



A New Age of Sustainable Capitalism?

American University of Cairo, Gerhart Center

May 13, 2020

Stuart L. Hart

Steven Grossman Distinguished Fellow in Sustainable Business

University of Vermont

President, Enterprise for a Sustainable World

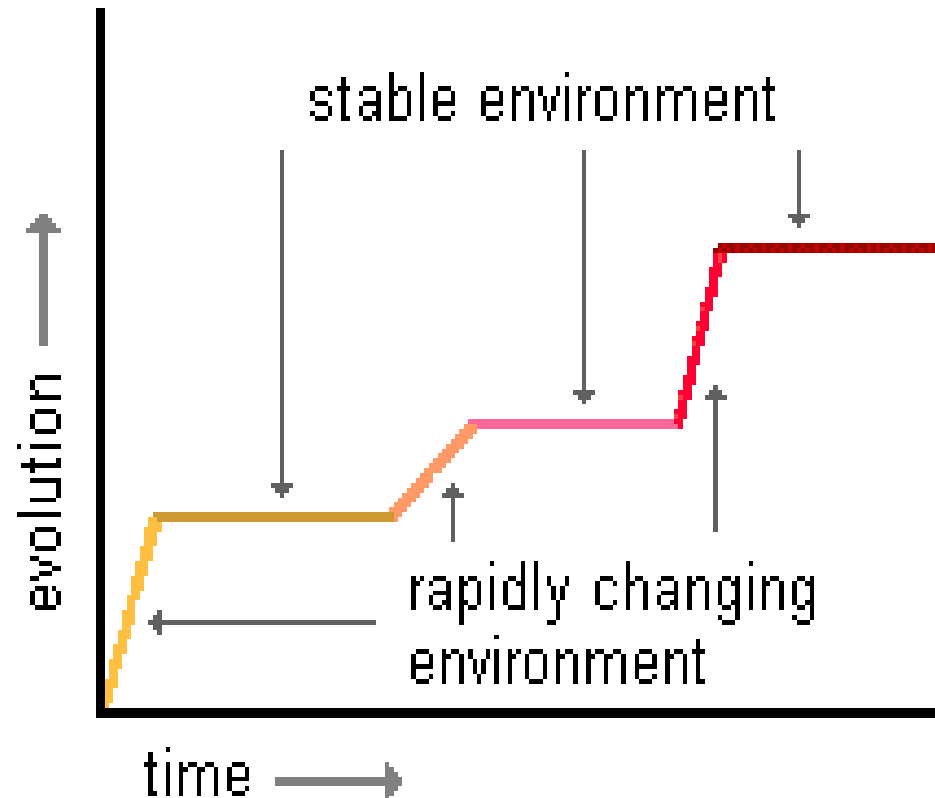
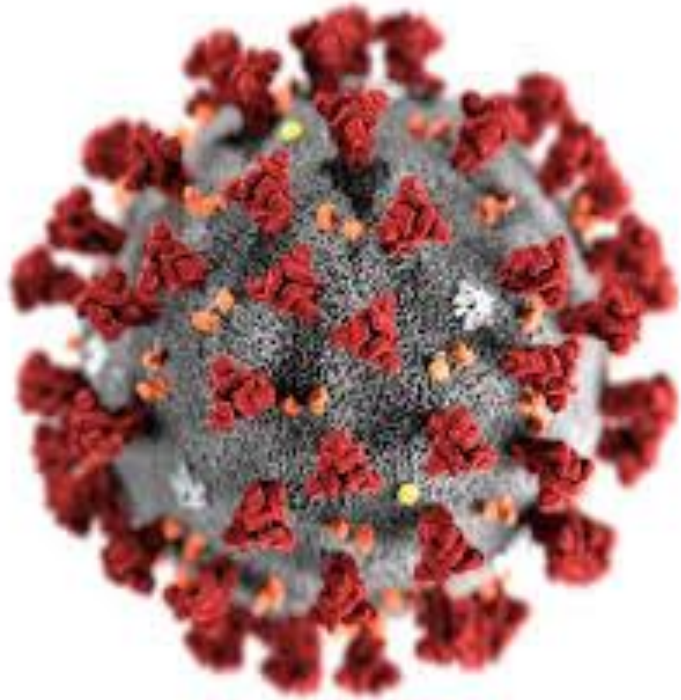
Founder, BoP Global Network

Covid-19: Breakdown or Breakthrough for Capitalism?

punc·tu·at·ed e·qui·lib·ri·um

noun

1. the hypothesis that evolutionary development is marked by isolated episodes of rapid speciation between long periods of little or no change.



