



IS CORPORATE CAPITALISM THE BEST WE'VE GOT TO OFFER?

MICHAEL SCHLUTER



Relational
Research

Book Summary



This book helpfully analyses some of the history and current thinking on the development of the stakeholder-inclusive approach and how that can be achieved, and contributes to the debate on the purpose of a company. It also explores how the instability of corporate operations can be traced to a lack of human connectivity in the networks surrounding companies and which can be addressed in terms of mutual knowledge, alignments of interest and perceived fairness.

Professor Mervyn King SC

This book offers us a possible way forward for business, not merely by suggesting solutions to particular issues, but by inviting us to see the problems in a different way. It deserves to be widely read and considered.

Richard Godden, Partner, Linklaters LLP

A fascinating book. For me the core sentence is ‘not approaching the human being directly but rewire national society through strategic and structural reforms’. It asks people to think very differently about the fundamental role of relationships in helping individuals and societies to flourish. It raises the question of whether it is necessary to address not only the relationships but, more importantly, the conditions in which they will thrive.

Professor Gillian Stamp MBE, Director, Bioss the Foundation

Corporate leaders everywhere are grappling with the challenges presented by the requirements of stakeholder responsibility. Most want to do the right thing, but the inherent fuzziness of these obligations, and the temptation to manipulate them for self-interested reasons, often lead to undesirable outcomes. This book presents a coherent framework which enables leaders to confront those challenges on the basis of clear principles that are designed for the 21st century economy.

*Lindsay Tanner, Former Federal Minister for Finance and Deregulation,
Federal Government, Australia*

The main thesis of the book

Stakeholder relationships

The crucial importance of stakeholder relationships is now widely recognised. However, in practice, global companies rely not just on face-to-face interaction with their stakeholders but on digital communication with their networks, for example, with global supply chains and complex interconnected groups of suppliers and customers. So effective relationships in these huge networks are crucially important, which depend in turn on the human connectivity of these networks.

The key issue for increasing public acceptability and financial stability of Corporate Capitalism is the need to realign corporate stakeholder relationship priorities which currently give excessive attention to the interests of shareholders. These interests are prioritised over the interests of all other major stakeholders who are impacted by the organisation's values and behaviour.

Transforming Corporate Capitalism

If we are serious about transforming Corporate Capitalism, we need to start by looking at how these systems connect us as human beings. This is especially important in periods of a global pandemic, or political, environmental or financial turbulence.

At the same time, the purpose of companies needs to be redefined to ensure the financial sustainability of the business, and that the four major stakeholders – employees, customers, suppliers, and shareholders – as well as local communities and the environment are all given equal consideration in directors' decisions.

In the absence of the above, much of institutional apparatus embodied in Corporate Capitalism today is unfit for purpose because it is blind to the way such connections actually work. In today's global society, few relationships are personal. Instead, we are linked *en masse* through vast, complex networks (financial, political, social, digital) whose shape and rules of engagement exert a powerful influence on behaviour while being, wholly or partly, beyond individual control. How we treat one another at a global level, and how effectively we cooperate in social and environmental crises, is to a significant degree a question of particular behaviours which these mass links incentivise or, contrariwise, disincentivise.

