

The page features a decorative graphic consisting of several overlapping circles in various shades of blue (medium blue, light blue, and dark blue) and thin blue lines that intersect to form a triangular shape in the upper right quadrant. The circles are arranged in a way that suggests depth and movement.

# **THE DELIBERATE CORPORATION**

**Moving Beyond Social Business**

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**April 2012**

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## The Deliberate Corporation - Executive Summary

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That we value more than just money or profit seems an obvious truth. How could a modern economy, in Manitoba and elsewhere, better reflect this?

Our group of respected academic, business and social professionals believes significant value – that could lead to a renaissance of economic growth and social achievement if harnessed – is being lost in modern economies. This is happening because institutions and organizations are geared towards short-term, monetary goals that limit the kinds of value they can pursue. This leads to market inefficiencies, causes financial crises and is not reflective of the origins of capitalism. Allowing for a new kind of corporation that can deliberately pursue measurable, non-monetary value is the solution.

**We believe:** Economic inefficiencies (including those responsible for the recent global financial crisis) can be avoided if corporations could deliberately pursue measurable, non-monetary value. These fundamentally different corporations would be more successful in every way by being better able to capture what consumers and investors really value.

**An example of the problem we are trying to solve:** At the moment, members of our group own a company in Sierra Leone that has been built around the value of food security held by our investors, board and local community. We could make more money in the short-term if we exported the rice we produce, yet the company was founded to support local farmers and get more rice to local people who need it. Our obligation to maximize shareholders' monetary value, as a share capital corporation, is putting pressure on us to consider exporting in spite of what we primarily value.

**Our proposal:** Manitoba can take the lead globally and be the first government – anywhere – to accommodate a new and innovative kind of corporation: one that can pursue measurable, non-monetary value deliberately. This new corporate structure is outlined fully in this document, and is defined by making disbursement of dividends (profit) dependent upon the achievement of measurable, non-monetary goals. As suggested by the global trend towards “social” business and investing, a deliberate corporation could effectively harness the power of capital to solve our most important economic, environmental and social problems.

**The authors formally request that Manitoba and other Provincial Governments create a legal and institutional framework for the “Deliberate Corporation” as proposed in this document.**

Such a move could solidify each province's position as a global leader in social innovation, enhance efforts, facilitate an influx of social investment dollars and in Manitoba's case help to make Winnipeg an international centre of Human Rights.

## 1. Introduction: Moving beyond Social Business

Social business is a term made popular by Mohammed Yunus, the Noble Prize-Winning economist whose Grameen Bank has been responsible for the global proliferation of Microcredit. In *The Future of Capitalism*, Yunus defines a social business as "a non-loss, non-dividend company designed to address a social objective within the highly regulated marketplace of today."<sup>1</sup> The purpose of this work, written by the directors of a company trying to achieve non-monetary goals through a business, is to refine and develop this concept from a business perspective and present a better theoretical/practical articulation of its structure and character. Better defining and understanding what a social business can be could shed light both on how social issues could be more effectively addressed, and also on *how we can do better, more profitable business*.

## 2. Defining Value

In light of recurrent global financial crises, and what we take for granted in our daily lives, it is a matter of urgent practicality to explore more efficient ways to achieve what we really value. As business owners, as economists/academics and as people, the authors believe that a new kind of **Deliberate Corporation** (DC) could pave the way to a more prosperous society by better capturing what we value and harnessing it in the context of our markets and economy. Importantly, a DC could be better at achieving long term profit by being better equipped to pursue non-monetary kinds of value.

We all value goods, such as belonging, the wellbeing of others and various moral commitments, which cannot be adequately monetized and are not simply a matter of narrow self-interest. We call these values "Incommensurable." To say two values are incommensurable means that they cannot be adequately compared or converted into each other. The value of a mother's love for her child cannot be converted into a dollar value: To make it commensurable with any amount of money would be to misunderstand the sort of value it is and fundamentally reduce it. What if corporations could deliberately pursue these values? It is our belief that this would enhance their long-term profitability and, more importantly, enable them to achieve incommensurables that we value as individuals and as a society. In order to understand how this is possible, it is essential that we examine the limits of the assumptions that define our institutions.

