**HOW TO DELIVER ON THE BUSINESS ROUNDTABLE STATEMENT**

**ON THE PURPOSE OF THE CORPORATION**

Susan Ozawa Perez

Harrington Investments

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The Business Roundtable’s Statement of the Purpose of the Corporation signed by 181 CEOs last August marks a monumental potential shift, asserting greater purpose of a firm beyond short-term shareholder primacy. This is something those in the field of socially responsible investment have well-understood – that other stakeholders are as important as shareholders in delivering long-term value to a company and prosperity to society. This statement has the potential to become reality if adopted as policy and meaningfully outlined in the company’s governance documents.

To be clear, the stakes could not be higher. We are in global crisis of epic proportions. As the Covid-19 pandemic rips through every economy on the planet, the global community will look to every organization and entity, especially the private sector, to answer the call to support communities in crisis in sustainable ways.

**The Call**

The majority of Americans believe companies need to take a community-first, not a shareholder-first approach. “77% believe companies must make the decisions that are in the interest of the broader community right now,” according to a recent Porter Novelli report[[1]](#footnote-1). The report found that the reputational dividends from companies demonstrating they are purpose-driven during the Covid-19 crisis are high, with increased loyalty, trust and likelihood of investing in or working for companies that stepped-up during this time. Mike Barry of A Blueprint for Better Business states:

“The companies that prosper in the next decade will be the ones that have taken the management-speak of “purpose” and turned it into reality. They pay their taxes. They cut dividends and executive pay as they receive bailouts. They do the right thing by their customers and employees. Above all, they are socially useful and relevant in all that they do. They can answer proudly the question, “what did you do in the war?””

**How Can Companies Transform and Deliver Social Value?**

Torres-Rahman and Nelson (2020)[[2]](#footnote-2) outline a framework for companies to respond to the immediate crisis and develop plans for longer-term recovery and resilience, focusing on the most vulnerable, “through their core business capabilities and activities, philanthropic donations and volunteering, and policy engagement, advocacy and support for institution strengthening.” Corporate responsibility departments or philanthropic divisions, treated as extensions of public relations and marketing departments, will never adequately address systemic problems. The Liberty Hill Foundation in Los Angeles, dedicated to the concept of “Change Not Charity” promotes a different style of giving and collaboration, focusing on transforming institutions, capacities and relationships between stakeholders. For a company’s core business, the Torres-Rahman and Nelson report highlights the actions required of corporations to deliver long-term social value:

“Put people first. Identify vulnerable stakeholders in the company’s operations, value chain and communities, identify the most salient human rights and economic risks they face and develop plans to address these through enhanced policies, processes, products, services, technologies, financing mechanisms and business models.”

Going further, this identification of social and economic problems to developing corporate strategies to address them, must be done in formal collaborations and partnerships to ensure the type of alignment implied by the Roundtable’s Statement. Mariana Mazzucato’s work “The Value of Everything” (2018) outlines steps required by organizations to address long-term social goals, like the principles set forth in the Business Roundtable’s statement, through missions, designed and executed by stakeholders from the private (profit and non-profit) and public sectors. Likewise, [Anna Tunkel,](https://apcoworldwide.com/people/anna-tunkel/) who leads global strategic partnership initiatives and partnerships at the communications consultancy, APCO, calls these

“multiplier partnerships” which go beyond philanthropy or corporate sponsorships, and truly lean into organizational strengths, strategies and vision to unleash a broader societal impact.”

