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Titans or Titanic: Towards a Public Fiduciary

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Abstract: Sustainability as a narrative has mainstreamed, but practice is stuck in the 'valley of death,' with exemplary business action to internalize social and environmental externalities remaining *ad hoc* and small scale. Civil regulation has had significant impacts, but appears unable to act as a driver of systemic change. Addressing change at the system level requires the evolution of corporate governance away from intensive towards an extensive accountability, embedded within a 'public fiduciary.' Such a shift in fiduciary arrangements is needed to institutionalize and leverage the growing involvement of the state in economic and industrial practice through direct enterprise ownership, the increasing importance of sovereign wealth funds and national development banks, and the significance of public-private partnerships. This re-emergence of the role of the state in economic governance will underpin the next generation of corporate responsibility, framed largely by an international political economy led by major emerging economies.

Key Words: fiduciary, accountability, civil regulation, governance, emerging economies, state-ownership, corporate responsibility, sustainability

Caught in History's Spotlight

Tomorrow's history will judge whether companies will prove to be the troubled but all-important titans of our age, or more like a flotilla of Titanics, grand projects floating us off on our last, fateful journey. Separating these competing futures is whether a new generation of businesses can invert today's logic in internalizing costs as a systemic means of creating value.

Societies through the ages have collapsed because their elites, acting in pursuit of power and privilege, have been able to protect themselves for too long against

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the negative impact of their own actions (Diamond 2006). Business exemplifies this pattern in prospering by externalizing the costs of their gains onto others despite clear evidence that the effects are degenerative and unsustainable (IPCC 2007). This is not a matter of malevolence or misdemeanor. Our business leaders are doing what is expected of them, to externalize costs since the law does not dictate otherwise, and in fact demands such practice as a fiduciary responsibility (Zadek et al. 2005). Beyond the law, it just makes good financial sense for individual businesses to remove from their profit and loss accounts social and environmental costs that do not generate adequate value, placing them firmly on societies' balance sheets to cope with the consequences.

Positively, there are signs of such an inversion for some externalities, herded by an assortment of price, policy and regulatory signals as well as some measure of customer preferences. And there are exceptional companies that lead the charge of sustainability, companies that attempt to reinvent themselves according to the principles of 'true cost.'[1] The business benefits, from brand to cost efficiencies, employee motivation and refocused innovation and product development, are often real and on occasion material. Yet such exemplary cases remain small-scale and *ad hoc*. There are few instances to date of such leadership radically reshaping the value creation equation of an entire sector or even market segment.

Negatively, are the headwinds of vested business and associated political interests that seek to prevent a transition away from today's profitable and politically palatable status quo towards a more sustainable pathway (Greenpeace 2011). Needless to say, highly profitable externalization is often a source of damage and destabilization, from the impacts of soda drink on the incidence of obesity and diabetes to the climatic effects of coal-fired energy generation. The simple fact is that tens of trillions of dollars are invested in carbon-intensive or otherwise damaging business models. It is understandable that investors and businesses alike are keen to avoid such assets becoming "stranded" due to regulatory or other changes in their operating environment. Understandable but not acceptable, argued Sir Nicholas Stern in a highly critical article of the financial community in the *Financial Times* during the global climate negotiations in Durban, South Africa, in December 2011.[2] Investor behaviour cannot be tolerated, he argued, that by pricing carbon at zero in their analysis and investment decision is effectively betting on an increase in global temperatures in exchange for higher short term financial rewards that puts our collective future in doubt.

Our challenge is one of systemic change, and addressing it effectively is proving to be tough going. Optimists and pessimists battle over the meaning of the historical evidence and tomorrow's potential. Yet in seeking to convince, most simply miss the point. Just as there are inspiring examples of directionally positive change, there are predatory institutions run by mean-spirited leaders. Amplifying the good and blunting destructive behavior can make a difference, but only at the margin. The unrelenting rise in bribery and corruption across the world is endemic, and attempts to dampen it through building "islands of integrity" have frankly failed. Over-consumption, similarly, is the aggregation of billions of daily, individual acts—yet as Vice President Al Gore pointed at the acceptance speech of his Nobel Prize for his contribution to the climate agenda, no one seriously believes that unsustainable consumption can be effectively combated by engaging each person, one by one in a process of grass-roots re-education (WEF 2012b).

The Civil Corporation Revisited

Business is a major vector of change, or its lack thereof, although it is only one piece of the puzzle alongside an increasingly complex array of actors. Businesses' growing power, and so potential to make a difference, one way or another, has catalysed a generation of reflection, theory and practice. Corporate responsibility, business and sustainability, and business in society are just three of the array of labels and movements under which such reflection has evocatively interacted with active experimentation. Driven principally by mid-North Atlantic values, interests, and institutions, this flurry of innovation has spread across the globe, framed by the potential of securing a peaceful pathway of transformation of business to forms that secure, if not champion, sustainability.

Business will of course neither save the world nor destroy it. This is altogether the wrong lens through which to examine the situation. To understand, rather, is whether how best to shape a political economy that can help us survive, hopefully more than survive, through this century and beyond. To that end, the question arises as to *what kind of business institutions* are needed to serve our collective interests? And closely associated to this question, to ensure that any principled declarations on the first bear some relationship to our historic context and likely pathway, is the question of *whether we are on track in generating such business institutions*?

