERIALITY"?

What sustainability issues must a company take a position on and commit to?

The conventional CSR model answers this question by focusing on the company's current social and environmental impacts. Materiality exercises consist of identifying a list of issues related to these impacts, then assessing their relative importance through consultation with internal and external stakeholders of the company.

In addition, following EFRAG's recent work, companies are now invited to analyse the risks associated with changes in their markets as a result of environmental evolution (e.g. physical impacts of climate change) and the changes implemented to address them (i.e. transition risks).

These two concepts of materiality - environmental and social impacts of the company; impact of environmental and societal changes on the company - are insufficient to identify all the issues that would form the basis of a Strategy Contributing to the Advent of Sustainability (SCAS).

Materiality exercises should therefore include a third dimension, aimed at imagining how a company could contribute to collective empowerment processes as well as to the transformation of the economic structure. A specific methodology will have to be developed for this, in addition to the existing methodologies for carrying out materiality exercises.

## 4.2. INNOVATION AND MARKETING

Innovation and marketing are the two major omissions from the conventional CSR framework, when it is mainly through innovation and marketing that companies contribute to change in society.

Therefore, we can anticipate that one of the specificities of SCAS will be to put commitments in terms of «sustainable innovation» (i.e. innovation that contributes to the achievement of sustainability) and in terms of «sustainable marketing», front and centre.

## 4.3. PERFORMANCE INDICATORS AND TARGETS

The goal of being clean is independent of the behaviour of other parties, and applies to all locations. It is therefore a global objective (in the geographical sense) that uses a universal standard as a reference (or at least one which claims universality). The standards in terms of extra-financial reporting favour the use of global and therefore deterritorialised indicators.

In contrast, the commitment to contribute, with others, to a process of collective empowerment requires coordination with other players and, most often, this coordination takes place within a particular territory.

The choice of performance indicators, and of objectives defined by these indicators, must therefore be adjusted to the type of commitments, and to the fact that the company's performance will partly depend on the goodwill of other actors. The definition of these indicators should be the subject of specific R&D work.

## 4.4. COMMUNICATION

The company, communicating its CSR strategy with a view to being clean, focuses on itself. "Being clean" is a self-determined goal. Its extra-financial performance reports are then akin to beauty contests: each company highlights its strengths and achievements, and omits the flaws and failures that could tarnish this image. No wonder then that these reports are hardly ever read, except by ESG analysts or CSR consultants.

In contrast, a company that wants to communicate a SCAS would need to be part of the ongoing accountability movement in society, to position itself in relation to a sustainability trajectory, and address a multiplicity of potential partners. Humility would necessarily be the order of the day, since society's level of responsibility is so low in relation to the challenge of sustainability.

The content could deal with the partnerships entered into with other players, and the results of the experiments carried out, positive and negative, in order to inform the collective effort as a whole. From this perspective, analysis of the obstacles encountered would be more of a priority than an inventory of the successes achieved.

The company would therefore showcase its commitment to the transition rather than its level of cleanliness.

It is not uncommon to hear that CSR is struggling to find its way into the heart of companies and to influence strategic decisions, such as investments or marketing. The reason often given is that CSR clashes with the reality of business - and that certainly is the case with conventional CSR.

The analysis above shows that there is another reason for this: a major conceptual flaw in the construction of the conventional CSR framework which effectively excludes the key strategic issues of the company, such as its decisions in terms of investments, R&D orientation, and even marketing.

The development of strategies for contributing to the advent of sustainability (SCAS), on the basis of a broad conceptual framework that draws on a theory of transforming the economy towards sustainability, provides a response to these limitations, and can therefore be useful to support companies in their commitment to sustainability.

This conceptual framework, and the operational implementation of these contribution strategies, are the subject of a dedicated applied R&D programme within Square.

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**In response to the challenge of sustainability, how can companies contribute to the advent of sustainable economies? This Focus, outcome of research carried out by the Square Research Center, shows that it is not sufficient for companies to become "clean"; rather, they should aim at strengthening social empowerment for sustainability and at transforming the structure of the economy. It thus opens a new avenue to reflect on corporate social responsibility.**

# CONTACT

**FRANCK AMALRIC**
Principal
+33 6 88 53 41 52
franck.amalric@tallis-consulting.com

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