Committee for Economic Development

Working Paper

Business Statesmanship and Sustainable Capitalism: Can Corporate Leaders Help Put America and American Business Back on Track?

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SUMMARY

To celebrate the Committee for Economic Development's (CED's) 75th anniversary in 2017, CED will renew our founding principles through a multi-year program that will test the viability of "sustainable capitalism," an economic system based to date on private property, competitive markets, and the rule of law.

The issue we face today is whether this system can continue as it is. The political and economic environment today is less stable and less hospitable to business or, more broadly, the success of capitalism than at any time in memory. The challenge to capitalism today is the erosion of public trust in business, government, and virtually all societal institutions. In sum, public support for business has waned, endangering the "social license" of business to operate.

There are strong calls for the system to evolve to meet the needs of today, balancing private- and public-sector interaction. One commentator predicts that "21st century capitalism…will look more like an Asian-led hybrid of alternatives" and that "[t]he rest of the world stands ready to define capitalism in new and strikingly different ways." We are skeptical of that prediction but our research during our multiyear program will consider that possibility along with other potential outcomes and measures that may be needed to protect sustainable capitalism.

CED was founded in 1942 by prominent CEOs who were determined to have sound economic policies in place at the end of World War II. We are equally determined today to respond to threats to the future of sustainable capitalism which we believe to be critical to the future of a free society, steady economic growth, increasing standards of living, equal opportunity, and shared improvements in the quality of life.

Many claim that the loss of support for capitalism is due in part to the inability of business leaders to be effective in sustaining the system that sustains them. *New York Times* columnist David Brooks, for example, observed that "business leaders have been inept when writers, intellectuals and politicians attacked capitalism."[1]

A significant part of our contemplated work will be an effort to understand why business has not been more effective stewards of capitalism, to determine what competitive, governmental and leadership pressures in all aspects of business—domestically and globally—may inhibit the ability or willingness of business leaders to address the societal issues that will in the long run be critical to their respective businesses.

In particular we will examine the issue of what political scientist Charles Murray calls "collusive capitalism," that is, the corporate advantages created by the rules of regulators and legislators, by earmarks and subsidies.[2] Do these advantages inhibit the ability of business leaders to support the level playing fields so essential to sustainable capitalism?

We began this work in conjunction with the Governance Program at the Center for Strategic and International Services (CSIS) and the American Assembly of Columbia University to conduct a year-long effort with leaders from business, academia, media and non-governmental organizations to identify concrete actions that business leaders can take—in their own companies, or in collaboration with other companies, non-business institutions, or governments—to address threats to sustainable capitalism. This joint effort was prompted by the book *Capitalism at Risk: Rethinking the Role of Business*, which focused on a long list of social, economic, and environmental "disruptors" that threaten business, individually and collectively.[3] We plan to publish a report of our effort early in 2014 that will be titled: *"Global Growth and the Future of Market Capitalism: What Can Business Do?"*

The Role of Business Statesmanship and Corporate Engagement

Business leaders should have no illusion that their company's interests are independent of the strength of the surrounding society; business enterprise cannot stand apart from the system that supports it. The question we will ask is whether business leaders can act as stewards not only of their own companies but to some degree also of the overall society in which they operate. We understand that the jobs of corporate leaders are tightly focused on their companies and that oversight by directors, shareholders and government make it harder for a CEO to step outside the confines of immediate business concerns. We are hopeful, however, that it can be possible for CEOs and other business leaders to take a broader view. The health of our society and domestic economy needs their help for the nation to regain civility in public discourse and develop common ground for sensible policies. CEOs in particular can credibly speak to issues that most directly affect the long-term health of their companies, including the nature of the markets they serve, the availability of well-trained workers, and the general economic and social environment.

To be a vocal societal leader, the CEO and executive team will need the strong backing of their board, shareholders, and other constituencies. Board members will have to share the CEO's vision and fully support the goal of responsible business statesmanship. Shareholders, too, must realize that their long-term interests are served by responsible, civically engaged corporations (and corporate leaders) that help create societal conditions conducive to economic opportunity. Institutional shareholders representing individuals with longer-term economic goals hold a key to market acceptance of corporate efforts to emphasize long-term growth based on well-functioning societal conditions. Shareholders should reexamine their strategies from a long-term perspective, especially when their ultimate beneficiaries have goals linked to retirement, education, and other longer-horizon objectives.

Some Illustrations of the Problem

The breakdown of effective political governance in the United States and declining public trust in virtually all societal institutions impinge on business' ability to operate freely and effectively. We illustrate some of the ways in which governmental dysfunction and lack

of public trust are affecting business by briefly considering three examples: economic conditions of slow growth with high unemployment, increased regulation, and shareholder activism on social issues.

Example 1: The economy's slow recovery from the deep recession of 2007-2009 has heightened attention to business. The public, and their political representatives, want to know why businesses are offshoring jobs, not hiring more domestically, not investing more in facilities expansion, not repatriating more of the money held overseas, and not paying more in taxes, among other concerns. They are also worried (although perhaps not enough) about budget deficits, increased national debt and the rate of entitlement spending that will become a major problem for future generations if not addressed soon. They want corporations to do more to bolster the economy. But corporations lack the ability to solve the nation's macroeconomic problems. In fact, business decision makers are as frustrated as the public. They, too, worry about how to navigate through an extremely uncertain and high-risk environment, and are mostly waiting and watching to see how political decisions affecting the direction of economic activity and fiscal policy will play out.

Example 2: Increased regulation of business, for example in the provisions of the Dodd-Frank Act, has emerged as a critical problem as the political system seeks to address festering social and economic problems. Most corporate leaders would prefer to have the leeway available to address these problems with a relatively free hand and thoughtful, not onerous, regulation. As it is, they are confronted with complex, burdensome rules that in many cases create business uncertainty initially as regulatory bodies consider rule proposals and, when adopted, become costly to implement.

Example 3: Shareholder activism on social issues has steadily increased. The number of shareholder proposals on environmental, social, and governance (ESG) issues has grown in recent years, as institutional investors look to so-called "responsible corporations" as a way to enhance both the public good and investment returns. And companies are becoming responsive to ESG concerns, as the link between social good and long-term business imperatives become more apparent. One example of an issue that has drawn investor attention is "fracking," the process of hydraulic fracturing which allows greater extraction of oil and especially natural gas. Fracking, like other ESG issues, is clearly important to the corporations, their shareholders, affected communities, and others associated with it. Also clear is that the lack of timely public-policy resolution has motivated some shareholders to file resolutions on this subject. As one supporter of these resolutions put it, "investors are telling companies they expect to see real progress on climate change, clean energy and other sustainability fronts, *despite the policy paralysis in Washington*."

In short, although the public may be somewhat distrustful of business, they are turning to business to help solve problems left unresolved by government—an even less trusted institution. At the same time, business leaders would rather see such problems dealt with in the public sphere instead of through shareholder resolutions, in the boardroom, or through business operations. But, like it or not, heightened uncertainty, regulation, and

shareholder agitation put business leaders into the fray, and make such problems into "business problems."

