AMERICA'S MOST POWERFUL CEOS "CORPORATIONS ARE RESPONSIBLE TO ALL THEIR STAKEHOLDERS". BUT NOT ANYONE BELIEVES THEM

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Since the 1980s the idea that companies exist primarily to serve the interests of their shareholders has dominated the American capitalism.

This was true because the shareholders decide who sits on the company boards, so the Chief Executive Officers (CEO) know that their job and their salary depends on investors, so they must to please them by making money by any means necessary.

Moreover, the vast majority of the large companies are located in Delaware, where the courts have long established that a corporation's ultimate goal is to generate value for shareholders, so CEOs can make decisions which are not profitable in the short term, but they always have to explain why these decisions are good for the investors in the long term.

On the 19th of August, however, the Business Roundtable, a major corporate lobbying group, has updated his "Statement on the Purpose of a Corporation" stating that the corporations are responsible to all their various stakeholders, even the workers, the suppliers and the local communities.

Despite the fact that among the CEOs which endorsed the statement there are Tim Cook (Apple), Jeff Bezos (Amazon), Jamie Dimon (JPMorgan) and David Solomon (Goldman Sachs), it has been received with skepticism by many law professors.

For example, M. Todd Henderson of the University of Chicago has called the statement nothing more than a public relations stunt and Stephen Bainbridge of the University of California, Los Angeles, has pointed out that it's the law that provides that CEOs are responsible to the shareholders, so if the executives really want the investors to have less power over how companies are run they have to support legislation that takes away some of that influence.

For example, Elizabeth Warren has suggested that the corporations with revenues of more than $1 billion could get a charter from the federal government that would instruct them to give stakeholders up to 40 percent of the seats on a company's board of directors. Coming from the federal government, this charter would allow bypassing the problem of Delaware law and, on the other side, would prove once and for all that CEOs really prefer giving seats at the conference table rather than having only the investors.

In conclusion, there are still many doubts surrounding the update of the Statement on the Purpose of a Corporation made by the Business Roundtable, as is seems nothing more than a feel good PR statement and a way to beat back demands for more fundamental reforms that would actually give workers a voice in corporate decision-making.

Source: Jordan Weissmann (2019): "America's Most Powerful CEOs Say They No Longer Only Care About Shareholder Value. Here's How They Can Prove It".

Link: https://slate.com/business/2019/08/ceos-shareholder-value-investors-business-roundtable.html