

January 19, 2022

Stakeholder Governance and Purpose of the Corporation

BlackRock CEO Larry Fink's highly regarded [annual letter to CEOs](#) highlights stakeholder corporate governance: "In today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders. It is through effective stakeholder capitalism that capital is efficiently allocated, companies achieve durable profitability, and value is created and sustained over the long-term." Fink also calls attention to the importance of centering corporate purpose in this context, stating, "Putting your company's purpose at the foundation of your relationships with your stakeholders is critical to long-term success."

Fink's endorsement of stakeholder governance, ESG, sustainability and long-term growth in value of the corporation reflects the now-widespread abandonment of a myopic focus on shareholder profits and the efforts of the past two decades to achieve inclusive capitalism, while preserving the benefits of the market economy. Key recent developments began with [The New Paradigm of Corporate Governance](#), which the International Business Council of the World Economic Forum approved in 2016, and the subsequent 2020 [Davos Manifesto](#), and include the abandonment of shareholder primacy and adoption of stakeholder governance by the [Business Roundtable](#), the [British Academy's Future of the Corporation Project](#), the [Enacting Purpose Initiative](#), the [UK Financial Reporting Council](#) and the [Investor Stewardship Group](#) and its associated Framework for U.S. Stewardship and Governance.

This mirrors our long-held opinion regarding the purpose of the corporation, which can be summarized as follows:

The purpose of a corporation is to conduct a lawful, ethical, profitable and sustainable business in order to enable its success and increase in value over the long term. This requires consideration of all the stakeholders who are critical to its success (shareholders, employees, customers, suppliers and communities) as determined by the corporation and its board of directors using their business judgment and with regular engagement with its shareholders, who are essential partners in supporting the corporation's pursuit of its purpose. Fulfilling this purpose in this manner is fully consistent with the fiduciary duties of the board of directors, and the concomitant stewardship obligations of shareholders.

We highlighted these themes and the expectations of what corporations and their boards of directors should do to achieve them in our recently published memo, [Some Thoughts for Boards of Directors in 2022](#).

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