Returning the favour

A new social contract for business

James Kirkup

SMF Social Market Foundation

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NOTE FROM THE AUTHOR

This paper has been written with deliberate haste, partly during a period of recovery from coronavirus infection. It is not intended to be comprehensive or definitive – I am, for example, consciously omitting climate change, and any detailed discussion of corporate governance reform. Instead, this is meant as an aid to further thinking and debate.

EXECUTIVE SUMMARY

In an effort to support economic capacity and employment in the face of the coronavirus crisis, the UK government has committed unprecedented amounts of public resource to supporting British private sector organisations. This necessary act should, in time, be the start of a process that leads to a new social contract between British business, government and society.

That contract should set out new shared norms for the conduct of business and its obligations to others. It should codify -- and make visible to all -- the standards which business should meet in order to justify the support it receives from the public in order to operate, not just at this exceptional time but in general too. This short paper provides an overview of the case for a new social contract and an outline of the process for drawing up that contract and upholding its standards.

This is a pro-business plan, because it is in the vital interests of business to renew and retain its social licence to operate in the political economy of Britain in the age of the coronavirus. Unless they demonstrably reciprocate the extraordinary support they have received during the crisis, British businesses will be exposed to the significant risk of public -- and thus, in turn political -- backlash that will curtail their scope to operate and, in due course, harm the UK economy.

CHAPTER 1: CONTEXT; FAIRNESS AND TRUST

Shortly before the coronavirus reached the UK, the consultancy firm Edelman published the 2020 edition of its Trust Barometer, an annual tracker of public sentiment towards institutions including business.[1] As it has for several years, the report showed that Britain is far from convinced of the merits of free markets and the benefits delivered by business. Some 53% of Edelman's UK survey sample said that capitalism does more harm than good in the world. While the survey showed many workers still put trust in their own employer, trust in business in general was low. The balance of people who do or do not think business acts "fairly" was -32. I will return to the idea of fairness, which is enormously powerful and underpins this paper. The survey also sets out clearly what the British public think British business should be for. Asked whose interests business should prioritise, only 7% said shareholders. That was beaten by local communities (8%), employees (47%) and customers (38%).

It is important to see this in context: on that question of fair conduct, government scored lower than business with a rating of -41. But it is my contention, in common with many other observers, that the coronavirus crisis has the capacity to change that perception if government is seen to rise to the challenge of that crisis. Business, already suffering a trust problem before the crisis, needs to find ways to respond too.

Other crises demonstrate the risks that arise from state support for private sector actors in a time of peril. The 2007/08 financial crisis led governments in many states to provide extensive support for financial services companies. They did so because the continued operation of the financial system was necessary; its collapse would have caused far greater cost and distress to the public. Yet the rescue of the financial system, however economically necessary, was politically corrosive. The public concluded that "the bankers" had been rescued from the consequences of their own recklessness, using public money, yet there had been no reciprocation. No bankers were seen to have been penalised for their actions; precious few were heard to say "thank you" to those who had collectively contributed to supporting their businesses. The financial services sector still struggles with this legacy more than a decade later. And the root of the problem is the perception of unfairness.

Few arrangements or practices can survive the public perception of unfairness, that some people are undeservingly favoured while more worthy people miss out. Nor are bankers the only business actors bedevilled by the perception of unfairness. Big tech firms and (especially) famous coffee chains that are seen not to pay their fair share in tax to the country where they operate are other examples of how no company is bigger or more important than the idea of fairness.

Even in the early days of the current phase of the coronavirus crisis, days after the announcement of Government loans and wage support policies, it is easy to see businesses failing to respect the vital importance of fairness and taking the risk of being seen not to reciprocate the support offered to them. And this is barely the beginning. This crisis is an event on a national and historic scale, a shared national experience that could shape public imagination, colour public attitudes and thus define politics and policy for years to come. If individual businesses - and business as whole - are seen to have behaved unfairly over this crisis, the consequences and costs they face could be dramatic.

CHAPTER 2: THE HISTORY AND PURPOSE OF BUSINESS

What is business for? Why do companies exist? By origin "company" means "those who eat bread together" and its variants are at least 1500 years old. But its use to denote a commercial entity probably comes from 16th century Italy.

However, companies in their modern sense date to the mid-19th century, when several Western nations legislated to allow the creation of limited liability companies. (In the UK, the relevant acts are the 1844 Joint Stock Companies Act, the 1855 Limited Liability Act and the 1856 Companies Act.) Limited means you can only lose the money you invest in a firm and no more; debts fall on the company, not its owners.

