

STATE OF THE WORLD 2012

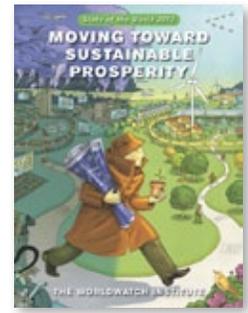
Moving Toward Sustainable Prosperity

POLICY BRIEFS

Chapter 7

Reinventing the Corporation

Allen L. White and Monica Baraldi



KEY MESSAGES

- ▶ The model of transnational corporations (TNCs) has evolved over the past five centuries, creating a structure in the present day that has global influence.
- ▶ The widespread power of TNCs necessitates that any real discussion of sustainable development include a critical analysis of the role of business in society.
- ▶ Current public scrutiny of TNCs is at an unprecedented level, influenced by increases in these corporations' scale, their transience, and wealth disparities within and between societies.
- ▶ Rio+20's focus on the Green Economy will generate further debate regarding the role of corporations in the pursuit of sustainable development.

THE PROBLEM

TNCs have come a long way in their evolution over the past five centuries, to the point today where they hold a level of immeasurable global economic influence. Their roots date back to the 16th century,

when British and Dutch government-chartered trading companies were formed. The idea of “shareholder value” developed as capital investors funded these organizations. The later addition of the concept of limited liability, a condition where risk is capped but potential gains are unlimited, resulted in today's corporate focus: the primacy of capital interests.

This enormous growth in the power of corporations was partnered by modest limitations, a body of “soft law” that lies outside of any formal legislative or regulatory process. Accordingly, attempts to reassess the nature and actions of corporations fall to voluntary initiatives, whose current influence is limited. This situation means that the majority of TNCs operate essentially unchecked, with minimal limits placed on their impacts on the society, the environment, and the economy in which they operate.

MOVING FORWARD

In critically thinking about corporations, it is necessary to remember that they are not islands—corporations operate within a vast economic system that includes a multitude of players and variables. The actions of corporations must reflect this reality. Sustainable development can become a viable future when TNCs recognize that with their position of global influence comes responsibilities to the societies and environments in which they are embedded.

Transformation of TNCs following such realizations will require four overall dimensions of change:

- ▶ *Purpose.* In looking at a company's statement of purpose, it is evident what the goals and motivations of an organization are. The purpose can also reveal the degree to which a corporation is committed to social improvement or wealth generation. Even though the inclusion of a statement of purpose is not required in many Western countries, recent initiatives have developed to encourage corporations to do so. This action can also prove useful as TNCs continue to grow in size and number. As many TNCs relocate their



Christoph F. Siekermann

The Deutsche Börse in Frankfurt, Germany.

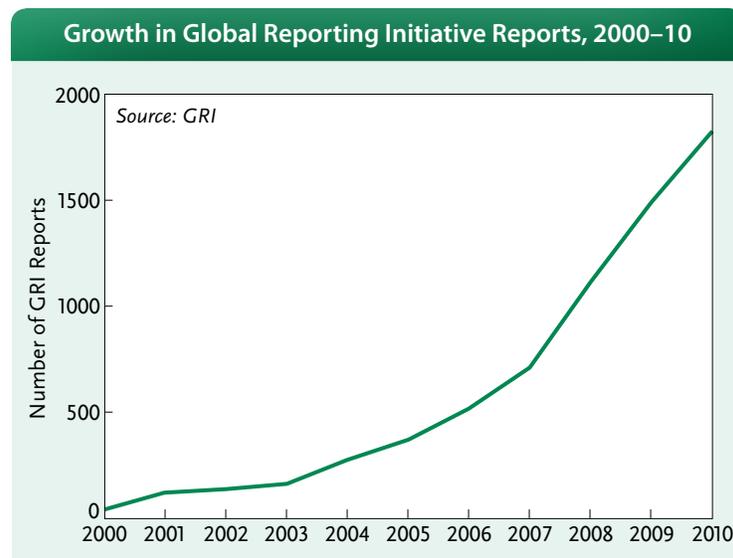
headquarters to the developing world, having a purpose can help define goals and practices in new operational environments.

- ▶ **Ownership.** The ownership structure of a corporation is influential in determining its actions and values. Today, there exist various alternative models of ownership to the Western joint stock, limited liability corporations. These range from Chinese state capitalism, with its strong connection between government and enterprise, to cooperative businesses in Europe, where employees—the shareholders—distribute the annual profit among themselves. The variety of structural forms provides numerous ways for corporations to employ sustainability practices.
- ▶ **Capital.** Investments are critical for every corporation, regardless of its organizational structure. Historically, capital markets operated without regard to long-term social or environmental impacts or regulations. Recent initiatives, however, have sought to embed sustainability within the investment decisionmaking process. Expansion of such efforts can generate significant changes in the level of sustainability by which corporations around the world operate.

- ▶ **Governance.** The structure of decisionmaking and accountability in an organization is a critical factor in shifting toward more sustainable operations. Corporate transformation requires a shift in focus from shareholder accountability to stakeholder accountability. The corporate boards themselves must also transform in order to achieve a shift in values. While far from sufficient, a first step in improving governance is increasing transparency and long-term goal setting through corporate reporting. Over the past 10 years, total numbers of global reporting initiatives by corporations have increased significantly, to nearly 2000 in 2010.

LOOKING AHEAD

The debate on the relationship between the corporation and society is at the heart of progressing toward sustainable development. Although only a small number of TNCs currently recognizes the links between the economy, the society, and the environment, this number has recently been growing. With strong leadership and honest questioning regarding the purpose of a business, transformation can begin to take root.



This brief is based on Chapter 7, “Reinventing the Corporation,” by Allen L. White and Monica Baraldi, published in Worldwatch Institute’s *State of the World 2012: Moving Toward Sustainable Prosperity*.

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