



NTNU – Trondheim
Norwegian University of
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Corporate responsibility and irresponsibility

Historical and institutional dynamics

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SMART-conference
Oslo, 28.-29.November 2017

Themes

- From partnership and unlimited liability (responsible)
- To rise of the joint stock company with limited liability (irresponsible)
- Stakeholder reactions and gradually increased responsibility
- Develop of corporate sustainability and sustainable business models

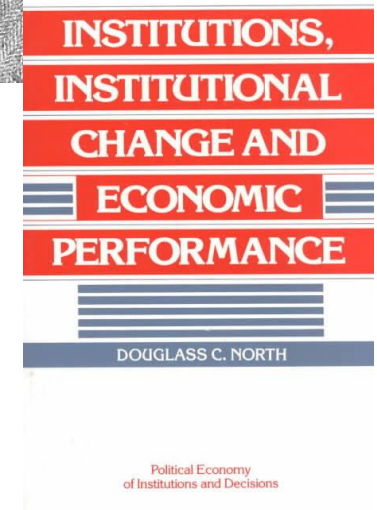
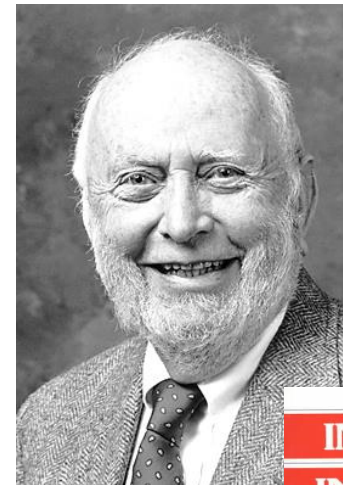
Framework of institutional change

(North 1990)

- “Institutions are the structure that humans impose on human interaction and therefore define the incentives that...determine the choices that individuals make that shape the performance of societies and economies over time” (:1-2).
- “Institutions consist of formal rules, informal constraints...and the enforcement characteristics of both” (:2).
- “If institutions are the rules of the game, organizations are the players. They are groups of individuals engaged in purposive activity.” (:3).
- “The agent of change is the entrepreneur, the decision maker(s) in organizations. The subjective perceptions (mental models) of entrepreneurs determine the choices they make (:4).
- “The sources of change are the opportunities perceived by entrepreneurs. They stem from either external changes in the environment or the acquisition of learning and skills” (:4).
- “Deliberate institutional change will come about therefore as a result of the demands of entrepreneurs in the context of the perceived costs of altering the institutional framework at various margins” (:5).
- “The process of change is overwhelmingly incremental” (:6) and “[t]he direction of change is determined by path dependence” (:7).
- “Revolutionary change occurs as a result of gridlock arising from a lack of mediating institutions that enable conflicting parties to reach compromises” (:8).

Historical and institutional dynamics

- Institutional theory
 - Framework of institutional change
 - Isomorphism
 - Imitating or adopting others
 - Tipping point
 - Adopting a rare practice
 - At a certain point it becomes self-sustaining
 - Externality
 - The effect on party's action has on other parties
 - Positive or negative
- Corporate governance
 - Shareholder or stakeholder view
 - Stakeholder reactions
- Corporate sustainability
 - Sustainable business models



