Approaches to Global Sustainability, Markets, and Governance
Series Editors: David Crowther · Shahla Seifi

David Crowther
Shahla Seifi *Editors*

The Components of Sustainable Development

Engagement and Partnership

Springer

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Series Editors

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Approaches to Global Sustainability, Markets, and Governance takes a fresh and global approach to issues of corporate social responsibility, regulation, governance, and sustainability. It encompasses such issues as: environmental sustainability and managing the resources of the world; geopolitics and sustainability; global markets and their regulation; governance and the role of supranational bodies; sustainable production and resource acquisition; society and sustainability.

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Chapter 1
Developing Sustainability Through Collaborative Action

David Crowther and Shahla Seifi

Abstract Sustainability continues to be a concept which is at the forefront of popular discourse as well as of concern to businesses, governments and major international bodies. Often, it is used in ways which have different meanings and implications, so we argue that its use is based on the concepts of stewardship of all resources coupled with the traditional view of the transformational process of business. We further argue that this is problematic in the present global environment when stewardship of resources is becoming paramount. We therefore argue that sustainability is actually based on efficiency in the transformational process and equity in the distribution of effects. This requires international cooperation together with a need for standards in analysing and measuring sustainability, and we discuss the implications.

Keywords Sustainability · Sustainable development · Distribution · Stakeholders · Regulation

1.1 Introduction

One of the most used words relating to global activity at present is the word sustainability. Indeed, it can be argued that it is so heavily used that it has become overused, and with so many different meanings applied, to it that it is effectively meaningless. For example, according to van Marrewijk and Werre (2003), there is no specific definition of corporate sustainability, and each organisation needs to devise its own definition to suit its purpose and objectives, although they seem to assume that corporate sustainability and corporate social responsibility are synonymous and based on voluntary activity which includes environmental and social concern, implicitly thereby adopting the EU approach.

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Thus, the term sustainability currently has a high profile within the general approach to corporate endeavour. Indeed, it is frequently mentioned as central to corporate activity without any attempt to define exactly what sustainable activity entails. This is understandable as the concept is problematic and subject to many varying definitions—ranging from platitudes concerning sustainable development to the deep green concept of returning to the 'golden era' before industrialisation—although often it is used by corporations merely to signify that they intend to continue their existence into the future.

The ubiquity of the concept and the vagueness of its use mean that it is necessary to re-examine the concept and to consider what it really means and how it applies to corporate activity. Many people talk about *the triple bottom line* as if this is the panacea of corporate social responsibility and therefore inevitably concerned with sustainability. We regard it as self-evident that corporations need to be concerned with these three aspects of CSR and equally self-evident that all corporations are so concerned. What is more important is how the concept translates into actions and how this can be improved.

1.2 Sustainability

Sustainability implies that society must use no more of a resource than can be regenerated. This can be defined in terms of the carrying capacity of the ecosystem (Hawken 1993) and described with input–output models of resource consumption. Viewing an organisation as part of a wider social and economic system implies that these effects must be taken into account, not just for the measurement of costs and value created in the present but also for the future of the business itself. This approach to sustainability is based on the Gaia Theory (Lovelock 1979)—a model in which the whole of the ecosphere, and all living matter therein, is co-dependent upon its various facets and formed a complete system. According to this theory, this complete system and all components of the system are interdependent and equally necessary for maintaining the Earth as a planet capable of sustaining life.

Such concerns are pertinent equally at a macrolevel of society as a whole or at the level of the nation state but are equally relevant at the micro level of the individual organisation. At this level, measures of sustainability would consider the rate at which resources are consumed by the organisation in relation to the rate at which resources can be regenerated. Unsustainable operations can be accommodated for either by developing sustainable operations or by planning for a future lacking in resources currently required. In practice organisations mostly tend to aim towards less unsustainability by increasing efficiency in the way in which resources are utilised. An example would be an energy efficiency programme.

