A Hippocratic Oath for Corporations

When it comes to corporate responsibility, it’s time to stop the virtuous talk and begin to take simple actions.

The age-old debate over whether a firm’s responsibilities extend to its customers, employees and the community or lie solely with maximising profits shows no signs of abating. Since the dawn of modern-day capitalism, there has been a kind of seesaw, this back and forth between the primacies of shareholders versus stakeholders. This pontification seems endless, the arguments old and hoary, and the world markets remain considerably underwhelmed.

When 181 of the United States’ most influential business leaders – members of the Business Roundtable (BRT) – recently committed to run their companies in a manner that benefited all stakeholders, the Dow Jones and the S&P500 increased marginally. Was this a tectonic shift as many press outlets portrayed? Or was it a cynical move on the part of the BRT to stave off regulation in our age of inequality, populism and disruption?

“…”This new statement (of purpose) better reflects the way corporations can and should operate today,” insisted Alex Gorsky, the Chair of the BRT Corporate Governance Committee and CEO of Johnson & Johnson. “It affirms the essential role corporations can play in improving our society when CEOs are truly committed to meeting the needs of all stakeholders.”

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The waxing and waning of stakeholder primacy

One of the first and most famous examples of stakeholder primacy dates from 1914 when Henry Ford more than doubled the wages of his assembly workers. While many applauded the fair pay, Ford himself claimed “there was no charity involved” and that, “The payment of five dollars a day for an eight-hour day was one of the finest cost-cutting moves we ever made.”

The notion that firms should become more community-minded and that their interests were advanced when benefits should be had by a broader set of stakeholders remained popular until the 1980s when Milton Friedman contended that “the social responsibility of business is to increase its profits.” In an article in the New York Times, Friedman maintained that corporate executives were employees and must act in the interest of their
ultimate owners, the shareholders, while conforming
to existing laws and ethical norms. To the extent that
executives and even shareholders champion a
social cause, they should do so on their own time
with their own resources. Doing otherwise was
equivalent to taxing the company, a task better left
to civil servants and politicians who are selected by
and accountable to the public at large.

Friedman’s views gained traction in the 1980s when
US President Ronald Reagan and British Prime
Minister Margaret Thatcher were in power and
corporate governance was re-shaped towards
maximising the return on investment for
shareholders.

Business schools, economics departments, public
policy institutes and financial institutions, including
the World Bank, the International Monetary Fund
and the World Trade Organization all conveyed
these ideas. In fact, the BRT, the group that made the
recent commitment to community responsibility,
had changed its mission statement in 1997 to assert
that: “The paramount duty of management and of
boards of directors is to the corporations’
stockholders.”

So what is the change that led to the recent shift
back towards stakeholder primacy? In short, the
world changed. Just as businesses back in the 1980s
adopted the notion of shareholder primacy to reflect
that era’s mantra of “Greed is good”, today’s
corporate leaders recognise that the current
environment of stagnant gains in income for the
middle class, high unemployment rates especially
among the young, rising costs of education and
healthcare, skyrocketing wealth and income
inequality and a backlash against elites is bad news
for their future viability.

The concept that the current system is broken has
already sunk deep into the consciousness of voters,
who are punishing centrist governments by casting
them as protectors of the status quo and turning to
political entrepreneurs and populist parties. This
rising swell of disenchantment has business leaders
worried. A survey of decision makers at Davos
suggests nine out of ten have mounting anxieties
about “populist and nativist agendas” and “public
anger against elites.” The recent BRT pledge should
be seen as a response to this fear and a growing
concern that the status quo is increasingly
untenable. A cynic may even consider this latest
reversal as a move to avoid regulations that will
legislate for its proposed changes.

But is such an ambitious pledge a harbinger for
change? Unlikely. When asked about concrete steps
that truly demonstrate commitment to stakeholder
principles, the BRT CEO Joshua Bolten cited various
steps that companies had taken: an increase in their
own minimum wage, a call for infrastructure
investment, training programmes for the
 economically disadvantaged and suggesting new
legislation to protect consumers’ data. Colour me
unimpressed. Half of these projects simply put the
onus on the government (infrastructure investment
and data protection). The increase of minimum
wages is a response to an already tight labour
market in the US, while the creation of training and
hiring programmes for the disadvantaged is a
feeble step towards inclusive economic growth.

The risk these companies run is that such pledges
will be seen as mere virtue signalling that
engenders further cynicism. As the world slides
towards political extremism driven by nationalism
and identity politics, towards protectionism and
trade wars, towards greater government
intervention, towards the breakup of large
corporations and even a return to state-owned
capitalism, statements on their own are insufficient.
In fact, businesses would be better served by being
more modest in their intentions and following a
corporate version of the Hippocratic Oath:

1. Do no evil. Evil includes facilitating
interference in elections, cheating on emission tests, enabling money
laundering, paying bribes,
forming cartels or tolerating unsafe
workplaces.

2. Pay taxes and adhere to laws and
regulations. When laws are murky and
compliance optional, default to point 1.

3. Avoid interfering in politics. Cease
lobbying for preferential treatment; at the
very least disclose all political donations.

4. Do not deny science. And do not
run misinformation campaigns that
undermine science to benefit your bottom line.

5. Focus on core competencies and
embrace competition.

6. Ensure that stakeholders are represented
in your governance structures.

7. Address inequality at home. Disclose
wages, bonuses and pay ratios by skill level
and by gender in your organisation.

Such an approach can help restore faith in
corporations, protect their brands and reputations,
avoid accusations of hypocrisy, while focusing firms’
attention on what they truly do best – making
widgets.

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