The New York Times

Shareholder Value Is No Longer Everything, Top C.E.O.s Say

Chief executives from the Business Roundtable, including the leaders of Apple and JPMorgan Chase, argued that companies must also invest in employees and deliver value to customers.

By David Gelles and David Yaffe-Bellany

Aug. 19, 2019

Nearly 200 chief executives, including the leaders of Apple, Pepsi and Walmart, tried on Monday to redefine the role of business in society — and how companies are perceived by an increasingly skeptical public.

Breaking with decades of long-held corporate orthodoxy, the Business Roundtable issued a statement on "the purpose of a corporation," arguing that companies should no longer advance only the interests of shareholders. Instead, the group said, they must also invest in their employees, protect the environment and deal fairly and ethically with their suppliers.

"While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders," the group, a lobbying organization that represents many of America's largest companies, said in a statement. "We commit to deliver value to all of them, for the future success of our companies, our communities and our country."

The shift comes at a moment of increasing distress in corporate America, as big companies face mounting global discontent over income inequality, harmful products and poor working conditions.

Analysis from Andrew Ross Sorkin

How Shareholder Democracy Failed the People Aug. 20, 2019

On the Democratic presidential campaign trail, Senators Bernie Sanders and Elizabeth Warren have been vocal about the role of big business in perpetuating problems with economic mobility and climate change. Lawmakers are looking into the dominance of technology companies like Amazon and Facebook.

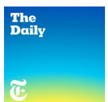
There was no mention at the Roundtable of curbing executive compensation, a lightning-rod topic when the highest-paid 100 chief executives make 254 times the salary of an employee receiving the median pay at their company. And hardly a week goes by without a major company getting drawn into a contentious political debate. As consumers and employees hold companies to higher ethical standards, big brands increasingly have to defend their positions on worker pay, guns, immigration, President Trump and more.

"They're responding to something in the zeitgeist," said Nancy Koehn, a historian at Harvard Business School. "They perceive that business as usual is no longer acceptable. It's an open question whether any of these companies will change the way they do business."

The Business Roundtable did not provide specifics on how it would carry out its newly stated ideals, offering more of a mission statement than a plan of action. But the companies pledged to compensate employees fairly and provide "important benefits," as well as training and education. They also vowed to "protect the environment by embracing sustainable practices across our businesses" and "foster diversity and inclusion, dignity and respect."

Listen to 'The Daily': What American C.E.O.s Are Worried About

Nearly 200 executives tried this week to redefine the role of a corporation in society. We look at what's behind that move.



Listen 25:22

It was an explicit rebuke of the notion that the role of the corporation is to maximize profits at all costs — the philosophy that has held sway on Wall Street and in the boardroom for 50 years. Milton Friedman, the University of Chicago economist who is the doctrine's most revered figure, famously wrote in The New York Times in 1970 that "the social responsibility of business is to increase its profits."

This mind-set informed the corporate raiders of the 1980s and contributed to an unswerving focus on quarterly earnings reports. It found its way into pop culture, when in the 1987 movie "Wall Street," Gordon Gekko declared, Greed is good. More recently, it inspired a new generation of activist investors who pushed companies to slash jobs as a way to enrich themselves.

"The ideology of shareholder primacy has contributed to the economic inequality we see today in America," Darren Walker, the president of the Ford Foundation and a Pepsi board member, said in an interview. "The Chicago school of economics is so embedded in the psyche of investors and legal theory and the C.E.O. mind-set. Overcoming that won't be easy."

The Business Roundtable included its own articulation of the theory in an official doctrine in 1997, writing that "the paramount duty of management and of boards of directors is to the corporation's stockholders." Each version of its principles published over the last 20 years has stated that corporations exist principally to serve their shareholders.

But by last year, the Business Roundtable's language was out of step with the times. Many chief executives, including BlackRock's Larry Fink, had begun calling on companies to be more responsible. Businesses were pledging to fight climate change, reduce income inequality and improve public health. And at gatherings like the World Economic Forum in Davos, Switzerland, the discussions often centered on how businesses could help solve thorny global problems.

