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Rethinking Capitalism: a fireside conversation with Rebecca Henderson and Ioannis Ioannou

Ioannis Ioannou: [00:00](#)

Hello everyone and welcome to London Business School Wheeler Institute for Business and Development; Rethinking Capitalism Series. Thank you so much for joining us. My name is Ioannis Ioannou and I'm an associate professor of Strategy and Entrepreneurship at London Business School. I would first like to thank the Wheeler Institute for hosting us today. With the generous support of Tony and Maureen Wheeler, the founders of Lonely Planet, LBS has established a research institute that focuses on the role of business in addressing social and economic challenges in emerging, frontier, and low income countries.

Ioannis Ioannou: [00:40](#)

In addition to funding research and informing learning, the Wheeler Institute organizes public talks and events. This evening's event is the second of the Wheeler Institute Public talks under the theme morph, Rethinking Capitalism. I'm therefore thrilled to welcome a distinguished professor but also a mentor and a friend of mine to today's webinar. Professor Rebecca Henderson. Now, Rebecca is definitely someone that needs no introductions but I'll make some anyway. Rebecca is the John and Natalie MacArthur University professor at Harvard University where she has a joint appointment at the Harvard Business School in the general management and strategy unit. She's a fellow of the National Bureau of Economic Research and at HPS, Rebecca teaches an award winning MBA class titled, Reimagining Capitalism.

Ioannis Ioannou: [01:30](#)

Today Rebecca will be speaking to us about the, what I think at least, is truly courageous ideas in her recently published book that's titled, Reimagining Capitalism in a World on Fire. We have asked Rebecca to make some



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opening remarks before our site chat. So, Rebecca, a very warm welcome. Thank you for joining us today to share your ideas and insights indeed for a world in true fire. Thank you. Over to you.

Rebecca Henderson: [02:02](#)

Ioannou, thank you very much. I'm honored and delighted to be here and it's a pleasure to be able to talk about my new book. I've been asked to summarize it in 10 minutes. So that's 28 one and a half hour sessions when I teach it, or more than 300 pages in the book. All of them exciting and dynamic. But let me see if I can give you the basic idea.

Rebecca Henderson: [02:29](#)

Capitalism is broken. It is not working as it's supposed to. We have half the world's population saying that capitalism is not working for them. 70% of the US population is saying the system is rigged against them. In the US, the bottom 50% haven't had a pay raise in approximately 20 years and inequality is significantly increasing everywhere else in the world. Social mobility is falling. More and more people fear that their children will not have a better life than they do. We're seeing a massive crisis of exclusion. All across the world people feel, people with black skins or brown skins or who are simply different from the ruling majority are protesting that they are excluded. That they are abused.

Rebecca Henderson: [03:25](#)

We have a major environmental problem. The world is on fire. When I wrote the book, California and Australia were literally burning and there is a significant risk of catastrophic climate change, submerging the world's major coastal cities, destabilizing agriculture, sending hundreds of millions of people north in search of food and work. Don't get me wrong, I am a huge fan of capitalism. I teach at the London Business School. I think capitalism is one of the greatest inventions of the human race. An



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- unparalleled source of innovation and productivity and opportunity.
- Rebecca Henderson: [04:10](#)
- But it only works when the free market is balanced by free politics and a strong civil society. My reading of the literature in history and government economics and political science is overwhelmingly that a stable, prosperous society, a free society, requires three legs. Yes, the free market, but also a capable, transparent, democratically accountable government and a strong civil society. A voice for labor, independent judiciary, and a strong free media. I think we have forgotten this in the west. Over the last 20, 30 years we got so rich and so prosperous, and it was so easy to say, "Government is the problem. Drown it in the bathtub." And I see where that's coming from.
- Rebecca Henderson: [05:09](#)
- I have 25 years of major board experience. I understand that regulations are sometimes a nuisance and that paying taxes is not always fun. But we need the free market to be balanced by government. We need public goods. We need a strong social net, safety net. Strong education and health system to ensure that there's real freedom of opportunity. We need decent labor legislation so that the minimum wage is a living wage. So that there are decent benefits like paid sick days off. We need a strong government to regulate pollution.
- Rebecca Henderson: [05:46](#)
- If you can throw greenhouse gasses out the window for free, why not? It's a great way to maximize returns. We need a capitalism that's run by the rules in which the large firms don't set the rules in their own favor and keep out entrepreneurial firms. Or ensure that there's a barrier to entry in their industry. We need a government that's not flooded with money. That reflects the will of the entire population, not just those with resources.



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Rebecca Henderson: [06:19](#)

If that's where we need to go, how do we get there? Well, the easy answer is to say we need a massive political and social movement to rebuild democracy everywhere. One of the scariest statistics I came across in my work is that only about 25% of people under 30 believe that democracy is essential. Why do they say that? They say that because they look at the system they're in and they say, "Well, this isn't working for me. Let's try something new." Half of millennials say, "We don't want capitalism. We want socialism." Why are they saying that? I think they mean they want decent healthcare but sometimes they seem to mean they want state ownership of the means of production.

