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Reflection: Moral Firms and the Future of Capitalism[1]

Capitalism has taken many forms over the last 500 years. This short essay asks whether rediscovering the idea that corporations have a moral duty to contribute to the social good might help create a form of capitalism capable of addressing the massive problems that we face. I argue that the property view of the corporation, or the idea that the sole goal of the corporation should be to maximize investor returns, might once have been appropriate, but is currently causing enormous damage. I suggest that the entity view of the corporation, or the view that the primary purpose of the corporation is to serve the common good, has a long history, and is currently remerging in ways that have the potential to help reform capitalism in powerful ways.

Keywords: moral duty, corporation purpose, forms of capitalism

Capitalism is one of humanity's most productive and creative inventions. Between 1950 and 2017, inflation adjusted world GDP grew from $8.41 trillion to $110.43 trillion, even as the global population more than tripled. Adjusted GDP per head grew from a little more than $3,000 to roughly $14,500. Billions of people have entered the middle class, we have technologies that our grandparents could only dream of, and infant mortality has fallen from roughly 27% in 1950 to 4.3% in 2020. This fall is so dramatic that the total number of absolute infant deaths has fallen dramatically, from just under 20 million a year in 1950

[1]This paper draws heavily on several previously published papers written by the author, including "Moral Firms?," *Daedalus* 152, no. 1 (2023): 198–211; "Changing the Purpose of the Corporation to Rebalance Capitalism," *Oxford Journal of Economic Policy* 37, no. 4 (Winter 2021): 838–50; *Reimagining Capitalism in a World on Fire* (New York, 2020); and "Innovation in the 21st Century: Architectural Change, Purpose, and the Challenges of Our Time," *Management Science* 67, no. 9 (2020): 5479–88.

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to just over 5 million in 2020, despite a simultaneous tripling of the world's population.[2]

But the world is on fire—both literally and metaphorically. Global heating coupled with ecosystem destruction threatens to destroy the life support systems of the planet, racial inequity continues to be endemic, and wealth is more concentrated than it has been in a hundred years. Waves of populist anger threaten to destroy the fundamental basis of global society.

Is the problem capitalism itself? Should we simply throw it out, and start over? I have many friends and colleagues who believe this is the obvious answer, but while I understand the sentiment, I think it is misguided. Bloody revolutions have too often led to totalitarianism, and I believe that it is only by mobilizing the capabilities of the world's firms that we will be able to solve the problems that we face. The key is to thoroughly reform capitalism – to harness it to serve the goals of the entire society and the long term, rather than the pursuit of profit at any cost – by not only radically reforming the institutional and political environment so that firms are legally constrained to do the right thing, but also by changing the purpose of the firm. For the last fifty years, most large corporations have believed that their only goal is to maximize shareholder returns. But an increasing number of firms are embracing the idea that they have a purpose beyond making profits – that generating good returns for their investors is a means to an end, not an end in itself, and that corporations have a moral responsibility to support the long term well-being of the society in which they are embedded. My belief is that this shift should be encouraged, and that the idea that corporations should be "purpose-driven" corporation has an important role to play in helping to drive the reforms the world needs.

This may seem preposterous. The potentially catastrophic problems we face have clearly been greatly exacerbated by the ruthless push for profit that characterizes most of today's corporations. In this context, the idea that firms could be moral institutions committed to the common good can seem eccentric, if not dangerous. Many observers suggest that the best way to reform capitalism is through strong regulation and active political control – and I agree! The simplest and most effective way to address problems like global heating, for example, is to put in place a regulatory and legal regime that forces firms to reduce their reliance on fossil fuels and to switch to renewables. Similarly there is a strong scholarly consensus that the best way to reduce inequality is not only to support economic growth but also to create the kinds of

[2] All data in this paragraph is from Our World in Data, accessed 5 Jan 2024, https://ourworldindata.org/.

institutions that support a strong voice for labor and the marginalized – strong unions, strong, open democracies, and thriving civil societies.

Unfortunately it is not at all clear that it will be possible to implement these kinds of solutions at the scale and scope required. The world's institutions are shaking. While there are places where national and local governments are making real progress in this direction, in too many cases these kinds of policy proposals are provoking powerful opposition, from the Republican Party in the US to the Yellow Vests in France. Many countries remain autocratically governed, and a push to autocracy is shaking nearly all of the Western democracies. State action and appropriate public policy must be critical elements of any solution to the problems we face, but there is a real risk that they will prove insufficient. I believe that in this context purpose-driven firms may be surprisingly helpful.

