DE GRUYTER Account. Econ. Law 2020; 10(3): 20200145

Thomas Clarke*

# The Contest on Corporate Purpose: Why Lynn Stout was Right and Milton Friedman was Wrong

https://doi.org/10.1515/ael-2020-0145
Published online December 3, 2020

**Abstract:** It is now 50 years since Milton Friedman set out his doctrine that "The Social Responsibility of Business Is to Increase Its Profits." This paper seeks to add fresh and compelling new evidence of why Lynn Stout was correct in her resolute critique of the thesis of shareholder primacy at the heart of the Friedman doctrine, and how this doctrine remains profoundly damaging to the corporations that continue to uphold this belief. It is argued that the Friedman doctrine has had a catastrophic impact upon American business and society beginning with General Motors failure to respond to investor calls for increased concern for safety and pollution at the time of Friedman's intervention in 1970, stretching all the way to the recent fatal errors of Boeing in placing a higher priority in getting the new Boeing 737 MAX into the market than ensuring the soundness of software controls on the flight deck which led to two horrific plane crashes in 2018 and 2019 with the loss of 346 lives. These tragic errors in corporate judgement are ultimately related to the constricted sense of corporate purpose imposed by Milton Friedman and taken up with enthusiasm by agency theorists focused upon maximising shareholder value. This reckless single-mindedness has privileged the pursuit of the narrowest of financial measures of performance above fundamentals including passenger safety and environmental emissions controls. As a result, innocent lives have been lost, brands have been tarnished, and ultimately the strategic future of significant corporations endangered, and the ecology of the planet imperilled. There is now emerging a new sense of the purpose of the corporation that defines a rationale for corporate social and environmental responsibility in a way similar to Lynn Stout's more inclusive stakeholder approach. The question remains open whether this will lead to the development of fiduciary duties, governance, strategies, targets, measures, transparency and disclosure that might deliver the sustainable corporation.

**Keywords:** agency theory, corporate purpose, corporate social responsibility, directors duties, Friedman, shareholder value, stakeholders, stakeholder capitalism, Stout, sustainability

***Corresponding author: Thomas Clarke**, University of Technology Sydney, Sydney, Australia, E-mail: Thomas.Clarke@uts.edu.au

**JEL Classification:** G3, M14, L2, P1, L21, B5, B2, B31, B52, G1, G2, K2, K11, L1, L5, M4, O16, O35, P51, Q2, Q5

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# 1 Introduction

It is now 50 years since the Milton Friedman article "The Social Responsibility of Business Is to Increase Its Profits" (*New York Times*, 13 September 1970) was published. This analysis sets out some of the main principles of a rebuttal of the original Friedman article, compelling fresh empirical evidence of why Lynn Stout was correct in her resolute critique of the thesis of shareholder primacy at the heart of the Friedman doctrine, and how shareholder primacy continues to be profoundly damaging to the corporations that uphold this belief.[1]

It can be contended that the Friedman's doctrine of "The Social Responsibility of Business Is to Increase Its Profits" has had a catastrophic impact upon US business beginning with General Motors failure to respond to investor calls for increased concern for safety and pollution at the time of Friedman's intervention in 1970, stretching through the junk bond revolution (Bailey, 1991; Henwood, 1998; Lazonick & O'Sullivan, 2000), many corporate collapses, and the global financial crisis (Standing, 2016; Wolfson & Epstein, 2013); all the way to the recent fatal errors of Boeing in placing a higher priority in getting the new Boeing 737 MAX into the market, rather than ensuring the soundness of software controls on the flight deck, which led to two horrific plane crashes in 2018 and 2019 with the loss of 346 lives, and widespread condemnation of the irresponsibility of the corporation (Hawkens, 2019; Slotnick, 2019; Transportation and Infrastructure, 2020).

These tragic errors in corporate judgement are ultimately based upon the constricted sense of corporate purpose imposed by Milton Friedman and taken up with enthusiasm by agency theorists focused upon maximising shareholder value.

**1** At the CONVIVIUM annual conference with the Society for the Advancement of Socio- Economics (SASE) Annual Meeting at MIT in Boston in June 2012, there was a keen debate on the purpose of the corporation moderated by Yuri Biondi (SASE, 2012). Bill Lazonick and Jean-Philippe Robe made sterling presentations on how misleading and damaging the doctrine of maximising shareholder value had proved for corporations. Lynn Stout commented it was the right time to coordinate a robust intellectual response to the pervasive and continuing impact of Milton Friedman's doctrine on shareholder primacy that was a central part of the underpinning ideology of agency theory. She argued that a definitive rebuttal of Friedman's original article in the Review section of the *New York Times* published as "The Social Responsibility of Business Is to Increase Its Profits" in 1970 was long overdue (Friedman, 1970). The session participants commenced the initial outline of an article intended for the *New York Times*, but sadly this important article was never completed or submitted, partly due to Lynn Stout's passing in 2018. (The *New York Times* did mark the 50th anniversary of Friedman's intervention in "A Free Market Manifesto That Changed the World, Reconsidered," 11 September 2020). Fortunately, Lynn Stout already had set out her views on shareholder primacy in detail in an influential monograph *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public* (2012a; 2012b; 2012c), which was supported by a concerted critique of Milton Friedman's shareholder primacy by Jean-Philippe Robe (2012). Subsequently a special issue of *Accounting, Economics and Law: A Convivium* (Volume 3, Issue 1, 2013) reviewing Lynn Stout's book *Shareholder Value Myth* (2012a) did record the highlights of the debate in Boston in articles by Stevelman (2013), Clarke (2013), Weinstein (2013) and Stout (2013a), in which Lynn Stout addressed "the troubling question of corporate purpose."

This reckless single-mindedness has privileged the pursuit of the narrowest of financial measures of performance above fundamentals including passenger safety and environmental emissions controls. As a result, innocent lives have been lost, corporate brands have been tarnished, and ultimately the strategic future of significant corporations endangered. Historically corporations were guided by a wider range of performance measures that offered a robust and viable alternative to profit maximising (Anthony, 2007; Simon, 2007). Routinely managers do of necessity employ multiple financial and non-financial measures of performance (Robinson, 1998), though these are rarely referred to by CEOs at AGMs transfixed by shareholder value returns. More recently the criticality of sustainability performance measures has come into prominence (Eccles, Ioannia, & Serafeim, 2014), a development with which many other companies have failed to keep pace in any practical way.

This article will examine the conceptual failings of Friedman's call for shareholder primacy and the devastating consequences for corporations that have pursued this doctrine in practice without regard for other stakeholders. The increasing financialisation of the US economy is examined where finance ultimately determines corporate structure and purpose and claims possession of all the profits of corporate enterprise in dividends and share-buybacks. Assessing the strategic impact of the shareholder primacy doctrine upon American corporations, the long slow decline of General Motors is examined (the corporation that Friedman directed his original advice to). Bringing the analysis up to date the sudden catastrophic failure of the Boeing 737 MAX is attributed to the Boeing management concentrating on market share in the aerospace business and returns to shareholders, and fatally neglecting engineering standards and passenger health and safety.

The analysis continues with an examination of the reasons why Stout's resounding critique of shareholder primacy are robust and reflect now the redirection of business internationally towards more purpose-driven principles that encompass the interests of all stakeholders. This focuses upon the astonishing announcement of the US Business Roundtable in 2019 abandoning its decades long principle of shareholder primacy and replacing this with an enlightened interpretation of stakeholder capitalism. Whether this does represent a new concrete commitment, or simply an elegant effort at *purpose washing* – changing the rhetoric of their principles but not the substance is considered. Other initiatives to redirect the purpose of business are reviewed including the ambitious program of the British Academy. The developing momentum for responsible business in multiple initiatives across the world, coalescing around the UN *Principles of Responsible Investment* is highlighted. Finally, the critical question of how fine policy rhetoric may be directed towards the implementation of new director duties, corporate strategies, measures of performance, and disclosure is emphasized.

## 2 Why Milton Friedman was Wrong

Milton Friedman's work *Capitalism and Freedom* (1962) along with Friedrich Hayek's *The Road to Serfdom* (1944) helped define a narrow view of freedom and democracy as dependent on individuals, corporations and markets and won Friedman the 1976 Nobel Prize for Economics. Collective or social conceptions of work, enterprise or economies somehow were regarded as incipiently totalitarian. Friedman even allocated the growing interest in corporate social responsibility to this category of creeping collectivisation concluding:

> "The doctrine of "social responsibility" taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collective doctrine. It differs only by professing to believe that collectivist ends can be attained without collectivist means. That is why, in my book *Capitalism and Freedom*, I have called it a 'fundamentally subversive doctrine' in a free society, and have said that in such a society, 'there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (*New York Times* 13 September 1970).

This perverse doctrine of Friedman provided, or at least foreshadowed, the philosophical underpinning for the hegemony of agency theory and the consequent corporate impulsion towards the maximisation of shareholder value over the last half century. Agency theory is often regarded not only as the dominant current interpretation of the core dilemma of doing business, but as an eternal and universal explanation of corporate governance. In fact, agency theory is of recent origin, and is very much a product of the Anglo-American world. Rooted in neoclassical finance and economics, it has somehow managed to penetrate not only policy and practice but the essential understanding of corporate law regarding directors' duties (Clarke, 2013; 2016). According to agency theory, the central role of the board of directors is to monitor managers (the agents) to ensure their interests do not diverge substantially from those of the principals (the shareholders), and to devote the company to maximising principals' return (Jensen & Meckling, 1976). For Jensen "the stock market is always axiomatically the ultimate arbiter of social good" (Henwood, 1998: 260; Krippner, 2012).

Agency theory has become "a cornerstone of … corporate governance" (Lan & Heracleous, 2010: 294) despite the profound flaws of agency theory becoming increasingly apparent (Clarke, 2013: 22):

- Agency theory focuses on an oversimplification of complex financial and business reality.
- Agency theory damagingly insists upon the single corporate objective of maximising shareholder value.
- Agency theory misconceives the motivations of managers.
- Agency theory ignores the diversity of investment institutions and interests.
- Agency theory debilitates managers and corporations, and ultimately weakens economies.
- Agency theory achieves the opposite of its intended effect.

