

Transforming the Corporation

Allen L. White



GTI Paper Series

Frontiers of a Great Transition

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Tellus Institute
11 Arlington Street
Boston, MA 02116
Phone: 1 617 2665400
Email: info@tellus.org

Tellus Web: <http://www.tellus.org>
GTI Web: <http://www.gtinitiative.org>

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Author

Allen White is a Senior Fellow at the Tellus Institute where he directs the institute's corporate responsibility activities. He co-founded the Global Reporting Initiative and served as Acting Chief Executive through 2002. In 2004, he co-founded Corporation 2020, an initiative focused on designing future corporations to sustain social purpose. He has advised multilateral governmental organizations, foundations, corporations, and NGOs on corporate responsibility strategy and policy, and published and spoken widely in this area. White holds a doctorate in geography from Ohio State University.

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Transforming the Corporation

Prologue

What is the purpose of the corporation?

Centuries after the birth of the corporation in the early seventeenth century, the answer to this fundamental question remains unsettled. Is its core purpose profit-making, with its social and environmental impacts constrained only to the extent that they reduce short-term profit? Or is its purpose to serve the public interest, with the profit incentive acceptable only to the degree it enables such service? Or does the answer lie somewhere along, or even outside, these two possibilities?

For the global future, the debate over corporate purpose carries profound implications because, at the turn of the twenty-first century, the corporation is arguably the most powerful social institution. The lack of consensus reflects the contemporary divisiveness over the proper relationship between business and society. The co-existence of surging corporate scale, wealth and influence with persistent and widespread global poverty and a compromised biosphere raises the question: if corporations are so powerful and, as many claim, contributing so much to global wealth creation, why do billions of people remain mired in poverty and why do the earth's vital signs continue to deteriorate?

For a *Great Transition*, such a juxtaposition is untenable. A *Great Transition* envisions a different kind of future, one in which the values of equity, ecological sustainability, and quality of life undergird societal behavior, choices and institutions. A world of corporate power amidst social marginalization, and organizational wealth amidst the impoverishment of billions, is incompatible with this portrait of the future.

The *Great Transition* envisions a sea change not only in individual values and behaviors, but also in the values and behaviors of institutions, including economic entities to which societies grant the license to operate. A shift from consumerism, individualism and domination of nature to human solidarity, ecological sensibility and enhanced quality of life ultimately means changes in values. But such individual transformation ultimately must be expressed through, and reinforced by, the institutions around which society organizes itself. To achieve both individual and institutional change, organizations must be transformed and, through a virtuous circle, reinforce the values that trigger such transformation in the first place.

In the realm of organizations, no such transformation looms larger than that of the corporation. Here we refer not only to the formal, large-scale corporation of the industrial, and industrializing, economies, but corporations operating at all scales that assemble resources to produce wealth. It is fair to say that along with the nation state itself, the modern joint stock, Limited Liability Corporation represents the signature organization of the last two centuries. While the role of intergovernmental organizations and non-governmental organizations is moving toward center stage in the dynamics of global development (Raskin et al., 2002: 50), neither to date compares with the might and reach of corporations as engines of change during the twentieth century and, in all likelihood, the twenty-first.

The size, reach, and resources of large corporations render them resistant to change. The annual revenues of the largest transnational corporations (TNCs) exceed one-quarter trillion dollars, equaling or surpassing the GNP of the majority of the world's nations, including even resource-rich nations such as Indonesia and Saudi Arabia. An intermediate-size TNC with annual

revenues of \$25 billion equals or exceeds the GDP of nations such as Syria, Belarus, Angola, the Dominican Republic, and dozens of others.

Notwithstanding such scale and influence, the tendency to decouple the corporation from its broader social context is pervasive. Rather than understanding the corporation as nested within an economic domain that acts—or should act—as a means to human and ecological well-being, the corporation often is perceived as the master rather than servant of societal needs. This inversion masks the critical question: How can such unparalleled wealth-generating capacity be reconciled with the just claims of the poor, communities, the environment, and future generations?

This reflection on corporate purpose and its relationship to a *Great Transition* vision of global development is organized into three sections. The first offers observations concerning the genesis, growth, and evolution of the modern corporation and its role in wealth creation. The second presents visions of the corporation within three *Great Transition* archetypal regions, describing the key attributes of transformed corporations that reflect the pluralism of *Great Transition* futures while remaining faithful to the core values of human solidarity, ecological sustainability, and quality of life? The third explores the way forward, rooted in the premise that a latent appetite for a fundamental values-based change in the way corporations form and operate is discernable and awaits a catalyst to be unleashed.

Genesis and Evolution

The corporate landscape is diverse and dynamic. At one end of the scale, more than 50,000 TNCs have reached an unprecedented level of influence on human and ecological well-being. Their footprints—economic, social, environmental—traverse national frontiers with increasing speed and complexity. Their supply chains involve thousands of small and medium enterprises in a web of global transactions powered by demand for goods and services wherever and whenever markets emerge, either spontaneously or through the power of commercial marketing.

At the other extreme are the millions of small-scale enterprises, with perhaps a few dozen workers or less, operating throughout the world in both the formal sector (sanctioned by government) and informal sector (operating outside the reach of effective governmental authority).

The influence of corporations goes beyond their key role in the production of goods and services. They are decisive agents in the formation of values and the transformation of whole cultures at various geographic scales—village, town, city, regional and global. Whether mining for gold in rural Indonesia or disseminating new information technologies in the affluent global North, corporations not only respond to human values; with equal frequency, they help shape them. Moreover, the power of corporate purses and lobbying acumen increasingly influence political campaigns and policy agendas.

Basic notions of “sustainable development” would demand that organizations that utilize human, physical, and capital resources to produce goods and services ought to meet the needs of future generations. Yet the economic history of the nineteenth and twentieth centuries is replete with instances of the contrary—unsustainable use of natural resources whose repercussions surface decades later in the form of eroded communities and insecure populations. The *Great Transition* vision compels us to reconsider the design of corporations to make their behavior harmonious with a form of global development that is equitable, sustainable, and places the quality of human well-being at the center of economic activity. How will such entities be owned,

governed, and operated? How will they assemble and manage their human, physical, and capital resources in a form compatible with the aspirations of a *Great Transition* society?

The early years

TNCs are not a new phenomenon. They appeared as early as the seventeenth century in the form of royal trading companies—most notably the British East India Company and Dutch East India Company—that combed South and East Asia in search of spices, silks, and minerals. These early trading monopolies, chartered to enrich the royalty, were antecedents of the TNCs that would emerge centuries later in the form of private, joint stock companies.

The source of legitimacy of these early TNCs was the royalty itself. Inheritance of the throne brought entitlement to all the riches the royalty could accrue, by whatever means it was able to exercise. The source of wealth prior to the industrial era was largely from ownership of land and precious metals and materials. Control over foreign lands through trading relationships or outright colonization enlarged such assets. Early TNCs were an important mechanism for achieving such goals. They mirrored—and reinforced—the prevailing worldview that the nobility, by birthright, was entitled to wealth without regard to its contribution to the creation of such wealth.

Beginning in the eighteenth century, the transition began from wealth creation linked to land and trade to wealth creation based on industrial production. The idea of wealth entitlement tied to nobility was challenged by an emerging entrepreneurial class, a development that opened the possibility of democratizing wealth creation instead of perpetuating disparities based on birthright and inheritance. Instead, ingenuity and invention offered an alternative pathway to economic success. By the early nineteenth century, the new class of entrepreneurs was emerging in full force to displace the traditional aristocracy as agents of wealth creation.

Amidst these sweeping shifts in the sources and control of wealth, the early private partnership corporations emerged as the principal organizational form by the early 1800s. Such partnerships typically involved initial entrepreneurs together with a small circle of investors who closely watched how their financial resources were being deployed by the firm's management. Meanwhile, in a slow but steady fashion, the new capitalists replaced the aristocracy as claimants to the economic residual. The stage was set for a new form of aristocracy—aristocracy tied to ownership of capital (Kelly, 2002).

As companies grew in scale, so did the need for capital, exceeding what the original entrepreneur and his close partners were capable of contributing through profits from the firm's activities and their own personal assets. In response, the practice emerged of engaging passive investors in the purchase of equity shares and, with it, the limited liability, "joint stock" enterprise that would emerge as the dominant organizational form by the early twentieth century.

