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Corporate Purpose in a World with Governments

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UNIVERSITY OF MICHIGAN

Corporate Purpose in a World with Governments

Abstract

The world faces many grand societal challenges (GSC) such as climate change and global poverty. This article is about two issues: the appropriate roles for business and governments in addressing the GSC, and why we can expect them to fulfill these roles. The 'stakeholderism' perspective argues that companies driven by corporate purpose should cater to multiple stakeholders, and take the leading role in addressing the GSC. The opposite perspective 'shareholderism' – famously associated with Milton Friedman -- argues that companies should maximize shareholder value, assuming there is no market failure. If there is a market failure, then government intervention is needed. Proponents of stakeholderism assert that their perspective has diffused through the global business community. I first argue for shareholderism on a normative basis. I then argue that the apparent rise of stakeholderism is just rhetorical, and that shareholderism continues to dominate the practice of business. Simultaneously I also disagree with Friedman's view that market failures are rare and government intervention is inherently ineffective. I conclude that governments must play a critical and pivotal role in addressing the GSC. We need significant institutional changes to improve the political and government processes.

The world faces many grand societal challenges (GSC) including climate change, resource depletion, poverty, income inequality, disruptive immigration, social justice, human rights, discrimination, and global pandemics. This article is about two issues: the appropriate roles for business and governments in addressing the GSC, and why we can expect them to fulfill these roles. These, of course, are controversial issues. Much of the debate historically has taken place in the fields of political science, public policy and economics. More recently the business community – executives, consultants and academics – have entered this debate. In this article, I will take a clear stand that is contrary to the prevailing opinion in the business academe, and try to defend my position. In particular, many of my colleagues in the business academe argue that business must play the leading role in addressing GSC, and often barely mention governments, and sometimes explicitly downplay the role of governments. Whereas I will argue that governments must play the leading and pivotal role in addressing GSC.

An important issue in addressing GSC is the appropriate roles for business and governments. Civil society too has a role: civil society can be a catalyst, advocate and watchdog, but it just does not have the resources to be a leading player given the scale of GSC. Business has the resources -- capital and expertise -- to play a significant role. Governments also have resources, and more importantly, have the unique power of coercion. Only governments have the power to impose taxes, and to formulate and enforce laws and regulations. The second important issue is why business and governments will fulfill their appropriate roles. If a government does not fulfill its role, it can be pushed out of power by a democratic process or by revolution. A specific business organization may fulfill its appropriate role for one of three reasons: 1) it does so voluntarily because it is in its self-interest, or 2) it is not in its self-interest, but it behaves altruistically, or 3) it is incentivized or forced to do so by the government.

An old debate in corporate governance is whether companies should maximize shareholder value or cater to multiple stakeholders. For much of history the consensus has favored shareholders. In about the last ten years, *corporate purpose* (one of many labels for the stakeholder perspective) has captured the attention and the imagination of strategy scholars. The journal *Strategy Science* had a special issue focused on ‘corporate purpose’ in June 2023. The field of strategic management has a history of convening Strategy Summits, which have turned out to be very influential. The third summit took place in August 2024 and brought together many of the leading strategy scholars. The concept of corporate purpose, albeit under different labels (stakeholder theory and grand societal challenges), was a major topic of discussion. All the panel speakers and most of the audience agreed that companies should have a purpose *beyond* maximizing shareholder value. At the Strategic Management Society’s 2024 annual conference, there were two plenary sessions directly focused on corporate purpose (albeit one under the label ESG). The theme of the European Academy of Management conference in June 2025 was “Managing with Purpose.” Prominent scholars have written books arguing for reimagining capitalism in favor of the stakeholder perspective (Henderson 2020; Edmans 2020; Hoffman 2025).

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Insert Table 1 about here

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Over time there have been many labels associated with the concept of corporate purpose – see Table 1. Proponents of these various propositions would claim there are differences between the different concepts. In fact, several scholars and practitioners use many of these labels interchangeably, and so will I; for the most part, I will use the old label corporate social responsibility (CSR). The differences (if any) among these propositions are minor and the commonalities are major. The biggest commonalities are that they all oppose (or, at least, claim to oppose) shareholder value maximization (almost always associated with Milton Friedman), favor voluntary actions by companies, and explicitly or implicitly downplay the role of the government. Friedman (1970) argued in an article – that has since become famous -- that corporate executives should “make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom." The central debate is whether companies should maximize shareholder value or cater to multiple stakeholders; the shareholder perspective historically has been the dominant view in the business world. Yet, most strategy scholars now write as if this is an old issue that has been fully resolved in favor of multiple stakeholders, probably prompted by the *apparent* embrace of stakeholderism by some influential business organizations and corporate executives.

The shareholder perspective argues that firms should maximize shareholder value because that will simultaneously (even if unintentionally) maximize societal welfare, assuming that there is no *market failure*. Friedman (1970) does not use that phrase specifically, but he does discuss market failures such as pollution. When there is enough of a market failure, then government intervention is essential. So far, most economists (and I) agree with the conceptual argument of Friedman; this is not that controversial. But, in his other writing, Friedman argued that market failures were rare and often exaggerated. Further, he argued that government intervention intended to correct market failures often did more harm than good (Friedman 1962; Friedman and Friedman 1980). This is where the controversy resides, and where I (and many others) differ from Friedman. I believe that market failures are not that rare – in fact, most GSC can be framed as market failures -- and government failures are not inherent nor inevitable. Governments must play the leading and pivotal role in addressing the GSC. We can and should improve the functioning of the government and the political process to be more effective. We do not need to reimagine capitalism; instead we need to re-engineer the government.

I will briefly summarize the basic argument in support of shareholder value maximization and against CSR; I will then argue that the shareholder perspective continues to dominate the business world, and that the apparent embrace of stakeholderism by executives is only rhetorical. I will conclude by arguing that governments must play the leading and pivotal role in addressing GSC.

Shareholder perspective versus Stakeholder perspective

Lyons *et al* (2018) generously credit me with updating Friedman's argument in Karnani (2011). I will reiterate that argument here briefly; for a fuller exposition see Karnani (2011) and Clyde *et al* (2018). It is useful to categorize firm strategies using a two-by-two matrix based on the impact of these strategies on firm profits and societal welfare – see Table 2.

