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The Business Roundtable's Stakeholder Pledge, Five Years Later

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Summary. Five years ago, the Business Roundtable issued a statement pledging to "lead their companies for the benefit of all stakeholders." In the past five years, stakeholderism has gained wider acceptance and helped many corporate leaders see the value of taking the interests of their stakeholders seriously when planning, developing strategy, making decisions, assessing risks, allocating resources, and so on. But that is a far cry from replacing shareholder capitalism as the central organizing principle for U.S. companies. For that to happen, much more is required. Proponents will need to define more clearly what stakeholder capitalism is, strengthen its theoretical foundations, and develop a playbook for implementing it,

including metrics for measuring performance and guidelines for making tradeoffs. They will also need to build an ecosystem of investors, executives, directors, advisors, and other professionals (lawyers, bankers, accountants, analysts, and so on) who understand and support it, embed its precepts in law and regulation, and educate future leaders in its tenets and practices. **close**

When the Business Roundtable issued its new statement on corporate purpose in August 2019, it brought to a head the long-standing debate between shareholder capitalism and stakeholder capitalism. In a reversal of the BRT's previous stance in favor of shareholder primacy, the new statement declared its signers' commitment to "lead their companies for the benefit of all stakeholders."

It seemed to many commentators that the stakeholder view had finally won. But skeptics quickly pointed out that nothing had really changed in the governance of the 181 companies whose CEOs signed the statement. As research later confirmed, the vast majority of those companies' boards of directors had not been asked to approve the decision to sign, and the companies' governance documents largely continued to define shareholder value as their ultimate objective. (A few had pre-existing language referring to the interests of other stakeholders.) What's more, shareholder returns continued to be the predominant metric for awarding long-term incentive pay to CEOs of S&P 500 companies, which included about two-thirds of the companies whose CEOs signed the statement.

In response, many stakeholder advocates reasoned that the statement was just the first step in a long journey to rewire U.S. companies to create value for all their stakeholders rather than just for their shareholders. The statement's signers, by contrast, were somewhat ambivalent about whether they were describing how their companies already operated or announcing a fundamental shift in direction.

Five years later, the debate continues and the envisioned mass pivot to stakeholderism has not materialized. Granted, the term "stakeholder" has become ubiquitous. It is rare to find a listed company that doesn't claim to be committed in some general sense to all its stakeholders. It's also true that some companies have taken steps to address stakeholder concerns, improved the flow of information about stakeholders to the boardroom, and introduced performance goals and (modest) incentives to advance certain interests of non-shareholder stakeholders.

But we are no closer to a resolution of the debate, and shareholder primacy remains deeply embedded in our system of corporate governance. Even many supporters of stakeholderism rest their case on the long-term interests of shareholders. As BlackRock Chairman and CEO Larry Fink wrote in his 2021 letter to CEOs, "The more your company can show its purpose in delivering value to its customers, its employees, and its communities, the better able you will be to compete and deliver long-term, durable profits for shareholders." Meanwhile, shareholder power is only increasing. Delaware, the legal home to more than two-thirds of the Fortune 500 and almost 80% of U.S. initial public offerings, recently adopted legislation expanding the ability of influential shareholders to contract with their investee companies for powers traditionally reserved to the board of directors.

What's Behind Shareholder Capitalism's Staying Power

One reason for stakeholder capitalism's failure to take deeper root has been a lack of consensus about what it requires of companies and what companies owe their non-shareholder stakeholders. As I have written elsewhere, stakeholderism has been interpreted in at least four different ways. One says that companies should consider the interests of their non-shareholder stakeholders but should serve those interests only if doing so would maximize shareholder value. Another says that companies have ethical and legal obligations to each of their stakeholders that should be respected whether or not it would maximize shareholder value. A

third interpretation holds that companies should measurably improve the well-being of all their stakeholders, for example by increasing the share of gains from productivity improvements going to employees or making essential goods and services more widely available to low-income consumers. And a fourth calls for giving non-shareholder stakeholders formal powers in corporate governance, either by way of voting rights like those of shareholders or representation on boards of directors.

