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Beyond corporate responsibility: Constructing sustainable and inclusive economies

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Abstract

Purpose: Societies face unprecedented challenges in terms of environmental sustainability and social inclusiveness. Businesses can, and should, play a role in delivering these outcomes, but their attempts to do so have so far produced mixed results. As such, it is important to take a more holistic approach, in order to understand how sustainable and inclusive economies can be constructed.

Approach: The paper starts by exploring the importance of focusing on the processes by which sustainable and inclusive outcomes are delivered. This is followed by two short case studies, on biodiversity offsetting and social investment. Finally, a research agenda is introduced which addresses the construction of sustainable and inclusive economies.

Findings: The paper demonstrates that sustainable and inclusive economies can be the product of deliberate design choices. Moreover, it highlights how complex assemblages of agents – human and non-human – are involved in these processes. And finally, the article highlights how best practices are not always transposable to different contexts, which can cause implementation problems.
**Implications:** In order to deliver sustainable and inclusive outcomes it is often necessary for businesses to engage with a multitude of actors. Likewise, they are cannot avoid the social grand challenges altogether, especially given the increased political and social pressure to penalise bad corporate citizens. Strategically, businesses have much to gain from engaging in the construction of the economies they operate in, in cooperating with other social agents.

**Contribution:** this paper contributes an augmented vision of business responsibility, which goes beyond the ‘bolt-on’ approach of Corporate Social Responsibility, and puts environmental and social issues at the heart of the company. This involves understanding and engaging with the society in which businesses operate, the technical devices which govern that society, and the specificities of the locales in which business activity takes place. Such a view would enable the development of an economy which allows simultaneously for financial returns, environmental sustainability and social cohesion.

**Keywords:** sustainability; corporate social responsibility; social investment; biodiversity offsets
1. Constructing processes or delivering outcomes?

Contemporary society is facing a number of grand challenges. These include issues such as environmental degradation, resource depletion and the impact these may have over future generations, grouped under the broad banner of ‘sustainability’; and problems such as income and consumption inequality, persistent unemployment, and problems in funding and delivering public services, broadly described as ‘inclusiveness’. These issues are too complex for governments alone to solve; they are global in scope, and often pose wicked problems (Rittel & Webber, 1973). However, research suggests that they may be addressed through collaboration and coordination amongst stakeholders (George, Howard-Grenville, Joshi, & Tihanyi, 2016). This has led to interest in the roles that can be played by multiple agents, and more specifically in how businesses can contribute to addressing these issues. The idea that businesses can, and should, play a key role in promoting social and environmental wellbeing has become commonplace.

However, there is a persistent lack of understanding how a sustainable and inclusive future can be brought about. Businesses and policymakers often focus on specific aspects of delivering desired outcomes, such as the roles that should be played by individual consumers, companies, regulation, or incentives. This perspective distributes responsibility, but arguably at the same time absolves all from taking appropriate action. Corporate Social Responsibility (CSR), by which businesses strive to deliver on social needs and ‘give back to society’ (Haufler, 2001), is likewise a challenged proposition, which has arguably failed to deliver on its promise (Fleming & Jones, 2013).
This paper argues that more holistic approaches to societal grand challenges are in order. In particular, it suggests that it is more productive to think about sustainable and inclusive economies than simply sustainability and inclusiveness as outcomes. Such economies should build ethics and responsibility built into the rules, agents and tools of capitalism. This raises problems around designing sustainable and inclusive economies, as much as operating in this new paradigm. This implies a need to think about what the various components of modern economies are, how they come together, and how they can be guided to produce the desired outcomes.

The rest of the paper is divided into three sections. Section 2 will analyse an attempt to create a more sustainable economy, by analysing the experiment to deploy markets for biodiversity offsets in the UK. Section 3 analyses movements to promote social investment as a mechanism to create an inclusive economy. Section 4 discusses the cases analysed, and indicates a potential research agenda in this area.

2. Constructing sustainable economies: Biodiversity offsets

Biodiversity loss is one of the most urgent environmental crises affecting human societies, and its wide-ranging potential effects have been acknowledged by academics and policymakers alike (Seto, Guneralp, & Hutyra, 2012; TEEB, 2010; Yule, Fournier, & Hindmarsh, 2013). The current rate of species loss has led to commentators describing an ongoing ‘extinction event’, caused mostly by human activity. As a gauge of the gravity of the situation, the November 2015 update
of the International Union for the Conservation of Nature’s Red List of Threatened Species found 23,250 species threatened with extinction, out of a total of 79,837 species (IUCN, 2015). Much of this loss has been attributed to economic activity, and especially – but not exclusively – the activity of extractive industries.

