

Insight



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Redefined Purpose of a Corporation: Welcoming the Debate

The new Business Roundtable [Statement on the Purpose of a Corporation](#) has received a great deal of support, as well as questions and criticisms. We've welcomed the debate and the opportunity to engage both supporters and critics.

There's no more challenging issue for our country than how to preserve our free market system while ensuring that the benefits of capitalism flow to society at large. These challenges will occupy us for some time to come, but I believe the Business Roundtable Statement will give companies a stronger framework for doing their part to address them.

In developing the Statement, the Business Roundtable spoke with experts in corporate governance, business leaders, economists and academics from across the ideological spectrum. Here, the Business Roundtable takes on some of the key questions and criticisms of the Statement.

1. Why did Business Roundtable change their long-standing Statement on the Purpose of a Corporation?

In the 1980s, the Business Roundtable Statement of Purpose of a Corporation reflected the need for companies to invest in workers, communities and other stakeholders. In 1997, however, Business Roundtable, partly in response to growing pressures from corporate raiders, decided to send a clear signal about the importance of shareholders, emphasising "the principal objective of a business enterprise is to generate economic returns to its owners."

However, in recent years, an increasing number of members began to tell Business Roundtable that the 1997 language did not mirror their view of how a well-run company operates. Alex Gorsky, CEO of Johnson & Johnson and Chair of the Business Roundtable Corporate Governance Committee, describes in a LinkedIn post:

"BRT has always maintained that investing in employees and communities is an essential part of generating value for shareholders. But the fact is, words matter. And our own language was not consistent with the ways our member CEOs strive to run their companies every day."

It was time to reflect more accurately how the Business Roundtable CEOs operate their companies and to challenge each other to do more.

2. Is Business Roundtable reacting to the debate over socialism vs. capitalism and trying to appease those who are strident critics of corporations?

No. The Statement has an unambiguous defence of the free market system, noting it "is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all." The new Statement is not an abandonment of capitalism, but a call to action to ensure the benefits of capitalism are shared more broadly.

3. Are Business Roundtable CEOs abandoning shareholders?

No. The new Statement could not be clearer that companies need to generate "long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate." What it pragmatically reflects is the reality that for corporations to be successful, durable and return value to shareholders, they need to consider the interests and meet the fair expectations of a wide range of stakeholders in addition to shareholders, including customers, employees and the communities in which they operate.

A leading investor, Bill McNabb, former CEO of Vanguard, offers this:

"I welcome this thoughtful statement by Business Roundtable CEOs on the Purpose of a Corporation. By taking a broader, more complete view of corporate purpose, boards can focus on creating long-term value, better serving everyone — investors, employees, communities, suppliers and customers."

As Martin Lipton, Founding Partner of Wachtell, Lipton, Rosen & Katz, [comments](#):

“The BRT did not dismiss shareholders as ‘simply’ providers of capital. To the contrary, the BRT principles recognize the fundamental importance of shareholders to the company and commit the company to transparency and engagement with its shareholders to obtain their views of the company’s strategy, operations, and prospects.”

4. Are Business Roundtable CEOs trying to move toward stakeholder governance to avoid accountability? Won’t this lead to a decline in business dynamism?

No. They have not called for, and do not support, radical changes to corporate governance structures, which could have serious unintended consequences. Business Roundtable CEOs fully expect that shareholders will continue to hold companies accountable if they fail to generate long-term returns. However, their companies are also challenging themselves to do more:

Tricia Griffith, CEO of Progressive Corporation, says:

“CEOs work to generate profits and return value to shareholders, but the best-run companies do more. They put the customer first and invest in their employees and communities. In the end, it’s the most promising way to build long-term value.”

Business dynamism, now more than ever, requires a focus on all stakeholders. Many people in society are struggling and not enough is being done for workers to adjust to the rapid pace of change in the economy. That’s why their companies are also challenging themselves to do more to ensure more inclusive prosperity.

5. Why is Business Roundtable prioritising political and social goals over its shareholders? Shouldn’t government, not business, define and address societal objectives?

The Statement is not a repudiation of shareholder interests in favour of political and social goals. Rather, the Statement reflects the fact that for corporations to be successful, durable and return value to shareholders, they must consider the interests and meet the fair expectations of a wide range of stakeholders in addition to shareholders.

In fact, consumers and employees are increasingly demanding that corporations deliver value to all their stakeholders. Earlier this year, BlackRock, Inc. Chairman and Chief Executive Officer Laurence Fink said:

“Companies that fulfil their purpose and responsibilities to stakeholders reap rewards over the long-term. Companies that ignore them stumble and fail. This dynamic is becoming increasingly apparent as the public holds companies to more exacting standards.”

6. How will Business Roundtable resolve matters if the best interests of any one stakeholder conflict with the best interests of shareholders?

While it is acknowledged that different stakeholders may have competing interests in the short term, it is important to recognise that the interests of all stakeholders are inseparable in the long term.

Lipton notes:

“Indeed, the board’s ability to consider other stakeholder interests is not only uncontroversial — it is a matter of basic common sense and a fundamental component of both risk management and strategic planning. Corporations today must navigate a host of challenges to compete and succeed in a rapidly changing environment ...”

7. How will Business Roundtable meet the commitments of this statement? What's next?

While there is no one-size-fits-all approach to working with employees and other stakeholders, their members share a number of common priorities. As examples:

- **Increasing Wages:** Many of their members have taken steps to increase their own company minimum wages, but they also recently called for an increase in the United States' federal minimum wage. \$7.25 is too low, and they think Congress can raise the federal minimum wage in a way that protects America's strong job market.
- **Investing in Skills Training:** Because our economy is changing, Business Roundtable CEOs believe that effective training programs are at the heart of any effort to expand economic opportunity. They will continue to build on the Business Roundtable Workforce Partnership Initiative, where groups of CEOs work with education and community leaders to build training programs that prepare workers for good jobs. They are particularly interested in developing data to help understand which kinds of training are most effective in helping to advance economic mobility.
- **Increasing Access to Education:** They are also pressing American Congress to make changes to the Higher Education Act to make it easier for part-time students to get access to federal financial aid, which is particularly helpful for students who need to keep working while they are in school.
- **Promoting Long-Termism:** They have previously endorsed efforts of companies to move away from providing quarterly earnings per share guidance. In the Statement, they have also called for a closer partnership between companies and investor groups to ensure that investors support companies that build long-term value by supporting the interests of all stakeholders.

Ginni Rometty, CEO of IBM and Chair of the Business Roundtable Education & Workforce Committee, told Fortune:

"[The Statement] will have an effect on the agenda the BRT pursues. We will take a broader view of the policy agenda and not be as narrow as we have been in the past ... In this era ... there are going to be people who have won and not won, haves and have-nots. We need to make sure everyone feels they can participate. We have to make this an inclusive era so everyone can see they have a role and can get a good job."

Business Roundtable member companies have accomplished much for all of their stakeholders. And there's more to be done. In his [LinkedIn post](#), Gorsky notes:

"To me, the BRT Statement on the Purpose of a Corporation isn't an achievement, it's a call to action — so let's get to work."



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November 2019

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