

Foresight: The CPA Podcast

Season 3 Episode 3: Shareholder capitalism vs the rise of stakeholder capitalism

Neil Morrison: Welcome to Foresight: The CPA Podcast. I'm Neil Morrison.

In 2021, Guy Cormier wrote an opinion piece published in the National Observer titled, "It's time to give capitalism a do-over." Guy Cormier is the president and CEO of Desjardins Group. Desjardins is a Canadian financial services cooperative based in Quebec. It is the largest federation of credit unions in North America. Last year, it made nearly \$3 billion in after-tax income, so it's a sizeable financial institution, and that's why it is notable when its CEO argues it is time to rethink the way our economy is structured.

Mr. Cormier's editorial is part of a debate that's been gaining momentum in the past few years. The rise of ESG goals has given the debate a sense of urgency, in particular goals around climate change and sustainability. Broadly speaking, the debate is between traditional shareholder capitalism and the rise of stakeholder capitalism. There are powerful voices arguing in favor of the traditional approach. Terence Corcoran, writing in the Financial Post, quoted a 1997 US business round table. It argued that the paramount duty of directors is to serve the interests of shareholders. Guy Cormier has a very different view. I asked him what he means when he says capitalism needs a do-over.

Guy Cormier: Well, it means that when we look at the last 40 years of our evolution or capitalism, we have seen a tremendous change. Middle-class rise, technology changes, in many business sectors that were positive. But at the same time, but at the same time, it is obvious that there is a lot of collateral damage, climate change. There's too many people that are left out. There's social issues that we see right now that many citizens are asking questions and they want more, so that's why I'm totally convinced that the next 40, 50 years, couldn't be like the last 40 years. So that's the meaning where capitalism, but also our society, needs to integrate more dimension in the way we see our growth and our future.

Neil Morrison: So I wonder if we can just go a little deeper into that. Just practically or operationally, how would that look? What would be some ways that it would look different than what we have now?



Guy Cormier: Well, if I look just at how we manage our companies, we should integrate more of the future generation's interest in the picture, not necessarily short-term perspective, and we should also in all of our decisions as a company, as a corporation, the impact on communities. There's communities that are left out and we see that it's painful for many of these people who lost their jobs. Communities are less active, dynamic. And we see with the COVID that there was a price to pay maybe to offshore so many activities, maybe just to reduce our costs. So I think practically, do we take our decisions in the best interest of the future generations? And do we have this community concept in the decisions that we take, the impact that we have locally on our citizens and our communities?

Neil Morrison: I'm wondering, when did this idea of the need to overhaul capitalism, or to rethink it, when did that start to develop for you?

Guy Cormier: Well, since I joined Desjardins 30 years ago, as a cooperative, it is sure that we are built differently than corporations. We are a co-op where the ownership is in the hand of our members. It's not few shareholders who are owning Desjardins. We don't necessarily are on the quarterly pressure of financial results, and have a stock on the market that has to go up, and traders who are looking at it and the investors, and this quarterly pressure that I see with so many companies regarding growth and more benefits. We're making \$3 billion per year of net profit, so we know how to make money, and we know it's important to make money, but it's not our purpose. It's not our finality.

And that's where, when I look at how Desjardins had evolved in the last century, it's really meaningful for me that the purpose at the end of the day is how we act locally, what's the impact that we have on the planet. with the ESG criteria. It wasn't ESG 30 years ago, but it was who we were already as a co-op. So it was really developed in my mindset, in the way I worked at Desjardins. And when I looked at the 2016, 2017, 2018, before COVID, we already had discussion globally about, "we have to change few things after 40 years" so I think in the last five, six years, I've been a real advocate regarding this aspect of our evolution.

Neil Morrison: You mentioned that you started 30 years ago. Famously you started as a teller and then you've climbed one position at a time, and you spent quite some time working with entrepreneurs.

Guy Cormier: Yeah.

Neil Morrison: I'm wondering, I'm going to put you on the spot here, is there an example from that time where you think this approach that you have towards community or towards entrepreneurs that's different from maybe other banks that unfolded differently? I'm thinking



maybe an entrepreneur who got a chance with you and took off that may not have had that sort of chance somewhere else?

