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The Business Roundtable on “The Purpose of a Corporation” Back to the future!

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Yvan Allaire, PhD (MIT), FRSC
Executive Chair, IGOPP
Emeritus Professor of Strategy



In September 2019, CEOs of large U.S. corporations have embraced with suspect enthusiasm the notion that a corporation's purpose is broader than merely "creating shareholder value". Why now after 30 years of obedience to the dogma of shareholder primacy and servile (but highly paid) attendance to the whims and wants of investment funds?

Simply put, the answer rests with the recent conversion of these very funds, in particular index funds, to the church of ecological sanctity and social responsibility. This conversion was long acoming but inevitable as the threat to the whole system became more pressing and proximate.

The indictment of the "capitalist" system for the wealth inequality it produced and the environmental havoc it wreaked had to be taken seriously as it crept into the political agenda in the U.S. Fair or not, there is a widespread belief that the root cause of this dystopia lies in the exclusive focus of corporations on maximizing shareholder value. That had to be addressed in the least damaging way to the whole system.

Thus, at the urging of traditional investment funds, CEOs of large corporations, assembled under the banner of the Business Roundtable, signed a ringing statement about sharing "a fundamental commitment to all of our stakeholders".

That commitment included:

1. Delivering value to our customers
2. Investing in our employees
3. Dealing fairly and ethically with our suppliers.
4. Supporting the communities in which we work.
5. Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate.

It is remarkable (at least for the U.S.) that the commitment to shareholders now ranks in fifth place, a good indication of how much the key economic players have come to fear the goings-on in American politics. That statement of "corporate



purpose” was a great public relations coup as it received wide media coverage and provides cover for large corporations and investment funds against attacks on their behavior and on their very existence.

In some way, that statement of corporate purpose merely retrieves what used to be the norm for large corporations. Take, for instance, IBM's [seven management principles](#) which guided this company's most successful run from the 1960's to 1992:

Seven Management Principles at IBM 1960-1992

1. Respect for the individual
2. Service to the customer
3. Excellence must be way of life
4. Managers must lead effectively
5. Obligation to stockholders
6. Fair deal for the supplier
7. IBM should be a good corporate citizen

The similarity with the five “commitments” recently discovered at the Business Roundtable is striking. Of course, in IBM’s heydays, there were no rogue funds, no “activist” hedge funds or private equity funds to pressure corporate management into delivering maximum value creation for shareholders. How will these funds whose very existence depends on their success at fostering shareholder primacy cope with this “heretical nonsense” of equal treatment for all stakeholders?

As this statement of purpose is supported, was even ushered in, by large institutional investors, it may well shield corporations against attacks by hedge



funds and other agitators. To be successful, these funds have to rely on the overt or tacit support of large investors. As these investors now endorse a stakeholder view of the corporation, how can they condone and back these financial players whose only goal is to push up the stock price often at the painful expense of other stakeholders?

This re-discovery in the US of a stakeholder model of the corporation should align it with Canada and the UK where a while back the stakeholder concept of the corporation was adopted in their legal framework.

Thus in Canada, two judgments of the Supreme Court are peremptory: the board must not grant any preferential treatment in its decision-making process to the interests of the shareholders or any other stakeholder, but must act exclusively in the interests of the corporation of which they are the directors.

In the UK, Section 172 of the *Companies Act of 2006* states: "A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, among which the interests of the company's employees, the need to foster the company's business relationships with suppliers, customers and others, the impact of the company's operations on the community and the environment,..."

So, belatedly, U.S. corporations will, it seems, self-regulate and self-impose a sort of stakeholder model in their decision-making.

Alas, as in Canada and the UK, they will quickly find out that there is little or no guidance on how to manage the difficult trade-offs among the interests of various stakeholders, say between shareholders and workers when considering outsourcing operations to a low-cost country.



But that may be the appeal of this “purpose of the corporation”: it sounds enlightened but does not call for any tangible changes in the way corporations are managed.

The author is solely responsible for the views expressed herein.