Partnerships with local, national and international authorities; other private-sector actors; and civil society and grassroots, community-Based and Faith-Based Organizations (FBOs) has been recommended by the UN in their latest report[[3]](#footnote-3) as the most effective path to recovery in this time of the Covid-19 crisis. Further, it’s what the public believes is the best way forward. An Edelman survey of 10,000 people across 10 major economies, found respondents who trust business alone to effectively lead efforts to combat the virus, were only 5% of those surveyed. 20% believed the government alone will be most effective. Those who believe government and business working together as a team will most effectively combat the virus, were several multiples of those levels of trust, at 45% of respondents.[[4]](#footnote-4)

These missions require identifying shared purpose, concrete goals, and making explicit commitments. Stakeholders, sharing the same social mandates must be identified and the mandates and principles for engagement must be made explicit. To this end, the first step is identifying other organizations in the public and private sectors share the primary goals outlined in the Statement—sustainable growth, financial empowerment and environmental progress–and then, in dialog, identifying supportive targets to focus of these partnerships and missions.

The dialog and partnership terms should not be extractive, with one set of actors taking risk and the other capturing all the benefit and upside, as economist Mariana Mazzucato has documented with public/private relations in contemporary US history.[[5]](#footnote-5) Further, companies should be willing to incorporate analysis of their core business under the principles espoused and unwind their business activities that undermine larger societal goals. Risk and upside should be distributed according to historical imbalances, with deference to institutions that are more democratically accountable. All organizations should be held accountable to stakeholders through the terms and structures of these partnerships. Economist Ha-Joon Chang has demonstrated the historical case of industrialization and economic development has materialized precisely from governmental investment in infrastructure, human capital, industrial support and protection of corporations, while deference of private sector actors to the state for their license to operate, has been the longer historical social contract between the private and public sector. After the 1970s with the advancement of neoliberal ideologies of free markets and private sector efficiency, this deference was inverted, as governments became more captured by corporate influence than accountable to their voters[[6]](#footnote-6). Civil society has filled the void as a democratic institutional proxy for less and less accountable and democratic governmental entities. This understanding should be made clear - those most accountable to populations that are most vulnerable, should be at the table from inception, to design and execute missions and keep these bodies accountable to social goals. Those stakeholders should be directing the benefit of missions while the other parties, shouldering the costs and the risk.

**Templates for Action**

Contemporary examples of missions in multi-stakeholder partnerships focusing on larger social goals that we find useful as templates include the following:

* Global Monetary Authorities have drafted a framework of action to integrate climate related goals of the Paris Agreement into their lending and investment business models which provides an example of such an institutional response to a global social problem.[[7]](#footnote-7)
* “Mission-Oriented Research & Innovation in the European Union; A problem-solving approach to fuel innovation-led growth” for the European Commission Directorate-General for Research and Innovation is another good example identifying a process for designing and executing very large social goals through institutions.[[8]](#footnote-8)

**Financial Firm Examples**

Harrington Investments filed shareholder resolutions seeking fiduciary commitment to the principles outlined in the Business Roundtable’s Statement at four signatory financial institutions - Citibank, JP Morgan Chase, Bank of America and Goldman Sachs, getting onto the ballot at all but JP Morgan Chase.

Precisely at this moment, during three, concurrent crises - the Covid19 pandemic, the financial fallout from the pandemic and the economic knock-on contraction – governments are in crisis mitigation mode. These least nimble institutions are at the helm. In the US, governmental action requires Congressional approval for all large budgetary decisions, which wastes precious time and is costly in lives and extending the damage to the economy. While the private sector is also responding to this crisis, in many respects, it is more nimble than the public sector and relative, to the non-profit sector, well-positioned and better equipped with human capital and capacity to develop strategic plans and execute quickly to address these systemic problems.

Given the nature of firms’ capabilities, in the financial sector, what would these partnerships look like?

For global goals, the stakeholders could include the IMF; the World Bank; IFC; WHO; UN bodies, professors; civil rights, consumer, labor, business, investor, faith-based, civic and community groups; and Federal governmental departments devoted to sustainable growth, financial empowerment and environmental progress. Potential supportive targeted goals of the mission could include: full-employment, the transition of developing economies into industrialized nations, eradicating poverty, financial inclusion, stable macroeconomic prices, sufficient and continual investment in production in goods and services in the real economy, investment of financial capital in research and development, education, infrastructure and creating and supporting institutions that facilitate and co-create long-term economic value in equitable ways and a sustainable environment. All of a company’s business segments can have laser-focus on delivering on these principles, recognizing addressing inequality and patient international investment will result in sustainable economic growth of entire economies as IMF economists have shown empirically[[9]](#footnote-9).

