

The Corporation and its Externalities

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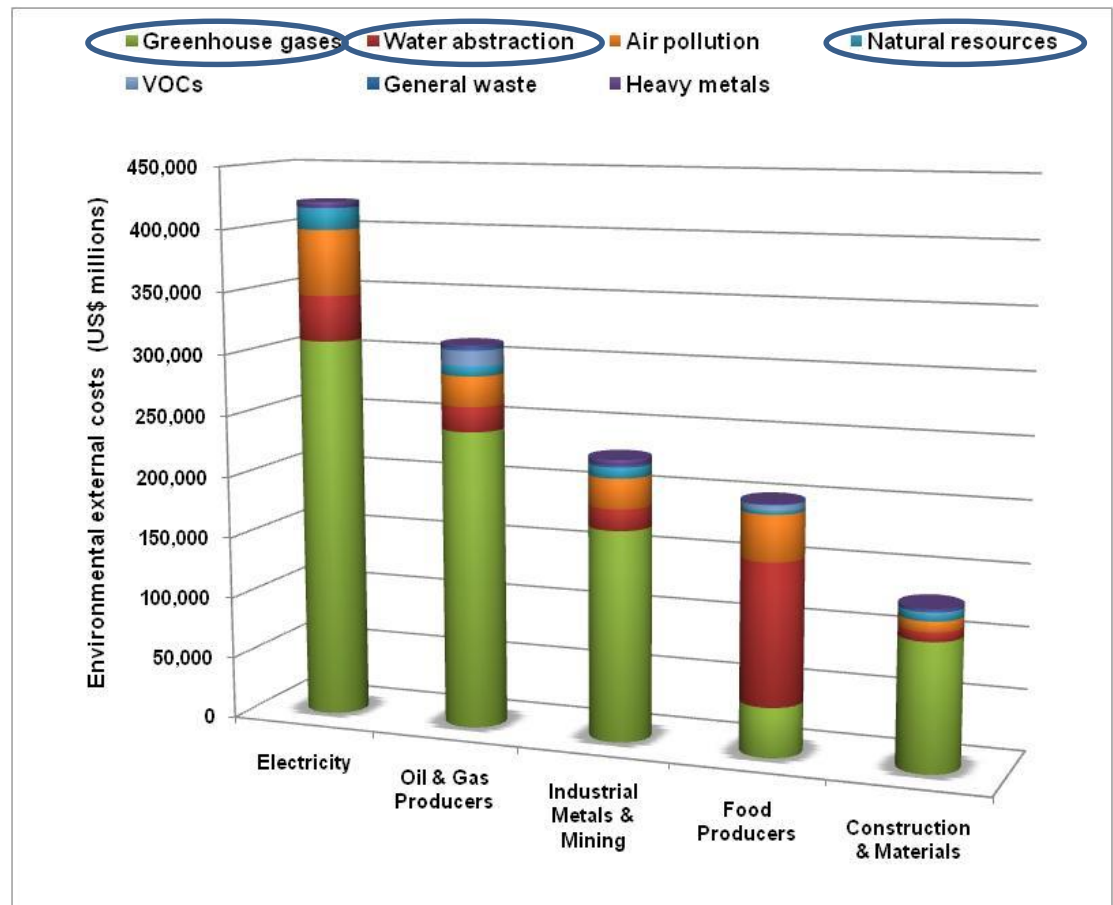
Lille, France

21st October, 2015

Negative environmental externalities of top 3,000 companies estimated at US\$ 2.15 trillion per annum.

