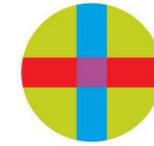




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“Sustainability and business models: Chartered companies and mutual companies – the experience of history”

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SMART CONFERENCE

Sustainable business models

Historical and institutional dynamics of corporate (ir)responsibility
OSLO UNIVERSITY, 28th November 2017

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1. External and internal sustainability of business organizations



1. External and internal sustainability of business organizations

⚡ It may be considered that companies and other entrepreneurial organizations are “cells” of the economic *tissue* of society.

⚡ A healthy behavior of these organizations contributes to the “welfare of current and future generations” and to safeguarding “Earth’s life-support system” (*).

⚡ Griggs, David et al. "Policy: Sustainable Development Goals for People and Planet." *Nature*, vol. 495, no. 7441, 2013, pp. 305-307

1. External and internal sustainability of business organizations

∴ An interesting approach to the question of sustainability may then be posed from two perspectives:

∴ **EXTERNAL DIMENSION:** looking at the way they threaten or they favor the social/economic tissue and the Earth's life-support system;

∴ **INTERNAL OR INTRINSIC DIMENSION:** proving their own sustainability, if its organization, its functionality, its assets/expenditures, are sustainable too.

2. Two business models and their sustainability: chartered companies and mutual companies

Two business models (...): chartered companies and mutual companies

∴ In this paper, we make a historical approach to two types of business models:

∴ CHARTERED COMPANIES → made trade from the European continent with the overseas territories

∴ MUTUAL COMPANIES AND COOPERATIVES → through which mounts of piety and savings banks developed commercial activity.

∴ The historical study of these two types of business models will allow us to extract some experiences from the past, which can help us make improvement proposals for current business models.

2. Two business models (...): chartered companies and mutual companies

▣ Williston, S. "History of the Law of Business Corporations before 1800." *Harvard Law Review*, vol. 2, 1888, pp. 105-124:

“History of the law of business corporations is the fact that different kinds of corporations are treated without distinction, and, with few exceptions, as if the same rules were applicable to all alike”.

3. Different ways of making trade with the overseas territories



Different ways of making trade with the overseas territories

❖ XVII century → two ways of establishing trade relations with the overseas territories, known as the East and West Indies.

❖ On the one hand, the crowns of Spain and Portugal assumed the dual function of first supervising the trade in their territories by private companies and secondly, protecting merchant ships from attacks at sea on their way to the European continent.

❖ On the other hand, there were countries, such as England and the Netherlands, where trade with the overseas territories was carried out through chartered companies, which enjoyed a monopoly of trade with these territories and, in addition, could make authorized use of force to defend their interests.

⚡ Many positive contributions from chartered companies:

⚡ they are the origin of the different forms of companies that we know today;

⚡ they have contributed to the generation of wealth and economic development.

⚡ Nonetheless, there are points of criticism of chartered companies that should be analyzed, in order to extract experience related to their sustainability, both from the external and from the internal dimension..

3.1. Monopolistic exploitation of commerce by private companies: the India Companies of England (EIC) and the Netherlands (VOC)





The Dutch East India Company

3.1. Monopolistic exploitation of commerce by private companies: EIC and VOC

❖ East India Companies:

- ❖ British East India Company, founded in 1600
- ❖ Danish East India Company, founded in 1616
- ❖ Dutch East India Company, founded in 1602
- ❖ French East India Company, founded in 1664
- ❖ Portuguese East India Company, founded in 1628
- ❖ Swedish East India Company, founded in 1731

❖ Chartered Companies or Privileged Companies

- ❖ Hudson Bay Company
- ❖ Royal African Company
- ❖ London and Plymouth Companies...

3.1. **Monopolistic exploitation of commerce by private companies: EIC and VOC**

:: SUSTAINABILITY EXTERNAL DIMENSION → negative consequences of the attribution to these companies of the commercial monopoly over large territories and the authorization to have their own army.