Corporate governance

from responsibility to irresponsibility

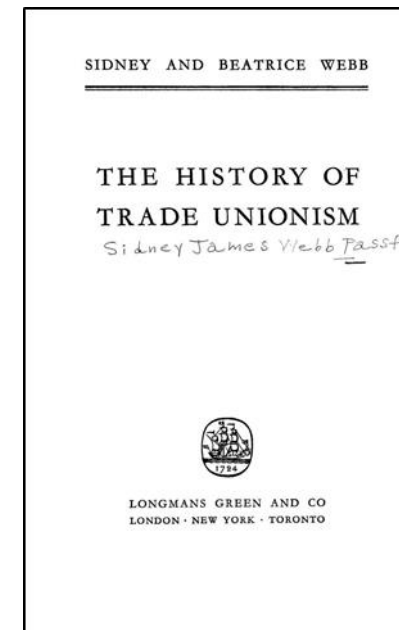
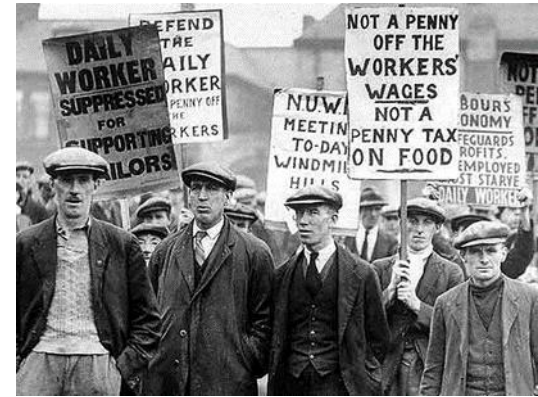
- Partnership – dominating form to late 1800
 - Unlimited liability
 - Members active in the firm
 - Strong social control – character, reputation and trust
- The Company
 - Chartered companies
 - Joint stock company – limited liability 1844-62 – investor driven revolution
 - The company as a legal person that issues tradable shares
 - Investors/owners external and have limited liability
 - No need of special sanction from the parliament
- The Corporation
 - Trusts, federations and holdings – (isomorphism and tipping point)
 - Managerial capitalism and separation of powers
 - The stock market and speculation economy (from industry to finance)
 - Scientific management
- Transnational Corporations
 - Tax havens – avoid laws, regulations and taxes – serious irresponsibility

} growth and
institutionalized
irresponsibility

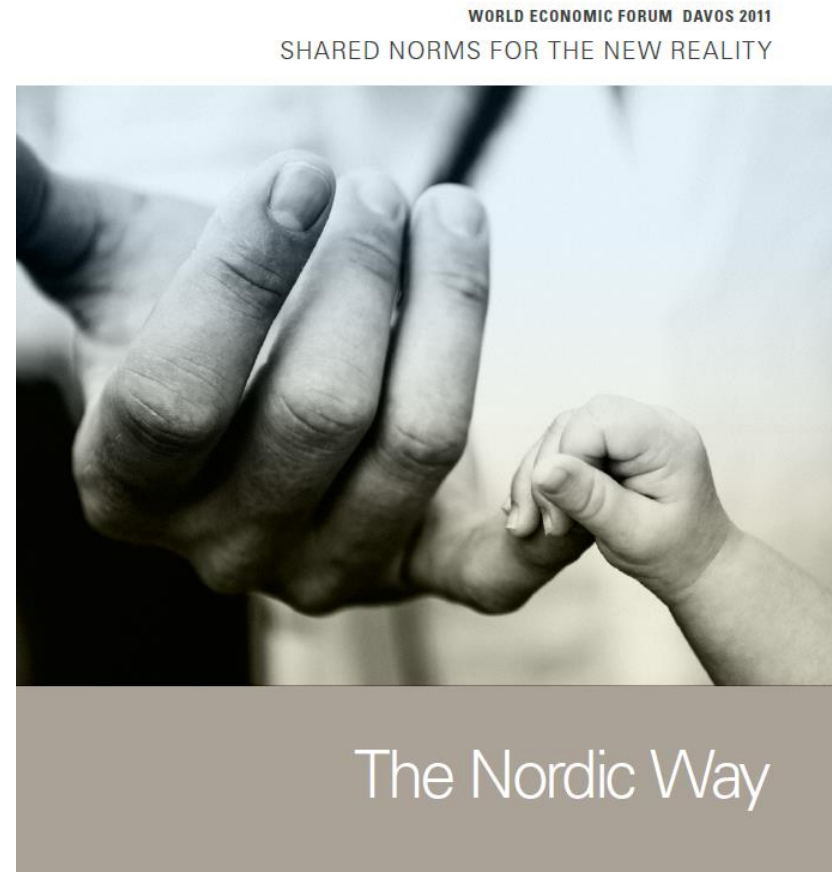
Stakeholder reactions

Employees and trade unions

- Industrial paternalism
 - Partnerships and single industry towns
- Corporate capitalism contributed to
 - Rapid industrialization and urbanization
- Challenges:
 - Working and social conditions
 - Trade unions (collective bargaining)
 - Legalized in 1872
 - Safety, health, working conditions, pay and other benefits
 - Industrial or employee relations
 - Corporatism – Nordic model
 - Human relations and management