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Insert Table 2 about here

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Firms that maximize profits provide social benefits to consumers and producers (including shareholders, managers and workers). Consumers who voluntarily purchase a product (or service) in a free market believe that the value they derive is greater than the price they paid; this *consumer surplus* represents a social gain. Every single business transaction in a free market creates this value. Because consumer surplus is difficult to measure it is often overlooked. Profit-maximizing firms also employ people, purchase from suppliers and deploy capital in ways that are superior to their alternatives. This generates value to all of those producers (including shareholders) above and beyond their alternatives; i.e. *producer surplus*. The sum of consumer surplus and producer surplus is the contribution of profit maximizing firms to societal welfare. In a free and competitive market, firms voluntarily acting in their self-interest pursuing profit maximization end up (even if unintentionally) maximizing societal welfare – as Adam Smith noted long ago. The incentives of the firm are aligned with those of society – this is the zone of opportunity and why capitalism creates so much value. But, markets, of course, do fail, as both Adam Smith and Milton Friedman were well aware. In that case, there is a trade-off between private profits and societal welfare; it is the role of the government to intervene and protect societal welfare -- we will discuss this in further detail a little later in this article. First, I point out some of the common fallacies in the CSR argument.

No Trade-off Fallacy

In an efficient market, every profitable firm is contributing to societal welfare. For the CSR proposition to have any real substance, the firm has to produce more societal welfare than a normal profit-maximizing firm. The CSR proposition first posits that firms have a social responsibility to go *beyond* making profits. A common problem with the CSR proposition, is that, at times, it paradoxically states that there is no trade-off between profits and public interests – no financial sacrifice is involved. This is what Paine (2024) calls 'instrumental stakeholderism' that states "companies should consider the interests of their non-shareholder stakeholders but should serve those interests only if doing so would maximize shareholder value," as opposed to classic or true stakeholderism which considers stakeholder welfare as an end in itself, and would serve stakeholder interests even if that reduces shareholder value. This instrumental approach is the win-win solution advocated by various strategy gurus: 'shared value' proposition advocated by Porter and Kramer (2006); bottom-of-pyramid proposition of CK Prahalad (2009); reverse innovation advocated by Govindrajan and Trimble (2012). It has also been referred to as the business case for CSR. The popular movement Conscious Capitalism claims that "the profit motive, not government or charity, will create the kind of socially responsible world we want… creating a win-win business model – with the wins being what benefits the company, its stakeholders, and the environment/society in general – is the only way to optimize value" (Maddock and Vitón 2009).

This instrumental approach to stakeholderism does not contradict the shareholder perspective at all; it is not about whether to maximize shareholder value, rather it is about how to maximize shareholder value. Some authors call this enlightened shareholder value. Well, nobody has ever advocated for unenlightened shareholder value! Friedman certainly would have agreed with instrumental stakeholderism, which is conceptually identical to shareholder primacy; he explicitly acknowledged in his famous article that treating stakeholders well may be good for shareholder value. United States District Judge Reed O'Connor (2025) agrees with this perspective in his recent ruling that was widely perceived as being anti-ESG. “Investing that aims to reduce material risk or increase return for the exclusive purpose of obtaining a financial benefit is *not* ESG investing… ESG investing is a strategy that considers a non-pecuniary interest as *an end* in itself rather than as a means to some financial end.”

The major debate is between maximizing shareholder value versus stakeholder value, or between shareholderism versus stakeholderism. Introducing the term instrumental stakeholderism – which is essentially shareholderism – is unnecessarily confusing. But, unfortunately it is already a part of the lexicon now; readers should be careful to distinguish between instrumental stakeholderism and true stakeholderism (which increases stakeholder value at the expense of shareholders). For all practical purposes, shareholder primacy, enlightened shareholder value and instrumental stakeholderism are synonymous. Many people who claim to support stakeholderism actually support instrumental stakeholderism, which is effectively shareholderism. Bebchuk *et al* (2022) “show that, at best, this [instrumental stakeholderism] approach would fail to deliver any material benefits to stakeholders or society. At worst, however, enlightened shareholder value would fuel confusion and misperceptions about what corporate leaders actually do, and would generate illusory expectations that could impede more promising solutions to social problems.”

O’Toole and Vogel (2011) claim that CSR critics like me scoff that such win-win profitable activities are “just good business.” The word *just* does not imply that these activities are easy to find or execute; in fact *good business* is hard to do – otherwise we would not need so many business schools, management consultants and highly paid executives. But it is ‘just good business’ in the sense that it does not require any change in the objective of the firm away from shareholder value maximization. John Mackey, the founder and former CEO of Whole Foods and a proponent of conscious capitalism, states that the “the most successful businesses put the customer first, ahead of the investors.” Milton Friedman points out the logical fallacy: this “clearly means that this is the way to put the investors first” (Friedman *et al* 2005). Executives, of course, should try to find and implement creative win-win solutions. The problem is that win-win solutions will not address the GSC because of the immense scale of GSC. Unfortunately but not surprisingly, the GSC lie in the zone of trade-off (since they are almost always caused by market failures), not in the zone of opportunity; otherwise the world would have made much more progress in addressing the GSC by now. King and Pucker (2021) explain well the dangerous allure of win-win strategies. O'Toole and Vogel (2011) also agree that the number of such win-win business opportunities is limited.

Time Horizon Fallacy

Another common fallacy in the CSR argument is that the tension between firm profits and societal welfare is caused by executives maximizing profits in the short-term whereas maximizing societal welfare requires a long-term horizon (for example, Aguilera 2023). At least in a conceptual sense, this is a 'strawman' type of argument; nobody has ever advocated for short-term profit maximization. In practice, the longer the time horizon, the more difficult it is to maximize *any* objective, be it shareholder value or societal welfare, because of the increased uncertainty.

The short-term horizon of executives is often blamed on the short-term horizon of shareholders and the stock market. There is much evidence in modern finance that the stock markets in developed countries are at least reasonably *efficient*, meaning that the stock price is an unbiased estimate of the long-term value of the company (Malkiel 2003). Anecdotally, it is difficult to believe the stock market is short-term oriented and explain the market value of companies such as Nvidia or Tesla these days. Friedman wrote corporate executives should "make as much money as possible;" in current language it would be more accurate to say that executives should maximize shareholder value. The word 'value' in finance is by definition long-term, in contrast to profits which might be, say, annual. Maximizing value in the short-term is an oxymoron – since value by definition is long-term. Shareholders and the stock market are long-term oriented. Since executives are employees of shareholders, they too should be long-term oriented. Unfortunately, some managers are short-term oriented because of incompetence; or, as agency theory has shown, there is a divergence between the interests (and time horizons) of the shareholders and managers. The way to solve the first problem of incompetence is appropriate management recruiting and development. Competitive pressures in the market penalize incompetent managers, and lead to the managers becoming more competent or being replaced. Solving the agency problem requires effective managerial incentives and improved corporate governance. An appeal to CSR will not solve either of these problems; in fact, it is likely to increase the agency problem because of greater managerial discretion.

Fallacies of Composition and Division

Paul Polman, the former CEO of Unilever and a major proponent of the stakeholder perspective, supports his argument by stating "business cannot succeed in societies that fail" (Anderson 2020). Many other supporters of CSR commit the same fallacy of division. What is true for the collective (business) need not be true for an individual member (a specific company). A particular firm might in fact benefit by being irresponsible and free-riding on all the other firms being socially responsible. This, of course, leads to the tragedy of the commons, which I will discuss later in this article.

