


**Business Ethics**  
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**Lecture – 25**  
**Shareholding for Sustainability**

Now, we will be discussing about shareholders and their role in sustainability. Here we are going to discuss where shareholders do have any role or can they exert any control in saying that the corporate is maintaining the sustainable business practices or they are oriented towards following the triple bottom line. Where they are where they are addressing the economic issues where they are addressing the social issues and also where they are addressing the environmental issues.

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Shareholding for sustainability

So, there had been lot of discussions regarding this like how the shareholders can get you know like directly involved in the business processes. So, through their decisions of investing in organizations which are following this sustainable business practices and how it can ensure like that the organization is doing it. So, in the last decade there has been a lot of effort in designing share indexes that rate corporations according to their performance towards the broader goal of sustainability.

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Here we find one of the prominent one is the Dow Jones sustainability group index. And it has become the leading index. In this regard the Dow Jones sustainability group index was developed in the early in 1990 onwards.

The movement started and it is and it was launched in 1999 and the actually comprises of many European companies and it focuses on mainly 3 things, because it consists of many European companies. This is taken to be the best in class approach the companies who have accepted the criteria in index chosen along the following criteria, that is environmental or ecological sustainability the economic sustainability and the social sustainability.

In the environmental and ecological sustainability, it is looking into the things like environmental reporting where there it has been done properly by the organization, eco design is being done properly by the organization, whether there is a proper environment management system and place, and whether there are executive commitment to environmental issues. When talking of economic sustainability, it focuses on the quality and knowledge of the management, the strategic planning, supply chain management and corporate governance mechanisms of the organization.

Means picking of social sustainability it speaks of employment policies, management development, stakeholder dialogue, affirmative actions and human right policies and anti-corruption policies. The data is based on questionnaires and the survey is being done on nearly about 318 companies out of 10 economics sectors in 24 countries.

So, we can understand it is a huge data quite an effort takes into arrived at these criteria. And the based on these surveys based on questionnaires the reports have been documented and then corporate policies and reports and finally, public information as far as available was taken as a part of the data. And then finally, this compilation was done. According to the proponents by focusing on sustainability, the index focuses on those companies which are future directed and have innovative management. Then it has this index has attracted significant interest from the investment community. However, there have been some criticisms regarding this index.

Now we will try to see the criticisms of the index. The biggest criticism is that the index depends on data which the company itself has provided. Although the data is analyzed by the Swiss consultancy firm and it is verified by an independent auditor, the assessment is inside out provision of data. It coincides with the criticism of the questionable criteria used by the index. Some critics have asked how it is possible that corporations with massive ethical credibility problems like Nike are included in the index.

Similarly, the entry of maybe a cigarette manufacturer was greeted with considerable controversy. The index does not exclude; however, on the basis of industry. Despite the obvious problem of the tobacco industry as well as armaments alcohol energy and others, it argues us industry leaders should be identified and rewarded in order to stimulate progress towards sustainability.

So, this has raised the eyebrows of many critics who are telling when the industry itself is green area. So, how it can be included in the criteria, when you are measuring something an index for sustainability? It focuses mainly the third criticism is that it focuses on the management processes that are done to see when the sustainability is attained and rather than on the actual sustainability of the company or it is products. So, evidence of policies

and management tools features more prominently than emission data or resource consumption figures.

Again the audit firm argues that the index does not identify sustainable companies, but those making progress towards addressing them. Overall the Dow Jones sustainability group index has to be regarded as an important step in linking investor's interest in financial performance with the broader goal of sustainability. However, the development is still very recent and the concerted effort towards progress is yet to be arrived in the future. So, it may be required like to help the firm to move towards these practices. Maybe it is time to rethink over the whole model of corporate ownership and let us see; what are the different models of corporate ownership present.

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**Rethinking sustainable corporate ownership: alternative models?**

- **Government ownership:**
  - Part of the landscape in many parts of the world. Resurgent in the wake of the late-2000s financial crisis (esp. banks and cars).
- **Family ownership**
  - Families may have longer-term goals, but may not treat stakeholders any better than MNCs
- **Co-operative ownership**
  - Hybrid businesses, not owned by investors or managers
  - Owned and democratically controlled by workers or customers
  - Not set up to make profit but to meet the needs of members
  - Spanish Mondragon co-operative has made a striking contribution to sustainability while staying highly profitable

The Mondragon cooperative it is a Spanish cooperative which has been founded in way back in 1956 by 5 engineers and a catholic priest after being built up for over 15 years prior to that it. Today the cooperative consists of 150 smaller cooperatives and employing around 60,000 people. It includes large companies such as a supermarket chain and sprains largest manufacturer of refrigerators, as well as a smaller company in the electronics sector and translation service with just 8 employees. Each company has it is own general assembly meetings where all the workers have the same voice and decide on

the corporate policies. It is very important that all the workers have the same voice and decide on the corporate policies.