Adam Smith criticized the granting of a trade monopoly to the East India Company and denounced its influence on the severe famine that occurred in Bengal in the late XVIII century.

From 1.5 to 10 million deaths.

:: Smith, A., *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by Campbell, R. H./ Skinner, A. S./ Todd, W. B., vol. I, Oxford University Press, 1979, p. 527

3.1. Monopolistic exploitation of commerce by private companies: EIC and VOC

⚡ An article published in 1878 in the *Journal of the Statistical Society* concludes that “in the 120 years of British rule there [were] 34 famines in India, compared with only 17 recorded famines” in a much broader previous period of time -"two millennia", according to the mentioned article-.

3.1. Monopolistic exploitation of commerce by private companies: EIC and VOC

⚡ INTERNAL SUSTAINABILITY → “private trade” was the name of the commercial activity that the captains of the ships of these companies did on their own benefit. Neither the EIC nor the VOC could avoid this illicit activity, and both ended up allowing the captains to use the companies’ ships and structure for the captains’ “private trade” (*).

⚡ Private trade became a "price" of East India companies’ internal sustainability.

⚡ (*) Adams, J. "Principals and Agents, Colonialists and Company Men: The Decay of Colonial Control in the Dutch East Indies." *American Sociological Review*, vol. 61, no. 1, 1996, pp. 12-28

