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Corpations in the Crosshairs: From Reform to Redesign

Opening Essay for GTI Forum Corporations in the Crosshairs

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Transnational corporations, the engines of global capitalism, have become the target of efforts to create an economic system both socially just and environmentally sustainable. The unprecedented power and impact of these leviathans on society and ecology raises critical questions: What is corporate purpose? To whom should corporations be held accountable? And how, in fact, can that be accomplished? To these weighty questions, recent civil society and governmental efforts—under the rubric of "corporate social responsibility" (CSR)—have offered a tepid response: prod corporations to self-regulate. The inadequacy of self-regulation has become starkly evident: the interests of shareholders remain supreme, while those of workers, communities, and the environment remain subordinate. Moving beyond CSR to "corporate redesign" politics is an urgent strategic necessity for a Great Transition.

The Corporate Social Responsibility Movement

CSR arose in response to the idea that the only social responsibility of the corporation is to generate profits.[1] By contrast, until the nineteenth century the justification for chartering corporations, at least in principle, was to fulfill a public purpose, such as building a road, bridge, or canal, rather than private enrichment, per se. Although the public interest view of the corporation saw a mid-twentieth- century revival during economic depression and war, by the 1970s, business-friendly ideological, economic, and political forces coalesced to remove fetters on corporate conduct. The corporate manager, no longer beholden to any remnants of social mission, became the agent of investors, whose interests trumped other stakeholders. Neoliberal and neoconservative forces rallied behind a policy agenda that eliminated barriers to profit—

privatizing state services, rolling back regulations, weakening the counterpower of labor, and forcibly opening new markets abroad through free trade agreements.

The concept of corporate social responsibility (CSR) emerged as regulatory strictures weakened and adverse corporate impacts on people and planet swelled. This response reflected a conviction that the soft power of public pressure from civil society could replace the lost hard power of regulatory action in fostering conscientious self-regulation and good corporate citizenship. The CSR umbrella was broad, including an array of initiatives in the international arena, the private sector, and civil society.

Internationally, the seminal 1987 World Commission on Environment and Development called for "sustainable industrial development"; the 1992 Earth Summit identified business as a critical actor for achieving social and ecological sustainability; and the 2000 United Nations Global Compact urged corporations to adopt better practices on human rights, labor, the environment, and anti-corruption. CSR also inspired efforts within the private sector, notably the World Business Council on Sustainable Development, Business for Social Responsibility, Business in the Community (UK), and Instituto Ethos (Brazil). These organizations helped lay the groundwork for a new "C-suite" position, the Chief Sustainability Officer.

Finally, as states sat on the sidelines, a multitude of civil society organizations (CSOs) advocating human rights, environmental protection, fair trade, and anti-corruption focused on corporations as targets and potential partners. Research institutes and academic scholars provided critical analytic support for such CSR campaigns. Standards organizations established broad frameworks for measuring and reporting corporate performance and advancing accountability through disclosure and certification.[2]

By the early 2000s, the CSR movement had become a significant voice for a version of capitalism where labor, community, and the environment mattered as much as shareholders. Multilaterals, civil society, business groups, and standards organizations all played a role in broadening the definition of corporate purpose beyond the narrow confines of profit maximization and shareholder value. The language of "corporate citizenship," "shared value," and "sustainable business" spread in the media and public discourse.

However, the optimism of the early CSR movement began to dissipate as corporations failed to adequately address the depth of their responsibility for climate disruption, species extinction, income inequality, human rights violations, and job insecurity. As attention turned to the tenacious structural conditions that reinforce corporate misbehavior, the mainstream CSR approach showed itself to be just tinkering with corporate priorities rather than fundamentally rebalancing them. The report card was in: the collective benefits of incremental improvements by countless corporations paled next to the scope and urgency of concurrent crises. Skeptics correctly inquired, if so many CSR practitioners are doing better, why are aggregate CSR indicators pointing in the opposite direction?