Sustainability is a controversial topic because it means different things to different people. Nevertheless, there is a growing realisation that we are involved in a battle about what sustainability means and the extent it can be delivered by nations and organisations in the easy manner they promise (United Nations Commission on

Environment and Development) (Schmidheiny 1992). There is a further confusion surrounding the concept of sustainability: for the purist, sustainability implies nothing more than stasis—the ability to continue in an unchanged manner—but often it is taken to imply development in a sustainable manner (Marsden 2000; Hart and Milstein 2003), and the terms sustainability and sustainable development are for many viewed as synonymous. As far as corporate sustainability is concerned, then the confusion is exacerbated by the fact that the term sustainable has been used in the management literature over the last 30 years (see, e.g., Reed and DeFillippi 1990) to merely imply continuity. Thus, Zwetsloot (2003) is able to conflate corporate social responsibility with the techniques of continuous improvement and innovation to imply that sustainability is thereby ensured.

An almost unquestioned assumption is that growth remains possible (Elliott 2005), and therefore, sustainability and sustainable development are synonymous. Indeed, the economic perspective of post-Cartesian ontologies predominates and growth is considered to be not just possible but also desirable (see, e.g., Spangenberg 2004). So it is possible therefore for Daly (1992) to argue that the economics of development is all that needs to be addressed and that this can be dealt with through the market by the clear separation of the three basic economic goals of efficient allocation, equitable distribution and sustainable scale. Hart (1997) goes further and regards the concept of sustainable development merely as a business opportunity, arguing that once a company identifies its environmental strategy, then opportunities for new products and services become apparent.

There seem therefore to be two commonly held assumptions which permeate the discourse of corporate sustainability. The first is that sustainability is synonymous with sustainable development. The second is that a sustainable company will exist merely by recognising environmental and social issues and incorporating them into its strategic planning. The problem is that both of these are based on an unquestioning acceptance of market economics predicated in the need for growth. While we do not necessarily reject such market economics, we argue that its acceptance has led to the assumptions about sustainability which have confused the debate. Thus, we consider it imperative at this point to reiterate the basic tenet of sustainability that sustainable activity is activity in which decisions made in the present do not restrict the choices available in future. If this tenet of sustainability is accepted, then it follows that development is neither a necessary nor desirable aspect of sustainability. Sustainable development may well be possible and even desirable in some circumstances, but it is not an integral aspect of sustainability.

A further point is that corporate sustainability is not necessarily continuing into the future with little change except to incorporate environmental and social issues—all firms are doing this in some way. Nor is corporate sustainability a term which is interchangeable with the term corporate social responsibility. And environmental sustainability—the context in which the term is generally used—is not the same as corporate sustainability.

Sustainability is a fashionable concept for corporations, and their reporting previously described as environmental reporting and then corporate social responsibility reporting is now often described as sustainability reporting (Aras and Crowther

2007). Corporate websites also tend to discuss sustainability. But it is apparent that sustainability and sustainable development are used as interchangeable terms. It is apparent therefore that a very powerful semiotic (Guiraud 1975; Kim 1996) of sustainable activity has been created conveniently as Fish (1989) shows that truth and belief are synonymous for all practical purposes. It has been argued elsewhere (Aras and Crowther 2008) that this is a deliberate ploy as one of the effects of persuading people that corporate activity is sustainable is that the cost of capital for the firm is reduced as investors are misled into thinking that the level of risk involved in their investment is lower than it actually is.

1.3 Sustainability and Stewardship

One view of good organisational performance is that of stewardship and thus just as the management of an organisation is concerned with the stewardship of the financial resources of the organisation so too would management of the organisation be concerned with the stewardship of environmental resources. The difference, however, is that environmental resources are mostly located externally to the organisation. Stewardship in this context therefore is concerned with the resources of society as well as the resources of the organisation. As far as stewardship of external environmental resources is concerned, then the central tenet of such stewardship is that of ensuring sustainability. Sustainability is focused on the future and is concerned with ensuring that the choices of resource utilisation in future are not constrained by decisions taken in the present. This necessarily implies such concepts as generating and utilising renewable resources, minimising pollution and using new techniques of manufacture and distribution. It also implies the acceptance of any costs involved in the present as an investment for the future.