Limited liability, to this day the cornerstone of the privately-held corporations, capped investor risk to a level equal to the amount of the original capital investment. Legislated by governments under pressure from industrialists as an essential mechanism to attract a continuing inflow of fresh capital, limited liability meant that investors could enjoy unlimited returns in the event of the success of the firm at the same time that losses were capped in the event of failure. Limited liability was instrumental in unleashing the force of capital in the emerging industrial nations of the nineteenth century.

As limited liability took hold, so too did joint stockholding, the arrangement by which a multitude of investors could simultaneously hold shares in a company while remaining detached

from its day-to-day management and operations. While opening up vast opportunities for capital owners, joint stockholding at the same time widened the chasm between the providers and users of capital. The investor class' lack of personal attachment to the communities in which production occurred reinforced the treatment of workers as commodities, with little difference from the raw materials used in the production process. The hard edge of the early industrial revolution in terms of worker and community health, safety, and wage levels was of little interest to passive investors insulated by geography and class from such social and economic realities.

However, all did not warmly embrace this kind of economic development. Indeed, as early as the late eighteenth century, Adam Smith harbored doubts about the social repercussions of the emerging joint stock company (Smith, 1776). Despite his reputation, Smith was not an unconflicted partisan of capitalism. Notwithstanding his claim that individuals working to advance their self-interest is the surest route to aggregate societal well-being, Smith understood that the threat of monopolies and the privilege and protection of business run counter to societal interests. Moreover, his concern that business could use its power to "intimidate the legislature" was a premonition of contemporary corporate political influence on government policy, although he could not have possibly imagined the scale this problem would assume.

It was not by chance that Smith spoke of the "wealth of nations", not the "wealth of corporations". He distinguished between those who live from rent (wealth generated from natural resources) and wages (wealth generated by work) versus those who live by profit (the assumed goal of business). In other words, labor combined with natural resources was the key to wealth creation. In Smith's world, business logically and inexorably seeks to create monopolies or semi-monopolistic conditions for profit-making purposes. To the degree it succeeds, society is less, not more, prosperous.

Smith believed corporations had propensities to foster monopolistic conditions and retain profits rather than invest them in innovation. He held a gloomy view of the shareholder-controlled corporation, believing that shareholder domination, in contrast to the waning partnership model, was a recipe for profit-taking at the expense of the greater good. For Smith, the experience of the British East India Company exemplified the inevitable anti-social behavior of unchecked corporate monopoly.

In short, Smith had a grim and unromantic view of the social role of the passive shareholder-dominated corporation. While capital was essential to wealth creation, capitalism in the form of unbridled accumulation of wealth by passive investors was not a system compatible with Smith's moral philosophy. It is a system that, remarkably, is rarely questioned in the endless debates about the vices and virtues of market capitalism. While Smith's seminal insight regarding the invisible hand is accorded almost divine status, his equally important insights regarding the behaviors and consequences of joint stock corporations remain decidedly under emphasized.

Scaling up

As the early decades of the nineteenth century unfolded, Smith's forebodings were realized in practice. The increasing size of corporations inevitably increased the power of capital providers. The more capital needed, the greater their claim on corporate profits. The dynamic of larger-scale entities requiring larger pools of capital gradually concentrated control of corporations in the hands of capital providers.

The gradual entrenchment of capital providers in control of corporate wealth was further deepened with the intervention of the US judiciary, whose landmark decisions over time

exercised great influence on trends in many industrial countries. Two critical aspects of a series of court decisions were, first, that corporations were “natural persons” entitled to most rights and protections of human beings and, second, that shareholders are entitled to the profits—sometimes referred to as the “residual”—generated by corporations. These two streams of judicial decisions, which emerged earliest and most powerfully in the US and UK, laid the foundation for corporate protection and privilege that remains to this day.

Underlying both of these judicial concepts is the view that corporations are private—not public—entities, despite the fact that governments grant them the legal license to operate. From this view flows the belief that laws governing corporations fall into the same regime as other private law relationships that govern relationships among individuals—for example, contract law and property law (Greenfield, 2005: 1). This stands in stark contrast to public law that, for example, governs the relationship between government and individuals or, more broadly, society and individuals. Both constitutional law and later established environmental law exemplify such public law frameworks.

The import of this emerging doctrine cannot be overestimated. Corporations were seen as private property for the benefit of shareowners (later to become “shareholders” owing to legal refinements). Managers were “agents” of the shareowners, charged with extracting maximum returns in the form of dividends and, for public-traded companies, stock price. This interpretation of the purpose of the corporation took root despite the corporation’s growing size and influence, and despite the enlargement of its economic, social, and environmental footprint. It effectively subordinated employees, communities, and the environment to shareowner entitlement, paving the way for even deeper entrenchment of capital interests as the preeminent claimant to corporate profits.*

Notwithstanding legislation that challenged the one-dimensional definition of corporate purpose, “shareholderism” intensified during the ensuing decades, subject only to slight modifications by subsequent court rulings† and the tempering of unbridled corporate behavior by labor and securities legislation of the 1930s. These developments somewhat softened the most injurious forms of corporate conduct by introducing new workplace standards, social security, and financial transparency. But they did little to dilute, much less reverse, the preeminent claim of shareholders to the corporate profits.

Entrenchment and globalization

Beginning in the late 1960s, a new form of corporate regulation took place, this time in the form of environmental control. This occurred in almost all industrial nations, spurred by the awakening of the environmental movement in reaction to virtually unconstrained industrial emissions affecting air, water and land. Yet even these new regulations, while critical to slowing environmental degradation, further demonstrated the reactive posture of government in relation to corporations. Setting standards and limits for protecting natural resources marked the first stirrings of a transnational environmental movement spurred, in part, by the publication of

* Anti-trust legislation in the early twentieth century—called *competition policy* in contemporary European Community terminology—sought to rein in the most egregious monopolies. Neither this effort to contain the anti-social repercussions of unchecked corporate power, nor 1930s labor standards, nor later environmental standards, challenged the preeminence of shareholder interests or the duty of managers and boards to promote such interests.

† For example, in the US, the courts blurred the distinction between long-term profit maximization and short-term profit and share price maximization, generally upholding the right of companies to take non-maximizing actions in the short term as long as they are supportive of long-term shareholder interests.

Rachel Carson's seminal work, *Silent Spring*. But this movement failed to ask more systemic questions about the purpose and nature of the corporation itself. As a profit-maximizing entity accountable primarily to its shareholders, the incentive to shift the burden of environmental costs elsewhere would remain essentially intact regardless of how stringent environmental controls may be. Thus, the implicit principle of corporate-societal relations remained unaltered: limit damage without changing the core purpose or strategy of the corporation. In short, it was a principle of containing rather than preventing harm.

While progress in regulating corporate behavior continued throughout the 1970s, the drift toward domination by investors continued as well. Reinforced by “stock market capitalism”, shareholder primacy reached its pinnacle in the 1980s during the wave of mergers and acquisitions (M&As) that swept the business community under the banner of maximizing short-term shareholder value.* Though the long-term benefits—even to shareholders—of M&As is debated, that period further solidified the grip of shareholder rights vis-à-vis those of other stakeholders that contribute knowledge, technology, infrastructure, and other resources to the productive process.

Today, shareholder primacy is the single greatest obstacle to corporate evolution toward a more equitable, humane, and socially beneficial institution. It is so deeply entrenched in the developed economies that it appears to be the natural state of affairs, beyond reproach. It manifests itself in virtually all aspects of corporate structure and decision-making: executive compensation, board governance, management incentives, accounting, and mergers and acquisitions. Meanwhile, globalization, with its profound and complex repercussions for workers, communities, human rights, and the environment, raises new questions about the desirability of maintaining shareholder primacy as the core tenet of the modern corporation.

Those who champion the continuation of shareholder primacy often tend to equate it with market economics when, in fact, they are separable. It is a false congruity. Open markets for technology, products, and services may generate wealth in the absence of a rigid adherence to shareholder claims to corporate profits. Productivity, drive, and innovation—all desirable attributes of market economies—may exist while profits are shared equitably among all parties that contribute to long-term wealth creation.

Shareholder primacy, to be sure, is not without its critics. Ghoshal (2005: 75-91) observes: “If the value creation is achieved by combining the resources of both employees and shareholders, why should the value distribution favor only the latter? Why must the mainstream of our theory be premised on maximizing the returns to just one of these various contributors”? Ghoshal responds that it should not, and to preserve such a theory is not only injurious to society but also to the long-run interests of business itself.

