

## VI. Corporations: Puppets to the Financial Markets

David Korten [2] does an outstanding job describing the far-reaching effects of modern corporations. (For some astonishing details of corporate culpability see Ralph Estes' book *Tyranny of the Bottom Line* [11])

Small businesses, which account for the majority of the economic activity in most local areas, face a different set of sustainability issues from those of large corporations. In many ways they are the pawns of the puppets. The stresses of being a "successful" small business, i.e., making a basic living, leave little time for implementing many sustainability practices. To their great credit, a significant number of small businesses, as shown through California's Waste Reduction Awards Program (WRAP), for example, are taking some action to promote sustainability goals.

### A. The Corporation: A Disembodied Body

The 1880s and 1890s were the days of men such as John D. Rockefeller, J. Pierpont Morgan, Andrew Carnegie, James Mellon, Cornelius Vanderbilt, Philip Armour, and Jay Gould. Wealth begat wealth as corporations took advantage of government disarray to buy tariff, banking, railroad, labor, and public lands legislation that would further enrich them. Citizen groups committed to maintaining corporate accountability continued to battle corporate abuse at state levels, and both courts and state legislatures revoked corporate charters. [Note: Several modern organizations are attempting to revive this strategy. The Media Foundation (Adbusters) is fighting to revoke the corporate charter of Philip Morris in the state of New York. In 1998 the Lawyer's Guild and thirty other groups filed a 127-page petition requesting the California Attorney General to revoke Unocal's charter because the company forcibly relocated villages and used slave labor on a natural gas pipeline they are building in Burma in partnership with the military dictatorship there.]

Gradually, however, corporations gained sufficient control over key state legislative bodies to virtually rewrite the laws governing their own creation. Legislators in New Jersey and Delaware took the lead in watering down citizens' rights to intervene in corporate affairs. They limited the liability of corporate owners and managers and issued charters in perpetuity. Corporations soon had the right to operate in any fashion not explicitly prohibited by law. Step-by-step, the court system put in place new precedents that made the protection of corporations and corporate property a centerpiece of constitutional law. Judges sympathetic to corporate interests ruled that *workers were responsible for causing their own injuries on the job*, limited the liability of corporations for damages they might cause, and *declared wage and hours laws unconstitutional*.

In 1886, in a stunning victory for the proponents of corporate sovereignty, the Supreme Court ruled in *Santa Clara County V. Southern Pacific Railroad* that a ***private corporation is a natural person under the U.S. Constitution*** - although, as noted above, the Constitution makes no mention of corporations - and is thereby entitled to the protections of the Bill of Rights, including the right to free speech and other constitutional protections extended to individuals. Thus corporations finally claimed the full rights enjoyed by individual citizens while being exempted from many of the responsibilities and liabilities of citizenship. The subsequent claim by corporations that they have the same right as any individual to influence the government in their own interest pits the individual citizen against the vast financial and communications resources of the corporation and mocks the constitutional intent that all citizens have an equal voice in the political debates surrounding important issues.

During the Reagan administration the full political resources of corporate America were mobilized to regain corporate control of the political agenda and the court system. High on the political agenda were domestic reforms intended to improve the global competitiveness of the United States by getting government "off the back" of business. Taxes on the rich were radically reduced. The number of billionaires in the world

increased from 145 in 1987 to 358 in 1994. By denying any government role in economic planning and priority setting, the Reagan administration left the economic future of the United States entirely in the hands of corporations that were being *pressed by the capital markets to focus only on short-term profits*. This was not the result of a conspiracy. Major shifts in national policy do not come about as a consequence of corporate and political elites gathering in a conference room to define a strategy for imposing global adjustment. They are far too independent minded and represent too broad a range of conflicting interests. What usually occurs is a much more complex social process in which ideology mediates between interests and policy. An ideology is a belief-system - a set of theories, beliefs, and myths with some internal coherence - that seeks to universalize the interests of one social sector to the whole community.

Markets and politics are both about governance, power, and the allocation of society's resources. But the political reality is that in a political democracy, each person gets one vote. In the market, one dollar is one vote, and you get as many votes as you have dollars. *No dollar, no vote*. Behind its carefully crafted public-relations image and the many fine and ethical people it may employ, the body of a corporation is its corporate charter, a legal document, and money is its blood. It is at its core an *alien entity* with one goal: to reproduce money to nourish and replicate itself. Individuals are dispensable. It owes only one true allegiance: to the financial markets, which are more totally creatures of money than even the corporation itself.

