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The Folly of Global Capitalism: A Concatenation of Climate Change, Unemployment, Inequality & Secular Stagnation

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ABSTRACT

Globalisation is extant, omnipresent, and ambivalently random in its distribution of blessings and pain. Unsustainability has become the hallmark of a grand system undermined by avidity and inequality; and the offspring of such unsustainability – that is, climate change – has the foreboding of eco-catastrophe, and even the demise of economic, social, and political systems. Globalisation, built on neoconservative and libertarian ideologies, which in turn were constructed on intolerant Christian puritanism, was always going to be bound by its dogmatic limitations in a global milieu. Centripetal forces and 'wicked problems' that have begun to act against globalisation include climate change, structural unemployment, and inequality, all concatenating to highlight the folly of our hyper-consumptive and unsustainable lifestyles. The dominant themes from this time forward are likely to include beggar-thy-neighbour trade policies, lower real wages, disintegration of state welfare, greater controls on immigration, and the real possibility of secular stagnation. The fallout of such global themes are yet to be fully visualised, but are likely to include increasing international conflict and violence, especially in less stable regions.

INTRODUCTION

The economic system that currently sustains the lifestyles of most is market capitalism, in which business is conducted by independently managed entities that set strategies, and choose products or services to supply at whatever price consumers will pay, all with minimal government intervention. When such a system is supported by a platform of open-border trade, market capitalism is wedded to global opportunities to form the phenomenon of 'global capitalism', or what is known semantically as 'globalisation' – a phenomenon as much about geopolitics and socio-culture, as economics.

Globalisation has undeniably benefited much of humankind. For instance, it has diminished the incidence of war because it creates interconnections, and warps cost-benefit analysis towards a cost for all. McDonald (2009) wrote of the 'invisible hand of peace'. He found institutions and processes associated with the spread of globalisation, such as private property law, independent judiciary, and competitive markets have increasingly promoted peace between nations for the last 200 years.

For consumers, globalisation has led to more and better quality products, improved productivity and efficiency, and lower prices; and for governments of developed countries, open-border trade has kept inflation in check, and allowed Gross Domestic Product (GDP) to grow. The wealth creation effect has improved health, education, and social welfare. For example, in Australia in 1900, life expectancy at birth was 55 years for males and 59 years for females. By the early-2000s, life expectancy had increased about 40% to 76 years and 82 years, respectively, as a result of vastly improved health care (AIHW 2013).

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But globalisation has not been so good for everyone. On a global scale, for instance, Sub-Saharan Africa has benefited little; and in developed countries, running sores fester, such as growing inequalities in wealth, income, and opportunities. A number of 'wicked problems' (Rittel & Webber 1973) have, in more recent times, presented as folly of an economic system that we convinced ourselves was designed to fulfill all our utopian desires.

Barbara Tushman (1984) used the concept of folly in relation to government pursuit of policies contrary to public good. She identified folly by three criteria: (1) An action perceived as counter-productive in its own time, rather than in hindsight; (2) A feasible alternative action must be available; and (3) An action should persist beyond any one governing body timeframe. 'Folly', then, is the opposite of wisdom – the absence of good sense, unwise conduct in the vain hope of the improbable.

The curious thing is that we have failed to heed the folly of global capitalism, and the subsequent wealth it procures – our lifestyles are unsustainable and counter-productive (Laszlo 2010); we know what needs to be done, but lack political leadership and civic engagement (Jordan 2015; Leiserowitz et al. 2011); and, we have earnestly ridden the slippery slope of unsustainability for at least the last 30 years (Meadows et al. 2005). We hyper-consume material things in the hedonistic pursuit of pleasure, and the vain hope of happiness, with little cogitation on environmental and social side-effects.

This paper, firstly, provides a brief history of globalisation, including successes, failures, and running sores. Secondly, a number of emerging wicked problems are investigated, which promise to forebode secular stagnation of our global economic system. If correct, there are potentially catastrophic consequences for governments, corporations, and individuals the world over.

A BRIEF HISTORY OF GLOBALISATION

Basic globalisation can be traced to Mediterranean trade before 1,000 BCE. A more organised version was evident in 14th century trade networks linking England with China, via Europe and the Central Asian Silk Road. By the 15th century, the insidious slave trade had become an integral part of the global expansion of capitalism, supporting trade in agricultural products, and the market for cheap domestic help for wealthy elite.

But even 400 years later in the 18th century, international trade was only a small percentage of domestic consumption – less than 15% in England in 1712 (Hobson 1902). Most production was consumed locally. Countries were generally self-sufficient in food and basic goods (e.g., clothing; furniture), and tended to trade luxuries (e.g., spices; jewelry). Self-sufficient agriculture was assisted by the fact that only 10% of Europe's population was urbanised.

Merchants initially dominated the capitalist system, since manufacturing was family-based, requiring hands rather than capital. By the 19th century, large-scale manufacturers had emerged from Europe's Industrial Revolution to accept the mantle of drivers of the capitalist system. This early evolution was fostered by mechanical innovation in manufacture, transport, and resource extraction.

By the 20th century, the cost-effectiveness of mass-produced goods had reduced the power of the manufacturers, while wealth accumulation had secured the future hegemony of financiers as the new captains of the capitalist ship. Post-World War II government policies, and further technological innovation (particularly in transport), radically spurred increased international trade and investment, to the extent that global GDP increased over 50-fold in the 50 year period 1961-2011.

From the very start, however, a myopic economic prism was applied to define globalisation to the detriment of socio-cultural and ecological aspects. Kenichi Ohmae's (1994) 'borderless world' was unleashed, with little reflection on either the complexities, or potential fallout, of such a system on public good. Globalisation, under the profane economic rubric, continued the abysmal work of science from the 17th century, and the Christian church from the time of the crucifixion, in obliterating our embeddedness in wider ecological and humanist systems.
The form of globalisation that now surrounds us was never expressly designed. Rather detail evolved in parallel with the needs of markets and excess capital; and from the 1980s, further evolution was driven by financial hegemony of American neoconservative and libertarian ideologies. Globalisation emerged post-World War II as an experiment concocted to reconfigure the economic landscape. The aim was plausibly honourable - world leaders seeking to forge a new era of interaction based on cooperation, inclusiveness, and a less zero-sum approach in hope that another world war might be avoided.

GLOBALISATION: SUCCESS, FAILURE, AND RUNNING SORES

After several decades of inexorable globalisation, we are now confronted with a Manichean perplexity - "some remarkable successes, some disturbing failures, and a collection of what might best be called running sores", as the philosophy John Ralston Saul (2005, p.3) observed. Disturbing failures, such as lack of development in Sub-Saharan Africa, should be redressed and rectified (albeit that this is not happening). But as Chris Patten (2009, p.442), Chair of the

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International Crisis Group, explained: “Our problems are the byproducts of our success as a species…and not our enduring failures” – our economic successes are now the root of the ‘running sores’. The 2007 Global Financial Crisis (GFC) is one such running sore that furnished insight into an international system disaggregated from communities. It demonstrated the world had achieved a level of interconnectedness that exceeds the reach of national economic policies and international jurisdictional architecture.

What has become patently obvious from the 2007 GFC is that Paul Samuelson (1948) was, indeed, correct - markets fail, sometimes badly, and hence, require a level of government intervention anathema to the ideological dogma embedded in libertarian principles.

Sach (2011) went further in arguing that the GFC was not simply a short-term market failure, but rather a more fundamental enigma from several decades of moral decay in the social fabric of Western societies. Das (2015, p.33) agreed, suggesting the GFC was more than a part of normal boom-bust cycles, but rather a “major inflection point in economic history”. The outcomes of such an inflection, and associated moral decay, have been increasing inequality, ecological duress, and marginalisation of too many. Stiglitz (2010, p.295) lent further support when he argued:

“The failures of our financial system are emblematic of broader failures in our economic system, and the failures of our economic system reflect deeper problems in our society”.

What Jeffrey Sach, Joseph Stiglitz, and a host of eminent others allude to is a fracturing of community, and renunciation by the wealthy elite of all moral responsibility to the poor and less fortunate, and indeed, to society as a whole. Noam Chomsky (2011, p.5) philosophised that “privilege yields opportunity, and opportunity confers responsibilities” - responsibilities abrogated within an economic system devoted to profligate hedonism under individualist and libertarian principles.

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THE CHALLENGE OF EMERGING 'WICKED PROBLEMS'

Rittel and Webber (1973) raised the specter of the inability of humans to effectively deal with highly complex problems, because science was only ever developed to address 'tame' problems; that is, singular problems that can be definitively described. They referred to such highly complex problems as 'wicked problems' - social or cultural dilemmas that defy solution for a variety of reasons. For example, there may be incomplete data, information, or knowledge. Alternatively, there may be large numbers of stakeholders, opinions, or self-interested agenda. Another precursor to a wicked problem is potential for large economic cost of solution; and yet another precursor is degree of interconnection between multiple problems.

The world is now confronted with such complex wicked problems. For example, Washington (2014) highlighted four 'elephants in the room' that remain remarkably transparent to societies: (1) Overpopulation; (2) Overconsumption; (3) Dependency on GDP growth; and (4) Climate change.

Similarly, the World Economic Forum (WEF 2017) identified a basket of 'global risks', a number of which were noted as both high likelihood and high impact: (1) Extreme weather events; (2) Food and water crises; (3) Large-scale involuntary migration and interstate conflict; (4) Climate change; (5) Unemployment; and (6) Terrorist/cyber attack.

On the same theme, Robert Gordon (2012) saw future economic stagnation emanating from four 'headwinds': (1) Demographics; (2) Education; (3) Inequality; and (4) Government debt. He predicted such headwinds will reduce US GDP growth to 0.9% per year average to 2030. Given the declining trend in global GDP growth since the 1970s (see Figure 7), and wicked

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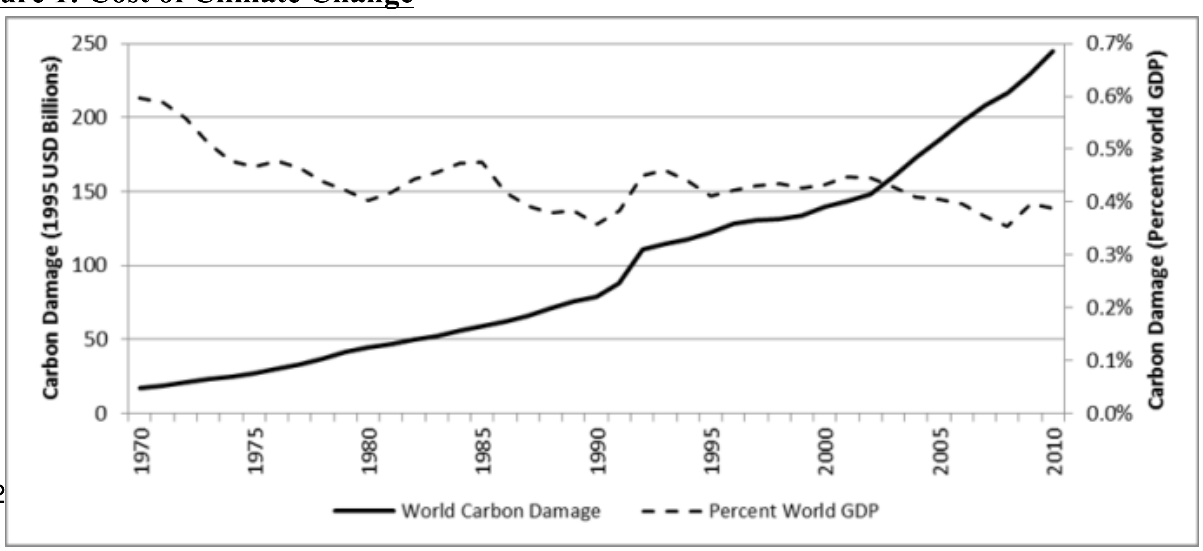
problems, global risks, headwinds, and 'elephants in the room' that will likely confront the global economy in coming years, it is not a major stretch of imagination to envisage a 'great unravelling' of our global economic system (Krugman 2003). The following sections investigate three major wicked problems confronting the world – climate change, unemployment, and inequality.

THE WICKED PROBLEM OF CLIMATE CHANGE

In the case of climate change, we most certainly have incomplete knowledge; there are multiple self-interested stakeholders manipulating information; cost of solution is massive; and a warming planet interconnects with economic decline, global inequality, food and water crises, and all the other global risks, headwinds, and 'elephants in the room'. Climate change is, by definition then, a wicked problem that may be beyond our ability to find timely and effective solution - "…a prisoner's dilemma, a free-rider problem and the tragedy of the commons all rolled into one" (Economist 2009).

Figure 1: Cost of Climate Change



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(Source: World Bank Data)

The impact of climate change has direct economic consequences, indirect business impacts, and other non-market effects on individual and collective qualities of life. Economic consequences are found in highly climate-sensitive industries, such as agriculture, forestry, fisheries, and tourism; damage to public infrastructure and private homes in coastal areas from sea-level rise and extreme weather events; and, additional costs of energy for heating or cooling. A primary impact on business will be disruption to supply-chains. Non-market quality of life issues include the spread of disease; increased food and water insecurities; and loss of biodiversity (IMF 2008). The Organization for Economic Cooperation and Development (OECD) listed the impact of climate change on people and assets (Nicholls et al. 2008). By 2070, population growth, urbanisation, rising sea levels, and extreme weather events are expected to leave 150 million people worldwide at risk. The most impacted city will be Miami, with US$3.5 trillion of assets and 4.8 million people at risk. In the major cities of Australia, 180,000 people will be at risk, as well as US$100 billion of assets; in Bangkok, it will be over 5 million people, and US$1.1 trillion of assets.

The cost of climate change approached US$250 billion in 2010, or about 0.4% of global GDP, and has also been growing at an annual rate of about 15% since the early-2000s (see Figure 1). This cost is expected to expand linearly to 3-10% of global GDP by 2100 (IMF 2008; Hinkel et al. 2013). Noteworthy is that estimated cost of climate change is average, and hides the fact that, for some regions (for instance, Sub-Saharan Africa, Middle East), the economic impact could be up to 19% of national GDP by 2030 (WEF 2014).

THE WICKED PROBLEM OF UNEMPLOYMENT

Unemployment will interact with technology to produce potential for a tipping-point event in coming years. The Committee for the Economic Development of Australia (CEDA) has estimated that more than 5 million Australian jobs - almost 40% of those that existed in 2015 - will be lost to technology by 2025 (CEDA 2015), during a period (2015-2025) in which population will increase by over 4 million (Passmore 2015). In the UK, 47% of jobs are expected to disappear by 2035 (Frey & Osborne 2013). McKinsey & Co suggest 50% of all roles performed by humans in the world could disappear by 2035, during a period (2015-2035) in which human numbers will increase by 1.2 billion (McKinsey 2017). Low-skilled jobs in transportation will be replaced by drones and automated vehicles; retail, hospitality, and administrative jobs by robots.

The celebrated physicist Stephen Hawking sees the future as unfolding in one of two possible ways (Janda 2017):

"Everyone can enjoy a life of luxurious leisure if the machine-produced wealth is shared, or most people can end up miserably poor if the machine-owners successfully lobby against wealth redistribution".

Some countries, such as New Zealand, Canada, Finland, and the Netherlands are experimenting with a Universal Basic Income (UBI) – a regular payment from government that ensures basic necessities are met (Weller 2016). But to be effective, such a social safety net requires higher taxes imposed on influential wealthy elite - a hard call, given our biological (Rees 2010) and psychological (Samuelson & Zekhauser 1988) bent for greed and self-interest, suggesting

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Hawking's 'miserably poor' scenario the more likely.

On the other hand, the OECD reckons job loss numbers over 40% are over-inflated. They suggest technology-driven job losses more like 9% (Arntz et al. 2016), because firstly, most jobs are multitask; secondly, slow implementation of capital-intensive technology; and thirdly, growth of service industries (i.e., a real employee has to interact with real customers).
But even loss of 9% of all existing jobs by 2035 is highly concerning, and certainly indicates a path to considerably increased unemployment and under-employment in much of the developed world. Given that consumption makes up 60-70% of economic activity in developed countries (Das 2015), a loss of even 9% of all jobs infers severe impact on economic growth, and hence, is apt to promote cycles of further unemployment.
Such a technological future bodes poorly for social stability, since unemployment creates angry young men who no longer envisage a future, and lays groundwork for violence, prejudice, and extremist political sentiments. This can already be seen emerging in the MENA region (Middle East-North Africa), where youth unemployment in 2015 was over 20%. While not the entire story, unemployment does provide fertile ground for the radicalisation of youth (Dunne 2015). Thompson (2015) exposed a micocosmic example of how persistent structural unemployment can devastate communities. The microcosm was Youngstown, Ohio, in the US - a steel town for much of the 20th century, until 1977, when Youngstown Sheet and Tube shut down its mill. The economic fallout – within 5 years, the city lost 50,000 jobs and US$1.3 billion in wages. But worse was the social fallout – depression, domestic violence, suicide, and crime all skyrocketed; the only growth industries were mental health and privatised prisons. Over forty years later, Youngstown has never recovered.

Technology appears destined to destroy unknown numbers of jobs in the coming couple of

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decades, and we are placing our faith in that same technology to deliver another set of jobs to replace those lost, as well as a further 20-30% to cater for population growth - and the new jobs must be accessible to redundant salespeople, cashiers, waiters, office clerks, drivers, unskilled manual labourers, and the less intelligent, all of which represent the most vulnerable. The Youngstown microcosm, in fact, may be a metaphor for the future of societies on a macro scale.

THE WICKED PROBLEM OF INEQUALITY

John Kenneth Galbraith (1994, p.264) noted a global economic system heavily biased towards the "comfortably endowed", and in which the majority of people appear to benefit marginally at best. Indeed, wealth and income are two inequalities shaping up as major impediments to global capitalism. Data indicate that the bottom 50% of the world's population owns just 1% of global wealth, while the top 10% own 84% of wealth. In Australia, the wealthiest 20% own 61% of the country's assets, while the poorest 20% own just 1% (Neal et al. 2011).

The ultimate obscenity is that, in 2015, the bottom half of the world's population owned the same assets as the richest 62 people in the world (Oxfam 2016) - down from 85 people in 2013 (Credit Suisse 2013), and 388 in 2010 (Oxfam 2016). Indeed since 2011, the wealth of the bottom half of the world's population declined 41%, while that of the wealthiest 62 people increased 44% (Oxfam 2016) – what Das (2015, p.225) referred to as "economic apartheid", which is bound to threaten social stability in the future.

Not just wealth, but also incomes, are unequally distributed, meaning the problem of wealth inequality is bound to get worse. The incomes of the top 1% of the US population, for example, more than doubled in the period 1980-2010, while the average income of the bottom 90% declined 5% during the same period (Shaxson et al. 2012). As Piketty (2014) showed, wealth

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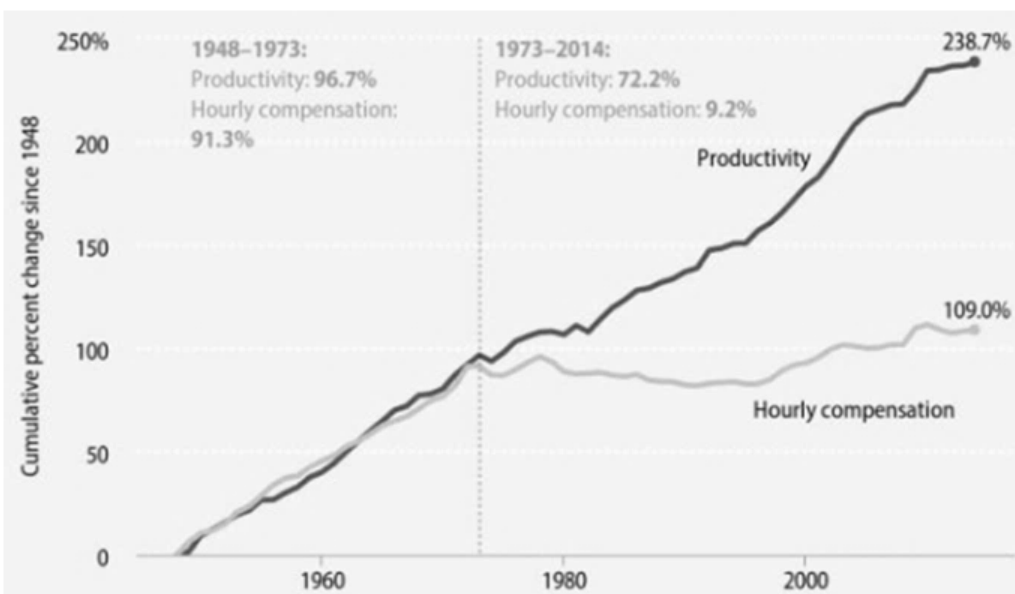
inequality blossoms when the rate of return on capital (r) outpaces economic output (g); or in other words, when compound asset inflation becomes the driving force of economic growth, which has been happening massively since the invocation of supply-side economic principles in the 1980s.

Figure 2: Productivity Growth vs. Worker Salaries



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(Source: Schiller 2015)

Figure 2 shows the disjuncture between productivity growth and worker salaries starting in the 1970s. As a result, US Census Bureau data found that, during the almost 40 year period 1979-2007, US incomes grew according to the following (Krugman 2014; Shaxson et al. 2012):

- 275% for the top 1% of households.
- 65% for the next 19%.
- 40% for the next 60%.
- 18% for the bottom 20%.