As many observers have noted, this was a transformational idea, one that allowed many more people to allocate much more capital to companies, confident in the knowledge that the law protected them from ruin in the event of a poor outcome (as long as they only invested what they could afford to lose, that is). Limited liability allows companies to access capital at scale and operate accordingly.

This history is worth considering as the UK government, in line with others, provides extensive and potentially unlimited support for companies.

When Parliament enacted laws to protect investors from losses, it did so because it saw a public interest in doing so. Remember, this was long before the doctrine of "shareholder value" (more of this later) had been conceived: the investors that Parliament sought to protect with limited liability were not remote entities removed from their society, they were members of that society. Think of Joseph Rowntree, who in 1897 turned the family partnership that ran his confectionary business into a limited liability company, Rowntree and Company. Limited liability means the power of the state is deployed to protect private investors - something done for public benefit.

To quote Jesse Norman, now a Treasury minister but once professionally involved in questions of corporate stewardship:

> *"Incorporation was a privilege that conferred economic benefits, and the purpose of the charter was to ensure that these benefits were in the sovereign's, and later in the public, interest. Corporations and markets existed because, by statute or circumstance, they created wealth and wellbeing."* [2]

Returning to the idea of reciprocity, Parliament protected investors from losses in the expectation that the corporate growth this would allow would be conducted in such a way as to benefit the nation. With the right to incorporate came the responsibility to do some good.

Yet as Norman sadly concludes of business in its modern form:

> "Over time, the privilege of incorporation has been transmuted into a legal freedom, and the link to the public interest has been all but forgotten."

I argue that government support for business over the coronavirus should be seen as another act that demands reciprocity, and an opportunity to correct that imbalance that Norman correctly identifies. The coronavirus rescue package should lead to a reset moment for the relationship between the state, business and society.

Why did limited companies drift (or be seen to drift) from the public interest embedded in the original idea of incorporation? Much of that drift has been the unwitting by-product of a positive trend: growth. As the pools of capital available to companies have grown, so have companies. This has meant innovation, productivity and wealth, wealth that is, to differing degrees, shared between owners, managers and workers. Those differing degrees are part of this story but not its essence.

Growth has meant distance, distance between investors (owners) and the people who run companies. Many of the owners of big public companies are now small investors, via pension funds, who may well not even know that they have a beneficial ownership stake in those companies. In the UK, the success of auto-enrolled pension schemes means that up to 10 million workers have paid into pensions that may well make them (tiny) part-owners of big public companies. Those holdings are managed by intermediaries, sometimes in multiple layers, who are supposed to operate under a relatively clear objective: increase the value of investments on behalf of owners.[3]

The primacy of owners and their interests in the context of business activity was most powerfully captured by Milton Friedman in Capitalism and Freedom in 1962. Friedman argued that executives were simply employees of owners and had no right to do anything but seek to return the greatest amount of money possible to those investors:

> *"…there is one and only one social responsibility of business: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game…"*

This is the doctrine of Shareholder Value and it has been extremely influential, even if it has faced questions and challenges for decades, perhaps most notably from Charles Handy in 2002:

> *"The purpose of a business, in other words, is not to make a profit, full stop. It is to make a profit so that the business can do something more or better."*[4]

And in 2006, Parliament legislated to embed in law a significant challenge to the Friedman view that business has no social responsibility beyond profit. Section 172 of the Companies Act 2006 remains, to my mind, one of the most important yet under-discussed laws passed in recent years. It places the directors of limited companies under a new duty to "promote the success of the company for the benefit of its members as a whole." In a sense, the narrow shareholder value doctrine has been disputed in UK law for more than a decade, though this law has not been given sufficient force to date. (I will return to S172 later in this paper.)

Nonetheless, Friedman's views, or a version of them, still echo loudly in many parts of public life, especially at Westminster, where Shareholder Value advocates are still wellrepresented, both directly and among the second-order voices of the media and policy-influencers including (other) think-tanks.

This is despite the fact that for a significant number of executives, owners and other actors, narrow shareholder value has been replaced by -- or at least, supplemented by -- other considerations.

This is not a debate on the margins, although it has been given far too little attention by British policymakers to date.

