



## Reopening the Question of Corporate Purpose

*"I believe [shareholder primacy is] the primary purpose, the primary driver... Management isn't accountable to the customer. The customer can send very strong signals about what it wants or doesn't want. But they can't sack management, whereas shareholders can."*

– A senior executive at a large institutional investor, January 2014

*"There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."*

– Attributed to Sam Walton, Founder of WalMart

Dear Reader:

Ask someone, "What is the purpose of a corporation?" and you are likely to hear some variation on maximizing profits for shareholders or creating value for stakeholders. Probe further, however, and you are just as likely to uncover a remarkable diversity of beliefs about capitalism, psychology, history, and morality which belie a simple dichotomy. These beliefs also reveal a rich opportunity for rethinking how the great problem-solving capacities of corporations can be deployed in our modern society. Trust in corporate leadership and financial markets is historically low, yet faith in the institution of business remains fairly high. Revisiting the question of purpose yields insight into ways to redefine the relationship between corporations and society for the 21<sup>st</sup> century.

In late 2013, the [Aspen Business and Society Program](#) commissioned a qualitative research study to better understand the attitudes and beliefs of investors, corporate leaders, and scholars about the purpose of the corporation. Twenty-eight people were interviewed for one hour each, to explore their personal beliefs and perceptions of others' beliefs, with the aim of generating more open dialogue around corporate purpose. The report is our independent researcher's analysis of the key themes that emerged in the interviews.

The study was motivated by the stark contrast between the rich and nuanced academic-practitioner dialogues we have hosted on corporate [purpose](#), and a narrow conception of corporate purpose in the public sphere, in policy circles, and even in leading business schools. The report that follows suggests great opportunity for business executives, investors, scholars, and the public at large to broaden the conversation, find common ground, and generate fresh thinking on the role of corporations in modern society.

This report is not a representation of the Aspen Business & Society Program’s perspective on the issue, nor is it our interpretation of the interviews. It is intended to be a conversation starter, not the final word.

In the spirit of opening up this conversation we offer four questions as starting points:

- 1) **How do we define “long term” and “value creation”?** Long-term value creation appears to be a unifying goal among those interviewed, yet respondents offered little clarity on what “long term” and “value creation” mean. Defining these terms would help translate both concepts into practice.
- 2) **How can we describe the real-world complexity of business while capturing our aspirations for corporations?** Conceptions of corporate purpose reflect deeply held and diverse belief systems. Such diversity is obscured when corporate purpose is framed in binary terms like shareholder vs. stakeholder. This report attempts to move away from this artificial dichotomy by approaching the topic in a more sophisticated way.
- 3) **When it comes to purpose, does one size fit all? If not, how do we define the roles and responsibilities of business leaders? How and what do we teach business students?** Many respondents identified clarity of purpose as important for making sound business decisions. However, as has been articulated in prior Aspen dialogues on this issue, clarity does not require that all corporations share the same purpose. We see great potential for business leaders, scholars, and investors to develop ways to implement firm-specific purpose in the real world.
- 4) **How do we achieve accountability?** As represented in this report, greater accountability for corporate management is a central concern for our respondents but they see very different pathways to that end. We suggest that accountability may be achieved in a variety of ways but a clear conception of purpose at the firm-level should *precede* the design of accountability structures and measures for a company.

We look forward to hearing your thoughts on this report and to broader dialogue on the topic of corporate purpose. To learn more about our earlier work on this topic, visit [our website](#). We encourage you to share your thoughts with Aspen BSP at [Miguel.Padro@aspeninstitute.org](mailto:Miguel.Padro@aspeninstitute.org).

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# Unpacking Corporate Purpose: A Report on the Beliefs of Executives, Investors and Scholars

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## Preface

In November 2013 The Aspen Institute commissioned the Keller Fay Group to undertake research to explore the purpose of the corporation in American society – and to focus particularly on the idea that the primary purpose of a corporation ought to be to maximize shareholder value.

The primary goal of this research project is to explore all sides of the debate, to determine the sources of both shareholder-value advocacy and opposition, and to delve deeply into the premises that support the various points of view on shareholder value, but also that inform the thinking on the larger subject of the general role of the corporation. A key objective of the project is to identify opportunities to have a constructive, national conversation on the subject.

In order to fully explore the thinking of the various participants in this ongoing discussion, the research is qualitative, meaning that it entails in-depth, open ended questions with a sample of individuals who represent a range of perspectives. Altogether, 28 one-hour interviews were conducted with men and women who hold an important position in one of three areas: a) in an investment capacity (9 respondents); b) as a senior executive in a large corporation (11 respondents); and c) in an academic setting in which the respondent engages in topics related to business issues (8 respondents). The list of interviewees was drawn from a longer list of potential respondents, all of whom were provided to Keller Fay by Aspen.

The interviews took place from December 9, 2013 to February 13, 2014 and were conducted by telephone, were recorded, and then transcribed. To guarantee as much candor as possible, respondents were assured that the ultimate report would not link specific comments to their names. However, all respondents agreed to have their names and organizational affiliation included, which are provided in the Appendix of this report.

The interview guide, which was developed collaboratively by The Aspen Institute and the Keller Fay Group, comprises 25 questions, but allowed room for the freedom to pursue areas of inquiry that arose spontaneously if the interviewer sought more depth in those areas. A copy of the interview guide is included in the Appendix.

The report contains numerous quotations from the interviews. These comments have been lightly edited in order to facilitate ease of reading and of understanding by the reader. Great care has been taken to avoid any alteration in meaning or deviation from the original intention of the speaker.

## Executive Summary

### Personal feelings about the role of the corporation

- During the course of the interviews, most respondents said they believe that the “conventional wisdom” in the United States today is that corporations are either legally or ethically obligated to maximize shareholder value.
- Respondents were asked to assign a numerical value, in which 1 is strongly disagree and 5 is strongly agree, to a series of statements concerning the role of the corporation. Most respondents offered a very balanced view – displaying no great preference for one corporate constituency over another – and suggested during the interviews that the true purpose of the corporation is to serve a wide range of interests.
- Slightly more than half agreed either very strongly (5) or somewhat strongly (4) that the primary purpose of a corporation is to serve shareholders’ interests – or assigned to that purpose the highest value given out (and tied with other propositions).
- Even more respondents, however, either strongly or somewhat strongly agreed that the primary purpose of the corporation is to serve customers’ interests, and responses from corporate executives are particularly noteworthy for their advocacy for customer primacy to which they assigned greater priority than shareholder primacy.

### Arguments in Favor of Shareholder Primacy

The most frequently presented justifications in favor of shareholder primacy are the following:

- A commitment to shareholder primacy is a powerful means to halt the unbridled efforts of powerful senior managers who might be engaged in practices that primarily benefit themselves.
- The concept of shareholder primacy is misunderstood. Shareholders tend to be long-term investors, and those who are engaged in short-term strategies are not the typical shareholder.
- Shareholder primacy ultimately works because the stock market is a relatively efficient provider of information that allows for better decision making in part because it also entails the virtues of simplicity.
- Shareholders are the ultimate life force for the corporation, and if you serve them, everyone benefits. And if you do not, shareholders do not invest, and corporations – and everyone attached to them in any way – suffer: A rising (shareholder) tide lifts all boats.
- Putting shareholders first – and the metric of shareholder value, stock price – provide a clear, useful, objective, and simple metric against which corporate performance can be

evaluated and be employed to guide effective action. Moreover, it achieves desired ends far more effectively than so-called “stakeholder” approaches.

- It is the only realistic and ethical approach to acknowledge the widely recognized owners of the corporation.
- Shareholder primacy provides a corporate purpose and a definable goal that guides the corporation to do what is good and right.

### **Arguments Against Shareholder Primacy**

The most frequently presented justifications for opposing shareholder primacy are as follows:

- Shareholder primacy is based on two related, but false premises: that shareholders own the corporation and that, therefore, ownership confers an obligation for financial return.
- Granting primacy to the shareholder inherently entails an attraction to short-term decisions and approaches.
- The shareholder-value idea may have worked at one time, but it is outdated, does not fit the needs of the 21st century, and may be harmful in some cases.
- A premise of shareholder primacy is that we are all shareholders and, therefore, that shareholder primacy is fair and democratic. But a considerable amount of evidence indicates that a majority of shares are owned by institutions, which diminishes any practical value of accountability.
- Shareholder value inverts the moral order by making the corporation the center of the universe. The proper and historical relationship holds the interest of society as paramount, and corporations exist primarily to serve social needs (especially those of the customer).
- An argument for shareholder primacy assumes a definable set of corporate owners who can make a difference through judicious voting or other actions. But the evidence clearly indicates that the vast majority of corporate “owners” have little or no knowledge of the companies they are invested in, and thus primacy is conferred, essentially, on a faceless mass.
- Shareholder-value advocates cleave to a false assumption of what creates true value. They assume that the road to prosperity is paved by corporations seeking to create wealth for shareholders, and they believe that a commitment to that aim will satisfy that need. However, historically, the great advances by corporations in America came not from the drive to generate wealth, but from the drive to fulfill a mission, a goal that goes beyond that which is quantifiable.
- Shareholder-value thinking and practice entail a view that is too narrow and do not account for the natural complexity of the universe.