## 3. What Do Our Institutions Value?

The current emphasis of our Economic institutions (EIns) and Social Institutions (SIns) on self interest and profit has its roots in a popular view of human nature, supported by the Enlightenment tradition:<sup>2</sup>

<sup>1</sup> Yunus, Muhammad (2009). *Creating a World Without Poverty: Social Business and the Future of Capitalism*. Public Affairs. pp. 320. ISBN 978-1586486679.

<sup>2</sup> We simplify here but these and the following ideas may be learned from: the exchange between Hume and Kant; Marx; several Feminist thinkers; Judaism and Christianity; Critical Theorists and likely from many others.

I. The Enlightenment brought us several versions of Social Contract theory which followed a familiar route. They begin by describing our self interest as a matter of nature, whereby humans are naturally selfish, fearful (diffident), competitive, materialistic, even violent. Love, empathy and compassion were not regarded as comparably central to our nature.

II. Since widely held philosophical traditions teach that human nature is characterized by self interest, social institutions (such as democracy and capitalism) have been designed to harness self interest towards positive ends. In doing so, our actual political/economic institutions often render all values (falsely) commensurable to each other, to self interest, and to market value (dollars).

III. In turn, the institutions designed to harness self interest are ones in which individuals see and experience self interest exercised as a regular practice. People therefore feel that what they have been taught about self-interested human nature and its justification of the free market *is true* of humans: *pedagogy and experience mirror each other*. Self interest is conceived as the only, or at least best, way for us to pursue individual and social goals. From the Adam Smith's invisible hand to the power of democracy, we generally assume that people pursuing their own self interest is good for individuals, and good for society.

However, there are other views of human nature, which include our empathic characteristics. Indeed, science tells us that our primary connection with the universe is empirical, or through our sensory experience. That we experience the world through our senses means that our feelings are of primary importance. While some of these feelings are of self interest, others are also of love, compassion, empathy, and a desire to actually belong (identity). We may be motivated by love and compassion as well as fear and self interest. Competing views suggest either that our empathy and desire to belong are primary drives (with fear and self-interest being secondary drives that kick-in when the first drives are frustrated), or that our nature is equally capable of both (without putting priority on one or the other). In either case, the recognition of different aspects of human nature suggests that a different, corresponding set of SIns and EIns could be appropriate for realizing the kinds of value related to our empathic desires: the kinds of value which cannot be fully expressed or realized in terms of self-interest. We believe these kinds of value – which, if we admit to our emphatic characteristics, we must admit exists – are not being effectively harnessed by economies and institutions based upon self-interest. If these kinds of value were deliberately pursued in the context of our institutions and economy, we could experience a renaissance of economic growth and social achievement.

#### 4. A Deliberate Pursuit of Value

What does it mean to act deliberately? *We act **deliberately** when the product of our activity is our goal:* when the immediate consequence of our actions is our end rather than the means to it. By contrast, conventional economic actors, and many people in their daily lives, pursue their values indirectly

through the market. They work at a job or career producing something they do not want or need, with the plan of selling it (or getting wages). They earn money, deposit it into a bank, withdraw it at a point of purchase, and then finally have what they were aiming at. The conversion of the value of their labour, to wages, to cash, to some other product or service, requires that all of the value involved at each transaction be made commensurable to money through the assignment of a market value. Yet value is often lost in these conversions. A corporation merely extends the scope and scale of the individual in the indirect pursuit of value.

A “Deliberate” pursuit of value is more direct, efficient and independent from the volatility of markets. For instance, we are not at the mercy of global commodities indexes if we grow our own food and eat it. By contrast, if we grow only lettuce and plan to sell it, but there is an unanticipated drop in its market value after harvest, we could go hungry despite having been successful in the real world. Deliberate action brings us in touch with what we really value by making it our immediate goal. The importance of this kind of direct action and independence is demonstrated by political science, which ascribes intrinsic value to sovereignty. There are also clear economic benefits to acting deliberately, which is one reason why a Corporation able to act in this way could be a more effective economic unit. Some of the economic benefits of acting deliberately have been chronicled in *The Oasis Project* developed by Dr. Alex Zieba:

### **The Oasis Project**

I had a lot of reasons for engaging in the OASIS project. I was working on my Ph.D. and found that I needed experience, rather than more arguments, to answer questions about *work* in terms of the relationship between *what we do* and *what we get* in return. I could not *argue* in favour of the *Deliberate Life*. I was aware of my peers settling down and I wanted roots, and in my family background that always meant a farm of my own. Like everyone, I had need for at least some cash, food, fuel, housing, exercise and friendship.