Evolving View of Corporate Purpose

In much of the world, particularly in the Anglo-American sphere, the first mission of the firm is believed to be to maximize profits. This is regarded as self-evidently true. Many managers and investors are persuaded that to claim any other goal is to not only to betray their fiduciary duty to their investors, but also to risk losing their job. They view issues such as climate change, inequality, and institutional collapse as problems best left to governments and civil society.[3]

But the idea that maximizing shareholder returns should be the only goal of the corporation is relatively recent. As I have argued elsewhere, "for hundreds of years capitalism – and capitalists – were held to high moral standards as a matter of course and the pursuit of profit, unconstrained by a due regard for the community, was widely condemned."[4] In 1600, for example, when the English government chartered the English East India Company, it did so explicitly "for the public good," giving it a monopoly of trade between England and Asia in the hope that English merchants and thus the English nation would get a share of the wealth generated by Chinese and Indian trade. The idea that corporations were chartered for the public good was also once widely shared in the U.S. In 1639, for example, a Mr. Robert Keaine, who "kept a shop in Boston," was fined £200 for charging "unreasonable" prices. One of the leading Puritan ministers in Massachusetts at the time denounced him, describing his "false principles" as including "That a

[3] Henderson, *Reimagining Capitalism in a World on Fire*, chapter 1.

[4] Rebecca Henderson, "Moral Firms?," See also Iris Origo, *The Merchant of Prato: Daily Life in a Medieval Italian City* (New York, 2017).

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man might sell as dear as he can, and buy as cheap as he can" and that "if a man lose by casualty of sea, etc., in some of his commodities, he may raise the price of the rest."[5]

Adam Smith famously made a virtue out of vice.[6] Yet he never thought this process would be automatic, or for that matter that it exonerated businesses of selfish behavior. His *Theory of Moral Sentiments*, first published in 1759, underscored the critical role of ethical conduct, asserting that the very fabric of society relied on the moral compass of its business practitioners.[7]

Of course there have been significant periods when firms have pursued profit at any cost – notably in the late nineteenth century and then again in the Gilded Age, but the idea that business activity had to be constrained by ethical precepts and a sense of social responsibility survived well into the twentieth century. As late as 1981, the Business Roundtable – an organization composed of the CEOs of many of the largest and most powerful American corporations – issued a statement that said, in part:

> . . . Business and society have a symbiotic relationship: The long-term viability of the corporation depends upon its responsibility to the society of which it is a part. And the well-being of society depends upon profitable and responsible business enterprises.[8]

Indeed, as I have noted before, "Milton Friedman's famous suggestion that the 'social responsibility of business is to increase its profits' is first and foremost a *moral* injunction, rooted in the belief that free markets can be a source of immense economic prosperity and individual freedom . . . to suggest that managers do anything other than maximize profits is to invite them both to abandon their duties as agents of their investors and to make society poorer and less free."[9]

But Friedman's suggestion is the product of a specific time and place, and of a particular set of institutional conditions. Given the realities of today's world, they are dangerously mistaken. Friedman and his colleagues' ideas emerged in the aftermath of the Second World War,

[5] John Winthrop, *The History of New England from 1630 to 1649,* 2 vols (Boston, 1853).

[6] Henderson, "Moral Firms?," Also see Albert O. Hirschman, *The Passions and the Interests: Political Arguments for Capitalism Before Its Triumph* (Princeton, 1977).

[7] Adam Smith, *The Theory of Moral Sentiments*, ed. Knud Haakonssen (Cambridge, 2002).

[8] The Business Roundtable, "Statement on Corporate Responsibility," Oct. 1981, 12, as cited in Ralph Gomery and Richard Sylla, "The American Corporation," *Daedalus* 142,2 (2013): 102–18, and Henderson, *Reimagining Capitalism in a World on Fire*, Chapter 1.

[9] Henderson, "Moral Firms?," See also Milton Friedman, "The Social Responsibility of Business is to Increase Its Profits," *New York Times Magazine*, 13 Sept. 1970.

when it seemed there was a serious risk that centralized planning would replace reliance on the market. Governments, after conquering depression and war, were popular and powerful. Capitalism was not. Enduring memories of the Great Depression that had preceded the war—at its height, US GDP fell by 30%, while industrial production fell by almost 50% and a quarter of the working population were unemployed—meant that for the next twenty years, unregulated, unconstrained capitalism was regarded with suspicion nearly everywhere.[10] This was also the dominant view in Europe and in Asia.[11]

This meant that for roughly thirty years after the war, in the developed world the state could be relied on to ensure that markets were reasonably competitive, that "externalities" such as pollution were properly priced or regulated, and that most (white, male) people had the skills to participate in the market. Under these conditions, focusing only on profitability was not – on the face of it – clearly destructive. But as markets have come to be regarded as infallible, and state capacity to appropriately constrain them has dramatically weakened, firms maximizing profits at any cost have dumped millions of tons of greenhouse gases into the environment, colluded to raise profits, broken unions, and forced wages down.