## 2.1 The Financialisation of the US Corporation

Agency theory has driven the increasing financialisation of US corporations encompassing the increasing dominance of financial motives, financial markets, and financial institutions to focus continuously towards maximising shareholder value (Biondi & Graeff, 2020; Clarke, 2014a; Krippner, 2012; Useem, 1996; Van der Zwan, 2014), and the distribution of ever-larger dividends and share buy-backs to increase shareholder returns, and inflate executive reward through stock options (Lazonick, 2014; 2015; 2016). Agency theory asserts shareholder value as the ultimate corporate objective which managers are incentivised and impelled to pursue:

> "The crisis has shown that managers are often incapable of resisting pressure from shareholders. In their management decisions, the short-term market value counts more than the long-term health of the firm" (Segrestin & Hatchuel, 2011, 484; Jordi, 2010)

Bill Lazonick and others have railed against the adoption of the *maximisation of shareholder value* replacing the *retain and reinvest* philosophy that typified US industry through the middle decades of the 20th century as the driving force of Anglo-American enterprise:

> "The ideology of maximizing shareholder value is an ideology through which corporate executives have been able to enrich themselves … The economists' and corporate executives' mantra from 1980 until the 2007–2008 meltdown of shareholder value and the need to 'disgorge … free cash flow' translated into executive option grants and stocbuybacks, and resulted in increasing dramatically those executive options' value" (Lazonick, 2012: 476; 2017).

Supporting the increasing trends towards awarding executive options, Jensen and Murphy (1990) insisted top managers should not be paid by fixed salaries as bureaucrats and should be instead incentivised towards higher performance through share-based payments including stock options. However far from incentivising executives towards better performance in shareholder interests, the availability of ever-increasing stock-options focused executives more exclusively than ever upon their own interests in inflating share prices, then getting their own reward through the roof. Later Murphy (1998) admitted: "It is difficult to document that the increase in stock-based incentives has led CEOs to work harder, smarter, and more in the interest of shareholders." Finally, Murphy conceded in 2005 that "We wanted to give them a bottle of wine to thank them for their efforts. We never imagined they would take the whole vineyard …" (Melbourne University, 2005). The explosion of stock options increased from zero in the 1980s to 60 per cent of median pay for CEOs of Fortune 500 companies by 2001 (Figure 1) (Clarke, 2013; Stout, 2012a).

Figure 1 shows evidence of this pattern in median CEO pay since the1980s, where equity options that initially were introduced simply as an additional incentive, quickly exceeded executives salary and bonus rewards, and encouraged executives to focus on shareholder returns as a means of enriching themselves in the short term (and reductions in CEOs average tenure meant the short term was all they considered). In the longer-term shareholders discovered US companies in many sectors became weaker and less able to deliver returns, as equity-based incentives achieved the opposite of their intended effect. In reality this incentive

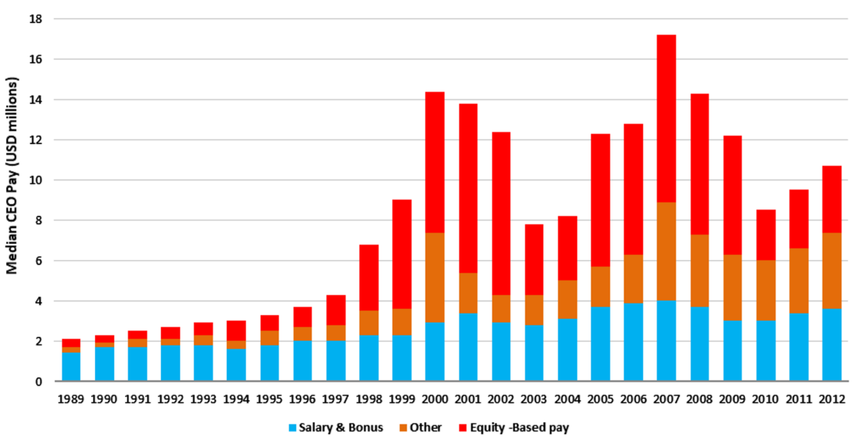


**Figure 1:** Composition of Median CEO Pay in the US (1989–2012).
Source: Compiled from Forbes Annual Executive Compensation Report. http://www.forbes.com/lists/2012/12/ceo-compensation-12-historical-pay-chart.htmlHall, Brian J. (2003), Six Challenges in Designing Equity-Based Pay, Journal of Applied Corporate Finance, 15(3): 21–23.

mechanism has displaced corporate goals from investing in the long-term future of their corporation's success, to disbursing as much money as possible in the immediate term to shareholders (and executives). Any balanced conception that the purpose of the corporation was not only to produce returns to investors, but to provide useful employment, to produce quality products for customers, and to be responsible corporate citizens, was lost (Biondi, 2012; Biondi, Canziani, & Kirat, 2007; Clarke, 2014b; Robe, 2012; Stout, 2012b; Weinstein, 2012, 2013).

The consequences for the US economy and society of this developing commitment by markets, corporations and executives towards narrow self-interest was increasing unemployment, poverty and inequality that began to disfigure once prosperous industrial communities in the United States, and in other economies where corporations adopted these values (Clarke, Jaris, & Gholamshahi, 2019a; Markoits, 2020). Due to lack of investment structurally large swathes of US manufacturing industry fell into disrepair and decline: "Shareholder primacy thinking is discouraging U.S. corporations from pursuing long-term projects. For example, in the middle of the twentieth century it was common for public companies to retain about 50% of their profits for reinvestment. Over the past 30 years, however, companies have started to retain much less, and to pay out much more in the form of dividends and share repurchases.Indeed, in the last few years, aggregate corporate payouts to shareholders have actually matched or exceeded aggregate corporate profits" (Mason, 2015).

## 2.2 The Increasing Distribution to Shareholders: Dividends and Share-Buybacks

In particular, share buybacks surpassed dividend payments in 1997 for the first time, and since then in recent stock market booms buybacks consistently have exceeded dividend payments. Lazonick, Erdem and Hopkins have catalogued the increasing momentum of share buybacks: "The 465 companies in the S&P 500 Index in January 2019 that were publicly listed between 2009 and 2018 spent, over that decade, $4.3 trillion on buybacks, equal to 52% of net income, and another $3.3 trillion on dividends, an additional 39% of net income" (Lazonick, Sakinc, & Hopkins, 2020). Figure 2 illustrates the phenomenal growth of share buybacks in the US displacing the investment in plant, equipment and skills necessary to create innovative products and processes. "In fact, in 2018, only 43% of companies in the S&P 500 Index recorded *any* R&D expenses, with just 38 companies accounting for 75% of the R&D spending of all 500 companies" (Lazonick et al., 2020).

It should be noted that such buyback policies were formerly illegal, and the idea was frowned upon by regulators as offering opportunities for corporations to

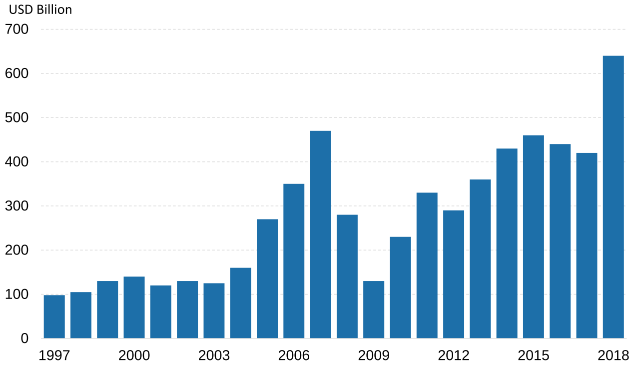


**Figure 2:** Data on 373 Companies in the S & P 500 Index Share Buy Backs in USD Billion. Source: Adapted from: Lazonick et al. (2020); S & P Compustat database and company 10-K filings constructed by Mustafa Erdem Sakinc and Emre Gomec of the Academic Industry Research Network.

manipulate their stock price. This prevailed through the 20th century until in 1982 the Securities and Exchange Commission during the Reagan presidency created a legal process for share buybacks which opened the floodgates for companies to make mass purchases of their own shares (Thomas, 2019). After this reform, executives were utilising the funds previously allocated to other productive purposes of corporations such as investing in innovative technology and new product development to instead reward shareholders (beyond their existing dividends) and executives (beyond their existing bonuses) (Sakinc, 2017: 24). Furthermore there is evidence that company executives are utilising share buybacks as a lucrative means of taking advantage of the jump in share price following the share buyback announcement to personally cash out of the shares: “It’s one thing for a corporate board and top executives to decide that a buyback is the right thing to do with the company’s capital. It’s another for them to use that decision as an opportunity to pocket some cash at the expense of the shareholders they have a duty to protect, the workers they employ, or the communities they serve.” (Jackson, 2018). Share buybacks became associated with Anglo-American corporations, while European corporations focused upon delivering excessively over-generous dividends to shareholders to maintain their share price (Sakinc, 2017: 13).

Important research by Sakinc (2017) demonstrates that when total dividends and total share repurchases of major corporations in Europe are combined it becomes clear that they, like their Anglo-American counterparts, devoted a substantial part of their net income to the benefit of their shareholders (Table 1). Taking a large sample of S&P listed companies and S&P 500 Europe 350

**Table 1:** Top 10 Share Repurchasing and Dividend Paying Companies in Europe 2000–2015 Rank.

| Company | Country | GICS Industry Group | Total Share Repurchase 2000–2015 €Millions | Total Divdends 2000–2015 €Millions | RP/NI | TD/NI | (TD + RP) /NI |
|---|---|---|---|---|---|---|---|
| BP | UK | Energy | 47,046 | 80,416 | 0.29 | 0.49 | 0.78 |
| Nestle | Switzerland | Food, Beverage and Tobacco | 40,779 | 52,663 | 0.37 | 0.48 | 0.85 |
| Novartis | Switzerland | Pharmaceuticals, Biotech. & life Sci. | 32,684 | 45,721 | 0.35 | 0.49 | 0.84 |
| Glaxo SmithKline | UK | Pharmaceuticals, Biotech. & life Sci. | 32,322 | 62,426 | 0.33 | 0.63 | 0.96 |
| Royal Dutch Shell | Netherlands | Energy | 29,875 | 108,302 | 0.13 | 0.47 | 0.60 |
| UBS | Switzerland | Diversified Financials | 29,812 | 18,727 | 0.89 | 0.56 | 1.45 |
| Total | France | Energy | 28,484 | 64,851 | 0.20 | 0.45 | 0.65 |
| Vodafone Group | UK | Telecoms Services | 27,624 | 86,726 | Nfa | Nfa | Nfa |
| AstraZeneca | UK | Pharmaceuticals, Biotech. & life Sci. | 22,740 | 31,644 | 0.38 | 0.53 | 0.91 |
| Deutsche Bank | Germany | Diversified Financials | 19,455 | 15,263 | 0.53 | 0.41 | 0.94 |

Source: Adapted from: Sakinc (2017); CapitalIQ and company rep.

