The case for radical reform of corporate governance from tax incentives

Core points from July 15, 2020 keynote global webinar (43min) at:
https://www.youtube.com/watch?v=xWve9MJyRXA#action=share
Presented to Global Research Foundation for Corporate Governance

Webinar scrip published as:
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Corporate Governance Insight, 2020 2(2): 4-30,
https://www.grfcg.in/images/2021/CGI2020_31Dec.pdf

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Toxic governance arises from:

1. Not introducing a separation of powers of a single board that provides directors with absolute power to identify and manage their own conflicts of interest to **corrupt absolutely themselves the organization, its auditors, regulators and society**;
2. A simple command and control hierarchy as they can act **unfairly, exploit, demean and/or abuse** subordinates while entrenching "group think" to frustrates individual wellbeing and contrariness. Antonymous behaviour introduces "Yin ~ Yang" **Tensegrity** that provides internal checks and balances required for self-management, self-governance and the reliable comprehensive management of complexity;
3. Property rights in excess of investors' time horizons to **overpay investors** in a way not reported by accountants and so not known by economists to create inequality, inefficiency and so bigger taxes and government that undermine democracy.

Removing toxic governance:

With tax incentives for shareholders to amend their constitutions to eliminate all toxic features by introducing an ecological governance found in our brains that has distributed bottom-up ~ top-down decision-making with no Chief Executive neuron.

Institutions with a fiduciary duty to maximise profits would be legally required to vote for such changes that provided bigger, quicker profits with less risk.

Removing each source of toxicity

To qualify for tax advantages three constitutional changes are required:

1. Shareholders democratically electing a governance board to take over the role of audit, remuneration and nomination committees and other governance duties;

2. Each other stakeholder constituency obtaining voice, influence and resources to advice shareholders and their governors, independently of management, metrics of their individual well-being from corporate operations;

3. A stakeholder class of shares created that each year become endowed with a fixed percentage of shareholder equity. Shares can only be endowed to voting citizens who elect politicians with some discretion for distributing universal individual wellbeing throughout their economy.

Ecological sustainable democratic capitalism

1 Endowment corporations privatise the tax and welfare system to reduce the role, cost and intrusiveness of governments;

2 The tax incentives becomes self-funding with their costs recovered from citizens paying tax at higher rates and reducing government welfare costs and the cost corporate regulators.

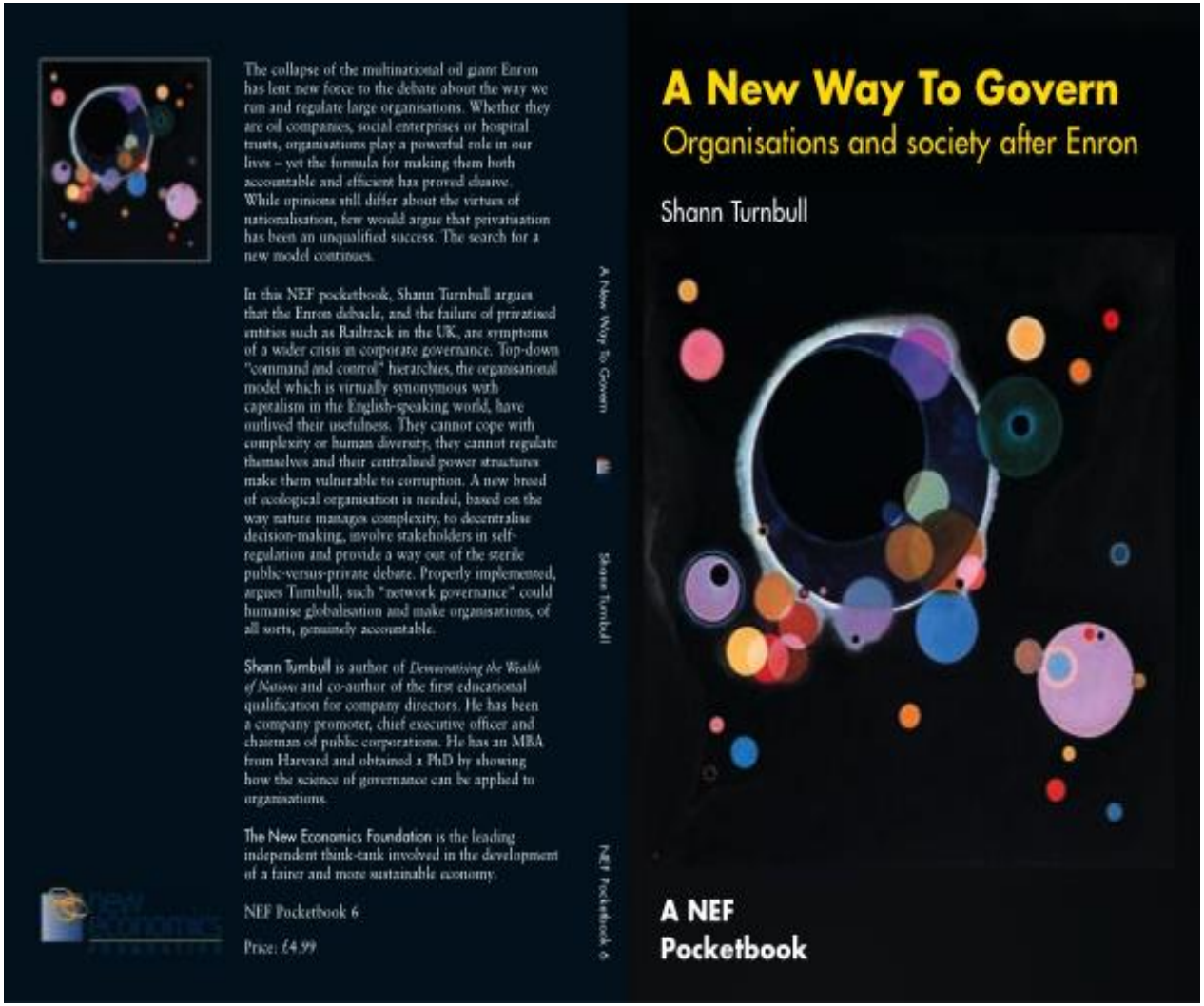
3 Endowment corporations become a "common good" providing benefits to all stakeholders locally and globally. Capitalism becomes sustainable maintaining shareholder primacy **for** stakeholder owners.

In 2018 Larry Fink, the CEO of BlackRock, the largest investor in the World wanted:

"A new model of corporate governance":

"To provide benefits for all Stakeholders"

The answer was provided 16 years earlier in Turnbull, S. (2002) *A New Way to Govern: Organisations and society after Enron*,



The collapse of the multinational oil giant Enron has lent new force to the debate about the way we run and regulate large organisations. Whether they are oil companies, social enterprises or hospital trusts, organisations play a powerful role in our lives – yet the formula for making them both accountable and efficient has proved elusive. While opinions still differ about the virtues of nationalisation, few would argue that privatisation has been an unqualified success. The search for a new model continues.

In this NEF pocketbook, Shann Turnbull argues that the Enron debacle, and the failure of privatised entities such as Railtrack in the UK, are symptoms of a wider crisis in corporate governance. Top-down "command and control" hierarchies, the organisational model which is virtually synonymous with capitalism in the English-speaking world, have outlived their usefulness. They cannot cope with complexity or human diversity, they cannot regulate themselves and their centralised power structures make them vulnerable to corruption. A new breed of ecological organisation is needed, based on the way nature manages complexity, to decentralise decision-making, involve stakeholders in self-regulation and provide a way out of the sterile public-versus-private debate. Properly implemented, argues Turnbull, such "network governance" could humanise globalisation and make organisations, of all sorts, genuinely accountable.

Shann Turnbull is author of *Democratising the Wealth of Nations* and co-author of the first educational qualification for company directors. He has been a company promoter, chief executive officer and chairman of public corporations. He has an MBA from Harvard and obtained a PhD by showing how the science of governance can be applied to organisations.

The New Economics Foundation is the leading independent think-tank involved in the development of a fairer and more sustainable economy.

NEF Pocketbook 6

Price: £4.99

A New Way To Govern

Shann Turnbull

NEF Pocketbook 6

A New Way To Govern

Organisations and society after Enron

Shann Turnbull

A NEF Pocketbook

The New Economics Foundation: London,

http://www.corporation2020.org/Papers_files/Turnbull2.pdf

Endowment corporations democratise wealth

Selected journal articles of Dr Shann Turnbull

1973, 'Time Limited Corporations', *Abacus: A Journal of Business and Accounting Studies*, Sydney University Press, 9(1): 28-43, June.

1990, 'Re-inventing corporations', *Journal of employee ownership, law and finance*, 2(4): 109-136. (Re-published in Czech as *Podniková Organizace, 1991).*

1991, ***Statická Nebo Dynamnická Vlastnická Práva*** (Static or Dynamic Property Rights) Central Research Institute for National Economy, Prague, Kveten, (Ownership is never for ever, Localising corporate ownership, Socialising capitalism).

1993, **'Democratic Capitalism; Self-financing local ownership and control'**, *Human Systems Management*, 12(4): 333-348.

