"Don't be seduced into thinking that that which does not make a profit is without value."
- Arthur Miller

Changing priorities

In mid-August, the Business Roundtable, an influential trade group comprised of most of the largest US companies, announced that 181 of its CEO members had signed a new *Statement on the Purpose of a Corporation*. Given that the Roundtable last revised these articles over two decades ago, this shift attracted attention. The decision to update this statement reflects the growing expectation and demands by customers, employees, and influential institutional investors that businesses take on broader social responsibilities than has historically been the norm.

In its 1997 *Statement on Corporate Governance*, the Business Roundtable used its opening paragraph to unequivocally state that the "principal objective of a business enterprise is to generate economic returns to its owners." This view largely echoes the sentiments of Nobel Prize winning economist Milton Friedman, who in 1970 wrote that business concerns beyond making a profit, amounted to "preaching pure and unadulterated socialism." The 1997 statement did allow that long-term interests of stockholders included treating other stakeholders "well", with stakeholders broadly defined as employees, customers, suppliers, the community, and shareholders. Contrast that sentiment to the Business Roundtable's newly-revised statement, which appears to elevate other stakeholders to equal footing with shareholders and emphasizes that companies share a fundamental commitment to all stakeholders. Specifically, this commitment now encompasses:

- Customers: Delivering value to our customers
- Employees: Investing in our employees (including compensating them fairly)
- Suppliers: Dealing fairly and ethically with our suppliers
- Communities: Supporting the communities in which we work
- Shareholders: Generating long-term value for shareholders

Why the change?

Should we view this as a revolutionary change in corporate mission, or the evolution of the mission to fit the current competitive, economic, social and political environment? We believe the decision to revise this statement reflects a growing understanding by companies that business as usual is becoming less and less accepted. Growing attention on the pay disparity between CEOs and their employees, general wealth inequality, the environmental and social toll exacted by a "profits at any expense" mentality, and a lack of faith that government will step in to protect its citizens, are creating consumer and employee unrest. Thanks to a decade of economic growth and a tight labor market, consumers are now in a more comfortable position to spurn a job at a company that does not support their social ideals, or purchase goods from brands that place a greater emphasis on sustainability. Investors, such as the Norwegian sovereign wealth fund (one of the largest institutional investors in the world), are voicing their support for better corporate citizenship with their dollars, as evidenced by the rapid growth of assets targeted toward ESG (Environmental, Social, Governance sensitive) and SRI (Socially Responsible Investing) mandates. The independent Sustainable Research and Analysis group estimates there are over $390B in US mutual funds and ETFs expressly using SRI or ESG in their marketing material.

What are the implications for profits?

Realistically it is very difficult to separate actions taken by companies due to market forces versus a desire to do good. Are companies increasing wages because they want their employees to earn more money or because the labor market is tight, and competition is fierce to attract talent? Are companies looking for new ways to create sustainable products because they want to help the environment or because they think it will market well to today's consumers?

We will place more stock in the Business Roundtable's newfound concern for all stakeholders once CEO compensation formulas are rewritten to factor in employee compensation and well-being, and reductions in a company's carbon footprint, rather than profits and the stock price. Federal, state, and local lawmakers could step in to accelerate this change by enacting regulations that allow companies focusing on the wellness of all stakeholders to compete with those more focused solely on shareholder value.

We believe the long-term interest of stockholders and other stakeholders are aligned. The key here is "long-term". The current norm is for many public companies to emphasize current quarter or year profits over prudent long-term growth. We believe freeing CEOs from this short-term fixation would ultimately result in a long-term benefit to customers, employees, suppliers, communities, and shareholders. However, while we wait for a change in how CEOs are judged, we welcome the influence of employees, customers, and investors on helping to spur this change.