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Climate Change and Sustainable Finance - Jaap Winter

In many ways, we come to the end of the ways in which we have decided to live in our world and to organize ourselves. We have to design a reset, fundamentally, in many different ways.[1]

Climate: It is typical for human civilizations to exhaust their environments, see the books of Jared Diamond, in particular Collapse (2005). Vested interests in the status quo typically prevent real change that is needed. In the past this only had local effects; humans, other humans could build up and continue elsewhere. Now for first time in human history we are at the brink of exhausting, destroying the earth as a whole. Vested interests still prevent a fundamental system reset, but the pressure to change is building up. Governments, most governments seek to respond, however hard that is, see the Climate Agreement of Paris and the EU Green Deal. Business is responding too, not only technically to develop technologies that liberate us from fossil fuel, reducing or completely doing away with waste, but also through innovations like the movement away from owning assets towards using assets and towards transport, light etc as a service, introducing incentives to reduce the need for material products and the waste and pollution that come with them.

Capitalistic system: There are many ways to describe what has been going on, but some features of the current economic model are: relentless competition that assumes there are ever-existing opportunities for growth (which clashes with earthly exhaustion); the costs to all, public costs such as the environment, climate, social costs to the community, are typically not included in private pricing unless regulated (which is not easy to do) and are deemed externalities for which private parties apparently have no responsibility; the tendency of ever increased inequality, see the debate launched by Thomas Piketty; the tendency of ever increasing distance between the location where value is received and the underlying production process, see Paul Mason, Postcapitalism (2015); and capital markets and institutional investment that reduce companies to balance sheets of assets and liabilities that can be transacted separately, generating value of some sort to buyer and seller ignoring the societal cost of disintegration of the company and its business. The focus on Environment, Social Affairs and Governance (ESG) to large parts of the investment community is only a side issue, at the best factors that exclude certain investments, but not driving investment policy.

Organization, regulation, remuneration: the way we organize ourselves is also running up against its limits. Generally, in the public space and in the private space we design processes, regulations and whole bureaucracies to order how people should behave, what they should do and deliver and how they should be controlled and incentifized to do the right things. One common theme is excessive rationalization of processes, controls, incentives, systems, of the whole bureaucracy, focused on ever more efficiency. Max Weber

[1] See more extensively my paper Dehumanisation of the large corporation, http://ssrn.com/abstract=3517492.

already explained in the early 1900's how this process is on-going and how in the process human values disappear, are organized away. Our corporations, but also universities, hospitals, the judiciary system, government departments are all suffering from this reality, in which we as humans are disappearing. The finance industry is also a case at hand. The regulation and supervision is ridiculously dense. It trades in human judgement and responsibility for rules, regulations, processes, controls. It is a response to clear examples of irresponsible behavior that almost took the whole financial system down. But paradoxically as a result people will feel less responsible for the consequences of their behaviour. TS Eliot wrote in the choruses of The Rock in 1934: "They all try to hide from the darkness outside and within, by dreaming of systems so perfect that nobody needs to be good." We no longer rely on the inventiveness, judgement, and values of humans, but on systems and processes. One striking effect of this in large corporate environments is the trend to organize vitality of employees through training programmes. One friend of mine who has made a business of doing just that said it is a pretty useless and hopeless business: they patch people up in order to send them back to the trenches of the organization where they get disabled again. I published about this several times, gave interviews and received many responses, all of people who had left these toxic environments for other places where they could breathe again, apply their judgement, became energized and human again. I received little response from those who seek to survive in these bureaucracies by accommodating.

Digital technology, Data, Artificial Intelligence: New technologies create massive disruption in the way that we work, organize ourselves, communicate and deal with information. New technologies can certainly further human society, but the most visible and successful examples today continue the old capitalistic system of value extraction at the cost of established communities and people. Uber creates higher levels of consumer benefits, at the costs of drivers who cannot build up a sustainable existence, with value exclusively syphoned off to owners of platform. Amazon has disrupted the retail sector in US and Germany, putting small firms out of business but that is not its concern. The data industry lead by Google and Facebook reduces people to bundles of statistical data with probabilities of preferences and behaviours, making Heidegger's idea of people being ordered by technology (Frage nach der Technik (1954) all the more acute, and that imposes surveillance capitalism on all of us who use it, as Shoshana Zuboff (2019) calls it. Artificial Intelligence that can replace repetitive work we do, but of which we do not yet know how to ensure it will remain 'human compatible' when we no longer comprehend how it works, as Stuart Russell describes it (2019).