1993, **'Flaws and Remedies in Corporatization and Privatization'**, *Human Systems Management*, 12(3): 227-252.

1998, **'Should ownership last forever**?' *Journal of Socio-economics*, 27(3): 341-353.

2000, 'Stakeholder Governance: A cybernetic and property rights analysis'. In: R. I. Tricker, ed. *Corporate Governance*: ***The history of management thought***, pp. 401–413, Ashgate Publishing: London, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=11355

2014,. '**A proposal for self-governing corporations**'. In: Philip Blond, ed., *The Virtue of Enterprise: Responsible Business for a New Economy*, 52-54, January, ResPublica: London, http://www.respublica.org.uk/wp-content/uploads/2014/01/jae_The-Virtue-of-Enterprise.pdf.

Appendix of Shann Turnbull 1975 book

Democratising the wealth of nations

https://papers.ssrn.com/abstract_id=1146062

APPENDIX

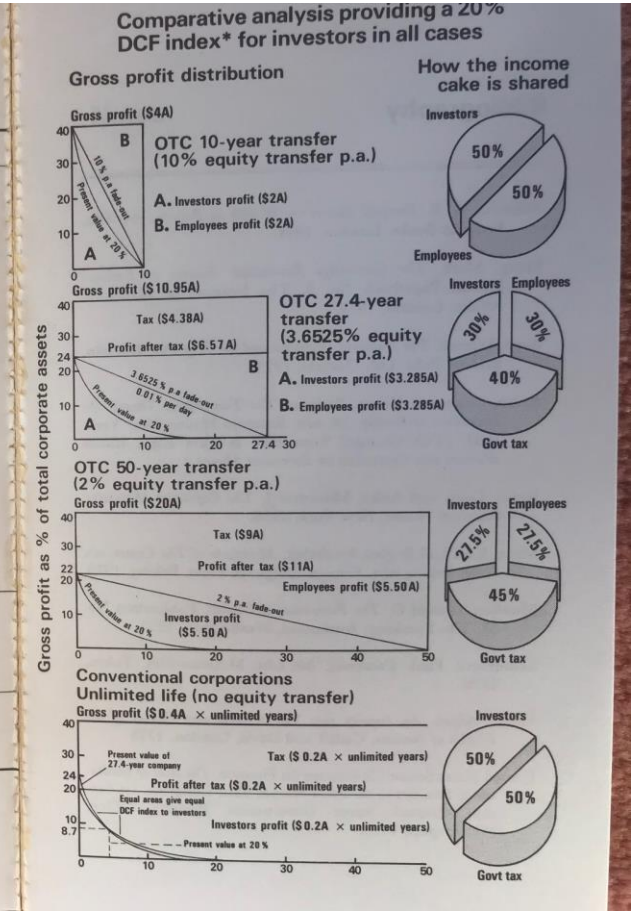
Ownership Transfer Corporations

ASSUMPTIONS: Investors and employees obtain 100 % of ownership
Profit after tax = dividend
Total corporate assets = A

	Ownership Transfer Corporations (OTC)			Conventional corporations
a. Ownership period of investors (years)	10	27.3785	50	Unlimited
b. Corporate income tax rate	0	0.4	0.45	0.5
c. Annual profit before tax ($)	0.4A	0.4A	0.4A	0.4A
d. Investor ownership transfer rate p.a. = 100 ÷ a (%)	10	3.6525	2	0
e. Total profit before tax p.a. = a × c (%)	4A	10.95A	20A	0.4A × unlimited years
f. Annual profit after tax = (1-b) × e ($)	0.4A	0.24A	0.22A	0.2A
g. Total tax paid p.a. = b × e ($)	0	4.38A	9A	0.2A × unlimited years
h. Total profit after tax p.a. = e-g ($)	4A	6.57A	11A	0.2A × unlimited years
j. Total investors profit† = h or 0.5 × h ($)	2A	3.285A	5.50A	0.2A × unlimited years
k. Total employees profit = 0 or 0.5 × h ($)	2A	3.285A	5.50A	0
l. Total government tax per total investors profit = g ÷ j (%)	0	133	164	100
Gross profit distribution (%)				
Employees	50	30	27.5	0
Investors	50	30	27.5	50
Government	0	40	45	50
Ownership distribution (%)				
Employees	100	100	100	0
Investors	0	0	0	100

*Calculation of DCF index is sensitive (beyond meaningful practical assumptions) to the initial cash-flow configurations. These are taken to be those that produce the figures quoted. Precise determination of DCF index depends on the time taken to make the investment, to produce a first return, to produce first dividends and indexing of the transfer cycle to these time periods. As a practical approach, it is proposed that the commencement of the transfer cycle be activated by the payment of a maiden dividend.

† Total investors profit = total profit after tax for conventional corporations. Total investors profit = 0.5 × total profit after tax for OTCs.



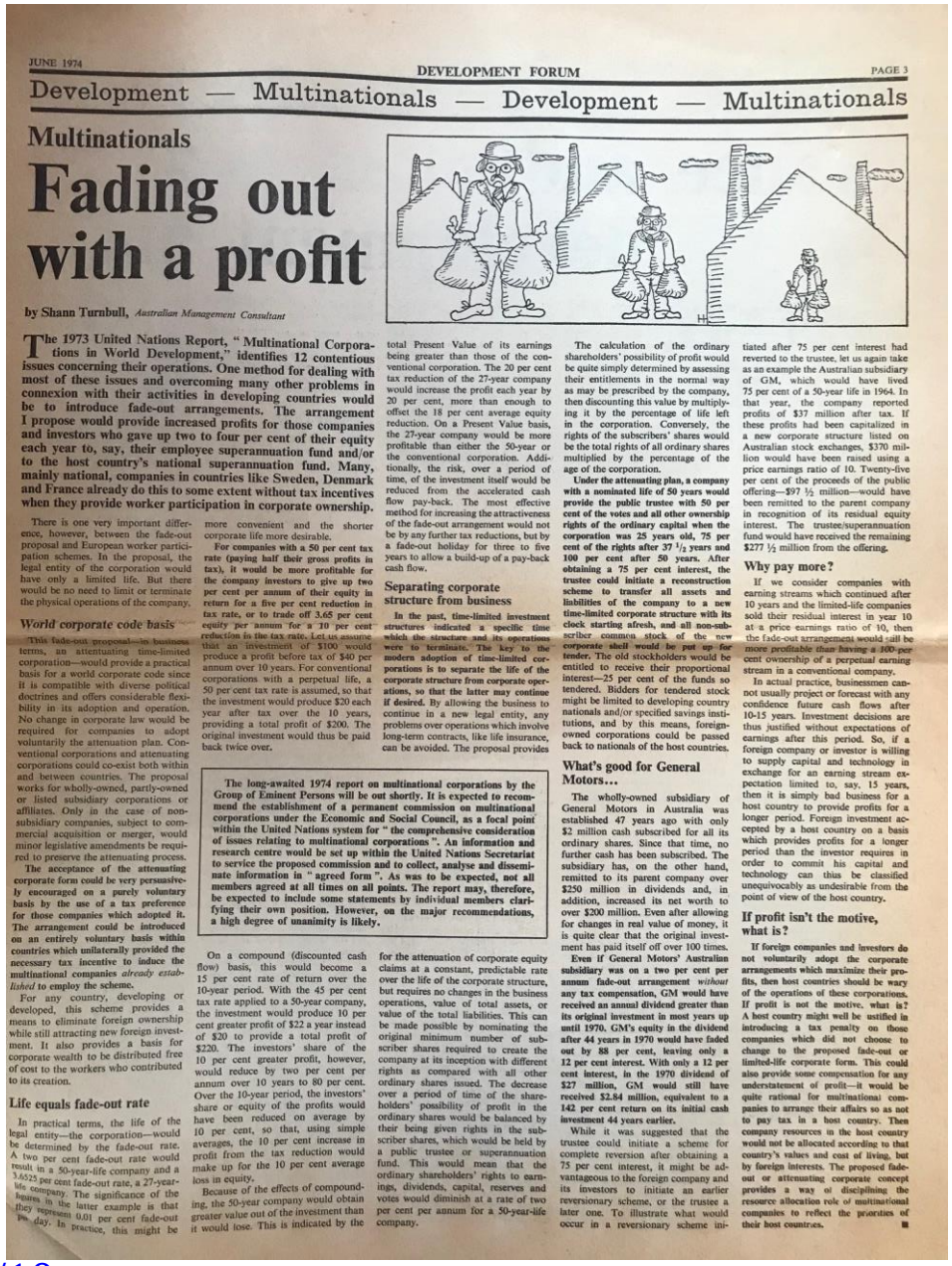
Showing three levels of tax incentives required to provide investors with bigger profits quicker with less risk in return for endowing stakeholders with equity over different time periods:

10 years @ 0.27% per day
27.4 yrs at 0.01% per day
50 years @ 0.006% per/day

Since 2014, India requires 2% of profits of large firms to be endowed to charity.