Rebecca Henderson: [07:10](#)

So, how do we fix things in a world in which governments are so broken? First, massive social and political movement to rebuild democracy, as I said. But the central, the beating heart of my book is the idea that business has an important role to play in rebalancing capitalism. Now, I know this is a bit of a crazy idea, when I was trying to sell my book to one of the major publishers in New York, the editor looked at me and said, "Rebecca, business saves the world? Don't you read the papers?" And believe me, I know a great deal about what business has done to destabilize the system we're in and what they continue to do that is perhaps not in the best interests of the entire society. But I think there is hope.

Rebecca Henderson: [08:04](#)

There are five steps business can take. The first is to become purpose driven. Not in the sense of throwing investors out the window. As I said, I serve on major corporate boards. I'm a big fan of giving investors a decent return. But I think it's time to realize that making money and giving investors a decent return is a means to an end and not the end in itself. The end in itself is building a healthy and thriving society. Business needs to



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relearn that. It's an old idea. We always used to have a social contract between business, government, and labor, and ordinary people. Business was part of the mix, yet starting, you name it, some time in the '70s, we told business just stick your head down and maximize shareholder value.

Rebecca Henderson: [09:00](#)

Even if the world starts falling apart around you, even if the easiest way to maximize shareholder value is to trash the planet, push wages down to the bottom, and corrupt your local legislator. So, we need to rethink the purpose of the firm. Secondly, we need to start to build business models that not only create profits, but also address some of the major social and environmental problems we face. My colleague, Michael Porter, calls this creating shared value. The classic win/win. And I can feel your skepticism. It's not everywhere. It's not for everyone. But in many industries, we are seeing firms build billion dollar businesses on the basis of the idea that you can do both.

Rebecca Henderson: [09:49](#)

The most successful IPO of the last 20 years was a soybean burger company trying to revolutionize the meat industry, a major source of emissions and of poor health. We've seen billion dollar businesses in solar and wind, renewable energy in many part of the world is now cheaper than fossil fuels, even unsubsidized. Someone like Elon Musk has revolutionized the entire car business by doing what he thought was right. All kinds of issues with Mr. Musk, but he is certainly driving transformation and has built one of the most valuable car companies in the world at the same time.

Rebecca Henderson: [10:30](#)

So, step one. Step one, develop a purpose. Step two, create shared value. Step three, whoops, if I do the right thing as a firm, that's great. I can make money. The fact that I'm purpose driven mobilizes my employees. I might



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be running a high road employment system, much more productive, much more innovative, seems good. But whoops. It's not enough. Even if every firm on the planet pursued those opportunities that can return money and do the right thing, we're not going to solve our problems. Solving inequality requires really investing in education and health and inclusion and wage legislation to make sure the playing field is level. Solving the environmental problem require, whoa, let me say, redoing the transportation, food systems, rebuilding cities, retrofitting every house on the planet. Massive transformation.

Rebecca Henderson: [11:32](#)

It's going to require government involvement. So what can we do? What can we do about problems that we want to address but there's no good business model? As a business owner. Three ideas. First, get together. Cooperate. Particularly in the food industry, we're seeing things like the Round Table for Sustainable Palm Oil, the alliance to reduce the purchase of conventionally grown soya and beef from the Amazon. In the apparel industry, we're seeing the Sustainable Apparel Coalition. There are hundreds of these coalitions. What they're trying to do is solve a problem that is in the interest of everyone in the industry.

Rebecca Henderson: [12:16](#)

In apparel, no major western brand wants to be associated with child labor or environmental problems, or abuse in its supply chain. None of them alone can afford to move because it's expensive and complicated but if every brand moves together, then they can make doing the right thing pre competitive. The industry benefits, consumers benefit, the supply chain benefits, check. The only problem is that while cooperation is super important, and moves entire industries in the right direction, it tends to be unstable. So step four is okay, we agreed to cooperate but there's Fred and Mary over here, they're not



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pulling their weight, they're not interested. They are what the economists would call defecting. How do we make sure everyone cooperates to do the right things? Easy. Two final ideas.

Rebecca Henderson: [13:12](#)

One, we rewire finance and we just leave that but we've got to rewire the capital markets if this is going to work. And last but not least, we fix the democracy. We address the problems with our civil society. I believe that business has a strong economic interest in rebuilding a balanced capitalism and that both now and historically they have been willing to exercise that interest. We are seeing hundreds of firms working with state and local government to enact regulations and policies that benefit that entire society. Why? Because it's good for business as well. So, we can reimagine capitalism. We must. Over to you, Ioannou.

