Stakeholder Corporate Governance

Starting in August, stakeholder corporate governance has been embraced by the Business Roundtable (Business Roundtable Embraces Stakeholder Corporate Governance) then in November by the British Academy (Principles for Purposeful Business) and today by the World Economic Forum (Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution).

There cannot be any doubt that concern about sustainable long-term investment and societal issues, especially climate and inequality, have overcome the 1960s and ‘70s economic arguments of Milton Friedman and the Chicago School economists who promulgated shareholder primacy as the purpose of the corporation, at the expense of the other stakeholders—employees, customers, suppliers, communities and society. Nor can there be any doubt that directors have the legal power to use their business judgment to manage the corporation to achieve long-term sustainable growth, taking into account the interests of all stakeholders. See our memorandum, Stakeholder Governance—Issues and Answers.

It is fair to say that shareholder primacy is history and stakeholder governance is the future.

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