It is thus perhaps not surprising that the idea that firms should be "purpose-driven" has resurfaced. In August 2019, for example, the Business Roundtable released a statement redefining the purpose of the corporation as "to promote an economy that serves all Americans."[12] And in 2022 Larry Fink, the founder and CEO of BlackRock, the world's largest financial asset manager, sent a letter to the CEOs of all the firms in which BlackRock held a stake, saying:

> Stakeholder capitalism is not about politics. It is not a social or ideological agenda. It is not "woke." *It is capitalism*, driven by mutually beneficial relationships between you and the employees, customers, suppliers, and communities your company relies on to *prosper*. This is the power of capitalism.

[10] See "Great Depression," *Britannica*, accessed 5 Jan. 2024, https://www.britannica.com/event/Great-Depression; and Federal Reserve Bank of St. Louis, Federal Reserve Economic Data, accessed 5 Jan. 2024, https://fred.stlouisfed.org/series/M0892AUSM156SNBR.

[11] Henderson, *Reimagining Capitalism in a World on Fire*, chapter 1.

[12] Henderson, "Moral Firms?," Also see Business Roundtable, "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans,'" 19 Aug. 2019, accessed 5 Jan. 2024, https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.

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> *In today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders* ...
>
> ... *It's never been more essential for CEOs to have a consistent voice, a clear purpose, a coherent strategy, and a long-term view. Your company's purpose is its north star in this tumultuous environment.*[13] *(Emphasis in bold in original.)*

"Purpose" is fashionable—and global. One survey found that 40% of employees believed that the firms they worked for had embraced a purpose beyond profit.[14] Another, based on more than 36,000 interviews conducted in twenty-eight countries, found that "Societal Leadership is now a core function of business" and that "60% of employees want their CEO to speak out on controversial issues they care about."[15] Discussion of "stakeholders" and "corporate social responsibility" has boomed.[16]

Have firms actually changed their behavior? Some of this activity is clearly posturing, but a large body of well documented case studies suggests that a significant number of firms are choosing to act in increasingly pro-social ways.[17]

For example, Paul Polman, the former CEO of the European consumer-goods giant Unilever, and someone who is one of the most prominent exponents of the idea that firms should be purpose-driven, announced on his very first day in the CEO job that Unilever would no longer issue either quarterly earnings guidance or quarterly earnings reports, and urged shareholders to put their money somewhere else if they did not "buy into this long-term value-creation model, which is

[13] Larry Fink, "The Power of Capitalism," accessed 5 Jan. 2024, https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.

[14] McKinsey & Company, "Purpose before Profits? Employees Say 'Yes, Please,'" 21 Jan. 2021, accessed 5 Jan. 2024, https://www.mckinsey.com/featured-insights/coronavirus-leading-through-the-crisis/charting-the-path-to-the-next-normal/purpose-before-profits-employees-say-yes-please, cited in Henderson, "Moral Firms?"

[15] Edelman, "2022 Edelman Trust Barometer," accessed 5 Jan. 2024, https://www.edelman.com/trust/2022-trust-barometer. Cited in Henderson, "Moral Firms?"

[16] See Google Books Ngram Viewer, "Stakeholders" and "Corporate Social Responsibility" in Printed Texts, 1970–2019, created 26 May 2022, accessed 5 Jan. 2024, https://books.google.com/ngrams/graph?content=stakeholders%2Ccorporate+social+responsibility&year_start=1970&year_end=2019&corpus=en-2019&smoothing=3&case_insensitive=true, cited in Henderson, "Moral Firms?"

[17] Richard Locke, "Supply Chains and Working Conditions During the Pandemic: Lessons for a New Moral Political Economy?," *Daedalus* 152, no. 1 (2023): 131–42.

equitable, which is shared, which is sustainable."[18] He subsequently moved aggressively to focus the company on addressing problems like climate change and infant mortality, as well as generating adequate returns for shareholders, and successfully—and, in the eyes of many, improbably—turned both the financials and public profile of the company around.[19] Over the course of his tenure as CEO, Unilever outperformed both his competitors and the S&P 500.[20]

Another suggestive piece of evidence that at least some of the firms who are talking about purpose really mean it and are using it to guide their actions is the push back these kinds of commitments are generating. In the US, for example, republican lawmakers in many states have introduced legislation seeking to ban or modify firms' use of so called "ESG" (Environmental, Social, and Governance) metrics.[21] Some of this activity is surely political signaling, but the activity is widespread and aggressive. Why attempt to ban something if you do not believe that it might actually change behavior?

