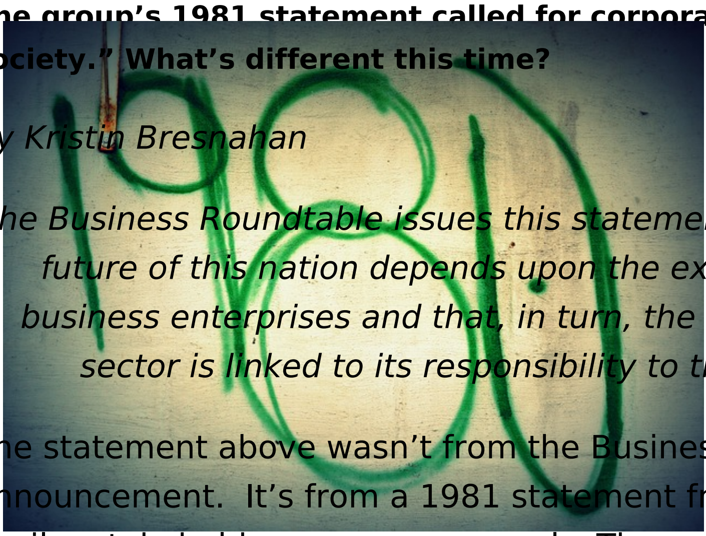
THE PURPOSE DEBATE Back to the '80s: Business Roundtable's "Purpose" Statement Redux

By Kristin Bresnahan

The group's 1981 statement called for corporations to be "a positive force in society." What's different this time?



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The Business Roundtable issues this statement out of a strong conviction that the future of this nation depends upon the existence of strong and responsive business enterprises and that, in turn, the long-term viability of the business sector is linked to its responsibility to the society of which it is a part.

The statement above wasn't from the Business Roundtable's August announcement. It's from a 1981 statement from the same group espousing similar stakeholder-governance goals. The nearly 40-year-old proclamation titled "Statement on Corporate Responsibility" ran 14 pages and actually included seven action steps for boards and corporate leaders.

So what happened, what have we learned, and will this time around be different?

The Roundtable's recent "purpose" statement revised its "Statement on the Purpose of a Corporation" to recognize a fundamental commitment to all "stakeholders" rather than just to "shareholders" and it made a huge splash. And for good reason — every year since 1997, the Business Roundtable's Principles of Corporate Governance have explicitly stated that corporations exist principally to serve their shareholders.

"Shareholder primacy," as the doctrine is known, was famously espoused in 1970 by Milton Friedman, a member of the "Chicago School" of economics, and has been the guiding rule for corporations and the boards and managers that run them over the past several decades.

But "shareholder primacy" has been identified by a growing number of commentators as the cause of many of the ills American society currently faces.

It has been plausibly identified as the major contributor to a wide range of crippling issues, from rising income inequality and economic insecurity, brought on by stagnant wages and globalization, to growing environmental harm and climate change. By focusing only on returning shareholders profits, the argument goes, other “stakeholders”— employees, suppliers, creditors, communities, the environment, etc. — get squeezed. If the company is aiming only to give shareholders more, there’s nothing left for everyone else.

The Business Roundtable leaders knew that in 1981. They wrote:

A corporation’s responsibilities include how the whole business is conducted every day. It must be a thoughtful institution which rises above the bottom line to consider the impact of its action on all, from shareholders to the society at large. Its business activities must make social sense just as its social activities must make business sense.

Increased public confidence in business as a positive force in society will depend upon the way corporations respond to the public’s new and expanded expectations regarding business.

In 2019, the group wrote:

America’s businesses have been a critical engine to its success.

