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### Of Pluralism, Social Responsibilities of Corporations and Interconnectivities\*

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#### Abstract

*Undoubtedly, global trade and commerce have, altogether brought forth great wealth and progress albeit with considerable challenges especially to non-industrialised economies. Corporate actors realise that their philanthropic gestures in form of discretionary or voluntary socio-economic, legal, ethical and environmental initiatives are needed by the society to augment governmental actions especially on global poverty, employment, food security and gender mainstreaming. With financial, non-financial and environmental crises, companies are increasingly being asked to provide innovative solutions to deep-seated problems of human misery. Inevitably, the concept of a business corporation being organised and carried out primarily for the profit of the stockholders came under legal and political scrutiny. Gradually, interest in social responsibility developed as to whether and how business might benefit commercially from doing good. Many chief executives and their boards still grapple with the dynamics of reconciling the concepts of CFP and CSR in terms of the business organisation's configuration of principles of social responsibility, and policies, programs and observable outcomes as they relate to the firm's societal relationships'.*

*Opponents of CSR have strongly argued that there is no business case for CSR in that CSR takes away resources from the firm's principal economic functions. This school of thought further posits that CSR imposes inappropriate costs on shareholders and that managers often invest shareholders' funds in activities unrelated to core business to further their ego and status whilst creating little social benefit for other stakeholders. The question is whether and how CSR can create international and domestic competitive advantage in an environment experiencing increasing community expectations of firms to act in a socially responsible manner. Also, the question arises as to how modern corporations can improve social participation and innovation for broad stakeholder groups. Yet another question is what is the best way for industrial corporations especially in the third world to acquire new capabilities for a total global renaissance? This paper has considered the different regimes of corporate development and the judicial and economic perspectives of doing good for the society. There is clearly a demonstration that common good is also good business. There have been variegated interpretations of what shareholder value means as shareholders' interests are pluralistic and not monolithic.*

**KEYWORDS:**

Pluralism: means several dimensions of interest in corporate organisations.

CSR: means voluntary social responsibilities of corporations beyond paying taxes, business morality and ethics.

TNCs: transnational corporations.

Anomie: dearth of moral values

Corporate Philanthropy: pure donations of companies that are not necessarily related to achieving CFP.

Individualism: the opposite of communalism involves broad stakeholder consideration and common good precepts.

Sustainable development: making cities and human settlements inclusive, safe, resilient and sustainable.

**I. Introduction**

The social responsibility of companies has multiple interconnected dimensions of business ethics, morality, environmental justice and sustainable development<sup>1</sup>. During the period of the “1<sup>st</sup> Generation Companies”<sup>2</sup>, philosophers like Immanuel Kant (1724 – 1804) and Emile Durkheim (1858 – 1917) advocated that, morality is an obligatory element in all phenomena including business, then mainly trading companies. Both philosophers developed theories of social structure that included functional social norms, values and structures of business. Kant, particularly, held that the supreme principle of morality is a standard rationality and categorical imperative and asserted that the good cannot be identified with the optimisation of individuals’ satisfaction<sup>3</sup>.

Emile Durkheim specifically advocated that a moral consensus or the existence of common values as against a state of anomie (i.e. the dearth of such values) transforms economic communities generally and that the tyranny of individualism exists within a developed society if corporations themselves assume too great an autonomy over the activities of individuals. The anomic condition of trading and industrialised systems was reflected in human oppression, industrial crises, and class conflicts which directly destroyed the integrity of particularly local communities.

Our “common future” as a philosophy was later adopted in the Brundtland Commission Report on sustainable development which gained international prominence in 1987 by the

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<sup>1</sup>Dahlsrud’s: How Corporate Social Responsibility is defined; Analysis of 37 definitions. (2006).

<sup>2</sup>Stuart H., The End of Corporate Social Responsibility, 3<sup>rd</sup> Generation. Corporation. Pratima Bansal & Andrew Hoffman, Oxford Handbook of Business and the Environment (2011), p. 2.

<sup>3</sup> Emile Durkheim: Selected Writings., Cambridge University Press, Ed Anthony Giddens, (1972), P. 42

World Commission on Environment and Development (WCED). The concept of functional social values and morality were an advanced version which emerged as part of the international discourse, in 1893, during the Pacific Fur Seal Arbitration, when the United States unsuccessfully tried to assert a right to ensure the legitimate and proper use of seals and to protect them from wanton destruction for the benefit of humanity.