The Case for Purpose

Why are a significant number of firms embracing the language of purpose? In the first place, it is entirely legal in most jurisdictions. In general most firms do *not* have a legal duty to maximize short term shareholder value, and in most cases it is perfectly legal for publicly traded companies to embrace goals beyond short-term profits, and directors are protected when embracing a social purpose if they can make a convincing case it will contribute to long-term profitability and value.[22]

In the second, there is no systematic evidence to suggest that pursuing prosocial goals reduces financial performance, and a significant body of recent work suggests that attempting to "do the right thing" is often correlated with higher returns.[23]

[18] Andy Boynton, "Unilever's Paul Polman: CEOs Can't Be 'Slaves' to Shareholders," *Forbes*, 20 July 2015, accessed 5 Jan. 2024, https://www.forbes.com/sites/andyboynton/2015/07/20/unilevers-paul-polman-ceos-cant-be-slaves-to-shareholders/?sh=15fbc0fb561e.

[19] Ranjay Gulati, "How a Defined Purpose Drove Unilever's Turnaround," *Inc.*, 16 Oct. 2023, accessed 5 Jan. 2024, https://www.inc.com/ranjay-gulati/how-a-defined-purpose-drove-unilevers-turnaround.html.

[20] Big Charts, accessed 5 Jan. 2024, https://bigcharts.marketwatch.com.

[21] Charles Donefer, "State ESG Laws in 2023: The Landscape Fractures," 31 May 2023, accessed 5 Jan. 2024, https://www.thomsonreuters.com/en-us/posts/esg/state-laws/.

[22] Rebecca Henderson and Tony L. He, "Shareholder Value Maximization, Fiduciary Duties, and the Business Judgment Rule: What Does the Law Say?," *Harvard Business School Background Note 318-097* (Jan. 2018).

[23] NYU Stern Center for Sustainable Business, "EST and Financial Performance," accessed 5 Jan. 2024, https://www.stern.nyu.edu/experience-stern/about/departments-centers-initiatives/centers-of-research/center-sustainable-business/research/research-initiatives/esg-and-financial-performance.

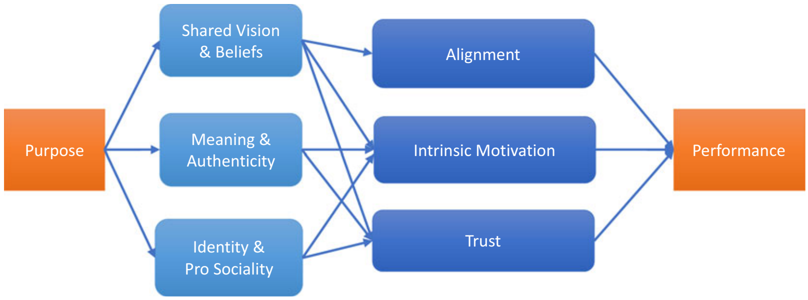

Figure 1. The adoption of an authentic purpose can drive significant increases in firm performance. (Source: Rebecca Henderson, "Innovation in the 21st Century," *Management Science* 67, no. 9 [2020].)

This might seem surprising. Raising wages above local norms or investing in renewable energy when fossil fuels are a cheaper alternative would appear to be surefire ways to reduce profits. But across a wide range of industries it is becoming clear that pursuing these kinds of goals can significantly enhance a firm's competitive position. In many cases customers are unwilling to pay more for sustainable products – but they will choose a sustainable product over something more conventional if it offers them the same benefits *and* promises to make a difference in the world. There is also some evidence that employees will accept significantly less pay to work for a firm that has strongly defined values and appears to be living them.

