Civil Society Roundtable: The Future of Big Business

Executive Summary

6 July 2015
Cass Business School, London[1]

Introduction[2]

How can corporate governance make big businesses financially, environmentally and socially sustainable? To tackle this ambitious objective, we must first pose the question: what mistakes lead companies to focus on short-term business strategies?

With this objective in mind, the Purpose of the Corporation Project (an initiative by Frank Bold) partnered with CORE and Cass Business School for a roundtable event gathering approximately 30 people representing a wide range of organisations from civil society, academia and the trade union movement.

Three lines of conversation emerged:

1. The relationship between corporate governance, company law, and (ir)responsible corporate behaviour
2. How reforms to corporate governance or company law might encourage sustainability and responsible corporate behaviour
3. The need for new framing and a discussion about how 'changing the paradigm' can strengthen existing civil society campaigns.

The relationship between corporate governance, company law, and (ir)responsible corporate behaviour

The workshop began with a presentation by Dr. Jeroen Veldman of Cass Business School outlining the historical context of corporate governance. He defined corporate governance broadly as the way the modern capitalist corporation is 'governed'. It determines how the corporation is administered and structured, by whom (i.e. the issue of corporate control) and for whom (i.e. for which purpose). Furthermore, corporate governance structures the relations between different types of stakeholders (shareholders, boards, managers, employees, creditors, trade unions, communities and the state). Dr. Veldman argued that the current technocratic framing fails to go beyond the structural relationships between stakeholders to examine how corporations impact society.

Governance of the corporation

Dr. Veldman explained that while the corporation has become the dominant business form since the mid-20th century, there have been competing understandings of its role. In the early 20th century, Berle and Means put forward the idea of 'relationship capitalism', according to which corporations were understood to be quasi-social rather than exclusively private institutions. This entailed a higher share of labour earnings relative to shareholders' take of profits and the dominance of managers as stewards of the company (referred to as managerialism). Corporations were perceived to be responsible for wide social and stakeholder engagement, which included an emphasis on long-term employment contracts, stable careers and relatively high wages for workers.

Redefinition of corporate purpose and its effects

Gradually in the 1970s, a new understanding of corporate governance and the role of the corporation in society began to be articulated primarily by economists. Economists argued that the main objective of corporate governance was to align the interests of managers with those of shareholders. This has led to an increasing reliance on incentives, primarily stock options, to incentivise managers to focus on maximising shareholder value as measured by quarterly earnings and short-term share price.

The emphasis on short-term value brings with it a concomitant de-emphasis on long-term value and the declining longevity of both the firm and innovation. The focus on a two-way governance relationship between shareholders and boards leads to a strong presumption of private, market-based monitoring of the corporation and a nearly exclusive focus on value creation for the two primary constituents of the firm: shareholders and top managers. This in turn is associated with the sharp increase in inequality visible in developed economies. Increasing employee insecurity and precarity is associated with an increased use of short-term contracts and defined contribution pension plans, along with the decline of welfare state provision.

The restricted conception of the purpose of the corporation as being limited to maximising shareholder value leads to a number of effects, including a limited understanding of the role of relevant constituencies, for example of workers. Furthermore, there is no or very limited recognition of the impact of business ('externalities'), such as pollution, or conversely of the positive contributions that are made by responsible companies.

Progressive and leading actors[3]

Several participants outlined current work on responsible business and recent successful campaigns, including[4]:

Paige Morrow of Frank Bold gave an overview of the Purpose of the Corporation Project and highlighted the recent recognition by the European Parliament in the current revision of the Shareholder Rights Directive that shareholders do not own corporations (which are independent legal entities).

Mike Childs of Friends of the Earth spoke of the need to break down oligopolies, transfer power away from big business into the hands of more diverse businesses, and open up space for different business models. He argued big business would not have the innovation and disruption to create space for businesses of the future.

Frederike Hanisch of ShareAction explained that they try to 'name and fame' companies that are doing well, rather than 'naming and shaming' those that lag behind. ShareAction has used shareholder resolutions to push BP and Shell to disclose their efforts to mitigate the effects of climate change and how those companies are adapting.

Martin Rich of Future Fit Business Benchmark asked two key questions while describing their benchmark which has 21 goals and KPIs to match:
1. How do we know a truly sustainable business when we see one?
2. How are we then supporting this business and others to get where they need to be?

Janet Williamson of Trades Union Congress presented their advocacy to address the current shareholder-centric approach to corporate governance, including:
(1) reform of directors duties; (2) limitation of shareholder rights to long-term shareholders; (3) board-level employee representation; (4) merger and takeover reform to allow directors to focus on the long-term needs of the company and (5) overhauling executive remuneration.

Future scenario discussion[5]

A backcasting exercise was used to prompt reflections on how to stimulate positive changes through corporate governance. Each group was asked to assume a different role (CEO, board of trustees/ directors, institutional investor) and then tackle a different environmental or social challenge.