My own understanding of these questions and their companion answers has evolved over the last decade. The opening lines of *The Civil Corporation*, finalized in early 2000, focused on specific businesses degrees of freedom to act, and enabling capabilities:

> Judging and ultimately guiding corporate performance requires an examination of whether a business is *doing what it can do* given its range of external options and internal competencies. Internally, this concerns the formal, explicit policies and processes, organizational cultures and values, and patterns of leadership. Externally, this is a question of the multitude of business drivers, from direct, short-term market pressures through to longer-term strategic challenges and opportunities.
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> A business's contribution to sustainable development therefore needs to be understood in terms of its viable options and what it makes of them. Internal and external factors together create a spectrum of possibilities at any point in time—that define a corporation's practical scope for making decisions between viable choices. Whether and how a corporation acts within its degrees of freedom must be the test of responsibility, and indeed the basis on which management decisions are framed.
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> These are the fundamentals of the *civil corporation*. A corporation that is said to be civil is understood here as one that takes full advantage of opportunities for learning and action in building social and environmental objectives into its core business by effectively developing its internal values and competencies. (Zadek 2001)[3]

Reflecting five years later in a new introductory chapter to the second edition of the same book, my argument focused more on the tougher issue of accountability as compared to the softer processes of engagement and collaboration, and the linkages between business accountability and the broader political economy:

> Extending accountabilities of business place it and the state increasingly on a par with each other in key respects. We see a convergence in their legitimacies despite their very different historical foundations, one in security, mediation and political representation and the other through their production of material needs and returns to finance capital. Such a convergence is accelerated by several factors, including the declining legitimacy of traditional electoral routes to the politics of representation, the emerging political empowerment of citizens through their roles in markets, notably as owners of capital, and the growing prevalence and visibility of complex partnerships involving public and private actors tasked to deliver public and indeed private goods. (Zadek 2007)

Today, another five years on, my tone has become perhaps more urgent and my message more propositional than reflective. Yet my focus on accountability and engagement has remained, as has my interest in the connections between business and political governance and accountability:

> A 'public fiduciary' would replace the current, narrow focus of corporate governance of optimizing solely in favour of financial stakeholders. The dominant corporate governance model for publicly-listed companies, broadly the Anglo-Saxon approach, would be overturned in favour of a pluralistic approach where corporate directors' fiduciary responsibility required them to address financial and broader sustainability outcomes. . . . Governance innovations in the investment community under this more disrupted scenario would mirror those of the wider business community. (Zadek 2012)

This paper builds on this evolution in arguing that we are entering a new phase of the debate and practice on the role of business in society. After decades in the political and economic wilderness, the matter of the role of the state, and the ownership and associated governance of business in pursuit of public as well as private purpose is once again moving centre stage. In the West and its intellectual allies, the shift is tentative, battling against an entrenched neoliberal posture regarding the efficiency and sanctity of private capital and the profit motive. Elsewhere, practice is in a sense more advanced, emboldened by a shift in the global terms of trade in favour of commodities, the politically powerful exemplar of China's dominant state-owned enterprises, and the growing power of sovereign wealth funds and other state-controlled investment vehicles.

The challenge and opportunity for those concerned with sustainable development and therein the role of business, is to engage with and seek to shape this historic shift, rather than assuming its transience and irrelevance through backward-facing analysis and presumptive conclusions.

Coming In from the Cold

Sustainability has come in from the cold after decades of wandering on the edges of civil society, informed scientific evidence and the odd, in fact decidedly odd, business (Zadek et al. 1997). Economics, as a corollary to this development, has become an increasingly integral part of the sustainability debate. This is evident in the recent report of the UN Secretary General's High-Level Panel on Global Sustainability, co-chaired by South African President Jacob Zuma and Finnish President Tarja Halonen (UN 2012).[4] Launched in early 2012 as an appetizer to the UN Rio+20 event, the Panel's clear message concerned the need to get the economics right if we are to secure a sustainable pathway, highlighting in particular the need for financial market reform.

Translating this renewed focus on the economics into action has, however, proved challenging at every level. There is no better example of this than the current contestation of the "green growth" agenda, portrayed by many public intellectuals and political leaders from emerging nations as presaging another cycle of economic hegemony of the north over the south (BASIC experts 2011; SID 2012).[5] Such challenges, whilst often posed polemically, clearly has some merit. Unequal starting points in terms of technological, institutional and financial endowments will certainly contribute in generating unequal outcomes in any systemic transition to a greener economic pathway. The unwillingness of developed nations to substantively share the burden of such a transition has all but frozen the multilateral agenda and associated international institutions. The combination of claims of historic culpability, the painful implications of the user-pays principle, the economic hang-over being experienced in Europe and the USA, and the driving challenge of a burgeoning global middle class laying claim to their material rights, makes for a toxic context by any measure (Zadek 2011a).

