A New Stock Exchange
Where People and the Planet Matter

By Michael Sauvante

What if there were a stock exchange where society and the environment were the top priority and profit a means to maintain continuity and not an end in itself? What if the corporations listed on such an exchange were valued based on how well they served society instead of solely by short-term profit?

Prosperity for the Few

Capitalism and its principal expression, corporations, have become the dominant economic model of the 20th and 21st centuries. Save for monarchs, the nobility and the church, no institution has produced such an aggregation of economic power as we see in the modern corporation. And as in the past, the benefits and control of that power rest largely in the hands of a few.

Now largely unchecked, that power has begun to consume its creators. Nowhere is that more apparent than in its near universal control over our political system. Banks and other financial institutions, energy, insurance, pharmaceutical and media companies, and just about any large industry can easily buy Congress to obtain their objectives. They do so blatantly at the expense of a public that seems powerless to stop them.

We have begun to realize that, through the power we have granted corporations and the perpetuation of faulty economic models (especially trickle-down economics), we are courting calamities, from climate change to massive societal dislocations, institutional breakdowns and catastrophic meltdowns in the financial system.

The near religious belief in free market capitalism and massive consumerism has put humanity on a collision course with global limits that are forcing a fundamental reassessment of humanity's needs and priorities. While appearing to create wealth and prosperity, the modern corporation, in pursuit of its legal mandate of solely focusing on shareholder value, has actually created lasting benefits only for the few and significant problems for the many.

Do any corporations behave in a manner that the majority of society would view with approval? The pressure by the investment community on CEOs and boards of public corporations makes it nearly impossible for the management of a public company to pursue anything other than pure profit (and short term profit at that). To do otherwise is to virtually guarantee shareholder lawsuits. And historically, courts have ruled nearly universally in favor of investors, because the laws that define the rights and responsibilities of corporations and their managers place those shareholders above all others.

Private Companies Show the Way

Corporations that behave in a more environmentally and socially benign fashion (at least do no harm), or in rarer cases where they are viewed as beneficial to society and the planet, are almost always found among private corporations. The consequences of that reality are poignantly described in a book by Bo Burlingham entitled "Small Giants: Companies that Choose to Be Great Instead of Big."[1]

Burlingham found that thousands of small and medium-sized companies elect to remain private in order to conduct business in a manner more consistent with their values and objectives than would be possible if they went public. They prove that corporations are not inherently flawed and in fact can be very beneficial to humanity. The 14 companies he highlights serve as a model for what corporations could be like if they were freed from the profit-only mandate.

How can we get this public corporate monster that we have created to behave more like the corporations Burlingham writes about? How do we get capitalism [2] to heal itself and become an instrument of healing for society and the planet? [3] In contemplating any solution, we need to recognize the substantial inertia represented by entrenched interests and simple habit on the part of most participants in the capitalist system. Buckminster Fuller had a solution for this. "You never change things by fighting the existing reality," he said. "To change something, build a NEW model that makes the existing model obsolete."

How to Change Corporate Behavior

Step 1: Modify the key laws under which corporations are formed and managed. The current laws nearly universally mandating a primary objective of profit maximization need to be adjusted to make provision for other purposes. That idea is explored in depth in the article "Rewiring Corporate DNA." [4]

Step 2: Determine what must be done to motivate the behavior we would prefer. The current driver can be found in the institutional gambling casinos we call stock exchanges.

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[1] See the following interview with Bo Burlingham, Editor at Large for Inc. magazine and author of "Small Giants: Companies that Choose to Be Great Instead of Big" (http://www.smallgiantsbook.com). Interview at http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2006/02/21/BUGFTHARMB1.DTL

[2] Capitalism is currently defined as "*An economic system in which investment in and ownership of the means of production, distribution, and exchange of wealth is made and maintained chiefly by private individuals or corporations, esp. as contrasted to cooperatively or state-owned means of wealth*", taken from Dictionary.com.

[3] We suggest that capitalism needs to be redefined as "an economic system in which investment in and ownership of the means of production, distribution, and exchange of wealth is made and maintained chiefly by private individuals and business entities (*like the old form of capitalism*), wherein a business formed under this system is valued on the basis of its ***intrinsic value*** reflecting its interdependent relationship with, and successful service to, all its stakeholders: including its owners, employees and contractors; its customers and suppliers; the society in which it operates; and the physical environment in which it interacts (*as contrasted with conventional for-profit capitalism wherein a business was traditionally valued on the basis of its **speculative value** derived solely from its projected profit making potential for its owners*.)"

