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SUSTAINABILITY

ARCS Statement on Business Leadership & Climate Change

by Tom Lyon

Corporations can lead the way in finding sustainable solutions to the climate crisis. But they must operate with awareness and urgency. The Alliance for Research on Corporate Sustainability (ARCS) is a partnership among academic institutions created to facilitate research on corporate sustainability.

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Background

Centuries after industrialization, corporations are often seen as the culprits behind environmental degradation. But it has become clear that corporations can also lead the way in finding sustainable solutions to the climate crisis. In order to promote better environmental outcomes, all organizations must develop greater awareness and urgency - it is essential to find reliable sources of information on the efficacy of new environmental policies and business practices. The most informed business decisions have a strong basis in academic research.

The **Alliance for Research on Corporate Sustainability (ARCS)** is a partnership among academic institutions created to provide data and networking opportunities to facilitate research on corporate sustainability. As environmental issues have grown in complexity and scope, there is growing recognition that to gain ground on our most pressing environmental issues will require the proactive engagement and leadership of the business sector. ARCS helps develop greater understanding of the opportunities and limits of policies and strategies to create sustainable businesses by facilitating rigorous academic research.

ARCS was launched in January 2009, by a consortium of institutions at leading universities: Dartmouth College, Duke University, Harvard University, University of Michigan, University of Virginia, and University of Western Ontario.

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ARCS Statement

As business scholars, we feel compelled to counter two assertions about business and climate change, and to call for a new vision for what it means to be a sustainable business.

The first false claim that has been made is that the overall **social cost** of responding to climate change will exceed the benefit. In fact, responding to a **market externality, such as that caused by climate change**, makes an economy more efficient, not less so. Thus, well-designed regulation of greenhouse gases will make society richer, not poorer. Moreover, empirical research on past environmental regulations reveals that forecasts of **cost estimates are usually inflated**. Businesses have prodigious capacities for finding ways to protect the environment while minimizing costs. In a few cases, meeting regulatory requirements has even proven to be profitable.

Yet as business scholars, we also know the **limits to what business can accomplish on its own**. Excessive hope in the power of business has led to a second false claim â€“ that the profit motive alone will solve our climate problems. Well-advertised claims of voluntary action have encouraged some incautious experts to postulate that climate change can be solved without government involvement. But this is the second false claim we wish to dispel. Sustainability is a property of whole systems, not of their individual parts, just as life is a property of whole beings, not of their individual organs. Thus the old vision of a "sustainable business" must change. Voluntary solutions to collective problems suffer from **free riding**, allowing dirty and inefficient firms to avoid taking meaningful action while pretending to be green. Proactive voluntary improvements in performance are not, and cannot be, sufficient.

Firms that wish to be sustainable must act both as stewards of their own operations, and as **advocates for rules that support system-wide sustainable action**. It seems self-evident that businesses taking voluntary measures to reduce their contribution to climate change cannot be called "sustainable" if those actions are coupled with efforts to impede government regulation that seek to achieve this aim more holistically. We have moved past a time when firms must "walk their talk"; now they must also "run for regulation". Any business leader who wishes to claim the mantle of environmental leader must advocate for control of GHGs, such as a carbon tax or cap-and-trade system. Economists have long advocated for a universal price on carbon. Now, business leaders must join them.

Business leaders can push for new rules at a number of levels of government. Federal regulation can be important, but **political roadblocks may impede change**. In the US, for example, rule changes at the city, state and regional level have had the **most impact** in recent years. A total of 29 states have Renewable Portfolio Standards for their electric utilities, which require a minimum percentage of renewable energy, and another eight have renewable energy goals; the Regional Greenhouse Gas Initiative commits the Northeastern states to reduce GHG emissions, as does California; and many cities have programs to support building energy efficiency or offer public charging stations for electric vehicles. Thus, even if government action is forestalled at the federal level in the U.S., business leaders have numerous avenues in which to press for change.

The time for decisive action has come, as delay will necessitate more costly and disruptive action. Sustainable firms can no longer limit their efforts to improvements in their own operations. Now they need to take the lead in forming, championing, and implementing rules that will encourage all firms to be sustainable.

Tom Lyon

Tom Lyon is the President of the Alliance for Research on Corporate Sustainability. He and Professor Delmas received funding from the Borchard Foundation that supported research on corporate political responsibility.