Business for Social Responsibility

# Who Speaks for Future Generations?

By Allen L. White
Senior Advisor, BSR
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> *"In every deliberation we must consider the impact on the seventh generation ... even if it requires having skin as thick as the bark of a pine."*
>
> \- Great Law of the Iroquois

Who speaks for future generations? This is a question as complex as it is urgent in view of societal needs and expectations of 21st century business.

Imagine for a moment that every large company, as part of its corporate governance structure, was required to create and fund a "Futures Council" whose sole purpose was to represent future generations in company decision-making ranging from capital budgeting to product/service design to investment in human capital. Building on but strengthening the now common practice of stakeholder engagement through advisory committees of various kinds, the Futures Council would serve as the eyes and ears of future generations to help steer company strategy, policies and practices in direction harmonious with the vision of sustainable societies.

Far-fetched? Perhaps. Or perhaps not. A few years ago, a collective call among a group of 20 large U.S. companies (the Climate Action Partnership) for regulation of carbon emissions was unimaginable. Similarly unthinkable would be public disclosure of specific contract factories among apparel makers. Or marketing goods and services, often in collaboration with NGOs, to poor people who live on less than $2 a day. Yet all these actions, and many others, attest to powerful forces that are reshaping how business operates in the 21st century.

Change in the business world is a constant and its pace is accelerating. If sustainability rhetoric is to be matched by action, it should be protected from the vagaries of short-term performance and management turnover and, instead, built into corporate governance on a continuing, systemic basis. A Futures Council exemplifies one such mechanism for achieving that goal.

## The Imperative

Even the best-intentioned sustainability-minded executives face the cold reality of capital markets. A single generation is an eternity when measured against the frenetic competitiveness of the global economy and the relentless pressure to maximize short-term returns. One generation, or about 25 years, is 100 times longer than the time allotted to report a quarterly return. Yet even 50 or 100 years fall short of the seven generations referenced in Native American teaching as the stewardship horizon for tribal decision-making.

The consequences of short-term pressures have been widely documented and lamented. Pressures on companies to "make the numbers" induce choreographed earnings that are achieved through various devices such as deferral of R&D (an activity with long-term if not quite intergenerational consequences), plant expansion or even basic maintenance of plants and equipment. With the rise of a new generation of financial instruments such as hedge funds and private equity funds, the direction of capital markets is toward greater, not lesser, short-termism.

Intergenerational responsibility, it seems, is becoming ever more detached from the realities of managing modern corporations in a global economy.

Sheer longevity is not unknown to many contemporary global companies. In his recent book, *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life*, Robert Reich notes that of the 1994 Fortune 500 companies, more than half were founded between 1880 and 1930. Among those over a century old are some of America's leading brands, including Johnson & Johnson, The Coca-Cola Company, Hershey Foods, Chiquita Brands, General Electric and Goodyear. The fact that all have survived the enormous political, social and economic upheaval of the 20$^{th}$ century attests to their resilience and innovation in a rapidly changing world.

Survival, of course, is not synonymous with sustainability. The common conflation of the two concepts is unfortunate and frequently blurs differences between long-surviving companies with a true sustainability culture with those whose survival is more tied to externalizing costs of processes and products than to inter-generational stewardship.

While century-old firms undeniably contributed to the prosperity of the 20$^{th}$ century, the operations of some were tainted by unlivable wages, union busting, urban and rural squalor, and environmental degradation. With the benefit of hindsight, many processes and products that have directly or indirectly contributed to the ecological stress we face today — whether it be over-reliance on fossil fuels, persistent chemical toxins in air and water, and diminished biodiversity in tropical forests — are the expressions of a stewardship deficit spanning multiple generations.