From the 1970s, the lofty dreams embedded in technological innovation merely served to increase corporate profits, which flowed to the wealthy elite, and with next to no benefit trickling-down to workers.

Given that US inflation averaged 2.9% per year for the last several decades, the rich have become richer in real terms by about 4% per year; the middle-class has gotten poorer by about 4% per year; and, the poor have become considerably poorer by over 5% per year. Those of the middle-class are the ones Das (2015, p.267) called the "nouveau poor". Such hollowing-out of the middle-class does not bode well for the future of global capitalism, nor democracy.

Hollowing-out the Middle-Class

US Census Bureau data paint a rather lurid picture of what is referred to as the hollowing-out of the middle-class - in this sense, 'hollowing' means middle class decline, both numbers and influence.

In 2015, the Pew Research Center found that the middle-class of American society (defined as those earning US$40,000-125,000 per year; 2015 dollars) shrank to less than 50% of the population - the first time since the early-1970s (Fleming & Donnan 2016).

Forty years of economic growth under the neoconservative trickle-down rubric served to distort incomes, undermine social stability, and give rise to the 'dog-whistle' politics of Donald Trump, whose racist and misogynist ramblings resonated with many of those left behind.

In Australia, middle-class suffering has not been as severe, because the country has ridden on the back of rampant Chinese industrialisation, and the luck of having massive mineral deposits.
In China, the middle-class probably comprises about 30% of the population. They are currently happy with their rise out of poverty, and provide succor to the rest of the population who have similar aspirations. To keep the middle-class content, and the poor motivated, China needs to maintain economic growth at 7-8% per year, but more likely is a growth rate of 4-5% (Fukuyama 2013).
The future for Australia largely resides with continuation of resource demand from China; and current demand from China depends on continued economic growth in the US, which may ultimately stagnate because of asset inflation [i.e., Thomas Piketty's (2014) r>g], economic shocks, and wicked problems. The upshot is that Australia, too, will likely see a hollowing-out of the middle-class – declining wealth and lifestyles for the majority that has huge implications. Firstly, the middle-class is the primary consumer of things – hence, a driver of economic growth. As wealth declines, so too will consumption, so too will economic growth, exacerbating economic stagnation. Secondly, stable democracy rests on a stable middle-class. Declining wealth will lead more and more people to seek simplistic political alternatives that offer unrequited hope amidst lifestyle concerns.

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Inequality on a Global Scale

The Pew Research Center reported that, while those living on <US$2 per day (the point of extreme poverty) declined from 29% to 15% between 2001 and 2011, 71% of the world's population now lives on less than US$10 per day (Kochhar 2015). The evidence increasingly suggests global capitalism may be an effective vehicle to move people from extreme poverty to extremely low income, but lacks the framework for continued progress to more affluent middle-class.

Contrary to such empirical reality, Bill and Melinda Gates made a prediction (Gates & Gates 2014):

"By 2035, there will be almost no poor countries left in the world. Yes, a few unhappy countries will be held back by war, political realities (such as North Korea) or geography (such as landlocked states in central Africa). But every country in South America, Asia and Central America (except perhaps Haiti) and most in coastal Africa will have become middle-income nations".

Likewise, Nobel laureate Edward Prescott, Professor of Economics at the Australian National University (ANU) proclaimed (Kennedy 2011):

"The whole world's going to be rich by the end of this century".

Money and Nobel eminence provides opportunity to soapbox opinion in prominent media fora. Unfortunately, what money does not buy is sophisticated opinion, free of ideology.

Christine Legarde (2014) of the International Monetary Fund (IMF) was considerably more grounded and sophisticated when she stated:

"Let me be frank: in the past, economists have underestimated the importance of inequality.

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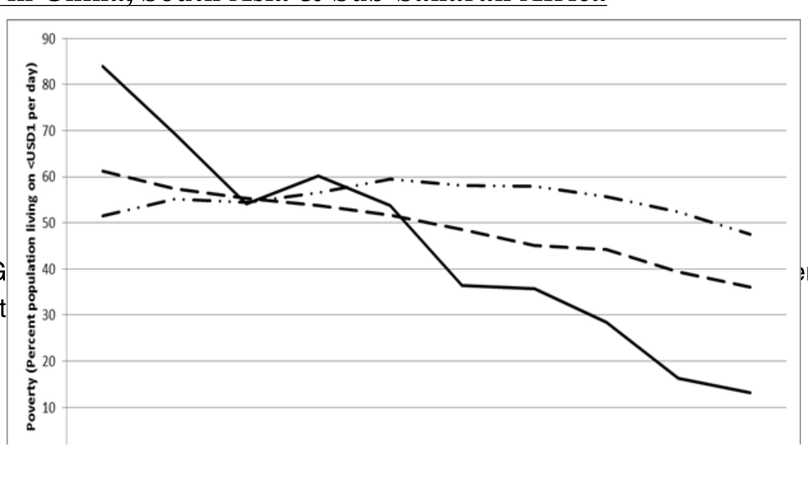
They have focused on economic growth, on the size of the pie rather than its distribution…Put simply, a severely skewed income distribution harms the pace and sustainability of growth over the longer term. It leads to an economy of exclusion, and a wasteland of discarded potential". Despite the self-satisfying rhetoric of Prescott, and the Gates, the obscenity of global wealth inequalities are expressed in a plethora of statistics between developed and less developed countries - not just the fact that some countries have more assets than others, but the obscene real outcomes that manifest for real people. Perhaps one of the more unconscionable is the statistic that Australians spend over US$2billion per year on pet health care (Jones 2013), or about US$80 per capita. This is double per capita health care spending on humans in Burkina Faso, and an order of magnitude more than countries like Zimbabwe and Somalia. The obscene outcome is that Australian dogs have lower morbidity than children in many African countries!

Globally, the number of people living in extreme poverty (this time, defined by income <US$1 per day) declined by 400 million between 1981 and 2001 (see Figure 3). This is often portrayed by economists as the positive impact of globalisation. But a closer examination reveals that almost 400 million Chinese moved out of extreme poverty, firstly during the 1980s as a result of the agricultural reforms of Deng Xiaoping, and secondly in the early 1990s, from reduced trade barriers and regulations, and privatisation of sclerotic state-owned enterprises which opened the door to entrepreneurial business activity – China's poverty reduction was largely driven by Western hyper-consumption.

Figure 3: Poverty in China, South Asia & Sub-Saharan Africa



(Source: World Bank data)

What Figure 3 graphically demonstrates is that 20 years of turbo-powered global capitalism has had little impact on the relative percentage of poverty-stricken people in Sub-Saharan Africa, and in absolute numbers, has produced an additional 130 million living in destitution, leaving Africa with over 50% of the world's extreme poor (World Bank 2017).

We live in a world of gross inequality – inequalities in wealth and income are just two. In Australia, we prefer not to dwell on such inequity because it upsets our egalitarian self-image – and besides, we have accepted that capitalism should only provide equal opportunity, not equal outcomes. Wealth is therefore the result of individual effort – Max Weber's thesis of the 'Protestant Work Ethic' attests to such a view (Weber 1905). The corollary to this thesis is that poverty results from too little effort, which is an utter absurdity. For instance, one might wonder, do the Muslim women of Chad watch at least 1 of their 4.8 children die before the age of 5 because their poverty is due to lack of a Protestant work ethic?

The Myth of Equality of Opportunity

Capitalism is founded on the basic premise that everyone deserves an equal opportunity to create

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wealth – albeit that equal outcomes should not be expected; and as the previous section attests, equal outcomes are far from global reality. Christianity professes that all people are equal before God, but also individuals determine by their action whether they have been good enough during their lives to deserve blissful afterlife. Seen from this perspective, capitalism and Christianity appear to merge into one. This is possibly the reason why communism, in its most extreme version, is anti-religion.

While global capitalism perpetrates the Godly fiction that anyone can become wealthy, a certain blunt truth is axiomatic - there is room for only a few among the elite, and those few are the ones with the luck, intelligence, personality, and political and business clout to stake their ground. For instance, in the US, a child born in the bottom 20% of incomes has only a 4% chance of social mobility to the top 20% (Pew 2012).

In truth, equality of opportunity is a constructed fiction - not just between developed and less developed countries, but also within countries. Australia's NAPLAN results are a case in point. The National Assessment Program – Literacy and Numeracy (NAPLAN) is an annual assessment for students in Years 3, 5, 7, and 9. According to the NAPLAN website (http://www.nap.edu.au/naplan/naplan.html), the assessment monitors the "sorts of skills that are essential for every child to progress through school and life, such as reading, writing, spelling and numeracy". Results show clear patterns of disadvantage involving race, socio-economic background, and geographic location. Young Australians from lower socio-economic families, for instance, are more likely to take work pathways leading to poorer adult outcomes, whereas those from wealthier families are more likely to attend university, and achieve better payoff (Altbach et al. 2009; Savage 2013).

The myth of equal opportunity starts at birth, since we are all born unequal - some with IQs of 130 (high), others 80 (low); some have engaged parents who provide supportive education, nutrition, and responsible parenting, while others come from dysfunctional families, where education is scant, a nutritious meal is a 'Big Mac', and parenting is violent, abusive, or ambivalent at best. Some emerge fine from such disadvantage, but numbers are few (Corak 2006; Shapiro 2004).

Beyond IQ and parenting, personality, gender, appearance, and chance are all major components of positive economic payoff - extroverts are more likely to climb corporate ladders than introverts (Barrick & Mount 1991), as are men, than women (Catalyst 2013); in Australia, you are more likely to gain a job interview if your ethnic background is Anglo-Saxon, rather than indigenous, Asian, Arab, or even southern European (Booth et al. 2012); in the US, better looking students achieve higher grades without commensurate higher IQ (Gordon et al. 2014), and African-Americans are chased by debt collectors more vigorously than white Americans (Cohn 2013); and then there's chance - the luck factor, the roll of life's dice. But under the disguise of equality of opportunity, propensity is to allocate good luck to personal acumen, and bad luck to 's*** happens'. More infrequent is insight to see luck for what it is – the primary force in our existence that bears scant relationship to how hard you work, or how much you sycophantically pamper the Christian God.

The myth of equality of opportunity was born from Christian ideals, and continues to grant an ease of conscience - a convenient excuse - that is exploited by global capitalism, allowing inequalities in wealth and income to explode.

Why Does Inequality Matter?

Apart from the obvious moral conundrum inherently presented, there is strong correlation between inequality and violence. Will and Ariel Durant (1968), in a study of 5,000 years of world history, observed that increasing inequality promotes social tension that is always resolved by one of two mechanisms - either state intervention to redistribute wealth, or by popular, most often violent, revolution that achieves that same objective.

More recently, the United Nations Office on Drugs and Crime (UNODC), in a study of 177 countries, reported intentional homicide closely followed wealth inequality. Moreover, changing economic circumstances also impact social violence. For example, the 2007 GFC resulted in increasing Consumer Price Index (CPI) and unemployment in many countries, which also experienced increased crime and violence (UNODC 2011).

In 2013, there were 767 million people, or about 10% of the world's population, living in extreme poverty (World Bank 2017). The United Nations Development Program (UNDP) anticipates extreme poverty to increase to 2.7-3.0 billion people by 2050, or 30-40% of the world's population, under current projections of climate change (UNDP 2013).
Nobel laureate Michael Spence (2011, p.272) concedes:
"The benefits of global openness have been oversold and the potentially adverse distributional impacts brushed aside".

History tells us the outcome of persistent inequality is localised violence. Human migration and brutality spill-over would then necessarily embroil broader regional areas. In the context of such dynamic, further withdrawal of government under neoconservative and libertarian ideological fervor is bound to irritate the knavish inequalities that have rampaged globally since the 1980s -

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the consequences of which will likely have massive ripple effects into economic, social, and political systems the world over.

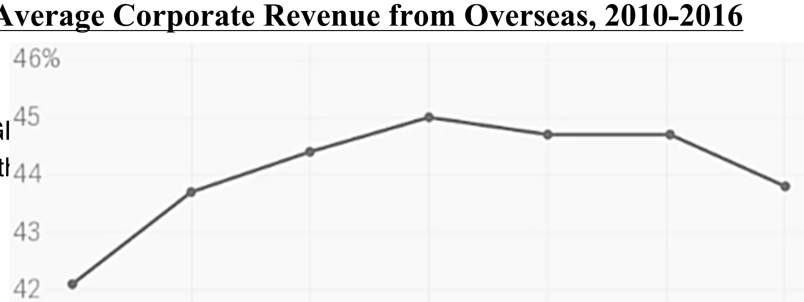
PEAK GLOBALISATION

The concatenation of emerging wicked problems now appear to be manifesting as 'Peak Globalisation' (Constantinescu et al. 2014; Nussbaum 2010) – the proposal that global trade and multinational business interaction has peaked, and is now in reverse. For instance, world financial flows are down 60% since the pre-GFC peak – in 2015, making up 1.6% of global GDP, down from 16% in 2007. Such statistics prompted the Harvard Business Review to question whether globalisation had peaked:

"We, in fact, are living in an era of Peak Globalization as the costs and benefits of globalization begin to diverge according to country, class, and constituency. The international political consensus of the universal economic benefits of globalization that defined much of the 20th and early 21st centuries is breaking down. The centrifugal forces drawing nations toward globalization are giving way to centripetal forces pulling them away from it…the tide of globalization washing across boundaries for so long has reached a peak and is receding. The result will be a more uncertain, chaotic and dangerous world" (Nussbaum 2010, p.1).

Figure 4 shows that corporations have been in retreat from global engagement since about 2013; revenue is becoming increasingly domestic, and hence, trade is in decline. In fact, global trade began to stumble from about 2010 (apart from the obvious impact of the GFC) (see Figure 5), but most worryingly to the IMF, the slowdown has been structural, rather than cyclical, meaning that the normal bounce-back expected following economic downturn has not eventuated.

Figure 4: Global Average Corporate Revenue from Overseas, 2010-2016



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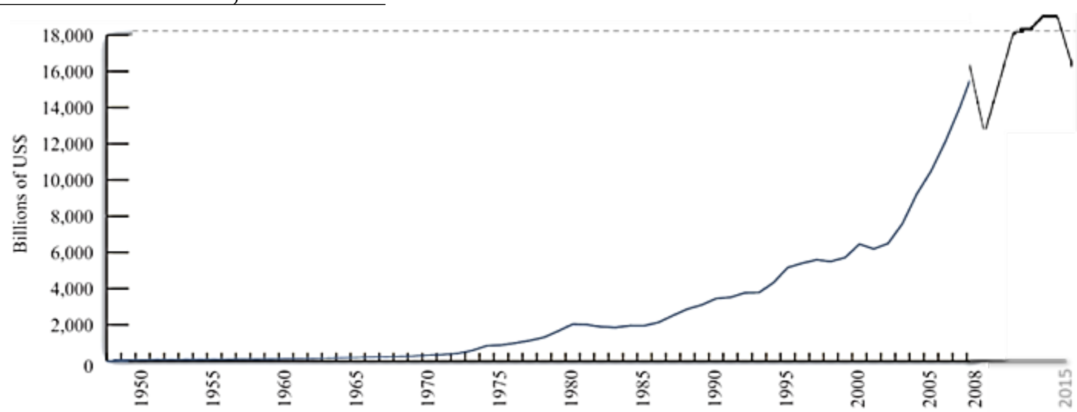
(Source: https://qz.com/index/1047176/with-globalization-in-retreat-companies-are-making-less-money-abroad/)

Figure 5: Global Trade, 1950-2015



(Source: IMF data)

Such dynamic has been caused by maturing global supply chains. For example, during the 1990s, US companies experienced significant productivity gains by offshoring manufacturing to China. But the gains have now largely been exploited, and diseconomies of offshoring are becoming more evident, such as transportation logistics and rising Chinese labour costs. The result is that the global economy is facing a 'new normal' of slower growth, even retraction (Constantinescu

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et al. 2014).

The coming years will more closely define a trend in data for Peak Globalisation. But what is more certain for the moment are the centripetal forces acting against globalisation, such as unaddressed systemic weaknesses in the global financial system; declining trade in hydrocarbons brought on by renewables and fracking; increasing numbers of refugees fleeing violence and adversity, promoting nationalism, extremism, and protectionism in developed countries; and unconscionable inequality and marginalisation nourishing a backlash against the very system that promised wealth and inclusion. Peak Globalisation provides an ominous foreboding of economic decline, which will ultimately lead to stagnation of a fickle global economic system.

SECULAR STAGNATION

In developed countries, GDP growth has been in retreat since the 1970s. Figure 6 shows average decadal GDP growth (dashed lines) to have declined step-wise from 3.8% in the 1970s to less than 2.0% in the 2000s. The primary cause has been dynamic instability, particularly economic shocks of 2001 and 2007. What has kept the global economy afloat since the 1990s is economic growth in less developed countries, particularly China, from where money has flowed to prop-up developed country debt-driven hyper-consumption.

Looking further back in history, the period 1950-1972 appears to be one of 'peak economic growth' – an abnormal halcyon anomaly (see Figure 7). In more recent times, the world has merely returned to something best described as marginally accelerated normal.
Such a trend in economic growth must lead to further decline, and even stagnation – what Krugman (2003) referred to as the 'great unravelling'. This is especially likely given the emerging wicked problems that promise to further undermine future economic growth.

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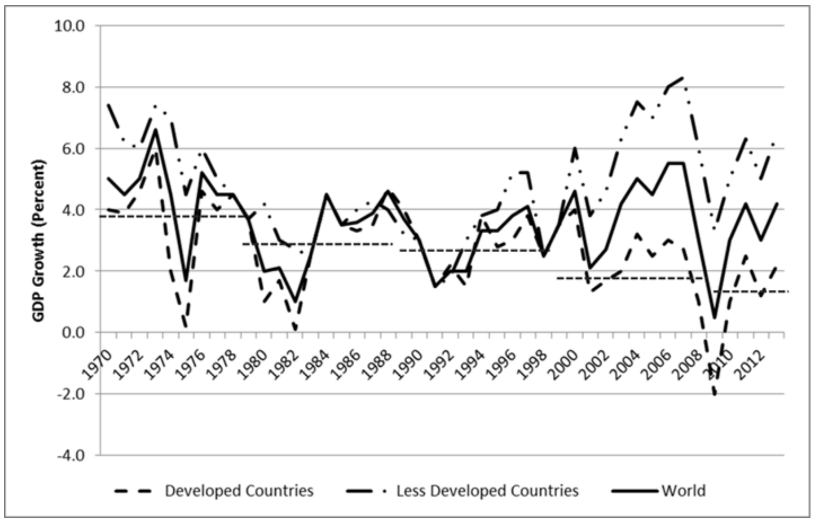
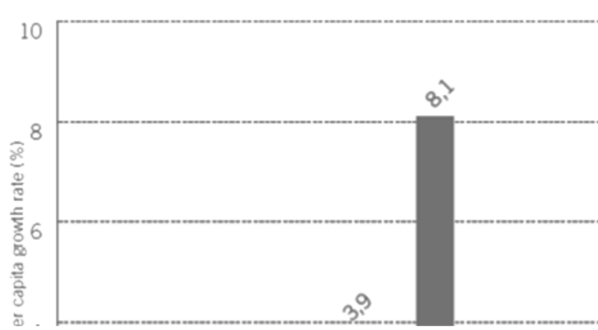
Figure 6: Global GDP Growth: 1970-2013



(Source: IMF Data)

Figure 7: Growth rate of per capita output , 1000-2006



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(Source: Demailly et al. 2013, p.13)

In the 18th century, the eminent economist Adam Smith cogitated on the concept of economic stagnation with considerable disquiet. By the 19th century, John Stuart Mill was writing of the ‘stationary state economy’, the point at which laissez-faire capitalism would inevitably culminate, having reached the limit of economic growth. Unlike Smith, Mill saw this development in a rather idealistic light, linking it to more leisure and liberty (Buckley 2011). Later 20th century reflection by renowned economists Joseph Schumpeter and John Maynard Keynes saw economic stagnation and socialism linked as one in the same (Kerschner 2007), indicating (should economic stagnation eventuate) a highly improbable peaceful political transition in a Western world so consumed by anti-socialism dogma since the end of World War II.

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In the 1930s, Harvard economist Alvin Hansen (1939) was channeling Adam Smith's disquiet when he coined the term 'secular stagnation' in response to the Great Depression, suggesting economic growth in the US was at an end. But 'fortunately' for us all, World War II came to the rescue.

In the 1980s, Magdoff and Sweezy (1987) again suggested secular stagnation had taken hold of the US economy. They argued that the 'greed is good' mentality of the time had created an unsustainable financial bubble that would soon burst. But the fall of the Berlin wall, disintegration of the economically dysfunctional Soviet Union, and Chinese engagement with market capitalism, opened the door for another round of globalisation, and again undermined any suggestion economic growth cannot last forever.

So what we see is a history of people spooked by imagined trends that manifested as merely 'negative incidents', from which subsequent 'positive incidents' turned the tide. But this time may be quite different.