The picture is not nice, it is threatening. Some have told me my view is dystopic. And it is true I am really concerned. Erich Fromm wrote already in 1956 that our society is no longer sane, combining in his thinking core elements of Karl Marx and Sigmund Freud. For me however, this is not a signal of despair, to give up, but precisely the opposite, to start to do much better. I am convinced we can do much better. I believe human ingenuity and human judgement can be applied in such a way that we can handle these problems much better. But we have to refocus on what makes us human. We need social and societal innovation, equally fundamental and disruptive as the technological disruption we witness. Innovation that refocuses on what makes us strong and kind, resilient and caring, effective and social, taking responsibility for generations to come and taking care of the here and now. In short what it is to be human in our modern times. I mention a few areas in badly need of social innovation:

- We need to fundamentally rethink the corporate law setting. Over the last 30 years the leading approach has been that companies exist in order to create value for their shareholders, and only that. After the governance crisis of 2002 and the financial and economic crisis of 2008-2012 we see a strong trend away from this shareholder value model towards, and mostly: back towards a broader stakeholder model (Robert Reich documented in Supercapitalism (2008) how in the 1950s CEOs of large US companies explained their roles as to balance the interests of various stakeholders – the Business Roundtable Statement of 2019 brings them back to where they were; many EU countries have had a long standing broader stakeholder approach as a central feature of their corporate law but nonetheless did not resist a strong shareholder focus in the past decades). But is that enough? The ease with which in EU stakeholder models a unilateral focus on shareholder value has become dominant over the last decades indicates that it is not enough to ask boards of companies to balance the interests of all stakeholders. Beyond the broader focus on stakeholders we need to establish the principle that corporations have a duty to conduct themselves as responsible corporate citizens (see the King IV corporate governance code of South Africa), subject not only to legal norms that can be enforced, but also to social norms we as humans value, ensuring that business organizations are becoming human organizations again.

- If we are serious about the broader stakeholder approach we need to involve other stakeholders also in the governance, in the decision-making of the organization. A broad stakeholder concept implemented in a governance model in which only shareholders have a role in the decision-making process was perhaps balanced when shareholders were also practically disenfranchised or not assertive in exercising any rights they had. The board simply could do the balancing act without any stakeholder really interfering. But the corporate governance developments over the last three decades created expectations and realities of shareholders becoming actively engaged in the governance of corporations. In such a context true broad stakeholder orientation is not realistic, shareholders have the final say. We could innovate and transform the governance of business fundamentally if we would modernize the cooperative form to a multi-stakeholder entity. Typically developed as a legal form in which farmers co-invested in production or distribution facilities, the cooperative offers the opportunity to not only share purpose and mission among different stakeholders but to also share the core governance of the organization in which financial members, employees, customers and other stakeholders participate. This would require legal innovation in terms of decision-making, conflict resolution etc. The notion of community that springs from the cooperative creates a very different setting and orientation, away from value extraction, to value sharing. This also appeals to a fundamental human need and quality to be part of a community that we urgently need to reinstall, see Douglas Rushkoff, Team Human (2019).

- In our ways of internal organization management can move away from imposing an environment of control, constraint, compliance and contract to creating an environment of stretch, discipline, trust and support (see the Smell of the Place by Sumantra Gosha, https://www.bing.com/videos/search?q=smell+of+the+place&view=detail&mid=B65 7DED2955AA8E5FB46B657DED2955AA8E5FB46&FORM=VIRE), to create healthy, vibrant organizations, where people thrive. This requires very different leadership, human leadership throughout the organization and very different organizational and managerial skills. Aligned with this are new concepts of teal organizations as suggested by Frederic Laloux in Reinventing Organizations (2014).

- We should re-design our remuneration systems and rediscover what makes people excel in organizations. This requires something fundamentally different than variable monetary rewards, which most of us simply cannot handle (Winter, Corporate Governance Going Astray, Executive Remuneration Built to Fail (2010), https://ssrn.com/abstract=1652137). People are not motivated by large financial rewards, but they are incentivized. True motivation has to do with Flow, where work becomes the reward itself (Mihaly Csikszentmihalyi (2008), with Autonomy and discretion, with Mastery and patience, with Purpose beyond ourselves (Daniel Pink, Drive (2011).

- As also Google's CEO Sundar Pichai said in the FT recently, we need to regulate Artificial Intelligence to ensure that they further human beings and do not degrade us and turn against us.The digital platform space creates the opportunity to connect people in ways which are not exploitive but communitive. The cooperative is the typical legal form to facilitate digital platforms as community building tools.

- Finally, we need to address questions of excessive regulation, supervision and bureaucracy in many sectors, among which the finance sector. How can we convince regulators of the downsides of what they impose, the dehumanization that takes place; that perhaps the reason for this imposition has much to do with their own anxiety of being criticized again for havoc in the financial sector and may not be the best way to address real concerns about how humans conduct themselves, or at least that we need to become much more precise in when new regulation and supervision will work and when not. But the opposite of over-regulation is not careless freedom. It is disciplined responsibility for organizing a crucial function in society. How can the finance industry regain the trust of society that it can deliver on that responsibility, not because of regulation or other external force, but because it wants to itself? It is my conviction that the finance sector will only be able to this convincingly if it itself becomes human again, away from single-minded and self-interested money-making and excessive rationalization in pursuing financial goals, when it becomes part of human society again.

If we truly let sink in what is at stake across all these dimensions, it should be clear we can no longer afford to close our eyes and pretend all is well, or at least well enough. Nor can we afford to be cynical that a fundamental reset will not work anyway. Undoubtedly there are much better ideas when we put our mind to it. Then let us work on them. But doing nothing is relinquishing our responsibility for a humane future, for our children and children's children. It should not be an option.