

Inquiring Minds Topic – October 18, 2019

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What's the Purpose of a Corporation?

Business Roundtable Statement of 8/19/19 says

(unedited full Statement at <https://opportunity.businessroundtable.org/ourcommitment/> I have shortened it in places and put in bold and underlined indicating key changes)

[The Business Roundtable is a business lobbying body which represents 193 of the major for-profit, publically traded US corporations. 181 of their CEOs voted for the new Statement on the Purpose of a Corporation.]

Preamble: “Too often hard work is not rewarded, and not enough is being done for workers to adjust to the rapid pace of change in the economy. If companies fail to recognize that the success of our system is dependent on inclusive long-term growth, many will raise legitimate questions about the role of large employers in our society. With these concerns in mind, Business Roundtable is modernizing its principles on the role of a corporation. Each version of its Statements of Purpose issued since 1997 has stated that corporations exist principally to serve their shareholders. It has become clear that this language on corporate purpose does not accurately describe the ways in which we and our fellow CEOs endeavor every day to create value for all our stakeholders, whose long-term interests are inseparable. We commit to:

- **Delivering value to our customers.** (Does this means being transparent about privacy, being ethical by not controlling price and choice by monopolistic arrangements.)
- **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.

- **Dealing fairly and ethically with our suppliers.** (Amazon et al signed this. Are they going to ease up on their cutthroat tactics with suppliers?)
- Supporting the communities in which we work. We respect the people in our communities and **protect the environment by embracing sustainable practices across our businesses.**
- **Generating long-term value for shareholders,** who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.” [Does this should include not operating for short term gain alone, putting profits back into the research and development instead of stock buy backs to artificially raise the stock price?]

Since the founding of the Business Roundtable in 1972, shareholder primacy had been one of the organization’s primary principles. So the above 2019 Statement is a major change for the organization. The Business Roundtable as a business lobbying body in the past played a key role in defeating an [anti-trust](#) bill in 1975 and the consumer protection agency in 1977; played a key role in blocking a labor reform bill which would have protected unions from company intimidation in forming unions; helped broadened 1985 Reagan Tax cuts with a sharp corporate tax cut; lobbied the SEC in 1982 for Rule 10b-18 which established a safe harbor for corporation to buy back their own stock which until then buy back’s were in a criminal grey zone of stock price manipulation and in 1986 convinced the Securities and Exchange Commission to forgo new rules on mergers and acquisitions,.

Until this new Statement, the principle of shareholder primacy was the major rationale on how a corporation should be run: in the words of Milton Friedman in his 1970 NY Times Magazine article whose title provocatively and tellingly says “The social responsibility of business is to increase its profits” and goes on to say: ‘..... there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays in the rules of the game’.

Shareholder primacy tends to promote profit over long term re-investment in capital improvements and employee wages and training; leads to focus on meeting analysts' quarterly earnings estimates; use of profits to buy back stocks which is particularly lucrative for executives whose bonuses/raises were in stock options. Employees became numbers on a ledger to be decreased to cut costs to meet earnings estimates or outsourced away by moving production to a low cost country. Unions were seen as the enemy in the battle to meet earnings expectations instead of unions being legitimate stakeholders. Many fulltime workers' positions were replaced as contract workers no longer entitled to benefits. Pension plans have been changed to defined contribution types and the few defined benefit types still remaining are often underfunded. Yet many of these corporations have enough cash to pay dividends or do buy back's.

Shareholder primacy is a narrow economic construct. A corporation does not exist in a vacuum. There are ethical, as well as, economic concerns. The federal, and state legal systems provide a basis for corporations to exist and be protected with limited liability. The local community provides the roads, the water, fire, police and community services. The employees staked their time, effort and futures to the corporation.

Corporate Social Responsibility (CSR) is an alternative business framework which acknowledges not only that businesses need to make money but also have a variety of stakeholders besides their shareholder. This framework uses the alternative nomenclature of stakeholders with shareholders being one of many stakeholders. John Elkington coined the term "People, planet and profit", known as the triple bottom line. His argument is that companies should be preparing three different bottom lines to comprehensively measure a company's true performance. One is the traditional measure of corporate profit—the "bottom line" of the profit and loss. The second is the bottom line of a company's "people account"—a measure in some form of how socially responsible an organization has been throughout its operations, such as how it treats its customers, its employees and its community. The third is the bottom line

of the company's “planet” account—a measure of how environmentally sustainable it has been.

Nowadays, the need to consider the expectations and interests of a large variety of stakeholders for long-term value creation beyond just the shareholders is widely acknowledged. The economic bottom line can't be ignored. But to survive and be profitable in the comprehensive sense, a corporation has to acknowledge a wide array of stakeholders as this new Statement of Purpose of a Corporation does.

So, what is going on here? Have the masters of our economy suddenly gone socialistic? Is this just a ruse so these corporations can keep on doing business as usual? I honestly don't know. But it does seem to indicate that these powerful, wealthy CEO's know our current way of measuring and doing business needs to be conceptualized in a new and more comprehensive way.

Now what do you think?

Was making the shareholder value the sole corporate concern for the last 40+ yrs helpful or harmful? And to whom?

- Harmful or helpful to the employees?
- Harmful or helpful to society- did its previous focus on shareholder value cause or exacerbate inequality?
- Does government have a role in enforcing some of these new ideas about the purpose of a corporation?
 - Anti-trust enforcement, helping unions to be a co-equal with corporations
 - making taxes more progressive,
 - Wealth tax,
 - other changes