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## Statement of Dr. Robert Strand

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I am Robert Strand, Executive Director of the Center for Responsible Business and faculty member at the University of California, Berkeley. I also hold the title of Associate Professor of Leadership and Sustainability with the Copenhagen Business School in Denmark.

The 20<sup>th</sup> century was defined in large part by the ideological battle between American capitalism and Soviet communism. The 21<sup>st</sup> century will be defined by whether American capitalism sufficiently meets our collective needs and tackles our greatest challenges including climate change, growing inequalities, decent work for all, and threats to our democratic institutions. The 17 UN Sustainable Development Goals (SDGs) succinctly articulate these needs and challenges<sup>1</sup>. The success of American capitalism in the 21<sup>st</sup> century will be measured against the Sustainable Development Goals.

With this in mind, I deeply welcome the recent restatement on the purpose of the corporation by the Business Roundtable to embrace a stakeholder view of the firm<sup>2</sup>. This represents a pragmatic step to improve American capitalism<sup>3 4</sup> as a stakeholder view increases our likelihood to successfully achieve the Sustainable Development Goals.

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<sup>1</sup> <https://www.un.org/sustainabledevelopment>. See also Appendix A.

<sup>2</sup> <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>

<sup>3</sup> Freeman, R. E. *Strategic Management: A Stakeholder Approach*. Pitman Publishing: Boston, MA. (1984).

<sup>4</sup> Freeman, R. Edward, Jeffrey S. Harrison, Andrew C. Wicks, Bidhan L. Parmar, and Simone De Colle. *Stakeholder Theory: The State of the Art*. Cambridge University Press. (2010).

A stakeholder view states that the purpose of a firm is to provide value to its stakeholders. It represents a stark shift from the previous stated purpose known as “shareholder primacy” long promoted by the American economist Milton Friedman that prescribes a lone corporate purpose to maximize profits<sup>5</sup>.

Dr. Friedman was a central figure in the ideological battle between American capitalism and Soviet communism<sup>6</sup>. For Friedman, anything other than a free market response was the enemy and profit-maximizing firms were central to Friedman’s view of free markets. Friedman contended anyone suggesting firms have a responsibility beyond profit maximization – such as avoiding pollution or addressing discrimination – were “preaching pure and unadulterated socialism.”<sup>7</sup> That use of the word ‘socialism’ is a Cold War ideological relic – it served its purpose then but I cringe at its use today. The Business Roundtable’s restatement helps move us past these tired ideological debates.

I now turn attention to the smart policy and corporate governance structures necessary to best ensure the Business Roundtable’s words are turned into durable action supportive of the stakeholder view.

B Corps (i.e. Benefit Corporations) presents great promise. In 2012, when Patagonia became the first California company to sign up for B Corp certification, its founder Yvon Chouinard stated that B Corps created the necessary legal framework through which Patagonia could remain committed to a stakeholder view even through changes in ownership<sup>8</sup> <sup>9</sup>. B Corps has yet to be widely tested in the domain of public corporations where I also look to examples from elsewhere in the world for institutionalizing a stakeholder approach en masse.

Chiefly, I look to the Nordic countries comprised of Denmark, Finland, Iceland, Norway, and Sweden given the Nordics are originators of the stakeholder view of the firm<sup>10</sup> <sup>11</sup> and have developed a variety of corporate governance structures that support the stakeholder view. This includes the Danish industrial foundation model <sup>12</sup>. Leading Danish firms like Carlsberg and Novo Nordisk are public corporations whose majority of voting rights are held in perpetuity by an associated industrial foundation. This enables the company’s

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<sup>5</sup> Stout, Lynn A. *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public*. Berrett-Koehler Publishers. (2012).

<sup>6</sup> Friedman, Milton. *Capitalism and Freedom*. University of Chicago Press. (2009).

<sup>7</sup> Milton, Friedman. "The social responsibility of business is to increase its profits." *New York Times Magazine* 13 (1970): 32-33.

<sup>8</sup> <https://www.patagonia.com/b-lab.html>

<sup>9</sup> Chouinard, Yvon, and Vincent Stanley. *The Responsible Company: What We've Learned from Patagonia's First 40 Years*. Patagonia. (2013).

<sup>10</sup> Rhenman, Eric. *Industrial Democracy and Industrial Management: A Critical Essay on the Possible Meanings and Implications of Industrial Democracy*. No. 2. Tavistock. (1968).

<sup>11</sup> Strand, Robert, and R. Edward Freeman. "Scandinavian Cooperative Advantage: The Theory and Practice of Stakeholder Engagement in Scandinavia." *Journal of Business Ethics* 127, no. 1 (2015): 65-85.

<sup>12</sup> Thomsen, Steen. *The Danish Industrial Foundations*. Djøf Forlag. (2017).

management to embrace a long-term perspective supportive of the stakeholder view. The 1969 Foundation Law prevents such a structure in the U.S. We may want to revisit this.

A stakeholder view also comes with challenges. Patagonia is widely heralded as a responsible company in part because it provides a key stakeholder - its employees - with benefits like fully paid parental leaves, access to quality childcare, paid medical leaves, and sufficient healthcare coverage. I applaud Patagonia as such offerings are widely recognized as beneficial to society but I have significant concerns for a capitalistic system that pushes such responsibilities into the domain of business. This is inefficient and can unintentionally exasperate inequalities. Furthermore, it redirects the precious resources of small and medium sized companies who may not be able to satisfy these demands. My experiences in the Nordics have convinced me there is a much more efficient and equitable way to handle these things <sup>13 14 15</sup>. I believe small business could be the champion of pragmatic explorations to consider what might work better in an American context.

In closing, I would like to point out that small business is the most trusted institution in the U.S. <sup>16 17</sup>. I am deeply concerned about mounting populist attacks on the concept capitalism. But I am equally concerned about inaction on the part of our business and political leaders to go about the pragmatic work of improving our version of American capitalism so it best meets our needs and tackles our greatest challenges. As representatives of the most trusted institution in the U.S., this congressional committee has the opportunity, and dare I say responsibility, to assume a leadership role to usher in a new era of American capitalism in which the stakeholder view is mainstreamed and the challenges represented by the Sustainable Development Goals are met.

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<sup>13</sup> Matten, Dirk, and Jeremy Moon. "“Implicit” and “explicit” CSR: A Conceptual Framework for a Comparative Understanding of Corporate Social Responsibility." *Academy of Management Review* 33, no. 2 (2008): 404-424.

<sup>14</sup> In the words of the American economist Arthur Okun, in a capitalistic society “there must be a place for markets and markets must be kept in their place.” From: Okun, Arthur M. *Equality and Efficiency: The Big tradeoff*. Brookings Institution Press. (1975).

<sup>15</sup> Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G. (2019): Sustainable Development Report 2019. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN). Available at [www.sdgindex.org](http://www.sdgindex.org)

<sup>16</sup> <https://www.pewresearch.org/fact-tank/2016/01/04/millennials-views-of-news-media-religious-organizations-grow-more-negative>

<sup>17</sup> <https://www.people-press.org/2010/04/18/distrust-discontent-anger-and-partisan-rancor/>

## Appendix A: UN Sustainable Development Goals