No bright line marks the boundaries of public and private concerns. Societal issues are part of the environment in which business operates and, therefore, they are issues for the private, as well as the public, sector. Although businesses may not be able to solve societal problems, they operate in an environment where such problems exist and businesses are expected to be part of the solution. Businesses would likely benefit, as would the overall society, if business leaders see the societal issues their businesses confront as challenges to be managed just as, say, supply-chain or customer challenges are managed.

What Needs to Be Done?

Our initial inquiries are focused on whether corporate leaders can become more engaged with finding solutions to America's societal problems, in particular the broad economic problems that are critical to the future of the country—and of business. To a degree, this is already happening. To be a *leading* corporation increasingly means being seen to be a socially engaged corporation. And being a business leader is coming to mean being an engaged business statesman. Similarly, we will question whether governmental officials at all levels also can engage with business leaders in a responsible, cooperative, and productive manner.

To be clear, we are not encouraging CEOs to take on overtly partisan social and political issues, for example, in the realm of individual rights. CED has been a long-time champion of the principle that corporations should not be engaged in electoral politics, for example. We believe businesses should compete in the market arena, not the political arena.

We do hope to see change in the environment in which CEOs and other business constituencies operate. It ought to be an asset rather than a liability to have a leader willing to engage in critical public policy discussions. We hold no illusions about the difficulty of achieving this state. Many incentives push CEOs today in the opposite direction.

An essential element is to educate markets about the value of long-term, sustainable business growth. We don't expect that markets will suddenly be disinterested in quarterly results or that they will pay more attention to the character of the CEO and his or her engagement with societal issues than to earnings per share announcements. We do believe, however, that markets can be convinced of the value of business statesmanship and of a longer-term, sustainable approach to management and corporate governance.

Another element to be investigated is whether there are intrinsic or extrinsic obstacles that prevent effective joint action by companies. Even where individual business leaders have stepped to the fore, why is there so little joint action to solve critical societal

problems? What has blocked the kind of cooperative effort exemplified by the Marshall Plan, which was a signature achieve promoted by CED in its earliest days?

We see three interrelated pathways by which change can occur: by example, by generational change, and by developing a new narrative about the role of business in society.

Leading examples. Capitalism operates through self-correcting mechanisms, and leading corporations are starting to compete by embracing and experimenting with various methods to create a more stable and sustainable place for themselves in the future. Shareholders also have demonstrated that they prefer to invest in corporations that evidence good corporate citizenship. Some leading public and private pension funds, which view themselves as "universal owners," have been at the forefront of efforts to promote sustainability and corporate citizenship.

Generational change. Change is difficult and typically happens slowly. In business, it mainly occurs generationally, as one age cohort replaces another. The available evidence is that the younger generations entering the workplace are more attuned to and more attracted to societally engaged businesses when searching for work. The so-called "Generation Y," or Millennial Generation, has been brought up in the age of digital technology and globalized, networked communications. A recent survey by Deloitte concluded that the Millennial Generation's message is that, "the success of business should not be measured on profit alone and that the purpose of business cannot be defined in purely economic or financial terms." In addition, "Over 50% of Millennials believe that the purpose of business is primarily innovation and societal development."

New narrative. Change usually depends on the establishment of stories that demonstrate the benefit of a preferred set of values. Increasingly, business leaders, academics, and national business organizations, such as CED, are telling a more compelling story about the purpose of business and its role in society. It helps to start with a clear, concise and easily understood statement of the role of business in society. Our hope is that this document and our sustainable capitalism program will contribute to such a narrative.

A significant stumbling block is the widespread belief that corporations are meant to be run to maximize the financial benefits of current shareholders. There are, however, many individuals and organizations that have been developing ideas and proposals that consider how recognition of, and a balance of interests among, corporate constituencies can enhance the corporation's long-term value and, hence, the ultimate value to shareholders as well. CED has partnered with likeminded organizations such as the Aspen Institute, the CFA Institute, and the Business Roundtable Institute for Corporate Ethics, all of which have produced important documents on this topic.

The challenge of change. At a fundamental level all of these pathways operate through a change in culture. But culture changes very slowly. Individual actions of leaders who recognize both the advantages and the need for change are important. But the fragmented efforts of individual leaders to better their companies' long-term performance may not be

enough, or fast enough, to put American business as a whole, or capitalism, on a stronger foundation. Generational change, by its very nature, will happen only as the older cohort is replaced by the younger. And the spread of a new narrative needs business leaders who can, and are willing to, talk credibly and convincingly about their experiences and the role of business in society.

The question before us is how to create change that is faster and more systemic.
How can we help create (or reinforce) an environment that rewards performance based on hard-headed economic calculation within a culture of integrity and concern for systemic and societal consequences of individual decision making?

An Action Plan

This paper is but one step along a path that is intended to stimulate change within the U.S. business community and the country more broadly. Suggested actions embedded throughout this report are repeated here in brief:

- We encourage America's business leaders to take a more expansive view of their responsibilities, to be more socially aware, and to practice what CED calls business statesmanship—recognizing that business leaders can promote societal health by engaging in and speaking out for the common good on key public policy issues of the day. A prime goal of business statesmanship is to strengthen the fabric into which society and business are interwoven.

- Business leaders are well-positioned to address key concerns about business short-termism, ethics and integrity, and (unfounded) suspicions that most business executives put their personal gain ahead of their responsibilities to others. They also are positioned to help the nation address its most pressing economic and societal problems. Enlightened business leaders recognize that business conditions cannot be healthy when the political system is incapacitated and dysfunctional.

- The board and management should consider if they can run the corporation for long-term value and sustainability by factoring in societal imperatives and balancing the needs of all constituencies.

- Business in America has an influential voice that can be used to help solve the nation's critical problems, for example by endorsing efforts to address the accumulation of public debt.

Our action plan supports further consideration of these issues by:

- Using this report to open discussion with market participants, from shareholders to boards to CEOs and other corporate executives, about actions they could take to integrate good corporate performance with good stewardship and statesmanship.

Such actions start with a strong business culture that establishes leadership, credibility, trust, shared attitudes, traditions, and values.

- Connecting with the next generation of business leaders. We intend to engage this generation both where they are training in business schools and where they begin their careers in corporate management.

- Continuing CED's own efforts, whether singly or in concert with others, to promote business statesmanship. CED's annual *Business Statesmanship Award* is an opportunity to highlight business leaders and tell the stories of their civic engagement and stewardship of societal health. CED also will continue to engage other organizations that seek to promote business statesmanship, the business/society nexus, and the need to replace short-termism with long-term value creation.

This paper is the first in a series of reports CED will develop leading up to our 75th anniversary in 2017. Following the American Assembly, scheduled for fall 2013, CED's research work will focus on issues generated by that Assembly and related corporate-governance topics. We are, in particular, interested in positive role models in business today and how businesses can better communicate their accomplishments to shareholders and the public in general. We also intend to continue to pay close attention to national problems stemming from: growing federal debt and sluggish economic growth; declining educational achievement and a labor force mismatch to the skill needs of business; the need to improve America's global competitiveness; and support for democratic institutions.