The marvel of the corporation as a social innovation is that it has the ability to bring together thousands of people within a single structure and compel them to act in concert in accordance with a corporate purpose that is not necessarily their own. Those who revolt or fail to comply are expelled and replaced by others who are more compliant. The contemporary corporation increasingly exists as an entity apart - even from the people who compose it. Every member of the corporate class, no matter how powerful his or her position within the corporation, has become expendable - as growing numbers of top executives are learning. As corporations gain in autonomous institutional power and become more detached from people and place, the human interest and the corporate interest increasingly diverge. *It is almost as though we were being invaded by alien beings intent on colonizing our planet, reducing us to serfs, and then excluding as many of us as possible.*

## B. Effects of Corporations: The Aliens Have Landed

Massive economic and political power has been concentrated in the hands of an elite few whose absolute share of the products of a declining pool of natural wealth continues to increase at a substantial rate - thus reassuring them that the system is working perfectly well. An active propaganda machinery controlled by the world's largest corporations constantly reassures us that consumerism is the path to happiness, governmental restraint of market excess is the cause our distress, and economic globalization is both a historical inevitability and a boon to the human species.

These forces have transformed once beneficial corporations and financial institutions into instruments of a market tyranny that is extending its reach across the planet like a cancer, colonizing ever more of the planet's living spaces, destroying livelihoods, displacing people, rendering democratic institutions impotent, and feeding on life in an insatiable quest for money. As our economic system has detached from place and gained greater dominance over our democratic institutions, *even the world's most powerful corporations have become captives of the forces of a globalized financial system*. Eventually, that power evolves beyond the ability of any mere human to control, and the corporation becomes an autonomous entity unto itself, using its power to create its own culture, using the *lens of career* to focus corporate culture on profit, size, and power. The dynamics of this system have become so powerful and perverse that *it is becoming increasingly difficult for corporate managers - to manage in the public interest, no matter how strong their moral values and commitment*. Acts that would bring stiff prison sentences or even death for individuals result - at worst - in small fines for corporations that are generally inconsequential in relation to corporate assets.

For example, in 1986, Union Carbide's chemical plant in Bhopal, India accidentally released methyl isocyanate into the air, injuring some 200,000 people and killing more than 6,000. Soon after the accident, the chair of the board of Union Carbide, *Warren M. Anderson*, was so upset at what happened he informed the media that he would spend the rest of his life attempting to correct the problems his company had caused and to make amends. Only one year later, however, Mr. Anderson was quoted in *Business Week* as saying that he had "overreacted," and was now prepared to lead the company in its legal fight *against* paying damages and reparations. What happened? Very simply, Mr. Anderson at first reacted as a human being. Later he realized (and perhaps was pressed to realize) that this reaction was inappropriate for a chair of the board of a company whose obligations are not to the poor victims of Bhopal but to shareholders; that is, to its profit picture. If Mr. Anderson had persisted in expressing his personal feelings or acknowledging the company's culpability, he certainly would have been fired.

Korten [2] is strongly critical:

"The owners and managers of corporations have the full rights of any citizen - in their capacity as citizens - to participate in defining public goals and policies. However, corporations themselves, as non-human legal entities created to serve the public interest, have no place using their resources to influence the processes by which citizens define the public interest and set the rules of corporate conduct. **Corporations are not people.** They are alien to the ways of life and blind to the complex nonmaterial needs of human societies. They should be wholly barred from any form of political participation. A corporate charter represents a privilege - not a right - that is extended in return for the acceptance of corresponding obligations. It is up to the people, the members of civil society - not the fictitious persona of the corporation - to define these privileges and obligations."

### C. Citizens United: Perversion of Democracy - One Dollar, One Vote!

The Supreme Court's decision in *Citizens United v. Federal Election Commission*, the court opened the campaign spending floodgates. The justices' ruling said political spending is protected under the First Amendment, meaning corporations and unions could spend unlimited amounts of money on political activities...Disembodied corporations were now transformed into real people.