In August 2019, largely unnoticed by a British policy community exhausted by and fixated on other issues, the US Business Roundtable rejected the Friedman view. The Roundtable, which represents the chiefs of the biggest public companies in the US, said the purpose of business is to serve not just the interest of shareholders but of all stakeholders: employees, suppliers, customers and communities.

> *"While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders," the roundtable members declared.* [5]

Some will see this as simply an exercise in PR, and doubtless some of those words are empty. But some changes have substance.

Consider Danone, a global food maker worth (at time of writing) more than £36 billion and employing 100,000 people worldwide. Danone has committed to achieving the status of a B-Corporation. This means meeting clear public targets on transparency, and environmental and social impact. B-Corp status cannot be dismissed as a PR exercise, since it requires a legal commitment:

> Certified B Corporations are legally required to consider the impact of their decisions on all their stakeholders. B Corps make this legal change by updating their articles of incorporation, reincorporating as benefit companies, or making other structural changes.[6]

There is also the growing Social Enterprise movement, made up of businesses who make social or environmental gain their primary objective, committing to reinvest profits in pursuing that goal rather than returning the money to investors. A 2018 report for Social Enterprise UK, supported by Nationwide and Co-op Group suggests there are over 100,000 social enterprises employing 2 million people in the UK. [7]

To be clear, such innovative, purposeful approaches to doing business are still relatively marginal, adopted by a relatively small number of organisations, most of them small. But, taken together with that US Business Roundtable statement, they demonstrate that there is both appetite for doing business differently and existing methods available for doing so.

Meanwhile, there are potentially deep changes underway among those who act as agents for investors, the asset managers who are owners-by-proxy for many companies.

Again, little discussed by most UK policymakers, the asset management industry is embracing the concept of ESG investing, allocating money mindful of companies' record and impact on Environmental, Social and Governance issues.

This is not the forum for an analysis of ESG investing in the round. Instead it will suffice to quote Larry Fink of Blackrock, the world's largest institutional investor, who has said that "without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the licence to operate from key stakeholders." [8]

Fink has also argued that companies that do not look beyond narrow ideas of shareholder value will in time be unable to raise capital:

> *"Over time, companies and countries that do not respond to stakeholders and address sustainability risks will encounter growing scepticism from the markets, and in turn, a higher cost of capital. Companies and countries that champion transparency and demonstrate their responsiveness to stakeholders, by contrast, will attract investment more effectively, including higher-quality, more patient capital."*

Among UK-based asset managers, the debate has been led by thinkers such as a Saker Nusseibeh of what is now Federated Hermes. He has argued that "the traditional concept that the purpose of investing is only to create additional wealth is flawed" and that investors must also be mindful of the social and other impacts of investment decisions.

Contemporary capital markets, Nusseibeh has said:

> *"…should be a tool for savers to exercise their democratic will as owners in directing this economic machine that so influences and shapes their lives and that of society in a way that serves them collectively as well as individually in the long term."* [9]

In summary, both the people who run companies and the people who control the ownership of those companies say that business must be about more than maximising profits for investors. The people who run and own businesses agree that business has other obligations too.

This is the vital context for government policies that will use public money to support business during the coronavirus. That money, like all public money, ultimately comes from taxpayers, either current taxpayers or future ones. The public have always been stakeholders in business, as customers and employees, and as the source of the legal authority that limits investors' liability. The idea that companies have a reciprocal duty to the public is not a new or radical one; it has been present since the birth of the first incorporated companies.

So it is not, I think, or controversial to suggest that the public realm's support for business over the coronavirus outbreak places an increased (but not novel) obligation on business to reciprocate. Nor is it radical (or novel) to suggest that this obligation be captured in some form of contract.

CHAPTER 3: DRAWING UP A NEW SOCIAL CONTRACT; PRINCIPLES AND PROPOSALS

Why a contract? Why not simply trust the existing regime of laws, regulation and - most of all - taxation to ensure that companies over time reciprocate over the support they will receive during this crisis? After all, the primary issue here will be one of money: the state will borrow significant sums to support business, sums that will, eventually, be repaid from taxation. Why not let business get back to business as before, maximising profits and paying taxes that will in time repay the debt, both financially and morally?

The answer is that this is necessary but not sufficient. Even if (and it is a debatable point) that is what all businesses did, it would not restore trust and confidence in business. Business-as-usual would not serve as adequate reciprocation to ensure the legitimacy of the rescue package (and thus legitimise the sacrifices needed to pay for it in future. Nor would it renew businesses' social licence to operate. Delivering such things will require something beyond the status quo ante. New legitimacy requires a new social contract.