Business Statesmanship and Sustainable Capitalism: Can Corporate Leaders Help Put America and American Business Back on Track?

The political and economic environment that sustains American capitalism is extraordinarily weak at present. Rightly or wrongly, cyclical factors—the Great Recession and its aftermath—have damaged the reputation and societal standing of business and some business leaders. But structural factors that affect the system's long-term performance and sustainability are more worrisome than any temporary decline in reputation. Effective business leadership, not just within the narrow context of business itself but, as important, within the broader society can play an important role in lifting the performance of the U.S. economy and sustaining capitalism, which has so greatly advanced our standard of living. Why are business leaders not in the forefront of public discourse over national economic policy and the future of capitalism?

Business leadership and corresponding societal support for the fundamentals of capitalism—open markets, private property, and the pursuit of self interest leading to the common good—helped lay the foundation for the new American republic declared in 1776 (the same year as publication of Adam Smith's *The Wealth of Nations*). For most of the following 237 years the United States has benefitted from a symbiotic and reinforcing relationship between business and other parts of society. As the economy and society advanced through education, experience, business development, innovation, and institution building, standards of living rose and the United States became a global leader in arts, sciences, industry, military, and most other fields of human endeavor.

But it has not always been a smooth and harmonious journey. Along the way, there have been periods of economic and social upheaval that have challenged the nation's ability to solve systemic problems, adapt to changed circumstances, renew the social compact, and develop an improved path of economic and societal advancement. The 1930s and '40s were one such period. Following the Great Recession that started in December 2007, we appear now to be in another. The Committee for Economic Development (CED) played a critical role at its founding in the 1940s and later to provide business leadership and practical, reasoned solutions to address the nation's most critical problems. CED today seeks again to lead the nation in solving the difficult problems that confront us.

CED's goal is to provide a vehicle and a process for advancing the kinds of changes needed to ensure that the American free enterprise system continues, in the words of CED's long-stated objectives, to "contribute to preserving and strengthening our free society, achieving steady economic growth at high employment and reasonably stable prices, increasing productivity and living standards, providing greater and more equal opportunity for every citizen, and improving the quality of life for all."[4]

The Purpose of This Paper and Follow-on Programs

This working paper focuses on the role of business leaders as spokespeople for the common good—a role they have played both in normal times and at critical junctures in the nation's history. Our goal is to maintain a vibrant, engaged, principled, and sustainable business community that engenders a thriving middle class and growing economy. Currently, we see a need to address the public's concerns about business short-termism, ethics and integrity, and suspicions (mostly unfounded) that business executives are putting their personal gain ahead of their responsibilities to others. At the same time, business leadership could help the nation address its most pressing economic and societal problems, for example the unsustainable gap between government expenditures and revenues that leads to growing public debt and, if unchecked, to economic crisis.

A 1971 CED report, *Social Responsibilities of Business Corporations*, observed that "corporate self-interest is inexorably involved in the well-being of the society of which business is an integral part, and from which it draws the basic requirements needed for it to function at all—capital, labor, customers."[5] In 2013 we would add a fourth element: the political, legal, and regulatory system that establishes the environment in which businesses operate.

At present, the U.S. system of government is dysfunctional and impeding economic opportunity for individuals and corporations alike. Partisanship and extremism have created government deadlock, while critical national problems go unaddressed, and business conditions cannot be healthy while the political system is incapacitated and dysfunctional.

What Is the Social License to Operate, and What Can American Business do to Secure It?

Leaders from all segments of the business community should be among the first to recognize the danger posed by a potential loss of public support for capitalism. Our experiences and observations in countries of all sizes and income strata confirm that to operate openly and effectively business needs what is often called a "social license to operate" based on public support. In present circumstances, the real possibility exists that business could lose the support of the American people and their political representatives if business is portrayed as part of the cause of the nation's economic problems rather than as a contributor to solutions.

The stakes are high. In the United States, uncertainty about the course of regulation, government spending, taxation, debt, and other economic policies already impede business investment and job creation, thereby slowing economic growth and its attendant benefits. Looking ahead, the United States is not immune to the kinds of social protests, street demonstrations, and acts of vandalism recently seen in Europe and previously seen in this country in earlier eras.

The consequences of a loss of public support for capitalism (or business in general) would hurt everyone, especially the most vulnerable. Undue actions to restrain business, for example through politically motivated regulation and other mandatory requirements, would affect millions of citizens who depend on business for income, including older Americans whose retirement savings are managed by institutional investors. Of course, there would also be strong knock-on effects for small and medium-sized businesses from a broad slackening of economic activity and an economy and society in crisis. Suppliers, communities, and others dependent on the vitality of business would suffer. Taxes paid by corporations on their own behalf and for their workers are critical to the operations of governments at all levels. Over the long term, innovation would diminish and economic growth would slow drastically.

Capitalism should be defended because it has been the strongest force for the material benefit of mankind the world has ever known. That does not mean that it is perfect or that it cannot be improved. Capitalism can be faulted to the extent that markets—the basic transmission belt for decisions and outcomes—do not always produce optimal results in the short term. Market failures due to externalities provide the economic basis for many regulations. The recent recession, of course, is a strong reminder of the costs that can be incurred when markets and governmental policies combine to create unstable—and unsustainable—conditions, as occurred in the housing sector before the 2007-2008 crash. In a different vein, economists and commentators as far back as Smith have recognized that markets are often a weak and imperfect mechanism for setting and enforcing principles of customary conduct, ethics, and integrity. That task is usually left to other social and religious institutions which shape our notions of acceptable behavior, to private non-collusive agreements such as codes of conduct, or to governments. The erosion of religion and ethical standards and lapses in adherence to widely understood principles of business and market behavior are core issues of the current crisis of American capitalism, and one reason why business leaders must take a more active role in safeguarding the system overall.

Our focus is on the United States and more specifically on the primary constituents of American corporations—shareholders, boards, and management.[*] In doing so we do not intend to ignore or slight the important contributions of smaller, independent businesses or labor or other parts of the economy. In fact, we urge them to follow the same path we suggest for corporations. Yet as a group, US corporations, in particular larger public and private companies, are more visible to the general public, more central to overall economic performance, and more likely to attract attention in public discourse. Despite many problems and occasionally deserved criticism, corporations get a lot right, especially over the long term. One of the strengths of American capitalism, which has sustained it thus far, is its ability to innovate and adapt to changing circumstances. As we enter the second decade of the 21st century, American corporations again are under

[*] A corporation is a legal entity that, among other features, enjoys rights akin to a person and bears liability limited to the amount of shareholders' invested capital. Public companies issue securities traded on open markets. A private company does not sell stock to the general public; its shares are usually held by a small group or individual such as the founder or other principals.

