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Towards a sustainable European business model?

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The invention of a "sustainable, accountable business model" in Europe is now establishing a new kind of reality in the world economic landscape. It should be encouraged so that it becomes a decisive pillar in the European contribution to solving future challenges.

The extremely progressive integration of responsibility and sustainability into governance and business projects in Europe is opening the way for a model that is committed to society. Even though it is still in the minority, this model is taking hold in the EU, which has encouraged it via several fundamental measures (extra-financial reporting, responsible investment, respect of fundamental rights). It may lead to "an exemplary European model" within capitalism and globalisation, whose poor regulation is leading to an increase in systemic challenges in the world.

1. RECONCILING EUROPEAN VALUES AND A MUTUAL DESTINY WITH THE PLANET

Europe is heading a new, still small, yet powerful movement that is trying to reconcile its values with a mutual destiny with the planet.

At the heart of a triumphant market economy, typified to date by mercantile, cynical headlong behaviour, a deep-rooted trend is now emerging across the continent of Europe, notably amongst family-owned businesses: the emancipation of the management model focused solely on the shareholder and the market towards "a social economy", that is able to assume collective challenges at the centre of a quest for mid and long-term results.

Just a few years ago, the reality of a European entrepreneurial path was not evident, such was the intersection of our industry with that of the USA. In the 2000's the question of global warming, and more generally, the management of available resources, the analysis of the 2008 financial crisis together with concern about managing the outsourcing of production led European businesses to commit in a pro-active, earnest manner to the correction of the negative effects of globalisation.

After a long decade of responsible changes introduced into governance by German, French, Dutch and Scandinavian leaders in particular, results are now emerging: a distinct managerial model is taking shape around notions of social engagement, increased transparency, cooperation with civil society and a quest for an energy saving, low carbon mode of operation that is attentive to human and social rights and which no longer cares for buying at the lowest price or which deems corruption as a normal process. Europe's leaders are now starting to accept this responsible model as they understand that the prospects of "green" and more "sustainable capitalism" have to follow this route.

However, this development is still fragile, prey to international competition that can make it inopportune; it does however seem naive in a context that does not really foster it – except by enlightened investors – because this is not the trend of the global economic game, stimulated by opportunism on the part of emerging stakeholders and the resistance of those already established, who want to see the old model last, fuelled by fossil energy, the blind use of resources, tax evasion and opaque markets.

The question of the "entrepreneurial model" and its regulatory framework has become a vital geopolitical issue which is challenging the WTO's doctrine.

There are two reasons why half a century of trade based on the liberalisation of tariffs is being challenged. The first comes from the fact that never has the political weight of a country depended as much on the strength of its businesses since the USA turned the GAFA into their leading tool of influence and that all States launched their businesses into the trade war, with China in the lead. The other reason is that, via the frameworks imposed on the export companies, social and environmental progress, which the economies of "the north" would like to see implemented everywhere spreads - or not - whilst international law remains terribly lacking in this area. The need to lead the battle of sustainable development, by and with businesses, is the key in the competition between the two models, the old and the new, which is now clearly ongoing between the US, who are opting for fossil fuels and the short term, China which wants to reconcile outsourcing and dumping, the new emerging economies which get swept away in corruption and windfalls, and Europe which is re-inventing the rules of the game, without its actors supporting or believing in it enough. And yet it is at this point that the challenge of our political and economic interests converges.

2. THE BUSINESS MODEL: A WAGER ON THE NECESSARY AGENDA

The business model has not been part of the European political agenda to date. We have negotiated trade regimes with standards and tariff options on the borders for products, but never have we been concerned about the "acceptability" of the actors, i.e. businesses that are not governed by any framework establishing true international group responsibility. It has only been in the last 20 years that concepts of extra-financial performance and the dimensions of business sustainability and responsibility have come out of the shadows in response to the general impunity of groups at world level. More attentive than others to the territorial impact of their investments European businesses were the first to support the OECD's principles and the voluntary standards of "responsible business conduct", which are a bid to "organise" sectors, whether this involves infrastructures (Equator Principles -EP), palm oil (Roadmap Towards Sustainable Palm Oil - RSPO) or diamonds (Kimberley Process). Based on this we should consider that "European-style management" is emerging and that it is growing thanks to standards and recommendations, reporting, purchases, communication and responsible lobbying etc.

Will this movement go as far as the formation of a sufficiently structured management model that will be distinct? And will it be attractive enough to participate in building European identity?