For the sake of clarity, the social contract I propose here is at least partly a heuristic device, a way of capturing and understanding the enhanced reciprocity that will now be needed between business and its stakeholders. I do not make any claim that this note makes any contribution to the narrower debate among social contract theorists and philosophers of ethics about the social contract for business proposed by Thomas Donaldson and others. My objectives here are pragmatic policy changes, not academic rigour.

On that basis, I offer the following suggestions about the principles that should underpin that new contract and some ideas for the ways those principles could be enacted. These suggestions are neither firm nor exhaustive but intended as a starting point for debate.

I) Norms matter

A social contract is not one that can be enforced in courts. It expresses broader expectations and requirements on its parties. It establishes a shared view of what is acceptable and what is not.

Even the greatest advocates of shareholder value accept that the framework within which business operates is more than a body of law and regulation. Friedman said that the sole responsibility of a business is to make profit "so long as it stays within the rules of the game". That condition is important.

For as Justin Fox of the Harvard Business Review notes:

> *"The rules of the game [...] go way beyond those enforced by governments. Economies function within a set of societal norms — about how much employees and executives should be paid, about gender roles, about community obligations, about how seriously to take tax laws, about appropriate behaviour toward customers that can change over time..."* [10]

The primary function of a new social contract for business should be to establish new social norms of behaviour for business, standards against which companies can easily be measured.

The Davies Review and the subsequent Hampton-Alexander Review process, which seeks to increase the proportion of women on the boards of public companies, are a useful template for norms-based methods of changing company behaviour here.

At the heart of the Hampton-Alexander process is a target, clearly set out in 2016, and widely understood: 33% representation of women on FTSE 350 Boards and FTSE 350 Executive Committee and the Direct Reports to Executive Committee by the end of 2020.

The Hampton-Alexander Review, a body independent of but backed by Government, is now driving progress towards that target. It does so by the use of public benchmarking and social pressure: it publishes regular reports and league tables and makes other public comments by which the public and investors can judge companies' progress towards the targets. It is important to note that the 33% target has no statutory basis: there is no legal or regulatory requirement on companies to meet it, or even to try to meet it. Yet firms do so.

Part of the reason for this is direct commercial self-interest: some believe that widening the pool from which they draw board-level talent will improve leadership and, thus, company performance. But another part of the reason is that Davies-Hampton-Alexander have established a new norm for corporate conduct. Companies now operate under the expectation that they should meet the target, even though, strictly speaking, they have no legal or regulatory obligation to do so.

This approach should be applied more widely, to establish a comprehensive set of new norms of business conduct and provide highly visible public monitoring of companies' success in meeting standards.

II) Setting norms - the process

Contracts should be negotiated, not imposed. At the appropriate time, the government of the day should convene an independent review to establish clear principles of good business conduct. An approximate model is the Nolan Committee on Standards in Public Life, which established the Seven Principles of Public Life that, while not legally binding, set a powerful framework for the conduct of public figures.[11]

This commission should have an independent chair of the status equal to a Cabinet minister or similar, and include representatives of:

- British business, of all sizes, sectors, regions and ownership models
- Trade unions
- Investors
- Both main political parties
- Members with academic, legal or public-opinion expertise should also be considered.

The commission should take extensive evidence of public perception and expectation of business conduct, both quantitative and qualitative.

Its remit should be to establish new norms of behaviour for business, standards that business should meet to uphold the social contract that delivered extensive financial support during the crisis. The review should also propose the metrics by which conduct against those standards can be measured. It should then oversee the establishment of a permanent independent successor body akin to the Hampton-Alexander Review. The successor body should be financially supported by Government but independent of it. It should be established via a Royal Charter and operate in a way similar to that of the Office for Budget Responsibility, publishing regular authoritative reports on business conduct measured against the standards set out in the social contract commission.

To stretch the concept of the social contract, this body would be the Leviathan of Thomas Hobbes' imagination, an authority set above others. But whereas Hobbes' authority was to be armed with the hard power (the original publication of Leviathan depicts a crowned figure wielding a sword and a bishop's crozier) the social contract successor body would be armed with information and the power to publish.

III) Suggested measures and metrics

It would obviously be for the commission to decide what measures and metrics would be useful to underpin new norms. But the following are suggestions for themes and ways to better use existing systems and measures to generate evidence by which business performance against the standards of the social contract could be judged.