The shareholders of the dominant companies like the British India Company, the Virginia Company and Hudson Bay shareholders were mainly aristocrats who practised greed, human oppression and other social excesses. Morality and ethics of social responsibility by the companies were therefore considered as capable of mitigating negative economic and financial feelings against the corporations<sup>4</sup> as there was no substantial evidence of any negative relationship in the varieties of CSR initiatives<sup>5</sup> and CFP. Judicially, there have been attempts to test the legitimacy of companies to embrace pluralism of interests outside shareholders' interest. In *Parke v Daily News*<sup>6</sup>, a company considered interest of employees and sold its business and resolved to pay \$1,000,000 (One million dollars) to its former workers and widows of such workers. A shareholder tried to stop the payment, saying that it was not part of the articles of association and that such payment was not incidental to the carrying out of the company's business. It was held that the shareholder's application succeeded. The making of an *ex gratia* payment, in circumstances where that company operated, was not reasonably incidental to the conduct of the business and was therefore *ultra-vires* the company's memorandum and articles.

In *Dodge v Ford Motors*<sup>7</sup>, Ford Motors had paid \$10 million in special dividends on top of annual dividends of \$120,000 in 1913, 1914 and 1915. In 1916, the company's president, Henry Ford considered short-term interest of consumers and the company as an economic entity and announced that there would be no more special dividends and that all future profits would be invested in lowering the price of the product and growing the company. The Dodge brothers were minority shareholders and sued to re-instate the special dividends and stop the building of Ford's proposed smelting plant. The court ordered the payment of the special dividend and halted Ford from building the smelting plant.

In *AP Smith Manufacturing Co. v Barlow*; the defendant company was founded in the late 19<sup>th</sup> Century and made a donation to Princeton University. The donation was not specifically authorised in AP Smith's articles of incorporation. AP Smith claimed that it had a duty to support the public good and that it was in the company's benefit to ensure that there is an educated public from which to draw future employees. A shareholder, Barlow, filed a suit saying that the company shouldn't have made the donation alleging that the application of

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<sup>4</sup> Carroll and Shabana, 2010: The business case for Corporate Social Responsibility; A Review of Concepts, Research & Practice. *International Journal of Management Reviews*, Vol. 12, No. 1, 2010. Pp. 85 – 105; Margolish and Walsh (2003), Relationships between Corporate Social Relationship and Financial Performance: What is the causality.

<sup>5</sup>Salzmann et al published by Elsevier Ltd. (2005) : The Business Case for Corporate Social Responsibility, During the most good for your company and your cause. 2005. Nancy Lee Phillip Kotler. ISBN: 798-0-471-47611-5

<sup>6</sup> (1962) Ch. 927

<sup>7</sup>170 N. W. 668 (1919)

New Jersey statute would be unconstitutional. The court entered judgement in favour of AP Smith.

After the Second World War, American companies had adopted the view that they should work in the balanced best interests of all, a phrase used in the 1953 General Electric Annual Report. Nevertheless, starting around 1970, i.e the era of 2<sup>nd</sup> Generation firms<sup>8</sup>, economists such as Milton Friedman<sup>9</sup>, Michael Jensen<sup>10</sup>, and William Meckling<sup>11</sup> reignited capitalism in the 19<sup>th</sup> & 20<sup>th</sup> Centuries argued that this multifaceted approach created inefficiency and waste. They posited that management could make more intelligent decisions with the single financial goal of shareholder value. In the view of these economists, this would automatically lead to better decisions for employees, customers, creditors, and the community as well. This mind-set enforced capitalism which was practicalised by CEOs such as GE's Jack Welch and International Telephone and Telegraph's Harold Geneen, who delivered increased profitability consistently, based on shareholder primacy dynamics<sup>12</sup>. During this period, the economic engine supported economic success in financial terms, on a global scale based on fixed costs, capital intensive business model and large scale centralised production and economies of scale. The economic success enabled many people to prosper, their communities to thrive, and society advanced more<sup>13</sup>. The burden of this success was largely borne by displaced poor indigenes whose lands were used for factories, housing estates, mineral and oil exploration etc. the workers of the industries worked under sub-human conditions for the profitability of the shareholders.

The concept of shareholder value as an indicator of commercial success had two significant consequences:-

1. Companies retreated from their previously long standing relationships with local communities, and pursued profit maximisation and shareholders' individualism.
2. Businesses placed greater emphasis on short-term financial results.<sup>14</sup>

From shareholders' perspectives, there has been the lack of a keen and consistent sense of accountability for strategy and for fiduciary duties which is a basic reason why many boards have failed to achieve the results that were expected of them. This lack of accountability stemmed in the past from the inability or unwillingness of shareholders to exert effective pressure on boards to take more account of stakeholders interests. The Institutional Shareholders Committee published its guidance on the role and duties of directors in 1991 in response to approaches which they had received from companies and their advisers over the institution's expectations from the boards of the companies in which they had invested. The

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<sup>8</sup> Third Generation Companies

<sup>9</sup>Friedman, Milton – Times Magazine, 24<sup>th</sup> Nov., 2006.