Not only does such sustainable activity, however, impact upon society in future; it also impacts upon the organisation itself in future. Thus, good environmental performance by an organisation in the present is in reality an investment in future of the organisation itself. This is achieved through the ensuring of supplies and production techniques which will enable the organisation to operate in future in a similar way to its operations in the present and so to undertake value creation activity in future much as it does in the present. Financial management also, however, is concerned with the management of the organisation's resources in the present so that management will be possible in a value creation way in future. Thus, the internal management of the firm, from a financial perspective, and its external environmental management coincide in this common concern for management for the future. Good performance in the financial dimension leads to good future performance in the environmental dimension and vice versa. Thus, there is no dichotomy (Crowther 2002) between environmental performance and financial performance, and the two concepts conflate into one concern. This concern is of course the management of the future as far as the firm is concerned.[1] The role of social and environmental accounting and reporting and the role of financial accounting and reporting therefore can be seen to be coincidental. Thus, the work required needs to be concerned not with arguments about resource distribution but rather with the development of measures which truly reflect the activities of the organisation upon its environment. These techniques of measurement, and consequently of reporting, are a necessary precursor to the concern with the management for the future—and hence with sustainability.

Similarly, the creation of value within the organisation is followed by the distribution of value to the stakeholders of that firm, whether these stakeholders are shareholders or others. Value, however, must be taken in its widest definition to include more than economic value as it is possible that economic value can be created at the expense of other constituent components of welfare such as spiritual or emotional welfare.[2] This creation of value by the organisation adds to welfare for society at large, although this welfare is targeted at particular members of society rather than treating all as equals. This has led to arguments by Tinker (1988), Herremans et al. (1992) and Gray (1992), amongst others, concerning the distribution of value created and to whether value is created for one set of stakeholders at the expense of others. Nevertheless if, when summed, value is created, then this adds to welfare for society at large, however distributed. Similarly, good environmental performance leads to increased welfare for society at large, although this will tend to be expressed in emotional and community terms rather than being capable of being expressed in quantitative terms. This will be expressed in a feeling of wellbeing, which will of course lead to increased motivation. Such increased motivation will inevitably lead to increased productivity, some of which will benefit the organisations, and also a desire to maintain the pleasant environment which will in turn lead to a further enhanced environment, a further increase in welfare and the reduction of destructive aspects of societal engagement by individuals.

1.4 Distributional Conflicts

In binary opposition to shareholders, as far as value creation and distribution for an organisation are concerned, are all others interested in the performance of the organisation (Crowther 2000), who are generally homogeneously described as ‘the stakeholders’. This concept neatly distinguishes one stakeholder group, the shareholders or owners, from all others and enables the discourse to treat amorphously all other stakeholders. It is important to remember, however, that this amorphous mass contains very discrete groupings such as employees, customers, society at large and possibly most significantly the future (see Cooper 2000). This future can be broadly

[1] Financial reporting is of course premised upon the continuing of the company—the going concern principle.

[2] See, for example, Mishan (1967), Ormerod (1994) and Crowther et al. (1998). This can be equated to the concept of utility from the discourse of classical liberalism.

encapsulated in the concept of the environment. In this separation of stakeholders into two distinct groupings, a dialectic is created which establishes a violent hierarchy (Laclan 1990) between the two poles of a binary opposition by establishing the idea of a conflict of interests. The creation of this dialectic provides a legitimation for the privileging of shareholders over all other stakeholders, a task for which accounting is singularly well equipped.

At the same time, the creation of this dialectic implicitly creates two dimensions to the performance of an organisation—performance for shareholders and performance for other stakeholders, with an equally implicit assumption that maximising performance for one can only be at the expense of the other. It is in this way that a dialogue is created to consider which pole of the binarism should be dominant in the managing of corporate performance because one of the essential features of the violent hierarchy of poles established in this dialectic is that one must be privileged over the other.

The nature of the discourse regarding the measurement and evaluation of corporate performance has bifurcated in recent years with the adoption of different perspectives, and this has been reflected in the changing nature of corporate reporting. Thus, Beaver (1989) states that there has been a shift from an economic view of corporate performance measurement to an informational perspective with a recognition of the social implications of an organisation's activities. Similarly, Eccles (1991) states that there has been a shift from treating financial figures as the foundation of corporate performance measurement to treating them as part of a broader range of measures, while McDonald and Puxty (1979) maintain that companies are no longer the instruments of shareholders alone but exist within society and so have responsibilities to that society. Others (e.g. Roslender 1996) argue for a changed basis for accounting to reflect these changes.

