

THE WALL STREET JOURNAL.

The ‘Stakeholder’ CEOs

Executives who abandon shareholders won't appease the socialists.

[The Editorial Board](#)

August 19, 2019

Today's corporate CEO is a politician as much as business leader, and for proof look no further than the statement Monday from the Business Roundtable ostentatiously redefining its mission to serve “stakeholders” in addition to the shareholders who own the company. A close reading shows there's less substance here than meets the media spin, but it's still notable that the CEOs for America's biggest companies feel the need to distance themselves from their owners.

“Business Roundtable Redefines the Purpose of a Corporation to Promote ‘An Economy That Serves All Americans,’” says the headline over a press release Monday. “Updated Statement Moves Away from Shareholder Primacy, Includes Commitment to All Stakeholders.”

And sure enough, the 300-word “Statement on the Purpose of a Corporation” doesn't get around to mentioning “shareholders” until the second-to-last paragraph. The statement instead stresses “a fundamental commitment to all of our stakeholders,” which it defines in listed order as customers, employees, suppliers and “the communities in which we work.” Shareholders ride the caboose in this new code of corporate purpose.

At a practical level this is largely symbolic, at least for now. To be successful, any company must serve its customers, adequately reward its employees, cultivate the loyalty of suppliers, and maintain good relations with the communities where it operates. At the Business Roundtable's level of high-toned generality, who could disagree?

There is also more than a whiff of pre-emptive politics here. The executives—the Business Roundtable is led by JPMorgan CEO Jamie Dimon —know they are political targets.

They see socialism on the rise, with Senator Elizabeth Warren proposing to redefine corporate governance in law with explicit direction to serve “stakeholders.” Her goal is to redirect corporate capital to serve political goals favored by unions, environmentalists and trial lawyers. The CEOs no doubt want to get out in front of this by showing what splendid corporate citizens they are.

Yet these CEOs are fooling themselves if they think this new rhetoric will buy off Ms. Warren and the socialist left. It may even embolden them by implying that corporate rules that require a focus on achieving value for shareholders are somehow morally insufficient. The Roundtable CEOs may be selling Ms. Warren the political rope to hang them.

Politics aside, the moral and practical superiority of the stakeholder model is hardly clear. CEOs are themselves employees hired by directors who are supposed to be stewards of the capital that shareholders have invested. One virtue of the shareholder model is that it focuses the corporate mission on measurable financial results.

An ill-defined stakeholder model can quickly become a license for CEOs to waste capital on projects that might make them local or political heroes but ill-serve those same stakeholders if the business falters. Students of corporate governance have devoted years to analyzing the “agency problem” of holding CEOs accountable to the business owners. So-called activist investors who challenge underperforming managers are one market response.

Consider the long, slow decline of [General Electric](#), which for decades helped mom-and-pop shareholders provide for their retirement. Former CEO Jeffrey Immelt was the model of the stakeholder executive, posing in Vanity Fair as a spokesman against climate change, issuing pronouncements after the 2008 panic about the failures of capitalism.

Yet Mr. Immelt failed in his core duty to find a post-panic business model that enhanced profits and shareholder value. That failure served neither customers, employees, suppliers, communities nor shareholders. From a moral point of view, GE did far more social and economic good when it was wildly profitable and its shareholder retirees could sleep better at night confident in its dividend.

CEOs aren't popular these days, and it isn't easy to defend profits. By all means CEOs should talk about the broad benefits that flow throughout society if their companies succeed. But sooner or later they will also have to defend the morality of free markets as the greatest source of prosperity for the most people in human history. Platitudes about stakeholders won't stop President Warren from lining them up first for the gallows.

END