PREPARATORY PAPERS

CORPORATIONS IN A GREAT TRANSITION

VISIONS, MODELS, AND PATHWAYS FOR TRANSFORMATION

October 31 – November 1, 2013
Boston/Cambridge, MA, United States
Hosted by:
Tellus Institute
MIT Sloan School of Management

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AUTHOR, TITLE. Paper prepared for the Tellus-Institute/MIT Sloan Roundtable on "Corporations in a Great Transition," Boston/Cambridge, October 31-November 1, 2013.

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November 2013

Dear Colleagues:

On behalf of Tellus Institute and the MIT Sloan School, it is my pleasure to transmit this compendium of papers in preparation for the October 31 – November 1, 2013 roundtable on **Corporations in a Great Transition**.

Nearly a decade has passed since the launch of Corporation 20/20 (www.corporation2020.org), from its inception as an affiliate of the Great Transition Initiative (www.gtinitiative.org). Through research, workshops, summits, and global network-building, Corporation 20/20 has probed the critical issues of the nature, purpose, and design of the corporation's past, present and future. The Great Transition scenarios – "Conventional Worlds," "Breakdown," and "Great Transition" – have provided a broader framework for visioning and advocating a new narrative of the corporation rooted in Corporation 20/20's Principles of Corporate Design.

The quest for a new corporate narrative is not unique to Corporation 20/20. The World Economic Forum, the Academy of Management, the European Parliament, numerous business schools and NGOs, and a number of corporations themselves are challenging conventional wisdom and seeking alternative models of the future corporation. Corporate social responsibility, viewed by some as the forerunner of this movement and laudable for achieving incremental changes, has failed to catalyze the corporate transformation indispensable to a just and sustainable future. The pressing need to develop a more systemic, integrated approach remains a work in progress.

This compendium offers diverse visions, models, and pathways to achieve the necessary transformation. The roundtable will reflect on the last decade's achievements and the next decades' imperatives. The provocative perspectives of these papers span a range of issues, including the corporation's societal role, purpose, ownership, governance, and capitalization, as well as the role of business education in fostering a new generation of business leadership attuned to challenges of a fast-changing world.

We extend sincerest appreciation to all authors for their contributions, to Sloan School Associate Dean Jacob Cohen, to roundtable partners The Capital Institute (www.capitalinstitute.org) and Corporation 2020 (www.Corp2020.com), and to Kevin Kromash for his expert management of the editorial process and event communications.

Cordially,

Allen L. White, Ph.D.
Vice President and Senior Fellow
Tellus Institute

TABLE OF CONTENTS

Transforming Management Education ***Page 30***
Jason Jay, MIT Sloan School

Management education has come under fire for reinforcing the status quo in an unethical, inequitable, and unsustainable society. A variety of efforts are afoot to craft a new vision for management education consistent with a broader vision of sustainability. I summarize the aspects of the vision that have inspired me, juxtapose them with my view of the current reality, and then acknowledge a commonly missing piece: how potential agents of change in management education experience the creative tension between vision and reality, and the tensions inherent in the concept of sustainability. I point out the inauthenticity that sometimes results in our conversations about the future of management education. I suggest that personal transformation, via a frank and playful conversation about our competing commitments and inner tensions, may be a prerequisite for any serious effort at broader transformation. I invite a new kind of authentic dialogue about the present and future of management education.

Social Initiatives for Radical Renewal ***Page 37***
Henry Mintzberg, McGill University

My message for this conference is simple, if utopian: the best transition the corporation can make is to remove itself from politics and be exceedingly careful about its interventions in our private and social lives. How did the word capitalism, coined to describe the creation and funding of private enterprises, come to represent a political philosophy about all aspects of our existence? The consequence of this is that human society, and the planet on which we live, has been thrown dangerously out of balance. By getting past the linear politics of left, right, and center, we can appreciate that a balanced society, like a stable stool, has to rest on three solid legs. In addition to the public and private sectors, a “plural” sector of social forces manifested in robust communities is surprisingly obscure, but just as important.

Corporate and Capitalist Transition and Transformation Models ***Page 43***
Michael Peck, Mondragon USA
Steve Dubb, The Democracy Collaborative, University of Maryland
Rob Witherell, United Steelworkers

Although the theme of this roundtable is “Corporations in a Great Transition,” the authors would argue that corporations, especially those in the financial sector, mostly have not transitioned at all. If indeed we to enter into a “Great Transition,” to what better quadrant should we transition? A more sustainable and just economy can be built by turning stakeholders into shareholders through multi-localization, equal share worker ownership, and community equity. As a global example, the Mondragon Group – with 81,000 worker-owners, the world’s largest worker-owned industrial cooperative – demonstrates a global entity rooted in local enterprise that is an exemplar of productivity, innovation, profitability, and justice.

Does Society Still Need External Corporate Stockholders and Stock Markets? ***Page 49***
Richard A. Rosen, Tellus Institute

Are stock markets obsolete? What is the justification for having stock markets in our current corporate capitalist world? Further, why should investors of capital, in the form of equity shareholders, have privileged access to the control of a company? How good is the stock market at valuing corporations? These are some of the questions pertinent to the broader question of whether stock markets are really desirable during a Great Transition, if they ever were. Separately, we ask whether or not external equity ownership is also archaic. Do these structural features of the economy cause more harm than good, on average, and is there any reason to retain them during a Great Transition?

The early intellectual case for capitalism was built almost exclusively on the theory that people create businesses in order to pursue only their personal self-interest. Economists, social critics, and business leaders largely disregarded a second, and often more powerful aspect of human nature: the desire and need to care for others and the ideals and causes that transcend one's self-interest. Business is no different than any other human endeavor. The same enduring ideals that animate art, science, education, and politics can and should also animate business. These were articulated by Plato as the transcendental ideals of the Good, the True, and the Beautiful. Humankind has been seeking to create, discover, and express these transcendent ideals for thousands of years. To these, we have added "The Heroic" to complete a framework of higher ideals that we find most great companies seek to express.

It is now clear that "business-as-usual" in our economic system is not going to work much longer. Thus, we must act fast to bring our economic activities in line with the limits of the planet. There is a strong case that we have perhaps a decade to retune our use of ecological and environmental resources in order to set us on the right course for surviving and thriving in the world of 2050 or 2100. With that in mind, the vision of Corporation 2020 is built upon a suite of four mid-term solutions that will help set the stage for longer term, deep transformation of business through repurposing and redesigning enterprise.

The powerful presence of transnational corporations (TNCs) in generating the world's financial wealth is ubiquitous. In 2010, the world's largest 1,000 companies collectively represented $32 trillion in revenue and $28 trillion in market capitalization, 49 percent of the global total. Incremental progress among these mega-entities contributes to societal betterment. But deeper, more fundamental change promises to unlock their latent potential to create social value. Doing so should be neither incidental nor optional. How might such change occur? By shifting attention from symptoms to root causes; namely, transformation of three critical attributes of large enterprises: purpose, ownership, and governance. Examples of enlightenment in both North and South are discernible. But will they scale at a level commensurate with the perils and imperatives of the 21st century?

Toward A Breakthrough Capitalism Manifesto

John Elkington

A specter is haunting the global economy—the specter of economic, social, and environmental breakdown. Some people instantly will recognize that these words echo the *Communist Manifesto*, published in 1848.[i] We are champions of future-friendly capitalism, but it is hard when re-reading Marx and Engels to ignore the striking parallels with today's world, with an old order breaking down—and a new one struggling to be born.

The bloody chaos that ensued as various forms of communism helped socialize capitalism, forcing wrenching changes in wealth distribution, suggests that the timing and scale of our responses will determine the future prospects of billions of people. But at a time when we are incurring ever-greater debt—including environmental debt imposed on future generations—it is time for a giant, sustained deleveraging of our economies.

We have seen growing concern about 'zombie businesses,' propped up by government loans and spending all their cash on servicing debt—rather than investing in growth.[ii] But what if climate change created zombie economies? What if growth resumed, but simply boosted our environmental debt? The 2013 World Economic Forum global risk report noted that the world economy is at growing risk as "persistent economic weakness saps our ability to tackle environmental challenges."[iii]

The relative failures of the UN Rio+20 and Doha COP-18 summits in 2012 underscored the progressive weakening of the post-WWII system of global governance. The latest UN Global Compact survey reveals both real frustration in business about government failures, and a growing appetite at the leading edge to drive breakthrough change.[iv] So it seems, paradoxically, that our best hope for sustained breakthrough at scale may lie in the C-suites of incumbent businesses.

A new breed of business leaders is emerging, calling for "market revolutions." Peter Bakker, president of the World Business Council for Sustainable Development, speaks of an impending "revolution of capitalism." Like-minded leaders also include David Blood of Generation Investment Management, Sir Richard Branson of Virgin, Ian Cheshire of Kingfisher, Arianna Huffington of Huffington Post, Paul Polman of Unilever, and Jochen Zeitz of Kering and The B Team[v] (which he co-chairs with Branson).

Competing labels for 'new' capitalism

The key characteristic of these pioneers is that they are not happy simply patching dysfunctional systems. They want to create new forms of value creation that work in different ways. And while it is certainly unusual for business leaders to call for market revolutions, the pressures for change have been intensifying: western-style capitalism, as we all know, has been in a protracted crisis.[vi] This is something we forecast in our first market report, *The Phoenix Economy*, published early in 2009.[vii] Key to the analysis was our five-stage model, running from the 'Eureka!' moment through to the point where a new way of doing things is endemic across the entire 'Economy.'[viii]

Nor are we alone in identifying the need for profound changes in our capitalist systems. Among the agendas advanced by others (and supported by us) are Conscious Capitalism,[ix] Inclusive Capitalism,[x] Responsible Capitalism,[xi] and Sustainable Capitalism.[xii] Some of these concepts argue for a more ethical approach to value creation, while others argue the case for—and in some cases the inevitability of—transformative change. They envisage repurposing the corporation, among other things. This is the space into which our own Breakthrough Capitalism agenda is directed.[xiii]

At our first Breakthrough Capitalism Forum in 2012,[xiv] speaker after speaker stressed that the inertia of that old order is now a massive constraint on system change efforts. "The system is blind to potentially existential threats," warned Jeremy Leggett, a leading solar energy entrepreneur. He argued that the current order is "dysfunctional almost to the point of being suicidal." Nor is he the only one to have reached this conclusion. UN Secretary-General Ban Ki-moon has also stressed that our economic mindset and models increasingly look like "a global suicide pact."[xv] We "mined our way to growth," he said. "We burned our way to prosperity. We believed in consumption without consequences."

The UN, famously, is headquartered in New York. And more or less on the eve of America's 2012 presidential election, Superstorm Sandy hit the country's eastern seaboard and, most dramatically, New York City. One of the clearest voices for breakthrough change as the scale of the damage became clear was New York mayor Michael Bloomberg.

"Our climate is changing," he warned in his unexpected endorsement of President Obama. He insisted that Sandy "should compel all elected leaders to take immediate action."[xvi] Unlike many leaders, however, he was able to report real progress in his home patch. "Here in New York," he said, "our comprehensive sustainability plan has helped us to cut our carbon footprint by 16 percent in just five years, which is the equivalent of eliminating the carbon footprint of a city twice the size of Seattle. Through the C40 Cities Climate Leadership Group—a partnership among many of the world's largest cities—local governments are taking action where national governments are not."

The key point, however, is that no single actor can tackle the challenges alone: not city governments, not national or international governments, not business, not financial markets, and not civil society. This is a case of all the above—and more.

As these issues are increasingly framed as security challenges, intelligence agencies—among them the US National Intelligence Council (NIC)—are forecasting systemic crises that sound very much like those heralded by environmentalists a few decades back. In response, companies are also now forming new 'business ecosystems,' including one focused around Shell.[xvii] By 2030, the company forecasts, we will need 30 percent more water, 40 percent more energy, and 50 percent more food than today.

By the same year, the NIC concludes, the world will be "radically transformed from our world today. By 2030, no country—whether the US, China, or any other large country—will be a hegemonic power. The empowerment of individuals and diffusion of power among states and from states to informal networks will have a dramatic impact, largely reversing the historic rise of the West since 1750, restoring Asia's weight in the global economy, and ushering in a new era of 'democratization' at the international and domestic level. In addition to individual empowerment and the diffusion of state power, we believe that two other megatrends will shape our world out to 2030: demographic patterns, especially rapid aging; and growing resource demands which, in the cases of food and water, might lead to scarcities. These trends, which are virtually certain, exist today, but during the next 15-20 years they will gain much greater momentum."[xviii]

Early breakthrough initiatives seek to address the systemic nature of key challenges, but most are as yet experimental, fragmented, and not in clear line of sight for key decision-makers—often because they fail to provide short-term pay-offs in terms of jobs, revenues, and taxes. Worse, emerging solutions are often contested by incumbents, because they threaten their business models.

BREAKDOWN OR BREAKTHROUGH?

Drawing on the 26 presentations at the first Breakthrough Capitalism Forum[xix] and some 100 subsequent interviews with leading figures in the field, we distilled the various calls for action into a brief Manifesto. It is set in the context of three scenarios spotlighted at the Forum: 'Breakdown,' 'Change-as-Usual,' and 'Breakthrough.' Reassuringly, these align well with the scenarios developed by the Great Transition Initiative[xx].

Breakdown is a future where the worst fears of people like Ban Ki-moon are realized. This is the almost unremittingly bleak scenario, a world in which early experiments and enthusiasm fade in the face of wider incomprehension and resistance to change. Our businesses, cities, and economies overshoot critical planetary boundaries, bringing the planetary roof down on our heads.

Symptoms of breakdown are increasingly apparent in our economies (examples include the southern arc of Eurozone and the banking sector in some countries), our societies (consider youth unemployment in countries like Spain), and our natural environment (recall 2013's toxic smog over Beijing, the collapse of oceanic fisheries, and recent climate-related events).

The second scenario is **Change-as-Usual**, where earnest efforts are made in such areas as corporate social responsibility, socially responsible investing, and sustainability reporting, but overall the outcome is little more than a set of patches on the existing, dysfunctional system. Most initiatives and strategies fail to highlight and tackle the systemic nature of such challenges.

In this somewhat more optimistic scenario, change does happen, but political leaders, investors, and the 'Global C-suite' proceed at a dangerously relaxed, incremental pace. There are plenty of projects designed to boost efficiency and effectiveness, to satisfy and even exceed customer needs and wants, but the system change imperative is largely ignored.

And then the third scenario is **Breakthrough**. This assumes that, with the usual ups and downs, the trajectory of our societies and economies is pointed toward a very different set of outcomes. Here innovators, entrepreneurs, intrapreneurs, investors and—crucially—policy-makers manage to work together to build a new system, fit for purpose in a world of 7-going-on-9-billion neighbors. Progress is achieved through ventures that dare to set ambitious targets and then, over time, drive them through to change the market and political systems within which they operate. Some characteristics of breakthrough innovation and enterprise are outlined in Panel 1.[xxi]

Panel 1

BREAKTHROUGH CRITERIA

A breakthrough venture worthy of the name should meet some (or ideally all) of the following criteria:

1. Have the potential to work well in a world of 9 billion people by mid-century, respecting planetary boundaries.[xxii]

2. Aim to move beyond incrementalism to true system change.

3. Address a problem inherent in the current economic or governance system—and help co-evolve key elements of a new, more functional system.

4. Help pull (or push) one or more key levers of system change.

5. Have less to do with playing well within the existing rules than with helping to change the rules to achieve radically better economic, environmental, social, and governance outcomes.

6. Cut across boundaries—national, sectoral, corporate—to enable pre-competitive collaboration on transformative solutions.

7. Address—and push forward—the emerging radical transparency and accountability agendas.

8. Tackle intergenerational equity issues, including the transfer of intergenerational debt—which the current system drives through profligate public borrowing, natural resource extraction, and environmental destabilization.

9. Transform the ways in which investors, suppliers, customers, employees, or competitors interact—and, even more importantly, how they define and pursue value.

TOWARD A BREAKTHROUGH CAPITALISM MANIFESTO

This is still very much work in progress, but here is our version 1.0 of a Manifesto:

1. **Breakdown is coming**. Climate change, resource crunches, and population growth mean that, for growing numbers of people, life in this new century of ours will be increasingly turbulent, uncertain, and uncomfortable. "Extreme is the new normal," concludes *New Scientist*.[xxiii] The magazine was talking about climate, but the forecast applies more broadly. Lack of technology is not now the critical problem, as recent surveys of experts suggest. Key barriers include lobbying by those invested in the old order, ignorance (some of it willful), the complexity of the issues and responsibilities, the uncertainty that this can induce, and the pervasive lack of political will.

   Despite the lack of political will, system change is inevitable—the challenge is to shift our organizations from change-as-usual tactics to breakthrough strategies.

2. **Economic stimulus packages have skirted today's disasters**. But governments, struggling to rescue today's economies, have often failed to effectively incubate tomorrow's more equitable, radically lower carbon economy. The Breakthrough scenario, among other things, depends on massive, sustained investment—in science, in the deployment of technologies, in infrastructures, in business models affording access to life's necessities for the have-nots, and in skills and education. Even more complex, it also depends on fixing trade and international agreements, filling regulatory gaps, and removing regulatory constraints that slow progress.

   Just as commercial start-ups help 'de-risk' technologies and business models for business, so civil society platforms can help de-risk new policies and governance models for governments—business must support them to do more, better, faster.

3. **It's time to do the Breakthrough politics**. Economic, environmental, social, and governance challenges are becoming critical, but government leadership is often conspicuous by its absence. Witness recent U.N. summits in Copenhagen, Rio de Janeiro, and Doha. Despite President Obama's second inaugural address, there is an immense inertia in the current political system, perhaps most strikingly in the USA, the EU, India, Japan, and China. This is particularly problematic since coherent, timely, and effective public sector action will be essential to spur and sustain the necessary market revolutions.

   Governments and public sector agencies must develop and implement breakthrough visions, mandates, rule-making, and the necessary market incentives—and business has a key role to play in ensuring this happens at the right speed and scale.

4. **Business leadership is make-or-break**. Although recent surveys, somewhat surprisingly, give a low ranking to business inaction when it comes to sustainability barriers, societal expectations of business are changing, fast. As a result, growing numbers of business leaders are helping to push the needle and arguing the business case for 'market revolutions' in such areas as accounting, valuation, and economics. This implies rethinking (and redesigning) corporations and their supply chains, as well as ownership and governance structures. Meanwhile, the front rank of business leaders are increasingly frustrated, as their growing ambitions collide with government disinterest and inaction.[xxiv]

   The time is almost past for going it alone. The nature and scale of the challenges now dictates that we work together. If you want to go fast, as the old proverb puts it, go alone—but if you want to go far, go in company.[xxv]

5. **Financial markets are almost willfully blind to future risks—and opportunities**. There are honorable exceptions, including the socially responsible investment (SRI) and clean tech venture capital sectors, but market myopia problems have been further aggravated by scandals undermining public trust in both financial institutions and their regulators. Breakthrough will not happen without strong, competent, and courageous financial markets. And this is no easy task. It will require

governments willing and able to tackle what the Great Transition Initiative characterizes as the "hyperfinancialization of Western economies," as well as "super-concentration in Western banking systems and, often, regulatory capture by large banking and other corporate interests."

We must energetically fund the development and deployment of the technologies, products, services and business models that drive breakthrough innovation and enterprise.

6. **Disruptive change is needed**. Some problems can be treated with sticking plasters or acupuncture; others require radical surgery. Too many twentieth century institutions—and even models of activism—are now increasingly unfit for purpose. Among challenges that top the current agenda are new forms of accounting, integrated reporting, and incentives to drive longer-term investment, but disruption will involve many other vectors of change.

   Consider defining your own 'Grand Challenges,' a process The B Team has already embarked upon.[xxvi] Support—and learn from—such initiatives. Disrupt your organization or industry—before disruption is forced upon it. ★

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[i] Marx, Karl and Frederick Engels, *The Communist Manifesto: A Modern Edition*, Verso, London, 1998.
[ii] Stothard, Michael, "The rise of the zombie," *Financial Times*, 9 January 2013.
[iii] http://www.weforum.org/reports/global-risks-2013-eighth-edition
[iv] http://www.accenture.com/Microsites/ungc-ceo-study/Documents/pdf/13-1739_UNGC%20report_Final_FSC3.pdf
[v] http://bteam.org
[vi] With a tip of the hat to those who would argue that capitalism *is* crisis, http://www.adbusters.org/magazine/91/capitalism-crisis.html
[vii] *The Phoenix Economy: 50 Pioneers in the Business of Social Innovation*, 2009, see http://www.volans.com/wp-content/uploads/2010/04/The-Phoenix-Economy.pdf
[viii] http://www.volans.com/about/approach/
[ix] http://www.consciouscapitalism.org
[x] http://www.henryjacksoninitiative.org/uploads/files/e5202114f33d3b6fd9874529c73a4daad7f98b4e.pdf
[xi] http://www.ethosjournal.com/topics/civil-society/item/385-what-does-responsible-capitalism-mean
[xii] http://www.generationim.com/media/pdf-generation-sustainable-capitalism-v1.pdf
[xiii] http://www.breakthroughcapitalism.com
[xiv] Breakthrough Capitalism Forum, held at the Kings Place Conference Centre in London, on 29 May 2012. Further details on the Breakthrough Capitalism Program and 2012 Forum can be found at http://www.breakthroughcapitalism.com, including 26 videos featuring the main presentations.
[xv] http://www.un.org/News/Press/docs/2011/sgsm13372.doc.htm
[xvi] http://www.bloomberg.com/news/2012-11-01/a-vote-for-a-president-to-lead-on-climate-change.html
[xvii] http://www.water-energy-food.org/en/knowledge/institutions/view__shell.html
[xviii] http://publicintelligence.net/global-trends-2030/
[xix] http://www.breakthroughcapitalism.com/breakthrough_capitalism_forum.html
[xx] http://gtinitiative.org/
[xxi] For a quantitative analysis of a similar, hopeful future see: http://www.mdpi.com/2071-1050/2/8/2626
[xxii] http://www.stockholmresilience.org/research/researchnews/tippingtowardstheunknown/thenineplanetaryboundaries.4.1fe8f33123572b59ab80007039.html
[xxiii] http://www.newscientist.com/article/mg21729003.200-wild-weather-extreme-is-the-new-normal.html
[xxiv] http://www.accenture.com/us-en/Pages/insight-un-global-compact-ceo-study-sustainability-2013.aspx
[xxv] Take a look at the example of the pre-competitive coalition behind the Zero Discharge of Hazardous Chemicals initiative, http://www.roadmaptozero.com
[xxvi] https://bteamnews.squarespace.com

GLOBAL SUSTAINABILITY: A NEW PARADIGM AND ITS IMPLICATIONS FOR CORPORATIONS, MULTILATERAL INSTITUTIONS, PUBLIC AUTHORITIES, AND THOUGHT LEADERS

Manuel Escudero

Since the advent of the new century, a new paradigm[i] has been struggling to emerge. It concerns the future of society and its main agents: people, corporations, and political institutions. I refer to the paradigm of *global sustainability*, which could be concisely defined as: "one-only Planet and one-inclusive Humankind." It is my belief that this paradigm could give new traction and new meaning to past theories of social justice, whether based on class struggle, welfare and income redistribution, or progressive liberalism.

A. REASONS FOR THE EMERGENCE OF A NEW PARADIGM

At first glance, the emerging paradigm is being driven by a *values revolution*.[ii] Over the last 20 years we have seen the appearance of a new set of values.

Today, hundreds of thousands of non-governmental organizations that did not exist 20 years ago, and which are different in nature from the acutely issue-based "social movements" of the '70s and '80s,[iii] are expressing a general critical view regarding the lack of ecological and social sustainability of current globalization.

The new generations, the "digital natives," directly or indirectly subscribe to the values of sustainability. A large portion of youth identifies more with cooperation than competition, prefers entrepreneurial activity rather than a successful but unexciting professional life in a well-established global corporation, and shows a marked moral distaste for capitalism; it supports sustainability as a lifestyle and feels that national politics are much more alien, remote, and meaningless than the universe without frontiers in which they communicate, cooperate, and create each day via the Internet.

Companies have begun to take into consideration, at least as a "discourse," the boundaries of sustainability. This movement erupted in 2000 with initiatives such as the UN Global Compact and the World Business Council for Sustainable Development, and has grown under the name of Corporate Social Responsibility (CSR). Today, the most advanced companies are beginning to ponder the role they should play in building a sustainable and inclusive world.

Even religions are embracing this sustainability approach to reality. Some new developments, such as the Report of the Society of Jesus, "Healing a Broken World," or the innovative and courageous display of inclusive values and the fight against poverty promoted by the new Pope Francisco, or the rescue of Confucian values by Chinese authorities in order to build a "harmonious society," signal this convergence.

But the emergence of this new paradigm has deeper roots. New values do not fall from heaven. Actually they fight to surface, with bitter struggle, because reality demands them, and because they help us to make sense of and give a transformative direction to new realities. And reality has changed so much in a few years that, rather than an era of changes, we are living a change of era, indeed a great transition, brought about by four "megatrends."

The first megatrend has been the fragmentation of power. The power of nation-states has eroded, and countries have lost their former effectiveness for solving problems, which can now only be tackled at a supranational level. Political power has also been fragmented geographically, and the new multi-polar scenario demands new multilateral arrangements on a global scale. In parallel, global companies have gained power through globalization, deregulation, and mergers. Finally, citizens have increased their reflexivity[iv] through social networks and gained a new "soft power" for (de)legitimizing politics and the economy, producing collective states of critical consciousness or mass mobilizations. Indeed, as Patrick Tiller foresaw in *The New York Times* in 2003,[v] a new global public opinion has been born – spawned by millions of "de-mediated" citizens who, through social media, have more access today to the public agenda than ever before.

The second megatrend refers to the growing evidence of the need for smart and inclusive management of natural resources at a global scale; water, food, energy supplies, and climate are challenged by a growing human population, its urban concentration, and the ascent of millions of citizens to the middle-class. This situation demands a new and smarter approach to global governance in order to save us from inevitable bottlenecks in access to the four pillars of human growth.

Third, disruptive technological innovations – mobile Internet, the "Internet of things," cloud technology, advanced robotics, autonomous vehicles, a new generation of genomics, energy storage, 3D printing, new materials such as graphene, and renewable energy and the clean-tech sector – are already producing radical changes in lifestyles, as well as in economic and social structures.