In his opposing argument, Supreme Court Justice Stevens echoed Korten's statement above:

*"... corporations have no consciences, no beliefs, no feelings, no thoughts, no desires. Corporations help structure and facilitate the activities of human beings, to be sure, and their 'personhood' often serves as a useful legal fiction. But they are not themselves members of "We the People" by whom and for whom our Constitution was established."*

*~Supreme Court Justice Stevens, January 2010*

The campaign to overturn Citizens United is an ongoing political struggle whose outcome is unknown at this time.

### D. Corporate management: Can the Automatic Pilot Be Controlled?

Something like a prisoners' dilemma prevails in relations between managers and the stock market. Even if participants are aware of an upward bias to earnings estimates, and even if they correct for it, managers still have an incentive to try to fool the market. If you tell the truth, your accurate estimates will be marked down by a skeptical market. *So, it's entirely rational for managers to boost profits in the short term, either through accounting gimmickry or by making only investments with quick paybacks.*

If the markets see high costs as bad and low costs as good, then firms may shun expensive investments because they will be taken as signs of managerial incompetence. Throughout the late 1980s and early 1990s,

the stock market rewarded firms announcing write-offs and mass firings since the cost-cutting was seen as contributing rather quickly to profits. Firms and economies can't get richer by starving themselves, but stock market investors can get richer when the companies they own go hungry - at least in the short term. As for the long term, well, that's someone else's problem the week after next.

Managers facing a market that is famous for its preference for quick profits today rather than patient long-term growth have little choice but to do its bidding. Otherwise, their stock will be marked down, and the firm will be ripe for takeover. Surveys have shown that U.S. executives ranked share price increases as their second most important objectives out of nine choices, ahead of such alternatives as improved product portfolio, market share, or company image.

Korten points out that behind their bold public defense of an economic system in an advanced stage of self-destruction, there are growing reports of unease and concern even among the most elite of the Stratos dwellers. In 1980-82, 79 percent of managers reported that their job security was "good" or "very good." By 1992-94, that figure had fallen to 55 percent. It is not simply that their own positions are increasingly at risk. It is a sense that something simply isn't right, that they are leaving their children a deeply troubled world. Many face growing conflicts between their personal values and what their corporate positions demand of them. In 1994, Paul Hawken asked a roomful of senior managers from Fortune 500 companies a few questions: Do you want to work harder in five years than you do today? Do you know anyone in your office who's a slacker? Do you know any parents in your company who are spending too much time with their kids? The only response was a few embarrassed laughs. Then it was quiet – perhaps numb is a better word.

Again from Korten [2]:

“When justifying outrageous executive salaries, the press commonly notes the importance of such rewards in motivating the heads of corporations to exert their best efforts. When William A. Anders, the chairman of General Dynamics Corporation, was granted a \$1.6 million bonus for having kept his company's stock price above \$45 for ten days, a company spokesperson told the *Washington Post* that the bonus plan was needed to give top executives the incentive to change the company's business strategy and focus on maximizing returns to shareholders. *It is an extraordinary claim that the most privileged and well-paid professionals in the world require million-dollar bonuses to motivate them to do their jobs.*

Derek Bok, the former president of Harvard University, offers a telling explanation. He suggests that top corporate executives must be paid such outrageous sums to ensure that they place the short term interests of shareholders above all other interests that they might otherwise be tempted to consider - such as those of employees, the community, and even the corporation's own long-term viability. *In short, top executives have to be paid outrageous salaries to motivate them to not yield to their instincts toward social responsibility.* Viewed from this perspective, these salaries are an indicator of how distasteful the job of top corporate managers has become in the era of corporate downsizing.”

A former Texas commissioner of agriculture, Jim Hightower, made the following suggestion: “Let’s keep our factories and jobs here and move our corporate headquarters to Mexico, Korea, or wherever else we can get some *reasonably priced chief executives.*” Or maybe we could allow free immigration of cheap chief executives along with cheap labor. Not likely. More likely is that we will witness a further writing off of the laboring class in this country, an increasing disdain toward uneducated and rural people by the corporate and university elite.