Moreover a large body of research suggests that authentically embracing purpose is tightly correlated with increases in productivity and creativity, since it is likely to increase intrinsic motivation, strategic alignment across the firm and levels of interpersonal trust between employees and between employees (Figure 1).[24]

These qualities are also immensely helpful in supporting a firm's ability to innovate— an ability that is becoming increasingly useful as the multiple crises currently facing the world force firms to respond quickly and appropriately to unexpected events and new trends. Firms in which employees are strategically aligned, are motivated by meaning and purpose, and trust each other deeply are much better positioned to understand the ways in which the world is changing, to be willing to take

[24] Rebecca Henderson "Innovation in the 21st Century: Architectural change, purpose, and the challenges of our time," *Management Science,* 67, no. 9 (2020): 5479–5488. https://pubsonline.informs.org/doi/10.1287/mnsc.2020.3746 and Zeynep Ton, *The Good Jobs Strategy: How the Smartest Companies Invest in Employees to Lower Costs and Boost Profits* (Boston, 2014).

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the risks responding to change requires, and to be able to build flexible organizations.

It is tempting to believe that there is a bright line between business decisions that are profitable and those that are not. But in reality, most major decisions come freighted with significant risk, leading different firms to value them very differently. The decision to invest in new technologies or entirely new business models, for example, is fraught with enormous uncertainty. Ideas that look obviously profitable in retrospect rarely look so before the fact. Well established, highly profitable firms often find it difficult to believe that the future will be different from the past, and often have trouble exploiting new innovations even once it is clear that they will be profitable.

A commitment to a shared purpose can support the strategy vision that is required to identify the new opportunities that the massive problems the world faces are creating, and the organizational capacity required to exploit them successfully. A shared purpose can also make it much more likely that a firm's employees will tolerate the uncertainty and distress that often comes with change. Purpose-driven firms select for employees who share the firm's values, and for those who have prosocial preferences. In combination these are likely to create a preference for cooperation within the organization, greatly increasing the ability of the firm to pioneer disruptive or "architectural" innovation.

I have had the good fortune to meet many entrepreneurs who are trying to make a difference in the world. They begin by outlining the astounding new business they have in mind, but then they unfailingly transition to telling me about the purpose that has driven them to pour both their lives and their hearts into the venture. A brand new idea may be profitable—or it may not—but if it is aligned with your deepest sense of meaning and your hope of making a difference in the world, at the margin you are more likely to take the risk inherent in trying to make it happen.

This dynamic is evident inside much larger firms. When Unilever committed itself to making 100% of its branded tea sustainable, for example, it was not at all clear exactly how such a move was going to be profitable. Tea bag tea is a commodity business in which it is effectively impossible to raise prices. But Michiel Leijense, a relatively low-level employee, was able to pull together a coalition within the firm that succeeded in persuading Unilever to make this leap. He and his team pointed to a variety of plausible business models that might make the decision profitable, and these were instrumental in persuading his superiors to embrace the strategy, but their primary motivation was the deeply held belief that making the tea business was simply the right thing to do.

The move significantly increased Unilever's market share in tea, and every other major branded tea company was forced to follow suit, tipping the entire industry towards sustainable production. Ex post, the decision is now viewed as a brilliant strategic move; but ex ante, it was driven by the passion of Michiel Leijense and his team, who were able to translate their deep concern for the long-term sustainability of the business and the well-being of their employees into a convincing business case.

The US solar PV industry had approximately $29.7 billion revenue in 2022 and one estimate suggests that it will grow at a compound annual growth rate of 13.7% between 2023 and 2030.[25] One analyst estimated that the global alternative meat business was worth $13 billion in 2022 and would grow to be $226 billion by 2030,[26] nearly half the size of the global beef industry in 2021.[27] The automotive industry is in the midst of a multibillion dollar transition to electric vehicles. In each case the switch to more sustainable ways of doing business was catalyzed by purpose-driven leaders willing to take the risks necessary to explore entirely new ways of doing things.

Learning to Cooperate

Of course purpose-driven firms, acting alone, cannot solve the problems that we face. An equally important consequence of the willingness and ability of purpose-driven firms to challenge the status quo is the fact that their success—and the escalating commitment to solving the world's big problems that this success can entail—often leads them to realize that there are many problems that they *cannot* solve—or at least that they cannot solve alone. This in turn can lay the foundations for cooperative action between firms in support of sustainable outcomes.

Take, for example, the case of palm oil. Palm oil is the world's most widely produced and consumed vegetable oil, but clearing old growth forest for its production releases enormous amounts of greenhouse gases and significantly reduces biodiversity. By the late 2000s this led activists to target the world's largest food and consumer goods companies. In response Unilever committed to using only sustainably grown palm oil in its products. Unfortunately sustainably grown palm

[25] Grand View Research, "U.S. Solar PV Market Size & Trends," accessed 5 Jan. 2024, https://www.grandviewresearch.com/industry-analysis/u-s-solar-pv-market.