Fourth, we live in a state of mounting contradiction between an era that has not yet died and a new one that is still emerging. There has never been a great transition that has not experienced a significant tension between the old and the new. Thus, the economic and financial crisis stands in open contradiction with these new trends. While values of inclusion are affirmed, exclusion becomes ever more poignant; although we already have the potential to eradicate poverty, it is a continuing reality; while we know that the threat of climate change could be reversed, emissions to the atmosphere do not diminish significantly; even if the real economy is increasingly governed by innovation, the disconnect between the financial world and the real economy remains; and as civil society moves towards a new era, it increasingly distances itself from the old and stale vision of the world and the discourse maintained by the traditional approaches to politics.

The transition to a new paradigm will gather momentum as we approach the year 2015 and the international launch of the Sustainable Development Goals, which are now being drawn up within the framework of the United Nations.

B. A UNIVERSALLY ACCEPTED ACTION PROGRAM FOR GLOBAL SUSTAINABILITY

I will now turn to the implications that this emerging paradigm could have for corporations, multilateral institutions, political powers, and thought leaders.

I. Corporations

For the past two or three years, the field of Corporate Sustainability has been immersed in a great deal of soul-searching. Thinkers, corporate experts, and international initiatives have been assessing 10 years of social responsibility, searching for new drivers, complementary insights, and new "frontiers."

During the first decade of this century the development of CSR was unstoppable. In addition to international initiatives, there was a proliferation of regional initiatives. Segments of the financial sector started to be more sensitive to the responsible behavior of companies, and sustainability indexes and the Principles for Responsible Investment appeared. The institutionalized practice of corporate sustainability was introduced in almost all large companies. As a result, there is almost no global corporation that does not feature on its home page corporate principles, codes, and practices of sustainability.

It seemed that over 10 or 12 years corporate sustainability had won the battle of ideas.

But its impact on changing the actual behavior of companies has been less effective than anticipated. In most companies it has failed to penetrate the heart of the business model, remaining at the periphery; the low importance given to sustainability oversight by boards of directors in Europe, the US, and elsewhere is proof of this. Furthermore, the crisis has highlighted the limited impact that corporate sustainability has had on providing solutions to the current social problems of crisis-ridden countries; there are very few examples of responsible companies offering effective solutions to the social ills caused by unemployment, declining household incomes, or forced evictions.

This insufficient impact is probably related to the narrow concept of corporate responsibility employed so far. The concept has been *too biased towards risk management*; that is, the risks inherent to companies when they fail to take into consideration social or environmental concerns.

We need a new development, one that also addresses the positive territory of existing opportunities for corporate value creation.

Part of this new development has already been set in motion. The concept of "shared value creation"[vi] – connecting the growth of the company with unfulfilled societal needs –however incomplete, has been a first step in that direction. With a similar but more consistent aim, a convergence of the concepts of social innovation and sustainability is taking place under tags such as Corporate Social Innovation and Shared Innovation.[vii] [viii] The idea behind these new approaches of sustainability-driven innovation is to connect the company's potential for innovation with its sustainability practice in order to design solutions for new products/services, their life cycle, new arrangements of the value chain, or new business models that result in increased value for the company and produce a positive impact on society.

Connecting sustainability with innovation has the potential to unleash a new wave of corporate growth, while contributing significantly to the construction (or rather, reconstruction) of a sustainable world, in terms of energy, food, water, and urban, industrial, and transport systems.

At the theoretical level this implies a merging of concepts and tools from two different "disciplines" – innovation and sustainability – and at the corporate practice level the establishment of new organizational alliances within the company between its resources and processes of sustainability and those of innovation.

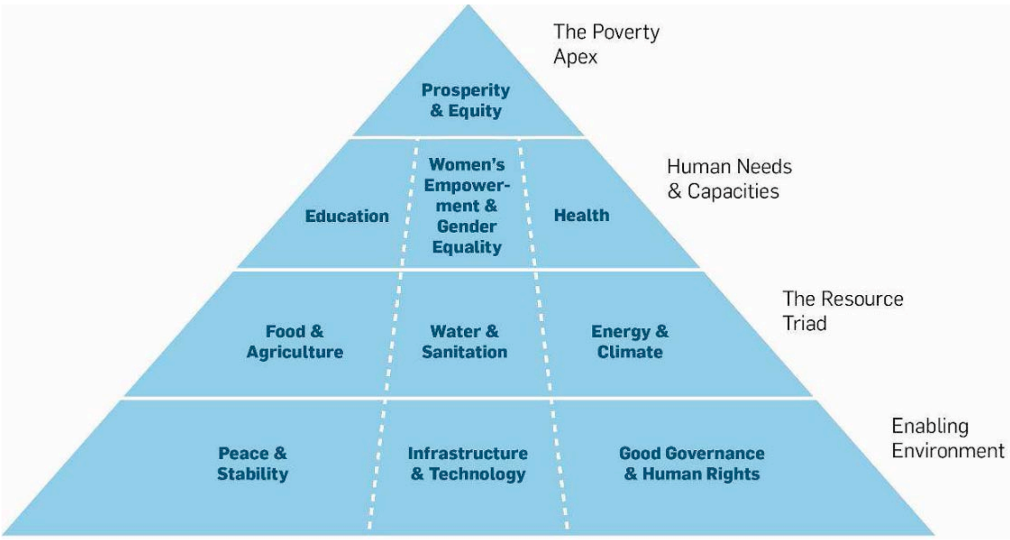
However, even though it promises to have a great potential impact, this approach to corporate sustainability has to be further developed in two critical aspects. And these should not be underestimated since, if not solved, this new approach risks becoming banal.

1) Any sustainability-driven innovation model should be founded firmly on the past developments of CSR, building upon four crucial assets: a) it should *combine* responsible risk management with the exploitation of opportunities for value creation; b) maintain a *systematic approach*;[ix] c) base itself on the *dialogue with stakeholders* as a central part of the process; and d) include risk and opportunities *metrics and reporting*.
2) These new approaches beg a crucial question. Precisely which "unfulfilled societal needs" are they supposed to address? What "positive impacts on society" should they produce? In my opinion *they should attend to the opportunities opened up by the main issue of our times: global sustainability*, thus contributing to a new era in which a growing world population is able to live on the resources of a single planet without any significant exclusion of fellow human beings. Therefore, in the next phase of corporate sustainability, the range of opportunities to build a sustainable and inclusive world have to be clearly spelled out, so that they can act as a reference framework: *a universally accepted action program* addressing the unfulfilled needs of society, in whose solution companies can apply their sustainability-driven innovation.

II. Multilateral Institutions and Public Authorities

Multilateral institutions, and particularly the United Nations, are the appropriate agents to act as catalysts to produce a universally accepted action plan for global sustainability. And this leads us to the project of the Sustainable Development Goals.

With the end of the designated period for the Millennium Development Goals (MDGs) in 2015, the United Nations is leading a new process to formulate various Sustainable Development Goals (SDGs) that will be relevant not only for developing and emerging countries, but for all countries, independent of their economic status, and therefore fully applicable everywhere in the world. In the context of SDGs, initiatives like the Global Compact[x] consider the following to be the priorities in terms of the unfulfilled needs of society in the area of global sustainability:



One of the working streams preparing the SDGs, the High-level Panel,[xi] has produced a Report that recommends the following transformative shifts and universal goals (until 2030):

The High-level Panel Report

Five transformative shifts

1. Leave No One Behind
2. Put Sustainable Development at the Core
3. Transform Economics for Jobs and Inclusive Growth
4. Build Peace and Effective, Open and Accountable Institutions for All
5. Forge a New Global Partnership.

Universal goals, national targets

1. End Poverty
2. Empower Girls and Women and Achieve Gender Equality
3. Provide Quality Education and Lifelong Learning
4. Ensure health Lives
5. Ensure Food Security and Good nutrition
6. Achieve Universal Access to Water and Sanitation
7. Secure Sustainable Energy
8. Create Jobs, Sustainable Livelihoods, and Equitable Growth
9. Manage natural Resource Assets Sustainably
10. Ensure Good Governance and effective Institutions
11. Ensure Stable and Peaceful Societies
12. Create a Global Enabling Environment and Catalyse Long-Term Finance.

However relevant, the SDGs risk having less impact than they should – less, indeed, than did their predecessor the MDGs – because of two important aspects:

a) The first aspect relates to the fact that the initiative lacks *engagement mechanisms*.

   It is true that the UN Global Compact makes clear in its report on the post-2015 scenario that: *"To encourage engagement, structures must be in place to provide visibility and recognition for companies that make commitments to such targets […] A single global web platform, anchored at the United Nations, ideally would host a database of all commitments. Two elements must be in place. One is a global measurement framework to help business determine measurable targets and identify performance indicators. The other is a requirement that companies listed on the*

United Nations platform update their stakeholders on progress related to their commitment."

However, the design of engagement mechanisms *should be embodied in the SDGs initiative itself and apply to all willing actors*: corporations, multilateral agencies, CSOs, as well as public institutions.

b) The second difficulty of the initiative stems, ironically, from one of its greatest assets. *Good government, or, in other words, politics, is being placed as a critical issue on the agenda for global sustainability.* A proposed cornerstone (or "transformative shift") is to "Build Peace and Effective, Open, and Accountable Institutions for All." Having learned from the past, the SDGs will include in the equation the role and behavior of national institutions: "institutions *must* be addressed in the new development agenda."

However, the UN, and more specifically its General Assembly, is formed by nation-states, some of whom will merely pay lip service, while others will attempt to water down the political agenda being proposed:

"Capable and responsive states need to build effective and accountable public institutions that support the rule of law, freedom of speech and the media, open political choice, and access to justice."

But even if this recommendation were fulfilled by all countries, there are other, more complex elements that are difficult to achieve by national politics, even in consolidated democracies:

"We need governments that tackle the causes of poverty, empower people, are transparent, and permit scrutiny of their affairs. […] Societies organize their dialogues through institutions. In order to play a substantive role, citizens need a legal environment which enables them to form and join CSOs, to protest and express opinions peacefully, and which protects their right to due process."

Politics everywhere are immersed in issues of legitimacy.

The two main reasons for the persistence of this problem are, on the one hand, the lack of transparency and public scrutiny – a permanent source of public corruption – and, on the other, the lack of "disputative" or "contestatory" mechanisms[xii] for dialogue and debate between citizens and political institutions.

If the vision and aspirations of citizens in the new era are to be taken into consideration, it is necessary to imagine new approaches to politics. However, neither multilateral institutions nor public authorities are best suited for the challenge. *Political reform in line with the paradigm of global sustainability and the rationale behind the SDGs will have to come from elsewhere.*

C. The Role of (Committed) Thought Leaders

"Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has."[xiii]

Historically, thought leaders, committed to ideas and action, have played a crucial role in great transitions. They have the potential to foresee the "shape of things to come" as well as the ability to advance solutions based on a holistic view of society, and to do so with equanimity but without vested interests. Today, the dawn of a new era, is one of those moments when the role of thought leaders could be critical.

Thought leaders in the field of corporate sustainability are usually committed people. They are normally characterized by passion and conviction. Generally speaking, throughout the last decades, the prime motivating factor behind their endeavors to open new paths in the field of CSR, Social Innovation, or environmental sustainability has been an aspiration to further the progress of society by humanizing the corporate world. They have generally been committed reformists rather than merely experts or paid consultants.

If the ideas vested in this paper are plausible, then several important tenets should be considered as the base for future effort:

a) CSR or corporate sustainability should incorporate a new development: sustainability-driven innovation. Thought leaders in the area of sustainability should include in their vision and knowledge, concepts and tools from the discipline of innovation – not only because we are in the midst of an accelerating process of technological innovation, but, more importantly, because innovation could be the new driver of sustainability towards the core, rather than remaining at the periphery, of business.
b) Corporate sustainability, encompassing sustainability-driven innovation, is only one of the spheres on which thought leaders should focus. Today, sustainability transcends the corporate sphere and involves other agents: NGOs, governments, multilateral institutions, and citizens. We all need a new, universally-accepted action plan to secure global sustainability in the not-too-distant future. Thought leaders should now make a significant contribution to the future Sustainable Development Goals.
c) Moreover, if global sustainability is to be achieved, it should develop a new approach to politics, encompassing political reforms that include greater transparency, more scrutiny, and wider "disputative" and "contestatory" mechanisms, in order to give civil participation a greater influence on the public agenda. Establishing the links between political reforms and global sustainability, and inspiring these political reforms, should, therefore, become new frontiers for thought leaders who strive to give sustainability its full meaning in these times.
d) Thought leaders, therefore, should become action-oriented: the triumph of global sustainability will not come only in the realm of ideas, but in action – action to align companies with this new paradigm, action to activate SDGs' engagement mechanisms at the international and national level, and action to transform not only the corporate world but also politics. ★

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[i] John Elkington, with his recent report, "Breakthrough Capitalism," has presented the most powerful argument concerning the emergence of a new paradigm: "Now we are in the late stages of another shift, towards a one-planet paradigm." He inspired me. This paper is a tribute to his pioneering work during the last decades and now.
[ii] Manuel Escudero, "Homo Globalis," Espasa-Calpe, 2005.
[iii] As theorized by Claus Offe, Alain Touraine, or J. Galtung.
[iv] Beck, Ulrich & Giddens, Anthony & Lash, Scott, *Reflexive Modernization*, 1994.
[v] Patrick E. Tiller, "A New Power in the Streets," *The New York Times*, 17 February 2003.
[vi] Nestle, "Creating Shared Value," and Porter & Kramer, "Creating Shared Value," *HBR*, 2011.
[vii] B. Googins and M. Escudero, "Introducing Shared Innovation into the Business Model," in *Sustainable Entrepreneurship: Business Success through Sustainability*, Springer, 2014.
[viii] More recently, the "Shared Value Initiative" has encompassed innovation within its model. See: *"Innovating for Shared Value," HBR*, September 2013.
[ix] Companies are complex organizations that can have positive impacts on society through innovation in a multiplicity of forms — not only through new product and services but also by innovating their value chain, business models, and life-cycles. Thus, a *systematic approach* that takes into consideration all these opportunities is the way to radically transform the purpose and nature of any business.
[x] UNGC, "*Report to the United Nations Secretary-General: Corporate Sustainability and the United Nations Post-2015, Development Agenda,*" June 2013.
[xi] Chaired by Dr. Susilo Bambang Yudhoyono (President of Indonesia), Ellen Johnson Sirleaf (President of Liberia), and David Cameron (Prime Minister of UK).
[xii] Philip Pettit, *Republicanism: A Theory of Freedom and Government*, Oxford: Clarendon Press, 1997.
[xiii] Margaret Mead.

TRANSFORMING FINANCE AND THE REGENERATIVE ECONOMY

John Fullerton and Hunter Lovins

INTRODUCTION

The current speculative excess and ethical shortcomings of contemporary Wall Street, the problems of too-big-to-fail, and, more importantly, other "in-system" failures have all given the economy and the current financial system a bad name. But the challenge goes beyond this. The financial system is designed to propel growth in the economic system with no regard for the physical boundaries of the planet[i] and little regard for the social constraints of human wellbeing.[ii] Science tells us that this is fundamentally misaligned with the finite planetary boundaries of the biosphere.[iii] Notwithstanding all of its remarkable historical achievements, the global economy must now evolve not only to align itself with this scientific reality, but also to address such critical challenges as the grotesquely inequitable distribution of wealth, intractable poverty in much of the world, and chronic failure to deliver jobs or other means of achieving a livelihood with dignity. Meeting these challenges demands not merely problem solving, but systemic change to address root causes.

Climate change, ecosystem degradation, soil degradation, and biodiversity loss are symptoms of an economic system that is beyond the limits.[iv] Finance and the money system it is built upon embody the exponential function. Compound financial returns, beginning with compound interest on an expanding monetary base, force the economy to continue growing at a systemic level. Since the economy is linked to material throughput, eventually this must create conflict with the boundaries of the biosphere. The world has now arrived at that time.

The same planetary boundaries that constrain the economy with limits to material expansion also imply limits to investment, since investment fuels growth. This is something no economic system in the history of civilization has ever before had to contemplate. How much, and where, large economic actors invest have critical implications for collective global security, and, consequently, must become a central concern of global governance. This recognition is at the heart of new economic thinking.

The challenge facing the world is a question of story. Thomas Berry put it: "We are in trouble just now because we do not have a good story...The Old Story – the account of how the world came to be and how we fit into it...sustained us for a long period of time. It shaped our emotional attitudes, provided us with a life purpose, energized action. It consecrated suffering, integrated knowledge, guided education....We need a [new] story that will educate man, heal him, guide him."[v]

If it is true that the story precedes change, the real job of the Post 2015 Sustainable Development Goals is to tell a new story that stitches together the challenges facing finance and the economy and the necessary changes in these in such a compelling way that it invites all the necessary stakeholders to participate in the transformation.

The opportunity facing us is to transition to a regenerative economic system. If we fail, the world will face successive collapses of both ecosystems and the economies and financial system that depend on ecosystem health.

REGENERATIVE CAPITALISM

Capitalism, as now practiced, is the simplified world view in which entrepreneurs combine natural resources with labor and money, with the goal of optimizing financial returns to owners of capital, so that the capitalists can become rich. That part works well. The mythic invisible hand is supposed to ensure the most efficient outcome for society. The financial system and economy are growing exponentially, but the invisible fingers do not seem up to the task, and any belief that it ever could have been so was naive. Business-as-usual will drive us to successive ecological and economic collapses, impoverishing the earth's life-support systems and the majority of its people in the process.

Natural systems are sustainable because they are regenerative.[vi] Regeneration is the "continuous process of becoming" necessary to sustain life in the natural world. As the world shifts from the ten thousand year old and stable Holocene to the human controlled and volatile Anthropocene,[vii] it is our evolutionary destiny and the creative challenge of our age to usher in the Era of Regenerative Capitalism, bringing the human economy into holistic balance with nature, and into harmony with the core beliefs of our many wisdom traditions that have stood the test of time.

Regenerative Capitalism will be characterized by an expansion of the meaning of "capital" to include multiple forms of capital, and the vital patterns of their interdependencies, in keeping with a holistic understanding of true wealth. It will also entail a recognition that the regenerative process that defines thriving, living systems, enabling many of them to be sustainable over the long run, must define the economic system itself.

A Regenerative Economy is characterized by eight principles:

1. *Right Relationship*[viii]: It holds the continuation of life sacred and recognizes that the human economy is embedded in human culture and the biosphere.
2. *Entrepreneurialism*: A Regenerative Economy draws on the innate ability of human beings to innovate and "create anew" across all sectors of society.
3. *Wealth Viewed Holistically*: True wealth is defined in terms of the well-being of the "whole," achieved through the enhancement of the multiple forms of capital.
4. *Shared Prosperity*: Wealth is equitably (although not necessarily equally) distributed in the context of an expanded view of true wealth.
5. *Real Economy Circularity*: The economy strives continually to minimize energy, material, and resource throughput radically at all phases of the production cycle. Products are remanufactured, recycled, and composted, with natural outputs safely returning to the biological world, and minerals and human-made substances returning to the industrial cycle.
6. *"Edge Effect" Abundance*: Creative collaborations increase the possibility of value-adding wealth creation through relationship, exchanges, and resiliency.
7. *Resiliency*: The whole system develops the long-run ability to adapt and learn from shocks; adaptability to change is valued over current brittle concentrations of power and hyper-efficiency.
8. *Honors Place*: A Regenerative Economy operates to nurture healthy, stable communities and regions, both real and virtual, in a connected mosaic of place-centered economies.

Early green shoots of Regenerative Capitalism are already manifesting in a multitude of scalable projects and enterprises on the ground. These include agriculture that replenishes soil fertility, the sharing economy, collaborative ownership structures, economic democracy, investments in renewable energy, resilient communities, and much more. Such investments deliver 10 times the number of jobs as money spent on the old economy.[ix] The task before countries, corporations, and communities now is to suffuse Regenerative Capitalism into large global enterprises and to the large State actors in the economic system.

REGENERATIVE FINANCE

The emergence of Regenerative Capitalism, particularly within a mainstream economy dominated by large-scale enterprises and state actors, is dependent upon a fundamental transformation of finance. Merely optimizing single variables such as the ill-conceived shareholder value maximization are insufficient in the era of Regenerative Capitalism. The well-meaning and ongoing financial reform agenda was conceived in the context of the old, degenerative world-view. Success cannot be defined as putting us back on the path of exponential expansion, which brings on ecological collapse. We must reconceive finance in service of a regenerative economic system.

Finance's primary function is to transform savings into productive investment, and drive the credit-creation process. The flow of credit and investment into the real economy is the bridge to, and the steering mechanism for, the Great Transition to a Regenerative Economy.

The Elements of Regenerative Finance include:

1. *Means not Ends*: Finance is a means to a healthy economy, not the "purpose" of economic activity.
2. *Ethical and In Service*: Finance should be an ethical profession, grounded in a culture of service to clients and service to the emergence of a Regenerative Economy.
3. *The Supremacy of Relationship*: It should value relationships over transactions.
4. *Transparency*: Financial institutions should value transparency over complexity, while embracing genuine value-adding innovation.
5. *True Wealth*: Regenerative Finance generates long-term wealth creation, harmonizing multiple forms of capital in right relationship, using a fair financial return as a constraint for investment decisions.
6. *Right Scale*: To be sustainable, finance must be appropriately scaled as a system embedded in the economy, which in turn is embedded in culture and the biosphere.
7. *Collaborative*: Values-aligned investors, financial institutions, and enterprises from multiple sectors will behave collaboratively, mimicking nature's "edge effect."
8. *Resilient*: Regenerative Finance balances efficiency with structural resiliency at the system level through decentralization, diversity, and buffers within institutions, and even within the money system itself.

The transition away from a collapse-prone financial system and economy, both of which are driving ecological collapse, will not be quick or easy. It will require new energy for fundamental systemic reform to create the conditions for finance to serve the Regenerative Economy. Such reforms are complex and beyond the scope of this paper, but would include:

- Regain our will for sovereignty over domestic financial systems. Globalization has gone too far and encourages a negotiated race to the bottom.
- Separation of insured deposit-taking banks with access to central bank liquidity from speculative activities of securities firms. The universal bank model unnecessarily pits shareholder interests against societal interests and should not be tolerated.
- Onerous capital and tax regimes should dis-incentivize leverage, scale, and complexity making it unprofitable to be too big, too leveraged, and too complex. Such regimes must trigger a restructuring of the current system or they're inadequate.
- Eliminate the subsidy[x] to debt, since leverage reduces systemic resiliency across the economy and facilitates dangerous speculation.
- Revoke the public charter of banks and securities firms who have breached their duty of trust to society. Private partnerships are the proven and most effective tool to regulate behavior in the securities industry.
- Implement a global financial transaction tax.[xi]
- Modify capital gains tax so that investors are encouraged to put money into the things we need on timescales that matter.

Once the system has been shrunk, simplified, de-levered, and made more resilient in the process, the foundation will be laid for Regenerative Finance to emerge. Indeed it is already happening under the radar, as evidenced by the Global Alliance for Banking on Values;[xii] the emergence of impact investing; and efforts to integrate environmental, social, and governance ("ESG") factors into investment decision-making. The traditional role of community banks, the well-established co-operative financial institutions, and the Community Development Financial Institutions are also parts of a foundation. The complementary currencies taking root around the world in response to the economic collapse are providing much-needed resiliency to fragile economies.

Well functioning, purpose-driven, public banks already operate. Their prudent and responsible role in the economic system should now be recognized after the repeated failure of the so-called private sector banks which are really only private when times are good. The United States, Spain, Switzerland, Germany, and, of course, Russia and China are just some of the nations that have a variety of state-owned banks that behave not merely as a business that needs to be regulated but in service with a unique public purpose. With informed public leadership, these public institutions, and essential new public infrastructure banks, can become the foundation for financing the transition to a Regenerative Economy.

The financial community argues that any regulation inhibits market efficiency. Until 2008, this prized characteristic was believed to be self-regulating. But in 2012, former U.S. Federal Reserve Chairman Alan Greenspan admitted, "I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms....I was shocked."

The rest of the world was devastated. An April 2013 *Financial Times* article observed that bankers were flying blind, quoting a former European Central Banker who stated, "We don't fully understand what is happening in advanced economies."[xiii] Economics is all about efficiency, but the current system pursued the idea of efficiency to the exclusion of system resilience. Like unfettered globalization, securitization and derivatives all increase efficiency, but at a cost. Important inventions with many productive applications, they are misused now as highly leveraged speculative instruments reducing system resilience, which becomes apparent in times of crisis.

There are three core elements to achieving a sustainable economy on a finite planet – what has been called a dynamic steady state economy.[xiv] First, we need quantum leaps in material throughput efficiency, beginning with energy productivity.[xv] This will help get us back toward balance and buy time. Second, we need to shift our goal to well-being and limit aggregate material consumption, while providing room for those living below acceptable material living standards to get their fair share. And third – and this is new – since there are indeed limits to growth, and since investment drives growth, somehow we must control both the quality and aggregate quantity of real investment in the global economy.[xvi]

This is heresy in classic economics and in a Wall Street world in which more investment is always thought of as a good thing. But it is essential if we are to begin dialing down the throughput of natural resources that is eroding ecosystem health and the ecosystem services we depend upon to live. Arithmetic tells us we will never achieve a steady state if financial capital compounds indefinitely and is reinvested in more growth rather than in ways that enhance social and natural capital. We simply have too much money (inequitably distributed) and not enough planet.

The Regenerative Economy is about seeing the world in a different way.

We can do this. What we read about in *The New York Times* Business Section and in the *Wall Street Journal* is focused on perhaps 20 percent, maybe 30 percent, of total global economy. Only about 30 percent of people in the world now eat food from industrialized agriculture. Even after decades of globalization, only 20 percent of India is directly connected to the global economy. Less than a billion people work in the degenerative economy – maybe as few as ½ billion. If the developing world and emerging local and regional economies in the first world were to recognize their common interest in transforming the way the world works, it could be the basis for a bottom-up strategy to create the new reality. If you count the value of the gift economy and of natural ecosystem services, the problem part of the economy is really just a small part of the total system. And great strides are being made in the numerous place-based economies the world over that are on a path to a Regenerative Economy.

