

The Call For A Capitalist Reformation

It's Time to Reimagine the Purpose of Business and Redefine Success



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Martin Luther nailing his 95 Theses to the church door, catalyzing the Protestant Reformation. (Ferdinand Pauwels/Wikimedia Commons)

Larry Fink [challenges](#). Tucker Carlson [rants](#). David Brooks [moralizes](#). Others wonder [Can American Capitalism Survive?](#) They all correctly diagnose the problem — a broken economic system that is not meeting the needs of the vast majority of people and that has embedded incentives that make it designed

to fail in the more perilous times ahead — but they all fail to see clearly how long we've had this problem, what is its root cause, and what is required for its solution.

Capitalism did not go off the rails in the last 40 years. It may have metastasized into a financialized cancer, but capitalism's cancer gene has been there since the beginning. Unconstrained, growth-at-any-cost, profit-over-purpose capitalism has destroyed the lives of millions upon millions of people for hundreds of years. They just weren't people we typically cared enough about to behave differently or to question the system, as long as it was working for us. By "we" and "us," I mean those who created and have benefited most from the capitalist system. But we are coming to [a day of reckoning](#). If we do not properly diagnose the root cause of our potentially fatal illness, we will fail to develop or — worse — fail to use a promising cure.

That such diverse public figures as Fink, Carlson and Brooks are now recognizing what everyday people around the world have known and felt for a long time is good news. System change can only happen if there is widespread recognition that the current system is failing. But that is not enough: System change also requires a credible alternative.

Our Historic Opportunity

Certain moments in history are pivotal. Those of us in positions of power lucky enough to live in those moments have the opportunity to shape the contours of history for future generations.

To understand better the opportunity we have today, it is useful to look back to previous

pivotal moments that have shaped our lives in ways at once profound and invisible — like the quality of the air we breathe.

In the Middle Ages, the Catholic Church was the most powerful institution in the world, and it was in desperate need of reformation. In response, a relatively unknown monk named Martin Luther posted [95 Theses](#) to the public bulletin board of the day, challenging the Church's fundamental corruption that let people off the hook for their bad behavior as long as they made charitable contributions to the Church. That single act of courage catalyzed the Protestant Reformation which, along with the [Age of Discovery](#), accelerated the culture shift that gave birth to the Scientific Revolution, ushered in the Enlightenment and, perhaps most profoundly, unleashed the ethic of [Individualism](#) and the forces of Capitalism, which have increasingly dominated our culture globally for the last 500 years.

Fast forward to today: Capitalism is the most powerful institution in the world. As did the Church, capitalism shapes every part of our lives in myriad ways, from the beautiful to the destructive. Growing populist anger and the internet's potential for radical transparency in the decade since the global financial crisis are elevating a fundamental public debate about the role of business in society and whether business should put [purpose before profit](#). Others across the ideological spectrum have pointed out the obvious: [hyper-individualism](#) and its offspring, [winners-take-all-capitalism](#), have together become an economic system that is in desperate need of reformation if it is to deliver on its unfulfilled promise to create prosperity for all, and for the long term.

But who will accelerate the necessary culture shift today and nail 21st Century Theses to capitalism's door?

As it required a monk to reform the Church, it will require business leaders to reform capitalism.

Today every business leader in the world has the power to unleash a new reformation — a Capitalist Reformation — that has the potential to shape our history for the next 500 years.

The Capitalist System in History

The history of capitalism is like the history of humanity: complex; full of darkness and light; a reflection of who we are.

The British East India Company and the Dutch East India Company were the world's first corporations. They were both founded around 1600, about 80 years after Martin Luther's courageous act — and about the same distance as we are today from World War II and America's "Greatest Generation." For hundreds of years, these and other early corporations literally added to our [spice of life](#) and made our lives [sweeter](#). Increased trade helped ideas flow more freely, particularly in the Western world. It also helped innovations multiply; comfort, convenience and leisure increase for many; and wealth accumulate for some. Yet, imperial capitalism came at a high cost with devastating [negative consequences](#): colonialism, enslavement and land expropriation, genocide. In fact, it was the horrid that provided the capital — human, natural and financial — to support the immense and rapid advancements that today define our world.

One horrifying example looms large: Over more than 400 years, 12.5 million African people were kidnapped, enslaved and sold to

build wealth and power largely for white men in the United States, the Caribbean and South America, as well as in Portugal, Spain and the UK. The first enslaved Africans were shipped directly to the Americas in 1518, one year after Martin Luther nailed his 95 Theses to the door of Castle Church. The centrality and largely unconstrained profit motive in capitalism has been with us since the beginning.