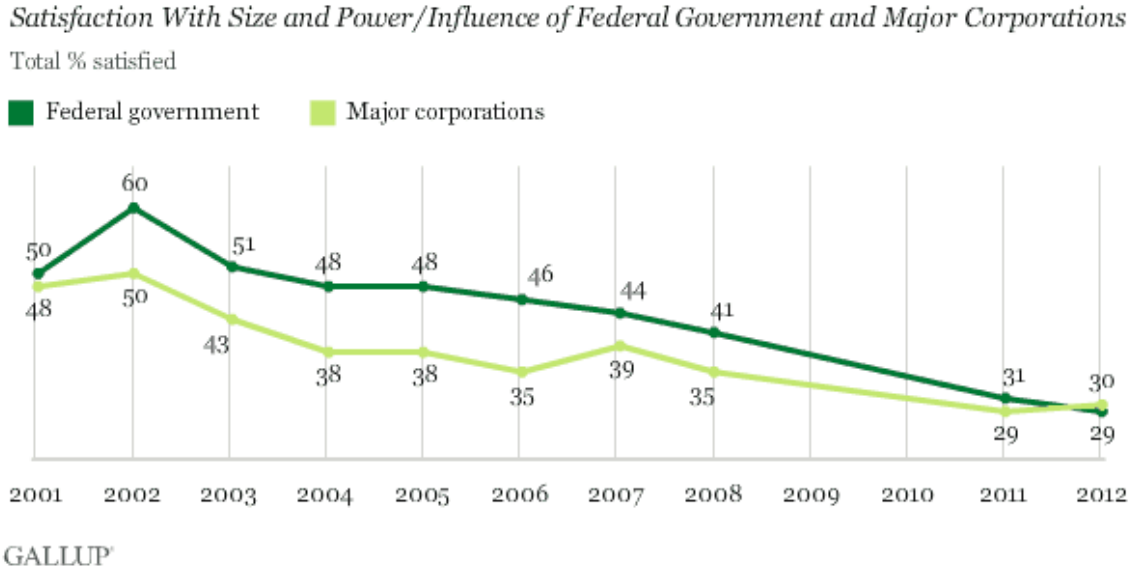
pressure to innovate and adapt. This paper offers some suggestions for corporate leaders to consider.

The next section explores how unresolved political issues confront business decision makers.

Current Political and Institutional Dissatisfaction Challenge American Corporations

Public confidence in virtually all societal institutions is at present uncommonly low. Depending on the wording of survey questions from such organizations as Edelman and Gallup, business (notably big business) earns low to mediocre marks from the public on questions of trust.[6] Research indicates that declining public confidence in institutions in the United States—banks, government, newspapers, and big business—is a long-run phenomenon dating back at least to the 1970s. A strong cyclical component, based on high unemployment, exacerbates results during recessions, but within a downward structural trend.[7] Trust in business in particular has been weakened by over a decade of events starting with the Enron scandal and culminating in the recession of 2007-2009 and its aftermath. At the same time, trust in government to address fundamental economic and social issues facing the nation has fallen to historic lows.[8] (See chart below, reproduced from Gallup, Inc.) As the Edelman Barometer reports, the public's attitude is that "neither business nor government is meeting expectations."[9]

Figure 1.



The combination of low esteem, poor general economic performance, and political failure at the national level is a potentially toxic brew for business. Business leaders, especially CEOs and directors of America's large corporations, are under pressure to lead the political system toward finding solutions to a variety of economic ills. Though business is not responsible for the failure of the nation's political leaders to come to grips with

pressing economic issues, it is in business' interest that those issues, and its own lack-of-trust issues, be addressed.

Most recently, American business leaders have stepped up in greater numbers to address the nation's most important economic issues. The efforts of the Fix the Debt campaign, for example, highlight both the potential positive social force of business leadership and the frustration and disappointment that can follow when the political system fails adequately to respond. Fix the Debt is "a non-partisan movement to put America on a better fiscal and economic path."[10] Its CEO Leadership Council, of which CED is a member, is comprised of over 125 individual leaders (some CED Trustees) plus major business organizations who seek to "persuade Congress to enact, and the President to sign, a comprehensive debt deal large enough to stabilize and reduce the federal debt as a share of the economy."[11] Formed in 2012 to prod the political system into action, the CEO Leadership Council has had substantial success in raising awareness of fiscal issues, gaining media coverage, obtaining access to high-level meetings, and creating public pressure on the political system to act. It is small comfort to the many individuals and affiliated organizations that have participated in the effort that they cannot be faulted if the political system has been deaf to their plea. At the start of 2013, the so-called "fiscal cliff" crisis was averted at (or beyond) the last minute by raising higher-income tax rates without the hoped-for agreement that would set the nation on a more stable fiscal course. Search for a larger solution that puts fiscal policy on a sound footing continues.

Below, we briefly examine three additional issues that have roots in the broader social and economic environment. Our intent is to highlight some ways in which governmental failure puts pressure on business and how business leaders are responding. How businesses respond to that pressure will affect not only the problems themselves but also public attitudes towards business specifically and capitalism is general. These examples are used only to illustrate how governmental failure and public distrust are affecting business today. They are not intended as either a comprehensive list of such issues or a full and detailed analysis of each topic.

The issues illustrated below are:

- Slow economic growth with high unemployment.
- Increased regulation.
- Shareholder activism on social policy.

Slow economic growth with high unemployment. The economy's slow recovery from the deep recession that started in December 2007 has heightened attention to business, especially larger corporations. The public, and their political representatives, want to know why corporations are offshoring jobs, not sufficiently hiring and investing in facilities expansion domestically, why they do not repatriate more of the money held overseas, and why they do not pay more in taxes, among other concerns. They are worried (although perhaps not enough) about budget deficits, increased national debt and the rate of entitlement spending that will become a major problem for future generations if not addressed soon. They clearly want corporations to do more to bolster the economy.

But corporations lack the ability to solve the nation's macroeconomic problems. If it were possible for all corporations to expand capacity and hire more workers, the economy certainly would be improved; however, the supposition that corporations could take such actions begs the question of why they would in the absence of stronger demand for their products and services and the expectation that their individual actions would be rewarded. In truth, corporations cannot take up the slack when suitable conditions for economic growth, such as consumer demand, do not already exist.

From the other side, business decision makers worry about how to navigate through an extremely uncertain and high-risk environment. On one hand are the current uncertainties about the strength of recovery from the Great Recession in the United States, but even more so in Europe. Such uncertainty stifles risk-taking and depresses investment and hiring. On the other hand, there is the reality that as economic recovery takes hold, rising employment and income will generate increased demand for products and services and create opportunities for individual companies to expand operations, start new ventures, and take on new workers before talent and resources become scarce. To a large extent, businesses have been waiting and watching to see how political decisions affecting the direction of economic activity will play out.

Increased regulation. For the past ten years, since the Enron and Worldcom scandals and passage of the Sarbanes-Oxley Act, American corporations have been adjusting to the effects of increased federal regulation of corporate governance, traditionally a state concern. These regulations have, among other things, created more paperwork, costs, and caution. Analysts differ on whether they have decreased risk or strengthened the economic system. The Dodd-Frank Act, which followed the financial crisis, ratcheted up federal regulation of corporate governance matters—notably in support of "say-on-pay" and of proxy access rights for shareholders.