On the top of that each company has a vote in the general assembly of the Mondragon cooperative as a whole. The cooperative is about to twice as profitable as the average company in Spain and has the highest worker productivity in Spain. Up to 70 percent of the profit close back to the owner member workers, 20 percent is re invested and 10 percent goes to the local community projects. How the cooperative has contributed to the sustainability is through it is effect of looking into economic sustainability, social sustainability and environmental sustainability? We will discuss this in details.

Now, first is the government ownership. It is mainly present in many parts of the world. Family ownership, where family which may have long term goals. But it may not treat the stakeholders in a much better way as any better than MNCs. The option, the new ways of looking into this ownership sustainable cooperative ownership, the way that you are going to discuss over here more is that of cooperative ownership. So, can we move forward from corporate to be cooperatives?

So, what are cooperatives? These are hybrid businesses which are not owned by the managers or investors, but these are owned and democratically controlled by workers or the customers. These cooperatives are not setup to make profit, but to meet the needs of it is members. The Spanish Mondragon cooperative has made striking contribution 2 profitability and both sustainability. How this is possible if we try to see the details of it, we find that the it has contributed to economic solidarity, economic sustainability by following the principle of the solidarity, where there is a mutual bond between the different sub systems of the different parts. And that they mutually support each other in the years of may be economic downturn in one industry. These have led to the long term growth and survival of the cooperative as a whole.

Furthermore, the workers will always have long term interest in the survival of the corporation or what to tell it as a cooperative as they are owning it. Whenever we are talking of social sustainability it gives a tremendous job security as and embeddedness in

the local community and active support for social projects. Such as it gets involved in education it gets involved in the housing projects and drug prevention makes the Mondragon and active supporter of socially stable and supportive environment. With the workplace democracy as the guiding principle the individual worker as a relatively high protection of all those rights that are the basic human rights and rights of the workers in the workplace; environmental sustainability all though we do not how many supportive literatures about this.

But however, it is clear the local ownership of the corporation the group of people who are directly involved in this are people who will get affected if the air is polluted or water or soil gets polluted, and they are belong to the constituency to decide about this issues. This at least ensures the attention to environmentally friendly working conditions and production processes. However, this also may face certain issues due to globalization. And as we see with the globalization, may be different cultural values coming in and deterritorialization of things happening, the initial principle of solidarity may get affected. And it may so happen that this now gets compared to international standards.

And however, the insiders expect a more market orientations, but there is a great optimism that based on it is values that this organization has from the like owners being the workers themselves. Or the work or the workers are the owners it is going to be good example leading example in future also. What we come to understand from this discussion that, shareholders do have very prominent role in maintaining ethics in the business. They have a comparatively more influence as compare to other stakeholders and they have certain rights and corresponding responsibilities also towards the organization.

And because they have some rights, the rights they can exert through the process of corporate governance to see like the processes of the organizations are done in a proper way in an ethical way. They can exercise their rights also in the context of globalization. And they can expand their horizon of investing in different type of companies across the borders. And they can exercise their rights also to see like the organization is following sustainable business practices. To exercise these rights; however, the firm also has to

acknowledge that it has the accountability to the shareholders not only for the financial performance but also it is accountable to the shareholder for performance in all the areas of it is business.

With respect to may be not only the economic perspective, but also the social perspective and also the environmental perspective, because the money of the shareholder's are getting invested in the business and how it is doing the business. So, if the shareholders are getting moved by the not the narrow concept of seeking only profitability for their own self-interest, but also they are moved to invest in an organization for broader social interest, also they can do this by the process of either ethical investment or they can do make the organization work in ethical way through the process of shareholder activism.

And in that way they have immense power to control the functioning of the organization. The shareholder needs to realize this power and use this and also the corporate has to understand like it is answerable to the shareholders for it is overall performance. The DSGI index that is about sustainability helps in understanding the responsibilities that the organization has and how this DJSIGSI index, how it can be linked with the shared like index.

So, that how it is a link between how this social performance, how the environmental performance, how the economic performance, and after organization what it is doing can be linked with the shared index. And if this is done, then it helps the gives a tool to the investors to decide on to choose organizations that they will be investing for and may be to deselect organizations that they are not going to invest for. And so, ethical investment becomes an important tool in the hands of the shareholders for maintaining sustainability in the organization.

We will take up ethical investment more in the next module of the discussion, where we are going to discuss about the financial management it is an overview and ethical perspective of it.

Thank you.