

## **The Transformational Power of Sustainability**

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*Investing for a Better World*

Trillium Asset Management Corporation, Spring 2007

That business activity is conditioned by social norms has been recognized by the strongest promoters of the free market system, from Adam Smith to Milton Friedman. Over 35 years ago, Friedman stated that a corporate executive has direct responsibility to the owners of the business, “while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.” And over time, ethical customs change. It wasn’t that long ago that companies operated with virtually no oversight or expectations regarding fair hiring practices, sourcing of labor and goods, the treatment of animals, or the environmental consequences of their products and processes.

Societal norms about appropriate business behavior continue to evolve. The post-war period of strong unions and paternalistic corporations gave way in the 1980s to radical restructuring, and in the 1990s to a narrow obsession with maximizing shareholder value. The emerging paradigm of sustainability is a welcome shift in norms about acceptable corporate practice.

At the deepest level, adopting the ethos of sustainability is an opportunity for both personal and social transformation. Sustainable capitalism embraces the individual pursuit of happiness within the context of strong preferences for social justice and environmental health. Indeed, sustainability ties personal human wellbeing not only to material wealth but also to the vibrancy of our planet’s social and ecological systems.

It is heartening to see companies that have been so narrowly focused on short-term profits embrace sustainability as a new organizing principle. At a recent conference on social investing, I heard a plenary address from a Wal-Mart Director of Corporate Strategy and Business Sustainability. Wal-Mart has set admirable environmental goals for itself: “to be supplied 100 percent by renewable energy; to create zero waste; and to sell products that sustain our resources and our environment.”

No doubt, this is really good news. However, long-term sustainability requires a paradigm shift, a rethinking of Wal-Mart’s basic business model of maintaining high profit margins by squeezing suppliers and workers. The speaker left scant time for dialogue, but there are a number of pressing issues. Take, for example, the company’s big push into organic food and clothing. As Wal-Mart ramps up its commitment, will it cut corners or pursue truly sustainable commerce? Trillium Asset Management Corporation has taken the lead on an investor letter to Wal-Mart asking for written responses to specific questions regarding 1) the “food miles” generated by its organic imports, 2) steps to promote the vitality and sustainability of small organic farms, 3) incentives to convert its non-organic food and fiber suppliers, 4) standards for the treatment of animals, 5) commitments to strengthen the USDA’s organic

oversight program, 6) questionable organic standards for products sourced in China, and 7) Wal-Mart's commitment to public reporting around its organic program.

The ladder rising up from destructive growth to transformational sustainability has many rungs, both social and environmental. We at Trillium Asset Management Corporation cheer the initial steps companies like Wal-Mart are taking and say: keep climbing!