At a macro level, the results of such trends depict a planet on a collision course. While global economic output during the last generation tripled, the Living Planet Index — a composite of social, ecological and economic indicators — has declined 30 percent. Of the major ecosystem services examined by the Millennium Ecosystem Assessment, 15 of 24 are being degraded or used unsustainably. Amidst the dramatic growth in financial capital, human, social and natural capital is under threat and in some instances headed for irreversible depletion. This imbalance lies at the core of many of the crises facing the world today, e.g., income disparities, climate change and biodiversity loss.

As companies adjust to these new realities with commitments to environmentally and socially beneficial products and services, it remains to be seen if these initiatives portend a more fundamental and enduring shift toward practices that meet the test of intergenerational responsibility. Will the shifts be long-term and embedded in company strategy? Or will they be vulnerable and reversed at the next instance of financial stress?

## The Actors

Business certainly does not bear sole responsibility for the drift toward unsustainability. Its role as both a cause and mitigator should be neither overstated nor understated. Consumers and investors bear substantial responsibility for behaviors that are antithetical to intergenerational stewardship.

**Consumer** demands for low-price goods drive retailers and major brands to seek low-cost producers worldwide whose practices fail to meet the test of environmental and social stewardship. Contractors of apparel companies for example, are regularly subject to conflicting messages regarding workplace standards: from the purchasing unit of the company comes the message: "I need the goods yesterday." From the CSR voice of the same organization comes the message: "Comply with our company code of labor practices in contract factories." It is the first of these voices that normally prevails.

On the **capital markets** front, many institutional investors — public pension funds, foundations and universities, for example — are no less responsible than their asset managers for failing to adopt an intergenerational perspective. Many believe that this class of investors, who control trillions of dollars of assets, are potentially the single most powerful force in shifting capital toward companies with a demonstrated sense of stewardship. Instead, the reality is starkly different. Institutional investors, which control 70 percent of the assets of the largest 1,000 companies in the United States, now channel billions to hedge funds — the epitome of short-termism wherein stock in a company may be turned over in a matter of minutes, days or weeks.

To be clear, the landscape is not entirely devoid of a stewardship consciousness. While short-termism continues to infect contemporary capital markets, signs of an incipient shift toward long-term horizons are discernible, though still minute relative to the context of total capital flows. A proliferation of initiatives during the last decade point to awakening investor awareness of the risks associated with companies that ignore environmental, social and governance (ESG) issues in their practices and, on the flip side, the opportunities associated with companies that do incorporate such factors. The Enhanced Analytics Initiative, the UK Marathon Club, the UN Principles for Responsible Investment and International Corporate Governance Network Committee on Non-Financial Business Reporting exemplify such initiatives. Further, mainstream public pension funds such as the Dutch PGGM and U.S. CalPERS pension funds, investment banker Goldman Sachs, and insurer SwissRe have each launched efforts to integrate sustainability issues into their investment strategies.

While hopeful, these efforts are only a beginning. The forces aligned against long-termism are formidable. The rise of hedge funds and stock options in executive pay packages bias decision-making toward short-term gains instead of long-term wealth creation. In the same vein, incentives facing institutional money managers reward the volume of transactions and assets under management rather than engagement with companies to enhance sustainable practices. And the persistent practice (despite its termination by a few firms) of announcing quarterly earnings expectations drives decision-making toward financial engineering at the expense of long-term wealth creation. In short, leaving the well-being of future generations to capital markets is, to say the least, a highly risky strategy.

What about **government**, arguably the ultimate force for ensuring intergenerational stewardship? Whatever one's political orientation, few would dispute the view that government has an obligation to enhance the social and environmental well-being of a nation over the long term. After all, meeting this obligation is integral to the social contract between government and the citizenry to which it is ultimately accountable.

To achieve this objective requires looking beyond the next election to the next decade and beyond — no small challenge when electoral cycles drive policy positions and resource allocations aimed at tangible near-term outcomes visible to impatient constituents. Moreover, agreeing to the general concept of stewardship is far easier than agreeing on *how* such stewardship is best achieved.

