

Why corporate sustainability won't solve climate change

By [David L Lew](#)

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In the run-up to the much-anticipated [COP21](#) international climate summit in Paris, business leaders worldwide have shown substantial support for action on greenhouse gases (GHG).



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The White House launched the [American Business Act on Climate Pledge](#), with 81 companies representing US\$5 trillion in market value committing to take more aggressive action. Ten large oil and gas companies, mostly from Europe and representing 20% of global production, announced an [Oil and Gas Climate Initiative](#) that "will collectively strengthen our actions and investments to contribute to reducing the GHG intensity of the global energy mix." Nonprofit The Climate Group launched the [RE100 Initiative](#), under which 45 large companies declared their intention to move toward 100% renewable energy over the next several decades.

This beehive of corporate activity represents a transformation in corporate attitudes and practices over the last couple of decades. At a recent talk at the University of Massachusetts, Boston, [Rachel Kyte](#), World Bank group vice president and special envoy for climate change, said:

“ The private sector is at an inflection point; it's very different than (the 2009 UN climate summit in) Copenhagen.

There is an embrace of the science that there was not six years ago. There has also been an extraordinary evolution in the economics; we recognize that the cost of inaction will be brutal. ”

Can this "corporate pivot," in Kyte's words, save the planet from climate change?

What business brings

Business certainly brings vast financial, technological, organizational and human resources to bear, and it constitutes a powerful political force that can exercise considerable sway over public opinion and policymakers.

Business increasingly recognizes that, left unchecked, climate change presents a [series of long-term risks](#), from flooding and drought to political instability and more drastic regulation. There are also significant business opportunities, particularly in clean energy and energy efficiency. The business of carbon measurement, reporting and management is itself booming.

While the shift in the stance of business is certainly welcome, unfortunately it is not moving us nearly far or fast enough toward decarbonizing our economy, which requires cutting [GHG emissions at least 80% by 2050](#) to stabilize the planet's climate system.

A key reason is that corporate climate-related initiatives are largely treated as part of their voluntary Corporate Social Responsibility (CSR) activities - all the new business initiatives mentioned above are voluntary. Although [most large companies have now embraced CSR](#) and more than 11,000 [report their activities](#), these CSR-style measures usually don't have much impact on the technologies, products and growth plans that constitute the heart of most businesses' operations.

This disconnect helps explain the apparent paradox of intense corporate activity but slow movement toward actually reducing global emissions, which have continued to rise globally at 2%-3% a year until [stalling in 2014](#). It is still unclear if this slowdown represents a turning point or is just a short-term effect of China's slowing growth combined with cheap natural gas displacing coal in power generation.

Sustainability comes to coffee

My colleagues and I explored this paradox in [a recent paper](#) that examined the interaction of business, states and nongovernmental organizations (NGOs) as they developed CSR frameworks around sustainable coffee labels, such as Fair Trade. We described how the concept of sustainability had successfully moved from the margins to the mainstream, and had been embraced by leading coffee roasters and retailers. This success, however, came at a price. We argued:

“ Activists' early visions of a more sustainable, equitable and accountable global coffee order have been diluted and absorbed by mainstream business. The idea of sustainability has been reduced to a set of standards and certifications for managing reputation, quality and supply chain risk. ”

We found that businesses and NGOs developed frameworks for CSR by negotiating codes of conduct, reporting standards, label certifications and auditing requirements. The push for sustainability led to a shift in how coffee is valued - economically, in the marketplace, and culturally, in the minds of the public. It introduced what we call a new "value regime" for coffee that captured growing consumer concerns for environmental and social conditions. Retailers like Starbucks successfully translated sustainable coffee into profitable new market segments with premium prices for branded high-end products. Roasters, and some growers, also profited from this economic model.

□ With certifications such as Fair Trade, many people now know more about the source of their coffee, but sustainable coffee hasn't fundamentally changed the basic dynamics of the industry. [riot/flickr](#), [CCBY-NC-ND](#)

Though business initially resisted activists' demands for sustainability, they have gradually become more collaborative in their approaches, negotiating pricing mechanisms and environmental standards, and sometimes launching their own sustainability labels. NGOs have also been willing to compromise to secure the mainstream uptake of sustainability by, for example, offering not only social and environmental certifications but also quality and supply chain management services.

Simultaneously, business has been willing to integrate CSR as a tool for measurement, management and disclosure that helps companies manage risks and differentiate their products and enhance their brands with consumers.

