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Stakeholder Corporate Governance
Business Roundtable and Council of Institutional Investors

The failure of the Council of Institutional Investors to join the Business Roundtable in rejecting shareholder primacy and embracing stakeholder corporate governance is misguided. The argument that protection of stakeholders other than shareholders should be left to government regulation is an even more serious mistake. It would lead to state corporatism or socialism.

The failure to recognize the existential threats of inequality and climate change, not only to business corporations but also to asset managers, institutional investors and all shareholders, will invariably lead to legislation that will regulate not only corporations but also investors and take from them the ability to use their voting power to influence the corporations in which they invest. Inequality and climate change will not be mitigated without adherence to the BRT governance principles not just by members of the BRT, but by all business corporations.

The BRT did not dismiss shareholders as "simply" providers of capital. To the contrary, the BRT principles recognize the fundamental importance of shareholders to the company, and commit the company to transparency and engagement with its shareholders to obtain their views of the company's strategy, operations, and prospects.

From a legal standpoint, stakeholder corporate governance recognizes that the management and board of directors' primary fiduciary duty is to promote the long-term value of the corporation and is not primarily to maximize shareholder wealth. To fulfill that duty, the board of directors uses its business judgment in reconciling competing interests among the stakeholders – employees, customers, suppliers, the environment, communities and shareholders. If the directors are not conflicted and use due care in reconciling the competing interests of the stakeholders, and in doing so seek to promote long-term value, they will have the protection of the business judgment rule and the courts will defer to their decisions without second-guessing them. This would be the case even in the absence of the BRT principles.

The BRT principles are critical to preserving our corporate system which relies on the integrity of managements and boards of directors and on free and open markets. Shareholder primacy was ill-conceived in the first place and has utterly failed to provide for the needs of all stakeholders. The alternative is state corporatism in the form of legislation like Senator Warren's Accountable Capitalism Act. Not many members of the CII would prefer that.

The American corporate business system created the greatest economy ever. Short-termism, lack of investment, junk bond-financed hostile takeovers, and activist instigated financial engineering will destroy it. The BRT action is an important start in preserving it. Asset managers and asset owners (and CII) should support it, for their benefit and the benefit of all.

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