For some, the answer to aligning government action with intergeneration responsibility lies in activist, forward-looking policies with a readiness to regulate markets and business behavior, long-term safety nets for both the vulnerable and disadvantaged, and the protection of ecological systems. This is the view in the United States that gave birth to programs such as Social Security, the minimum wage, Medicare and the creation of the Environmental Protection Agency — all actions with intergenerational reach. For others, however, who equate government activism with unwanted incursion into markets and personal responsibility, the answers lies in low taxes, privatization and deregulation. This perspective, in essence, places great confidence in market solutions to *both* short-term and long-term well-being.

In the post-World War II period in the United States, the first of these perspectives prevailed, only to give way to the second approach beginning in the early 1980s. In continental Europe, the activist government approach has, more or less, been consistent in the post-War period, though economics and demographics now challenge the viability of many social programs on the Continent. On the environmental front, however, Europeans remain far more receptive to the long view than the United States (evidenced, for example, by decidedly more action in creating carbon markets and greenhouse gas reduction commitments).

Commitment to deregulation tends to soften when markets falter, as in the case of the savings and loans crisis of the late 1980s, the Long-Term Capital Management hedge fund collapse in 1987, and the technology stock bust, Enron-style scandals and the current subprime-driven liquidity crisis. Business writer Floyd Norris recently captured this contradiction when, reflecting on the rise and collapse of the subprime mortgage-based securities, observed: “The United States may consider itself to be the world’s bastion of free enterprise, but it has become very difficult to get a home mortgage with some kind of government-backed guarantee.”

If corporations, consumers, investors or government cannot be counted on as stewards of future generations, what possibilities remain? Perhaps the answer lies in **civil society**. Indisputably, the rise of civil society organizations has been a defining feature of the political landscape during the last quarter century.

At the local level, civil society groups press for environmental justice, prohibition of “big box retailers” in local communities, and watershed protection. At the national level, such groups advocate limits on carbon emissions, higher auto fuel efficiency and stronger standards of chemical stewardship on the part of business. And at the global level, NGOs seek to advance responsible corporate behavior in relation to human rights in conflict zones, various forms of corporate accountability, and sustainable forestry and agriculture through certification of practices and products. Coalitions of NGOs such as the U.S.-based Business Ethics Network and Corporate Responsibility Coalition in the United Kingdom, as well as multi-sector initiatives such as [Global Action Network](), serve as agents for capacity building and movement building within the civil society sector.

Using a diversity of approaches, ranging from litigation to public pressure to partnerships, the mission of such groups is to advance the public interest. It is, after all, a legal requirement to do so. But beyond that general statement of mission, some groups are more explicitly intergenerational in their focus than others. Organizations such as the Marine Stewardship Council and the Forest Stewardship Council, both of which have strong business involvement, seek to redefine the rules of managing marine and forestry resources, respectively, for future generations. Their approach is largely collaborative, relying on the "soft law" of certification (as opposed to the "hard law" of mandatory government regulation) and the forces of consumer markets to achieve their objectives. Greenpeace and Rainforest Action Network, in contrast, have long pursued a more confrontational approach in their environmental advocacy, though in recent years they have diversified their strategies through selective collaborative efforts with individual companies.

Are such groups the legitimate voice of future generations? In part, yes. Certainly those working in the field of climate change and those promoting the adoption of an international framework that defines the obligations of business in relation to human rights are examples of organizations seeking systemic, long-term change. In contrast, groups focused on specific places or consumer products, while meritorious in their own right, are less oriented to intergenerational impacts. There is no better or worse here — only a difference of goals and scope.

Finally, what about the **scientific community** as force for intergenerational stewardship? This is a constituency that in its best form should rise above the here and now to look ahead — without bias or preconception — to conduct research in the long-term public interest.