As a result, CSR has achieved some real, positive changes in business practices of the coffee industry. But CSR has not changed the fundamental inequalities in the sector. Affluent western consumers now purchase larger quantities of higher priced coffee, which is still served by low-wage retail employees and mostly grown by impoverished workers in developing countries.

There are some important parallels here for current efforts to address climate change in business. As in the coffee industry, sustainability has evolved to become a corporate tool for measuring carbon footprints and reporting various initiatives, from carpooling and recycling to renewable energy commitments.

These CSR measures do have a real impact, because measurement and reporting brings managerial attention to the potential for investing in the low-hanging fruit of emissions reductions, such as energy efficiency, with strong returns on investment. Many larger companies are hiring chief sustainability officers with broader mandates and bigger budgets than more traditional, compliance-focused environmental, health and safety managers.

Limits to CSR

These voluntary CSR-style measures, however, only take us so far. CSR is inherently limited by the difficulty in transitioning to a low-carbon value regime, an economic model that would need to generate value for businesses and also align with consumers' values.

Consumers might be willing to pay a substantial premium for fair trade coffee lattes but are more resistant to paying significantly more for greener electricity or high-efficiency hybrid vehicles, let alone reducing their consumption or giving up their personal comforts. As a result, business finds it difficult to justify investing beyond the low-hanging fruit.

Walmart has installed solar panels at many of its stores, including this one in California. But even with a large initiative around sustainability, the company projects that its emissions will be flat, not go down, as revenue grows. [walmartcorporate/flickr](#), CC BY

Walmart is a good case study of the opportunities and limits of a CSR approach to climate change. With great fanfare, it is cutting emissions by [millions of tons and saving many millions of dollars](#) by reducing packaging and improving the efficiency of its distribution system and buildings. But it has made a [commitment only to hold its absolute emissions flat](#) this decade, due to anticipated growth in revenues, which entails more economic activity and associated emissions.

Unilever has made a much more ambitious "[pledge to cut the company's environmental impact in half by 2020](#)." Though it has made substantial strides, it acknowledges that the target will be impossible to meet. Consumers account for 70% of the company's impact, and "[their habits aren't changing](#)."

So businesses might be very busy with myriad initiatives, but if actual results fall short, are they really sustainable? As John Ehrenfeld and Andrew Hoffman point out in their book [Flourishing](#), sustainability has real meaning only if it achieves stability of the planet's climate and ecosystems.

The corporatization of sustainability has led to more sophisticated ways to measure and report sustainability in business, which includes ESG (environment, social and governance) metrics on publicly traded companies. But this, too, has limitations. As Matt Moscardi, who leads ESG research in the finance industry at investor research firm MSCI, put it at forum at the University of Massachusetts, Boston in December 2014, "ESG factors and their integration in investing is largely driven by (economic) materiality, and not just by the virtue of moral obligation."

In other words, aggressive, expensive measures to dramatically reduce GHG emissions will not be integrated into these investor-oriented metrics if they do not correlate with financial performance.

In energy, fast but not enough

Beyond CSR, the rapid growth of the clean energy sector, particularly solar and wind, is encouraging when it comes to reducing emissions and is attracting the attention of major investors. [Goldman Sachs](#) recently announced that it will triple its capital allocation to clean energy finance to \$150 billion over the next 10 years.

Yet overall, [new investment in clean energy](#) has stagnated since 2011 at around \$300 billion a year globally, after rising rapidly during the prior decade. And it's far below the \$1 trillion per year that [some groups estimate](#) is needed to avoid raising global average temperatures two degrees Celsius above preindustrial levels and the worst effects of climate change.

There are several troubling factors that are impeding the growth of clean energy. [Subsidies](#) for renewable energy have been reduced by governments concerned about budget deficits, and cheap natural gas has made it harder for renewables to compete. Political pressures are likely to keep carbon prices far below the level needed to have a real impact.

The delegates in Paris for COP21 are confronting a planetary emergency. Recent evidence regarding [melting polar ice caps](#), [methane emissions from permafrost](#) and deforestation and [forest fires](#) suggests that we might be approaching a [point of no return](#).

If we are to stay within the two degrees Celsius warming target, we need [massive structural changes in our energy and transportation systems](#), as well as in our urban structures and agricultural and land use practices. Mobilizing the financial and technological resources of business is crucial, but voluntary CSR-style measures don't go far enough. We can transform our economy and [infrastructure](#), but it requires large-scale, coordinated economic, financial and policy measures at global, national and local levels. This is the challenge for Paris, and for decades to come.

ABOUT THE AUTHOR

David L. Levy is professor of Management, and director of the Center for Sustainable Enterprise and Regional Competitiveness at the University of Massachusetts Boston.

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