

‘Larry Fink, the FT, and Prince Charles are right: it’s time for a reset on capitalism’

David Grayson of the Cranfield School of Management says the Davos Manifesto 2020 reflects a recognition by corporate leaders that business as usual is no longer an option

David Grayson, Ethical Corporation, 27 January 2020

<http://ethicalcorp.com/larry-fink-ft-and-prince-charles-are-right-its-time-reset-capitalism?>

“To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.”

If they were my words, you could be forgiven for dismissing them as the theories of an obscure professor of corporate responsibility.

They are not my words, although I heartily endorse them. They are those of Larry Fink’s, the founder and CEO of BlackRock, the biggest institutional investor in the world with \$7tn under management.

Since 2012, Larry Fink has written a series of increasingly urgent annual letters to global CEOs. In the past, critics have suggested that Fink should post his letter to his own employees, since despite the exhortations to boards and senior management teams to concentrate on the long-term, BlackRock managers still pushed for short-term returns. (See [ESG investors turn up heat on BlackRock](#))

Perhaps implicitly recognising those criticisms, Fink this January talks a lot about what BlackRock itself is now doing. In his latest letter he asks that companies in which BlackRock invests produce sustainability and climate-related risk disclosures against specified international frameworks and warns:

“Given the groundwork we have already laid engaging on disclosure, and the growing investment risks surrounding sustainability, we will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them.”

And, of course, this is not an isolated development. A proposed motion for the Barclays AGM in May will ask the bank to phase out its financing of fossil fuel companies that are active agents in driving the climate crisis.

This landmark resolution – the first climate change resolution filed at a European bank – requests that Barclays publish a plan to gradually stop the provision of financial services (including project finance, corporate finance and underwriting) to companies in the energy sector, and to gas and electric utilities that are not aligned with the goals of the Paris climate agreement.

Anyone who has children or grandchildren or godchildren in their teens or twenties won’t be surprised by what I have said so far. You can take pot-shots at who might be “manipulating” Greta Thunberg, but the point I would make is that she will be your employee, your customer, your owner, maybe your regulator or even your nemesis, in just a few short years.

Personally, I did not expect to see the day when I would be more inspired by a 17 year-old Swedish schoolgirl than a president of the USA.

A few years ago, the Doughty Corporate Responsibility Centre at Cranfield School of Management, which I was then running, did a mapping exercise on initiatives to renew capitalism. We stopped when we got to 130! What struck me was that these were not projects by old-fashioned Trots and Marxists to overthrow capitalism. We were looking at serious initiatives from the likes of the global managing partner of McKinsey, and from CEOs of some of the world's largest companies.

I've been a regular reader of the Financial Times for more than 30 years. I am struck by the growing coverage in the paper about business purpose and, indeed, the very basis of capitalism. Last autumn the FT launched a campaign to "reset capitalism".

As Lionel Barber, who stood down last week after 14 years as FT editor, observes: "The liberal capitalist model has delivered peace, prosperity and technological progress for the past 50 years, dramatically reducing poverty and raising living standards throughout the world.

But, in the decade since the global financial crisis, the model has come under strain, particularly the focus on maximising profits and shareholder value. These principles of good business are necessary but not sufficient.

The long-term health of free enterprise capitalism will depend on delivering profit with purpose. Companies will come to understand that this combination serves their self-interest as well as their customers and employees. Without change, the prescription risks being far more painful." I strongly agree. Alongside the systemic risks to the financial system from climate change, we need to understand the systemic risks to the financial system from hyper-global inequalities. Last week in Davos, the World Economic Forum launched its [2020 Davos Manifesto](#) emphasising stakeholder capitalism. Now you can criticise the sense of entitlement that "Davos Man" – sadly yes still too much Davos Man – often exudes, but that again, I think, misses the crucial point.

Influential business leaders are increasingly recognising business as usual is not an option. Nor is incremental improvement sufficient.

I have had the privilege of helping to lead three of the Prince of Wales's charities. In his speech in Davos, HRH added his voice to those emphasising the need to move to sustainable markets, calling for nothing less than a "paradigm shift" and "action at revolutionary levels and pace." This is the context in which I wrote [All In: The Future of Business Leadership](#) together with two Canadian colleagues Chris Coulter and Mark Lee. Our message is straightforward. Businesses can no longer be hesitant or half-hearted about sustainability. They have to go all in.

We believe that all-in businesses have five key, interlinking attributes:

1. An inspiring, authentic **purpose** that explains how the business creates value for itself and for society. I like the definition of the British Academy in its Future of the Corporation project, which defines purpose as finding profitable solutions to the problems of people and planet, and not to profit from doing harm.

2. A comprehensive plan covering all aspects of the business and increasingly for their value-chain, which minimises negative social, environmental and economic impacts and aims to maximise positive ones.

3. A culture that is innovative, engaging, and empowering, open and transparent, and ethical/responsible.

4. An emphasis on collaboration: the skill and the will to partner with a range of other businesses, NGOs, social enterprises, public sector agencies, academia, to drive sustainability at speed and scale.

5. And finally, advocacy. All-in businesses speak up and speak out for social justice and sustainable development.

Crucially today, leadership requires all five attributes. Advocacy, for example, is only credible and effective if it builds on the other four attributes.

You can start by reading All In. It is a very practical book and tells the stories of companies that are trying to go all in, like Unilever and Patagonia and IKEA. If you go to www.AllInBook.net you can download, for free, the introduction to the book, which summarises our framework.

This year's Edelman Trust Barometer, also published last week, has a stark statistic: across the world, 56% agree with the statement "Capitalism as it exists today does more harm than good in the world."

And across the world only 18% think "the system is working for me." That's why Trump, why Brexit, why populism across the world is on the rise.

Like Lionel Barber, I passionately believe in the entrepreneurial spirit; in the moral as well as the practical worth of business and its potential to be a positive force in the world.

But we have to prove, and keep on proving, that business is worthy of its licence from society to operate.

In the era of the naked corporation, where everything is ultimately for the record, business had better be buff. Now is not the time for half-measures.

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