One mechanism that attempts to address this problem is the creation of markets for biodiversity offsets. Biodiversity offsets are defined as ‘...conservation activities intended to compensate for the residual, unavoidable harm to biodiversity caused by development projects’ (ten Kate, Bishop, & Bayon, 2004, p. 3), with the objective of achieving no net loss of biodiversity (ICMM, 2005b; ten Kate & Inbar, 2008; Treweek et al., 2009). In these markets, buyers (developers) acquire a given amount of a commodity (biodiversity ‘credits’) from sellers (such as landowners or dedicated providers), at an agreed price. The quantity of biodiversity credits bought is determined by the need to secure no net loss of biodiversity. The industry reports widespread use of offsetting worldwide, with a variety of biodiversity offsetting mechanisms in operation (Madsen, Carroll, & Moore Brands, 2010). Together, these markets consist of attempts to construct sustainable economies, which balance out conservation and economic activity.

Early research by the Business and Biodiversity Offsets Programme (BBOP) suggested that companies in the extractive industries sector broadly supported biodiversity offsets, for a variety of reasons (ICMM, 2005a, 2005b; PriceWaterhouseCooper LLC, 2010). These included the opportunity to manage relationships with stakeholders (especially local communities, regulators and environmental groups); corporate reputation gains and the possibility of securing a ‘social license to operate’; and better management of risks, liabilities and costs, with associated
advantages in terms of access to capital and regulatory goodwill (ten Kate et al., 2004). As a result, the biodiversity offsetting was endorsed by various stakeholders in the extractive industries.

Despite this promise, markets for biodiversity offsetting remain a difficult-to-implement proposition. The variety of forms of organising these markets has meant that each country, and sometimes each locality, implement the principles of offsetting biodiversity in its own way (Ferreira, 2014). This variegation can lead to different standards being applied locally, resulting in difficulties of implementation and increased uncertainty for businesses attempting to use the mechanism. Another problem lies in the variety of objectives which different stakeholders have for engaging in offsetting. In 2012, the UK embarked on a government-sponsored experiment to create markets for biodiversity offsets in England. Six pilot projects were selected to test the concept, and to understand the potential for rolling out offsetting to the entire country. The pilots were completed in 2014, after which the various evaluations of the scheme suggested that there was no appetite for continued engagement with biodiversity offsetting. As of 2017, there are no markets for biodiversity offsets in the UK.

While the reasons for this failure are obviously complex, some of it at least appears to be related to a conflicting set of objectives. On the one hand, conservation of nature was promoted as a key objective; on the other, the UK government set out to use these mechanisms to reform the English planning system, making development easier and promoting economic growth (Ferreira, 2017). A pro-business Task Force sponsored by government supported this idea, suggesting that these markets held a very high potential to promote economic development (EMTF, 2013). However, businesses themselves were reluctant to engage with the topic, finding that
biodiversity offsets constituted mostly an unnecessary and unwelcome extra cost (Collingwood Environmental Planning & IEEP, 2014). The prospect of using offsets as a mechanism for corporate reputation management was negated by the fact that most UK consumers were, and remain, unaware of what biodiversity offsets consist of (Ferreira, 2014). In addition, the local nature of biodiversity values has meant that local authorities objected to the expansion of these markets (Ferreira, 2017), fearing what they saw as a license to trash nature (Birdlife International, 2010; Birdwatch, 2013; Carrington, 2013; Heath, 2013; Howarth, 2013; Lang, 2014; Monbiot, 2012).

Ultimately, attempts to create markets for biodiversity offsets in the UK have failed. The ‘markets’ were seen as a bolt-on for corporations looking to find a quick way to secure planning permission for their projects, rather than as a genuine mechanism to build a sustainable economy. The initiative focused on achieving a politically-motivated version of sustainability, rather than on the processes by which the various stakeholders agree on what constitutes an acceptable form of engagement between the economy, the environment and society.

