Opinion **Capitalism**

Covid has put ‘stakeholder capitalism’ on steroids

The new ‘save everything’ paternalism is burying companies’ basic need to make a profit

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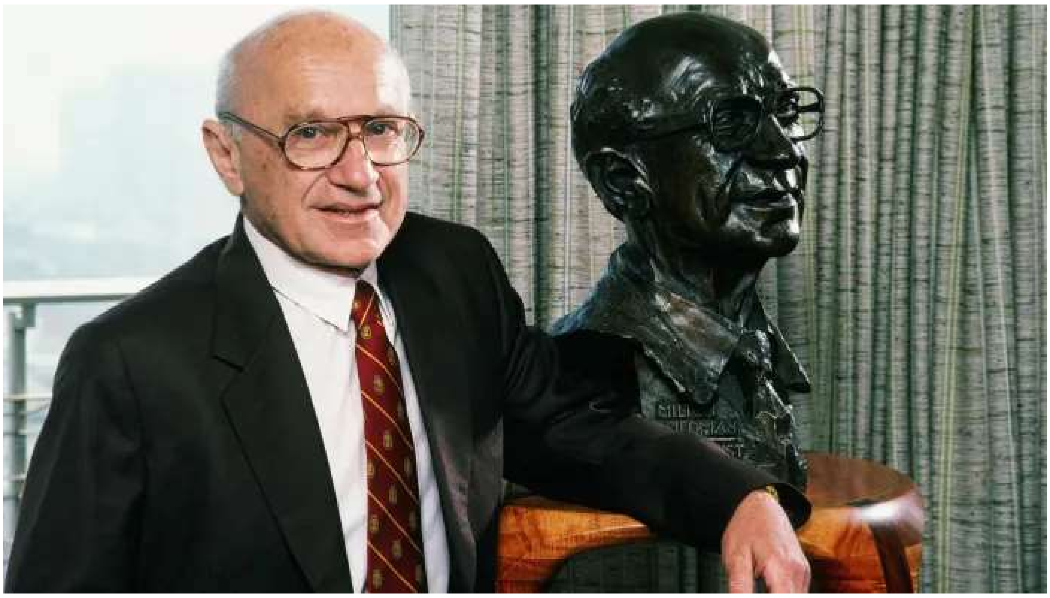

The economist Milton Friedman’s ideas about shareholder capitalism held firm for 50 years © George Rose/Getty

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Is it the job of a company to attempt to mitigate climate change? Milton Friedman would have said “No”. Back in 1970, he popularised the idea that the primary aim of executives should be to maximise the value created for their shareholders in a (still) brilliant essay. Companies should make stuff or create a service within the appropriate regulatory boundaries, he wrote; then sell it, and pay the proceeds to the providers of its capital. Aiming for anything else, he said, is to spend “someone else’s money for a general social interest”. And why would you want to do that?

It was compelling stuff — and its logic held firm in the corporate world for nearly 50 years. But today Friedman is old news. In 2019, the US Business Roundtable decided to redefine “the purpose of a corporation to promote an economy that serves all Americans ”. It comes with five commitments — to customers, employees, suppliers, communities and shareholders. This was soon followed by the Davos Manifesto 2020, where lots of people who have benefited from shareholder capitalism laid down their thinking on getting rid of it. Shareholders are mentioned last again, behind “society at large”.

Pretty much everyone has now jumped on this bandwagon. In July, Joe Biden announced his aim to bring "an end" to the "farce" that is shareholder capitalism, while the pandemic has given renewed energy to the conversation about the purpose of a corporation. The upshot is a long list of organisations asking companies to step back from what used to be their core purpose and to focus on a lot of other things.

Climate change is top of the list. In Australia, a new "Climate League 2030" is calling for companies to slash carbon emissions beyond government forecasts. In the US, the "We Mean Business" coalition is pushing for the same thing. There has long been pressure for companies to do something about gender issues. Then there is social justice in general, with the kickback against shareholder primacy opening the floodgates to pressure groups demanding that companies enter the culture wars. There is barely a brand left that isn't running an inclusive campaign of some sort. See Coca-Cola's hosting of the Together We Must series of virtual dinners to discuss social justice topics, or Uber's anti-racist campaign ("If you tolerate racism, delete Uber"). In the UK, scores of companies support footballer Marcus Rashford in his free school meals campaign.

But it isn't just the planet and their clients that these newly stakeholder-focused companies feel they must help. Even before the pandemic, there was a new corporate paternalism at work. But now companies feel both an opportunity to tie-in nervous employees with benefits, and a responsibility for their physical and mental welfare. All thinking firms have a wellness programme; most are at least considering hiring one of the new unconscious bias training firms. Workers also have new, high standards for their employers: in a recent survey, over 70 per cent said their CEO should speak out on climate change, diversity and inequality.

The modern company then, has to save the planet (it "acts as a steward of the environmental and material universe for future generations", says the Davos manifesto); enhance diversity; guarantee the correctness of every link in its supply chain; eliminate the gender pay gap and child poverty; and, at least for now, watch out for its employees mental, financial and physical health. A good company "fulfils human and societal aspirations". Oh, and somewhere amid the paternalism and political grandstanding, it has to find the time and energy to sell stuff and make profits through a series of rolling lockdowns. Welcome to stakeholder capitalism in the Covid age.

It is not necessarily a bad thing. Most of what is being demanded of companies is good in its own right. But are we asking too much of the company?

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It might be fine for established companies that don’t need capital to say that they aren’t going to humour its providers any more. That might not work so well for new companies seeking capital. The genius of capitalism also lies in specialisation and comparative advantage. So expecting companies to have a purpose that goes beyond their obvious stakeholders to all of society may be asking managers to juggle too many balls. If multiple layers of expectation are piled on top of a firm’s core purpose, you end up burying it, or at least heavily distract from it.

That’s particularly the case if not all your managers are on the same side in the culture wars. What if over-reach inside stakeholder capitalism turns it into conflict capitalism? In the end, surely the social welfare of individuals is more a matter for their families, friends and state-funded community services than their employers. By the same token, the physical health of the population is a matter for public health services, while issues such as climate change are a matter for governments to rule on. Let’s not forget that companies pay taxes specifically so that others do such stuff. Earlier this week, Australia’s assistant superannuation minister pointed out that it was not the job of the private pension sector to “change the earth’s temperature” but to create retirement incomes. It didn’t go down well. But she made a good point.