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How's the CEO 'Stakeholder Pledge' Working Out? Depends Who You Ask

A year ago, 181 CEOs signed the Business Roundtable pledge to prioritize customers, employees, suppliers and their communities along with shareholders. Then a pandemic hit.

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By John D. Stoll

One year and a pandemic ago, a group of nearly 200 of America's most powerful executives vowed to employ a kinder, gentler way to measure business success. Shareholders, the Business Roundtable pledged, would be just one of the stakeholder groups that a company would be judged on pleasing. Despite the trying times, boosters say that the ballyhooed effort is flourishing.

In a televised interview this week, Salesforce.com Inc. Chief Executive Marc Benioff called the company's strong earnings "a victory for stakeholder capitalism." A signatory to the pledge, Mr. Benioff said, "We did a great job for our shareholders this quarter, but we also did a great job for our stakeholders." Congrats to Mr. Benioff on thriving in tough times, but what exactly does he mean by "stakeholders"? Employees? Customers? Vendors? Communities in which Salesforce does business? The rainforest? All of the above?

And, how does the billionaire founder justify this claim when shortly after that interview Salesforce notified staff of plans for around 1,000 layoffs? This despite Mr. Benioff's no-layoff pledge in March on Twitter and the challenge to other CEOs to follow his lead. (Hint: the pledge was for 90 days.)

A spokeswoman for Salesforce said the company is "eliminating some positions that no longer map to our business priorities," and added that "for affected employees, we are helping them find the next step in their careers, whether within our company or a new opportunity."

Mr. Benioff isn't the only one wading through the murkiness of the moment. Run through the 181 CEO names on the Business Roundtable letter and you'll be hard

pressed to find a company represented that hasn't had to cut off a limb to save the patient.

Try running an office-furniture maker (Steelcase Inc.) when people are working from home en masse. Or try running a hotel chain (Marriott International Inc.) or an airline (United Airlines Holdings Inc.) when few are traveling. Job cuts are inevitable; supply chains become vulnerable; communities where companies operate, in the end, are left fending for themselves.

That's too narrow and bleak a view, Joshua Bolten, the CEO of the Business Roundtable, told me this week. His organization is composed of CEOs and advocates for public policies aligned with their interests. The pandemic "created not only an opportunity, but an imperative" for the big companies who signed last year's pledge to come up with specific solutions shortly after sticking their necks out.

One example he pointed to was the push major corporations made for creating the federal Paycheck Protection Program, which has come under criticism but provided aid to ailing small businesses. Massive companies didn't necessarily stand to directly gain from it, but they had a mutual interest.

"What America's large corporations have done over the last six months —when we look at it in retrospect—will have helped sustain the economy," he said. "They sustained their own universes in which they operate and I think the long-term shareholder interests."

JPMorgan Chase CEO Jamie Dimon, another signer of the stakeholder pledge, said the lifeline for small businesses saved roughly 30 to 35 million jobs. Mr. Bolten said many of small-business jobs that were saved are in industries that support big corporations.

Still, some governance experts, investors and academics criticize the Business Roundtable's stakeholder pledge as being too broad and aspirational to really hold leaders accountable. No one will fault the executive who delays a climate-change initiative when the survival of the company is on the line. Mr. Bolten said it would be equally unfair now to rip an executive who cuts jobs.

The view that it is possible to always strike a win-win for shareholders and other stakeholders is misguided, said Lucian Bebchuk, the director of the Harvard Law School Program on Corporate Governance: "There are a lot of decisions where there is a tradeoff." Mr. Bebchuk, a critic of stakeholder capitalism proposals, said the current regulations and corporate bylaws often demand that investors emerge as

the winner when a tradeoff is necessary—even if other stakeholder interests need to be considered.

Mr. Bolten said the pledge wasn't intended to be a cure-all: "This is a complicated journey."

Nell Minow, vice chair of ValueEdge Advisors, which consults with institutional investors on corporate governance, agrees with Mr. Bebchuk about tradeoffs, but she cautions "those tradeoffs are rarely permanent." She said directors need to push executives to weigh long-term risks and reward them for making moves that ultimately pay off.

She pointed to Costco Wholesale Corp., which has thrived during the pandemic as people stuck at home need more groceries and household products. Costco's stock is trading near an all-time high, but Ms. Minow said it's not just a matter of being in the right place at the right time.

Costco's attention to more than just shareholder interests paid off: The warehouse club was paying employees premium wages before its competitors were forced to raise their hourly pay to attract and keep workers during the pandemic. Costco's pay policies fuel high worker-retention rates, which undergird the warehouse-club's resilient business model.

Michael Kesner, a partner at compensation consultant Pay Governance LLC, told me boards will increasingly use "resilience scorecards" to judge whether a CEO is successfully balancing the long-term needs of the business against the short-term demands of investors. Mr. Kesner used a business close to my heart to illustrate his point, high-end bicycle makers seeing unprecedented demand for its product.

"Trek and Giant are probably going to have record revenues," he said. "But are they having a great year?" Depends on the measure. Managers are enjoying strong investor sentiment, plants are running full capacity, pricing power has never been better.

That doesn't change the business reality that the supply chain is in shambles. Bike shops are bare. Locked-down Americans trying to satisfy an itch to get out and ride are fed up.

"Are the guys running the bike shops selling these things dying?" Mr. Kesner asks. That takes the shine off the glossy revenue numbers.

Mr. Kesner said compensation packages will remain disproportionately tilted toward aligning executive actions with shareholder interest. Meeting financial goals and driving stock price performance are still the clearest ways to measure success.

But, he expects boards to use far more discretion in evaluating performance for 2020 than in years past. Goals set in February became impossible to achieve in a matter of weeks.

“Directors will be taking a broader look at the business and steps that management is taking to rebuild,” Mr. Kesner said. “It’s not just about surviving this, it’s about setting yourself up to thrive when this is in the rearview.”

He has identified more than a dozen boards that are developing resilience scorecards, and creating several categories to evaluate. “The pandemic has created that opportunity,” he said. But evaluating resilience requires a lot of judgment after years of relying on formulaic measures, such as revenue growth or total shareholder return.

“It’s not going to be so black and white,” Mr. Kesner said.

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