In looking at the increasing concentration of power in the world's largest public corporations, Harvard Professor Robert Eccles[xvii] estimates that the 1,000 biggest corporations represent half of the market capitalization of the $60 trillion market capitalization of the 60,000 public companies in world. Directly and through their influence, they "virtually control" the now degenerative mainstream global economy, yet provide direct employment to less than one percent of the global population. It is not an exaggeration to say that one thousand CEOs and perhaps twenty heads of state hold the future of civilization in their hands, most importantly through the long-term investment decisions they make and the public policy influence they choose to exercise.

Our challenge is to enable 1,020 people, mostly men, to think differently.

Let's shine a light on what IS working, improve it qualitatively and, at the same time, crimp what is horribly wrong: investment in expanding our fossil fuel based energy system when we can't afford to burn what we've got, and destabilizing excessive speculation in capital markets that has no value to society and detrimental costs to the world. The Energy Information Agency estimates that $17 trillion is needed in renewable energy and sustainable transmission infrastructure to meet the climate challenge. Booz Allen says that $22 trillion is needed in water investments to meet the world's water needs in next 20 years. A shift in the flow of capital on such an unprecedented scale demands the leadership of one thousand and twenty people. As a practical matter, we need leadership from the United States and China. Civil society must demand it without delay.

This time is different. Our well-intentioned financial system regulators are no doubt overwhelmed responding to yesterday's recklessly-induced financial crisis. They are doing it under suboptimal political conditions, all while the plane needs to keep flying (since we are presently dependent upon the too-big-to-fail banks to keep the economy flowing). It is essential that financial system leaders and regulators also look forward to the perils ahead. Grasping the unprecedented challenges of financial overshoot is imperative if we are to manage the stormy times ahead. There is now an overwhelming public and global security interest in how investment capital flows, with profound governance and ethical implications the world has never had to consider.

The Post 2015 Goals process has the opportunity to guide humanity as it evolves beyond the outdated mechanistic worldview of the Holocene and the no-longer-possible paradigm of exponential growth that has defined contemporary economics and finance, to a regenerative paradigm grounded in the holistic ecological or living systems worldview of contemporary science. If humanity fails to see the global economy as a complex adaptive natural system, and manage accordingly, we'll end up in a bad place.

No one knows how this transformation will work out. However, as the challenges of climate change, loss of species, resource constraints, and breakdown of social order become more severe, what now seems impossible will suddenly become inevitable. The Regenerative Economy is an emergent idea. It's never been done. But it is the story that now is needed to save the world. ★

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CAN SUSTAINABLE CORPORATIONS DRIVE INSTITUTIONAL CHANGE?

Rebecca Henderson

Corporations can play an important role in building a more sustainable or more equitable society. Firms such as Nike, Natura, Unilever, Coca-Cola and Wal-Mart claim that taking care of the environment is good for business. The solar and wind industries are growing rapidly and entrepreneurial firms from Zipcar to Opower to Airbnb are pioneering products and services that seek to reduce consumption and/or ecological footprint in deeply creative ways. We are developing an increasingly rich sense for the business models that might create "shared value," or enable firms to make money while simultaneously solving some of the world's most pressing environmental and social problems.

Simultaneously there is increasing interest in the concept of the "purpose driven" or "high commitment" organization. The Center for Higher Ambition Leadership, for example, recently convened a gathering of more than 40 CEOs from self-identified "higher ambition" firms.[i] They suggested that embracing a purpose beyond that of simply maximizing short-term shareholder value can lead to a host of benefits, including increased employee engagement and closer connections to suppliers, customers, and communities, and that these benefits can lay the foundation for greatly increased value for the firm's shareholders as well as for the entire eco-system of which they are a part.

Some observers have claimed that these kinds of shifts are the beginning of a revolution. Eccles and Serafeim, for example, suggest that "just 1,000 businesses are responsible for half of the total market value of the world's more than 60,000 publicly traded companies" and that "this vast concentration of influence should be the starting point for any strategy of institutional change toward a sustainable society."[ii] In the face of gridlock in Washington and an apparent failure of global governance, many have turned to the private sector as our last best hope for controlling environmental damage and increasing prosperity and opportunity at the lowest levels of society.

But is voluntary corporate action in fact a promising lever for building a sustainable economy? Many economists and political scientists have expressed skepticism that the kinds of deep structural challenges we face as a global society can be addressed without fundamental changes in our political and economic institutions. They point to research suggesting that there is no clear correlation between acting sustainably and even long-term shareholder return. The research in this area has generated mixed results. While there is little evidence that investing in sustainability depresses economic returns, there is also no consensus that it increases them.[iii]

These results may reflect the fact that it's difficult to measure a firm's commitment to sustainability, or the fact that firms are still learning how to build business models that are consistent with sustainable practices, but it may also reflect the more fundamental issue that in many industries and for many firms, acting more sustainably is not, in fact – under current regulatory and pricing regimes – a profitable course of action. For example the evidence as to whether consumers will pay more for sustainably produced products is very mixed. Nearly everyone will pay more for Fair Trade coffee, for example, and women will pay more for sustainably produced jeans but on average men will not, and in outlet stores neither gender will pay more.[iv]

Moreover some problems are easier for corporations to tackle than others. Economics of renewable power are greatly improving, but "clean energy cheaper than coal" still seems a distant goal, and renewables still supply only a small fraction of the world's energy mix.[v] Many social problems may be even more difficult to tackle. It is one thing to reduce water or energy use, or curtail waste – but it is quite another to take responsibility for education in the local community, or to pay "fair" wages and to offer benefits when one's competitors are paying (much lower) market rates and not paying benefits at all. Some things are very difficult to do unless one's competitors are doing them as well. Thus, while individual firm action is inspiring and may generate positive local effects, given the public goods character of many societal issues – education, environment, health – it seems unlikely that in isolation it will be sufficient.

Many observers have responded to this dilemma by suggesting that we need to change the nature and purpose of the corporation and the rules that govern it. There is a large and lively literature in this area, but in general most proposals focus on mechanisms designed to achieve two goals: to move corporations from a single-minded focus on shareholder value maximization towards a focus on a broader range of stakeholders, and to increase their time horizons. For example Dominic Barton suggests that firms need to "fight the tyranny of short termism," "serve stakeholders, enrich shareholders," and greatly increase board effectiveness.[vi] In the same vein, Corporation 20/20, a global network hosted by Tellus Institute that advocates corporate redesign, suggests that corporations should be governed according to six principles, including: "the purpose of the corporation is to harness private interests to serve the public interest;" "corporations shall accrue fair returns for shareholders, but not at the expense of the legitimate interests of other stakeholders;" "corporations shall operate sustainably, meeting the needs of the present generation without compromising the ability of future generations to meet their needs;" and "corporations shall distribute their wealth equitably among those who contribute to its creation."[vii]

Three broad sorts of legal and regulatory reforms have been suggested to support this transition: a) changing the governance of public corporations to make the pursuit of stakeholder value the legitimate goal of the company; b) reforming reporting systems so that investors have access to a much wider range of information beyond the purely financial; and c) shifting financial markets to the support of longer-term, more stakeholder-orientated activity, either through the use of longer-term financial instruments or through a widespread shift in investor behavior.

These are deeply interesting ideas and their widespread adoption might lead to a significant shift in corporate behavior. My own research, for example, suggests that the adoption of longer time horizons is likely to make firms significantly more resilient and, in many cases allow them to build relational contracts that might allow them to be significantly more productive and more creative.[viii] But it is not clear that they would be enough to significantly enhance the sustainability of the economy. Partly this is because by their very nature their primary effect would be on the behavior of publicly traded firms. This is a significant share of the economy but, particularly given the role of privately held and state owned firms across the world, it is by no means all. More fundamentally, they seem likely to change behavior with regard to only a limited subset of public goods. Is a firm with a ten-year time-frame significantly more likely to invest in renewable energy and local education than one focused solely on quarterly earnings? Surely the answer is yes, but only up to a point. Pure public goods remain pure public goods, even on ten-year time-frames. A longer time-frame might make a firm much more aware of the costs of global warming to its business, but aggressive private action to tackle global warming will remain unlikely, given the significant costs of individual action and the constant risk of free ridership.

Moreover, reforming corporate governance and finance is, in itself, likely to prove to be a costly public good. Many firms – and many investors – are likely to resist reform, claiming that it will diffuse accountability and lead to managerial entrenchment, or simply that these kinds of problems are more effectively solved through political action and/or a shift in social norms and values. In response to these kinds of issues many observers suggest that the focus should be on rebuilding support for strong state action to advance sustainability, and on encouraging a shift in social values as a critical precondition for the kinds of political changes that will drive such action. Such a shift might also help to move the world away from a focus on consumption and towards a focus on community, relationships, and shared experience.

Unfortunately both of these shifts also seem unlikely. To the degree that the benefits that flow from ignoring environmental problems flow to elites while the costs of this behavior accrue to the politically marginal – the geographically distant and the unborn, for example – there is a significant risk that political action is likely to be too little, too late.[ix] Widespread cultural change may occur – but it is difficult to predict, and with the population of many developing nations enjoying the pleasures of consumption for the first time, and increasing evidence of widespread social fragmentation and a retreat to private life in the developed world, value shifts and political will are in short supply.

From Reaction to Proaction

In this context it is worth revisiting whether one could imagine the conditions under which corporations might prove to be a plausible lever for widespread political and social change. Some observers have suggested that the idea that the majority of corporations will ever play an active role in reforming themselves is deeply unlikely,[x] but I believe this is too pessimistic a perspective. While it appears to have been relatively rare, there are a number of historical examples of the private sector playing a significant role in helping to build just institutions. Indeed, even today, examples of corporate action contributing to a political and cultural climate supportive of a sustainable economy are visible.

In the first place, while individual efforts by particular corporations are unlikely in themselves to solve the energy, water, or social crises they address, they have important demonstration and legitimation effects. Coca-Cola, for example, claims that:

> "Inside every bottle of Coca-Cola is the story of a company that understands the priceless value of water, respects it as the most precious of shared global resources and works vigorously to conserve water worldwide. We can't imagine treating water any other way."[xi]

The company has put in place aggressive water conservation and efficiency measures. One of their goals is undoubtedly to protect their brand, but they also are focusing attention on a centrally important issue that is not central to much of the public conversation – finite fresh water resources. Levi's campaign to persuade consumers to wash their jeans less often may play a similar role. Similarly, when Patagonia takes out full-page ads telling consumers: "Don't Buy This Jacket," and when firms build businesses around the idea of sharing or renting products rather than buying them, they may be helping to shape a consumer ethos that is focused more on the quality and functionality rather than on the quantity of consumption.

It is, of course, an open question as to whether these kinds of consumer-facing efforts shape culture or are merely responding to it – but it is at least plausible that they complement and reinforce existing cultural trends. They also may have significant effects on the firm's own employees. Individual case studies suggest that firms' attempts to reach out to their communities and to green their supply chain may significantly change employees' perspectives on the importance of these problems and the feasibility of addressing them.[xii]

Action by individual firms also may make it easier to introduce the kinds of regulatory reforms that are necessary building blocks of a more sustainable economy. The observation that large, global, publicly traded companies are conserving resources may contribute, for example, to changing the perception that environmental regulation is a needless extension of state control. More fundamentally, we are beginning to see examples of privately created regulatory and certification schemes that help to lay the groundwork for nationally or internationally enforced controls. The literature on industry self-regulation is generally pessimistic as to industry coalitions to enforce restraint in the case of genuinely public goods.[xiii] However, recent work suggests that, in some circumstances, industry self-regulation may be an important complement to the deployment of state regulation. For example, Richard Locke suggests that in both Mexico and the Czech Republic the insistence of some of the global IT players on enforcing their own labor standards played an important role in greatly increasing the strength of the local regulatory regimes.[xiv]

Another important avenue for change may be direct engagement in the political process itself. The history of these efforts is, again, very mixed. Several observers have suggested that the private sector often actively contributes to the corruption of local political processes, and the role of the fossil fuel sector in actively delaying legislation to address climate change, for example, or to weaken labor rights, has been well documented.[xv]

But here again there are examples of firms playing a more positive role in the political process. Joe Bower, Dutch Leonard, and Lynn Paine describe the efforts by U.S. business leaders to ensure full employment after WWII, while Christine Romer describes the role that business leaders played in cleaning up the air in many cities in the late 19th century.[xvi] The United States Climate Action Partnership (USCAP), a recent effort to form a political coalition to support the passage of global warming legislation, has been criticized as overly driven by a desire to shape the legislation to the advantage of its members, but the coalition included several firms who appeared to have very little to gain in this respect, and who were plausibly driven by the desire to shape the institutional environment in a positive way.[xvii] Business for Innovative Climate & Energy Policy (BICEP), a coalition with similar goals, also includes firms such as Starbucks and the Aspen Skiing Company, who would again appear to have very little immediate interest in shaping the details of climate legislation to their advantage.

IMPLICATIONS FOR POLICY

If shaping cultural norms and expectations and influencing the political process are indeed two important levers by which more engaged firms can support a transition to a sustainable economy, how should this inform our understanding of the evolution of the private sector? Is it the case that persuading or constraining firms to focus on stakeholders rather than shareholders and enabling them to adopt longer time horizons will increase the odds that they will engage in these kinds of actions? I'm willing to be persuaded that they will, but I'm not convinced that we have firm evidence one way or the other.

I think it is critically important to explore the degree to which there are additional – potentially complementary – institutional changes that might increase the odds of firms actively engaging with the kinds of political and cultural shifts that we need. Together with Karthik Ramanna, for example, I make the case that firms may have a fiduciary responsibility to the institutional system in which they are embedded, and that they have a normative duty to ensure, for example, that important externalities are properly priced and that the rules that shape markets are not biased towards incumbents.[xviii] Is this an avenue worth exploring? Similarly, those who study variations in capitalism across the world point to the importance of sustaining countervailing centers of power to balance and constrain private action.[xix] Should this be an important part of the conversation surrounding building sustainable capitalism?

In short, how can we begin to create a private sector that views itself as a partner to governments and the civil sector in building a more sustainable society without running the risk of creating the worst forms of regulatory capture and crony capitalism? While I would be the first to argue that such an approach is hardly imminent, I think it may be possible – and given the difficulties of our situation and the low odds of success of almost any of the available alternatives – I believe it is well worth exploring.★

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[i] I am on the board of the Center and was the moderator for the gathering.
[ii] Eccles, Robert and George Serafeim, Bloomberg.com, Sept 11, 2012. http://www.bloomberg.com/news/2012-09-11/top-1-000-companies-wield-power-reserved-for-nations.html. Accessed October 6, 2013.
[iii] See, for example, Morten Hansen and Herminia Ibarra, "The Best Performing CEOs in the World," *Harvard Business Review*, January 2013, and Margolis, Joshua D., and James P. Walsh. "Misery Loves Companies: Rethinking Social Initiatives by Business," *Administrative Science Quarterly,* 48 (June 2003): 268–305.
[iv] Hainmueller, Jens and Michael Hiscox, "Buying Green? Field Experimental tests of consumer support for environmentalism," MIT, Mimeo, May 2012.
[v] In 2011, 13% of the US's electricity supply was obtained from renewables. This is projected to grow to 16% by 2040. *Annual Energy Outlook*, 2013, Energy Information Administration, Washington DC.
[vi] Barton, Dominic, "Capitalism for the long term," *Harvard Business Review*, March 2011.
[vii] The Tellus Institute, http://www.tellus.org/programs/corporateredesign.html. Accessed Oct 6, 2013. "Great Transition," Paul Raskin, Tariq Banuri, Gilberto Gallopin, Pablo Gutman, Al Hammond, Robert Kates, Rob Swart. See also "The Great Transition Initiative," Mimeo, accessed Oct 1, 2013: http://www.gtinitiative.org/documents/Great_Transitions.pdf
[viii] Repenning, Nelson and Rebecca Henderson, "Making the numbers: Short termism and the puzzle of only occasional disaster," NBER Working paper 16367, 2010. Gibbons, Robert and Rebecca Henderson, "What do managers do? Exploring Persistent Performance Differences among Seemingly Similar Enterprises." Jointly with Robert Gibbons. Chapter 17, pages 680-731 in *The Handbook of Organizational*

Economics, Robert Gibbons and John Roberts, Editors, Princeton University Press, Princeton and Oxford, 2013.

[ix] See, for example, Daron Acemoglu and James Robinson, *Why Nations Fail*, Crown Business, 2013, and Robert Kaiser "So Damn Much Money," Vintage, 2010.

[x] For a particularly colorful presentation of this point of view, see Joel Bakan, *The Corporation: The pathological pursuit of profit and power*, Free Press, 2005. But the point of view is one that is shared by many who work in sociology and political science.

[xi] http://www.coca-colacompany.com/sustainabilityreport/world/water-stewardship.html, Accessed October 7, 2013.

[xii] See, for example, Beer, Mike and Russ Eisenhardt, "United Statitioners: Enabling our Partners to Succeed," HBS case 912-407, 2011, and Mike Beer et al., "Higher Ambition," 2011, Harvard Business Review Press.

[xiii] "The Prospects for Effective Co-regulation in the United States: A Historian's View from the Early Twenty-First Century," Chapter 14 *in Governments and Markets: Towards a new theory of Regulation*, Eds. Edward Balleisen and David Moss, Cambridge University Press, 2010.

[xiv] Richard Locke, "The promise and limits of private power," Cambridge University Press, 2013.

[xv] Oreskes, Naomi and Erik Conway, "Merchants of doubt," Bloomberg Press, 2011. Marshall Ganz, *Why David sometimes wins: Leadership, organization and strategy in the California Farm Movement*, Oxford University Press, 2010.

[xvi] Bower, Joe, Dutch Leonard, and Lynn Paine, *Capitalism at Risk*, HBS Press, 2012.

[xvii] Including, for example, Johnson & Johnson and PepsiCo.

[xviii] Henderson, Rebecca and Karthik Ramanna, "Managers and Market Capitalism," Harvard Business School working paper, 2013.

[xix] Hall, Peter and David Soskice, *Varieties of Capitalism*, Oxford University Press, 2001.

TRANSFORMING MANAGEMENT EDUCATION

Jason Jay

BACKGROUND

Over the past fifteen years, business schools have come under waves of intense scrutiny. With each ethical foible, from Enron to the mortgage-backed security crisis, we ask tough questions about the perpetrators' education. "How can we screen people for character, and develop it through their education? How can we help potential whistle blowers to be more effective in giving voice to their values?"

Further, every time our understanding deepens about environmental and social justice issues around the globe, we ask, "Who will be the leaders of the future to take these on? What kinds of programs and institutions are up for the task of training them? How can schools cultivate the necessary practical skills, but also equip students to ask bigger questions about the purpose of the corporation?" Even at a practical level, all of us considering management education for ourselves, our friends, and family ask, "Is it really worth the price tag?" These questions become all the more poignant as the MBA becomes the go-to "leadership degree" – not just for the private sector, but for aspiring leaders in social enterprise, non-profit, and even public-sector organizations.

I come to these questions from a particular vantage point that combines roles of student, faculty, and administrator – I completed my PhD at the MIT Sloan School of Management, and was close to MBA students during those years. I teach there now as a Lecturer, and I am the Director of our Sustainability Initiative. I am active in helping the school consider what it means to execute our mission, "To develop principled, innovative leaders who improve the world, and to generate ideas that advance management practice." I have also spoken with colleagues and counterparts at business schools around the United States, as I have benchmarked our efforts and shared war stories. I have seen how we all struggle in realizing the public purpose of our own schools and universities while meeting the demands of students and employers. The caveat is that I have lived in one business school and my view is correspondingly limited.

Further, I am ensconced in the intersection between sustainability and leadership. How do we create a future in which human and other life can flourish on earth for generations to come, and at the same time build prosperous, enduring enterprises?[i] How do we build the capacity of people, organizations, and communities to create their own future within that broader context? In exploring the question of transforming management education, this is my starting point. My bias is to understand systems "from the inside out." A political scientist or economist, looking at the institution of management education, might make very different and valid observations.

In fact, a variety of scholars and business leaders have confronted the challenges of contemporary management education and proposed a vision and a way forward. Henry Mintzberg and Rakesh Khurana in particular stand out as having laid important ground, and the "50+20" effort is building a powerful new vision and set of institutions.[ii] Their goal is management education *for the world*.

I am inspired by this emerging conversation. For it to succeed, however, I believe that we – the wide array of stakeholders in management education – might be neglecting some basic work that is actually quite messy and personal. The good news is that in doing it we have the possibility to "be the change" for aspects of societal transformation toward sustainability.

CREATIVE TENSION

When supporting transformation, my colleagues and I have found it particularly useful to uncover what Robert Fritz and Peter Senge have called "*creative tension*."[iii] Creative tension is a kind of energy that arises when human beings hold two things in their mind at the same time: a *vision* for a future they want to create; and a clear-eyed view of the *current reality*. We can envision the creative tension as a rubber band, stretched between these poles. When we hold this creative tension well, we start to discover ways to move the current reality to be closer to the vision – patiently, persistently, courageously, using the energy stored in that rubber band. Martin Luther King's "Letter from a Birmingham Jail" beautifully articulates this perspective, and his "I have a dream" speech embodies it.

Unfortunately people do not always hold creative tension well. Often we experience the creative tension as *emotional tension* – fear that the vision is not possible, embarrassment at the state of things, anger at people for holding back the current reality, perhaps frustration or despair at the lack of traction in our efforts. We may also feel an uncomfortable ambivalence – a fear that we might lose something valuable in moving toward the vision we say we want.

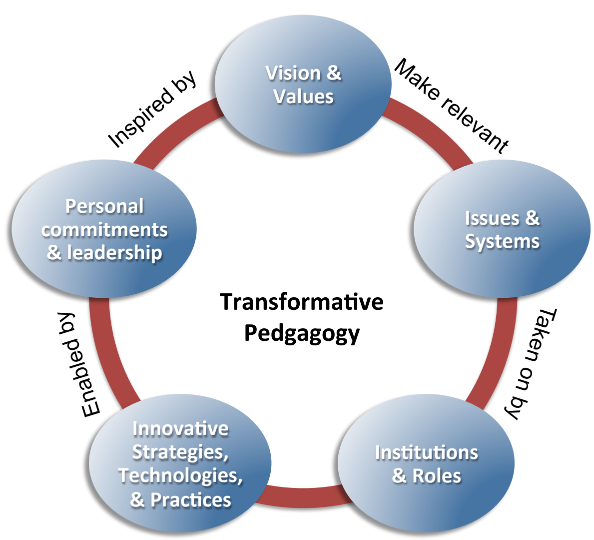
To ease this experience of emotional tension, we often back off from our vision (disillusion) or lie to ourselves about the current reality (delusion). Both involve a kind of inauthenticity. Wise, creative leaders do something different – they identify that emotional experience, their reaction to the tension, and they reframe it as part of the current reality – it becomes something they might have to name clearly and transform along the way.

I think it is useful to apply this framework to the task at hand – the transformation of management education. What is the vision? What is the current reality? Who is holding the creative tension between the two, and how do we experience that tension? Where are we being inauthentic about that experience, in ways that we might productively transform?

VISIONS FOR MANAGEMENT EDUCATION

I find it remarkable that efforts at articulating a future for management education have very similar aspirations. I organize these around the framework below, depicting a set of understandings that we intend to contribute to future leaders.

Figure 1 - Capabilities for leadership, adapted from MIT Sloan executive education program on Sustainability as Social Well-Being



Vision and Values

- Management education will inquire into our values as individuals, families, organizations, nations, and a global community, and equip students to express those values within and beyond their work. It will explore alternatives to the dominant ideology of GDP growth as progress and the enterprise captive to the same limitless growth imperative. It will help people cultivate ideals like social justice, intergenerational justice, and a concern for all life, and to navigate the creative tensions that emerge between these ideals and our current reality.
- Management education will help students build a capacity for crafting and communicating vision.[iv] They will craft a vision for their personal contribution to the future of society and the planet, and learn how to powerfully fulfill their vision through their work and exercise of leadership.

Issues and Systems

- Management education will help people understand *critical issues of economic, social, and environmental unsustainability* as inter-generational responsibilities.
- Pedagogy will convey a *systems perspective* – so proposed solutions can provide a net benefit to society, and minimize harmful unintended consequences, and so people understand both technical and human dimensions of challenges and impact.

Institutions and Roles

- Management education will include a *sustained inquiry into the purpose of the corporation*, and the purpose of business in society. It will not take for granted any simple answer to this question like "maximize shareholder value," "serve customers," "create jobs," "improve communities," or "balance stakeholder imperatives," although it will teach students tools for managing toward these outcomes. Each student will ask questions of purpose about their employers and their entrepreneurial ventures.
- Faculty and students will jointly take a stand for institutions that support a holistic view of corporate purpose that views enterprises as accountable to a broad base of stakeholders throughout their value chain and life cycle.
- Management education will prepare students to craft and fulfill possibilities for collaboration within and across industry, organized labor, government at various scales, civil associations and NGOs, and global institutions.
- Management education will prepare people for a *variety of roles* across industries and sectors, many of them entrepreneurial and intrapreneurial, in which they can lead the transition to a flourishing society.

Innovative Strategies, Technologies, and Practices

- A close tie between scholarship and practice in management schools assures that students learn the *cutting edge of practice* for measuring, managing, and innovating toward holistically successful enterprises. This includes the actual managing of people, and ecosystem services, in addition to physical and financial resources.
- Management education prepares students to be *innovators in technologies, products, processes, business models, and market infrastructures and institutions,* contextualized to reflect the effects of innovation on long-term human and ecological well-being. Business schools will be hotbeds of this innovation, combining student explorations with sustained faculty research and industry collaboration. This will happen through rich interdisciplinary connections in the arts, science, technology, design, policy, and other fields.

Personal Commitments and Leadership

- Management education will help a generation of leaders *to connect the truth within to the truth outside* – to create a life of purpose and positive impact by helping people know themselves and the world as interconnected systems, and to pursue integrity by exploring and measuring their impact on those systems.
- Students will develop the capacity for *transformational leadership*, sharing their vision, inspiring others, and building coalitions that transcend traditional boundaries of organizational function, geography, and sector.