If it passes from large companies to mid-caps and into the average economic fabric, the ongoing change may contribute to the European approach to social relations and also "relations with the world", the management of natural resources, the rules of the trade game, the way production is designed and economic consumption, thereby becoming a part of the prospect of sustainable development to inspire a world model. Defining this framework must become a part of the European political project, especially since it involves strengthening European influence over the development of world economic regulation. It also involves expressing a positive vision of civil relations through business – the goal relentlessly sought after for two centuries and marked by conflicts between the company, its workers, people living nearby and even its shareholders, who make up a major part of our recent economic and social history!

3. EUROPE-STYLE MANAGEMENT

But is "Europe-style" management, which is taking shape via the sustainable commitments made by its companies, able to make its mark in the regulation that is expected of globalisation?

Of course, "Europe-style management" is not yet firmly established and in view of what originally typified it: blindly following Harvard, Yale, or Berkeley designed methods and know-how to date, and unquestioningly applied during the "Glorious Thirty". The emergence of the sustainable European economic model, under the pressure of vital ecological and social requirements of the moment, is proving to be an opportunity to be grasped by businesses to make themselves attractive in general and to acquire a distinctive personality, resulting in greater efficient that is not just for the benefit of the shareholder, but open to collective questions: consideration of stakeholders in the decision making process, independence from carbon, protection of rare resources, waste reduction, eco-design and circular economy, but also the respect of international social conventions, notably union freedom, employee health, loyalty in institutional relations, and work with society and public authorities to help solve collective issues. Hence, we are clearly moving away from the self-centred model with the single "take the money and run" tagline.

It was not until the 1990's that we became aware of the first warnings of climate change, of the challenge to trade multilateralism and of the capacities of new players (Chinese, Indian, Brazilian etc.) who wanted to challenge American industrial leadership. "Business" took all it could in this easy period, but it did not succeed in "thinking up a new world" however.

The failure of "self-regulation" legitimised the emergence of a decisive societal counterbalance, thereby cutting the world of business in two.

There are pioneering entrepreneurs who focus on "social power" and conservatives who deny, or counter it. Sustainable development at world political level and corporate social responsibility (CSR) at micro-economic level were born of this fracture; this is leading to a business/society alliance, that has become key in a new market dynamic in line with the most progressive western values and an improved, shared vision of a planet that is confronted with its limits and suffering.

This challenge is leading to the embrace of these famous social externalities, which were noted by economists as early as the 1920's, (Pigou) and now the focus of work by certain Nobel Prize winners (Phells, Tirole) on market regulation. The conciliation between the creation of value and the management of common goods has become a fundamental concern, which is leading to the introduction of vital corrective taxation. In this new "sustainable" economy, we do not produce or consume wastefully, we do not design products without thinking of the end of their life; employees, clients, citizens are invited to share this collective sobriety, leading to a fairer distribution of value, wherever one might be in the world. But this is still an ideal given the dominant and majority context of a world market economy that wastes 50% of resources and which, as far as the major American companies are concerned – gain acceptance thanks to massive philanthropy, and avoid having to challenge lucrative, unequal, if not unfair models.

The main NGOs, the pioneering measures and the regulatory initiatives shifted from the US to Europe at the start of the 21st century.

A new way of thinking "business in society" is spreading rapidly, notably in the way young people imagine things. This cultural change has legitimised a normative trend which in two decades has produced "a different responsible management" organised according to basic references (the ISO 26000 standard [1], main OECD principles, the UN's Global Compact [2], GRI [3], etc.), and which has developed a structure via complementary information in so-called "extra-financial" results, making it possible to gauge reality and the progress of the major companies' social impact. The European directive 95/2014 [4] confirmed this progress in the display of the global value as an approach to true entrepreneurial success.

This development goes hand in hand with a demand for transparency on the part of investors, notably the so-called responsible investors (SRI, ESG) who are common in Europe, notably amongst the institutional funds; this allows increasing space for vulnerable populations in the company, for cultural diversity, increased female governance, to ethical behaviour along the entire value chain, in line with an "inclusive vision" of growth thereby taking over from the Welfare State. In this approach the territory is no longer "a trade counter" but a development partner to take into consideration long-term. This dynamic allows for hope that measures in support of tax transparency, of the generalisation of due diligence and overall group responsibility will be part of European short-term "hard law", even if their introduction should not be taken for granted and would

1. https://www.iso.org/fr/iso-26000-social-responsibility.html
2. https://www.unglobalcompact.org/
3. https://www.globalreporting.org/Pages/default.aspx
4. http://eur-lex.europa.eu/legal-content/FR/TXT/?uri=CELEX%3A32014L0095

require negotiated transitions.