This part of the discourse therefore seems to have moved away from the concerns of shareholders in the firm and away from the economic rationale for accounting and towards a consideration of the wider stakeholder environment. At the same time, however, these shareholder concerns cannot be ignored and another part of the discourse has seen a return to economic values in assessing the performance of the firm. Thus, Rappaport (1986) recognises some of the problems with accounting but goes on to consider the concept of shareholder value and how this can be created and sustained. He develops a methodology of shareholder value based on his previous work where he argues (1992) that a shareholder value approach is the correct way of evaluating alternative company strategies, stating that the ultimate test of a corporate plan is whether it creates value for the shareholders and that this is the sole method of evaluating performance.

This view of an organisation has, however, been extensively challenged by many writers (e.g. Herremans et al. 1992; Tinker 1985) who argue that the way to maximise performance for society at large is to both manage on behalf of all stakeholders and ensure that the value thereby created is not appropriated by the shareholders but is distributed to all stakeholders. Others such as Kay (1998) argue that this debate is sterile and that organisations maximise value creation not by a concern with either shareholders or stakeholders but by focusing upon the operational objectives of the firm and assuming that value creation and equitable distribution will thereby follow.

Adherents to each of these conflicting philosophies have a tendency to adopt different perspectives on the evaluation of performance. Thus, good performance for one school of thought is assumed to be poor performance for the others. Thus, performance maximising philosophies are polarised in the discourse, and this leads to a polarisation of performance reporting and the creation of the dialectic considered earlier. Almost unquestioned within the discourse, however, is the assumption that good performance from one aspect necessitates the sacrificing of performance from the other, despite the ensuing distributional conflicts being hidden within the discourse. Indeed, Kimberley et al. (1983) have argued that some areas of performance which are important to the future of the business are not even recognised let alone evaluated. It is argued in this paper that the future orientation of performance management necessitates the creation of value over the longer term for all stakeholders and moreover that this value creation must be manifest in the way in which the value created in the organisation is distributed among the various stakeholders. It is only in this way that the sustainability, and even the continuing temporal existence, of the organisation can be ensured.

It can be argued therefore that a clearer articulation of the needs of performance evaluation will not only facilitate a more meaningful evaluation of performance for all interested parties but will also lead to better performance for the organisation. This is not just because such an articulation of needs can be argued to lead to a reduction in tension within the organisational framework but also because it enables more clearly the identification of the factors which shape performance as far as meeting the objectives of the organisation is concerned, and the techniques of VBM[3] are designed for this purpose. It is further argued, however, that successful performance, in whatever terms deemed appropriate, is not just more likely to be achieved in this manner but also is more likely to be sustainable and so shapes long-term performance rather than the short-term performance of the organisation. The factors shaping performance in the long- and short-term are not necessarily the same, and the viewpoint and time horizon of the organisation are therefore important to its approach to measurement and evaluation. An examination of this time horizon and its relationship both to the organisation's evaluation systems and its performance, both projected and actualised, is important therefore to an understanding of the operating of the organisation.

Traditional accounting theory and practice assumes that value is created in the business through the transformation process and that distribution is merely concerned with how much of the resultant profit is given to the investors in the business now and how much is retained in order to generate future profits and hence future returns to investors. This is of course overly simplistic for a number of reasons. Even in traditional accounting theory, it is recognised that some of the retained profit is needed merely to replace worn out capital—and hence to ensure sustainability in its narrowest sense. Accounting of course only attempts to record actions taking place

[3]VBM = value-based management, a technique claimed to optimise decision-making for performance. See Cooper et al. (2001) for further details.

within this transformational process and even in doing so regards all costs as things leading to profit for distribution.

This traditional view of accounting is that the only activities with which the organisation should be concerned are those which take place within the organisation[4]; consequently, it is considered that these are the only activities for which a role for accounting exists. Here, therefore is located the essential dialectic of accounting—that some results of actions taken are significant and need to be recorded, while others are irrelevant and need to be ignored. This view of accounting places the organisation at the centre of its world and the only interfaces with the external world take place at the beginning and end of its value chain. It is apparent, however, that any actions which an organisation undertakes will have an effect not just upon itself but also upon the external environment within which that organisation resides. In considering the effect of the organisation upon its external environment, it must be recognised that this environment includes both the business environment in which the firm is operating, the local societal environment in which the organisation is located and the wider global environment.