Transformative Pedagogy

- Pedagogy will marry reflective, experiential learning with informational learning such that it is both *informed by* analytic methods and management practices that work, and *creates access to those methods* at the level of *being* or as students' own natural self-expression. Students confront the complex ethical, epistemological, and existential challenges of real-world problems.
- We might even *invert* the pedagogy, putting purpose-driven action projects first, and making informational learning on-demand (via classrooms, coaches, and online tools like MOOCs). This would supplement the action experience as the need arises, and empower students to be lifelong learners.
- Faculty members will have differentiated but mutually respected and collaborative roles as researcher, lecturer, coach, and exemplar.
- Management schools will fund their education through government and philanthropy to a greater extent (with requirements of civil service and cross-sectoral experience). Some funding will come through the success of students' ventures. Thus, tuition becomes accessible to a global meritocracy, and students feel comfortable at a variety of compensation levels.

CURRENT REALITY

Equally important to the vision, however, is that we take a clear-eyed look at the current reality of management education. How do we reconcile a bold vision for management education with the inertia, constraints, and siloes that define contemporary practices?

- Management education is expensive, pre-selecting wealthy and externally motivated students, and creating risk aversion among heavily indebted graduates.
- On-campus recruiting is most intense by firms with a hunger for human capital and ability to pay high salaries. This system channels people into "up-or-out" jobs in consulting, investment banking, and corporate management rotational programs. These jobs are challenging and pay well, but involve little accountability for operational performance or societal impact.
- Pockets of entrepreneurial activity occur, and pockets of social responsibility/sustainability emphasis occur. Student and faculty participants brand themselves and are branded by others (via Sustainability Certificate programs like the one I run) as a specific sub-community distinct from the norm and bolted on to core curricula.
- There is a strong hierarchy of academic disciplines among faculty, with finance and economics superseding others. This pattern gets reflected in the curriculum, where quantitative skills are emphasized over qualitative analysis, and net present value (NPV) is used as "the ultimate metric" in operations and other disciplines. "Homo economicus" is the dominant view of human beings. Inquiry about personal values, the nature and purpose of the corporation, and sustainability are relegated to orientation events, short modules, and electives.
- Faculty at top-tier schools are primarily rewarded for research, not practice, creating inauthenticity in certain aspects of the teaching relationship – the teacher is not the exemplar.
- Management faculty are paid very well relative to other academics, creating a tendency to recruit more externally motivated (rather than internally motivated) individuals, who are often physically segregated in more polished buildings, serving as a subtle barrier to interdisciplinary collaboration.

EXPOSING THE CREATIVE TENSION

In this context, who is actively holding the creative tension between these worlds? What is their experience of that tension and their effectiveness as agents of change? What do they fear losing along the way?

- A subset of us as **faculty members** are concerned with business impacts on labor, the environment, the stability of the financial system, and the spiritual development of human beings beyond consumerism. We want to see more students being social entrepreneurs and innovators of various kinds. *BUT we also enjoy our jobs in business schools in part because they pay well, and therefore we have a vested interest in the high tuitions*. We fear losing this privilege if business schools direct their students into riskier careers, lower their tuition, and become more socio-economically inclusive.

- **Faculty members** profess interest in the multi-disciplinary collaboration required for transformational outcomes like sustainability. BUT we sustain an intense status hierarchy from senior to tenured to junior to adjunct, and we are cautious about proximity to practice, lest it erode our status. This compounds the hierarchy we sustain among disciplines (usually physics, then biology, economics, psychology, sociology, then management, following the relative predictability of systems and stability of knowledge). Both hierarchies serve as a barrier to collaboration in teaching, research, and engagement. *We fear losing the hard-earned respect and esteem of our colleagues by taking these risks.*
- **Management students** themselves face the tensions in the job search, and complain about the schools' lack of support for their aspirations for "social impact careers." BUT, they sometimes fail to acknowledge that they have power to organize and create new experiences for themselves, if they were willing to take risks of compromising income. *They fear losing their financial investment in the education or the promised financial reward.* At the same time, *they fear being judged harshly by sustainability-minded faculty and colleagues if they take a job that can quickly pay off their loans.*
- **Career development officers and other advisors** see themselves in human-service roles, and they thrive on helping students reach toward high aspirations. Very often, however, they hear students wanting purpose but going for money, and feel disappointed when this happens. They also bear the brunt of students' frustrations and accusations; they complain about students' complaints and the pressure from recruiting companies. They experience themselves as *caught in the middle*. Some fear losing the clarity that comes with on-campus recruiting processes, and some fear losing the esteem and ranking of the school if graduate salaries were to fall. Some fear becoming cynical if they get their hopes too high about socially-minded students and faculty. They also can fear disappointing students by overpromising the idea that careers of purpose *and* prosperity might be possible.
- **Transformative agents within companies** (e.g., corporate sustainability officers, or leaders of disruptive enterprises) would like to see more students going into the work of transformation, BUT also see limited resources and worry that sustainability might be a short-lived fad. They fear losing their own distinctive roles in their organizations and markets, so they are hesitant to recruit aggressively. One of their most difficult personal challenges is in *giving away leadership* for sustainability to other people, departments, and organizations, however necessary this may be.
- **Each group** often blames the others for the problem, and does not share their inner tensions.

The wisdom of the creative tension framework is to recognize these emotional tensions and reactions as simply part of the current reality. Then we have the opportunity to be authentic and clear about our *inauthenticity* – a bit of truth-telling and compassion about our own "immunity to change."[v]

This is, however, not easy. At the Academy of Management conference in August 2013, there was a beautifully organized forum on "Rethinking Management Education." It gave participants a chance to share and deeply listen to one another's perspective in a concentric fishbowl format. My experience, however, was of business school faculty thoughtfully articulating how *others* needed to change – students, companies, administrations, ranking agencies, etc. – to move toward more humanistic management education. I attempted to shift the focus inward by sharing my own inner tension: I want a high stable income as faculty, and chose business school PhD and teaching as a result. But I also want my students to take risks in sustainability amid their high student debt that pays my income. My heart was pounding as I "outed" myself. The subsequent speakers skipped right over this comment and never referred back. Then during the remaining days of the conference, numerous people approached me, thanking me for this candid contribution, saying they wrestle with the same issues, and saying they wish they or others had built on my comment. We laughed together at how entangled we all are.

This experience was deeply liberating, and prompted this essay. It also illuminated for me just how hard this truth-telling can be. And yet I believe we have to take even greater risks – not just by faculty in front of their colleagues, but together with students and career advisors and employers. We each have a responsibility in maintaining the status quo, and transformation requires us all.

Perhaps what we need, in parallel with a new set of institutions, is a new kind of authentic conversation for vetting the aforementioned tensions and contradiction. Absent such exposure, progress will be slow and erratic, a situation we can ill afford given 21st century urgencies. I propose a series of dialogues, in a format that encourages this kind of self-confronting inquiry, across the stakeholder groups of management education. One form of dialogue could be conducted program by program, school by school with faculty, students, advisors, and employers in the same room. What is our deepest aspiration for our management education? How do we get in our own way? Another type could be conducted within the professional communities – students through venues like Net Impact, faculty at the Academy of Management and similar associations, career advisors in their professional associations, but tied together with a common thread like the 50+20 effort. Each school and professional community would have to claim its own responsibility, and take a stand for the wider transformative conversation. The final result could be a set of multi-stakeholder and multi-school summits that launch and evaluate prototypes for a transformed management education.

WHAT IS POSSIBLE?

I cannot pretend to know the content or outcomes of such dialogue, because I believe it will be profoundly creative. Acknowledging our ties to the current system – and our inauthentic ways of being amidst those ties – will free us, and open up a huge space of possibility. I do, however, see this inquiry leading toward sustainability in three important ways.

The first way is simple, almost definitional, if we use John Ehrenfeld's definition: sustainability is the possibility of human and other life flourishing on earth for generations to come.[vi] In this perspective, our access to flourishing lies in *creating flourishing here and now*, through caring and authentic relationships with ourselves, others, and the world. Simply by providing real connection between people, the dialogues could unleash one aspect of human flourishing in business schools.

The second possibility is that the dialogues start to incubate a deeper understanding of what it means to pursue sustainability on a personal level. A number of thoughtful scholars have noted that sustainability is a property of a whole system, and we have to move away from our narrow view and interests if we are to achieve it. We have an imperative to shift "From Me to We,"[vii] or from "Egosystem to Ecosystem awareness."[viii] My own perspective is that if such a shift is at all possible, it will not be through wishful thinking alone. The first step is likely to be coming clean with our *ambivalence*: we are all selfish and altruistic at the same time, we are concerned with the part and the whole, my salary and my impact. We can explore our (in)authenticity with play and lightness and, in doing so, we can create a way forward that would not be imaginable today.[ix]

The potential extends from the personal to the organizational level. My own dissertation showed how awareness of this part/whole ambivalence was essential to innovation in an organization selling energy efficiency services as a climate change strategy.[x] This was in a public-private partnership, but a whole variety of "hybrid organizations" and responsible companies are finding the same challenge: authentically managing the tensions between part and whole. Think of Patagonia, grappling with the desire to reduce consumption but running retail stores around the world – its Black Friday 2011 ad impelling people "Don't Buy This Jacket" has not stemmed their sales growth, and has actually built brand loyalty. I do not fault the company for this apparent duplicity; in fact they have been very authentic about the tensions of sustainability-oriented business throughout their history. They see that stumbling toward solutions means confronting ourselves. Put another way, this is a complex world, and we must complexify ourselves to meet it.

The idea here is that we can start in the community of management educators, advisors, and students. We can extend the conversation to companies that recruit on our campuses and that engage with our students and faculty. Perhaps, in time, we can serve as exemplars for business and society at large. The transformation may start, however, with a very personal inquiry that we can begin now.★

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[i] See Ehrenfeld, J., *Sustainability By Design,* Yale University Press, 2008.
[ii] Mintzberg, H., *Managers not MBAs,* Berrett-Koehler, 2005.
Khurana, R., *From higher aims to hired hands*. Princeton University Press, 2007.
See www.50plus20.org and its constituents: the Globally Responsible Leadership Initiative; the World Business School Council for Sustainable Business; and the U.N.-backed Principles of Responsible Management Education.
[iii] See Senge, P., *The Fifth Discipline,* Doubleday, 1991.
[iv] See Grant, G. B., "Transforming sustainability," *Journal of Corporate Citizenship*, 2012, (46), 123–137.
[v] Kegan, R., & Lahey, L., *Immunity to Change*, Harvard Business Review Press, 2009.
[vi] From Ehrenfeld, I change "forever" to "generations to come" because I work at MIT where people know the sun will eventually burn out, and may eventually welcome our robot overlords and post-human mutation.
[vii] Doppelt, B., *From me to we*, Greenleaf, 2012.
[viii] Scharmer, O. & Kaufer, K., *Leading from the emerging future,* Berrett-Koehler, 2013.
[ix] Grant, G. B., & Jay, J., *Course Materials for Authentic Sustainability - Navigating Pitfalls, Paradoxes, and Pathways in Conversations toward a Better World* (SSRN Scholarly Paper No. ID 2209515), 2013 http://papers.ssrn.com/abstract=2209515.
[x] Jay, J., "Navigating paradox as a mechanism of change and innovation in hybrid organizations," *Academy of Management Journal*, 2013, *56*(1), 137–159.

SOCIAL INITIATIVES FOR RADICAL RENEWAL

Henry Mintzberg

I am preparing an "electronic pamphlet" under the title "Rebalancing Society… radical renewal beyond left, right, and center," to be posted soon on www.mintzberg.org. What follows, after some general comments in the two paragraphs below, are several passages from this pamphlet: first an overview of its contents and then some sections especially related to the theme of this roundtable.

My message for this conference is simple, if utopian: the best transition the corporation can make is to remove itself from politics and be exceedingly careful about its interventions in our private and social lives. There was a time when commentators on both sides of the political spectrum[i] were in agreement that business should stick to its own competitive business.

How did the word capitalism, coined to describe the creation and funding of private enterprises in order to provide us with commercial goods and services, come to represent a political philosophy about all aspects of our existence? The consequence of this is that human society, and the planet on which we live, have been thrown dangerously out of balance.

OVERVIEW

As the communist regimes of Eastern Europe began to collapse in 1989, pundits in the West had a ready explanation: capitalism had triumphed. They were mistaken, and the consequences are proving fateful. This "electronic pamphlet" describes these consequences and suggests what we can do about them.

What triumphed in 1989 was balance, more or less, across the three basic sectors of Western countries—public, private, and what I prefer to call plural. The countries of Eastern Europe, in contrast, had been severely out of balance, dominated by their public sectors. But a failure to understand this has been throwing many other countries out of balance ever since, on the side of their private sectors.

Most notably in the United States, but also across the arena of globalization, many large corporations have gained positions of entitlement, justified by the prevailing economic dogma of the day: that greed is good, markets are sacrosanct, property is sacred, and governments are suspect. This lop-sided view of human nature, in implicit alliance with the corporate entitlements, has taken hold of American society, in the process hijacking the country's renowned democracy.

This rise of this dogmatic right, following so quickly upon the fall of the dogmatic left, has been undermining many other democracies as well. Some swing ineffectually between left and right, and others sit paralyzed in the political center, while corporate entitlements grow ever more pervasive.

By getting past the linear politics of left, right, and center, we can appreciate that a balanced society, like a stable stool, has to rest on three solid legs: a public sector of political forces manifested in respected governments, a private sector of economic forces manifested in responsible businesses, and a plural sector of social forces manifested in robust communities.

The plural sector may be less apparent than the other two, but it is no less important. It comprises a variety of associations that are neither public nor private, most of them community-based. Some are formal institutions, either member-owned, as in cooperatives, or non-owned, as in the Red Cross and many of the renowned universities. Others exist less formally, as movements to confront social problems and initiatives to create solutions for them**.**

Despite the prominence of so many of its activities, the plural sector itself remains surprisingly obscure, having long been lost in the great debates over private-sector markets versus public-sector governments. The plural sector has to take its place alongside the other two, not only to maintain balance in society, but also to attain that balance in the first place. Governments and businesses won't do it.

Rare is the government that takes the lead in addressing the serious problems of our time. Most have become either co-opted or overwhelmed by that implicit alliance of corporate entitlements and economic dogma. Moreover, our governing structures are stuck in an 18th century form of democracy that caters to individual needs, whereas our problems require collaborative efforts that will serve us collectively, on the international as well as domestic fronts. As for the private sector, don't expect corporate social responsibility, however necessary it may be, to compensate for corporate social irresponsibility—not in today's world.

The radical renewal we require will have to begin largely in the plural sector, albeit as a means of provoking reforms in the established institutions of government and business. Here can be found community groups best suited to creating the social initiatives that bring significant change. There are, in fact, a remarkable variety of such initiatives now underway, in communities all over the world, networked through the social media. But many more are needed, especially to circumvent rather than just confront the forces of imbalance.

It is time, in other words, to explore our resourcefulness, in place of expending so much energy exploiting resources, including ourselves as "human resources." We need to believe in something bigger than our possessions and ourselves, yet capable of accommodating the needs of our progeny and our planet.

THE PLURAL SECTOR

What is here being called the plural sector has not only been lost in the great debates over left versus right, but also has been challenged relentlessly from the extremes of the other two sectors; namely, communism and the current form of global capitalism. Neither particularly appreciates the power of local communities.

But no less helpful has been the variety of unfortunate labels by which this sector has been identified, including: (a) the "third sector," as if it is third rate, an afterthought; (b) the home of "not-for-profit" organizations, as if governments are for-profit, and of "non-governmental organizations" (NGOs), as if businesses are governmental; (c) the "voluntary sector," as if this is a place of casual employment; and (d) "civil society," the oldest, yet perhaps most confusing label, hardly descriptive in and of itself (in contrast to uncivil society?).

I propose the term *plural* because of the variety of organizations in this sector and the plurality of their ownership. Not incidental is that the word starts with "p": when I have introduced it in discussion groups, "plural" took a natural place in the conversations, alongside "public" and "private."

FORMS OF PLURAL SECTOR ASSOCIATIONS

There are four basic ways in which the activities of this sector are organized. I call them all *associations*, after de Tocqueville. Two are more formal, as institutions, and the other two less so.

Private-sector organizations are owned privately, whether by one or a few proprietors or else many shareholders. Public-sector organizations—government ministries, departments, agencies, and so on—are owned by the state, not by the citizens per se so much as by their governments. And most of these, like larger businesses, are rather hierarchal in nature. Authority rules. (That is why nationalizations and privatizations have been so easy to accomplish: sign a few papers, exchange some money, and on they continue, sometimes without even changing the management.)

Plural-sector institutions, namely those organized formally, exhibit two other forms of ownership. Some are owned by their *members,* usually each with a single share that cannot be sold to anyone else, as in cooperatives (owned by their customers, suppliers, or workers) or professional associations. Others are owned by *no-one:* they are constituted as "trusts," with boards of directors appointed to represent their various stakeholders. This form of ownership can be found in many hospitals and universities, including the most prestigious in the United States, as well as in think tanks, foundations, charities, service organizations such as the Red Cross, and activist organizations such as Greenpeace.

While most of the activity in the private and public sectors is formally organized (even business entrepreneurs usually incorporate), the plural sector is home to a great many informal associations, from friends who get together for social activities (a book club) and a community that self-organizes during an unforeseen disaster, to a movement that emerges to confront a social problem (as in Tahrir Square) and a group that creates an initiative to address a social concern (a food bank).

This distinction between *social movements* and *social initiatives* is important: one raises consciousness about an issue, usually by confronting its protagonists (protesting bankers' reluctance to lend to the poor), while the other introduces change, often by circumventing those protagonists (creating micro-financing opportunities for the poor). Of course, even the most informal association can later incorporate to become a formal institution.

SOCIAL INITIATIVES FOR RADICAL RENEWAL

Most of us believe that governments or socially responsible corporations will restore balance in society, by addressing the serious problems of our age: poverty amidst plenty; the degradation of our physical, social, and even economic environments; the hijacking of what we call democracy; terrorism by fanatic cells and rogue states; and others.

While *maintaining* balance requires strength in all three sectors, *achieving* balance will depend significantly on the plural sector. The radical renewal we require will not come from our established institutions of government and business. Rather, it is to creative social initiatives in distinct communities that we shall have to turn, although once the worth of an initiative is proved, responsive governments and responsible businesses can be key in helping to carry it into broader reforms.

DON'T WAIT FOR MOST GOVERNMENTS

There are a number of reasons why most governments, even those democratically elected, are not coming to grips with our serious problems.

First is the current tendency of governments either to swing ineffectively between left and right or else to get stuck in the political center. Too many governments have already been co-opted or overwhelmed by the very forces that are significantly responsible for major problems.

Second, governments as we know them have not been "designed to deal with global problems," for example of the "scale and character" of climate change,[ii] nor to deal with many of the domestic problems as well. Governments are usually expected to plan their actions carefully, in order to estimate the costs, establish measurements for the outcomes, and designate who will be responsible for realizing them. This hardly encourages the experimentation necessary to learn the way to unprecedented solutions.

Third is the nature of what we call democracy, a word we use too casually. While democracy requires a dynamic balance among individual, communal, and collective needs, many countries are trapped in the individualistic form of democracy handed down from the American revolution and since exacerbated by the extension of individual rights to corporate persons. The problems we face are largely collective, not individual.[iii]

Finally, democratic governments last about four years, which is rarely enough time to address the problems we are facing, even assuming there exists the will to do so. Where does the destruction of the planet come in when consumption needs another boost and voters are clamoring for more of everything except taxes?

In 2009, the great governments of this world got together in Copenhagen to address what may prove to be our most serious problem, global warming. Their accomplishment, according to the British Minister for Climate and Energy (note the title) was to "put numbers on the table."[iv] These governments certainly got the message from their energy companies, as they have at such conferences ever since.[v] What they need is a message from citizens who can see past their personal entitlements, to the well-being of their children.

This is not to conclude that governments have no role to play in radical renewal. Rather, that role largely will be to support and extend initiatives that have gained legitimacy elsewhere. There are a few governments that have been quite proactive in driving constructive change—Brazil, for example.

AND DON'T EXPECT MIRACLES FROM "CSR"

As for honest forms of corporate social responsibility (CSR), I applaud them. But I find it fanciful to believe that the serious problems created by some corporations will be resolved by other corporations. Believe me, green retailing will not compensate for greedy drilling, any more than corporate social responsibility will make up for the extent of corporate social irresponsibility that we find in today's world.

Likewise, let's applaud companies that "do well by doing good": installing wind turbines, supplying organic foods, and the like. But let's not pretend that this will sweep across the corporate landscape as some kind of win-win wonderland. We cannot allow such claims to deflect our attention from the fortunes being made from sheer exploitation. Too many companies are doing well by doing bad, while others are doing fine by sticking to the letter of the law. As the Russian novelist Aleksandr Solzhenitsyn wrote while living in the United States:

> I have spent all my life under a communist regime and I will tell you that a society without any objective legal scale is a terrible one indeed. But a society with no other scale but the legal one is not quite worthy of man either. A society which is based on the letter of the law and never reaches any higher is taking very scarce advantage of the high level of human possibilities. The letter of the law is too cold and formal to have a beneficial influence on society.[vi]

In their actions as well as inactions, too many of the established institutions of this world have made it clear that we cannot depend on them for the kind of changes that have become necessary.

LOOK INSTEAD TO COMMUNITY INITIATIVES

Earlier I distinguished networks from communities: one is for communication, the other for collaboration. *Social movements* arise within communities and then network across them, to raise awareness about problems, mostly by confronting their perpetrators. But *social initiatives* are more likely to introduce solutions for the problems, often by circumventing their perpetrators. These initiatives tend to arise in specific communities; social change happens on the ground, where people act face-to-face for causes that supersede their needs as individuals.

Of course, any sector can be the starting point for a new initiative. Thanks to its entrepreneurs, the private sector is renowned for economic initiatives, many of which have constructive social consequences (such as organic farming). Key to radical renewal, however, is *social* entrepreneurship, carried out by community groups. As I wrote with Gui Azevedo: "Social initiatives…seem to be essentially indigenous: they work from the 'inside up', and out, by people collectively engaged. They are not solving the world's problems so much as their own common ones, later to discover that their own problems *are* the world's problems."[vii] Such communities can, of course, network with others, to carry their ideas around the world, and also to establish broader social movements for the promotion of their own accomplishments.

To start such an initiative, sometimes all it takes is a bit of human resourcefulness, supported by the courage to break away from an unacceptable status quo. But make no mistake about it: the learning required to get there can be long and difficult, requiring a great deal of flexible adaptation. That is why communityship is such an important ingredient in these initiatives.

Tap into today's world and you may be amazed at the number, variety, and resourcefulness of social initiatives already underway, often in the most unexpected of places. Paul Hawken's book *Blessed Unrest* (2007) is a good place to start. What he describes as a "movement" of more than a million organizations does not "fit the standard model. It is dispersed, inchoate, and fiercely independent. It has no manifesto or doctrine, no overriding authority to check with… [It is] a massive enterprise undertaken by ordinary citizens everywhere…"[viii] The book's 112 page appendix lists hundred of such initiatives, under headings such as biodiversity, culture, education, property rights, and religion.

Denmark and Brazil provide some interesting examples. While the great governments of the world were putting "numbers on the table" at their global warming conference in Copenhagen, the resourceful Danes around them, in citizen groups, businesses, and government, were engaged in perhaps the world's most ambitious program for developing clean, sustainable energy.

And while pharmaceutical companies were maneuvering globally to protect their exorbitant pricing, and the World Bank was issuing dire predictions about the spread of HIV/AIDS in Brazil, the people of that country were innovating in all kinds of compelling ways. For example, they distributed millions of condoms (at Carnival, etc.) and introduced stories about living with AIDS in the famous Brazilian soap operas. In place of "any identifiable leader, or general blueprint, was a great deal of creative cooperation," for example among associations of homosexuals, prostitutes, and hemophiliacs.[ix] Brazil surprised the World Bank et al. by in ten years reducing the incidence of the disease to 0.6% of its population.

The energy of engaged communities can be impressive, and their potential for change boundless. Social initiatives are changing the world, but not nearly as fast as our problems are damaging it. That is why we need so many more of them.

I have no illusion about social movements and initiatives always being constructive. The best ones open us up; the worst close us down. But at least the former offer a way forward, beyond what we have been getting from public- and private-sector institutions. I believe that responsible social initiatives, carried out by communities networked around the globe, are the greatest hope we have for regaining balance in this troubled world.

GOVERNMENTS AND CORPORATIONS FOR REFORM

With regard to radical renewal, I see the role of concerned governments and businesses as mainly supporting and reinforcing beneficial social initiatives that arise in the plural sector. Sometimes these established institutions can provide seed money and other resources to help get such initiatives started, and see them through their precarious stages. But the danger of this is that cooperation can turn into cooptation: the helpers take control and the learning stops. The necessary learning has to happen informally, on the ground, not in established administrative offices.

But as that learning concludes, the beneficial course of a social initiative having been determined, the time for reform can be at hand, namely for broader, more formal implementation of what the initiative has accomplished informally. Plural sector groups often lack the resources to see their ideas carried to full fruition. Governments, and businesses as well, can provide the "financial backing and political legitimacy," not to mention the infrastructural support and administrative capabilities, "to expand" the reach of these initiatives.[x]

We can return to that HIV/AIDS initiative in Brazil for a good example of what can happen when governments and businesses team up with community groups:

> Unable to convince pharmaceutical multinationals to reduce the price of antiretroviral drugs, and facing American threats of economic sanctions and "punitive tariffs," the Brazilian Ministry of Health, supported by a clause in Brazilian industrial property law that limited rights in cases of "national emergency," ordered federal research laboratories to develop the necessary technology and granted "compulsory licenses" to produce the medications locally. Eventually, surprised by the laboratories' success in synthesizing the drugs, major multinational pharmaceutical companies accepted to negotiate royalty rights. When, in 2001, the United States challenged Brazil's compulsory licensing at the WTO, Brazil responded in the United Nations Human Rights Commission, pushing for a vote on AIDS treatment as a human right, which passed with a 52-0 vote, the U.S. being the only country to abstain.[xi]

Can we deal with all the problems that now seem insurmountable? Why not? As the French philosopher claimed, "All change seems impossible. But once accomplished, it is the state you are no longer in that seems impossible." ★

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[i] *e.g.,* Henderson, H., "Should Business Tackle Society's Problems," *Harvard Business Review*, July-August 1968, and Friedman, M., "A Friedman Doctrine: The Social Responsibility of Business is to Increase its Profits.," *The New York Times Magazine*, 13 September 1970.