Lawrence Summers (2013, 2016), former US Treasury Secretary, again reinvigorated debate on secular stagnation in relation to lack of economic growth in the years following the 2007 GFC. He described global economics as 'stuck in neutral', and hence, having profound significance for ongoing political stability. So far, he has not been shown wrong, and there is increasing evidence of overwhelming problems on the near horizon that are likely to finally give credence to the secular stagnation thesis.

CONCLUSIONS

Globalisation started to take us in a noble direction. Some artifices of civilisation may have been contaminated by the forces unleashed by modernisation and Westernisation, but overall, at least to this point, globalisation has given at least some benefit to most of humanity. But belief that the future will be an extrapolation of the past is being sorely tested; and evidence is increasingly pointing to likelihood of disjuncture – radical change that will alter the economic, geopolitical, and social fabric of human existence.

From the 1980s, globalisation became extant, omnipresent, and ambivalently random in its distribution of blessings and pain. Unsustainability became the hallmark of a grand system undermined by avidity and inequality; and the offspring of such unsustainability – that is, climate change – has the foreboding of eco-catastrophic outcomes.

Global capitalism, as an economic ideology, is presently at risk of collapse as too many people become beguiled by the folly of the wealth it promises. Reflective analysis of over thirty years of turbo-globalisation now attests to an awkward truth – both our economic and ecological systems are unsustainable, each promising to worsen the squeeze of the other.

The 2007 GFC was initially observed as just another temporary economic wobble along a historical line of economic growth envisaged as lasting into eternity. Since those initial observations, more serious discourse has emerged suggesting the world may be approaching a junction – Peak Globalisation, the end of an economic era, for which little is known of future options.

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Given that average decadal GDP growth has declined from 3.8% in the 1970s to less than 2.0% in the 2000s, economic growth in coming years is unlikely to meet global human development and lifestyle aspirations, especially since market capitalism requires average annual GDP growth of 3-5% per year to keep the party going.

Llavador et al. (2015) concluded that developed countries can grow their economies into the distant future, but only at a maximum rate of 1% per year, and that is premised on far more equality of distribution - that is, we can all benefit by small economic growth if we all cooperate and share growth equitably; for example, with a Universal Basic Income (UBI). Given that capitalism is inherently premised on competition, and motivated by self-interest and greed, the most likely scenario is a 1% growth rate mainly captured by the wealthy elite.

Dobbs et al. (2015, p.8) took a similar positivist approach to analysis of global disruptive trends: "…the same forces that lifted one billion people out of extreme poverty between 1990 and 2010 will help propel nearly two billion more people into the global consuming class in the next two decades…we live in an age of recurring miracles".

Richard Dobbs, and his colleagues, are not academics, rather executives at McKinsey & Co, a global management consulting company, so obviously they do not wish to spook their clients. But also obvious to any reader is a rather fundamental question - in the sobering light of climate change (which is barely mentioned in their book), how will the Earth deal with 10 billion consumers in 2050, all hyper-consuming like those in developed countries today? The answer is simple: It is impossible (Rees 2010; Stutz 2010). Lifting the poor out of poverty to the level of the wealthy, without any change to established patterns of consumption is "one of the greatest myths of sustainability" (Kopnina & Blewitt 2015, p.184).

Compounding the myth of sustainable development are a number of wicked problems, which are promising to act against our global economic system; the most intense of which include climate change, structural unemployment, and inequalities of wealth, income, and opportunities. Instability induced by economic shocks and wicked problems is seeking to undermine compound economic growth – that is, the very life-blood upon which market capitalism is dependent. Continued addiction by governments to GDP growth, and corporations to return-on-investment (ROI), is untenable.

From the 1970s, there has been a stream of eminent observers predicting the demise of economic growth - its ultimate replacement, a Steady State Economy (SSE); 0-1% GDP growth at best (Daly 1977). Such economic anomie carries with it inherent dysfunction for nations, corporations, and individuals, as it translates to social unrest, competitive predation, and high unemployment (Heinberg 2011; Martenson 2011; Randers 2012).

Joseph Schumpeter (1951, p.293) professed:

"Capitalism is a process [of wealth accumulation and economic growth], stationary capitalism would be a contradictio in adjecto".

Such a contradiction in economic sustainability was highlighted by the eminent, and unusually frank, Kenneth Boulding when he quipped:

"Anyone who believes exponential growth can go on forever in a finite world is either a madman or an economist" (Kuper 2004).

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From the mid-1980s, the world also surpassed ecological sustainability (Meadows et al. 2005), at a time when the world's population was 4.8 billion, about 60% what it is today; global GDP was US$22 trillion, about 25% of today's GDP; and energy consumption was less than half. This is our benchmark equilibrium point. A return to sustainability will necessarily mean less money, less food, and less energy consumption spread across more people - 10 billion by 2050. Such a return to sustainability could be controlled to some extent by planned economic recession, requiring substantial government intervention and voluntarily simplified lifestyles to manage decline (Anderson & Bows 2008). But this is politically and socially unsavoury, and hence, unlikely.

More probable are dominant themes from this time forward, including beggar-thy-neighbour trade policies, lower real wages, disintegration of state welfare, greater controls on immigration, and the real possibility of secular stagnation. The fallout of such global themes are yet to be fully visualised, but is likely to involve increasing international conflict and violence, especially in many less stable countries (Smith & Vivekananda 2007).

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Corporate Sustainability in SMEs: A Literature Review

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Abstract

Corporate sustainability is a well practiced area in big organizations. Communication of their sustainability performance and its perceived benefit is evident in these companies. But literature suggests that in case of SMEs the situation is different. Social and environmental sustainability practices are grossly neglected in SMEs more specifically in emerging markets like India. After setting the theoretical background on why the corporations need to share the responsibility of sustainable development we did a high level literature review to estimate the gap area and based on that formulated some research questions. Next using 'Literature Survey' as our methodology we did a thorough in-depth literature review to answer the above research questions and

organised the findings in light of those research questions. Considering the research gap and the crucial role of SMEs in a country's economic progress we restricted our literature search on corporate sustainability in case of SMEs only. Based on the recommendations and suggestions of different scholars as found in the detailed literature review, we developed few research propositions and also presented a conceptual model. Finally to address the gap it mentions some future research possibilities to test and validate the proposed model in the context of SMEs in emerging markets.

Introduction

Economic liberalization during early nineties, privatization, globalisation of trade and government intervention through policy regime concerning the societal and environmental impacts of business operations have created increased awareness of the companies on their brand reputation and their relationship with multilevel stakeholders. As a result the terms like 'Corporate Citizenship', 'Corporate Accountability', 'Corporate Social Responsibility' and 'Corporate Sustainability' have surfaced. Though there is a subtle difference in the terminologies from the point of perception, activity wise the concepts are one and the same in their core and these phrases are interchangeably being used in the literature.

Corporate Sustainability deals with a concept that tells how corporations, along with their usual goal of profit maximization need to focus on their involvement in social and environmental improvement to enhance the sustainability of their business operations in long term. Corporate Sustainability unlike the earlier concepts of added-on policies, explains company strategies and practices developed around economic, social as well as environmental considerations.
Povillus (2010) mentions that CS and CSR concepts are interchangeable as far as their values and scope of activities are concerned. While earlier papers use the term 'Corporate Social

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Responsibility' to emphasize on the social and environment protection activities of the organizations the more recent papers term it as Corporate Sustainability'. Earlier concepts considered engaging in community development and reducing the negative environmental impact of their business operations as some voluntary ethical and philanthropic activities on the part of the organizations. But nowadays these activities are no more considered as voluntary but are the vitalities for the very sustenance of the company. Sustainable business practices integrated within the core business strategy, remains strong and are comparatively less susceptible to cost cutting measures during economic downturns than the same, as a philanthropic add-on.

While economic viability for obvious reason has remained the most important factor for sustainable business for centuries, other two dimensions of sustainability that is social and environmental aspects have not been focused till very recently nations and business community have started realizing the importance of these two so far neglected dimensions in achieving the long term business sustainability.

The idea to grow without damaging the prospect of future generation is increasingly becoming the core concept in business philosophies. This was further elaborated by the 'Triple Bottom Line' (TBL) concept, explained by Elkington (1997). The concept proposes that "The business goals are inseparable from the societies and environments within which they operate."
Theory of sustainable development contributes to the concept of corporate sustainability by identifying the area of focus for the companies on environmental, social, and economic dimensions and setting a common socio-economic goal that help corporations, governments, and civil society to work in tandem towards ecological, social, and economic sustainability of the nation. The term "Sustainable Development" was first popularized in 1987, in the 'Brundtland

Commission's Report', 'Our Common Future', published by the 'World Commission for Environment and Development' (WCED). It defined sustainable development as "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs". According to this report, policy makers and regulatory bodies cannot be the sole owner for the responsibility of achieving sustainable development. The corporations have always been the agents of economic development for the country. Moreover these corporations can also be held responsible for some of the unsustainable environmental and social conditions of the present day. At this hour of need for sustainable development corporations should come forward to work more proactively towards the goal of social equity and environment protection. More importantly their strong financial and technological base would act as an added advantage for them to shoulder this additional challenge.

Thus we see, today corporate sustainability is a well practiced area in big corporate houses. Communication of their sustainability performance and its perceived benefit is evident in these companies. But literature suggests that in case of SMEs the situation is different. Social and environmental sustainability practices are grossly neglected in SMEs more specifically in SMEs of emerging markets like India. Considering the crucial role of SMEs in economic development of a country, this paper does a thorough literature review on the corporate sustainability scenario in case of SMEs across the globe and identifies the research gap.

This paper is organised in the following way. (1) First it does a high level literature review to estimate the gap area and based on that formulates some research questions. (2) Next using 'Literature Survey' as the methodology it does a thorough in-depth literature review to answer the above research questions and organised the finding in light of those research questions. (3) Based on the recommendations and suggestions of different scholars as found in the detailed literature review, we developed few research propositions and also presented a conceptual model. (4) Finally to address the gap it mentions some future research possibilities to test and validate the proposed model in the context of SMEs in emerging markets.

Corporate Sustainability in SMEs – Research Questions

The reason that we restricted our study for SMEs only is that considerable research gap exists in this area and also SMEs contribute immensely to the economic progress of a country. Although have a minimal impact individually, statistics have shown that, SMEs together account for close to 90% of global businesses and create 50-60% of the total employment worldwide. It is important to study the sustainability factors of this huge sector with potential growth possibilities.

Role of corporate sustainability in driving business performance has been well researched in case of big corporations for developed nations. In Japanese companies business benefit coming out of Environment sustainability practices has been quantified and well linked with corporate strategy (Patrick & Greenwald, 2014). Also companies with balanced economic, social and environment practices, although show lower growth rate, are less susceptible to growth volatility, stock price volatility and have better resistance against higher stock market crash (Justyna et al, 2013). Jooh Lee and Niranjan Pati (2012) explored the relationship between corporate sustainability performance, measure through Pacific Sustainability Index, and financial performance. They observed a significant positive relationship between the two. Palmer (2012) established a strong positive relationship between corporate sustainability performance and Corporate Financial Performance for a sample including most of the S&P 500 firms. However, corporate sustainability in small and medium companies is comparatively a less researched area. Although

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some research work has been done to identify sustainability practices in case of SMEs in western, developed market, no attempt has been made to relate the effectiveness of these practices in driving business performance. Big companies have embraced corporate sustainability practices as part of their overall business strategy, but this strategic approach towards sustainability practices is lacking in case of SMEs. In China SMEs are engaged in some form community and environment protection activity and show some ethical practices but they do not consider it as CSR and thus lack on the strategic commitment in this respect (Meng and Cheng, 2012). For Czech SMEs the CSR concepts are well understood but they lack strategic dimension (Cesar Duch, 2010). Current social and environmental practices in SMEs are totally ad-hoc, unorganised, local in scope and are driven by the individual value system of their owner managers. Maria (2010) mentions that CSR practices in SME are informal, unstructured and occasional in nature and are not part of company strategy. Smaller firms engage in socially responsibility activities that are informal, local in scope and less driven by business case considerations (Lutz and Jack, 2010).

Following the difference in understanding and mode of execution of sustainability practices of SMEs with big corporates and limited research in this area we formulate the following research questions.

Research Questions 1: What level of understanding regarding the sustainability issues exist among the SMEs?

Research Question 2: What are the factors that influence the sustainability practices in SMEs?

Research Question 3: What are the issues and challenges SMEs are facing in implementing the sustainable practices?

Research Question 4: How SMEs can address the challenges faced by them in implementing sustainability Practices

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Research Question 5: Does improved sustainability performance help in improving the business performance of SMEs?

Methodology

We conducted a thorough literature survey and did a meta- analysis of the reviewed literature to address our research questions. In order to understand the commonalities and differences of sustainable business behaviour in terms of perception, practices, motivational factors and challenges that SMEs in different geographies around the world are facing, we have identified 100 papers in the period between year 2010 to year 2016. As a literature selection methodology we have searched peer reviewed scholarly journals from EBSCO, Emerald and ProQuest databases in the above mentioned period using four search key words 'Small and Medium Enterprises', 'Corporate Sustainability' and 'Corporate Social Responsibility' and 'Performance'. It is observed that while most of the studies are conducted in the European context followed by some studies in the context of Australia, very few studies are done in the context of developing countries in Asia, Africa and Latin America.

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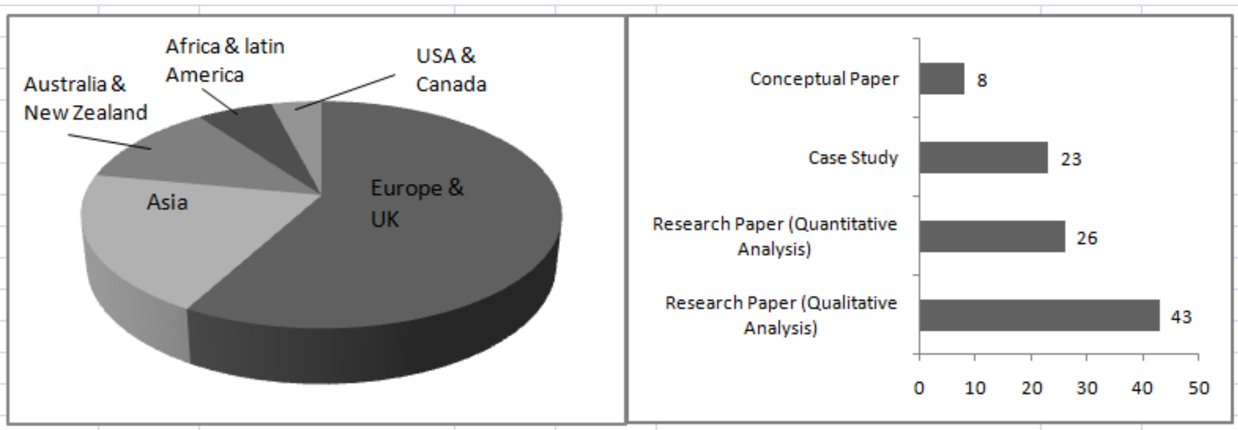

Figure 1 : Geography wise and Category wise distribution of Reviewed Literature

Out of 100 papers, we have short listed, there are 23 case studies and 8 are conceptual papers while a majority are research papers. 43 research papers used exploratory qualitative analysis but remaining 26 research papers used quantitative data analysis using statistical techniques.

We have also consolidated the findings and suggestions of the scholars and tried to identify the commonalities in sustainable business practices in the SMEs of different geographies in terms of

a. Perception of Corporate Sustainability among SMEs
b. Practices and Communication of Corporate Sustainability in SMEs
c. Drivers of Sustainability Practices among SMEs
d. Challenges faced by SMEs in implementing sustainability practices

Literature Review

Perception of Corporate Sustainability among SMEs

Empirical researches have been conducted across geographies with an aim of understanding the perception of sustainability or CSR among the SMEs. From the literature it is evident that

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although the term corporate sustainability is not very familiar among the SMEs, concept wise understanding of CSR or sustainability does exist among them. In general SMEs consider sustainability as a means to maintain a balance of social, economic and environmental demands and also to respond to the stakeholders' expectations to reduce social or environmental impact of their business operations and build competencies for creating positive impact on society and environment (Lin Chi Vo, 2011)

While good level of awareness on sustainability issues and their strategic importance in seen in SMEs in Australia and some European countries like United Kingdom and Belgium, SMEs in China and in other European countries like Czech Republic, Lithuania, Latvia and Poland although have some form of sustainability practices, lack their strategic imperative and do not have sustainability practices deep rooted in their system.

In Irish SMEs high level of awareness is found on legislative, occupational health and safety and lifestyle-related activities while awareness level is low on human resource policies and procedures, training and development and environmental practices (Ann Moore, 2010). In New Zealand SME owner managers' attitude towards CSR varies. Owner managers who consider CSR as a 'business opportunity' and 'responsibility' can better balance their commitment to sustainability without compromising their economic performance, than those who consider CSR either as a 'cost burden' or the 'bottom line' (Martina et al 2011).

Table I : Perception of Corporate Sustainability in SMEs

Country	**Literature**	**Findings**

Context	Reference	
Australia	Abdul Moyeen et al, 2012	Managers understand the CSR concept and have CSR policy embedded in organisation's strategy,
	Jean, 2013	Good level of awareness exists on the environmental impact of their business and the concern of the stakeholders'
Belgium	Fassin et al, 2011	SME Managers put more emphasis on governance and ethical issues of sustainable practices
UK	Cheryl, 2010	High level of awareness seen among SME managers regarding social and environmental aspects of their business.
Lithuania, Latvia, Poland	Alexander et al, 2010	CSR concept exists in the sampled European SMEs from countries like Lithuania, Latvia and Poland but the same has not taken a deep root

Practices and Communication of Corporate Sustainability in SMEs

In general it is seen that SMEs do take up some kind of sustainability practices but in most cases they are occasional, informal, unstructured, and local in scope and not managed as part of their business strategy. They also do not communicate their social and environment activities under the CSR banner. Sustainability activities are more focussed towards social issues than on environmental concern although there are some evidences of SMEs especially in Japan making effort to reduce the environmental impact of their business operations. While internal CSR activities are more around the HR practices like workplace health, safety, training and development, external CSR activities mostly revolve around philanthropic activities like charity and donations.

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Usage of sustainability management tools is found to be low in most of the SMEs. This is because most of the sustainability management tools are developed in the context of big corporations and fail to address the specific necessities of the SMEs. Also, on the SMEs part their lack of awareness on the existence of such tools and their lack of knowledge on the usage of the tools contribute to the lower level of usage of these tools.

While in some African countries like Nigeria and Tanzania good amount of CSR practices are being undertaken by SMEs, in countries like South Africa and Rumania SMEs show minimal concern about sustainability issues. In New Zealand and Romania, for many SMEs, their limited CSR activities are used only as a marketing tool and they adopt only those activities that help in direct cost reduction.

Table II : Practices and Communication of Sustainability in SMEs

Country Context	**Literature Reference**	**Findings**
Australia	Moyeen et al 2012	CSR activities are mainly through participating in community projects but environment focus is less evident
	Janet et al 2010	Some SMEs apart from community engagement initiatives make effort to minimise environmental damage of their operations
Germany	Matthew & Johnson, 2015	The sustainability management approaches go beyond legislative and regulatory mandates but usage of sustainability management tool is low
Hungary	Noemi et al (2014)	Due to the lack of awareness of availability of SME specific sustainability tools, their usage is low.
Netherla	Franz 2012	SMEs are less ambitious with regard to explicit CSR but in turn more

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nds		active in practice especially those related to human resource practices.
UK	Lutz & Jack (2010)	Smaller firms engage in socially responsibility activities that are informal, local in scope and less driven by business case considerations.
Nigeria, Tanzania	(Kenneth, 2015).	CSR effort goes beyond philanthropy, expanding it in areas lacking public action.
South Africa	(Watson & Solly, 2012).	SMEs are worst placed in terms of CSR practices. Their limited social activities are merely being used as a marketing tool
USA	(Christina et al, 2016).	SMES have utilised HR activities in support of the implementation of sustainability in organisations
Japan	(Haron, 2015)	Apart from environmental practices of energy savings, emission reduction SMEs, as a part of their communal corporation concept, put strong emphasis on the well being of the people in the company
Romania	Ionela et al (2012)	CSR practices are at its infancy and the level of quality certification in this area is low. Disclosure of selective CSR practices are used merely as an additional advertising tool
New Zealand	(Sue & Kate, 2011).	SMEs get involved in only those sustainable practices that help them to reduce cost

Drivers of Sustainability Practices among SMEs

Regulatory pressure, public scrutiny, stakeholders demand in most cases act as the driving force behind SMEs resorting to responsible business practices, although there are good number of evidences where SMEs voluntarily take up environmental and social responsibilities.

Table III : Drivers of Sustainability in SMEs - Regulatory Pressure

Country Context	Literature Reference	Findings
Norway	Rune, 2011	Being under public scrutiny act as the main driver force behind the recent increased CSR activities in these companies.
Romania	Violeta, 2011	Regulatory and legislative intervention by government and increased number of awareness programs, related articles and journals have boosted up the recent development in some socially responsibility practices in Romanian SMEs
Spain	Elena et al, 2011	The market pressures and laws are major key drivers for CSR in SMEs
UK	Mohammed, 2016	Government action and introduction of green taxes, high energy price are some of the factors promoting environmental practices in SMEs

In SME context their owner managers' value system, their sense of ethics and their concern for the local community often becomes the main driver for the sustainability activities taken up by them. Owner-managers of SMEs, who view their employees as legitimate stakeholders of the firm, introduce employee-oriented CSR out of their sense of moral responsibility towards their employees (Jong, 2011).