Ioannis Ioannou: [14:05](#)

Yeah. Great. Thank you so much. As you said, 300 exciting pages of ideas and I'll do my best in the time that we have today to cover as many of them as we can. So I would like to ask as we go along, to unpack those every important issues for us. Now, allow me to start with a quote from your book, which I really loved. You said, "Managers view issues such as climate change and equality and institutional collapse as externalities best left to governments and civil society." And then you argue that as a result, we have created a system in which many of the world's companies believe that it is their moral duty to do nothing for the public good. That's a very strong statement, I think, but also a statement that gives us the sense of the extent of the challenge here. So I would like to ask you, Rebecca, to sort of unpack for us what are those elements of the system that have these negative implications on companies, to feel that they should not do anything about public goods. In other words, where



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should we start when we talk about fixing the system? A bit of a prophetic question. Are you optimistic that the system, capitalism, can fix itself?

Rebecca Henderson: [15:25](#)

No fair. That's two questions. Let me start with the first. Where should we start? Suppose you're working for a firm that's never thought about these issues. It's head down, maximize shareholder value, the whole way. Where do you start? First, you start with the short-termism problem. Many managers have talked themselves into believing that they will not survive unless they maximize short term quarterly earnings right here, right now. Let's be clear, they have a point. Missing short term quarterly earnings is not a good thing. Investors tend to think it means that you don't know what you're doing. Sometimes it does. The issue is how do we get firms to think longer term? Two ways. First, we get them to begin to think longer term. You'd be surprised by how many firms are not routinely running three or four or five year strategic plans. They really are running quarter to quarter and my belief is that's just bad for business.

Rebecca Henderson: [16:29](#)

So start to look out, start to recognize the opportunities. Second step? Learn to talk about that to investors. It is not true that investors are routinely myopically short term. If they were, that would provide an incredible opportunity for investors who are willing to focus on the long term. They'd just clean up. If you can give a good story to an investor, and if you can support it with metrics and milestones, you can get the money you want. Think of Amazon. No money for what was it? Seven years? And hundreds of millions in losses? Think of pharmaceutical companies. Billions of dollars in long term R&D that doesn't pay off for 10 years. Investors are fine with that. Why? Because they understand it.



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Rebecca Henderson: [17:13](#)

I had a friend once who was the Chief Technology Officer at a major company whose name you know, who's sales had been falling for 15 years. And she said, "Rebecca, the market won't let me do long term stuff." And I'm like, "Sarah, your sales have been falling for 15 years." It's all about making the business case. So short-termism is the first problem. Second problem is many managers, I think, don't fully understand the law. They genuinely believe that they have a legal duty to maximize shareholder value right here, right now. Under American law, and we could talk about details in other parts of the world but under American law, that's only really true when, I'm going to get a bit technical, Revlon and uni corp duties are invoked. There are these certain circumstances when a firm is up for sale, when you've got to maximize shareholder value.

Rebecca Henderson: [18:07](#)

The rest of the time, care, candor, and loyalty. Build a great enterprise. That's your legal duty. So I think so much of the short term value maximization focus is a creature of habit and of the fact that people are paid that way. We can back off that. That can be done. We can back off.

Ioannis Ioannou: [18:30](#)

Rebecca, in your book you actually argue for the role of corporate purpose. I guess the natural next question, given that you just highlighted this idea of shareholder value maximization, right? And often people, it casts these two views as to antithetical or in conflict of each other. I guess, and also because corporate purpose has a different definition for every person that uses it basically. Could you share with us, what is corporate purpose in your view and how do you see this transition happening or if you want the link between corporate purpose and shareholder value? Is shareholder value a byproduct of purpose? Is purpose something that some would argue that companies use purpose when they're not doing well



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financially. So how do you see that these two conceptually and practically linked, the shareholder value and the purpose idea?

Rebecca Henderson: [19:26](#)

Imagine a world in which we had a perfectly transparent, well run government that was setting the rules at the capitalist game so that if I max my shareholder value, the whole society would be better off. This is a world in which has strong education and healthcare, there's really good labor legislation, so no one is going to be pushed down below the minimum wage. We've got environmental regulation that sets a carbon price. We have unions or a voice for labor that's negotiating with powerful companies so that labor is getting a decent return. We've got a well enforced anti-trust law so firms are busy competing with each other. In short, it's Denmark. Okay?

Rebecca Henderson: [20:13](#)

In such a world, I don't think there's that much conflict between shareholder value and purpose. There will be occasional conflicts. There will always be the temptation to try and warp the rules in your own favor. Always be a temptation to push a little hard, but in essence, the problem we face is not shareholder value as a problem. It's the rest of the society is sort of kind of lost, crumbled. We can talk more about why that is. Partly it's the direct result of how business has behaved. But if you could get that balance right, there wouldn't be the conflict. So what I'm suggesting in my book is right now, maximizing shareholder value in the long term, and here comes the weasel word, collectively. That is, if you were thinking about the well being of the entire private sector, no conflict between having a purpose which means rebuilding the society, focusing on the democracy. All the things I talked about.