## E. The CERES Principles: A Charter for Corporate Responsibility

Who will satisfy the demand for caring capitalism? The Coalition for Environmentally Responsible Economies (CERES) believes success in solving environmental problems depends on the willingness of

corporations to lead, rather than be led, in the transition to a more ecologically sound economy. They believe corporations exert an influence over human decisions and behaviors that is often more profound than that of schools, governments or religious communities. From the beginning, a distinctive strategy of CERES coalition members was the use of shareholder resolutions to initiate discussions of environmental responsibility at the highest corporate levels. Such resolutions are often the first step in beginning the process of dialogue that eventually leads to formal endorsement of the CERES Principles. The ten CERES Principles remain at the heart of CERES's work. By endorsing the Principles, companies not only formalize their dedication to environmental awareness and accountability, they actively commit to an ongoing process of continuous improvement, dialogue and comprehensive, systematic public reporting. Companies sign the following statement:

“By adopting these Principles, we publicly affirm our belief that corporations have a responsibility for the environment, and must conduct all aspects of their business as responsible stewards of the environment by operating in a manner that protects the Earth. We believe that corporations must not compromise the ability of future generations to sustain themselves.

We will update our practices constantly in light of advances in technology and new understandings in health and environmental science. In collaboration with CERES, we will promote a dynamic process to ensure that the Principles are interpreted in a way that accommodates changing technologies and environmental realities. We intend to make consistent, measurable progress in implementing these Principles and to apply them to all aspects of our operations throughout the world.

#### Protection of the Biosphere

We will reduce and make continual progress toward eliminating the release of any substance that may cause environmental damage to the air, water, or the earth or its inhabitants. We will safeguard all habitats affected by our operations and will protect open spaces and wilderness, while preserving biodiversity.

#### Sustainable Use of Natural Resources

We will make sustainable use of renewable natural resources, such as water, soils and forests. We will conserve non-renewable natural resources through efficient use and careful planning.

#### Reduction and Disposal of Wastes

We will reduce and where possible eliminate waste through source reduction and recycling. All waste will be handled and disposed of through safe and responsible methods.

#### Energy Conservation

We will conserve energy and improve the energy efficiency of our internal operations and of the goods and services we sell. We will make every effort to use environmentally safe and sustainable energy sources.

#### Risk Reduction

We will strive to minimize the environmental, health and safety risks to our employees and the communities in which we operate through safe technologies, facilities and operating procedures, and by being prepared for emergencies.

#### Safe Products and Services

We will reduce and where possible eliminate the use, manufacture or sale of products and services that cause environmental damage or health or safety hazards. We will inform our customers of the environmental impacts of our products or services and try to correct unsafe use.

### Environmental Restoration

We will promptly and responsibly correct conditions we have caused that endanger health, safety or the environment. To the extent feasible, we will redress injuries we have caused to persons or damage we have caused to the environment and will restore the environment.

### Informing the Public

We will inform in a timely manner everyone who may be affected by conditions caused by our company that might endanger health, safety or the environment. We will regularly seek advice and counsel through dialogue with persons in communities near our facilities. We will not take any action against employees for reporting dangerous incidents or conditions to management or to appropriate authorities.

### Management Commitment

We will implement these Principles and sustain a process that ensures that the Board of Directors and Chief Executive Officer are fully informed about pertinent environmental issues and are fully responsible for environmental policy. In selecting our Board of Directors, we will consider demonstrated environmental commitment as a factor.

### Audits and Reports

We will conduct an annual self-evaluation of our progress in implementing these Principles. We will support the timely creation of generally accepted environmental audit procedures. We will annually complete the CERES Report, which will be made available to the public.”

Various other “green business planning” organizations such as Business for Social Responsibility and Social Ventures Network are also active. The business community is also slowly adopting the ISO 14000 international standard for environmental management systems.

## **F. The Natural Step: Backcasting the Future**

The Natural Step Framework ([www.thenaturalstep.org](http://www.thenaturalstep.org)) has emerged as one of the most imaginative, yet logical, approaches to strategic environmental management within organizations. The Framework helps with planning and decision-making to reach sustainability. It is also used as a tool to successfully integrate environmental questions into the over-all business. It works as a shared mental model for dialogue, a tool for prioritizing and solving problems and a way of evaluating various investments or other actions. With the help of the Natural Step Framework, many organizations have been able to reduce costs, improve quality and identify new customers and markets [6].