1970s: The Last Great Disruption



Source: Yahoo Finance (data)

“Only a crisis—actual or perceived—produces change...When that crisis occurs, the actions taken depend on the ideas that are laying around.”

Milton Friedman, 1973

1980s: The Rise of Market Fundamentalism



CONFIDENTIAL MEMORANDUM

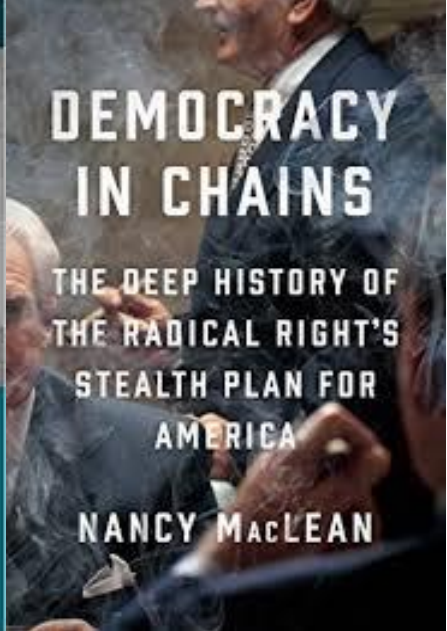
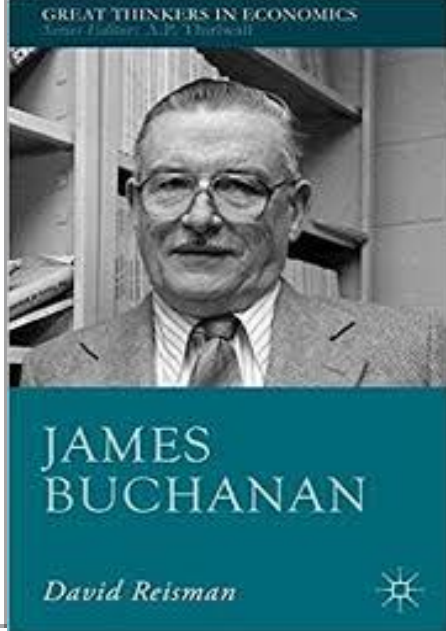
ATTACK ON AMERICAN FREE ENTERPRISE SYSTEM

TO: Mr. Eugene B. Sydnor, Jr. DATE: August 23, 1971
Chairman, Education Committee
U.S. Chamber of Commerce

FROM: Lewis F. Powell, Jr.

This memorandum is submitted at your request as a basis for the discussion on August 24 with Mr. Booth (executive vice president) and others at the U.S. Chamber of Commerce. The purpose is to identify the problem, and suggest possible avenues of action for further consideration.

Dimensions of the Attack



“Government Failure
Not
Market Failure”