Another common fallacy in the CSR literature is to cite one success story and suggest all firms should follow the same strategy. For example, Whole Foods is a major supporter of organic foods, and is a successful grocery store chain -- its founder John Mackey is a proponent of conscious capitalism. We are told organic farming is not only better for us, but also better for the environment. This is a fantasy. Organic farming has lower yields, uses more land to produce the same amount of food, needs more water and labor, and can produce more carbon emissions per unit of food – the whole world cannot switch to organic farming. What is true of a part (one company) is not true for the whole (the world) – this is a fallacy of composition. To address the GSC it is not enough to cite one (or a few) examples of profitable virtuous companies, as many

CSR proponents often do. As Vogel (2005) has convincingly argued, the market for virtue is quite narrow and limited. Given the scale of the GSC, the CSR proponents need to argue that a large fraction of all firms are altruistic.

The *Apparent* Rise of CSR

There has been a recent surge of interest and research on CSR in the business academe, especially in the field of strategy. Several of the papers on CSR in general, and in the 2023 Special Issue of *Strategy Science* in particular, assert that the shift from shareholder value to stakeholder value has diffused through the global community including executives, consultants and academics. It is claimed that corporate purpose has become a central part of doing business as usual, and that large groups of corporate leaders have publicly embraced a broader conception of corporate purpose. Socially aware scholars, leaders, and activists have been calling for a reinvention of capitalism that puts purpose at the core of business. To the contrary, I argue that the shareholder perspective continues to dominate the business world, and all the talk about stakeholderism is just that: talk.

What has triggered this growing interest in CSR? Many strategy scholars in this field mention three recent events: 1) the Business Roundtable (2019) issued a statement in August 2019 committing to the stakeholder perspective, 2) Larry Fink (2018), CEO of Blackrock (the largest asset manager), wrote a public letter in 2018 asking companies to adopt the stakeholder perspective, 3) “pharmaceutical companies aggressively and successfully developed vaccines” in response to the COVID pandemic (McGahan 2023). In addition, the World Economic Forum (2019) issued its Davos Manifesto which argued for the stakeholder perspective. A memorandum by the prominent law firm Wachtell, Lipton declared 2019 to be a “watershed year” in corporate governance due to “the advent of stakeholder governance.” I will show that the strategy scholars are misconstruing the meaning and significance of these events.

Business Round Table

Most legal scholars believe that the Business Roundtable (BRT) statement does not reject shareholder primacy (Dammann and Lawrence 2024). Almost 70% of CEOs who signed the BRT statement are incorporated in Delaware, where the courts firmly adhere to the shareholder primacy principle. The BRT statement is proposing instrumental stakeholderism (or enlightened shareholder value), which is perfectly consistent with shareholder value maximization. In fact, the Business Roundtable (2019b) makes it clear that its statement is not a “repudiation of shareholder interests in favor of political and social goals,” and that protecting stakeholders is the right way to build a successful business for shareholders.

Legal scholar Lucian Bebchuk has been particularly effective at arguing against stakeholderism, and this paragraph draws heavily on the research conducted by him and his co-authors. Bebchuk and Tallarita (2020) “show that the BRT statement was mostly for show, largely representing a rhetorical public relations move, rather than the harbinger of meaningful change.” They find that the CEOs signed the statement largely without seeking advance approval from the board of directors or subsequent ratification. Surely the board would be involved in any significant change in the purpose of the company. The COVID pandemic was accompanied by peak support for and broad expressions of commitment to stakeholderism by corporate leaders. Bebchuk *et al* (2023) analyzed 122 large ($1B+) acquisitions during the period 2020-2022. The deals provided large gains for shareholders of target companies as well as substantial private benefits for corporate leaders. But, the leaders largely did not obtain any employee protections, and failed to negotiate for protections for customers, suppliers, communities, the environment, and other stakeholders. Constituency statutes in many U.S. states authorize corporate leaders to give weight to stakeholder interests when considering the sale of their company. Analysis of more than one hundred such transactions shows that corporate leaders used their discretion to obtain gains for shareholders, executives and directors, but did not negotiate for any stakeholder protections (Bebchuk *et al* 2021). Elon Musk's purchase of Twitter is a prime example of this (Bebchuk *et al* 2023b). When negotiating the deal, Twitter's corporate leaders chose to focus exclusively on the interests of their shareholders and the private interests of the leaders themselves, despite their stakeholder rhetoric over the years. In particular the leaders did not attempt to allocate a share of the large gains from the deal to the company's employees. In the years before the sale, Twitter had consistently used strong stakeholderism rhetoric in its mission statements and core values: "Becoming the world's most inclusive, diverse, equitable, and accessible tech company." The leaders completely pushed aside the employees when a substantial acquisition premium was put on the table.

The World Economic Forum grounds its defense of stakeholderism in The Davos Manifesto in the view that this would "strengthen the long-term prosperity of the company." In fact, the founder and executive chairman of the World Economic Forum in his book on stakeholder capitalism defines it as "a form of capitalism in which companies seek long-term value creation by taking into account the needs of all their stakeholders and society at large" (Schwab and Vanham 2021) – this clearly is support for instrumental stakeholderism.

BlackRock

Larry Fink (2018), CEO of BlackRock in his 2018 Annual Letter wrote that "companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate." So far it is unclear whether he means to support instrumental stakeholderism or true stakeholderism. The next paragraph seems to tilt towards the instrumental approach: "Without a sense of purpose, no company, either public or private, can achieve its full potential… And ultimately, that company will provide subpar returns to its investors." In his 2022 letter, Fink (2022) makes it clear that he is advocating instrumental stakeholderism: "In today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders… Stakeholder capitalism is all about delivering long-term, durable returns for shareholders." The State of Tennessee sued BlackRock in 2023 accusing it of violating consumer protection laws and taking an inconsistent approach about whether it prioritized ESG considerations over investment returns. BlackRock completed its retreat from true stakeholderism when it settled the case with Tennessee in January 2025 by promising to disclose the reasons for its votes on corporate proxies, and agreeing to submit to compliance audits. The Tennessee attorney general said "while investors are always free to buy cause-oriented products instead of focusing on maximizing return, this settlement ensures that only investors who make a knowing choice will see their assets directed towards these non-financial goals" (Masters 2025). In January 2025 BlackRock formally withdrew from the Net Zero Asset Managers, a United Nations sponsored climate initiative – the *Wall Street Journal* called this "a remarkable U-turn for a company that once was a posterchild of the ESG investment movement."

This instrumental stakeholder approach is shared by many institutional investors, including the three largest asset managers Blackrock, State Street, and Vanguard. While many asset managers, including the big three, have urged CEOs to serve their full set of stakeholders, they "have carefully avoided any endorsement of a pluralistic [or true] conception of stakeholder capitalism, and they often explicitly stress that they care about stakeholder concerns because and to the extent that these concerns matter for shareholder value" (Bebchuk *et al* 2022).