* The global banks could provide grants and zero interest loans to the IMF, to meet $3tn in emergency funds needed in Special Drawing Rights and underwrite or provide capital for bond facilities to address the crisis, along the lines of Coronabonds in Europe or post-crisis restructuring facilities along the lines of Brady Bonds after the 3rd world debt crisis.[[10]](#footnote-10)
* For domestic social goals related to the Covid19 crisis and related economic and financial crises and longer-term economic development missions, stakeholders need to be identified—the Fed, Treasury, FEMA, the CDC, HUD, the Small Business Administration, States and Municipalities; nonprofits like Americans for Financial Reform; Enterprise Community Partners, Calvert and Habitat for Humanity, CDFIs and foundations and philanthropies like the Gates Foundation and Annie E. Casey, etc. Engagement in missions that are short-term in nature, like developing funds to hold and package distressed assets, like student and car loans, could have different principles of engagement from longer-term missions involving on-going investment, like those focusing on stabilizing communities and small businesses or crowding-in investment in underinvested, marginalized and vulnerable populations through lending designed to fund capacity building and skills transfer, with concessionary terms and reinvestment of proceeds from projects back into the same targeted populations.
* Citibank, Bank of America and other retail financial institutions could work with the Treasury, using Federal funds subsidizing them, to design digital solutions for universal account creation for all households and money movement solutions that are effective, do not involve check-cashing, are less costly, better targeted, and less of a health hazard to execute than the CARES Act roll-out has been, deployed in a fraction of the time, for continual use for stimulus and other public assistance funds going forward.

**Empower People and Measure Performance on Social Value**

Beyond a list of prospective stakeholder organizations that the company plans to work with, what guidance can the Company provide for shareholders, employees and other stakeholders to understand how the Company will deliver on social goals through missions and operations and management decisions in the short- and long-term across all lines of business? Clearly, the incentive structures must reflect this greater purpose of the corporation.

Investment Banking and Finance until very recently has attracted the best and the brightest, from all over the world, but is losing talent to Tech and turnover is high. Instead of burning out entry level employees who aren’t motivated by commissions on financial performance alone, companies can leverage and empower employees to lead the way to deliver long-term social value through new missions and projects. They can utilize that wealth of human capital and diversity to create teams and solutions that are engaged and committed to the Company’s shared purpose. A Gallup study found corporations with the most engaged employees generate 4x earnings-per-share growth than their competitors and 21% higher profits[[11]](#footnote-11).

Further, a report by Markstein this April 2020 found, “only 1/3 of all employees are engaged and companies with the lowest engagement face 31-51% higher turnover.”[[12]](#footnote-12) Empower those teams with resources and support to execute missions and projects and reform and redirect the company, from the bottom-up, integrating input and collaboration at all levels. Find ways to evaluate and reward risk, creativity, leadership and measured progress to goals, even when projects fail. Google X, for example, is modeled on celebrating failures, as they provide critical lessons and junctures to pivot, essential for innovation. These engaged employees will stay and deliver financial value while working on these more impactful missions.

But this embodiment of the Statement’s principles of social and environmental impact, must be in the company’s founding documents and present in its ethos, throughout the organization, so that metrics toward social and environmental ends, can be tracked and progress rewarded. All KPIs from employee compensation, to executive compensation, to the augmented balance sheets in the annual report, should target progress toward this greater purpose. The purpose must be clearly defined, best identified by the EY Beacon Institute as “an aspirational reason for being that’s grounded in humanity and inspires a call to action.”[[13]](#footnote-13) Further, the Markstein report states, “developing a purpose platform – and a robust program to achieve it – takes time, effort and investment. But that investment generates a significant return in both good and challenging times.” Empowering individuals with initiative and ideas to form teams, while providing resources and support to execute projects and reform and redirect the company, from the bottom-up, integrating input and collaboration at all levels, delivers mission-driven, meaningful work that retains institutional knowledge and minimizes HR and productivity costs of high turnover. Plus, you might just solve the world’s greatest problems.