The failure of creating a market for biodiversity offsets is not a sign that such mechanisms are destined to failure. Lessons can and should be learned by all involved, and applied in comparable situations. The paper will now analyse one such situation, consisting of attempts to construct an inclusive economy through a set of mechanisms commonly described as social investment.
3. Constructing inclusive economies: Social investment

Social investment refers to ‘...the use of repayable finance to achieve a social as well as a financial return’ (Big Society Capital, 2015). This approach, predicated in the idea that financial mechanisms can be used to deliver ‘blended’ returns – public goods for society and financial returns for investors – is currently being promoted as a potential mechanism to address societal challenges (Big Society Capital, 2012). In this model, social enterprises and charities would be able to propose innovative ways to tackle social problems and access the funding to deliver them. Where these interventions proved successful, investors would receive a financial return, while society would benefit by a better provision of public goods. Areas where social investment has been suggested to have a role to play include reducing recidivism among prison population, delivering better health and education outcomes for disadvantaged communities, and financing local projects which would otherwise find it difficult to achieve investment (SITF, 2000, 2014b). The approach is best described as a mechanism to construct an inclusive economy.

The UK is a recognised world leader in the creation and development of markets for social investment (Cabinet Office, 2013; PWC, 2015; SITF, 2014a). Existing research has outlined the recent growth of this market, including substantial developments in the diversity of products available and types of social investor (Leather, Jugnauth, & Henry, 2015). Market growth has been supported strongly by (sub-)regional, national and international policy environments, a range of pioneer actors and intermediaries, growing favourable consumer sentiment and the launch of Big Society Capital (BSC), ‘the world’s first social investment bank’. Combining financial knowledge, substantial funds and political backing, BSC has been a fundamental driver of the
development of SI as a set of financial markets in the UK and, increasingly, globally as well (Ferreira, Henry, & Ferreira, 2015). This approach focuses on SI as an asset class for large institutional investors, directed at supporting social sector enterprises (Cabinet Office, 2011, 2014; SITF, 2000), to be evaluated in terms of risk and return.

Promoters of social investment approach foresee a number of roles for the mechanism. The first is to drive economic growth: social investment would support the growing social entrepreneurship sector, creating jobs in sectors of the population which traditionally find it difficult to enter the labour market (Cabinet Office, 2013). The second role is to address lack of efficacy in social interventions: by providing an appropriate financial infrastructure, social investment has the potential to incentivise the innovative provision of social goods (SITF, 2014b). Finally the UK Government’s Cabinet Office has identified social investment as a driver for public services reform, allowing private and charity providers to provide social goods in competition with traditional, state providers (Cabinet Office, 2013).

The prevalent understanding of social investment described is limited, and fits only with a specific model of investing to produce blended social and financial returns. This has led to it being challenged, at least from two angles: what qualifies as social investment; and what the objectives of social investment should be. In terms of what qualifies as social investment, Brown and Swersky (2012) proposed that social investment must consist of socially-motivated investment on socially-motivated organisations (Brown & Swersky, 2012). This effect of this nuanced definition of social investment is to focus on social investment in terms of the social impact it produces. While this definition suggests that social enterprises should be the targets of social
investment, it also signalled that, to qualify as ‘social’, investment must target social impact \textit{a priori}, and not as the eventual result of business-as-usual. Regardless of the variety of objectives of social investment suggested by the UK Cabinet Office, positive social outcomes cannot simply be added to a company's portfolio, but must be an integral part of its operation; rather than the outcomes, the idea focuses on the processes and intentions.

This focus on the processes was pushed forward, in particular by a group of social entrepreneurs dubbed Alternative Commission on Social Investment (Floyd, Gregory, & Wilson, 2015). This group suggested that social investment is defined \textit{both} by the motivation of the investor and the expected impact of the investee, any other considerations (Floyd et al., 2015, p. 23). This suggests that a number of impact-oriented organisations other than social enterprises should benefit from impact investment. Likewise, a number of impact-driven investors other than finance for the social sector can be categorised as impact investment, including philanthropists, charities and trusts, and commercial organisations, looking to achieve a positive impact (Floyd et al., 2015). As with the prospective social investees, social investors are characterised by their intentions, not their approach. An investor which focuses on the social return of its investment rather than its financial return is likely to be less interested in measurable outcomes alone, and more involved in the process by which they are achieved.