Beyond Reform: Redesign

The persistent social-ecological costs of runaway shareholderism exposed CSR as incapable of reining in the capitalist juggernaut, let alone driving transformative change. The profit motive punctured the earnest belief that markets properly regulated could manage complex human-biospheric processes. Tweaking the established institutional framework was not up to the job. Indeed, the framework itself was the obstacle, working through the mechanisms of corporate accounting systems, corporate consolidation, and financialization of the economy.

Reflecting the adage "You measure what you value," social and environmental value are invisible in standard accounting methods which ignore so-called externalities in calculating profit and loss, balance sheets, earnings per share, and other conventional measures of corporate performance. This incomplete reckoning, by disincentivizing socially and ecologically responsible investments, distorts capital allocation decisions to the detriment of the public good.

On top of flawed accounting, corporate consolidation, enabled by years of feeble anti-trust regulation, weakens competition and undermines responsible behavior. A few corporate behemoths now dominate energy, pharmaceuticals, technology, retail, aerospace, and many other sectors. Today, the annual revenue of each of the five largest global corporations exceeds $250 billion, more than the GDP of 75 percent of the world's nations.[3] With concentration comes regulatory capture, as corporate giants gain outsized influence on the regulatory process through lobbying, campaign contributions, and political appointments.

Financialization, a third suppressant of social responsibility, diverts assets from innovation, wages, and social and environmental improvement to trading and repackaging securities. Profits, in other words, are driven more and more by manipulation of existing assets than by the creation of new wealth. Under financial capitalism, a “rentier” class prospering from property, patents, copyrights, and investments reaps the rewards at the expense of wage earners. Broadly, corporate surpluses are diverted from human and natural capital to owners of finance capital via dividends, stock buybacks, and executive compensation.

Facing these powerful deterrents to corporate reform, some civil society activists have considered more holistic and fundamental solutions that transcend CSR’s incrementalism. With that qualitative shift, the search was on for a bold, transformative vision of the core purpose of the corporation. For those attuned to this larger challenge, CSR had run its course. It was past time to focus on altering root causes deep in the DNA of corporate design.

In essence, corporate redesign turns on the premise that the prevailing corporate form is constitutionally incapable of harmonizing its conduct with requirements for long-term, systemic social-ecological well-being. It argues that issue-specific CSR must give way to a comprehensive agenda for structural change in ownership, governance, and incentives. Only through a deep shift in their purpose and structure can corporations be reinvented as forces for long-term social betterment.

The redesign movement has spawned growing public debate and experimentation within corporations. For example, the organization B Lab promotes a voluntary certification process entitling a company to quality as a “benefit corporation” (or “B-Corp”) that is chartered to balance the interests of multiple stakeholders: workers, customers, suppliers, community, and the environment.[4] B Lab also has had success in introducing the option of chartering as a benefit corporation in the legal codes of 36 US states. With roughly 3,000 certified B-Corps worldwide, the effort has achieved impressive results among small- and medium-size enterprises. To elevate its impact, B Lab must effectively court larger corporations, such as the 80,000 that dominate global commerce.

By introducing the concepts of boundaries, limits, and norms, redesign philosophy has also inspired innovations in corporate accounting and reporting. Such concepts allow assessment of company-specific performance in the context of broad, aggregate environmental and social benchmarks at local, national, and planetary scales. However, only about five percent of all corporate sustainability reports incorporate such contextualization, and even fewer have offered quantitative measurements. Slow progress reflects the challenge of overcoming inertia in financial accounting authorities, even when they purport to be champions of CSR reporting.

Redesign has also made modest inroads into the investment community. Socially responsible investing has evolved from a narrow exclusionary strategy (e.g., shunning investment in tobacco and weapons producers) toward integrated assessments encompassing multiple sources of capital—natural, human, and social, as well as manufactured and financial. This effort could become a significant instrument and prod for developing a holistic view of corporate purpose. Even now, environmental, social, and governance (ESG) factors regularly figure into the investment strategies of many mutual funds, sovereign wealth funds, banks, insurance companies, and university endowments, with some $20 trillion channeled into firms identified as relatively strong ESG performers.