Outside the Anglo-American business culture, challenges to certain aspects of shareholder primacy—in particular, the tendency toward short-term shareholding and profit-seeking—are noteworthy. These characteristics, for example, stand in stark contrast to the longer-term shareholding tradition of most nations on the European continent. In Germany, where labor is represented on corporate supervisory boards, ownership is traditionally concentrated in the hands of corporations that own significant shares of each other (“cross-holdings”), and by large banks and insurance companies. This arrangement has tended to slow the turnover of shareholding.

* The formalization of shareholder rights via “principal-agency” theory was put forward by Jensen and Meckling (1976). This framework defines shareholders as principal claimants to corporate profits and boards of directors as their agents for ensuring such an outcome.

Indeed, the distaste for short-term shareholding was expressed recently by the chairman of the German Social Democratic party, referring to the failed effort of Deutsche Borse to buy the London Stock Exchange: “Financial investors...have no face; they descend upon companies like locusts, destroy everything [for short-term gain] and move on”.

In India, South Africa, and Brazil, skepticism about the societal consequences of shareholder primacy is rooted in a mix of spiritual and political tradition. The Ghandian model of voluntary commitment to public welfare and social needs and the Nehru model of state ownership and aggressive regulation for social purposes diverge from the Western model that elevates capital ownership to a preeminent right to be protected and advanced (Balasubramanian et al, 2005). In South Africa, the tradition of Ubuntu, or “common humanity”, is deeply ingrained in politics and expectations of business activities. In Brazil, the role of companies in contributing to “social projects” in communities extends well beyond the discretionary and always vulnerable philanthropic practices of Anglo-American firms.

In East Asia, significant degrees of state control and the heavy concentration of ownership in a few dominant conglomerates remain the rule, notwithstanding rapid integration into the global economy. In Latin America, extended family ownership is dominant, though trade liberalization is slowly penetrating this traditional model via increasing flows of foreign direct investment enabled by increasingly fluid and integrated global capital markets.

As a general observation, the pluralism of the past is gradually giving way to greater uniformity as the forces of globalization dilute protectionist policies that historically created and sustained diversity in the organizational form of corporations. Nonetheless, experiments in alternative forms of production—cooperatives, employee-owned companies, mixed state-private enterprise, not-for-profit social enterprise, and some purely state or municipally-owned firms—are thriving, quietly but persistently challenging the inevitability of the dominant Anglo-American corporate form.

In sum, it is impossible to imagine a *Great Transition* world without fundamental changes to the current privilege accorded capital providers and to the legal, regulatory, and financial market structures that enable such privilege to persist. The “gladiatorial culture” (Greenfield, 2005:1) that deifies competitive advantage, efficiency, and, above all, shareholder returns is not a corporate culture that comports with a *Great Transition* society. The behavior it induces and societal consequences it engenders lay at the heart of the numerous reports and surveys of public opinion that consistently show low confidence and high distrust of the business community.

A *Great Transition* world cannot co-exist with a corporate culture that is built on the pillar of capital domination as an intrinsic good and shareholder enrichment as the core purpose. We may draw this conclusion based on three attributes of large corporations (White, 2005). The first is scale. The sheer power of transnational corporations, some of which operate in 100 or more countries and report revenues of hundreds of billions of dollars, raises disquiet across political and regional lines. Concentration of this magnitude dominates vast supply chains involving hundreds of thousands of workers and communities, creating enormous clout in terms of pricing, labor practices, and community well-being. Combined with the unrelenting forces of global competition, such scale creates detachment among those who make decisions, company managers, and those who experience their consequences—namely distant workers, customers, and communities. Corporate governance arrangements in which managerial decisions are detached from the social and environmental impacts of those choices is inconsistent with the solidarity value of a *Great Transition* society.

The second attribute is transience. The pace of change in the global economy—waves of mergers and acquisitions, fleeting ownership enabled by new investment instruments such as hedge funds, and dislocation associated with frenetic restructuring—is a constant threat to the sustainability values of a *Great Transition* society. Transience breeds carelessness toward future generations and drives the tendency to seek short-term gains at the expense of long-term stewardship of physical and human resources. The uncertainty and dislocation fostered by the culture of transience is injurious to the well-being of the environment, employees, and communities. Transience is the embodiment of the amorality of the large corporation and the market capitalism in which it operates.

Disparity is the third attribute. Disparities characteristic of large corporations come in many forms. Some are internal to the organization, some are experienced by external parties, and some are a mix of the two. Examples include the ratio of executive to average wages, the inequalities between shareholder returns and non-shareholder (employee, community, environment) returns, and imbalances between those who hold decision-making power and others who contribute to long-term wealth creation are all disparities that characterize modern corporations.

The social and environmental consequences of scale, transience, and disparity feed the call for corporate transformation. It is this transformation—its character, outcomes, and impetus, to which we now turn our attention.

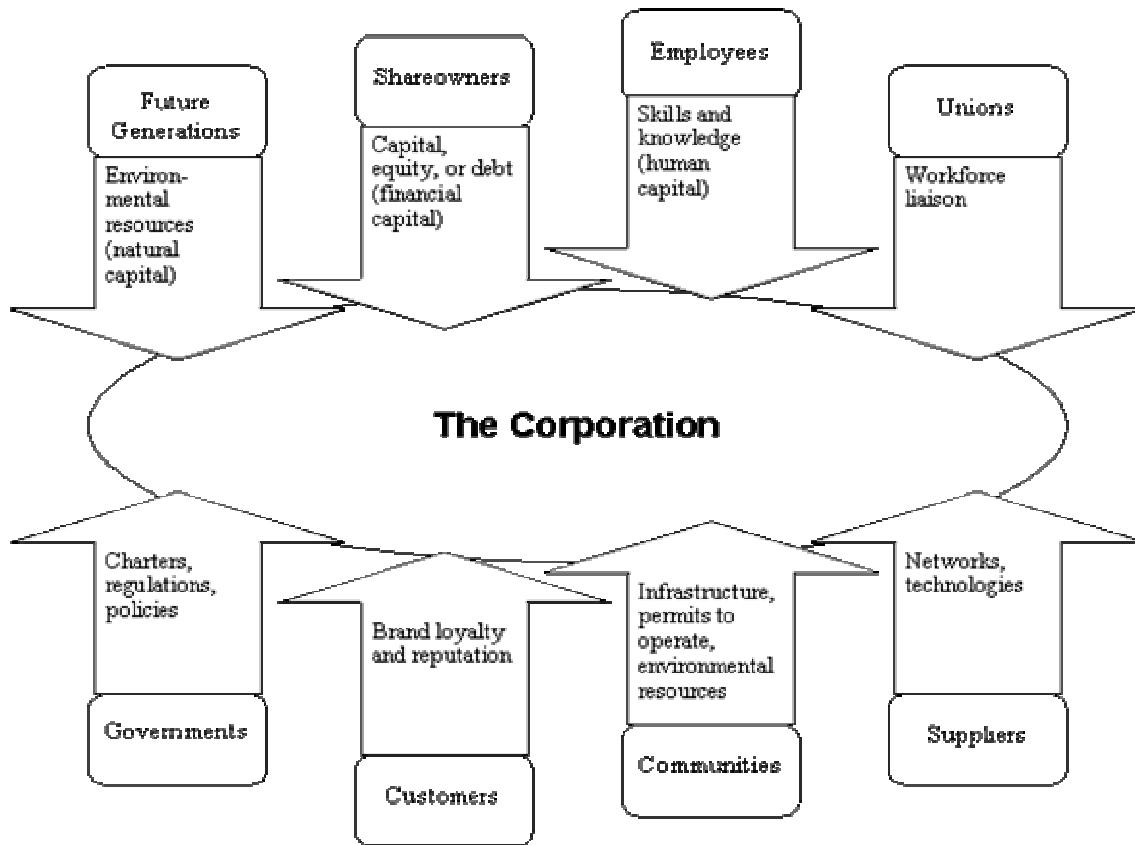
Portraits of the Future

Like architects commissioned to design a new structure that meets certain performance objectives—equity, ecological sustainability, high quality of life—the challenge in transforming the corporation is to imagine a future that preserves the ingenuity of the corporation while reconstituting its nature to place social purpose at its core. To achieve this goal, we must conceive of corporations in the twenty-first century adapting to different socio-cultural settings and governed in a way that places societal needs above the interests of capital providers or any other single stakeholder group. In this vision, the core purpose of corporations, whose license to operate ultimately is granted by the citizenry through representative public authorities in the regions in which they operate, is the advancement of the public interest. Diversity is part of this picture. But it is a diversity in which variegated corporate forms collectively represent a system of productive enterprises that attends first and foremost to societal needs. Sketching how this corporate landscape might emerge in a *Great Transition* future lies at the heart of the scenario exercise that follows.