### **Values that Distinguish Shareholder-Value Champions from Rejecters**

These traits, beliefs, and values are those that are generally espoused explicitly or implicitly by shareholder-value advocates:

- They believe that the corporation is the moral center of the universe and that it tends to be a positive force.
- They embrace clarity, simplicity, and objectivity.
- They tend to see that the creation of wealth is a key driver in life.
- They place great emphasis on accountability and responsibility.
- They see shareholder-related issues clearly and unambiguously – and primarily because they see it as a legal matter.
- They tend to have an upbeat view of the impact of business on society though not necessarily of the role of corporate leaders.
- They see shareholder-value primacy and corporate success as causally linked.

And these are the values and beliefs usually articulated by those who reject shareholder primacy.

- They view the corporation as an institution that is only one segment in a multi-layered fabric of society – and thus not the moral center of interest.
- They believe that the possibility of change, entrepreneurship, and innovation are key drivers, and wealth creation is just a byproduct.
- They see complexity as the natural order of things – an order that is incongruent with numerical calculations and clear precepts for action. As shareholder-value advocates are partial to employing concrete measures, rejecters tend to embrace concepts (e.g., “serving the community”) that are more resistant to measurement.

### **What Shareholder-Value Champions and Rejecters Have in Common**

- As noted, those who tend to reject shareholder primacy tend to disparage short-term approaches to problems, and many indict shareholder-value thinking as a major obstacle in the fight against short-termism.
- But the vast majority of shareholder-value champions in our study believe that short-term decision making is the bane of American business and requires remediation to mitigate its most pernicious effects.
- Several shareholder-value champions asserted that short-term approaches and “value” are irreconcilable terms.
- And both sides agree that corporations are essential to the well being of modern society and that short-term corporate approaches damage both the corporation and the community.



### **Proposed Solutions to Combat Short-term Approaches**

Many respondents offered solutions to short-term approaches. These are the ones most frequently mentioned or applauded:

- Alter incentive arrangements, particularly compensation packages, and gear them for the longer term.
- Fully investigate a way to monetize the matters that are currently regarded as “abstract” in order to compete for attention or complement concrete metrics like the stock price.
- Alter or simplify the tax code.
- Promote the partnership between a clear and formal declaration of mission and a thorough alignment with that mission.
- Foster transparency – by demanding better communication skills among corporate managers to counter the pernicious effects of short-term thinkers.
- Create better balance in the corporation’s decision-making structure, particularly by expanding the influence of employees, whose well-being tends to be linked to long-term planning and success.
- Demonstrate a greater commitment to attracting and training strong leaders.
- Increase the visibility and exploit the power of research that measures and evaluates corporate reputation.
- Explore the possibilities in new ways of forming corporations.
- Offer different classifications of stock that reflect the extent to which they represent long- or short-term orientations by the shareholders.

## Introduction

“It’s taken a while for the disease to surface,” the portfolio manager said. “It’s been there, it’s been growing, but it’s taken until now for it to really surface. From a societal level we have massive underfunded long-term liabilities. We have a high number of people out of work. We have stagnant income levels leading to lower collective financial health as a society. Look at a snapshot of life right now as we sit. . . Look at today. That should make people feel uneasy or wake them up. . . “

Only five hours later on the same day, another investment specialist offered this vision: “If you look at the S&P 500, margins have expanded dramatically. Companies in the U.S. are more efficient than they’ve ever been. They’re highly transparent; the quality of earnings is very high if you look at cash flows relative to net income. It’s hard not to admire the achievement of corporate America and the extraordinary wealth it has created through astute management.”

Two very different points of view, but there is good reason to believe that the variation is due more to emphasis than to any strict adherence to the rules of evidence and to objective truth. The 28 interviews that have been conducted on behalf of The Aspen Institute on the topic of the role of the corporation in society – and focusing particularly on the utility of the role of shareholder-primacy thinking – consistently reveal, as might be expected, these kinds of very disparate points of view. On the one hand, while these kinds of apparently dichotomous views of the state of corporate America might be thought of as discouraging and irreconcilable, the course of this research brings to mind the work of an exceptionally thoughtful thinker who has investigated an even more contentious and dualistic topic.

In 2012, Jonathan Haidt, then a professor of psychology at the University of Virginia, published his fascinating work, *The Righteous Mind: Why Good People Are Divided by Politics and Religion*. Exploring the differences between political conservatives and liberals, Haidt attempted to delve deeply into the ocean of human values and try to identify the values that both divide and unite these seeming polar political opposites. At the beginning of his book, Haidt calls on Rodney King’s *cri de coeur*, “Can we all get along?. . . I mean,” King said, “we’re all stuck here for a while. Let’s try to work it out.” And Haidt then explains, “My goal in this book is to drain some of the heat, anger, and divisiveness out of these topics and replace them with awe, wonder and curiosity. . . My hope is that this book will make conversations about morality, politics, and religion more common, more civil, and more fun, even in mixed company. My hope is that it will help us to get along.”

Haidt’s approach is the model for this report. The quotations at the beginning of this section represent the sharp divide in our current dialogue about so many aspects related to American corporations today – and as we discovered from the interviews with people representing a fairly

broad spectrum of corporate philosophies and duties, sometimes the conversation can get a bit. . . vigorous.

And yet. . . what is particularly fascinating about the views of these exceptionally articulate and thoughtful individuals is that – divergent as they are – they stand on a fairly wide swath of common ground in certain very important areas.

This report will explore those divergent views and attempt to identify where sharp philosophical differences reside and to unveil the premises on which they are based. But throughout this endeavor our purpose is also to cultivate that common ground because, ultimately, the most valuable intellectual journeys very often are a product of the marriage of divergent points of view rather than of the simple categorization and isolation of seemingly antipodal precepts and sentiments.

This kind of undertaking is rarely easy. It is clear that in a number of cases, people who hold to a committed view of shareholder primacy tend to embrace a set of values that are quite different from the values held by ardent rejecters of shareholder primacy. And at times each will feel the sting of criticism by their philosophical counterpart – and respond with some vehemence and vitriol. The differences between the two groups on the far ends of the argument are great, and it is fair to say that those who believe strongly in shareholder primacy are markedly different in some substantial philosophical and, perhaps, psychological ways from those who reject shareholder primacy and advocate that the primary purpose of a corporation should be to serve societal interests.

But the view from the middle of the battlefield reveals something quite reassuring. The representatives from each point of view offer very compelling arguments, employ positions that are based on reason and fairness, and their views suggest opportunities for a viable middle ground and for workable solutions to the challenges.

What some strong rejecters of shareholder primacy may miss is that calling for greater power for shareholders was at least partially borne of an attempt to mitigate the pernicious power of corporate executives who had acted autocratically, rewarded themselves far beyond their due based on their accomplishments, and behaved as if they were accountable to no one but the chairman of the board in the sky. That autocratic CEO – the “little tyrant of his fields” – should answer to *someone*, the shareholder primacy advocates believe, and one perfectly democratic solution in their minds is whom they perceive to be the legal owner of the corporation, the stockholder.

At the same time, shareholder primacy advocates may mischaracterize the intentions and political positions from which their counterparts operate. As several of the anti-shareholder-primacy respondents acknowledged, they are often labeled as left-wing or socialist activists who are ardent enemies of business. But throughout our conversations with them, they revealed themselves as quite enthusiastic capitalists who see the business community as the primary agent of innovation and change in modern America and are particularly eager to nurture the entrepreneurial spirit that has distinguished the U.S. economy from that of so many other industrial nations.

What we very likely have here, as the warden says in *Cool Hand Luke*, is a failure to communicate. And the primary purpose of this report is to avoid taking a set position and, instead, to explore the possibilities that can generate what all participants in this study yearn for: a vibrant American economy that ultimately serves a wide range of constituencies.