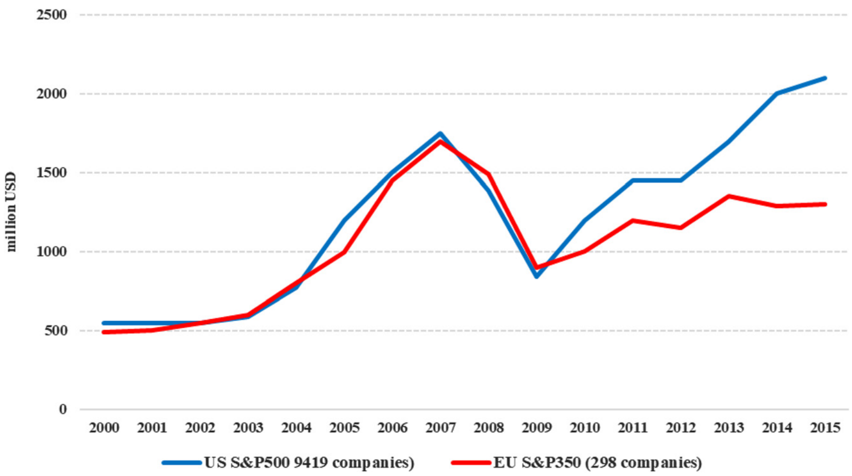


**Figure 3:** Average Share Repurchases + Dividends of 419 US S&P500 and 298 S&P. Europe 350 Companies 2000–2015 in $Million.
Source: Adapted from: Sakinc (2017).

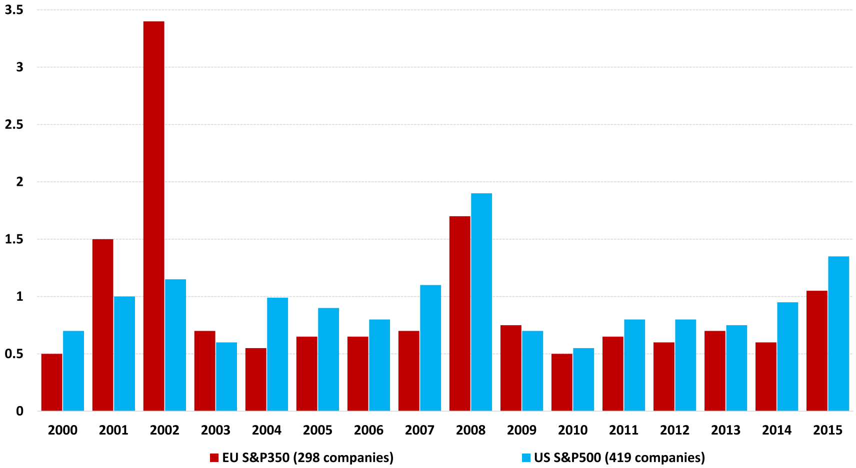


**Figure 4:** Total Payout (Share Repurchases + Dividends) as a Proportion of Net Income of 419 US S&P500 and 298 S&P Europe 350, 2000–2015.
Source: Adapted from: Sakinc (2017).

companies, the average share repurchases plus dividends combined in each region have tracked each other closely in the years 2000–2015, only diverging in the later years (Figure 3). When the total payout (share repurchases plus dividends) as a proportion of net income of 419 US S&P 500 and 298 S&P Europe 350, for the years 2000–2015 is considered, Sakinc (2017) examines how both US and European companies are prepared to devote all of their net income to dividends and share-buybacks, and even are prepared to borrow in order to do so (Figure 4). Borrowing to pay dividends and buyback shares might be considered highly irrational behaviour, however in a heavily financialised economy where value extraction rather than investment for value creation has become the norm for companies and financial investors, this short-term thinking is considered rational and necessary to appease the immediate needs of the financial markets, but in the long run can lead to the wholesale wrecking of what were once great companies.

Lazonick (2017) highlights the perverse results of the increasing distribution towards shareholders, particularly in the form of stock repurchases: that corporations have become suppliers of capital to the stock market in the US over the last three decades, rather than the stock market supplying capital to the corporations. Figure 5 provides evidence for both financial and non-financial companies. Lazonick (2017:2) examines net equity issues, that is newly issued corporate shares minus outstanding shares retired through stock repurchases and merger and acquisition activity in the United States between 1946 and 2016 (Figure 5). From the mid-1980s net equity issues for non-financial corporations have proved generally negative, but since the mid-2000s have been massively negative Lazonick calculates, amounting to minus US$ 4,466 billion. That is, the investors in the U.S. stock

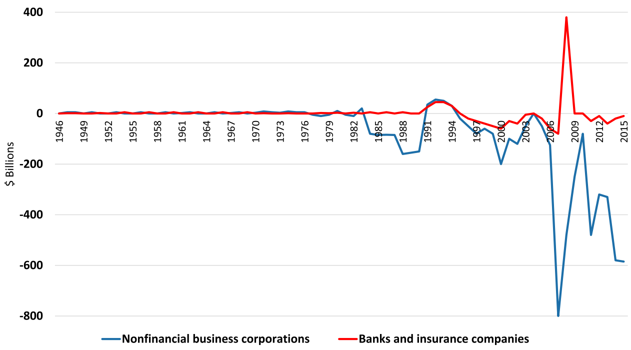


**Figure 5:** Net Equity Issues, Nonfinancial and Financial Companies 1946–2016.
Source: Board of Governors of the Federal Reserve System, Federal Reserve Statistical Release Z.l, “Financial Accounts of the United States: Flow of Funds, Balance Sheets, and Integrated Macroeconomic Accounts,” Table F-223: Corporate Equities, March 9, 2017, at https:ffwww.federalresere.gofreleasesfzlfeurrentf.

exchanges in recent decades have been increasingly *draining equity* capital out of corporations, rather than *investing equity* capital in corporations. This enrichment of the investment institutions has benefited investors, (though 92% of business equity is held by just 10 per cent of the U.S. population) (Clarke, Jarvis, & Gholamshahi, 2019), and the majority of this equity is owned by the richest 1% according to Wolff (2012). Hedge funds and other active funds have delighted in aggressively stripping out the resources of innovative corporations such as Apple, that have become giant cash machines for enriching investors dispensing hundreds of billions of dollars in recent years (Clarke & Boersma, 2017). This draining of the capital of non- financial companies by activist investors has serious consequences for the capacity of corporations to invest in innovation for their future, to provide employment and advance new skills, and to innovate their products and develop new markets.

The structural damage to the US economy and society caused by the narrow-minded self- interest of maximising shareholder value is immense, but the fatal consequences for individual corporations of such an irresponsible doctrine is also yet to be fully revealed.

Beginning with the failure of General Motors all the way through to the Boeing catastrophe, the extent of the havoc wreaked by the philosophy of Friedman is hard to imagine. What follows are brief case examinations of how the commitment to shareholder value imperatives almost destroyed both General Motors and Boeing, two of the greatest manufacturing companies in the history of America. The resolute deconstruction of the myth of shareholder value by Lynn Stout is then outlined, followed by a consideration of whether an evolving sense of accountability in the context of imminent climate change is actually causing corporations to develop a new sense of purpose in a world facing environmental perils never before imagined.

## 2.3 General Motors

The startling intervention of Milton Friedman made in *The New York Times*, came in response to the events that took place at the General Motors May 1970 AGM, and provoked universal attention to his short-sighted doctrine and made him a media star, and guest at establishment dinners (McGurn, 2020). A shareholder rebellion at the meeting attempted by members of *Campaign G.M.* demanded G.M. to name three new directors to represent the public interest and set up a committee to study the company's performance in areas of public concern focusing on safety of vehicles and pollution controls. The *Campaign G.M.* representatives who spoke at the AGM included Jerome Kretchmer, a New York Environmental Protection

Administrator; Betty Furness, a consumer affairs adviser to the Johnson Administration; John Esposito a lawyer; Barbara Williams a black law student from UCLA; Robert Townsend author of *Up the Organisation* (Townsend, 1970) and former US Navy officer and CEO of Avis; and the Reverend Channing Phillips, a civil rights activist. The AGM vote went overwhelmingly against the *Campaign G.M.* resolution, but management in response to the second demand, later named five directors to a public policy committee. Friedman dismissed such calls for social responsibility in business as “pure and unadulterated socialism,” commenting “businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society” (*New York Times* 13 September 1970).

American technology, and specifically the expertise of GM in electric engines and pollution Controls, was well placed at this time to lead the world and claim pole position in new automotive technologies which would have offered a global competitive advantage for decades to come (Edwards, 2006). But what happened to GM during the critical period 1970–2020 was precisely the reverse, and central among the reasons for this signal failure in GM management imagination was the pervasive and insidious influence of the ideology of short-sighted and self-interested shareholder value maximisation propagated by Milton Friedman.

At a time when American technology was well positioned to claim international leadership on car emissions reductions, the approach advocated by Milton Friedman was destructive self-interest: “What does it mean to say that the corporate executive has a ‘social responsibility’ in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers. For example … that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment” (*New York Times* 13 September 1970). In fact, it transpired that it was not just the environment, but the strategic future of General Motors that Friedman was trashing with this deeply flawed logic that separates the interests of the corporation from the interests of the public and the environment.

General Motors developed the Impact electric concept car – labelled EV1 – in 1990 in the context of the California Air Resources Board (CARB) making the production and sale of zero-emissions vehicles a requirement of automanufacturers who sold cars in California. At the time California had the worst air quality of all the states in North America. Subsequently GM launched the EV1 as the first mass-produced, purpose-designed electric vehicle from a major manufacturer. This was supplied under lease-only agreements from 1996 to 1999 to allow an engineering evaluation of the new concept as a commuter vehicle. But meanwhile an alliance of US automotive manufacturers litigated against the CARB regulations and this resulted in a revision of the California regulation to simply support the production of low emission and hybrid cars. Though customers were very positive about the new electric vehicles they leased and many wished to continue their leases, GM preferred to concentrate on the high profit margin existing mass market of internal combustion petrol engine vehicles.

