

## **How Business Schools Can Help Restore Trust in Capitalism**

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Trust in capitalism and big business is low. In a [recent survey](#) of Americans, only 25% of people expressed “a lot” or “a great deal” of confidence in big business; half said big business has excessive influence on society. Low trust is especially evident among young people. [Surveys from 2018](#) showed that less than half of respondents ages 18-29 viewed capitalism positively. And seemingly “[responding to something in the zeitgeist](#),” nearly 200 CEOs of large corporations recently vowed to care for all stakeholders and not just maximize “shareholders value.”

So far, most business schools (including Stanford where I teach) have responded to this trust challenge by offering more programs and courses on ethics, social entrepreneurship, impact investing, and philanthropy, with the message that we need better private-sector solutions to social problems. This approach won’t cut it. Business schools, especially in the U.S., have placed themselves at the center of the market capitalism system, teaching management and valuation techniques that determine key outcomes for the global economy. If we want to help restore trust in capitalism, we must think beyond the private sector and recognize the role of governments in making a capitalistic system work. This means embracing *civic-minded leadership*, a way of conducting business and citizenship based on a holistic understanding of how individuals, corporations, and governments interact, one that emphasizes the importance of good governance mechanisms and seeks to create a system in which capitalism and the market economy can deliver on their promises.

James Madison wrote in *The Federalist 51*, “If men were angels, no government would be necessary.” Capitalism can’t work without well-functioning governments that design rules to enable innovation and markets, ensure competition, and address social problems. Civic-minded leadership recognizes the role of governments and strives to create trustworthy institutions in both the private and the public sectors. It encourages civic engagement and promotes new and better norms for leaders everywhere.

### **Why People are Losing Trust in Capitalism**

The loss of trust in capitalism goes hand in hand with the decline of trust in governments and in democracy. Many view governments as ill-informed, inefficient, or corrupt. [Long running surveys](#) show that public trust in government in the U.S. is at near historical low. [A 2018 poll](#) found that nearly two-thirds of Americans ages 18-29 are fearful about the future of democracy in America.

The view of governments as dysfunctional motivates more private-sector solutions to social problems. Paul Polman, the previous CEO of Unilever and one of the best known business leaders promoting broad corporate objectives, launched [a search](#) for “a team of heroic chief

executives to drive a shift to a low-carbon, more inclusive way of doing business.” Heroism in the private sector is essential, Mr. Polman argues, “in the absence of politicians taking action.”

But before consigning society’s issues to big business, we must ask *why* governments appear dysfunctional and why politicians are not taking action. A partial answer is that standard capitalistic success metrics, routinely taught in business schools, such as high stock prices, can create incentives to weaken or bypass governments. For example, to achieve business objectives managers may do what they can to avoid taxes, lure capable individuals from the public sector, and lobby for outsized subsidies. Business success may also involve confusing policymakers and the public to maintain market power and get away with misconduct or reckless practices. The [growing influence of business organizations](#) and their leaders in crafting laws and regulations can also alter the rules of the game in ways that benefit few and harm many, exacerbating economic inequality and creating a sense that our capitalist system is corrupted.

The events of 2007-2009, which represented a significant crisis of “free market capitalism,” are a case in point. Far from being an unpreventable natural disaster, the crisis revealed a failure of both corporate governance and government policy. Intense conflicts of interest and information asymmetries among market participants led to wasteful investments, the buildup of unnecessary risk, and harm to many. The rules in place were poorly designed and counterproductive, effectively rewarding recklessness and exacerbating the fragility of the system. Despite some useful steps in the decade since the crisis, policymakers have [missed opportunities](#) to make substantive improvements. [Flawed claims](#) continue to have impact on policy, and the distortions [persist](#) partly because the issues are confusing to many.

Failed governance and insufficient accountability are not unique to finance. There are countless examples of harms by corporations – from [minimizing the risk of addiction](#) to opioids in marketing to [systematic cheating in emission tests](#) and [money laundering](#) – that evaded government action for years. You can look at scandals at [Boeing](#), [Theranos](#), [Equifax](#), and [Facebook](#) for more examples. What’s worse is that the large fines corporations and their shareholders pay seem to [do little to deter](#) future wrongdoings. When corporations cause harm and governments fail to hold them accountable, the system rightly appears rigged and unjust.

## **Why Business Schools Should Support the Role of Government**

The loss of trust in capitalism, in big business and in governments should alarm all business schools. They are an essential part of the system. Not only can lower trust lead to lower enrollment or support for traditional business programs, it suggests that business schools are not delivering on their purported missions of making the world a better place. In a divisive political climate, failing to address why trust in capitalism is faltering can lead to policies that would ultimately harm both business and society.

Business school leaders and stakeholders have already expressed concern. Harvard Business School Dean Nitin Nohria recently [identified](#) lack of trust in the capitalist system as his school’s biggest challenge. Eighty first-year Stanford MBA students signed a letter in 2017 calling for more discussion of business and society in school. Recent Stanford alumna Veronica Pugin wrote that “[it is time for a new era of capitalism](#).”