What is the long-term potential for socially responsible investing? In the best scenario, investors would drive corporations to adjust their purpose statements and governance structures. However, this effect can become widespread only if asset owners and managers swap the rampant short-termism in capital markets for longer time horizons. Although we can hope for some movement on this front, the vision of some enthusiasts that socially responsible investing holds the key to systemic change remains a naïve "greenwish."[5] The transformation of finance capital into an agent of redesign demands a fundamental shift in its own goals, time horizon, and analytics. Without such change, enforcers of shareholder primacy are unlikely to become the agents of their own undoing.

The transition from CSR to a redesign paradigm is slowly taking root, but remains limited. Meanwhile, time is running out. A bold transformation strategy commensurate with the magnitude of the crises awaits realization.

Roadmap for Transformational Change

The omnipresence of corporations—as resource extractors and processors, employers and developers, lobbyists and campaign donors—has spawned countless initiatives to tame their excesses and steer their activities in the direction of the common good. Now the challenge is to transform shared grievance into joint action among disparate campaigns. Greater strategic and organizational coordination is critical for confronting corporations commensurate with their scale of operation and influence. The seeds of a transformative redesign movement, already sown, have sprouted and are ready to spread across geographic scales.

In the political sphere, an essential step is the reconfiguration of the legal status and purpose of the corporation. This work can build on the pioneering work of B Lab and the consensus among legal scholars that the principle of shareholder primacy, wielded by defenders of finance capital, is baseless.[6] Northern Europe has been a leader on this front, as "codetermination" structures, which mandate worker representation on the boards of large companies, are widespread in Germany, Austria, the Netherlands, and the Nordic countries.[7] And the model is spreading. In the US, presidential candidates are calling for employee-elected members on the boards of large companies, and for corporate boards to consider the interests of all stakeholders, not just the shareholders.[8] A natural extension would be to create corporate board seats for representatives of all stakeholder groups.[9]

These country-by-country efforts to alter corporate governance help break the grip of shareholder interests. Yet, a basic incongruity constrains the potential to achieve this aim: corporate activities are transnational, but the corporate chartering process is national (or subnational). This fundamental mismatch allows corporations to "charter-shop," obtaining authorization licenses in jurisdictions with the most shareholder-friendly requirements, a gaming of the system analogous to shopping for tax havens.

With global capitalism superimposed on the traditional nation-based political order, the world lacks overarching governance capacity, in general, with the chartering mismatch a key case in point. The global-national contradiction suggests an important strategic prong for the redesign movement: transnational control of transnational corporations. One approach would be to advocate for a new multilateral organization, a World Corporate Charter Organization (WCCO).[10] An enlightened WCCO would set requirements for a corporation's purpose statement, multi-stakeholder board structure, and employee ownership. It would mandate integrated reporting that accounts for human, social and ecological as well as financial capital, along with adherence to broadly accepted global norms.[11] With pressure from civil society groups, labor organizations, and kindred multilaterals, a WCCO could be launched as a voluntary program with the aim of evolving mandatory status as it gains legitimacy.

Another significant front for the redesign movement is to strengthen corporate reporting by mainstreaming systems-based reporting.[12] Performance goals set at the individual enterprise, without reference to aggregate impact, have led to a situation in which a multitude of firms are doing incrementally better while the system, in aggregate, remains increasingly unsustainable. Systems-based reporting, by contrast, would embed systems boundaries in performance goals so that they reflect a firm's proportionate responsibility for muting risks.

In parallel, long-term investors, such as mutual funds and pension funds, are key to advancing systems-based strategies.[13] In a virtuous circle scenario, investors guided by holistic analysis channel funds to worthy corporations which, in turn, manage them for the enrichment of social, human, and natural capital while achieving a satisfactory financial return. This dynamic would foster more resilient social-ecological systems, while reducing volatility—the bane of institutional investors—associated with climate disruption, mass migration, and popular uprisings against government incompetence and corruption.