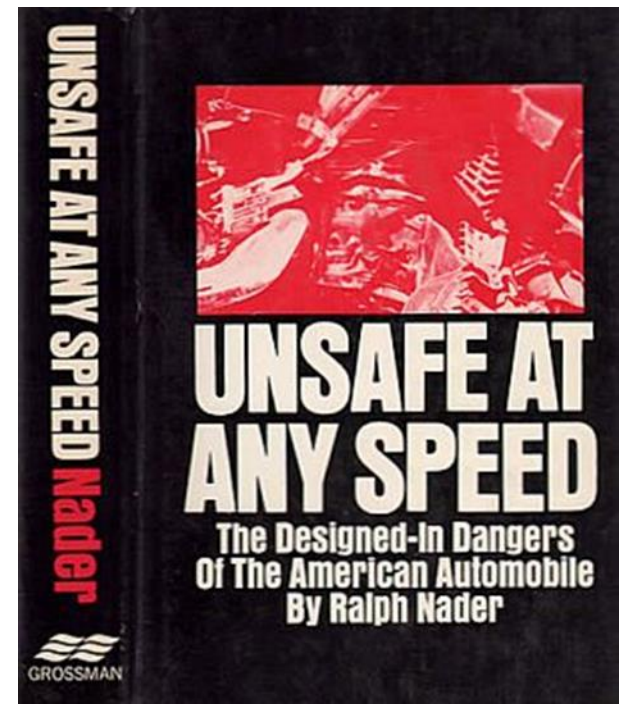
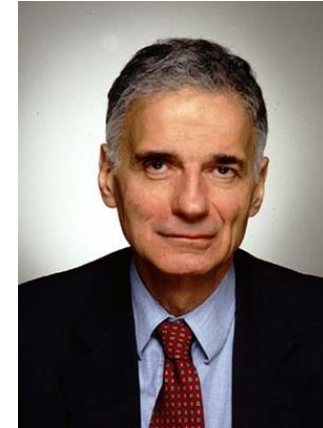
The Scandinavian Supermodel