That said, a global warming towards sustainability has been far more than rhetoric. Investment in clean energy reached a new record of US$260 billion in 2011, almost five times the total of US$53.6 billion in 2004 (Bloomberg New Energy Finance 2011).[6] Planned Chinese investment in green over its twelfth five-Year Plan (to 2015),[7] is expected to include US$450 billion on environmental protection, US$457 billion on renewable energy and a further US$600 billion on smart grids.[8] At the enterprise level, companies like General Electric, Nike, and Nestle are pushing the envelope on value chain design, technologies, products and services, citizen interface, and policy engagement. Companies like Nike have managed effectively to turnaround their compliance challenges of the 1990s to become widely acknowledged sustainability leaders (Zadek 2004). General Electric has converted its profile from one resisting any engagement in the clean up of the highly polluted Hudson River into one exemplified by its "ecomagination" portfolio of low carbon, energy efficient products. Nestle has overcome the negative impacts of being the target of the world's longest running anti-corporate campaign because of its alleged mis-marketing of baby milk to become a global corporate leader in advancing improved nutrition and better water management practices.

Sustainability, furthermore, is no longer, if it ever was, just the business of incumbent companies (WEF 2012a; Zadek 2010). The 'Global 100' is a reputable sustainability rating of the world's largest companies, with each year's selection drawn from a global sample of about 3,500 stocks.[9] In 2005, its first year, the index counted just three companies outside of Europe and North America, all Japanese.

The most recent Global 100, however, included 24 companies with headquarters outside of the North Atlantic zone of which 9 were from Brazil, India, Singapore, South Africa and South Korea. Of the Dow Jones Sustainability Index's 19 'super sectors' analysis, 4 out of the 19 companies were from home countries outside of Europe and North America.

Sustainability and competitiveness, furthermore, is increasingly a matter for nations as well as companies. Innovative work over the last decade on 'Responsible Competitiveness' provided the world's first quantitative measure of nations' progress in embedding sustainability at the heart of their competitiveness strategies and practices (Zadek et al. 2003; Zadek 2006). More recently, the World Economic Forum has augmented its annual Global Competitiveness Index—the most authoritative international ranking of nations' competitiveness—nations' management of natural and social wealth. Seven new quantifiable variables: health, primary education, social cohesion, environmental policy, resource efficiency, management of renewable resources, and environmental degradation were added into a methodology already packed with data on more traditional measures of economic health (WEF 2011).[10]

The impact on national rankings of introducing these new measures as drivers of long-term competitiveness has been in many instances dramatic. Some of the traditional winners in competitiveness rankings remain on top, notably the Nordic countries and Switzerland, celebrated for their progress in de-coupling growth from natural resource use and carbon emissions. Other long-time leaders such as the USA have fallen down the rankings because of perceived risks to their long term competitiveness associated with their extensive environmental footprints, weak investment in public infrastructure and weak records of investment in human capital. Some newly emerging, economic powerhouses, notably China and India, have dropped when such factors, including institutional robustness and measures of corruption, have been taken into account. Other countries, notably Brazil, have been placed higher on the Sustainable Competitiveness Index when these factors have been taken into account as compared with their standard competitiveness ranking.

Stuck in the Valley of Death

Start-up companies have the 'Valley of Death' as the most dangerous moment in their development. This is the moment between proof of concept and the beginning of mass production and significant sales. It is the place where most dreams perish in the face of conservative capital markets that doubt an entrepreneur's abilities to beat the competition (Zadek 2011c).

Sustainability has reached its own valley of death. After two decades of intense activities, we have excellent data on the nature and scale of the problem, an abundance of cases of successful experiments, and the growing attention of political and business leaders. Yet we cannot leverage our insights, resources and passion to contain our production of carbon, manage the scarcity of water, or dampen the speculative fluctuations in the price and availability of basic foodstuffs. De-materialised products, rentalized markets, renewable power and sustainability standards are amongst the social innovations that have provided inspiration and advances in offering consumers greener choices. Yet whilst our call to arms has been for transformation, we are, in practice, celebrating incremental changes in the spirit of increasingly desperate optimism.

The real challenge is not just to move in the right direction. Rather, the challenge is to move quickly enough to scale in changing direction so as to materially affect large-scale outcomes. Today's reality is that eco-services continue to be dramatically over-exploited. Furthermore, there are no signs of this changing quickly enough to prevent many eco-systems from collapse, from the extinction of all-important bee populations to extreme water scarcity becoming the norm for not millions but billions of people. A report by the United Nations Principles for Responsible Investment estimates that annual environmental costs from global human activity already amounted to US$6.6 trillion in 2008, equivalent to 11% of global GDP.[11] UNICEF estimates that 22,000 children die each day of avoidable diseases, one every four seconds, roughly the time it took to read this sentence.[12]

Scale is something today we know a lot about—in selling mobile phones, going to war, watching the World Cup, or in catalyzing fundamentalism in its many forms. Our US$70 trillion global economy is powered by US$210 trillion of financial assets; over five billion mobile phones are in circulation with penetration rates rising by 35% each year; and over a period of just two weeks in August 2008, 4.7 billion people (70% of the world's population) tuned in to watch the Beijing Olympics on television. Business, the world's most fashionable vehicle of change over recent decades across richer nations, can in quick time sell billions of packets of crisps, tens of millions of cars and millions of handguns. If the price is right, businesses can innovate, produce and deliver, and citizens will turn out en masse and do the right thing, namely buy.