Metrics updated in :Turnbull, S. 1997, 'Stakeholder governance: A cybernetic and property rights analysis' *Corporate governance: An international Review*, 5(1): 11-23. Republished in: Tricker, R. I. (ed.), *Corporate Governance: The History of Management Thought*: pp. 401- 413, Ashgate Publishing: London. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=11355

1974 United Nations article published in four languages



JUNE 1974 DEVELOPMENT FORUM PAGE 3

Development — Multinationals — Development — Multinationals

Multinationals

Fading out with a profit

by Shann Turnbull, *Australian Management Consultant*

The 1973 United Nations Report, "Multinational Corporations in World Development," identifies 12 contentious issues concerning their operations. One method for dealing with most of these issues and overcoming many other problems in connexion with their activities in developing countries would be to introduce fade-out arrangements. The arrangement I propose would provide increased profits for those companies and investors who gave up two to four per cent of their equity each year to, say, their employee superannuation fund and/or to the host country's national superannuation fund. Many, mainly national, companies in countries like Sweden, Denmark and France already do this to some extent without tax incentives when they provide worker participation in corporate ownership.

There is one very important difference, however, between the fade-out proposal and European worker participation schemes. In the proposal, the legal entity of the corporation would have only a limited life. But there would be no need to limit or terminate the physical operations of the company.

World corporate code basis

This fade-out proposal—in business terms, an attenuating time-limited corporation—would provide a practical basis for a world corporate code since it is compatible with diverse political doctrines and offers considerable flexibility in its adoption and operation. No change in corporate law would be required for companies to adopt voluntarily the attenuation plan. Conventional corporations and attenuating corporations could co-exist both within and between countries. The proposal works for wholly-owned, partly-owned or listed subsidiary corporations or affiliates. Only in the case of non-subsidiary companies, subject to commercial acquisition or merger, would minor legislative amendments be required to preserve the attenuating process.

The acceptance of the attenuating corporate form could be very persuasively encouraged on a purely voluntary basis by the use of a tax preference for those companies which adopted it. The arrangement could be introduced on an entirely voluntary basis within countries which unilaterally provided the necessary tax incentive to induce the multinational companies *already established* to employ the scheme.

For any country, developing or developed, this scheme provides a means to eliminate foreign ownership while still attracting new foreign investment. It also provides a basis for corporate wealth to be distributed free of cost to the workers who contributed to its creation.

Life equals fade-out rate

In practical terms, the life of the legal entity—the corporation—would be determined by the fade-out rate. A two per cent fade-out rate would result in a 50-year-life company and a 3.6525 per cent fade-out rate, a 27-year-life company. The significance of the figures in the latter example is that they represent 0.01 per cent fade-out per day. In practice, this might be more convenient and the shorter corporate life more desirable.

For companies with a 50 per cent tax rate (paying half their gross profits in tax), it would be more profitable for the company investors to give up two per cent per annum of their equity in return for a five per cent reduction in tax rate, or to trade off 3.65 per cent equity per annum for a 10 per cent reduction in the tax rate. Let us assume that an investment of $100 would produce a profit before tax of $40 per annum over 10 years. For conventional corporations with a perpetual life, a 50 per cent tax rate is assumed, so that the investment would produce $20 each year after tax over the 10 years, providing a total profit of $200. The original investment would thus be paid back twice over.

The long-awaited 1974 report on multinational corporations by the Group of Eminent Persons will be out shortly. It is expected to recommend the establishment of a permanent commission on multinational corporations under the Economic and Social Council, as a focal point within the United Nations system for "the comprehensive consideration of issues relating to multinational corporations". An information and research centre would be set up within the United Nations Secretariat to service the proposed commission and to collect, analyse and disseminate information in "agreed form". As was to be expected, not all members agreed at all times on all points. The report may, therefore, be expected to include some statements by individual members clarifying their own position. However, on the major recommendations, a high degree of unanimity is likely.

On a compound (discounted cash flow) basis, this would become a 15 per cent rate of return over the 10-year period. With the 45 per cent tax rate applied to a 50-year company, the investment would produce 10 per cent greater profit of $22 a year instead of $20 to provide a total profit of $220. The investors' share of the 10 per cent greater profit, however, would reduce by two per cent per annum over 10 years to 80 per cent. Over the 10-year period, the investors' share or equity of the profits would have been reduced on average by 10 per cent, so that, using simple averages, the 10 per cent increase in profit from the tax reduction would make up for the 10 per cent average loss in equity.

Because of the effects of compounding, the 50-year company would obtain greater value out of the investment than it would lose. This is indicated by the total Present Value of its earnings being greater than those of the conventional corporation. The 20 per cent tax reduction of the 27-year company would increase the profit each year by 20 per cent, more than enough to offset the 18 per cent average equity reduction. On a Present Value basis, the 27-year company would be more profitable than either the 50-year or the conventional corporation. Additionally, the risk, over a period of time, of the investment itself would be reduced from the accelerated cash flow pay-back. The most effective method for increasing the attractiveness of the fade-out arrangement would not be by any further tax reductions, but by a fade-out holiday for three to five years to allow a build-up of a pay-back cash flow.

Separating corporate structure from business

In the past, time-limited investment structures indicated a specific time which the structure and its operations were to terminate. The key to the modern adoption of time-limited corporations is to separate the life of the corporate structure from corporate operations, so that the latter may continue if desired. By allowing the business to continue in a new legal entity, any problems over operations which involve long-term contracts, like life insurance, can be avoided. The proposal provides for the attenuation of corporate equity claims at a constant, predictable rate over the life of the corporate structure, but requires no changes in the business operations, value of total assets, or value of the total liabilities. This can be made possible by nominating the original minimum number of subscriber shares required to create the company at its inception with different rights as compared with all other ordinary shares issued. The decrease over a period of time of the shareholders' possibility of profit in the ordinary shares would be balanced by their being given rights in the subscriber shares, which would be held by a public trustee or superannuation fund. This would mean that the ordinary shareholders' rights to earnings, dividends, capital, reserves and votes would diminish at a rate of two per cent per annum for a 50-year-life company.

The calculation of the ordinary shareholders' possibility of profit would be quite simply determined by assessing their entitlements in the normal way as may be prescribed by the company, then discounting this value by multiplying it by the percentage of life left in the corporation. Conversely, the rights of the subscribers' shares would be the total rights of all ordinary shares multiplied by the percentage of the age of the corporation.

Under the attenuating plan, a company with a nominated life of 50 years would provide the public trustee with 50 per cent of the votes and all other ownership rights of the ordinary capital when the corporation was 25 years old, 75 per cent of the rights after 37 ½ years and 100 per cent after 50 years. After obtaining a 75 per cent interest, the trustee could initiate a reconstruction scheme to transfer all assets and liabilities of the company to a new time-limited corporate structure with its clock starting afresh, and all non-subscriber common stock of the new corporate shell would be put up for tender. The old stockholders would be entitled to receive their proportional interest—25 per cent of the funds so tendered. Bidders for tendered stock might be limited to developing country nationals and/or specified savings institutions, and by this means, foreign-owned corporations could be passed back to nationals of the host countries.

What's good for General Motors...

The wholly-owned subsidiary of General Motors in Australia was established 47 years ago with only $2 million cash subscribed for all its ordinary shares. Since that time, no further cash has been subscribed. The subsidiary has, on the other hand, remitted to its parent company over $250 million in dividends and, in addition, increased its net worth to over $200 million. Even after allowing for changes in real value of money, it is quite clear that the original investment has paid itself off over 100 times.

Even if General Motors' Australian subsidiary was on a two per cent per annum fade-out arrangement *without* any tax compensation, GM would have received an annual dividend greater than its original investment in most years up until 1970. GM's equity in the dividend after 44 years in 1970 would have faded out by 88 per cent, leaving only a 12 per cent interest. With only a 12 per cent interest, in the 1970 dividend of $27 million, GM would still have received $2.84 million, equivalent to a 142 per cent return on its initial cash investment 44 years earlier.

While it was suggested that the trustee could initiate a scheme for complete reversion after obtaining a 75 per cent interest, it might be advantageous to the foreign company and its investors to initiate an earlier reversionary scheme, or the trustee a later one. To illustrate what would occur in a reversionary scheme initiated after 75 per cent interest had reverted to the trustee, let us again take as an example the Australian subsidiary of GM, which would have lived 75 per cent of a 50-year life in 1964. In that year, the company reported profits of $37 million after tax. If these profits had been capitalized in a new corporate structure listed on Australian stock exchanges, $370 million would have been raised using a price earnings ratio of 10. Twenty-five per cent of the proceeds of the public offering—$97 ½ million—would have been remitted to the parent company in recognition of its residual equity interest. The trustee/superannuation fund would have received the remaining $277 ½ million from the offering.

Why pay more?

If we consider companies with earning streams which continued after 10 years and the limited-life companies sold their residual interest in year 10 at a price earnings ratio of 10, then the fade-out arrangement would still be more profitable than having a 100 per cent ownership of a perpetual earning stream in a conventional company.