As a result GM insisted on repossessing the leased vehicles (to the distress of many of their customers who liked the cars and wished to carry on with their leases), and proceeded to crush the cars secretly in the desert (Edwards, 2006; Paine, 2006).

In what can only be described as an historic strategic mistake, essentially GM self-sabotaged its pioneering electric car program in favour of releasing immediate returns to shareholders. Though the company continued with prototype variants in its electronic divisions including Hughes Electronics and Delco, through neglect it progressively lost the technological lead it once possessed to Japanese and European automakers who were more committed to investing in the new technologies and achieving their vast potential. However, two American innovators who were shocked by the GM recall of all its EV1 electric cars, Martin Eberhard and Marc Tarpenning, founded Tesla Motors in 2003, which Elon Musk joined in 2004. The goal of the new company was to commercialise electric vehicles for the mass market (Davies, 2016; US Department of Energy, 2015). This Tesla did with spectacular success, leaving GM in its slipstream.

By 2018 Tesla had become the world's best-selling plug-in passenger car manufacturer, with the prospects not only to become one of the world's leading car manufacturers, but also a world leader in solar and battery technology. Early in 2019 Tesla's market capitalisation was $53.5 billion, while GM, once the leading car manufacturer in America and the world, was left languishing with a market capitalisation of $50.5 billion. Yet Tesla at the time had only 1% of the sales of GM. The following year Tesla's share price rocketed, and market capitalisation tripled from $81 billion at the end of 2019 to a peak of $287 billion in August 2020 (worth several times the collective market capitalisation of all of the established US car companies). The equity investment markets clearly placed enormous value in Tesla's pioneering technologies and vast earnings prospects, while GM was virtually consigned to the category of industrial dinosaur (for essentially doing what it thought the investment markets demanded in delivering sales revenues from established models, while neglecting investment in advanced electrical technologies with low emissions).

It would be fanciful to attribute this collapse in the fortunes of GM simply to Milton Friedman and the doctrine of shareholder value, but this malign influence did help cripple the company by preventing it from playing to its strengths and undermining its innovative and strategic dynamism. In the face of tough competition from smaller more innovative and fuel efficient vehicles from Europe and Japan, the US market share of the Big Three US auto makers (GM, Ford, and Chrysler) declined from 705 in 1998 to 53% in 2008 (CNN Money, 2010). In 2009-10 GM endured Chapter 11 bankruptcy with the backing of the government (Pascus, 2018). It took the near-collapse of GM during the global financial crisis (due to the crippling extent of its financial interests in its car loan subsidiary) and the intervention of the Obama government, which insisted on any public funding for recovery of GM to be tied to green technology, to re-energise the development of electric engines at GM, which led to the launch of the GM *Bolt*, their first electric car for the masses (Davies, 2016). Now that Tesla has tested the global market for electric vehicles and benefited with a vast share market value, it will face tough competition from all the major car corporations, including the Nissan *Leaf* and GM's *Bolt* (*Washington Post* 14 June 2019; Hage & Hesse, 2020). Though GM began to plan for an all-electric fleet of vehicles and brighter future, it was once again subject to appeals from shareholders who argued against its progressive plans towards zero carbon emissions (SEC, 2018). In the middle of its supposed green transformation, GM took sides with President Trump in his clash with California over pollution standards which made its claim to pursuing a zero emissions policy somewhat tenuous (*New York Times*, 2019). (GM quickly abandoned this opposition to California's pollution controls with the election of President Biden.

These recurrent and critical short-term weaknesses imposed on companies by the doctrine of shareholder value are apparent in many systemic and corporate collapses in recent decades. The global financial crisis and its aftermath were demonstrably due to leading international banks placing their profitability and capacity to deliver shareholder value far above their capacity for risk management and commitment to customer service (Biondi & Graeff, 2020; Henwood, 1998; Smith, Clarke, & Rogers, 2017). As the fall-out from the financial crisis continued, successive banks that collapsed, including most spectacularly Lehman Brothers and the Royal Bank of Scotland, were revealed to have engaged in reckless practices to sustain their shareholders returns (Clarke, 2011; Clarke & Chanlat, 2009; FSA, 2011).

British and European based corporations were not immune to these pressures, in terms of focusing on profitability and shareholder returns to the neglect of risk management. For example, on 20 April 2010, BP was responsible for the worst man-made environmental disaster with the explosion of the Deepwater rig in the Gulf of Mexico due to neglect due to its systemic neglect of basic safety procedures caused by BP's relentless pursuit of profitability (Clarke, 2017a). Later Volkswagen, the leading car manufacturer in the world at the time, committed mass fraud against both the regulators and its own customers in the failure to comply with car emissions controls in a desperate bid to increase its market share of diesel autos (Clarke, 2017b). At both BP and VW the inclination to increase sales and profits overwhelmed the sense of responsibility that these companies had often professed (Clarke, 2017b). However, the recent failures at Boeing have highlighted even more acutely the dangers of putting financial interests before safety.

## 2.4 Boeing

Boeing was for decades one of the most respected corporations in America. As the major manufacturer of commercial airliners Boeing was assumed to adhere to the highest standards of precision engineering with the paramount goal of ensuring the safety of the hundreds of millions of passengers who flew in Boeing aircraft. But soon after the launch of the new Boeing plane, two 737 MAX passenger airlines crashed within five months exposing the most egregious failures in Boeing's operating procedures (Hawkens, 2019; Steib, 2019). On 29 October 2018, a Lion Air flight from Jakarta crashed within 12 min of take-off killing all 180 passengers and crew. Then on 10 March 2019 an Ethiopian Airlines flight from Addis Ababa crashed within 6 min of take-off killing all 157 passengers and crew. Yet Boeing had known of problems with the flight control system for about a year before the accidents (*Wall Street Journal* 5 May 2019). A month after the first accident, the Federal Aviation Administration (FAA), responsible for regulating all aspects of civil aviation in the United States, had conducted an internal safety risk analysis that indicated a high risk of an unacceptable accident rate if the 737 MAX's new Manoeuvring Characteristics Augmentation System (MCAS) was not fixed, which automatically and repeatedly forced the aircraft to nosedive concluding:

> "…A single erroneously high angle of attack (AOA) sensor input to the flight control system while the flaps are retracted can cause repeated airplane nose-down trim of the horizontal stabilizer and multiple flight-deck effects. These effects include stall warning activation, airspeed disagree alert, and altitude disagree alert, and may affect the flight crew's ability to accomplish continued safe flight and landing" (FAA, 2019: 5).

Instructions on the new features of MCAS was omitted from flight manuals and crew training, and left pilots exposed to manoeuvres they could not control. The FAA reaffirmed the 737 MAX's airworthiness on 11 March 2019 but grounded the aircraft on 13 March after receiving new evidence of accident similarities; by 18 March 2019, the aircraft was grounded world-wide indefinitely (FAA, 2019).

The ensuing US Congress and regulatory investigations by the Federal Aviation Administration discovered that Boeing did not adequately analyse the safety of design changes to MCAS or adequately inform the FAA, and in November 2019 the FAA revoked Boeing's authority to issue airworthiness certification for the 737 MAX. Boeing accepted the need for further flight simulation training for pilots.

Meanwhile, messages sent two years earlier from pilot employees about the safety of the airplane were revealed (*New York Times* 18 October 2019). Boeing's determined focus on getting the airplane into the market had defeated its instincts and policies for safety. As a result, instead of making vast sales, Boeing faced the longest ever grounding of a US passenger airplane ever as a result of regulatory scrutiny, together with $10 billion in revenue losses and compensation expenses, representing 13% of its annual revenues in 2019 (Baker, 2019; FAA, 2020; US Department of Transportation, 2020).

The US Congress Transport and Infrastructure Final Committee Report on the design, development and certification of the Boeing 737 MAX recognised that both Boeing and the FAA fundamentally failed in their duties to protect the safety of the travelling public. "There was tremendous financial pressure on Boeing and the 737 MAX program to compete with Airbus' new A320neo aircraft. Among other things, this pressure resulted in extensive efforts to cut costs, maintain the 737 MAX program schedule, and avoid slowing the 737 MAX production line. The Committee's investigation has identified several instances where the desire to meet these goals and expectations jeopardized the safety of the flying public" (2020:11–12).

Damningly the Transport and Infrastructure Final Committee Report stated that:

> *"Boeing's economic incentives led the company to a significant lack of transparency with the FAA, its customers, and 737 MAX pilots regarding pilot training requirements and negatively compromised safety"* (2020: 23).

By avoiding the need for simulator training of pilots for the 737 MAX in the airlines purchasing the new planes Boeing saved many hundreds of millions of dollars (2020: 26). The Committee Report concluded:

> "This report's main investigative findings point to a company culture that is in serious need of a safety reset. Boeing has gone from being a great engineering company to being a big business focused on financial success. Continuing on the same path it followed with the 737 MAX, where safety was sacrificed to production pressures, exposes the company to potentially repeating those mistakes and to additional reputational damage and financial losses.... Only a genuine, holistic, and assertive commitment to changing the cultural issues unearthed in the Committee's investigation at both Boeing and the FAA can enhance aviation safety and truly help both Boeing and the FAA learn from the dire lessons of the 737 MAX tragedies" (Transportation and Infrastructure (2020: 238).

The Boeing company now faces a series of lawsuits and legal class actions, and in December 2019 dismissed its CEO (Baker, 2019). The airline orders of the Boeing company have collapsed, with more orders being cancelled than placed, for Boeing the first recorded negative number of sales in 30 years (Slotnick, 2019, 2020). The Boeing company recorded a net loss of $636 million for 2019 (the first loss in 22 years), compared to a $10 billion profit made in 2018. Boeing's core commercial aircraft operations lost $6.7 billion in 2019, almost entirely due to the ongoing problems associated with the 737 MAX. The company estimated a total of $19 billion costs associated with the 737 MAX disaster, but the costs could increase significantly. These costs do not include the costs of litigation with the victims' families, though they do include $100 million set aside for a compensation fund (Isadore, 2020). After being grounded for a year and a half, following changes to the MCAS software, cockpit procedures and pilot training, the FAA gave permission in November 2020 for the 737 MAX to fly again (BBC, 2020).