COVID

Strategy scholar Anita McGahan (2023) credits the rise of stakeholderism in part to the "urgent and impressive private-sector response" to the COVID pandemic. "Pharmaceutical companies aggressively and successfully developed vaccines." Operation Warp Speed was a public-private partnership initiated in 2020 by the U.S. government to accelerate the development, manufacturing, and distribution of COVID vaccines. The government's role was pivotal in four key areas: funding R&D, advance purchase agreements, regulatory support and acceleration, and manufacturing and distribution infrastructure. The government provided significant financial support -- R&D funding and advance purchase contracts -- that mitigated the risk for the pharmaceutical companies. By March 2021, the government had contracted to pay out $18.2 billion, with Pfizer/BioNTech receiving $5.97B, Moderna $5.9B, AstraZeneca/Oxford University $1.2B, Johnson & Johnson $1.5B, Novavax $1.6B, and Sanofi/GSK $2B (Congressional Research Service 2021). This is not to take away credit from the role played by the private sector (which provided the technical expertise), but rather to emphasize the government's critical role in funding and risk mitigation; it also streamlined and expedited the drug approval process including Emergency Use Authorizations. It is unlikely the pharmaceutical companies would have acted with the same speed and vigor without the government's financial and regulatory support. Pfizer in 2021 had revenues of $81 billion, of which $37 billion came from the COVID vaccine alone; Moderna in 2021 had revenues of $18.5 billion, of which $17.7 came from the COVID vaccine, and profits of $11.3 billion. Even if purpose played a role in motivating these companies, it was perfectly consistent with shareholderism.

Rhetorical and Symbolic

The rise of stakeholderism in the business world is almost all rhetorical and symbolic. In the only skeptical paper in the *Strategy Science* special issue, Westphal (2023) describes the "systemic nature of symbolic management and decoupling as it applies to CSR," and presents evidence suggesting "that CSR-contingent [executive] pay is typically more symbolic than substantive." In fact for several companies mentioned as exemplars for stakeholderism, the trend is going in the opposite direction. In their introductory essay, the editors of the Special Issue of *Strategy Science* mention Unilever as an "exemplar" of sustainable capitalism. Paul Polman was the CEO of Unilever from 2009 to 2018; during his tenure, the company's stock performed well. In 2017

Unilever faced a hostile takeover bid from Kraft Heinz. As activist investors and hedge funds gained influence, there was increasing pressure on Unilever to prioritize profitability and shareholder returns. These trends accelerated during Alan Jope's tenure as CEO from 2019 to 2023. Unilever's stock significantly underperformed compared to its competitors Procter & Gamble and Nestlé's. Influential fund manager Terry Smith (a top-10 shareholder in Unilever) criticized the Unilever management for displaying its sustainability credentials at the expense of running the business. Hein Schumacher became the CEO of Unilever in 2023. He said that the idea of corporate purpose could be an "unwelcome distraction" as he laid out a plan to drive faster growth, productivity and building a "performance culture," as well as an overhaul of the company's leadership (Speed 2023; Salinas and Somasundaram 2024).

There are many examples of companies retreating from their previous CSR positions. The energy company "BP, which previously pledged to be a 'world leader in offshore wind,' has pulled back from renewables under the current chief executive Murray Aushincloss to focus instead on oil and gas. Its decision follows the signal from Shell last week [December 2024] that it did not intend to initiate any new offshore wind projects, as it too retreats from renewable generation" (Moore 2024). Danone has long been recognized for its commitment to CSR especially under the leadership of former CEO Emmanuel Faber. However, in March 2021, Faber was ousted amid shareholder concerns over the firm's financial performance. The new CEO Antoine de Saint-Affrique introduced the 'Renew Danone' strategic plan in March 2022, aiming to restore growth and drive value creation (Financial Times 2022). Recently the six largest U.S. banks, including JP Morgan and Goldman Sachs, have left the Net Zero Banking Alliance (which was formed after the COP26 summit in Glasgow in 2021) (Nelson 2025).

Activist hedge funds, who clearly and strongly subscribe to the shareholder perspective, have experienced significant growth in size over the last two decades, reflecting their increasing influence. Activist hedge funds managed about $12 billion in 2003; this has grown to over $200 billion in 2024. This upward trajectory highlights the expanding role of activist funds in shaping corporate strategies and the drive for shareholder value maximization (Kirman *et al* 2024). As their influence has increased, activist investors have targeted larger corporations and achieved notable successes, such as at Starbucks and Disney recently. Headhunter Russell Reynolds Associates, which tracked CEO turnover across 13 global stock market indices, said 202 bosses of some of the world's largest listed companies left in 2024 – up 9 per cent from 2023. Of those exits, 43 CEOs departed within 36 months of taking up the job – the highest number since 2018 – "as activist investor impatience for underperformance ran thin" (Raval 2025).

The overall picture for CSR does not look good. A major and visible proponent of stakeholderism has been Paul Polman, former CEO of Unilever. He and his co-author write "five years after the Business Roundtable's call for companies to pursue more than just profit, enthusiasm has dwindled" (Polman and Winston 2024). A prominent economist Lynn Paine (2024), who is sympathetic to the stakeholder perspective, writes in the *Harvard Business Review* "five years later, the debate continues and the envisioned mass pivot to stakeholderism has not materialized… and shareholder primacy remains deeply embedded in our system of corporate governance." John Elkington (2018), writes in 2018, 25 years after coining the term 'triple bottom line,' "clearly, the Triple Bottom Line has failed to bury the single bottom line paradigm." In the US, dozens of anti-ESG laws have been enacted in Republican controlled states. The proponents of these laws have successfully argued that fund managers taking a sustainable approach have caused their investors to lose out. "I think there is a lot of pessimism about sustainable investing," says Hortense Bioy, head of sustainable investing research at Morningstar Sustainalytics (Boyde 2024).

Market Failures

Market failures occur due to three causes: externalities, asymmetric information, and market power. If there is market failure, societal welfare and private profits are not congruent; this is the zone of trade-off between societal welfare and private profits. The Business Roundtable (2019b) explicitly denies that long-term shareholder value and stakeholder interests may ever be in conflict, by stating that "while . . . different stakeholders may have competing interests in the short term, . . . the interests of all stakeholders are inseparable in the long term." This view is clearly wrong. In fact, potential trade-offs between shareholders and stakeholders are ubiquitous, in particular in every case of market failure.