The discourse of accounting can therefore be seen to be concerned solely with the operational performance of the organisation. Contrasting views of the role of accounting in the production process might therefore be epitomised as either providing a system of measurement to enable a reasonable market mediation in the resource allocation problem or as providing a mechanism for the expropriation of surplus value from the labour component of the transformational process. Both strands of the discourse, however, tend to view that labour as a homogeneous entity and consider the effect of organisational activity upon that entity. Labour is of course composed of individual people; moreover, these individual people have a lifetime of availability for employment and different needs at different points during their life cycle. The depersonalisation of people through the use of the term labour, however, provides a mechanism for the treatment of labour as an entity without any recognition of these personal needs. Thus, it is possible to restrict the discourse to that of the organisation and its components—labour capital, etc.—and to theorise accordingly. The use of the term labour is a convenient euphemism which disguises the fact that labour consists of people, while the treatment of people as a variable cost effectively commodities these people in the production process. In order to create value in the transformational process of an organisation, then commodities need to be used efficiently, and this efficient use of such commodities is measured through the accounting of the organisation. When this commodity consists of people, then this implies using them in such a way that the maximum surplus value can be extracted from them. The way in which this can be achieved is through the employment of young fit people who can work hard and then be replaced by more young fit people. In this way, surplus value (in Marxian terms) can be transferred from the future of the person and extracted in the present. As people have been constituted as a commodified variable cost, then they become merely a factor of production which can be exchanged for another factor of

[4]Essentially, the only purpose of traditional accounting is to record the effects of actions upon the organisation itself.

production, as the costs determined through the use of accounting legitimate. Thus, it is reasonable, through an accounting analysis, to replace people with machinery if more value (profit) can be extracted in doing so, and this has provided the imperative for the industrial revolution which has continued up until the present. Accounting is only concerned with the effect of the actions of an organisation upon itself, and so, the effect of mechanisation upon people need not be taken into account. Thus, if mechanisation results in people becoming unemployed (or possibly unemployable), then this is of no concern—except to the people themselves.

1.5 Developing a Full Discourse of Sustainability

In this chapter, we have sought to show that there are two discourses concerning corporate sustainability which are operating in parallel with each other. One is predicated in the environmental sustainability discourse which is epitomised by such work as Jacobs (1991), Welford (1997) and Gray and Bebbington (2001). The second is predicated in the going concern principle of accounting as epitomised by the corporate reporting described earlier. Essentially this, however, is an acceptance of the traditional model of the transformational process with more effects recorded. Our argument is that this does not actually lead to corporate sustainability without a consideration of the distributional impact of the corporate activity. Thus, in this view, none of the stakeholders are merely factors of production but are also affected by and hence concerned with the results of corporate activity, as described through the transformational process.

This is essentially a balancing model of corporate activity. In other words, we are stating, for example, that the conventional view of sustainability in terms of either use no more of a resource than can be regenerated or not limiting the choices of future generations—in other words stasis (Aras and Crowther 2007)—is neither a realistic nor an ethical model of sustainability. An ethical view of sustainability, predicated in a Utilitarian philosophy, would allow actions, as long as full evaluation of the consequences is made and as long as all stakeholders understand and accept the implications. Then, it would be ethical behaviour if the net effect of summation of effects was positive. Thus, it could be acceptable to affect the environment and hence the possibilities for future generations if this condition was met. In this model, we are not arguing for or against sustainable development (as others do) but merely acknowledging that it may be possible and outlining the circumstances in which it is acceptable.

1.6 The Regulation of Social Responsibility

The European Union, through its Commission, has concentrated on the enaction of corporate social responsibility (CSR) as an expression of European cohesion. Thus, the *Green Paper—Promoting a European framework for Corporate Social Respon-*

sibility (EC 2001) and the *Corporate Social Responsibility: A business contribution to Sustainable Development* (EC 2002) defined the pressure from the European institutions so that corporations were reminded of their responsibilities to their various stakeholders, both internal and external. The first document (EC 2001: 8) described CSR as:

> … a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

The essential point is that compliance is voluntary rather than mandatory, and this voluntary approach to CSR expresses the reality of enterprises in beginning to take responsibility for their true social impact and recognises the existence of a larger pressure exercised by various stakeholder groupings in addition to the traditional ones of shareholders and investors (Aras and Crowther 2008). Moreover, it reflects the different traditions of business and differing stages of development throughout the Community.