[4] http://www.novaquestventures.com/rewiringcorporatedna.php

Stock exchanges are the meeting places where buyers and sellers exchange their ownership interests (stocks and other instruments) in these public corporations. Almost all bad corporate behavior can be traced to the singular focus on maximizing the short-term value of stock on such markets. Investors place “bets” on the future value of that stock by speculating on whether the stock will go up or down. Such speculative betting is frequently divorced from the true or inherent value of the corporation and its business, rather reflecting how effectively management will “play the game” and what external forces will impact their effectiveness.

As a consequence, most managers do everything in their power to give their corporation a competitive advantage, which includes trying to game the system in their favor. This leads to their getting legislation passed that supports those goals, even to the detriment of society, the environment and all others. That chain of behavior based on maximizing stock price needs to be broken.

The solution is to change the motivator, i.e., the premise that a company’s value is tied to its short-term profitability. We need a fundamentally new way to value a company’s stock that motivates the kind of behavior we want. Then we need to provide public corporations with a way in which their company’s stock can be bought and sold that reinforces that behavior.

The key is to require that a business formed under this system be valued on the basis of its ***intrinsic value*** reflecting its interdependent relationship with, and successful service to, all its stakeholders, including owners, employees and contractors; customers and suppliers; the society in which it operates; and the physical environment in which it interacts, *in contrast to conventional for-profit capitalism wherein a business is traditionally valued on the basis of its* ***speculative value*** *derived solely from its profit-making potential for its owners*.

Intrinsic value replaces speculative value as the foundation of the new paradigm. Participants under this new system agree that companies will be valued based on their real and inclusive value to society and the planet and not on just their profit-making potential.

A New Kind of Stock Exchange

In order to achieve this objective, an entirely new kind of stock exchange is needed, one that operates under a new set of rules. The contrast between the old and new rules can be simply described as:

- Old Rules: Companies and their managers - prove that you are not crooks and not out to harm shareholders, the only stakeholders. The sole focus here is compliance, i.e., does a company follow the law? No attention is paid to the business’ viability and whether what the company is doing is useful or needed, or to what harm it may be causing as long as what it does is legal.
- New Rules: Companies and their managers – prove that you are doing everything you can to be socially, environmentally and economically responsible to *all* stakeholders, including employees, suppliers, customers, shareholders, society and the planet. The

focus here is whether the company is serving a useful purpose to society and is doing so in a responsible way.

In essence, this new exchange would require the listing companies to operate on a different set of parameters than those found on other exchanges. The starting premise is that any company wishing to list on the new exchange be organized *for the common good* and not just for shareholders.

The value of these new corporations and their supporting institutions would reflect the value of their contribution of *meaningful goods and services* that address real needs, in other words, the *intrinsic value* proposition described above.

In order to derive that value, a comprehensive set of guidelines will need to be developed upon which each company would be evaluated on social and environmental as well as economic terms. Transparency and disclosure must be far more extensive under these new rules than the rules of the other exchanges. Even accounting systems and principles have to be modified to recognize and account for factors not anticipated in what is now the generally accepted accounting principles, including new economic as well as social and environmental factors.

The valuation of each company would be based on how well it measured up against *all those factors*. This system would eliminate speculation. Valuations would be based on the true, quantifiable, intrinsic value of the companies and not upon market whim and manipulation.

Companies would have a clear and unambiguous set of guidelines against which they and the public can transparently gauge both their behavior and the resulting value. That means that if the managers, board of directors and shareholders would like to grow the value of the company, they can simply look to those guidelines for areas that they can improve on and know that doing so will directly and positively impact their stock price.

This would result in a direct correlation between the value of the stock and the behavior of the company.

This effect can be enhanced if the stock exchange establishes priorities and objectives, such as poverty, pollution, global warming, lack of food and water and disease eradication, and places an economic value on them.

Many of these problems could be solved today, but do not represent a financially attractive target for businesses stuck solely on a profit maximization model. Under this new model, a company can be rewarded with a higher stock price for addressing those needs. Thus drug companies, for example, would be incentivized to develop cures for diseases in developing countries even though currently they might not profit from that effort.

The exchange could also create special incentives for two or more companies to combine their efforts so that the contributions of one might augment the contributions of the other. For example, one company might be serving the needs of a very financially profitable market (therefore generating lots of traditional profit), which doesn't necessarily produce much in the way of social and/or environmental benefit. Under the new stock exchange, a financially successful company might not have a high stock value, although paying its employees well, limiting the pay of its upper management and otherwise practicing good corporate citizenship would tend to raise the value.

Such a company might team with another company that produces a very high social or environmental benefit but lacks the means to stay afloat financially. Combined, their strengths complement each other and the stock exchange can establish rules that would produce a combined value of the two companies that is greater than the simple addition of their independent values. Thus each would be motivated to combine with the other for more than just their business synergy.

Corporations, just like people, behave based on how they are measured and rewarded. It is time to establish a system that measures and rewards the behavior we want.