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Rebecca Henderson: [21:14](#)

Now, you're going to say, "Well, that's nice but I'm just a firm. And for me right now, I can see all these great things I could do but excuse me, I have to make a living." To which there are two replies. One is, "That's the reality of where we are." That's why I talk about cooperation, that's why I talk about how having a purpose increases creativity so push that boundary as hard as you can. Another potential reply is we'll change the rules that govern corporations. Let's tell companies that it's okay to make a little less money if they fulfill social purpose. That's a huge debate on its own. Let me just say that I think it might be helpful and that for firms that are already moving in this direction, adopting, say, a B corporate status if you can.

Rebecca Henderson: [22:03](#)

That says, "My goal is to change the world. If you're going to invest money in my, you should know that about me and here are the metrics I'm going to use." I think that's a great way to go. But I do not think we should turn to every corporation on the planet and say, "Hey, your purpose is to do good. Don't worry about these pesky shareholders." I think that would be a mistake. I'm a Harvard Business School professor. I think focusing on investment returns is important. So there's some kind of middle ground here with the end state being, let's fix the rules so that this enormous conflict isn't as strong.

Ioannis Ioannou: [22:38](#)

I think in the current times we would really, really have to leave our imagination run wild to imagine a world where the rules actually work. But I totally understand your point that in such a world, it would be like a reconciliation of the shareholder value and the purpose idea. Now, if I'm reading your argument correctly, then you're saying, we don't live in that utopian world perhaps but at the same time, that does not mean we cannot contribute towards getting into that world and as you said, fixing the rules of



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the game. However, here's my other question. If it's so obvious then, right? Why aren't companies doing it already? I would use here, another of my favorite quotes from your book and of course, we all know you were the Eastman Kodak professor at MIT for some time so I think that directly relates to that.

Ioannis Ioannou: [23:39](#)

You write in your book that, "The key to this puzzle, I believe, is to realize that the embrace the shared value is first and foremost an innovation and precisely an architectural innovation. Architectural innovations change the relationship between the components of a system, the system's architecture, without changing the components in themselves." Could you unpack that for us a little bit? How do you think that these ideas of architectural innovation link to the firm's ability or disability sometimes, to adjust to purpose and to this different world, post shareholder value perhaps?

Rebecca Henderson: [24:23](#)

We need to build a just and sustainable world. I think we can do that and make a great deal of money and there's a lot of opportunity. But it is a shift. Doing that is going to require completely rethinking how we do a whole range of industries. Meat would be one. We think that meat is produced by big animals that bellow and walk around on legs. No. Meat could be produced in a Petri dish. It would be exactly the same physically. It's being done now. That's a completely different structure for the food industry. Electric vehicles. Sounds easy, just take out the internal combustion engine and stick an electrical engine instead. Well, wait a moment. What about autonomous vehicles? What about controlling all the cars in a city so we manage the traffic? Moving to electric, what about using them as batteries overnight as storage for our renewable grid? This transition is a massive transition requiring real change.



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Rebecca Henderson: [25:24](#)

That's what I call architectural innovation. When it's no longer enough to simply assume that all you need to do is take the world for granted and just work on fixing your bit. An architectural innovation is when everything is shifted and it's scary as heck. Firms faced with those kinds of transitions tend to have three responses. One, it's not happening. We have very strong mechanisms of denial and delay. Most of us don't want to work too hard. We don't want to think that everything we know is shifting. Second problem, it's not going to make us any money. Often a serious, knee jerk response. Completely missing the point. And last but not least, okay, maybe it's happening, maybe it'll make some money, but you know, I am really busy and I have the wrong people. This is why purpose is so important. Because when you're focused on a greater goal, you have the energy and the creativity and the relationship with your employees necessary to get through the transition. So yes, not easy, not a walk in the park, absolutely possible. But that's why it's slow. I mean, Kodak went bankrupt. They couldn't understand the transition to digital. I wrote the book because I don't want us to go bankrupt.

Ioannis Ioannou: [26:48](#)

Rebecca, I think we're on the same page because I often refer to sustainability, not only as a disruption but in fact, the mother of all disruptions. Because in a sense, a lot of companies out there are lacking the knowledge, the skills and of course the experience necessary and as much as many people don't like to hear this, what's the outcome of every disruption? A certain percentage of companies are going to be able to adapt and other ones as you mentioned, they're going to be replaced by the Tesla's of the world, the Impossible Foods of the world. And so on. So yeah, I would love to hear your thoughts if you think the disruption lens is also an interesting way of looking at this.