The Big Flip: Shareholder Primacy and Financial Capitalism



Theory of the Firm:
Managerial Behavior,
Agency Costs and
Ownership Structure

Michael C. Jensen and William H. Meckling

Journal of Financial Economics 3 (1976) 305-360

William Meckling & Michael Jensen



Presented by Julia Ad. Fall 2016

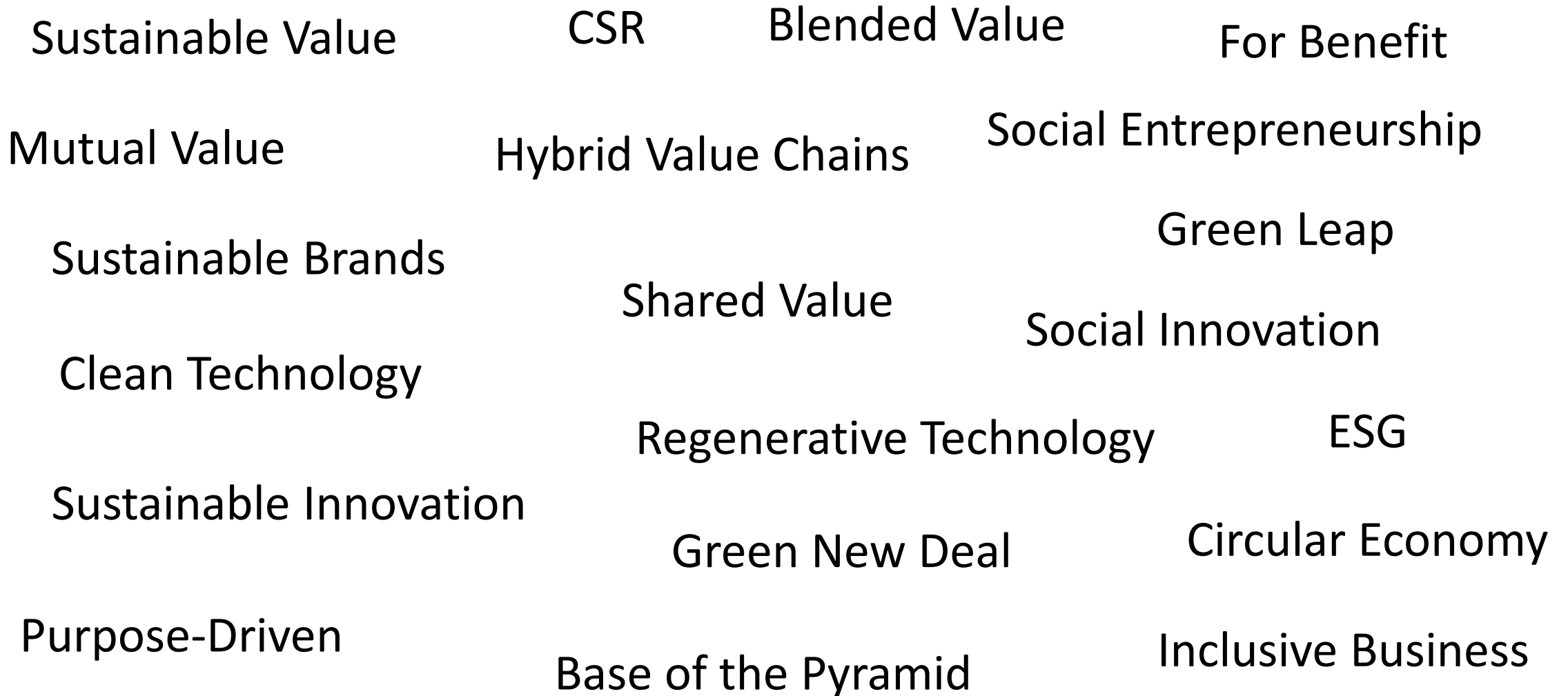


Why should antitrust laws be used to block mergers that the market, by the existence of willing buyers and sellers, shows to be desirable?
~ HENRY MANNE

What 30+ Years of Shareholder Primacy Has Wrought



Counterveiling Forces: Tribalism and Buzzwords





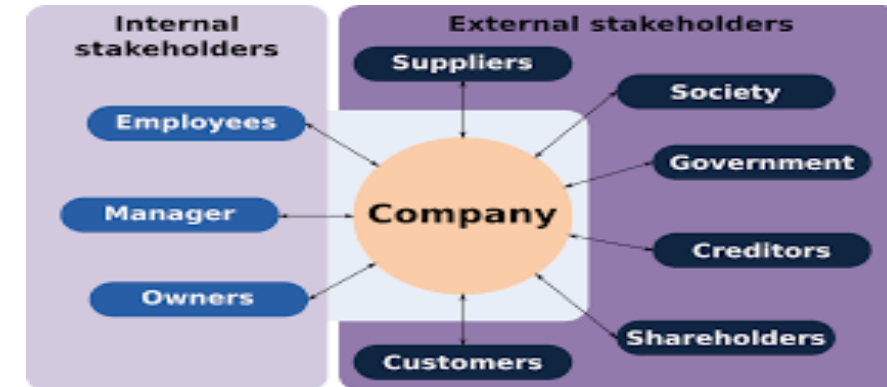
The New York Times

DEALBOOK

World's Biggest Investor Tells C.E.O.s Purpose Is the 'Animating Force' for Profits

A year after his annual letter to chief executives urged them to run their companies with the social good in mind, the BlackRock chief Larry Fink said they must step into a leadership vacuum.