<sup>10</sup> A Theory of the firm, 1912 – 2006.

<sup>11</sup> 1922 - 1998

<sup>12</sup>Wood D. J. (2010), Measuring Corporate Social Performance: A Review. International Journal of Management Reviews, March 2010, Vol. 12, Issue 1, PP. 50 – 84.

<sup>13</sup> Ian Bremmes, "How China's Economy is poised to win the Future", Time, Nov. 13, 2017, vol. 190, No. 20, p. 37

<sup>14</sup> Ian Bremmes, "How China's Economy is poised to win the Future", Time, Nov. 13, 2017, vol. 190, No. 20, p. 37, p. 39.

supervisory board system was introduced by some companies outside the General Meeting to strengthen the control of shareholders. Germany provides the clearest example of the two-tier link between employees and boards, “Aktiengesetz” although supervisory boards in the Netherlands also provide for employee interests to be taken into account but do so less directly. Politically, many citizens want corporations to invest more at home for common good of employees, the poor and other social benefits and not just for profits for shareholders. They want corporations to pay higher taxes economic wages and employ more people, (socio-economic) and are voting for politicians who promise that this populism will happen.

Public or common good also manifests itself clearly in gender considerations. Statistically, women’s education tends to reduce the mortality rates of children because of the importance that mothers attach to the welfare of children<sup>15</sup>. Demographically, countries with basic gender inequality like India, Pakistan, Bangladesh, China, Iran, North Africa and others – often tend to have higher female mortality of infants and children, in contrast with situations in Europe or America or Sub-Saharan Africa. Corporate philanthropy can organise or fund women groups to assist in women emancipation so as to boost productivity, reduce fertility rates, illiteracy, create better local security for operation of TNCs. and increase female labour force through dissemination of the knowledge of family planning<sup>16</sup>. Estimates show that although significant progress has been made in addressing the gender gap on measures such as education, there is much less progress on economic measures. In fact, global female labour force participation rates have declined since 1996<sup>17</sup>.

Also, the poor as a socio-economic group constitutes a special CFP, ethical, corporate responsibility and sustainable development platforms for corporate philanthropy not left for government alone<sup>18</sup>. Boycotts of products and services have been targeted at companies which have ignored psycho-social and economic considerations when dealing with the world’s poor. For example, Nestle promoted milk products in less economically developed countries which resulted in a decrease in breast feeding and the use of dirty water in infant formula. Health problems and death increased among infants. Consumers successfully boycotted Nestle’s baby milk products, with great economic losses. The company’s business activities could have targeted the dual purpose of eradicating poverty-stricken demographics while at the same time making profits for the company’s new products<sup>19</sup>. In recognition of this business symbiosis, some large corporations have worked towards the development of their societies and the natural environment and yet remained economically viable through targeting markets at the base of the pyramid and the poor specifically. For example;

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<sup>15</sup> 98 A. 2d 581 (1953)

<sup>16</sup>Murthi, Guio and Dreze (1995). Mortality, Fertility and Gender Bias in India: A District Level Analysis, Population and Development Review, vol. 21, No. 4 (Dec. 1995) Pp. 745 – 782.

<sup>17</sup> Murthi, Guio & Dreze, *Supra*

<sup>18</sup>Vogel, David; *The Market for Virtue: the potential and limits of corporate social responsibility*. Brookings Institution Press, Washington DC. 2005.

<sup>19</sup>See Stuart H., *The End of Corporate Social Responsibility, 3<sup>rd</sup> Generation*. Corporation. Pratima Bansal & Andrew Hoffman, Oxford Handbook of Business and the Environment (2011). Prehalad C.K: *The Fortune at the Bottom of Pyramid – People*, Pearson – Prentice Hall, 2006. Business and Economics.

- The Grameen Bank was started by in 1997 Nobel Laureate Muhammad Yunus in Bangladesh to offer mini-loans to poor entrepreneurs who wouldn't qualify for the traditional form of bank loans that are based on collateral.
- PlayPumps sold water pumps that run on the energy created from children's merry-go-round playing. Manufactured by a South African company. Advertising space on the pump's storage tank generates revenue that covers maintenance costs.
- Cell phone providers have developed the means to sell relatively cheap units to remote villages. Farmers can check grain prices at the nearest market before deciding to take their products to town; poor transporters get information on passenger spots instead of roaming around for passengers.

