

Colin Mayer Transcript

Nik Gowing

Welcome to talking about, Thinking the Unthinkable. Our latest leadership, conversation, and podcast. I'm Nik Gowing, Founder and Director of the Thinking the Unthinkable project.

How radically are you, as a leader prepared to be to handle the enormity of what's happening in this disrupted world more precisely? How much are you driven by one thing, only making a profit, regardless of the damage and the costs, especially for nature? If so, we want to open your eyes and your minds, do you realise the expectations on you to change dramatically, because profit should be the product of solving not producing problems.

Well, joining me for this 18 minutes is Professor Colin Mayer, Founding Dean of the Saïd Business School at Oxford University, where he's now Emeritus Professor of Management Studies. 'solving not producing problems' are Colin's words, and he captures this radical thinking in his book 'Capitalism and Crises'.

Which is a product of radical work, including for the British Academy, on the future of the corporation. He takes leaders, executives, and all of us through a vital rethink on how capitalism can produce profits, without screwing up the planet, as it does now for every hour of every day.

In our view, we should all take note and act. Well, Colin, welcome. You write capitalism is the most important engine we've invented, but also the cause of many negatives, especially the corrosiveness of unjust profits. What do you mean by that corrosiveness of unjust profits?

Colin Mayer

Well, Nick, first of all, thank you very much indeed for inviting me. So when I refer to the corrosiveness of unjust profits, what I'm referring to is the fact that business is an important component of that capitalism engine. It close feeds and houses us, it employs us. And it invests our savings, it's the source of economic prosperity and the growth of nations around the world.

But at the same time, it's been a cause of increasing environmental degradation, biodiversity loss, inequality, social exclusion in this trust. So it's had a very mixed record. And that is due to the fuel that powers the capitalism engine, mainly profit, profit as the source of the resource of business. And it's the incentive behind capitalism.

Nik Gowing

Are you against profits?

Colin Mayer

I'm not in the slightest bit against profit. They're absolutely essential. Without profits, we have no capital in capitalism. But we're misspecifying the nature of what a profit is, profit comes from the

Latin, proficere profectus to advance and progress. And that's exactly what a profit should be. It should be associated with advancement and progress. But too much of profit is associated with neither of them.

Nik Gowing

Now, you do say capitalism is the most important engine we've invented. But then comes the other problem, which is, you said very clearly, and I'm gonna throw it back at you now, profit should be the product of solving problems, not producing them. Where is this? Where is this tension?

Colin Mayer

The tension comes in terms of the way in which the purpose of a company is currently specified. The purpose of business is currently viewed as being to promote the success of a company for the benefit of its members, namely, its shareholders. And that's fine. And that's largely associated with the notion of profiting for shareholders. But that notion of profiting for shareholders doesn't take account of how those profits are created.

And the way in which we want profit to be created, and the way in which it should be created, and the way which most people think it is created is through creating benefits for us. It should be that business should be there to solve the problems that you and I Nick have as individuals, societies and the natural world. And to do so in a predictive form of form that is commercially viable and profitable. And that profit then should come from solving problems. And furthermore, it should not come from creating problems for us.

So the notion of the purpose of a business that I put forward is, that it should be about solving the problems of people and planet in a profitable way not profiting from producing problems for either. And as soon as you recognise that, that is really what a purpose of a business is all about, then it immediately follows that a profit comes from solving problems, not creating problems.

Nik Gowing

What do you say to leaders, executives, mid-career, ambitious executives out there, who might be saying, if they're watching this, look, this is pie in the sky, we've got to keep making profits, we've got to keep maximising profits. After all, that's the kind of thing that Milton Friedman always said you should do?

Colin Mayer

And absolutely, you should be making profits, and you should be maximising profits. And you should be maximising the profits that come from solving our problems, not creating our problems. And that's, as I say, what people presume, that business is doing. And many business people will say, well, of course, you know, that is what we're doing anyway. And for some businesses, that is precisely what they do. But for other businesses, it's not. They're also profiting at our expense, by creating problems for us. And it's that which we need to address head-on.

Nik Gowing

I'm quoting from you here, our capitalist system, and your book is about capitalism has been the source of immense and unsustainable dissatisfaction, that threatens our politics, societies, economies and environment, you then say, we need to fix it fast. So what needs to be done?