Externalities are, by definition, costs and benefits that are not realized by either the producer or the consumer. The easiest example, and one that has appropriately attracted the most attention, is pollution, which includes air and water pollution, as well as local and global pollution. Friedman does discuss pollution in his famous article and his other writing. But he also argues that market failures are rare and often exaggerated; even when they are real, they are often temporary because they are eliminated by competition and technological change (Friedman 1962; Friedman and Friedman 1980). On the contrary, I think market failures are neither rare nor temporary. My difference with Friedman's views about market failures is not a conceptual disagreement; it is an empirical issue that is hard to settle using large-scale data – it is a judgment call based on several examples. Negative externalities are a major cause of climate change. According to the Global Carbon Project, in 1970, global CO2 emissions from fossil fuels were about 14.9 billion tons; by 2022 emissions were 37 billion tons. Despite awareness of the issue for decades, market forces have been insufficient to address climate change. In healthcare, information asymmetry continues to be a significant and growing issue due to increasing technological complexity. Friedman argued that market mechanisms would incentivize pharmaceutical firms to maintain quality without stringent regulation. It is hard to support that position today, especially after the opioid crisis; every major country regulates pharmaceutical products for safety and efficacy. In the tech industry, concentration of market power has increased over time and is persistent significantly due to network effects. In a rare instance of bipartisan agreement in the politically polarized U.S., both Senators Elizabeth Warren and Ted Cruz agree that antitrust policy needs to be tightened for the tech industry. Almost all the GSC can be attributed to some sort of market failure, which seem quite pervasive and persistent. All the attention focused on CSR is driven by market failures; if market failures were rare and temporary, CSR would not be such a trendy topic.

To be fair to Friedman's views, it is likely market failures were less severe in 1970 than today for three reasons: 1) strains on natural resources have increased, 2) technology and science are more advanced and complicated now, and 3) scale economies and network effects are larger now. For example, it is likely that the rate of environmental damage is greater today than in 1970 due to increase in population and consumption. Whatever the extent of environmental damage, we are also more aware of it due to increased scientific knowledge today compared to 1970.

Tragedy of the Commons

Pollution and some of the other GSC (such as climate change, resource depletion, biodiversity, forest management, and wildlife habitats) can be analyzed using the concept of tragedy of the commons; for a fuller exposition of the tragedy of the commons in the CSR context, see Karnani (2014). Hardin (1968) explained this concept using the fable of a pasture open to all people in a village. Each herdsman 'rationally' adds more sheep because his expected benefits are greater than his expected costs, since he selfishly ignores the costs imposed on others. This results in the pasture being destroyed – the tragedy of the commons. Thus, rational individual decisions cumulate to tragic overuse and the potential destruction of the commons. There has been much research on how to avert the tragedy of the commons, most notably by the Nobel Prize economist Elinor Ostrom (Ostrom *et al* 1999).

A critical assumption underlying Hardin's reasoning is that individuals are inherently selfish. The tragedy of the commons, of course, can be averted if individuals voluntarily and altruistically act in the interests of others in the wider community. However, the rational actor model that posits strict self-interest dominates the field of economics, and is also influential in other fields including political science, sociology, ecology, and psychology. As Adam Smith said "we are not ready to suspect any person of being defective in selfishness." It is not surprising that the bulk of research on solving the commons problem eschews altruism and focuses on property regimes. In individual property regimes, property rights to the commons are held by individuals who can exclude others; an example might be private ownership of grazing land bounded by a fence. For most commons in the context of GSC, individual privatization is not feasible in practice; for example, it would be impossible to privatize the earth's ozone layer. In group property regimes, resource rights are held by a group of users who can exclude others, and manage the commons using various mechanisms such as communication, trust, reciprocity, reputation, sanctions, and binding commitments. Ostrom has studied many examples of how groups of users have developed local (as opposed to governmental) institutional arrangements to successfully manage the commons. In government property regimes, resource rights are held by a government (central or a lower level) that can regulate the commons and enforce incentives such as taxes and subsidies. Empirical research has demonstrated that no property regime works well in all situations, and problems continue to exist in all property regimes.

Neither Hardin nor most of the subsequent research on managing the commons explicitly analyze the situation where the users are modern corporations owned by shareholders and run by professional managers. Corporate executives who believe they have a fiduciary responsibility to maximize shareholder value will not act altruistically. So, it would seem that Hardin's dire prediction of the tragedy of the commons applies even more in an economic landscape populated by publicly traded companies. The contrary, and more optimistic, view is that companies have CSR and decide voluntarily and altruistically to contribute to a better society, even though it reduces shareholder value.

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Insert Table 3 about here

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The alternative to CSR for averting the tragedy of the commons is a property regime to manage the commons – see Table 3. Due to the very nature of the commons, it is rarely feasible to assign property rights to firms individually. Moreover, private ownership by large corporations of the commons, which are often perceived as public goods, would be politically difficult in most democratic countries. Most examples of successful group property schemes have been in the context of very local communities, such as villages in Switzerland and Nepal. The use of community sanctions and social pressure was an important element of the group property regime, as were communication, trust, reputation, and anticipation of future interactions. All these elements are difficult to establish in the business context. Ostrom *et al* (1999) acknowledge that the "humanity now faces new challenges to establish global institutions to manage biodiversity, climate change, and other ecosystem services," and that these challenges will be particularly difficult because of the scale of the problem, cultural diversity, complexity of interlinked commons, accelerating rates of change, and need for unanimity. The counterpart of group property regimes in the business context is self-regulation by industries; not surprisingly the record of industry self-regulation has been mixed at best (Karnani 2011). Government property regime is in a sense the ultimate solution, because the government has the legitimate power of coercion to enforce the rules. It is the role and the responsibility of the government in a democratic society to manage the commons; a necessary condition for this to succeed, of course, is a competent government.

We have four different approaches to addressing negative externalities, or averting the tragedy of the commons: CSR, privatizing the commons, self-regulation and government intervention. The next question is how effective have these four approaches been in practice? In the context of addressing major problems such as the GSC, there are no instances of privatizing the commons, and few (if any) significant examples of successful self-regulation. Therefore I will concentrate on the other two approaches: CSR and government regulation. The debate between shareholderism and stakeholderism boils down to whether voluntary altruism or mandatory government regulation is more effective at getting companies to act in accordance with societal welfare.

There have been literally hundreds of empirical studies investigating the linkage between CSR and firm profitability, and the results have been mixed. The problem is that all these studies have focused on the wrong dependent variable: firm profitability; the dependent variable of primary interest should not be firm profitability but rather ought to be societal impact. In any case, positive correlation between CSR and firm profitability would be support for instrumental stakeholderism, not true stakeholderism. The whole point of CSR is to achieve better societal welfare – does it succeed at that? Unfortunately, empirical research on CSR has focused on input variables, such as CSR programs launched, money spent on CSR programs, or other dubious variables, such as CSR reports published, memberships in some clubs or consortia, ratings from sustainability rating agencies (despite evidence of managerial capture and co-optation, and weak reliability or validity of the measures). Let alone large scale empirical studies, there is not even anecdotal support for the hypothesis that CSR has had a significant impact on improving societal welfare.

