Voluntary Versus Mandatory Corporate Responsibility

Frank Dixon
May 16, 2019
Published by Alliance for Research on Corporate Sustainability

System change will soon become the dominant issue in the corporate responsibility field and $23 trillion Sustainable/Responsible Investing (SRI) market. Flawed economic and political systems compel all companies to degrade the environment and society. These systems are the root causes of the major environmental, social and economic problems addressed by the UN Sustainable Development Goals (SDGs). System change is the only way to achieve the SDGs and sustainability in general. This article discusses system change strategies, including engaging the corporate and financial sectors through System Change Investing (SCI).

Corporate responsibility and SRI are almost completely focused on company change – voluntary, unilateral efforts to reduce negative impacts, for example, by lowering pollution and selling low impact products. But system change is at least 80 percent of the sustainability solution. Under current systems, very generally speaking, companies can voluntarily mitigate about 20 percent of short-term and long-term, tangible and intangible, negative environmental and social impacts in a profit-neutral or profit-enhancing manner. Beyond this point, mitigation often increases costs. If companies continue voluntarily reducing negative impacts, they will put themselves out of business long before reaching full impact mitigation.

There are many economic and political system flaws that compel companies to degrade the environment and society. These include time value of money, externalities, limited liability, inadequate measurement of social well-being, overemphasis of economic growth and shareholder returns, and inappropriate government influence driving extensive corporate welfare and concentration of wealth. If these were rolled up into one overarching system flaw, it would be the failure to hold companies fully responsible for negative impacts. This is the general mechanism that places business in systemically-mandated conflict with society. This system flaw makes it impossible to fully eliminate negative impacts and remain in business.

Throughout human history, systems that once were seen as beneficial were often later shown to be harmful. For example, slavery was widely accepted in the early southern US. But now we see it as horrible and barbaric. The same situation exists today. Future generations will look back with equal alarm at many of our current actions and systems, including failing to hold companies fully responsible for negative impacts.

The rule of law is a foundational principle of civilized society. It says that individuals and companies should be free to do what they want, provided that they do not harm others. The rule of law is applied well to individuals. They are held responsible through many types of laws. But it is applied poorly to business. Companies are allowed to cause massive environmental and social harm. Every life support system is in rapid decline, with some regional exceptions. Concentration of wealth and many other societal problems are large and growing. Business actions are a major driver of environmental and social problems.

Voluntary versus mandatory corporate responsibility is the core system change issue in the corporate and financial sectors. Leading corporate sustainability strategies emphasize voluntarily benefiting stakeholders and reducing negative impacts. But companies cannot voluntarily eliminate all negative impacts and remain in business. That is why not harming society must be mandatory, not voluntary. Holding companies fully responsible removes conflicts between business and society. It makes acting in a fully responsible manner the profit-maximizing strategy.

Evolving economic and political systems into sustainable forms that hold companies fully responsible can seem impossible, as ending slavery often did 200 years ago. But humanity is tremendously resourceful. We can achieve system change if we make it a priority.

The book *Global System Change: A Whole System Approach to Achieving Sustainability and Real Prosperity* describes the many actions needed to achieve system change. Only government can hold companies fully responsible. But governments that are heavily influenced by business, such as the US government, cannot do this. Citizens collectively are the most powerful force in society. They could quickly change any business or government. However, uniting and empowering citizens to work together on their many common interests is a longer-term issue.

Engaging the corporate and financial sectors in system change is the highest-leverage short-term system change strategy. These sectors already heavily influence government, often in negative ways that allow greater environmental and social harm.

Through SRI over the past 20 years, financial community interest encouraged nearly all large companies to implement sustainability strategies. The same approach can be used to engage the corporate and financial sectors in system change. SCI rates companies on system change performance and uses the research to develop SCI funds.

The first SCI approach, called Total Corporate Responsibility (TCR®), was developed in 2003. The model is segregated into three performance categories – conventional ESG, mid-level (sector-level) system change and high-level (economic and political level) system change. System change metric categories include public statements about system change and sustainability, media and awareness raising campaigns, engagement in system change collaborations, efforts to address specific economic and political system flaws, government influence activities including campaign finance and lobbying, and supporting NGOs, academia and other groups promoting system change.

SCI can provide superior financial and sustainability benefits. It enhances returns by assessing management of financially relevant systemic risks and opportunities as well as providing strong indicators of management quality and stock market potential. System change is the most complex management challenge. Superior performance in this area strongly indicates sophisticated management that will perform well in other areas, and thereby achieve superior financial returns.

SCI can provide far greater sustainability benefits than any other type of SRI because it is focused on the most important sustainability issue – system change. The approach encourages companies and investors to collaborate with other segments of society on achieving effective mid-level and high-level system change.

Modern economic and political systems are unintentionally destructive. By allowing corporate responsibility to be voluntary, instead of making it mandatory, current systems compel all companies to degrade the environment and society. As future generations attempt to survive in a severely degraded world, they will look back in horror at our destructive systems, in the same way that we look back in horror at slavery.

Improving these systems is the most important action needed in human society. SCI provides a system change roadmap for companies and investors. It shifts the focus from company change to system change. SCI is the most significant transformation in the corporate responsibility and SRI fields in 20 years.

A longer article called System Change Investing and the Sustainable Development Goals provides a more detailed discussion of whole system thinking, system change, SCI and voluntary versus mandatory corporate responsibility.

Frank Dixon established Global System Change in 2005 when he recognized that system change would become the dominant sustainability issue of the 21st Century. His experience as the Managing Director of Research for the largest ESG research company (Innovest) and sustainability advisor to Walmart and other organizations showed that flawed economic and political systems compel all companies to degrade the environment and society. He conducted several years of multidisciplinary research to produce a true whole system approach to sustainability (described in the Global System Change books). The approach provides practical system change strategies for all major areas of society. In the corporate and financial sectors, System Change Investing represents the most advanced and effective sustainability strategy. Frank Dixon advises businesses, investors and governments on sustainability and system change. He has presented at many corporate and financial sector conferences around the world, as well as leading universities, including Harvard, Yale, Stanford, MIT and Cambridge. Frank Dixon is an Associate Fellow of the World Academy of Art and Science. He has an MBA from the Harvard Business School.

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