Framing the future

Consider the nature of the corporation from the standpoint of the many parties that contribute to its capacity to create wealth (Post et al., 2002). At least eight such parties are identifiable (Figure 1).

Figure 1: Resource Providers to the Corporation



These eight parties, often referred to as “stakeholders”, provide different types of resources, all of which are essential to the corporation’s existence, operations, and prosperity.* Shareholders and lenders provide financial capital that helps mobilize other factors of production—labor, resources, technology—of a product or service. Employees provide skills and knowledge (human capital), unions provide workforce liaison, and governments contribute the legal/regulatory infrastructure. Customers provide markets and, over time, brand loyalty and reputation to the organization. Communities provide a local license to operate, as well as access to air, water, and land resources. Suppliers are providers of networks and technologies essential to the corporation’s own production activities.

In addition to these providers are future generations. In what sense are they resource providers? Future generations lend common assets to the corporation for temporary use, much like communities do on a shorter-term basis. Biodiversity, clean air and water, and productive land are “common assets” inherited by present generations with the understanding that such users shall be stewards of such assets, protective of both their quality and quantity, such that the stock

* The concept of the corporation as an assembly of parties that jointly and inseparably provides the basis for wealth creation—so-called “team production model” (TPM)—is articulated by Blair and Stout (Blair and Stout, 1999). TPM challenges principal-agency theory as the basis for defining the corporation because multiple parties, not just shareholders, are principals of the firm. As such, they merit fair returns to the resources they provide and, implicitly, substantive influence on the key decisions that affect the firm’s conduct and future.

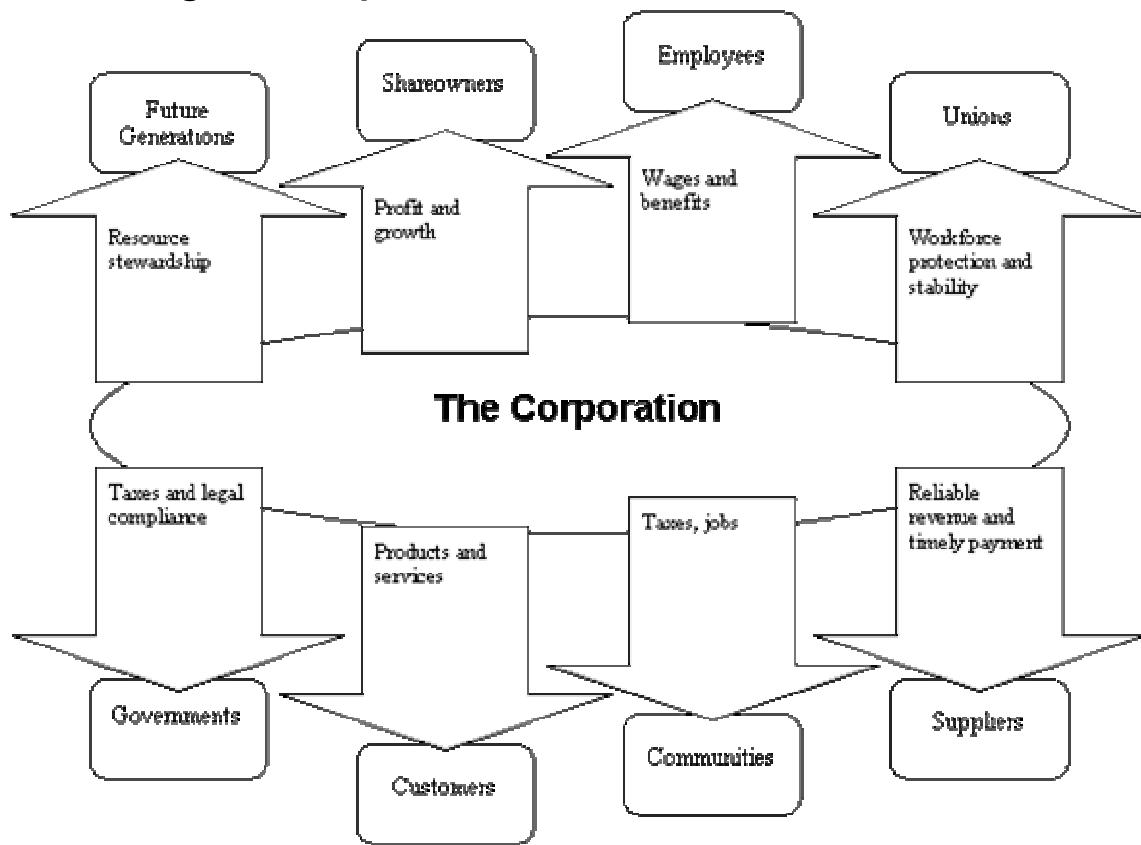
is preserved for future generations.* The corporation that exploits and undermines a common asset is, in effect, a delinquent borrower. Such is the case, for example, of those that have produced carbon emissions for generations which now threaten to undo climate stability owed to future generations.

In return for the resources provided, each party merits some type of return to their contribution (Figure 2).

Like inputs, returns, too, are variable in terms of type and value. Future generations expect the firm to act as a responsible steward of the environmental resources it uses to produce goods and services, leaving the stock of resources undiminished. Shareowners expect dividends and growth in share price. Employees expect, at minimum, wages and benefits commensurate with their contribution. Unions expect a safe working environment and a place at the negotiating table.

For governments, taxes and compliance with the law constitute some of the expected returns. Customers expect quality goods and services, while communities expect taxes, jobs for residents, and an uncompromised local environment. For suppliers, long-term relationships that produce a steady revenue stream and timely payment of invoices are anticipated returns.

Figure 2: Expected Returns to Resource Providers

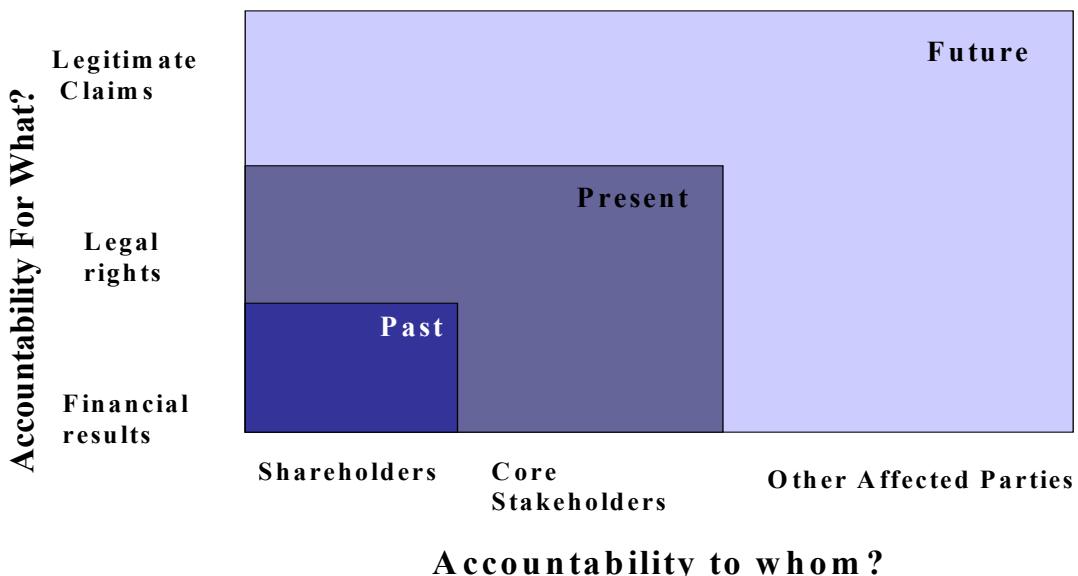


* Common assets come in many forms, not only environmental. Scientific knowledge and cultural assets handed down from one generation to the next are other examples. Radio frequencies and bandwidth are others. For these non-physical assets, the threats may be destruction, abuse or appropriation for private enrichment, any of which violate the principle of stewardship of the public interest.

