US CEOs have unveiled a bigger tent that puts shareholders on a par with customers, workers, suppliers and communities.

This week, executives who oversee an estimated US$7 trillion in annual revenue acknowledged an end to the shareholder vs. stakeholder debate with “a modern standard for corporate responsibility”. The Business Roundtable, made up of nearly 200 members, including the CEOs of Amazon, JP Morgan and General Motors, released a statement on the purpose of the corporation that names shareholders as one of five stakeholders to which BRT members are committed, alongside customers, workers, suppliers and communities. “Each of our stakeholders is essential,” the BRT said.

In many ways, it is one more indication of the gradual shift over the past decade or more from shareholder capitalism to stakeholder capitalism. This is especially noteworthy coming from the Business Roundtable, given its size and importance and that it is a group representing US business interests. Shareholder primacy has been most entrenched in the United States.

This week’s news is not a bolt out of the blue; it has been simmering in the background for some time. More than a year ago, BlackRock’s Larry Fink asserted the need for businesses to have a social purpose. Similarly, when the United States withdrew from the Paris Agreement in 2017, Ford Motor Company Chairman Bill Ford said, “We…remain deeply committed to reducing greenhouse gas emissions in our vehicles and our facilities.”

There has also been increased corporate political activism in recent years, with business leaders speaking out and taking action against government policies that hurt stakeholders, especially their employees. When their employees were faced with immigration hurdles after certain nationalities were prohibited entry into the US, Amazon, Expedia and Apple joined a legal action to challenge the travel ban. While in part these measures are a response to the often-imprudent actions of US President Donald Trump, it’s become increasingly clear that it’s no longer an option for CEOs to sit on the sidelines and hope that issues facing the environment, communities or their workers will blow over.

Enforcement of the end of shareholder primacy

As with Fink’s letter to shareholders, more clarification about the next steps are needed. What actions will follow the rhetoric? What will change? Will firms be ejected from the BRT if their practices suggest they continue to endorse shareholder primacy?

The BRT statement could also be seen as posturing aimed at curbing threats to business interests stemming from the rise of populism and the possibility of increased regulatory action in the
event of a change of administration in the United States. As the Financial Times commented, "The BRT statement may be seen as an effort to assuage political pressure for broad business reforms from the likes of Democratic presidential candidate hopefuls Elizabeth Warren and Bernie Sanders." This could be part of the rationale. Either way, the new BRT statement of corporate purpose is a step towards a form of capitalism that gives greater acknowledgement of business obligations to stakeholders.

N. Craig Smith is the INSEAD Chair in Ethics and Social Responsibility, the Programme Director of the INSEAD Healthcare Compliance Implementation Leadership Programme and a specialist professor at the INSEAD Corporate Governance Centre, as well as a member of the Scientific Council of social responsibility rating agency Vigeo Eiris. His latest book (with Gilbert Lenssen) is Managing the Sustainable Business.

Found this article useful? Subscribe to our weekly newsletter.

Follow INSEAD Knowledge on Twitter and Facebook.

Find article at https://knowledge.insead.edu/blog/insead-blog/brt-the-new-capitalism-12246

Download the Knowledge app for free

Visit INSEAD Knowledge
http://knowledge.insead.edu