Table IV : Drivers of Sustainability in SMEs– Owner Manager's value system

Country Context	Literature Reference	Findings
Australia	Moyeen et al	Apart from business interest or regulatory pressure CSR is also

	2012	internally driven by the owners' consciousness for community and environment.
	Suzanne, 2013	Community responsibility of micro businesses are partly driven by the enlightened self interest of the owners
Italy	Maria et al, 2013	Ethics and value systems play a significant role in devising sustainable corporate strategy in
	Baldo 2012	Entrepreneur's values and orientation has helped in the diffusion of CSR and sustainability practices within the organization
Turkey	Banu and Caner, 2013	Owners personal value system influence their perception of social and environmental concerns to influence their decision making process.
Singapore	Lee et al, 2012	Individual values act as one of the main drivers of CSRs among SMEs
USA	Milne et al, 2013	Owners' values are central to the SME pursuit of CSR.
China	Meng & Cheng , 2012	In China, community and environment protection activities of SMEs are driven by personal value system of the top management

Structural flexibility and hierarchical simplicity act as an added advantage for SMEs over large corporations in implementing sustainability practices.

Table V : Drivers of sustainability in SMEs– Structural flexibility

Country Context	**Literature Reference**	**Findings**
Netherlands	Hike et al, 2010	Flexible organization structure and motivated personnel benefit SMEs over large companies in implementing sustainability practices

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USA	Milne et al, 2013	SMEs may have an easier time pursuing CSR than large companies because of their correspondingly smaller supplier base and ease of working

Considering their limited capacity, power and resource constraint SMEs often resort to cluster mode of operation. Being a part of the social network, proximity and reciprocity with local communities help them to address the resource and capacity challenges to implement effective sustainability practices. Individuals with very positive attitudes about their local communities were more likely to serve in leadership positions and make financial and technical contributions to the community (Margaret 2010).

Table VI : Drivers of Sustainability in SMEs – Proximity with local community

Country Context	**Literature Reference**	**Findings**
Australia	Suman. 2013	Explains the CSR rationale in the light of Social Capital Theory where inclusion in social network and reciprocity help to address the resource and survival challenges.
Finland	Merja et al, 2012	Proximity and reciprocity with the local community influences the CSR perception and practices among SMEs
	Baldo, 2012	Inclusion of the company on a network of institutions, trade associations and non-profit organizations has helped in the diffusion of sustainability practices within the organization
Romania	Tita Sava, 2011	Social Responsibility in Romanian SMEs in automotive industry are driven more by customer need than by compliance to laws.

Malaysia	(Pavitra et al, 2015)	Customer pressures and perceived benefits were found to be positively and significantly influencing green purchasing adoption for SMEs
	(Mehran et al 2014)	Among the primary stakeholders, employees and customers significantly influenced environmental responsibility practices of MSMEs.
	Raja et al, 2014	A positive link was found between involvement of various stakeholders like suppliers, customers, employees and senior managers and environmental management practices in SMEs

Government support, funded awareness programmes, in many cases act as a booster for SMEs taking up CSR activities.

Table VII : Drivers of Sustainability - Awareness

Country Context	**Literature Reference**	**Findings**
Australia	Emma 2014	Higher awareness of CSR issues leads to higher level of implementation
Philippines	Banjo and Doren, 2012	Awareness of and appreciation for environment sustainability activities are the main reason of the environment sustainability orientation in SMEs in Philippines.
Brazil	Santos, 2014	Sustainability Education is an important pillar in promoting sustainable practices in micro organizations in Brazil

Opportunity for innovation, cost reduction by environmental sustainability practices, improved brand image, increased competitiveness also act as drivers for SMEs taking up sustainability

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practices. Attraction and retention of skilled manpower act as a strong motivation behind taking up employee related sustainability practices.

Table VIII : Drivers of sustainability – Scope for Innovation

Country Context	**Literature Reference**	**Findings**
Bangladesh	Huq & Mark, 2014	The main motivation behind implementing employee related sustainability practices in Bangladesh SMEs is the retention of skilled employees ().
Morocco	Baz et al 2016	SMEs ensure better working conditions for employees and guarantee the quality of their products and services.

Improved financial performance can act as the strongest driver for sustainability practices but the business outcome of sustainability practices is not very obvious in short term, although some researchers have empirically established a positive correlation between the two.

Table IX : Drivers of Sustainability in SMEs– economic performance

Country Context	**Literature Reference**	**Findings**
Australia	Heather et al (2014)	Greater social and environmental engagement have directly attributed to the SMEs' improved business performance.
Australia	Nuttaneeya (2012)	Proactive CSR is associated with improvement in financial performance
Netherlands	Hilke et al	SMEs with sustainability integrated in their innovation processes show

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	(2010)	improved economical performance.
Ghana	Hayford, 2016	There is a strong influence of green orientation on performance of SME
Portugal	Miguel 2014	Empirically established the existence of a valid positive relationship between companies' social performance and key business results
Malaysia	Mehran et al, 2014	Environmental responsibility practices results in financial improvements and better relations with employees and customers.
China	Tang, 2016	SMEs build its environment conservation strength to increase its competitiveness.
Uganda	Venter et al, 2014	The potential outcomes of CSR in SMEs have significantly impacted the competitiveness of SMEs.
Morocco	Buz et al, 2016	SMEs are engaged in CSR to avoid additional financial costs and to maintain competitiveness in the existing market.

Although for SMEs in all countries the rationale behind their sustainability activities are common, difference can be observed in terms of the main cause driving their sustainable practices. For example, in countries like Norway, UK, Romania, and Spain regulatory pressure is the main reason for sustainable practices, for countries like Australia, Italy, Singapore, China and USA it more due to the value system of their owner managers. Again for countries like Romania, Finland and Malaysia their sustainability practices are mainly driven by expectation of stakeholders mostly the demand of the customers. In some SMEs in Brazil, Philippines and Australia higher level of awareness about environment and social issues has helped in effective implementation of sustainability practices.

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Challenges faced by SMEs in Implementing Sustainability Practices

Challenges faced by the SMEs in Sustainability initiatives can be categorised into two parts – ‘understanding or perception challenge’ and ‘execution or implementation challenge’. Understanding challenge includes lack of knowledge and awareness on the part of SMEs to perceive and quantify the positive or negative impact of their business operations on environment and society and appropriate sustainability activities to address the relevant issues. Indentifying different level of stakeholders and understanding how their interests align with the overall business interests of the company comes under the ‘perception challenge’. ‘Execution or implementation challenge’ explains that the cost of planning monitoring, evaluation, communication and certification of sustainable practices can cause a heavy toll on the bottom line of these small scale operations and thus becoming a growth impediment for the SMEs specially in developing countries.

Resource constraint and limited capacity have been identified as the biggest challenges in SMEs in implementing sustainability practices. Another important constraint is unavailability of sustainability management tools. The available sustainability assessment and management tools are aligned predominantly to the context of larger firms in developed countries. Majority of the tools on offer do not take into account the limitations that are imposed on SMEs by the socio-economic and socio-cultural contexts of the country in which they operate (Peter et al 2014). While lack of knowledge and lack of appreciation for taking up social and environmental projects are identified as barriers to sustainability management activities for most of the countries, absence of institutional environment, lack of policy support and unavailability of framework and guidelines have been the barriers in specific country context. Lack of perceived

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business benefit coming out of sustainability practices is also pushing the sustainability practices to a back seat in many SMEs.

While SMEs in countries like Australia, UK and Singapore consider the resource constraint as the biggest challenge for implementing sustainability practices, countries like Turkey, Poland, Latvia, Lithuania, Morocco and Bangladesh view lack of knowledge, unavailability of institutional environment and government support as the main barrier to sustainable performance.

Table X : Implementation challenges of sustainability practices in SMEs

Country Context	**Literature Reference**	**Findings**
Australia	Moyeen et al 2012	Time, money and resources are the main barriers to CSR
UK	Simon 2012	The cost of external advice, limited access to information are some of the predicaments in the process of going green
UK	James 2016	SMEs do not show any interest to embrace sustainability practices as they fail to view the immediate financial outcome of it.
UK	Ben and David 2016	Limited access to capital and shortage of skilled manpower are acting as barriers towards developing environmentally sustainable business
Singapore	Lee et al 2012	Lack of various resources as key barriers to CSRs among SMEs
Turkey	Caner & Banu 2010	Very low level of communication and visibility of their existing CSR practices act as a barrier to further motivation of sustainability

		practices
Poland	Magdalena & Popowska 2015	SMEs have an inclination to perform socially responsible activities but very often they have no idea how to do it or how to obtain a competitive advantage out of these practices
	Justyna et al 2014	Poor CSR implementation results from the lack of awareness and lack of comprehensive knowledge of the aims, objectives and outcomes of a CSR based management model
Latvia, Lithuania & Poland	Alexander et al, 2010	Lack of appropriate institutions, guidelines and methodologies to support SMEs specifically in planning, monitoring and evaluation of their SR activities have prevented CSR activities to take deep root
Bangladesh	Hasan 2016	Corruption, Weak regulatory environment, inefficient or ill-suited government and external support and a lack of awareness of the environmental and social responsibility prevent sustainable engagement of SMEs
Morocco	Baz et al, 2016	Lack of institutional incentives, and practical CSR standards, as well as by their own national CSR issues are the main challenges for CSR implementation in Moroccan SMEs

Discussion

Comparative literature analysis shows that although there is varying level of understanding among the SMEs about business sustainability issues, most of the SMEs, in the context of the developed nations, engage in social and environmental practices limited to their capacity and resource constraints. Employee welfare is a major factor under social dimension of sustainability practices and different cost cutting measures form part of their environmentally responsible behaviour. There are also some evidences of participations of SMEs in community development programs. Although collaborative mode of working is evident in many cases, collaboration along the value chain with suppliers and customers are yet to be realised. Communication and tool based monitoring of sustainability practices is an issue in most of the SMEs both in developing and developed nations. Apart from regulatory pressure and owner managers' value system and ethical conscience other major driving factors for sustainability practices in SMEs are better awareness of local issues, opportunity for innovation. Also, absence of an institutional environment and unavailability of customized tools and frameworks are the main challenges faced by the SMEs willing to take up social and environmental considerations as part of their business strategy. Most of the researchers suggested that collaboration within the cluster and also along the value chain, government intervention through policy regime, external facilitation by NGOs and other institutions can be effective in driving sustainability practices within SMEs in a more effective and organised way.

Although it has been observed from literature study that SMEs in developed western countries are better placed than the SMEs in emerging markets of South East Asia, Latin America and Africa, it is not possible to rank the countries in terms of their sustainability performance. While some aspect to sustainability like environment is more focussed in some countries, social factors are more important for others. In terms of driving forces behind sustainable practices, it varies from regulatory pressure to owner managers' value system or stakeholders' demand. These differences can be attributed to the differences in government policy, institutional environment, difference in cultural alignment and economic status of these countries. Again, for the same country differences in financial and resource position among medium, small and micro organizations show difference in their responsible business practices.

Research Proposition and Conceptual Model

Irrespective of size all companies need to put special attention to all three dimensions of sustainability like economic, environmental and social in order to have a balanced CSR approach. For SMEs considering their resource constraint, collaboration is the only way to their sustenance and also the best way to realise their sustainability goals. Santos (2014) mentioned that challenges like resource constraints can be overcome through collaboration. However alliances and networks can only be leveraged to solve common problems and share best practice CSRs if the SMEs are willing, able and prepared for disclosing and sharing of environmental information which is the precondition for decreasing the information asymmetry in this field (Jozica, 2004).

Literature has suggested that collaboration partnership and communication would positively influences sustainability performance. Through collaborative operations SMEs can become instrumental in transmitting sustainability requirements of their customers and thus effectively diffuse the sustainability practices across the supply chain (Silvia et al, 2013). Role of MNCs and big corporate houses is important here. According to Trans and Jepenses (2016) MNCs should share the CSR implementation costs with the SMEs in their supply chain.

SMEs often lack in communicating their sustainable practices to their stakeholders. Reporting and open communication creates transparency among stakeholders. A shift from auditing and monitoring to more open dialogue among different stakeholders especially suppliers and customers will prevent the SMEs to resort to unethical practices of mock compliance (Huq & Mark, 2014). Growth through proper communication to all stakeholders including the internal stakeholders like employees and external stakeholders like supplier, customer and local

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community is necessary for sustainable development (Hardeep, 2011). Increased level of CSR communication in the company website can boost up the morale of the employees towards the sustainability goals (Caner & Banu 2010). Strong communication channel and commitment to training programmes can increase the interest of SMEs for embracing sustainability practices (James, 2016). These views put together forms the basis of our first research proposition.

Table XI : Recommendations and Suggestions - Sustainability through Collaboration

Country Context	**Literature Reference**	**Findings**
Australia	Heather et al, 2014	Sharing of best practice CSR cases in SME environment provides a platform to encourage and support other SMEs to follow similar strategies by learning through the process of collaboration.
	Janet et al, 2010	Sustainability practices can be strengthened by forming a forum where in different NGO can facilitate sharing CSR best practices and can jointly address different sustainability related issues and challenges.
Finland	Annmarie, 2011	A network perspective has much to offer in facilitating the transition towards a network level culture of sustainable business practices.
Italy	Massimo et al, 2010	A cluster approach for SMEs helps to collectively answer to new market requests.
Norway	Heidi, 2011	A cluster approach or a network model can address the limitations faced by the SMEs while trying to implement CSR individually
Poland	Magdalena et al, 2015	Operating together, in the form of clusters, or with the support of NGOs in introducing CSR can address the implementation issues in SMEs.

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Brazil	Santos, 2014	Challenges like resource constraints can be overcome through partnership and collaboration.
Vietnam	Tran & Jepensen, 2016	A collaboration of private and state regulation could be a win–win outcome for all stakeholders.
Turky	Caner & Banu (2010)	Increased level of CSR communication can boost up the morale of the employees towards the sustainability goals.
Auatria	Ulrike and Gelbmann (2010)	A Quality CSR seal can improve their communication and increase the visibility of the SME to their stakeholders and thus gain support to address the implementation challenges.
UK	James, 2016	Strong communication channel and commitment to training programmes can increase the interest of SMEs for embracing sustainability practices.
Europe	Ana Mulovic, 2015	Strong CSR Communication for the building and maintaining favourable reputations and relationships with key stakeholders is necessary.
Banglad esh	Huq & Mark, 2014	A shift from auditing and monitoring to more open dialogue between different stakeholders will prevent the SMEs to resort to unethical practices of mock compliance.

Research Proposition 1a: Partnership Collaboration and Communication within the cluster and along the value chain will positively influence firm's sustainability performance.

Corporate Sustainability literature suggests role of government through policy regime, issuance of SME specific guidelines and standards, encouraging development of sustainability management tool catering to the specific need of SMEs is important. Geographic spread of the

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SMEs is much wider within the country which can be effectively leveraged in the process of inclusive growth. Government can play a significant role by introducing some kind of mandatory obligations of responsible business behavior on the part of SMEs. Alexander et al (2010) focussed on government intervention and cooperation of the external facilitators to boost employee morale and relationship with customer and community. Codes of conduct transmitted from TNCs and an active governmental role is necessary for boosting sustainability practices in SMEs in India (Nimruji, 2012). Banjo & Doren (2012) suggested that Government policies and programs to encourage small firms in Philippines to become sustainable should go beyond financial forms of assistance. On Government part enforcing labour code is also essential (Trans and Jepensen 2016).

Facilitation by NGOs in implementing sustainability practices in SMEs need to be customised to address the specific requirements of the SMEs. Role of accountancy professionals is also important in this respect. However their knowledge in the sustainability field, local norms and economic climate needs to be widened. Laura et al (2012) suggests that through collaboration and partnership with different social and environmental bodies and also through relevant certification sustainability audit professional can enhance their knowledge base to effectively facilitate the implementation of business sustainability practices in SMEs. We integrate these views to formulate our next research proposition.

Table XII : Suggestions and Recommendations – Sustainability through Policy facilitation

Country Context	**Literature Reference**	**Findings**
Australia	Suzanne, 2013	More government support will help the micro business to do the business and do good simultaneously.

	Belinda, 2015	Accounting professionals can be effective in assisting SMEs in implementing sustainable business practices.
Spain	Silvia et al (2013)	Big corporations can support SMEs to act as transmitter of sustainability requirements and diffuse it across the supply chain.
Germany	Matthew & Johnson (2015)	Government intervention through soft policies and by development of sustainability management tools to better suit the SME needs and issues is required.
Germany	Johana et al (2012)	Proactive approach and facilitation by public intermediary, is one essential push factor to trigger eco-innovations in SMEs with low absorptive capacity
Portugal	Maria, 2011	Government action and inter-institutional cooperation is required to enhance the social and environmental practices of the organization
Philippines	Banjo and Doren, 2012	Government policies and programs to encourage small firms to become sustainable should go beyond financial forms of assistance.
Europe	Hansen et al, 2012	Handholding needs to be customised to effectively cater to the need and feasibility of the SMEs in Europe
Taiwan	Meng & Cheng, 2012	More expert guidance, availability of tools and government support can help removing the implementation challenges.
Nigeria & Tanzania	Kenneth, 2015	In terms of policy implications, government should intervene to facilitate SMES in strategy formulation in line with the local expectations.

Research Proposition 1b: Government intervention through policy regime and external facilitation positively influences firm's sustainability performance for SMEs.

Apart from collaborative approach and external support from government and NGOs, it is very important on the part of SMEs to foster a culture of sustainable practices within the organization. Proper training and awareness programme on sustainability management can create a culture of sustainable development within the organization.

From their current mode of informal and unorganised sustainability practices SMEs should make a shift towards a strategic approach for responsible business practices. Dercy et al (2014) suggests a model where the sustainability in terms of human resource practices can be strategized through a maturity development ladder starting from Reactive Stage, through Tinkering Stage, Entrepreneurial Stage and finally to Expertly stage where the company not only focus on operational HR considerations like employee relationship behaviour or people management practices but also focus on a strategic action to maintain well stocked human capital pool. Learning and knowledge build up is required to facilitate increased usage of sustainability tools (Jacob et al, 2015). Having awareness on sustainability management is important for its effective implementation. Rewarding green initiatives and putting sustainability targets in the goal sheet of managers can help develop and organization culture for promoting sustainability practices. SMEs should build continuing accountability for sustainability progress into position descriptions and performance appraisals and implement incentives that encourage sustainable behaviours (Christina 2016). Increased awareness of social responsibility and wider level of information flow regarding sustainability concerns can lead to increased responsiveness of the organization towards environmental issues (Dolores et al, 2012).

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To facilitate environment responsibility in SMEs administrators and policy makers can educate employees and customers to increase their awareness level (Mehran, 2014). Based on these observations we frame our third proposition.

Table XIII : Suggestions and Recommendations - Sustainability through Organisation culture

Country Context	**Literature Reference**	**Findings**
Germany	Jacob et al (2015)	Learning and knowledge build up is required to facilitate increased usage of sustainability tools
Hungary	Noemi et al (2014)	Increase in the awareness and support of big companies help manage sustainability practices with tools.
Portugal	Maria, 2011	Intervention in certain areas like information, increasing awareness and education, tools, support instruments, monitoring and assessments is important
USA	Christina, 2016	SMEs should build continuing accountability for sustainability progress into position descriptions and performance appraisals
Spain	Dolores et al, 2012	Suggests that increased awareness of social responsibilities, wider level of information flow lead to increased responsiveness of the organization towards environmental concerns.
UK	Lynn & Clare, 2013	Awareness through education and training can effectively undermine the size and resource related constraints of SMEs.
	Iain, 2010	A key method in incorporating CSR in their business activities for SMEs is through increasing employee knowledge for the target beneficiaries of the CSR programmes.

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Malaysia	Mehran, 2014	To facilitate environment responsibility in SMEs, administrators and policy makers can educate employees and customers to increase their awareness and salience level
Spain,	Steven et al, 2011	SMEs should strategise their current informal and unorganised CSR practices so that this may be used as a pathway to professionalising the SMEs.
Italy	Lamberti & Noci, 2012	Integrating CSR with corporate Strategy contributes to efficiency, collaboration, coordination, innovation thus favouring the growth of the company.
EU	Ausra, 2011	A comprehensive, sustainable and responsible business strategy is required in order to fully exploit the benefit of their sustainability activities.
UK	Simon, 2012	Integration of environmental concerns into business strategy and external reporting can also be a valuable source of social capital in improving credibility with suppliers and customers.
Taiwan	Meng & Cheng, 2012	SMEs need to become more compatible with CSR in their companies culture, strategy and corporate image in order to lessen their implementation difficulties like time and cost constraints.

Research Proposition 1c: Supporting organisation culture will positively influence a firm's sustainability performance.

Attempts have been made to relate the sustainability performance with financial performance of the firm in case of big corporate houses and for some SMEs in developed countries. But for

SMEs in developing market like India it is not a well researched area. With empirical evidence from Johnson & Johnson, Jessica & Seleshi, (2013) suggested that profitability can be sustained for a long period of time if economic performance is effectively integrated with social and environmental goals, as part of the business strategic planning process. In Indian context Arpita (2013) suggested that superior sustainability performance leads to superior financial performance. These findings form the basis of our fourth proposition where in we suggest that improved sustainability performance will drive financial performance in case of SMEs as well in the long run.