## II. Political and Economic Interconnectivities:-

According to the World Trade Organization, international exports grew more than 8 per cent per year between 1950 and 1973<sup>20</sup>. New markets opened up, communications and transportation technology improved, regions became more connected through trade agreements, and capital became more readily available through deregulation. Together these interconnected economic factors and infrastructure enabled companies to do more business abroad. As their home economies matured, so their foreign markets enjoyed growth<sup>21</sup>, necessitating new dynamics of stakeholder considerations. In spite of these global business successes, there are still over 4bn poor earning less than \$4 per day.

The economic and political landscape however reflects acute misalignment between business and economics on one hand and acceptable societal outcomes, on the other. The reality is that many people and nations have been relegated by an unfair system due to the global financial system and its exclusionist benefits. The world recessions and financial crises are indicators of the misalignments of business, economics, and society which need greater realignment.

Politically, there is growing discontent with the impact of economic growth through the institutions of our interconnected world and in the apparent inability of government, business, and civil society to realign our economies and political systems to meet human needs. The American Revolution was more of revolt by small business men than against market dominance by TNCs<sup>22</sup>. Government needs corporate structures to engage in socio-economic realignment as issues of GDP growth and financial performance of businesses are essential to provide the resources for the society<sup>23</sup>.

To realign our economies, the law must revisit the very purpose of corporations as critical tools to innovate and solve human needs and create opportunities rather than the current individualism. The legitimacy to operate as a 3<sup>rd</sup> Generation Company is to add value. Shareholders have already reaped multiples of returns on their investments. Corporations are

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<sup>20</sup> World Trade Organisation Report, 2008.

<sup>21</sup> Ian Bremmes, "How China's Economy is poised to win the Future", Time, Nov. 13, 2017, vol. 190, No. 20, p. 35

<sup>22</sup> Zinn H. 2003 – A Peoples history of the United States. Harper & Raw, Chpt. 4, Pp. 729 et. al.

<sup>23</sup> Karnani Aneel: "The Bottom of the Pyramid Strategy for Reducing Poverty; A failed promise DESA". (2009) Working Paper No. 80, Economic and Social Affairs, August 2009.

receptacles of huge resources, transnational power and technology which can solve the needs of people and their communities. Accordingly, morality, ethics, common good precepts of pluralism against individualism of shareholder concepts must be integrated into business and national consciousness.

MacCardie, J. captured the critical importance of social development and the functions of the law when he said that the object of the law is to solve difficulties and adjust relations in social and commercial life. The Learned Justice further said that Law must grow with the development of the nation and must face and deal with changing or novel circumstances. Unless it can do that, it fails in its functions as it declines in its dignity and value. An expanding society demands an expanding common law<sup>24</sup> on stakeholders' pluralism and not individualism. Dean Roscoe Pound of Harvard University of the school of social engineering held the view that the existence of law is to serve social interests, and once it ceases to do this, law becomes sterile. Roscoe Pound also said that law exists to serve certain society interests and that it becomes sterile when divorced from this milieu<sup>25</sup>.

To authenticate the role of corporations in societal progress, China provides many companies with state financial support within Government's financial capability. Humongous investments in new technologies, automation and machine continue to be made through corporations. The Chinese authoritarian capitalism sustains use of state-owned companies to boost the country's domestic and foreign influence.

Authoritarian control by Chinese government of its economy is Keynesian in approach and enables the government to intervene and direct Chinese companies to create and protect employees' jobs. Employees' interest is involuntarily adopted as a legitimate objective of companies. This is contrary to the 2<sup>nd</sup> Generation Corporation era in which *Parke v Daily News* confirmed individualism, and shareholder tyranny over employees. In comparison, the US Government of Barack Obama could not muster the political power of common good and intervention to bail out the US auto companies to mitigate the US financial crisis on the nation and employees. That decision was left to the discretion and voluntariness of the individual Boards and shareholders of the companies as CSR or philanthropy. The political devices used to cushion economic shocks also preserve shareholders short and long-term interests.

Furthermore, for common good, the government of China protects Chinese companies charged with stealing the intellectual property of foreign firms and enacts laws designed specifically to help Chinese companies to grow and also engages in industrial espionage and cyber-attacks against foreign competitors. This level of protection is especially important in an age when the most important variables of social progress globally are the pace and scale of technological change. According to a 2015 study by Ball State University, as much as 87.8% of manufacturing jobs lost in the U.S between 2000 and 2010 were the result of automation

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<sup>24</sup> Hon. Justice Kayode Eso, CON; *"Thoughts on Law and Jurisprudence"*. Being the text of a lecture delivered at the Law Week" of the University of Ife Law students society on Monday, 14<sup>th</sup> Feb., 1977 at the Oduduwa Hall of the University of Ile-Ife. MIJ Publications Ltd.