Positing the corporation as the beneficiary of multiple resource providers opens horizons for transformation that shareholder primacy stifles. In this new framework, the diverse parties that contribute their resources to create goods and services are not simply secondary and dispensable contributors to the production process. Instead, they hold rightful claims to both the surplus generated by the firm as well as accountability from the board and management. They are, in short, not subordinate to capital providers. This reinterpretation of the nature of the corporation has profound implications for governance, charters, and securities laws, as well as the means of corporate wealth distribution.

Thus, the essence of a new vision of corporations lies in redefining the rules of accountability (Figure 3). The multiple resource providers framework is rooted in the notion that the twenty-first century must witness the expansion of the frontier of a corporation's obligations to a broader range of societal actors.

Figure 3: Accountability Shifts



Source: Adapted from Lynn Sharp Paine, *Values Shift*, Harvard Business School Press, 2004.

This frontier is two-dimensional. The first defines to whom the corporation is accountable. Here, the frontier must shift from the shareholder, outward to other key stakeholders, gradually reaching all those with legitimate claims, legal or otherwise. The second frontier defines accountability. Here, too, the frontier must expand, from its focus on the financial performance of the organization, to its other legal obligations (e.g., compliance with the law) onward to a broader set of legitimate claims. Such claims include those of the diverse resource providers identified earlier—e.g., employees, customers, communities—but also parties with a stake in broader societal issues such as human, labor, and environmental rights affected by the activities of the corporation.

Principles of redesign

How, then, do we move from the current shareholder-dominated corporate purpose to imagine a new system of enterprise comprising multiple resource providers and expanded accountability frontiers?

Six principles of corporate redesign (Table 1) guide our thinking. These underpin a vision, decades into the future, of corporations that act as agents in achieving the solidarity, sustainability and quality of life that characterizes a *Great Transition* society.

Table 1: Principles of Corporate Redesign

1. The purpose of the corporation is to harness private interests to serve the public interest.
2. Corporations shall accrue fair returns for shareholders, but not at the expense of the legitimate interests of other stakeholders.
3. Corporations shall operate sustainably, meeting the needs of the present generation without compromising the ability of future generations to meet their needs.
4. Corporations shall distribute their wealth equitably among those who contribute to their creation.
5. Corporations shall be governed in a manner that is participatory, transparent, ethical, and accountable.
6. Corporations shall not infringe on the right of natural persons to govern themselves, nor infringe on other universal human rights.

Source: *Corporation 20/20* (2006).

Principle one defines corporate purpose—*to harness private interests to serve the public interest*. This reflects the nature of all institutions created through democratic processes. The drive and ingenuity of all corporations in the future must be channeled and directed to serving the public interest, allowing for individual enrichment as long as it does not undermine this public interest mandate. The same democratic processes that enable the existence of the public interest are those that define the meaning of the public interest consistent with prevailing societal norms.

Principle two recognizes shareholders as one among several resource providers whose contributions to wealth creation should be fairly rewarded. But such returns are not boundless nor without limits. Principal among these constraints is that the legitimate interests of other societal actors shall not be undermined or diminished. In other words, it is unacceptable for corporations to externalize costs in the course of producing goods and services in order to enlarge returns to shareholders.

Principle three requires corporations to manage with an eye toward the long-term health of workers, the environment, customers, communities and others affected by corporate activities at all stages of the product or service “chain”. The word “sustainably” implies stewardship and trusteeship, in contrast to short-termism and speculation. It also implies preservation of common assets such as clean air, clean water, and biodiversity, which are handed down from generation to generation.

Principle four insists on equitable distribution of wealth among those who contribute to its creation. The framework of multiple resource providers posited earlier presents a broad range of contributors, all of whom are entitled to an equitable fraction of the corporate wealth. In this portrait of the future, this principle departs from shareholder entitlement that characterized the early twenty-first century and now, decades later, is viewed as a bygone era of injustice and privilege.

Principal five requires new forms of governance that depart from the earlier top-down, hierarchical model to one in which participation, accountability, and transparency are embedded in corporate governance and practice. This principle has deep implications for the structure, composition and duties of boards of directors. No longer simply tasked with overseeing maximum returns to shareholders, the board in a *Great Transition* future is the agent that manages a broader mandate to align corporate decision-making with the advancement of societal well-being.

Finally, Principle six establishes boundaries to the rights of corporations. In contrast to the personhood status granted corporations in the late 1800s, the transformation that helped bring about a *Great Transition* society has removed many protections for corporations that formerly existed. Rights to enter into contracts and rights to due process survive. But rights to freedom of speech and to influence the political process through lobbying were terminated long ago. The effect of Principle six unequivocally subordinates the rights of the corporation to the well-being of citizens and the environment .

These principles provide a touchstone for constructing visions of the future corporation that adhere to *Great Transition* values.

Contours of the future corporation

Dateline: 2084

By the late twenty-first century, a *Great Transition* has had a transformational impact on the configuration and functioning of regions and organizations (Raskin, 2006). A global consciousness has emerged, supplanting the nationalism of nineteenth and twentieth centuries. The sense of common destiny across regions and cultures transcends the distinctions which long persisted. But unlike the differences that fueled the conflicts and disparities of the past, differences now are viewed for their richness and diversity, worthy of preservation and nurturing. Universal values have permeated all corners of the world, and the sense of global citizenship has taken hold. A World Constitution of 2032, a codification of decades of piecemeal environmental, human, and labor rights accords, now provides a generally accepted framework for a planetary civilization. Individuals and institutions are now firmly and unequivocally committed to a future in which universal values co-exist amidst pluralism, constituting a social fabric based on solidarity, sustainability, and high quality of life for all.

Corporations have been an integral component of this great transformation. At the individual and collective level, the structure and behavior of the corporate sector has been reconstituted into

something that bears little resemblance to the forms that dominated many decades earlier. The intensifying anxiety about the behavior and trajectory of corporations in the early twenty-first century spawned a broad-based movement to redefine its rights and obligations. Whereas scale, growth, and profit-maximization were previously viewed as intrinsic goods and core goals of the corporation, the new corporation marches to a whole different set of principles; namely, those serving the public interest, sustainability, equity, participation, and respect for the rights of human beings. Mirroring the civil governance structures that have emerged in this new world, corporate forms too comprise a rich pluralism conforming to global norms that now govern business conduct regardless of place, sector, or scale.

The precursor to the corporate transformation that occurred was the United Nations Global Compact. Conceived at the turn of the twenty-first century by then Secretary General Kofi Annan, the Compact introduced 10 principles as the foundation for an international framework to guide business behavior in the twenty-first century:

Table 2: Global Compact

Human Rights

Principle 1: Business should support and respect the protection of internationally proclaimed human rights; and
Principle 2: Make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: The elimination of all forms of forced and compulsory labour;
Principle 5: The effective abolition of child labour; and
Principle 6: The elimination of discrimination with regard to employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: Undertake initiatives to promote greater environmental responsibility; and
Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Business should work against all forms of corruption, including extortion and bribery.

Source: United Nations (2006)

After years of struggle in building a global constituency of corporations and labor and civil society groups, the Compact rode the wave of a rejuvenated United Nations to attain the high level of uptake that had long eluded it. The Compact now forms an integral part of the universal values that guide corporate conduct, a complement to the aforementioned Principles of Corporate Redesign that speak to the purpose, governance, and legal obligations of the corporation. In addition, the UN Business Norms (United Nations, 2003), conceived at approximately the same time as the Compact, are generally accepted among governments and business. These norms synthesize into a single framework decades of piecemeal human rights, labor rights, and environmental accords and add details to the Compact's broad values statements.