Government Intervention

But there are many anecdotes for how government intervention has had an impact on improving societal welfare. Martin Luther King Jr.'s goal was to achieve racial equality and justice; he actively sought legislative changes to advance civil rights. The Civil Rights Act was passed in 1964 and the Voting Rights Act in 1965. Even though racial justice has not been achieved, there has been much progress made due to these legislations. CSR programs targeted at workforce diversity came along much later. As of 2024 there have been only 19 African American CEOs in the history of Fortune 500 companies; the first one Franklin Raines was appointed CEO of Fannie Mae in 1999, fully 35 years after the Civil Rights Act. African Americans are grossly under-represented in the upper echelons of corporate America in spite of all the CSR programs. As another example, Rachel Carson published her famous book *Silent Spring* in 1962. The major objectives of Carson and other environmental activists was to educate the public and advocate for government regulation. This led to the creation of the Environmental Protection Agency in 1970, the Clean Air Act in 1970, the Clean Water Act in 1972, and the Endangered Species Act in 1973. Another example: Ralph Nader published his famous book Unsafe at Any Speed in 1965, and his primary objective was to push for legislative changes to improve automobile safety. His campaign was instrumental in the passage of the National Traffic and Motor Vehicle Safety Act of 1966, which established federal safety standards for automobiles. The auto companies' response to Nader's campaign was defensive and, at times, antagonistic -- GM even hired private investigators to delve into Nader's personal life (Time 1966) – far from CSR programs to support auto safety.

Government interventions (laws, regulations, taxes, subsidies) have played a large and pivotal role in addressing negative externalities and improving societal welfare. It does not mean that the problems have been fully solved, but much progress has been made that can be directly attributed to government intervention. None of the proponents of CSR make any such claims about CSR. Most academics writing about CSR barely mention the government, and often explicitly downplay the role of government. In the 17 articles published in the 2023 Special Issue of *Strategy Science* on Corporate Purpose, the word 'purpose' appears 2,798 times, whereas the word 'government' appears only 43 times. This supports David Vogel's (Vogel and Reich 2008) insightful comment that "to the extent CSR is seen as a substitute for public policy, and to the extent it has an apolitical tone to it, or even an anti-government tone to it, which I think dominates a lot of writing on CSR, particularly in business schools, it is very unfortunate. Then I think CSR is a real serious problem and it is not responsible." Vogel (2006) argues that "the social responsibility movement has by large been apolitical: it has overlooked the importance of public policy… In some ways, social responsibility is a philosophy that reflects social liberalism but economic conservatism. I think that is why it is so popular among managers."

The basic question is why a company would act in a way that contributes to societal welfare? There are two possible cases: the company's self-interest and societal welfare are aligned or are in conflict. The first possibility occurs in free markets when there is no market failure. In that case the firm will voluntarily act in a way that also increase societal welfare, and there is no need for government intervention nor a need for altruism. If there is a market failure, then private profits and societal welfare are in conflict, there is a trade-off. Now, a firm will voluntarily act to increase societal welfare only if it is altruistic. While some firms (and people) may be altruistic, there is not enough altruism to solve the GSC – citing a few positive examples does not prove that altruism is an effective solution; this is the fallacy of composition. The only other solution is government intervention. The government could impose a tax (in the case of negative externalities) or offer a subsidy (in the case of positive externalities) such that now it is in the firm's self-interest to voluntarily act to contribute to societal welfare. Most economist agree with William Nordhaus (2013), economics Nobel Prize winner, that a carbon tax is the best way to address climate change. Governments also offer subsidies for R&D because of the positive externalities. In other situations, it may be better for the government to mandate that companies act in a way to contribute to societal welfare. For example, the government mandates that auto manufactures install catalytic converters on gasoline automobiles and meet various safety standards. When there are externalities, especially negative externalities, government intervention is essential.

To be clear, supporters of both shareholderism and stakeholderism are interested in increasing societal welfare and protecting all stakeholders. There is no difference in the ultimate objective and values. What they differ on is the means to get to that objective. Proponents of stakeholderism have to rely on altruism. Altruism at the individual level is not enough to solve societal problems. For example, there is traffic congestion in most major cities. If enough people altruistically chose to drive less often in city centers, traffic congestion would not be so bad – but, that is not happening. New York City just implemented a congestion pricing program that will impose a $9 toll on most vehicles entering lower Manhattan during peak hours. London, Stockholm and Singapore already have similar congestion pricing schemes. If altruism is not enough at the individual level, it is even less adequate at the company level where corporate executives and directors act as agents of shareholders and try to maximize shareholder value. Responsible proponents of shareholder value maximization argue that government intervention (laws, regulations, taxes and subsidies) is essential, and often has to play the dominant role, to address the GSC.

This leads to the second difference between Friedman's views and mine. Friedman believed that governments were usually ineffective, and that most government interventions intended to correct market failures did more harm than good. While governments are often ineffective (bureaucratic, stodgy, inflexible, incompetent …), it is not inherent to the nature of government to be ineffective. It is possible to make governments more effective with improved management. For example, the Indian government launched in 2009 the Aadhaar program, the world's largest national biometric ID card initiative, with 1.4 billion unique ID numbers issued by 2023; this has resulted in several benefits: financial inclusion, direct welfare benefit transfers, and public distribution system efficiency. *The Economist* (2025) argues that around the world, from Buenos Aires and Delhi to Brussels and London and Washington D.C., an anti-red-tape revolution is taking hold as politicians have pledged to reduce bureaucracy that stifles the economy. Done right, this could "usher in greater freedom, faster economic growth, lower prices and new technology." An in-depth discussion of how to improve management competence in the government is a big topic, and beyond the scope of this article. Here I will focus on the political process.

Politics

Most scholars supporting CSR nowadays are often as critical of the government as was Friedman, but usually on different grounds; Friedman focused more on incompetence, whereas the current discussions focus more on the politics: corporate lobbying and regulatory capture. Following Vogel's insight (Vogel and Reich 2008), in an excellent article that links CSR to politics, scholars Lyons *et al* (2018) summarize the shareholderism argument, and then state "business leaders had no special expertise in social welfare, Friedman argued, and should leave it to the realm of politicians… However, both Friedman and Karnani naively ignore the role business leaders play in creating those very rules of the game." They go on to discuss how business intervenes in politics through lobbying and regulatory capture, thus tilting the rules away from societal welfare. It is clearly true that the political process has been corrupted by lobbying, regulatory capture, money in political campaigns, political gerrymandering, and outright corruption. At the same time, Lyons *et al* (2018) agree that civil regulation cannot substitute for public policy and state that "the 'stick' of penalties for poor [sustainability] performance is required and that remains largely the domain of government." So, what is the solution?

