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The Purpose of the Corporation and the Future of Work

What is the true purpose of the corporation? Does it exist principally to serve the interests of shareholders? Or is its purview more broadly to address the interests of other stakeholders affected by its activities? Should business performance focus solely on financial results and maximization of profits? Or should it also focus on other dimensions, such as environmental and social impacts in addition to financial results — the so-called "triple bottom line"?

This debate has raged ad nauseam for decades. Largely framed by the economist Milton Friedman, the prevailing notion in the United States of a corporation functioning in a free enterprise system is that its responsibility to the public or society is subservient to satisfying the interests of its shareholders within the bounds of fair play.[1] Over time, critics of Friedman's view have expressed concern over the short-termism and dysfunction it spawns and, more importantly, its *perceived* ineffectiveness in addressing such 21st century challenges as innovation, strategic renewal, environmental and social sustainability, domestic political pressures, and changing geopolitical realities.

But times are changing. An association of chief executive officers (CEOs) of many of America's leading companies — the Business Roundtable (BRT) — recently issued a "Statement on the Purpose of a Corporation." Citing the free market system as "the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all," the statement noted that the 181 CEOs who signed it shared "a fundamental commitment" to deliver value to all of their companies' respective stakeholders consisting of customers, employees, suppliers, communities and shareholders.[2]

Is the BRT Statement for Real?

The BRT's position is a marked departure from its prior statement embracing the 50-year-old Friedman doctrine. That statement asserted that "the paramount duty of management and the board of directors is to the corporation's stockholders" and that "the interests of other stakeholders are relevant as a derivative of the duty to stockholders."[3] This shift has significant policy implications in the United States, as it essentially asserts that corporate decisions should not be made solely on the basis of generating higher profits for shareholders.

This seemingly altruistic move by some of America's leading companies is not wholly unexpected. We articulate eight reasons why in the accompanying sidebar. In addition, there is the fundamental truth that the success of the corporation and the success of the communities in which it operates and serves are inextricably tied to each other. The BRT statement alludes to this truth by observing: "Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity."

We believe it is high time for this paradigm shift. As one thoughtful paper sums up the picture:[5]

> Corporations have ... been faced with technological disruption, globalization and the rise of China, capital markets dominated by short-term trading and focused on quarterly profits, and unrelenting attacks and threats by activist hedge funds. In response to these pressures, corporations focused primarily on increasing shareholder wealth in the short-term, at the expense of employee wages, customers, suppliers, long-term value, and the local and national communities in

Why Broadening the Corporation's Purpose Makes Sense

1. **Delivering superior financial results is no longer good enough.** Over recent years, institutional investors and asset managers overseeing trillions of dollars in sustainable, responsible and impact investing assets have conveyed to America's CEOs and their boards the need to broaden their focus beyond bottom-line profitability.
2. **Increased emphasis on environmental, social and governance (ESG) reporting.** Investors continue to demand a stronger focus on ESG performance with the attendant need for improved disclosures.
3. **Concerns over short-termism.** Concerns over a near-term focus on results abound amid the activist attacks it spawns and its effects on wages, research and development, other long-term sustainable investments, and the economy at large.[4]
4. **Extraordinary shifts in workplace dynamics.** Automating intelligence, the increasing power of skilled workers, and challenges in matching skills with needs amid tightening labor markets have created the need for more flexible, diverse and inclusive labor models and the reskilling and upskilling of millions of people as present jobs are displaced and new jobs are created in a rapidly changing workplace.
5. **Need for supply chain alignment.** Consumers and regulators see flaws and abuses in a company's supply chain as a reflection on its reputation and brand image, prompting a strong emphasis on requiring suppliers to deliver value according to the company's brand promises.
6. **Formidable political gridlock.** Current and foreseeable political realities raise serious doubts as to whether the public sector can lead effectively in addressing the challenges of the 21st century.
7. **Rise of government activism.** As more Americans, particularly those who are younger, view capitalism as failing to address present-day environmental and social challenges, proponents of governmental intervention are proposing significant taxpayer-funded alternatives.
8. **Uncertainty in international affairs.** Geopolitical issues are forcing their way into the strategic calculus in the C-suite and boardroom as companies revisit old assumptions about doing business in certain markets, countries and regions.