Stakeholder reactions

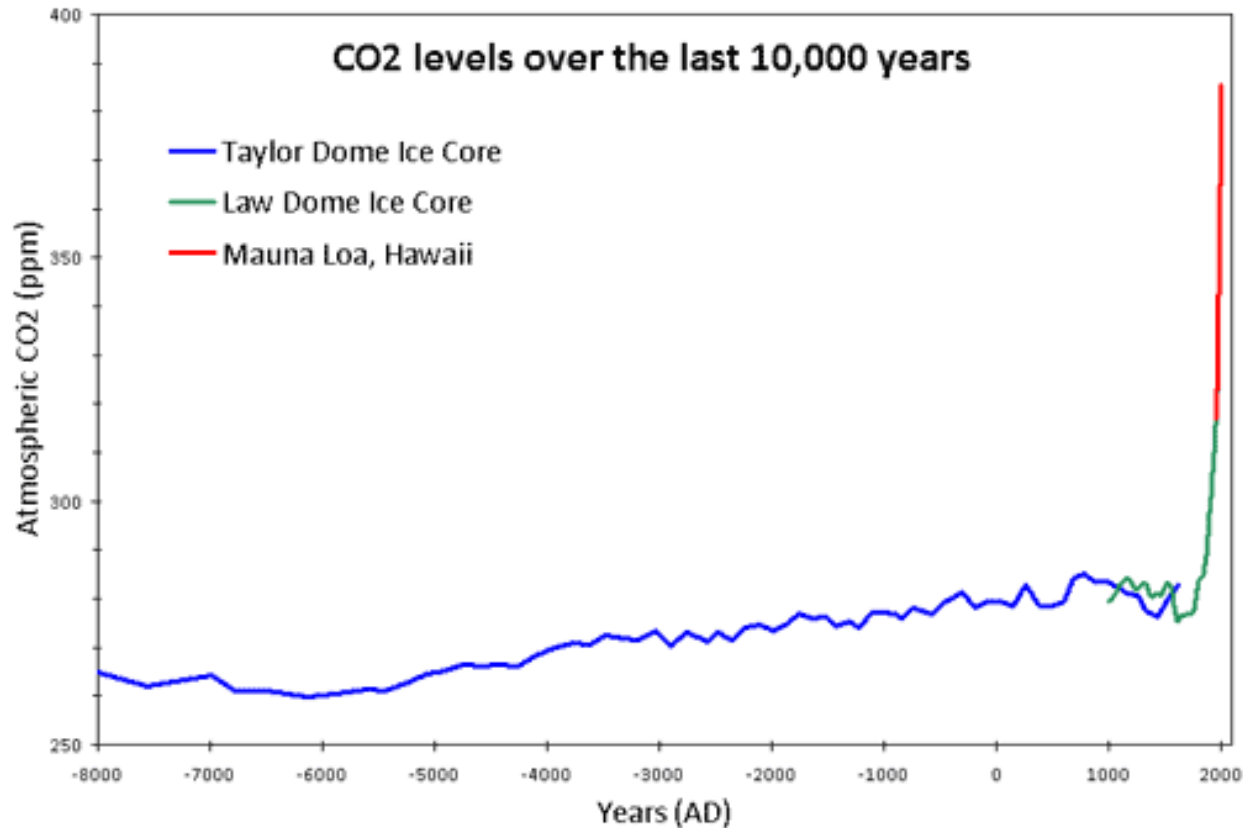
Consumerism

- The Rochdale Pioneers 1844
 - Consumer co-operative
- Ralph Nader – father of the consumer movement
 - His book about GM and their Corvair car in 1965 started it
 - Campaigned on insurance rates on cars in California i the 80's
- Consumer organizations, media and legislation came in the late 60's and 70's



CO2 emission the last 10.000 years

Something happende in the 1800's ?