I resolved to live as a homesteader in the middle of a modern economy, using cash for as few needs as possible. There is no other way to pay your taxes or insurance. But to grow food, build housing, cut fuel, carry water...satisfy my own need for exercise...these I could do. I first built a greenhouse from used windows and used wood (i.e., “garbage” other people threw away), in which I lived in for four springs, while running the farm and finally building the house. I borrowed \$27, 000 for material to build the house, which left me with a \$152.00/month mortgage payment, and less than \$1000 a year in taxes. It meant that, even though I only generated \$12,000 to \$15,000 a year selling vegetables and working as a handyman (using skills and tools from the farm), my cash expenses were few enough that I could use \$6000 of it on improvements or the mortgage. By contrast, if I had been working at the U of T as a professor during those same years, making a \$50,000 salary, it is unlikely that I would have enjoyed home ownership, organic diet, as much free time, and still have been able to save \$6000 a year (since I would have had to live in Toronto...).

All-in, I invested about \$85,000 in the OASIS project, most of it obtained from the project itself as sweat equity. I lived in this house for 9 years, with no electric bill or water bill or gym bill, enjoying the food produced from the local soil. When it came time to call the project over, I sold it for \$130,000 and still hold the mortgage on the property. It remains an important example of how the deliberate pursuit of value can make better economic sense – even in the context of a modern 21<sup>st</sup> century economy.



*The Oasis Project, 2009*

## 5. The Economics of Interdependence

The problem we now encounter with deliberate action is that we cannot pursue *everything* deliberately any more than we could all revert back to pioneer life. It would be foolish for us to individually mine iron ore, or build complex machines, deliberately. This then leads us to a necessary corollary to acting deliberately: to act **interdependently** where individual deliberate action is either impossible or completely impractical. We should recognise which method achieves which goals best, under which conditions, *with the least loss of incommensurable value*.

Some kinds of value can be more efficiently pursued deliberately, but not all values can be pursued this way. That which we should not pursue deliberately can be more effectively pursued through what we call “the economics of interdependence”. Interdependence is inherently involved in non-deliberate action: if we cannot build the car ourselves, we are immediately admitting a kind of dependence upon those who can. Citing H.D. Thoreau, Dr. Zieba recognised while building his house (deliberately) that every nail he drove was a testament to industry. This willingness to be dependent upon others allows

for specialization and scale, a foundational aspect of modern prosperity. It allows for the sophistication essential to 21<sup>st</sup> century economies. Yet interdependency has significant implications for how we should pursue what we value, implications that can be lost when economic institutions and agents focus too much on self-interest.

We all recognize that in the scope of social or political relationships, it is usually more effective to be cognizant of one's interdependence than to act in a purely self-interested fashion. Self interest would suggest that we aggressively pursue our own goals at the expense of others' (in a social context, "being selfish"). Interdependence would however suggest that self interest is not always the most profitable way to proceed. As it turns out, nice guys don't always finish last. In fact, it is often by assisting others – even if this comes at the short-term expense of our own goals – that our own long-term success is achieved. The choices we make as individuals on a daily basis reflects this essential truth that we do not always pursue our goals in the terms or scope of self-interest. We often do better, especially in a long-term scenario, by working together. There are also goods like governance, public safety, or community health, which we cannot attain working alone.

We can and should extend this logic to business. As a company, it stands to reason that we will do better if we do well for those we depend upon: our customers, our employees, our suppliers and our communities. In fact, it will often be very profitable in the long run if we do so. The paradox here is that being a good corporate citizen cannot therefore be justified in terms of quarterly or annual profit. Reputations, social institutions and goodwill can be difficult to achieve in one or two years, though these are the fabric of our interdependency. The need to demonstrate profitability on a short-term basis therefore wears out this fabric, consuming our social and environmental capital.