BR Business Roundtable



FORTUNE America's CEOs Seek a New Purpose for the Corporation

America's CEOs Seek a New Purpose for the Corporation

Greed and leverage boys sign statement

For more than two decades, the influential Business Roundtable has explicitly put shareholders first. In an atmosphere of widening economic inequality and deepening distrust of business, the powerful group has redefined its mission.

THE CARLYLE GROUP

Kwonsoong Lee

CO-CHIEF EXECUTIVE OFFICER

THE CARLYLE GROUP

SILVERLAKE

Egon Durban

MANAGING PARTNER AND MANAGING

DIRECTOR

SILVER LAKE

VISTA

ROBERT F. SMITH

FOUNDER, CHAIRMAN & CEO

VISTA EQUITY PARTNERS

VISTA EQUITY PARTNERS

To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.

LAURENCE D. FINK
Chairman & Chief Executive Officer

BLACKROCK®

2018 Letter to CEOs

Larry Fink

Chairman and Chief Executive Officer



Laurence D. Fink is Founder, Chairman and Chief Executive Officer of BlackRock, Inc. He also leads the firm's Global Executive Committee. Mr. Fink and seven partners founded BlackRock in 1988, and under his leadership, the firm has grown into a global leader in investment management, risk management and advisory services for institutional and retail clients. Today, the firm is ranked as the largest asset manager in the world. Mr. Fink was named one of the "World's Most Respected Leaders" by *Forbes* in 2016, "CEO of the Decade" by *Financial Times* in 2011, and one of the "World's Best CEOs" by *Forbes* in 2011.

Mr. Fink joined BlackRock in 1988. Mr. Fink was a member of the Management Committee and a Managing Director of The First Boston Corporation. During his tenure at First Boston, Mr. Fink was co-head of the Taxable Fixed Income Division, which was responsible for issuing and distribution of all government, mortgage and corporate securities.

Mr. Fink serves as a member of the Board of Trustees of New York University and is Co-Chairman of the NYU Laguardia Medical Center Board of Trustees. He also serves on the boards of the Museum of Modern Art (MOMA), Y.M. Council on Foreign Relations, and the Nature Conservancy. He is also an Executive Committee member of the Partnership for New York City.

Mr. Fink earned an M.B.A. degree with a concentration in real estate from the University of California at Los Angeles (UCLA) in 1976 and a B.A. degree in political science from UCLA in 1975.

Is the Solution to Abolish Shareholder Value Altogether?

Get investors off the backs of corporations

Require longer holding periods to vote shares

Require public companies to serve all their stakeholders

But is it really that simple?