Paul Erlich, author of the seminal *The Population Bomb,* published a more than a generation ago (1968), recently observed that the possibilities of global warming were hypothesized by some scientists since about 1898, some four generations ago. In Erlich's own 1968 volume, the warnings were repeated, along with the ominous prediction of global food shortages. Recently asked to reflect on his dire forecasts, he observed:

> *Forty years ago and perfectly correct. We still have about a billion people who don't get enough food to function properly... None of this stuff is new. It's just that a massive report [the Global Environment Outlook 4] happened to come out of the UN saying "all trends are in the wrong direction." And they're perfectly correct, but it's something the scientific community has been saying as loud as it could for a long time.*

The volume and potential intergenerational impact of scientific knowledge has never been greater. Consider the case of the Montreal Protocol of 1987. The discovery of the ozone hole a generation ago in the mid-1980s raised alarm worldwide, with observations that the ozone layer was being depleted at the rate of 4 percent per decade. After initial resistance by industry, the Montreal Protocol was signed in 1987 to phase out ozone-depleting substances worldwide. The overwhelming consensus of the scientific community paved the way for an international agreement with powerful intergenerational consequences for human health (especially skin cancers and cataracts), crops and plankton. For the chemical industry, initial resistance turned the corner owing to the expiration of patents of chlorofluorocarbons (CFCs) and the market opportunities for profitable substitutes.

On a much longer horizon — not one or two but 10 or more generations — Edmond O. Wilson, the eminent Harvard biologist, proposed the "Encyclopedia of Life." This compilation of infinitely expandable information on living species will be freely available to anyone, anywhere, anytime. In its absence, what would the present and future generations lose if the living environment continues to disappear?

> *Huge potential stores of scientific information will never exist. Novel classes of pharmaceuticals and future crops will be thrown away. Ecological services like water purification, soil renewal and pollination — which are approximately equal to the world gross domestic product, and given away by natural ecosystems — will be diminished… The Encyclopedia of Life is science with a deadline.*

Of course, scientific knowledge is not automatically indisputably an instrument of intergenerational well-being. Controversy over genetically modified organisms (GMOs), for example, is viewed by different parties as either both an enormously promising technology or as a threat to global biodiversity. But what is uncontestable is the capacity of the scientific community to affect future generations. The extent to which it ultimately does so is only partially dependent on the quality of knowledge it generates; in equal measure is the way scientific knowledge finds its way into commercial applications and into political processes that so heavily influence its financing, diffusion and ultimate uptake.

## The Voices

Who, then, is the legitimate voice of future generations? For companies earnestly committed to intergenerational stewardship, what voice(s) represent the unborn and merit the attention of companies in shaping strategy, policies and practices?

Twenty years have elapsed since the Brundtlund Report brought sustainable development to the fore, yet by most measures the contemporary global economy is drifting in the opposite direction. Non-renewable resources are consumed at unprecedented rates, with no reversal in sight. Trends in China, India and other emerging economies portend an intensification of resource consumption at unsustainable levels. Economic disparities continue to plague whole nations and North-South relations. The prospects for continuously increasing well-being among the next generation in the United States are dim. In urging a heightened sense of collaboration to solve the pressing issues of working class, Andy Stern, President of the Service Employees International Union, recently observed:

> *We're a team in the 21st-century period of rapid change and competition… And right now, we don't have leadership, and we don't have a plan. At the same time, a group of people are enriching themselves far beyond anything that's reasonable.*

A prerequisite to bringing intergenerational voices to the corporation first requires shedding what Henry Mintzberg and colleagues call "a syndrome of selfishness — behavior, that while technically allowable, corrupts our leadership, our organizations, and our society and ourselves as human beings." Such behaviors, argues Mintzberg, are tied to a number "half-truths" that infect how corporate and individual success are measured, including: the obsessive focus on one dimension of human motivation — the economic — to the exclusion of others (e.g., the social and spiritual); the entrenched belief that the purpose of the corporation is to maximize shareholder value, which effectively drives a wedge between those who create economic wealth and those who harvest its fruits; and the notion that "lean and mean" most often manifested in layoffs is the only way to strengthen productivity when in fact, it equally often drives a "wedge of discontinuity" between the present and future well-being of the corporation.