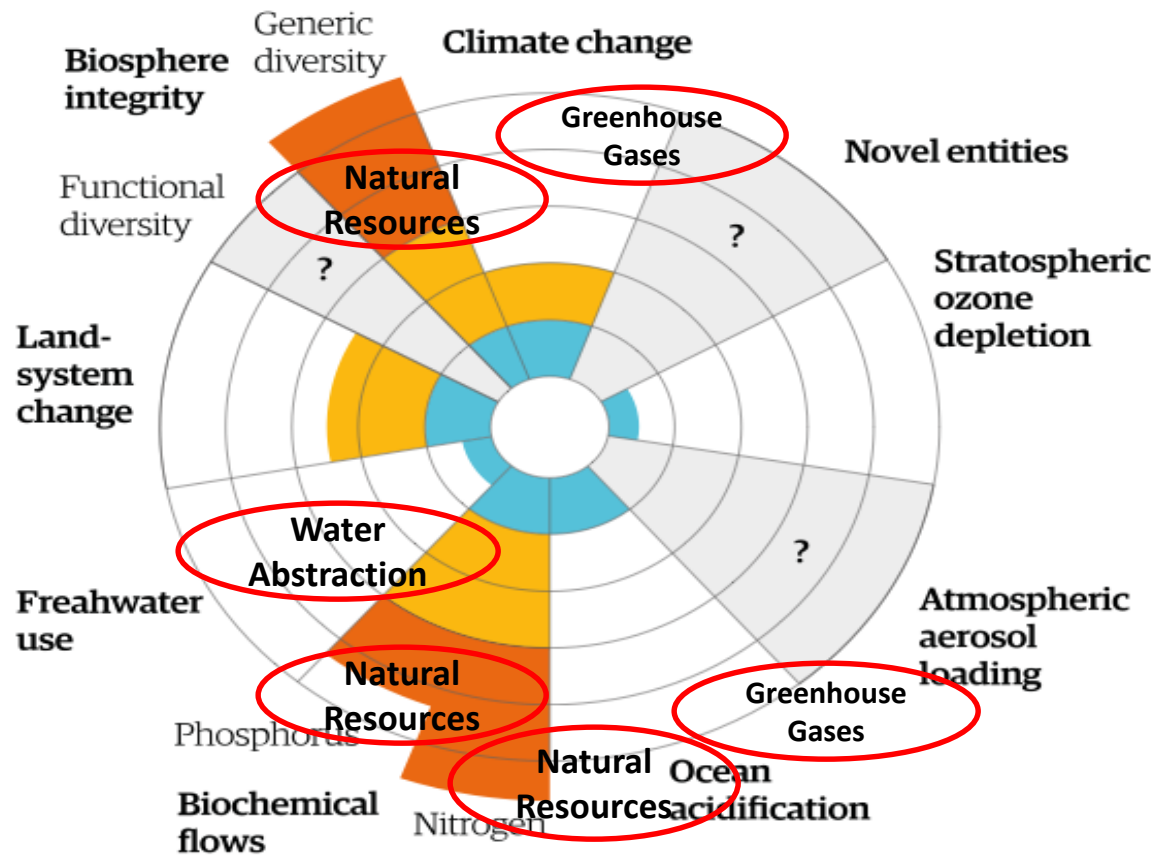
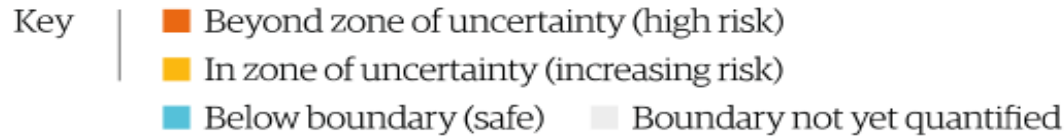


Source:
<http://www.thedailygreen.com/cm/thedailygreen/images/ZK/fire-deepwater-horizon-300.jpg>



Source: Trucost for UNPRI, 2010.

...Pushing Planetary Boundaries



GUARDIAN GRAPHIC

SOURCE: PIK PR

* '?' = 'No global Quantification'

Source for new planetary boundaries:
<http://www.stockholmresilience.org/21/research/research-news/1-15-2015-planetary-boundaries-2.0---new-and-improved.html>

‘Corporation 1920’ has four defining behaviours...

Pursuit of Size: “Big is Beautiful”; MNC model - international ‘arbitrage’ of cheap resources, cheap labour, subsidized manufacturing, rich markets.

Aggressive Lobbying: Tilting the playing field; obfuscating reality for decades (Eg: leaded petrol; cigarettes; climate change; glyphosate)

Leverage without Limits: Ignoring lessons from 4 major recessions, creating “too-big-to-fail” companies.

Advertising without Ethics: Creating/converting human insecurities -> wants -> needs -> demand -> profits.

... Causing Huge Negative Externalities

‘Corporation 1920’ believes in Milton Friedman...

*“There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game...” – **Milton Friedman***

... Ignoring Huge Negative Externalities

...But there are other views as well...

“In a free enterprise, the community is not just another stakeholder in business, but is in fact the very purpose of its existence”

(J.N. Tata, Founder, Tata Group)

“We need to move out of the era of business that cause collateral *damage* to business that causes collateral *benefits*”

(Jochen Zeitz, Executive Chairman, Puma)

"I don't think our fiduciary duty is to put shareholders first. I say the opposite. What we firmly believe is that if we focus our company on improving the lives of the world's citizens and come up with genuine sustainable solutions...ultimately this will result in good shareholder returns.”

(Paul Polman, CEO & Chairman, Unilever)

However, 'Corporation 1920'
is *still* today's dominant model...

ExxonMobil

Energy lives here™



Aggressive Lobbying



© Super Dimension 2005



- July 1977: Company scientist James Black **warned company's top executives** that global warming would result from continuing fossil fuel use.
- Early 1980s: Exxon **validated findings from shipborne CO2** measurements. Spent a decade researching further.
- Late 1980s: Decommissioned the research and **spearheaded climate change denial**. **Active lobbying** against public action on GHG emissions ever since.