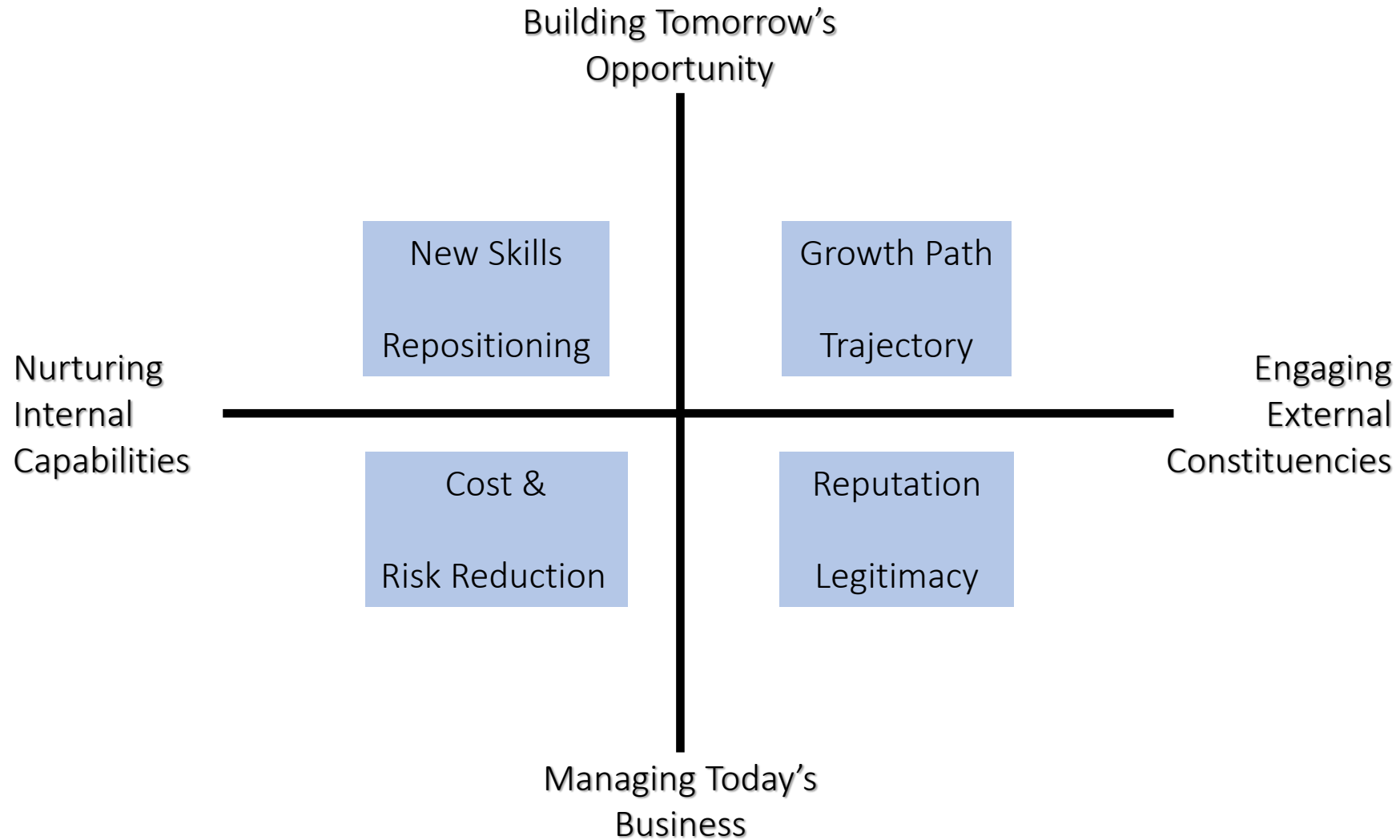
Missing earnings targets is an indicator of bad management not bias against the long-term

Empirical evidence finds that firms that miss targets perform worse in the long term

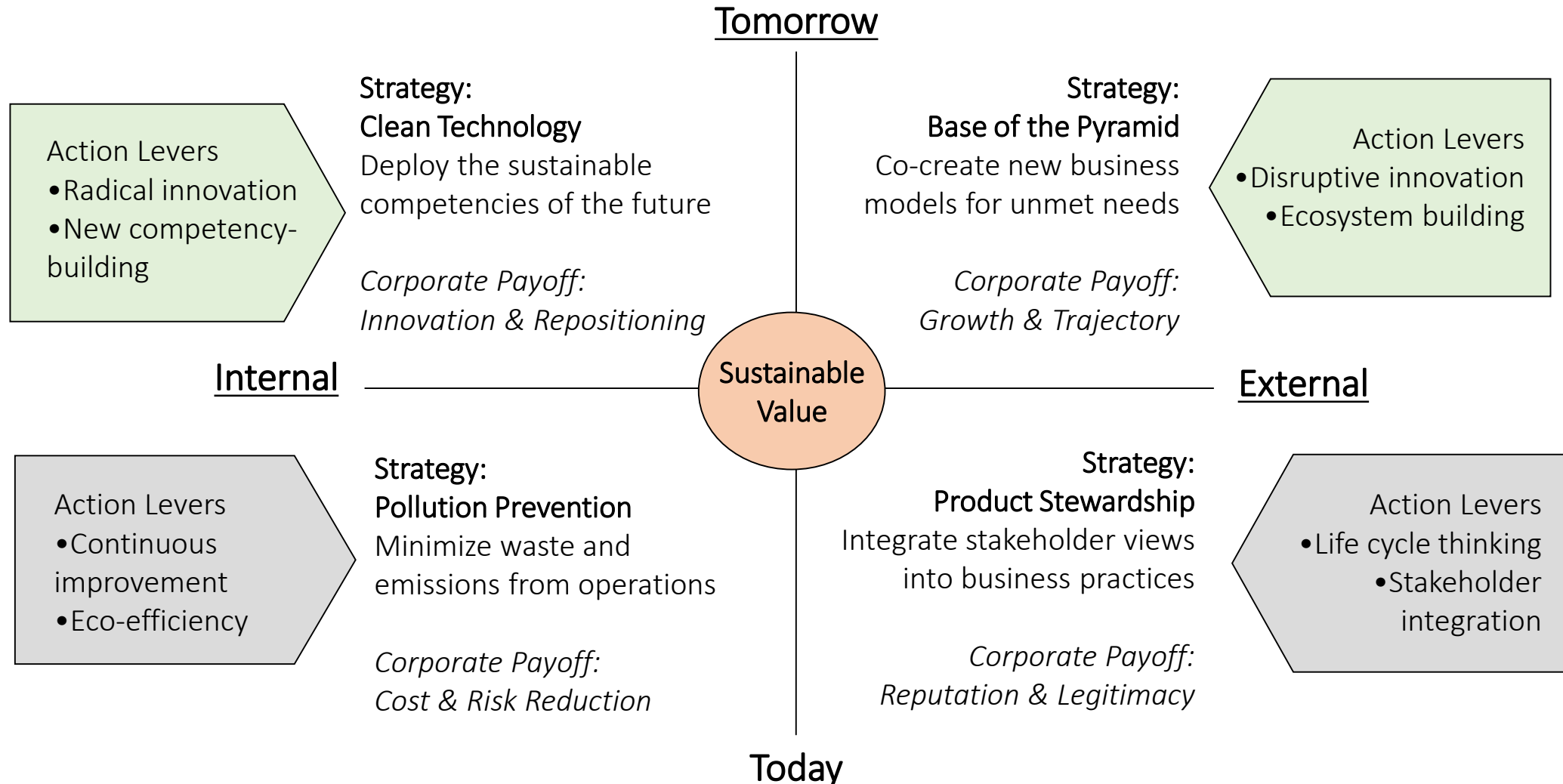
Investors are willing to invest in some companies that won't be profitable for many years