Corporate Political Responsibility

Lyons *et al* (2018) argue that CSR can be saved by corporate political responsibility (CPR), defined as "a firm's disclosure of its political activities and advocacy of socially and environmentally beneficial public policies." It would be wonderful if all, or even most, companies voluntarily agreed to espouse CPR. But, it is difficult to understand why companies who are corrupting the political process because it is in their self-interest will now voluntarily choose to espouse CPR. Perhaps civil regulation will force companies to embrace CPR. But, Lyons *et al* have already conceded the limited success of civil regulation – a voluntary process will not suffice. A voluntary process cannot save CSR, which is in trouble precisely because it is voluntary; what is needed is a mandatory process. CPR will not save CSR – CSR needs a different CPR: cardiopulmonary resuscitation!

What is needed is reforming the political process to decrease the potential and ability for firms to corrupt the political process, by formulating and enforcing mandatory rules about corporate involvement in the political process. Former Justice of the Supreme Court John Paul Stevens (2014), who wrote a strong dissent against the famous *Citizens United* ruling, has advocated for constitutional amendments. He argues for Congressional power to impose "reasonable limits" on campaign finance contributions, and overturning the *Citizens United* ruling. Justice Stevens would apply the same rules to political gerrymandering as are applied to racial gerrymandering, and advocates for a Constitutional amendment to eliminate political gerrymandering. Passing any amendment to the U.S. Constitution is a difficult and slow process, and for the above two proposed amendments it is even more difficult now after the recent trends in U.S. politics. But campaign finance need not be a partisan issue. Justice Stevens was appointed to the Supreme Court by a Republican President, but was considered to be a liberal voice on issues such as campaign finance and the role of government. Late Senator John McCain, Republican nominee for the President, was a prominent advocate for campaign finance reform to reduce the influence of money in politics. We need legislative changes and appropriate enforcement such that the political process is less susceptible to corporate manipulation.

Many CSR proponents have argued that the GSC are too urgent and important to wait on the slow course of the political process, and that CSR is a quicker and surer process. The political process, in fact, is slow by design – that is a feature, not a bug, of the political process. As Friedman (1970) put it, "In a free society it is hard for 'good' people to do 'good,' but that is a small price to pay for making it hard for 'evil' people to do 'evil,' especially since one man's good is another's evil." That is why the democratic process is built on the principle of checks and balances, which, of course, slows down the process. As Winston Churchill said, democracy is the worst form of government except for all the other forms.

Causes of Popularity

If CSR is as ineffective as I think, why has CSR become such a popular view? Lyons *et al* (2018) argue that support for CSR comes from both ends of the political spectrum. Right leaning think tanks (such as Property and Environment Research Center) are frustrated that government intervention has gone too far; at the same time, left leaning NGOs (such as Rainforest Action Network) are frustrated that government intervention has not gone far enough. Both sides believe that market forces combined with CSR is the solution. While that is a plausible explanation, here is alternative, and very different explanation.

Contrary to Lyons *et al*, politicians across the political spectrum reject CSR. Right-leaning politicians such as Mike Pence, Ron DeSantis and Vivek Ramaswamy have appropriately criticized ESG efforts as being contrary to free market capitalism and individual economic freedoms (Zahn 2023). Friedman's argument for shareholderism is rooted in defending freedom; consider the titles of his books: *Free to Choose* and *Capitalism and Freedom*. If a market is efficient, individual freedom is essential to permit individuals to act in their self-interest, and simultaneously maximize societal welfare. If there is a market failure (i.e. tragedy of the commons), individual actions will not correct the failure – CSR will not work, as I have argued above. Collective action is needed. There, of course, is controversy about what the collective action should be. This controversy must be resolved in the political arena in a democratic society. CSR attempts to resolve this controversy in the corporate arena giving the power to unelected executives – this is fundamentally undemocratic.

Left-leaning politicians such as Bernie Sanders, Elizabeth Warren (2019), and Robert Reich (2019) have also been appropriately critical of CSR as superficial and insufficient solutions, and advocate for stringent government regulations. There is bipartisan agreement that CSR is a bad idea – a rare agreement given the current political polarization!

We need to look at the corporate arena, not the political arena, to understand why CSR has become so popular. Social activists very often have failed to achieve victories in the political arena on issues such as climate change and inequality. This is not surprising given the shift in recent times towards populist politics in many countries around the world. For example, most economists agree that a sensible way to avert climate change is to impose a carbon tax; but it is hard to imagine a politician winning an election by campaigning for a carbon tax. The social activists then settled on an easier target: convince companies to be voluntarily socially responsible. Corporate executives are not convinced by the CSR argument, but to appease the activists, they claim to embrace CSR and take little or no action – this is the symbolic system described by Westphal (2023). It is just greenwash, which empirical research shows is more virulent now than ever (Montgomery et al 2024). We need social activism that is dissatisfied with cosmetic victories, and engages in the political process to bring about regulatory changes.

Two Unpalatable Alternatives

We are left with two unlikely and unpalatable alternatives: voluntary CSR requiring altruism on a large scale or mandatory government regulation requiring political reforms. Both require large scale institutional changes. Lynn Paine (2024) writes in the *Harvard Business Review:* stakeholderism "proponents will need to define more clearly what stakeholder capitalism is, strengthen its theoretical foundations, and develop a playbook for implementing it, including metrics for measuring performance and guidelines for making tradeoffs. They will also need to build an ecosystem of investors, executives, directors, advisors, and other professionals (lawyers, bankers, accountants, analysts, and so on) who understand and support it, embed its precepts in law and regulation, and educate future leaders in its tenets and practices." This will require profound institutional changes since the shareholder perspective is deeply ingrained in our capital markets and legal system – a re-imagination of the very foundation of capitalism: private property, individual freedom, and self-interest. On the other hand, reforming the political process and government intervention will also require dramatic institutional changes, probably including constitutional amendments. Neither alternative is likely in the near term, and probably not even in the intermediate term.

Hybrid Approach

Proponents of a hybrid governance approach argue that the binary choice between voluntary corporate altruism and mandatory state regulation is too limiting. They suggest that a growing ecosystem of civil society actors -- NGOs, consumer groups, employees, activist investors, certification bodies, and multi-stakeholder initiatives -- can exert meaningful pressure on firms even in the absence of formal legal authority. These scholars contend that such actors create norms, establish voluntary standards, monitor compliance, and impose reputational or market-based sanctions, thereby forming a system of ‘civil regulation’ (Bartley 2007; Cashore 2002). David Vogel (2010) notes that this emerging form of private regulation reflects an attempt to fill governance gaps where states are unwilling or unable to act. Advocates regard this hybrid model as a pragmatic middle path, one that avoids relying on widespread corporate altruism while sidestepping the political obstacles that constrain public regulation; they present civil regulation as a flexible response that may complement or even catalyze more formal governmental intervention.