We are all making decisions — and have been making decisions for centuries — within the cultural and legal context of the economic system of capitalism as it has been designed: in order to maximize profit. Since its beginning, that system has been based upon perverse incentives — incentives that led capitalists to enslave 12.5 million human beings. Those incentives led business people to pack human beings like cord wood, chained together in inhuman conditions, because that was the best way to ship container loads of “product” to maximize yield. It was business people — not just slave traders and plantation owners, but also their bankers and insurers — who priced their “product” to account for 20 to 30 percent loss in transit; 20 to 30 percent loss of human lives; 20 to 30 percent loss of mothers and fathers, of daughters and sons. That cold calculation was a result of the embedded incentives in the same economic system upon which our current global economy is based.

Any righteous judgment today of the individual ethics and morality of those business people does not address our willful blindness or lack of motivation to fix the still-present flaw in the design of an unjust system and the structural inequities and loss of our humanity that result.

But the point of looking clear-eyed at the history of capitalism is not about individual actions or inactions. It's about having the courage to recognize the [hard truths](#) of the economic system in which we have been operating. The profits from the [business of slavery](#) helped finance the Industrial Revolution that created the world we know today.

If business leaders want to take credit for all the good that has come from capitalism, then we also must reconcile all the bad that has come along with it. One way to do that is to use our unique power and privilege to design and invest in a better system that serves all of us, not just some of us.

A Capitalist System for the Future

The perverse incentives inherent in a largely unconstrained capitalist system still exist. These incentives drive behaviors that increase inequality, reduce social mobility, devalue communities, deplete soils, acidify oceans, destroy biodiversity, trigger mass migrations and social instability, and fuel violence and war. These perverse incentives lead to concrete business practices such as predatory pricing, wage suppression, insufficient investment in a [just transition](#) to zero-carbon business models, as well as business trends that are or are likely to impose huge costs on taxpayers resulting from rising contract labor, accelerating automation and worsening natural disasters. From the perspectives of a growing number of business leaders, investors and policy makers, these incentives are now creating unacceptable systemic risk. This is why [the systemic design flaws in unconstrained capitalism are creating unlikely bedfellows](#) such as Sen. Elizabeth Warren, Vice President Mike Pence and BlackRock CEO Larry Fink.

BlackRock manages more than \$6 trillion in assets, making it the largest investor in the world. Fink's just-released 2019 Letter to CEOs titled "[Purpose & Profit](#)" challenges CEOs to lead with purpose and follows his 2018 letter which served notice that if both publicly traded and private companies can't demonstrate that they're creating positive social value, they might lose their license to operate and, more pointedly, lose BlackRock's support. These are big words from the largest institutional investor on the planet. One observer called it "[a watershed moment](#) on Wall Street, one that raises all sorts of questions about the very nature of capitalism."

One of the most powerful arguments of the counter-reformation is used so often it has an acronym: TINA, which stands for There Is No Alternative. Sometimes this argument is used with condescension, sometimes in resignation.

The good news is that today There Is a Credible Alternative. It is no longer acceptable to lament the constraints of market forces, wishing there were a tool that could harness unconstrained capitalism's otherwise amoral power for a higher purpose than profit maximization. That tool is here today, and it is in use by companies across the globe.

Vice President Pence and 16 other Republican governors have passed legislation to create a new tool for corporate governance that attempts to solve capitalism's system design problem. Today, 34 states and two countries have passed benefit corporation laws that give business leaders and investors a choice to use this new corporate governance structure that aligns the interests of business with the interests of society. Roughly a half dozen other countries are at various stages of considering similar legislation.

Companies that adopt [benefit corporation governance](#) create greater accountability to serve the public interest (that's all of us, by the way) because they are required to consider the impact of their decisions not only on their shareholders but also on their workers, customers, suppliers, communities and the environment. More than 8,000 businesses — so far predominantly disruptive private companies such as [Allbirds](#) in footwear, [Lemonade](#) in insurance, and [Beta Bionics](#) in medical devices — have already voluntarily adopted benefit corporation governance. Collectively, they have raised more than \$2 billion in venture capital, private equity, and in the first initial public offering by [Laureate Education](#) led by KKR. Fortune 500 companies such as Unilever, Danone, P&G and Nestle are using benefit corporation governance or similar structures for their purpose-driven subsidiaries.

