Our experts respond to the Business Roundtable’s revised statement of the purpose of a corporation.

In a lurch away from shareholder primacy, leaders of major American companies proclaimed that corporations have five stakeholders, each of which is “essential”.

The Business Roundtable, an organisation of CEOs – including those of Bank of America, BCG, Deloitte, John Deere, Oracle and Walmart to name but a few – is a non-profit that promotes business-friendly public policies.

Since 1997, it has endorsed the idea that corporations exist to serve shareholders. This week, in a major turnaround, the BRT released a statement that said: “We share a fundamental commitment to all of our stakeholders” that is, employees, customers, suppliers, communities and shareholders. Shareholders are given equal weight in this new vision of the corporation instead of the preeminent position they had held.

In the following posts, our experts reflect on this upheaval of the concept of shareholder value maximisation as the purpose of the firm.

“All those investors who have invested in US firms have been led to believe that the implicit understanding was to maximise shareholder value. Changing this contract now ex-post is, in my view, unethical.”

Theo Vermaelen, INSEAD Professor of Finance and the UBS Chair in Investment Banking, endowed in honour of Henry Grunfeld

The Business Roundtable (BRT) updated its definition of the purpose of the corporation. Shareholders are no longer number one, and now companies have a commitment to all stakeholders. It seems like the group of CEOs just endorsed the governance model of the left wing of the Democratic Party.

Initially, I was alarmed by this statement for two reasons. First, I mainly invest in US stocks because I don’t trust European companies which have a stakeholder value governance model. Should I sell my Amazon shares because firms are now supposed to “support the communities in which they work”? Amazon has wreaked devastation upon retail in the US, destroying a prominent part of American suburban community life: the shopping mall. With CEO Jeff Bezos on the BRT, does this statement signal a fundamental change in Amazon’s strategy? The fact that Amazon as well as US markets rose after the release of the Business Roundtable report is reassuring that the statement is just a PR exercise that will have no real consequences. CONTINUE READING

“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, INSEAD Chaired Professor of Ethics and Social Responsibility

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. CONTINUE READING

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