Research Proposition 2: Improved sustainability performance will lead to improved financial performance

This relationship can further be influenced by the size and age of the organization and also the type of Industry it is operating in. Arpita (2013) suggest that the companies which are large in size, have less leverage, are business group affiliated, have higher R&D and advertisement expenses, and are operating in environmentally sensitive industries are likely to be superior in sustainability leading to superior financial performance.

Based on the above research propositions we present a conceptual model for improving sustainability performance and thus helping them to improve their overall business performance in case of SMEs in emerging market like India.

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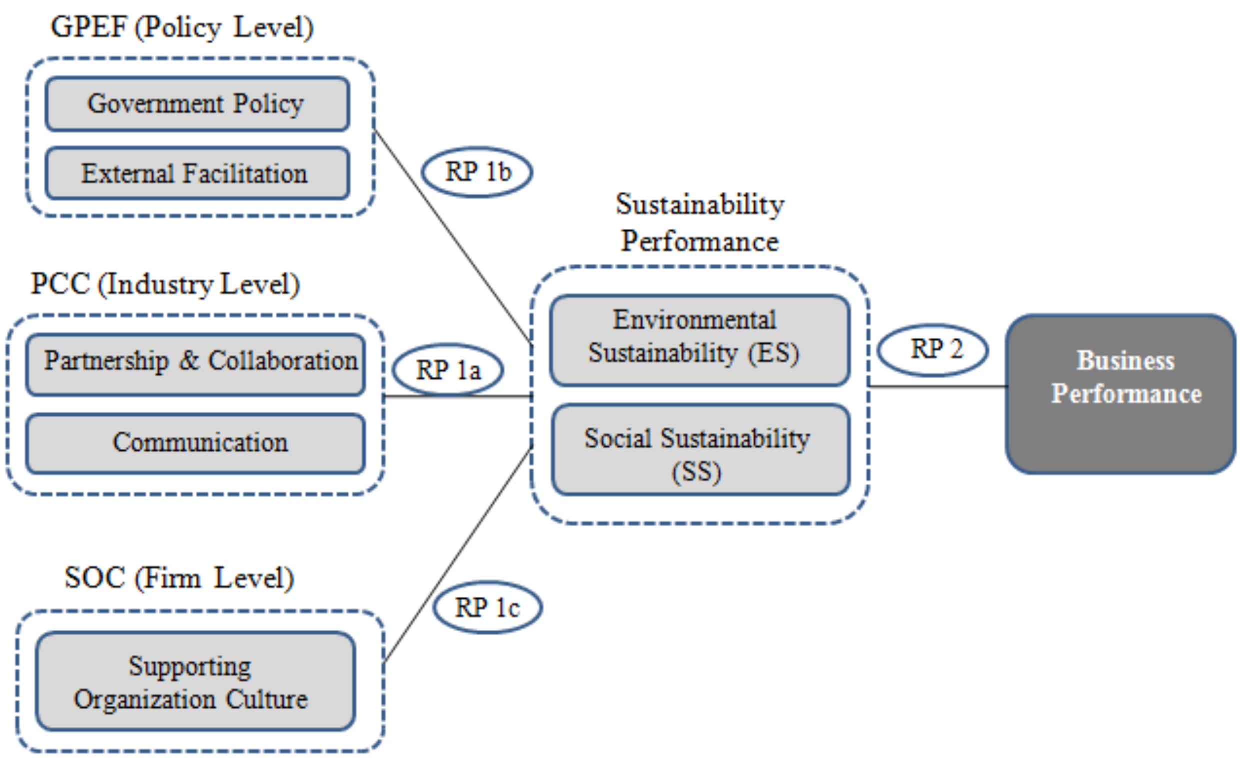

Figure 2 : Proposed Model relating Sustainability Performance and Business Performance in SMEs

Research Gap & Future Research Possibilities

From the multi country literature review of sustainability behaviour in SMEs, it is evident that most of the research work concentrates on European countries, followed by some studies in Australian context and in some specific countries in Asia like China, Singapore, Malaysia and Japan. But there is very limited study in the context of developing countries in Asia. Validity of the suggestions and recommendations available in the literature in improving the sustainability performance in case of SMEs in developing nations has not been empirically tested. There is also

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no study to explore if sustainable practices in SMEs, in whatever form they exist, have any bearing to their financial performance.

The SMEs in developed nations have reached certain level of maturity although their sustainable practices in most cases lack strategic imperatives. They do take up social and environmental activities but formal measuring, monitoring, reporting and usage of sustainability management tools are still an issue. SMEs work in collaborative mode to jointly address their common issues of resource and capacity. However, there is still scope to leverage the network as a common platform for sharing of information and best practices relating to sustainable development.

In the context of developing nations, from the limited research on SMEs in the countries like India and Bangladesh, it is found that the awareness on the very concept of corporate sustainability is missing in SMEs. In some cases their limited CSR activities are mainly used as an advertisement tool. Most of the SMEs are ignorant of the social and environmental impact of their business operations. Although some SMEs have taken up employee benefit schemes but that is mainly in order to retain the skilled manpower. There are also evidences of corruption and unethical practices to show mock compliance in order to get included in the value chain of big MNCs.

There remains a good scope of future study to validate the need and issues of sustainability practices in SMEs in developing nations as faced by their counterparts in developed economy. If a positive institutional environment with policy support from Government and facilitation by NGOs and collaborative mode of operations can boost up the sustainability practices can also be tested empirically.

Increased integration of economies of developing countries with the world economy has exposed almost every industry sector to global competition. Apart from price, quality and delivery

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commitments, considerations like compliance to social and environmental norms are also strongly influencing the sourcing decisions of global buyers. Following the trend the buyers in these countries also have introduced similar criteria in their purchasing decision. Even for MSMEs, lack of responsiveness to this kind of expectations from buyers and consumers pose a serious threat to their business operation, while being responsive to such expectations opens the path for better growth and larger market share.

For big organizations violation of human rights, environmental laws or social norms will not allow corporations run any longer. But for SMEs the problem is more intense. For example labor law violation is a major problem in Indian garment industry. Practices of child labor or unpaid overtime are rampant. Moreover in some of the most polluting industries like leather, dye and other chemical manufacturing SME presence is significant. Effort has been made through acts, policies and guidelines to curb the negative impact of SME operations on society and environment. However there are loop holes in the acts in terms of definition and criteria for an activity to be categorized as CSR activity. Also the existing guidelines are non-mandatory and only directional in their approach. As a result small companies felt no real pressure to implement or internalize the same in addressing the sustainability issues of their business functions.

Strong business cases from sustainable enterprises, relating sustainable practices to overall business performance and firm's competitive advantage through enhanced collaboration and education supported through policy regime can become a model for other SMEs mostly in developing nations, to make their current unorganised and ad hoc sustainability practices more organised and formal with a strategic approach that can ensure sustainable business growth.

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The extent of Corporate Social Responsibility Disclosure Practices: Evidence from the listed Banks, Finance and Insurance Companies in Sri Lanka

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ABSTRACT

Corporate Social Responsibility is increasingly becoming popular as corporate performance is not merely measured by financial performance. It implies that Corporate Financial Performance along with Corporate Social Performance defines success of organizations. The sustainability reporting agenda is now thinking beyond the basic environmental, social and governance reporting view and the future now lies in Integrated Reporting, which links the non-financial performance of a company with its financial status by making clear how its sustainability performance influences the future viability of the business. This study examined the extent of CSR reporting of the listed firms that belong to the Banks, Finance and Insurance sector in Sri Lanka. For the purpose of the study, data is collected from 33 companies and for the selection of this sample, purposive sampling technique is utilized. It is found that reporting on CSR was high

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among the sampled firms representing the CSRDI value of 64.77. Reporting on Community CSR was high whereas Health CSR was the least disclosed dimension.

1.0 Introduction

1.1 Background of the Study

Corporate Social Responsibility (CSR) is increasingly becoming popular as organizational performance is not merely measured by financial performance. CSR is considered as the indicator of social performance since most of the organizations realized it and started creating a separate report called sustainability report to show how they contribute to the betterment of society. Business organizations have become aware of the importance of presenting information about the broader range of activities including both their financial performance and non-financial performance such as corporate social performance (Aksik and Gal, 2011). After corporate scandals and financial crises, regulators, academicians, investors and other stakeholders called for greater transparency from the business world. Greater corporate transparency means decreasing information asymmetry between managers and stakeholders by better information disclosure by means of media, websites, prospectuses, annual reports and sustainability reports.

Information disclosure can take two forms namely; mandatory disclosure and voluntary disclosure. Mandatory disclosure primarily focuses on presentation of financial statements and their complimentary footnotes which are required by regulations and laws. The Financial Accounting Standards Board (FASB) defines voluntary disclosure as disclosures, primarily outside the financial statements, that are not explicitly required by GAAP or SEC rule. Many corporations voluntarily disclose social information and these may take the form of management discussion in annual reports, or separate disclosure, such as stand-alone social, sustainability or environmental report. Largely, the format, content and detail of such disclosures are unregulated.

The reporting entity decides what to report on, how to report, what level of detail is required and where the information will be published (Uyar and Kilic, 2012a). As far as Sri Lanka is concerned, CSR reporting is not mandatory, implies that the firms are voluntarily disclosing information to their stakeholders.

The role of business in society has undergone a profound transformation in the last few decades. While companies have been given increasingly greater freedom, they have also been held responsible for a range of issues that were previously considered the sole responsibility of the state (Tilakasiri, 2012). Rightly or not, business is expected to voluntarily promote efforts to mitigate climate change, protect human rights and safeguard the environment. The concept of corporate social responsibility captures the essence of this transformed relationship between state, market and civil society and signals a new role for private actors in future national and global governance. The role of companies and corporates has been understood in terms of a commercial business paradigm of perspective that aims on economic profitability and success. Stakeholders of the companies are redefining the role of companies at present considering their responsibility towards environment and society, beyond economic profitability and success, and are evaluating whether they are conducting their role in an ethical and socially responsible manner. As a result of the move from purely economic to economic with an added social dimension many companies are supporting the term corporate social responsibility.

According to Anthonisz (2016), Corporate Social Responsibility in Sri Lanka is overwhelmed by misconceptions. The large majority of corporates believe it to be merely about philanthropic activities, making generous donations to various charitable causes. This misconception is perpetuated in the media, where companies are portrayed engaging in such activities, which are then given the title CSR Projects. However, CSR is not about one-off projects. Instead, it is

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about running the business in a way that minimizes to as great an extent the negative impacts on society and the environment that are created as a result of daily business operations, whilst at the same time maximizing the positive impacts for the benefit of all stakeholders. It is about being accountable for organizations' actions, to their stakeholders, and operating in a way that ensures long term sustainability of the business, which in turn ensures sustainable development of the nation (Anthonisz, 2016).

A company cannot be considered to be a good corporate citizen, or to be engaging in responsible corporate practices, if it treats its employees in a less than satisfactory manner, exploits its customers, cheats its investors, uses more than its fair share of energy and water, or continues to destroy the natural environment by expelling vast quantities of harmful pollutants into the surrounding area. The true definition of corporate responsibility is that a company takes all these factors into account when making its business decisions that minimizes all the negative impacts that it creates as a result of its business activities, whilst at the same time ensuring that it creates significant long term benefits for all its stakeholders (Tarus, 2015).

1.2 Research Problem

It is generally acknowledged that CSR is more often implemented and studied in developed countries. There exists a limited number of studies on CSR being carried out using the context of developing countries (Simpson and Kohers, 2002; Hossain et al. 2006; Rashid et al. 2010). Although various stakeholders have pushed companies to implement CSR in developing countries, it seems many firms do not have sufficient knowledge to actualize it (Fernando, 2007).

Sri Lanka is a country with a long history, dating back more than 2500 years. Buddhism is practiced by the majority of Sri Lankans and it preaches that people are responsible to each

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other. The other religions too practicing the same. Therefore, the term “social responsibility” is not new to Sri Lankans. Even though, researchers have not yet identified exactly what CSR means in the Sri Lankan context (Fernando, 2007).

According to Senaratne (2009), there was a tendency among Sri Lankan companies to engage in social reporting. However, the reporting was more qualitative and greatly diverse in the types and extent of disclosures made. The author questioned the adequacy and quality of social disclosure practices and noted that social reporting was at a primitive level in Sri Lanka. In line with this, Beddewela and Herzig (2013) examined the status and pressures which drove corporate social reporting of Sri Lankan subsidiaries of Multi-National Companies (MNCs). They came to know that only three out of ten MNCs subsidiaries examined published an external stand-alone social report and the majority provided information related to social and environmental activities within Sri Lanka to their head offices to publish global corporate social reports. This study also noted that interviewees perceived the quality of social responsibility of other Sri Lankan companies as deficient and concluded that social responsibility was still at an early stage in Sri Lanka. Overall, prior studies in developing countries in general, and Sri Lanka in particular, have shown an increasing but still inadequate level of CSR. Hence, the present study is initiated to identify whether this problem still persists or not at the industry level in Sri Lanka.

1.3 Research Question

This study is directed towards answering the following research question:

To what extent the listed companies belong to the Banks, Finance and Insurance sector are practicing CSR?

1.4 Research Objective

To examine the extent of CSR disclosure practices of the listed companies under the Banks, Finance and Insurance sector in Sri Lanka over the years from 2010 to 2014.

1.5 Significance of the Study

Profitability is no longer the key factor driving business success. Instead, social and environmental standards determine a company's ability to reap profits. In the light of this, it is important to ascertain the status of Sri Lankan firms and their preparedness for facing challenges of doing business in the future in a world which is increasingly more networked and has seen a shift of power from governments and corporates, to the people that make up society.

This study is expected to contribute a further understanding of the practices of CSR disclosures in developing countries and more specifically in Sri Lanka. This would be considered an important contribution as most of the existing studies about CSR disclosure have been conducted in developed countries, with fewer studies focused on developing countries especially Sri Lanka (Tilakasiri, 2012).

1.6 Limitations of the Study

The following limitations are identified in this study:

1) The data was collected from a representative sample of the listed firms belong to the Banks, Finance and Insurance sector in Sri Lanka. This limits the generalizability of the findings to all organizations in Sri Lanka.

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2) The CSR data for the estimation of issues in this study depended largely on the quality of data available in the annual reports. Unerman (2000) argues that only a small proportion of an organization's total corporate social responsibility disclosure might be captured exclusively via annual reports. Moreover, this research did not use other mass communication mechanisms such as advertising, promotional leaflets and websites. Hence, the results are limited to the information obtained from annual reports.

3) The sample of this study is likely to be considered small as the sample was collected from only one sector. Moreover, the companies were selected only if they disclosed CSR information over the period from 2010 to 2014.

4) This study is based on the CSR framework adopted from a study which is tailored to fit for the Sri Lankan context. The adopted CSR checklist is based on six dimensions with twenty-eight CSR activities to capture CSR practices from company annual reports. Some companies might not have practiced what is being laid down in the CSR checklist items. Hence, the CSR framework may not fully capture the actual picture of the CSR practices of the sampled companies.

2.0 Corporate Social Responsibility Disclosure practices in Sri Lanka

The corporate world has experienced an increased focus on the ethical behavior and responsibilities of businesses. This is evident in the shift in focus from shareholder value creation to stakeholder value creation, where companies are striving to balance their interactions with people, planet and profit. Sri Lanka is also no exception to it. This new tendency is a consequence of the fact that progressively more power has been vested in stakeholders who demand transparency in organizational communications and expect companies to be accountable for their impacts. Companies must look at CSR a term which encompasses both sustainability and good governance in a fully integrated manner.

The Institute of Chartered Accountants of Sri Lanka together with the Securities and Exchange Commission (SEC) launched the revised Code of Best Practice on Corporate Governance recently. It has been aimed at incorporating recent developments in the best corporate governance practices in the context of Sri Lanka. Good corporate governance is considered fundamental to an organization's competitiveness, growth and most importantly its sustainability. The revised code includes seven principles of sustainability reporting including economic sustainability, environmental sustainability, sustainable labor practices, society, product responsibility, stakeholder identification and formalization of sustainability reporting and disclosure. It aims to promote formal and regular reporting built on various established national and international reporting guidelines. Even though it is not mandated implies that corporates are encouraged to adopt this code in discharging their corporate governance responsibilities.

The researches in relation to CSR in Sri Lanka are found to be minimal. Even though, the evidence exists for CSR engagement (Fernando and Pandey, 2012; Khan and Beddewela, 2008; Thoradeniya et al. 2012; Visser, 2008).

Rajapakse and Abeygunasekera (2008) investigated the motives, benefits, and barriers of CSR reporting in Sri Lanka by employing the case study approach together with a content analysis method. The annual report data and interview data were collected from three listed companies. The study concluded that two of the three companies engaged in CSR reporting, because the "stakeholders want them to be transparent about their activities" (Rajapakse and Abeygunasekera, 2008). However, they have not revealed what kind of stakeholders; consequently, it is not possible to check whether this finding is only relevant to economically

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powerful stakeholders. Rajapakse and Abeygunasekera identified the third case company's CSRreporting motive by means of legitimacy theory, as the company tries to conform to the norms of society (Rajapakse and Abeygunasekera, 2008).

Senaratne (2009), investigated CSR disclosure practices in Sri Lanka, and found that, although it is not mandatory, there is strong evidence that companies tend to engage in CSR reporting. However, she found a significant variation between companies with regard to the level of such reporting.

Collecting data from listed companies through a questionnaire survey, Sheham and Jahfer (2011) tried to examine the relationship between CSR activities and financial performance in Sri Lanka. They found significant positive correlations only in employee relations and customer/supplier relations, when these were compared between companies' financial performance. However, they did not make any differentiation between local and foreign customers/supplier relations.

3.0

Moving away from CSR disclosure, Rathnasiri tried to explore the state of CSR understanding, commitment, and practices of Sri Lankan companies that covered different industry sectors (Rathnasiri, 2003). Using a questionnaire survey as the main research instrument, he used company management, employees, and civil society to identify various perspectives in exploring the level of CSR engagement. Rathnasiri (2003) concluded that CSR was still a novel concept in Sri Lanka and the most common perspective was centered on philanthropic activities. He found that "most people are ignorant of the broader objectives of CSR. In addition, Sri Lankan civil society including employees of organizations is also not aware of the true meaning of CSR" (Rathnasiri, 2003).

Using the Sri Lankan research evidence, Rathnasiri (2003) argues that the survival of most of the companies depends on the level of relationship they maintain with the existing government, because "the corporate sector in many ways has been subjected to political maneuvering which has affected society" (Rathnasiri, 2003, p. 224). He noted that the respondents were reluctant to comment on such matters as they were sensitive concerning their companies' survival. Although the researcher (Rathnasiri, 2003) did not consider mainstream CSR theories in analysing the data, these results support the managerial perspective of stakeholder theory which gives prominence only to powerful stakeholders, in this case the government.

Thoradeniya et al. (2012) surveyed relatively different aspects of CSR reporting in Sri Lanka. They employed the theory of planned behavior in order to examine the influence of managers' attitudes and other psychological factors on CSR reporting behavior from the perspective of Sri Lanka as a developing country. Collecting 233 usable questionnaires by achieving a nearly 25 percent response rate, they tested the hypothesis using the partial least square model. The findings indicate that the managers' attitudes and other psychological factors influence managers' intentions to engage in CSR reporting. However, they found that in most of the companies this intention is not translating to the actual practice of CSR reporting mainly because of the managers' lack of a sufficient degree of control over the CSR reporting process. Normatively, the authors suggest that by considering the role of psychological variables in the CSR process, the companies need to invent more effective corporate strategies in order to promote CSR reporting in Sri Lanka.

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A survey in 2003 revealed that lack of knowledge and understanding of CSR with regard to companies in Sri Lanka; nevertheless, it revealed that most of the companies are engaged in social activities (Ceylon Chamber of Commerce, 2005).

Fernando and Pandey (2012) carried out a survey by collecting data through corporate reports of Sri Lankan listed companies and from questionnaire survey in order to investigate the nature of CSR practices using content analysis method. Through analysis they found that only 34% of 232 companies had adopted CSR reporting practice. Moreover, they found that firms operating in the sectors called Construction and Engineering, Information Technology, Oil palms, Services and Stores Supplies were not adopting CSR reporting. Further, they found that the CSR reporting that was done was often unsatisfactory with regard to the quantity and quality of company CSR reporting and, in agreement with the findings of Senaratne (2009), the level of disclosure varied significantly among reporting companies. It was found that only 12 companies had followed GRI G3 guidelines for CSR reporting. Finally, the authors highlighted the current low level of reporting in Sri Lanka and raised a question as to why companies are not interested in engaging in CSR reporting in Sri Lanka, and called for further researches on this aspect (Fernando and Pandey,2012).

4.0

Sri Lanka is a neglected country in terms of CSR research and the topic receives relatively little attention in Asia (Fernando and Pandey, 2012; Khan and Beddewela, 2008; Visser, 2008). Moreover, prior researches have reported an upward trend social responsibility, but the level and quality of reporting remain low (Abeysekara and Guthrie, 2005; Senaratne and Liyanagedara, 2009; Senaratne, 2009; Bedewela and Herzig, 2013).