There is little dispute about the need for some regulation. For the most part, regulations emerge from the political system in an attempt to solve festering social and economic problems. In many cases, the alternative to regulation is to leave those problems unresolved or to throw them open to market solutions which might not be forthcoming. Nevertheless, imposing solutions to social problems through regulation of corporate governance creates its own difficulties. Most corporate leaders would prefer to have the leeway available to address these problems with a relatively free hand and thoughtful, not onerous, regulation. As it is, they are confronted with complex, burdensome rules that in many cases create business uncertainty initially as regulatory bodies consider rule proposals and become costly to implement later when adopted.

Poorly designed regulation, regulation that reduces rather than enhances competition, or regulation that adds significant costs is likely to hamper the economy, often by stifling innovation or expansion of capacity and hiring. Among the immediate effects is an increase in the time and effort boards, managers, and staff must devote to externally imposed mandates. Too frequently regulation results in time-consuming and costly conformance activities that end in unsubstantial results. Measuring either the amount of time companies and boards spend on activities imposed by regulation or the effects of

that time on intended outcomes is difficult. We know of no reliable measures, but based on anecdote, experience, and the frequency of complaint, we have little doubt that companies and boards spend too much time meeting mandatory requirements relative to time spent on core business concerns or other issues that may be just as socially important as those being regulated.

The Dodd-Frank Act, for example, adds a variety of corporate governance and disclosure rules, ranging from concerns about executive compensation to mine safety and "conflict minerals."[12] These may be important concerns—important enough to warrant the enactment of legislation. Nonetheless, the potential for unintended consequences, by directing boards to focus attention on an enumerated list of concerns, is high. Although the SEC only adopted a final rule implementing the Dodd-Frank mandate on conflict minerals in August, 2012, the compliance headache for corporations potentially affected by the rule had already started. Like other well-intentioned mandates, the requirement to report on the use of certain minerals may appear to be relatively benign. It is anything but easy and costless. Companies must dig deep into their supply chains to develop the information needed, and early adopters report their efforts are time and resource intensive. The SEC itself estimated that the initial cost of compliance could be as much as $4 billion while ongoing compliance costs could add up to $600 million annually.[13]

Shareholder activism on social policy. Corporations are buffeted on all sides by shareholders who have complaints about: executive pay, dividend payouts, stock buybacks, special shareholder meetings, classified boards, poison pills, independent chairs, environmental sustainability, worker discrimination, political contributions, and more. Many of these complaints now find their way into shareholder resolutions as a vehicle for communication.

Without judging their merit or relevance to the competitive status of the corporation, such advisory resolutions take precious time and effort away from other pressing problems. (In economic terms, they have an opportunity cost.) Some boards value shareholder feedback and welcome their engagement. Fewer like having their agenda dominated by issues that may, when introduced, be peripheral to their core concerns. It can be especially irksome when such issues are prompted by proxy advisory firms and others with indirect interests that appear to be applying pre-conceived, one-size-fits-all solutions to complex, company-specific problems, or when resolutions appear to be driven by political concerns and the desire to generate publicity rather than to add value to the corporation. Shareholder activism on environmental, social, and governance (ESG) issues has steadily increased in recent years. More investors focus on so-called responsible investing as a way to do public good and enhance investment returns. More companies are also becoming responsive to ESG concerns as the link between good corporate citizenship and long-term business imperatives is more apparent.

One issue that has drawn investor attention is "fracking," Fracking is the common term for the process of hydraulic fracturing which allows greater extraction of oil and especially natural gas. It is an example of how public policy failures affect corporate concerns through shareholder resolutions. In 2011, fracking was the subject of nine of

the 109 shareholder resolutions filed with companies on environmental issues; that number then doubled to 18 the following year; although resolutions receded to 5 in 2013.[14] These resolutions generally call for the board to prepare a report "on the short-term and long-term risks to the company's operations, finances and gas exploration associated with community concerns, known regulatory impacts, moratoriums, and public opposition to hydraulic fracturing and related natural gas development."[15] They go on to note that: "The use of hydraulic fracturing in natural gas drilling has become highly controversial. Proponents are concerned about regulatory, legal, reputational and financial risks associated with the environmental, health, and social impacts of fracturing operations."[16]

This issue is clearly important to the corporations, their shareholders, affected communities, and others associated with it. We do not dispute it. The point of this example is simply to illustrate how unresolved societal problems and distrust of both corporate and governmental leadership affect corporate agendas. That point is very ably made by Mindy Lubber, president of CERES (a nonprofit coalition of investors and other public interest groups concerned about the environment) and director of the Investor Network on Climate Risk (INCR). With regard to the filing of the18 shareholder resolutions on fracking in 2012, Ms. Lubber was quoted as saying, "The common thread of these resolutions is stronger management focus on environmental and social challenges that will have real bottom line impacts. These investors are telling companies they expect to see real progress on climate change, clean energy and other sustainability fronts, *despite the policy paralysis in Washington*."[17] (emphasis added)

Summing up, these three cases illustrate just a few of the societal pressures affecting corporate decision makers. Two paradoxes are apparent. The first is embedded in the public's attitude toward corporations. While some members of the public register their distrust of corporations and corporate leaders, others (or perhaps the same ones) appear to want businesses to take action to solve local, national, and international problems at least in part because government is not doing it.

The second paradox concerns business leaders' attitudes toward societal and public-policy issues—issues they often view as "non-business" or "not within our control." Most business leaders would like to see these issues solved in the public sphere rather than through shareholder resolutions, in the boardroom, or through business operations. But public perceptions, including perceptions about ethics, integrity and 'the purpose of business' can have real effects on the business itself and on shareholder value. While one might like to segregate societal concerns into a "non-business" box, in truth they are a business concern because they can affect the environment in which the business operates and, hence, its bottom line. And they are subject to influence, if not control, by business leaders.

In today's communication-intensive, networked society, no bright line marks the boundaries of public and private concerns. And no clear path demarks the optimal balance between short-term and long-term considerations. Societal issues are not solely in the domain of public policy. They are part of the environment in which business

operates and, therefore, they are issues for the private sector as well. Although businesses may not be able to solve societal problems, they have to operate in an environment where such problems exist and businesses are expected to be part of the solution. Whether business takes a proactive or reactive stance, these issues affect them.

There is a third paradox, albeit less apparent to some. Businesses must earn profits to stay in business; they are neither charitable organizations nor agencies of government. There is no 'long term' if a business cannot make enough money to survive the short term. Although profit is a core driver and measure of success, a company should be able to state its value proposition in terms other than "to make a profit." A manufacturing business, for example, might strive to produce an outstanding product to satisfy its customers. Of course, it must sell its product at a price and cost structure that yield a sustainable, fair return. (See Box 1.)

Box 1. On Profits

Should profit be the primary corporate goal? Surprisingly, at least to some, the answer is "no." As with many such questions, the answer depends a lot on definitions and meanings that go beyond the obvious. In the simplest terms, a corporation must make a sustainable, fair return to stay in business. So, yes, profit has to be a goal. However, two caveats are important.