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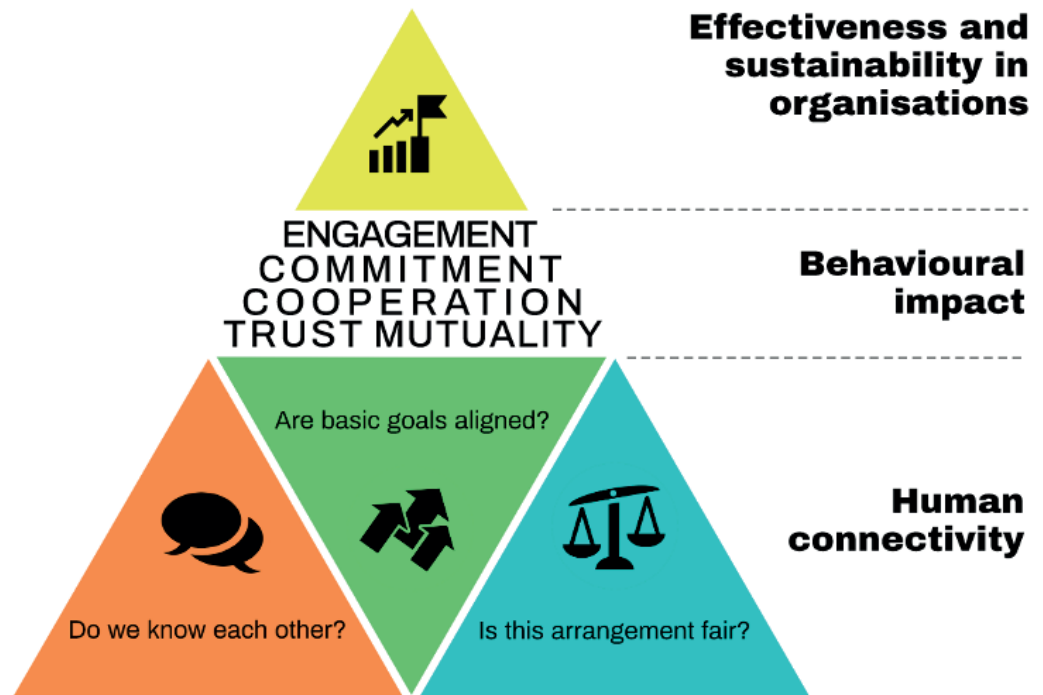
The major challenge facing us is not ethical: rather it is to design companies, markets and government in such a way that the pursuit of wealth, justice and sustainability are not incompatible.

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Human connectivity within networks

Numerous studies have explored the connection between organisational effectiveness/sustainability and prosocial behaviours – engagement, commitment, trust, cooperation, and mutuality. But these behaviours do not exist in isolation. They are fostered by a property inherent in the networks out of which markets, companies and governments are constructed – namely, human connectivity.

The book’s core model is shown here:



The impact of strong connectivity for companies

Even in a network with millions of members, we can ask three key questions of its constituent individuals or stakeholder groups:

1. Do they know each other? How far does the network embody direct, durable, diverse interaction, including necessary information flows?
2. Are basic goals aligned? How far does the network embody a congruence of values and goals, including rules governing competition?
3. Is this arrangement fair? How far does the network embody a balance of fairness for all parties, including future generations?

The concept of relational instability

The better a network connects its members, the stronger and more effective their cooperation is likely to be. Conversely, if barriers to transparency mean people are insufficiently present to one another, if the network fails to align their goals, and if the arrangements binding them together are perceived as unfair, the network itself will tend towards weakness, conflict and disintegration. The relationships it creates will not sustain it. It will be relationally unstable.

At present, Corporate Capitalism does not ensure that the interests of all stakeholders are properly considered in strategic decisions, nor that stakeholder relationships and their wider network relationships have the necessary relational stability, and thus the resilience which is required for financial sustainability – and which in turn undergirds national political stability, especially in democratic societies.

The need for relational stability forces us to ask the question: What is this company here to do? Like it or not, a company relies on the effort, resources and goodwill of a diverse group of stakeholders, all of whom have at least a moral claim on how this accumulation of financial power is used. The particular construction of the listed company, with its implicit bias to shareholders, has introduced relational instability with widespread and sometimes conflicting effects. It requires closer examination.

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A relationally unstable company will be less resilient to the kind of shocks that are increasingly part of the global landscape in which companies have to operate.

Business and relational instability

The evidence

In a business context, the evidence of relational instability makes for familiar reading: corporate scandals, excessive director pay, industrial disputes, worker disengagement, short-termism, careless practice, harm to the environment, fraud, tax-evasion, and reputational damage.