It took Amazon 14 years to move into the black and what about Uber, WeWork, Spotify, etc.?

The Many Faces of Shareholder Value



The Sustainable Value Portfolio: Redefining Value



Adapted from: Hart (1997); Hart and Milstein (2003); Hart (2005)

Flipping the Script: Transforming the “Objective Function”

Primary (Private)
Market

Financial Capitalism
Logic

Spin “**fantasyland**” stories of growth and social mission to justify sky-high IPO share prices (e.g. Uber, WeWork, Spotify, Peleton, Etsy)

Secondary (Public)
Market

Exceed **quarterly earnings** expectations to drive share price and reward senior executives holding options

Sustainable Capitalism
Logic

Shouldn't ventures seeking IPOs be first held accountable to demonstrate the **viability** of their business concepts and produce realistic **business plans**?

Shouldn't public companies be treated as **institutions**-- to produce a wider range of results for society (e.g. living wages, innovation, environmental sustainability, community investment)

Bottom Line: Drivers of share price in the public market are **socially constructed** (i.e. efficient markets, agency theory)

Traditional Logic: “Before you can ‘change the world,’ CEOs need to satisfy investors”

New Logic: “To satisfy investors and generate above market returns, CEOs need to demonstrate positive impact”

THE SUSTAINABLE INNOVATION MBA

THE UNIVERSITY OF VERMONT
GROSSMAN SCHOOL OF BUSINESS

How can business and capitalism be redesigned to include, serve, and lift the underserved, and simultaneously conserve and replenish the natural capital that supports all life on earth...

and make money while doing it?

Is COVID-19 the next Great Disruption? Will it prove to be the crisis that ushers in a New Age of Sustainable Capitalism?

- Does the Coronavirus signal the end of market fundamentalism and shareholder primacy?
- Will sustainability and inclusion become focal points for business in a post-COVID world?
- What new capabilities and practices will be necessary for firms to flourish in the future?
 - What new important research questions does the crisis generate?
- How must business education change to remain relevant in the future?



Isaac Newton



In 1665, the University of Cambridge temporarily closed due to an outbreak of the bubonic plague. As a result, Isaac Newton had to work from home. He used the time to develop calculus and the theory of gravity. Beat that.

Ken Baker



annus mirabilis

(phr.) "wonderful year"; a remarkable or notable year in history; a year of wonders or miracles, used to speak hopefully of the future

LATIN | *annus mirabilis*

Can 2020 be the Wonderful Year for a new age of Sustainable Capitalism?