The Business Roundtable CEOs' Statement: Same Old, Same Old

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Despite the media hype about corporate CEOs having abandoned their shareholder value maximization credo, the recent statement from the Business Roundtable contains nothing new of substance. CEOs still firmly convinced that their firms' main goal remains to maximize shareholder value could sign it without batting an eye.

The importance of having an informed and thoughtful debate about the purpose of corporations, and more generally about their role in today's economy, is hard to overestimate, especially in today's political climate. So, one should welcome any initiative that focuses people's minds and elicits reflections on it. Given the attention from the media and the quality and insightfulness of reactions published in its wake (for example by Jeff Gordon, Luigi Zingales, and Larry Summers), we should welcome the 181

Business Roundtable CEOs who signed the Statement on the Purpose of the Corporation ("the Statement").

Yet, despite the media hype about CEOs having abandoned their shareholder value maximization credo, the Business Roundtable statement contains nothing new of substance: it either repeats concepts that the Business Roundtable itself had already espoused or articulates—in the form of commitments—principles long considered to be requirements for any firm to survive.

The CEOs' statement makes five commitments. One is to shareholders (*"we commit to [g]enerating 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."*). No one will question that this is old hat.

Another commitment is to customers: *"We commit to [d]elivering value to our customers."* What does it mean to commit to that? Commitment or no commitment, a business will end up without customers if its product delivers no value to them.

A third commitment is to suppliers: "*We commit to [d]ealing fairly and ethically with our suppliers. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions."* Again, is that something any successful business has to emphatically and publicly commit to? If this were to be taken literally, any existing supplier of these companies should worry: were you cheating before? Have you not treated me fairly and ethically so far? Or, if a supplier does think they have been treated unfairly and/or unethically, what are the chances of getting better terms by calling the CEO and asking for a review of their relationship terms based on the CEO's commitment?

Then, there is the commitment to investing in their employees. The CEOs are slightly more articulate on this: *"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.*"

That is great, yes, but not new. The Business Roundtable's Principles of Corporate Governance, in their latest version (dated 2016) states: "*Treating employees fairly and equitably is in a company's best interest. Companies should have in place policies and practices that provide employees with appropriate compensation, including benefits that are appropriate given the nature of the company's business and employees' job responsibilities and geographic locations.*"

> ***"Is there anything other than rhetoric there? In the absence of new governance and accountability mechanisms, as Katharina Pistor has noted, a commitment to 'deliver value to all [stakeholders]' is too generic to actually benefit stakeholders, and rather provides a (legally superfluous) basis for being accountable to none of them."***

In its June 2017 report *Work in Progress. How CEOs Are Helping Close America's Skills Gap*, the Business Roundtable already stated that "*[b]usiness leaders are committed to raising the skills of the American workforce.*" And finally, on the webpage announcing its September 2018 report *Advancing Diversity and inclusion* one reads: "*The CEOs of Business Roundtable … believe that all of us are responsible for making the world a better place than we found it. By advancing diversity and inclusion, Business Roundtable members are acting on their responsibility as leaders.*"

The remaining commitment is to "*[s]upporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses."* The 2016

Principles of Corporate Governance spent many more words on this:

> *Companies should strive to be good citizens of the local, national and international communities in which they do business; to be responsible stewards of the environment; and to consider other relevant sustainability issues in operating their businesses. Failure to meet these obligations can result in damage to the company, both in immediate economic terms and in its longer-term reputation. Because sustainability issues affect so many aspects of a company's business, from financial performance to risk management, incorporating sustainability into the business in a meaningful way is integral to a company's long-term viability.*
>
> *A company should strive to be a good citizen by contributing to the communities in which it operates. Being a good citizen includes getting involved with those communities; encouraging company directors, managers and employees to form relationships with those communities; donating time to causes of importance to local communities; and making charitable contributions.*
>
> *A company should conduct its business with meaningful regard for environmental, health, safety and other sustainability issues relevant to its operations. The board should be cognizant of developments relating to economic, social and environmental sustainability issues and should understand which issues are most important to the company's business and to its shareholders.*

The Statement ends with a final truism: "*Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities, and our country.*"

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For the sake of completeness, one should add that the introduction to the Statement in the relevant Business Roundtable webpage does explicitly declare that the idea that "corporations exist principally to serve their shareholders," which was contained in its Principles of Corporate Governance since 1997, is superseded, as 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."* But this declaration, which is what the press reports and commentators have focused on, is not contained in the Statement CEOs have put their signature under. And while its 2016 Principles of Corporate Governance undeniably refer to aligning managers' interests with shareholders here and there, throughout the document the *company's* goal is identified as "long-term value creation."[1)] In a couple of instances, the documents refer to "long-term value creation for the company and all of its shareholders." But that is in the context of identifying the responsibilities of active shareholders, which are prompted to act in the interests of all shareholders rather than just their own (p. 2 and 6). In another (p. 11), they refer to "the creation of long-term shareholder value" not as a company's goal but as something that diversity within the board promotes.

To conclude, the Statement is same old, same old. The symbolism of the 181 CEO signatures underneath, which actually fill 11 of the Statement's 12-page document, is not lost. It's an undeniable PR coup. But that is as far as it goes: even CEOs still firmly convinced that their firms' main goal remains maximizing shareholder value could sign the Statement without batting an eye. In the meantime, we can continue to discuss what corporations exist for and how society should deal with them as though nothing has changed. Because it hasn't.

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