The response

The reflex response is to blame dysfunction on individuals – the rogue director, the pressurised manager. But in the context of weak human connectivity, destructive behaviours in a company are not simple ethical failures. Rather, they are catalysed by institutionally-embedded rules and structures that weaken human connectivity between key stakeholders – directors, employees, communities, suppliers and investors.

A source of risk

There are three reasons why business should treat relational instability as a source of risk.

First, because relational instability impacts directly on key aspects of company performance, including employee motivation, productivity, cost-effectiveness, profitability, quality of service, reputation, brand value and ultimately share value.

Second, because a relationally unstable company will be less resilient to the kind of shocks that are increasingly part of the global landscape in which companies have to operate.

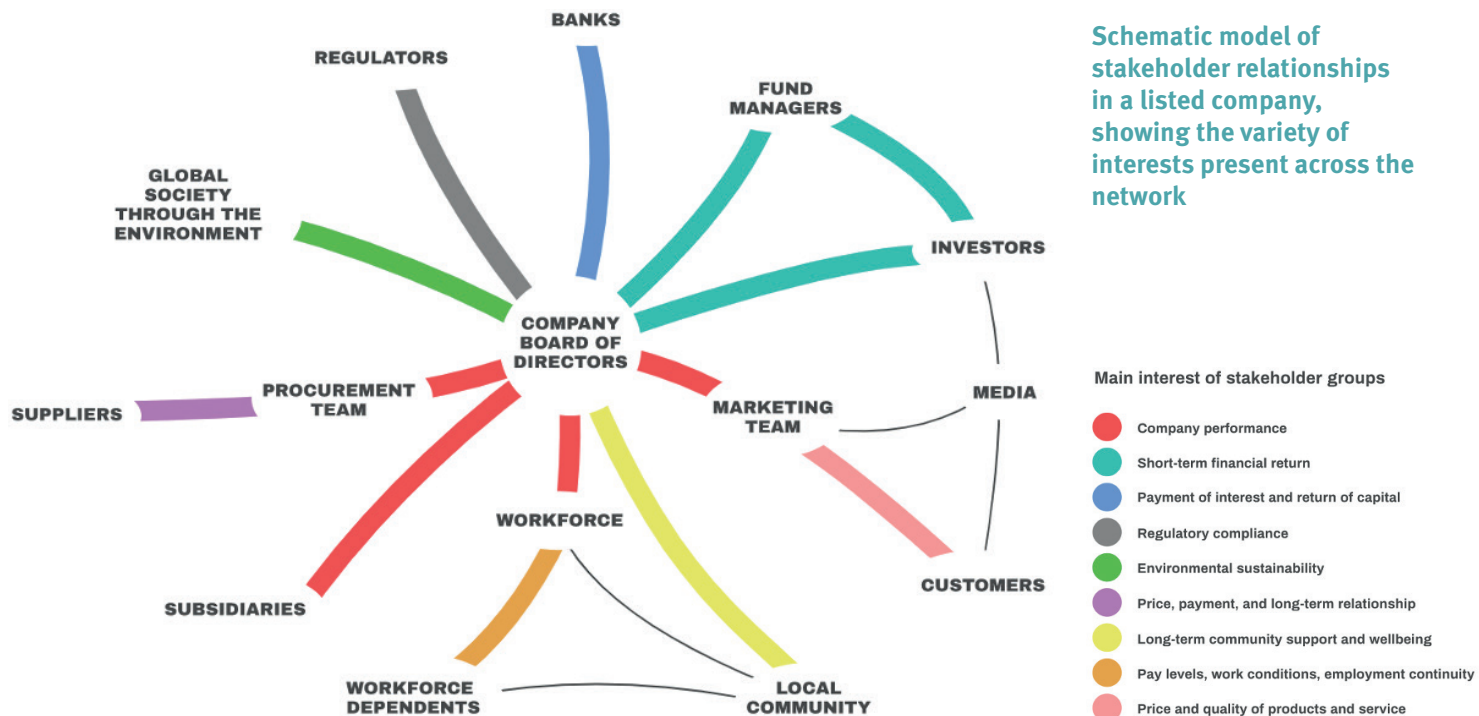
And third, because relational instability is more than a vague intangible: it can be measured.