3.1. Monopolistic exploitation of commerce by private companies: EIC and VOC

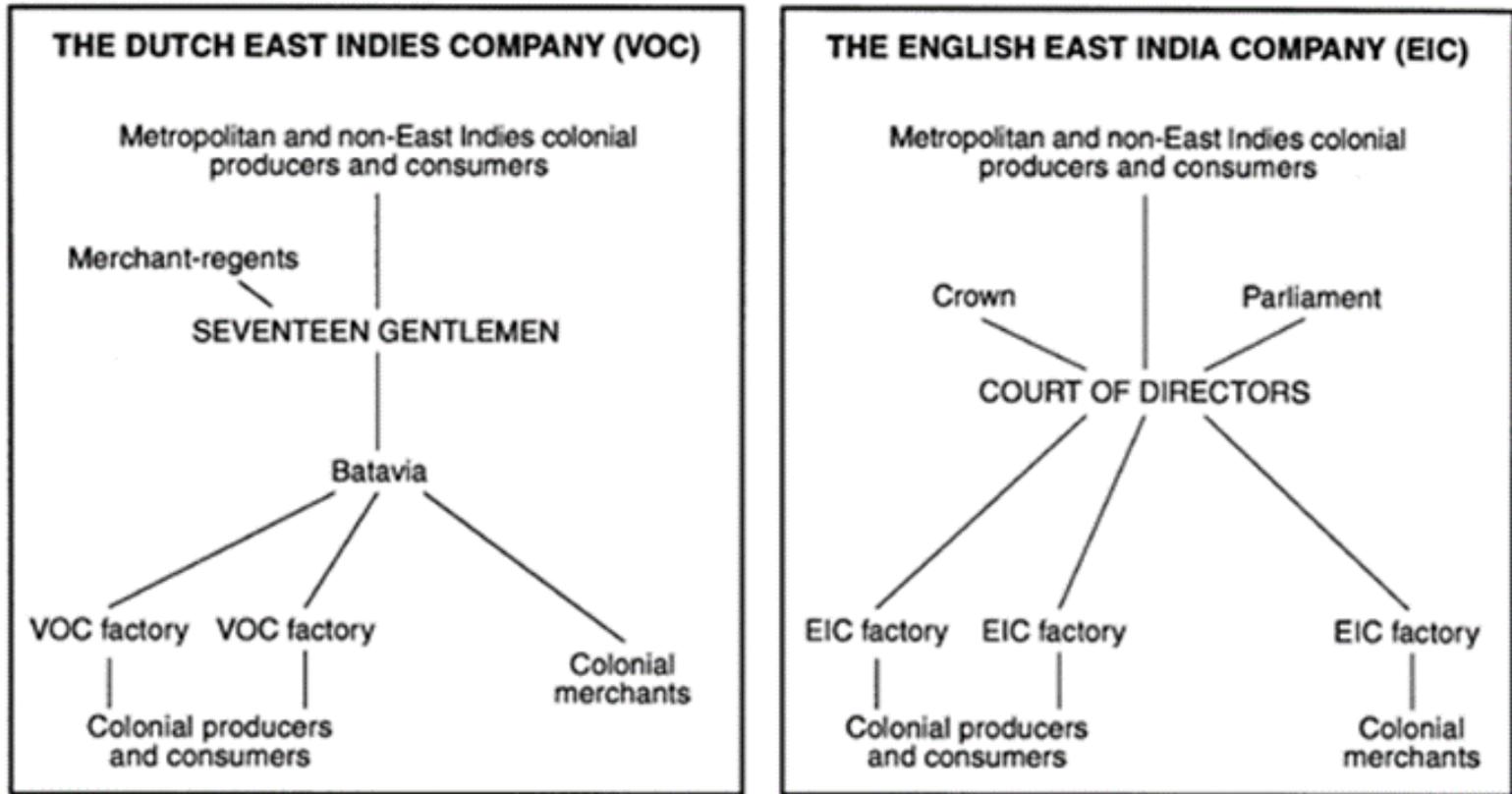
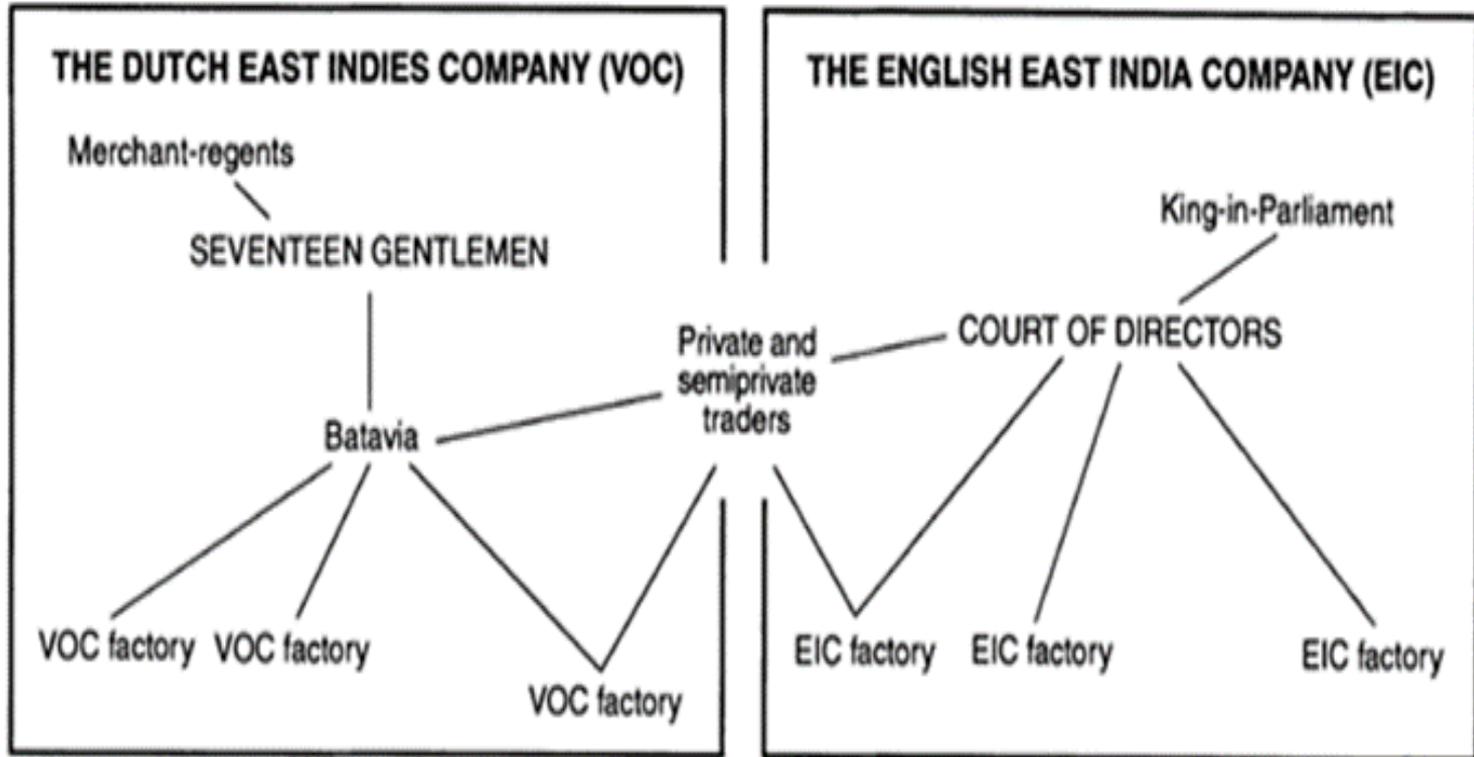