In actual practice, businessmen cannot usually project or forecast with any confidence future cash flows after 10-15 years. Investment decisions are thus justified without expectations of earnings after this period. So, if a foreign company or investor is willing to supply capital and technology in exchange for an earning stream expectation limited to, say, 15 years, then it is simply bad business for a host country to provide profits for a longer period. Foreign investment accepted by a host country on a basis which provides profits for a longer period than the investor requires in order to commit his capital and technology can thus be classified unequivocably as undesirable from the point of view of the host country.

If profit isn't the motive, what is?

If foreign companies and investors do not voluntarily adopt the corporate arrangements which maximize their profits, then host countries should be wary of the operations of these corporations. If profit is not the motive, what is? A host country might well be justified in introducing a tax penalty on those companies which did not choose to change to the proposed fade-out or limited-life corporate form. This could also provide some compensation for any understatement of profit—it would be quite rational for multinational companies to arrange their affairs so as not to pay tax in a host country. Then company resources in the host country would not be allocated according to that country's values and cost of living, but by foreign interests. The proposed fade-out or attenuating corporate concept provides a way of disciplining the resource allocation role of multinational companies to reflect the priorities of their host countries. ■

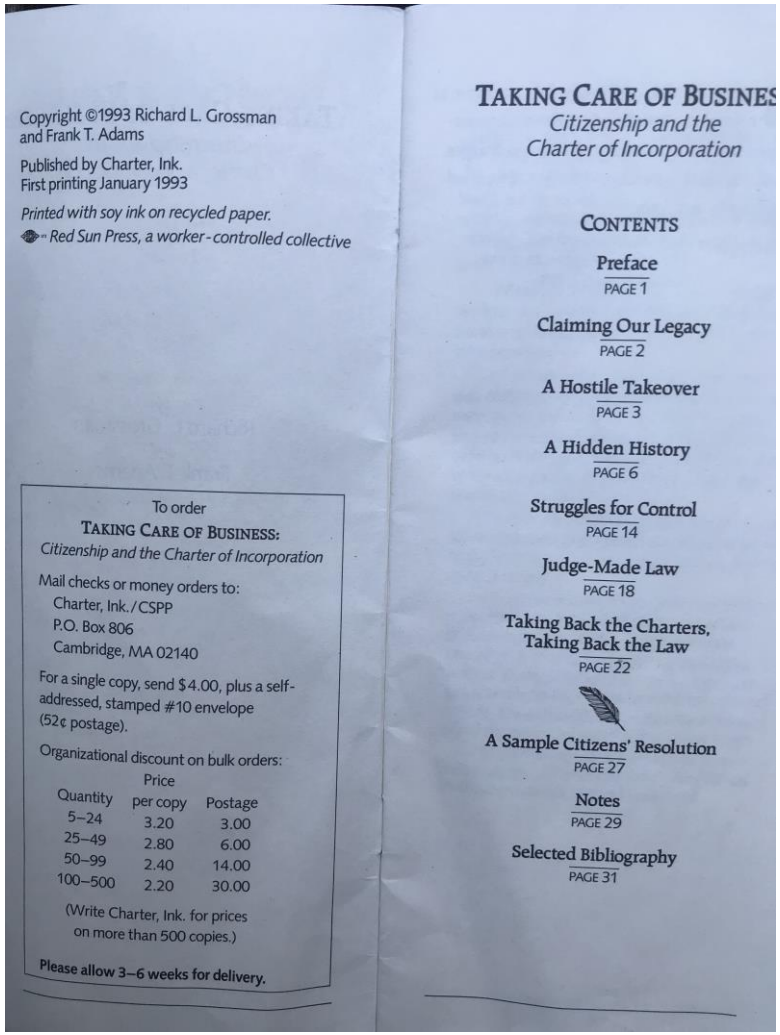
Turnbull, S. 1974. 'Fading our with a profit', *Development Forum*, p. 3, United Nations: Geneva

Transfers surplus profits to stakeholders with less taxes sand size of governments to fund a universal wellbeing income

Limited life corporations with unlimited liabilities established by US State governments to avoid re-colonisation

Grossman, R. L. & Adams, F. T. (1993). *Taking care of business: Citizenship and the charter of incorporation*, *Charter* Ink: New York City https://ratical.org/corporations/TCoB.html

Turnbull, S. 2019, 'Reshaping the Corporation to Avoid the Dangers of Perpetual Life', *Nonprofit Quarterly*, June 4, https://nonprofitquarterly.org/reshaping-the-corporation-to-avoid-the-dangers-of-perpetual-life/.



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Red Sun Press, a worker-controlled collective

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CONTENTS

Shann has walked the talk funding limited life investments: As founder or co-founder of:

Public companies funded with 15 year property rights:

Saxonvale vineyards Limited founded in 1969, became publicly traded 1975

Barwon Cotton Limited, founded 1979, became publicly traded 1984

Australian Film Underwriters Pty. Ltd. Operated from 1980 to 1983 raising film finance from hundreds of investors whose copyright reverted back to the producers after seven years.

Hierarchies simplify complexity incompletely

Decision makers lose data, information, knowledge and the wisdom of their stakeholders

Loss and distortion of data in a hierarchy (Downs 1967: 116-118)

HIERACHY	DATA UPWARDS			EMPLOYEES	
Public or private sector	**Volume**	**Correct**	**Missing**	Say span of five	
Legislature	50% lost per level	85% of lower level	or wrong meaning	Per level	Accumulated total
Minister/Shareholders					
Board of directors	3.1%	1.4%	**99%**		
Chief Executive Officer	6.3%	3.3%	96.7%	1	1
Senior Management	12.25%	7.7%	92.3%	5	6
Middle Management	25.0%	18.1%	81.9%	25	31
Team Leaders	50.0%	42.5%	57.5%	125	156
Workers	100.0%	100,0%	0.0%	625	781

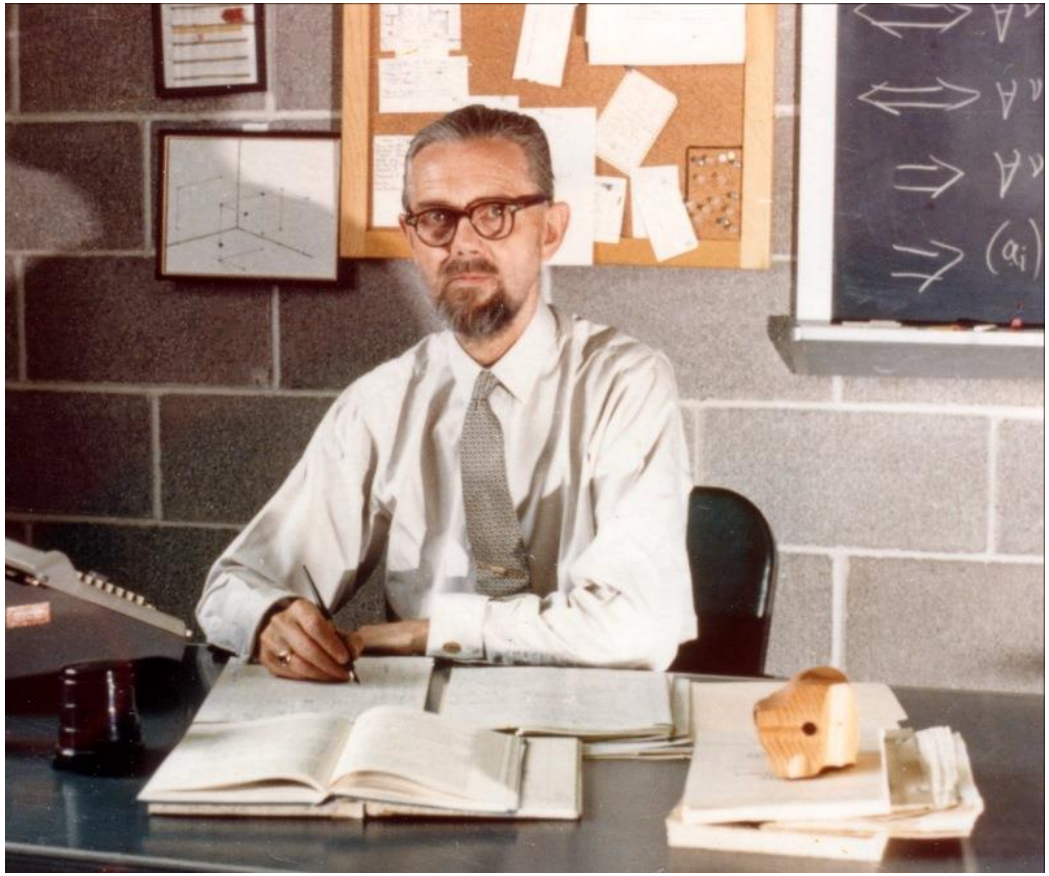
Shannon's law of communications states that they can be made as accurately as desired by introducing a **requisite variety** of independent cross checking networks channels as can be provided by **ecological governance**

Hierarchy caused death of seven astronauts in Challenger launch

Weaknesses in “O” ring seals of rocket launcher were known in 1986 but bad news was suppressed by a centralised hierarchy

Ross Ashby: Neurologist 1903-1972

(Law of Requisite Variety for reliably controlling variables)



Identified the impossibility of directly amplifying control of variables without a requisite variety of supplementary co-regulators.