4. RESPONSIBILITY AND SUSTAINABILITY

A European business model should be encouraged by placing the concepts of responsibility and sustainability high in the strategy of the groups, particularly at international level.

Does this mean that in Europe we are moving towards the emergence of a "stakeholders' capitalism", the universalised image of traditional "Rhenish capitalism", to oppose an American, mercantile, short-term "shareholders' capitalism"? It is feasible on condition that it is approved by European law. One condition is to acknowledge the existence of stakeholders in corporate law, beyond the shareholders, and that they form a social compact, and in virtue of this, justify that their interests are taken on board.

This debate is underway. It is the source of strong opposition on the part of employers who fear that the decision-making powers of the Boards will be weakened and who panic when we speak of moving from "the interests of the associates" over to the "interest of the business". In reality, via indirect and multifarious routes, which simply reflect already existing forms of decision making, the European company has mainly become a collegial institution, which allows room for stakeholders, whilst granting decision-making power to the shareholder and the manager, to ensure the organisation's continuity, but also its compatibility with common interest.
This widening of company governance is really underway, and it is not the slightest of paradoxes to note that the UK opened the way via the Companies Act in 2006 [5], which was supposed to improve both trust in business and its image. The idea should be extended since it corresponds with the European culture of compromise and is proving effective in managing a complex world!

Hence, sustainable development and the CSR provide a new vision to the managerial approach which the European Union also needs to support its economy.

And so, we can only speak of a sustainable European business model when governance makes it its business on two counts. Firstly, in view of reducing the risks taken with a business in view of security, sanitary, ecological and social issues, in relations with the territory, suppliers and the wider community. Then in view of ensuring that the business project is compatible with that of the planet and that it creates value which is not just reduced to the remuneration of production factors (capital, work, progress), but that it provides society, more than goods and services, with a "kind of social usefulness" that is constitutive of the project and not given to profit after distribution. This is the difference between the continuing Anglo-Savon model and the sustainable model that is now emerging in Europe.

It is clear that the issue of the climate and sustainable development goals [6], as a planetary trajectory demanded of both public and private stakeholders by 2030, sets a goal for business strategies that can no longer be ignored. These are the issues of governance and data which typify businesses that are engaged in the challenges facing the world, in contrast to those which are still only interested in their own performance. It means going beyond the EBITDA alone, to add a "sustainability trajectory", to include the control of environmental impacts, value distribution amongst the employees and territories as well as the management of risks, especially those affecting health. Management is transformed by this and the relationship with society also.

5. HOW TO OVERCOME THE HURDLES?

The dynamic of "incorporating" will have to overcome some institutional and cultural hurdles to become a reference model and to sustain its political project.
Putting the definition of the European company back on the table by integrating this vision of responsible, sustainable governance is a challenge that the world will observe attentively. To this effect there are several methodological paths to support a "sustainable, European business model" put forward to investors and industrialists.

• *Path no.1:* approving the definition of the company at European level as an "organisation comprising associates in view of producing goods and services, that are compatible with the requirement of the planet's sustainability and in the respect of the law and principles of security, health, fairness, non-discrimination, the protection of the environment and transparency (...): in its decisions the company contributes

5. *https://www.legislation.gov.uk/ukpga/2006/46/contents*
6. *http://www.un.org/sustainabledevelopment/fr/objectifs-de-developpement-durable/*

via the management of its impact to social utility and takes on board the interests of all stakeholders in its activity, including the territories where it is established. It is responsible for implementing relevant, reasonable effort for all its components, everywhere its exercises its activities and of being able to account for its global performance." This status results in the fact that the Board guarantees the respect of these goals before the General Meeting and that the role of the management is to ensure its achievement and to give account publicly.

The redesigned "affectio societatis" via solidarity that cannot now be dissociated from the company and civil society, can be written in a "Euro-compatible" manner since it is true that the consensus on this approach has grown considerably over the last few years, in political minds and demands, if not in national laws. There remains the harmonisation of the texts.