5.0

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Sri Lanka has a longstanding culture and the societal, environmental and religious values are deeply rooted in it. But, how such values are reflected in corporate setting through corporate reporting is unclear. The literature reveals that most of the Sri Lankan firms are unaware of reporting CSR and the outcomes of reporting. Therefore, it is imperative that there is a scope for more researches in this arena. Hence, no one can repudiate the inevitability of an exclusive research in this area.

3.0 Methodology

3.1 Operationalization

Table 3.1: Operationalization

Construct	Dimensions	Indicators	Source	Measurement
Corporate Social Responsibility Disclosure	Community	Community outreach activities such as creating awareness on respect to each other and road safety	Tilakasiri (2012)	Total score of the dimensions / Maximum possible score obtainable x 100 (The adopted framework consists of 28 CSR checklist items. Hence, maximum
		Public projects like houses for homeless people		
		Sponsor for sports activities		
		Supporting services		

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		for elders and children		possible score obtainable for a firm is 28)
		Organizing mental relief activities		
		Maintaining parks and towns		
	Education	Organizing education seminars		
		Donation of books, uniforms and foods to schools		
		English language support program for the rural area students and school leavers		
		Organizing disability support activities for the disabled children		
		Skill development programs		
		Support for day care centers and		

		pre-school children		
	Environment	Organizing programs for caring the environment		
		Applicable environment rules		
		Planting trees		
	Customers	Quality products and services		
		Provides information that is truthful and useful		
		Respects the rights of consumers		
	Health	Dengue and HIV preventing programs		
		Supporting services to government hospitals		
		Scholarships to the medical students for further		

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		education		
	Employees	Training and development		
		Health and safety programs		
		Trade union development		
		Employee benefits-insurance, share option plans		
		Formal recruiting, promotion and firing system		
		Equal employment opportunity		
		Disclosing policy on company's remuneration schemes		

3.2 Sample Design

The target population of this study is the number of listed firms which belong to the Banks, Finance and Insurance sector. This population sample could be the most useful for the study as relatively little academic research has been undertaken focusing on CSR disclosure by banks, finance and insurance companies in Sri Lanka. The selection of the sample for this study is restricted to those firms who disclosed the information in relation to sustainability over the years from 2010 to 2014. Hence, purposive sampling method has been utilized in this study so as to select the sample from target population. As a result, 33 companies were selected as sample for this study.

3.3 Data Collection

Annual reports are predominantly used in this thesis to collect the data required for the study. Annual reports are read by a range of different stakeholders and therefore the information contained in the annual reports has the power to influence the readers (Deegan and Rankin, 1997). Information in relation to CSR was collected from the companies' annual reports over the years from 2010 to 2014.

3.4 Measurement of Corporate Social Responsibility Index (CSRDI)

The present study employed disclosure scoring methodology so as to calculate CSRDI. Disclosure index study is considered as the form of content analysis measures CSR disclosure against a set of pre-determined items to assess the comprehensiveness of CSR reporting. This involves the analysis of annual reports to determine how well firms score on a set of pre-determined factors. There is an established accounting literature that examines annual report disclosures using this method (Guthrie and Abeysekera, 2006).

The first step involved in this study under this method was the selection of reliable items relating to CSR disclosure known as CSR checklist. The thesis adopted the disclosure framework, which has been developed by Tilakasiri, (2012) for the study named Corporate Social Responsibility and Company Performance: Evidence from Sri Lanka. Table 3.2 provides the snapshot view of the disclosure assessment framework used in the study.

Table 3.2: Disclosure assessment framework

Dimensions of Corporate Social Responsibility Disclosure Index	Number of Indicators
Community	6
Employees	7
Customers	3
Education	6
Health	3
Environment	3
Total number of reporting elements	28

***Source*:** Author's own systemization

The second step involved in this study was scoring of CSR checklist items. The present study employed unweighted scoring method to arrive at the CSRDI. The unweighted method also known as dichotomous approach which assigns equal values to the checklist items irrespective of how the items appear either in annual reports or sustainability reports (Boesso and Kumar, 2007). The unweighted approach is regarded as more objective and largely avoids any degree of subjectivity commonly known in other content analyses approaches. Contrary to the dichotomous approach, the weighted approach goes beyond what is said and identifies how it is said (Guthrie and Parker, 1990). However, the present study employed unweighted approach based on the assumption that each disclosure item is equally significant for all stakeholders. A

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score of 1 was assigned if the check list items appeared in the annual reports and a score of 0 was awarded for the absence of information.

The third and final step involved was the calculation of corporate social responsibility index. Subsequent to the second step, total score values CSR disclosure were aggregated from all sub scores of the six dimensions of named community, employees, customers, education, health and environment. The overall CSRD scores were the summation of the scores for all the CSRD items. Finally, the extent of reporting represented by Corporate Social Responsibility Index (CSRDI) was computed as the ratio of actual scores to the maximum possible obtainable score as follows:

$$\text{CSRDI} = \frac{\text{Actual score}}{\text{Maximum possible obtainable score}} \times 100$$

4.0 Analysis and Findings

4.1 Measures of central tendency

Table 4.1 presents the descriptive statistics of the variables used in the study across the 165 observations collected.

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Table 4.1: Measures of central tendency of the sampled firms

Variables	Mean	Minimum	Maximum	Standard Deviation
Employee CSR	14.35	7.14	25	3.67
Community CSR	17.41	7.14	21.43	3.42
Health CSR	6.12	3.57	10.71	2.26
Educational CSR	12.61	7.14	21.43	3.53
Environmental CSR	7.10	3.57	10.71	2.16
Customer CSR	7.18	3.57	10.71	2.52
Corporate Social Responsibility Disclosure Index	64.77	39.28	92.85	11.93

As far as the Corporate Social Responsibility Index (CSRDI) is concerned, the maximum CSRDI is found to be 92.85 whereas the minimum is realized to be 39.28. The mean of CSRDI is observed to be high as 64.77 for the entire sample. The adoption of country specific framework could be the underlying reason for this high level of disclosure index. Another reason might be the selection of sample as firms that are not devoting a separate section for CSR from 2010 to 2014 were omitted to increase the validity of findings. The standard deviation of CSRDI is 11.93 which reflects a high level of dispersion from the mean. It suggests that the level of disclosure practices of the sampled firms extremely vary.

When it comes to the dimensions of CSR, Community CSR has the highest mean value of 17.41 followed by Employee CSR, Educational CSR, Customer CSR, Environmental CSR and Health

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CSR with the mean values of 14.35, 12.61, 7.18, 7.10 and 6.12 respectively. Even though, it cannot be interpreted as Community CSR is practiced by most of the firms and followed by other dimensions of CSR based on the mean values. The CSR checklist items vary across the dimensions of CSR as they are not equally scattered among the six dimensions used in this study. Therefore, to provide a meaningful interpretation, these mean values should be compared with the maximum obtainable value on each dimensions of CSR (refer table 4.2).

4.2 The extent of reporting on CSR based on the dimensions

The following table provides a snapshot view of the extent to which the sampled firms practicing the varying forms of corporate social responsibility disclosure.

Table 4.2: The extent of CSRD practices across its dimensions

Dimensions of Corporate Social Responsibility Disclosure	Mean (%)	Maximum obtainable score (%)	The extent of achievement (%)	Ranking
Employee CSR	14.35	25.01	57.38	5
Community CSR	17.41	21.43	81.24	1
Health CSR	6.12	10.71	57.14	6
Educational CSR	12.61	21.43	58.84	4
Environmental CSR	7.10	10.71	66.29	3
Customer CSR	7.18	10.71	67.04	2

The table 4.2 shows the degree of CSR practices of the sampled firms based on the dimensions of corporate social responsibility disclosure. This study adopted a framework which consists of

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28 CSR check list items. The breakdown of the total CSR checklist items in relation to each of the dimension is as follows: Employee CSR, 7; Community CSR, 6; Health CSR, 3; Educational CSR, 6; Environmental CSR, 3; and Customer CSR, 3. By referring to these, the maximum obtainable mean value for the CSR dimensions were computed. For example, the maximum obtainable score for the Community CSR was calculated as the ratio of the number of CSR checklist items fall under this category to the total number of CSR checklist items as in this study 28. Hence, the maximum obtainable mean value for the Community CSR is 21.43 (6/28x100).

The extent to which the sampled firms practicing the dimensions of CSR was computed as the ratio of the actual mean value to maximum obtainable mean value. The maximum obtainable mean value varies since the CSR checklist items were not scattered evenly across the six dimensions. Prioritization has been done based on the extent of achievement and it can be seen from the table 4.2 that Community CSR was the most disclosed and the least disclosed dimension was Health CSR. Customer CSR, Environmental CSR, Educational CSR and Employee CSR fall in between Community CSR and Health CSR having the degree of achievement values of 67.04%, 66.29%, 58.84% and 57.38% respectively.

4.3 Location of Corporate Social Responsibility Disclosure in Annual Reports

The CSR checklist items were identified from several locations scattered throughout the annual reports. Table 4.3 illustrates that the location of CSR disclosure in annual reports varied across the five-year period from 2010 to 2014.

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Table 4.3: Location of CSR reporting

Location of reporting	Number of firms disclosing CSR									
	2010		2011		2012		2013		2014	
	Firms	%	Firms	%	Firms	%	Firms	%	Firms	%
Sustainability report	20	61	22	67	17	52	14	43	12	37
Management discussion and analysis	1	3	1	3	5	15	8	24	11	33
Corporate Social Responsibility	12	36	8	24	8	24	8	24	4	12
Stewardship					1	3	1	3	2	6
Other sections			2	6	2	6	2	6	4	12

As it can be seen from the table 4.3 that sustainability report is the section where most of the firms disclosed the information on CSR throughout the period from 2010 to 2014. Even though, the number of firms reporting under sustainability report showing a declining trend from 2012 to 2014 despite a marginal increase in the year of 2011. The number of firms reporting under

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management discussion and analysis increased from only one firm in the year of 2010 to a whopping amount of 11 in the year of 2014. The number of firms reporting under the section named Corporate Social Responsibility was quite stable during the years of 2011, 2012 and 2013 but showing a declining trend. Only a very few companies are reporting under the section called stewardship. In addition to the aforementioned sections, firms are reporting under variety of other sections too for example, the cause of society; corporate governance; the bank and the Triple Bottom Line (TBL); rewarding, recognizing and rejuvenating; governance and sustainability; business model; and business philosophy. These are grouped into a category called other sections.

5.0 Implications of the Findings

This study is basically tested the stakeholder approach to CSR and makes a contribution to the theory and corporate social responsibility disclosure literature in the following ways.

This study used the descriptive aspect for identifying the key stakeholders. The high level of disclosure among the sampled firms is an indication that they are more concerned about reporting on corporate social responsibility. Moreover, CSR activities of the banks, finance and insurance companies are more focused on community as it is considered to be the most influential stakeholders (Jitaree, 2015). In general, there is a financial benefit when organizations maintain the expectations of all the stakeholders. The level of disclosure in each dimension of CSR can be considered as a yardstick for measuring the expectations of stakeholders. Even though, higher the expectations of stakeholders will not always result in higher the disclosure if they are not powerful enough to influence the organizations. Therefore, it is imperative for the managers of organizations to prioritize their CSR reporting based on stakeholder analysis and it can best be done by using stakeholder map analysis.

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6.0 Conclusion and Future Research Directions

6.1 Conclusion

The study involved 33 listed companies which belong to the Banks, Finance and Insurance sector as sample. The mean level of disclosure was found to be high as 64.77 among the sampled firms confirming the fact that evidence exists for CSR engagement in Sri Lanka (CCC, 2005). Perez et al. (2013) argue that the reputation of financial institutions relies on their socially responsible programs and this could be the underlying reason for the high level of disclosure among the sampled firms used in the study. Moreover, Thompson and Cowton (2004) contend that banks are more likely to be influenced by the risk of reputation as compared to other companies and are more vulnerable to negative reactions from stakeholders. The importance of building and managing a reputation in the service sector is high due to the intangible nature of the product and need of building trust among stakeholders (Perez et al. 2013). Hence, banks and financial institutions use corporate social responsibility disclosure as a path to retain their legitimacy and public image.

The level of disclosure varies substantially among the listed firms used in the study. The minimum and maximum values were found to be 39.28 and 92.85 respectively. Hence, there is a significant variation between companies as far as the level of disclosure was concerned. It is in line with the findings of Senaratne (2009) and Fernando and Pandey (2012), who found a significant variation between companies with regard to the level of reporting.

In terms of the themes of CSR, the most disclosed theme in annual reports on corporate social performance disclosure is community involvement information, whilst customer CSR was the second most disclosed theme. Environmental CSR was the third most disclosed theme followed by educational CSR, employee CSR and health CSR. This level of disclosure in each theme of CSRD can be well related to the stakeholder theory which highlight that the volume of CSR disclosure might be related to the expectations of variety of stakeholders (Deegan, 2000).

The future of business is intrinsically linked to strategic corporate responsibility. CSR can take three forms namely philanthropic CSR, transactional CSR and transformational CSR. Organizations are increasingly moving towards transformational CSR nowadays which has seen a shift from charity driven CSR to strategy driven CSR. It enables organizations to internalize a culture of corporate responsibility into their core business operations. This study is built upon the notion that stakeholder engagement is the starting point for effective corporate social responsibility. The main purpose of CSR is to manage stakeholder relationships to ensure that business operations give rise to significant long term benefits for them, whilst at the same time minimizing the negative impacts that are created due to daily business activities.

The findings show that Community CSR was the most disclosed theme followed by Customer CSR, Environmental CSR, Educational CSR, Employee CSR and Health CSR. These results indicate that the firms which belong to the Banks, Finance and Insurance sector did not give priority to Health CSR during the period from 2010 to 2014. By referring to the above, it can also be concluded that banks, finance and insurance companies prioritized Community CSR in order to ascertain the views of community which are considered to be most critical to address first. This study's findings seem to be consistent with previous studies (Deegan, 2000; Deegan and Blomquist, 2006) which supported the application of stakeholder theory in CSR disclosure. The expectation and pressure of particular stakeholder groups can influence the level of disclosure. Furthermore, Deegan (2000) emphasize that the volume of CSR disclosure is related

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to the expectations of stakeholders. Hence, it can be concluded that the expectations of community are high among the listed banks, finance and insurance companies in Sri Lanka.

The regulating bodies of corporates in Sri Lanka for example Colombo Stock Exchange (CSE), Ceylon Chamber of Commerce (CCC) and Securities and Exchange Commission encourage companies to adopt sustainability principles in their core business operations. The code of best practice on corporate governance issued by CSE and Securities and Exchange Commission provides the foundation for the business organizations in Sri Lanka based on which the sustainability principles can be built upon. Even though, it is not mandated implies that corporates are encouraged to report on sustainability. Further, the CCC annually awarding the "Best Corporate Citizen" award to firms which excel at CSR. Hence, there are enough mechanisms in place to motivate companies to adopt sustainability in their core business operations in Sri Lanka.

Regulations are increasing in various forms worldwide. Sri Lanka is also no exception to it. This cannot be considered as a good news for companies as regulation limits the possibilities for innovation and companies will have to their time struggling to comply. Further, CSR is considered as a voluntary activity and stakeholders expect the organizations to report beyond the statutory boundaries of reporting. Therefore, even laws and regulations are in place, the true outcomes of CSR in whatsoever the form cannot be realized if the organizations limit their reporting based on laws and regulations. Hence, organizations in Sri Lanka should think of reporting beyond what is required by laws and regulations to reap the true benefits of CSR.

6.2 Directions for Future Research

Some limitations of this research should be investigated in the future research. The data required for this study is sourced from annual reports. Future research could include other means of reporting to look into the extent of CSR disclosure practices. Because, companies may report CSR activities in other medias for example newspapers, promotional leaflets, websites and brochures. The information from other means of communication may show a comprehensive image of CSR disclosure in the Sri Lankan context. Further, this study is limited to the firms listed under the Banks, Finance and Insurance sector in Sri Lanka. Therefore, further researches can be done by differentiating sector. The sample size is considered to be small and it limits the generalizability of the findings to Sri Lanka. Therefore, anyone can take it to the next level by widening the number of firms included in the study

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Climate Legislation Impasse: Evidence from the United States

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Abstract

Using primary data collected from interview transcripts of the key players in the failed U.S. climate change legislation, this paper develops three themes underlying the impasse in 2010. The first theme was the absence of public comprehension due to the implications of climate change risks not given enough attention. The second theme centers on progress being made at the local level. The last theme pertains to the collapse of U.S. climate legislation being a 'perfect storm' scenario with contentious political environment, incoherent approach with individualistic

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agendas, the assumption of a negative impact on employment, and the limited time to allow policy makers elicit grassroots support.

1.0 Introduction

The countries responsible for the largest quantity of total cumulative greenhouse gas (GHG) emissions from 1850 through 2010 include the United States, the 27 countries of the European Union and China (PBL Netherlands Environmental Assessment Agency 2013). This PBL report forecasts that these countries will still be responsible for the largest quantity of total cumulative GHG emissions into the foreseeable future. Given this projection, the Fifth Assessment Report (AR5) of the Intergovernmental Panel on Climate Change (IPCC) warns of dire risks that span sectors and regions ranging from disrupted livelihoods in low lying coastal regions and large urban populations to extreme weather events (IPCC 2014). These consequences are anticipated to lead to breakdown of critical infrastructure networks ranging from food insecurity arising from floods or droughts to insufficient access to drinking water and resulting reduced agricultural productivity (IPCC 2014). A response to climate changes is not just a science-based issue but, just as importantly, an ethical issue. In the U.S., the will to respond to the imminent threats posed by climate change is founded largely on legislative postures and proclamations to support overarching changes for renewable technology adoption (White House 2015).

Unfortunately, legislation to address climate change in the United States has faced significant hurdles, and thus the assessment of the efforts to pass climate change legislation in the United States is the subject of this paper.

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Specifically, the objective of this research is to explore the impasse surrounding the climate legislation in the U.S. in 2010. To achieve this objective, 20 subject matter experts were interviewed and three key themes were identified as the reasons behind the aborted legislative attempt. These themes advance our understanding of the factors and the issues that need to be addressed before another attempt at climate legislation is crafted in the United States. Hence, this article makes two significant contributions to the literature on public policy particularly in the context of U.S. climate change policy. First, it demonstrates that public perception is a crucial factor in the success or failure of policy legislation. While prior literature has largely been descriptive of the influence of public perception to climate policy legislation (Leiserowitz 2006; McCright and Dunlap 2003; Brulle, Carmichael and Jenkins 2012), our data illustrates that there are different dimensions of public perception and they all added up to influence the outcome of the legislation process. This view is in parallel to Brewster (2010) who posit that the lack of congressional support, public support, and understanding are all subsets of the larger reason that inform the absence of public perception. Particularly, the limited societal understanding fuels these subsets because the implications of the risks associated with climate change have either not received enough attention or climate change communication has been presented in formats not readily understood by the populace (Adger 2009; Weber and Stern 2011). Second, it demonstrates that climate policy legislation in the U.S. is a multifaceted issue with multiple interest groups having diverse interpretations of the effects that a national climate change policy would have on the U.S. politically and socio-economically. This finding is not only consistent with the observation by Rabe (2004) and Lorenzoni and Pidgeon (2006), but it also delineates the specific interests and how the interests have impacted the checkered history of climate legislation.

1.1 Background

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This paper draws from two streams of literature: (i) the history and motivations for climate legislative action and its subsequent failure, and (ii) climate justice. The history of climate change legislation in the U.S. can be traced back to thirty six years ago when policy recommendations to address the rising levels of GHGs were produced (Barney 1981; U.S. Council on Environmental Quality 1980). Although China has overtaken the U.S. as the largest emitter of CO2 (Vidal and Adam 2007), the U.S. is still a major emitter of GHGs (Metcalf 2008; Fry 2008; Herzog 2009). Despite this fact, climate change legislation is still comprised of fragmented state and regional policies (Rabe 2004). The build up to the 2010 effort dates back to when the Bush Administration signed and ratified the UN Climate Convention in 1992 (Agrawala and Andresen 1999). Five years later, due to identified cost implications and the absence of commitments by other major global emitters, the Byrd-Hagel resolution in the United States Senate objected to a comprehensive national policy reducing emissions (Bang, et al., 2007). This set off a checkered history of climate change legislation effort in the United States that has been characterized by protracted and changing cycles between republican and democratic legislatures. This problem is further exacerbated by the requirement for agreement across the two legislative arms and the executive on any national policy (Deutsch 2008). For example, the Climate Stewardship Act was defeated in 2003, but was further revised on a bi-partisan effort into the Climate Security Act four years later (Fisher 2006). The security act was eventually halted due to strong partisan divide in 2008 (Rabe 2011). For a more comprehensive discussion of the history of U.S. climate legislation prior to 2010, we refer the reader to Deutsch (2008).