Ashby, W. R. (1957) *An introduction to cybernetics*. London: Chapman & Hall,
Full text at: http://pespmc1.vub.ac.be/books/introcyb.pdf

The Science of governance confirms the view of Hock.

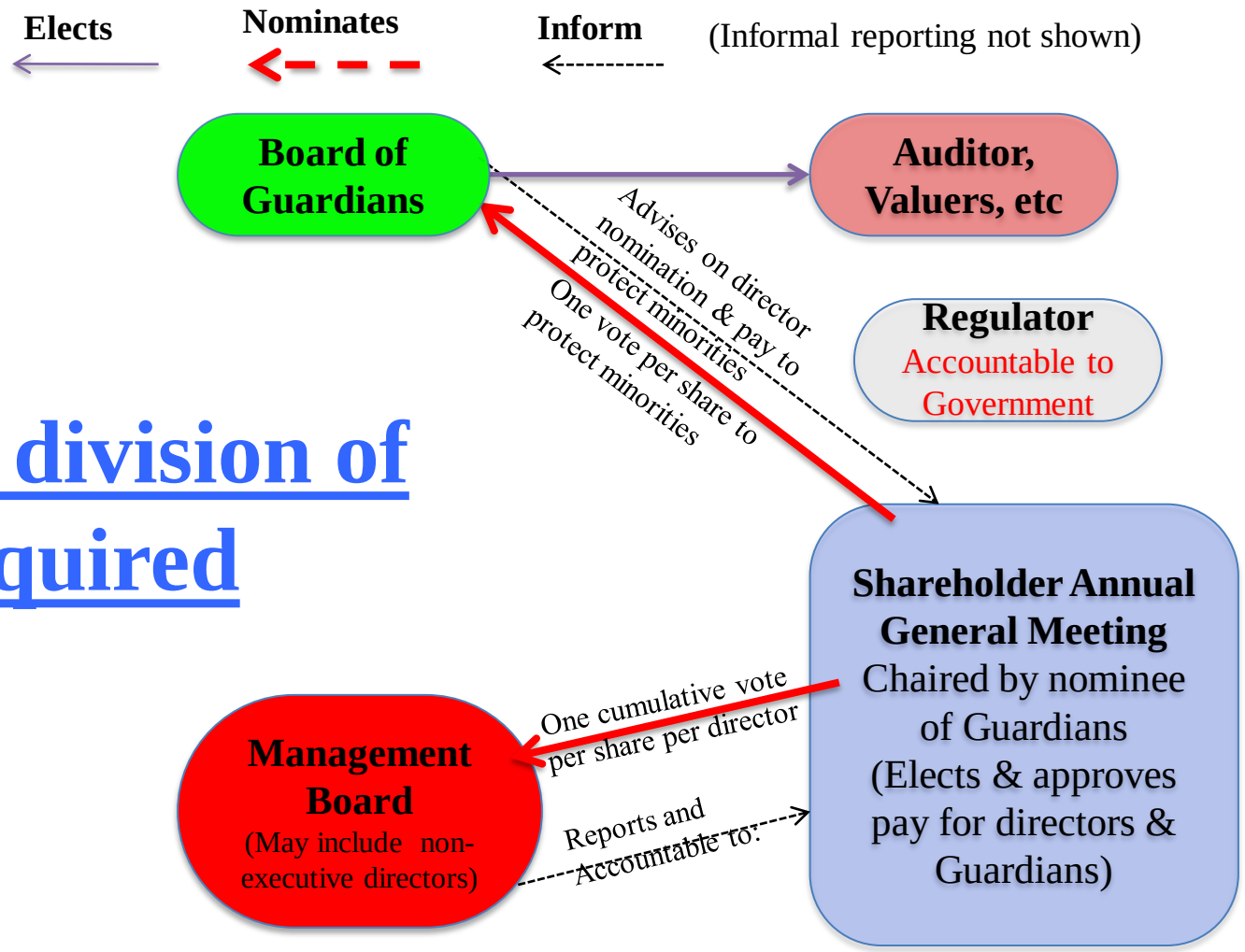
"Industrial Age, hierarchical command and control pyramids of power, whether political, social, educational or commercial, were aberrations of the Industrial Age, antithetical to the human spirit, destructive of the biosphere and structurally contrary to the whole history and methods of biological evolution. They were not only archaic and increasingly irrelevant; there were a public menace" (Hock 1995).

Hock, D. 1995. 'The Chaordic Organization: Out of Control and Into Order', *World Business Academy Perspectives*, 9(1) p.7 https://www.ratical.org/many_worlds/ChaordicOrg.pdf.

Separate power to **manage** a firm from the power to **govern**

(Recommended by Senator Andrew Murray in Minority Report 1998)

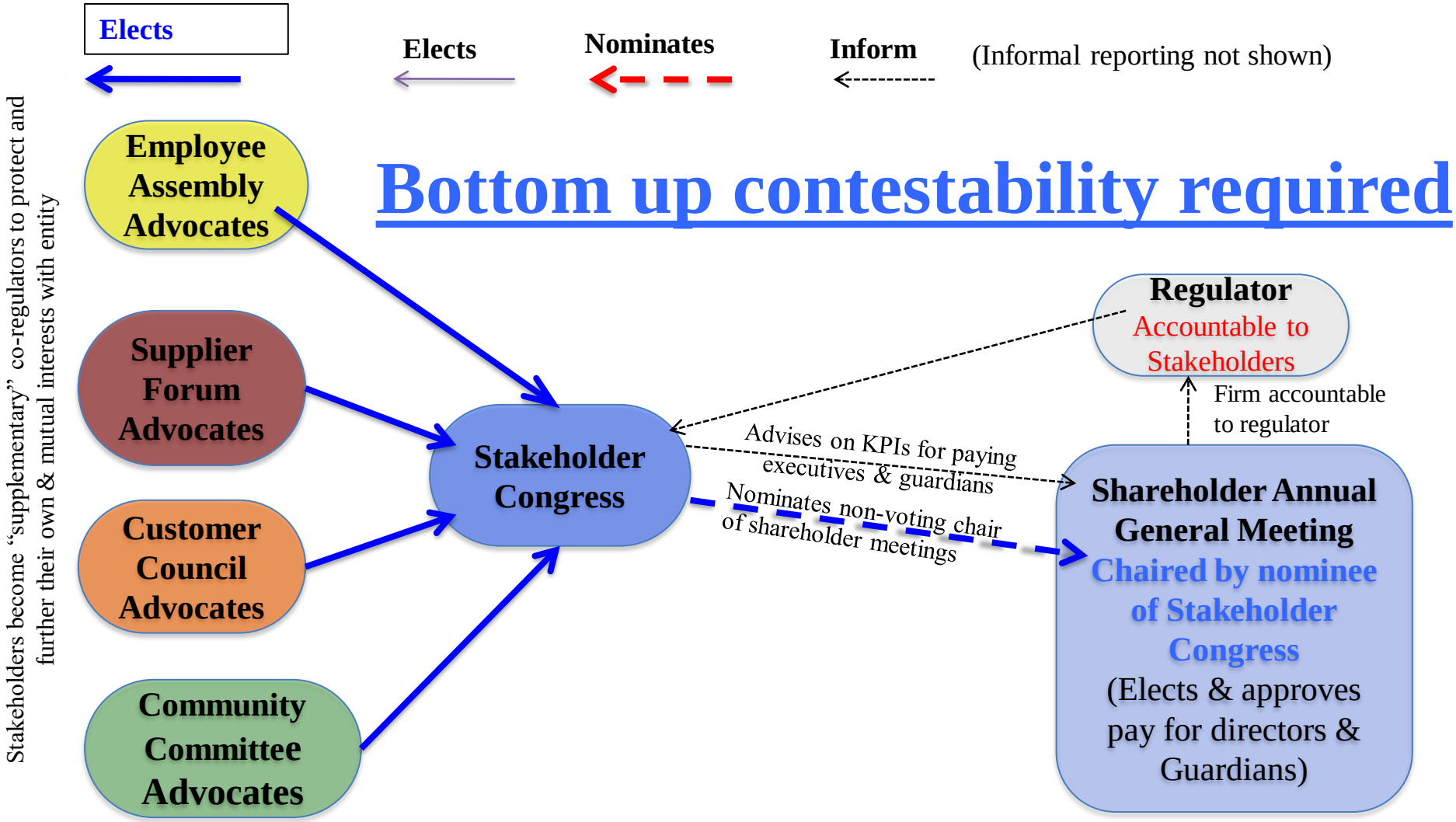
Conflicts avoided with simplified directors duties & liabilities