The development of social investment in the UK is currently in flux. The conflicting views of what constitutes legitimate social investment, who the appropriate investees are and who should count as a social investor must be negotiated amongst the stakeholders involved, in order to clarify what it is and what its uses are. The understanding of the concept seems to moving from
social investment as a part of an investor’s diverse portfolio, in which social goods are delivered by specialised social enterprises, into a paradigm in which it is the intentions of both investor and investee that define if an investment is ‘social’ or not. Rather than an add-on, the ‘social’ aspect becomes front and centre of all the stakeholders’ business decisions.

4. Beyond corporate responsibility: a research agenda

This article has addressed the question of how to construct sustainable and inclusive economies. The two cases briefly analysed – the creation of markets for biodiversity offsets, and the development of social investment – share a number of important issues in this regard. First, they consist of deliberate processes of creation of economic processes. They do not emerge from the normal operation of businesses, but are devised and developed by constellations of agents. These processes of designing alternative economies – or, to use Callon’s term, civilizing markets (Callon, 2009) – indicate the importance of analysing the ideas that preside over their creation. The impact of ideas, it should be noted, is not confined to the level of discourse; ideas guide agents’ actions, and are embodied in the technical devices by which the economies operate. Examples of how concepts underpin the construction of economic processes have been found in the economics (Callon, 1998, 2007; Garcia-Perpet, 2007; Svetlova, 2012), marketing (Araujo, 2007; Cochoy, 2008) and accounting (Ferreira, 2017; Miller, 1998; Vosselman, 2014). This performativity approach has the potential to illuminate the role and instruments of corporate social and environmental responsibility.
Second, the examples clearly demonstrate that the construction of alternative economies require that a wide variety of stakeholders come together: businesses, regulators, promoters, technical specialists and civil society all have roles to play in these processes. It should be noted that these roles are not limited to what would be analysed by stakeholder theory. The focus is not only on the objectives of the various groups, but on their actions and in how they relate. But stakeholders alone are not enough to construct sustainable and inclusive economies. Other non-human tools – such as regulation, tools for calculating important outcomes and digital technologies – have a role to play, and can influence the processes of constructing economies. The resulting agglomerate of human and non-human agencies is closer in nature to the concept of *assemblage*, which emphasises their complexity and the connections between the various entities involved. A research agenda on this topic should, consequently, focus on the fluid nature of the agencies creating sustainable and inclusive economies.

Third, scale cannot be forgotten. The examples discussed suggest that initiatives are often initiated as small and localised experiments, seeking to develop processes and best practices at a manageable scale before rolling them out. This corresponds to a focus on processes rather than outcomes: stakeholders seek to understand how to effect change with a lasting effect over time. It also encapsulates an understanding that economies are variegated (Ferreira, 2017), and that mechanisms which produce the desired outcomes in one place and time may fail to take root and produce effect in a different context. This does not necessarily mean that the construction of sustainable and inclusive economies is limited to the local scale; rather, there is a need to understand and develop ‘best practice’ which can be transposed to other settings. This might mean favouring adaptability over scalability, a proposition which is often difficult for business
managers. A research agenda on this topic would, consequently, focus on how agents develop local assemblages and adapt them to different circumstances. Such an agenda would very likely be comparative in nature, drawing on a case study approach. One example of this type of research is the ReSSI (Regional Strategies for Sustainable and Inclusive Economic Development), which seeks to understand how the Europe 2020 objectives of sustainable, inclusive and smart development in the European Union (EC, 2010) can be promoted across a series of territories and projects (ESPON & Coventry University, 2017b, 2017a).

As the social and environmental challenges to the role and operation of businesses multiply, it looks likely that the challenges to corporate activity become increasingly political. While there is a role for traditional corporate responsibility activities, it is increasingly apparent that CSR is not a panacea, that it cannot address all issues which societies face, and that the various stakeholders in society do not necessarily trust it at face value. In this context, it seems appropriate to look for alternative approaches of what social business might consist of. Rather than an add-on to corporate activity, responsibility is more effective when it is a natural aspect of the environment in which businesses operate. Such an environment can, and should be constructed. Businesses are a component of that construction, and it is in their interests to be a part of the process of building sustainable and inclusive economies, rather than become rule-takers.
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