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Ioannis Ioannou: [27:30](#)

But let me pose a double question as well. Linked to that. Because we also know that typically the financial markets often have trouble actually evaluating or understanding disruption themselves. So some would argue that can we really count on financial markets to support business through this transition given that they themselves might not understand it? Or another argument these days is that they are green washing themselves. They attach these G labels on fans and so on. So can we count on true support and engagement of the financial community with companies in order to achieve this transition?

Rebecca Henderson: [28:16](#)

We can count on the full support of a portion of the financial community. I would say about a third of the world's financial assets are already moving and they're moving fast. And here, Ioannis, I want to draw on your amazing work with my colleague, George [inaudible 00:28:34]. The work that you and George and others in the field have done to advance ESG and to be clear about why they're so important is completely path breaking. And let me just review why. You know, I sometimes joke I did not understand that accountants hold up the world's civilization. I thought accountants were kind of boring. No. Completely wrong. I took for granted financial accounts which are now the absolute beating heart of capitalism. Right? About 100 years ago when P&G issued its annual report, it said, revenues are 20 million, our profits are 500 thousand, stockholders wanting more are welcome to apply to our headquarters in Cincinnati in person.

Rebecca Henderson: [29:24](#)

I mean, the financial accounts we take for granted that allow investors to invest in thousands of firms all over the world, took 100 years to build. So ESG, environmental, social, and governance metrics are absolutely critical. They allow firms to communicate to investors what they're trying to do and they allow investors to find the



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firms that are managing the disruption. That are taking the lead. Of course it's a mess. I'm sorry. Is that overly technical? ESG at the moment is in flux. There are all kinds of different metrics. Finding something that is auditable, replicable, and material in the sense that it really has a bearing on the firm's performance, that's super tough. In itself it's a major disruption, right? Accounting is being disrupted. So I'm not worried. It's only a third of the world's invested capital that's on this wavelength. I think that's amazing.

Rebecca Henderson: [30:22](#)

The fact that there are asset managers like Larry Fink or Chief Investment Officers like [inaudible 00:30:28] at the Japanese Pension Fund saying, we need ESG and we need it now, is incredibly powerful. I think there's another aspect of finance I'd like to talk about if you're up for it. Which is this idea of universal investors. The idea, and I can never decide if this is really creepy or really good news. 15 to 20 people between them control, you name the number, 40% of the world's assets. I mean, it is really creepy. And they, I think, are increasingly coming to realize that what we talk about as externalities are not externalities to them. If you run the Japanese Pension Fund, 1.6 trillion in assets, climate change is not something you can diversify away from. It's one of the most important risks to the value of your portfolio. Most of your money is in passive funds.

Rebecca Henderson: [31:23](#)

You're not going to make money by getting out of Ford and getting into Toyota. You're going to make money by making sure the financial system doesn't crash. We have the former governor of the Bank of England saying he thinks climate change presents a very significant risk of causing the next crash. We are living through a pandemic, a low probability risk that everyone said was out there and now it's here. Climate change is going to be



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another major risk and there's not going to be a vaccine and we know it's coming. So maybe the big financial people will get together and say, you know, we need to address these issues. They, in a sense, have the collective interest of the whole economy at heart. So yes, there's green washing. Yes, there are problems. But I think finance could play a major role in re imagining capitalism.

Ioannis Ioannou: [32:15](#)

So universal ownership, as I'm sure you know, it's an issue that's been investigated a lot. Especially in the finance literature. Right? All these big questions of whether universal owners actually promote competition or actually do not. And I think the jury is still out but as far as I know, haven't seen, maybe I'm running behind in my finance literature reading list. I haven't seen much on universal ownership and environmental, social, and governance issues. Right? So, Rebecca, as you mentioned, these are quite powerful players in the global system. Not just the national but quite at the global system. Theoretically it makes sense because we're dealing with a massive public goods problem, a massive collective action problem, which is precisely what it is.

Ioannis Ioannou: [33:01](#)

So in your view then, given the power that they have, are you thinking about this more as self regulation of this universal owners and in general the financial industry? Or do you see a combination of self regulation with government regulation? And I can add to that, these are global owners, right? So we need to talk about global institutions as well. How do you see the governance therefore of the impact that the financial community can have on this issue?

Rebecca Henderson: [33:33](#)

So, in my really utopian dreams, I see us managing to build global institutions that have some degree of democratic accountability. That are built up from



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democratic accountable national institutions. At the moment, those institutions are under enormous stress and given that so many national institutions are under stress, I think right now we cannot look to those kind of global institutions. Although, of course they can be very helpful. The UN, institutions like the PRI, are making a significant difference. But no, in the short term, I'm hoping for self regulation. Self regulation in finance, in the interests of the economy and the society at a whole at a global level. Now, [inaudible 00:34:24] won the Nobel Prize for exploring when and where you see self regulation. I think the good news is you do see it. It is possible. It is stable.

