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CAN FINANCIAL INSTITUTIONS CONTRIBUTE TO SUSTAINABILITY?

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Issues of 'sustainable banking' raise a number of questions for which answers are not yet available. But as the playwright Eugene Ionesco observed: 'It is not the answer that enlightens but the question.' This chapter is presented to stimulate debate on issues that do not seem to have received much attention until now.

If we read and believe global surveys about public attitudes towards the environment, and many other 'sustainability' issues of expressed public concern such as community, poverty and the like, we would have to conclude that the myriad conferences and publications on these issues are a waste of time. Everyone insists that they are deeply concerned. For example, I have never met anyone in finance or banking who does not profess to being an environmentalist, as a person, a parent, a grandparent, as a citizen and, more often than not, as a financial contributor to and member of one or more environmental organisations. Some years ago a managing partner of Lehman Brothers, who had profited personally and professionally from some recent tax breaks for the wealthy, admitted that, after working hours, in his capacity as a private citizen, he felt some pangs of concern about the impacts of these tax breaks on society.[1] Like this man, we all seem capable of leaving our concerns at home when we go off to work, however. Vocation and avocation seem to be separated. The issue here is not one of some people being 'good' (us, by definition) and some being 'evil' (those who do not share our passion, by definition). As the theologian and activist Rabbi Abraham Heschel suggested: 'The opposite of good is not evil, it is indifference.' Indifference here is doing 'business as usual'.

1 *New York Times*, 1 December 1996: A1.

32.1 Reducing the dissonance between what we value and how we behave

Much of the information provided to bankers and financiers, on the environment and other aspects of 'sustainability', is produced by people and institutions that have a cause, and who see it as part of their job to enlist others in that cause. For example, UNEP, the *environment* programme of the UN, tries to persuade the financial and banking industry to become more environmentally aware. The data they and other environmentalists produce, the articles published, the speeches made are supply-driven. There is a hope that there will be a demand, but not enough attention has been focused on **how to create** the demand. The 'special interests' know, or think they know, the behaviours they want from financial recalcitrants. They have a vision. But they spend less time, if any at all, on the processes by which change will occur—the processes by which those in the business, banking and finance community will begin to demand and produce for themselves information on issues. In 1996 Stefan Schmidheiny and his colleagues at the World Business Council for Sustainable Development published the book *Financing Change* (Schmidheiny and Zorraquín 1996). However, the book that may be of greater importance is yet to be written: *Changing Finance*. We need transformation, not simply reformation, if the issues of sustainability and banking and finance are to be truly linked. The constraint is that 'banking' and 'finance' do not seem to want to listen to, or perhaps do not trust, the interest groups, since they come from a different culture.

What are the processes of change—among others, psychological, cultural, institutional, intellectual and economic—that will lead to a demand for sustainability information from the mainstream banking and financial community? And how will that information be utilised to change institutional arrangements and individual behaviour? What are the institutions that can produce the information that will be 'trusted' by the world of banking and finance, if information providers are suspected of having a special interest? Who are the key actors in the banking and financial community to focus attention on as producers and users of sustainability information? What incentives are available, or need to be created, so that banking and financial institutions can lead their employees towards a more holistic view of the impacts of their investments?

We must begin with the realisation that the term 'sustainability' is itself problematic. More often than not, 'sustainability' is shorthand for 'environmental sustainability'. But therein lies a problem that everyone concerned with banking and finance must address, namely: the environment cannot be sustained in a vacuum. As the UN Conference on Environment and Development in 1992 reminded us, to save the environment we must also deal with issues of development, and this requires that we address questions of poverty, of equity, and of justice, of power, directly. But read corporate 'sustainability' reports and try to find serious attention—any attention—to community or equity. It isn't there. Eco-efficiency is there, and is important, as a necessary component of environmental sustainability. But efficiency in the marketplace is not a sufficient condition for truly sustainable development. In fact, equity and justice are preconditions of efficiency in the larger social context. Since Rabbi Heschel reminded us that words create worlds, we must begin to use the language of sustainability more precisely.

32.2 What does 'sustainability' really mean, and how does it impact on banking and finance?

If we agree that sustainability is broader than the environment, we must then address the role of corporations and the banking and financial world in sustainable development. Alicia Barcena, former director of the Earth Council, suggests that 'sustainability' encompasses the five 'E's: ethics, equity, environment, economy and empowerment. A number of questions arise from this:

- What is, and can be, the commitment of corporations and the banking and financial world to community? Can they truly be stakeholders in communities, just as communities are stakeholders in corporations? Can they commit themselves to restoring a community shattered by downsizing or plant closures, in the same way that many have made a commitment to restoring ecosystems they might destroy, assuming that is possible?
- What is, and can be, the commitment of corporations and banking and financial institutions to democracy? Will they commit themselves to listening to and sharing with communities? What is the role of money in politics?
- What is, and can be, the commitment of corporations and banking and financial institutions to future generations, when they do not have the attention span to look forward to the next quarter (if not the next day) as opposed to the next century?
- What is, and can be, the commitment of corporations and banking and financial institutions to satisfying needs rather than to creating greater wants, especially in a world of finite resources, inequitably distributed (see Viederman 1997, 1998)?

We often speak of 'profit and responsibility in the 21st century'. The original meaning of 'profit' comes from the Latin word *proficiere*, to 'advance' or 'be advantageous'. Responsibility comes from the Latin *respondere*, 'promise in return', carrying with it a moral and ethical obligation. Neither definition limits us to a narrow concern for financial reward, which is necessary but not sufficient. This is especially important when we reflect on the unintended consequences to society that often arise from the quest for financial profit. Dee Hock, founder, president and CEO emeritus of VISA, has observed:

> Institutions that operate so as to capitalise all gain in the interests of the few, while socialising all loss to the detriment of the many, are ethically, socially and operationally unsound. Yet that is precisely what far too many corporations demand and far too many societies tolerate. It must change.

If we consider the broader canvas of sustainability, we must then be concerned with the consequences of our behaviours in the financial world, beyond the financial bottom line. This leaves us with two final questions:

1. What are the components of 'profitability'? Can we assess profitability and responsibility without assessing the social costs borne by the society at large which are incurred in achieving financial profit? Are cash values all that count?

Fiduciary responsibility is usually defined as making the maximum profit at a reasonable level of risk. In the US, for foundations and non-profit organisations this means being a 'prudent man'. This is a legal concept going back to the 1830s when the responsible investor believed that waste had a place to go, when tobacco was not believed to be harmful to one's health and when corporations were still chartered by the state for the public good. Times have changed, and the truly 'prudent person' of the 21st century cannot exercise his or her fiduciary responsibility in a vacuum. Fiduciary responsibility must be subsumed under the broader tent of social responsibility.

2. To whom are we responsible, and in what ways? What behaviours must we change to become truly responsible?

It has been suggested that the obscure takes a while to see, the obvious, longer. The philosopher Schopenhauer believed that all truth passes through three stages: first it is ridiculed; second it is violently opposed; third, it is accepted as self-evident. We have arrived at, or are close to, stage three, in our beliefs that the sustainability and finance must be linked. Now it is up to us to be certain that our behaviour is consistent within these beliefs, while striving to get others to join us.