[ii] Ralph Hamann in personal correspondence, 3 April 2012.

[iii] An interesting article (Higgins, A., "Lessons for U.S. From a Flood-Prone Land," *New York Times*, 2012, November 14, retrieved from http://www.nytimes.com/2012/11/15/world/europe/netherlands-sets-model-of-flood-prevention.html?pagewanted=all&_r=0) appeared after the 2012 disastrous flooding in New York and New Jersey, which compared the Dutch emphasis on "disaster avoidance" with the American inclination to do "disaster relief." A Dutch authority was quoted that the latter attitudes "make it difficult to mobilize public attention and money to prevent disasters."

[iv] Kanter, J., "An Air of Frustration for Europe at Climate Talks," *The New York Times*, 19 December 2009, retrieved from http://www.nytimes.com/2009/12/21/world/europe/21scene.html?pagewanted=all.

[v] In Durban, two years later, the 200 assembled countries "agreed to begin a long-term process of negotiating a new treaty." (See Austen, I., "Canada Announces Exit from Kyoto Climate Treaty," *The New York Times,* December 12, 2011, retrieved from http://www.nytimes.com/2011/12/13/science/earth/canada-leaving-kyoto-protocol-on-climate-change.html). Then in 2012, Rio+20 was claimed to have produced "an historic agreement, because it is the start of discussion on sustainable development" (CBC Radio, 21 June 2012). Later in that year, lest there be anyone left who did not get the point, the U.N. Climate Summit was held in Qatar, which, as noted earlier, is the country with by far the worst environmental footprint on earth (*The Economist Pocket World in Figures*, 2012 Edition). An African colleague claims there is another NATO in this world: "No Action, Talk Only."

[vi] Solzhenitsyn, A., "Solzhenitsyn at Harvard: Why the West has Lost its Spirit," *The Montreal Star News and Review,* June 10, 1978, p. B1.

[vii] Mintzberg, H., and Azevedo, G., "Fostering 'Why not?' Social Initiatives–beyond business and government," *Development in Practice,* 2012, *22*(7), 895-908.

[viii] Hawken, P., *Blessed Unrest: How the Largest Movement in the World Came into Being, and Why No One Saw It Coming*, New York: Viking, 2007, pp. 3, 5.

[ix] Mintzberg and Azevedo, 2012.

[x] Marques, J. C., "Canada's CSR Policy: Insights from Recent Research," Montreal & Ottawa, Policy Research Paper: Institute for the Study of International Development (ISID) & Canadian International Development Agency (CIDA), 2012.

[xi] Mintzberg and Azevedo, 2012.

CORPORATE AND CAPITALIST TRANSITION AND TRANSFORMATION MODELS

Michael Peck, Steve Dubb, and Rob Witherell

CAPITALISM AT A CROSSROADS

Although the theme of this roundtable is "Corporations in a Great Transition," the authors would argue that corporations, especially those in the financial sector, mostly have not transitioned at all. Instead, the increasing wealth inequality and diminishing social mobility experienced by the United States reflects a capitalist system protecting shareholder-centric relics of past-century technology and socioeconomic realities rather than the empowered stakeholder movements we see and in which we participate. In this anachronistic context, shareholder value is measured more on perception and popularity than on actual long-term performance and real wealth creation. Meanwhile, share ownership for the vast majority of people means little more than legalized gambling with an account balance.

- Case in point: Apple's market capitalization recently increased by $10 billion overnight simply because of a report that the CEO had dinner with a prominent investor.

Alarmingly, the traditional capitalism concept of building value over the sustainable long term has been tossed aside and replaced with maximizing short-term profits at the great expense of anything sustainable, starting with the basic right of people to "life, liberty, and the pursuit of happiness."

- Case in point: A major pharmaceutical company recently announced it would lay off thousands of its employees and abandon a number of research and development projects to focus on higher-profit-margin drugs because their profit margin wasn't perceived to be high enough.
- Case in point: Vulture capital firms scoop up undervalued, but profitable, companies either to doctor their income statements so the acquired business can be resold at a higher price, or suck out as much cash from continuing operations as possible until the carcass of plant, property, and equipment can be sold off for a few dollars more.

In these cases, the cure is visibly worse than the disease for those left disenfranchised and behind. Jobs are eliminated and shipped to whichever place can offer the lowest poverty wages for workers, coupled with the least restrictions on safety and environmental conditions. This is because global labor arbitraging has become the predatory capitalist market mechanism instrument of choice. We have replaced "slavery based on race and color" with a new form of slavery based on lack of ownership, viable options, and means.

This current paradigm simply cannot sustain itself, nor should it, as mankind (observed by the French philosopher Jean Jacques Rousseau in the 18th century, and now even truer in the 21st century) "is born free yet everywhere finds itself in chains." If indeed we are entering into a "Great Transition," to what better quadrant should we transition? A more sustainable and just economy can be built by turning stakeholders into shareholders through multi-localization, equal share worker ownership, and community equity. Specifically, the United Steelworkers Union – Mondragon union-coop, hybrid model movement, together with emerging community wealth- building initiatives, in addition to Mondragon's "Multi-localization" concept presented to the London School of Economics in July 2012 (which motivated the awarding of the Financial Times' "Boldness in Business" award to Mondragon in 2013) showcase examples leading to the creation of globally situated but domestically centric local living economies free from traditional, zero-sum-bounded outsourcing and off-shoring practices.

THE "MADE IN AMERICA" PROBLEM

The U.S. currently ranks below Zimbabwe in income equality and social mobility attainment. What's left of America's rising working and beleaguered middle class faces a never-ending cycle of institutional and social compact betrayals by every Congressional vote against food stamps, every daily Wall Street banking scandal, and every public debate on whether to raise the minimum wage. Meanwhile, golden parachutes multiply for failed executives leading failed institutions, and preferred carried interest provisions for hedge-fund millionaires and billionaires who pay fewer federal taxes than their entry-level staff, resist all reform efforts to date. The last decade has witnessed the U.S. taxpayer bailouts of Wall Street banks, hedge funds, and giant insurance companies to the tune of one trillion dollars. The "bait-and-switch entitlement" economy, where the floor is a tenuous lifeline out of poverty and the roof is shingled with permanent crony capitalism welfare, has resulted in hugely unjustified wealth transfer payments from those with not enough to those who already have too much.

Paul Krugman writes that the top one percent, America's Oligarchic Class, believes in "redistribution from the 99 percent to people like them. This isn't libertarianism; it's a demand for special treatment. It's not Ayn Rand; it's ancien régime…the thing is, by and large, the wealthy have gotten their wish. Wall Street was bailed out, while workers and homeowners weren't. Our so-called recovery has done nothing much for ordinary workers, but incomes at the top have soared, with almost all the gains from 2009 to 2012 going to the top 1 percent, and almost a third going to the top 0.01 percent — that is, people with incomes over $10 million."

- Last year, the typical American household made $51,017, roughly the same as the typical household made a quarter of a century ago. The United States, land of equal opportunity, is not progressing as a peoples' democracy, but rather regressing into sharply divided ghettoes of over-the-top wealth versus suffocating insufficiency.

In this new abnormality, the real wages of factory-floor workers are less than what they were in the early 1970s, while the already wealthy top ten percent of Americans accumulate and aggregate more than half of the income our country collectively produces. The 99% on an actuarial basis experience lives that are shorter, food that is less nourishing, local pollution levels that are higher, increasingly rent rather than own, depend more and more on food stamps and social security, and are increasingly underrepresented in the post "Citizens United" elections process where money has been turned loose to buy votes.

THE COMMUNITY WEALTH ANTIDOTE

As resistance has grown to the widening gulf between the top one percent and the rest of the population, more Americans have looked to community wealth building as an alternative. The central idea is simple: people join together through some form of public, community, or employee-owned business to meet local needs and thereby regain a measure of local economic democracy and control. The range of efforts is vast. Community wealth building institutions include community development corporations, community development financial institutions, social enterprises, community land trusts, employee-owned enterprises, and cooperatives. All pool capital in ways that create living wage jobs, build wealth, and anchor jobs in communities.

These efforts also provide new approaches to challenging corporate power— a strategy that changes who owns, controls, and benefits from the underlying economic wealth of the system. It displaces private capital by developing community ownership of business. In other words, profits flow to workers, consumers, or the community—rather than outside investors. What we have learned as a society is that the majority of waste is almost always at the top.

MONDRAGON MULTINATIONAL, MULTI-LOCALIZATION

As a global example, the Mondragon Group ("Humanity At Work" through Cooperation, Participation, Social Responsibility, and Innovation) with 81,000 worker-owners is the world's largest worker-owned industrial cooperative, but also the top Basque region industrial group, ranked tenth in Spain with a presence in 70 countries, and winner of the 2013 *Financial Times* "Boldness in Business" award. Mondragon's more-than-fifty-seven-year-old mission is to generate wealth for society through business development and job creation under the "one worker, one vote" cooperative framework where labor is sovereign, and capital, while essential, is subordinate to sustainable job creation.

Undergirding the Mondragon models are a number of core principles:

- Worker empowerment through "one worker, one vote" share ownership based on the Mondragon principles:
    - Open Admission, Democratic Organization, Sovereignty of Labor, Instrumental and Subordinate Nature of Capital, Participation in Management, Wage Solidarity, Inter-Cooperation, Social Transformation, Universality, Education;
- Proving successful company and project examples demonstrating the Sovereignty of Labor and the Instrumental but Subordinate Nature of Capital; and
- Creating a Rising and Expanding Middle Class by Reorganizing Labor in ways that both empowers and rewards workers and produces more competitive business results.

Mondragon Corporation's group activities vary from the production of consumer and equipment goods, to the manufacture of industrial components, construction, research activities, and financial services. All of these generate more than 70,000 jobs in Spain, and exceed 85,000 jobs globally. Mondragon's international presence has become stronger with the opening and launching of new affiliated companies abroad. This internationalization process, what Mondragon calls "multi-location," primarily seeks to avoid productive displacement by lower-labor-cost command-and-control economies, which would imply the destruction of domestic jobs in the parent cooperative companies. Following its own principle that "Labor is Sovereign," Mondragon's decision to internationalize was motivated by the need to preserve local jobs, not outsource and off-shore them. As a result, Mondragon's globalization metrics show a better outcome than the zero-sum devastation practiced by shareholder-based global labor arbitrageurs.

Metrics show that Mondragon "multi-localized" cooperatives reflect higher sales, higher salaries for domestic workers, and create more domestic employment. As a result, Mondragon's internationalizing or multi-location, worker-owner ecosystem emerges as a growth engine both in absolute and relative terms, assuming also an increase in workforce productivity. As a result, globalization through a "one worker, one vote" ownership system can serve as a strategic, and efficient tool to optimize high cycle high stages, reduce costs in terms of production, and generate employment during stagnating recession periods by diversifying production to the betterment of domestic workers, not the reverse.

U.S.: Ownership Model Pathways Out of Poverty

In the U.S. alone, member-owned organizations account for three trillion dollars in assets, $500 billion in revenue, and more than one million jobs. There are more than fifteen thousand employee-owned companies throughout the United States, eleven thousand of them with employee stock ownership plans, and almost two thousand where the employees own the majority of the stock. America's New Ownership Economy connects these corporate populations with the three hundred and fifty million memberships that Americans hold in 29,000 cooperatives nationwide to provide heft and substance to the import and dimensions of building out Stakeholder America from the middle out. Companies with broad-based ownership are more stable than companies without broad-based ownership – the former produce fewer job losses than the latter, outperforming those with greater differences between executive-versus-employee compensation.

If a picture is still worth a thousand words, consider the following recent visual documentaries as proof of these principles:

- "**Shift Change: Putting Democracy to Work**" documentary showcases workers exercising a more productive sovereignty in worker-owned and cooperative businesses in the United States based on the acclaimed Mondragon, Spain model.
- "**We the Owners**" by the metrics-conscious Foundation for Enterprise Development portrays three American companies practicing open-book management, distributed employee ownership, and high involvement cultures.
- PBS's November 2010 "**Fixing the Future**" is transcribed through the eyes of host David Brancaccio visiting communities across America deploying innovative approaches to create new economy jobs and rebuild local prosperity.

Another visual portrayal of the labor changes affecting America's cities can be found in the "**5 Cities in a Neoliberal Takeover; 5 Cities in a Progressive Boom**"[i] Chicago, San Francisco, Philadelphia, Atlanta, and Baltimore are singled out as neoliberal takeovers. The series describes five other "cities on the verge of a progressive upswing" (Jackson/Mississippi, Cleveland, San Jose/CA, St. Louis and again, Chicago).

- On New Haven, CT: http://inthesetimes.com/article/15604/a_union_remade_city/
- On Richmond, CA: http://inthesetimes.com/article/15597/a_company_town_becomes_our_town1/

Worker Owner Recent Releases: September 2013

- http://www.mapagroup.net/2013/09/mondragon-and-national-cooperative-bank-partner-in-growing-domestic-worker-owned-cooperatives/
- http://www.cincinnatiunioncoop.org/2013/09/09/loan-helps-harvest-union-co-op-grow-local-sustainable-jobs-cincinnati/
- http://www.mapagroup.net/2013/08/the-reading-revolution/

Viewed together, these new economy murals represent an emerging "Made in America" self-reliant upgrade to virtuous capitalist practices, which are locally-based, purposeful, profitable, working people-centric, planet-friendly, and economically patriotic.

Non-profit social enterprise is a community wealth building strategy through which nonprofits secure resources to meet their missions in the absence of adequate government support. In San Francisco, a group known as REDF (formerly the Roberts Enterprise Development Fund) has helped boost the business activity of 50 social enterprises that have employed 6,500 people and earned revenues of more than $115 million. Three-fourths (77 percent) of social enterprise employees interviewed two years later were still working. Average wages increased by nearly one-third (31 percent) and monthly incomes almost doubled (90 percent).

In Grayland, Washington, Coastal Community Action—a nonprofit agency that operates a range of housing, food, healthcare, and employment programs—has built a 6-MW wind farm consisting of four wind turbines. The wind farm, which sells energy to the electrical grid, generates enough power to satisfy the energy needs of more than 1,500 households. The nonprofit estimates that its ownership of the $14-million wind turbine project generates $720,000 in unrestricted income each year, enabling it to increase service delivery options, lessen its local dependence on outside funding, and meet more of its community's needs.

In Seattle, Pioneer Human Services, founded in 1963, offers drug- and alcohol-free housing, employment, job training, counseling, and education to recovering alcoholics and drug addicts. It employs 1,000 people and finances 99 percent of its $70 million budget through fees for services and earnings generated in the manufacture, distribution, and sale of products. Businesses include retail cafés, sheet metal fabrication, aerospace precision machining (it's a contractor for Boeing), wholesale food distribution, and contract packaging. Not only do these enterprises build community wealth and provide independent resources that finance social services, the businesses themselves are central to Pioneer's mission of helping "people on the margins of society" stay out of prison and off the streets, enabling Pioneer to employ more than 700 men and women drawn from the ex-offender, homeless, and drug-recovery populations it serves.

Domestically, community development corporations (CDCs), formed initially in the 1960s in a crucible of urban riots and rural neglect, now are community wealth builders across the United States. CDCs can be found in virtually every major city. A Massachusetts study found that between 2003 and 2011 Massachusetts-based CDCs created or preserved over 9,000 homes and 14,000 jobs, while supporting more than 8,000 businesses and 160,000 families, generating nearly $2 billion of economic activity. A 2010 study found that, over the previous two decades, CDCs produced more than 1.6 million units of affordable housing nationwide.

Community development financial institutions (CDFIs), first given federal recognition in the 1990s, aim to build wealth in low-income communities through providing financing where conventional lenders fear to tread. Even in the face of a weak economy, assets in community investing institutions more than doubled from $25.0 billion in 2007 to $61.4 billion in 2012.

Community land trusts provide still another powerful illustration of community wealth building. Beginning in the 1960s and 1970s, pioneers like Bob Swann in western Massachusetts and Charles Sherrod in Georgia struggled against huge odds to develop modest land trusts efforts, often also involving other concerns, like respect for environmentally sound land use practices and rural community development. Today hundreds exist; in Irvine, California, the city's strategic plan calls for 5,000 units of housing to be developed using land trust strategies.

Trusts of this kind keep the ownership of land underlying housing in non-profit or public ownership. Appreciation in land values is split via a formula between the homeowner and the trust, thereby avoiding gentrification. A study of a community land trust in Burlington, Vermont — the nation's largest — also found that during its first two decades, 61.9 percent of residents who sold their land trust home after an average residency of six years were able to "step up" to traditional homeownership. Meanwhile the equity gain that the trust retains enables it to continue providing affordable housing to future generations. In a down market, community land trusts are even more important. Simply put, community land trusts keep people in their homes. A 2011 study found that at the end of 2010 land trust homeowners were 10 times less likely to be in foreclosure proceedings (0.46 percent of all units) than conventional homeowners (4.63 percent).

Employee ownership is another powerful community wealth building strategy. The National Center on Employee Ownership (NCEO) estimates that in 2009 there were 9,800 companies owned in whole or part by workers through their pension contributions through a form of ownership known as an employee stock ownership plan (ESOP). As of 2009, 10.3 million were employee-owners of companies owned in whole or part by ESOPs, with net assets of $869 billion. In other words, the average employee-owner has an ownership stake of over $84,000.

Employee ownership also has powerful economic stabilizing effects: between 2000 and 2008, while the number of manufacturing jobs fell 29 percent in the state of Ohio, employee-owned manufacturing jobs held steady, dropping only 1 percent. Nationally, in 2010, 12.1 percent of all workers—nearly one in eight—had faced a lay-off in the previous 12 months; by contrast, only 2.6 percent of workers who were employee-owners were laid off.

There are more benefits: employees at ESOP companies have, on average, 2.5 times more retirement benefits than employees at comparable companies that are not employee owned. Wages, depending on industry, are 5-12% more than jobs at comparable non-employee-owned companies. Productivity at employee-owned companies is also higher (this is why, of course, ESOP companies can provide higher wages and better benefits). On average, productivity increases by 4 to 5 percent in the year ahead when an ESOP is adopted; over a ten-year period, ESOPs have 25 percent faster job growth than comparable non-ESOP companies.

Perhaps the most visible form of a community wealth building is the cooperative. More than 130 million Americans are currently members of a co-op or credit union. Because many Americans own shares in more than one co-op or credit union, the total number of co-op memberships in the United States exceeds 350 million. Overall, a 2009 University of Wisconsin study found that nearly 30,000 cooperatives in the U.S. account for more than $3 trillion in assets, $514 billion in total annual revenue, and provide 856,000 jobs.

MOVING FORWARD:

The evidence is irrefutable. Worker-owner solutions:

- Reject oligarchic predatory capitalism in favor of stakeholder-centric, virtuous capitalism.
- Redefine self-reliant ownership economy from the bottom up and the middle out by creating equal ownership opportunities on a "one worker, one vote" basis.
- Eclectically borrow and integrate best workplace, ownership, and operational execution practices into new "Made in America" hybrid models ineluctably wedded to "place"; that is, local living economies (LLEs).

Mondragon demonstrates a global entity rooted in local enterprise that is an exemplar of productivity, innovation, profitability, and justice. The USW-Mondragon union-coop model and the Cleveland model of worker-community hybrid ownership are two prominent examples that reflect core American values of self-reliance, community solidarity, and equal opportunity ownership principles and practices as working "Bill of Rights" components of a reinvigorated American dream.

The key to success is metrics – both defined in principle and proven in practice. Only virtuous economic metrics will prove that the power of the "New Economy" lies with democratically expanded ownership models demonstrating improved, self-reinforcing, customer satisfaction through higher accountability, productivity, and efficiency. Shared common goals, principles, and practices broaden the definition of value above and beyond the "bottom line" and into the peoples' quadrant so that more live better lives through an enhanced concept of work as owners, rather than as commodities to be traded by those who would practice the 21st century version of economic slavery because they believe they are entitled and empowered to do so.

- "Demonstrating Doing Well by Doing Good." Performance metrics prove that: companies that stick to their core values are more sustainable and profitable over the long haul (*Financial Times*) and that companies with broad-based ownership are more stable than companies without broad-based ownership – the former produce fewer job losses than the latter, outperforming those with greater differences between executive compensation and the rest of employees (Foundation for Enterprise Development & the Ohio Employee Ownership Center);
- Building hybrid worker-ownership models and nationwide networks illustrate those models through companies and projects.

As part of a transformational "Great Transition," virtuous economic metrics that need to be tracked include: the number of jobs created, quality of jobs, additional social and economic impact through solidarity with surrounding communities, local living economy sustainability, individual worker ownership and participation, product and service competitiveness, cost per job created over number of jobs created, diversity and inclusivity, and the ability through union participation to offer the highest possible benefits per worker at the lowest possible cost, resulting in high impact to worker-owners but low overhead burden.★

APPENDIX: WORKER-OWNER/UNION COOP PROJECTS IN THE U.S.

To date, U.S. worker-owner, union coop projects can be found in various stages of development in ten locations: Cincinnati, Pittsburgh, Buffalo, NYC-Bronx, Denver, Las Vegas, Reading/PA, Chicago, Los Angeles-Sacramento/CA, and Columbia-Charlotte/SC. Additionally, three worker-community hybrid cooperatives have opened to date in Cleveland, OH; with development efforts under way in Amarillo, Texas; Atlanta; and metropolitan Washington, DC. Key union-coop model allied institutions to date include:

- The Cincinnati Union Cooperative Initiative (CUCI)
- The United Steelworkers Union (USW) and other participating unions (SEIU, UFCW, Operating Engineers)
- The Ohio Employee Ownership Center (OEOC)
- The National Cooperative Bank (NCB)
- The City University of New York Law School (CUNY Law) Community Economic Development Clinic
- The California Council of Churches (CCC)
- Mondragon International USA
- The MIT Cooperative Laboratory (MIT CO-LAB) and the Bronx Cooperative Development Project (BCDI)
- The University of Maryland Democracy Collaborative
- The Pittsburgh Clean & Green Laundry Working Group
- The Heartland Capital Strategies Responsible Investing (RI) Forum
- The Blue-Green Apollo Alliance
- The Business Alliance of Local Living Economies (BALLE)
- The American Sustainable Business Council (ASBC)
- The Foundation for Enterprise Development (FED)

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[i] "In These Times," 18 September 2013, http://inthesetimes.com/article/15621/city_of_the_future_who_holds_the_keys

DOES SOCIETY STILL NEED EXTERNAL CORPORATE STOCKHOLDERS AND STOCK MARKETS?

Richard A. Rosen

INTRODUCTION AND KEY QUESTIONS

Are stock markets obsolete? What is the justification for having stock markets in our current corporate capitalist world? Is it simply to reward investors of capital for the financial risks taken? Clearly, this is not the only justification, since there still could be equity shares owned by external investors in each corporation without stock markets. So there must be other justifications for having stock markets. But first, we must determine if external stockholders are obsolete, or undesirable, given the values of a Great Transition (GT) society. If external stockholders should not be part of a GT world, we certainly do not need stock markets.

Of course, even just preserving external equity ownership without stock markets still raises many important questions. For example, what about employees who invest their labor in a corporation? They also have taken risks by investing their careers in a particular company where they have learned skills that may or may not be transferable, especially if they are laid off. Are employees fully compensated for this investment by their current salaries, given such risks? In other words, do too many financial and management asymmetries result from having equity owners of a firm who are not also employees for our future GT world? Does the existence of stock markets exacerbate these asymmetries?

Further, why should investors of capital, in the form of equity shareholders, have privileged access to the control of a company? Shouldn't corporations be managed democratically by all of their employees in a GT world, not just by management staff? Or does the concept of democracy somehow not apply in the corporate world? Does having equity investors help a company meet its cash flow needs when business is slow? But why can't other mechanisms perform this function? Are stock markets necessary to allow existing stock investors to exit the company and sell it to another corporation at will and, if so, is this a good option to allow? If equity shareholders should exist in a GT world, shouldn't they have to take long-term responsibility for the actions of a corporation? And why should external stockholders be able to make the decision to sell the company by themselves, as they now can, given the many implications for employees and other stakeholders that such a decision may have?

Finally, does the stock market price generally reflect the true risks imposed on the new owners of stock if they purchase the stock at the market price from existing stockholders? How good is the stock market at valuing corporations, and does it really benefit society that equity shares are re-priced moment by moment after the initial floating of stock shares? Or does this re-pricing function merely lead to speculation with no resultant social benefits? Do stock markets help lead to greater income and wealth inequality over the long run, given who invests in stocks and how often they trade them? If this is true, we would certainly not want stock markets in a GT world.

These are some of the more obvious questions that this short paper will address, but other questions will arise during the course of our discussion about whether stock markets are really desirable during a Great Transition, if they ever were. Separately, we will ask whether or not external equity ownership is also archaic. Do these structural features of the economy cause more harm than good, on average, and is there any reason to keep them alive during a Great Transition? But the first point on which we can probably all agree is that the social justification for developing stock markets in Western Europe in the seventeenth century may no longer apply if we value the need for greater democratic decision-making in the economy, and if we want to move to a more sustainable economy, since it is not at all clear that stock markets can facilitate the solution of ecological problems. Needless to say, a discussion of these complex issues in about five pages cannot be comprehensive – it can only provide "food for thought."

FINANCIAL ISSUES

To begin, given that the stockholders of a corporation reap the net profits directly, this structural mechanism limits the financial benefits that other stakeholders in a corporation can reap. It creates several asymmetries with respect to other stakeholders, including most employees, bondholders, management, communities, government, and customers, not to speak of the "environment." Of course, corporations could always pay a high proportion of profits directly to employees, instead of to equity owners, in the form of significant bonuses, but corporations do not usually do this, especially for non-executive staff. Frequently, the stockholders claim the right to all the profits and, indeed, many economists and even some courts claim that the prime purpose of a for-profit corporation is to maximize the profits for shareholders alone. Presumably, the profits are primarily awarded to stockholders because they are deemed to be accepting most of the risks of corporate operations. However, historical experience demonstrates that other stakeholders also accept substantial amounts of financial and other risks with regard to corporate operations, especially if the corporation were to go out of business.