1.2 Climate Legislation

The legislation in 2010 was a culmination of a series of reports mandated by the Global Change Research Act of 1990 (Melillo et al. 2014). It represented a first attempt, within a global trend

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(Dubash et al. 2013), by the U.S to build a comprehensive, integrated approach to climate change legislation by incorporating prior domestic environmental regulations, especially on energy, into a global framework that improves environmental outcomes beyond its borders. The collapse of the legislative effort illustrates the difficulty of addressing climate change. This is partly a result of the nature of the externalities resulting from climate change. It can be argued that past legislative efforts on domestic environmental threats succeeded in part because such threats were visible and easily understood (Barret 2003). In contrast, 'climate' is obscure and difficult to visualize. Skocpol (2013) attributes the unsuccessful effort to the flawed legislative strategy deployed by proponents of the legislation wherein reliance was placed on the outside-in perspectives. Other commonly expressed reasons for the failure of the legislation include the 2007 financial crisis and the recession it precipitated, complexity of the legislation, strong industry and political opposition (Broder 2010). Many of these themes are confirmed by our research.

One element of the legislative effort that has received little attention is the extent to which social justice considerations figured in the legislative effort and the moral lessons for future course of action on climate change regulations (Lazarus 2008). Widespread concerns have been expressed on the fact that while the U.S., for example, is a major source of greenhouse gases, the countries that are most vulnerable to effects of climate change are often the least contributors of such gases. For example, the African continent is generally projected to be the most vulnerable, yet it only contributes a small fraction of carbon emissions compared to the U.S. Hence, while legislative action or policy is important, its approach and distributive consequences are crucial. The climate legislation, in most part, was inspired by the Kyoto Protocol (Grubb, et al. 1999; Protocol 1997). The key climate change components of the legislation included cap and trade; carbon tax; carbon capture and storage; adaptation; energy and clean technology. Each of these components has implications for climate justice – an emerging concept underlying a form of justice aimed at mitigating the unequal burdens of climate change by implementing policies or projects of general benefit but with special emphasis on those most affected by climate change (Running 2015). While the effort to implement climate change legislation in the U.S. has floundered, the effects of climate change will continue to emerge. Addressing the failure to implement policy requires better understanding of the causes of past obstacles. Thus, we assess the factors that contributed to recent setbacks in climate policy in the U.S. We do so with the understanding that any future legislative framework will require an expanded emphasis on climate justice.

1.3 Climate Justice and Ethics

The setbacks in the legislative effort on climate policy in the U.S. have implications for climate justice and ethics. The difficulty in addressing climate justice and ethics issues in climate policy discussions is reflected in other international forums as well. For example, the two conferences of the parties (COP) at Copenhagen and Cancun were a disappointment as they failed to deliver a legally binding agreement that would have ensured that the global temperature rise remains well below agreed on targets. Achieving this agreement would have been the ultimate expression of the desire to achieve climate justice (Hurlbert 2011). Subsequent efforts to arrive at an agreement, including the Qatar COP meeting, have been unsuccessful (Seaman 2015). This has major implications for equity and social justice among vulnerable groups at local and sub-national levels (Thomas and Twyman 2005) with wide-ranging effects on gender relations in developing countries (Terry 2009). Poor women face many gender-specific barriers that limit their ability to cope with and adapt to a changing climate and these barriers must be removed in the interests of both gender equity and adaptation efficiency. Clearly, the distribution of the social costs of climate change is uneven and the failure of a united global effort to address climate change in large part can be explained by a lack of consensus on the distribution of

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emissions rights or mitigation and the costs of adaption (Meyer and Roser 2010). In this paper, we examine the role that these equity and social justice concerns may have played in the failure of climate change legislation in the U.S. and the lessons that these concerns hold for future similar effort. This is important, in part because climate change can be interpreted as a unique case of historical injustice involving issues of both intergenerational and global justice. Intergenerational justice is implicit in international commitments to sustainability. The ecological, economic, and social components of sustainability will be achieved only if intergenerational justice considerations are directly built into decision-making and policy (Syme et al., 2006).

It is worth noting the difficulty of accounting for social justice considerations in any climate policy regulation. Existing climate change mitigation policies and/or proposals tend to focus on the reconciliation of two seemingly conflicting aims: environmental protection and economic efficiency. The normative principles perceived to motivate these policies meanwhile focus on two central ideas: fair burden-sharing and agents' responsibility (Page 2011). However, both existing policy instruments and their supporting philosophical principles are highly problematic in terms of inter-generational justice and truly effective climate change mitigation. Schuppert (2011) identifies three competing conceptions for allocating and distributing the burdens of climate change mitigation (cap-and-trade schemes, carbon emission taxes, and personal ecological space quotas) and evaluates their compatibility with principles of intra- and intergenerational justice. None of the proposed instruments is able to satisfy the demands of effective mitigation and egalitarian justice on its own, which suggests that existing proposals for the distribution of emission rights and climate change-related costs need to be supported by a thicker account of inter-generational justice. On a larger scope, Hayward (2007) cautions that emissions rights ought not to be assimilated to human rights and that issues of both emissions and subsistence should be comprehended within a single framework of justice, the idea of

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'ecological space.' Given the concerns surrounding climate justice, we specifically ask our respondents about the ethical issues around inaction on climate change.

2.0 Methodology

Interviews are useful for getting the detailed context behind the participant's experience (McNamara 1999). In the case of controversial topics like climate change, expert interviews are especially important since the mainstream tends to focus on extreme viewpoints that are pontificated without much context. For this study, 20 subject matter experts in the field were interviewed. As per the guidelines set in literature (Gubrium and Holstein 2002), we explained the purpose of the interview, stated the time needed for the interview, addressed the terms of confidentiality as set by Institutional Review Board (IRB) guidelines (Amdur and Biddle 1997; Bankert and Amdur 2006), and explained the format of the interview. Furthermore, as advised in the literature (Patton 1990), we started the interview with simple and open-ended questions, but kept the controversial questions for the end. The questions were neutral in nature, and asked one at a time. The six clusters of individuals interviewed and their counts in parenthesis were executives (4) in large corporations responsible for energy and climate change issues, carbon market experts (3), environmental lawyers (3), NGO representatives (3), environment advocacy consultants (3), U.S. EPA experts (2), and public health practitioners (2). See Appendix for the affiliations of the respondents. It ought to be noted that half of those interviewed held the highest posts in their organization at Director or Chief Executive Order (CEO) level, and one-fourth were at Vice President level. The others were at Partner level or Senior Manager level. Hence, our respondent pool was taken from the highest level of leadership. The interviews were conducted in two stages. The first stage was aimed at establishing a communication link through email or phone solicitation for the consent to participate in the study. In the second stage combined with Institutional Review Board (IRB) approval, 30-minute interviews were scheduled

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and conducted over an 18-month period from September 15, 2011 to June 10, 2013. Using grounded theory approach (Corbin and Strauss 1990), the collected interview data were coded with the aid of qualitative data analysis software, NVivo 10.

2.1 Data Collection

The 20 subject matter experts interviewed include executives in large corporations responsible for energy and climate issues, carbon market experts, NGO representatives, environment advocacy consultants, experts at the U.S. Environmental Protection Agency (EPA), and health practitioners. In a two-stage interview process, the first stage was for solicitation, and the second stage was the actual interview with an average duration of half-hour, three categories of questions were asked. In the first category, the respondents were questioned on very basic issues surrounding their belief in climate change and their thoughts on the seriousness of the issue. Also, the respondents were asked whether the U.S. should pass legislation to reduce GHG emissions. In the second category, open-ended questions were posited ranging from the respondents views on what the most effective approach to GHG reduction should be to their thoughts on the reasons why climate change legislation agreement was not achieved. The third category of questions focused on the fairness of cap and trade regulation and the respondents' position on the ethical issues that climate legislation inaction entails. Table 1 provides the details of the specific interview questions.

2.2 Data Analysis

The data was first analyzed quantitatively to provide a description of the responses to each of the questions. Second, using grounded theory approach, the data was coded to extract themes on why the attempt at climate change legislation proved abortive. The process of coding the data was iterative and it was initiated by a word stem count. Based on the statistics of the word stem, the responses were scaled. This process of intra and inter response comparison resulted in the emergence of three themes.

3.0 Results

The results of the quantitative analysis provide a scan of the respondents' opinions on the specific questions. In Part 1**,** all the respondents interviewed believed that global warming and climate change are real and serious issues. In addition, all the respondents also agreed that the U.S. should pass legislation to reduce greenhouse gas emissions. However, the level of seriousness associated with climate change varied in significance as shown in left panel of Figure 1. In Part 2, we associate response content by the twenty individuals surveyed. The most effective mechanism to reduce emissions shows that six respondents preferred carbon tax, five respondents preferred carbon cap and trade, and five respondents recommended a combination of cap and trade and carbon tax. Four respondents did not specifically identify a mechanism to reduce greenhouse gas emissions. The breakdown is given in the right panel of Figure 1. Additional responses on their preferences indicate that cap and trade was favored by the corporate sector, carbon market experts, environmental lawyers and EPA whereas the carbon tax was favored by human health experts and environmental advocates. Interestingly, the corporate sector and the carbon market experts were in favor of all mechanisms: cap and trade, carbon tax and a mixture of the two.

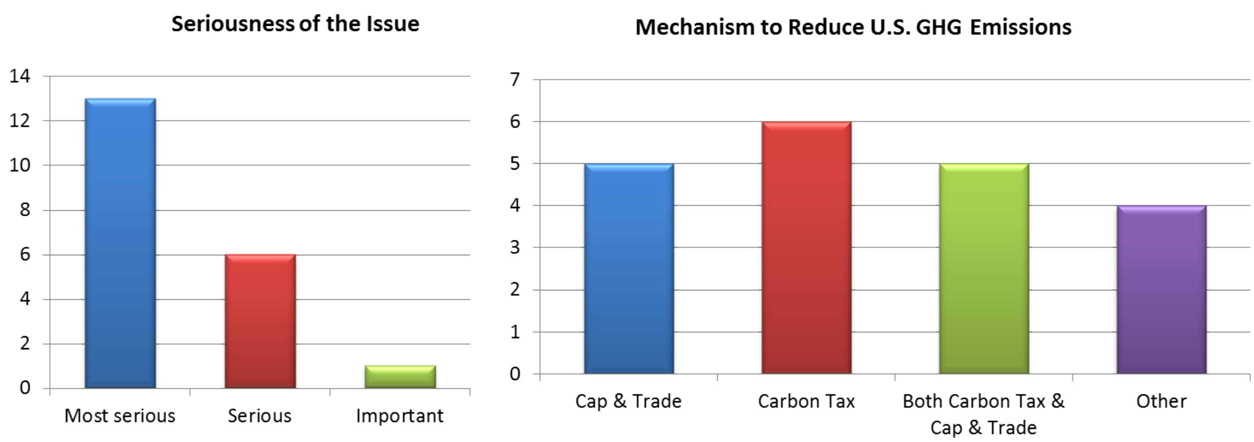

Figure 1: The level of seriousness associated with climate change with 13 respondents interpreting it as most serious, 6 as serious, and 1 as important (left chart); Mechanism to reduce emissions shows that 6 preferred carbon tax, 5 each for carbon cap and trade and a combination of cap and trade and carbon tax, and 4 for other policies.

The reasons given for the failure of climate legislation include poor economy and high unemployment; absence of presidential and congressional support; opposition by the Republican Party; complicated and lengthy climate legislation; focused lobbying efforts against legislation; and absence of organized grassroots public support for climate legislation. Collectively these six factors were overwhelming enough to effectively stall congressional climate legislation and put a damper on possible new national climate legislation for a number of years. Table 2 further shows the relevance of politics as defined by the absence of congressional support, republican opposition and presidential apathy contributing half of the push against climate change legislation.

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The period leading up to the climate legislative effort in the United States was characterized by a severe economic downturn, which lasted a number of years. Hence, many survey respondents cited the poor economy as a key reason the climate legislation did not pass congress.
'*The primary reason was the poor economy. In general, Congress does not pass gigantic pieces of legislation when the economy is not doing well and unemployment is high' (Interview notes Sep 28, 2011)*

President Obama and his administration did not place climate legislation as a high priority. Instead, the energy of the administration was focused on healthcare reform. After the passage of healthcare legislation in Congress, the U.S. House of Representatives and U.S. Senate became a highly contentious political group, one that was more fragmented and deeply polarized.
'the President had this as his number two priority. He used all his gas on healthcare, did not seriously go to bat for the U.S. climate bill. If he had chosen 'climate care' instead of 'healthcare', he would have done it.' (Interview notes Sep 28, 2011).

The strength of the opposing lobbying combined with the weakness of grassroots support influenced the failure of the legislation. There was a very strong lobbying effort against climate legislation by special interest groups. One interviewee stated *the bill was outgunned financially (Interview notes Sep 28 2011).* The opposers to climate legislation spent large sums of money and utilized multiple print media to broadcast their message, which was clear, simple and to the point. The climate legislation supporters lacked funding, a clear impactful message, and were split amongst factions that were fighting for different aspects of the legislation (Interview Notes March 2, 2012). In addition, there was the lack of sufficient public interest and public pressure on Congress for climate legislation (Interview Notes February 7, 2012). Given the U.S. general

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public was not very vocal on the climate issues, their respective legislators may have been less inclined to take action and work to pass climate legislation.

For the last question in Part 2, sixty percent of the respondents stated that climate legislation would emerge in the future; thirty percent were uncertain and ten percent stated that climate legislation would not re-emerge in the near future. Of the first group, seventeen percent envisioned it taking the form of cap and trade while the other eighty three percent envisioned a combination of cap and trade and carbon tax. However, it ought to be noted that the majority of the respondents indicated it was difficult to predict the timing and form of future U.S. climate legislation given all the variables associated with this subject.

Part 3 of the survey focused on fairness and the moral and ethical issues and the results were mixed. In the left panel of Figure 2, forty percent of the respondents stated that cap and trade is not unfair, thirty five percent were unsure and twenty five percent stated that cap and trade is unfair. The main viewpoint was the design of the system is linked to the fairness issue and certain respondents noted that a carbon cap and trade system could be designed to minimize issues around unfairness. Other responses indicated that cap and trade was the lowest cost alternative and that it was the fairest of all systems; since it enables for those regulated to respond via efficiency measures. Issues of carbon allowances (allocation, auctioned, free), credit for early action, and possible leakages from the system were identified. On the opposing side, one respondent said such a system has the potential to be gamed, distorted in different ways and can be very expensive. Seventy percent of respondents affirmed that there are moral and ethical issues associated with continued inaction on this issue by the U.S.; twenty percent were unclear and ten percent said that there were no ethical issues associated with inaction. The affirming group believed that the ethical issues were linked to social justice and were advocates for the

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marginalized poor. Some respondents said the ethical issues were linked to cost and others said that these ethical issues were linked to ecology and the health of the planet – see the right panel of Figure 2.

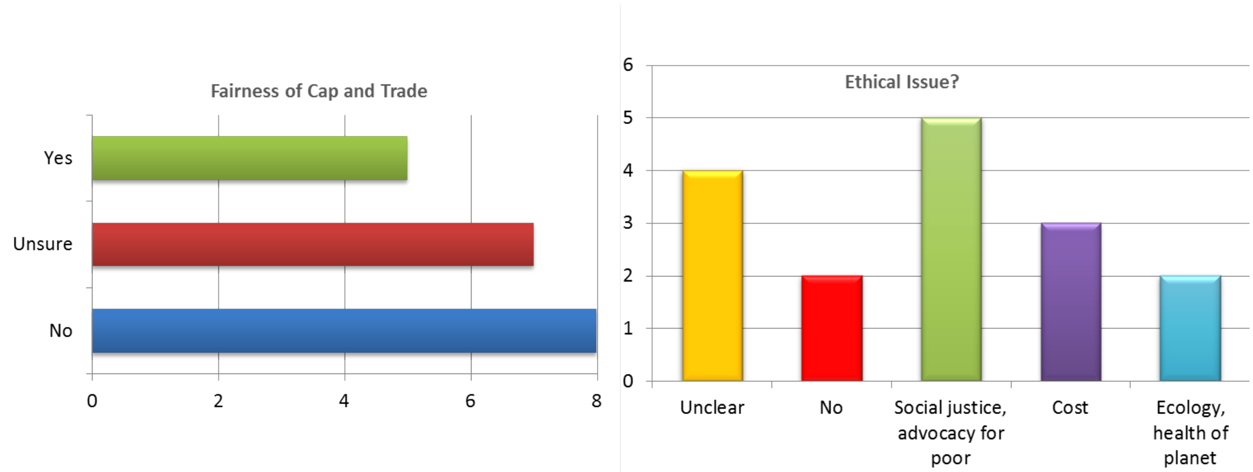

Figure 2: Fairness of cap and trade is affirmed by 3, rejected by 8, and 7 expressed uncertainty about its fairness (left chart); On the ethics of climate change legislation, 5 were affirmative, 4 unsure, 2 rejections, 3 linked the ethics to cost, while 2 linked it to ecology (right panel)

'Climate change is one factor, global poverty could be resolved, but there is a lack of will, [my] view [is that] this is a social justice or morality issue, people put lesser value on individuals in Africa.' (Interview notes Sep. 28, 2011)

The responses from the minority group, that is, the ones who were unsure or answered in the negative on this issue, varied. The reasons stated that there is insufficient knowledge around climate change, and that inaction on the climate issue does not qualify it as immoral.

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4.0 Discussion of Results

To conclude the interview, open-ended comments were solicited from the respondents.. Selective responses demonstrate the following: first, aside from politics and legislation, a key climate change issue in the U.S. is about public comprehension. The implications of a warming world, climate science, and the risks associated with the changing climate do not get much attention.. Second, action at the local level is where we will see more progress. In the United States, cities such as Chicago, New York City, San Francisco are the ones to watch for innovative approaches to enhanced energy efficiency, engagement and collaboration with regional partners, including industry and universities, setting goals and reducing greenhouse gas emissions. Cities such as these and their partners are laboratories of innovation. Third, future climate legislation would be more focused, being initially applied to electric utilities and other large carbon emitting industries. The reduction of greenhouse gas emissions may be addressed on the basis of energy security and efficiency, jobs, and renewable power and possible associated revenues used for debt reduction. Another responder commented that it would take yet another climate-related catastrophe to motivate the U.S. Congress into taking action (Interview Notes March 16, 2012). While the influence of politics is significant in explaining the failure of the legislation, it is imperative to identify the catalysts for the weakness of political will. The strength of the lobby against that legislation combined with the weakness of support at the grassroots – which is a function of limited climate change and climate legislation education, influenced the failure of the legislation. It was elicited that the focus of the administration was not climate change legislation, but health care reform. There was a clear agreement amongst respondents that climate change is real, but the level of urgency and seriousness attached to it varied. Nonetheless, the theme that resonates is one of a future with U.S. climate change legislation. The format of the legislation is in favor of market based instruments, in particular, cap and trade. The other form of legislation favored by public health and environmental advocates is carbon tax. Peeking into the future, the

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results were mixed on the fairness aspect of carbon cap and trade in the context in which ethical issue was linked to social justice and cost. In the absence of the linkage to ethical issue, insufficient knowledge was adduced as the reason for indecision.

The empirical themes identified in this article have implications for any future legislative effort on climate change in the U.S. First, a stronger economy is needed for the passage of future legislation. A weak economic performance will be a barrier for future legislative effort. In addition, the recent financial crisis was partially linked to abuses in a complex financial market instruments. The fear of similar abuses in a complex cap and trade system will serve to reduce its appeal, especially to the general public. The design and implementation of a cap and trade in particular may require complex but transparent rules and institutions to instill trust and confidence in the system. For example, Whitesell (2007) proposes a central bank type price management mechanism in an upstream cap and trade system capable of broadening the appeal of future legislation. Second, there exists other possible but difficult pathways through which the U.S can take action on climate change. There is research to support some respondents' beliefs that Congress does not have to be the path through which the U.S implements a climate change policy. MacNeil (2013) proposes two controversial pathways: executive authority to broaden the scope of regulations and litigation to force federal regulators to take action. It remains to be seen whether these can be politically tenable. Third, "framing" the terms of debate and issues is critical. Framing can affect partisan perceptions and beliefs about climate change and hence influence the perceived strengths and weaknesses of specific climate policy. Wiest et al. (2015), show, in an experimental setting, that framing is important both at sub-national and national levels and partisan identification. Related to some respondents' beliefs that future climate policy effort should be focused on electric utilities, there has been an attempt in political circles to frame the issue of climate change around energy security and benefits of a green economy. Last,

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but not least, the failure of climate change legislation has serious implications for social justice. The cap and trade mechanism might not be the fairest approach and it might require some complementary mechanism to increase its efficiency. A major distributional concern with a cap and trade system relates to the possibility of the development of differential geographic impacts, leading to the creation of hot spots; where the emissions being traded become undesirably concentrated in some specific geographic regions. Evidence on this based on the SO_2 program experience is mixed (Burtraw et al. 2005). Even where the benefits of cap and trade have been shown to exceed costs, such benefits tend to be unevenly distributed; with poorer populations receiving lower benefits on average (Shadbegian et al. 2007). This may be an important justification for 'cap –and-dividend' (Skocpol 2013), where proceeds from capping emissions are directly remitted to citizens. Should these proceeds from 'cap-and-dividends' be used to help poor countries adapt to climate change? It may only be politically viable and appeal to citizens of industrial economies if appropriately framed; for example as 'compensation for harmful emissions or humanitarian duty' (Duus-Otterstrom and Jagers, 2012).