But the logic of the business community has, to date, limited its ability to deliver sustainability-aligned products and services at scale. Today's backward-facing markets, in the main, only reward companies for doing the right thing on the margin. The World Economic Forum's Global Sustainable Competitiveness Index confirms the common sense view that healthy, competitive economies in this century require an effective management of social and natural wealth. Unfortunately, these new measures of sustainable competitiveness are not describing what *is* the case today, but which countries would be more competitive *if* sanity prevails. Bangladesh today has amongst the world's most competitive apparel exporters, in the main by paying their workforce remarkably little, and co-opting the government into marginalising, often violently, unions and civil society organisations seeking to advance labour rights. South Africa's mining industry, still a mainstay of the economy, remain competitive thanks to cheap energy produced by especially low quality coal. And the Nordic countries and Switzerland achieve their high sustainability status by excluding off-shored pollution. It is estimated that almost one quarter of China's carbon emissions are associated with its exports, particularly to Europe and North America (Pan and Forgach 2011).

Even for the optimist, "more" is not enough (Zadek 2008). The need to achieve speed-to-scale forces us to reject today's trajectory as a gradualist pathway *at best*. We need to revisit, and if necessary reinvent, the matter of change drivers.

The Life and Times of Civil Regulation

Much has been written about the drivers of modern-day 'corporate responsibility,' with most lists including changes in information technology, relative proportions of intangible over intangible assets of major corporations, the new demands on the legitimacy of business in the face of privatisation, the collapse of the Soviet Union, and the advent of globalisation. Most lists, however, at least in recent times have been topped by the role of civil society.

Civil society has always sought to influence markets and re-shape their impact (Edwards 2011; GACCC 2011; Zadek 2011b). Contemporary experience should be appreciated in that context, but it must also be explored for its specific forms and outcomes. Since the late 1980s, the landscape of civil society engagement with business has been transformed. There are many more, and more diverse, civil society actors, and more extensive and intimate engagement between what historically were oppositional forces. Civil society strategies and tactics to affect the drivers of change have in this context become more diverse, and more complicated, from traditional public pressure through to stewardship partnerships, and processes of active co-design with business, and even co-investment and co-production of innovative products and processes with potential for more benign societal impacts.

The modern phenomenon of 'civil regulation,' civil society acting to change market rules through direct pressure rather than the traditional route of lobbying for statutory changes, was born out of a particular moment in corporate development and broader political history (Zadek 2007). Neoliberal economic policies implemented during the 1980s undermined the social contract between business and Western societies, a fragmentation that was reinforced because the feared counter-point of the Soviet Union could no longer be invoked. At the same time, a rapid shift in the locus of economic value from production up the value chain towards the brand, marked out a period of remarkable success for Northern-based corporations across global markets. This in turn was driven in particular by the ethos of privatisation that opened markets up and at the same time further fractured the underlying social contract that was mediated by the State. Simultaneously, the rise of the Internet and the capacity of relatively resource-poor civil society organisations to mobilise media-friendly action was matched by the emergence of the first generation of multinational NGOs such as Oxfam and the World Wide Fund for Nature, which mirrored the rise of their corporate counter-parts as had labour unions in the early development of industrial capitalism (Sogge 1996).

Civil regulation, and so the modern advance of 'corporate responsibility,' has largely relied on corporations' sense of brand vulnerability, correlated closely to oligopolistic markets, an ironic empirical turn for theorists focused hitherto on the downsides to consumers of highly-concentrated markets (Zadek 2000). Intangible assets represented just 5% of the market capitalisation of the FTSE250 in 1978 but had risen to 72% by 2005, an extraordinary shift that left benefiting corporations struggling to understand and manage these quixotic assets (Interbrand 2006). As a result, businesses over this period increasingly yielded to civil society demands. Campaigning was founded on several iconic cases, including Shell's reversal of its decision to sink the Brent Spa Oil Platform in the North Sea in the face of a media-savvy Greenpeace campaign, and the anti-Nike sweatshop campaigns that, to some, demonstrated all that was wrong with globalisation and capitalism in general (Zadek 2004). In some instances, real damage was done by these actions, reinforcing the view for a time that campaigns of almost any form were a potentially-lethal force. In most instances, fearful corporations did not wait to find out if civil campaigns would translate materially into market responses and asset valuations.

Over the years, the cut and thrust world of civil regulation has in many spheres matured into a more organised social contract between business and civil society. The World Wide Fund for Nature exemplifies this development, leading the way in creating global partnerships with individual corporations, including high-profile agreements with for example The Coca Cola Company and the French cement giant, Lafarge. Labour activists have joined with their erstwhile corporate targets in forming international, multi-company initiatives such as the Ethical Trading Initiative and the Fair Labour Association. Human rights activists and anti-corruption groups have joined forces with mining companies in the Extractive Industries Transparency Initiative and the Voluntary Principles on Security and Human Rights. And health activists sit together with the world's largest pharmaceutical companies through the Global Alliance for Vaccines Initiative (GAVI) and other multi-billion dollar partnerships designed to deliver health services to poor communities.