To understand the divergent views of the various constituencies in American business, we endeavor, through this report, to outline the views of participants, to attempt to identify the premises on which they are based, to examine the areas in which the various participants agree (and there is one vitally important area in which almost everyone seems to concur), and to offer to the reader some of the most salient and intriguing ideas that have emerged from this discussion for further and deeper exploration.

Our interest here is not who is right or wrong. Nor is it to take the pulse of a cross section of the business community to gauge the nature and expanse of opinion among various groups. The sample of respondents is too small to be considered representative and projectable. The individuals whom we probed for this investigation are exceptionally thoughtful and insightful, and we seek to generate new thinking and to raise doubt where it is warranted by the reader.

The poet, Rainer Maria Rilke once advised a young poet:

*. . . to have patience with everything unresolved in your heart and to try to love the questions themselves as if they were locked rooms or books written in a very foreign language. Don't search for the answers, which could not be given to you now, because you would not be able to live them. And the point is to live everything. Live the questions now. Perhaps then, someday far in the future, you will gradually, without even noticing it, live your way into the answer.*

So many respondents expressed deep gratitude that The Aspen Institute is raising this issue and exploring it because, they believe, understanding the premises and values represented by shareholder primacy is vital to understanding how American business works. In short, “living the questions” that surround shareholder primacy will ultimately enable us to prevail over the substantial challenges that we face.

## The Great (and Not So Great) Philosophical Divide

At the beginning of each interview we asked the participants to assign a numerical value that would reflect their level of agreement with five statements that offered different perspectives on the purpose of the corporation in the United States. (The tallies for this segment are presented in the Appendix.) For very understandable reasons, many participants chafed at this exercise and complained that these issues are far too nuanced for simplistic statements and confining numerical values. And, of course, they were right. Nevertheless, we thought that presenting these statements would be a useful means to generate some thinking about the topic, as well as some energy. Our rationale is that sometimes both complexity and understanding emerge from simplicity.

Respondents were asked to rate on a scale of one and five, where one is “strongly disagree” and five is “strongly agree,” their level of agreement with each of these five statements:

- *The primary purpose of a corporation is to serve the shareholders’ interests.*
- *The primary purpose of a corporation is to serve its customers’ interests.*
- *The primary purpose of a corporation is to serve its employees’ best interests.*
- *The primary purpose of a corporation is to serve the interests of the community in which it resides.*
- *The primary purpose of the corporation is to deploy large amounts of capital towards long-term projects that strengthen society.*

First, a caveat. We have stated earlier this is a qualitative and not a quantitative study; further, the study is not a representative or projectable. Beginning with these questions, provided a good jumping-off point for our report and analysis.

Here is the bottom line: The vast majority of respondents, regardless of their own opinions on the matter, believe that the conventional wisdom in American business today is that businesses are either legally or ethically obliged to maximize shareholder value. Moreover, when most respondents articulated *their own* views on the topic, they presented a very balanced vision: slightly more than half of our respondents either assigned a 4 or a 5 (i.e., highest levels of agreement) to the idea that serving shareholders is the primary purpose of a corporation or linked that statement with the highest number they gave out (but tying with other choices).

Of some interest is that the overall highest value for the corporation’s primary purpose is “to serve customers’ interests.” And corporate executives were considerably more likely to elevate customers’ interests over shareholders’ interests than were the other two groups.

Particularly interesting to us has been the various patterns of their grading – especially the extent to which they displayed an extreme partiality in one direction or the other. Many respondents provided

fairly uniform levels of agreement across all interests – arguing that, in actuality, the real purpose of a corporation is to be multifaceted, to serve several different constituencies (and many offered the same value for all or almost all of the statements). In fact, most of our respondents on both sides of the debate (as well as those in the middle) are not comfortable with a simple for-or-against dichotomy, and it can be argued that this tendency to take the broader view of the role of the corporation indicates that a good and productive conversation on the topic is likely to follow.

Several respondents voiced a very strong commitment either for or against shareholder primacy, and in these extreme positions resides a wealth of information about the philosophies that guide the proclivity towards one view of shareholder interests or another. At the same time, a vast majority of our respondents, regardless of their views on shareholder primacy, consistently bring up a prevailing danger to American business: the specter of short-term thinking and approaches to business issues.

For our purposes here, the primacy of shareholder value is the line in the sand and one of The Aspen Institute’s greatest interests. Because of its dominant role in the philosophy of American business, one major undertaking in this report is to investigate the thoughts of those who hold to that point of view – and contrast their thinking with those who disagree with them. At the same time, we are looking for the common threads, ideas and values that unite these disparate thinkers.

## The Arguments For Shareholder Primacy

- 1. A commitment to shareholder primacy is a powerful means to halt the unbridled efforts of powerful senior managers who might be engaged in practices that primarily benefit themselves.**

A number of respondents, on both sides of the debate, explain that shareholder-value primacy sprang from corporate excesses of the 1970s and 1980s when, allegedly, some CEOs operated with little sense of responsibility towards shareholders. And shareholder primacy advocates maintain that the need to keep management in-line is still pressing. In fact, one well-known political activist who has joined their ranks is Ralph Nader, who according to The New York Times, “said that shareholder empowerment was the only way he saw to take control of companies from executives and boards, a group that he perceives as only looking out for themselves.” Agreeing with Nader, one institutional-investor respondent argued:

*I believe (shareholder primacy is) the primary purpose, the primary driver. That’s the chain of accountability for management. Management isn’t accountable to the customer. The customer can send very strong signals about what it wants or doesn’t want. But they can’t sack management, whereas shareholders can. And so I think if you’re looking at what the accountability mechanism is, as long as companies are law-abiding and all of that other stuff, then serving the interests of your shareholders as your primary driver, reflects who you are accountable to.*

*The primary responsibility is to shareholders. It’s not your only responsibility. It is your only accountability. The only chain of accountability. Because, other than for some regulated industries, regulators can’t sack CEOs, governments can’t sack CEOs. Boards should do more of it from time to time. Ultimately, it’s shareholder pressure that ousts bad management. I’m sorry; I always end up talking in the negative. That’s the nature of what we do. Eighty percent (80%) of companies are pretty well run and doing pretty well financially and doing a good job in terms of their broader social and environmental impact.*

History is most certainly a great teacher, but perhaps even more important, the lessons learned by the painful lessons of the past are often the ones that are held and expressed with the greatest passion. An academic said:

*I lived through the 1970’s. <Laughs. > I saw and I lived through the era of the ‘80s of the corporate takeover era, of the imperial CEO. I watched wonderful enterprises be destroyed on the basis of stakeholder theory. I lived through a period when there was no economic advancement in this country. The country was down in the dumps. The stock market moved nowhere, and people’s retirements engaged in very low growth activity. People who worked hard all of their lives saw their savings go up in smoke because of the actions of some very bad managers who were*

*accountable to no one. I also watched friends, parents, working-family businesses, with real interests at heart, work hard and do well. I guess you might say it's basically a life experience. Obviously, if you read the work of Milton Friedman, Mike Jensen and others. . . those same feelings are reflected in their work. I look at the work of someone like Ned Regan, who ran the NY state pension fund or who was comptroller of NY State or the work of Bob Mott, it's the same thing. They basically articulated a view that I've suspected for a long time. In particular, it's just living through a period where you saw great institutions wither and those who worked for great institutions...Listen to the song "Allentown" sometime. It's a wonderful song, depressing as hell. And who is to blame for Allentown? The fools who ran U.S. Steel for the interests of themselves rather than those who invested with them. That's basically what happened.*

And, it must be said, accountability is not absolute – and the concept may be abused. One institutional-investor, answering the criticism that shareholder value may not reflect the realities of the current world because most investors are not involved, brought the matter of accountability up in this way:

*I think that's where, again, the argument of simplicity of holding management accountable for financial performance, is more clear-cut. . . because it depends on what people mean by being involved. Shareholders, in my view, should not be trying or second-guessing every decision that management makes. And in some activist situations, that's what you see you're getting to. Why did you do this? Why didn't you sell that business? Why did you do the other thing? At some level you're either an investor or a manager and you have to take that decision. I think challenging management by asking questions is not a bad thing, but pushing them to do something that the shareholder thinks is the right thing to do, is overstepping the mark.*

## **2. The concept of shareholder value is misunderstood. Shareholders tend to be long-term investors, and those who are really engaged in short-term strategies are not the typical shareholder.**

Every respondent who made a case for shareholder value emphasized that their position entailed a long-term vision, frequently voiced disapproval of those who did not share that vision, and claimed that short-term approaches to finance are doomed to failure and, therefore, not widely practiced. An institutional investor commented:

*But you know, you shouldn't be thinking short-term. I mean, you only think short-term when you're scared of something, I think. If you believe in your plan and in management, then you shouldn't be thinking short-term. Investors -- like teachers and like everyone else -- they're sophisticated. They get it. They know why they invest in a company and ... probably a lot of times, they don't listen to the short-term people out there yelling and screaming – unless it's a situation where change is needed.*



One cogent argument from a corporate executive is that the values of the market do not support the values of short-term strategies and those who enact them will, as in any Darwinian model, fail to survive.