[26] Grand View Research, "Meat Substitutes Market Size & Trends," accessed 5 Jan. 2024, https://www.grandviewresearch.com/industry-analysis/meat-substitutes-market#:~:text=The%20global%20meat%20substitutes%20market,43.6%25%20from%202023%20to%202030.

[27] Grand View Research, "Beef Market Size, Share Trends Analysis Report by Cut," accessed 5 Jan. 2024, https://www.grandviewresearch.com/industry-analysis/beef-market-analysis#:~:text=The%20global%20beef%20market%20size,4.8%25%20from%202022%20to%202030.

oil is significantly more expensive than conventionally grown oil, most consumers were unwilling to pay a premium for products that contained it, and this commitment proved impossible to keep.

In response Unilever persuaded a majority of the members the Consumer Goods Forum—a trade association that includes nearly all of the major western consumer goods companies and nearly all of the major retailers—to commit to purchasing only sustainably grown palm oil. Since together the group purchased roughly 60% of the world's traded palm oil, Unilever believed that these commitments could tip the entire industry towards the use of sustainable oil—thereby ensuring that no single firm would be at a competitive disadvantage despite its higher price. The Forum made similar commitments to purchasing only sustainably grown beef, timber, and soy.

This kind of industry-wide cooperation is emerging across a wide variety of industries. The major firms within the apparel industry have created a variety of coalitions dedicated to removing child labor and employee abuse from their supply chains, and to reducing the waste and energy inherent in producing textiles. The leading global firms in steel and cement have formed consortia dedicated to commercializing carbon-free processes for the production of their products. Measuring the effectiveness of these kinds of coalitions is not easy, but there is some evidence to suggest that before President Bolesenaro's election they significantly slowed deforestation in the Amazon, and that coalitions in the textile industry have made some progress towards improving working conditions.

It can be tempting to believe that building cooperation is simply a matter of economics. But the decision to enter a cooperative agreement—and to continue to conform to its provisions as it evolves—is usually made under conditions of deep uncertainty, and as such often relies on the same combination of "good enough" economics and purpose-driven commitment that drives so much sustainable innovation. Merely being able to demonstrate on paper that everyone would be better off if everyone cooperated is rarely sufficient to put a collaboration in place or to sustain it over time, so any single firm's decision to collaborate is usually shaped by its beliefs about how other firms are likely to behave.

This implies that purpose-driven firms are particularly well suited to initiate these kinds of collaborations. On the one hand, they are likely to have already invested heavily in making credible commitments to behaving well, so they are less likely to take advantage of short term temptations to renege on their agreements. This makes them much better partners. On the other, they have strong incentives to call out firms who are behaving badly, and are often tightly connected to the NGOs whose

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activism is often one of the best means of bringing other members of the coalition into line.

Of course, these kinds of voluntary coalitions are fragile. But the effort to build them creates a network of firms who have built their business models—and recruited their employees and their customers—on the basis of an explicit promise to "do good." As and when such coalitions falter, purpose-driven firms have strong incentives to reach out to the two groups who can reliably sanction those firms that will not cooperate: investors and governments.

Shifting the Capital Markets

Why might investors support—and even encourage—the development of purpose-driven firms and the kinds of cooperative efforts they might spawn? Some individual investors value addressing problems like global heating, equity, and inequality for their own sake, and are willing to invest according to their values. Others are keen to reduce the risks inherent in holding stock in firms on the lagging edge of history. Together they are sufficiently numerous that billions of dollars have been invested in so called "ESG" or "Sustainable" funds, and entirely new classes of investment—including B corporations Impact investments—have started to open up.

It is possible that these kinds of efforts may help fuel a virtuous cycle, as investors and purpose-driven firms find each other and succeed in demonstrating the economic viability of the purpose-driven model. But the big prize here is in moving the entire market—in persuading investors everywhere that they should support the move away from fossil fuels and towards ecosystem preservation, equity, and the generation of decent jobs.