Promoting sustainability

One group was asked to take on the role of an institutional investor that wishes to engage with a major energy company to push it to take a lead in the shift to renewable energy. They needed to identify a corporate governance innovation that could help to build a path between the present unsustainable business strategy to the future renewable one. The group decided to petition the board of the energy company to recruit at least one director with expertise in environmental sustainability, who would be tasked with devising a new sustainable business strategy for consideration. It was important that the new position be at the board level to ensure participation in core decision-making and to ensure that the new sustainability strategy would be treated as fundamental to the business.

The risks identified by the group were that the board might simply vote to reject the new board member's sustainable business strategy. To prevent this, the group discussed building a coalition with other institutional investors to apply pressure.

Maintaining purpose

Another group became the board of a medium-sized, purpose-driven sporting goods company that sought external capital for expansion. After favourably reviewing the options of taking on B Corp status, legally registering as a social enterprise (Community Interest Company in the UK), and listing on a sustainable stock exchange, they decided to introduce a dual-class share structure to give the founders and long-term employees exclusive voting rights in the public company.

It was noted that dual-class share structures are strongly discouraged in the UK, although they are popular with US technology companies (e.g. Google and Facebook). It was further noted that dual-class share structures protect management from capital market pressures but over time this may lead to leadership entrenchment.

Addressing inequality

The last group assumed the role of the CEO of a multinational technology company who wishes to address inequality by reducing the ratio between their pay and the worker average (currently at 320 times the average). The group noted that this would be a paradigm shift in the ICT sector, which is characterised by high pay gaps, and implementing any solution would rely on strong CEO leadership as well as board consent.

They considered reducing CEO/executive compensation by limiting stock options, committing to pay all workers a living wage and giving employees a seat on the remuneration committee.

It was suggested that the 'business case' could be that a pay ratio readjustment would make additional funds available for staff training and development, improve staff retention, increase gender diversity and attract new talent to the firm. The impetus for the pay readjustment could be in response to pressure from unions and civil society organisations (e.g. if there was a union/worker representative on the remuneration committee). A potential barrier could be the remuneration committee, as members of this committee often sit on other remuneration committees and/or serve as remuneration consultants.

Making the case for change[6]

John Morrison of the Institute for Human Rights and Business discussed opportunities for change, both those missed (e.g. anti-globalisation movement and financial crisis) and those currently emerging (e.g. Greek crisis) to further counter the narrative of 'business as usual' and advance an alternative model.

He laid out the strategic choices that a coalition would need to make:

- What change do we want to see? What's the call to action?
- Do we just want to end the worst behaviour of big business or influence the sector more broadly?
- Do we want to achieve greater worker equality?

Other participants noted the need to tie in the moral argument with the business case to reach all stakeholders with the message for change. For example, consumers may choose to pay a premium to purchase a product that markets itself as an ethical good, such as Innocence Smoothies. The point was made that the moral argument for positive change should not be lost in the effort to make the business case for shifting big business in the right direction.

There was extensive discussion of how the argument for change could be framed. Future corporate governance reform could focus on a number of objectives, including:

- Giving companies the freedom to 'do good' free of short-term capital market pressures, rather than constraining firms from 'doing bad'.
- Fostering long-termism, which is in the best interests of all groups, including businesses.
- Changing incentives to encourage companies to take the 'high road' to promote improved productivity, wages and working conditions over the long-term.
- Preventing future financial crisis and corporate misconduct, as was successfully advocated by the tax justice movement.
- Creating jobs for the new economy and addressing (structural) unemployment.
- Promoting entrepreneurship and smaller and/or alternative business models.

It was noted that opportunities should be seised to link current events to relevant social justice issues, such as Chancellor Merkel's engagement on supply chain reform and Mark Carney's mention of the need for corporate reform and 'conscious capitalism'. There may arise unpredictable but fortuitous occasions to mobilise support for reforms, such as the current public debate on international investment and trade agreements. Public outreach and education should be key objectives, including the revision of secondary and post-secondary curricula.

Next Steps

The main takeaway from the final session was that the narrative needs to be better framed under a clear call to action. This would allow different strands of work to be pursued under a broad umbrella or campaign, e.g. promoting stakeholder representation on boards, the revision of fiduciary duties, or exposing tax avoidance.

The frame needs to be broad enough to communicate a vision that everyone can agree with and does not risk alienating any actors, including business. It would also allow individuals and organisations to clearly identify their channels of influence, and decide upon a strategy where civil society could emphasise different but complementary aspects of the broad dframe to target audiences from all sides.

Those interested in continuing the conversation started at the workshop will arrange a follow-up meeting to discuss key themes, narrative construction and communications.

@corecoalition @purposeofcorp
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[1] The discussion was held under the Chatham House Rule. Thank you to Natasha Dyer (DHA Communications) for her contributions to this summary.

[2] Introduction by Filip Gregor, Frank Bold and Marilyn Croser, Corporate Responsibility (CORE) Coalition

[3] Facilitated by Phil Bloomer, Business and Human Rights Resource Centre.

[4] See also Cranfield School of Management's mapping paper for information about other initiatives: http://www.som.cranfield.ac.uk/som/dinamic-content/media/Doughty/renewingcapitalism/RENEWING%20CAPITALISM%20REFLECTIONS%20V3-5.pdf.

[5] Facilitated by Filip Gregor, Frank Bold.

[6] Facilitated by Marilyn Croser, CORE.