Rethinking capitalism: paving the way for sustainable transformation

It's time to take a hard look at the way our economic system is currently wired and impacting our society. Our current model of capitalism is not sustainable and is contributing to environmental destruction and social inequality. But there is hope. By rethinking capitalism, we can pave the way for a more sustainable future – a world where 9+ billion people live well within planetary boundaries.

By Peter Bakker

PETER BAKKER
is a distinguished business leader, who, since 2012 has led the World Business Council for Sustainable Development as President & CEO. WBCSD is a global community of over 225 of the world's leading businesses driving systems transformation for a better world.

We need to integrate the well-being of people and the planet with the profit and growth-based model. As the world is turning to business for sustainability solutions, we need to design an economic model that can consider the broader impacts of human and corporate actions on climate change, biodiversity loss and inequality.

The "easy" answer would be to put a price on our environmental impacts. But we know that, given the complex geopolitical landscape, putting a price on carbon is currently a challenge.

However, this is not a call to dismiss capitalism, but to find solutions to the misalignment between financial systems and innovative business transformation that would put businesses on track to deliver transformative solutions at scale. We need to design capitalism in a way that provides incentives for solutions.

While governments play a supportive role, the responsibility primarily lies with companies and financial actors. Businesses and investors must align incentives with environmental and social objectives to bring about meaningful change. Transitioning to sustainable practices involves more than just adopting electric vehicles; it requires identifying and mitigating climate risks in supply chains. We know we need system transformation, not piecemeal solutions, but this will only emerge if the economic incentives are in place.

While setting net-zero targets is a start, integrating them into corporate strategy and transition plans is critical. As we focus on building a better future, it's crucial that we establish robust performance and accountability mechanisms that help to mitigate the climate crisis and incentivize more than just a compliance approach. By doing so, we can ensure that we're directing capital towards sustainable solutions that address the physical risks that most companies and investors are currently not aware of. Investing in sustainable solutions is not only good for our planet, but it's also an investment in our future.

Various solutions exist to address the challenges of emissions accounting and reporting. Improved data sharing across value chains (Scope 3), facilitated by technologies like artificial intelligence, is vital for understanding and reducing carbon footprints across supply chains. Standardized disclosure frameworks enable investors to make informed decisions and direct capital towards sustainable ventures. Regulation, similar to financial accounting standards, ensures consistency and quality of data across industries.

Progress has been made, particularly in addressing climate change. Initiatives like the Partnership for Carbon Transparency (PACT) are revolutionizing Scope 3 emissions accounting, a significant challenge for companies. Technology giants are integrating sustainability data into supply chain management systems, making efforts to reduce environmental footprints more streamlined.

Frameworks such as the International Sustainability Standards Board (ISSB)'s S1 and S2 provide a global baseline for sustainability-related disclosures. With the right technology and frameworks in place, widespread adoption of sustainable practices becomes more feasible and attractive. Regulations help to create a level playing field and ensure that companies are not exploiting the environment for their own gain.

With better risk analysis driving the innovation agenda with performance management integrating environment and social performance into business decision-making with comparable disclosure of material performance data, we are setting up the capital markets to integrate this more holistic performance into their capital allocations and valuation models.

Better risk analysis is propelling the innovation agenda. Performance management now integrates environmental and social factors into decision-making which includes disclosing material performance data for comparability. Such efforts aim to align capital markets with holistic performance, shaping their allocations and valuation models accordingly.

The day that sustainable business attracts a lower cost of capital is the day that solutions will flow to establish the net-zero, nature-positive and more inclusive world we know we all need!