The good news is that the world's largest asset owners are now so large that they are effectively forced to hold all the world's assets, with many of their assets in index funds. These kinds of portfolios cannot be easily diversified, since there is increasingly nowhere to hide from problems like global heating and political unrest. For example, Hiro Mizuno, who until recently was the chief investment officer of the Japanese GPIF, the world's largest government pension fund, (the fund had about $1.5 trillion of assets under management in 2023, more than 1% of the world's publicly traded stocks), came to believe that climate change and social exclusion posed significant risks to the fund's ability to meet its long-term obligations to Japanese pensioners, and that the fund's fiduciary duty required tackling them.[28] "Universal investors" like

[28] See Statista, "Assets under Management (AUM) of the Government Pension Investment Fund (GPIF) in Japan from 2014 to 2023," accessed 5 Jan. 2024, https://www.statista.com/statistics/1422200/aum-of-government-pension-investment-fund-japan/#:~:text=As%20of%202023%2C%20the%20level,(NPS)%20of%20South%20Korea; and Sifma, "Research

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the GPIF face their own free riding problem, of course, but there are so few of them that they may be able to form a sufficiently powerful coalition that they can reshape the behavior of the firms in which they invest. An NGO called Climate Action 100+, for example, includes more than 700 investors who together control more than $69 trillion in assets who have announced their commitment to pushing the world's one hundred largest GHG emitters to transition to a carbon free economy.[29] The coalition claims that its efforts have led to significant change.[30]

Leading edge purpose-driven firms can also be important allies in rebuilding the legitimacy and capacity of governments across the world. In both palm oil and textiles, for example, the purpose-driven firms that have pioneered industry wide cooperation have come to understand that local regulatory authorities are critical partners in achieving fully sustainable supply chains. For example, in palm oil, members of the Consumer Goods Forum are increasingly implementing a "jurisdictional" approach—working with local politicians, NGOs, and communities to convert entire regions to sustainable palm. The textile business has seen similar conversations happening and some preliminary success.[31] One study of the Indonesia apparel industry, for example, found that self-regulatory efforts were significantly more likely to increase wages when the self-regulating body worked closely with the state and when local unions were mobilized to push for state action.[32]

Allies in Building Inclusive Institutions?

In short, purpose-driven firms are learning that the easiest way to address the huge problems the world faces—and to ensure that they themselves are profitable—is to support smart, well-run government. Could they be allies in the fight to rebuild our institutions and our democracy?

Quarterly: Equities," accessed 5 Jan. 2024, https://www.sifma.org/resources/research/research-quarterly-equities/#:~:text=The%20U.S.%20equity%20markets%20are,the%20next%20largest%20market%2C%20China.

[29] Climate Action 100+, accessed 5 Jan. 2024, https://www.climateaction100.org/.

[30] Climate Action 100+, "Progress Update," accessed 5 Jan. 2024, https://www.climateaction100.org/progress/progress-update/.

[31] Henderson, "Firms Morality, and the Search for a Better World," in *A Political Economy of Justice*, ed. Danielle Allen, Yochai Benkler, Leah Downer, Rebecca Henderson, and Josh Simons (Chicago, 2022), 203. Also see The Consumer Goods Forum, "Collective Action and Investment in Landscape Initiatives: The Business Case for Forest Positive Transformation," Nov. 2022, accessed 5 Jan. 2024, https://www.theconsumergoodsforum.com/wp-content/uploads/2022/11/2022-FPC-Business-Case-for-Landscape-Engagement-Report.pdf.

[32] Matthew Amengual and Laura Chirot, "Reinforcing the State: Transnational and State Labor Regulation in Indonesia," *Industrial and Labor Relations Review* 69,5 (2016): 1056–80.

Historically, dramatic social change, and in particular the dissolution of concentrated wealth and power has been most often accomplished by violent upheaval—by revolution, war, or famine. But profound change is not always cataclysmic. In Denmark in the 1890s, for example, the Danish business association reached out to the country's major labor association, suggesting that there had to be a better way to run Denmark than through endless labor unrest—and the Danish system was born. In Germany in the 1940s, German business, facing the ruin of all their hopes and the threat of communism, likewise reached out to German labor, proposing a system of industry-wide collective bargaining and a nationwide apprentice program. In Mauritius in 1968, as ethnic riots led to the death of hundreds of people, the head of the newly-elected (largely Hindu) Labor government reached out to the recently-defeated (largely Francophone) party—the home of Mauritius's sugar barons—to suggest taking a new road to development, one in which business worked as hard to grow the supply of good jobs as they did do grow their own revenues. Together they initiated a partnership that has endured to the present day. In South Africa De Klerk's Afrikaner party yielded power peacefully to Nelson Mandela's African National Congress, following years of struggle that most observers had expected would end in bitter civil war. While much of his success was a result of more than fifty years of courageous struggle on the ground, it was almost certainly helped by the support of South Africa's white industrialists.[33]

In each case, it was clear ex post that working together to build a more inclusive society was good for all the parties concerned. But there have been many situations in which there is a clear collective case for action and the relevant actors have been unable to realize it. Purpose-driven firms may be important precisely because their presence greatly increases the odds that we may be able to build new kinds of coalition at scale.