> which they operate. The prioritization of the wealth of shareholders at the expense of employee wages and retirement benefits, with a concomitant loss of the Horatio Alger dream, gave rise to the deepening inequality and populism that today threaten capitalism from both the left and the right.

We agree with this observation. With the pace of change in the digital economy and the optics of what's taking place in the environment, society and the global marketplace, profit as the corporation's sole objective is not sustainable. Embracing the status quo and preserving the current business model rather than innovating processes, products and services and reinventing the company is the kind of short-termism that is tantamount to playing a losing hand in the long-term game.

These changing business realities are challenging leaders to take pause and revisit the mores, traditions and theories of the 20th century. As they do so, it is likely they will pursue objectives that are more inclusive of the interests of multiple stakeholders. For example, many companies are already focused on reducing their carbon footprint.[6] And a number of companies issue sustainability reports providing information about their progress in addressing ESG performance objectives in addition to economic performance, although improvement is needed to increase the quality and consistency of these reports.

Capitalism is at an inflection point[7] in a digital economy with enormous opportunities and risks. The BRT's call to invest in workers and communities, enhance the customer experience, and preserve the quality and integrity of suppliers is a critical step toward sustaining shareholder value creation over the long term. It offers a balanced perspective, one that can be supported by boards of directors so long as the actions undertaken by management are in the shareholders' long-term interests. For sure, it is a 21st century view.

The Corporation's Role in Shaping the Future of Work

With the multidimensional aspects of the corporation's purpose being so encompassing and broad in scope, this issue of *The Bulletin* is focused on addressing the corporation's role in shaping the future of work. As it relates to the workforce, the BRT's statement noted:

> "Investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect."

These principles are vital to realizing the opportunities for economic prosperity, societal progress and individual flourishing in the forthcoming new world of work. New technologies around the automation of intelligence are expected to create new high-quality jobs and significantly improve the quality and productivity of existing work of human employees. That's the good news. The challenge is that this wave of technological advancement is expected to reduce the number of workers required for certain types of work. While the World Economic Forum (WEF) projects the increased demand for new job roles in the workplace to more than offset the decreasing demand for other roles, the net gains will not happen by accident. Nor will they necessarily happen simultaneously. They entail difficult transitions for millions of workers and the need for proactive investment in developing a new surge of agile learners and skilled talent globally. This won't be easy.[8]

Navigating this change successfully requires effective reform in education and training systems and labor market policies as well as creative approaches to skills development, employment arrangements and existing social contracts. Focused leadership, cooperation between the public and private sectors, and the need for employees to embrace lifelong learning to reskill and upskill themselves are needed to make the desired win-win scenario happen. Sitting tight with the status quo lowers the probability for success, likely leading to talent shortages, mass unemployment, growing inequality, social unrest and adoption of universal basic income models that, in effect, concede the world of work has been destroyed.[9]

With unemployment at historic lows and deep shortages in many specialties, and recruitment and retention of top talent a strategic imperative, the power of the skilled worker is increasing as today's younger workers expect employers to act ethically and responsibly with a clear social purpose in addition to a business one. The reality employers face is clear: If skilled employees do not share their values, they will change jobs, elevating even further the stakes and costs of recruiting and retention.

From the corporate perspective, there are several key factors affecting hiring and retention efforts as management adjusts talent strategies in response to the impact of technology on skill requirements. Companies must be adept at leveraging existing resources for unplanned, potentially large and time-sensitive projects. As middle management teams become leaner, companies need to evolve the art of managing and retaining a new workforce with employees who are more willing than their predecessors to leave their jobs. This work environment cries out for flexibility, accelerated professional development and skill set enhancement.