This fall of a great engineering company is a tragic illustration of how the focus on quick sales and profits and delivering shareholder value can undermine the essential values and practices in business necessary to ensure health and safety, and result in a catastrophic collapse in revenues and brand value which are extraordinarily difficult to restore (MacGillis, 2019). Given the countless illustrations of company failure due to financial recklessness in recent decades, eliminating this dangerous doctrine of shareholder value as the guiding principle of Anglo-American corporations is a vital task. Many have contributed to this effort, but few with the resolute impact of Lynn Stout, the late Distinguished Professor of Cornell Law School. Her work always conveyed lucidity and conviction, but *The Shareholder Value Myth* (2012a; 2012c) was particularly effective in dismantling the mythology of shareholder value and exposing its dire consequences, and received international attention from the public, media, regulators and business executives. At the Clinton Global Initiative annual conference in New York in 2014 she was proud to be the speaker following President Obama.

## 3 Why Lynn Stout was Right

The cardinal principle of agency theory is shareholder primacy. This central myth of agency theory which Lynn Stout addresses is that corporations are – and should be – in thrall to their shareholders. The view that shareholders' interests are the sole determinant of corporate direction has little credibility in law, or in reality, (and as the above cases illustrate the emphasis on a singular imperative of maximising shareholder value can prove positively dangerous). Corporate law in many jurisdictions states simply that directors and officers must exercise their powers and discharge their duties "in good faith and in the best interests of the corporation." The meaning of this injunction continues to evolve and be contested. As the corporation is an artificial legal arrangement, the ongoing debate is whether it should be meant to serve narrowly the owners of the shares of the corporation, or more widely to encompass the interests of all stakeholders who have contributed in some way to the success of the company (Blair & Stout, 1999; Clarke, 2013, 2014a). There have been no court cases that clarify this issue definitively in many jurisdictions and therefore the phrase is still open to subjective interpretation, though in the United States several states recognize the legitimacy of directors taking stakeholder interests into account. The view in many jurisdictions is that the law permits flexibility and the exercise of directors' judgement, and this is seen as a good thing (Blair & Stout, 2001a; Blair, 1995; Stout, 2012d).

As Lazonick (2014) maintains, in the decades following the New Deal and Second World War, a more balanced view of the responsibilities of corporations prevailed in an era where Galbraith (1967) and Chandler (1977) celebrated technocratic managerialism:

> "From the end of World War II until the late 1970s, a *retain-and-reinvest* approach to resource allocation prevailed at major U.S. corporations. They retained earnings and reinvested them in increasing their capabilities, first and foremost in the employees who helped make firms more competitive. They provided workers with higher incomes and greater job security, thus contributing to equitable, stable economic growth- what I call 'sustainable prosperity.' This pattern began to break down in the late 1970s, giving way to a *downsize-and-distribute* regime of reducing costs and then distributing the freed-up cash to financial interests, particularly shareholders. By favouring *value extraction* over *value creation*, this approach has contributed to employment instability and income inequality" (Lazonick, 2014, 2017).

In analysing how shareholder primacy displaced sustainable prosperity as the business goal in the thinking of US business leaders, three fundamental mistakes in the legal understanding of the company of agency theory are highlighted by Lynn Stout (Stout, 2012a: 4):

> Friedman's erroneous belief that shareholders "own" corporations, when in fact as legal entities corporations own themselves. Shareholders own shares, a security contract arrangement between the shareholder and the company that gives shareholders limited legal rights. Shareholders therefore stand on equal footing with bondholders, employees and suppliers, all of whom enter into contracts with the firm which give them limited legal rights.
>
> The argument that shareholders are the residual claimants of the company (claiming all corporate profits after the fixed contractual claims of creditors, employees and suppliers have been paid) is also wrong. In fact, shareholders are residual claimants only when failed companies are liquidated in bankruptcy. The law is different for healthy companies as going concerns which are their own residual claimant. The company is entitled to keep its profits and to use them as the board sees fit. The board may decide to distribute some of these profits to shareholders, but can choose to raise employees' salaries, or invest in research and development, or make contributions to charities (Anthony, 1960).
>
> The claim that directors and executives are shareholders "agents." The legal understanding of any principal/agent relationships is that the principal has the right to control the agent's behaviour. In fact, shareholders lack this legal authority to control directors or executives. Shareholders governance rights in public companies are limited, and indirect, consisting

> primarily of the right to vote on who should sit on the board, and the right to bring legal action for breach of fiduciary duty. In practice these rights are limited, since as long as directors do not exercise their powers to enrich themselves, the "business judgement rule" protects directors from liability in most circumstances. (Stout, 2012a: 4)

The common legal view is that it is the role of the directors to determine what is in the best interests of the company unless no reasonable director could have reached the decision. The contribution of Lynn Stout's book is to clearly analyse and explain how such common-sense views of the world were replaced by the narrow and constricting dictum of shareholder value. As Blair and Stout (2001) insist shareholder primacy does not stack up either in law or in practice:

> "The idea that shareholders alone are the raison d'etre of the corporation has come to dominate contemporary discussion of corporate governance, both outside and (in many cases) inside the boardroom. Yet the 'shareholder primacy' claim seems at odds with a variety of important characteristics of US corporate law. Despite the emphasis legal theorists have given shareholder primacy in recent years, corporate law itself does not obligate directors to do what the shareholders tell them to do. Nor does it compel the board to maximize share value. To the contrary, directors of public corporations enjoy a remarkable degree of freedom from shareholder command and control. Similarly, the law grants them wide discretion to consider the interests of other corporate participants in their decision-making – even when this adversely affects the value of the stockholders' shares." (Blair & Stout, 2001: 5).

Lynn Stout's *The Shareholder Value Myth* (2012a) demonstrates how an unfortunate lacuna in corporate law was filled by the simplistic tenets of agency theory, which has promulgated enduring myths of shareholder primacy that have been misconstrued as authentic legal interpretations of directors' duties, and often guided directors with increasingly narrow and damaging corporate objectives. The tenets of shareholder value are portrayed as eternal, universal and unarguable. Lynn Stout resoundingly and convincingly exposes the multiple fallacies of each of these claims concerning shareholder value: the ascendancy of the claim of shareholder primacy (though it may have been stated in the past) is of comparatively recent origin in the agency theory wave in neo-classical economics of the 1970s (Henwood, 1998; Jensen & Meckling, 1976) The claim to universality of agency theory is bogus, since it is very much an Anglo-American construct, that for a long time was regarded as an alien intrusion into forms of European and Asian corporate governance (while it has now more influence in these regions due to the scale and power of Anglo-American investment institutions, shareholder primacy is still questioned on serious grounds of morality and practicality in most regions of the world (Clarke, 2016; Clarke & Boersma, 2017). Similarly the critique of the basic principles of shareholder value has remained widespread and robust in the Anglo American world (Clarke, 2014a; Lazonick, 2012; Weinstein, 2013).

The mythology of shareholder value has proved one of the most debilitating ideologies of modern times. The pursuit of shareholder value has damaged and shrunk corporations, distracted and weakened managers, diverted and undermined economies, and, most paradoxically, neglected the long-term interests of shareholders. It was in this period that the Anglo-American corporation was crudely translated from a wealth and welfare creating vehicle for the wider community of stakeholders and whole economy, with an emphasis on the importance of all corporate resources including the capabilities and training of employees, into a bundle portfolio of assets with the sole purpose of benefiting shareholder interests. Experienced corporate managers with a deep knowledge and capability in the business, were replaced during this period with managers from outside the company drawn from finance, disconnected from the business units but focusing on financial markets and results. Holding companies came to control many formerly independent companies (Weinstein, 2012). Lynn Stout discusses these "toxic" consequences of the maximisation of shareholder value alienating employees, customers, suppliers and communities (Clarke et al., 2019; Stout, 2013b, 2016).

Finally, Lynn Stout insists that the "relentless focus on raising the share price of individual firms may be not only misguided but harmful to investors" (Stout, 2012a: 7). It is the ultimate irony that maximising shareholder value is so misguided it damages the interests of all stakeholders and may be ultimately especially harmful to the interests of long-term shareholding investors. In fact, agency theory reifies and misrepresents shareholders just as badly as it misunderstands every other stakeholder in the business enterprise. Lynn Stout offers a more balanced and accurate assessment of the composition and orientations of the ultimate shareholders:

> "If we stop to examine the reality of who 'the shareholder' really is – not an abstract creature obsessed with the single goal of raising the share price of a single firm today, but real human beings with the capacity to think for the future… and to make binding commitments, with a wide range of investments and interests beyond the shares they happen to hold in any single firm, and with consciences that make most of them concerned, at least a bit, about the fates of others, future generations, and the planet" (Stout, 2012a: 6).

Lynn Stout did not live to see the unravelling of the doctrine of shareholder primacy and the potential abandonment of the maximisation of shareholder value as the central driver of US corporations, but this now does appear, to a degree at least, to be occurring in slow motion (Clarke, 2015;1998). The growing emergence of the *Social License to Operate*, the open debate on the *Purpose of the Corporation* (a company's fundamental reason for being), the revision of the core principle of the US Business Roundtable around corporate responsibility, and interest around the world in redefining the social and environmental obligations of corporations in the context of the devastating potential impact of climate change is beginning to suggest the absolute reign of shareholder primacy is coming to an end (Clarke, 2007; 2016; Veldman & Jansson, 2020).

The widespread scepticism concerning aspects of what purports to be corporate social responsibility in the past, can lead to rejection of the viability of the concept (Fleming & Jones, 2013), and revelations of the extent of greenwashing undermining the corporate commitments to sustainability (Gatti, Seele, & Rademacher, 2019; Netto, Sobral, Ribeira, & Soares, 2020), might suggest approaching new initiatives in this space with some caution. But what is impressive presently is the number of number and quality of initiatives around the world, coalescing in the United Nations Sustainable Development Goals. All this is occurring in the context of the dawning realisation of the desperate consequences of climate change for the economy and society if concerted action by governments, corporations and communities is not taken quickly.

## 3.1 The Emerging Social License to Operate

The gradual emergence of the concept of the *Social License to Operate,* (SLO) instead of “business as usual” (BAV), beginning with the extractive industries and extending now to the finance sector and other critical business sectors, is one indication of an incipient seismic shift in business responsibility. It is difficult to be serious about a Social License to Operate while conforming to the wickedest tenets of maximising shareholder value (despite what Friedman said about “The Social Responsibility of Business Is to Increase Its Profits” and his insistence on corporations staying within the law). As the Social License gains traction, the demonstration of corporate social and environmental responsibility becomes more exacting (though remains still to be closely defined and measured):

> “The social license to operate (SLO), or simply social license, refers to the ongoing acceptance of a company or industry’s standard business practices and operating procedures by its employees, stakeholders, and the general public.
>
> Social license to operate is created and maintained slowly over time as the actions of a company build trust with the community it operates in and other stakeholders.
>
> In order to protect and build social license, companies are encouraged to do the right thing, and then be seen doing the right thing” (Kenton, 2019).