The PURPOSE DEBATE

THE PURPOSE DEBATE Introduction

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Yet we know that many Americans are struggling. 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, the Roundtable is modernizing its principles on the role of a corporation. Many, including me, are excited to see the Roundtable take this step in recognizing the importance of stakeholders other than shareholders. Others are more skeptical — calling the new statement of purpose disingenuous or “greenwashing,” rather than a call to action with any teeth. Some critics go even further and predict that a shift like this one might cause a major disruption to business as we know it. They argue that by pushing back against the well-established narrative of Friedman’s shareholder primacy (which is still taught in many business schools around the country and the world), the Roundtable risks allowing management to run amok, hiding behind its commitment to “stakeholders” as a shield against anything it does that does not directly benefit its shareholders’ pocketbooks.

What’s being lost in the conversation around this topic is the fact that before 1997, the Roundtable was not publishing statements of corporate purpose that lauded shareholder primacy.

In fact, it did quite the opposite.

Hours after the Roundtable’s press release in August, I received an email from Ira M. Millstein, the 92-year old attorney that many refer to as the “godfather” of modern corporate governance — and the founder of the governance center at Columbia Law School that I now lead — attaching the Roundtable’s “Statement on Corporate Responsibility,” dated October 1981, which Millstein helped draft.

The 1981 statement overlaps almost exactly with last month’s revised version. It identifies customers, employees, communities, society at large, suppliers and shareholders as the “constituencies” (rather than “stakeholders”) to which business owes a responsibility. It closes by stating that the corporation “must be a thoughtful institution which rises above the bottom line to consider the impacts of its actions on all, from shareholders to the society at large.” The tone and message of the document are arguably even more forceful than the Roundtable’s latest version.

It even includes seven recommendations that directors, officers, and managers of corporations should consider:

1. Which issues of responsibility have particular relevance to their business.

2. Whether the company has effective policies, the right personnel and adequate structure to deal with both the economic and social expectations of constituencies and the general public.

3. What changes, if any, should be made in company structure, staffing policies, operations, attitudes and behavior in order to deal effectively with public policy and social issues.

4. What steps can be taken to assure that responsibilities to all corporate constituents are given adequate consideration in the selection, assignment, evaluation and compensation of employees.

5. How the company can inform, sensitize and train present and future management to deal with these matters.

6. What can be done to assure that the company's larger role in society is understood by management, employees and other constituencies.

7. What are the most effective ways for the company to communicate its concerns for all its responsibilities to the general public.

This context is essential for understanding where we find ourselves now. What happened between 1981 and last month that took us in a wide circle exactly back to where we started?

There are a variety of factors, including globalization and the rapid pace of technological change, but Friedman's shareholder primacy doctrine has been a major contributor — his revolutionary idea got a firm grip on investors and the business community (as may be obvious, it tends to put a lot of money back in the hands of powerful people who already have a lot) and obliterated the good work of America's business leaders, who coming out of World War II understood that in order for business to thrive, society and the people that live within it also have to thrive.

The rise of the Friedman doctrine was the ideological counterpart of a huge wave of financial deregulation in the U.S. in the 1980s, which loosened restrictions on banks and broker dealers, allowed the securities markets to proliferate and grow, and created the "market for corporate control" (the main mechanism through which shareholder primacy is enforced today) — all in the name of maximizing shareholder value above all else.

Reflecting on this history, a few things are clear:

It is not a coincidence that many of the most urgent problems faced by our nation (and the world) today have gotten much worse in the time that corporations have viewed themselves as only responsible to their shareholders.

Moving away from that framework back to a meaningful stakeholder model in which business leaders are held accountable will require thoughtful changes in the regulation of our equity and debt markets. If there is anything to learn from the past, it is that statements of good intentions will not necessarily take us where we are hoping to go. The next step is important.

Finally, business, commerce and the free market as we know it will not fall away as corporations once again lift up their heads to look around and consider what effects their actions are having on their employees, customers and communities. On the contrary — that is the only way they will prosper.

I am hopeful that this time around, the Roundtable's "commitment to deliver value" to all stakeholders will endure, and we will all be better for it.

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