However, evidence suggests that this hybrid approach is inherently limited and cannot meaningfully address GSC. Vogel (2005, 2010) argues that the “market for virtue” is narrow and small, reaching primarily firms that are either reputationally sensitive or operating in affluent markets; it has little influence over the vast majority of business activity. Civil actors lack coercive authority, meaning compliance remains voluntary and uneven, and is often more symbolic than substantive – very much like CSR. Empirical studies find that voluntary standards frequently lead to performative compliance rather than genuine behavioral change (Locke 2013; O’Rourke 2006). The proliferation of voluntary disclosure and ratings systems creates opportunities for strategic behavior and greenwashing, particularly given the inconsistency of ESG ratings and the absence of binding enforcement (Berg, Kölbel, and Rigobon 2022). Moreover, hybrid governance may unintentionally delay necessary government action by creating the appearance of progress while avoiding the political reforms needed for effective public regulation. In this sense, the hybrid model does not resolve the underlying dilemma but obscures it: society ultimately remains dependent either on large-scale altruism or on capable and authoritative government institutions.

Political Reforms

Forced to choose, the second alternative is better: improving the political and government processes is the less unlikely of the two unlikely alternatives. Politics and government are meant to serve societal welfare; we need to reverse the corruption that has occurred in practice. We do not need to re-imagine the government, but rather re-engineer the government to better serve the purposes for which it is designed. It is hopeful that there are positive examples from various countries. Some countries (for example, France and Germany) provide substantial public funding to political parties, reducing the need for private donations. Individual donations to political parties are capped at low levels and corporate donations are completely banned in Canada. Caps on campaign expenditures ensure that elections don't become an arms race of wealth. Strict transparency requirements (for example, in New Zealand) make it difficult for money to covertly influence politics. Limits on political advertising and guaranteed media access ensure a more level playing field. In Japan, campaign periods are short, reducing the financial cost. While lobbying exists in all countries, the U.S. is an outlier given its scale of corporate lobbying and degree of corporate influence; many countries have implemented stricter regulations and transparency requirements to curb undue influence. Corporate lobbying has grown significantly in the U.S. in the last few decades while public interest lobbying has decreased; perhaps regulation can reverse the trend. A few states in the US have passed legislation to reduce gerrymandering. To maintain the integrity of the political process, some mandatory guardrails are essential.

It is interesting and ironic that many, but not all, proponents of both shareholderism and stakeholderism down play the role of the government: the former group often thinks government intervention is not needed and the latter group usually concedes that government intervention is not effective. But, as I have argued above, government intervention is absolutely essential for addressing the GSC. Ultimately, as Thomas Jefferson said, “the government you elect is the government you deserve.” To deserve better, we need to stop denigrating the government and politics, and engage in the political process to improve the government.

Implications for Strategy Scholarship

Strategy scholars can and should conduct research focused on improving the political process and government intervention to address GSC. This research would integrate economic theory (market failures), public policy (appropriate intervention), political science (regulatory capture), and strategic management (corporate governance). We need empirical research to get a better understanding of market failures which drive the GSC; the next step would be to investigate what government intervention policies are appropriate for the market failure in the context of a particular GSC.

As discussed earlier, Milton Friedman argued that market failures are rare and temporary; disagreement with this view can be settled only empirically. I asserted earlier that “When there is enough of a market failure, then government intervention is essential.” That begs the question how do we assess ‘enough of a market failure’? How should we measure the intensity, frequency and persistence of market failures? What is the trend over time and across countries? How are the empirical metrics different for different types of market failure? At least to start with, it is likely that the appropriate methodology will be in-depth case studies and small-sample studies. One example of such research analyzes the current obesity crisis as a market failure (Karnani, McFerran and Mukhopadhay 2016).

Research is needed on how to measure societal impact beyond firm profits, especially to include consumer surplus and human welfare. We also need empirical research evaluating the effectiveness (both costs and benefits) of different government interventions to address market failures. Cross-country analysis might be a useful approach. For example, different countries have tried a variety of policies to tackle the growing obesity crisis. Government policies must, of course, be linked to the political system in the country. For example, India cannot easily pursue the same approach to tackle urban pollution that China did.

Table 1. Proliferation of Labels

Corporate purpose	Social entrepreneurship
Corporate social responsibility	Socially responsible business
Sustainability strategies	Impact investing
ESG	Double bottom line
ESG 2.0	Triple bottom line
Stakeholder theory	Creative capitalism
New stakeholder theory	Conscious capitalism
Corporate responsibility	Doing well by doing good
Corporate citizenship	BOP strategies
Corporate social accountability	Inclusive markets
Corporate sustainability	Inclusive development
Shared value	Positive business
Business case for CSR	

Table 2. Categories of Strategies

	Increases Firm Profits	Reduces Firm Profits
Increases Societal Welfare	**Zone of Opportunity** Profitable/Virtuous Market is efficient Firms driven by profit motive also benefit societal welfare CSR is unnecessary Government intervention is unnecessary 'Invisible Hand' works well	**Zone of Trade-off** Not Profitable/Virtuous Market failure (externalities, asymmetric information, market power) Firms driven by profit motive reduce societal welfare CSR or government intervention is essential CSR requires altruism which is rare, especially on scale large enough to address GSC Government intervention (laws, regulation, taxes, subsidies) is needed; but risk of government failure (incompetence, corruption, regulatory capture, lobbying).
Reduces Societal Welfare	**Zone of Trade-off** Profitable/Not Virtuous Market failure (externalities, asymmetric information, market power) Firms driven by profit motive reduce societal welfare CSR or government intervention is essential CSR requires altruism which is rare, especially on scale large enough to address GSC Government intervention (laws, regulation, taxes, subsidies) is needed; but risk of government failure (incompetence, corruption, regulatory capture, lobbying).	**Zone of Disaster** Not Profitable/Not Virtuous Market is efficient Incompetent firms reduce both profitability and societal welfare CSR is unnecessary Improvement in corporate governance is essential to improve managerial competence Government intervention might be needed if managerial incompetence persists

Table 3. Averting the tragedy of the commons

Regime	Context of individuals	Business context
Open access	Altruism Very few examples of success.	CSR No examples of success
Private property	Individuals own the commons. Necessary condition: technologically and politically feasible.	Firms own the commons. Unlikely to be technologically feasible. More importantly, very unlikely to be politically feasible.
Group property	Many successful examples, almost all at level of local communities. Necessary condition: ‘thick’ communities capable of fostering trust, making binding commitments and enforcing sanctions.	Self-regulation by industries. Unlikely to be successful without enforcement mechanisms. Difficult to develop a ‘thick’ community among firms. There have been a few successful examples.
Government property	Many successful examples. Necessary condition: competent government.	Many successful examples. Necessary condition: competent government. Major obstacle: corporate lobbying and regulatory capture. Particularly difficult if the commons cuts across national boundaries (e.g. climate change).

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