Mitigating relational instability

A detailed plan for mitigating relational instability through a Relational Stability Strategy takes up the middle section of the book. The first and essential part of this strategy is to redefine the purpose of a company as ‘to serve society through long-term value creation in the interests of all its major stakeholders, while honouring wider responsibilities to local communities and the environment’.

This is not about tick-box compliance with ESG (Environment, Social, Governance) criteria, currently measured in ways which are contradictory rather than coherent, but about the cultural and operating environment that companies establish across their entire networks of stakeholder relationships – how much mutual knowledge exists; how well-aligned are their objectives; and whether all those involved in the network can say that its arrangements are acceptably fair.

Any and every business can build relational stability, whether or not it is listed on one or even on multiple exchanges, and examples are given of companies, among them major global corporates, who have successfully implemented, even if in a fragmentary way, some of the measures that this book recommends.



Primary institutions (like markets), and primary financial arrangements (like limited liability), have been designed in such a way that wealth creation and social-environmental responsibility quickly come into conflict.

Relational instability and public policy

Repurposing capitalism

The years since the economic crisis of 2008 have seen a surge of initiatives designed to leverage concern and goodwill both among company directors and the fund managers who influence them (for example, B Corporations, Responsible Business and the Good Business Charter).

In attempting to repurpose capitalism, the problem that such initiatives face is that they do not take into account the fact that relational instability in companies is intimately linked to relational instability in surrounding political and social structures. These include core philosophical foundations that enable both individuals and societies to flourish.

The role of government

In the corporate world, this means that we need to recognise that primary institutions (like markets), and primary financial arrangements (like limited liability), have been designed in such a way that wealth creation and social-environmental responsibility quickly come into conflict. More widely, the design triggers a range of negative feedback loops affecting the national interest, including the gradual erosion of social support systems, a decline in tax-paying working-age populations, budgetary strains on welfare and healthcare, political polarisation, and systemic risks incurred by debt-burdened consumers, companies, and nations.

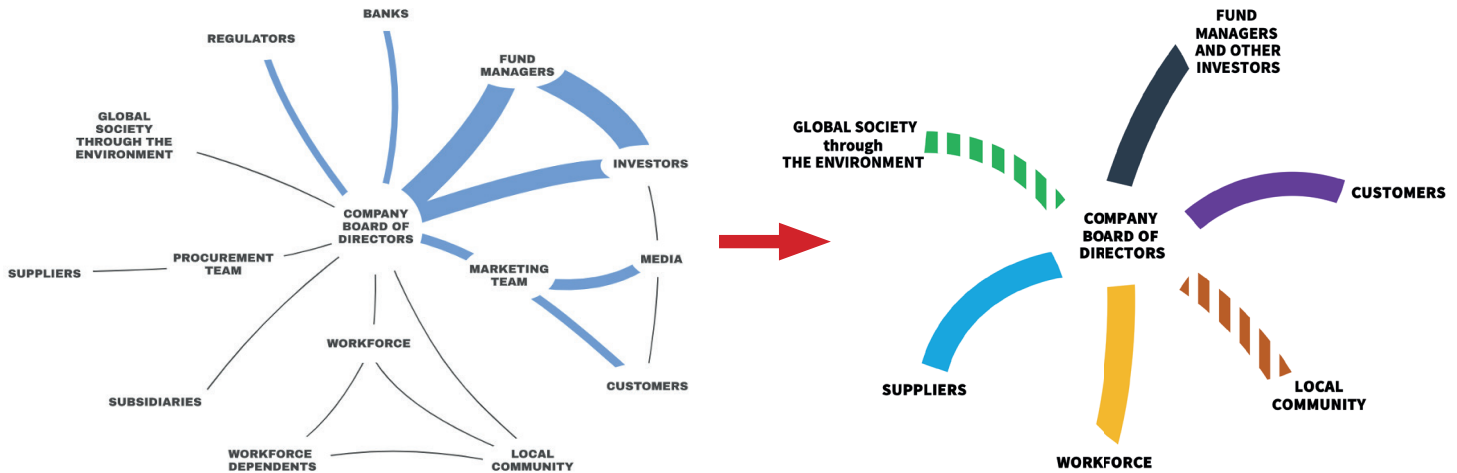
For these reasons, the concluding section of the book examines the role of government in tackling relational instability not just in companies but across society generally. Here are three of the key contributions of this section:

