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Opinions

Don’t trust CEOs who say they don’t care about shareholder value anymore

By Luigi Zingales
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If workers’ unions were to get together and unilaterally decide what the employment contract meant and how it should be interpreted, the Business Roundtable would scream “socialism.” Why shouldn’t we do the same when business leaders get together and redefine the purpose of the corporations that hired them and for which they work?

Yet that is exactly what the chief executives of major U.S. corporations at the Business Roundtable did this week in redefining corporate purpose to introduce a responsibility to all stakeholders, not just shareholders. This effort is at best misleading marketing, at worst a dangerous power grab.

It is misleading because all of the goals the Business Roundtable lists — “delivering value to our customers,” “investing in our employees,” “dealing fairly and ethically with our suppliers,” “supporting the communities in which we work” — are just good business policy to maximize the long-term value of a corporation. Even Milton Friedman, the champion of the “shareholder theory” that puts maximizing profits as the primary responsibility of a corporation, would approve of them.

So why do executives need to emphasize them as separate goals? The same business leaders who signed this statement have knowingly sold fraudulent mortgages to investors and defective products to customers, aggressively marketed addictive drugs, dumped toxic products in their communities and used every possible trick to elude (if not evade) taxes. If the top executives were serious about improving the way their companies are run, what about a commitment to reduce their lobbying and making it more transparent? Or a commitment to reduce the amount of taxes they elude by transferring intellectual property rights in fiscal paradises. At best, the new statement seems an attempt to present a kinder and gentler image to cover the reputational blow that daily scandals are imposing on corporate America: a marketing ploy with no real bite.

At worst, it is a dangerous power grab. The problem in today’s corporate America is not that executives are excessively bound to pleasing shareholders, but that they do not give them enough voice. When Walmart shareholders in 2013 first sought to vote on banning assault weapons’ sales, Walmart management appealed to the Securities and Exchange Commission to block the vote. When shareholders appealed the SEC decision that deprived them of the right to vote on the issue, Walmart hired the best lawyers to defeat that right in court and assert the principle that shareholders cannot have any voice in ordinary business matters. Eventually, Walmart stopped the sales, but it did so because of fear of alienating customers, not in response to shareholders.

Nor do shareholders have any say on how much carbon dioxide companies choose to emit, how much money is spent in lobbying governments, and how many guns are sold to the Saudis, contributing to the genocide in Yemen. These are not merely business decisions; they involve social preferences. In privately held corporations, corporate policy reflects the social preferences of the shareholders. In publicly traded companies, it does not. It reflects the whims of the incumbent executives and of their handpicked board members.

The roundtable’s new purpose statement does not ameliorate this problem; it only makes it worse. By appealing to broader objectives, executives free themselves of their residual accountability. As Adolf Berle, a progressive legal scholar, wrote in 1932: “You cannot abandon emphasis on the view that business corporations exist for the sole purpose of making profits for their shareholders until such time as you are prepared to offer a clear and reasonably enforceable scheme of responsibilities to someone else.”

The Business Roundtable statement fails to do so. It advocates some legitimate social purposes, without clearly defining a system of accountability. Because shareholders pay the cost of the social purposes pursued by corporations, what executives advocate is taxation without representation.

At its beginning, American democracy was shaped after the governance of early U.S. corporations, such as the Virginia Company and the Massachusetts Bay Colony. Now it is time for corporations to take a page or two from the American democratic system, by opening the decision process to the shareholders’ input, as many states opened theirs to referendums. If the roundtable’s statement is not misleading marketing, it is a dangerous step in the opposite direction.

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