Rebecca Henderson: [34:33](#)

My leading example here would be the International Chamber of Commerce, which is a completely voluntary, self regulatory body that essentially sets the rules for all of global trade and runs its own courts and adjudication procedures for enforcing those rules. So we have an example of how business can self regulate at a global scale. As I say, because finance is so concentrated, which is partly creepy, I think they might self regulate to address climate. I'm much less optimistic of their self regulating to address inequality and social inclusion. I think they should because I think inequality and social inclusion together pose a mortal threat to the longterm health of our society and I don't think anyone should want to end up living in a walled compound with guards at the door and the [inaudible 00:35:26] outside. I don't think that's healthy for anyone. But will they do it?

Rebecca Henderson: [35:30](#)

I don't know. Let's be clear. We have to keep the social and political pressure on. Why are so many firms moving? Because their employees have been insisting that they do. Why are so many firms moving? Because while very few customers will pay more for sustainable goods, they



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will switch. They will switch brands. So I'm not saying that business can save the world. I'm not saying this is a done deal. But if we keep on the social and consumer pressure, business will move, everything we're talking about is happening. Yes. To answer your question, I'm not sure I'm optimistic but I am hopeful.

Ioannis Ioannou: [36:09](#)

Wonderful. That's a fantastic quote. I think I'm going to use it as well. We talked about self regulation, Rebecca, and I am cognoscente that we need to switch to the Q&A as well. Although I've been reading the questions and some of them I've indirectly ask you as well. Let me talk about this issue. [inaudible 00:36:29] is an area in which few academics dare approach unless you are a political scientist. Right? Let alone a business school professor. It's a little bit of a taboo subject. But you dare go there in your book and very bravely so. A strong thesis of your book, I would say, is that, and some would maybe call this an oxymoron. Is that business should lobby to get business out of politics. Or at least money out of politics. Right? And I understand the idea that your suggesting is that business should not take an active stand one particular policy but essentially businesses support the political process. Right? And the civics of it all. Can you unpack that aspect to us? How do you envision his role of business at the intersection or within politics to fix the system?

Rebecca Henderson: [37:20](#)

It's easiest to start by focusing at the local level. Many cities in the world have group of business people that talk regularly with local politicians, governors, mayors, and talk about issues like the transportation system, the educational system, the healthcare system. And so we have a history at the local level. Nearly everywhere of business engaging with politicians in the interests of broadly the social good. Historically, when societies have



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broken business associations have come to the table with representatives of employees and with government and sat down and said, "Well, this is not working." If you think about what happened after World War II in Germany, the country was in ruins. The German Business Association was tempted to go back to, "We're in charge. We run everything."

Rebecca Henderson: [38:17](#)

That's how they were running Germany. And could see that such a course would lead to social breakdown and probably take you nowhere economically. So there are these moments historically where business as a whole has realized that the system is in balance. And I don't say it in my book but I believe, and coronavirus has really increased the strength of that belief, that we are approaching such a moment now. That our societies are cracking. That business has a strong self interest, enlightened self interest in addressing these issues. So while it sounds crazy, business should lobby to get money out of politics, it's happening. Business should attempt to fix the democracy. It's happening. We saw Twitter just today give its employees a day off to vote. It's a small move, it's a fundamental move. Just as business leaders are stepping up and saying it's unacceptable to discriminate against LGBTQX policies and I think they played a role in the recent incredible supreme court ruling which said, you know, you're right.

Rebecca Henderson: [39:27](#)

So business should be stepping up when they see voter suppression. When they see gerrymandering. When they see an active attempt to subvert the democracy and this is hard, but they should pull back their money. What got me writing this in the first place was the fact that firms were pumping hundreds of millions of dollars into climate denialism and into climate denialist politicians. That felt to me morally, completely unacceptable but more



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importantly it felt stupid. If we had addressed climate change 15 or 20 years ago, we would have it nailed by now at a cost of two or three percent of the economy. Slowing it down is going to cause untold harm on generations of people. So yes, it's a stretch but I went there because hey, the world is on fire. You've got to say it. You've got to say what needs to happen.

Ioannis Ioannou: [40:27](#)

Well, being at 31 degrees Celsius in London today, I can tell you that it feels very close to being on fire. On a serious note, thank you, Rebecca. That was a great, I think, bridge into the questions and literally the questions are pouring in. I'll try to pose them to you in some sort of theme-like structure to make sure that we cover as many of them as possible. So I think some of the questions are, if we start with the last component, when we talk about politics and institutions, a number of our questions basically tell us, look, you talk about global institutions but there's an obvious gap between the western world institutions and the institutions in developing countries. It's one thing to be a company in Denmark, as one of our participants said. It is quite another to start this in Sierra Leone. So how do you see this gap playing out between western world institutions, more developed institutions and perhaps in less developed countries? How do companies navigate, if you like, those institutional nuances. When they try to have this sort of impact that you're describing.