We will likely never know which interpretation individual signers of the BRT statement had in mind, though the BRT's commentary suggests they did not envision changes in corporate governance structures. In the absence of clarity about what companies owe their non-shareholder stakeholders, it is difficult to operationalize stakeholderism. So, it's not surprising that mainstream companies have taken only modest or ad-hoc steps to do so.

In contrast, the rise and spread of shareholder value as the corporate objective in the 1980s and 1990s was accompanied by the development of a playbook for implementation based on what academics call agency theory. Notwithstanding its flaws, agency theory offered a clear and easily understood foundation for a set of guidelines and practices to operationalize the shareholder view. These included, most importantly, a concrete metric for measuring shareholder value — "total shareholder return (TSR)" — and an approach to compensation aimed at motivating executives to maximize it. Proponents also offered guidance on organizational design and corporate governance, defining the board of directors as a monitoring mechanism for ensuring that executives maximize value for shareholders. The theory led, as well, to to push for legal, regulatory, and corporate bylaw changes to strengthen shareholder rights and enhance shareholders' ability to intervene should the company fail to maximize

shareholder value. By comparison, the theory underlying stakeholder capitalism remains less developed, and a widely accepted playbook for implementing it has yet to emerge.

Another barrier to the widespread adoption of stakeholder capitalism has been the absence of a strong and empowered constituency to promote it. When agency theory emerged in the late 1970s and early 1980s, it found a ready audience in institutional investors, especially large pension funds, that were at the time consolidating America's shareholdings. After the stock market's dismal performance in the 1970s, these investors were seeking ways to remain competitive and to meet their obligations to their beneficiaries. Agency theory, with its focus on maximizing returns for shareholders, gave their efforts intellectual legitimacy and empowered them to put pressure on companies and boards to improve returns. In turn, institutional investors used the rhetoric of shareholder primacy to pressure companies not to employ anti-takeover provisions, like poison pills, that were said to deprive shareholders of an opportunity to earn a premium on their shares, and to opt out of state laws allowing directors to take into account the interests of stakeholders other than shareholders when considering a takeover bid.

For a time, especially in the years just before and after the BRT statement, several large institutional investors voiced their support for stakeholder capitalism, but that support has waned somewhat as political winds and market conditions have shifted and made it more costly. BlackRock, for example, has tempered its public statements as various state entities have withdrawn billions from its funds following the adoption of legislation limiting the consideration of environmental and social factors in investing state funds. Institutional investor support is, at best, likely to continue fluctuating given that investors' interests and those of other stakeholders do not consistently align. Yet, it is

doubtful that stakeholder capitalism can ever become as embedded as shareholder capitalism without an economically or politically powerful constituency to promote it.

What We've Learned About Stakeholder Capitalism

Even though the stakeholder project has not displaced shareholder primacy, our national experiment with stakeholderism over the past five years has yielded some valuable lessons. For one thing, it has highlighted the interdependencies among different stakeholder groups and shown that giving explicit consideration to the interests of other stakeholders can benefit shareholders. Back when stakeholderism was viewed as a fringe idea, some critics argued that paying attention to the interests of other stakeholders would distract corporate leaders from the business of maximizing shareholder value. Others argued that calling out the interests of other stakeholders was unnecessary, reasoning that if corporate leaders were sufficiently focused on maximizing shareholder value, they would automatically take other stakeholders' interests into account if those interests were relevant.

But it turns out that a myopic focus on maximizing shareholder value can be self-defeating. Consider the drug-pricing excesses at Valeant Pharmaceuticals, the fake accounts scandal at Wells Fargo, or the airliner safety debacle at Boeing. Had these companies paid more attention to serving the interests of their non-shareholder stakeholders, they might well have avoided these calamities — and benefited their shareholders at the same time.

