

Think companies at Davos can save the world? Think again

Environmental concerns are dominating many conversations at Davos, but with climate-sceptic leaders ruling some of the world's biggest economies, should we rely on companies to make the world a better place? ING's Marieke Blom thinks not

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Reasons to be optimistic

The gathering of world leaders in Davos gives us a glimpse of what is on their minds. In the World Economic Forum's global risk report we see environmental concerns, most notably climate change, are top of decision-makers' minds. This year, the organisation picked 'globalisation 4.0' as its main theme. By that, they mean globalisation that serves the needs of both people, the planet and the economy. [Larry Fink wrote](#), that stakeholders are pushing companies to wade into sensitive social

and political issues – especially as they see governments failing to do so effectively. With climate-sceptic leaders ruling some of the biggest economies, should we now rely on companies to make the world a better place?

Personal leadership is a strong force behind companies behaving more responsibly

You have reasons to be optimistic. It is true that many of the business leaders are personally motivated to make a difference. Bill Gates, George Soros, Paul Polmann and Feike Sijbesma are (former) CEOs visibly trying to make a difference. Intrinsic motivation probably plays a large role here and personal leadership is a strong force behind companies behaving more responsibly. And it is not just the CEO; their employees often also value sustainability highly. Younger people particularly want to devote their talents to a good cause. They will have a direct impact by making a difference within their companies. And in the boardroom, the HR manager may well emphasise that if the company wants to attract and retain young talent, it needs to behave responsibly. So, indirectly, the 'war on talent' may steer companies in a more sustainable direction.

Corporate responsibility: A sound business decision?

This may prove that companies' responsible behaviour is partly a pragmatic rather than an intrinsic choice. But it is still progress. Moreover, the fact that there are also business related arguments makes it safer to rely on companies for a better world. And there are more reasons to see corporate responsibility as being a sound business decision:

- Companies can no longer afford to be ignorant of their societal and environmental impact. Both mainstream and social media relentlessly reveal irresponsible behaviour. Public opinion is everywhere, anytime, and companies can no longer rely on keeping anything secret. Societal pressure is probably a stronger force than ever in the boardroom.
- For many companies, a sustainable world is a prerequisite for durable future growth. Farmers and the food industry are well aware they depend on predictable crops. Insurers see that climate change will increase their financial risks. This awareness has increased with every step nearer to those long term risks.
- Many business leaders realise that unequal distribution comes back to them like a boomerang: The people that were 'left behind' voted for political leaders in support of nationalism or localism, happily sacrificing global political and economic alliances. Brexit and the Trade War have made populism a direct threat for businesses.
- Investors increasingly care about the sustainability of their investments: EY found that 49 percent of shareholder proposals filed in 2017 focussed on environmental and social topics, against 41% in 2016 and 43% in 2015. About 75 percent of private investors are interested in sustainable investments, according to Morgan Stanley. The number of signatures from large investors on the UN [Principals for Responsible Investments](#) were up by 21 percent last year.



Swedish climate activist, Greta Thunberg meets the IMF's Christine Lagarde in Davos, Switzerland

Market forces can't always be trusted

So, intrinsically motivated leaders and employees, societal pressure, long term risks, populism and investors all help to steer companies in a more sustainable direction. This will have a positive impact, and it is certain that we are witnessing a change in attitude. However, the real question is: is this enough to trust in market forces? As an economist, I am convinced it is not.

Too many 'sustainable' business models lack economic viability

First of all, because the most important market force – that of consumers – shows two faces. About two-thirds of us say we are willing to pay a higher price for sustainable products. But only about ten percent seem to shop accordingly. If we look at organic food, for example, this is less than ten percent of the European market. Unfortunately, too often the unsustainable option just does not come at the right price: using primary resources is cheaper than recycled ones, unsafe working conditions cost less than safety, and polluting is free. Too many 'sustainable' business models, therefore, lack economic viability. The opposite is true for businesses with a high carbon footprint: while climate change may be a concern to society, global air travel continues to grow at a remarkable pace.

Aspirations versus reality

This is why we have relatively few companies investing in circular concepts, and so many of them developing 'fast fashion', 'on demand home delivery', new gadgets and luxurious retreats in formerly off the beaten track outposts. Market forces still strongly support companies steering in the wrong direction. And investors may say they care, but still flock to the high returns of companies which undermine working conditions via the gig economy, disrespect their customer's privacy or benefit from all that additional air travel.

Also, while some employees may now be driven by values, many of them still prefer an improving paycheck. How many of those 'millennial' talents will stay with that sustainable company, once it turns out it is not able to give them career opportunities they are looking for? What if that next step can only be found at that company that will not take the world in the right direction?

About that right direction: what is 'right' and 'wrong' exactly? Would we expect companies to pick sustainable priorities? Is climate change most important, or would we want them to go all in on human rights first? Who should fix biodiversity and who would start with safety? Might companies not 'retrofit' their activities into the SDG framework by picking the goals that happen to coincide with their business priorities anyway? There are so many trade-offs to be decided about, prioritisations to be made. Without coordination, their choices may not meet our preferences.

We need regulation and taxes to help us stick to things we find important

Striving for a better world means we need to make hard choices. We will have to set priorities and we will have to decide where we are willing to pay the price for those decisions. That is up to politicians and voters to do. And we need someone – the government – to enforce these decisions without allowing free rides. That means we need regulation and taxes to help us stick to what we find important in the long run. The more internationally coordinated the better, because that way we lower the transition costs. It is policy that will have to make for economically viable business models – not just for some, but for all companies.

It is great to see that companies care, whatever their motives may be. This is a change for the better and let us applaud anyone taking personal leadership by making a change. But if we really want companies to make enough progress, we need strong political leaders to support those good intentions.

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