Today, there are hundreds of initiatives that together have created a 'soft governance web,' spread across every market and issue from nanotechnology to fish (Zadek 2006b). These initiatives have sought to reshape markets by blending voluntary rules for business to follow, public and private finance, and the combined competencies of civil society, business and government in delivering innovative designs and implementation practices. Some of these initiatives have achieved significant market penetration. The Marine Stewardship Council, for example, covers ten per cent of the global wild fish catch, and the Equator Principles cover more than eighty per cent of cross-border project investments. Such collaborative ventures have influenced the broader political narrative about public policy and international development.

Civil society has and does transform how business is done, of that there is no doubt. Just as black South Africans boycotted white businesses during Apartheid, so Chinese consumers vilified and abandoned French-owned shops, at least temporarily, when French President Sarkozy met with the Dalai Lama in December 2008. Nestle, Nike, McDonalds, and Shell have joined a long list of global businesses that have visibly yielded to the perceived threat of damage to their cherished brand values created by targeted campaigns by community groups, environmental and human rights organisations, and labour unions. Such actions have clearly made a difference. Greater corporate transparency, new codes of conduct, a mainstream profession of social auditing that was considered exotic in the 1990s, and collaboratively-developed standards on everything from sustainable forestry to Internet privacy have shaped corporate practices and improved the lot of workers in global supply chains, communities located around mining operations, indigenous groups protecting their bio-homes, and endangered species from whales to tree frogs. It is no longer possible to be a Western mainstream consumer brand to not commit to labour and environmental standards down one's global supply chain, just as it would be tough for any major Western financial institution funding major infrastructure projects not to sign up to the Equator Principles.

These new forms of collaborative governance, at least in their initial formulation, have succeeded in overcoming old impasses and embedding improved practices amongst market leaders. Yet it has rarely generated the level of transformational change required to address the challenges at stake. The Marine Stewardship Council is rightly proud that its certification covers 10 percent of the world's wild fish catch, but would be the first to agree that global fish stocks continue to plummet. Many anti-corruption initiatives have emerged, similarly, under pressure from civil society, governments and sometimes business itself, including the Extractive Industry Transparency Initiative, the World Economic Forum-sponsored Partnership Against Corruption Initiative and initiatives driven by single institutions such as Transparency International and the Soros-backed Revenue Watch Institute. But corruption continues unabated, and most measures suggest a steady increase. In Nigeria alone, an estimated US$400 billion in oil revenues since the 1960s has been stolen by politicians and civil servants.

Civil regulation has achieved a great deal in moving leading market players to adopt improved social and environmental practices. Yet after two decades of action by a more globalised, more professionalised and more technologically empowered civil society, one must conclude that the scale of ambition has not been met by the scale of impact (Zadek 2006). More profoundly, the underlying basis on which profit is largely made, through the externalising of costs onto the shoulders of others, has changed very little. After two decades of global action on business accountability, the financial sector was still able to impose history's largest-ever exercise in 'taxation without representation' during the crisis of 2009, destroying trillions of dollars of wealth in the process, accumulating trillions more in public debt, and putting tens of millions of people out of work. Yet despite the weight of public anger that resulted from the financial crisis, there has been an extraordinary accountability failure in bringing those responsible to book, and scant regulation to prevent a reoccurrence of unseemly rent taking in the context of asymmetrical risks.

Corporate capture of the political and regulatory process in many countries prevents such excesses being penalised, let alone the underlying dynamics been subjected to serious scrutiny and change. One recent report concluded that the financial sector in the US invested more than US$5 billion in political influence purchasing in Washington over the past decade, a pattern confirmed in recent research published by the International Monetary Fund. A global climate deal, similarly, was not forged in Copenhagen in 2010, mostly as a result of the actions of several thousand corporate lobbyists in Washington, DC who successfully buried what might have been the last opportunity for concerted action on climate management, in exchange for a few additional percentage points in share values and short-term profits.

Civil regulation in its diverse forms has been a major driver in contemporary shifts in how business has dealt with social and environmental externalities. Several decades into this experience, however, whilst seeing the real and positive effects, one must conclude that large-scale shifts have not been forthcoming, let alone systemic changes in the nature of economy and business. The weaknesses in the Occupy movement, now painfully apparent, illustrate the challenges in civil society action at scale to address scale. Whilst continued civil action is to be encouraged, therefore, there is a need to seek alternative change drivers.

Towards an Extensive Accountability

Businesses' embrace of sustainability is often framed as a matter of the need for 'more' accountability. Surely, the argument runs, if the problem is too many negative externalities, then more accountability will address this problem—make them pay, whether in cash or legal liabilities—and like Pavlov's dog, they will come to heal and mend their ways. The challenge, however, is not so simple. One view, perhaps perversely on the surface, is that there is *inadequate* effective accountability to traditional accountability holders, particularly investors. Core to the argument is that the ultimate beneficiaries of shareholdings are citizens' whose interests extend to the wider impacts of business (Davis et al. 2006). The failure of these interests to influence business behavior, by this argument, lies in the demonstrable passivity of these citizens in the face of powerful, rent taking, intermediaries, notably fund managers (Zadek et al. 2005). Better informed and suitably empowered beneficiaries of business investments would, so the argument runs, insist on reforming the behavior of investees, i.e., companies that create negative externalities.