For example, sometimes corporate losses lead to bankruptcy, and many corporate bondholders are never even fully paid back for their investments. However, bonds are generally claimed to be a much safer financial instrument than stocks. In addition, if a corporation loses money, or makes lower profits than planned, many managers and other employees may be laid off or face reduced compensation. A corporate bankruptcy can also lead to the non-payment of local and other taxes, putting communities at financial risk, especially if tax incentives had been offered to a corporation for locating in the community in the first place. Thus, many stakeholders, not just stockholders, are exposed to various degrees of financial risk relative to the financial performance of corporations.

Thus, if we accept as a principle for the design of modern day corporations that all the major stakeholders in a corporation should benefit when a corporation performs well in some fair proportion to their contribution to the value created by the corporation for society, then, clearly, all or even most profits should not routinely go to external stockholders. In fact, one might argue that most of the profits should go to the workers who create the value in the products and services sold by the corporation and that stockholders are really no more significant in creating value than corporate bondholders or holders of loans to the corporation. This line of argument inspires doubt about whether corporations should have any equity shareholders besides their own present and, perhaps, past employees in a Great Transition.

Usually, the first reason given for the existence of corporate stock is that a corporation could not otherwise gain the necessary capital to start operations through loans and bonds alone. This might occur because the required interest rates on the loans and bonds needed to provide 100 percent of the capital requirements would be too high for the corporation to be able to prosper, given the risk of losses that the banks and bondholders would have to absorb in the absence of equity holders. This raises the question of whether corporations still do raise significant fractions of their new capital through issuing stock. The answer, as has become clear in recent years, is "sometimes." However, in some countries like the U.S. and the U.K., once corporations have existed for a while, they become net re-purchasers of stock, paying out more money to stockholders to buy back their stock than they gain from new stock issuances. This was particularly true prior to the financial crisis but, since then, some recent years have shown significant net stock issuance. Thus, while many corporations may need to issue stock to raise capital when they first begin, this need for stock seems to phase out as corporations thrive and grow. This raises further doubts about the current need for stock markets since corporations that have existed for many years generate most of the world's economic activity.

Furthermore, if the government (or public banks) were more involved in the funding process for new capital that corporations need at the beginning of their existence, then even this initial need for stockholders at the beginning of a corporation's life might not be necessary. And there may be other benefits for having government play a more active role in financing new corporations. For example, government could regulate the interest rates on loans to be much more reasonable than private capital markets typically yield; e.g., 1-2% above inflation, depending on the social purpose of the corporation. Of course, if we no longer have a need for private capital markets for owning, trading, and floating stock, we may not need private markets for raising capital via loans and bonds either, but that is another set of issues that we won't pursue here.

MANAGEMENT ISSUES

If we want to change our Great Transition economy into one where democratic values and practices spread from the political arena to the internal corporate arena, then a corporation's employees should have the most responsibility for making the key management decisions that allow a corporation to succeed or fail. Nevertheless, other stakeholders should probably also have representation on corporate boards. Why, then, does the corporation need to have external stockholders at all, especially if they no longer are allowed to control corporate boards? In such a situation, the employees will be the main financial risk-takers because they are best positioned to know how to minimize most corporate financial risks and enhance corporate operations. Presumably, most democratically controlled corporations (workers' coops, non-profits, etc.) could survive quite well by relying solely on private and/or public loans or bonds for all their capital requirements. They could adjust their cash-flow requirements when business is poor by borrowing more money, cutting back bonuses to employees, sharing salary cuts, and/or in the last resort, firing some staff. More sensibly, an employee-owned-and-controlled corporation could maintain a cash reserve fund of an appropriate size to help it weather periods of lower-than-expected sales.

SOCIAL PURPOSE – SHORT-TERM VS. LONG-TERM

Another major factor to consider when thinking about whether or not stock markets are still needed is the mix of who owns stock and what social purposes stock markets serve. Obviously, stock in most corporations is not primarily owned by the people who originally purchased the stock when it was first issued. And we know that much stock is only owned for a few minutes or hours and is bought purely for speculative purposes. Thus, it is an understatement to say that most owners of stock have little or no commitment to seeing that the corporation properly carries out any specific social purposes over the long run. They do not even have any motivation to vote their stock in ways that enhance the likelihood that the corporation will maximize its profits over the long run, since most only care about the very short run. Even among different types of equity shareholders (short- vs. long-term), there can be conflicts of interest. Why not just eliminate such conflicts by eliminating equity holders?

A related consequence of the very short-term ownership of stocks is that most owners are taking only a very short-term financial risk. The fact that the value of the stock market as a whole has tended to move up and down with a remarkable degree of synchronicity may be the biggest overall risk in owning stocks these days. This may be why many owners of stock buy market averages or, at least, a very large number of diverse stocks, to average out the risks of owning stock in any one particular corporation. This diversity of stock ownership implies that the rationale for having a stock market is merely to allow some "above average" stock traders to make money in a speculative fashion off "below average" stock traders in the market as a whole. Of course, pure luck may be as important as one's stock trading ability. Needless to say, making money from purely speculative stock trading provides little or no social benefits; rather, it usually leads to various forms of social harm, such as an increase in income inequality and wealth inequality. In addition, many actors who trade stock for speculative purposes may actually be "inside traders" who are never legally prosecuted even though they end up, in effect, stealing money from other stockholders. Overall, then, most of today's stockholders have no real commitment to, and make no real long-term contribution to, a given corporation whose stock they own. Thus, there is no ethical justification to provide these stock owners with the bulk of the profits made by such corporations.

A related aspect of stock markets is their tendency to undermine the existence of stable long-run capital. Yet stable financing is very useful for planning one's business for the long-run. Stock markets introduce an inherent degree of instability, since the price of the stock of a given corporation can vary widely from year to year, independently of the underlying economic soundness of the business over the long run. Usually, corporate executives are urged to respond to these stock price fluctuations, whether or not the corporation's own actions had caused them, in order to keep the price of the stock as high as possible. For example, layoffs are often encouraged by stock analysts even if they would undermine the ability of the corporation to maximize profits in the longer term. This is an example of the well-known "short-termism" that stock markets foster. Often, making productive investments in the long run even requires taking losses in the short run in order to reap much larger future gains, especially in very capital-intensive industries where investment-related costs are "front loaded."

SOCIAL JUSTICE ISSUES

Another important consideration from a macroeconomic and political perspective is what rates of profits would be fair to pay external stockholders even if they were committed to corporations in the long run and helped to create more value in each corporation than government loans would alone. One important, albeit often ignored, consideration in such discussions is whether there should be any relatively fixed relationship between the average long-run growth of labor productivity and average long-run returns paid to stockholders. Over recent decades, the average growth rate of labor productivity in OECD countries has been about 1.5% per year. Other things being equal, then, if workers were paid salaries and wages that increased at about 1.5% per year above the rate of inflation, they would just maintain their share of the national income over time in relation to the returns to capital and the incomes received by the owners of capital. But if employees did not get raises at this average rate, then more and more of national income would go to owners of capital. The fact that employees have not, on average, increased their earnings at the rate of increase in labor productivity in most OECD countries over the last 30 years, especially in the U.S., has accounted for the significant rise of income and wealth inequality. This trend certainly should not be allowed to persist in a Great Transition society. Thus, if external stockholders of corporations were to continue to exist in such a society, the average rate of profit paid to external stockholders will have to be carefully regulated by considerations of social justice.

The fact that large corporations are now almost all limited liability entities, and the fact that stockholders usually feel justified in demanding that a maximum share of the profits should be paid to themselves and not to other stakeholders, both lead to an inherent unfairness. Namely, stockholders are trying to play a fairly asymmetrical game with society. No matter how high a corporation's profits are, stockholders feel justified in claiming them all. Yet, if there are such severe financial losses that a corporation goes bankrupt, stockholders feel justified in not personally having to pay off the bad debts of the corporation that they were responsible for running up, often for the purpose of paying themselves dividends just before the corporation goes bankrupt.

In recent years, this asymmetry has become so severe that even if a corporation had systemically and purposely underfunded its employee pension plan in order to maximize profits for stockholders, the stockholders are not liable for repaying the pension plan in the case of bankruptcy. Some analysts have rightly claimed that action on the part of corporations to underfund their pension accounts amounts to theft by stockholders (and highly paid managers) from employees. Thus, this kind of a "heads-I-win, tails-you-lose" set of legal relationships clearly needs re-thinking. It represents another asymmetry due to having external stockholders. Again, one solution is to eliminate external stockholders altogether in favor of worker-owned corporations. Worker owners would be much more unlikely to choose consciously to underfund their own pension plans, even considering possible inter-generational conflicts. But worker-owned corporations also would involve some asymmetrical risks vis-à-vis those who provided them with capital, since they also would likely be limited liability corporations.

The existence of pricing bubbles in stock markets is also, by now, well known to exist, but what are the implications of such bubbles on the issue of whether or not we need stock markets in the first place? One implication is that bubbles can sometimes cause stockholders who want to sell out to be dramatically overpaid relative to the underlying business risks that they took in buying the stock in the first place. This seems inherently unfair, since such stockholders benefit financially despite making no real contribution to the corporation itself. Furthermore, when stock price bubbles burst, a wide range of social harms can occur. A Great Transition society should eliminate all such results.

SUMMARY

The above provides, then, an initial summary of some of the key issues that need to be addressed in much greater depth and detail as we consider whether or not stock markets are still socially justified in a Great Transition society, and whether corporations need, and should be allowed to have, external equity investors at all. My view is that, on balance, the world would be better off without stock markets and external equity shareholders, with the vast majority of corporations being worker-owned and controlled on a democratic basis. Corporations may still need equity investors, but they should be present or past employees, and other stakeholders, who actually have a real investment in the corporation's success. With proper external regulatory processes in place (which are not dealt with above), this approach also could lead to much more democratic control over the investment of capital, to build a more sustainable and socially just economy. ★

GREAT COMPANIES HAVE GREAT PURPOSES

Raj Sisodia

Perfection of means and confusion of ends seems to characterize our age.

Albert Einstein

THE INTELLECTUAL HIJACKING OF CAPITALISM

The early intellectual case for capitalism was built almost exclusively on the theory that people create businesses in order to pursue only their personal self-interest. Economists, social critics and business leaders largely disregarded the second and often more powerful aspect of human nature: the desire and need to care for others and for ideals and causes that transcend one's self-interest. The founding father of modern capitalism, Adam Smith, recognized both of these powerful human motivations. His book, *The Theory of Moral Sentiments,* preceded his far better known book, *An Inquiry into the Nature and Causes of the Wealth of Nations,* by 17 years. In it, he outlined an ethics based on our ability to empathize with others and to care about their opinions. Through our ability to empathize, we are able to understand how other people are feeling and imagine what it would be like to be in their shoes.

Adam Smith was far ahead of his time, both in his economic philosophy, and in his ethical system. If the intellectuals of the 19th century had embraced and synthesized both his economic and ethical philosophies, we may have avoided the extraordinary strife and suffering that occurred in the 19th and 20th centuries over competing political and economic ideologies.

Unfortunately, that did not happen. Smith's views on ethics were largely ignored, and capitalism developed in a stunted way, missing the more human half of its identity. This created fertile conditions for ethical challenges to capitalism, which were not long in coming. Karl Marx attacked capitalism as inherently exploitative of workers. Critics used Charles Darwin's idea of the "survival of the fittest" to describe the market as something inherently ruthless and brutal. Just as nature was seen as "red in tooth and claw," business was seen as harsh, dehumanized, and uncaring. These descriptions ignored the higher-level human aspirations and capabilities that free enterprise capitalism taps into so well.

THE MYTH OF PROFIT MAXIMIZATION

The persistent "myth" claiming that the ultimate purpose of business is always to maximize profits for the investors originated with the Industrial Revolution's earliest economists. How did this myth originate? It appears to have come from two sources: a narrow view of human nature, and an inadequate explanation of the causes of business success.

Looking to create elegant mathematical models of economic systems, academic economists adopted the narrow view that we humans are maximizers of economic self-interest to the exclusion of all else. By logical extension, businesses too were deemed to be pure profit maximizers. These simplistic assumptions enabled economists to create models that seemed to explain some of the workings of the larger economy. Elegance trumped reality in such models, with simplifying assumptions about human and organizational behavior that produced results detached from the real world of actual individual and institutional behavior.

The classical economists also formulated their theories by observing and describing the behavior of various entrepreneurs and their businesses. They observed correctly that successful businesses were always profitable and that, indeed, the entrepreneurs who organized and operated these successful businesses always sought to make profits. Businesses that were not profitable did not survive for long in a competitive marketplace, because profits are essential to the long-term survival and flourishing of all businesses. Without profits, entrepreneurs are not able to invest the necessary capital to replace their depreciating buildings and equipment and can't make the necessary investments to adapt to the always evolving and competitive marketplace. The need for profit is universal for all businesses in a healthy market economy.

Unfortunately, early economists went far beyond merely describing how entrepreneurs always seek profits as an important goal, to concluding that maximizing profits is the only important goal of business. They actually took it one step further; the economists soon concluded that maximizing profits is the *only* goal they should seek. The classical economists went from *describing* the behavior they observed among successful entrepreneurs to *prescribing* that behavior as the correct behavior that all entrepreneurs should engage in at all times. How did they come to this conclusion?

In the United States we often take for granted the availability of large pools of capital to invest in new businesses, because our economy has been producing them for more than 250 years. However, at the beginning of the Industrial Revolution, capital was quite scarce, while labor was abundant. The ability of successful enterprises to accumulate profits, and the redirection of accumulated capital by the entrepreneurs and investors into new promising opportunities, was largely unprecedented in history. Therefore it isn't too surprising that classical economists became enamored with the importance of profits, because profits had historically been rare and they were essential to the continued improvement and progress of society.

To many people, including most corporate directors, the principle of shareholder value maximization became the *de facto* definition of "fiduciary responsibility." In fact, Lynn Stout and others have debunked the myth that shareholder value is built into modern corporate law. Fiduciary responsibility is often misrepresented for embracing this same concept.[i] Nonetheless, most economists and eventually business scholars integrated these ideas into their textbooks, shaping the thinking of virtually every student who pursued higher education thereafter. The enemies of capitalism used them as powerful points of attack on the ethical basis of capitalism, to great effect.

PROFIT AS MEANS VS. AN END

But the reality is that most entrepreneurs who start successful businesses don't do so in order to maximize profits. Of course, they want to make money, but that is not what drives most. They are inspired by their passions and dreams to do something in the world that they believe needs doing. The heroic story of free enterprise capitalism is one of entrepreneurs using their passion as fuel to create extraordinary value for customers, team members, suppliers, society, and investors.

This is a very different narrative than the one that sees history through the lens of profit maximization. Bill Gates did not start Microsoft with the goal of becoming the richest man in the world. He saw the potential of computers to transform lives, and was on fire to create software that would make them so useful that eventually all of us would own one. He followed his passion and, in the process, became the richest man in the world—but that was the outcome, not his goal or purpose.

The myth that profit maximization is the sole purpose of business has done enormous damage to the reputation of capitalism and the legitimacy of business in society. We need to recapture the narrative and restore it to its true essence: that the purpose of business is to improve our lives and to create value for stakeholders. Every business decides how it will specifically contribute to that end.

DISCOVERING PURPOSE

Having a clear and compelling purpose fosters great creativity among employees. Ultimately, the purpose and values of a company determine how much creative human energy is generated in the organization. The greatest differentiator across companies is ultimately how much creative human energy they can release and then harness; everything else is a commodity. Companies that have a deeper, richer purpose are able to tap into sources of creative energy that other companies simply don't have access to.

There is no "right" purpose for every business. Each business must strive to fulfill the purpose that is within its own collective DNA. There are as many potential purposes as there are organizations. Just as certain humans set purposes for themselves to achieve a fulfilling life, we believe that the best companies in the world have great purposes too.[ii]

Great purposes are more transcendent than others. They are highly energizing and inspiring for all stakeholders, not just to their leaders and employees. While great purposes have unique expressions at each business, we find it helpful to group them into a set of well-known and timeless categories. Business is no different than any other human endeavor. The same enduring ideals that animate art, science, education, and politics can and should also animate business. These were articulated by Plato as the transcendental ideals of the Good, the True, and the Beautiful. Humankind has been seeking to create, discover, and express these transcendent ideals for thousands of years. To these, we have added "The Heroic" to complete a framework of higher ideals that we find most great businesses seek to express.

THE GOOD

We define this purpose as "businesses or enterprises that are motivated by service and care of others." Authentic service is based on genuine empathy with the needs and desires of others. Genuine empathy leads to the development, growth, and expression of love, care, and compassion. Great businesses dedicated to The Good raise the emotional intelligence of their organizations so they nourish and encourage love, care, and compassion towards customers, team members, and the larger community.

While any category of business can be motivated by the deeper purpose of service to others, we find that service businesses that rely heavily on the goodwill of their customers are most likely to devote themselves wholeheartedly to this purpose. An excellent example is The Container Store, a US retail chain that sells a broad range of products and services to help customers better organize every aspect of their lives. The company uses the tagline "Get Organized, Be Happy." Other companies that exemplify this great purpose include Amazon.com, Nordstrom, Jet Blue, Wegmans, Starbucks, Marico, and Trader Joe's.

> **EXAMPLES OF HIGHER PURPOSE**
>
> Disney: To use our imaginations to bring happiness to millions.
>
> Johnson & Johnson: To alleviate pain and suffering.
>
> Southwest Airlines: To give people the freedom to fly.
>
> Pivot Leadership: Better Leaders = Better World.
>
> REI: Reconnecting people with nature.
>
> Google: Organizing the world's information and making it easily accessible and useful.
>
> BMW: To enable people to experience the joy of driving.
>
> Novo Nordisk: Defeat Diabetes.

THE TRUE

The second great transcendent purpose that animates great businesses is "The True," which we define as the "excitement of discovery and the pursuit of knowledge." Think about how exciting it is to discover and learn something that no one has ever known before, something that advances humankind's collective knowledge. This improves the quality of human life, lowers the cost of our lifestyles, and enables us to live healthier and more fulfilling lives.

This great purpose is at the core of some of the most creative and dynamic companies in the world today. Google is an excellent example of a company with this kind of purpose, expressed early on in the company's history as "to organize the world's information and make it universally accessible and useful." This purpose statement is clear and simple yet profound. It makes clear why the company exists and how it creates value. It also provides company leaders with a great deal of strategic direction. Google started out simply indexing the Web and allowing for fast searches of textual information. Over time, it expanded into books, audio information, video content, still images, personal picture collections, maps (recently adding indoor maps for shopping malls and airports), the skies, the ocean floor, medical records, your own desktop, company websites and so on, all the while remaining true to that original statement of purpose. Google makes virtually the entire knowledge of the world available to us whenever and wherever we want it. Intel, Genentech, Amgen and Medtronic are all examples of great companies motivated by the "excitement of discovery and the pursuit of knowledge."

THE BEAUTIFUL

The third great transcendent purpose that we find at the core of great businesses is "The Beautiful," which can best be expressed in business through "the search for beauty, excellence, and the quest for perfection." While we more commonly experience "The Beautiful" through the work of creative artists, it can also be expressed through certain companies that have adopted this powerful purpose to pursue perfection in their chosen endeavor.

A great example is Apple, a company with a single-minded focus on creating "insanely great technology" that has made our lives better. The company creates products that customers love and have a strong relationship with. The beauty in these products is not just the value they create for us – it's also in the simplicity and fun of the interactions we have with them. Companies like Bose, Four Seasons, and BMW are other businesses that are motivated by excellence to create beautiful things and approach perfection.

THE HEROIC

The fourth type of purpose is "The Heroic," describing businesses that aspire to change the world for the better. Of course, companies that pursue the Good, the True, and the Beautiful also change the world for the better. But Heroic companies often manifest unusual moral courage and specific intent in doing so, which is why we see this as a distinct category of purpose.

A heroic company takes risks, perseveres in the face of enormous odds, and maintains and deepens its human qualities while doing so, all in service of changing the world for the better in some tangible way. One of the best examples of a truly heroic enterprise is the Grameen Bank in Bangladesh, begun by Muhammad Yunus. His heroic vision was to help end poverty and transform the world. Yunus likes to say, *"Someday poverty will be something that's only seen in museums*." Yunus' heroic dedication to ending poverty in Bangladesh and throughout the world resulted in his winning the 2006 Nobel Peace Prize.

THE HERO'S JOURNEY

Many conscious businesses start out with a definition of purpose that aligns with one of Plato's ideas: the Good, the True, and the Beautiful. But in some ways, the Heroic purpose is the ultimate destination for all conscious businesses.

As a company starts to fulfill its purpose more completely along the lines of the Good, the True, and the Beautiful, and becomes a successful business, it finds that its impact on the world becomes larger and ultimately transformational. Southwest Airlines sought to deliver great service at affordable prices; in the process, it transformed the airline business and helped bring its benefits within the reach of hundreds of millions of people on the planet. Google pursued its truth-seeking purpose of organizing the world's information and making it easily accessible with such single-minded devotion and achieved such enormous success that it has transformed and enriched our daily lives. Apple has created products as *objets d'art* that are beautiful to behold but also incredibly useful and functional. In doing so, it has had a transformational impact on the lives of hundreds of millions of people and on not one but six industries: computing, music, telephony, retail, publishing, and entertainment.

As a company grows and evolves, its purpose too deepens and expands. All worthy purposes eventually take on a heroic character, because at some point, vision combines with scale to have a transformational effect on the world. In many cases, the purpose too becomes explicitly heroic, far grander in its scope and ambition than anything that could have been imagined at the company's birth. As a company grows, the scope of its purpose should grow along with it; otherwise, the company risks losing its air of excitement and its capacity to innovate.

A great purpose is like a North Star or a magnet, something that guides and aligns everybody's energies in the same direction. In companies that do not have a purpose, stakeholders start to view each other as competitors trying to get their share of the pie. In companies that have a shared purpose, all the stakeholders understand why the business exists and what their role is in helping it achieve that purpose. In the case of Whole Foods Market, it is about helping people improve the quality and the longevity of their lives through better education, nutrition, and healthier lifestyles. If everybody believes in that, it then becomes the driver and a source of great energy and inspiration. ★

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[i] I would like to thank Allen White for making this point.
[ii] In *Firms of Endearment: How World Class Companies Profit from Passion and Purpose* (Wharton School Publishing, 2007), the authors found that a set of purpose-driven stakeholder-oriented companies outperformed the market by a 9-to-1 ratio over 10 years.

FOUR MID-TERM PLANKS FOR LONG-TERM TRANSFORMATION

Pavan Sukhdev and Kevin Kromash

It is now clear that "business-as-usual" in our economic system is not going to work for very much longer. Various planetary boundaries have now been crossed, or are about to be crossed, thus dramatically increasing risks for ecological collapses.[i] Atmospheric concentration of carbon dioxide has risen unabated, having crossed 400 parts per million (ppm) this year, with no signs of slowing.[ii] Habitat destruction continues far too rapidly; between 12% and 52% of species are threatened with extinction.[iii] And more than 1.2 billion people live in areas of physical water scarcity.[iv] The economic orthodoxy that caused these problems remains entrenched; witness a recent article in *The Economist*, asserting that *more* growth is the answer to conserving biodiversity.[v]

Any particular widespread environmental failure – such as freshwater shortage, collapse in natural pollinator numbers, or increased ocean acidification – will have dramatic impacts on economic stability, social welfare, and human health. Ecological limits are intimately connected to broader societal failure. Destruction of natural capital has profound implications for the preservation and enhancement of social and human capital. TEEB explains and quantifies the significance of ecosystem services to poor rural households, and describes their economic invisibility, their subsequent neglect in policy making, and their resultant degradation as the loss of the "GDP of the poor." It is clear that human activities have reached a point at which they threaten their own continued survival.

Thus, we must act fast to bring our economic activities in line with the limits of the planet. There is a strong case to be made that we have perhaps a decade to retune our use of ecological and environmental resources, in order to set us on the right course for surviving and thriving in the world of 2050 or 2100.

To do so, we need a new set of solutions. We need solutions that set up the preconditions for the private sector to be an agent of change in building a green economy. We need solutions that go beyond political partisanship. We need solutions that are systemic in nature, rather than aimed at particular situations. We need solutions that allow many types of actors – corporations, governments, NGOs, trade associations, citizens – to play a part in building an *economy of permanence*.[vi]

With that in mind, the vision of Corporation 2020 is built upon a suite of four solutions that will help set the stage for longer-term, deep transformation of business through repurposing and redesigning enterprise. These are by no means comprehensive and they do not supplant essential, longer-term shifts in areas such as corporate purpose, design, and ownership.[vii] There are certainly other ideas that should be used in complement to these suggestions.[viii] However, our theory of change hinges on actions that can be implemented within this decade, which we believe is all we have to change global resource use and economic direction, avoid crossing planetary boundaries, and change the course of business to build a sustainable world.

#1. RESOURCE TAXATION.

Replacing taxes on income and corporate profits with taxes on resource extraction and pollution.

There is perhaps no policy tool more controversial than taxation. In the United States, it is near blasphemy to speak of raising tax rates. But even President George H. W. Bush – who was elected on the line of "Read my lips: no new taxes" – found it necessary to raise taxes in order to reduce the federal deficit.[ix]

But the debate on taxation in many countries has veered too much towards the *rate* of taxation, rather than the *method* of taxation. We must remember that taxes are not just a way for the government to gain revenue; they also serve as an incentive to guide behavior. When we tax income and corporate profits, we are effectively disincentivizing hard work and entrepreneurship. Thus, we should place taxes to the greatest extent possible on activities that we would like to see *less* of. Therein lies the main logic of taxes on extraction of natural resources and on pollution.

There is a secondary but very persuasive logic that is now coming to the fore, and that is fiscal funding. The world's economies are not yet out of the woods, post 2008 crisis. It is difficult to raise revenue receipts through *corporation taxes* when companies' margins and bottom lines are still under pressure from a demand recession, and difficult to raise *income tax* receipts when people are not earning more, as unemployment remains high, and new jobs are both scarce and unlikely to be more highly paid than jobs lost. This problem is referred to as "erosion of the tax base," and is a strong reason for governments to consider resource taxes and land taxes as an alternative tax base.