Although this definition places an emphasis on such activity being voluntary, the implication is that the EC will not be involved in any form of regulation and that the expectation is that companies will engage in socially responsible activity in excess of any regulatory requirements. Despite phrased to place an expectation upon companies, this statement is in reality a clear abdication of any responsibility on the part of the EC.[5] Such abdication is in accordance with the action (or lack thereof) of other governments and is predicated in an assumption that the market will enable such socially responsible activity.[6]

According to the European Commission, therefore it is about undertaking voluntary activity which demonstrates a concern for stakeholders. But it is here that a firm runs into problems—how to balance up the conflicting needs and expectations of various stakeholder groups while still being concerned with shareholders; how to practice sustainability; how to report this activity to those interested; how to decide if one activity is more socially responsible than another. The situation is complex and conflicting. So here the intention is to consider both what is meant by CSR and what we know about the relationship between CSR and financial performance.

Nevertheless, steps have been taken by interested parties to change this voluntary approach and to develop some kind of standards for reporting, but they have not been adopted by governments to become enshrined into standards. Thus, in 1999, the Institute of Social and Ethical Accountability (the Institute of Social and

[5]Conversely, as Ortiz-Martinez (2004) points out in a country such as Spain, then some kind of information about socially responsible corporate behaviour is required to be shown on the corporate website. In this respect, there is not a universal consensus among government organs, at least as far as the EU is concerned.

[6]Of course, it is possible to argue that such things as International Financial Reporting Standards (IFRS) and such bodies as the International Accounting Standards Board (IASB) are effectively government endorsed regulations as they are supported by governments around the world and compliance is required by national and global corporations. Although this is a valid claim, it must also be recognised that their enforcement is policed by organisations such as Arthur Andersen and that corporations such as Enron would be deemed to be in compliance, one of the problems causing a lack of faith in both financial markets and corporate behaviour.

Ethical Accountability is probably better known as AccountAbility) published the AA1000 Assurance Standard with the aim of fostering greater transparency in corporate reporting. AccountAbility, an international, not-for-profit, professional institute has launched the world's first-ever assurance standard for social and sustainability reporting. The AA1000 framework (http://www.accountability.org.uk) is designed to improve accountability and performance by learning through stakeholder engagement. It was developed to address the need for organisations to integrate their stakeholder engagement processes into daily activities. It has been used worldwide by leading businesses, non-profit organisations and public bodies. The framework is designed to help users to establish a systematic stakeholder engagement process that generates the indicators, targets and reporting systems needed to ensure its effectiveness in overall organisational performance. The principle underpinning AA1000 is inclusivity. The building blocks of the process framework are planning, accounting and auditing and reporting. It does not prescribe what should be reported on but rather the 'how'.

According to AccountAbility, the AA1000 Assurance Standard is the first initiative offering a non-proprietary, open-source assurance standard covering the full range of an organisation's disclosure and associated performance (i.e. sustainability reporting and performance). It draws from and builds on mainstream financial, environmental and quality-related assurance and integrates key learning with the emerging practice of sustainability management and accountability, as well as associated reporting and assurance practices.

At the similar time, the Global Reporting Initiative (GRI) produced its Sustainability Reporting Guidelines have been developed through multi-stakeholder dialogue. The guidelines are claimed to be closely aligned to AA1000, but focus on a specific part of the social and environmental accounting and reporting process, namely reporting. The GRI aims to cover a full range of economic issues, although these are currently at different stages of development. The GRI is an initiative that develops and disseminates voluntary Sustainability Reporting Guidelines. These guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. Although originally started by an NGO, GRI has become accepted as a leading model for how social environmental and economic reporting should take place. It aims to provide a framework that allows comparability between different companies' reports whilst being sufficiently flexible to reflect the different impacts of different business sectors.

The GRI aims to develop and disseminate globally applicable Sustainability Reporting Guidelines. These guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organisations from around the world. Started in 1997, GRI became independent in 2002 and is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact. The guidelines are under continual development and have become the popular framework for reporting, on a voluntary basis, for several hundred organisations, mostly for-profit corporations. It claims to be the result of a permanent interaction with many people that supposedly represents a wide variety of stakeholders relative to the impact of the activity of business around the world.

GRI and AA1000 provide a set of tools to help organisations manage, measure and communicate their overall sustainability performance: social, environmental and economic. Together, they draw on a wide range of stakeholders and interests to increase the legitimacy of decision-making and improve performance. Individually, each initiative supports the application of the other—at least this is the claim of both organisations concerned; AA1000 provides a rigorous process of stakeholder engagement in support of sustainable development, while GRI provides globally applicable guidelines for reporting on sustainable development that stresses stakeholder engagement in both its development and content.

