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‘Stakeholder’ Capitalism Seems Mostly for Show

If CEOs really intended to amend their companies’ purpose, they’d at least consult their boards first.

By Lucian Bebchuk and Roberto Tallarita
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By putting American workers through months of turmoil, the Covid-19 crisis has heightened expectations that large companies will serve the interests of all “stakeholders,” not only shareholders. The Business Roundtable raised such expectations last summer by issuing a statement on corporate purpose, in which the CEOs of more than 180 major companies committed to “deliver value to all stakeholders.” Although the Roundtable described the statement as a radical departure from shareholder primacy, observers have been debating whether it signaled a significant shift in how business operates or was a mere public-relations move. We have set out to obtain evidence to resolve this question.

To probe what corporate leaders have in mind, we sought to examine whether they treated joining the Business Roundtable statement as an important corporate decision. Major decisions are typically made by boards of directors. If the commitment expressed in the statement was supposed to produce major changes in how companies treat stakeholders, the boards of the companies should have been expected to approve or at least ratify it.

We contacted the companies whose CEOs signed the Business Roundtable statement and asked who was the highest-level decision maker to approve the decision. Of the 48 companies that responded, only one said the decision was approved by the board of directors. The other 47 indicated that the decision to sign the statement, supposedly adopting a major change in corporate purpose, was not approved by the board of directors.

We received responses from only about three-tenths of the signatories. Yet there is no reason to expect that these companies are less likely than companies electing not to respond to have obtained board approval for joining the statement.

What can explain a CEO’s decision to join the Business Roundtable statement without board approval? Even “imperial” CEOs tend to push major decisions through the board rather than disregard it. Similarly, it is implausible that CEOs didn’t seek board approval because they viewed the statement as reflecting a personal belief rather than a commitment made in their “official” capacity. In fact, the Business Roundtable presented the statement as a commitment by CEOs “to lead their companies for the benefit of all stakeholders,” thus reflecting a pledge regarding the goals of the companies led by these CEOs.

The most plausible explanation for the lack of board approval is that CEOs didn’t regard the statement as a commitment to make a major change in how their companies treat stakeholders. That may be because they believe their companies are already meeting the standard for taking care of stakeholders. But it still implies that they believed signing the statement wasn’t a major step for their businesses.

We supplemented the evidence above with a review of the board-approved corporate governance guidelines of the companies whose CEOs joined the statement. We found that these guidelines, including the many that have been updated since the issuance of the Business Roundtable statement, mostly reflect a clear “shareholder primacy” approach.

Take the corporate governance guidelines of JPMorgan Chase, whose CEO, Jamie Dimon, chaired the Business Roundtable at the time the statement was issued. These guidelines state that “the Board as a whole is responsible for the oversight of management on behalf of the Firm’s shareholders.”

The corporate governance guidelines of Johnson & Johnson—whose CEO, Alex Gorsky, served as chairman of the Business Roundtable Corporate Governance Committee—indicate in clear terms that “the business judgment of the Board must be exercised . . . in the long-term interests of our shareholders.”

Further, about 70% of the U.S. companies that joined the statement are incorporated in Delaware, which is widely viewed as a state with shareholder-centric corporate laws. In a 2015 law-review article, Delaware Chief Justice Leo Strine stated that “a clear-eyed look” at Delaware law “reveals that . . . directors must make stockholder welfare their sole end.”

Nonetheless, the Business Roundtable, and the numerous Delaware companies endorsing its statement, didn’t address the potential constraints imposed by Delaware law. This disregard of the issue is consistent with the view that corporate leaders don’t contemplate a significant change in corporate strategy.

The evidence is clear: Notwithstanding statements to the contrary, corporate leaders are generally still focused on shareholder value. They can be expected to protect other stakeholders only to the extent that doing so would not hurt share value. That conclusion will be greatly disappointing to some and welcome to others. But all should be clear-eyed about what corporate leaders are focused on and what they intend to deliver.

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