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."

While some may have seen this pledge as a new line in the sand, an historic redefinition of company purpose, it is more likely that businesses and CEOs were simply reacting to the changes in their environment, as they have throughout history. And that the real focus, as is often the case in this particular debate, is not on the issues themselves but on how corporations can maintain long-term growth and serve the bottom line.

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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