First, in a strong business model profit is a measurable outcome of success, not just the goal of the business. A company's value proposition must appeal to its customers. And, the business must develop its talent, satisfy its suppliers, and meet a host of additional objectives. Ultimately, revenues must exceed costs or the company will go out of business.

Second, the goal of profit should be stated more fundamentally as a goal of "*sustainable* profit." The hardware store that raises the price of shovels after a snowstorm would make a quick profit. But it would not make sustainable profits, or even be in business for long if consumer outrage sparks a boycott or another form of retaliation based on "unfair" practices—a view held by 82 percent of respondents to a survey question on this subject.[18] A flow of sustainable profits translates into an increase in capital, or net assets, as shown in the company's balance sheet. (In principle, the company's capital equals the net present value of discounted future profits as an accounting identity.)

In sum, many corporate managers, boards, and shareholders appear driven by the short-term pursuit of profit. Our view is that a long-term, more nuanced approach to profits and the goals of business would benefit all concerned.

Having discussed some significant problems facing business and society, we next explore some better ways to move forward.

What Can Be Done To Promote a More Sustainable Capitalism?

Many observers and practitioners have concluded that the best approach to this new business/societal environment is for corporate leaders to become less cautious and more engaged with finding solutions to America's societal problems, in particular the broad economic problems that have paralyzed government. The sooner business leaders see the societal issues they confront as challenges to be managed just as other challenges are managed, the better for all. Improvement in the political and societal realms will yield improvement in the overall business environment and, therefore, innovation, growth and prosperity.

Business leaders have a choice about whether to be proactive or reactive in response to various potential risks. For example, a 2012 survey by the Conference Board asked business leaders about their strategies to meet concerns about certain current economic challenges. When asked how they would respond to risks of government regulation, for example, responses emphasized active policies to "increase lobbying" and "engage with others" to influence the regulatory agenda. But when asked about global political and economic risk, responses were to "implement contingency plans," "establish crisis management," and "reduce exposure"—all reactive responses.[19] Although these situations may not be parallel (one domestic and one global), they indicate that strategy is a choice.

A strategy of societal engagement and business statesmanship. It almost goes without saying that business success is primarily measured in the marketplace. Successful businesses produce cash from the sale of products or services that yield returns above costs. They employ workers directly or indirectly through suppliers, and they are able to reward investors through dividends or stock appreciation. The success of any business starts with a successful business model, aligned stakeholder interests, and successful leadership. In the discussion below, we take this as given.

With respect to public companies, a critical step would be to change how shareholders, board members, CEOs, and other top executives view their missions Business leaders may want to reconsider the concept of strict shareholder primacy—the idea that corporations must be run for the *sole* benefit of shareholders. All shareholders are not alike; their interests differ, especially between short-term traders and long-term investors. The notion of shareholder primacy should be reevaluated and broadened to consider the corporation's societal impact and the interests of other stakeholders—customers, employees, suppliers, bondholders, and community.

There is no legal or fiduciary requirement that either boards or management operate a corporation solely to maximize share price or, as it is known, shareholder value. Moreover, the dimension of time is a critical aspect of what it means to "maximize shareholder value." While directors have a fiduciary duty to the corporation and shareholders under the corporation laws of many states, the law has evolved to allow broad discretion under the business-judgment rule to consider "any rational business purpose." Directors have no obligation to focus on short-term returns at the expense of

long-term value. Pushing up the price of corporate shares in the short run might not be the same as, or even consistent with, maximizing share value in the long run. Long-run value may, in fact, be dependent on the state of the society, the quality of the workforce or environment, or other factors which would not necessarily figure into a short-term calculus. The board and management should consider how to run the corporation for long-term value and sustainability that is furthered by factoring in societal imperatives. They should consider how customers, employees, suppliers, bondholders, and community enhance long-term sustainable value. Shareholders should encourage such actions because they understand that their interests are tied to long-term value creation.

We remember fondly leaders such as Reginald Jones, former Chairman and CEO of General Electric, who mentored some of us and knew the value of taking a broader view of business leadership. Jones' 1972 speeches to the Business Roundtable and the National Press Club stated clearly what business leaders of his day understood about leadership. In those speeches, immediately after being appointed CEO, Jones said that henceforth he would "view his responsibilities as being evenly split among the company and its employees, American industry, and the nation."[20] Others of that era gave similar speeches and followed similar principles. Notably, the Business Roundtable (BRT) then endorsed the view that "managers of corporations are expected to serve the public interest as well as private profit."[21] The BRT stance on shareholder value is a good reflection of the times. It has gone through several periods of change, mirroring then-current thinking. Today it emphasizes long-term shareholder value while recognizing that the path to successful financial performance demands recognition of the critical role of other stakeholders and civic responsibility. (See Box 2).

Box 2. Business Roundtable Views on Shareholders and Other Constituencies

In 1981, it was fairly conventional among business leaders to view their role as serving the public as well as private interest. Like many others, the Business Roundtable (BRT) endorsed that viewpoint.* As the notion of shareholder primacy gained ground in business circles, the BRT also changed its stance on the issue, and by 1997 the BRT's "Statement on Corporate Governance" declared:

> …the paramount duty of management and of the board of directors is to the corporation's stockholders; the interests of other stakeholders are relevant as a derivative of the duty to stockholders. The notion that the board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors.**

The current BRT stance on shareholder value attempts to balance conventional present-day thinking on shareholder primacy with a more nuanced recognition of the critical role of other stakeholders, ethical conduct, and public responsibility:

> Corporations are often said to have obligations to shareholders and

> other constituencies, including employees, the communities in which they do business and government, but these obligations are best viewed as part of the paramount duty to optimize long-term shareholder value. Business Roundtable believes that shareholder value is enhanced when a corporation engages effectively with its long-term shareholders, treats its employees well, serves its customers well, fosters good relationships with and appropriately oversees its major suppliers, maintains an effective compliance program and strong corporate governance practices, and has a reputation for civic responsibility.***

The challenge for business leaders today is to follow through in deed as well as prose on this more encompassing view. Although some might differ on what constitutes the corporation's "paramount duty," we agree that acting in the manner currently advocated by the BRT would be in the best interest of the corporation and enhance long-term shareholder value. As important, it would benefit the very society that fosters corporate business and further secure such business' social license to operate.

* Business Roundtable, Statement on Corporate Responsibility (1981).
** Business Roundtable, Statement on Corporate Responsibility (1997).
*** Business Roundtable, Statement on Corporate Responsibility (2012)

What Jones and others recognized was that one cannot make a corporation successful in the long run—or achieve sustainable capitalism—by treating workers, customers, suppliers, and the nation as low-order responsibilities. Long-run success depends on recognizing that short-term encounters are not one-off events, but rather a series of continuing relationships where what happens tomorrow will depend a lot on what happens today. If all decisions are made solely for the short-term benefit of those who provide capital—shareholders—then at some point other critical players—customers, workers, and so on—are likely to disengage and walk away from the enterprise. The same is true of the nation as a whole.