Figure 1. Schematic Representation of Company Organizations: Early to Mid-Seventeenth Century

■ (*) Adams, J. "Principals and Agents, Colonialists and Company Men: The Decay of Colonial Control in the Dutch East Indies." *American Sociological Review*, vol. 61, no. 1, 1996, pp. 12-28

3.1. Monopolistic exploitation of commerce by private companies: EIC and VOC



❖ (*) Adams, J. "Principals and Agents, Colonialists and Company Men: The Decay of Colonial Control in the Dutch East Indies." *American Sociological Review*, vol. 61, no. 1, 1996, pp. 12-28

3.2. Crown supervision of free trade developed by private companies: Spain and Portugal trade with the overseas territories



3.2. Crown supervision of free trade developed by private companies: Spain and Portugal

- ❑ Spain and Portugal had sovereignty over their overseas territories.
- ❑ Trade was developed by merchants. Goods were moved to the Iberian Peninsula following a system of fleets and galleons of the Crown Army.
- ❑ Spain had two routes: the "Fleet of the Indies" (Atlantic Ocean) and the "Galleon of Manila" (Pacific Ocean) (*).
- ❑ From 1700 Spain established companies of privilege, which enjoyed monopolistic advantages similar to those of the chartered companies (**).

❑ (*) Herrera Reviriego, José Miguel. "El Galeón De Manila San Damián (1661-1662): Estructuración Y Organización De Un Galeón En El Pacífico Mexicano." *Fòrum de Recerca*, no. 17, 2012, pp. 151-164.

❑ (**) Rodríguez García, M. E. "Compañías Privilegiadas De Comercio Con América Y Cambio Político (1706-1765)." *Estudios de Historia Económica*, Banco de España, no. 46, 2005, pp. 1-81.

4. Combating usury through mutualized deposit and credit institutions: mounts of piety and savings banks

4. Combating usury through mutualized (...): mounts of piety and savings banks

⚡ USURY → “*Usura est ubi amplius requeritur quam datur*”.

⚡ Up to XII c. → Money *cannot* produce profit *itself*.

⚡ End XII c. and XIII c. → slight evolution. THOMAS AQUINAS: the correct use of money is to be consumed → usury is “vendere usum pecuniae”

⚡ XIV c. → money can be IMPRODUCTIVE *per se* but PRODUCTIVE *per accidens*.

