The Multicapital Corporation – In or Beyond Capitalism?

Rutger Claassen & Tully Rector

Ethics Institute, Utrecht University

Aims & Conclusions

Aims:

- Clarify the core features of the MCC Paradigm & teh relation between Nonfinancial Capital (NFC) and Financial Capital (FC)
- Theorize capital as *process* with pecuniary dimension
- Disambiguiting NFC: is it an attribute of products, or a condition of the production process?
- Investigating corporate governance structures for MCCs: what's the way forward?

Conclusion

- The 'moderate' versions are nothing new; remain firmly within capitalism as we know it
- The radical versions go beyond capitalism as we know it; and may therefore be hard to realize on a voluntary basis, given legal regimes/market dynamics.

The Multicapital or Purpose Paradigm

The emerging Multicapital (or 'Purpose') Paradigm:

- 1) shareholder-driven corporate governance detaches the corporate telos from the common good
- 2) Orientation to Maximizing Financial Capital (FC) leads to neglect or destruction of Non-Financial Capitals (NFC)
- 3) integrating these NFCs in corporate governance/accounting will solve the problem: the Multicapital Corporation (MCC)

Questions:

- can concept of 'capital' be extended this way?
- can the corporation integrate these capitals coherently, such that the integration is action-guiding?

Dimensions of the Multicapital Corporation

Three dimensions of the MCC:

1) Pluralization of capitals: e.g. the 'six capitals' framework of the IIRC.

2) NFC's need to be objective, measurable and quantifiable. Preferably also monetized.

3) A NFC-related purpose -> objective function for the corporation.

Instrumental approaches: unconstrained FC max.

Intrinsic approaches:

- Constrained FC max: Max FC, $0 < NFC < t$ (t=threshold)
- Total Capital max: Max ($a*FC+b*NFC$)
- Constrained NFC max: Max NFC, $0 < FC < t$.

Moderate versus radical approaches. MCC as radical.

What, then, *is* Capital?

Capital as Process

- Pecuniary core + expansive dynamic
- *Process of capitalization.* J. Levy (2017): 'capital is property capitalized – a legal asset assigned a pecuniary value in expectation of its capacity to yield a likely future pecuniary income.'
- Capital as process: supporting the moderate approaches?
- Capital as process: towards the radical approaches:
  - Quantifying but not monetizing NFCs (?)
  - Rewarding each form of capital 'on its own terms'

- '*human* capital is a legal asset assigned a ~~pecuniary~~ *human* value in expectation of its capacity to yield a likely future ~~pecuniary~~ *human* income.'

What is Nonfinancial Capital?

Our strategy: distinguish two types of NFCs and show how radical approach (i) are irrational on the first, and (ii) beyond capitalism on the second.

NFCc = condition of production process

NFCa = attribute of the commercial good produced

Example NFCc: (Roche & Jakub) *human capital*, empirically related to higher levels of productivity/wellbeing:

- corporate identity, levels of trust and social cohesion in the firm, prospects for upward mobility, supportive relations etc

- Example NFCa: linked to purpose statements: a firm wants to contribute to human…
  - ‘mobility’ (through the production of vehicles),
  - ‘financial opportunities’ for poor people (a micro-finance lender),
  - ‘health’ (a producer of new medications)

Coherence Questions

Max NFCc is sometimes incoherent, when: e.g. quantification impossible, or greater amounts are not better

When Max NFCc is coherent, no *business reason* to maximize:

- Example of ecosystem functioning: goal should be: *non-depletion* of NFCc > constrained Max FC
- Optimum not the maximum

Maximizing beyond what-is-optimal-for-production turns an NFCc into an NFCa

- Consumers in well-functioning markets pay a price which reflects *non-financial value* of the products to them (use value). Valuation included in FC max (no double counting)
- Firms which max NFCa are producing positive externalities. Comparative disadvantage

Corporate Form Revisions

- If positive externalities is the business model: financial investors must accept a lower or zero financial return; MCCs survive via process transforming them into non-profits (?)
- Is alteration of the corporate form the solution?
- Then the main issue becomes: should becoming (for example) a B-Corporation be *optional* or a "universal standard for societally important corporations" (Mayer, Strine & Winter 2020)? -> tackling competitive dynamics between NFCa and FC