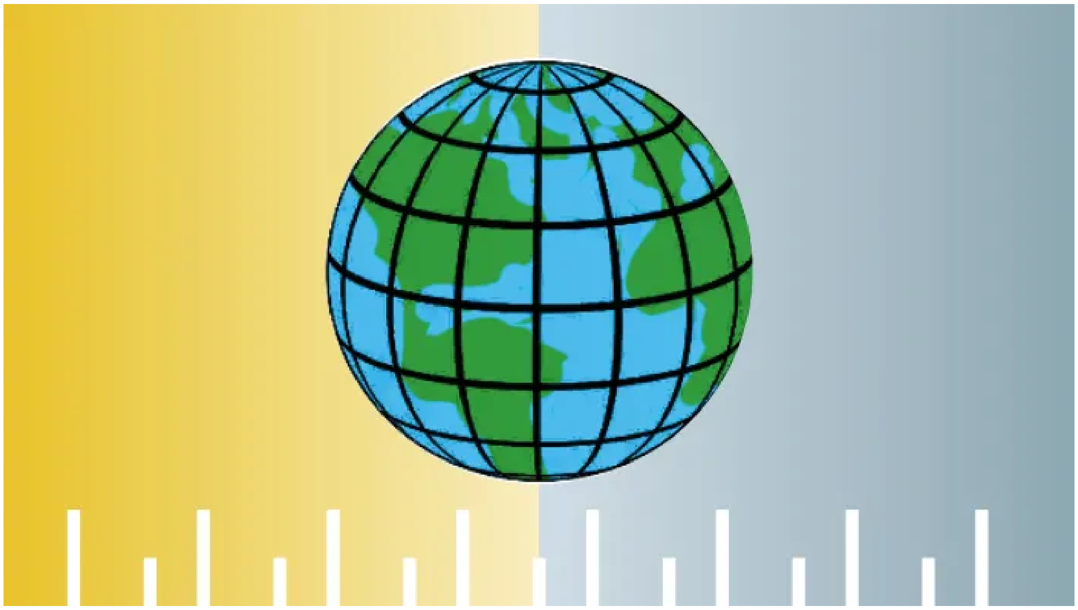
FT Series **The Company of the Future: Profit and Purpose**

Opinion **The FT View**

Responsible capitalism requires new standards

Broader sense of purpose is welcome but needs to be measured

THE EDITORIAL BOARD



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The editorial board OCTOBER 27 2019

Reinventing capitalism for the long-term is a far from easy task. There is a growing acceptance among business leaders of the need to broaden the pursuit of shareholder value to one that is based on inclusivity, sustainability and purpose. This newspaper has welcomed the direction. Some attempts to confront the problem, however, have been only skin deep. Adding the label "purpose" on to existing corporate models will not be enough. Companies and policymakers should not be afraid to explore whether the change should start at the foundations of the business world, and whether new corporate structures are needed to take capitalism in this new direction.

Plenty of models already exist, from co-operatives and mutuals to employee partnerships, trusts and foundations. Corporate forms are, of course, no panacea for mismanagement — but many of these other models have become starved of attention by the dispersed share ownership model of the listed company. The danger is if countries tend towards a corporate monoculture. Policymakers should encourage a plurality of models. Boards too should remain open to potential changes of corporate form — the choice should not simply be a binary one of going public through a listing on the stock market or remaining private. In the US, the benefit corporation — with a mandate to benefit all stakeholders — is gaining momentum. A recent example of what can be done is that of Julian Richer, founder of the audio and entertainment chain Richer Sounds, who has handed control of the business to staff. Not many company owners willingly give away stock to employees but it underlines that corporate form need not be static.

Today's leaders need to be aware that the younger generation of entrepreneurs value purpose, and ESG, more than their older forebears. These young entrepreneurs should have the option to choose models that suit those broader objectives better than the traditional route from start-up to IPO. The company of the future will not necessarily look like the company of today.

What remains one of the biggest challenges of all, however, is how to measure something as nebulous as "purpose". If the current dominant system of the publicly limited company is the right one, how should performance be measured? A range of initiatives already exists in the form of ESG standard-setters, including the Global Reporting Initiative and the Task Force on Climate-related Financial Disclosures. While the aims of many ESG campaigners are certainly lofty, standard-setters should focus on what is realistically possible: what is needed are standards that everyone agrees on and that can serve as benchmarks for comparison — both internally and externally. It is worth noting that even within shareholder-controlled companies it is possible to change governance to encourage long-termism by, for example, increasing votes the longer shares are held.

Finally, if companies truly are serious about more than shareholder value they need to find ways to take ESG-focused goals into account when setting executive remuneration. A recent Conference Board study found that just 71 companies in the Russell 3000 now tie part of their executives' remuneration to some form of ESG goal. While this is a small fraction of the corporate world, it is a trend that should be encouraged. Credible initiatives such as the UK's newly revised stewardship code, which urges signatories to consider ESG factors when making investment decisions, will only have teeth once there is a formal consensus on how to assess and report progress.

Letter in response to this editorial:

1990s Barclays would not accept business scorecard / From Joseph De Feo, Garden City, NY, US