Maintaining the *Social License to Operate* is becoming embedded in business purpose, as it is coming to be recognised as a strategic risk in which corporate legitimacy, credibility and trust are in the balance. Corporations, as with other institutions, cannot function effectively for long without legitimacy, credibility and trust. The *Social License to Operate* resonates with the traditional relationship-based approach to business in Europe, and the modern interpretation of the *Social License to Operate* is accepted widely by corporations throughout Europe and the UK. Now with the US Business Roundtable's new declaration of corporate purpose the social license will be considered by more large corporations in the United States (Autenne et al., 2018; British Academy, 2018; Business Roundtable, 2019; Clarke, 2019). The social license is central to a new OECD initiative on *Trust in Business,* and appears to resonate with business internationally, and to relate closely to the United Nations *Sustainable Development Goals* (OECD, 2019; UNEP, 2020).

A significant indication of this change in business mood was BlackRock CEO Larry Fink's (2019) Letter to CEOs of the thousands of companies around the world in which BlackRock is a lead investor, in which he sets out the principles of the *Purpose of the Corporation:*

> "...Every company needs a framework to navigate this difficult landscape, and it must begin with a clear embodiment of your company's purpose in your business model and corporate strategy.
>
> Purpose is not a mere tagline or marketing campaign; it is a company's fundamental reason for being – what it does every day to create value for its stakeholders … (Fink, 2019)"

A primary criticism of stakeholder capitalism is that any purpose other than shareholder profits results in a lack of focus and, can lead to corruption. This critique logically follows from the view that CEOs can be self-serving arbiters of social value and would, if given the opportunity, divert resources to their own enrichment under the guise of "purpose." In his 2019 letter to CEOs, Larry Fink disagrees with this assumption, stating in bold lettering: "Purpose is not the sole pursuit of profits but the animating force for achieving them. Profits are in no way inconsistent with purpose – in fact, profits and purpose are inextricably linked" (Fink, 2019). Since BlackRock, with over $8.44 trillion in assets under management in October August 2020 was the largest investor in the world, there was every reason for the CEOs of the thousands of companies that BlackRock is invested in, to sit up and listen. The question is whether this is largely a significant change in rhetoric being called for, or whether more substantive changes in business objectives and practices are being demanded? An important test case of this question is the apparent sudden about- turn of the US Business Roundtable from a conservative shareholder value commitment held for some years, to a more inclusive stakeholder capitalism perspective in 2019.

## 3.2 US Business Roundtable: *The Purpose of the Corporation*

The US Business Roundtable represents among the largest corporations in the United States and has tended to reflect and propagate the dominant business sentiments of the time. In 1981 adopting an expansive view of corporate purpose the Business Roundtable stated:

> *"Corporations have a responsibility, first of all, to make available to the public quality goods and services at fair prices, thereby earning a profit that attracts investment to continue and enhance the enterprise, provide jobs, and build the economy … That economic responsibility is by no means incompatible with other corporate responsibilities in society"* (Business Roundtable, 1981: 12).

However, by 1997 the Business Roundtable had swung around into the Friedman shareholder primacy view, and sharply narrowed its focus to delivering shareholder value:

> *"The principal objective of a business enterprise is to generate economic returns to its owners… 1f the CEO and the directors are not focused on shareholder value, it may be less likely the corporation will realize that value… 1n the Business Roundtable's view, the paramount duty of management and of boards of directors is to the corporation's stockholders; the interests of other stakeholders are relevant as a derivative of the duty to stockholders. The notion that the board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors"* Business Roundtable, 1997: 1, 3).

Then in the context of increasingly apparent environmental threats, new corporate regulation being proposed in the US Congress pursued by Elizabeth Warren, Bernie Sanders and others, and alarmed by an increasing public perception that corporations were essentially self-interested that President Trump did little to dispel, in a slightly stunning press release from their 2019 meeting in Washington the US Business Roundtable engaged in a very public *volte-face:*

> ***"US Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'*** (19 August 2019)
>
> Press release: WASHINGTON – Business Roundtable today announced the release of a new *Statement on the Purpose of a Corporation* signed by 181 CEOs who commit to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders.
>
> Since 1978, Business Roundtable has periodically issued *Principles of Corporate Governance*. Each version of the document issued since 1997 has endorsed principles of shareholder primacy – that corporations exist principally to serve shareholders. With today's

> announcement, the new *Statement* supersedes previous statements and outlines a modern standard for corporate responsibility."

This announcement of "*a modern standard for corporate responsibility*," and the accompanying analysis received front page coverage in the US national press, and international media. "The American dream is alive, but fraying," said Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co. and Chairman of Business Roundtable. "Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term. These modernized principles reflect the business community's unwavering commitment to continue to push for an economy that serves all Americans." (David Gelles and David Yaffe-Bellany, Shareholder Value Is No Longer Everything, Top C.E.O.s Say, *New York Times* 19 August 2019).

"This new statement better reflects the way corporations can and should operate today," added Alex Gorsky, Chairman of the Board and Chief Executive Officer of Johnson & Johnson and Chair of the Business Roundtable Corporate Governance Committee. "It affirms the essential role corporations can play in improving our society when CEOs are truly committed to meeting the needs of all stakeholders" (*New York Times* 19 August 2019).

The shift from a shareholder primacy to a stakeholder rhetoric was adroitly handled in the press as a legitimate and rightful progression (when it was arguably a rhetorical return to the business values of the Roosevelt-Kennedy era) which might have caused some consternation among some sections of activist shareholder ranks if they thought it was serious. However the fact that the new statement of stakeholder principles was agreed by 181 CEO members of the Business Roundtable, including leading captains of US industry such as Tim Cook of Apple, Jeff Bezos of Amazon, Larry Fink of BlackRock, Brian Moynihan of Bank of America, and Mary Barra of General Motors provided conviction to the Roundtable statement that few in the media were prepared to contest. There were 181 CEO signatures attached to the new *Statement on the Purpose of a Corporation* (Business Roundtable, 2019) which stated:

> "Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity. We believe the free-market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all.
>
> Businesses play a vital role in the economy by creating jobs, fostering innovation and providing essential goods and services. Businesses make and sell consumer products; manufacture equipment and vehicles; support the national defense; grow and produce food; provide health care; generate and deliver energy; and offer financial, communications and other services that underpin economic growth. While each of our individual companies

> serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:
>
> Delivering value to our customers. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.
>
> Investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.
>
> Dealing fairly and ethically with our suppliers. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.
>
> Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.
>
> Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.
>
> Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country" (Business Roundtable, 2019).

Except for the expressed belief in the free market system, it is likely that Milton Friedman would be far from happy at this remarkable statement of stakeholder capitalism principles by the leaders of US business. Lynn Stout would probably be slightly amazed at the thoroughness of the stakeholder framework commitments that would not have been acceptable just a few years earlier to many CEOs who seemed now happy to sign up for them. From 1997 through to 2018 the Business Roundtable maintained a practice of issuing *Principles of Corporate Governance* which advocated the principle of *shareholder primacy* and relegated the interests of any other stakeholders as strictly "derivative of the duty to stockholders" (Posner, 2019). In her very direct way Lynn Stout might well have asked "While this 2019 Business Roundtable *Statement* is certainly a remarkable change in business rhetoric, will it be accompanied by any substantive action of significance?"

The Roundtable Statement was signed by 181 CEOs of Business Roundtable companies, but there were 241 CEOs in membership of the Roundtable in 2019, meaning 60 CEOs chose not to sign a document that would normally receive universal consent (and no reference was made to their views in the *Statement*. Questions remain to be answered regarding why the Business Roundtable should make such a comprehensive change in policy at this time, and about how viable in terms of translation into transformed operational values and practices is the US Business Roundtable's new vision of business purpose?

Besides the sharp jolt of Larry Fink's letter to all of them, the CEOs would be aware of a growing public sense of concern, and often anger, at the apparent indifference of big business to the complex social and economic problems insistently impacting upon, and disfiguring, the United States (Clarke et al., 2019). Widespread under-employment, sustained low wages, extensive entrenched poverty, growing inequality, social and community break-down and environmental disaster within the United States, and often even more extreme in the other countries and regions they operated in, was no longer something large US corporations could readily ignore. As Martin Wolf put it:

> "The public at large increasingly views corporations as sociopathic and so as indifferent to everything, other than the share price, and corporate leaders as indifferent to everything, other than personal rewards. Judged by real wages and productivity, their recent economic performance has been mediocre. Furthermore, corporations have been allowed to corrode competition… In short, bad ideas have seized the corporation and let competition waste away" (*Financial Times* 12 December 2018).

Recognising that they, the CEOs, had to appear as part of the solution rather than a significant cause of the problem required an urgent recalibration of their public image if not their policies, which Jamie Dimon the Chairman of the Business Roundtable was perceptive enough to see. The reality was that US business had fallen behind business from other world regions in their sense of commitment to corporate social and environmental responsibility, as indicated in a survey of CSRhub recently (Figure 6). Both the American public and many of the CEOs themselves realised something needed to be done according to recent surveys conducted for *Fortune* magazine (Figure 7).

Doubts concerning the social and environmental responsibility of US business will continue until there is solid evidence of action for change. There is some indication that some of the CEO's involved are becoming aware of these concerns.