Projected Net Gains in Job Roles

"By 2022, today's newly emerging occupations are set to grow from 16% to 27% of the employee base of large firms globally, while job roles currently affected by technological obsolescence are set to decrease from 31% to 21%. In purely quantitative terms, 75 million current job roles may be displaced by the shift in the division of labor between humans, machines and algorithms, while 133 million new job roles may emerge at the same time."

The Future of Jobs Report 2018
World Economic Forum, 2018

Even regulators are taking notice. The U.S. Securities and Exchange Commission (SEC) recently proposed new disclosure rules including, as a disclosure topic, the attraction, development and retention of human capital, along with the measures or objectives that management considers in managing human capital resources.[10]

Clearly, talent strategy is top of mind, has been for years and will continue to be for a long time. All this points to the role of the corporation in making the desired workplace transition happen. Following are four suggestions for employers as they face the evolving future of work.

Optimize the Components of the Evolving Labor Model

Trends affecting work, the components of the workforce and the effects of automation should be considered as management shapes the company's talent strategy. With respect to components of the workforce, Charles Handy introduced the idea of the so-called "shamrock organization" three decades ago. This organization consists of three components:[11]

- The professional core of highly qualified, hard-to-replace people spanning all generations with the skills underlying the company's core competencies so essential to its viability and growth, and who realize purpose and rewards for their contributions to the organization's success;
- A "contractual fringe" of self-employed individuals and specialized organizations compensated on results, not time, who offer essential capabilities to perform work on a project-by-project or outsourced basis; and
- A "flexible labor force" of external specialists who are looking for interim or part-time work in lieu of a long-term career and can be scaled up and down to address peak staffing needs.

In effect, the shamrock organization is a "core of essential executives and workers supported by outside contractors and part-time help."

Handy asserts that, while this labor model "has existed in embryo … , what is different [now] … is scale."[12] Whereas the second and third leaves of the shamrock may have been smaller in the past, they are much larger today — *and are still growing* — as digital disruption increases, customer loyalty diminishes, workplace demographics continue to shift, the service economy expands and the war for fit-for-purpose talent intensifies. It's an omnipresent trend toward a talent ecosystem that no one seasoned in any industry or organization could possibly have missed. To be successful amid tightening labor markets and the evolving workplace, the corporation must give attention to exploiting all three leaves of the shamrock. This means it should focus on how it can hire, develop and manage each component of the labor model in an optimal manner.

Needless to say, Handy's vision has proven to be quite prescient, as it anticipated the widespread adoption of traditional outsourcing during the late 1990s into the current century.[13] His emphasis on the flexible labor force currently resonates with the rise of the human cloud today[14] and with the employee-employer expectations and preferences voiced by millennial and Generation Z workers. Most importantly from the corporation's perspective, it has woven its way into many business functions and is now becoming increasingly attractive to the back office, as it offers a potential solution to address the mounting strains the traditional labor model is now undergoing in many industries. For example, the increased availability of talented, accomplished finance and accounting professionals makes the model's "flexible labor force" component more feasible to finance and accounting executives.

Seize Gains Made Possible Through Automating Intelligence

The future of work means more than a significant shift in components of the labor model. It also entails the division of labor between people and machines. Protiviti's research indicates that most companies are still in the early planning and implementation stages of developing artificial intelligence (AI) and deploying machine learning, deep learning, natural language processing and visual recognition technologies to perform tasks that normally require visual perception, speech recognition, decision-making and other aspects of human intelligence. Some key points from our research:[15]

- To fill talent gaps, businesses are partnering with consulting firms, developing internal talent, outsourcing and recruiting new talent, and collaborating with universities. Nearly 90% of companies experiencing success in implementing AI are using a hybrid talent model, with 56% placing most of their AI professionals in business functions supported by a small central department of AI professionals and 33% relying on a central AI function with some AI professionals residing in business units or divisions.
- Only a small minority of companies today (16%) are gaining significant value from AI, but that is about to change. Over half (52%) of all companies across multiple industries and regions over the next two years are expected to put AI on the fast track.
- Healthcare and technology companies are moving the fastest as financial services and consumer products organizations pick up the pace, albeit progressing a bit slower.
- Businesses in the Asia-Pacific region, with China in the lead, are poised to make the region the global innovation center of AI, as those in Europe and North America lag behind.