*There is a market mechanism. If your corporation is taking actions that only will create short-term shareholder value, you will not have nearly as much capital available to you as compared with a situation where you are doing things to create long-term value. Because, clearly, there are some providers of capital that are focused on short-term returns and trading in and out of stocks with no long-term interests. There is a vast amount of capital that is the opposite, that is focused on generating long-term value, investment value by investing in companies for the long-term. If you only serve the short-term, you'll have much less access to capital than if you're serving a wider swath of investors.*

In addition, a corporate executive postulates that short-term thinking is not always negative or destructive.

*That doesn't mean you're ignoring people focused on the short-term as well. I'm fond of saying internally that the only way you get to the long run is by succeeding in a set of short-runs. Again, I think that's optimal behaviors. You can't just say, we're going to lose more than the value of the corporation for the next three quarters in order to generate some value down the road. There are market constraints about solvency and that kind of thing. But I think it will be clear to the market whether you are doing that or doing things simply to trump up near-term performance at the expense of long-term performance, and I think all of the long-term capital will exit your stock.*

One investor respondent placed a good deal of the blame for short-termism on analysts.

*Again, it gets back to this distinction between investors and analysts, the commentators who commentate on the quarterly results. People on those calls are analysts. Generally, they're not shareholders. They're people at AllianceBernstein and UBS and people at Citi in the investment-bank research department. And, you know, their incentive is to encourage trading, because that's how their banks earn money. (Analysts) have too much influence in my view because people give it to them. The media say, UBS said such and such. Well, that's advice, just like the media goes crazy to say, ISS recommended voting against the board of such and such. Well, it's a piece of research and it's a recommendation. It doesn't mean all the shareholders are going to do what they're told.*

And even one fairly strong critic of some aspects of shareholder primacy, an academic, countered the criticism that shareholder value “causes corporate managers to focus myopically on short-term earnings reports”:

*I think a lot of the objections people have to shareholder value are, to some extent, clichés that don't seem well-rooted in factual analysis. So, you know, you can think of particular anecdotes that go along with companies being sociopaths or short-sighted, but it seems like, if shareholder value forces companies to be so short-sighted, then why does Amazon have a nearly infinite price-to-earnings ratio? They get very high valuation, and they have next to no profits, because they're thinking very long-term. They want to dominate the world. They want to displace Walmart and become the universal retailer in America. That's a pretty long-term vision and they're getting a crazy high valuation for that.*

*Or, if shareholder value forces companies to be myopic, then why is it that every biotech company goes public 10 years before they ever have a product to show for themselves? Or, Twitter has very little revenues like maybe \$300 million or \$500 million last year. They're losing money, and yet they go public and get a huge valuation. So how can a company that has no profits be myopic and too short-term focused? It can't be the case that shareholder value always focuses or forces myopia and short-term thinking.*

### **3. Shareholder primacy ultimately works because the stock market is a relatively efficient provider of information that allows for better decision-making because it also entails the virtues of simplicity.**

Many shareholder-value advocates took pains to emphasize that the market *as a whole* is not an efficient system. But the allure of shareholder value is that it makes the most of even a less-than-perfect market. A corporate executive stated:

*Again, it gets back to the capitalist model. The capitalist model is not that people are trying to make society better; they are pursuing their own self-interests. Yet, with the invisible hand, as Adam Smith described it, it results in outcomes that are in the interest of society in terms of efficient production of resources, changes in the deployment of resources over time as market participants' goals change and technology changes, etc. So I personally feel that trying to muddy that too much, saying this isn't in the interest of the business, but it is in the interest of society and therefore you should do it. . . it becomes very muddy.*

In keeping with the previous comment, one institutional investor, making a point that was articulated or implied by many of the shareholder-value advocates, postulated that markets trend towards efficiency – but in the long-term.

*I don't care about a stock price minute to minute, because over a long-time horizon, the markets are efficient, and the stock price will reflect the value being created in a company. That value is best created when you make good decisions that treat your employees well, treat your customers well. I think they're completely intertwined in the long term. And again, the problem of having a Bloomberg terminal on your desk and looking minute to minute is one that management has to fight very hard. I'm hoping initiatives like this will reinforce the importance of long-term compounding.*

Both advocates and rejecters of shareholder value cited traders for a fair amount of criticism. But one shareholder-value advocate saw, even in traders, the elements of efficiency. At the same time, this corporate executive also added a qualifier that reflected the stance of many shareholder primacists – the need for transparency. That is, corporations are allowed to partake in short-term actions as long as they subscribe to a “truth-in-advertising” requirement: that they be transparent and honest about their intentions.

*I agree if we only focus on the traders, we're making the wrong decisions. But like I said before, to ignore the role of the trader is wrong as well. Basically, they're the ones who make markets work. Anybody who is in economics doesn't mind people who scalp or do arbitrage, because again, that's what makes the market function. The fact that others are conducting arbitrage and eliminating market imperfections makes the rest of us confident that we're getting the right price when we buy or sell. So it's the same thing; the trader, again, is the one that makes you comfortable that you're not getting taken advantage of from a market perspective. You need rules around that, as well. I think that's where you need very strong rules about transparency — that again, it should be clear to the shareholders what is creating that increase in profits and the reduction in revenue. That's why we have financial reporting; it should be obvious that there's a decrease in revenue and an increase in profits. And a requirement that they explain what is going on. Why are profits going up? Why are expenses going down? Again, there's a lot of leeway. If the company cannot say, then that should make lots of investors run away if they don't understand what's going on. I think, ultimately, if you say the goal is to sell the company, it's buyer beware for sure! But I think there's a lot of due diligence among the acquirers. They should be able to assess that this has been done by getting rid of talent and therefore the value of the company is either overstated or not as valuable as it would have been, had the talent not been let go.*

Hedge funds came in for some criticism from respondents – but usually from the critics of shareholder value. But one shareholder-value advocate explained their utility as mechanisms for efficiency.

*People maybe dislike hedge funds. But one argument about the social value of hedge funds is that they actually make markets more efficient. So those two things: it protects investors who are investing in these securities, because when you buy stock you want to be confident that the price you're paying is the correct price, the value of what you're getting. And the other thing is, to the extent that managers are using the stock price to inform their decisions, then the better that stock price measures what they're actually trying to get at with their decisions. People talk a lot about the feedback from the stock market. I announce that I'm going to take over this company, and then the stock price drops 10%. If you, as a manager, knew that the stock price drop of 10% was telling you something truthfully about the value of that merger, then that would be incredibly useful information. And if you have no confidence whatsoever in the market price, then it's not clear what that price move is telling you. So*

*improving the informativeness of prices, if you will, which is about the efficiency of the market and other things as well, would be -- I think -- sort of improving society if you will.*

4. **Shareholders are the ultimate life force for the corporation, and if you serve them, everyone benefits. And if you do not, shareholders do not invest, and corporations – and everyone else attached to them in any way – suffer: A rising (shareholder) tide lifts all boats.**

Certainly, one of the most frequently employed arguments about shareholder primacy is the usefulness of serving the shareholder: When corporations prosper, we all benefit. Similarly, if corporations suffer, we all pay the penalty. One academic argued:

*If you didn't have primacy, equity financing would disappear and you'd have to go to debt financing, which would be disastrous to an economy. Having been a director, you don't want a lot of debt. Debt is a real problem for raising capital, for a lot of reasons. Then there's the flexibility: It makes life very difficult for you to expand into new ventures. Equity gives you the ability to expand into all kinds of things you never could with debt. If you didn't have shareholder primacy, the primary form of financing would be debt and equity would disappear, which would be a disaster for a market-based, capitalist, economy. Number two, no one would invest. That goes to the first point, which would be terrible. You wouldn't have the sources of capital to do good things. Number three, you create a massive accountability issue if you don't have it. In other words, it (an absence of shareholder primacy) has serious operational issues that compromise the ultimate effectiveness of the organization.*