Guy Cormier: Oh, I have so many entrepreneurs, and I have real example of companies who are now really successful, and they start by a \$15,000 help from Desjardins, and it wasn't possible for them to have access to any kind of facilities, credit, investment because they were too small, no one were too sure of their projects, but we said yes. Actually, as an example, the Cirque du Soleil that is a worldwide renowned brand and an amazing organization in Saguenay in Quebec. Desjardins was the financial institution who helped them with their first loan and support, and look at this amazing company now. So we have so many examples like that.

Neil Morrison: In those early days, clearly social impact was already part of Desjardins and what it did, but was sustainability part of the thinking in those early days? And if it wasn't, I'm wondering when that started to change, when it began to become part of it more?

Guy Cormier: It was already there. Actually, Desjardins launch it's first mutual fund, environmental mutual fund in 1990. At that time, 32 years ago, we were one of the first financial institutions in Canada to launch a mutual fund where our members and clients can invest their money in portfolios, where we want to have a more proactive, a stronger impact on the environment, so it was 32 years ago. And the first 10, 15 years, we saw growth, but in the last five, six, in the last two years, it is amazing how much and how many people want to invest in our SocieTerra funds now where there is more than 30 products, ETF, mutual funds, where we can invest in ESG funds, oil and pipeline free funds. Mutual funds where that we will invest this money in companies that are managed by female, women leaders. So we have seen a tremendous change in the last two, three years, but for us, this concept, even though we weren't necessarily using ESG as the three words, 30 years ago we already started our pathway and our journey on climate change and fight against climate change and social issues.

Neil Morrison: Some believe that the move from shareholder capitalism to stakeholder capitalism, this is more broadly beyond what co-ops do, but more broadly that move muddies the water of what finance professionals are good at - that stakeholder capitalism is less objective and clearly defined, and it takes finance professionals like CPAs outside of their field of expertise. What do you think of that?

Guy Cormier: I think it's not necessarily true in a way where if you are in the finance industry, if you work in accounting, looking at only the financial numbers, looking at only the operations of the company without looking at the environment, the stakeholders, the other issues that the company has to manage, I think on the long way and the long future, it won't work no more because you will have and we will have more and more pressures from our employees, from our clients and



members, from the citizens, from governments, from investors, from rated agencies. So we must integrate all the other aspect that are around our operations or our financial activities because I think hoping that governments will fix all the other issues in the society won't work no more.

So I think even though we have the first thought of, "I wasn't trained for that" or "it's not part of who I am or what I want to do," I don't think it's the right way to look at it. And actually, we hired so many employees in the last two, three years, and what I see, it gives them a purpose, a really strong purpose about "I want to work for Desjardins because I feel that at the end of the day, it's not just about finance, insurance, it's about having an impact on society. And I can with my work and my decisions, and I really believe that I do more than only, which is a great job by the way, offering services to our members and clients, but I know that this company wants to do more for our planet and our society."

Neil Morrison: Let me throw one other argument at you and then I'll move off of it. It's that capitalism has generated tremendous wealth. You mentioned that off the top, and tremendous benefits to society, so is it risky to mess with success?

Guy Cormier: I think it's more risky to mess with our planet because there will be no more finance. There will be no more business. There's no planet B. There's no option here. So if we don't move quickly in a way where finance integrates ESG criteria, we can be a strong partner for so many companies and communities with our capital that we invest with our support, with a way to help companies to transit from one point to another in a transition mode. So we could be really helpful for many of our entrepreneurs that we're working with. But yes, it's true that we can see a success in the last 30, 40 years, but there's also really collateral damage that won't go away in a weekend. So we must integrate new criteria in the way we do business in the next few years, because at the end, we won't be in business in 50 years.

Neil Morrison: You've said that companies won't improve their ESG profiles without clear reporting standards. Why is that so essential?