Corporation 1920

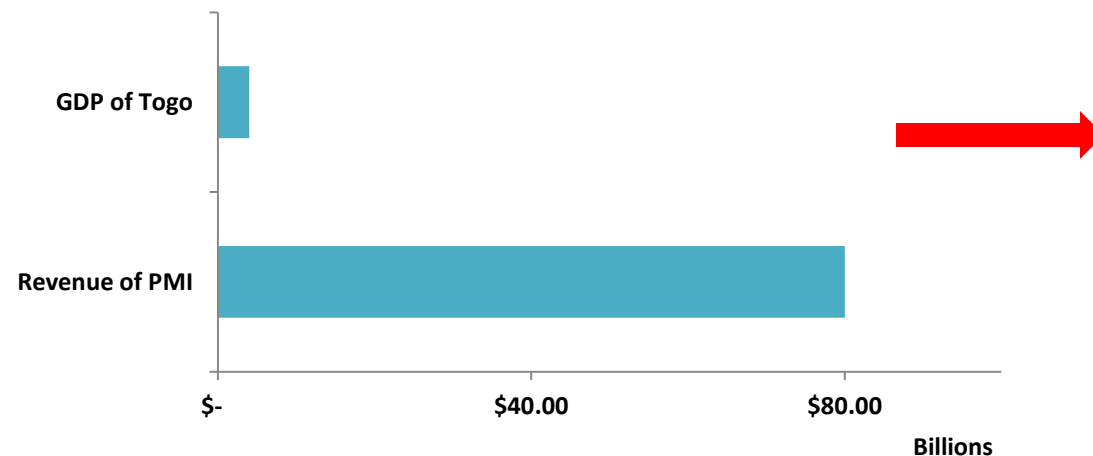
Aggressive Lobbying and Advertising without Ethics



JEFF the diseased lung (Source: 'Last Week Tonight' with John Oliver - <https://www.youtube.com/watch?v=6UsHHOCH4q8>)

- Actor Sylvester Stallone was paid \$500,000 to use Brown and Williamson products in his films to link smoking with **'power and strength'** rather than **'sickness and death'**.
- Tobacco lobby recruited scientists from Europe to *"reverse scientific and popular misconception that Environmental Tobacco Smoke (ETS) is harmful"*¹
- Philip Morris successfully threatened small economies like Togo and sued countries like Uruguay for wanting better health and safety regulations.