For shareholder-value advocates, the life-line between the shareholder and the corporation is quite clear and irrefutable. A corporate executive said:

*I think the company can't exist without its owners. And I think in order for capital to be deployed for the creation of businesses that ultimately end up serving the needs of consumers, you do need to have some notion of fiduciary duty to the equity holders who have provided the capital...They're not even the only providers of capital; there's fixed income as well. But again, there are very clear laws about that. I think this gets back to the laws. But if you do not serve your shareholders, then I think that puts the entire existence of the enterprise at risk.*

The corporation's interests are inherently linked with the interests of the greater social construct, as noted, and the call to action is that society should be mindful of its self-interest in serving the corporations and their owners, the shareholders. In short, this corporate contribution through taxes and employment constitutes a sizable and perhaps sufficient contribution to the well-being of society. An academic observed:

*By employing people, by paying taxes, by generating economic activity, by creating wealth for their shareholders, those things all are benefitting society, right? That is what I think of as their obligation to society, if you will. I don't want to suggest that there isn't somehow an ethical obligation. I think everybody has an ethical obligation to do the right thing.*

And the corporation's contribution to society through its existence as a tax payer and a employer, one corporate executive suggested, precludes the necessity for further contributions until after the corporation meets its obligation to its owners.

*I believe that we work and support a capitalist model. Therefore, one of the major principles of capitalism is that acting in self-interest also results in the interests of society. And, therefore, the shareholders are the owners of the corporation and, therefore, they are first on the list that must be served . . . I think companies need to be distinguished from non-profits. That's the distinction. Companies are here to make a profit and therefore, making a decision simply the way a non-profit might make the decision might not be in the best interests of shareholders and companies need to be very aware of that trade-off.*

The shareholder primacists do not see financial self-interest as operating in a vacuum. Rather, most will add a human dimension to the argument for self-interest. As one academic argued:

*Shareholder primacy leads to better-run companies, but it's based on the fact that the shareholders happen to be all of us. We all lose if a company isn't run effectively. Go to the post office sometime. Go to the telephone company. Think of operations that were monopolies that were "run for the public benefit" and how terrible it was if you're a member of the public, having to deal with them. FedEx, for all of its flaws, is a beautifully run organization. I can send something, and it always shows up. I can call them, and I always know where it is. That wasn't true before FedEx existed. Private company, shareholder-value oriented. In the old days, you were stuck.*

*Think of the difference in telephone providers, when there was only one and you were trying to get your phone fixed. Remember that? It was horrible. Those were "stakeholder organizations." The automakers are classic examples too: GM went broke. It's interesting, in GM bankruptcy, the forgotten parties were the debt holders of GM. Do you know who they were? They were a lot of elderly retired people who thought it was a safe, stable investment. In the end, who got screwed? They did. It wasn't Wall Street, it was the Moms and Pops who retired and put their savings in it. All for a "stakeholder model." That's the problem. That's why I'm a firm believer in shareholder value. I think in the end, primacy creates the best results, creates better accountability and I think ultimately better results. You're not going to assure success every time; that's the nature of business. But I think if something does go bad, at least it went bad for the right reasons.*

- 5. Putting shareholders first – and the metric of shareholder value, stock price – provides a clear, useful, objective, and simple metric against which corporate performance can be evaluated and to guide effective action. Moreover, it achieves desired ends far more effectively than so-called "stakeholder" approaches.**

The shareholder primacy advocates are very likely to invoke the need for a concrete and objective measure of success or failure. An academic said:

*I think it's useful because in some sense you need a well-articulated goal, an objective. I'm a finance guy, so I think you need an objective function. We're trying to maximize or minimize something, right? I think it's useful to have something that people can understand and come back to... A touchstone that answers the question, "So what is it that we're doing here?". . . Given that you have an objective - you want to be able to see if you're reaching that objective or how close you're coming. When you do something, is that helping you or is it hurting you? Absolutely, I think stock price ... I mean, it's also useful, but it's useful because it's very objective. We cannot disagree as to the price at which that share last traded. We can observe that.*

For any institution like a large, complex corporation, the decision-making process entails extraordinary risk – because so much depends on the outcome. Placing the shareholders' needs first, offers at least some relief during that difficult process. An academic said:

*I think the advantages are that it does give you at least a good sort of guideline as to decision-making, right? Day in and day out, you're making decisions. Should I do this, should I do that? What projects to invest in? How to finance? etc., etc. Once you have that, then you have, if you will, maybe not perfectly-defined, but at least an objective function. Once you have an objective function, you can think about how each decision you take impacts that objective. So that's the good thing about this is it gives you a framework, a way to think about decision-making. Clearly, this is sort of the day-to-day and month-to-month and year-to-year issue.*

One issue that frequently arises is what many consider to be the antithesis of the shareholder value movement: A philosophy that replaces a single constituency, the shareholder, with multiple constituencies, the stakeholders. Shareholder-value advocates tend to strongly disparage the stakeholder orientation, as did one institutional investor:

*Human behavior tends to point to the view that if you're accountable for lots of things, you're accountable for nothing. This is the experience you have in countries where they have a stakeholder society. Like in Japan - managers don't run those companies, they run themselves. And that's the human-nature aspect of it. They're not accountable to shareholders because they say, Oh, we've got a broader remit, and we have to take into account society and so on. They don't take into account society any better than a U.S. company or a British company. But. . . when they have bad performance, they say it's because they've got multiple objectives and we're managed on a matrix and so on and so on.*

*Government has proven to be a very bad shareholder. Founding shareholders, generally, after the first generation at least, have proven to be very bad shareholders in terms of accountability and objectives and keenness of objectives. I think management that can say, we're running this company for our stakeholders and not for our shareholders, can get off the hook every time they want to do something*



*that's in their interests and not in the interests of the people who have entrusted their money with them.*

One respondent, cited above, describes himself as a “finance guy,” but this point of view is not restricted to his vocation. A similar response comes from an academic, addressing the question of whether putting shareholders first helps to guide leadership to make the best decisions:

*Yes I do. I believe it creates a quantifiable and verifiable and appropriate goal. It's a measuring stick; you either make a profit or you don't. If you don't and you can't explain why you don't, there's the suggestion that you're not an effective manager. Frankly, if you don't make a profit, everybody loses because in the end, capital dries up and the business goes away. Look at the steel industry, look at the appliance industry. There are lots who had their lives destroyed because of poor management. It wasn't their fault; it was the fault of the manager and the fault of the board in not holding the managers to strict guidelines. But, that was the era of stakeholder value, if you will, where the managers said, “Gee, I'm keeping the plant open but it's not making any money. So what? It's employing people”. At some point, the capital ran out and the employees lost and the country lost. That's why I think you need a single accountability standard. That's why I think shareholder value makes sense.*

And another shareholder-value advocate, a corporate executive, also emphasized the troubling nature of decision making – and stock price as a means to relieve the burden:

*I think its clarity. That's the number one thing. I think it gets back to my comment about the Fed. I think the fact that they have a dual mandate leads to much less clarity about what they should do and when. Not that serving shareholders makes a company's job easier, but I think it makes it easier than saying you need to serve these other constituent groups in perpetuity without a sense of payback, simply because of one of these other obligations that we're discussing, implicit obligations. Making that trade-off...bringing that into the conversation (i.e., about multiple constituencies) makes it very much more difficult for a company to make decisions.*

## **6. It is the only realistic and ethical approach to acknowledge the widely recognized owners of the corporation.**

The study reveals that one of the sharpest points of distinction between shareholder-primacy champions and those who reject that point of view concerns the matter of ownership of the corporation. The thinking among the shareholder primacy doubters is scattered – reflecting a sense that ownership is a peripheral matter. On the other hand, those who most fervently embrace shareholder primacy tend to have little doubt that the owners of public corporations are shareholders.