Opposing this view is the argument that businesses' traditional accountability holders, investors, are way too empowered for our common good. After all, publicly listed companies do not externalize negative costs because they are not accountable to their shareholders, but precisely because they are all-too focused on maximizing financial returns to these particular accountability holders. The way forward, according to this argument, is to weaken the power of financial investors in favour of other stakeholder interests. Reinforcing this argument is the evidence that short-termism has come to be an endemic flaw in capital markets, biasing fund managers' behavior towards competitive trading rather than investing in the underlying economic assets (Haldane 2011). Paul Poulson, Unilever's Chief Executive, is for example one of a growing number of business leaders who have moved their companies away from quarterly reporting, citing short-termism as having a destructive impact on the ability to invest for the long term (Graham et al. 2005). Yet the level of corporate capture of the political process does not allow for such a broadening of accountability to be achieved through better regulation. What is needed, so the argument runs, is a more pluralistic set of accountabilities embedded in corporate governance arrangements.

Contested here are the relative merits of intensive and extensive accountability (Donahue and Zeckhauser 2005; Zadek 2006b). Intensive accountability provides a narrower basis for any organization to determine its performance model, and so its approach to its governance. If accountability is intensively focused on financial investors, the performance model, subject to the law, then concerns the maximization of risk-adjusted financial returns, and the governing process must ensure that the organization acts on behalf of financial investors by effectively implementing the associated performance model. If on the other hand the basis of accountability is more extensive, such as in the case of many public interest organizations, then the performance model is more complex in having to address multiple objectives. Governance is therefore also more extensively focused, with a mission-aligned approach that might require balancing the interests of many stakeholders with diverse interests.

'Corporate responsibility' in its modern form has been predicated on the intensive accountability of most businesses, especially publicly-listed companies, to shareholders with a predominantly financial interest. In its modern form this approach is associated with the failure of in the 1970s and 1980s of advocates of renewed economic nationalisation or a shift in international corporate governance towards more pluralistic accountability structures. Tony Blair, after all, was successful in having the critical clause in the British Labour Party Constitution calling for the common ownership of the economy removed in 1995, two years before being elected to office,[13] as did Nelson Mandela in the equivalent commitment by the ANC to turn its face on nationalisation before South Africa's first post-Apartheid elections in 1994.[14] Instead, a more technical trench warfare has been taking place focused on definitions of materiality, public disclosure and the rights of minority shareholders that has significantly increased accountability to non-financial shareholders in some countries, despite the resilience of the underlying Anglo-Saxon model of a narrowly defined fiduciary responsibility to financial capital.

This incremental, tactical approach to squeezing the last ounce of public good out of the Anglo-Saxon model of corporate governance may come to be seen as a side-skirmish, or at least as an appetiser to more fundamental shifts that may accompany the growing importance of emerging economy businesses and governments. Core to this shift is the extensive role of the State in the ownership of economic assets in these countries. Today state-owned oil and natural gas companies, such as Saudi Aramco, Petróleos de Venezuela and China National Petroleum Corp., own 73% of the world's oil reserves and 68% of its natural gas.[15] Similarly, in 2008, state-owned share of global mining production value amounts to about 24% (Raw Materials Group 2011). According to the Inter-American Development Bank, the percentage of state ownership in the banking industry globally by the mid-nineties is over 40%. The BRIC countries—Brazil, Russia, India, and China—contain nearly three billion of the world's seven billion people, or 40% of the global population. The BRICs all make heavy use of public sector banks, which compose about 75% of the banks in India, 69% or more in China, 45% in Brazil, and 60% in Russia.[16]

International consensus remains that state-owned enterprises are necessarily poor performers, both in financial and broader sustainability terms. Yet the evidence is mixed. It is the case, certainly, that publicly-listed majors do out perform their equivalent Chinese state-owned competitors. But the comparison is generally unbalanced. Rio Tinto for example, has been a global mining operation since the middle of the nineteenth century, whereas Chinalco is a far more recent entrance onto the world's stage. Furthermore, a dip into the global mining company's not-so-distant past reveals behaviour that matches the worst of that of the new, state-owned players. Exemplary experiences of state-owned enterprises, notably in the cases of Norway, Chile and Botswana, are generally dismissed by opponents of state-ownership as arising under exceptional circumstances. Yet in the world's fastest growing and most competitive market, China, such conventional wisdom's are being challenged. Cheryl Automotives, a state-owned enterprise, is now fifth in the hotly-contested, Chinese automotive market. Shanghai Electric is challenging global leaders such as Japan's Mitsubishi and Marubeni in bidding to build new coal-fired power plants around Asia. China's two state-owned shipbuilding giants, China Shipbuilding Industry Corporation and China State Shipbuilding Corporation, are expanding rapidly and beginning to catch up with their Korean and Japanese competitors in terms of technology (Dyer and McGregor 2008).