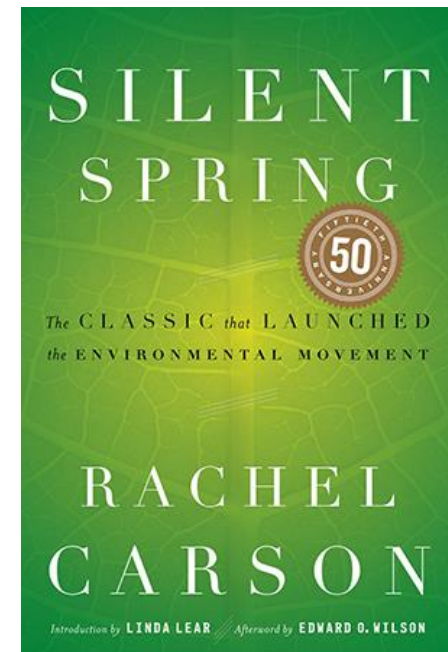


- <http://www.skepticalscience.com/co2-measurements-uncertainty.htm/>

Stakeholder reactions

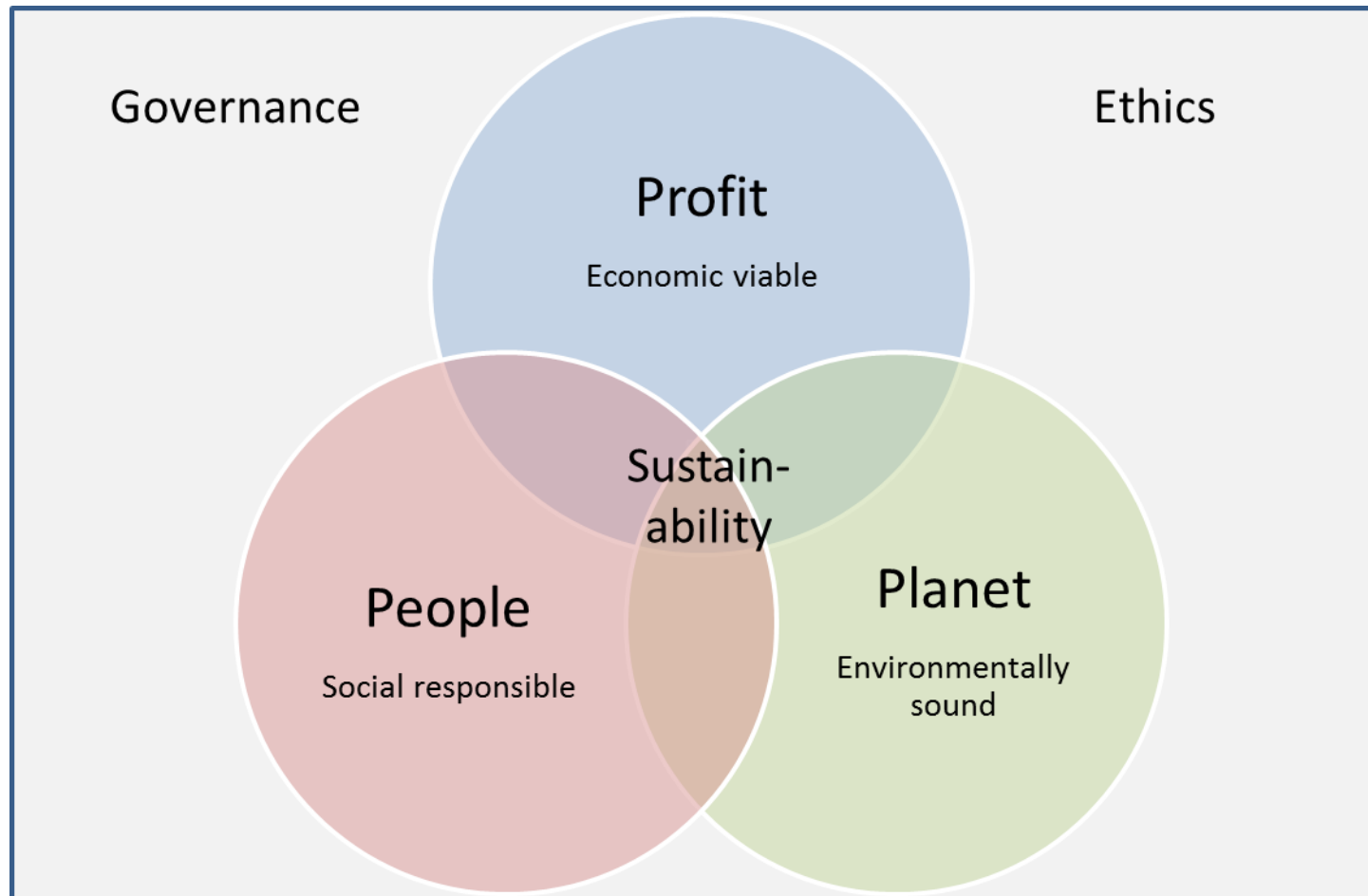
Environmental activism

- CO2 emission increased dramatically
 - with industrialization and corporate capitalism
- The 50's and 60's – 'pollution and denial' and 'smell of money'
- Rachel Carsons – 'mother' of the environmental movement
 - Her book from 1962 about synthetic pesticides and environment had a big impact
 - Led to change of policies, ban of DDT, and the creation of US EPA