It's time for business schools to do more – to think beyond the private sector, to acknowledge the role of government, and to emphasize the importance of good governance everywhere. As many are already [rethinking the doctrine of shareholder primacy](#) and [advocating that corporations care for a broader set of stakeholders](#), it is also important to remember that protecting citizens is precisely what governments are supposed to do. Effective governments balance conflicting interests and protect stakeholders when markets forces fail to do so (for example, by creating rules to protect consumers, workers, and the environment). Whereas having ethical and caring corporate leaders is obviously helpful, governments are what embody our collective action. They often have the most appropriate tools to promote social well-being and prevent social harm.

To fulfill their duties, governments need civil servants who have the appropriate authority, incentives, and resources to act in the public interest. It behooves all of us, including business schools, to help governments work properly for (and remain accountable to) society. If business schools step up to this challenge and become more *civic-minded*, they will help create an environment where business can both thrive and maximize benefit for society. We have a unique opportunity, perhaps even a duty, to shape a better future for capitalism.

## What Business Schools Can Do

The financial crisis of 2007-2009 led me to question the assumptions in our teaching and research about financial markets and corporate governance. I realized that we in business schools and academia are [part of the problem](#) and should strive to be part of the solution, starting with how we treat the public sector and issues of governance. Based on my years of teaching, research, and [advocacy](#), as well as the initiatives I've seen at schools around the world, I've identified a number of ways business schools can start practicing and promoting civic-minded leadership:

### **Promote big-picture thinking about the broad and long-term impact of business practices.**

One way to do so is to expect every course to include discussions of the broader impact of the management tools it discusses. For example, finance courses typically teach students how corporations can reduce taxes by using debt funding, but they rarely if ever raise the important question of why the tax code subsidizes debt relative to equity funding. (Answer: there is no good justification, which leads to the question of why this distortive policy persists.) Without routine examination of the broader context, future leaders are more likely to abuse their power pursuing narrow objectives. Better awareness might lead to more reflection about the potential harm, even subtle or invisible, to others and to the system as a whole.

**Emphasize the importance of good governance mechanisms and actively discourage irresponsible use of power.** We cannot rely on ethical norms alone to create trustworthy institutions. Business schools must engage with (rather than largely avoid) issues like: how do we detect corporate fraud and other misconduct when corporations are so opaque? How do we ensure that government bodies are not corrupted? What can be done to encourage and protect legitimate whistleblowers? What is the role of directors, auditors, investors, the government, and the media in creating proper accountability? Tax evasion, corporate fraud, and government failures can go undetected for years. In the recent case of Theranos, whistleblowers and investigative media played a key role in preventing harm from inaccurate blood tests, while

investors, the board, and the government were much behind. Better governance and accountability systems can detect problems earlier, preventing harm to stakeholders and avoiding legal and reputational costs. They can ultimately deter law evasion, misconduct, and the abuse of power.

**Set expectations for leaders to support democratic institutions and the democratic process.**

Recognizing government's role, it is important that future leaders engage in policy issues and understand the challenges of government bodies, the process by which rules are written and implemented, and the role of various institutions, including media. Important topics that rarely receive proper coverage in business education are the appropriateness of mandatory arbitration and non-compete agreements, fiduciary rules, whistleblower policies, and what constitutes (or should constitute) anticompetitive business practices. In [teaching courses](#) that routinely explore the big picture, I see how engagement on these issues, especially seeing them from policymakers' lens, helps students appreciate what it takes to create trustworthy corporations and governments and why it is important.

**Promote engagement with areas such as law, policy, and media.** Business schools should collaborate more with other schools and departments to encourage interdisciplinary research, teaching, and degree programs. Siloes prevent us from seeing the full picture and understanding the societal context in which businesses operate.

**Create opportunities to engage across social and economic groups.** As the economy became globalized, many business schools began offering or requiring global study trips so students could meet business and government leaders in other parts of the world. But societies are increasingly polarized within their own borders today, and even within business school communities, many fail to engage beyond their identity groups. Creating more opportunities to cross these lines would promote empathy and productive collaborations.

**Encourage civic engagement.** Maintaining trust in capitalism means ensuring that the rules of the game work for everyone, and this requires broad participation. Business school stakeholders, especially faculty, have highly valuable expertise that can help ensure that rules and enforcement systems, whether created by private sector participants or by governments, are effective. Business schools should encourage research and engagement on policy issues in the public interest, including comment letters to government bodies and media commentary to help clarify and explain issues where we have expertise and which non-experts may find confusing. (Of course, proper vetting and transparency about potential conflicts of interest are necessary to ensure that policy advice is based on sound analysis.) Students and alumni can also organize and opine as consumers, employees, and informed citizens, to help get the rules right and to ensure they work properly.

It may take time to implement some of these proposals successfully, but they are all highly achievable. Rather than waiting for the situation to get worse, rather than searching for heroic chief executives, let us focus on developing civic-minded leaders, starting with ourselves.