History, of course, has had its share of corporate statesmen, those with a keen sense of the inseparability of a firm's economic success and the social milieu in which it operates. But in a climate where powerful signals direct attention to the next quarter's price-to-earning ratio and the average tenure of the CEO is under four years, the incentives for business leaders to take the long view is severely muted. The shift from the "real economy" to the "financial economy," where the rewards of financial engineering vastly exceed the rewards to real wealth creation and intergenerational stewardship, makes such statesmanship an increasingly rare commodity among business leaders.

Can this situation be turned around? Certainly a place to start is to open doors of corporations to voices that, however imperfectly, take intergenerational stewardship seriously. Independent scientists are one such community. They can, for example, serve as sounding boards and early warning systems for alerting companies to the long-term consequences of new technologies.

Certain sectors of civil society are another. Most valuable as partners are those whose own campaigns and collaborations incorporate strong technical and scientific capabilities. Where such capabilities are weak, it should not be beyond the purview of the corporation to help selected civil society groups strengthen their natural, physical and social science capabilities without strings attached. Such initiatives can only elevate the quality of engagement between the parties.

Communities, too, can be allies in stewardship. After all, it is here that the effects of company operations are most directly felt. Those who live in the shadow of a chemical plant or the watershed of a mining operation have a powerful interest in protecting the natural capital for their children and grandchildren.

Last, but hardly least, are employees, the essence of the modern corporation, whose prosperity is tied most directly to its ability to attract, retain and mobilize talent to optimize what has been termed "team production." Those who see the corporation as a living community of individuals question the wisdom of treating employees as dispensable commodities while treating the interests of financial capital as paramount and the interests of human capital as subordinate. It is this view that severely corrodes the capacity of the organization to champion the interests of future generations by creating a high degree of transience in the workforce wherein long-term (much less lifetime) employment has waned to the point of virtual disappearance.

Absent fundamental shifts in the prevailing management philosophy, workforces seem destined to become increasingly temporary as companies tap human capital through far-flung supply chains and short-term contractual relationships. Such trends are enabled and accelerated by information technology which, for all but the most local and immobile of services, enables the assembly of virtual teams of people to collaborate on tasks and deliver value to clients and customers. This is a defining and seemingly irreversible attribute of the global economy.

From a company cost and competitiveness standpoint, this type of fluid and continuously reorganizing system yields many advantages. But from the standpoint of intergenerational nurturing of human capital, the picture is less clear. The ability of far flung individuals to collaborate and problem solve is a strong plus in terms of innovation and learning across borders and cultures. At the same time, however, the capacity of this same collective talent to organize itself into a *cohesive* voice of future generations is less clear, even if individuals on their own are inclined to speak on behalf of the future.

## Futures Councils?

Companies face increasing pressure to demonstrate that they recognize, define and measure their practices in relation to stakeholder interests. The usual checklist of such stakeholders includes (at minimum): employees, suppliers, communities, shareholders, consumers and the environment. Accounting for such interests may range from voluntary “stakeholder management” approaches to mandatory “stakeholder governance” approaches.

The case for stakeholder management is essentially voluntary self-interest — that the modern corporation cannot function effectively without attention to the interests of the various stakeholders that affect or are affected by its activities. Thus, wise management will see that attention to stakeholders will ultimately benefit shareholders and is therefore consistent with the fiduciary duty of the corporation.

In contrast, the case for stakeholder governance largely centers on the view that corporate law is fundamentally flawed in that it conflicts with the realities of the modern corporation. Most critical among these realities is that the activities of the corporation affect the well-being of multiple parties, not only the shareholders that hold a privileged position in relation to fiduciary duty. Thus, while corporate law has evolved as a branch of “private law,” it would better be repositioned as a branch of public law akin to environmental or health law. From this perspective, voluntary stakeholder initiatives are helpful but should not substitute for more fundamental changes in “rules of the game” through legislation and regulation.