There is some disagreement on the issue, but a sizable number of respondents agree that the shareholder is the owner of the corporation. A corporate executive who rejects shareholder primacy offered:

*I think shareholders clearly are the owners. After all, as opposed to the debt-holders, they clearly get the opportunity and generally, as compared to customers or employees, to determine who is the management, who are the board of directors. And the board of directors represent the shareholders, so they get to determine the management. When you get to do that, that's certainly more than just a contractual relationship.*

And from an institutional investor who was asked why corporations should serve shareholder interests, said:

*I guess because shareholders are the owners. They're the providers of capital for the corporation. So they would be the ones that the corporation, without the shareholders, really wouldn't exist.*

And another academic's take on it:

*Everyone else's relationship is contractual . . . We substitute contractual obligations to shareholders with fiduciary duties. They're a residual claimant, if you will, of a corporation's assets, which make them technically the owners. They are, in fact, the owners of the corporation. Now, it's quite fashionable, very fashionable today, to argue - oh well, they're just another stakeholder - but they're not and they can't be . . . Property rights are central to a capitalist system. The question is, how do you enhance the value of that ownership, from which everyone benefits because the value goes up. People borrow, buy and spend more. It's all an economy moving effectively. That's why I'm an ownership person and why I think that argument (i.e., that shareholders have a contractual relationship with the corporation, rather than an ownership relationship) is kind of interesting. But, I don't think, frankly, it's legally correct. And, ultimately, it doesn't make a lot of economic sense.*

## **7. Shareholder primacy provides a corporate purpose and a definable goal that guides the corporation to do what is good and right.**

As suggested at several points throughout this section, shareholder-value advocates place a great deal of emphasis on clarity of mission. And the shareholder is the embodiment of that mission. An academic argues:

*It's a constant because it's important. We've got to be reminded of our purpose. Why do kids say the Pledge of Allegiance in the morning in elementary school? Why do we start a ball game with the Star-Spangled Banner? You've got to be reminded of your purpose. That's all. It's important.*



Addressing the needs of shareholders is not some kind of elitist exercise. As one corporate executive pointed out, citing the multiplicity of interests that fall under the shareholder tent:

*I think number one, it clarifies the performance component of a corporation's obligations. I mean, we are here to increase and maximize shareholder value. I think it's good for society, for corporations to perform. You know, who are shareholders? Companies like (ours) are widely held. Many, many people rely on us in their pensions and 401(k)s, and we need to perform well for our shareholders who really represent many of millions of us around the world. I don't think there's anything wrong with the fact that corporations, when they perform, they not only benefit the shareholders, but they are providing hopefully valuable goods and services to society. And this makes society better.*

And, as previously suggested, in dealing with a complex organization and a complex decision-making process, the Keep It Simple rule is particularly applicable (and vitiates any call for altering the allegiance to stakeholders). Another academic:

*Once you grow beyond all but the smallest business organizations, corporations are complex organizational entities. And it's really important for a company to have a coherent strategy. The only way you can have a coherent strategy that works is that everybody be on the same page. The only way everybody can be on the same page is that they understand that there's a governing objective of the organization. And to say well, our governing objective is 20% the local community and 30% our employees and 10% customers and 35% shareholders is problematic because it really quickly devolves into mush. Whereas to say, Look, we're focused on maximizing the long-term value of our shareholders, understanding that the long-term value of our shareholders is dependent on the willingness of employees and communities to make long-term investments in us. Then you get toward a much more coherent message that everybody in the organization can be on board with.*

*And I guess if I were to make an argument like that, if I were to make the argument for a primary focus on shareholder value, it would be along those lines. The organization needs to be focused on a governing objective.*

## The Arguments Against Shareholder Primacy

- 1. Shareholder primacy is based on two related, but false premises: that shareholders own the corporation and that, therefore, ownership confers an obligation for financial return.**

The matter of ownership represents one of the clearest divisions between advocates of shareholder primacy and doubters, and it is one of the essential premises on which many advocates base their argument. But the most ardent doubters reject that premise, including this academic:

*People say shareholders “own” the corporation. Well, I mean, it’s absurd. They don’t. They own stock in the corporation. Nobody owns the corporation. Just like nobody owns you or me. It’s a thing. It’s a legal person that is not owned by anyone. Shareholders own the stock of the corporation. Shareholders have powers of control over the corporation, but they don’t own it in any legal sense of the term and any other sense of the term. I think this goes way back to the early 19th century, when corporations were small and they were like partnerships and shareholders owned the property; shareholders were owners of the corporate property because they were in partnership law. By analogy, people used to think about that. But, it’s completely wrong. There’s nothing in law or in the statutes or anything that said that they “own” the corporation. They own the shares in the corporation. That’s a big, big difference.*

Perhaps one of the most cogent arguments against the idea that ownership gives shareholders a role in deciding the direction of a company was offered by a self-described “pragmatist,” an academic whose primary question was not whether shareholder ownership is true or not from a legal standpoint, but whether it serves a useful function. And thus his argument that shareholder ownership in general is of little practical use went like this:

*So BlackRock is the biggest shareholder of about 1 in 5 corporations in the U.S. now, including every major oil company, JP Morgan Chase, Bank of America, CitiGroup, Apple, GE, IBM...name the company and they’re the largest shareholder. And it’s because of their iShares business, which is exchange-traded funds, where people say, “I want to buy the retail industry, and BlackRock needs a fund that allows them to do that. And so, nobody has even decided to buy shares in JP Morgan Chase, CitiGroup or Bank of America. They’re buying an exchange-traded fund. Because of the composition of that fund, created by BlackRock, they’re automatically buying all of the biggest players in an industry. So, it’s really distant from the notion of anybody owning anything. Those individuals buying exchange-traded funds are about 3 steps removed from anything that could look like the owner the corporation. They buy funds, which in turn buy the shares. So, that pattern doesn’t map very well onto the simple story of buying shares in a company.*

Some respondents who reject shareholder primacy consider shareholders as owners of the corporation, but do not believe that ownership confers a legal obligation to maximize shareholder

value. One influential spokesman in that arena is Leo Strine, whose opinions on the subject carry considerable weight and whom one institutional investor cited:

*Well, being in some of these seminars, I've listened to Leo Strine, who says that's a bunch of hooey. Since he's the guru of all of this, I'll just go along with him. There's no legal obligation. There's nothing in law that states the proposition that the purpose of the corporation is to maximize shareholder value. You can't find it in law. I haven't seen the legal briefs on the other side, but I have heard Leo Strine and he's the Chief Justice of the Chancery Court of the State of Delaware; every corporation in America is certainly there. His view is that there's nothing in law that says that. He's a greater authority than I am, so I'll stick with him.*

One shareholder-value advocate, a corporate executive who is also a lawyer, saw the law siding with a different constituency, the board:

*I think this is a very important issue in terms of corporate governance. I do think that the shareholder-primacy people are traveling in a way that's inconsistent with corporate law because corporate law traditionally reposes on the board of directors. Now, shareholders certainly have a right to not elect directors they don't like. But I'm often puzzled ...Some of the things that they want with respect to stock price, when the directors are clearly given, under the law, the authority to determine the corporate strategy. That's number one. And I think sometimes what the shareholder primacy people are trying to do, especially when they are proposing things that could be potentially value destructive. They are proposing things, and they don't really have any legal accountability for what they're proposing. Whereas, if I, as a member of management or the board of directors undertakes to do something that could be value destructive if at the end we make a bad decision, we have accountability, and we could be held accountable under law with a shareholder derivative suit. These shareholders really don't have that kind of accountability. And so, looking at it as a lawyer, I find it kind of interesting where people are advocating things and they really don't have any accountability under the law for what they're advocating.*

## 2. Granting primacy to the shareholder inherently entails an attraction to short-term decisions and approaches.

While the vast majority of shareholder-value advocates will often qualify their responses with a caveat that when they speak of “value,” implicit in what they are saying is “long-term value,” rejecters of shareholder value staunchly maintain that shareholder value and short-term thinking are at one with each other. One corporate executive explained:

*I've now watched it from both sides of the table; as an investor and now having a role inside of a company that is very long-term focused. But my role is to be the liaison to our investors in the investment community, on behalf of the company. I think if we indulged the investment community and invested our capital based on how they thought we should deploy it, we would be in a very, very different place as a company today. I would agree: I think the search for capital appreciation with the*

*exception of very, very few investors, creates short-term awareness of a company, short-term noise of a company's success or failure. And I think ultimately it incentivizes short-term decision-making. And a lot of that...the only other piece is that the stock is a very visceral measure of a company's success or failure. I think, in part, because the employees of that company have so much of their own skin in the game around the company's shares.*

And as one academic suggested, the ease with which one can apprehend a concrete metric like the stock price is more alluring to short-term thinkers than more abstract or hidden matters like employee relationships.