Projected Division of Labor Between People and Machines

"Currently an average of 71% of total task hours across [multiple] industries ... are performed by humans, compared to 29% by machines or algorithms. By 2022 this average is expected to have shifted to 58% task hours performed by humans and 42% by machines or algorithms."

***The Future of Jobs Report 2018*, World Economic Forum, 2018**

- Today's AI benefits are sourced from business functions using massive amounts of data and requiring judgment, with the greatest impact on IT and cybersecurity, strategy and planning, and operations.
- Tomorrow's AI benefits are expected to be sourced from practically every function, including risk management, marketing and customer experience, product development, and sales and business development.

The key takeaway: As companies organize their extended workforces into the three components of Handy's shamrock model, they need to position themselves now more than ever to understand and harness technology's role in supporting and shaping each component.[16] AI is expected to be a major game changer in business as it enables companies to take performance, decision-making processes and risk management to new heights. As companies deploy AI to turn data into a key driver of competitive advantage and improve productivity, profitability, revenue growth, market share and shareholder value, they should consider the associated ethical issues and risks from automating intelligence.[17]

Reskill and Upskill Employees as the Business Changes

When it comes to automation, the elephant in the room is its impact on the workforce. The good news is that many experts view AI as a solution for executing repetitive and uninteresting work.[18] This assertion is supported by the WEF's analysis of work performed by humans and how machines and algorithms are expected to complement that work. The growing and declining skills depicted by this analysis (as shown below) point to a marked shift in what's required to perform many job roles and illustrates the opportunity to refocus work on higher-value activities that play to the unique attributes of being human. In our view, some of these declining skills remain very important. But the WEF's analysis suggests that the growing skills will be the ones that are most sought after and perhaps harder to source, whereas the declining skills may remain valid with a greater supply of people with those skills available. Thus, for both skills classifications, available supply and expected demand will have contrasting effects.

2022 SKILLS OUTLOOK	
Declining	**Growing**
Manual dexterity, endurance and precision	Analytical thinking and innovation
Memory, verbal, auditory and spatial abilities	Active learning and learning strategies
Management of financial and material resources	Creativity, originality and initiative
Technology installation and maintenance	Technology design and programming
Reading, writing, math and active listening	Critical thinking and analysis
Management of personnel	Complex problem-solving
Quality control and safety awareness	Leadership and social influence
Coordination and time management	Emotional intelligence
Visual, auditory and speech abilities	Reasoning, problem-solving and ideation
Technology use, monitoring and control	Systems analysis and evaluation

Source: *The Future of Jobs Report 2018*, World Economic Forum, 2018.

But to make this positive vision a reality, workers need new skills to thrive in the evolving workplace of the future. According to the WEF, global average "skills stability" — the proportion of core skills required to perform a job that will remain the same — is expected to be about 58% during the period leading up to 2022. That means the workplace will see an average shift of 42% in required skills.[19]

The magnitude of this shift is why upskilling and reskilling employees as AI is implemented is a strategic imperative. To that end, it is advisable for executive management to formulate a clear and coherent strategy to address worker transition, and that strategy should be approved by the board of directors. The conversation starts with a contextual recognition of the company's AI implementation plans and their impact on existing work and the need for new skills. To that end, engagement with internal customers and key stakeholders is key.