The world's largest firms are larger than many economies: by some measures the 1,000 largest firms together control over 70% of the world's GDP, and more economic activity takes place within the world's firms than in the free market. If even a relatively small fraction could be persuaded to argue that self-interest—and justice (!)—require a remaking of the international economic and political order, they could prove to be powerful allies.

Are they sufficient to drive the changes we need? Surely not. But they could perhaps be helpful. US CEOs have pushed local politicians to respect gay and transgender rights. NGOs like "We are still in" draw on

[33] Daron Acemoglu and James A. Robinson, *The Narrow Corridor: States, Societies, and the Fate of Liberty* (New York, 2019).

the support of hundreds of firms to push for local action on climate change. Many of the firms attempting to increase diversity and inclusion within their ranks are discovering that making significant progress will require tackling structural racism in broader society, and are beginning to explore what this might mean at the city and state level. The US 2020 election saw many of the country's largest firms speak out publicly in support of democracy and the peaceful transition of power.

None of these moves are enough to change the world. But they are important steps in the right direction, and they might well have broader implications. Firms are increasingly the place where people spend most of their time and, by one plausible account, are now the only institution that is viewed as both ethical and competent by a majority of the world's citizens.[34] Could purpose-driven firms become a site for the development of civic consciousness? I have only anecdotal evidence on this front, but I know of more than one firm where the embrace of purpose has led to a greatly increased sense of agency amongst its employees, who have then become active in local politics.

Most fundamentally, the emergence of purpose-driven firms has the potential to normalize the idea that the purpose of business was never simply to make money. The purpose of business is to help build prosperous, just, sustainable societies rooted in genuine freedom of opportunity and mutual respect. No one now argues in public that employing child labor is a good idea. It should be as unacceptable to emit greenhouse gases, to pay less than a living wage, or to lobby to subvert democracy. Purpose-driven businesses have the potential to help drive a profound normative shift, making it much harder for firms whose profits are rooted in the destruction of our environment, our society or our politics to hide behind the claim that they are simply maximizing shareholder value.

Let me close by coming back to the question with which I opened—namely, whether firms that are genuinely committed to doing the right thing can survive in the context of a system premised entirely on self-interest. I could tell you many stories, but I will close with one of my favorites.

In February 2017, eight years after Paul Polman had taken the helm and announced his commitment to purpose, Kraft Heinz—a large consumer goods company controlled by Warren Buffet's Berkshire Hathaway Holdings and 3G Capital, a large Brazilian private equity firm—made a hostile bid for Unilever. (Kraft Heinz were offering $143

[34] Edelman, "2023 Edelman Trust Barometer Reveals Business is the Only Institution Viewed as Ethical and Competent; Emerges as Ethical Force for Good in a Polarized World," 15 Jan. 2023, accessed 5 Jan. 2024, https://www.edelman.com/news-awards/2023-edelman-trust-barometer.

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billion for the company, an 18% premium over Unilever's market value. Unilever had announced lower than expected fourth-quarter sales just three weeks before, sending its shares down by 4.5%). 3G had a reputation as an aggressive cost cutter, and Unilever's stock jumped 13% on the announcement. Unilever's board immediately turned down the bid, claiming that it grossly undervalued the company.[35] This in itself was not unusual. What was out of the ordinary was the way in which the company's supporters mobilized in protest.

One group pulled together 100,000 signatures on an online petition in less than three days. Bono, the rock singer and campaigner, reached out, offering to write a song. And a number of carefully selected people—we do not know exactly who or how many—called Mr. Buffet. "Warren was approached by probably more people than he expected," Polman later said. "As soon as (he) discovered that this was a hostile takeover, the tone of the conversation became different." Three days later, Kraft Heinz withdrew the bid.

Polman and others like him believe—and are increasingly saying in public—that to continue on our current course is deeply immoral. They use the language of justice and equity as justification for business decisions – and the firms they run are thriving. We live in a desperate time. Perhaps they can be helpful.

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Professor Henderson's research explores the degree to which the private sector can play a major role in building a more sustainable economy. Her most recent publications include A Political Economy of Justice*, edited with Danielle Allen and Yochai Benkler, and* Reimagining Capitalism in a World on Fire*, which was shortlisted for the FT/McKinsey 2020 Business Book of the Year.*

[35] William W. George and Amram Migdal, "Battle for the Soul of Capitalism: Unilever and the Kraft Heinz Takeover Bid (A)," *Harvard Business School Case 317-127*, May 2017 (Revised Dec. 2023).

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