Discussion Paper

Finance Investment Policies and New Public Interest Corporates

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Introduction

Recent developments in responsible investment practices go beyond screening *against* negative impacts such as climate change and inequality, in favor of a pro-active approach to investment in new corporate frameworks with an explicit mission of public benefit and positive material social and environmental benefits. This indicates a shift from *shareholder* interests to public good and *stakeholder* interests.

This shift can was demonstrated recently in New Zealand where there was a nation-wide campaign to stop new offers for oil exploration. Licenses for oil and gas exploration re made available each year. This year NGO's and churches joined as stakeholders in climate responsibility to stop new licenses, and with the new government planning climate responsible policies, no new licenses were offered.

This signals new policy directions for investment, and here some of the new thinking is outlined, with fiduciary duties understood in terms of mission, long-term benefits and public good priorities.

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This is a significant change from the traditional corporate mandate to deliver benefit, in the form of financial returns, to shareholders. In this model the interests of the corporation is paramount with shareholder interests as a by-product of the corporation. The idea of shareholder primacy took hold from about 1919 when companies were governed only by corporate and shareholder interests.

The new forms of corporates, called Benefit Corporations or Purposeful Corporations require the directors to consider the impact of their decisions on the environment and society, and shareholders evaluate investments in terms of social, environmental and financial benefit.

This marks a significant change from shareholder interest to stakeholder accountability.

Responsible Investing

The climate change initiatives for divestment from fossil fuels has provided a point of focus and action regarding financial investment. Divestment has provided a spearhead of attention to the financial economy and exposed the climate change implications of companies directly or indirectly linked with fossil fuel products and emissions. Many Mission driven organizations, including churches have scrutinized their investment portfolios and reviewed asset management for climate risk assessments, and altered the profile of investment towards renewable energy, forests, and non fossil fuel (oil and coal) industries.

One of the implications of attention to divestment can be seen as screening for exposure to market risks – across the spectrum of social, environmental and economic risk and potential for losses. Screening for responsible values in investment companies is usually focused on social, environmental and governance criteria:

- On the social side these include workplace conditions and exploitation, percentage of women employed, human rights, anticorruption policies.
- Environmental factors include energy type and use, greenhouse gas emissions, water conservation, waste, and environmental disclosure scores.
- Governance: Board membership, separation of CEO from Board, shareholdings of board members

Never the less this approach retains an overall priority on financial returns.

Mission Driven Corporates

With the increased acceptance of corporate responsibility, a more recent development has taken shape in the form of the Benefit Corporation and the Purposeful Corporation. These are structured to pursue a social or environmental mission.

Since the Global Financial crisis there has been attention to the role of corporations in society, and also recognition that companies are dependent on the broader social and environmental structures and services for their survival. Many of the pressing issues of the global community, in particular climate change, need the contributions of companies to address transitions to low carbon economies. Regulation alone will not be sufficient.

Benefit Corporations are required to publish their environmental and social performance, which is evaluated through a third party standard. Such standards may include company governance and the web of relationships between suppliers, customers, employees, and the environment.[1]

There can be legal impediments to pursuing public good benefits when corporate law has embedded the primacy of fiduciary duties to the corporation, and financial returns to investors. Thus mission driven companies and investors can be constrained by the legal framework that is solely focused on financial profit. However there is research that shows some capacity of the law to accommodate Benefit Corporations or Purpose Corporations (needs more work). However the culture and leadership

Where there are laws enacted for Benefit Corporations, the directors have a fiduciary duty to non-financial stakeholders as well as to the financial interests of investor shareholders. Thus there is legal protection to pursue mission, public interests as well as profit. There is also a shift in focus from risk taking for immediate financial gain, as opposed to long-term resilience and sustainable value. It implies more focus on research and development and innovation, and on human and social capital.

Purposeful Corporation Governance

The Purpose Corporation focuses on a new model of corporate governance, which incorporates long-term sustainable values, the interests of shareholders as well as social and environmental stewardship. In effect these objectives are mutually reinforcing.

Some key strategies for achieving mission driven goals: [2]

- Corporations may choose to reflect their purpose and long-term focus in their governance structure, eg by embedding these into their policy, registering as a benefit corporation
- Clarify the content of fiduciary duties, in particular for the long-term success of the company and long-term sustainable value, stakeholder interests, ESG and systemic risks
- Reflect the interests of corporate stakeholders that are essential to a corporation's long-term success in a more comprehensive way in corporate governance arrangements.
- Develop a corporate governance system that focuses beyond shareholder rights (which and amplifies short term interests) and seeks investors with long term interests
- Corporate accounting and reporting could reflect a corporation's long-term value creation strategy by taking into account non-financial capitals, intangible assets and ESG matters and by addressing the systemic risks related to a corporation's business
- Develop academic teaching of corporate law, management, accounting and economics to reflect a broad understanding of corporate purpose.

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[1] (www.triplepundit.com/2012/03/third-party-standards-benefit-corporations/)

[2] The Purposeful Corporation (Governance Shareholders Reporting for the XX1 century).

Concepts of public interest and long term sustainability benefits are gaining momentum. There is corporate recognition of shared responsibility for climate action, and that corporate strategies can be well aligned with society's interests. Climate change has created a sense of the common destiny of all peoples with the planet.

Climate change and inequality are global risks that are of primary concern to values driven organizations, and corporates with long-term sustainability interests. Proactive strategies to investing in companies which incorporate fiduciary duties of social equity and environmental wellbeing into their business mission, offer an investment opportunity that goes beyond the policies of ethical investment that are driven by screening for negative impacts.

Rather, climate responsible investing offers preferences for corporates with long-term public good missions.