By the same token, giving explicit consideration to the interests of non-shareholder stakeholders can reveal value-creation opportunities that might not otherwise get management's attention. For instance, by tuning into stakeholders' interest in climate issues, many corporate leaders have discovered that

reducing their company's carbon emissions or developing greener offerings for their customers can also benefit the bottom line. Similarly, paying attention to what employees actually care about has helped some companies develop benefits packages that give employees more of what they want but at a lower total cost to the company. Indeed, as my coauthors and I documented in *Capitalism at Risk: How Businesses Can Lead*, many companies have found opportunities for innovation and growth by probing and seeking to address their stakeholders' needs.

In short, with stakeholderism's entry into the mainstream, more corporate leaders have recognized that stakeholder analysis, far from being a distraction or a waste of time, is a valuable tool for identifying risks and opportunities, and crafting strategies that align stakeholder interests with value creation for shareholders.

The past five years have also taught that consistently improving the welfare of all stakeholders is far more challenging than initially thought. The happy alignment of stakeholders' interests envisioned by stakeholder capitalism is easily upset by changes in a company's circumstances or external environment, leaving corporate leaders to make difficult tradeoffs between the interests of different stakeholder groups. Several high-profile companies whose CEOs signed the BRT statement have found themselves in such situations. Consider AT&T's 2021 decision to cut expected life insurance and death benefits for some 220,000 retired employees in order to, in the company's words, "remain competitive and attract capital." Or Salesforce's 2023 and 2024 decisions to conduct multiple rounds of layoffs in the face of market shifts and economic uncertainty in the industry. JPMorgan recently warned that customers may have to pay for checking accounts if proposed regulations capping overdraft and late fees become law. These decisions may well have been necessary from some vantage point, but they decidedly do not improve the well-being of all stakeholders.

To be fair, signers of the BRT statement did not claim that stakeholders' interests always align in the short term. In commentary on the statement, the BRT wrote: "While … different stakeholders may have competing interests in the short term … the interests of all stakeholders are inseparable in the long term." True or not, this observation does not resolve the short-term conflict or address the harms suffered by the immediately affected stakeholders. And even over the longer term, alignment cannot be assumed.

A number of companies once celebrated for their long-term multi-stakeholder efforts have stumbled in recent years. Perhaps the most prominent is Unilever. In 2010, under Paul Polman's leadership, Unilever adopted a multi-stakeholder strategy that was explicitly framed as a long-term effort. For a while, it seemed to work. During Polman's tenure, which ended in December 2018, the company made progress on many of its environmental and social goals, and its stock price climbed. In more recent years, however, Unilever's stock price has languished, disgruntled investors have accused management of putting sustainability ahead of business fundamentals, and the company has said it would dial back its environmental and social goals. As this case illustrates, an ever-changing environment makes it exceedingly difficult to deliver on long-term goals for multiple stakeholders and to keep their interests aligned continuously over significant periods of time.

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Proponents will need to define more clearly what stakeholder capitalism is, strengthen its theoretical foundations, and develop a playbook for implementing it, including metrics for measuring performance and guidelines for making tradeoffs. They will also need to build an ecosystem of investors, executives, directors, advisors, and other professionals (lawyers, bankers, accountants, analysts, and so on) who understand and support it, embed its precepts in law and regulation, and educate future leaders in its tenets and practices.

This is a tall order considering that shareholder primacy is deeply ingrained in our capital markets and legal system through shareholders' rights to buy and sell shares freely, elect directors, vote on governance arrangements and major transactions, and bring suit against directors for breach of their fiduciary duties. Whether or not stakeholder capitalism replaces shareholder capitalism, stakeholder analysis and management will continue to be essential tools for boards and business leaders whatever their governing objective. And while this is hardly the complete transformation many supporters of the BRT declaration of 2019 hoped for, it does represent important progress.

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