At the **global level**, the Principles of Corporate Redesign and the Global Compact together constitute the governance and values framework for corporations in the late twenty-first century *Great Transition* society. Each year, a “State of the Corporation” review document is released by

the UN in conjunction with partners from civil society and labor. The report surveys progress towards conformity by sector and by country of the world's corporations with respect to the Principles of Corporate Redesign and those of the Global Compact. A multistakeholder sectoral panel monitors progress and makes specific recommendations to regional and local governance bodies on how to move each sector toward continuously higher levels of conformity. Transparent rankings within each sector reveal leaders and laggards and provide civil society and labor groups with the tools they need to press corporations toward higher performance standards. This system has its antecedents in the early twenty-first century sustainability rankings of companies. But now, decades later, these rankings are read, understood, and acted upon at unprecedented levels by an informed citizenry that exerts its power and legal rights over corporations licensed to serve the public interest.

At the **regional level**, new governance bodies exercise the authority to grant the license to operate to firms based within their jurisdictions. Charters define the terms and conditions of corporate structure and accountability. In stark contrast to earlier counterparts that focused almost exclusively on shareholder issues—e.g., classes of stock, numbers of shares—charters have been elevated to powerful instruments of public accountability that assist in monitoring adherence to both international norms and corporate design principles. Details on the social purpose of the organization, commitments to participatory governance, social and environmental aspects of the business, and processes for distribution of profits are included in the charter. Further, charters are time-limited, subject to review and renewal in 5-10 year cycles, depending on the scale of the corporation. License Boards assess, in transparent and rigorous public processes, the corporation's performance in relation to its charter. Systems for public input and appeal in the event of an adverse decision enable a fair and balanced assessment process leading to a license renewal, renewal with conditions, or termination.

At the **local level**, communities also are deeply engaged in corporate activities. In one sense this is nothing new. Localities have long been on the front-line, experiencing first hand the opportunities and risks, expansion and contraction of facilities. Environmental and occupancy permits, health inspections, and tax collection are some of the many aspects of the facility-community interface. But now, in our *Great Transition* world, such permitting and monitoring activities are greatly expanded. Traditional functions are subject to more direct democratic control, and wealth sharing among all legitimate stakeholders is a near universally accepted societal norm. Community trust funds receive a negotiated fraction of value added before taxes, with the proceeds applied to environmental preservation and restoration reflecting the emergence of sustainability through stewardship as a universal value. Other schemes enable actual ownership of stock by communities, thereby enabling broad-based participation in corporate governance at the level accorded shareholders in an earlier era. Still other arrangements place community representatives on boards of directors (described below) and community panels, successors to “community advisory panels” (CAPs) conceived in the late twentieth century by the global chemical industry. These committees are now a mandatory component of governance structures. The function of these panels is to advocate for community interests vis-a-vis facility managers, and to exercise some combination of voice, vote, or veto over critical decisions such as plant relocation. Localities, in short, are at the forefront of participatory governance, ensuring that those most affected by corporate activities are empowered with a commensurate level of control.

Regions in a Great Transition World*

The fabric of planetary society is woven with hundreds of regions that are richly diverse in character and size. Some correspond to the national boundaries of a century ago and others are federations of earlier states. Still others are parts of former states, forging a common identity around the boundaries of river basins and other ecosystems (so-called “bio-regions”), around urban centers, and around cultural traditions. Nevertheless, most regions can be clustered crudely into one of three major types, called *Agoria*, *Ecodemia*, and *Arcadia*, although few regions are pure cases of any one type.

Agoria

These regions would be most recognizable to a visitor from the year 2000. Some critics call *Agoria* “Sweden Supreme”, with their more conventional consumer patterns, lifestyles, institutions, and their economies dominated by large shareholder corporations. However, when compared to even the most outstanding examples of social democratic models of the last century, the commitment to social equality, the environment, and democratic engagement from the level of the firm to the globe is of a different order. The key is a vast array of policies and regulations, supported by popular values, that align corporate behavior with social goals, utilize sustainable technology, and moderate material consumption in order to maintain highly equitable, responsible, and environmental societies.

Ecodemia

The distinguishing feature of *Ecodemia* is its fundamental departure from the capitalist economic system. The new system, often referred to as “economic democracy”, banishes the capitalist from two key arenas of economic life. First, the model of the firm as comprised of private owners and hired workers has been replaced by worker ownership in large-scale enterprises, complemented by non-profits and highly regulated small businesses. Second, private capitalist markets have given way to socialized investment processes. Worker ownership and workplace democracy has reduced the expansionary tendency of the traditional capitalist firm, since the focus is on profit per worker (rather than absolute profit) and the popular goal of “time affluence” shortens work weeks. Publicly-controlled regional and community investment banks, supported by participatory regulatory processes, re-cycle social savings and tax-generated capital funds. Their mandate is to ensure that successful applications from capital-seeking entrepreneurs satisfy social and environmental criteria, as well as traditional financial criteria.

Arcadia

Relative to other regions, the bias in *Arcadia* is toward self-reliant economies, small enterprises, face-to-face democracy (at least in cyberspace), community engagement, and love of nature. Lifestyles tend to emphasize material sufficiency, folk crafts, and reverence for tradition. While the local is emphasized, most people are highly connected with cosmopolitan culture and world affairs through advanced communication technology and transportation systems. *Arcadia* has centers of innovation in some technologies (organic agriculture, modular solar devices, human-scale transport devices, etc.) and arts (new music, craft products, etc.). Exports of these products and services, along with eco-tourism, supports the modest trade requirements of these relatively time-rich and slow-moving societies.

This discussion of differences should be balanced by a reminder that the regions also have much in common. Relative to the nations of a century ago, contemporary regions enjoy a high degree of political participation, healthy environments, universal education and healthcare, high social cohesion, no absolute poverty, and more fulfilling lives. Finally, people the world over share the historically novel attribute of citizenship in a world community.

* Summarized from Raskin (2006).

What has emerged, then, is a multi-tiered structure in the form of global, regional, and local agents, norms, and powers that enables the exercise of citizen rights and democratic control over corporations. The public purpose of the corporation has ascended to preeminence, supported by policies, procedures, and instruments that bring democratic processes to the forefront of corporate governance.

The tiered structure that has emerged expresses itself not only at different geographical scales, but in three archetypal regions as well (Raskin, 2006). These regions demonstrate the breadth of pluralism and diversity in the new planetary society, as conveyed by the wide spectrum of technology, urbanization, governance structures, trade, and, corporate forms.

In **Agoria**, firms remain mostly privately owned, relatively large, and governed by multi-stakeholder boards. They face few constraints on what they produce, but powerful constraints on how they produce goods and services, reflecting the deep societal consensus against creating harms at any point along the chain of production. The principal mechanisms for protecting the public interest remain as they were in the early twenty-first century and include markets incentives via heavy taxation of public “bads” (e.g., pollution, excessive consumption, oversize housing) and subsidies for public “goods” (e.g. clean energy, worker training, R&D on new drugs to prevent and mitigate global health epidemics). A “cradle-to-cradle” mentality is the norm, signifying a dramatic turn toward dematerialization and reuse. The concept of functionality reigns supreme, whereby services rather than products, and human capital rather than physical material, underlie the business models of manufacturing, notably, for automobile, chemical and computer hardware sectors. In Agoria, the public tolerance for waste, wastefulness, and offloading external costs on communities, employees, and consumers is zero. While stock exchanges and banks continue to provide equity capital, democratic control over major capital investments in sectors with the heaviest environmental and social footprints is viewed as essential. Decades earlier, a societal consensus acknowledged that such decisions are too important to be left exclusively to the vagaries of the market. In their place, Industry Regulatory Boards oversee such investments. As an overall regulatory mechanism, the Agorian Ministry of Sustainable Development sets sustainability targets for each business sector comprising, for example, materials efficiency targets, carbon emissions reductions, and re-use/remanufacturing targets. Operating in a “comply or else” mode, sectors which fail to meet such targets face enforceable mandates.

Further evidence of the redesigned corporation is evident in the composition of corporate boards relative to the early twenty-first century model. In that era, the paramount fiduciary duty of boards was to protect and enhance shareholder interests. Composition of the board mirrored this duty. Agorian corporations, consistent with the now redefined public-interest purpose of the corporation, are governed by boards comprised of investors, employees, and other stakeholders—e.g., community members, consumers, and environmental and human rights representatives.