Rebecca Henderson: [41:44](#)

We have some good research evidence suggesting that publicly traded companies who hold themselves accountable using things like ESG metrics, that's not just talk, it's the real thing, but these kinds of companies, when they engage in less developed regions, can make a positive difference. Certainly on the industries in which they work with but also perhaps more broadly on the governance. This is a tricky issue. Right? Because you



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don't want business fixing government. That's what I'm saying is a no-no. But perhaps you do want business standing up for democracy for freedom of speech, for real data, for the independent judiciary. So one of my hopes is as we move forward, the large global multinationals will begin carefully and appropriately and transparently to engage with local institutions and to be a positive ally in trying to develop what the development economist call inclusive institutions. Institutions that can really raise the economy in society in a powerful way. That's my hope. Clearly lots of other things needs to happen. Clearly issues vary enormously in different countries but that's the general direction in which I hope we might move.

Ioannis Ioannou: [43:10](#)

I think we're getting a lot of questions related to Covid-19, as expected. And there are basically three issues here. People are asking look, we have seen governments respond, in particular ways, and we've seen the PN Union is already arguing about the green new deal whereas let's say the less green deal of the US, it's also another two trillion dollar fiscal package. Governments have adopted a set of reactions to Covid-19, companies have, and as I often tell to my students as well, we are going through a period where literally the world is watching. Right? You have just capital tracking corporate responses, you have true value labs, you have so many other companies that are paying very close attention to how companies are responding and of course, there is the potentially behavioral changes that we as individuals are experiencing through the crisis. So given corporate responses, government responses, and impact on individuals, if you were to assess, to evaluate all of them together, would you be more or less optimistic that indeed we can reimagine capitalism now that we have this crisis which is a mini testing ground, if you like, given all these responses. What would you say to that?



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Rebecca Henderson: [44:35](#)

Covid-19 makes me more optimistic. It is a terrible event. Hundreds of thousands of people are dying. Millions of people have lost their jobs. Firms are shattering. Many of us, I think, deal with moments of despair and isolation. It's a really tough time. It's easy to see how things could get worse. It turns out, by the way, that humans are hardwired to focus on negative possibilities because those are the ones that ate you on the Savannah. So, we tend to focus on everything that can go wrong. That's who we are. But I actually think there's a sliver lining here. Covid has highlighted the weaknesses of capitalism with an enormous spotlight. Suddenly inequality is not just a word. It's essential workers who have to keep working because they don't have healthcare or savings. Suddenly climate change is not just a mumble, mumble. It really makes it viscerally real how many millions of people the burning of fossil fuels kills every year. Because suddenly you can see the mountains and your lungs feel clear.

Rebecca Henderson: [45:49](#)

It has completely torpedoed the idea that free markets can work without government. Wait a moment, government turns out to be really, really important. And to be able to generate trillions of dollars and you really hope you have a good one. So I think all that works for us and I think there's another more subtle aspect which is, we've all been unsettled. We're all thinking about the world in a new way. When I talked about this work in this book six months ago, I would tiptoe up to the idea of systemic change and business needs to work on rebuilding democracy. I'd spend most of my time working about climate change and you can make money focusing on climate change. Because to do anything else, everybody would just glaze over. That has changed. People want to talk about changing the system. They understand completely what I mean when I say we need



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a capable democratically accountable government. So I hope, I hope, I hope Covid has a sliver lining.

Ioannis Ioannou: [46:52](#)

Personally, sad to say, but I'm not as optimistic but you definitely increased my degree of optimism with that answer, Rebecca. Because you do draw the parallels where with Covid we had public buy in and understanding and that when it comes to climate change, not only do we have to deal with the problem, but we have to deal with climate change denial and funding of pseudoscience. And stuff like that. But perhaps this is a strong wake up call for all of us about the challenges ahead. Now, a couple of the questions that came in relative to the theme we touched up on, which is this idea of the financial market. And people basically have questions about the specifics. But allow me to kind of summarize them a bit. The idea is should we demand more transparency from asset managers about their engagements? Should we demand more transparency about their proxy voting practices? In other words, what can we do to make essentially the investment community better stewards of capital? As I'm sure you're aware, the UK has one of, if not the world leading stewardship code for the investment community. So what can we do to enhance, if you'd like, that sense of stewardship by the investment community?

Rebecca Henderson: [48:17](#)

Two things. First, we can insist on transparency. We want to see everything or at least a summary. Who are you talking to? What are you talking about? How are you voting? Secondly, we can vote our dollars. Our personal savings should be in responsible funds. Again, or ESG oriented investments. An enormous fraction of the world's wealth is about to change hands as an older generation dies and a younger generation inherits. Those of us who are fortunate enough to be in that generation, not me,



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my father went bankrupt, but those of us who are fortunate enough to be in that generation, must insist. As we talk about business doing the right thing, there is no substitute for business's customers insisting they do the right thing. So transparency and pressure. Pressure from asset owners.