Guy Cormier: Because we need to measure what we want to accomplish. And actually, as an example, when we want to work with a company where we invest capital or we land money, for us it's important that they demonstrate to us that they have solid ESG performance. And even maybe they're not 10 on 10 at the moment, but they want to reach a 10 on 10 target in the next few years. Do they factor climate risk in their decisions? Do they set credible targets? Because if we don't see that from our perspective, and what we have seen in our own humbly success in the last 32 years, if you don't measure what you want to accomplish, if you don't follow these targets on a quarterly basis or annual basis, it will be difficult to see if you are serious. It will be difficult to see if you achieve, and it will be difficult to see what's the prioritizations that you put on ESG in a way



you manage your company. So that's why for us it's important to partner and do business with companies that set clear targets.

Neil Morrison: I wonder what role CPAs play in setting those reporting standards and establishing what are the clear reporting standards?

Guy Cormier: Well, I have a lot of hopes with CPAs, and my dream is really simple, and I'm totally convinced that in this decade, we will see it. It's that the quarterly financial results will be as important, as important, as the ESG quarterly report. So each quarter we will see ESG quarterly report and they will be as important as what we see right now with the financial report. And that's where CPAs from my perspective could have a huge impact. And that's why Desjardins has been, since the beginning, a strong advocate. And we have worked really hard for having IASB in Canada in Montreal, because we need a set of targets, a set of measurements, a set of ways we will be able to calculate and compare companies as strong as we can see on the financial side of our activities. And I'm totally convinced that accountant, CP accountant, could help us not only with these measures, but also to support and help the evolution of the mindset of their clients and their entrepreneurs to bring to the table the fact that ESG criteria and ESG performance is as important as financial performance.

Neil Morrison: You've mentioned that Desjardins doesn't really need to redesign its business model because it's more just expanding and doing more and more of what it was set up to do. But I'm wondering about banks that aren't co-ops or insurers and investors, how should they redesign their business models to become more environmentally sustainable?

Guy Cormier: I think I can see that in the last two years, we have seen tremendous change in engagement from many other banks and companies that are really serious to really help their clients to transit from one point to another and change their activities in a way where they feel more involved in ESG and fight against climate change. So I'm really convinced that after 30 years in this industry, the last two, three years, I've seen really a lot of seriousness and engagement, and I'm really positive about the future.

But there's not necessarily one aspect that will fix everything, but I think other corporations and banks could integrate more long-term perspectives in their decisions. When you are on the quarterly pressure results aspect of their organizations and the stock market, and the investors who are hoping to have returns of 12%, 15%, 20%, that's what we have seen. If we integrate more and more ESG factors in our decisions, maybe it will have an impact on costs sometimes on our cost structure, in some of our decisions.



I'll give you an example. We have at Desjardins, 800 caisses, branches in Quebec and Ontario. It sure that some people are telling me, "Guy, why do you keep 800 branches with this digital transformation and less people are going into your caisses and your branches?" But for us, it's a way to keep alive and to keep, proactively, some communities dynamic by our presence. And by the fact that we invest money, we keep jobs in different regions. Would it be possible for us to cut many of these branches and make more money? Yes. But is it our purpose at the end of the day? Not necessarily. So how we balance the evolution or our distribution capacity in a way where we integrate also some ESG aspect, that's a concrete example.

Neil Morrison: I read another quote from you. You said, "It starts with the CEO. I'm totally convinced it starts at the top on climate change and on ESG. You can't fake it, especially with your younger employees." I wonder how much of the pressure to change do you think is coming from employees?

Guy Cormier: More and more than it was three, four years ago. I think employees and the younger ones, they want to see their CEO, they want to see their organization be really serious. And like I said, you can't fake that because this generation is really, really, really good at any bullshit and they'll see it very quickly, so you can't bullshit that. So I think there is more, but it's not the only aspect. I think our clients and our members are putting pressure on us a lot, and that's good, and that's good.

But when I said that, it comes from the top is that there's so much stakeholders with different goals, with different issues, with different hope that if the CEO is not totally convinced that he has to manage the company and balance all these issues and goals from every stakeholders, if he's not really convinced that that's what he has to do and the company has to do, it will be more difficult for employees in the organization to really shift because there's always another flavor of month. There's always another reason we look at the situation right now. We have to balance a slow down the economy, inflation, what we see in Ukraine, in Europe, turbulence in the world. So there's always something that you have to fix really quickly.