Colin Mayer

We need to put this notion of profit at the heart of capitalism, and at the heart of business. And let me just point to the way in which in practice, this is being done, you know, you said it's pie in the sky and wishful thinking, well, it's not, it's actually happening. In certain parts of the world, it happens, that it's taking place in one of the most successful countries in the world, a country which has got one of the highest levels of GDP per capita, one of the lowest levels of inequality, one of the best employee relations of any country in the world, and it happens to be one of the happiest countries in the world.

The country is Denmark, and Denmark has a prevalence of a particular type of company that exemplifies exactly what I'm talking about. It so happens that one of these companies is currently the largest company by stock market capitalization of any company in Europe. That company is called Novo Nordisk the pharmaceutical company that produces insulin that's used in the treatment of type two diabetes.

Now, what marks out Nova Nordisk, and something like 50% of the companies on the Danish stock market are that they are what are terms, enterprise foundations, they are actually owned by foundations and they don't just have a foundation, they are owned or their diamond owner is a foundation. Now what those, what those foundations do is to ensure that the companies that they oversee have a real purpose, a real purpose of exactly what I'm talking about solving problems.

In the case of Novo Nordisk, its stated purpose is to defeat diabetes around the world. And the foundation lends a purpose and a longevity to that purpose. And it provides a stable basis on which the company like Novo Nordisk can really fulfill that ambition. That's the sort of thing that I'm talking about. And it just so happens to be associated with one of the most successful companies in the world.

Nik Gowing

But interestingly, I was on a platform with the Chief Sustainability Officer for that company at COP 28. And she indicated that even they were surprised and shocked at what they didn't know about the impact of work on nature and how they had to revolutionize their thinking because they were making profit from actually abusing the environment.

Colin Mayer

Absolutely. And that is one of the features that one has to understand about the purpose of a company. No company in the world is perfect. And it shouldn't be. The way in which we achieve that advancement and progress is that we make some advancements. And in the process of making those advancements, we also create more problems. We solve problems. And in the process of solving problems, we create others, we then go forward and we solve those problems. That is what I mean by

advancement. It isn't just a matter of always perfecting things straight away. That is not the way in which business operates.

But what the successful businesses of the world do, as you've just described to me, as Novo Nordisk explaining to you is that they recognise that they are creating a problem. They don't deny it, they say, right, this is another challenge that we face another problem that we need to find a way of overcoming, and if possible, to find a way of solving that problem in a profitable fashion, so as to create value for us as a business, as well as benefit for the rest of society.

And I'll just give you an illustration of this in relation to Novo Nordisk, it sat about solving its purpose of defeating diabetes. And one of the factors that it looked at and doing that is, of course, nutrition. Nutrition is a major cause of people getting type two diabetes. And one of the factors that contributes to that is weight. So that in the process of solving this define purpose of defeating diabetes around the world, they struck upon this blockbuster drug, we give it a weight losing drug, which is now one of the reasons why it's one of the most valuable companies in the world.

Nik Gowing

Let me move on swiftly if I can, because there are principles here about not accounting for true costs. Accounts don't account for the true cost to the environment. For example, can capitalism actually account for true costs? Because you refer to an entanglement of true costs versus profits?

Colin Mayer

Absolutely, it is an entanglement. I sometimes describe it as we're waiting in the weeds of exploitation and unjust enrichment. And it reflects the fact that there are profits that are currently being derived from causing detriments for others. You know, for example, paying people below living wages, paying people in supply chains below a fair price, polluting the environment extinguishing species, emitting global warming gases, you know, those are all sources of creation of problems.

And the issue is that companies are not incurring the costs of avoiding those detriments or where they do cause those detriments, then cleaning up the mess that they're creating. And that's the sense in which the costs of a company do not reflect its true costs. That is to say, the cost of the impacts of what it does, as well as the outputs of what they produce.

And companies that are beginning to tackle the problems of the world, as you were just describing in relation to Novo Nordisk, recognise those problems, and they recognise they have to incur the cost of avoiding those detriments so that they are incurring their true costs, but it doesn't necessarily mean they become less valuable companies.

That's the important point to understand here. The most successful companies in the world are ones that really grasp major world challenges. And they realize that they can contribute to doing that, by instead of wading through the weeds of entanglement to surfing the waves of innovation and invention and initiative to solve problems and profitable ways.