The most common way of planning is to look in the rear view mirror to help analyze what is happening in the present and then extrapolate remedies for perceived problems in the future. We call this forecasting. As a planning technique, projecting the present into the future has many disadvantages. Perhaps its most crucial flaw is that whatever seems important in the present comes to define the future. This is particularly risky because the present trends are the main drivers of the problems themselves. Acting in this way, we risk bringing today’s problems into the future.

When the Natural Step Framework is used, operations are specified with the help of a 'future perspective' known as backcasting. Backcasting is a method of looking back from a point of time in the future. To begin with, we envisage a successful result in the future. Then, we ask: What can we do today to reach this goal?

Planning with backcasting is especially effective if there is a high level of complexity, a pressing need for fundamental change or if dominant trends are part of the problem. But if backcasting is to be effective, there must first be a basic outline to work from - a clear description of the conditions that need to be in place in

any sustainable society. This outline for sustainability is defined by the System Conditions, the first order principles for sustainability.

The process for using The Natural Step Framework is simple:

1. How do we find common ground in our environmental planning? Disseminate the Natural Step Framework among all participants.
2. How does the organization look today? Analyze current operations in relation to the System Conditions with the help of an environmental review. Map out and list critical flows of raw materials and energy.
3. How does the organization look in a sustainable society? Analyze how operations will look in a sustainable society, through the application of the System Conditions. List all measures.
4. How do we launch environmental programs with targets and measures to improve profitability? Prioritize measures from 3 which optimize long-term flexibility while also improving short-term profitability.

The Four System Conditions are based on a scientific rationale which shows that there are essentially only three mechanisms by which human society can damage nature:

1. Nature is damaged if concentrations of substances are continually rising in the environment because they are dispersed in nature from the earth's crust faster than they are returned (redeposited in the earth's crust).
2. Nature is damaged if concentrations of substances produced by society are continually rising in the environment because society disperses them faster than they can be broken down and built into new resources by nature (or deposited in the earth's crust).

Nature is damaged if the physical basis for natural cycles and biological diversity is continuously diminishing. This occurs either by extracting more than nature can build up again (for instance, more timber or fish than can be regenerated) or by other forms of ecosystem manipulation (for instance, altering the water table, soil erosion, of covering fertile land with asphalt).

In addition, a sustainable society has the essential characteristic that it is good at satisfying human needs, but within the framework of reversing the previous three destructive mechanisms.

These four insights lead to the four System Conditions of The Natural Step [6]:

In order for a society to be sustainable, nature's functions and diversity must not be systematically:

1. subject to increasing concentrations of substances extracted from the earth's crust,
2. subject to increasing concentrations of substances produced by society,
3. impoverished by physical displacement, over-harvesting or other forms of ecosystem manipulation,
4. and resources are used fairly and efficiently in order to meet basic human needs globally

John Elkington in *Cannibals With Forks* [12] posits a necessary evolution of corporate responsibility and the potential for clear-thinking forward-looking businesses to actually help bring about a sustainability revolution:

“The sustainability agenda, long understood as an attempt to harmonize the traditional financial bottom line with emerging thinking about the environmental bottom line, is turning out to be much more complicated than some early business enthusiasts imagined. Increasingly, we think in terms of a "triple bottom line," focusing on economic prosperity, environmental quality and - the element which business has tended to overlook - social justice.

Simply stated, the triple bottom line is the emerging 21st century business paradigm. Sustainable development is proposed by governments and business leaders as a solution for a wide range of problems now racing up the international agenda. These range from global climate change, ozone depletion, and the collapse of some ocean fisheries through to social problems such as the deaths of 37,000 children under the age of five every day (mostly from diseases for which there are inexpensive cures) and the death of some 585,000 pregnant women and mothers every year. The first UN Global Environmental Outlook report, published in 1996, argued that the world still lacks "the necessary sense of urgency" needed to pull back from the "environmental precipice."

Many business people will argue that it is not their business to save the world. But the expectation is growing around the world that business will deliver. In part, this flows from the activities of organizations like the World Business Council for Sustainable Development (WBCSD), but it also flows from a recognition that business needs stable markets - and, uniquely, has the technology, finance, and management skills needed to achieve the sustainability transition. The triple bottom line agenda is fast evolving - and on a broad front, with one of the most challenging tasks being to ensure both efficiency and effectiveness in resource use."