*I can see a world where that would conflict with a stock price simply because, as a stock market, I can't really observe exactly how you treat your employees in the short term. It's hard for me to know. But what I do see is today's earnings number . . . if the stock price reflected that long-term value, there wouldn't be a contradiction. The problem is, of course, managers have an incentive to maximize current stock price independent of what their shareholders believe. First, their compensation may depend on it, right? Second, because they want to keep their jobs. So there are agency conflicts between shareholders and managers, in any case, and it's a big asymmetric information problem. The managers know a ton more about the running of the business than the shareholders do. So I cannot see exactly why that earnings number is what it is. He knows, hopefully. Or not.*

And more than one respondent cited the roles of pension funds and mutual funds as key drivers for short-term decisions. An academic argued:

*Let me give you another example. Another major institutional player in the stock market of course, are the big mutual funds. Well, they make money based on the amount of money they have under management. That's generally how they get compensated. So, the bigger the pot, the more money they make. Mutual funds compete for investor dollars on the basis of short-term performance. Usually, annual or sometimes even quarterly results are going to determine flows of money into and out of these mutual funds. So they're also putting pressure on corporations, on the portfolio companies, to generate short-term results and maximize stock prices in the short-term, even though it may not be in their ultimate long-term interest to do that. So this is different from pension funds. Pension funds have to meet their legal obligations to retirees. Mutual funds are competing for investor dollars and it's been shown that the flow of money in and out of these mutual funds typically is a function of short-term performance, not long-term, 20- or 30-year performance.*

*So it's not the case that shareholders have some kind of a built-in long-term orientation. These two classes are probably the two most important classes of institutional shareholders and actually have built-in short-term incentives. And, you know, that's not a legal thing. This is not a matter of law. Here, we're talking about economic pressure. It's legal pressures in the case of pension funds, legal obligations. Competitive pressures in the case of mutual funds that are not going to go away any time soon. I don't think there's an obvious, easy fix to this.*

Even a shareholder-value advocate saw ethical lapses that attend short-term solutions as a problem with shareholder-value thinking. This academic claimed:

*I think the big disadvantage perhaps is the literalist view of, Oh no, what this means is maximizing today's stock price. And, also, because I think sometimes people - that's a nice general term - use it as a cover for doing things that they otherwise know would seem unacceptable. They go, No, no, I'm required to do this thing. This is what I've been hired to do. Therefore, it's a convenient excuse to do stuff that you otherwise couldn't get away with. What do I mean? Employing what amounts to almost slave labor in inhumane conditions in garment factories in Bangladesh. Right? That's something that if you just asked somebody, should we do this? They'd say No, you shouldn't do that. It's not ethical. It would be tough to find people who would say, as an individual, that it would be appropriate for me to exploit ... that's a little bit strong. . . the situation of these people, to force them into my service...But somehow, corporations seem to think, or corporations' managers seem to think, that because they're shielded by this ... "this is my fiduciary duty" type thing, that it's okay for them to do that. That's, I think, the big downside.*

### 3. **The shareholder-value idea may have worked at one time, but it is outdated, does not fit the needs of the 21st century and may be harmful in some cases.**

A surprising number of respondents on both sides of the shareholder-primacy argument suggest that putting the shareholder first had arisen as a logical and humane solution to a fairly serious problem. One academic who is an opponent of shareholder primacy said:

*So, during the '80s when people started acting as if shareholder value were important, that served a really important function in breaking up the conglomerates. It was a good theory for the '80s, because we needed a pretty large restructuring of the American economy and shareholder value provided a pretty good way to accomplish that. Saying that that's why corporations existed meant that you could buy and bust up these unwieldy, loaded companies. So, it worked for that purpose. But I think it went a bit too far during the '90s and 2000's. So, simplicity and clarity of decision-making – and in the U.S. specifically – the shareholder-value fiction was really useful during the 1980s for enabling a large-scale restructuring of the economy.*

The evolution of certain kinds of corporations – and their refusal to follow established protocols – is most certainly altering the relationship between corporations and shareholders. According to one institutional investor:

*As a shareholder I'm looking for a return. The definition of a capitalist is a mobile pool of money that is looking, at least in public markets as I operate in, looking for investment opportunities. And so, I'm not at all, in the stereotypical frame, concerned with the social benefit of the company. My role in this drama is to seek the highest return. So it's a serious error for a shareholder to project that onto the company, for the shareholder to say, Because I'm seeking the highest return for myself, the company*

*must bend to my will. Google doesn't let shareholders vote. So the company doesn't have to bend to your will. The terms of the deal under which you supply capital are that you have no voice in this. Facebook looks very similar. Facebook is a controlled entity; they've gone a little bit public to monetize some people, but they're accessing the capital markets without delivering any of these control features that the shareholder-first advocates hold so dear. And that's a function of the relative bargaining position in this negotiation.*

*If you look at the winners in Silicon Valley, that's how they have done it. The winners in Silicon Valley have been dictators. Steve Jobs at Apple, the Google guys, Mark Zuckerberg. Corporate democracies like HP and IBM have had a terrible time. Larry Ellison at Oracle. These are not nice or admirable people. Their corporate governance structures do not comport with a conventional sense of accountability or corporate democracy. They have the same operating characteristics as hunter-gatherer tribes or pirate ships and they work extremely well. And they out-compete other firms. So I think that the best governance arrangements often are idealized and in practice there are significant counter examples. I'm talking about just one industry, in one moment in time. But dictatorship has its virtues. The shareholder has to evaluate whether they give up on a corporate governance side and are going to provide management with say the strategic flexibility, the ability to move in a timely fashion, the ability to avoid distractions that might give the company a competitive edge.*

And certainly among the greatest effectors of change have been investment institutions. As one academic put it:

*I think the heterogeneity of shareholders, the dimensions that are relevant are not so much individuals vs. institutions. It's all institutions now. I mean, any big company...the average company, 75% of their shares are owned by institutions. Mom and Pops mostly don't exist. So, we can rule them out. It's really, What do the institutions think? And there the diversity is peculiar. I don't think we really understand yet what those interests look like. My biggest worry, really, is that exchange traded funds can be so volatile and typically, like an iShares BlackRock fund, might be the retail fund or the oil industry fund, and if it buys the 20 largest firms in an industry, then they all start going up and down together. Their share prices become very correlated because they're all owned by the same thing. So, that's a bit of a worry that I think is under-appreciated. Probably less so for companies like oil companies and smaller things, where they don't have that big of a float.*

Particularly important in this regard is the view that shareholders are nowhere near as important as they used to be as the source for capital. One institutional investor observed:

*One of the reasons shareholders, I believe, have lost influence over the past generation is that capital has become much more abundant. When I was in college, the expected return on a risk-free security, a U.S.- government Treasury bond, was over 10%. As inflation has fallen and real interest rates have fallen, we had a moment last year where the inflation-protected Treasury bond had a negative yield. There is a super-abundance of capital in the world. So why should any CEO think the particular shareholder he's talking to on the phone is not immediately replaceable by another? And therefore, by what possible economic reasoning does the shareholder have absolute primacy over the other*

*economic relationships of the firm? The shareholder could say Well, I'll sell your stock. Okay. Someone else will buy it. This is a competitive market.*

And for one adamant opponent, an academic, the problems with the U.S. economy coincided with the enactment of the shareholder-value theory.

*Our generation was lucky enough to be born and to come of age when you could live the American dream, that you could expect that if you worked hard in school and played by the rules, you could improve your standard of living. Well, we're not leaving the next generation with that same opportunity. Just look at the indicators; it's very clear. Wages have not gone up for 30 years. Jobs...we're not getting the job growth that we need to replace the jobs we lost in the great recession and keep up with the labor force. We have 30-40% of our college graduates working in underemployed jobs, jobs that don't use their skills and that don't start them off in a way that they're going to learn and grow and be able to build the kind of career that allows them to start a family and be financially successful.*

*So, all of those indicators are going in the wrong direction. And, you see it in the public opinion polls for the last 10 years. A majority of Americans think the country is going in the wrong direction. The majority can't be consistently wrong in their experience or in their articulated point of view. So, I think we are in a very serious situation where if we don't change dramatically, we are leaving our kids a mess.*

*If you look at, when did things change? What's the breakpoint? It's the 1980s. The same time period where shareholder primacy began to move to the top of the agenda.*



4. **Shareholder value inverts the moral order by making the corporation the center of the universe. The proper and historical relationship holds the interests of society as paramount, and corporations exist primarily to serve social needs (especially those of the customer).**

Acknowledging both the great importance of the corporation – as well as its subservience to society—an institutional investor explains:

