Schumpeter

What is stakeholder capitalism?

Beware a new world of near-impossible trade-offs

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"WHEN DID Walmart grow a conscience?" The question, asked approvingly in a *Boston Globe* headline last year, would have made Milton Friedman turn in his grave. In a landmark *New York Times Magazine* essay, whose 50th anniversary fell on September 13th, the Nobel-prizewinning economist sought from the first paragraph to tear to shreds any notion that businesses should have social responsibilities. Employment? Discrimination? Pollution? Mere "catchwords", he declared. Only businessmen could have responsibilities. And their sole one as managers, as he saw it, was to a firm's owners, whose desires "generally will be to make as much money as possible while conforming to the basic rules of the society". It is hard to find a punchier opening set of paragraphs anywhere in the annals of business.

It is also hard to find a better example of their embodiment than Walmart. Listed on the stockmarket the year Friedman's article was published, it morphed from Sam Walton's hometown grocery store into the "beast of Bentonville", with a reputation for low prices as well as beating up suppliers and bossing staff. Its shareholders made out like bandits; since the early 1970s, its share price has ballooned by a factor of more than 2,000, compared with 31 for the S&P 500 index of large firms. Yet in recent years the company has mellowed. It now champions green energy and gay rights. The *Globe*'s tribute appeared shortly after Doug McMillon, its chief executive, reacted to savage shootings in Walmart stores by ending the sale of some ammunition and lobbying the government for more gun control. This year he became chairman of the Business Roundtable, a coven of American business leaders who profess they want to abandon Friedman's doctrine of shareholder primacy in favour of customers, employees and others.

In partisan America, riven by gender, race and income inequality, such "stakeholderism" is all the rage. But there is pushback. To celebrate the half-centenary of Friedman's essay, the University of Chicago, his *alma mater*, held an online forum at its Booth School of Business in which advocates of his creed argued that giving bosses too much latitude may make things worse for stakeholders, not better. The crux of the problem, they pointed out, was the near-impossibility of balancing the competing interests of stakeholders in any way that does not give God-like powers to executives (what Friedman called the all-in-one "legislator, executive and jurist"). Usefully, some provided data to support their arguments.

Start with Walmart's ammunition bans—a firecracker lobbed into one of America's most divisive issues. The retailer portrayed them as mere safety measures, but the National Rifle Association, a lobby group, said they pandered to "anti-gun elites" and predicted customers would boycott Walmart. Indeed some did. Marcus Painter of Saint Louis University has crunched smartphone data measuring foot traffic before and after the restrictions. He found that on average monthly store visits to Walmart in heavily Republican districts fell by up to 10% compared with rival stores; in strongly Democratic areas they rose by as much as 3.4%. Moreover, the stores; in strongly Democratic areas they rose by as much as 3.4%. Moreover, the apparent Republican boycott continued for months. (Walmart did not respond to requests for comment.)

It is possible that the retailer's stance helped win over new (perhaps wealthier) consumers. It may even have benefited Walmart's bottom line—and shareholders. Yet it also showed that amid increasingly polarised politics, what is good for one set of stakeholders may be anathema to another. Whether it is Hobby Lobby, a Christian chain of craft stores from Oklahoma, denying staff contraceptive insurance on religious grounds, or Nike supporting an American football player's decision to protest against police brutality, some stakeholders will always object to what is done on behalf of others. There are more quotidian trade-offs. A General Motors shareholder who is also an employee may want higher salaries rather than higher profits; a dollar spent on pollution control may be a dollar less spent on worker retraining. But weighing up the costs and benefits to different groups is fraught with difficulty.

Some bosses claim they can do this, keen to win public praise and placate politicians. But they are insincere stewards, according to Lucian Bebchuk, Kobi Kastiel and Roberto Tallarita, of Harvard Law School. Their analysis of so-called constituency statutes in more than 30 states, which give bosses the right to consider stakeholder interests when considering the sale of their company, is sobering. It found that between 2000 and 2019 bosses did not negotiate for any restrictions on the freedom of the buyer to fire employees in 95% of sales of public firms to private-equity groups. Executives feathered the nests of shareholders—and themselves.

Talk is cheap

Such hypocrisy is rife. Aneesh Raghunandan of the London School of Economics and Shiva Rajgopal of Columbia Business School argued earlier this year that many of the 183 firms that signed the Business Roundtable statement on corporate purpose had failed to "walk the talk" in the preceding four years. They had higher environmental and labour compliance violations than peers and spent more on lobbying, for instance. Mr Bebchuk and others argue that the "illusory hope" of stakeholderism could make things worse for stakeholders by impeding policies, such as tax reform, antitrust regulation and carbon taxes, if it encourages the government blithely to give executives freedom to regulate their own activities.

To be sure, trade-offs are an inevitable part of shareholder capitalism, too: between short- and long-term investors, for instance. But stakeholders outnumber shareholders, making for more disparate interests to balance. Moreover, by investing in funds linked to corporate values, or by directly influencing boards, shareholders can show that their goals increasingly extend beyond profit maximisation to broader societal welfare. Shareholders retain primacy, as they should, but they are free to push for different trade-offs if they prefer. ■

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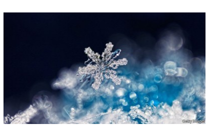

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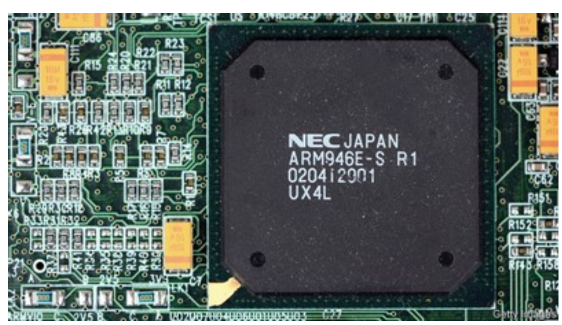

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