Top down division of powers required

Provide each stakeholder constituency voice & influence

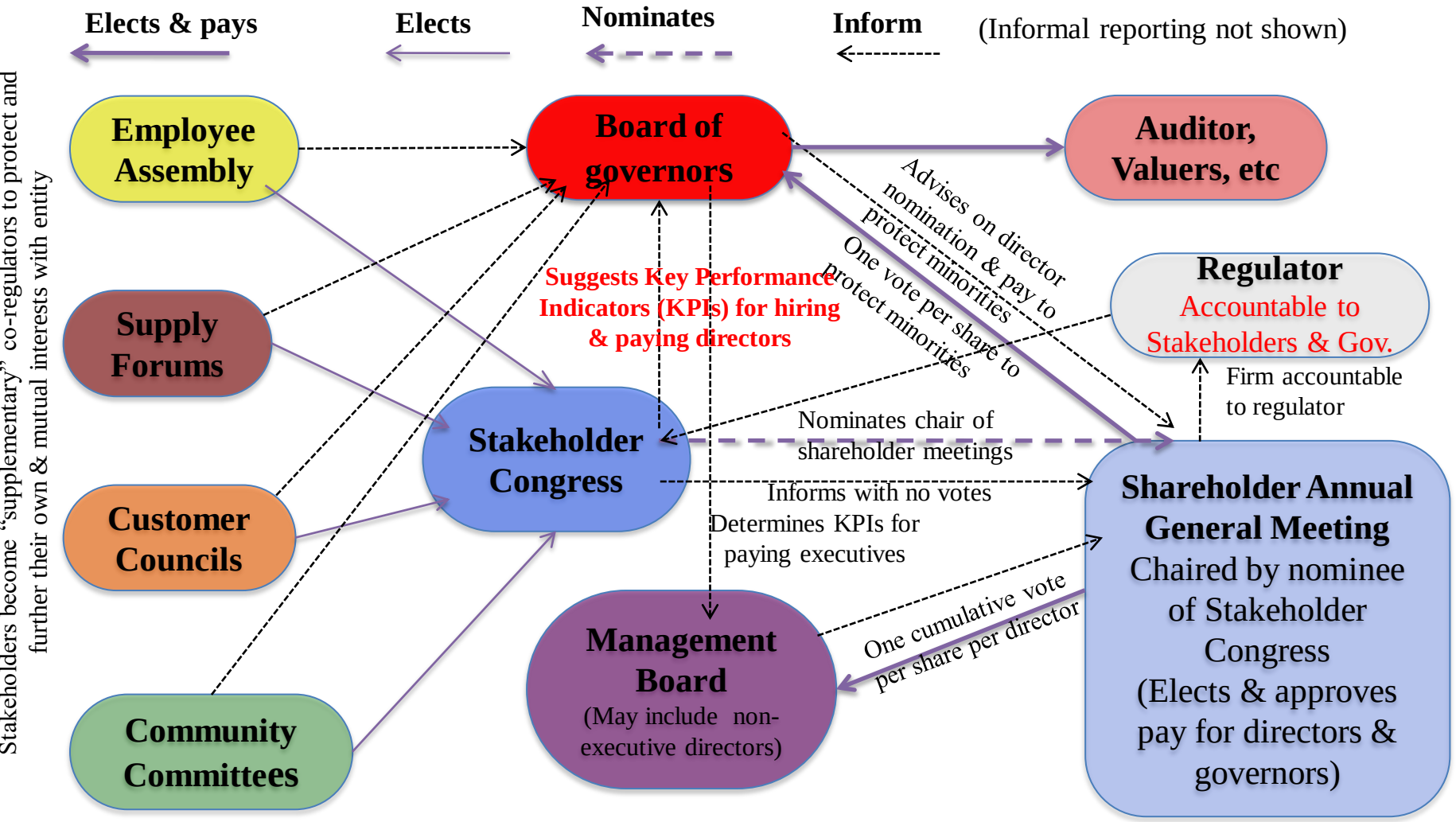
Separation of governance powers from management allows independent bottom-up and outside-in stakeholder intelligence to integrate governance into Corporate Social Responsibilities to monitor and control misconduct



For publicly traded, large private firms, non profits and government corporations

Ecological governance identified by Ostrom can makes corporations a "common good" benefiting all stakeholders as wanted by worlds biggest investor (Fink 2018)

Separation of governance powers from management allows independent bottom-up and outside-in stakeholder intelligence to integrate governance into Corporate Social Responsibilities to monitor and control misconduct



For publicly traded, large private firms, non profits and government corporations:

19/10 To make Shareholders and Regulators accountable for treatment of stakeholders

Elinor Ostrom receiving 2009 Nobel Prize Award

1933-2012

"For her analysis of economic governance, especially of the commons"

Ostrom identified how the tragedy of the commons can be avoided by the formation of networks that created "**polycentric republics**"

Your presenter has identified the existence of "**polycentric republics**" in mutually owned firms located in the US, UK and Europe that have flourished for over half a century

Businesses containing "polycentric republics"

Case studies of firms containing hundreds of constitutionally established boards or decision making centres identified in PhD dissertation completed in 2000 with each containing hundreds of boards that researched: *The governance of firms controlled by more than one board: Theory development and examples.*

https://papers.ssrn.com/abstract_id=858244

The John Lewis Partnership, UK, 1945 (pp. 190-194)
Formed with an employee buyout from 1929 to 1945. Now one of the largest retailers with around 80,000 employees with geographic distributed control forming **self-governing polycentric republics**"

Mondragón Corporación Cooperativa (MCC), Spain, 1956, (pp. 200-225 etc.)
Established by Catholic priest to create employment and now a nested network of democratically **self-governed** vertical and lateral multi-stakeholder cooperatives with around 80,000 members former layers of "**polycentric republics**".

VISA International Inc. US, 1970 (p. 249, etc.)
Established by founding CEO Dee Hock allow competing banks to issue a common credit card with each bank having its own board to create "**self-governing polycentric republics**". Partially public traded in 2006 with 19,500 employees.

Japanese Keirestsu (p. 173, etc.) with supplier and customer firms creating "**polycentric republics**" around a major shareholder being a trading house or bank.

Other examples with contestability/Tensegrity

Japanese Keirestsu with customers & suppliers (being polycentric republics) reporting to council chaired by major shareholder. Porter, M. E. 1992, ***Capital Choices***, https://www.hbs.edu/faculty/Pages/item.aspx?num=6099

US based Citizen Utility Boards introduced by Ralph US in the 1970's to challenge capture of regulators by Utility executives. Givens, B. 1991, ***Citizen Utility Boards: Because utilities bear watching***, http://www.cpil.org/download/CUB_Report.pdf.

Watchdog boards created to fund two public corporations by Turnbull, S. 2002, ***Corporate watchdogs: Past, present and future?*** at: https://papers.ssrn.com/abstract_id=608244

Polycentric republics/Holons created by author in 1970's

Australian controlling body for skiing.

As the honorary CEO of the non-incorporated Australian National Ski Federation from 1974-78 I wrote its first corporate constitution that federated each of its **self-governing** State/Holons. These became **self-governing** parts of holarchy that included the International Ski Federation and the Olympic organisation. Similar **self-governing** architecture is found in other global sporting and civic organisations.

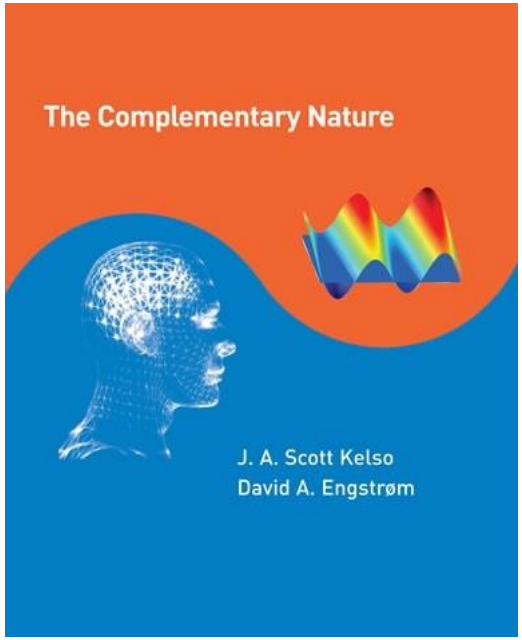
Australian Institute of Company Directors

Its progenitor organisation prior to 1990 was the non-profit Company Directors Association of Australia. I joined its single board in 1976. When its founding chair/CEO retired to manage his family CDA "service" companies I rewrote its constitution in 1978. **Self-governing** checks and balances were introduced at each level of the holarchy that included the polycentric self-governing state bodies/Holons to motivate local initiatives to create the largest organisation of its kind in the world with over 45,000 members.