Figure 4: **Illustrative Corporate Boards in Agoria**

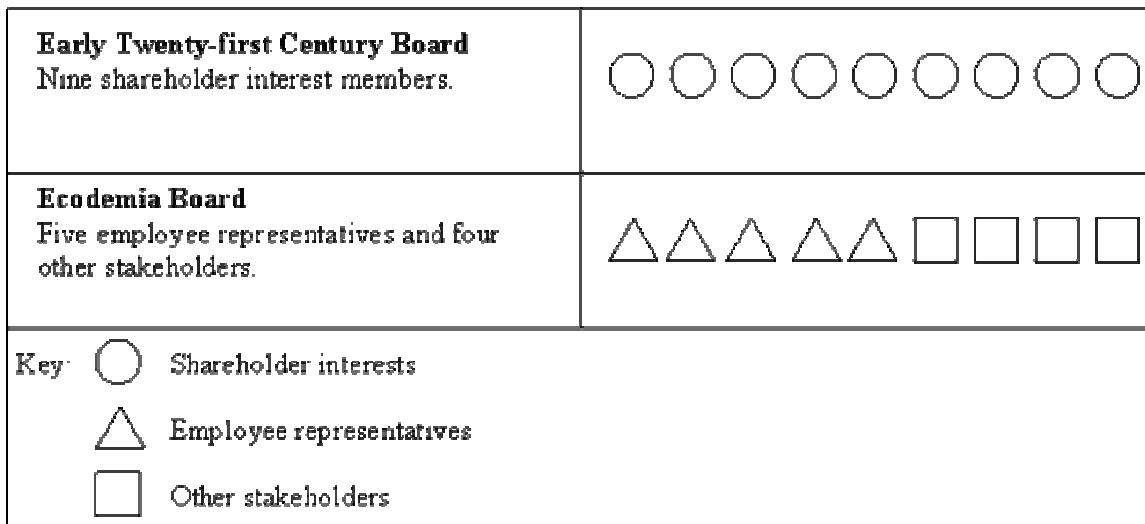
Early Twenty-first Century Board Nine shareholder interest members.	○ ○ ○ ○ ○ ○ ○ ○ ○
Agoria Board Five shareholder interest members, two employee representatives, and two other stakeholders.	○ ○ ○ ○ ○ △ △ □ □
Key:	 Shareholder interests  Employee representatives  Other stakeholders

This expanded board is a sharp departure from the earlier twenty-first century corporate boards in which shareholder interests were the primary concern of corporate directors. With the societal values shift that occurred, expectations of corporate boards have broadened to embrace other stakeholder interests while retaining a majority representation of shareholder-oriented members. This diversity is not a matter of choice; it was written into corporate law decades ago to reflect the new societal consensus that corporations are, at their core, public entities licensed to serve the public interest. This mandate is also reflected in the board committee structure. In addition to the traditional audit, compensation, and finance committees, all Agorian boards contain a “sustainable development committee” that is responsible for ensuring that corporate decisions align with the sustainable development responsibilities created by the Ministry of Sustainable Development.

Ecodemia is a region rich in non-profit organizations, and public control of large corporations is evident in their internal governance structure and through external Industry Regulatory Boards that coordinate investment decisions based on optimizing social returns.

In Ecodemia, large-scale TNCs exist, but their numbers have greatly diminished and the regulation and oversight, based originally on the UN Business Norms, of their obligations has intensified (United Nations, 2002). Medium- and small-size corporations, with greater community sensibilities and protection from financially lucrative but socially or environmentally damaging M&As, dominate Ecodemia’s corporate landscape. Local stock exchanges in Ecodemia have replaced participation in national and global exchanges, thereby favoring regional production to meet regional needs. Process and product safety in extractive, manufacturing, and service activities are subject to public oversight that preserves consumer choice without sacrificing personal health and well-being.

As in the earlier case of Agoria, Ecodemian boards mirror these major shifts in business-societal relations. The majority of directors are worker representatives, while the remainder consists of representatives from other stakeholder groups.

Figure 5: **Illustrative Corporate Boards in Ecodemia**

In contrast to earlier employee-owned corporations whose boards were typically comprised of 100 percent employee representatives, the mixed board configuration ensures that the public interest—community, consumers, the environment—remains a powerful minority voice in the corporation’s governance structure. This design seeks to prevent the tendency among some earlier employee-owned corporations to lean toward self-enrichment at the expense of broader societal responsibilities.

Corporations in **Arcadia** reflect prevailing social norms that position quality of life as the preeminent. A mix of privately and publicly owned corporations exists alongside a non-profit sector whose proportionate size vastly exceeds that of parallel sectors in Agoria and Ecodemia. This economic configuration mirrors social values that differentiate little between work and non-work life, and share a deep commitment to quality of life and community. Consumerism and large-scale technologies are minimal in the Arcadian landscape. As in Ecodemia, public finance institutions are prominent, yet capital market intermediaries—e.g., private investment banks and asset managers—are less needed and far fewer than in Ecodemia. Arcadia is a region in which cultural and artistic pursuits supplant financial goals as the defining characteristics of individuals and families.

In Arcadia, corporate boards are balanced among investors, employees, and other stakeholder groups—in this case, mostly community representatives, reflecting the localistic culture of the region. Investors are usually locally-based as well.

Figure 6: **Illustrative Corporate Boards in Arcadia**

Early Twenty-first Century Board Nine shareholder interest members.	○ ○ ○ ○ ○ ○ ○ ○ ○
Arcadia Board Three each from shareholder interest members, employee representatives, and other stakeholders.	○ ○ ○ △ △ △ □ □ □
Key:	 Shareholder interests  Employee representatives  Other stakeholders

More generally, this corporate governance structure reflects the Arcadian character: strong private enterprise, a desire to ensure family-friendly worklife, and strong ties to the community. In Arcadia, the focus on local production, people, and heritage is reflected in a governance structure strong in local orientation.

The composite character of the three regions that collectively depict a future *Great Transition* society is one of rich diversity in size, markets, technology, products, and services. But this diversity is bound by an overarching characteristic—governance, ownership, and control have moved from a pre-*Great Transition* focus on shareholder interests to a focus on returns to all resource providers to the organization. In the *Great Transition* world, employees, communities, consumers, and the environment are assigned various types of governance and ownership rights. The corporate purpose has undergone a transformation. The public interest now rules.

Latency and Leadership

How plausible is the corporate transformation depicted in this portrait of the future? In the twenty-first century, can coherent and sufficiently powerful forces emerge to drive forward a process that results in a fundamental redefinition of the role of corporations in society?

The transformation described here is as much evolutionary as revolutionary, and entails spreading the seeds of a new corporate purpose whose antecedents are visible in many parts of the world. In countries such as Japan, India and South Africa, the view of business within the broader societal context, accountable to a higher social purpose, is longstanding. Even in the US, where private enterprise, market economics and shareholder primacy reign supreme, it is essential to remember that many of the earliest corporations were chartered by governments for a fixed time to develop social projects such as canals and roads. These antecedents are helpful for imagining the corporation as a servant to the public interest, and may inspire various agents of change with a shared vision of the future corporation, guided by a plausible, adaptable, pathway forward.

Sheer inertia and existing models of the corporation will not dissipate soon or easily. Powerful vested interests benefit from the status quo of the shareholder-dominated model of corporate

purpose and associated governance frameworks that dominate business. But among many people, both within and outside the corporation, signs of a latent appetite for change are discernable. An improbable coalition may be lying dormant, awaiting a catalyst to fuse disparate constituencies into a coherent force for change.

Progressive business—advocates in waiting?

The last decade has hosted dramatic peaks and troughs in business, including the dot.com bubble and bust, the failure of major financial institutions in Asia, the Enron-era scandals in the United States and Europe and, not least, the emergence of Chinese and Indian companies as bona fide multinational entities. More recently, the optimism of the 1990s has been reversed by stagnant or declining real wages among mid- and lower-level employees in many sectors, diminishing health and pension coverage in industrial nations, and waves of M&As that result in short-term gains for shareholders and top executives at the expense of employee and community well-being. Even true-believers in corporate effectiveness such as Peter Drucker, widely regarded as the father of modern corporate management, have had their doubts about the course corporations have taken in the last quarter century: "...although I believe in the free market, I have serious reservations about capitalism" (Business Week, 2005).

The deleterious effect of scale, transience, and disparity has left public trust in business at its lowest level in decades (White, 2006). The repercussions for business leaders have been significant. Recently described as "the world's most prominent temp workers", CEOs themselves are experiencing high turnover rates, in part driven by the failures to meet the short-term financial targets imposed by the investor community. Such high turnover is not limited to the United States; it is a phenomenon that cuts across all industrial regions, from North America and Europe to Japan and the rest of Asia/Pacific. In fact, Europe exceeded the United States in performance-related turnovers, and Germany recorded the second highest rate of any country in the last nine years. The "celebrity CEO" of the 1990s seems to be an endangered species.