The UN World Food Program [estimates that](https://www.nytimes.com/2020/04/22/world/africa/coronavirus-hunger-crisis.html) 265 million people could face starvation by the end of the year and 500 million people will be pushed into poverty due to the pandemic. Now is the time to build something with the global community, repurposed institutions, with commitment, hard work, creativity and every faculty at our disposal. The 181 signatories of the Business Roundtable’s Statement must commit and deliver on these social and environmental principles. The world is depending on it.

1. Porter Novelli (April 2020). “Covid-19 Tracker: Insights for a Time of Crisis”, <https://www.porternovelli.com/wp-content/uploads/2020/04/Porter-Novelli-COVID-19-Tracker.pdf>. [↑](#footnote-ref-1)
2. Torres-Rahman, Zahid and Jane Nelson (April 2020) “Covid-19 Response Framework”, Joint Report, Business Fights Poverty and the Harvard Kennedy School Corporate Responsibility Initiative. [↑](#footnote-ref-2)
3. Shared Responsibility, Global Solidarity: Responding to the socio-economic impact of COVID-19, March 2020. UN https://unsdg.un.org/sites/default/files/2020-03/SG-Report-Socio-Economic-Impact-of-Covid19.pdf [↑](#footnote-ref-3)
4. Edelman Trust Barometer Special Report on Covid-19 Demonstrates Essential Role of the Private Sector (March 2020). [↑](#footnote-ref-4)
5. Mazzucato, Mariana (2013). *The Entrepreneurial State: Debunking Public v. Private Sector Myths*, Anthem Press. [↑](#footnote-ref-5)
6. See: Chang, Ha-Joo. Kicking Away the Ladder: Development Strategy in Historical Perspective. (2002), Anthem Press and Chang, Ha-Joon. *Globalisation, Economic Development & the Role of the State*. Zed Books (July 2003). [↑](#footnote-ref-6)
7. Network for Greening the Financial System, Central Banks and Supervisors (April 2019). “A call for action: Climate change as a source of financial risk”, First comprehensive report. NGFS Secretariat, Banque de France, France. [↑](#footnote-ref-7)
8. <https://ec.europa.eu/info/sites/info/files/mazzucato_report_2018.pdf> [↑](#footnote-ref-8)
9. Berg, Ostry, and Zettelmeyer, April 8, 2011, “Inequality and Unsustainable Growth: Two Sides of the Same Coin?” IMF Staff Discussion Note, International Monetary Fund. [↑](#footnote-ref-9)
10. “Last week Kristalina Georgieva, IMF managing director, said a “very conservative, low-end estimate” of emerging economies’ financial need was $2.5tn. Even if emerging economies burnt through all their foreign exchange reserves to tackle the crisis, they would still need at least $700bn in additional funding,” (Strauss, Delphine and Jonathan Wheatley (March 31, 2020). “Developing countries scramble for funds to stave off virus impact: IMF and World Bank face overwhelming demand for finance with limited resources”, Financial Times). [↑](#footnote-ref-10)
11. <https://www.gallup.com/workplace/242096/focus-people-strengths-increases-work-engagement.aspx> [↑](#footnote-ref-11)
12. <https://markstein.co/wp-content/uploads/2020/04/COVID-19_How-to-Survive-Thrive_WhitePaper.pdf/?utm_source=CSRwire&utm_medium=PR&utm_campaign=COVID19&utm_content=1&utm_term=WhitePaper> [↑](#footnote-ref-12)
13. <https://www.ey.com/en_gl/purpose/purpose-your-foundation-for-reputation-and-growth> [↑](#footnote-ref-13)