

July 17, 2023

Revisiting *The New Paradigm*

In view of the attacks on “woke” corporations, ongoing legislative opposition to the consideration by investors and corporations of environmental, social and governance (ESG) issues, legal challenges to elements of ESG itself (notably, initiatives designed to further diversity, equity and inclusion), and the attendant political polarization, we undertook to revisit [\*The New Paradigm: A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth\*](#) that we prepared for the International Business Council of the World Economic Forum in September 2016.

When first published, *The New Paradigm* recognized the emerging recalibration of corporate governance as a collaboration among corporations, shareholders and other stakeholders working together to achieve long-term value and resist short-termism. In this framework, if a corporation, its board of directors and its CEO and management team are diligently pursuing well-conceived strategies that were developed with the participation of independent, competent and engaged directors, and its operations are in the hands of competent executives, investors will support the corporation and resist the call of short-term financial activists seeking to force short-term value enhancements without regard to long-term value implications.

We have considered the social, economic, political and legal developments which have followed the publication of *The New Paradigm*. Attacks by activists seeking short-term stock appreciation have surged to new record levels, bolstered by support from academics who continue to espouse the shareholder primacy arguments of Milton Friedman. Social and political issues have grown in intensity, with certain political candidates and activists seeking to outdo each other in their anti-“woke” attacks and members of Congress looking to block efforts to address ESG issues, notwithstanding calls from business leaders and regulators abroad for action.

The fundamental concept of *The New Paradigm* is reflected in the 2021 report of The British Academy, [\*Policy and Practice for Purposeful Business\*](#). Oxford Professor Colin Mayer, the academic leader of the report, defines the purpose of the business corporation as “creating profitable solutions from the problems of people and planet, and not profiting from creating problems.”

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Lastly, it should be noted that on July 17, 2023, BlackRock, Inc. announced that it intends to give retail investors in one of its key exchange-traded funds more voting power at shareholder meetings, after criticism from both ends of the political spectrum that the firm is unduly influential over voting on ESG issues. Again, *The New Paradigm* is germane to how investors should wield influence.

Taking all these developments and more into account, we continue to be of the view that *The New Paradigm* provides a pragmatic and balanced approach to preserving open market capitalism, while also creating economic prosperity that will benefit all, not just a few. While we did not make reference in *The New Paradigm* to Adam Smith, often called the father of capitalism, it is notable that Smith published *The Theory of Moral Sentiments* (in which he recognized that a harmonious society is one that is able to balance and moderate the self-interests of its various participants, – *i.e.*, stakeholders and ESG) well before he wrote *The Wealth of Nations* (in which he advocated for free and open markets – *i.e.*, capitalism). In effect, as Smith recognized, the role of corporations as essential drivers of economic growth is inseparable from the broader societal context in which they operate and the various stakeholders on which corporations depend. *The New Paradigm* articulates a modernized framework for performing this age-old balancing act in the pursuit of long-term value creation.

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