Seeing promise, in August 2018, Sen. Warren (now a presidential candidate) introduced the [Accountable Capitalism Act](#) to accelerate adoption of this new corporate governance tool by making it mandatory for large companies. The legislation would require the [fewer than 4,000 corporations](#) in the United States that generate more than \$1 billion in revenue to adopt benefit corporation governance so that the purpose of these businesses is aligned with the interests of society. David Leonhardt of The New York Times called this “the [most intriguing policy idea](#) to come out of the early 2020 campaign.” Others, including Nobel Laureate in economics [Robert Shiller](#), have also found benefit corporation governance a promising innovation.

Whether you think Sen. Warren's regulatory approach is a good or bad idea isn't really the point. The point is that the world's largest investors, political leaders and thought leaders across the ideological spectrum agree on one thing: We need to evolve this institution of capitalism so that it is serving the interests of all people and communities, not just the interests of shareholders. We need to reform the institution of capitalism so that “in order to

maximize profit” is no longer the driving force and sole purpose of business.

And the stakes are getting higher.

In a world where machines and humans are integrated, where corporations track our every movement and curiosity, where algorithms manipulate us to buy things at certain times or vote certain ways, we are putting into the hands of business leaders the power to answer fundamental questions: What does it mean to be human? Does privacy exist? Is there free will?

This raises the big question: What operating system do we want for capitalism in the 21st century?

If the operating system says business leaders must make decisions “in order to maximize profit,” then we will deploy these new technologies accordingly, and we will end up in a very different world than if the operating system says we must make decisions “in order to maximize benefit for society.”

A [recent article](#) by the U.S. business editor of The Financial Times asks “should business put purpose before profit?” After surveying the landscape of people wrestling with this system design question, he concludes: “For this capitalist reformation to succeed, however, it will have to prove it has more substance than spin, survive the market’s down cycles and persuade a public whose faith in corporate and institutional elites remains fragile.”

In answer to that challenge, today more than 8,000 businesses have adopted benefit corporation governance and 2,600 businesses have met the performance, transparency and accountability requirements to become [Certified B Corporations](#). The leaders of these businesses share one vision: to replace the source code error in the operating system of capitalism — shareholder primacy — that dictates every decision seek to meet the objective “in order to maximize profit,” and to replace it with an operating system that empowers every decision to seek to meet the objective “in order to maximize benefit for society.”

A Capitalist Reformation is about reimagining the purpose of business and redefining success.

Certified B Corporations and benefit corporations are part of a much broader global movement of people using business as a force for good: Conscious Capitalism, Circular Economy, The B Team, Sistema B, Coalition for Inclusive Capitalism, Business Alliance for Local Living Economies, Social Venture Circle, LEED, Fair Trade, Organic, Impact Investing, to name just a few in this diverse ecosystem of reformers.

We are all parts of a global culture shift to reform capitalism so its purpose is to create value for everybody, not just a few. The role of Certified B Corporations and benefit corporations in this broader movement is to make sure that this movement is meaningful and lasting: that there are real legal structures to support this behavior, performance standards to address understandable skepticism and public transparency to invite improvement on our inevitable shortcomings.

We are at the early stages of a Capitalist Reformation. The doctrine of shareholder primacy is a form of oppression and resistance to our basic nature as human beings. We have been

born into an economic system that treats us as less than human — as Homo Economicus. This old system does not value our humanity. But a new system is being born. This new system serves a 21st century model of leadership whose purpose is to create value for all stakeholders, not just shareholders. And this new system will help us live into our full potential as human beings.

Here is the [Declaration](#) that one group of business leaders is nailing to capitalism's door:

“We envision a global economy that uses business as a force for good.

This economy is comprised of a new type of corporation — the B Corporation — which is purpose-driven and creates value for all stakeholders, not just shareholders.

As B Corporations and leaders of this emerging economy, we believe:

That we must be the change we seek in the world;

That all business ought to be conducted as if people and place mattered;

That, through their products, practices and profits, businesses should aspire to do no harm and benefit all.

To do so requires that we act with the understanding that we are each dependent upon another and thus responsible for each other and future generations.”

Will you be part of the reformation or will you settle for a failing system?

What will you do to create a capitalism that works for everyone and for the long term?

This article was originally published [in Forbes](#). B the Change gathers and shares the voices from within the movement of people using business as a force for good and the community of [Certified B Corporations](#). The opinions expressed do not necessarily reflect those of the nonprofit B Lab.