Corporate leaders are as much as any constituency, victims of a world plagued by short-termism. The culture of short-termism and market "churning"—inducing volatility to maximize trading and associated fees—is as demeaning to many corporate leaders as it is injurious to society at large. Capital markets beholden to those who live from maximizing transactions rather than true wealth creation force the hand of business leaders to "manage for earnings" rather than manage for true wealth creation (Estes, 1996). For many, this culture of churning and speculation forces choices that contradict aspirations of those seeking to assert vision in a world where antipathy toward executives continues to intensify. This system stymies rather than cultivates authentic leadership that is neither good for the individual executive, the company she leads, nor the society it serves (George, 2003).

A belief in a broader social purpose for corporations is not absent among business leaders. For some, it is longstanding and voluntary. For others, it may evolve grudgingly out of crisis and failure to anticipate the full effects of the new expectations of business in a globalizing world. In a recent survey of over 4,000 executives in 116 companies, a remarkable eighty four percent of respondents agreed that shareholder returns should be combined with "contributions to the broader public good", and one in six indicated that large companies make a negative contribution to the public good. Of course, such views may be dismissed as shallow gestures to an increasingly hostile public, while a wide gap remains between simply *recognizing* the public good as a responsibility of business and moving the public good to the center of business purpose (Blowfield, 2005).

Nonetheless, if the hypothesis of discontent and latent motivation has validity, it follows that a nucleus of potential change agents within business could take shape if it is presented with the opportunity, platform and vision. A corporate purpose with dampened shareholder interests supplanted by the public interest at its core may well unlock a suppressed appetite for more humane organizations and more socially purposeful products, services, and governance.

Civil society—fragmented but willing

The rise of civil society organizations (CSOs) in the past quarter century has sought to give voice and influence to issues and interests neglected or underserved by government and business. The dramatic increase in their numbers, diversity, reach, and sophistication has created a whole new force in shaping business-society relations. While indisputably vastly outweighed by corporations and governments in terms of resources and impact, the proliferation of CSO campaigns and partnerships attests to the foothold such groups have achieved in a relatively short period. The birth of organizations such as the Forest Stewardship Council, Transparency International, and The Global Alliance for Vaccines and Immunizations exemplify initiatives aimed at filling urgent gaps in the capacity or willingness of government and business to deliver public goods needed for a more equitable and sustainable world.

As recently as a decade ago, speculation on reshaping corporations would have been viewed as the aspiration of dreamers. In the past, CSOs dealing with corporate issues defined themselves more as combatants than collaborators. Even in Europe, with its tradition of greater gentility in civil society-business relations, engagement practices were perhaps more respectful, but could hardly be described as collegial.

Much of this has changed. While disobedience and litigation have hardly disappeared, virtually all major civil society groups, both old and new, now employ a spectrum of approaches in dealing with corporations on labor, environment, human rights, and other contested issues. Why the shift? In part, CSOs have recognized that confrontation with corporations has its limits as a tool for achieving socially desirable outcomes. They have also recognized the unrelenting rise of corporate influence in the global economy, and the need to find new ways to establish common ground with such powerful entities.

The shift from confrontation to collaboration bears directly on the prospects for a corporate-CSO alliance in support of redefining corporate purpose. Existing efforts fall well short of overcoming formidable obstacles, including fragmentation of CSO efforts and the powerful resource advantages of the corporations. Further impairing CSO effectiveness is their focus on where, how, and what corporations produce in terms of goods and services, rather than on their underlying core purpose. CSOs characteristically fight single issue, single location battles, while failing to drive the agenda for transformational change.

None of these shortcomings are insurmountable. The desire for transformational change may be muted and dispersed, but it is far from absent. An alliance in support of a transformational agenda comprising CSOs and cutting-edge corporate interests has yet to be articulated, much less activated. This is a goal to which the *Great Transition* vision of the corporation can substantially contribute.

Government—reactive but indispensable

Government is the third player in our improbable coalition. The history of government's role in virtually all social movements of the twentieth century has been consistent—observer, codifier,

and ultimately, enforcer. Such has been the case, for example, in racial equality, environmentalism, and women's suffrage. For the agenda of corporate transformation, it would be an historic shift for government to embrace the issues early and assert leadership toward systemic change of the type the *Great Transition* envisions. Inherently risk-averse, consistently short-term, and highly vulnerable to business influence, government at this moment serves more to entrench twentieth century corporate values than to press for an expanded view of business-society relations of the kind embodied in a *Great Transition* future.

But gradual change in the architecture of corporate obligations and rights are plausible, even if assertive leadership in transformation is not. This may occur not by a sudden shift toward visionary action, but rather through a gradual shift in the societal consensus around the purpose of the corporation. If the voice of progressive business is joined by a strengthened civil society sector, and both are reinforced by union, consumer, and other interested parties, then government may begin to shift its attention to the fundamentals of business as opposed to the piecemeal, reactive posture it has traditionally maintained.

Rather than suggesting government attention to specific issues and incremental improvements regarding, for example, labor, environmental and governance regulation, the scenario envisioned here depicts government as a partner to the business and civil society in effectively rewriting the license to operate. Thus a portrait of the corporation in "stakes, not shares" is the underpinning of corporate law, regulation, and practice (Cowe, 2001).

How plausible is government as a partner in this improbable coalition? Some muted signs are visible in a number of initiatives to reconstitute corporate governance toward a stakeholder-involvement model.* The language and focus of the proposals vary, but the common thrust is an effort to loosen the bonds of traditional shareholder-dominated fiduciary duty to take into account employee, community, environmental and other constituencies. In a historical perspective, such governmental action is not without precedent. Indeed, for centuries, governments have contributed to shaping a public role for corporations, dating back to the earliest European trading companies. "Public" in those times meant enrichment of the royalty. Today, "public" may mean enhancement of national security, strengthening national prestige, or building a national trade surplus. And in the future, "public" could mean the major contributions to global ecological and social well-being. Motives have changed over time, but governments have unabashedly advanced a broader social purpose of corporate activities. The idea of revisiting corporate purpose in the coming decades to strengthen its social mission has its antecedents. A critical mass of pressure from sources outside government can tip the terms of policy debate from fragmented and reactive incrementalism to coherent, integrative action toward redefinition of corporate purpose.

Epilogue

A *Great Transition* future confronts the dominance of shareholderism that trumps all other interests in the governance and management of corporations. It envisions corporate governance as a tiered concept, with responsibilities spread across the global, regional, and local scales, a spectrum of for-profit and not-for-profit entities, all bound by a set of universally accepted

* Examples of initiatives can be found in Hawaii and Minnesota, Australia in recent parliamentary hearings on corporate responsibility, and South Africa via a code of corporate governance developed by the South African Institute of Directors. The French government's recent reference to the legitimacy of "stakeholders" in the increasingly tumultuous takeover environment is further evidence (Breton, 2006).

Transforming the Corporation

obligations and principles of design. A *Great Transition* future rejects the received wisdoms and centrality of limitless growth and shareholder primacy in favor of positioning corporations as agents of long-term wealth creation and distribution in service to a broader social mission.

More than two centuries ago, Adam Smith wrote, “Justice is the main pillar that upholds the whole edifice”. Corporations in *Great Transition* societies can help realize the unfinished business of the twentieth century: the achievement of universal individual economic justice on par with the major advances in political and social justice of the nineteenth and twentieth century. Furthermore, *Great Transition* corporations are capable of fulfilling the decidedly twenty-first century challenge of global sustainability – the achievement of justice for future generations. To make this a reality, the evolution of societal expectations of corporations – already changing substantially in the early years of the twenty-first century – must drive the transformation of the very character of the corporation, not just incremental change.

The crisis of confidence in business is planting the seeds of such a transformation. A cross-sectoral coalition is plausible. The time is ripe to translate widespread disillusionment with corporations into a new generation of organizations that operate in tandem with core *Great Transition* values. This bold vision can steer the global future in a humane and sustainable direction. Passively leaving the future of the corporation to business-as-usual trends is a perilous legacy that society can ill-afford to pursue.

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