Observing the reality of our economic interdependency suggests that a company which can deliberately appeal to considerations of interdependence (rather than being limited to short-term profit or the terms of self interest) will do better for everyone involved, and be more profitable in the long term. The boxed example on the following page describes the problems Nortel encountered in its business that eventually led to its decline, and demonstrates why this is a point of the utmost practical importance.

We therefore need corporations that can pursue objectives in both a deliberate and an interdependent way. Clearly, in both cases, the requirement for corporations to make all values and considerations commensurable with short term monetary gains is the problem. We are proposing in this document a solution: a new kind of corporation that is able to actively and primarily value non-monetary goals; one that can appeal to different primary considerations than short-term profit in its decision making. This new kind of corporation could be more profitable in the long run, achieve important non-monetary (incommensurable) goals and avoid the serious problems created when short-term profit is the primary motivator:

### Box 2: *You've Been Liquidated*

Nortel, a successful IT company, was accused of laying off a significant portion of their staff on a cyclical basis to reduce projected wages, which in turn increased projected profits (based on existing contracts). This improved the price of shares and generated bonuses for the managers who made the decisions. However, accusations of creative accounting and shareholders who felt they had been manipulated eventually led to Nortel's decline.<sup>3</sup>



Decision makers in the United States of America's financial sector made a killing by using derivatives instruments that many prominent economists claim they must have known would fail as they did in 2008.<sup>4</sup> The focus on short term profits harmed Nortel and devastated the Global Economy.

<sup>3</sup> Bagnall, James. (2012/01/10). NORTEL'S NUMBERS: Accounting for the Errors. *Ottawa Citizen*. Retrieved from [www.ottawacitizen.com/business/Archive+NORTEL+NUMBERS+Accounting+Errors/5973956/story.html](http://www.ottawacitizen.com/business/Archive+NORTEL+NUMBERS+Accounting+Errors/5973956/story.html)

<sup>4</sup> Wallison, Peter J and Burns, Arthur F. *Financial Crisis Inquiry Commission, Dissenting Statement*. Stanford UP, Stanford CA. January, 2011.



## 6. A New Kind of Company

**Social Investing** is a well-worn buzz word and the concept of a “social business” has gained international traction after Nobel-prize winner and inventor of Micro-credit, Muhammad Yunus, suggested that such structures might be the “Future of Capitalism.”<sup>5</sup> This momentum has reached Canada, with Philanthropic Foundations Canada recently recommending that all funds commit a minimum of 10% of their portfolios to social investments.<sup>6</sup> Yet both social investment and social business has to date been seen largely as a matter of giving up cash returns in exchange for often intangible “social returns.” But if we refer to the *benefits* of deliberate action and the awareness of interdependence, the desire of so many to see business achieve “social” goals could be converted into the development of a more effective economic agent: one fully in and of the economy, aggressively and fully pursuing a higher purpose while being more profitable as a result. The ability to pursue primary yet non-money values, in a deliberate or interdependent fashion where required, could simply enhance long-term profitability of a corporation. This would surely help us avoid incentive structures that have led companies (Nortel) or economies (America, 2008) into trouble.

This new kind of corporation could succeed in attracting the capital of social investors and use it to effectively realize both monetary *and* incommensurable value. In order for all of this to happen, laws and institutions would need to accommodate a new corporate structure. It will be called for simplicity’s sake a “*Deliberate Corporation*.”

## 7. Defining a Deliberate Corporation

It is hard to deny that the immense challenges facing humanity in the 21<sup>st</sup> century *require* the scale and power of markets and capital to be addressed effectively, and in time. Deliberate Corporations could effectively harness the full potential of modern economies in pursuit of all kinds of non-monetary value, and do just that.