Resource taxes do exist to some extent in many countries, in the form of royalties on mining and other extractive industries. However, very few countries have raised these taxes to high enough levels. One country that has done so is Norway, through its "Oil for Development" program, which places taxes levied on oil extraction in the North Sea into a fund that supports the country's ageing population, as well as economic development throughout the world. The sheer size of this program is extraordinary. The sovereign wealth fund is now worth over US$700 billion.[x] It has amassed this amount of wealth through a steep 79% taxation rate on oil extraction. When asked if such a high rate would result in oil companies pulling out, Erik Solheim, former Minister of Environment and International Development, said, "All of our companies at some point claim that they cannot do it, that they will withdraw from the North Sea. As far as I know, not a single one has withdrawn."[xi]

Implementing resource taxation certainly requires careful construction, but countries like Norway show that it is possible. Policymakers must also take care that new taxes do not overburden segments of society that are least able to bear them, such as lower-income individuals. Nonetheless, it is clear that a new taxation system that rests more heavily on disincentivizing environmentally harmful activities is certain to be an improvement over the current system, which heavily subsidizes harmful activities. The key point about resource taxation is that it does not need to involve *raising* tax burdens overall. Rather, such taxes can *replace* existing income and profit taxes. Resource taxation should thus appeal to people from all political persuasions.

#2. ACCOUNTABLE ADVERTISING.

Creating guidelines and rules for advertisements, product packaging, and marketing.

In discussing sustainability, analysts often focus on making *production* or *consumption* more sustainable. Both are important angles to consider, but there is a third element of the equation, the link between the two: marketing and advertising.

Advertising has become so pervasive that one hardly notices how common it has become. Advertising continues to expand in traditional media – television, radio, billboards, and print – and it has also entered new territory: phones, email, schools, and social media. But perhaps more concerning than the *quantity* of advertising is its *quality* – its reliance on antiquated methods of communicating with consumers.

Much of the strategy of advertising executives is built on using consumers' emotional tendencies against them. Values and emotions such as love, honesty, friendship, and fear are all appropriated to sell products that truthfully have little to do with those sentiments. It could be said that the basic recipe of an advertisement is to turn a latent desire into an explicit "want," and to then turn that "want" into a "need." The amorphous understanding that sports cars are cool (shaped by social forces and past advertisements) is converted into an explicit desire for a convertible, which is then turned into a *need* to buy a BMW – often when one can't afford it!

So, what is to be done to improve advertising? Some contend that more objective material from media outlets, advocacy organizations, and government sources should be available to complement the information consumers receive from companies. These outlets have certainly played an important role in various markets, but by and large consumers are likely going to continue to receive more information from companies than from any other groups. Thus, the *nature* of corporate advertising must be addressed.

There is certainly a role for regulating advertising using federal and state rules. The global advertising sector today largely exists in an under-regulated space. In some countries (such as the United States), regulators like the Federal Trade Commission have issued many specific rules on advertisements. But these are largely piecemeal regulations designed to address specific types of transgressions, and are easily bypassed by advertisers.

What we really need is a comprehensive set of guidelines that are endorsed by leading advertisers (i.e., corporations), consumer associations, and advertising associations, and which can be supported by national governments. Independent non-commercial entities have emerged to address the challenge of making corporate performance measurement holistic and true (e.g., GRI, SASB, TEEB for Business Coalition, etc.), so it is not inconceivable that such entities may also emerge in the space of making marketing and advertising accountable. A number of groups have issued lists of guidelines, but none is comprehensive enough to be useful for national advertising regulators. Such a set of guidelines would have to include issues such as: misleading claims; distinction between program content and ads; language of environmental claims; data collection and security; and many others.

Advertising has largely been untouched by green business groups, and that must change. Focusing on production and consumption issues in isolation is fruitless without understanding and addressing the connection between the two. We need a new system of accountable marketing and advertising, which will allow the voices of good companies and their more responsible products to be heard above the din.

#3. DISCLOSING EXTERNALITIES.
Measuring, monetizing, and disclosing social and environmental impacts of the private sector.

Traditional economics courses tend to nearly completely gloss over the idea of business "externalities," or external impacts of business operations on non-consenting third-parties. However, it is becoming increasingly clear that we need to talk about externalities, because they are huge.

A report released earlier this year by the TEEB for Business Coalition, "Natural Capital at Risk: The Top 100 Externalities of Business," estimated unpriced natural capital costs at US$7.3 *trillion*, or 13% of global economic output. At both a company level and a country level, many activities are producing near zero (or even negative) true economic returns to society. For example, cattle ranching and farming in South America is estimated to have unpriced public costs nearly nineteen times as large as the revenue of the sector.[xii]

Most large corporations have recognized by now that many members of various stakeholder groups care about social and environmental impacts. Thus, the proliferation of annual sustainability reports and corporate social responsibility reports. But anyone who has spent any time reading these reports quickly notices that they are very good at displaying nice photos and well-produced infographics, but are significantly lacking in consistency of data and quantification of impacts. Many companies change the format of the report every year, and do not include the same indicators across years. It is difficult to determine the level of genuine progress over time within a company, and even more so *across* companies.

What we really need is a *single* reporting system for social and environmental impacts, which is simple, clean, and standardized. Just as the standardized format of financial reports has allowed entire industries of analysts and secondary information providers to present this data to investors, the world is desperately in need of a robust reporting system for extra-financial corporate performance, so that consumers and investors can make choices using all the criteria they desire.

Organizations such as the Global Reporting Initiative (GRI), the World Business Council for Sustainable Development (WBCSD), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB) are working on related projects in this space. The frameworks created by GRI and WBCSD build off the idea that corporate executives should decide what indicators are material to their business, rather than constructing a standardized set of indicators to which all members of an industry would have to report on. The IIRC's "Integrated Reporting" framework is focused much more on risks and opportunities to the company itself, rather than the much larger issue of its impacts on broader society.[xiii] Leading by example is the "B Team," and supporting such leaders towards greater "followership" is the TEEB for Business Coalition (TEEB4BC). These are all necessary initiatives in the collective direction of a robust and comprehensive system of reporting that looks beyond shareholder performance to *stakeholder* performance. All are laudable, but the challenge ahead is harmonization across initiatives such that inconsistencies are reduced rather than multiplied owing to these disparate efforts.

It is clear that extra-financial reporting, conceived in the 1990s, is in its infancy. The field is changing quickly, and largely for the better. But it will need to become much more organized and comprehensive, and gain mainstream adoption, for it to realize the great potential it has to transform the incentives and behaviors of corporations.

#4. LIMITING LEVERAGE.

Ensuring financial stability through limits to excessive leverage.

The term "sustainability" has come to be associated largely with environmental initiatives. However, environmental efforts are of little use if the financial stability of corporations and the broader economy is not secured. Moral hazard – which arises when companies take significant risk or make dangerous moves, due to the sense of security of a likely government bailout in the event of a catastrophe – is a type of externality. Private companies reap the gains, while externalizing the risks on taxpayers.

The contribution of unhealthy leverage practices to the 2008 financial crisis should be inspiration enough that something must be done. Moreover, leverage played a significant role in the previous three financial crises as well: the Asian financial crisis of 1997, the US savings and loans crisis of the 1980s and 1990s, and the Latin American debt crisis of the late 1970s and early 1980s.[xiv]

Excess financial leverage would not be nearly as large a problem in the US, were it not for the concept of "too-big-to-fail." Whether it is advisable or not, the federal government has deemed many companies too large and interconnected to be allowed to go bankrupt. Too-big-to-fail companies are not just banks; they have also included auto manufacturers, airlines, insurance companies, and others. Even Long Term Capital Management (LTCM), a hedge fund, was considered "too big to fail." The result of bailouts is that moral hazard continues unabated, as companies lever up far beyond what is financially prudent.

There is no shortage of tools for regulators to use to solve this problem. For financial institutions, *reserve requirements* are simple but effective at limiting leverage and reducing risk of liquidity problems. *Capital adequacy ratios* work similarly by requiring financial firms to hold a minimum amount of capital as a fraction of their risk assets, to provide a cushion against unexpected losses (since expected losses are provisioned anyhow).

For nonfinancial corporations, *consortium banking* is a very effective way to prevent corporations from exploiting information gaps at banks in order to lever up too heavily. In such a system, banks form lending groups that share information about corporate borrowers. *Eliminating the tax deductibility of interest* would also make excess leverage less appealing to companies. Finally, as in many other areas, simple *disclosure improvements* for items such as off-balance-sheet obligations and derivative transactions would go a long way towards solving the problem of excess leverage.[xv]

MOVING TOWARDS A RESPONSIBLE ECONOMY

The solutions presented here are a few of a long list that has been proposed to help put our economic system on track. They are certainly not comprehensive, but they do have a special appeal for a number of reasons. First, they address systemic issues, rather than isolated problems. Second, they work within the market system, and utilize the efforts of multiple stakeholder groups. Finally, these are specifically chosen for their potential to cause a "snowball effect," in which other solutions could build off them, and to be implementable within a short timeframe of a decade – which is probably all we have before we begin breaching planetary boundaries.

If we change the rules of the game, a new type of corporation will naturally evolve, just as new species evolve in response to a changing natural environment. This is what we call "Corporation 2020," and the world is waiting for it. ★

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[ii] National Aeronautics and Space Administration, "NASA scientists react to 400 ppm carbon milestone," *Global Climate Change*, http://climate.nasa.gov/400ppmquotes/.
[iii] Note that these figures are for well-studied higher taxa species. Mace, G., H. Masundire, J. Baillie, "Biodiversity," in *Ecosystems and Human Wellbeing: Current State and Trends*, ed. H. Hassan, R. Scholes, and N. J. Ash, Washington, DC: Island Press, 2005.
[iv] Molden, D., et al, "Trends in water and agricultural development," *Water for food, water for life: a comprehensive assessment of water management in agriculture*, ed. D. Molden, London; Colombo: Earthscan and International Water Management Institute, 2007.
[v] Duncan, Emma, "All Creatures Great and Small," *The Economist*, 14 September 2013, http://www.economist.com/news/special-report/21585091-biodiversity-once-preoccupation-scientists-and-greens-has-become-mainstream?fsrc=scn/tw_ec/all_creatures_great_and_small.
[vi] "Economy of Permanence", a concept described by J.C. Kumarappa, first introduced in 1945 in his eponymous booklet – a collaborative economy without predation or parasitic behavior, always adding value to the firm and to society simultaneously. "Corporation 2020" translates this as a model for corporations which predisposes them to *positive* externalities.
[vii] www.corporation2020.org
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[xiii] For more information, see the organizations' websites, respectively: www.sasb.org and www.theiirc.org.
[xiv] For more information, see Chapter 7 of: Sukhdev, Pavan, *Corporation 2020: Transforming Business for Tomorrow's World*, Washington, DC: Island Press, 2012.
[xv] These solutions are expanded in Chapter 7 of Sukhdev 2012.

TRANSFORMING THE TRANSNATIONAL

Allen L. White

For those immersed in the language and advocacy of social enterprise, it is worth remembering the powerful presence of transnational corporations (TNCs) in generating the world's financial wealth. In 2010, the world's largest 1,000 companies collectively represented $32 trillion in revenue and $28 trillion in market capitalization, 49 percent of the global total.[i] In revenue terms, such figures mean that the *average* of these 1,000 companies surpasses the GNP of half the world's nations. Among the very largest – Exxon Mobil and Wal-Mart, for example – revenues approach $0.5 trillion, a figure exceeding the GDP of all but 23 of the nations on the planet. And the 21st century promises more of the same, in all likelihood at even larger scale, with higher concentration ratios in many sectors owing to cross-national mergers, and wider geographic distribution, as TNCs headquartered in emerging economies such as Brazil, Russia, and South Korea take their place among the world's largest enterprises.

TNCs are, by nature, social enterprises not because they are mission-driven but because their footprint is so vast and multi-dimensional. The millions of workers they directly employ, the complexity and reach of their thousands of suppliers, and their market and political clout – these realities combine to profoundly shape the well-being of the people and ecosystems upon which they depend. Incremental progress among these mega-entities certainly contributes to societal betterment. But deeper, more fundamental change promises to unlock their latent potential to create social value. Doing so should be neither incidental nor optional. Instead, it must be expected and deliberate if TNCs are to address 21st century perils and needs at a level commensurate with their capacity to do so.

How might such change occur? By shifting attention from symptoms to root causes that impair the prospects for elevating social value creation; namely, transformation of three critical attributes of large enterprises: purpose, ownership, and governance.[ii]

PURPOSE

If the CEO of a large, publicly-traded company is queried as to the purpose of her organization, the response likely will be along the following lines: "…delivering quality and affordable products or services to its customers while maximizing shareholder value." Many will embellish this core purpose with a carefully crafted tag-line, e.g., "fuel tomorrow's world," "connect the world through technology," or "mobility for the future."

Such definitions are all well and good if they are authentic. But authenticity inevitably confronts market realities that drive myopic attention to short-term performance at the expense of long-term value creation. While concepts such as "blended value" and "shared value" offer a socially purposeful alternative to the hegemony of shareholder value, such concepts in practice remain limited to a few companies that repeatedly appear as exemplars of socially purposeful. And even in those cases, shareholder interests typically remain paramount.[iii] When management confronts choice points that affect long-term social value creation – intellectual capital in the form of healthy R&D budgets, human capital in the form of employee training programs, and natural capital in the form of protecting endangered ecosystems – the pressure of quarterly earnings expectations and share price enhancement create an unforgiving milieu for management decision-making.

Historically, shareholder primacy was not always as universal as today. In the U.S., before the introduction of joint stock ownership and limited liability, early corporations were chartered for a time-limited basis and for a specific public purpose; e.g., construction of a road or canal. Today, charter laws in countries with civil-law traditions such as Germany, France, Brazil, and Chile include statements of purpose that are silent on shareholder value, preferring instead an empirical framework that references what a company actually does; e.g., production of pharmaceuticals for institutional and retail markets. In Brazil, the duty of corporate directors, a proxy for corporate purpose, is to support the best interests of the corporation, including the "requirements of the public at large" and the "social role of the corporation."

Even in the U.S., where for more than a quarter-century the primacy of shareholder value has been deeply entrenched in corporate culture, alternative views are emerging.[iv] For some, legal and regulatory reforms of the fiduciary duty of asset owners and asset managers to encourage long-term stewardship, including a more expansive definition that enables or requires consideration of extra-financial factors in investment decisions, will never suffice. For these critics, the concept of shareholder primacy is an ideology, not a legal requirement nor a necessity for the conduct of the modern corporation. Indeed, the supremacy of it is challenged by some, not only because it distracts from pursuing a higher purpose, but also because it is legally unsupportable. Further, the concept is at odds with how the modern corporation actually functions in terms of assembling, blending, and optimizing the deployment of all its assets – employees, managers, suppliers, consumers, communities – into a productive platform we call the corporation. Recent alternatives to the standard U.S. corporate charter in the form of "b-corporations" and "flexible-purpose corporations" offer a glimpse of a future in which multiple stakeholders begin to achieve parity with shareholders as the claimants to the value corporations create.[v]

OWNERSHIP

Ownership exercises a profound influence on corporate behavior. My colleague, Marjorie Kelly, argues that ownership is, in fact, the dominant force in shaping the character of corporations and the extent to which they serve broader societal purposes beyond those shareholders.[vi] A shift to "generative" forms of ownership from the dominant "extractive" model of profit maximization at the expense of human, natural, and other forms of capital is perquisite to building just and sustainable societies. Indeed, many of the contemporary economic and social malaises such as income inequality, excess debt, and high unemployment are traceable to the dominant shareholder-centric model of large enterprise.

Structures such as employee ownership, cooperatives, credit unions, mutual insurance companies, and foundation-controlled enterprises demonstrated a level of resilience during the recent financial crisis superior to those of profit-maximizing, publicly-traded firms. Contrary to popular perception, alternative ownership structures are not limited to small and medium-size enterprises. Multi-billion-dollar enterprises such as Tata (India), Novo Nordisk (Denmark), John Lewis Partnership (U.K.), IKEA (Sweden), Natura (Brazil), and Mondragon (Spain) are illustrative of large enterprises with deeply ingrained social missions rooted in the legacy of their founders and family owners. Such ownership forms are not curiosities. They in fact exist by the thousands worldwide, spanning a wide range of sizes and sectors.[vii] In the U.S., some 11,000 employee-owned companies operate, as do cooperative enterprises with 130 million members. In Europe, over 300,000 cooperative businesses employ five million people. In Italy, the Lombardia region counts over 11,500 cooperatives and 170,000 employees.

Ownership structures both affect and are affected by purpose of the enterprise. A virtuous circle tends to create and reinforce a corporate culture shaped by a higher purpose distinct from maximizing profits, growth, and shareholder value. Such corporate cultures view profit as a means rather than an end, and capital as a partner rather than a master. Insulated from the pressures of endless growth expectations and maximizing quarterly returns, alternative ownership structures drive decision-making toward employee and community well-being in contrast to the financial-accumulation focus of most large, publicly-traded companies.

From a global perspective, the future of the publicly-traded ownership model is far from certain. Since 1997, the U.S. has witnessed a 50-percent reduction in publicly-listed companies.[viii] The *Wall Street Journal* recently reported that, since 2000, individual investors have withdrawn nearly $1 trillion more in stock funds than they have placed in the market. Further, the largest endowment funds have reduced their assets in U.S. stock by 50 percent in the last decade. As U.S. stock markets have evolved from platforms for investing to vehicles for (mostly high-frequency) trading, the notion of shareholder as steward has steadily eroded, leading many long-term investors to turn toward alternative instruments such as private equity funds. Generalizing from the superior performance of mutual vs. publicly-traded insurance companies in recent years on virtually every financial indicator, one mainstream observer recently called for a large-scale "mutualization" of both financial and non-financial companies as an antidote to the "rip-out-your-eyeball" culture of Wall Street.[ix]

Muting the primacy of shareholder interests through alternative ownership structures is not a panacea. But when combined with a purpose that commits the organization to a social mission – e.g., "defeat diabetes" in the case of Novo Nordisk, or "inform the electorate" in the case of *The New York Times* – two key preconditions that shape organizational behavior synergize to create the possibilities of transformational change.

GOVERNANCE

Governance is the structure of decision-making and accountability in an organization. Board membership, committee structure, and separation of the CEO from board chair both mirror and reinforce the organization's self-consciousness as a force for social good.

If one accepts our core premise that all TNCs are social enterprises, it follows that governance structures ought to reflect this reality by integrating a broad base of stakeholders into their governance structures.

In fact, the record of such integration is widely variable across advanced nations, with the U.S. boards among the most laggard.[x] Neither legal requirements nor prevailing practice lead to employee representation on U.S. corporate boards, much less representation of other stakeholders; e.g., communities, the environment, future generations. Further, board committee structures mirror the shareholder-centric interpretation of fiduciary duty, with audit, finance, and compensation committees typically the dominant units. Nor are U.S. managers required to take into account the social impacts of their decisions on communities, workers, and other stakeholders, though enlightened companies typically elect to do so. In contrast, European nations have a longstanding commitment to employee membership on boards. Germany's law that half of senior board members be elected employees is the exemplar, while at least 15 other European nations practice some form of this "co-determination" principle. The notion that companies are social phenomena with associated obligations to advance the public interest is ingrained in the European view of business-society relations.

A host of proposals seek to address the disjuncture between board composition and the enterprise's social footprint. Some would revise corporate law (federal or state, depending on the country's legal regime) to explicitly require inclusion of various stakeholder interests. Others would create "sustainability" committees to advise and monitor management's actions that impinge upon the social footprint. Still others would redefine, through revision of charter law or regulation, "duty of loyalty" and "duty of care" to take into account stakeholder interests. All such solutions are variants on the same basic approach – reshape boards to tame shareholder interests while embedding a diversity of stakeholder voices in board membership, deliberations, and decision-making.

POSSIBILITIES AND PROBABILITIES

Imagine a scenario that unfolds in the next few years in which public disenchantment with the conduct of large, public companies reaches an inflection point. An improbable coalition of enlightened business leaders, progressive institutional investors, and respected global NGOs comes to life and attracts the interest of a dozen governments from both developed and emerging countries. The coalition declares its readiness to embrace a next generation of capitalism built on the shared recognition that the primacy of shareholder value and outsized influence of finance capital must be brought to a close if global human and ecological imperatives are to be forcefully confronted.

The coalition puts forward a new vision and specific actions intended to seed the foundation for transformational change in the three critical elements of large enterprises outlined above – purpose, ownership, and governance. A prototype enterprise emerges, along with recommended legal and policy infrastructure that will usher in a new model of large enterprise.

With regard to purpose, the coalition advocates a new governance entity aligned with the global reach of large enterprises, a Global Corporate Charter Organization (GCC0).[xi] The GCCO is analogous to the World Trade Organization, the World Intellectual Property Organization, the International Labour Organization, and other international entities established to set global rules for various aspects of business activities. GCCO's supranational mission is to charter global companies of a prescribed scale in a way that recognizes their intrinsic social character. Components of a typical charter include: a mission statement that explicitly integrates social purpose; a commitment to adhere to generally accepted global norms and accords; commitment to a governance structure that empowers the enterprise's key stakeholders; commitment to an ownership structure that aligns with the organization's mission; and an accountability system that incorporates all of the prior elements. The GCCO on a periodic basis undertakes a review of each charter it approves, to assure the enterprise's conformity with its content and commitments.

Regarding ownership, the coalition advocates concrete steps toward making public companies truly public. The contours of the approach envision a gradual transition of major blocks of shares to an enterprise-specific public trust. The duty of the trust is to oversee the company's strategy, policies, and practices such that they optimize its long-term contribution to enrichment of human, natural, social, and other forms of capital. For all publicly-listed companies, the transition begins with a yearly transfer of a fraction – say 1-2 percent – of a company's shares to the trust. Over time, the trust accumulates an increasingly influential voice in company affairs as shares grow, thereby infusing social mission into the enterprise through mechanisms such as election of directors, approval of capital budget that aligns with sustainable products and services, and sustainability-based incentives in executive compensation packages. The accretion of shares by the trust is no less than 33 percent and no more than 50 percent of voting shares (actual totals vary according to country/state), allowing the remaining shares to be publicly traded. The voice of the trust is strong, but not dominant, encouraging negotiation and balancing of traditional versus public benefit oriented shareholders. However, the block of stock is partitioned such that long-term investors enjoy privileged voting rights and dividend distribution, thereby further embedding long-term horizons into the company's genetics.

Finally, new governance norms emerge in this new generation of large enterprises. Representatives of the company trust hold no less than 25 percent of director positions. Another quarter is assigned to stakeholder representatives through a joint nomination process conducted by the trust, management, and major external investors. The remaining 50 percent of directors are selected through the usual nomination process and subject to approval by all company shareholders. As this system evolves, the company witnesses a gradual shift from the typical club-like, CEO-driven board culture to a more pluralistic governance model reflecting the organization's social mission. Such a model over the long term would lead to fairer, more anticipatory, more creative decision-making that positions the enterprise to compete more effectively amidst the complexities and perils of the 21st century global economy.

RISK-TAKERS AND FORERUNNERS

This portrait of the next-generation, large enterprise may be desirable from the standpoint of social value creation. But is it plausible? While spotty, the evidence of an incipient receptivity to transformational change is discernible among disparate business leaders and initiatives.

Paul Polman, CEO of $60 billion Unilever, the consumer products giant, is one example. Two billion people use Unilever products every day. Polman observes that: "I believe that we are undervalued because too many of the capital discussions are made by people – with due respect – who do not truly understand the forces right now in value creation." The company has abolished quarterly profit statements, ceased quarterly earnings guidance, and adjusted its compensation systems to incent long-term thinking. "Any myopic view of driving shareholder wealth at the expense of anything else is actually not resulting in companies built to last…" Polman observes, famously advising short-term investors to "…look at other alternatives that might be better suited to your needs." At the same time, he recognizes that Unilever alone, regardless of how bold its thinking and action, cannot galvanize large-scale change without a coalition of like-minded leaders and enterprises.

Richard Branson, CEO of Virgin Group, is another advocate of deep change in the contemporary business model of large companies. Together with Jochen Zeitz, Director at Kering (and former CEO of Puma), he recently launched The B Team to "…transform the future of business." Its strategy is to match business leaders with specific issues that The B Team identifies as crucial for creating a new form of capitalism. Such issues include true cost accounting, elimination of distortionary subsidies, applying the principles of biomimicry to business operations, and shifting from GNP to well-being as the foundation for measuring prosperity. The B Team thus far does not address the purpose, ownership, and governance pillars outlined above, nor does it yet have the focus and metrics of Unilever's programs. But Branson's ability to rally the business around a new model of large enterprise should not be underestimated.

Pavan Sukhdev is another voice calling for deep change in the contemporary model of business. After three decades working in financial markets, Sukhdev became Head of UNEP's "Green Economy Initiative" and Study Leader for "TEEB" – The Economics of Ecosystems and Biodiversity, hosted by UNEP. In *Corporation 2020*,[xii] Sukhdev argues that the future cannot afford to maintain the obsolete "Corporation 1920" model that values size and market dominance above all else, and sustains itself through lobbying, advertising, leveraging, and externalizing social costs. A new model suitable to the planet's ecological limits and social imperatives should take the form of a "capital factory," whereby enrichment of human, social, natural capital becomes the goal of production; and finance capital, properly structured and regulated, becomes the means to those ends. Instead of size and limitless growth, this "new capitalism" would stress complexity and quality of output in ways that align with ecological and human needs.

Finally, Corporation 20/20,[xiii] an initiative that predates all of the above, is a network of some 300 participants from business, investors, NGOs, and academia focused on repurposing and redesigning corporations. Its six "Principles of Corporate Design," which provide the foundation for rethinking the nature of corporations, declare as their first tenet: "The purpose of the corporation is to harness private interests to serve the public interest." The message unequivocally comports with the core thesis of this analysis – that all enterprise is social enterprise regardless of whether it self-identifies as such. Corporation 20/20 adopts a systems approach in assessing the nature of business, viewing issues such as climate change, human rights, and lobbying as symptoms of deeper, causal conditions that induce company behavior and shape company culture. Principal among these causes are purpose, ownership, and governance. Absent changes in these, either de jure or de facto, the prospects of a transformational change will be severely diminished.