<sup>25</sup> *Prager v Blatspiel, Stamp & Heacock Ltd (1924) 1KB 566 @ 570.*

and improved technology<sup>26</sup>. Already, technological advancement has displaced hundreds of millions of workers in the developing world and other countries emerging from poverty.

Financially, State-owned banks have injected huge funds into China's big oil companies, CNOOC, Petro China, Sinopec and Chemchina. Recently, Chemchina acquired the Swiss Syngenta and its biotech assets for \$43 billion (more than the national debt of Nigeria). Applying Keynesian philosophy of intervention, the Chinese government made it a policy that food security in China is a strategic priority- and that the state would guarantee common good of China's financial stability<sup>27</sup>. Just like in 2008/2009, during the world economic crises, governments had to apply quantitative easing to bail out companies. Private Chinese firms like Telecoms companies like Huawei, have deployed fifth-generation mobile infrastructure, particularly in developing countries, due to huge financing by China Development Bank. As part of its strategic roadmap, the Chinese government deploys policy and subsidy to channel corporate results and corporate political power for public good. Jobs, industries and technology are used by China to ensure political unity. Also, the advances in technology help to solve social challenges. For example, the use of Smartphones controls interactions and data by companies who produce the devices and expand profitability, while the citizens use them to become better-informed consumers. The plurality of food security, social challenges, jobs, increased political power are of common good and no more about shareholders alone.

Furthermore, in China, companies use algorithms with the collaboration of government to ensure security and compliance with rules set for common good. The social credit system allows State officials to assess potential clients' financial data, social connections, consumption habits and respect for the law in evaluating credit worthiness. The devices may be intrusive into the personal lives of the citizenry, but are tools for public good of building a more harmonious society<sup>28</sup>.

The interconnectivity between government support of business, economic success and corporate power is clear from China. Currently, China is rebuilding the ancient Silk Road to build a network of highways, railways, ports and pipelines linking Asia via the Middle East to Europe and to Africa. The land 'belt' already takes cargo, in large parts via Khorgos, through Eurasia. A maritime 'road' links coastal Chinese cities via a series of ports, Africa and the Mediterranean. In all, 900 projects have been earmarked at a cost of \$900 billion, according to the China Development bank<sup>29</sup>.

To achieve constitutional common good, the Government of China has embarked upon the \$480 million Lamu deep-sea port in Kenya, will eventually be connected via road, railway and pipeline to landlocked South Sudan and Ethiopia and right across Africa to Douala port in Cameroun. Companies will benefit from the new \$7.3 billion pipeline from Turkmenistan

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<sup>26</sup> Ian Bremmes, "How China's Economy is poised to win the Future", Time, Nov. 13, 2017, vol. 190, No. 20, p. 217

<sup>27</sup> John Maynard Keynes (1883 – 1946).

<sup>28</sup> Ian Bremmes, "How China's Economy is poised to win the Future", Time, Nov. 13, 2017, vol. 190, No. 20, P. 24.

<sup>29</sup> Ditto, p. 27

to China through a 15 billion cubic meters of gas, annually. By boosting interconnectivity, China will engender growth, gain access to valuable natural resources and create new markets for the benefit of companies. Chinese firms had already contributed 180,000 jobs and nearly \$1.1 billion in tax revenue along the belt and road. More Chinese engineers, crane operators and steel smelters will be employed by the projects. China has the most solar panels, wind turbines and high speed rail in the world. In Khorgos, the world's longest international freight line, trains now ply a 7,000 mile journey from 27 Chinese manufacturing hubs to 11 cities in Europe. Chinese financing of corporations shows that shareholders alone cannot confront global poverty, as much as they cannot alone reap the huge returns from corporate profits. China's GDP was \$11.2 trillion last year, with growth at a healthy 6.7% and a trade surplus of \$448.5 billion in August 2017, i.e. achieving inclusive growth without inclusive governance. The total funds for the belt and road initiative from the Silk Road fund projected by the Asia Infrastructure Investment Bank (AIIB), New Development Bank, China Development Bank and the Nations Humanitarian Aid budget add up to \$269 billion.

Emerging technologies can help meet social and common needs that create new industries and unforeseen types of new employees<sup>30</sup>. To actualise these plural demographics, global and local financial and economic systems must collaborate and interconnect<sup>31</sup>. In Nigeria, Guaranty Trust Bank already organises and finances fashion hubs, Nollywood entertainment creating social, job opportunities, and greater common good. In Nigeria, foremost business mogul, Aliko Dangote's Foundation will spend \$100m over the next 5 years to fight malnutrition as a mass killer, in worst affected areas of Nigeria. Statistically, about 155m children globally are recorded to be stunted which affects the physical and mental well-being of present and future generations.