Good governance is essential for good corporate performance (Aras and Crowther 2008), and one view of good corporate performance is that of stewardship. Stewardship in this context is concerned with the resources of society as well as the resources of the organisation. As far as stewardship of external environmental resources is concerned, then the central tenet of such stewardship is that of ensuring sustainability. Sustainability is focused on the future and is concerned with ensuring that the choices of resource utilisation in future are not constrained by decisions taken in the present (Aras and Crowther 2007). This necessarily implies such concepts as generating and utilising renewable resources, minimising pollution and using new techniques of manufacture and distribution. It also implies the acceptance of any costs involved in the present as an investment for the future. Good governance requires some form of regulatory oversight, and this becomes problematic in the global economy because international agreements are required. It also conflicts with the expectations of the free market.

1.7 The Free Market System

The free market system is of course based on the philosophy of Utilitarianism, which was a development of Classical Liberal Theory. This theory started to be developed in the seventeenth century by such writers as John Locke as a means of explaining how society operated, and should operate, in an era in which the Divine Right of Kings to rule and to run society for their own benefit had been challenged and was generally considered to be inappropriate for the society which then existed. Classical Liberalism is founded upon the two principles of reason and rationality: reason in that everything had a logic which could be understood and agreed with by all, and rationality in that every decision made was made by a person in the light of what their evaluation had shown them to be for their greatest benefit. Classical Liberalism therefore is centred upon the individual, who is assumed to be rational and would make rational decision, and is based on the need to give freedom to every individual to pursue his/her own ends. It is therefore a philosophy of the pursuance of self-interest. Society, insofar as it existed and was considered to be needed, was therefore merely an aggregation of these individual self-interests. This aggregation was considered to be a sufficient explanation for the need for society. Indeed, Locke argued that the whole purpose of society was to protect the rights of each individual and to safeguard these private rights.

There is, however, a problem with this allowing of every individual the complete freedom to follow his/her own ends and to maximise his/her own welfare. This problem is that in some circumstances this welfare can only be created at the expense of other individuals. It is through this conflict between the rights and freedoms of individuals that problems occur in society. It is for this reason therefore that de Tocqueville argued that there was a necessary function for government within society. He argued that the function of government therefore was the regulation of individual transactions so as to safeguard the rights of all individuals as far as possible.

Although this philosophy of individual freedom was developed as the philosophy of Liberalism, it can be seen that this philosophy has been adopted by the conservative governments throughout the world, as led by the UK government of Thatcher and the US government of Reagan in the 1980s. This philosophy has led increasingly to the reduction of state involvement in society and the giving of freedom to individuals to pursue their own ends, with regulation providing a mediating mechanism where deemed necessary. It will be apparent, however, that there is a further problem with Liberalism and this is that the mediation of rights between different individuals only works satisfactorily when the power of individuals is roughly equal. Plainly, this situation never arises between all individuals, and this is the cause of one of the problems with society.

While this philosophy of Liberalism was developed to explain the position of individuals in society and the need for government and regulation of that society, the philosophy applies equally to organisations. Indeed, Liberalism considers that organisations arise within society as a mechanism whereby individuals can pursue their individual self-interests more effectively than they can alone. Thus, firms exist because it is a more efficient means of individuals maximising their self-interests through collaboration than is possible through each individual acting alone. This argument provides the basis for the theory of the firm, which argues that through this combination between individuals the costs of individual transactions are thereby reduced.

The concept of Utilitarianism was developed as an extension of Liberalism in order to account for the need to regulate society in terms of each individual pursuing, independently, his or her own ends. It was developed by people such as Bentham and John Stuart Mill who defined the optimal position for society as being the greatest good of the greatest number and argued that it was government's role to mediate between individuals to ensure this societal end. In Utilitarianism, it is not actions which are deemed to be good or bad but merely outcomes. Thus, any means of securing a desired outcome was deemed to be acceptable, and if the same outcomes ensued, then there was no difference, in value terms, between different means of securing those outcomes. Thus, actions are value neutral and only outcomes matter. This is of course problematical when the actions of firms are concerned because firms only consider outcomes from the point of view of the firm itself. Indeed, accounting as we know only captures the actions of a firm insofar as they affect the firm itself and ignores other consequences of the actions of a firm. Under Utilitarianism, however, if the outcomes for the firm were considered to be desirable, then any means of achieving these outcomes was considered acceptable. In the nineteenth and early twentieth centuries, this was the way in which firms were managed and accounting information was used purely to evaluate actions and potential actions from the point of view of the firm itself. It is only in more recent times that it has become accepted that all the outcomes from the actions of the firm are important and need to be taken into account.