Representative views of the CEOs (US Business Roundtable, 2019) included:

- Ginni Rometty, CEO of IBM: *"Society gives each of us a license to operate. Lt's a question of whether society trusts you or not."*
- Alex Gorsky, CEO, Johnson and Johnson: *"People are asking fundamental questions about how well capitalism is serving society."*
- Jamie Dimon, CEO of JP Morgan Chase and Chair of the Business Roundtable: *"This is an acknowledgement that business can do more to help the average American."*

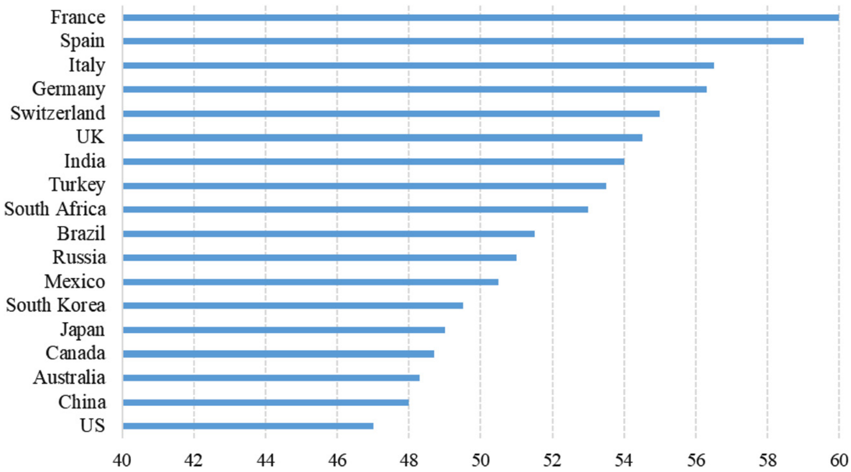


**Figure 6:** Comparative International CSR Performance Index.
Source: Adapted from: https:ffwww.esrhub.eomf.

**Purpose at a Turning Point**

| | |
|---|---|
| **64%** | **41%** |
| Share of Americans who say a company's "primary purpose" should be "making the world better." | Share of Fortune 500 CEOs who say Solving social problems should be "part of (their) core business strategy." |
| (Source: July 2019 Survey by New Paradigm Strategy Group) | (Source: March 2019 Poll Through Survey Monkey) |

**Figure 7:** The Changing Views of American and Fortune 500 CEOs on Business Purpose.
Source: Adapted from *Fortune,* America's CEOs Seek a New Purpose for the Corporation, 19 August 2019.

Views on whether the dramatic turnaround in the definition of business purpose by the Business Roundtable might have any practical utility were divided. The business academic community was generally supportive, but a little more exacting in their expectations (MIT, 2019):

– Anita McGahan, Rotman School of Management, University of Toronto: *"The focus on stakeholders is a focus on value creation. Managing for shareholder supremacy amounted to running businesses for their residual claimants rather than for sustained superior performance."*
– Meghan Busse, Kellogg School of Management, Northwestern University: *"A true broadening of the ob}ectives of firms would improve the well-being of*

*workers. But it remains to be seen how many of the CEOs who signed the statement are truly committed to making such changes, and also how many of them will and they are able to – given pressures from inside the firm, pressures from financial markets, and their own career ambitions."*

– Rebecca Henderson, Harvard Business School, Harvard University *"The statement is an important first step, but unless it is followed by concrete commitments on the part of the firms, it will have very little lasting effect on anything."*

## 3.3 Concrete Commitments or Purpose Washing?

Alan Jope, the CEO of Unilever in a prescient earlier statement emphasised not backing up purpose messaging could "further destroy trust in our industry" (Cannes, 18 June 2019). If all that results from the apparent *volte-face* of the Business Roundtable is a more accommodating rhetoric around stakeholder interests while still pursuing essentially the same financial metrics around maximising shareholder value (while neglecting all other stakeholders), the grand new Roundtable statement will be proven to be simply another exercise in *purpose washing* – cleaning up or disguising the essentially indefensible, while maintaining a consistent path of irresponsible business. Some critics have already dismissed the vague promises of the Business Roundtable as simply a clever new marketing exercise:

> "The global reader may stumble over some of the phrasing, such as the commitment to a 'free market economy that serves all Americans' – this from multinational companies with globe-spanning markets, outsourced operations and cross-border impact. We may also wonder how the announcement changes the workings of the free market in any discernible way. The weak pledges – to look after customers, to maintain good supplier relationships, to care for communities and the environment – could have been lifted from any one of the companies' existing annual reports. Employees at least get some specific assurances – fair compensation, benefits, training and education, diversity and inclusion – although of course the detail will be in the interpretation by individual companies. But communities and the environment, the most vulnerable of stakeholders, get the shortest, vaguest shrift in the statement. Communities will be "supported" and "respected" and the environment will be "protected" through sustainable practices. Clicking through on the Business Roundtable's website it is clear that the community and environmental investment that these companies have in mind is very much along the lines of the corporate-social-responsibility-as-charitable-giving that has proven extremely tax-efficient and brand enhancing in past years, without jeopardising any core profit centres. There is no commitment to engage with the harder, messier, more painful work of changing business models to replenish currently abused and depleted communities and ecosystems" (Meagher, 2019).

Other sceptics of the new resolve of the Business Roundtable suggest this will not prevent more fundamental questioning:

> "Whether or not the CEOs follow through on their pre-emptive nod to social responsibility, capitalism is clearly headed for a reckoning … Real-world experience has undermined free marketeers' near- theological belief that the unfettered pursuit of self-interest invariably produces the best outcomes for society itself. Banks' reckless pursuit of profits triggered the landslide of the 2008 financial crisis. Big Pharma made billions by creating an opioid epidemic that has ruined millions of lives. Fossil-fuel consumption is altering the planet's climate. The tech industry has seduced us all into surrendering terabytes of information that it sells at enormous profit. Executives cut themselves an ever-growing slice of the economic pie, while middle-class workers get crumbs. As they say on Wall Street, a correction may be coming" (Falk, 2019).

The Covid-19 global pandemic has provided a critical test bed for the renewal of corporate purpose. As recorded by the Test of Corporate Purpose (TCP, 2020) initiative the pandemic resulted in a profound economic crisis that exposed the multiple systemic fault lines around:
- Wealth disparities.
- Ecosystem disruption that promotes novel virus incubation.
- Inadequate health care access and employment safety nets (TCP, 2020: 6).

Though internationally corporations realized they had a role to play in this crisis, in the midst of the crisis there was evidence of some companies "appearing to put profits ahead of people and shareholder expectations ahead of employees, communities and ecological well-being" (TCP 2020: 6). From the survey conducted by TCP (2020: 7) the following sobering conclusions emerged:
- BRT signatories did not outperform their S & P 500 or European counterparts on the test of corporate purpose since the inception of the pandemic.
- Companies with long track records of performance on corporate responsibility outperformed others.
- Proactive and substantive responses to the crises of the pandemic and inequality had the most impact.
- US and European corporations performed similarly.
- Shareholder capitalism is not fit for purpose in such crises, and new forms of alignment with stakeholders were required.

The Test of Corporate Purpose intends to continue research on whether corporations are delivering value to all stakeholders; on how employers have ameliorated or exacerbated inequality in terms of employee welfare and inequality; on the responsibility of capital allocation; how governance integrates with other environmental and social commitments; on lobbying and political spending; and on taxes and tax havens (TCP, 2020: 8–14).

Meanwhile a preliminary analysis of empirical data regarding the declarations and performance of the Business Roundtable companies by Raghunandan and Rajgopal (2020) offers results that suggest there is a lot to be done. The 118 BRT signatories claimed that corporation purpose is to deliver value to all stakeholders rather than to maximise value for shareholders. Yet in a comparison of performance with industry peer firms:

- BRT corporations commit environmental and labour related compliance violations more often and pay more fines;
- Spend more on lobbying policy makers and receive more in targeted government subsidies.
- BRT CEOs receive higher abnormal compensation, and BRT firms have a smaller proportion of independent directors on the board (Raghunandan & Rajgopal, 2019).

BRT corporations might claim they need more time to develop their commitments, but this is not a good place to start from. Exacting public scrutiny of how corporate performance matches policy declarations needs to continue.

If truly business is to demonstrate greater social and environmental responsibility this must be reinforced by a positive and productive approach to practically resolving long-standing fundamental issues of corporate behaviour including:

- Commitment to compliance with relevant corporate regulation.
- Acceptance of changes in directors’ duties.
- Agreement to pay a fair amount of corporate taxes rather than avoiding them.
- Proportionate returns to shareholders relative to their equity commitment (Biondi, 2012).
- Serious constraints and limits on excessive executive compensation.
- Eradication of wholesale exploitation in global supply chains.
- Acceptance of workers’ rights.
- Commitment to decent work and wages around the world, including in long supply chains.
- Real commitment to product health and safety.
- Environmental commitments to environmental protection including net zero emissions.
- Pursuit of the circular economy.

A range of research and policy projects are investigating how corporations could be held to account for these more exacting standards regarding their purpose and performance, including the British Academy *Future of the Corporation* inquiry.

## 3.4 British Academy: The Future of the Corporation

The work of the British Academy *Future of the Corporation* project (2018–2020) engages in a fundamental re-conceptualizing of business purpose. The British Academy began its inquiry with a steely view of the impact of Friedman's legacy on business:

> "In 1962, Milton Friedman set out a framework for business in which he described the social responsibility of businesses as being to increase profits so long as they stay within the rules of the game. It was a powerful and influential proposition that established the conventional framework for business around the world. However, it has serious deficiencies and is no longer tenable as a framework for business in the 21st century. It has been the source of growing disaffection with business, its environmental, social and political problems, and the erosion of trust in it. Those problems will intensify in the future as technological advances risk exacerbating social detriments as well as. benefits of corporations, and public policy responses lag increasingly far behind innovations." (British Academy, 2018: 10).

The *Future of the Corporation* project sought to examine the contemporary purpose of corporations and redefine law and regulation to enable a new model of business with wider purposes and accomplishments (Hsieh, Meyer, Rodin, & Klooster, 2018; Mayer, 2013). The British Academy inquiry commenced its research on the *Future of the Corporation* around main themes: history, purpose, trust, culture, technology, law, regulation and taxation, corporate governance, ownership, investment and social benefits. The new framework of the corporation the inquiry began to formulate involved a reinterpretation and integration of three principles: (i) a redefining of corporate purpose that is distinct from shareholder returns, (ii) an establishment of trustworthiness founded on norms of integrity, and (iii) the embedding of a culture in organisations that enables both (British Academy, 2018: 10). Propelling the British Academy inquiry was an urgent sense of the impact of climate change, the urgency of delivering the UN Sustainable Development Goals, recent advances in technology, the increasing dominance of companies without significant tangible assets, and the widespread negative perceptions of business (British Academy, 2019: 5).