Dangote Group is the largest employer of labour behind the Nigerian government with investments in local production of cements, sugar, salt and beverages. The company builds roads, bridges, schools, hospitals and boreholes across its farms in Nigeria. Also, the company is building African's largest refinery in Lekki, Lagos, Nigeria, to help the Nigerian government to save foreign exchange and foster the economic emancipation of Africa<sup>32</sup>.

The interconnectivity and global progress for commercial internet provided the technological backbone for more efficient global supply chains and ever-faster transfer of information and money throughout the world. In a pluralistic manner, billions of potential workers, consumers and the poor became accessible and better empowered globally. In China alone, more than 600 million people were lifted out of poverty between 1990 and 2013. Also, India began its 20-year transition from a largely subsistence economy to a global economic powerhouse with an explosion of private companies. This rise of skilled and semi-skilled labour forces in these countries brought higher wages and greater levels of middle-class privilege to them, spreading wealth and opportunity more equitably around the world. Despite this progress,

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<sup>30</sup>Ian Bremmes, "How China's Economy is poised to win the Future", *Time*, Nov. 13, 2017, vol. 190, No. 20, p. 43

<sup>31</sup> Colm Kelly & Blair Eliaiz Sheppard: *Common Purpose: Realigning Business, Economies & Society*, Strategy & Business in Globalisation and Business, May 25<sup>th</sup>, 2017.

<sup>32</sup> Temitayo Odunlami, *Daily Trust*, Thursday, Dec. 7<sup>th</sup>, 2017. P. 17.

World Bank figures show that 10.7 per cent of the world's population lived on less than \$1.90 a day in 2013, showing concentrations of individualism and exclusivism.

Continuing advances in digital technology have reinforced common good success. Local communities presently communicate with employees groups, and cooperatives to foster their trade interests and markets. Devices like the personal computer, the World Wide Web and mobile phones continue to give people unprecedented access to productivity, opportunity, global trade, higher incomes and profitability. Connectivity has also facilitated management of complex supply chains, globally.

Today, in our globalized world, economic growth has shifted to the E7 group as the largest emerging market economies (China, India, Indonesia, Brazil, Russia, Mexico, and Turkey) upstaging the G7 (the U.S, the U.K, France, Germany, Japan, Canada, and Italy) as the countries with the largest shares of the world trade. Russia, Turkey, Saudi Arabia, and the UAE all have market economies combined and governance models which are not Western type democracies. Enterprises in China make up of 20 per cent of the fortune global 500 in 2016<sup>33</sup>.

### **III. Consequential Pluralism and Emerging Third Generation Companies**

The leaders of the next industrial revolution will be companies making advancement in fields such as robotics, digital fabrication (including 3D printing), the industrial internet of things (IoT), data analytics which add value to the society and not just trading. These technologies reinforce a new level of proficiency which already usher in new types of opportunities and challenges of business, employees, the poor and the society, at large. Emerging questions for companies are: (1). How can technological acumen, managerial skill and socio-economic participation be balanced for profitable and successful outcome? (2). How can the corporation assist the broader society to meet the challenges posed by these technology advances in terms of infringement of privacy, employment, income inequality, and general well-being among others, as part of its business models rather than pursuing individualism of profits for shareholders<sup>34</sup>?

Obviously, the traditional business model of just out smarting competitors with cheaper products, economies of scope and scale, aggressive marketing and after sales services no longer assure sustainability and profitability. Capitalism to a large extent now is practised without capital, an oxymoron. In today's operational models, software is the key to a company's competitiveness. For example, German auto companies which had traded on worldwide reputation for excellence in mechanical, power and train engineering must embrace digital excellence to augment and sustain its strategy and IT effects. The new corporate infrastructure is a web of connections among people, technology, producers and consumers. All companies, small and big, have to enhance their technological acumen

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<sup>33</sup> Ian Bremmes, "How China's Economy is poised to win the Future", Time, Nov. 13, 2017, vol. 190, No. 20, p. 41.

<sup>34</sup> Ian Bremmes, "How China's Economy is poised to win the Future", Time, Nov. 13, 2017, vol. 190, No. 20, p. 42.

beyond merely recruiting people with software expertise but of raising the skills of everyone in the company to use digital tools.