CED often uses the term "business statesmanship" to describe the kind of thinking and behavior that recognizes societal health as part of what it means to be a business leader. (See Box 3.) A prime goal of business statesmanship, in our view, should be to strengthen the fabric into which society and business are interwoven. We view that type of societal engagement, for example, speaking out for the common good on key public policy issues of the day, as a distinct trait, though often occurring in combination with other business leadership attributes such as showing a long-term commitment to the enterprise through the integration of economic, social, and governance (ESG) concerns about sustainability and ethical integrity. Substantial research shows that measures of business performance are correlated with a company's performance on ESG measures.[22]

Box 3. CED Honors Business Statesman

One way to illustrate the meaning of the term "business statesmanship" is by reference to the group of leaders CED has honored since 2005 with its *Peter G. Peterson Award of Business Statesmanship.*[*] This award "recognizes corporate executives who champion issues in the interest of the public good, rather than just their company's or personal interests, and who hold themselves to the highest standards of ethics and integrity."[23]

The *Peterson Award* was prompted in part by a 2005 *Newsweek* article authored by Peter G. Peterson, who cogently asked: "Where have all the corporate statesmen gone?...Why [do] so few in the business community speak out about our soaring budget deficits, our unprecedented trade and current account deficits, our plunging savings rates, and our dysfunctional dependence on foreign capital?"[24] In that article, he recognized a "tiny bipartisan band of business leaders led by Paul Hoffman of Studebaker Corporation, Bill Benton of Benton and Bowles, and Marion Folsom of Eastman Kodak [who] formed the Committee for Economic Development."[25] The *Award* is intended to demonstrate that those business leadership traits still exist today.

[*] Awardees are: Jeffrey Immelt (GE) 2005, Andrea Jung (Avon) 2006, Ian Davis (McKinsey) 2007, James McNerney (Boeing) 2008, A.G. Lafley (Procter & Gamble) 2009, Indra Nooyi (PepsiCo) 2010, David Cote (Honeywell) 2011, and Alan Mulally (Ford) 2012.

The difficulties of business statesmanship. Most business leaders and other observers say that being a business statesman is more difficult and less appreciated than it was 30, 40, or certainly 70 years ago. Running a large, modern business is more complicated than it used to be, especially with respect to the expectations imposed on corporate leaders. The complexities of different national cultures, laws, capital and labor markets, among other factors circumscribe the job of CEO and leave him or her with many tasks and few degrees of freedom.

To paraphrase one current CEO:

> I've been very vocal in the past on issues of public health policy, but I've concluded that it's not worth the effort and carries risks for the firm.
>
> The ability to engage in public dialogue on policy issues is much less today than it was a decade or two ago. The job of CEO is far more demanding that it used to be. Because of scandals, regulation, and (frankly) better corporate governance and oversight by directors, shareholders, and others, the CEO is monitored more rigorously than ever before. Time is the first constraint, and CEOs must be incredibly focused on our companies, our customers, and our shareholders.
>
> Another factor is the current polarized political environment, both in Washington and among the media. As the media has become more

> polarized, it has become more argumentative and less rewarding to discuss urgent policy questions on cable news, including business news. More disturbing is a retaliatory attitude among regulators and elected officials. Members of Congress, for example, never let us forget that we "helped" the other side and will now have to pay. Some of the meetings I've attended in DC in the past year have been truly unbelievable in the degree of retaliatory rhetoric.[26]

Such testimonials, which are heard frequently, provide a powerful, pragmatic reason for a CEO to stay out of the public arena. At the same time, they provide an equally powerful reason why CEOs should speak out forcefully. First, the CEO's voice is needed in the public square. How will the nation regain civility in public discourse if its business leaders drop out of the conversations? Second, the policy issues that CEOs can credibly talk about are those that most directly affect the long-term health of their companies, including the nature of the markets they serve, the availability of well-trained workers, and the general economic and social environment in which they operate. Thoughtful membership organizations such as CED provide important forums for business leaders to think creatively about solutions to the nation's most pressing problems and to amplify their voices by building consensus and speaking as one.

It is understandable that business leaders are reluctant to jump into such a morass of problems. But such reluctance is actually at odds with their responsibilities to protect and develop their businesses. Many of America's CEOs are active participants in lobbying throughout the political system for laws and regulations directly favorable to their own circumstance. And many are willing to take a more expansive view, for example by actively seeking to improve educational performance and worker training, which determine the quality of the labor force and the pool of talent available to business. The societal issues for which we seek business engagement are no less important to a business' success.

Certainly, CEOs would be well advised to stay away from overtly partisan political issues, for example in the realm of social issues and individual rights. CED has been a long-time champion of the principle that corporations should not be engaged in electoral politics. They should compete in the market arena, not the political arena. There are too many recent examples of companies that have put themselves into trouble with shareholders, workers, and customers by wading into highly partisan issues.

CED's goal, and the goal of this paper, is to change the environment in which businesses operate, to make it an asset rather than a liability to have a leader willing to engage in critical public policy discussions. We hold no illusions about the difficulty of achieving this goal. As the above quote shows, many incentives push CEOs today in the opposite direction. It takes an exceptional leader who is secure in having the backing of his or her board and shareholders to feel able to speak out on public issues. That is one reason why our focus is on the entire corporate ecosystem—shareholders, boards, managers and stakeholders—as on CEOs. Without strong support from others the CEO cannot have a forceful voice in the public arena.

Normally, when the nation's governance system operates as it should, one would expect business interests to be confined to narrower topics of immediate concern to the performance of the enterprise. But we are not now in normal times. Business in America retains an influential voice and could be using it more effectively to help solve the nation's critical problems, for example by endorsing efforts to address the accumulation of public debt. (See Box 4.)

Box 4. Fiscal Health and Business Leadership

CED's current campaign on "fiscal health" is a good example of what business leaders can do and how they can make a difference. CED's endorsement campaign on fiscal heath seeks to demonstrate business' anxiety about the danger of large government budget deficits and public debt through a statement of concern. The goal is to "tell Washington in a clear, nonpartisan voice that the business community and the public at large recognize this challenge [of deficits and debt] and accept that difficult steps are required."[27] A key demonstration of the seriousness of this challenge and of the role of business leadership is found in the following portion of the statement:

"As leaders in the business community, we expect to share the effects of reductions in public programs or increases in taxes – or more likely, both. We do not seek sacrifice for its own sake. But we – and we believe all Americans – are prepared to contribute our fair share to make our country sound, secure and strong again. What is good for America is good for American business."[28]

An essential step is to do more to educate shareholders and other stakeholders about the value of long-term, sustainable business growth. As PepsiCo's Executive Vice President, General Counsel and Corporate Secretary Larry Thompson has put it:

> We must induce both investors and managers to shift their perspectives to consider more than just the immediate bottom line of the next quarterly earnings report, to envision socially responsible, sustainable corporate performance and to work toward it. Investors need to be shown the financial advantages of sustainability and managers need to be given financial incentives to overcome their addiction to short-term results. The former requires the promotion of metrics that measure sustainable performance and thereby reveal to investors the value of companies that pursue performance with purpose; the latter requires changing the formula for compensating company executives to relieve them of a perverse incentive structure.[29]

Educating Markets -- Will Shareholders Permit More Business Statesmanship?