A “Deliberate Corporation” (DC) should be legally required and structured in its articles of incorporation to appeal to different primary considerations than just short-term profit in its decision making. To structure this into the corporation’s articles and activities, dividends would be paid to shareholders *only if and when* a DC achieves clearly defined, measurable, non-monetary and subsisting goal(s). Rather than calculated as a function of revenue minus expenses, dividends could be linked instead to a comparison of actual to target achievement of such goals. In years where profit is high, and these indicators are lower, the company would be forced to re-invest its excess back into achieving its main activity, and/or adjust activities to achieve the real goals of the organization – the good(s) it has defined as its primary, incommensurable value(s). It is the belief of the authors that this would provide a compelling, structured and legally binding way for corporations to be deliberate in their pursuit of non-monetary kinds of value. It would also make for more effective business activity; where decision

<sup>5</sup> Yunus, Muhammad (2009). *Creating a World Without Poverty: Social Business and the Future of Capitalism*. Public Affairs. pp. 320. ISBN 978-1586486679.

<sup>6</sup> Susan Raymond, Exec VP of *Changing Our World*, PFC Conference October 3<sup>rd</sup> 2011

makers are *forced* to set aside short-term profit (and in some cases self interest) in favour of other kinds of value that could enable broader, longer-term and non-monetary considerations to be primary.

DCs would therefore be enabled to pursue incommensurable values directly and deliberately, by linking dividends to the achievement of related, measurable, non-monetary goals. This would provide a language of value far more sophisticated than that of short-term profit, and enable them to harness the benefits of both deliberate and interdependent action. A move to institutionalize and legally accommodate such a corporation could build on existing legal precedent,<sup>7</sup> allow Manitoba to take advantage of social investment dollars, and create an agent better geared towards *both* economic and social goals. It could be defined as:

**A “Deliberate Corporation”:** A corporation that deliberately pursues a quantifiable, non-monetary value by making specific incommensurable value(s) primary. The Deliberate Corporation will pursue this incommensurable value as its main measure of success: management incentives and distribution of profit will depend upon the attainment of specific, related goals and objectives.

## Defining legal and operational characteristics:

- I. A DC must have clear, incommensurable and yet measurable goals and targets which its shareholders will demand of it and which it will be required by law to pursue. These goals and targets must have clearly defined quantitative indicators. They will be sought independently from profit but do not have to be “charitable” or “social” by any definition. Incentives (like board compensation, bonuses, etc.) should be tied to these goals.

A company which values food security more than profit could have the following incommensurable goals (in practice there would be specific targets, but for simplicity’s sake these are not present):

- i. *To annually increase rice sold in Sierra Leone.*
- ii. *To annually increase goods and services delivered to local farmers.*

- II. The goals and targets described in I. must be structured to guide the DC’s activities and high-level decision making. Therefore, a DC will have *dependent dividends* incentivizing it on all levels to pursue a particular incommensurable value directly and deliberately. Dependent dividends would cause profit to be distributed to shareholders **more or less depending on how well the company achieves its incommensurable goals and targets, not on how much profit the company makes.** While the pursuit of incommensurable goals and related targets would characterize the Deliberate Corporation, these specific goals could be different for each DC.

<sup>7</sup> Potential precedent for expanding the responsibilities of a corporation beyond shareholder’s monetary interests exists in *Peoples Department Stores Inc. (Trustee of) v. Wise*, [2004] 3 S.C.R. 461, 2004 SCC.

- III. Regular, independent third party review of DCs will be essential. This must include annual audits that cover company activities and are available to the public. These audits should be required for submission to a regulatory body responsible for oversight. Failure to post audits, or failure to follow the structure and pay dividends in a dependent fashion, should result in a DC losing its status and possible fines/penalties (for instance, directors could be personally liable to repay improperly disbursed dividends).

## 8. Request for Action

The authors formally request that Manitoba and other Provincial Governments create a legal and institutional framework for the “Deliberate Corporation” as proposed in this document. Such a move could solidify each province’s position as a global leader in social innovation; facilitate an influx of social investment dollars; and in Manitoba’s case help to make Winnipeg an international centre of Human Rights.

For more information on how to get involved, please visit [www.deliberateeconomics.com](http://www.deliberateeconomics.com) or contact the authors at [alex@deliberateeconomics.com](mailto:alex@deliberateeconomics.com) and [jason@deliberateeconomics.com](mailto:jason@deliberateeconomics.com) .