Already, conventional industrial companies face acute competition from tech competitors who wield vast financial resources, new technologies and massive reserves of data and traditional boardrooms. Many of such conventional companies have been eviscerated by digital innovation in the past two decades – music, video-renting, printing of tickets like air travel tickets, books, taxis, newspapers and clothes retailing. In financial terms, the survivors have become shadows of their former selves. The profits of the New York Times Company, Barnes & Noble and Universal Music all tumbled by as much as 40% - 76% of their prime. In comparison with 1997, these companies had accounted for 2% of the profits of the S&P 500 index of big American firms<sup>35</sup>.

Technology will more negatively impact on companies operating on traditional templates of individualism and shareholder primacy. The new model is about service to humanity and common good. Investing today for profits tomorrow in a pluralistic manner is what moral capitalism is all about. Amazon lost \$4bn in 2012-14 while building a business empire that now makes money. Nonetheless, it is rare for big companies to sustain heavy losses just to expand fast. 25 members of the Russel 1000 index of large American firms, of or 3.3%, lost over \$1bn of free cash flow i.e. the money firms generate after capital investment has been subtracted in 2016<sup>36</sup>.

On the international scene, Netflix, Uber and Tesla are tech companies that claim that their business models will transform industries, and the society<sup>37</sup>. Chesapeake Energy, an onshore oil tracking firm at the heart of America's shale revolution, has lost at least \$1bn of free cash flow every year consistently in 14 years in a row. Nextera Energy, a utility company that runs wind and solar plants has sustained huge losses too over 12 years. Collectively these five firms have burned \$100bn in the past decade in sustainable projects, yet they boast of a total market value of about \$300bn which shareholders are comfortable with. The shareholders are apprised of the terminal value of when high, stable profits will arrive. Nextera says that if it stopped investing in new capacity, it would make \$6bn of free cash flow a year. Companies have to innovate using financial facilities of cheap money and growth-hungry investors<sup>38</sup>, as shareowners as part of their strategy for overall sustainability.

#### **IV. The Demography of Shareholders Interests: The Six Distinct corporate tribes.**

Between 1990 and 2007, 2<sup>nd</sup> Generation companies around the world drifted towards shareholder primacy to the right with populist programmes of their manufacturing operations shifting back home which was mainly America. The companies moved from being oracle

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<sup>35</sup> Ian Bremmes, "How China's Economy is poised to win the Future", Time, Nov. 13, 2017, vol. 190, No. 20, p. 43

<sup>36</sup> The Economist, Oct. 21<sup>st</sup>, 2017.

<sup>37</sup> Norbert Schew Schumpeter. September 30, Economist, 2017. P. 18.

<sup>38</sup> Ian Bremmes, "How China's Economy is poised to win the Future", Time, Nov. 13, 2017, vol. 190, No. 20, p. 43

firms to corporate socialists. Nevertheless, the shareholders currently demand prioritisation of their social objectives in support of their political and world economic supremacy as well as domestic security of their citizens/employees. Many firms like Google, Volkswagen, Tata are becoming corporate toilers, not corporate kings, with growth on the downside and employees being offloaded. Tata group, in India, worries about profits (individualism) as much as nation –building as corporate champagne socialists. To revive the economy, Japan’s firms are corporate socialists who drive their ROE above the present low levels of 8%.

The following categorisation of the tribes of companies is based on their operating models. Firms have some flexibility to choose which group of stakeholder engagement they wish to belong to mainly through their Boards.

- a. There are the corporate fundamentalists which are of the far right. This group boosts profits and share price as their goal. Firms built on these objectives are short termist. Examples of this group are Valeant, a Canadian pharmaceutical concern which raised prices, slashed investment in 2011 – 2015; paid little tax and fired staff. By 2016, it faced scandals and its shares fell by 85%. It is usual that, in times of financial weakness this group of firms use fundamentalist tactics, to try to shore up market confidence. IBM is in this category using savage cost cuts and share buy backs.
- b. The next group of stakeholders tribe comprises Corporate Toilers. Western firms in this category believe in the primacy of shareholder value but are long-termist in approach towards dividends. Companies in this group are consistent in successful results i.e. Shell or Intel investing on a ten-year time horizon.
- c. Another group of companies consists of Corporate Oracles who maximise profits within the law, but are dynamic conforming with public opinion. They consider their social values and voluntarily comply for future gains. do and futuristically. Most energy firms have sustainable green project to anticipate changing public expectations on pollution and safety, these participants in corporate entrepreneurship discover that it can be devastating when the rules of capitalism change. Shares of coal and nuclear-energy firms are not sustainable.
- d. Corporate Kings are in an exclusive position. They have tremendous market presence creating shareholder value and have capacity to ignore shareholder issues, at random. JP Morgan Chase gave its lowest-paid staff a pay rise, based on common good rationale in that more people need to participate in the rewards of economic growth. Unilever, a consumer-goods firm, sees itself from the prism of as a non-governmental organisation committed to cutting poverty because Unilever makes return on equity of 34%.
- e. Many corporations in China fall into the group of corporate socialists which are controlled by the State, families or dominant fund managers. These operate on non-primacy of shareholder value and those social objectives such as employment; or cheap products are part of the Board agenda. They recognise that institutional investors have legal powers, and informally set profits according to a quota system which guarantees shareholders minimum returns to enable the Board retain their positions. State firms in China are a good example posting ROE of about 6-8%. Also,