A flexible, agile approach to design and develop digital capabilities facilitates an iterative process with diverse constituents making tweaks and improvements to the solution. It is vital to see the world not only through the lens of external customers' needs but also through the eyes of internal customers — employees — and adapting to what they know, where they are struggling and what they've learned, a direct contrast to designing a perfect solution with a structured waterfall approach. By making the conversation a collaborative, partnerial, cross-functional business dialogue rather than an IT discussion, the organization is able to better understand the requirements, including the related impact on skills needed to operate the business going forward. This is not an easy process, as no one has all the answers.

As noted by the WEF, the retraining and upskilling efforts of many employers are focused narrowly on highly skilled, highly valued employees. That focus is inadequate to address the forthcoming challenge. It should be broadened to the entire workforce to equip people with the skills they need to succeed in the digital economy — a "leave no role behind" mentality. Emphasis must be placed on creating "a motivated and agile workforce … equipped with futureproof skills to take advantage of new opportunities through continuous retraining and upskilling." Thus, the corporation views the workforce as an asset that it can leverage over time, all the while sustaining its capacity to offer attractive opportunities for meaningful, well-paying jobs.

To be fair, many organizations have this view. Only 1% of 1,200 U.S. managers in a recent survey indicated it is solely the employee's responsibility to gain the skills needed to work with new technologies. Thirty-seven percent said it is primarily the company's responsibility to help employees adapt, while 31% said it's a two-way street. More than one-quarter (26%) of managers said employers are completely responsible for helping employees reskill.[20] In the United States, the top five methods employers say they are using to help their employees learn about new technologies are: in-person training, seminars and classes; online courses; knowledge transfer from consultants or other external subject-matter experts; reimbursement for professional certification costs; and working with a mentor.[21]

What this means for companies and their talent strategies is that a learning environment supporting the upskilling and redistribution of the workforce on a cost-effective, continuous basis should be in place. This environment supports employees in their efforts to become lifelong learners. Far from just another training initiative, the WEF estimates that employees will need, on average, 101 days of retraining and upskilling in the period leading up to 2022.[22] An investment of that size forces business leaders to develop efficient ways to scale traditional training programs to much larger segments of the workforce in a manner that is aligned with the pace and magnitude of technological disruption. In addition, the mechanisms by which this training is delivered must be streamlined to keep pace with rapid changes in skills requirements.

Treat Culture as an Asset and a Change Agent

The organization's culture must be a driver of continuous innovation and a key enabler of what we call the "human(e) side of digital," which focuses on many elements of digital transformation related to people and processes that drive success, but in our experience, are often overlooked. For innovation to reach its full potential in the digital era, the organization's leaders need to inculcate a culture that encourages diversity, collaboration, empowerment, continuous learning, ingenuity and team performance. This means that everyone across the organization recognizes that innovating is a skill essential to performing their respective jobs. Thus, organizations measure and reward innovation so that it becomes a core competency that drives priority-setting, resource allocation, talent acquisition and leadership development. The entire workforce shares a commitment to innovation and embraces the technologies that make it possible.[23]

The key to developing an agile, diverse, digitally savvy and collaborative workforce able to navigate the challenges of the digital age as work is reimagined is instilling a discipline around embracing disruption and applying a variety of learning tools to enable employees to adapt to changing roles. Learning activities should coincide with the swift redefinition of roles, as well as the redesign of teams and functions. For example, finance professionals need an innate curiosity about technology just as they do regarding other issues affecting accounting, finance and business in general.

Admittedly, such adeptness is challenging to attain. But as technology and innovation disrupt the workforce, companies must up their game in retooling, retraining and redistributing their people. An organization's success in creating a world-class learning environment offers significant benefits to its employees, the communities in which it operates and ultimately its shareholders.

One aspect of a company's culture that needs careful consideration by both executive and operating management, as well as the board of directors, is the change management process addressing existing employees. As the results of Protiviti's top risks surveys over recent years have noted, resistance to change has been a top-five risk across the globe.[24] That is why it is important to recognize at the outset that many employees are concerned about the impact of technology on their jobs and careers. They may also be experiencing stress over the challenge of working with something new coupled with an innate fear they won't succeed. Accordingly, change management must be a priority for any shift in staffing strategies — and it must be a priority from day one.