Classical state ownership of enterprises is, however, only one of several routes through which public interest is being asserted in the matter of business through ownership and governance. Sovereign wealth funds, especially those of China and the Middle East, are rapidly growing in number and size, broadly expected to grow in assets under management from their current level of US$4 trillion to more than US$7 trillion over the course of this decade, powered by a combination of high commodity prices and concentrated trade surpluses. Whilst still representing only a modest fraction of the overall size of today's global capital markets, these funds punch well above their weight during this current period of unstable capital markets, recapitalisation seeking companies and countries, and under-priced assets. National and regional development banks are another source of state-controlled investment, and are increasingly active in international markets, including increasingly the huge, state-owned development banks in emerging economies, such as the China Development Bank and Brazil's BNDES.

At a smaller scale, but with significant potential, is the emerging debate and practice of extended social enterprises in developed economies, notably the US. "Corporation 2020," a US-based initiative, exemplifies this trend, having gathered leading practitioners from around the world in a large-scale co-design exercise focused on modelling the corporations needed for a sustainable future.[17] A parallel but aligned initiative, again in the US, has been the enactment of legislation to allow companies to register as "B" Corporations that establishes fiduciary arrangements enabling and encouraging multiple accountability holders and interests to be considered in the process of corporate governance.[18] With 500 business registered under this regulatory framework worth an annual US$3 billion in revenues, this experiment is clearly still small change. Yet both Corporation 2020 and the B Corporation approach are indications of what the US does best, experimenting in possible futures.

Last but not least is the emerging practice of governing public-private partnerships. Diverse in their forms, functions and scope, what they hold in common is a mandate to address a blend of private and public interests. This common feature has in turn driven a generation of experiments in how best to govern such blended and at times conflicting interests. Over time, some of these partnerships have become effectively permanent features of our institutional landscape, including many of the larger global health partnerships such as the Global Fund[19] and GAVI,[20] and the growing number of global sustainability standards initiatives stewarded by partnerships, such as the Forest Stewardship Council and the Extractive Industries Transparency Initiative (Litovsky et al. 2007; Potts et al. 2010). Whilst rarely if ever conceived of as experiments in new forms of corporate governance, there is no doubt that in practice these partnership governance experiences provide one of the richest sources of data on how blended interest institutions can in practice be governed (Zadek and Radovich 2006).

Towards a Public Fiduciary

Business in society is an unfolding experience, responsive to many historic factors, coincidences, unintended consequences, and unexpected innovations and sources of inspiration and leadership. Today's historic context includes, first and foremost, the consequences of a century of cheap, under-priced eco-system services, and in the last half a century an era of an unprecedented combination of cheap capital and cheap labour. As we tiptoe into this century, we face the "end of cheap," not least with the prospect of another 3 billion consuming middle class by 2030 and a further three to five billion people rightly aspiring to equal rights to the environment and material well-being. This, with the addition of the actual and expected impacts of climate change, and the painful foretaste of water scarcities to come, has driven the environment into centre stage as a forcing mechanism to rebuild our business community and the political economies within which they exist.

Alongside this disciplining context is an equally seismic shift in global leadership. Obviously, China and other major emerging economies top the ranks of tomorrow's likely leading nations, together with a small number of other resource rich nations from Mongolia to Canada. Less obvious at this stage is what their leadership might bring with it. Positively, the signs are that China in particular will embrace the environmental dimensions of the sustainability agenda, both for survivalist reasons, and to provide an enabling moral narrative to its global rise to power (Keely and Zheng 2012; Zadek et al. 2012). Unclear, but beyond the scope of this paper, are the implications for the broader political economy, and specifically for the fate of core procedural aspects of European-style democracy. Less grand, but crucially important nevertheless, is the re-emergence of the "developmental state" as an economic actor, first and foremost with renewed interest in economic and industrial planning and as part of that, as described above, an enlarged role in the ownership and guidance of strategic enterprises.

This context provides the stage on which the role of business in society is being reinvented. The recent, specific evolution of "corporate responsibility" can only be understood, and its implications reasonably considered, with this context in mind. That is, this evolution has been until now an embedded feature of the rise of neoliberalism in the West combined with the growing importance of intangible assets and an internet-empowered civil society. Going forward, however, its future trajectory will be greatly informed by the economic consequences of environmental boundaries, notably flourishing commodity prices, and the leadership of new nations with very different political economies and in particular views of the role of the state in economic affairs.

Taken together, these factors speak to a shift in our understanding and practice of the fiduciary framing of corporate behaviour. In today's corporate world, a fiduciary duty is a legal or ethical relationship of confidence or trust regarding the management of money or property between two or more parties (UNEP 2009). Most commonly, this duty exists between two parties, the principal or intended beneficiary in the relationship, and the fiduciary or agent that acts on the principal's behalf. Framed in these terms, our dilemma regarding business in society is when the principal does not have the capacity to exercise effective oversight over the fiduciary. Today, this is understood to be in exceptional circumstances where the principal is for example a child or disabled or in some other way deemed 'unable to act effectively on her or his own behalf.' In such instances, there is in many countries the provision in law to allow for a 'public fiduciary,' essentially a public official or agency appointed to serve as guardian, conservator, or personal representative for those individuals or estates with no one else willing or capable of serving.