There is considerable scope within existing law, regulation and governance to increase and improve the visibility of company conduct

Section 172 reporting

Section 172 of the Companies Act 2006 should provide the basis for an expanded reporting regime where companies provide a public, verified account of their conduct beyond narrow financial performance.[12]

It states:

> A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to
>
> a. the likely consequences of any decision in the long term,
> b. the interests of the company's employees,
> c. the need to foster the company's business relationships with suppliers, customers and others,
> d. the impact of the company's operations on the community and the environment,
> e. the desirability of the company maintaining a reputation for high standards of business conduct, and
> f. the need to act fairly as between members of the company.

Some larger companies are already required to include a narrative account of their S172 compliance in their annual reports. This requirement should be expanded and hardened significantly as part of a new social contract.

S172 compliance should also be subject to a system of independent audit, as financial statements are. Such audited "stakeholder support" reporting should be produced in a standardised form to allow simple comparison.

The Act's provisions on employees' interests should be given particular focus and applied more clearly in reporting requirements. The way business treats its workers is among the most fundamental measures of conduct and fairness. The Social Market Foundation has argued in favour of policies to give more workers a stake in their employer through greater use of employee ownership schemes and corporate governance reforms to give worker-owners a greater voice in the company.

Progress towards more ownership and voice for workers should be one data point for assessing performance against a new standard on the treatment of workers. Another should be the provision of – and spending on – training: an audited, standardised per-capita training expenditure figure would helpfully illustrate firms' commitment to their workforce and its development.

Attention should also be given to developing a clear metric measuring the "impact of the company's operations on the community", perhaps with special regard to those places where companies are headquartered or have large operational sites. Meaningful S172 reporting here would include detailed accounts of what a company had done to support public services (especially education) and community spirit in locations where it has a significant presence. The limited companies run by leaders such as Joseph Rowntree, John Cadbury and Titus Salt had a strong sense of duty to their locale, providing housing and services for workers, sometimes in the form of building whole towns. Existing laws obliging business to have regard for communities should be used to kindle a new spirit of place-based philanthropy in that spirit.

Tax reporting

It is inconceivable that the standards established in the new social contract would not include tax compliance. It is important to note that the contract would be silent on tax rates and structures; that would always be for Parliament. But the perception (and reality) of companies' success in minimising their tax payments has been deeply harmful to public confidence in business and the political economy that supports it.

New forms of tax reporting should be devised, offering far greater transparency about the effective tax rates faced and payments made by business. League tables and other disclosure devices to benchmark appropriately comparable firms' tax compliance and contribution should be considered.

Commercial information providers such as PWC have demonstrated what can be done here, with projects such as the annual Total Tax Contribution report. HMRC should supply relevant data to the social contract commission's successor body, for the compilation of benchmarking reports on the taxation of larger companies, both publicly-traded and privately-owned.

A strong norm around tax contributions, supported with clear and authoritative public disclosure, could, in time, become a potential commercial advantage for public-facing business. Those with the strongest record of compliance and contribution could use that record to enhance their brand. ("Shop at the company that's proud to have paid the wages of 20,000 nurses last year.") Others should support this process by celebrating such records.

Executive pay reporting

It is already relatively simple to calculate and report executive pay, including relative to that of other workers; the High Pay Centre is among third-sector groups that do so. But this function should be taken on by the social contract successor body, which would produce authoritative official reporting

IV) Leaders have a role in upholding those norms, passing judgement and allowing others to do the same

Having established norms, set up the systems for measuring performance against those norms and reporting such measurements, the final necessary act of enforcing a social contract is passing public judgement.

Politicians, of all sorts but especially those in government, have prominent platforms; Theodore Roosevelt called the US presidency a "bully pulpit" when "bully" meant "great and powerful", but a loud voice does give leaders the chance to change the behaviour of others. Having contracted the objective judgement about business conduct to an independent body, politicians should be confident in their ability to pass judgement on companies over how well (or badly) they meet the new norms of behaviour.

It is important to say here that benchmarks should not simply be used to seek firms to target with criticism: those who contribute more should be celebrated and praised. For example, Government accolades and awards for companies that pay the most tax relative to comparators should be considered. Outstanding performance on the new S172 metrics, especially around support for communities and workers, could be specifically recognised with an enhanced and expanded form of "Investors in People" scheme. One option would be for a new "Investors in Places" scheme.