"The threshold has moved substantially for what people expect from a company," Klaus Schwab, the chairman of the World Economic Forum, said in an interview. "It's more than just producing profits for the shareholders."

Last year, Jamie Dimon, the chief executive of JPMorgan Chase and the chairman of the Business Roundtable, began an effort to update its principles. “We looked at this thing that was written in 1997 and we didn’t agree with it,” Mr. Dimon said in an interview. “It didn’t fairly describe what we think our jobs are.”

Mr. Dimon proposed making a formal revision to the annual statement at a Business Roundtable board meeting in Washington this spring. It then fell to Alex Gorsky, the chief executive of Johnson & Johnson, who runs the group’s governance committee, to create the language.

“There were times when I felt like Thomas Jefferson,” Mr. Gorsky said in an interview.

While the group cast the change in language as an embrace of new corporate ideals, it was also a tacit acknowledgment of the heightened pressures facing companies across the country — including many that signed the document.

In 2017, after the president’s initially tepid response to the violent white supremacist protests in Charlottesville, Va., the chief executives of several major companies disbanded White House business advisory groups in protest. Walmart, the nation’s largest gun seller, is under pressure after a series of mass shootings, including the recent massacre at its store in El Paso. Amazon, the giant online retailer, is facing scrutiny from lawmakers who say it avoids paying taxes and uses its dominance to hurt competitors.

And protesters have mobilized across the country to call for a higher minimum wage.

For companies to truly make good on their lofty promises, they will need Wall Street to embrace their idealism, too. Until investors start measuring companies by their social impact instead of their quarterly returns, systemic change may prove elusive.

Nowhere has the new scrutiny on corporations been more pronounced than on the presidential campaign trail. On Monday, Mr. Sanders said in an interview that the Business Roundtable was “feeling the pressure from working families all over the country.”

“I don’t believe what they’re saying for a moment,” he said. “If they were sincere, they would talk about raising the minimum wage in this country to a living wage, the need for the rich and powerful to pay their fair share of taxes.”

In a statement Monday, Ms. Warren called the announcement “a welcome change” but cautioned that “without real action, it’s meaningless.”

“These big corporations can start following through on their words by paying workers more instead of spending billions on buybacks,” she said.

While the new statement of purpose represents a sizable shift from the group’s longstanding principles, it was not the first time Business Roundtable had taken a position on a social issue. Last August, the group denounced President Trump’s immigration policies, describing family separations as “cruel and contrary to American values.”

Monday’s statement represented an even broader shift, signaling companies’ willingness to engage on issues of pay, diversity and environmental protection. Several of the executives who signed the letter said the group would soon offer more detailed proposals on how corporations can live up to the ideals it outlined, rather than focusing purely on economic policies.

“It’s a real divergence considering everything we’ve done in the past has been around policy,” said Chuck Robbins, the chief executive of Cisco, who is on the group’s board, adding, “This is just the first piece.”

The executives quickly pointed out that they had not forgotten about investors.

“You can provide great returns for your shareholders and great benefits for your employees and run your business in a responsible way,” said Brian Moynihan, the chief executive of Bank of America.

But the statement’s lack of specific proposals also drew skepticism.

“If the Business Roundtable is serious, it should tomorrow throw its weight behind legislative proposals that would put the teeth of the law into these boardroom platitudes,” said Anand Giridharadas, the author of “Winners Take All: The Elite Charade of Changing the World.” “Corporate magnanimity and voluntary virtue are not going to solve these problems.”

Thomas Kaplan contributed reporting and Sheelagh McNeill contributed research.

David Gelles is the Corner Office columnist and a business reporter. Follow him on LinkedIn and Twitter. @dgelles

A version of this article appears in print on Aug. 20, 2019, Section A, Page 1 of the New York edition with the headline: Feeling Heat, C.E.O.s Pledge New Priorities