So once you incur the true costs, your focus then shifts to how do you profit not from wading in the weeds of exploitation, but instead surfing the ways of invention and innovation and inspiration.

Nik Gowing

My question again, Colin, is can capitalism account for these true costs? Because there's a mountain of legislation and regulation coming down the track, like the Corporate Sustainability Reporting Directive, the CSRD, which is imposing enormous constraints on companies now, they've got to account they've got to have figures, they've got to have numbers, they've got to have clarity in what they know about what they're doing.

Colin Mayer

Two points. First of all, companies will be subject to ever-intensive regulation unless they grasp what I'm saying with the neck, and grasp the meddler of addressing the issue before they are forced by regulation. They need to recognise that they should be determining for themselves, where they are profiting from solving problems and where they're profiting from causing problems.

Now, this can be perfectly well accounted for a lot of the initiatives that are currently coming for example, out of the EU and the CSRD are simply too complex. People talk about extrinsic and intrinsic ESG, single materiality, double materiality, etc. And that stuff leaves people completely cold, they can't really grasp what all of these initiatives are trying to do. Even experts on the subject are thoroughly confused about the various different initiatives that are currently being taken.

What I'm talking about is straightforward conventional orthodox, cost accounting, nothing more than that, you just account for the costs of remedying or avoiding the detriments you're causing others. And you'll just account for that in a normal way when you're working out the profit of the business. So once you incur those true costs and account for the true costs, then it creates a fair or a just profit, as I describe it. And that then gives rise to what companies claim they're doing the moment when they're reporting on their costs, giving a true and fair representation, which to my mind, at the moment, they simply are not doing because the cost that they're reporting are not their true costs. And therefore the profits that they're reporting are not a fair profit.

Nik Gowing

Is this a shock, they've got to really confront and not delude themselves. We're in the last three minutes here. But all what I'm quoting here is about the 'wrong measures', as you call them, all of them are grossly mismeasured to quote you, because we do not subtract the income that derives from producing detriments. From that which comes from creating benefits. In other words, the mere fundamentals of how you run a company surely have got to be recalibrated.

Colin Mayer

That is exactly why I'm saying that this is at the heart of the problems that we currently face. We can play around at the sidelines as much as we like. But we're not actually going to solve the problem that's

currently confronting both business and societies around the world until we address this fuel that is driving capitalism.

And once we realize that that is really the underlying problem, it's not a question of should companies be maximising profit, provided that they are measuring profits in terms of an association of producing benefits, not detriments for others. There's absolutely nothing wrong with companies profiting and maximising profits as much as they like. But so long as it's the case, that profits are not associated with creating benefits, not detriments for others. Then companies' incentives are misaligned with what we as societies and the natural world need.

And that is why getting this right is so important in terms of solving the problems of capitalism going forward.

Nik Gowing

Colin, in this last minute, though, what's your message, though? Because I've watched you in the last several years talking about this watching your arguments evolve, and so on, I've listened to you engaging with corporate leaders, how much you still pushing a boulder up a mountain? Or is that boulder moving faster? Even with all the altitude, it's got to be pushed up? In other words, are you making progress on this, because this is fundamental to understanding how business has a role in this new environmental degradation, which is getting much worse. And the scientists are warning about.

Colin Mayer

The boulder has really moved immensely rapidly over the last few years, in particular, around the notion of a corporate purpose, purpose has gone mainstream, but in the process of doing that, companies need to recognise that they have to give meaning to that notion of purpose, and understand that it is central and core to the businesses. It's not about marketing or promotion. And to do that, they need to recognise that it's about solving problems about solving problems profitably, not profiting from producing problems for others.

Nik Gowing

Thank you. Thank you so much. And let me just remind everybody, and I'm gonna say it again, profits will be the product of solving, not producing problems. We're delighted that you could spare time to be with us here on Thinking the Unthinkable, to make that very critical point about new thinking. You can reference every detail that Colin has just made in a transcript of the podcast, which is posted in parallel on our website, along with contact details for us, and for Colin as well if you want to pursue it and follow.

Do please join us when we have another conversation about Thinking the Unthinkable. From me, Nik Gowing until next time, keep thinking unthinkables, more than ever. It's possible. It's also necessary for me and from Colin, bye-bye.