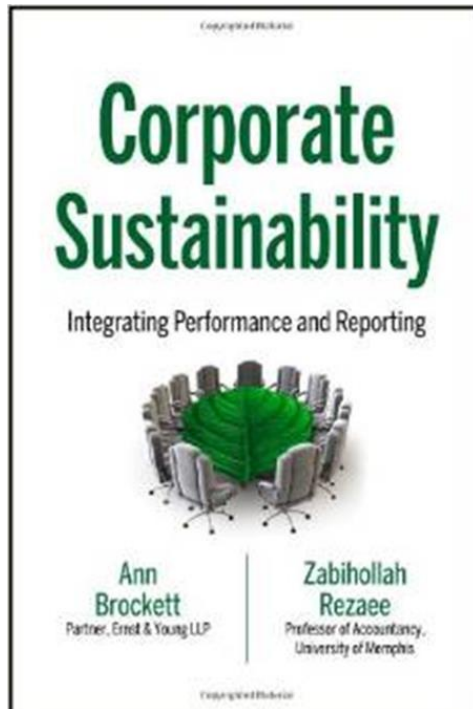


Corporate sustainability

Triple and multiple bottom line



A basic Sustainable Business challenge: Integrating Performance and Reporting



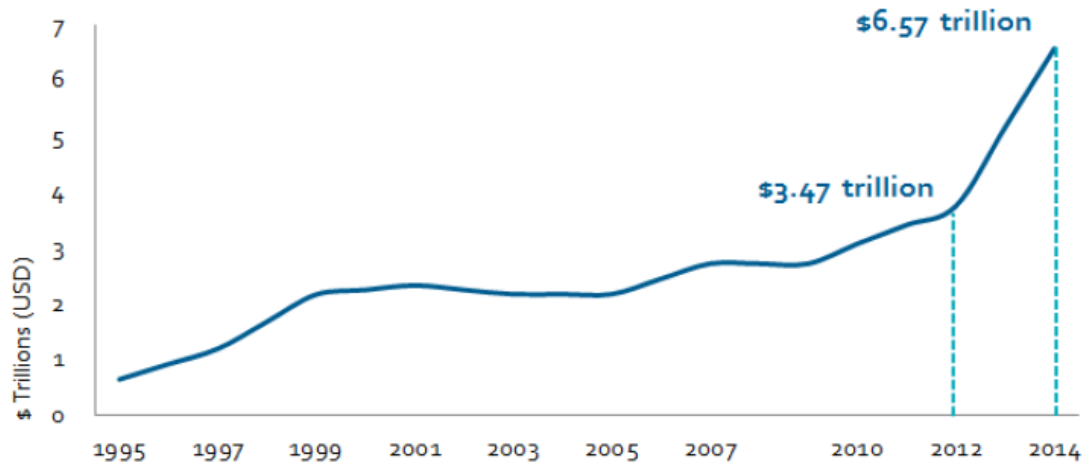
- «Corporate failure is typically a reflection of ineffective corporate governance and the lack of focus on sustainability performance»
- A focus on EGSEE performance and reporting
 - Ethical
 - Governance
 - Social
 - Economic
 - Environmental
- Reporting initiatives (GRI and <IR>)

Sustainable Investments

(Morgan Stanley 2015)

Figure 4 - Professionally Managed US Assets Utilizing Sustainable Investment Criteria

Total volume of sustainable investments nearly doubled from 2012 to 2014

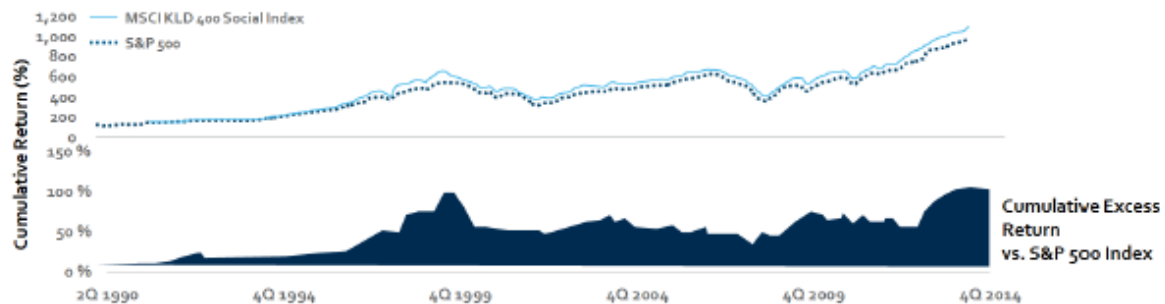


Source: USSIF: "US Sustainable, Responsible and Impact Investing Trends 2014," November 2014.

Sustainable Investment Benchmark

(Morgan Stanley 2015)

Figure 1 – Index Performance – MSCI KLD 400 vs. S&P 500 (July 1990 – Dec. 2014) – USD¹⁷



	Annualized Return (%)	Standard Deviation (%)	Sharpe Ratio	Beta vs. S&P 500 Index	Annualized Excess Return vs. S&P 500 (%)	Cumulative Excess Return vs. S&P 500 (%)	Alpha vs. S&P 500 Index (%)	Tracking Error vs. S&P 500 Index (%)
MSCI KLD 400 Social Index	10.14	16.80	0.42	1.03	0.45	102.36	0.19	2.68
S&P 500 Index	9.69	16.09	0.41	1.00	0.00	0.00	0.00	0.00

Source: Zephyr Analytics

Towards corporate sustainability

- Moral and ideology based
 - Corporate social responsibility (CSR)
- Accounting based and investor initiatives
 - Reporting and accounting
 - Responsible investment
- Transparency initiatives
 - Corruption and tax havens
- Legal initiatives
 - Revision of corporate law
 - Become part of public law (not private law)
 - Beyond shareholder and board primacy – towards stakeholders
 - More information on aims and role of different bodies of a corporations
 - The board
 - Reporting
 - Holding companies take greater responsibility for daughter companies
- Not one single, but mix of approaches

Conclusion

- To fight irresponsibility stakeholder reactions and activism has been important
- A mix of approaches can contribute in creating CS
 - Ideology and moral (and mental constructs)
 - Adjustment of the institutional frame (legal and others)
 - The young and woman are the entrepreneurs and change agents
- Positive learning cases
 - can create isomorphisme
 - that brings us closer to the tipping point
 - and the arena for new sustainable business models
- Ironically, responsible investors might be important drivers