• *Path no.2:* include this common pillar of the sustainable, responsible company in a "soft law" standard which would aim to become a world baseline, able to identify businesses that respect it and those which do not, to be able to learn the relevant lessons when opening a business in Europe. Essentially this baseline does exist; it is the one that the OECD revised in 2011 and which more than 40 countries are responsible for enforcing on businesses at home [7]. Although it might be improved it is still the most complete regarding the basic requirements of responsible economic behaviour. The goal of decarbonation should also probably be added in line with the commitments of countries in the Paris Agreement of 2015, i.e. to commit to a circular economy, a front line European strategy and the improvement of tax, financial and extra-financial transparency, almost achieved in the European Union.

With this baseline National Points of Contact (NPC) should have the option of communicating evident breaches of the law that go uncorrected after mediation to the legal authorities. There should also be a kind of "sustainability passport" required of foreign businesses which want to export to Europe, via a compliance report, in the knowledge that the non-publication or non-respect of this might lead to a ban on trading in Europe as far as the offending company is concerned. This measure is simpler and more effective than the enacting of general CSR principles in the trade treaties as far as products are concerned whose social and environmental truth is not easy to find.

• *Path no.3:* that is likely to support the European sustainable business model: encouragement to publish "the return for the territory" of local activity in the results, i.e. the sum of positive local impact, minus those that are negative, which would aim to become a true indicator of a company's social utility. This indicator can be used as a comparative, fair tax base, but it might also be used to assign a corporate tax quota, in support of direct actions of social, environmental or societal interest in the territories where companies do business, to encourage inclusive and contract based sustainable development strategies. This means trusting businesses in terms of their wish to integrate and to allow them to deploy their local strategy without increasing their obligatory tax contribution. A European mandate given to international accounting authorities should help progress this vital homogenisation of results published by businesses, notably in terms of their extra-financial dimension and their local contribution.

The European Union must have a diplomatic strategy to take the leadership of CSR standardisation in the international arena and take this into bilateral and multilateral negotiations.

For the European Union the consequence of the wish to assert a socially useful business model would be to invest in steering world regulation on business responsibility and sustainability. For too long now it has been absent from this arena. The European Parliament has the task of rallying the world's CRS players to encourage international dialogue, inexistent to date.

The merger of the UN and OECD frameworks has become vital in the unification of baselines that count and the launch of a follow-up mechanism in all countries, according to a voluntary membership model but which is linked to trade agreements driven by Europe, in expectation of the WTO taking over and opening discussion over non-tariff barriers that should help towards fair trade.

Since China is not against this mechanism, we just have to convince Brazil and India to create a global level body to monitor the "groups" which is so lacking in world trade. The Business 20 established on the side-line of the G20, transformed into Responsibility20, aims to review progress in this framework by including businesses, ONGs and the States by providing progress trajectories. It is in the European Union's interest to take these mechanisms forward.

7. *http://www.oecd.org/fr/investissement/mne/2011102-fr.pdf*

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Geopolitical regulation will not occur without the participation of large companies in collective world strategies. European businesses have a card to play to show the way to a sustainable, responsible model that would enhance their attractiveness.

Are relations between States, businesses and society satisfactory from the point of view of the planet's sustainability goals? Asking this question means a return to crucial issues, social, and environmental as well as economic, cultural, which typify the modern world with its worrying, penalising risks. But, as repeated at the Rio Summit "there will be no winning business in a world that is losing". The stronger, more powerful, and international it is, the more business will take its place in geopolitics, whilst it is still controlled by national governments and a legal system that is powerless in a context that is beyond its remit.

The European Union is affected because of its specific influence, conscious of its responsibility through its values and its project that tries to conciliate material progress with that of society. This challenge is clearly to be faced via the exemplary nature of its businesses. At a time when they are increasingly exercising this responsibility, the framework should encourage and accelerate change. Europe has the trade to set its terms. The error to date has been to discuss reciprocity in terms of general principles. Now we have to place this geopolitical requirement in the realm of the company, by differentiating between those that commit to sustainability and those which are predators in view of the interests of society and the planet and which should not be tolerated or welcomed without comment. Fair trade means creating a minimum, proven, behavioural framework for responsible, sustainable management on all markets! The metered and organised reduction of impacts, of hidden costs and unacceptable behaviour must now be appreciated at company level if it wants to export and invest.

Here there is a lever for the transformation of European policy. The Union must defend its interests and beliefs in the face of players who still view the requirements of sustainable development in terms of micro-economic functioning at great distance. The company is now the centre of world geopolitics, and we have to learn from this. The European Union is the only region that can understand the urgency and scope of this – and to turn it to the advantage of its project.

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