August surprise

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In the US, August is a month for summer vacations and the pace of business slows. So, it came as a surprise when there was a major change this month in the definition of 'the role of a company'. As millions of Muslims returned from Hajj, where they regained consciousness and awakened the heart and soul, the business community here may have reawakened its sense of responsibility.

On the 19th August 2019, the Business Roundtable announced a redefinition of the purpose of a corporation.

Business Roundtable is an association of CEOs of the US's leading companies working to promote a thriving US economy and expanded opportunity for all Americans through sound public policy.

The announcement revised the organization's Principles of Corporate Governance.

Since the first codification in 1997, the principles held that corporations exist principally to serve shareholders.

The revised principles acknowledge the importance of the stakeholders beyond the shareholders, including customers, employees, suppliers and the communities in which the company operates.

The prior narrow definition of a corporation can be traced to the work of Milton Friedman.

In a 1970 essay for the New York Times, he wrote that a company has no "social responsibility" to the public or society; its only responsibility is to its shareholders.

For more than two generations, most business education has focused on this definition of corporations.

The executives graduating from such education did increase profits in many businesses. The increased profits drove increases in the value of stock and often hefty compensation for the executives, particularly the chief executive.

When the profit increases came at the expense of the interests of customers, employees, suppliers and/or the community, then the profits were temporary.

Some companies lost the ability to innovate or let customer service levels deteriorate. Employees were viewed as commodities and could be fired or treated poorly. Suppliers only added value through price decreases.

Communities could be ignored or even hurt by company decisions. The 2008 financial crisis is a painful example. Public attitudes about companies suffered, and trust was eroded. Companies have not regained the public prestige of prior times.

In the jargon of today, we would describe the pursuit of profits without consideration of other stakeholders as not sustainable.

The ability to sustain profits requires consideration of, and attention to, the stakeholders of a company. Ultimately, companies that do maintain strong relationships with the stakeholders are more likely to be successful and should be seen as better governed.

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Islamic finance is based on ethics and emphasizes the importance of, and requirement for, maintaining good relationships.

The secular versions of ethical finance, using terms such as responsible investing, have also understood this.

All of us who apply ethics to investing and/or business should welcome this enlightened view by the Business Roundtable.

It is time for us to help the members of the Business Roundtable, and other like-minded business leaders, to implement the new principles.

I feel that I can declare partial success on key aspects of my duty of care. Agreement on principles is important, though the hard work is about making change happen.

One practical step all of us in the ethical world can take is to approach companies based on the organization's commitment to, and success in, implementing the new principles.

For companies making progress, we should offer praise where praise is deserved. Our shareholder engagement should focus more on companies that are resisting this change.

As dear brother Daud [Vicary] correctly says: "There is much to do and not a moment to lose."