The early conclusions of the British Academy inquiry were that the purpose of business is to solve problems of people and planet profitably, and not profit from causing problems. The elements of purposeful business included a series of principles (British Academy, 2019: 8):

- "Corporate law should place purpose at the heart of the corporation and require directors to state their purposes and demonstrate commitment to them.
- Regulation should expect particularly high duties of engagement, loyalty and care on the part of directors of companies to public interests where they perform important public functions.

- Ownership should recognise obligations of shareholders and engage them in supporting corporate purposes as well as in their rights to derive financial benefit.
- Corporate governance should align managerial interests with companies' purposes and establish accountability to a range of stakeholders through appropriate board structures. They should determine a set of values necessary to deliver purpose, embedded in their company culture.
- Measurement should recognise impacts and investment by companies in their workers, societies and natural assets both within and outside the firm.
- Performance should be measured against fulfilment of corporate purposes and profits measured net of the costs of achieving them.
- Corporate financing should be of a form and duration that allows companies to fund more engaged and long-term investment in their purposes.
- Corporate investment should be made in partnership with private, public and not- for-profit organisations that contribute towards the fulfilment of corporate purposes."

A purposeful business would calibrate each of these elements into the delivery of value creation and innovation for all stakeholders (Figure 8).

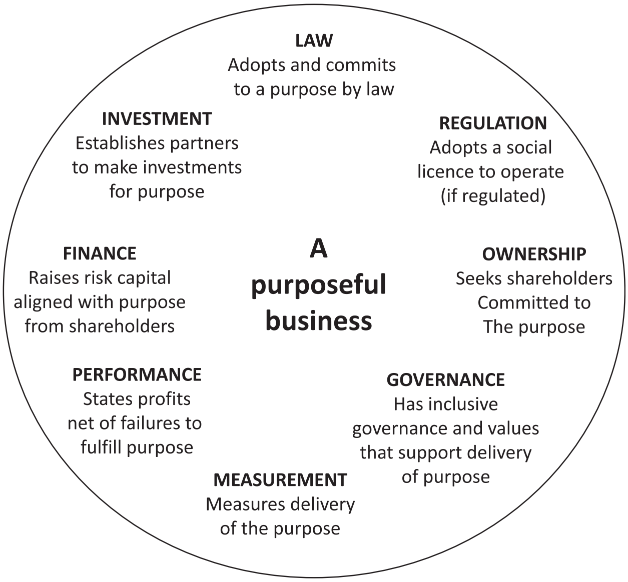


**Figure 8:** The Elements of a Purposeful Business.
Source: Adapted from: *Principles for Purposeful Business,* Future of the Corporation, The British Academy (2019).

This summary of the elements of purposeful business is comprehensive and compelling, but again fundamental questions arise as to the operational means of implementing these principles. Of course, this is for national regulators, investment markets and individual corporations to work through. But until there are more indications of demonstrable changes occurring, and the detail of how these work, then the elements of purposeful business remain as ideals rather than reality. Translating the ideals into reality will require a momentous transformation of corporate law, governance, strategy, operations, performance measures and disclosures.

# 4 The Developing Momentum for Responsible Business

Yet the British Academy initiative is part of a developing momentum of research and policy bodies internationally to achieve a blueprint for more responsible business practice. A pioneer of this effort was the UK Royal Society of Arts' *Tomorrow's Company* inquiry (1992–5), investigating the sources of sustainable business success with a network of 25 international corporations (Clarke & Monkhouse, 1994, 1995). Influential in the United States was Margaret Blair's *Ownership and Control: Rethinking Corporate Governance for the 21st Century* (1995; Clarke, 1998), and Blair and Stout's *Team Production Theory of Corporate Law* (1999; 2001a; 2001b). This research contributed to the thinking of the UK *Modern Company Law Review* (1998–2001) (Company Law Review Steering Group, 2001), that considered shareholder primacy and stakeholder orientations of the corporation, resulting in Section 172 of the UK Companies Act 2006 (UK Government 2006) which outlines the wider responsibilities of company directors towards employees, customers, the community and environment, though translation of these responsibilities into practice has yet to occur. On an international scale the interest in responsible investment in corporations for the long term was developed through the International Corporate Governance Network (ICGN) body of large global institutional investors (ICGN, 2016).

There are many recent international contributions to the literature on the transformation of the corporation (Clarke, O'Brien, & O'Kelley, 2019b). In the United States Bill Lazonick has worked assiduously to secure wider public recognition of the negative impact of shareholder primacy on the investment horizons of corporations, and the urgent need for reorienting corporations, including research with the Institute for New Economic Thinking (INET) on the impact of share buy-backs and dividend payments on long-term investment in business innovation (Lazonick, 2017; Lazonick, Sakinc, & Hopkins, 2020; Lazonick & Shin, 2019). The *Critical Corporation Project* (2012–18) at the Cass Business School at City University, London, has investigated the contemporary corporation from a critical perspective (Baars & Spicer, 2017), and the Frank Bold international law firm is conducting the *Purpose of the Corporation* Project (Frank Bold, 2019). Finally, the European Law Institute has launched a major research project on corporate sustainability (Autenne et al., 2018; ELI, 2019).

The academic discourse on the corporation has resonated widely in the political arena in recent times in practical proposals for legislative change. Just as the work of Berle and Means (1932) informed many of the reforms of Roosevelt's New Deal in America in the 1930s and remained influential through to the Kennedy era of the early 1960s, so today the academic critique of the corporations has impacted on political deliberations. In the US Congress there has occurred a sequence of attempts to transform corporate legislation-including by Elizabeth Warren and John McCain in the Senate in 2017 to introduce a *21st Century Glass- Steagall Bill* (US Senate, 2017) intended to reintroduce the separation of retail and investment banking to reduce the possibility of further financial crises, as part of Warren's crusade to reform corporate law; and in 2018 the *Reward Work Bill* by Senator Tammy Baldwin to rein in the hundreds of billions of dollars of share buy-backs by corporations that benefit their executives, and to introduce the election of one third of company boards by their employees (US Senate, 2018). Though these bills were not passed, the intent to reform business is growing in the US Congress among the Democrat majority in the House of Representatives at least, and the political pressure to reform corporations is likely to continue to grow in the United States and internationally.

At the European Commission proposals to advance sustainable investment are aimed at ensuring disclosure of investors and asset managers in order to integrate environmental, social, and governance processes into their risk-management processes, including benchmarks for low-carbon and positive carbon impact activity (European Commission, 2018, 2019). Further European proposals on *Sustainable Corporate Governance* aim to improve the regulatory framework to enable corporations to focus on long-term sustainable value creation rather than short term returns throughout their value chains ((Europa, 2020), as part of the European *Green Deal* (2019). The French government has a policy *L'entreprise, objet d'interet collectif* (Republique Francaise, 2018) proposing the formulation of a raison d'etre by French companies to manage the company in its own interests while considering its social mission and environmental obligations was passed into law which "introduces the notion of *raison d'etre* and affords the possibility for any corporation to assign social or environmental purposes to itself, defined in its bylaws" (Segrestin, Hatchuel, & Leillain, 2020). Finally, the UK parliamentary inquiry into corporate governance failings highlighted problems with executive pay, directors' duties, and the gender balance and worker representation on corporate boards (BEISC, 2017).

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Most prioritized** | **61%** 13. Climate action | **54%** 12. Responsible Consumption and production | **52%** 8. Decent work and economic growth | | | | | |
| **Mild prioritized** | **43%** 11. Sustainable cities and communities | **42%** 9. Industry innovation and infrastructure | **42%** 7. Affordable and clean energy | **38%** 17. Partnerships for the goals | **37%** 4. Quality of education | **35%** 3. Good health and well-being | **33%** 5. Gender equality | **31%** 6. Clean water and sanitation |
| **Least prioritized** | **21%** 15. Life on land | **18%** 1. No poverty | **18%** 10. Reduced Inequalities | **16%** 2. Zero hunger | **12%** 16. Peace, Justice and strong communities | **10%** 14. Life below water | | |

**Figure 9:** Prioritisation by Business of the UN Sustainable Development Goals.
Source: World Business Council for Sustainable Development (2019).

This prompted a radical report subtitled *Democratising Corporations for their Long-Term Success* (Sikka et al., 2018) commissioned by the UK Labour Party, which returned with conviction to the concept of worker directors after a hiatus of over 40 years since the publication of the UK *Bullock Report* (Bullock, 1977) that considered the prospects of industrial democracy.

Most importantly, the UN Sustainable Development Goals (SDGs) have galvanised governments and corporations around the world. The Sustainable Development Goals have called upon business to explicitly focus on minimising their damaging impact on people and the environment, and to promote initiatives where they can contribute to social and environmental well-being. The UN SDGs prioritised by business according to the World Business Council for Sustainable Development are set out in Figure 9 (WBCSD, 2018). The energy and commitment that leading corporations demonstrate in the achievement of these sustainable development goals will be the ultimate test of their commitment to the exercise of greater responsibility (Clarke, 2019). Corporations may well be most interested in the Sustainable Development Goals that match their own immediate concerns, but the SDGs area significant way of inducing corporations to consider the wider impact they have upon the world, and how the benefits of this impact could be enhanced, and the damaging impact eliminated.

## 5 Conclusions: Beyond Rhetoric to Driving Purpose

The business world has travelled some way in recent years towards demonstrating a more responsible purpose. The stark beliefs of Milton Friedman have finally been cast aside after half a century of almost hegemonic rule of business thinking. The analysis of Lynn Stout and others of a more balanced stakeholder orientation of business at last seems to be acquiring real traction. We now need to establish a new agenda for combating predatory value extraction and restoring sustainable economic prosperity (Lazonick & Shin, 2019). In the coming years we will discover if international business is becoming more committed to social and environmental responsibility in reality, as now is claimed in rhetoric. It is not entirely convincing that business can save the world (Henderson, 2020a, 2020b), but corporations might save themselves by reimagining their responsibilities. For this to occur corporations have to move beyond the rhetoric of being purpose-driven, and establish clear strategies, targets and measures of corporate social and environmental responsibility, with transparency and disclosure of the detail of their performance made public on a regular basis.

Presently though, there is a widening gap between the reality of what corporations are actually doing and what is needed to achieve a climate resilient transformation (IRENA, 2020) with sustainable value creation and innovation. Not just the future of the corporation, but the future of life on the planet depends upon this renewed respect for the environment. Similarly, the social inequality disfiguring the world is no longer tolerable socially and makes no sense economically. It is time for changes in the law to reinforce the commitments of corporations to the wider community and environment, which they now claim they wish to serve.

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