A public fiduciary is, then, a helpful frame for understanding the shift from an intensive to a more extensive basis of accountability baked into the fiduciary rules and processes, rather than only the broader legal limitations to the pursuit of financial gains. Asserting the imperative for establishing a public fiduciary is the governing equivalence of demanding that negative social and environmental externalities be internalised into the strategic purpose of the business. The governance of the evolution of business in society can therefore be framed in terms of "the need to build a 'public fiduciary' to represent those voices not able to represent themselves, notably natural capital and today's excluded communities and future generations."

There is perhaps no greater sacrilege in the world of corporate governance than to propose the politicization of the governing process. Indeed, many if not most civil society activists in the area of corporate accountability would likewise opt for a reassertion of the 'state as gamekeeper and the business as poacher' approach rather than seek to institutionalize a broader fiduciary goal for business. Yet the facts do get in the way of such conservatism, irrespective of its merits. Civil regulation has advanced to some degree a *de facto* development of extensive accountability. These developments, although broadly positive, are however increasingly and problematically at odds with the *de jure* rules of the game that dictate an intensive focus on shareholders. Argued here is that the second wave of corporate responsibility, largely driven from emerging nations will, unintentionally and using different mechanisms, further deepen extensive accountability in the practice of corporate governance. Crucially, they will take us to the next stage in realigning the formal rules of corporate governance with such a development.

Framed thus, whilst there is an interesting debate to be had as to whether this is a good direction to pursue, there is a critically important debate as to how best to shape a directional shift which is already in motion. Certainly, there is a mixed and often disappointing historical record of nationalized companies. And there is little doubt that political and bureaucratic, discretionary intrusion into the affairs of state-owned and controlled enterprises can have poor outcomes by almost any measure. Furthermore, the possible negative implications of a stronger, developmental state on the political space for civil society to act are very real, and arguably already apparent from China to Russia, and from South Africa to Brazil, raising the likelihood of real trade-offs in the power and influence of different candidates for steward of the public fiduciary (Zadek 2011b). There is, not to put too fine a point on it, no *a priori* argument that supports the case that state intervention in the economy necessarily improves economic, let alone social and environmental outcomes.

That said, there is also evidence of good and indeed excellent practice in both state-owned enterprises, and more broadly in enterprises with significant state-control. Furthermore, experiments such as B Corporation and new forms of partnership governance all point to the potential for us living through the early stages of a paradigm shift. More than anything else, what is pushing this is the problem of today's capital markets, the need for a radical change in asset allocation for the public good, and the apparent limits as to what can be achieved by the bullying and seduction of private enterprise into a wider consideration of its impact on society. Certainly some progress has and can continue to be made in establishing policies and regulations that internalize businesses' negative externalities, but in practice such progress is severely constrained by the lack of autonomy of the state in the face of aggressive corporate and other special interest lobbying.

Ring Out the Old, Ring In the New

Today's business community is simply unable to deliver the required level of public goods from its historically embedded means of creating private value. The challenge, to reiterate this key point, is not 'to make progress,' but to make it rapidly and at scale, something that today's arrangements make difficult, if not impossible. This community will be our collective Titanic unless we change the rules of the game. Three decades of contemporary 'corporate responsibility has made a difference, as are surging commodity prices and other regulatory and civil pressures. But it has not been enough, and is unlikely to be so on current trajectories. Macro forces of history, only apparently disconnected from the matter of business in society, may catalyze us to a new and more productive pathway, or else may prove unhelpful in repeating at scale mistakes of the past. Business may yet adapt, or be adapted, to a radically different set of needs and pressures, and carry us forward on its shoulders as Titans.

What will be the balance between these opposing forces and implications is not a matter of theory, but of practice. Furthermore, past practice can only partially inform us as to what might happen, let alone what is possible or desirable. As always, the systematization of knowledge to inform decision-making is challenging at the leading edge of change. What is possible, however, is to consider the limits of what is and can be achieved with the current array of actors, tools and indeed values. With this in mind, it becomes possible to enlarge our understanding of today's historical context of the changing role of business in society, and in particular the role of new and newly-empowered actors, and the implications for the modalities and pathways that are likely to be central going forward.

Endnotes

Simon Zadek is writing in his independent capacity. He is a Senior Fellow at the Global Green Growth Institute and at the Centre for International Governance Innovation, and Senior Advisor at the International Institute for Sustainable Development. He is the founder and was the Chief Executive of AccountAbility, and was a non-resident Senior Fellow at Harvard's J. F. Kennedy School for Government. His book, *The Civil Corporation*, was awarded the Academy of Management's Social Issues in Management Award.

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1. http://www.trucost.com/.
2. http://www.ft.com/cms/s/0/52f2709c-20f0-11e1-8a43-00144feabdc0.html#axzz1v7PT3uv2.
3. Italics in original text.

4. http://www.un.org/gsp/.
5. http://www.unrisd.org/80256B3C005BCCF9/search/C3584FE61B5EAD60C12579BF004D3B40?OpenDocument.
6. http://www.newenergyfinance.com/.
7. http://en.wikipedia.org/wiki/Five-year_plans_of_the_People%27s_Republic_of_China#Twelfth_Guideline_.282011.E2.80.932015.29.
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