Arguably all stakeholders, though some more than others, directly or indirectly act as proxies for future generations. Employees, for example, seek livable wages and enhanced skills to enable adequate resources to provide for their children and grandchildren. Communities seek just economic arrangements in the form of tax payments and job opportunities to enhance local prosperity in the long term. Environmentalists pressure and collaborate with business to mitigate carbon emissions and toxic wastes to protect the generation's human and ecological health.

But proxies for future generations go only so far. All stakeholders, despite their best intentions, are vulnerable to distractions from intergenerational concerns. Without an *explicit* mandate to represent the interests of those who will live 25, 50 or more years into the future, there can be no guarantee that such interests will not be trumped by the same short-termism that afflicts contemporary financial markets. It is the absence of this explicit mandate that suggests the need for new governance forms to ensure that the future is not sacrificed, that stewardship becomes irreversibly embedded in the organization, and that sustainable development becomes integral — not optional — in the conduct of all corporations.

So let's return to a concept referenced in the opening section of this paper, the Futures Council. Assume the creation of a mandate that all corporations over, say, $1 billion in revenue, must appoint a company-specific Futures Council (FC). The responsibility of the FC is to advise and help steer the corporation's activities from the vantage of future generations, that is, applying a time horizon of at least 25 years. FC members would be drawn from a pool of individuals certified by an independent, non-partisan entity designated by government to set standards of competency for such individuals. Composition of each company FC is flexible, but must include, at minimum, an expertise in physical science, biological science, social science and a number of other designated areas of expertise aligned with the nature of the company.

The host corporation provides a modest budget to the FC in the range of 0.01 percent of its annual revenues. These resources are available on an unencumbered basis for use by the FC for whatever purposes it deems optimal for discharging its duty to represent future generations within the company's governance structure. Each year in the corporation's annual report, complemented by other outlets, the FC releases a "Futures Assessment" (FA) that evaluates the extent to which the organization is operating in a manner compatible with sustainable development. Recommendations for specific changes, including timelines and targets, appear in the FA and provide the basis for the subsequent year's progress report toward its self-declared targets. Each year, the independent, certification entity aggregates the performance of all reporting companies and reports to public authorities and the public at-large on trends across sectors. It also translates its macro-evaluation into policy recommendations to accelerate progress among both leaders and laggards.

One may quibble with the details of this sketch of a system of Futures Councils. But the key point remains: without *explicit* and *unambiguous* responsibility for future generations, there has not been — and there will not be — effective representation of such interests in the face of the inevitable short-term proclivities of a corporation's stakeholders. Indeed, if this were not the case — that is, if the future was today adequately represented in extant management and governance structures of corporations — we would not be facing the multiplicity of social and ecological crises that now endanger the well-being of future generations.

## Conclusion

Vaclav Havel, former and first President of post-Soviet Czechoslovakia and winner of the International Gandhi Peace Prize, recently observed:

> *Maybe we should start considering our sojourn on earth as a loan. There can be no doubt that for the past hundred years at least, Europe and the United States have been running up a debt, and now other parts of the world are following their example. Nature is issuing warnings that we must not only stop the debt from growing but start to pay it back… Technological measures and regulations are important, but equally important is … a consciousness of the commonality of all living beings and an emphasis on shared responsibility.*

Beginning to repay the debt of past generations and building a stewardship mentality in business will not occur without mechanisms explicitly designed to imbed the interests of future generations into the values and operations of companies. The action of a few firms, however meritorious, is no substitute for a vast scaling up through a broad-based effort to imbed intergenerational interests into the core of business conduct. Current incremental, purely voluntary efforts have proven ill-equipped — too incremental and too piecemeal — to meet the challenge. In the best of cases, business itself would step up and demand changes in corporate governance that government has to date failed to devise. Only in this form will the relentless pressures of the 21st century global economy be counteracted by measures that explicitly bring the interests of future generations into the decision calculus of business.

Time is short. The time to act is now.

## Note:

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