The prospect for implementing redesign innovations hinges on the readiness of disparate actors, particularly civil society movements, to converge under the banner of corporate redesign. The primacy of shareholders and finance capital will not dissolve without a compelling counter-vision, strategy, and action plan. Indeed, all social and environmental movements and campaigns that understand the profound perils inherent in the prevailing corporate model should embrace corporate redesign as part of their agenda.

To its credit, the CSR movement spawned public discourse about the role of corporations in building—and undermining—just and sustainable societies, and inspired reforms in countless corporations. But the movement has failed to deter the dire consequences for people and the planet of corporate capitalism's growth in scale, market power, and financialization. With the shortcomings of incrementalism so evident, it is time to close the CSR chapter and embrace the next chapter of the movement to reshape the corporation: corporate redesign.

Endnotes

1. In 1962, Milton Friedman declared that “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.” See *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), 133.

2. For example, the Global Reporting Initiative, launched in 1997, advances a widely accepted reporting framework that is the basis for a voluntary corporate reporting process. In parallel, Social Accountability International has focused on workplace norms, ISO 14000 on environmental management standards, and the Carbon Disclosure Project (now CDP) on corporate carbon emissions, and water and forestry impacts.

3. Allen White, “The Missing Third Party: Corporations and the Social Contract,” *GreenBiz*, February 22, 2018, https://www.greenbiz.com/article/missing-third-party-corporations-and-new-social-contract.

4. See https://bcorporation.net/.

5. Duncan Austin, “Greenwish: The Wishful Thinking Undermining the Ambition of Sustainable Business,” July 2019, https://preventablesurprises.com/wp-content/uploads/2019/07/2019-07-19-Greenwish-Essay.pdf.

6. Lynn Stout, et al., “The Modern Corporation Statement on Company Law,” October 6, 2016, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2848833.

7. George Tyler, “The Codetermination Difference,” *The American Prospect*, January 10, 2019, https://prospect.org/labor/codetermination-difference/.

8. Bernie Sanders, “Corporate Accountability and Democracy,” accessed October 29, 2019, https://berniesanders.com/issues/corporate-accountability-and-democracy/; Elizabeth Warren, “Accountable Capitalism Act,” accessed October 29, 2019, https://www.warren.senate.gov/imo/media/doc/Accountable%20Capitalism%20Act%20One-Pager.pdf

9. Allen White, ‘Democratizing the Corporation,” in *Humanism in Business*, eds. Heiko Spitzeck, Michael Parson, Wolfgang Amann, Shiban Khan, and Ernst von Kimakow (New York: Cambridge University Press, 2009), 229-247, available at https://www.tellus.org/tellus/publication/democratizing-the-corporation.

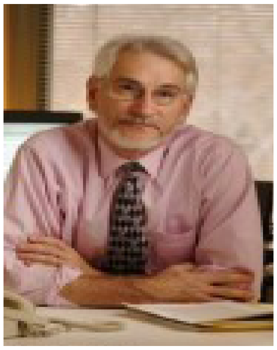
10. Allen White, When the World Rules Corporations: Pathway to a Global Corporate Charter (Boston: Tellus Institute, 2010), https://www.greattransition.org/archives/perspectives/Perspective_Global_Corporate_Charters.pdf.

11. For example, see the UN Guiding Principles on Business and Human Rights (https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf).

12. For more on systems-based reporting, see Bob Willard, “Better is Not Good Enough: Towards True Corporate Sustainability,” *Great Transition Initiative* (June 2014), http://www.greattransition.org/publication/better-is-not-good-enough.

13. Steve Lydenberg, *Systems-Level Considerations and the Long-Term Investor: Definitions, Examples, and Actions* (Brookline, MA: The Investment Integration Project, 2017), https://www.tiiproject.com/systems-level-considerations-long-term-investor.

About the Author



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