So if the CEO is not always focused, repeating the same message and really bold on the fact that we must change the way we manage our company or integrate the ESG criteria, I think it's more difficult. And people will feel that, is it just the flavor of the month or is it greenwashing? So you really have to be convinced, repeat, and the purpose is there.

Neil Morrison: I find that interesting. How do you keep your eye on that goal on climate change specifically and on sustainability specifically when, as you said, when you're running something as large as Desjardins, there is no shortage of competing interests going on and there are legitimate



competing interests. So how do you manage to keep your eye on one target and not think, okay, maybe we just need to pull back because these other factors are developing and are important?

Guy Cormier: When I look at our evolution at Desjardins and we still have to continue to evolve, one thing that I'm really proud of is the fact that now ESG is integrated in our business activities. And that's where I think there's a threat, when you try to do ESG, but beside your company, you have a department beside, you have a VP beside. We were like that five, 10 years ago, but now I feel that we integrated in each of our business sectors, commercial loans, retail banking, life and health insurance, property, casualty, wealth management. We have people who are totally dedicated with our senior executive vice president, with our management team. Their job is just to look at how we run our businesses, embedding ESG in all of our decisions and our processes.

And that's where I sleep better at night because this is not a committee on the side that at one point try to push something in the business. We were like that, like I said, five, 10 years ago. Now we have evolved. So I think one aspect for me, where I'm convinced that we're heading in the right direction, is the fact that it is integrated in our decisions process, in our business activities.

Neil Morrison: It sounds as if you're looking for a different type of professional, different type of employee, whereas maybe 10 years ago, you could have someone who is a specialist in finance, and you could have even had a specialist in ESG and they may not have interacted except at some meetings. Whereas now it looks like, it sounds as if you're looking for employees and professionals who have both. They have both of them integrated in their skillset.

Guy Cormier: Absolutely. We hope that they have both these two aspects in the way they do their job. But honestly, right now, it's not true that everyone has integrated these two aspects in their job. So that's why in different business divisions, we want to be sure that on different committees with our senior executive vice president, we want to have people around them that are totally dedicated on ESG. And it's part of who they are from their training at the university or their courses. So if all of our staff, which is true right now, all of our staff cannot integrate all of our accountants that are working at Desjardins. Some of them ESG, it's something that is new and they have to change a bit of their mindset and the way they take their decisions and the way they analyze in any kind of projects they have to work with.

But that's part of our upskilling, reskilling of our people, of our staff. And I see that more and more universities and training programs integrate other aspect than just finance or accounting or insurance, but they integrate the impact on the environment, all other social issues, reputation, legal risk regarding ESG. So more and more of our people are aware of that. But this, we are in the middle of a transition right now at Desjardins and probably in many organizations. And that's why



it's interesting to manage a company like Desjardins because you change the mindset of many people.

Neil Morrison: Guy Cormier, it's been fascinating speaking with you. Thank you so much for taking the time.

Guy Cormier: It was a real pleasure. Thank you very much.

Neil Morrison: Guy Cormier is the president and CEO of Desjardins Group. Now, if this debate between shareholder and stakeholder capitalism feels maybe too political for you, or maybe you have strong views on one side or the other of the issue, either way, you're going to want to listen to our next episode when we speak with Armand Capisciolto. He's a partner at BDO Canada, and he says these high-minded political debates about the structure of the economy are completely unnecessary. At the end of the day, the rise of sustainability is just one more example of CPAs doing what they've always done.

Armand Capisciolto: The big change is the new information request. And that new information request is different than financial statements. That's a change. But what we do with that information, how we prepare that information, how we audit that information, yes we will need some different skill sets, or apply different skill sets or bring different experts to the mix. But, it's not that different from preparing financial statements and auditing financial statements. I know some people are going to listen to this and say "oh he is really understating this." It is not that different from a core competency standpoint. Yes it's very different from a detailed level of knowledge, but from a core competency standpoint, to me this is very much aligned with what we do as CPAs.

Neil Morrison: That's Armand Capisciolto, and we'll be speaking with him on our next episode. But that's it for this episode. I'm Neil Morrison, and we'll be back in two weeks. If you like this podcast, please share it, rate it, or review it or click subscribe or follow depending on the podcast app you're using. It really helps others to discover us.

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