For individuals, a reformed honours system should be part of this process of judgement and acclaim. Honours should be made inherently temporary, something to be constantly earned, not handed out as unlosable baubles based on past actions. For people in business good performance against the standards of the social contract should be a minimum requirement of getting -- and keeping -- an honour.

Official judgement over performance against the standards of the social contract could also be linked to public procurement and award of contracts. No company that does not meet a fair standard of conduct should be eligible to tender for such contracts.

V) Owners must be involved

Owners and their agents should be centrally involved in assessing and upholding the new social contract.

Clear norms and benchmarks of performance against them could help asset managers better define the “S” in ESG, something that still often lacks clarity.

A greater goal should be to allow individual owners, however small, to take account of performance against the standards of the social contract.

The Pension Dashboard project should be made a greater priority with additional resources. Auto-enrolment has made millions of people into owners. They should know what they own and have the option to express their view on the conduct of the businesses in which their money is invested.

It is possible to imagine that having established clear new standards for company conduct and the means to measure performance against those standards, pension savers automatically enrolled into NEST would be offered the chance to specify that their savings could only be invested in, say, the upper half of companies as measured on one, some or all of the new social contract standards. Using performance against the new social contract standards to guide investment decisions would add significantly to their impact on conduct.

CHAPTER 4: CONCLUSION

Inevitably, an argument that business should be placed under new obligations to contribute more, even if in exchange for something given, may be interpreted by some as somehow hostile to business and the cause of "free markets" and enterprise. Friedman and the Chicago School of economics still have their advocates, after all, loud voices frequently heard to argue that anything but the retreat of the state from markets will be gravely harmful to "enterprise" and thus the wider economy.

Such an interpretation would be incorrect in this case. My argument for here is explicitly intended to be in the interests of business, where those interests are understood in the widest sense. My concern is that without a new social contract, without a new shared understanding that business must do more to demonstrate how it is properly treating stakeholders, paying its dues, and demonstrates beyond doubt reciprocation of the support provided during the coronavirus crisis, it will lose what Larry Fink calls its "social licence to operate".

There is also nothing in this paper that would make markets any less free in the important sense: capital would remain in private hands, allocated according to the choices of market actors. Interaction between those actors would determine prices. The executives of any company would be free not to live up to the standards established in the social contract if they chose, and investors would be free to allocate capital to such a company if they chose. But the actions of such a company - and their variance from an established norm of good conduct - would be plain to all others, who would be equally free to respond as they chose. I firmly believe that such a scenario is little more than theoretical. Even if such conduct was not likely to produce little economic reward, most people in business are fully aware of their social obligations to others and are inclined to act accordingly.

There are some people involved in British political debate who appear to seek a state of conflict between business and others, who see poor conduct by business as useful to their cause since it helps justify measures to curb and penalise business. I am not one of those people. I want British business to generate the greatest possible wealth and benefit. Doing that means doing business but doing business differently and better. I believe that the majority of people who run businesses and own businesses do not need persuading of this argument.

What is the alternative to a new social contract for business, a contract based on clear new norms of behaviour, assessed on clear evidence and upheld in public by political leaders? The continued corrosion of trust in the system that underpins successful business in democratic economies, something that would in time render business harder and even impossible.

Charles Handy was not the first to warn that unreformed capitalism may destroy itself, but his analysis is usefully succinct:

> *"There are more ... stories of enlightened business in both American and European companies, but they remain the minority. Until and unless they become the norm, capitalism will continue to be seen as the rich man's game, serving mainly itself and its agents. High-minded talent may start to*

> *shun it and customers desert it. Worse, democratic pressures may force governments to shackle corporations, limiting their independence and regulating the smallest details of their operations. And we shall all be the losers."*

Handy was writing in 2002, in the wake of the Enron scandal but before the global financial crisis and before the coronavirus outbreak that has led governments to commit limitless sums of public money to supporting companies. His analysis of growing discontent with shareholder value models has been vindicated repeatedly since then. Without a new social contract with business, the aftermath of the coronavirus crisis could well see his fears realised again, to a far greater extent and with far greater costs.

ENDNOTES

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[1] https://www.edelman.com/trustbarometer
[2] https://jessenorman.typepad.com/Case_for_Real_Capitalism_28122011.pdf
[3] The 2012 Kay Review of equity markets for the British government noted that one of the most significant features of modern British capitalism is the "explosion of intermediation" in equity investment.
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