MIRAGE OR MOVEMENT?

Are the above individuals and initiatives indicative of an embryonic movement toward broadening the notion of social enterprise? Or, will these examples remain isolated beacons amidst the entrenched forces that sustain the status quo of shareholder value as purpose, public equities as the dominant (though weakening) ownership norm of large enterprise, and governance structures that privilege investor interests above all others?

Major social movements of the last few decades present a complex mix of experiences from which generalizations are difficult to extract. The modern environmental movement, women's movement, and civil rights movement that arose in the post-WWII period have distinct anatomies that make commonalties elusive and transferability to corporate transformation risky. Nonetheless, as public trust in business is at low ebb in the wake of the financial crisis, high unemployment, and acute income inequalities, business-society relations are approaching a crossroads. Large enterprises have the option of stepping forward and leading the necessary transformation, or facing the likelihood that a rising activism among citizens, NGOs, progressive investors, and exemplary enterprises will dictate the terms of a new social contract.

A decade ago, the business-investor-NGO coalition described above would have been unthinkable. But this is 2013, and a new sense of urgency, though still diffuse, is stirring. The social footprint of large enterprise is becoming more evident than ever. Increasing numbers understand that their lives and livelihood are inextricably linked to the activities of large enterprises.

Historically, a broad-based, shared sense of grievance, propitious timing, and galvanizing leadership have catalyzed social movements. The makings of such pre-conditions are discernible. A minute fraction of large enterprises are responding. How will the remaining 99.9 percent respond? ★

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APPENDIX: BIOGRAPHIES

Steve Dubb

Research Director, The Democracy Collaborative

Steve Dubb is Research Director of The Democracy Collaborative at the University of Maryland and has worked for the Collaborative since 2004.

Previously, he was Executive Director of the North American Students of Cooperation (NASCO), a U.S. and Canadian nonprofit association that provides education and technical assistance to university and community-based housing and retail cooperatives. For much of the past two decades, he has worked in various positions in the cooperative or civil society sector. Dubb received his Masters and Ph.D. in Political Science from the University of California, San Diego. He received his Bachelor's in Economics (with honors) and Spanish from the University of California, Berkeley.

He is the principal author of *Linking Colleges to Communities: Engaging the University for Community Development* (2007) and *Building Wealth: The New Asset-Based Approach to Solving Social and Economic Problems*, published by The Aspen Institute in 2005. In 2010 Steve co-authored a number of reports, including *The Road Half Traveled: University Engagement at a Crossroads* (with Rita Axelroth Hodges) and *Growing a Green Economy for All: From Green Jobs to Green Ownership* (with Deborah Warren). He also conducted (with Ted Howard) the initial strategic planning that led to the development of the Evergreen Cooperative initiative in Cleveland, Ohio, and currently assists efforts to adapt that model to meet the needs of other cities.

John Elkington

Founding Partner and Executive Chairman, Volans

John Elkington is Founding Partner & Executive Chairman of Volans (2008 to date), Co-Founder of SustainAbility (1987-2008, where he remains a non-executive member of the Board) and of Environmental Data Services (ENDS, 1978), and a world authority on corporate responsibility and sustainable development. In 2004, *BusinessWeek* described him as “a dean of the corporate responsibility movement for three decades.” His first involvement in the field: raising money for the newly formed World Wildlife Fund (WWF) in 1961, aged 11.

In 2008, *The Evening Standard* named John among the ‘1000 Most Influential People’ in London, describing him as “a true green business guru,” and as “an evangelist for corporate social and environmental responsibility long before it was fashionable.”

In 2009, a CSR International survey of the Top 100 CSR leaders placed John fourth: after Al Gore, Barack Obama and the late Anita Roddick of the Body Shop, and alongside Muhammad Yunus of the Grameen Bank.

In May 2013, John was inducted into the Sustainability Hall of Fame by The International Society of Sustainability Professionals (ISSP) in honor of his extraordinary contribution to the field through research, publication, teaching and innovation.

Volans, launched in April 2008, is a consultancy and think-tank driving market-based solutions to the future’s greatest challenge, and as of March 2013 is a certified B Corp. Volans applies thought leadership, catalyses strategic conversations among global and delivers programs and projects that support organizational and culture change.

John is the author or co-author of 18 books, most recently *The Zeronauts: Breaking the Sustainability*

Barrier, published May 2012. The book spotlights a new breed of innovators, entrepreneurs, investors and policy-makers who are pushing towards zero in such areas as population growth, pandemic risk, poverty, pollution and the proliferation of weapons of mass destruction. It explores ways in which corporations, citizens, cities and countries can tackle the civilizational challenges at the intersections between demography, consumerist lifestyles, natural resource availability and climate change.

John is a Visiting Professor at the Doughty Centre for Corporate Responsibility at the Cranfield School of Management, at Imperial College London and at University College London.

Manuel Escudero

Director General, Deusto Business School

Manuel Escudero has been Director General of Deusto Business School, University of Deusto, since February of 2010. Professor Escudero is also Special Advisor to the UN Global Compact. (UNGC). Manuel Escudero is the founding father of the Principles for Responsible Management Education, an initiative backed by the United Nations with over 330 participating business schools worldwide.

He held the post of PRME Secretary from its creation in 2007 to June 2010. Dr. Escudero worked as Executive Director of the Research Centre for the Global Compact at the Levin Institute of the State University of New York (SUNY).Escudero was professor of macroeconomics at IE Business School in Madrid, Spain. During his career at IE (Instituto de Empresa), he was Dean of Research and Dean of the Faculty, Associate Director General of the IE and founder and Associate Director of the IE Colegio de Dirección (management college).

He is the author of 8 books, more than 100 opinion articles, 5 public reports and 20 working documents. He has taken part as Director/ Keynote Speaker at 90 conferences in 25 countries. His most recent books include Homo Globalis: en Busca del Buen Gobierno (2005) and Pleno Empleo (1998). He holds a Licentiate degree from the ESTE in Spain and a Master of Sciences and PhD from the London School of Economics.

John Fullerton

Founder and President, Capital Institute

John Fullerton is the *Founder* and President of Capital Institute, a collaborative working to transform finance to serve a more just, regenerative, and sustainable economic system. Through the work of Capital Institute, regular public speaking engagements, and university lectures, John has become a recognized thought leader in the New Economy space generally, and the financial system transformation challenge in particular.

John is also a recognized "impact investment" practitioner as the Principal of Level 3 Capital Advisors, LLC. Level 3's direct investments are primarily focused on sustainable, regenerative land use, food, and water issues. Through both Capital Institute and Level 3, John brings a unique theory and practice approach to financial system transformation.

Previously, John was a Managing Director of JPMorgan where he worked for over 18 years. At JPMorgan, John managed various capital markets and derivatives business around the globe, then shifted focus to private investments and was subsequently the Chief Investment Officer of LabMorgan through the merger with Chase Manhattan before retiring from the bank in 2001.

Following JPMorgan, and after experiencing 9-11 first hand, John spent years embarked on more entrepreneurial ventures as an impact investor while engaging in deep study of our multiple interconnected systemic crises that led to the founding of Capital Institute, officially launched in 2010.

John was a member of the Long Term Capital Oversight Committee that managed the $3.6 Billion rescue of the distressed hedge fund in 1998. He is a *Co-Founder* and Director of Grasslands, LLC, a holistic ranch management company in partnership with the Savory Institute, and a Director of New Day Farms, Inc., New Economics Institute, and Savory Institute.org. He is also an Advisor to Armonia, LLC, a Belgian family office focused on impact investments, RSF Social Finance, and to Richard Branson's Business Leader's initiative, The B Team. He sits on the steering committee for the New America Foundation's Smart Strategy initiative as well.

John writes the bi-weekly Future of Finance blog, which is widely syndicated on platforms such as The Guardian and The Huffington Post. He has appeared on Frontline, and been interviewed by Bloomberg, The Laura Flanders Show, The Real News Network, INET, and WOR radio.

John received a BA in Economics from the University of Michigan, and an MBA from the Stern School of Business at NYU.

Rebecca Henderson

John and Natty McArthur University Professor, Harvard Business School

Rebecca Henderson is the John and Natty McArthur University Professor at Harvard University, where she has a joint appointment at the Harvard Business School in the General Management and Strategy units and is the Co-Director of the Business and Environment Initiative. Professor Henderson is also a research fellow at the National Bureau of Economic Research. Her work explores how organizations respond to large-scale technological shifts, most recently in regard to energy and the environment. She teaches Innovation in Business, Energy, and Environment and Reimagining Capitalism in the MBA Program.

From 1998 to 2009, Professor Henderson was the Eastman Kodak Professor of Management at the Sloan School of the Massachusetts Institute of Technology, where she ran the strategy group and taught courses in strategy, technology strategy, and sustainability. She received an undergraduate degree in mechanical engineering from MIT and a doctorate in business economics from Harvard.

Professor Henderson sits on the boards of Amgen and of IDEXX Laboratories, and she has worked with both members of the Fortune 100 and small, technology-orientated start-ups. She was retained by the U.S. Department of Justice in connection with the remedies phase of the Microsoft trial, and in 2001 she was named Teacher of the Year at the Sloan School. Her work has been published in a range of scholarly journals including *Administrative Science Quarterly*, *The Quarterly Journal of Economics*, *Strategic Management Journal*, *Management Science*, *Research Policy*, *The RAND Journal of Economics*, and *Organization Science*.

Her most recent publication is *Accelerating Energy Innovation: Insights from Multiple Sectors,* edited jointly with Richard Newell and published by the University of Chicago Press for National Bureau of Economic Research.

Jason Jay

Lecturer, MIT Sloan School of Management

Jason Jay is a Lecturer at the MIT Sloan School of Management and Director of the MIT Sloan Initiative for Sustainable Business and Society.

He teaches courses on sustainable business as part of the Sustainability Certificate, and gets students and alumni engaged in hands-on projects with leading companies and organizations. Jason is an active leader of sustainability initiatives across MIT. Through the MIT Sustainable Societies Research Group, he brings together scholars from across the Institute to examine the invention, implementation, and transformation required for a sustainable society. He has helped improve the energy and environmental footprint of the MIT campus by founding the MIT Generator and the Greening MIT community engagement campaign, and serving as founding member of the Campus Energy "Walk the Talk" Task Force.

Jason's own research focuses on cross-sectoral collaboration and hybrid organizations aiming to promote more sustainable business practices. His dissertation focused on "Paradoxes of Hybrid Organizing" that arise when organizations combine institutional logics from business, government, and civil society organizations. This work builds on in-depth ethnographic research on cross-sectoral partnerships such as the Cambridge Energy Alliance. As a research partner of the Sustainable Food Lab, Dr. Jay has also written case studies of company-NGO collaboration to foster sustainable and equitable food value chains.

Prior to MIT, Jason ran an Internet startup, traveled around the world, taught kindergarten in a progressive preschool, and worked as a consultant with Dialogos International, where he consulted on leadership development and organizational change for major international corporations and NGO's including BP, the World Bank, and the Instituto Libertad y Democracia.

Jason holds an AB in psychology, an MEd from Harvard University, and a PhD in organization studies from the MIT Sloan School of Management.

Kevin Kromash

Consultant, Tellus Institute

Kevin Kromash is currently serving as the coordinator of the "Corporations in a Great Transition" roundtable event at Tellus Insitute and MIT Sloan School.

He served as Program Manager of the Corporation 2020 program, based at the Yale University School of Forestry and Environmental Studies, from early 2011 to mid 2013. As part of this position, he oversaw research, communications, and operations, and managed relationships with members of the business community, media, and external collaborators.

Prior to the Corporation 2020 program, he served as a Teaching Fellow for the Yale graduate-level course, "From Science to Solutions, How Should We Manage Freshwater?" He also co-designed and implemented an independent research project on mercury pollution in the island of Tobago in the Caribbean.

Kevin holds a Master's in Environmental Management and an M.A. in International & Development Economics from Yale University.

L. Hunter Lovins

President and Founder, Natural Capitalism Solutions

L. Hunter Lovins is President and founder of the Natural Capitalism Solutions (NCS). NCS educates senior decision-makers in business, government and civil society to restore and enhance the natural and human capital while increasing prosperity and quality of life. In partnership with leading thinkers and Implementers, NCS creates innovative, practical tools and strategies to enable companies, communities, and countries to become more sustainable.

Trained as a sociologist and lawyer (JD), Hunter is also currently a professor of sustainable business management at Bainbridge Graduate Institute, Bard College, and Denver University; and the chief insurgent of the madrone project.

Lovins has consulted for scores of industries and governments worldwide. She has consulted with large and small companies including the International Finance Corporation, Royal Dutch Shell, Interface, Clif Bar, and Wal-Mart. Governmental clients include the Pentagon, U.S. Environmental Protection Agency, Department of Energy and other agencies, numerous cities, and the governments of Jamaica, Australia, and the U.S. She has also served an advisor to the Energy Minister of the Government of Afghanistan.

Recipient of such honors as the Right Livelihood Award, Lindbergh Award and Leadership in Business, she was named Time Magazine 2000 Hero of the Planet and in 2009 Newsweek dubbed her a "Green Business Icon." She has co-authored nine books and hundreds of papers, including the 1999 book, Natural Capitalism, 2006 e-book Climate Protection Manual for Cities, and the 2009 Transforming Industry in Asia. She has served on the boards of governments, non- and for profit companies.

Hunter's areas of expertise include Natural Capitalism, sustainable development, globalization, energy and resource policy, economic development, climate change, land management, and fire rescue and emergency medicine. She developed the Economic Renewal Project and helped write many of its manuals on sustainable community economic development. She was a founding Professor of Business at Presidio Graduate School, one of the first accredited programs offering an MBA in Sustainable Management and is currently Chief Insurgent of the madrone project (more information coming).

Henry Mintzberg

John Cleghorn Professor of Management Studies, McGill University

I have been an academic most of my working life, after receiving my undergraduate degree in Mechanical Engineering from McGill University in Montreal, and working in Operational Research at the Canadian National Railways. I am now Cleghorn Professor of Management Studies at McGill, where I now have been since graduating with a doctorate from MIT in 1968, with stints at other universities in the U.S., France, and England. For the past 30 years, have been half time at McGill. I am also a founding partner of CoachingOurselves.com.

I devote myself largely to writing and research, over the years especially about managerial work, strategy formation, and forms of organizing. In 2004, I published *Managers not MBAs*, in 2007 *Tracking Strategies*, and in 2009 *Managing.* I am completing a monograph entitled *Managing the Myths of Health Care*, and my attention is now devoted to a series of electronic pamphlets under the title *Rebalancing Society…radical renewal beyond left, right, and center*.

I have worked for much of the past twenty years, in collaboration with colleagues from Canada, England, France, India, and Japan, and now China and Brazil, on developing new approaches to management education and development. The International Masters in Practicing Management (IMPM.org) has been running since 1996; the Advanced Leadership Program (ALP-IMPM.com) since 2006; the International Masters for Health Leadership (IMHL.info) since 2006. All are rather novel ways to help managers learn from their own experience. I teach in these programs and otherwise supervise doctoral students, restricting my public speeches mostly to conveying a particular message or visit a place I wish to see. In 2007, four of us developed *CoachingOurselves.com,* which brings all these efforts to natural fruition, enabling practicing managers to develop themselves in small groups. See *Developing Naturally*.

In recent years, I have shifted toward more general writing, includes some newspaper commentaries (listed under commentaries) and I like to write short stories, two of which are on this website: I hope to publish a collection of them one day. Some years ago, I published *Why I Hate Flying*, a spoof on the foibles of flying (now in paperback as *The Flying Circus*). I also collect "beaver sculptures".

In all, I have published about 160 articles (listed on this website with annotations and, where available, web links, under Articles), and 16 books. Honors have included election as an Officer of the Order of Canada and of l'Ordre national du Quebec, selection as Distinguished Scholar for the year 2000 by the Academy of

Management, and two McKinsey prizes for articles in the Harvard Business Review. Honorary degrees and other awards are listed as well in my C.V. You can also see a piece I wrote on my career up to the early 1990s (1993 autobiography). If you are interested in how I research, conceive, and write, please see "Developing Theory about the Development of Theory".

I spend my public life dealing with organizations and my private life escaping from them. This I do on a bicycle, up mountains, and in the Laurentian wilderness of Canada atop cross-country skis or in a canoe. I like to do this with my daughters Susie and Lisa and my grandchildren Laura, Tomas, and Maya.

Michael Peck

North American delegate, Mondragon Cooperative Corporation

Michael Peck founded MAPA Group in 1994 as a creative and transactional "doing well by doing good" business development company mostly in the green economy sector. Michael has served for well over a decade as the North American delegate for Mondragon, the world's largest industrial worker cooperative.

In October 2009, Michael participated in forming the Mondragon and United Steelworkers Union (USW) partnership to create union-coop hybrids with the goal of revamping U.S. manufacturing through worker empowerment and ownership; the USW, Mondragon, and the Ohio Employee Ownership Center (OEOC) announced the union-coop template model on March 26th, 2012.

Starting in the early 1990s, MAPA Group outlined a recognized triangular business development approach to the "Iberoamerican Marketplace," involving best practice, cross-border opportunities between the Iberian Peninsula (mostly Spain), Latin America, and the United States. Michael was instrumental in bringing the leading Spanish wind turbine manufacturer, Gamesa, to Pennsylvania in 2004 which in its heyday invested over $220 million in two factories, created 1000 in-state green jobs and was named a "model U.S. green economy company."

MAPA is part of teams seeking to develop further stakeholder economy models such as the Turning Point Solar project that will place the nation's largest PV project on reclaimed mine lands in rural Appalachia and create a new local solar manufacturing factory in NW Ohio. In July 2011, Isofoton SA, Spain's leading photovoltaic manufacturer, appointed Michael as Chairman of Isofoton North America.

Previously, Michael served as a naval officer on active duty from 1976 – 83, winning the Commander, U.S. Naval Forces Europe Leadership award in 1981, and completed his service as a Commander in the Naval Reserves in 1996. Michael also served as a defense and economic development assistant to the U.S. Senate Minority Leader (1984-86), as executive assistant to the President of the BDM Corporation (1986-88), and as a senior vice president for corporate business development at SAIC (1988-94), the nation's largest employee-owned applied R&D company at the time with its own internal stock market. Michael is a civic and environmental equity activist focused on expanding hybrid forms of employee ownership and local stakeholder rights.

Michael participates on the Apollo Alliance Advisory Board as well as the BlueGreen Alliance Corporate Advisory Council, Penn State University's Sustainability Institute board, the American Sustainability Business Council (ASBC) board, and is a policy advisor to the Heartland Capital Strategies Responsible Investing non-profit.

Michael is the author of the "One worker, one vote" blog.

Richard Rosen

Senior Fellow, Tellus Institute

Richard Rosen is Executive Vice-President and a founding member of Tellus Institute. He has thirty years of experience in energy sector resource planning and management as well as environmental compliance.

In the 1990s, Dr. Rosen's research focused on the economics and feasibility of restructuring and deregulating the electricity utility industry. In a variety of regulatory and public planning settings, he has presented detailed analyses of alternative supply options, renewable resources, environmental impacts, energy efficiency technologies, and integrated power plans in both market and regulated contexts.

Dr. Rosen's current research focus is on alternative economic visions and models for the global economy over the long-term, including new approaches to the allocation of capital, regulation of investments, and management of the production unit. In the context of envisioning a Great Transition futures scenario, Dr. Rosen has overseen the generation of several highly detailed global development scenarios for the years 2005 - 2100 based on Tellus' Polestar model. He is also active on economic issues through the Great Transition Initiative and Corporation 20/20 networks of Tellus.

Raj Sisodia

F. W. Olin Distinguished Professor of Global Business, Babson College

A leading figure in the Conscious Capitalism movement, Raj Sisodia is the FW Olin Distinguished Professor of Global Business and Whole Foods Market Research Scholar in Conscious Capitalism at Babson College in Wellesley, MA. He is also Co-Founder and Co-Chairman of Conscious Capitalism Inc. (www.ConsciousCapitalism.org).

He was previously Trustee Professor of Marketing, the Founding Director of the Center for Marketing Technology and Chairman on the Marketing Department at Bentley University. Earlier, he was Director of the Executive MBA program and Associate Professor of Marketing at George Mason University, and as Assistant Professor at Boston University. An electrical engineer from BITS, Pilani (India), Dr. Sisodia has an MBA in Marketing from the Jamnalal Bajaj Institute of Management Studies in Bombay, and a Ph. D. in Marketing & Business Policy from Columbia University, where he was the Booz Allen Hamilton Fellow.

Raj is the co-author (with John Mackey, co-founder and co-CEO of Whole Foods Market) of *Conscious Capitalism: Liberating the Heroic Spirit of Business* (Harvard Business Review Publishing, 2013), which was ranked #2 on the Wall Street Journal Business Bestseller list. In 2003, he was cited as one of "50 Leading Marketing Thinkers" and named to the "Guru Gallery" by the Chartered Institute of Marketing. Bentley University honored him with the Award for Excellence in Scholarship in 2007 and the Innovation in Teaching Award in 2008. He was named one of "Ten Outstanding Trailblazers of 2010" by Good Business International, and one of the "Top 100 Thought Leaders in Trustworthy Business Behavior" by Trust Across America for 2010 and 2011.

Raj has also published over one hundred articles in publications such as *Harvard Business Review*, *Journal of Marketing, Journal of Public Policy & Marketing, Journal of Business Strategy, Journal of Business Research, Journal of the Academy of Marketing Science, Marketing Management* and *California Management Review*. His work has been featured in the W*all Street Journal, The New York Times, Fortune, Financial Times, The Washington Post, The Economic Times,* and numerous other publications, radio shows and television networks such as CNN, CBC and Fox. His research has been cited in nearly one hundred professional books and numerous academic articles.

Dr. Sisodia was cofounder and Chairman of adAlive, Inc. (a VC-financed company in Waltham, MA) from March 2000 to June 2002. He has consulted with organizations and companies in the information technology, telecommunications, electric utility, real estate, healthcare and financial services industries in the United States, Australia, Brazil, Canada, the Netherlands, Germany, Chile, Dubai, Singapore, South Africa, South Korea, Hong Kong, India and England. His numerous consulting and executive education clients have included AT&T, Walmart, Kraft, McDonalds, DP DHL, KPMG, LG, POSCO, Nokia, Ericsson, Siemens, Sprint, Volvo, Bellcore, Kotak Bank, Rabobank, IBM, Price Waterhouse, Perot Systems, Ernst & Young, Southern California Edison and Grupo Pão de Açúcar (Brazil).

Dr. Sisodia is on the Board of Trustees of Conscious Capitalism Inc., and also serves on the Board of Directors of Mastek Ltd., a publicly traded provider of enterprise technology solutions for business transformation. A frequent and popular keynote speaker, he has made over 500 presentations at leading universities, corporations, non-profits and other organizations around the world. His personal website is www.rajsisodia.com.

Pavan Sukhdev

Visiting Fellow, Yale University
Founder, GIST Advisory and Corporation 2020

Pavan Sukhdev is Founder-CEO of GIST Advisory, a specialist consulting firm which helps governments and corporations discover, measure, value, and manage their impacts on natural and human capital. He is a Visiting Fellow at Yale University, where he was awarded the 2011 McCluskey Fellowship, and wrote his book "Corporation 2020".

Earlier, he was Special Adviser and Head of UNEP's Green Economy Initiative, and lead author of their report "Towards a Green Economy". He was also Study Leader for the G8+5 commissioned project on The Economics of Ecosystems and Biodiversity ("TEEB"). Pavan was appointed to lead TEEB by the EU Commission and Germany, and delivered its "Interim Report" whilst still working full time at Deutsche Bank in 2008. A career banker, Pavan then took a sabbatical from the Bank to lead TEEB & the Green Economy Initiative for UNEP. While at Deutsche Bank, Pavan had founded (2006) and then chaired Global Markets Centre – Mumbai, a leading-edge front-office offshoring company.

Pavan was a speaker at the World Economic Forum meetings at Davos in 2010 and 2011. He serves on the boards of Conservation International and the Stockholm Resilience Centre.

Allen White

Senior Fellow, Tellus Institute
Co-Founder and Director, Corporation 20/20

Allen L. White is Vice President and Senior Fellow at Tellus Institute, Boston, USA, and directs the institute's Program on Corporate Redesign. In 1997, he co-founded the Global Reporting Initiative (www.globalreporting.org) and served as its Acting CEO until 2002. In 2004, he co-founded and is now Director of *Corporation 2020* (www.corporation2020.org), an initiative focused on designing future corporations to create and sustain social mission.

For his expertise in sustainability strategy, policy, tools, and standards, he has been engaged by: multilateral organizations such as the World Bank and Inter-American Development Bank; foundations such as the Pew Charitable Trusts and the UN Foundation; numerous Fortune 500 companies; US EPA; and NGOs such as Oxfam and People4Earth.

Dr. White has held faculty and research positions at the University of Connecticut, Clark University, and Battelle Laboratories, and he is a former Fulbright Scholar in Peru. He was Founding Chair of GAN-Net/iScale and has served on boards, advisory groups and committees of the International Corporate

Governance Network, Civic Capital, Instituto Ethos (Brazil), the New Economy Network, New Earth/Earthster, and the Initiative for Responsible Investment at the JFK School, Harvard University.

Since 2005, Dr. White has served as Senior Advisor to Business for Social Responsibility and to CERES as a principal architect of the first standardized environmental reporting framework in the years following launch of the organization in 1990. He is co-author of *Corporate Environmentalism in a Global Economy* and has published and spoken widely on corporate design, sustainability, accountability, and governance.

Rob Witherell

Representative, United Steelworkers

Rob Witherell works in the Organizing Department of the United Steelworkers Union (USW) at its headquarters in Pittsburgh, Pennsylvania, and has over twenty years of experience in union organizing, contract negotiations, strategic campaigns, research, politics, and student organizing. Rob is the author of "An Emerging Solidarity: Worker Cooperatives, Unions, and the New Union Co-op Model" (February 1st, 2013), and leads the USW's efforts on union-coops and its framework agreement with Mondragon, the world's largest industrial cooperative. Rob has pioneered organizing campaigns with new economy and renewable energy companies and has created much of the intellectual property associated with the original union-coop model.