- providing a language with which company directors, investors and government together can navigate an increasingly challenging phase of social change
- enabling a systemic approach to social and environmental problems which are to a large extent secondary effects of relational instability in economic, political, and digital networks
- drawing attention to the incentivising power of networks, and therefore helping

to shift reliance away from trying to turn business and political leaders into ethical pioneers, towards establishing the preconditions for ethical behaviour in systems and infrastructure.

Looking to the future

In the end, both capitalism and democracy are relational constructs. That is, they arrange sets of stakeholder groups – some of them very large – in particular configurations; and each construct creates rules, customs, and protocols around those configurations, by which the resulting mass relationships are organised and managed. Neither Right nor Left has paid much attention to the way such networks operate. Doing so now may be the key to a globally sustainable and prosperous future.



MAXIMISING SHAREHOLDER VALUE in a listed company. The thickness of the blue lines suggests the interfaces most likely to influence directors’ decision-making.

MAXIMISING KEY STAKEHOLDER VALUE – long-term value creation in the interests of four major stakeholders, while directors also honour wider responsibilities to local communities, as well as to global society through protecting the environment.



A timely book in a business world where many companies are re-examining their purpose, and considering how to relate to all their stakeholders, not just their shareholders.

Barbara Ridpath

*Non-Executive Director
in financial services
companies, and
Chair of the Church
of England's Ethical
Investment Advisory
Group*

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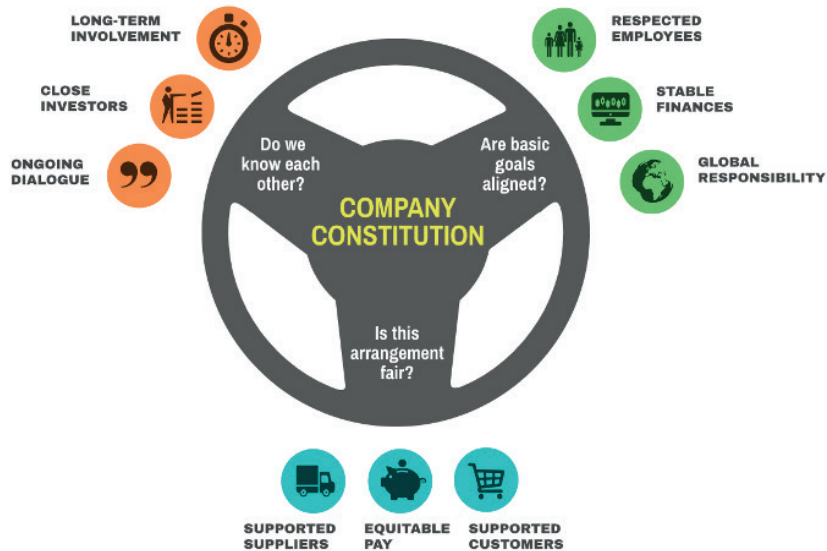
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My hope is that the guidance in this book is heeded, so companies move from a narrow focus on profit to a more inclusive vision of long-term value creation for all stakeholders.

*Ansie Ramalho,
Chairperson: King
Committee for
Corporate Governance
in South Africa*





The model for creating a relational company

The purpose of a company is to serve society by maximising long-term value creation in the interests of its employees, shareholders, customers and suppliers, while ensuring the sustainability of the business and honouring its wider responsibilities to local communities and the environment.

To pre-order your hardback copy of the book, at the special pre-publication price, please go to the Relational Research website: www.relationalresearch.org