⚡ XV c. → booming of banking activity → FRANCISCO DE VITORIA –University of Salamanca scholastic- DISTINCTION between:

⚡ Loan for consuming (including farmers, craftsmen) → is USURIOUS

⚡ Loan for producing (merchants, business men) → is NOT USURIOUS

4. Combating usury through mutualized (...): mounts of piety and savings banks

❖ **CONTRACTUS TRINUS** (“triple contract”). A commercial technique used to circumvent the usury prohibition (*legal*, and, eventually, *licit*). A combination of:

- 1) **PARTNERSHIP** contract. Part “A” gives an amount of money “X” to part “B” (a merchant) in exchange of sharing part of the benefits obtained by “B”.
- 2) **INSURANCE** contract. “A” renounces to a part of the future benefits, “B” guarantees that he/she will return the amount of money “X” to “A”.
- 3) **SALE** contract (a sale of *hope*). “A” renounces to the second part of the future benefits in exchange of a **“FIXED RETURN RATE”**.

❖ García Ulecia, A. "El Contrato Trino En Castilla Bajo El Derecho Común." *Historia. Instituciones. Documentos*, no. 6, 1979, pp. 129-186

❖ Decock, W. "In Defense of Commercial Capitalism: Lessius, Partnerships and the Contractus Trinus." *Max Planck Institute for European Legal History research paper series*, no. 2012-04, 2012, pp. 1-36

4.1 Historical origins



4.1. Historical origins

❖ Usury, a social problem in late XV c. in Europe: poor and needy people → cannot turn to regular banks or *triple contract*.

❖ There is a “*mutual need*” → there is not a “*mutual initiative*”.

❖ Future *savings banks* find their roots in philanthropic institutions with the structure of a MUTUAL ORGANIZATION → take the initiative that this sector of the citizenship doesn't take.

→ **MOUNTS OF PIETY**

4.1. Historical origins

❖ **SPAIN, XV c. → “ARCAS DE LIMOSNAS” (“COFFERS OF ALMS”) in CASTILE, during John II’s kingdom.**

❖ **Papal bull issued by Eugene IV, 15th September 1431 (archive of the Duke of Frías, heir of the Count of Haro); (*)**.

❖ **Establishing “Coffers of Alms” in 9 parish churches of Castile, in the territories of the Count of Haro.**

❖ **Endowment → 11,560 gold florins**

❖ **Combat USURY giving INTEREST-FREE LOANS to poor and needy.**

❖ (*) López Yepes, J. and Sagredo Fernández, F. “Instituciones de préstamo benéfico: Montes de Piedad, Pósitos y Arcas de Misericordia en España (siglos XV y XVI)” *Boletín de Documentación del FIES*, vol. 5, n. 1, enero-marzo 1973, pp. 60 ff.

4.1. Historical origins

❖ ITALY, XV c. → “*MONTI DI PIETÀ*” (“MOUNTS OF PIETY”).

❖ “*Primus in orbe*” → 30th April 1462 “Monte dei Poveri di Perugia” (“Mount for the Poor in Perugia”) (*).

❖ Initiative of the Franciscan Order → Fr. Michele Carcano

❖ Endowment → 3,000 florins

❖ It played a very influential role → followed by other mounts of piety in Italy and abroad.

❖ (*) Muzzarelli, M. G. *Il Denaro E La Salvezza. L'invenzione Del Monte Di Pietà*. Il Mulino, 2001; *idem*, “I Monti Di Pietà: Le Cure Prestate E Quelle Richieste.” *Italia Franceseana*, no. 85, 2010, pp. 101-111.

4.1. Historical origins

❖ Evolution of mounts of piety: from interest-free loans to low-interest loans.

❖ 5% interest (management cost) → private banks, 30-40% (*).

❖ (*) Muzzarelli, M. G., "I Monti Di Pietà: Le Cure Prestate E Quelle Richieste." *Italia Francescana*, no. 85, 2010, pp. 101-111, esp. p. 104.

4.1. Historical origins

❖ SAVINGS BANKS.

❖ RUTHWELL BANK, SCOTLAND. Established by Rev. Henry Duncan, 10 May 1810.

❖ Savings banks (credit cooperatives) SPREAD THROUGHOUT EUROPE.

❖ In Portugal, Spain and Italy → conexión/ merger between mounts of piety and savings banks.