The development of Utilitarianism led to the development of economic theory as means of explaining the actions of firms. Indeed, the concept of perfect competition is predicated in the assumptions of Classical Liberal Theory. This is a problem because it encourages selfish and exploitative behaviour. So we can either believe that the market will mediate in an optimal way—which is complete nonsense—or we can suggest that ethical understanding will compensate—also nonsense. Or we must look for an alternative.

1.8 Regulation and Globalisation

All systems of governance are concerned primarily with managing the governing of associations and therefore with political authority, institutions and, ultimately, control. Governance in this particular sense denotes formal political institutions that aim to coordinate and control interdependent social relations and that have the ability to enforce decisions. Increasingly however, in a globalised world, the concept of governance is being used to describe the regulation of interdependent relations in the absence of overarching political authority, such as in the international system (Rajan 2008). Thus, global governance can be considered as the management of global processes in the absence of form of global government. There are some international bodies which seek to address these issues and prominent among these are the United Nations and the World Trade Organization. Each of these has met with mixed success in instituting some form of governance in international relations, but they are part of a recognition of the problem and an attempt to address worldwide problems that go beyond the capacity of individual states to solve (Rosenau 1999).

To use the term global governance is not of course to imply that such a system actually exists, let alone to consider the effectiveness of its operations. It is merely to recognise that in this increasingly globalised world, there is a need for some form of governance to deal with multinational and global issues. The term global governance therefore is a descriptive term, recognising the issue and referring to concrete cooperative problem-solving arrangements. These may be formal, taking the shape of laws or formally constituted institutions to manage collective affairs by a variety of actors—including states, intergovernmental organisations, non-governmental organisations (NGOs), other civil society actors, private sector organisations, pressure groups and individuals. The system also includes of course informal (as in the case of practices or guidelines) or temporary units (as in the case of coalitions). Thus, global governance can be considered to be the complex of formal and informal institutions, mechanisms, relationships, and processes between and among states, markets, citizens and organisations, both inter- and non-governmental, through which collective interests on the global plane are articulated, rights and obligations are established, and differences are mediated (Tobin 2000).

Global governance is not of course the same thing as world government: indeed, it can be argued that such a system would not actually be necessary if there was such a thing as a world government. Currently, however, the various state governments have a legitimate monopoly on the use of force—on the power of enforcement. Global governance therefore refers to the political interaction that is required to solve problems that affect more than one state or region when there is no power of enforcing compliance. Improved global problem-solving need not of course require the establishment of more powerful formal global institutions, but it would involve the creation of a consensus on norms and practices to be applied. Steps are of course underway to establish these norms, and one example that is currently being established is the creation and improvement of global accountability mechanisms. In this respect, for example, the United Nations Global Compact[7]—described as the world's largest voluntary corporate responsibility initiative—brings together companies, national and international agencies, trades unions and other labour organisations and various organs of civil society in order to support universal environmental protection, human rights and social principles. Participation is entirely voluntary, and there is no enforcement of the principles by an outside regulatory body. Companies adhere to these practices both because they make economic sense, and because their stakeholders, including their shareholders (most individuals and institutional investors), are concerned with these issues, and this provides a mechanism whereby they can monitor the compliance of companies easily. Mechanisms such as the Global Compact can improve the ability of individuals and local communities to hold companies accountable.

1.9 Conclusion

Sustainability is an important concept—indeed, many would argue that it is vital to the future of human activity on this planet. It is important to understand the implications of seeking and achieving sustainability, and there are many views on this. Naturally, a definitive view can only be arrived at through consensus, and collaboration is essential to achieving this. Equally, discourse is essential to this end. Equally, there are a multitude of aspects to sustainability which will be prioritised differently by different nations, organisations and individuals. The contributions to this volume might seem disparate, but they all represent views which seek towards that consensual view of sustainability and all start from the premise that achieving sustainability is

[7] See www.unglobalcompact.org.