We hold no illusions that shareholders will suddenly be disinterested in quarterly results or that they will pay more attention to the character of the CEO and his or her engagement with societal and national economic issues than to earnings per share announcements. We do believe, however, that markets can be convinced of the value of

business statesmanship and of a longer-term, sustainable approach to management and corporate governance. Change is possible; it has happened before.

We see three interrelated pathways by which change can occur: by example, by generational change, and by developing a new narrative about the role of business in society.

Leading examples. Capitalism operates through self-correcting mechanisms, and leading corporations are starting to compete by embracing and experimenting with various methods to create a more stable and sustainable place for themselves in the future. These efforts of visionary business leaders are significant. If leaders gain some advantage, competition should push others to follow.

Some shareholders also have already demonstrated that they prefer to invest in corporations that demonstrate good corporate citizenship. Some leading public and private pension funds, which view themselves as "universal owners," have been at the forefront of efforts to promote sustainability and corporate engagement. A greater number of patient and visionary shareholders (investors rather than traders) would help enable CEOs, other corporate leaders, and boards to pursue long-term strategies, social engagement, and leadership.

Generational change. Change is difficult and typically happens slowly. In business, it mainly occurs generationally, as one age cohort replaces another. The available evidence is that the younger generations entering the workplace are more attuned to societally engaged businesses and more attracted to such businesses when searching for work. The so-called "Generation Y" (Gen Y), or the Millennial Generation, has been brought up in the age of digital technology and globalized, networked communications. Their attitudes towards business have been influenced by the boom-and-bust cycle of the last decade. They are very attuned to the world around them. For example, a recent survey by Deloitte concluded that the Millennial Generation's message is that, "the success of business should not be measured on profit alone and that the purpose of business cannot be defined in purely economic or financial terms."[30] In addition, "Over 50% of Millennials believe that the purpose of business is primarily innovation and societal development."[31] "Changing the world for the better" and "progress" also ranked high.

There was an encouraging note in the Deloitte study of global Millennials. Seventy-one percent of business leaders surveyed agreed with the Millennials in rejecting profit as the sole measure of business success. However, "profit" was the top response by business leaders to the question of the purpose of business, followed by "value," "society," and "employment."

New narrative. Change usually depends on the establishment of stories that demonstrate the benefit of a preferred set of values. Increasingly, business leaders, academics, and national business organizations, such as CED, are telling a more compelling story about the purpose of business and its role in society.

Some of these narratives, like Leo Hindery's *It Takes a CEO: It's Time to Lead with Integrity*, take book form.[32] Others, including previous CED statements, are shorter reports that are directed at individual parts of the issue.[33] Some are embodied in ongoing programs, such as the Aspen Institute's Business and Society Program, whose purpose is to create "opportunities for executives and educators to explore new routes to business sustainability and values-based leadership."[34] It helps to start with a clear, concise and easily understood statement of the role of business in society.

As noted above, a significant stumbling block is the widespread belief in a blinkered view of shareholder primacy, which is focused on short-term financial success rather than longer-term sustainable value. There are, however, many individuals and organizations that have been developing ideas and proposals which counter this conviction. CED has partnered with likeminded organizations such as the Aspen Institute, the CFA Institute, and the Business Roundtable Institute for Corporate Ethics, all of which have produced important documents on this topic. Probably the most detailed set of proposals is found in the *Aspen Principles for Long-Term Value Creation*: *Guiding Principles for Corporations and Investors*, and in CED's report, *Built to Last: Focusing Corporations on Long-Term Performance*.[35] The three major headings of these several principles are: define the metrics of long-term value creation; focus corporate-investor communication around long-term metrics; and align company and investor compensation policies with long-term metrics. These principles, and their several sub-parts, provide a strong foundation for further action, and have been endorsed by a number of corporate leaders, institutional investors, and supporting organizations.

The challenge of change. At a fundamental level all of these pathways operate through a change in culture. But culture changes very slowly. Individual actions of leaders who recognize both the advantages and the need for change are important, but the fragmented efforts of individual leaders to better their companies' long-term performance may not be enough, or fast enough, to put American business as a whole on a stronger foundation. Generational change, by its very nature, will happen only as the older cohort is replaced by the younger. And the spread of a new narrative needs business leaders who can talk credibly and convincingly about their experiences and the role of business in society. While many of those leaders exist (and many are members of CED), too few at present are willing to step out publicly to define and promote sustainable capitalism.

The question before us is how to create change that is faster and more systemic.
How can we help create (and reinforce) an environment that rewards performance based on hard-headed economic calculation within a culture of integrity and concern for systemic and social consequences of individual decision making?

More Remains to Be Done – An Action Plan

This paper is but one step along a difficult path that is intended to stimulate change within the U.S. business community and the country more broadly. Some suggestions are embedded throughout this report:

- We encourage America's business leaders to take a more expansive view of their responsibilities, to be more socially aware, and to practice what CED calls business statesmanship—recognizing that business leaders can promote societal health by engaging in and speaking out for the common good on key public policy issues of the day. A prime goal of business statesmanship is to strengthen the fabric into which society and business are interwoven.

- Business leaders are well-positioned to address key concerns about business short-termism, ethics and integrity, and (unfounded) suspicions that most business executives put their personal gain ahead of their responsibilities to others. They also are positioned to help the nation address its most pressing economic and societal problems. Enlightened business leaders recognize that business conditions cannot be healthy when the political system is incapacitated and dysfunctional.

- The board and management should consider if they can run the corporation for long-term value and sustainability by factoring in societal imperatives and balancing the needs of all constituencies.

- Business in America has an influential voice that can be used to help solve the nation's critical problems, for example by endorsing efforts to address the accumulation of public debt.

Our action plan supports further consideration of these issues by:

- Using this report to open discussion with market participants, from shareholders to boards to CEOs and other corporate executives, about actions they could take to integrate good corporate performance with good stewardship and statesmanship. Such actions start with a strong business culture that establishes leadership, credibility, trust, shared attitudes, traditions, and values.

- Connecting with the next generation of business leaders. We intend to engage this generation both where they are training in business schools and where they begin their careers in corporate management.

- Continuing CED's own efforts, whether singly or in concert with others, to promote business statesmanship. CED's annual *Business Statesmanship Award* is an opportunity to highlight business leaders and tell the stories of their civic engagement and stewardship of societal health. CED also will continue to engage other organizations that seek to promote business statesmanship, the business/society nexus, and the need to replace short-termism with long-term value creation.

This paper is the first in a series of reports CED will develop leading up to our 75th anniversary in 2017. Following the American Assembly, scheduled for fall 2013, CED's research work will focus on issues generated by that Assembly and related corporate-governance topics. We are, in particular, interested in positive role models in business today and how businesses can better communicate their accomplishments to shareholders and the public in general. We also intend to continue to pay close attention to national problems stemming from: growing federal debt and sluggish economic growth; declining educational achievement and a labor force mismatch to the skill needs of business; the need to improve America's global competitiveness; and support for democratic institutions.

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