Strategic Sustainability Mindsets: Throwing off the Yoke of Neo-classical Economics*

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The current situation on sustainability...

• The role of business... business is seen both as a villain and the institution with the potential to address the sustainability problem.

• High level corporate surveys show increased concern and perceived importance of sustainability (e.g. Kiron et al, 2017)

• Macro level indicators show that the progress is insufficient (IPCC, 2018; Randers et al 2018; Kiron et al. 2017)
Why are we *not* making sufficient progress on sustainability?

- The business case is the most commonly used argument for the adoption of sustainability
- The business case preserves the status quo by implicitly making the adoption of sustainability contingent on financial results
- The business case tends to emphasize resource efficiencies; managers would adopt appropriate efficiency measures *irrespective* of the benefits for sustainability.
- The business case results in *weak sustainability*; all definitions of sustainability focus on the needs of current and future generations; this is only possible with *strong sustainability* which calls for the preservation of ecosystems that make life on earth possible.
- Sustainability is a planetary and societal level phenomenon. By focusing on the corporate level, the scope of sustainability is limited and could be counter-productive.

Why are we *not* making sufficient progress on sustainability? (Continued)

The Foundation: Neo-classical Economic Assumptions

*Narrow short-term self-interest & shareholder primacy*

What if we did away with this foundation? It is the basis of the tensions!
The neo-classical perspective constrains and limits sustainability strategies.
Countering the foundational assumptions...

• Self-interest...
  • Donaldson and Walsh (2015) called for the preservation of the dignity of *all participants* in their new theory of business

• Maximization of shareholder wealth...
  • Friedman (1970) advocated for the pursuit of increased profits through open competition *without deception or fraud*.
  • Jensen (2001) argued that social welfare is maximized *after firms account for externalities*

*These guardrails and qualifiers are ignored in the current real world manifestations of the role of business in society*
Resolving Tensions in Managing Sustainability

• The literature discusses 4 ways to resolve tensions (Hahn et al. 2015; Vanders Byl and Slawinski, 2015)
  • Trade-off between sustainability and financial outcomes; trade one for the other
  • Win-Win—find ways to achieve both simultaneously; usually with a focus on resource efficiencies
  • Integration—find a balance; give equal importance to financial and sustainable outcomes
  • Paradox—no clear way to resolve; constant managerial juggling act on a case-by-case basis

• Missing in the tensions literature... perhaps the most common ways the perceived tensions are managed
  • Hypocrisy... lack of consistency between talk, decisions and action to manage the demands of competing stakeholders (Brunsson, 2007)
  • Greenwashing... simply lying about sustainability
Impacts of the Yoke...

• Sustainability strategies constrained by tensions will only result in partial approaches...

• *Claims of sustainability driven by partial approaches are, very simply, a myth.*

• We must be clear... *any* negative externalities means that the firm is not accounting for all its costs and its reported financial performance is suspect... *this is deception and fraud!*

• *Through its emphasis on self-interest and shareholder primacy, managerial attention is focused on the firm level of analysis rather than the societal and planetary levels*
The neo-classical perspective constrains and limits Sustainability strategies.
Getting Sustainability right...

• Adopting a mindset at the right level of analysis... Planetary & Societal levels;
Getting Sustainability right...

• Bring responsibility\(^1\) at the firm level to...

Sustainability at the planetary and societal levels

\(^1\)We take a comprehensive view of responsibility; the elimination or 100% mitigation of all harms; zero negative externalities
Getting Sustainability right... zooming out

• The effect of zooming out (Schad & Bansal, 2018) using spatial, temporal and moral lenses will bring societal and planetary needs into focus.

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Getting Sustainability right...

• True Sustainability will only happen when firms define their purpose based on the needs of humanity and the planet for current and future generations (Dyllick and Muff, 2015)

• Firms need to shift their focus to a broader responsibility mindset

• The needs of future generations will only be served if we preserve the ecosystems that make life on earth possible—Strong rather than Weak Sustainability
Conclusions

• The neo-classical economic perspective dominates business philosophy

• Clinging to the neo-classical economic perspective gives rise to the perception of tensions

• The perception of tensions leads to limited and partial approaches to sustainability. Planetary and societal needs become secondary under this perspective. It makes corporate sustainability a myth.

• Eliminating the neo-classical economic perspective will rid us of the tyranny of tensions and free business leaders to focus on true sustainability
Imagine...

• How would the elimination of the Neo-classical economic perspective impact corporations? What would the future company look like?
• How would the elimination of the Neo-classical economic perspective change society and the prospects for current and future generations?
• How would the elimination of the Neo-classical economic perspective change the prospects for the planet?
Thank you for listening!
We welcome your comments and suggestions
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References