Complementary Nature:

Is hard wired by DNA into creatures to create A "requisite variety" of behaviour to survive birth, grow and to reproduce in unknowable complex dynamic environments

Complementary nature indicated in the **Yin** ~ **Yang** relationships shown on the book cover

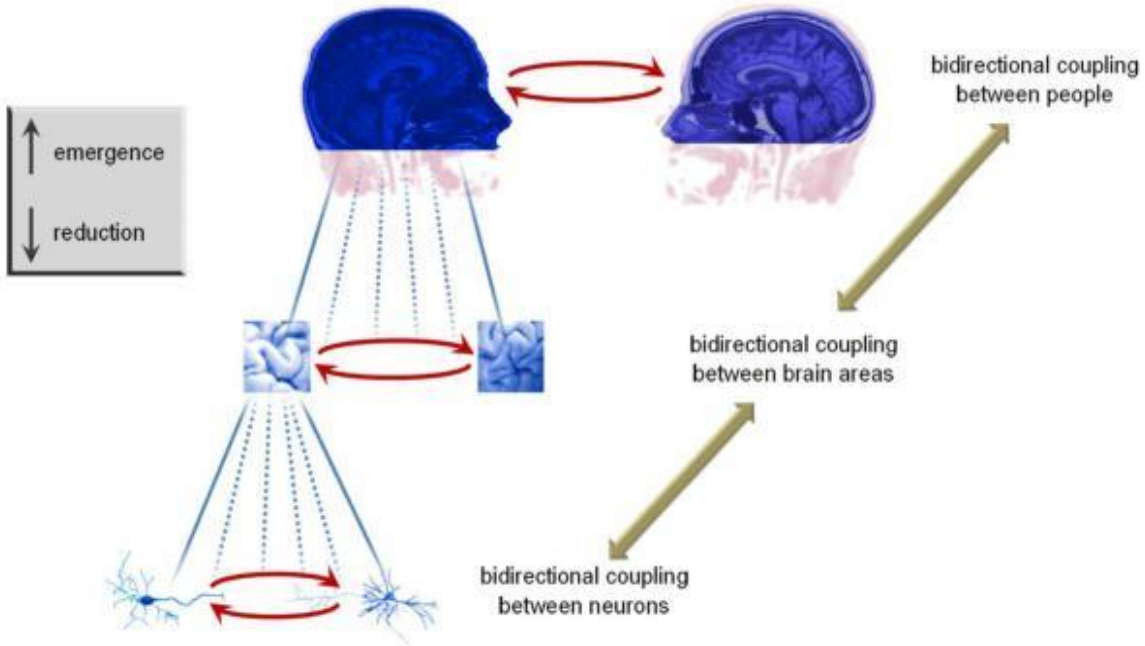


Kelso, J. A. S. & Engstrøm. D. A. (2006) *The Complementary Nature*, Cambridge, MA, MIT Press (Introduced the tilde "~" symbol to show the interdependency between complementary ~ contrary relationships)

Buckminster Fuller described such relationships in materials as "**Tensegrity**"
A word created by combining "Tensional Integrity"

Our brains possess distributed decision-making. Different parts make different decisions competing for dominance

Their bi-directional down-up ~ up-down relationships creates "tensegrity" with checks and balances from active and reactive neurons



Kelso, J. A. S., Dumas, G. & Tognoli, E. (2013) 'Outline of a General Theory of Behavior and Brain Coordination', *Neural News*, 37, pp. 120-131.

Our brains have "no Chief Executive Officer Neuron"

Kurzweil, R. (1999) *The age of spiritual machines: When computers exceed human intelligence*, p. 84, New York: Viking.

How mimicking nature can mitigate systemic problems 1-5

	Toxic problems of hierarchies	Mitigation by mimicking nature
1	Society assumes top-down control is natural	Nature uses bottom/up control & top/down guiding
2	So no education about ecological governance with distributed control to simplify complexity	Complexity simplified with almost self-governing sub-systems dependent upon contrary guiding
3	Unitary boards obtain absolute power to identify and manage their own conflicts of interest to allow absolute corruption of directors, the business and society	Shareholders appoint one board to manage the business and a second to govern the corporation to establish tensegrity benefits for all stakeholders and society
4	Group think arises from directors captured by CEO to hide risks, misconduct & malfeasance	Governors/guardians of stakeholder voices obtain contested “requisite variety” of data for checks and balances
5	Corporations can lie and/or mislead themselves about director independence	Directors independence becomes irrelevant as Governors control minimized conflicts

How mimicking nature can mitigate systemic problems 6-11

	Toxic problems of hierarchies	Mitigation by mimicking nature
6	Directors capture auditors who judge their accounts	Governors control auditors who judge directors accounts
7	Auditors lie that they are independent	Auditors kept independent by Governors
8	Accounting doctrines hide how investors get overpaid beyond their investment time horizons with surplus profits creating hidden sources of inequality and stakeholder exploitation	Ownership of surplus profits distributed by corporations issuing shares to citizen stakeholders that democratizes wealth and power. Reduces the need for corporate taxes and welfare programs
9	Directors control advisors to shareholders	Shareholder advisors controlled by Governors
10	Directors nominating themselves for election	Director nomination by shareholders & Governors
11	Directors control their own pay after setting and marking their own “exam papers” aka KPIs	Governors determine director pay from Stakeholder Key Performance Indicators (KPIs)

How mimicking nature can mitigate systemic problems 12-16

	Toxic problems of hierarchies	Mitigation by mimicking nature
12	Directors control reports about corporate impact on the environment, stakeholders and community welfare and their own governance	Stakeholders provide guardians with reports for shareholders on Governors pay, corporate impacts on: stakeholders, the environment and society.
13	Directors control how they are held accountable to shareholders at AGMs and control the voting processes on own election and remuneration.	Stakeholder nominee controls conduct of AGMs. Governors determine AGM agenda, location, acceptance of proxy votes, vote counting, etc.
14	Directors ignorant of shareholder identities, etc.	All ultimate owners and/or controller made public
15	Share trading relationships and price manipulation hidden from directors and public	No shares traded without prior disclosure of any related derivatives and identity of counter parties
16	Shares traded covertly by third party exchanges and in “Dark pools”	Corporations directly execute all share transfers

How mimicking nature can mitigate systemic problems 17-20

	Toxic problems of hierarchies	Mitigation by mimicking nature
17	Directors not held to account by various stakeholder groups who may have conflicting interest but on who directors rely upon to improve the quality, reliability, and efficacy of continuous operational improvements	Each common interest stakeholder group obtains rights to form their own non-profit associations to appoint advocates-supplementary regulators/ management mentors that avoid directors and shareholders being kept in a cocoon of ignorance
18	Directors of simple command and control hierarchies lack systemic process to cross check management actions and misreporting	Directors obtain stakeholder communication and control channels independent of mgers to cross check integrity of operations and outcome reports.
19	Impossibility of controlling complexity directly	Complexity controlled indirectly by stakeholders
20	Self-regulation/governance is impossible	Self-governance shrinks costs & size of government & compliance costs.

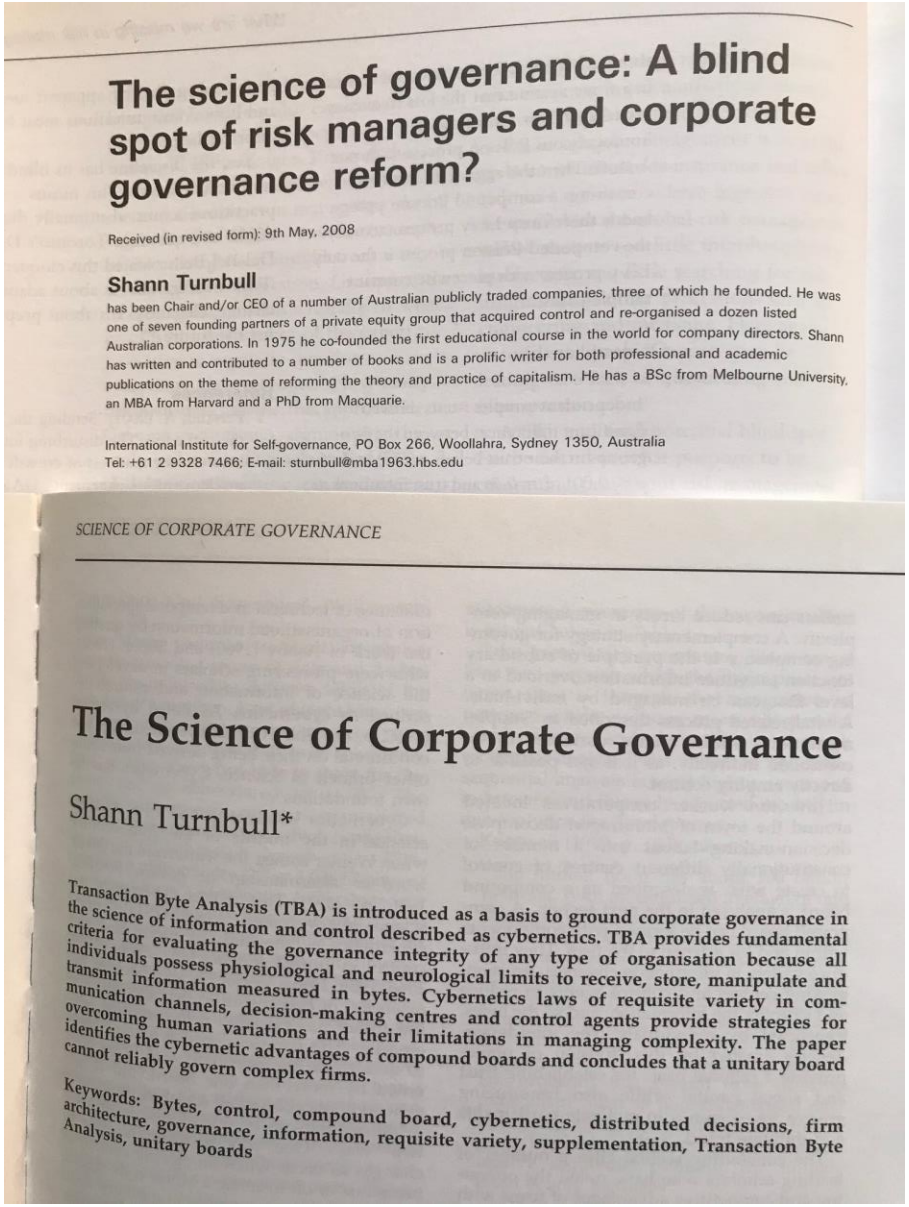
Thank you for your attention

Questions?