4.2 Sustainability of mutualized deposit and credit institutions: agency costs



4.2. Sustainability of mutualized deposit and credit institutions: agency costs

❖ Savings banks and mounts of piety → mutualized institutions: cooperatives, mutual societies.

❖ Mutualized organizations may benefit from **LOWER AGENCY COSTS**

- 1) Managers do **NOT** need **INTENSIVE EXTERNAL CONTROL** → managers receive a **SALARY**, so they have the same interest as the mutualists: **RISK REDUCTION**.
- 2) Managers provide a standardized service (deposits and credits). Their decisions are less discretionary and more efficient

4.2. Sustainability of mutualized deposit and credit institutions: agency costs

- ❑ The (sad) Spanish “experience”.
- ❑ RD 2290/1977 → "democratization" of savings banks → control by POLITICAL PARTIES.
- ❑ Excessive investment in real estate before the 2008 financial crisis.
- ❑ Savings banks at risk of bankruptcy merged with healthier savings banks and → transformed into COMMERCIAL BANKS.
- ❑ Since March 2015, only two savings banks remain (Caixa Ontinyent and Colonya, Caixa Pollença), the only ones that were not affected by the restructuring of the sector after the 2008 financial crisis. |

5. Mutualization of large corporations as a historical experience to strengthen the ethical foundations of their internal sustainability



5. Mutualization of large corporations (...)

❖ Savings banks have proven to be a sustainable business model. Its mutual character is one of its positive features.

❖ There are historical experiences in the US (XIX c.), in which corporations had much the character of CONSUMER COOPERATIVES (*).

→ Local merchants, farmers, and landholders purchased shares of corporations which provided **INFRASTRUCTURAL SERVICES** (transportation, insurance) → as a way to secure those services.

❖ (*) Hansmann, Henry and Mariana Pargendler. "The Evolution of Shareholder Voting Rights: Separation of Ownership and Consumption." *The Yale Law Journal*, vol. 123, no. 4, 2014, pp. 100-165.

5. Mutualization of large corporations (...)

❑ Large corporations that provide recurring services (insurance companies, airlines, food retailers) → try to establish long-term relationships with their customers.

❑ Loyalty strategies usually consist of:

❑ offering complementary services (that do not interest the client)

❑ “reward point programmes” (even less interesting...).

❑ *“Mutualization of large corporations”* → a progressive delivery of shares

❑ Mutualization is NOT transforming corporations into mutual companies

❑ Mutualization is transforming the client into a SHAREHOLDER

5. Mutualization of large corporations (...)

⚡ Positive aspects of mutualization:

- ⚡ Consumers participate in company's benefits.
- ⚡ Reduce agency costs → there is less need to control the managers.

6. Corporate citizenship as a link between corporate governance and sustainable development



6. Corporate citizenship (...)

❑ Friedman, M., «The Social Responsibility of Business is to Increase Profits», *The New York Times Magazine*, 18 September 1970.

❑ Friedman always separate money-making activities from ethical activities:

❑ In some cases they are separable → charity

❑ In some cases they are inseparable → Wal-Mart selling high-capacity machine guns (*)

❑ (*) Hart, O. and L Zingales. "Companies Should Maximize Shareholder Welfare Not Market Value." *ECGI Working Paper Series in Finance*, no. 521/2017, 2017, pp. 1-33.

6. Corporate citizenship (...)

❖ Global society → some voices suggest that large corporations play a role equivalent to that of STATES.

Wrong suggestion → historical experience of *chartered companies* managing public interests and human rights.

❖ A step beyond social corporate responsibility (RSC)
→ CORPORATE CITIZENSHIP (*).

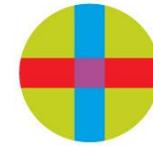
❖ How corporations can most effectively contribute to sustainable development.

❖ How corporations could best learn and so change internally to meet its emerging challenges and opportunities.

❖ (*) Zadek, Simon. *The Civil Corporation*. Rev. edition, Earthscan, 2007..



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