5.0 Conclusion

The last major effort to pass climate policy legislation in the U.S. failed due to a combination of factors. These factors included an economy struggling to emerge out of a recession, contentious political environment, strong opponents with a divisive message, divided proponents with a complicated draft of legislation, and a lack of public and grassroots support. For a rebirth of climate policy legislation in the US, certain factors need to be addressed. First, the public needs to be educated on risks of climate change to be empowered to demand national attention. Second, a strong economy is needed for the instruments, whether it would be carbon tax or cap and trade or any combination of the two. Lastly, public policy experts and climate scientists need

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to come together and formulate a clear and simple message for climate change legislation that can resonate with the general public.

The collapse of U.S. climate legislation was a 'perfect storm' scenario in which numerous elements came together to question the credibility and the claims of the bill. The main elements of this perfect storm included an economy in recession, contentious political environment, strong opponents with a divisive message, divided proponents with a complicated draft of legislation; and a lack of grassroots support.

From our interviews, the subject matter experts doubted that there could have been a 'perfectly executed strategy' that might have led to the passage of the bill. For the future of climate change legislation, this paper offers numerous insights as to what needs to be addressed or communicated before there is a legitimate push. One main reason is that the proponents of such legislation need to communicate their goals in a simple and unified message. A groundswell of public support is absolutely essential to the passage of any legislation. Another reason is that the economy was in poor shape when the climate legislation was proposed back in 2010. Any legislation that calls for cutbacks or increased spending must happen in times of economic boom or else it will become a scapegoat for other larger economic concerns. Lastly, public policy experts and climate scientists need to come together and formulate a clear message for climate change that can resonate with general public. Since the impacts are long-term, there exists a great deal of skepticism on the part of the public that needs to be addressed.

It is uncertain as to when climate legislation will resurface in the U. S. Could a climate catastrophe trigger a public outcry? Could a moderate politician campaign for climate change legislation? Will change at the local level up-swell to impact national policy? The future is uncertain. What is known that the issues outlined in this paper need to be addressed before another attempt at climate legislation is re-crafted and introduced.

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Table 1: Interview Questions

Part 1 – Three quick basic questions	
1	Do you believe global warming/ climate change is real? (yes/no)
2	If so – on a scale of 1 to 10 how serious is this issue (10 being most serious)
3	Do you think the U.S. should pass legislation to reduce absolute GHG emissions? (yes/no)
Part 2 – Three principal sets of interview questions (20 minutes)	
	In your view – what would be the most effective mechanism to reduce U.S. GHG emissions? Benefits?
	[Carbon cap and trade, carbon taxes, combination of these two tools or another approach]
1	What were the main reasons the 2010 climate legislation failed in the U.S. Congress?
2	What were the contributing factors?
3	Do you think some form of U.S. climate legislation will re-emerge in the future? (yes/no)
a.	If so - When?
b.	If so - What form/ mechanism would you expect to be used in this legislation (market based/cap and trade, carbon taxes?)
Part 3 – Conclusion, possible three final questions as time permits (5 minutes)	
1	Do you think carbon cap and trade is unfair in any way to those who may be regulated under such a mechanism?
2	Do you believe there are any moral or ethical issues associated with continued inaction on this issue by the U.S. (U.S. Congress)?
3	Any other comments on this subject?

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Table 2:

Ranking of the factors that contributed to the failure of climate legislation

Rank	Factors Contributing to Failure of Climate Legislation	Count(n)
1	Lack of support from US Senate Republicans	16
2	Lack of support from some US Senate Democrats	14
3	Lack of Leadership by President Obama	9
4	Influence of energy industry (coal, oil) on Congress	8
5	US Senate, unhelpful structure, process and rules	5
6	Skepticism on the part of US citizens, non commitment	5
7	State of US economy	4
8	Lack of moral courage / ethical resolve among politicians	3
9	Other contentious matters recently passed by Senate	2
10	Lack of leadership and support by environmental groups	2
11	Fall campaigning and Nov 2010 midterm elections	2
12	Political system not equipped to handle climate change	1

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Appendix: Affiliations of Respondents (Not for Review, IRB Protected)

	Area of Expertise	Seniority	Affiliation
1.	EAD	Vice President, CSR	Edelman, Public Relations firm
2.	CME	Executive Vice President	Chicago Climate Exchange (CCX)
3.	ELA	Senior Attorney	Skadden,Arps,Slate,Meagher & Flom
4.	COR	Director, Strategy and CSR	Boeing
5.	NGO	Vice President	Pew Center Climate Change
6.	COR	Director of Energy	BP International, BP
7.	NGO	Director of Legislative Affairs	World Resources Institute (WRI)
8.	CME	Chairman and CEO	CCX and EFS
9.	COR	Managing Director	Duke Energy
10.	COR	Environment Director	Maersk Shipping
11.	CME	Managing Director	Environmental Financial Products
12.	HHE	Director	Harvard Medical School
13.	ELA	Principal and Partner	Baker McKenzie LLP
14.	NGO	Director, US Climate Policy	Worldwide Wildlife Fund (WWF)
15.	HHE	Associate Director	Harvard Medical
16.	EAD	Senior Vice President	SustainAbility Inc.
17.	EAD	President and Founder	Natural Capitalism Solutions
18.	ELA	Senior Manager	Ernst & Young LLP
19.	EPA	Director	Clean Air Markets Division, EPA
20.	EPA	Senior Council	Clean Air Markets Division, EPA

Areas of Expertise (Clusters)

CME: Carbon Market Experts

COR: Corporate Experts

EAD: Environmental Advocates

ELA: Environmental Lawyers

EPA: Environmental Protection Agency Experts

HHE: Human Health Experts

NGO: Non-Governmental Organization Experts

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The prohibition of the abuse of the economic dependence: A law and economic analysis

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Abstract

This paper aims to analyse the efficiency of the norm that regulates the abuse of economic dependence in subcontracting, and the effectiveness of its application in the Italian jurisdiction. The efficiency of the norm is investigated through the economic analysis of the principle of good faith, that is strictly connected to the abuse. The effectiveness of the protection in Italy is analyzed throughout the national case law. The results of this study show that the distance between the legal approach and the economic background of the norm brings anyway to the recourse to the general clause of good faith in the execution of the contract.

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1. Introduction. The content of the prohibition and the legal problems involved.

Article 9 of Law no. 192, 18 June 1998, named The Discipline of the Sub-contract in Productive Activity (SCA) forbids the abuse of economic dependence by one or more parties toward the client or sub-contractor company. It is considered an abuse of economic dependence when an enterprise can determine an excessive imbalance among rights and duties. Economic dependence is also evaluated by taking into account the real possibility for the victim to find satisfying alternatives on the market. The abuse may also consist in the refusal to sell or buy, in the imposition of unjustified burdensome or discriminatory contractual conditions, or in the arbitrary termination of the commercial relationship. Such agreement is void. The competent judge may also grant injunctions and damages.

It seems that the legislator is following a three step approach to discipline the abuse of economic dependence.

First, from a legal point of view, the legislator creates a general clause which can fit several situations. Second, the legislator introduces a non-peremptory list of examples of abuse elicited from previous domestic and international case law or by the foreign legislations.[1] Third, he poses a sanction, the invalidation, which breaks the parallelism between rules of conduct-liability and rule of validity-invalidation (D'amico, 2002); this is a "relative" nullity, meaning that only the provision affected by the abuse is considered void, while the rest of the contract remains binding,

1 E. g., Supreme Federal Court, *Grundig* in *WuW/E BGH* 2419 or *Rossignol,* in *WuW/E BGH* 1391.

2 This interpretation is consistent with the protection of the weaker part, as it is in consumer law. In this sense, the influential voice of Oppo (2001); This kind of nullity arose with *consumerism law* age*;* before it,

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and that only the dependent party (and the judge in the interest of the latter) can ask for the declaration of the invalidity.[2]

2. The economic rationale of the prohibition of the abuse of economic dependence

2.1. The contractual context: relational contracts

The law and economic environment where the economic dependence may occur, using Macneil's taxonomy (1974; 1978; 1987; 2000), is the field of the relational contracts. “A contract is relational to the extent that parties are incapable of reducing important terms of the arrangement to well-defined obligations” (Goetz & Scott, 1981). Relational long–term agreements increase the cost of breach in terms of forgone cooperation: in them, parties rely on each other to behave in a cooperative manner for the duration of the contract.

Relational contracts are seen as hybrids toward the alternative between “make or buy” or between “hierarchies and market”, because they combine the advantages coming from the outsourcing, i.e. specialization, and the advantages of long term involvements, like reduction of transaction costs; nevertheless, they expose parties to the uncertainty on counterpart's behavior. The main difference among relational, classical and neoclassical contracts is that the former should be characterized by cooperative intentions and common goals of parties, while the latters should be included in the zero sum games and defined as value claiming contracts.

But often cooperative situations may produce non-cooperative solutions because of contractual imbalance which leads one party to a Zugzwang (i.e., hold-up) condition (Renda, 2000).

2 This interpretation is consistent with the protection of the weaker part, as it is in consumer law. In this sense, the influential voice of Oppo (2001); This kind of nullity arose with *consumerism law* age; before it, invalidation meant absolute nullity, in case of lack of essential elements of the contract or in case of illicit deal and it meant annulment in case of consensus' defects.

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Summing up, classical contracts should not be affected by economic dependence because they create short term, even spot, relationships; in neoclassical contracts, parties try to solve the dependence problem by filling the gaps of the contracts; instead in a relational contract, depending on the level of specific-related investments, parties are vulnerable to counterpart's opportunistic behavior (Williamson, 1979).

2.2. Economic dependence as a hold-up problem

The economic dependence is better known among economists with the name of hold-up situation (Shavell, 2007).

Using words of the scholars of the Transaction Cost Economy, the hold-up problem arises when a party finds herself in a situation of called “asset specificity”; it means a situation where “a relation-specific investment, (...) once made by one or both parties to an ongoing trading relationship, has a lower value in alternative uses than it has in the intended use supporting this specific bilateral trading relationship” (Joskow, 1998: 107–108) because of the presence of switching costs, i.e. the added costs which an agent should bear or the benefits which she should lose if she had to change the commercial partner, net of the advantages coming from the trade. Switching costs equal the maximum price the supplier can ask without losing the counterpart (Klass & Rapp, 1993).

This aspect is crucial in the construction of the norm that prohibits the abuse of economic dependence. Art. 9 par. 2 explicitly draws this concept when it states Economic dependence is evaluated also by taking into account the real possibility for the victim to find satisfying alternatives on the market. This sentence can be understood only if it is clear that the dependent firm faces a demand curve almost inelastic because of the non-convertibility of the investment.

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There are different types of specificity[3]: (a) physical: regarding machines, equipment, place of production, techniques or systems not compatible with other applications (e.g., software, lenses); (b) transactional: occurring when the termination of a commercial relationship (e.g. leasing, financing) imposes the conclusion of other deals, whose research costs tend to be sunk; (c) learning: referring to the competence of employees who cannot be used in other jobs; (d) second grade: reflecting the probability that the dependent firm will lose its clients because of the abuse.

3. Analysis of the economic efficiency of the norm

3.1. Thesis of the minimum incentive

The situation of economic dependence may ease opportunistic behaviors, consisting in an attempt to exert part of counterpart's benefits; this hold-up problem is more likely to occur in a post-contractual situation.

The duty rule impedes an agent to renegotiate the contract only to exploit the counterpart's weaker situation (§§ 73 e 89 of Restatement II of Contracts and § 2-209 of the Uniform Commercial Code).

According to Schwartz (1997), when a contract is incomplete, law should impede any breach before the promissor got as much profits as to recover the costs of investments.

That is why, in the USA, some States introduced the recovery-period rule in the legislation about car dealers, petrol stations, beer distributors, and franchising (Wegener, 1998); French and

3 Other lists can be found in Joskow (1998) and in Klemperer (1995).

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German courts have also ruled in favor of this principle in their jurisdictions (Schultz, 1997). Italy also recently introduced this device in the Franchising Act Law no.129, 6 May 2004. Hold-up can occur even before the contract is signed, e.g., if the investment is already made, as a kind of pre-contractual opportunism. In this perspective, the Italian legislator with par. 9 of L. 192/1998, translates the economic concept of "hold-up" into a more legal device of "abuse". Various specifications of abuse are prohibited. The pre-contractual opportunism, characterized by the determination of an excessive imbalance among rights and duties, the refusal to sell or buy, the imposition of unjustified burdensome or discriminatory contractual conditions; whereas the arbitrary termination of the commercial relationship is unquestionably post-contractual opportunism. But, as a reminder, the list is not exhaustive, so many other forms of conduct can fall into the prohibition in question.

All these rules guarantee the minimum level of revenue (Renda, 2000: 285) . In fact, a norm to be efficient should try to incentive the weaker party to enter into a contract and to make specific-related investments giving warranty of preventing or sanctioning the opportunistic behavior of the counterpart; e.g., giving some assurances about the duration of the relationship in order to recover such investment. In this case, for a risk adverse agent, that is the dependent firm facing huge switching costs, an efficient incentive could be the so called maximin, i.e. the maximization of the minimum gain (Dem'Yanov & Malozemov, 1999; Rawls, 1999). For the Folk Theorem, in game theory, an outcome is feasible if it satisfies at least this condition for each player (Friedman,1971; Rubistein, 1979; Myerson, 1991); so, the maximin is the minimum pay-off which a norm should guarantee to a dealer in long term contracts.

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The solution of the maximin incentive leaves to the parties the task to share the surplus among themselves; this leaves the ground for the main shortcome of this solution, as the legislator relies on the market capability to deal efficiently with the distributional task.

5.2. The concept of abuse and the economic meaning of the good faith

The limitation of the maximin solution imposes to search for other rules or standards which may provide the right incentive to the parties to behave efficiently, e.g. the principle of good faith. Despite its evanescence (Rodotà, 1987), the good faith principle can help to gain efficiency in this context. It is called "excluder" as it operates excluding various hypotheses of bad faith (Summers, 1968). The good faith principle incentivizes materially the production of socially relevant information at the lowest cost (Schaefer & Oett, 2004) and, generally, creates accessory obligations on parties for a better performance of the contract (Whittaker & Zimmermann, 2000). The principle is a valid instrument in evaluating the behaviour of the parties, supporting that the exercise of a right without obtaining any personal advantage and at the same time without the appropriate consideration of the interests of the counterpart is an abuse of the right (Natoli, 1958; D'angelo, 1990). [4]

In the Italian jurisdiction, the statutory regulation of the principle of good faith is stated in art. 1337 and 1375 of the civil code. The first norm imposes to behave in good faith during negotiations, the second during the execution of the contract. There is also a more general norm about correctness and fairness in all kind of obligations, not only contractual, that is stated in art. 1175 of the civil code. These norms and the recalled general clause are used when it is possible to detect any abusive conducts, not only those cited in art. 9 and so already formalized by

[4] Supreme Court of Cassation, United sections, 15 november 2007, n.23726 in *Corriere giuridico,* 1, 2008, 22;

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legislator (maybe because they are the most applicant ones), but also any other manifestations of abuse of economic dependence. Moreover, these norms allow to the judge the power to modify the provisions of the contract when the imbalance between obligations is declared excessive[5]. The termination of a commercial relationship, or the imposition of a compensation, which is too low to allow the dependent party to recover the investments, is considered infringement of the principle of good faith.

The principle of good faith entails in se the true cooperative spirit which should characterize the relational contracts. From an economic perspective, the principle of good faith is aimed at bringing about the fulfillment with the "obligation to produce at the joint maximization volume" (Goetz & Scott, 1981). According to Goetz & Scott (1981), long term contracts among independent parties usually assure a saving with respect to vertical integration. On the one hand, this saving obliges the parties to raise their production, because a decrease in the aggregate cost is brought about by an increase in the quantity. Then, the marginal cost curve meets the marginal revenue curve, at a level of production that is higher than the equilibrium quantity of the integrated firm. On the other hand, the saving creates a surplus, caused by the higher quantity produced in the new equilibrium and by the saved cost due to the lower aggregate marginal cost. This surplus will be distributed among the parties by means of negotiation.

If the parties have the possibility to draw a complete contract, they could set their levels of production at the point where they maximize their joint profit. Nevertheless, writing a complete

5 E.g., in the Fiuggi case, the concessionaire company of the thermal Fiuggi water, had to pay a rent proportionated to the selling price. It started selling to a very low price to fictitious company and then resell it on the market, gaining the difference in price. The Supreme Court of Cassation intervened in rebalancing the contract, by limiting the contractual autonomy. Cass., 20 april 1994 n. 3775 in *Foro it.*, 1995, I, 1296, with comment by Barone C. M. and in *Corriere giuridico*, 1994, 566, with note by Carbone.

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contract is not actually possible due to imperfect information, and consequently the problem of a conflict of interest feasibly arises. In such situation, the equilibrium will set at a point where the profit of the dependent party would be lower than the level of the joint maximization of profits. So, without any commitment, the dependent party has an incentive to produce less than optimal quantity, therefore, the principle of good faith is applied, obligating parties to produce at the joint maximization volume.

Conclusively, the abuse is the behavior that prevents the maximization of the joint profits and serves as a counter-incentive to optimal investments, thus the legislator must punish such behavior. At the aim of punishing the abuse, the judge should evaluate the behavior of the parties, that is difficult to measure, as long as the costs and revenues of the investment are hardly observable. This creates a problem of actual applicability of the principle of good faith in the case of abuse of economic dominance.

4. Conclusion. The effectiveness of the provision through the national case law.

The long road of the actual application of the provision that prohibits the abuse of economic dependence was marked by the national case law.

The first application of the norm of the prohibition of abuse of economic dependence, dated May 6th 2002, almost four years after the enactment of the rule[6]. Subsequently, judges found several opportunities to reject the application of the provision. The reasons why they do not recognize economic dependence are briefly listed below:

6 Tribunal Bari, 6 May 2002 in *Foro it.*, 2002, I, 2178, n. Palmieri, Osti;

RossiSmith Academic Publications, Oxford/UK, www.publicationsales.com

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1) No technological dependence was detected;[7]

2) The missed conciliation procedure forecloses any decision (2 cases); [8]

3) Financial debts taken out relying on the contract with commissioner are not deemed causes of dependence;[9]

4) A withdrawal in two cases was deemed not arbitrary;[10]

5) No proof of lack of alternatives;[11]

6) Only the subcontractor can be protected, not the commissioner (2 cases); [12]

7) Parties recourse to other provisions of contract law.[13]

The reason of this stall dealt with the fact that courts – which ignored the economic background of a legal problem – easily found obstacles in the application of the norm. In the end, the formulation of a norm counts in order to solve problems and not to create them. This article supports that the solution should converge from a positive to a normative perspective. If the economic meaning of the norm was explicit, there could be no confusion about the concept of economic dependence, e.g. when distinguishing economic from technological dependence; or when separating switching costs from financial exposure; or when focusing on the concept of

7 Tribunal Turin November 19, 1999; Tribunal Taranto on October 13 September 28, 1999; id., 2000, I, 624,

8 Tribunal Udine-Cividale del Friuli April 27, 2001, id., 2001, I, 2677,

9 Tribunal Rome, 16 August 2002, in *Foro it.*, 2002, I, 3207, n. Palmieri

10 Tribunal Taranto, ord. 22 December 2003, AVIS vs MAD, in *Foro it.*, 2004, I, 262; Bari Tribunal, ord. 17 January 2005, Italfusti c. Natuzzi, in *Foro it.*, 2005, I, 1603 with comment of Colangelo and in *Riv. dir. Privato,* 2005, 651; The court states that the repetition of such spot contracts cannot be seen as the constitution of a long term industrial sub-contract.

11 Catania Tribunal, ord. 5 January 2004, Medical System vs. Eastman Chemical Italia, in *Foro it.*, 2004, I, 262;

12 Tribunal Roma, 29 July 2004, Soc. Home Shopping Europe c. Soc. Sky Italia, in *Annali it. dir. Autore*, 2005, 533;

13 Tribunal Isernia, 12 April 2006 in *Giur. merito*, 2006, 2149, n. Delli Priscoli L.

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abuse rather than on the concept of opportunism; when detecting the arbitrary termination of a commercial relationship.

The norm prohibiting the abuse of economic dependence should candidate to be a general clause, valid for every kind of contract among parties. As discussed above, the hold-up problem is transverse and it does not know the limits of the qualification of a contract. Economic rules apply to any situation that fall into the description of the case (Macario, 2005).
We had to wait till 2011 when the Supreme Court stated that the par. 9 Law 192/1998 represents a general clause[14]. Subsequently, recent precedents show the great recourse to the principle of good faith to achieve corrective remedies, that are preferred to the invalidity sanction offered by art. 9 SCA in comment.[15]

A gap between the economic and the legal approach to the abuse of economic dependence still exists, but jurisprudence resorted to the well known concept of good faith in the execution of the contract, which, even for economists, supported the efficiency of the contract and the joint maximization of profits.

14 Cass. Ssuu. 25.11.2011 n. 24906 in Giur. it. 2012, 10, 2054.
15 Cass. Civ. Sez III 23 July 2014 n. 16787; Milano Tribunal, 21.7.2015 n.7811; Catania Tribunal, Ord. 22.12.2014 in Giur. it., 2015, 11, 2413; Trib. Massa, ord. 15.5.2014 in Nuova Giur. Civ., 2015, 3, 218; App. Milano, sez I, 15 July 2015.

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