Who can help introduce tax incentives and/or ecological capitalism

Contact Shann +61 418 222 378

shann.turnbull@gmail.com



The science of governance: A blind spot of risk managers and corporate governance reform?

Received (in revised form): 9th May, 2008

Shann Turnbull
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The Science of Corporate Governance

Shann Turnbull*

Transaction Byte Analysis (TBA) is introduced as a basis to ground corporate governance in the science of information and control described as cybernetics. TBA provides fundamental criteria for evaluating the governance integrity of any type of organisation because all individuals possess physiological and neurological limits to receive, store, manipulate and transmit information measured in bytes. Cybernetics laws of requisite variety in communication channels, decision-making centres and control agents provide strategies for overcoming human variations and their limitations in managing complexity. The paper identifies the cybernetic advantages of compound boards and concludes that a unitary board cannot reliably govern complex firms.

Keywords: Bytes, control, compound board, cybernetics, distributed decisions, firm architecture, governance, information, requisite variety, supplementation, Transaction Byte Analysis, unitary boards

Turnbull, S. (2008a) ‘The Science of Governance: A Blind spot of risk managers and corporate governance reform’, *Journal of Risk Management in Financial Institutions*, 1(4): 360–368.

Turnbull, S. (2002b) The science of corporate governance. *Corporate Governance: An International Review*, 10(4): 256–272, http://ssrn.com/abstract_id=316939.

ARTICLE

SIMPLIFYING THE MANAGEMENT OF COMPLEXITY: AS ACHIEVED IN NATURE

Dr Shann Turnbull & Distinguished Professor James Guthrie AM

Governance scientists Dr Shann Turnbull and Prof James Guthrie AM use stakeholder firms to illustrate how to simplify the management of complexity and use natural laws to transform corporations into common good enterprises to counter global existential risks.

INTRODUCTION

This paper considers the research question: how can business organisations manage complexity simply on a comprehensive and reliable basis? More specifically, we ask: is the current dominant architecture of businesses as centralised command and control hierarchies the best fit to allow complexity to be sufficiently simplified so that humans with limited data processing abilities can reliably manage complexity?

The methodology involves using elements of complexity theory. According to Andrus,[1] complexity theory is based on 'four significant theoretical building blocks': general system theory;[2] information theory;[3] chaos theory,[4] and fractal theory.[5]

Subsumed into these building blocks is what Wiener,[6] an MIT mathematician, described as 'Cybernetics'. French physicist and mathematician

1. D.C. Andrus, 'The Wiki and the Blog: Towards a Complex Adaptive Intelligence Community', *Studies in Intelligence*, vol. 49, no. 3, 2005, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=755904, p. 3
2. L. von Bertalanffy, *General System Theory*, New York, George Braziller, 1968
3. C.E. Shannon, 'A Mathematical Theory of Communications', *Bell System Technical Journal*, vol. 27, no. 3, 1948, pp. 379-423
4. E.N. Lorenz, *The Essence of Chaos*, Seattle, University of Washington Press, 1993
5. B.B. Mandelbrot, *The Fractal Geometry of Nature*, New York City, Macmillan, 1977
6. N. Wiener, *Cybernetics: Or Control and Communications in the Animal and the Machine*, Cambridge, MIT Press, 1948

Turnbull, S. & Guthrie, J. (2019) 'Simplifying the management of complexity: As found in nature', *Journal of Behavioural Economics and Social Systems*, 1(1): 51-73,

The Science of governance confirms the view of Hock.

"Industrial Age, hierarchical command and control pyramids of power, whether political, social, educational or commercial, were aberrations of the Industrial Age, antithetical to the human spirit, destructive of the biosphere and structurally contrary to the whole history and methods of biological evolution. They were not only archaic and increasingly irrelevant; there were a public menace" (Hock 1995).

Hock, D. 1995. 'The Chaordic Organization: Out of Control and Into Order', *World Business Academy Perspectives*, 9(1) p.7 https://www.ratical.org/many_worlds/ChaordicOrg.pdf.

Reformatting Ostrom's eight Design Principles to:

1 Apply them to Corporations to convert them to a CPR;

2 Recognise stakeholders of corporations;

3 Make them subject them to the natural laws of system science and so adopt the biological processes for achieving self-regulation and self-governance that requires:

4 The concept of tensegrity neglected by Ostrom

5 A size limitation neglected by Ostrom and others cited except Turnbull (1973, 1975, 1997, 2002, 2014a) and Whyte & Whyte (1988: 259).

Awesome challenge for educators:

Who have devoted their careers limited to researching and teaching toxic top down management and governance that alienates and demeans humans while suppressing human nature to deny them "requisite variety" of varying behaviour to survive, thrive and reproduce in complex dynamic unpredictable and uncertain environments.

As a result, most scholars and the public cannot comprehend how survival of complex risks are best achieved without leaders but a combination of top-down and **highly democratic bottom-up** initiatives by the 8 billion people on our planet.

Might you care to devote your life to sustaining humanity by sharing the knowledge outlined?

Join our live Academy of Management online Conference Caucus (session 739) **"Education for Managing Existential Risks of Humanity", Monday August 2, UK 1:00 pm to 2:30; New York 8:00 am to 9:30**.

Holarchies are radically different from hierarchies

Holarchies that are a hierarchy of holons possess radically different properties from hierarchies as revealed by Hock's (1999:30) description of a Chaord that he described in two different ways:

1. Any **self-organizing, self-governing**, adaptive, nonlinear, complex organism, organization, community or system, whether physical, biological, or social, the behavior of which harmoniously combines characteristics of both chaos and order.
2. An entity whose behavior exhibits observable patterns and probabilities not governed by the rules that govern or explain its constituent parts.

Hock (1999) described "chaordic" in three ways:

1. The behaviour of any **self-governing** organism, organization, or system, which harmoniously blends characteristics of order and chaos.
2. Patterned in a way dominated by neither chaos nor order.
3. Characteristic of the fundamental organizing principles of evolution and nature.

Dee Hock combined the words “Chaos” and “Order” to create the word “Chaord” to define the governance architecture of VISA Inc.

chaord [kay′-ord], *n.*, fr. E. chaos [GR. and L. *chaos, n.* formless, primordial matter; utter confusion; utterly without order or arrangement] and fr. E. order [ME. *ordre,* fr. OF. *ordre*, fr. L. *ordo, ordinis*, *n.* line, row, regular arrangement in accordance with rules]
1. any self-organizing, self-governing, adaptive, nonlinear, complex organism, organization, community or system, whether physical, biological or social, the behavior of which harmoniously blends characteristics of both chaos and order. 2. an entity whose behavior exhibits observable patterns and probabilities not governed or explained by the rules that govern or explain its constituent parts.

chaordic [kay′-ordic], *adj.*, fr. E. chaos and order.
1. the behavior of any self-governing organism, organization or system which harmoniously blends characteristics of order and chaos. 2. patterned in a way dominated by neither chaos or order. 3. characteristic of the fundamental organizing principles of evolution and nature.

Citizens' **U**tility **B**oards:

1991

Because Utilities Bear Watching

By Beth Givens
Foreword by Robert C. Fellmeth

Center for Public Interest Law
University of San Diego School of Law

Tensional Integrity (Tensegrity) illustrated by:

Cell biologist Donald Ingber, &
Kurilpa Brisbane river bridge in Australia

Ingber, D. E. (1998) ‘The architecture of life’, *Scientific American*, pp. 30-39, January.

Defining Sound Governance for any type of organization

"Sound governance is achieved when an organisation exists for such a time that it can achieve its purpose fairly without creating harms or unacceptable risks while creating and/or distributing eternal wellbeing for a majority of individuals who it may affect"

As presented to European Academy of Management in a Symposium on: 'Defining sound governance for any type of organisation', for the European Academy of Management (EURAM) Annual Conference, University of Iceland, 22 June 2018. Panel members: Professors Anna Grandori (University of Bocconi, Italy), Morten Huse (Norwegian Business School), Blanche Segrestin (Mines Paris Tech), Ruth Aguilera (University of Illinois), and Dr. Shann Turnbull (Organiser) with EURAM President, Professor Thomas Durand (CNMA, Paris) as moderator/commentator.

Implications of practice of sound governance follow::