Summary

Over the last 20 years, only one company — Microsoft — has maintained a steady presence on the list of the 10 largest U.S. companies by market cap. The point is that new entrants and long-revered brands come and go as the world changes in fundamental ways. A major driver for why many are rethinking the purpose of the corporation is that organizations must attract three things to succeed: customers, talent and capital. Over recent years, signals from all three have expressed a preference for companies contributing a positive environmental and social impact over those that don't:

- Clearly, customers want quality, convenience and value for money, but if they can get it, they are becoming more conscious of choosing environmental and social impact.
- Talent seeks opportunity, compensation and flexibility, but environmental and social impact can be a difference-maker in choosing an employer.
- Sources of capital always demand an attractive risk/reward trade-off, but in addition they are recognizing the long-term benefit of investing in those companies that have a positive environmental and social impact.

This is why we believe that companies balancing the needs of shareholder interests with the interests of employees, the communities in which they operate and other stakeholders are more likely to possess the resilience to adapt than organizations focused solely on maximizing profits.

With technology affecting the workplace, companies should prioritize:

- Aligning the traditional human resources (HR) model with market realities by optimizing the components of the labor model and distinguishing between full-time and project/outsourcing needs;
- Positioning themselves to thrive in the digital age by breaking down internal walls and seizing the gains made possible through direct access to suppliers and customers, automating intelligence, and implementing other digital improvements; and
- Making the investments to reskill and upskill their employees and facilitate their transition to the jobs of the future, thereby promoting flexibility and continuous learning.

This is an enormously complex undertaking. The suggestions we offer are aspirational in nature, with much work needed to think them through and flesh them out in the context of a company's specific circumstances. And they do not address the full picture. For example, as companies adjust their talent strategy to the new realities, they also need to evaluate their long-standing HR policies around the way they compensate and reward their people, facilitate worker mobility, and deploy flexible work arrangements. Higher education also needs to align its curricula with the new realities of the digital workplace and develop strategies for addressing the unsustainable burden of escalating tuition costs. The public sector must also step up to ensure that foreseeable talent gaps are addressed and the right incentives are in place.

These and other initiatives suggest a need for an extraordinary level of cooperation among the private and public sectors along with higher education. As for America's corporations, the spirit suggested by the BRT's recent statement is a call for action and an important step in the right direction.

Endnotes

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[11] *The Age of Unreason*, Charles B. Handy, 1989, Harvard Business School Press, pages 90-101.

[12] Ibid, page 94.

[13] "The Shamrock Organisation," Charles Handy, *London Business School Review*, January 14, 2015, available at www.london.edu/faculty-and-research/lbsr/the-shamrock-organisation#.WtS0kWEh3Cw.

[14] The "human cloud" is a segment of the sharing or gig economy in which those looking for work for a variety of reasons — not as employees but as independent workers — and those looking for people with the requisite knowledge and skills to complete specific tasks or projects on-demand, and often remotely, can engage to form mutually satisfactory work arrangements.

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[18] *Jobs and Anxiety — The Future of Work: Adapting to Technological Change*, Robert Half, 2019, available at www.roberthalf.com/research-and-insights/workplace-research/the-future-of-work.

[19] *The Future of Jobs Report 2018*.

[20] *How Job Automation Is Shaping the Future*, Robert Half, July 2, 2019, available at www.roberthalf.com/blog/the-future-of-work/how-job-automation-is-shaping-the-future.

[21] Ibid.

[22] *The Future of Jobs Report 2018*.

[23] *The Human(e) Side of Digital*.

[24] The latest results for this global study of board members and C-suite executives, conducted annually by Protiviti and North Carolina State University's ERM Initiative, are available at www.protiviti.com/toprisks.

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