Goldman Sachs is a corporate champagne socialist, which pays shareholders the least it can get away with and allocates what is left as bonuses for its employees.

- f. The Sixth group of firms are corporate apostates who use the paraphernalia of corporate structure to do business and render economic and social services. Little consideration is given to their shareholders ROI, usually government. NNPC, Federal Mortgage Bank, pays for much of the country's welfare state in terms of subsidised petroleum products and loans. Fannie Mae and Freddie Mac, two state-owned American mortgage firms, are run to provide cheap loans and not huge profits.

## **V. Conclusions and the way forward**

- i. As companies spread their activities internationally, they will no longer answer mainly to a single jurisdiction of shareholders. Analysis of the deficiencies of boards shows the need to restore their effective accountability to stakeholders, who must equally and in turn accept their governance responsibilities.
- ii. Stakeholder involvement in board composition will be a clear step in the direction of making boards more accountable to stakeholders.
- iii. Nothing is as important today in the political economy of development as an adequate recognition of political, economic and social participation of women. The interests of employees and the poor must also occupy front line position on Board agenda, as part of social responsibilities of companies.
- iv. Corporations determine far more than any other institution the air we breathe, the quality of the water we drink, even where we live yet they are not accountable to social legal structures on their strategies except to themselves.
- v. Small and medium companies can complement the multinational firms who have greater resources and operational capacity to develop innovative products and infrastructure required for social, environmental and economic benefits. Multinational corporations also have the international network to effectuate common good initiatives.
- vi. At corporate levels, companies can devote more resources towards creating thriving communities. Cities, towns and villages are the places where social progress and economic success most naturally meet. Governments and companies need to collaborate to create conditions for local communities to thrive, with business as a key element.
- vii. Corporate leaders should integrate human values, empathy, and respect for human beings as technology becomes more proficient at larger scales<sup>39</sup>. Company's success and profitability in the next industrial revolution depend on their capability to integrate the principles of commonality of values i.e. combining people, capabilities, and technological acumen in new ways. Companies will grow in home markets, and abroad. A globally interconnected economy will feature increasing levels of international trade.

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<sup>39</sup> Ian Bremmes, "How China's Economy is poised to win the Future", Time, Nov. 13, 2017, vol. 190, No. 20, p. 43

- viii. Voluntary codes of responsible corporate behaviour can be effective in ensuring social responsibility although sanctions and measurements can be difficult.
- ix. The interest of employees is not monolithic or static. The organisation can acquire required skills or look outside the corporation for the requisite motivation and retrain staff. More so, profit sharing schemes and humane treatment will set a better tone and culture of common good in the corporation.
- x. Maximisation of profits is not a purpose of business, but an outcome. The profit motive can accelerate required transformation into global sustainability with civil societies, governments, multilateral agencies all working as collaborators. Business led initiatives can innovate into tomorrow's environmental integrity and include the 4bn poor into the global economy.
- xi. The Human Resources department of corporations should reconceptualise employee financial and social performance in non conflictual ways to involve all humanity in the capitalist dream.
- xii. Focus of 3<sup>rd</sup> Generation companies must be on the 4bn poor earning at the bottom of the pyramid and volatile fundamentalist regimes causing terror and insecurity the world over. Multinationals with their neutrality and co-creativity can achieve this vision.
- xiii. All stakeholders now need to be included in the overall development of corporate strategy in a mutually reinforcing rather than the conflicting and competitive way to overthrow the tyranny of trade-off of shareholders and stakeholders interests.
- xiv. The Third Generation companies pose a great promise for a sustainable future, economically, socially and environmentally. With the resources at their behest, they supercede many national economies and already lead initiatives to address climate change e.g. the US Climate Action Partnership, loss of Marine fisheries (e.g. the Marine Stewardship Council), and Sustainable Development e.g. the World Business Council for Sustainable Development. Their respect for local culture and natural diversity enable their special collaboration and co-creation as partners with local communities and not consumers at the bottom of the pyramid.