Ioannis Ioannou: [49:13](#)

Great. I would like to ask you one more question, Rebecca. We didn't touch it through our conversation but I think it's a fascinating one and if only we had more time. Clearly, you are one of the world's, not only leading researcher and voices on this issue, but one of the leading educators on these issues. So if you were to take a step back and reflect on, what do you think is the role of business education then? And business schools perhaps? In terms of accelerating this saving of capitalism or this reimagining of capitalism. What could these educational institutions do in order to avoid the world on fire or put out the fire in that sense?

Rebecca Henderson: [49:54](#)

Ioannis, you're super kind. I'm just a researcher and just a teacher. All of us are just individuals doing what we can. I talk in the book about the temptation to despair, to think that individuals can't make a difference. And I think one of the things we can do as educators is really double down on the idea that changing the entire structure of the world's economic system is going to take all of us. And all of us matter. So of course I think MBA education is important. I taught my course, reimagining capitalism because at Harvard we write cases and I was hoping not only that it would make a difference to the students at Harvard but to students at business schools across the country. But I'm so aware that there are hundreds of business schools moving in this direction.



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Rebecca Henderson: [50:48](#)

That there are thousands of academics like us trying to talk to their students about the business possibilities that exist, raising the question of cooperation as a way to deal with externalities, talking about the fact that a strong capitalism requires a strong government and strong civil society. So at Harvard, we definitely are trying to make a difference. We have more than 300 cases on shared value. I was asked to take over the required course in leadership and corporate governance and so we're opening all these questions with the students. What is the purpose of corporations? We try hard not to tell them what we think. It's all about what do you think. And really opening the question. Should you respond to these issues? Do this case study. Is this guy saving the world or has he lost his mind? Those are the kinds of cases we're trying to teach.

Ioannis Ioannou: [51:46](#)

While watching out of the window, typically.

Rebecca Henderson: [51:47](#)

While watching. Exactly. While watching out the window. But more broadly, I want to just reflect on, everyone who ... Thank you, everyone who tuned in. We can all feel so small, particularly now when we're all shut away from each other. But we can change the firms we work at. So many of the stories about sustainability have a hero CEO but in reality many firms switch because someone on the ground said, "You know, we could cut out waste in half and make money? We could raise how much we pay to our entry level employees and they would be more productive and we would be better. We could recruit at different places and get more diverse employees. And by the way, diverse people are going to be half the workforce in 20 years and we should start recruiting them because we're going to be selling to them too." So people can make a difference as employees. They can make a difference as customers. Where you spend your money



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makes a difference. As citizens, vote, vote, organize, organize.

Rebecca Henderson: [52:51](#)

I have a friend who started a group called Mothers Out Front at her kitchen table. She says, "You would not believe, Rebecca, 20 angry mothers talking about climate change that show up at the hearing after hearing and make a nuisance of themselves and have done the homework. We are passing legislation." And they're in eight states. I mean, local groups, real organization. Huge difference. Last but not least, yes, your own behavior is important. It's important because you want to be internally consistent, at least I do. I don't want to talk about this and then do egregiously stupid things. But because we know how social behavior works that way. If you don't fly, or you choose to fly less, your friends will fly less. The research is quite clear on this point.

Rebecca Henderson: [53:35](#)

So there's lots that we can do and let me close just saying one thing, Ioannis and then I will stop. I don't think this is a done deal. We may not succeed in stopping climate change fast enough to arrest serious damage or in fixing inequality in our lifetime or in solving the 100 year old problem of racial inclusion. But that's not a reason not to try. I can promise you that working on these issues is a road to hope and to joy. It's super hard. But I meet the most amazing people. Thousands of people are trying to drive change and that's where the future is. That's where our kids are going. We have to make this work.

Ioannis Ioannou: [54:25](#)

Rebecca, that was a brilliant ending and a very heartfelt ending as well. So thank you so much for that. And allow me to say that it was truly an honor and a privilege to have you today. And to talk about this book. The book is already out and I would highly recommend to everyone to read it. In addition to a great reading, I thought it was



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also a fantastic call to action. Exactly what Rebecca just told us. And as you said, Rebecca, nobody is an extra in this fight. Nobody is an extra in this attempt to reimagine the system and hopefully put all of us on a path in a more sustainable and more responsible future. So thank you so much again for sharing with us your views, your insights, your experience in this fast evolving, very hugely important topic and I really hope that very soon not only do we have you back but we can be even more optimistic about not only how we put out the fire but how do we rebuild after putting out the fire. So thank you so much, again, Rebecca. Thank you.

Rebecca Henderson: [55:32](#)

You're very welcome. Thank you very much for having me here. I really enjoyed it.

Ioannis Ioannou: [55:37](#)

It's been a pleasure.