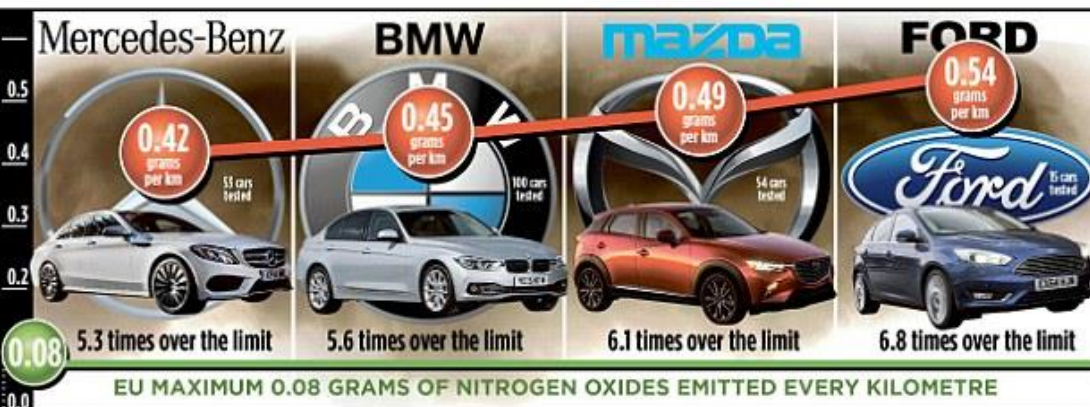
Corporation 1920



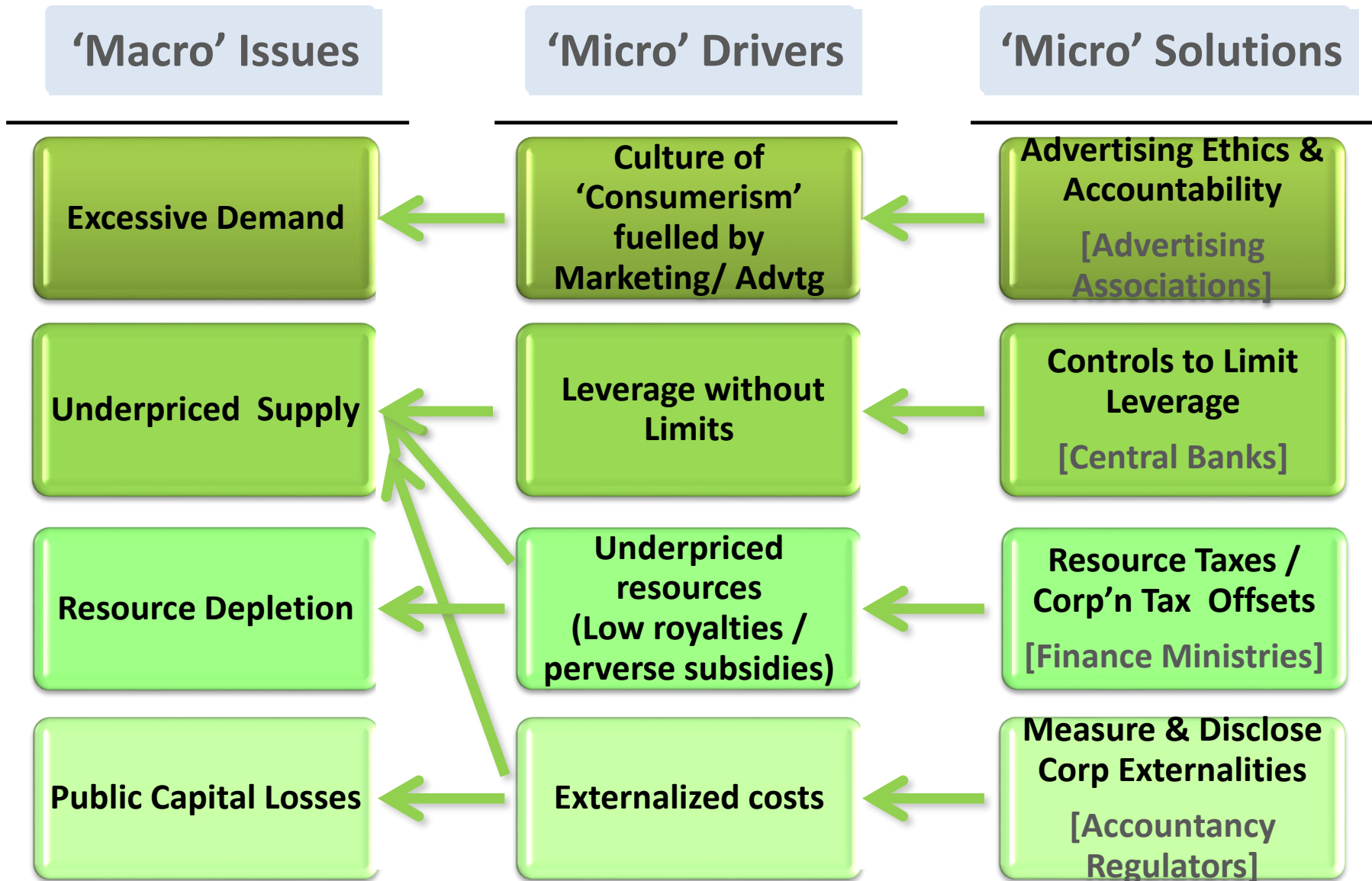


- VW's 'defeat device' designed to cheat emissions limit for NO_x
- VW is just biggest fish in the sea – their engines were polluting 35% less than comparable cars of Mazda, Mercedes, BMW, Ford.
- It's a question of ethics – all companies cheat until one gets caught.
- **Profit making at core of business ethics failure** – Cost Benefit Analyses doesn't take into account morality.

Corporation 1920



What can help drive this change?



Four Micro-Policy Reforms to evolve a new model: “Corporation 2020”

Accountable Advertising (Advertising Associations)

Two Principles, Four Strategies, & Industry-wise Standards to make marketing/ advertising responsible & accountable

Leverage Limits (Central Banks)

Six reforms to govern & limit financial leverage at the point of credit extension, not just intermediation

Resource Taxation (Finance Ministries)

Replacing Corporation Tax (on Profits) with Resource Taxes (on Resource Use & Extraction)

Disclosing Externalities (Accountancy Regulators)

Measuring & disclosing all major corporate externalities (+ve & -ve) using sectoral standards & guidelines

To Summarize...

A very different Corporation is needed which is within our sight: “Corporation 2020”.

Characteristics of “Corporation 2020”

- ☐ **“Goal Alignment with Society”** ...It has a Social Purpose
- ☐ **“Capital Factory”**Measures & Manages its Externalities
- ☐ **“Institute”**Causes +ve Human Capital Externalities
- ☐ **“Community”** Causes +ve Social Capital Externalities
- ☐ **“Guardian”**Causes +ve Natural Capital Externalities

THANK YOU

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