



Henning Meyer

April 12th, 2022

## Why businesses need to be social and political actors

0 comments | 8 shares

Estimated reading time: 3 minutes



Research indicates that businesses are among the most trusted institutions. With trust comes the expectation for leaders to speak out on socio-political issues. In this [repost](#), **Henning Meyer** examines the move away from the Friedman Doctrine, due to consumer, employee and external pressures.

---

The ground is shifting in business management and how companies fit into modern capitalist economies more generally. Since Ross Douhat coined the term in a [New York Times article in 2018](#), there has been a controversial discussion about “Woke Capitalism”. Critics such as Helen Lewis see it as a [driver for cancel culture that does not challenge the main problem](#) – existing power structures. Other commentators such as Will Hutton effectively [equate “woke” with “stakeholder” capitalism](#). Whatever your view on this topic, it seems clear that you cannot ignore it.

The title of this post already gives away my own opinion. But why do I believe that businesses need to rethink their role as social and political actors in addition to their economic function?

Let's start with CEOs themselves. Aaron K. Chatterji and Michael W. Toffel in their 2018 [Harvard Business Review article on "The New CEO activists"](#) point to a variety of reasons why CEOs had increasingly spoken up on controversial political issues that were unrelated to their firm's direct activities. These are:

- Representation of corporate values
- An expression that companies should have a higher purpose
- Personal conviction of business leaders
- Corporate purpose has become more important to Millennials (customers as well as employees)
- Leadership role to represent the people who work for a company

You can summarize these points as follows: **Corporate purpose and values are becoming more and more important because internal and external pressures force companies to move in this direction.**

## Consumer Pressure

Governments and investors of course also generate external pressure but I will deal with these aspects in a future post. Here, we are talking about expectations of society more generally rooted in what consumers demand.

The "purposeful" attitude of younger people towards businesses has long been established. [McKinsey research](#) for instance found out that:



*In a transparent world, younger consumers don't distinguish between the ethics of a brand, the company that owns it, and its network of partners and suppliers. A company's actions must match its*

*ideals, and those ideals must permeate the entire stakeholder system.*



Recent evidence, however, suggests that younger people are not alone in demanding an enhanced societal role of businesses. Take the 2021 Edelman Trust barometer for instance. It shows that business is generally the most trusted institution across the 27 countries surveyed. So far so good.

#### Figure 1. 2021 Edelman Trust Barometer

source: <https://www.edelman.com/trust/2021-trust-barometer> Source: *Edelman*

But along with this trust come significant expectations. **Today, the vast majority of people at the very least expect business leaders to take a public stand on societal issues.** More than two thirds even think that CEOs should step in to address these issues directly if governments seem unable to fix them.

#### Figure 2. Percentage who agree CEOs must lead on societal issues

source: <https://www.edelman.com/trust/2021-trust-barometer> Source: *Edelman*

So what used to be a trait of younger generations in particular seems to have spread across society at large. Given the scale of society's pressing problems, and the hitherto insufficient attempts to address them, this is hardly surprising.

In essence, this trend represents a **significant shift away from the Friedman doctrine** formulated in a classic New York Times essay published in 1970. In this article, Milton Friedman made the case that the only social responsibility of business is to increase profits for its shareholders. In contrast, today's understanding is that with great economic power comes great societal responsibility, not just responsibility towards shareholders.

## Internal Pressure

In the face of many unresolved challenges, society's expectations towards business are changing. But the pressure is also driven by internal sources. More and more, making a net positive impact through your business activities is a precondition for **attracting and retaining some of the best talent**. The place of work is increasingly viewed in the light of one's own personal attitudes and values rather than as a neutral space for economic activity.

Caroline Kaeb and David Scheffer in their article on the **rise of CEOs as social activists** echo the findings of previous research: **employees expect their companies to be leaders on societal issues**. If they are not, companies are likely to lose out in the fight for the best talent. In many key sectors, we find an employee's market as skills are scarce and employers are in fierce competition with each other.

Moreover, if you **compromise your purpose and values in the eyes of your employees, a company's leadership could face a mutiny**. Google employees, for example, put so much pressure on top management that it was **forced to abandon a contract extension with the US Department of Defense**. A critical mass of employees either resigned in protest or objected to the use of Google Artificial Intelligence (AI) in war situations leaving Google's c-suite little choice but withdrawal.

Against the backdrop of recent developments during the Covid-19 crisis, the intrinsic motivation of employees to work for a business is likely to become even more important as the **office environment is changing for good**. Technology firms in particular have long had a culture of offering **food and other necessities in their offices**. In the process, they created an environment that meant employees worked long hours as they barely had to leave the office. What was sold as personal perks was more often than not a nudge to keep people engaged in their work rather than their personal lives.

Fast forward to 2020-2022 and employees are barely in the office. The increased use of home offices will certainly become standard even when the pandemic is over. This also means less control over employees. Corporate purpose and communicating it effectively is thus likely to become a key driver of productivity. Or as **Alyson Meister and David Bach put it**:



*An organization that embraces a genuine, clear purpose rooted in a societal need can unleash higher performance and engagement because employees connect on a personal level with the business.*



## Things Are Moving Already

Against the backdrop of this dual pressure from outside as well as inside of businesses, it is hardly surprising that corporations have been moving away from the Friedman doctrine. The most high profile example for this is the US Business Roundtable.

In a [statement published on 19 August 2019](#), the organization updated its principles for corporate governance and, for the first time since 1997, moved away from the primacy of shareholder interest . As Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co. and Chairman of Business Roundtable [stated](#):




*Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term. These modernized principles reflect the business community's unwavering commitment to continue to push for an economy that serves all Americans.*



Or look at a new brand platform launched by the *Financial Times* in 2019 as another real-world example:

### Figure 3. Financial Times New Agenda

source: [https://aboutus.ft.com/press\\_release/ft-sets-the-agenda-with-new-brand-platform](https://aboutus.ft.com/press_release/ft-sets-the-agenda-with-new-brand-platform)

Source: *Financial Times*

This is how the newspaper **described its new effort**:



*The publisher's first major brand campaign since the global financial crisis, The New Agenda will position the FT at the forefront of debate about the disruption of established corporate and economic models and what should come next. Launching with the line – Capitalism: time for a reset – it will encourage business leaders to find opportunity in the new normal and promote stronger corporate purpose.*



## Conclusion

To sum up, capitalism is changing and with it the role businesses are expected to play in society. There are strong external as well as internal drivers that are forcing companies to define themselves as social and political actors in addition to their traditional role as economic agents. Ignoring this trend is no longer a viable option – whether you like it or not. Smart businesses proactively move with these trends and

turn them into opportunities and competitive advantage. Those who are late – in business as in politics – are usually punished by life itself.



#### Notes:

- This blog post originally appeared on [Henning Meyer's blog](#) and is published with the permission of the author.
- This blog post expresses the views of its author(s), not the position of LSE Business Review or the London School of Economics.
- Featured [Image](#) by [Wan San Yip](#) on [Unsplash](#)
- When you leave a comment, you're agreeing to our [Comment Policy](#).

#### About the author



**Henning Meyer**

Henning Meyer is Honorary Professor of Public Policy and Business at the Eberhard Karls University of Tübingen and Research Associate at Cambridge University's Centre for Business Research (CBR). He was a research associate at LSE's Public Policy Group for seven years.

**Posted In:** Leadership | LSE alumni | Management

---

#### Leave a Reply

Your email address will not be published. Required fields are marked \*