*Corporations are simply a form of a social organization. If there's no benefit to society, we won't have them. So for me, the primary purpose of the corporation has to start there. It's nonsensical to talk about any stakeholder group as being the primary beneficiary of a corporation. The reason the form is so powerful and has been adopted so widely and is popular is that it serves all those stakeholder groups pretty well. If there were better alternatives, presumably people would have gone to the dictatorship model or to a civil service model. But, in fact, we have a lot of corporations in the world, and we have them because they employ people, they tend to be beneficial to the communities they operate in and they tend to serve customers more efficiently than other forms of social organization. The point of the corporation is to simultaneously serve the interests of lots of different stakeholders. Shareholders are important because if you alienate them, you won't have many corporations. Corporations need capital to operate. But ultimately, the corporation has been successful because it is accountable and is accountable to multiple stakeholder groups. There's no other form of social organization that has succeeded in delivering the transparency, flexibility, capital efficiency and mobility of the corporation.*

*So for all of the things we criticize, and there are plenty of things to be concerned about, the fundamental strength of the corporation, I think, is its accountability to multiple stakeholders and the ability, when it's well-managed, to be a positive contributor to society.*

An academic put it this way:

*Corporations serve society rather than the other way around. Societies create corporations and confer advantages on them to benefit society in general. And you can break that down: what do I mean by society in general? We can think about it in terms of the various stakeholders or the various constituencies that are affected by corporate activity. But, because there is this sort of pluralistic mission here, complex mission, it is essentially a social one. Yeah, that's my view. To the extent there's a single mission, it would be a social one. But really, when you unpack that a little bit, you're really talking about a lot of different missions that affect the well-being of a range of stakeholders.*

Taking that point a step further from the role of the corporation as just one element in society one respondent employed a simile that some shareholder primacy advocates might object to: He likened it to a tool. . . a considerable downgrade from the lofty heights that primacists tend to see the corporation. From an academic:

*Corporations ... we think of them as being institutions, in a sense, or these central pillars of the way you organize an economy and that's what they became in the U.S. , in particular. But it's more useful to*



*think of the corporation as a tool, like a diesel truck, not with any sort of metaphysical significance beyond that, but just as a device that we use to get things done. Corporations. . . the same thing. They're just a tool for accomplishing an end, rather than an end in itself. We should think of them not as constituents of society, but as tools for accomplishing ends that society wants. And if they're useful, then we should use them. If they stop being useful or if they bring pathologies that outweigh their usefulness, then we can ditch them.*

And some who have placed themselves in the shareholder-value camp have also begun to view the corporation in a different light, particularly because of a new view of their historical origins. One corporate executive described a personal investigation:

*So I started reading stuff on my own and we planned a senior management conference and we had a discussion on the role of the corporation in society. I read some of the original source materials in terms of this debate. But I really find it fascinating as to this whole concept of the corporation in society. And I find when you look at history, and I've read some articles about the history of the corporate form, when you read the history of the corporation, that early on you couldn't even get a charter unless you had a public purpose. So this whole notion, what Friedman articulated, it's really ahistorical. It's not consistent with the history of the corporate form. And then, corporate law as it has developed in the United States – it's certainly not consistent with in terms of the Business Judgment Rule and those kinds of things.*

- 5. An argument for shareholder primacy assumes a definable set of corporate owners who can make a difference through judicious voting or other actions. But the evidence clearly indicates that the vast majority of corporate “owners” have little or no knowledge of the companies they are invested in and thus primacy is being conferred on, essentially, a faceless mass.**

We have touched on this before, but the “institutionalization” of stock ownership is worthy of further investigation. One respondent makes a strong case that shareholder value cannot really lead to truly meaningful action because institutional investors have different interests from individual investors. An academic cited some research:

*I actually published a study a few years ago looking at how mutual funds vote in proxy elections and how they vote on shareholder proposals. It turns out that there's a nearly perfect correlation between how much pension business a fund did with companies and how much it voted with management. So, Fidelity – all of its growth is coming from running company pension plans and now they do payroll and benefits and stuff like that. They always vote with management. They're not going to upset potential clients, right? That's true for a lot of the biggest funds. Their customers are not you and me; at least we're not visible customers.*

*It's like the folks that are deciding who is going to run our pension plan and our payroll - they're not going to vote against those people. I don't see a lot of activism on the parts of mutual funds; maybe some hedge funds. That's the thing that claiming to exist for shareholder value can resolve a lot of those problems. Instead of looking out and seeing this heterogeneity of diverse shareholders, all with different interests, just look at the share price. That's the thing that really matters. And it doesn't matter whether your shareholders are big or small or short term or long term, if you focus on share price, everybody's happy. So, that's a problem solved by a focus on share price...all of that diversity melts away and you just have one thing you need to look out for.*

Even a strong shareholder-value advocate, an academic, sees this flaw:

*So much of the trading now that takes place is done by intermediaries of one form or another. Institutions, asset managers who don't have a direct ownership claim. They're buying them for somebody else. It's really important that the system of delegated management be structured well to give the appropriate incentives to the people managing the money, etc. So there are lots of things you could think about, but it's not clear that we totally understand any of these.*

- 6. Shareholder-value advocates cleave to a false assumption of what creates true value. They assume that the road to prosperity is paved by corporations seeking to create wealth for shareholders, and they believe that a commitment to that aim will satisfy that need. However, historically, the great advances by corporations in America came not from the drive to generate wealth but from the drive to fulfill a mission, a goal that went beyond that which is quantifiable.**

As mentioned previously, opponents of shareholder value tend to embrace the idea that true prosperity comes not from striving for wealth, but for pursuing another, greater purpose. An academic puts it this way:

*The question is: What is the driver? I do believe that the driver is innovation and the driver is thinking about how to do something better and better and better. But the way that you think about that process is going to be far more effective if your final goal is not to make money for somebody else. If your final goal is to serve somebody.*

A corporate executive articulated the expectations of ownership in a very compelling manner:

*I mean, shareholders do own the company, technically speaking. And I don't think there are any ifs, ands or buts about that. But why do we own anything as people? We won't own something in order to maximize a financial return on that. We own our house in order to have a home that will support my family for a long time to come. Do I want it to have capital appreciation? Certainly. But it's certainly not the goal of owning my own home. My goal of owning my home is to have equity in the place I live and security around that. I own a coffee pot so I can have fresh-brewed caffeine in the morning, not to have capital appreciation on that good. I think that's where this misalignment comes from: The*

*shareholders' goal is to explicitly get earnings return on owning an asset, but the purpose of that asset isn't to create a return for its owners, necessarily.*

*Having done this now for a long time, I just fundamentally believe that a company is in existence for some reason other than to create shareholder value. (The company) started with a good idea about some gap in the market or some need that society had that wasn't being addressed and that's, I believe, why the company continues to exist, going forward. People should make investment decisions based on how well a company is achieving its mission or their goals for why it exists. It doesn't exist to create shareholder value. GE existed originally to create electricity. Some company may create the most energy-efficient analog semi-conductors that the world may ever know. But it becomes how the company serves the employees and the avenues through which it can add value to the broader group of stakeholders through its supply chain, through its geographic location, wherever it may be. The mission of the company and how that company executes on that mission – I personally believe that's what should be the ultimate goal of what the company trying to achieve.*

*Some companies that are best-in-class have been much more pragmatic with their missions, but were certainly mission oriented, and those tended to perform best. It also provided the greatest shareholder return, not because that was their ultimate goal, but because they were mission driven. They were uniquely fixed upon a goal and their employees embodied that. And they felt like they were creating something greater than themselves.*

Another rejecter of shareholder primacy, an academic, picked up on the same idea that financial success comes to those who are oriented not toward creation of wealth, but to a larger not necessarily quantifiable goal. This view emphasizes the paradox that the attainment of one thing may require a focus on something that is entirely different:

*Look at Steve Jobs. When you read everything that he said and everything that he has done, it doesn't seem that he was driven by the fact that he wanted to make a lot of money. The fact that he made it, it was like a perk that came with what he really wanted to achieve. He wanted to achieve a perfect product that would satisfy a customer.*

*If in the beginning, Steve Jobs was thinking, I have to pay back to shareholders, the main purpose of his thinking is not going to be innovation, it's not going to be creativity...maybe creativity, but creativity in a bad way. Creativity is the way to have to get money out of one part of the company to another part of the company; things you don't want to be thinking. But when you look at the guy who basically took McKinsey to be the top consulting firm in the world, these people were inspired by vision, by customers, by a greater sense of just making money for the sake of making money. And lo and behold, they actually make a little money in the meantime.*

*What particularly troubles me is that sometimes we lose the perspective that if your goal is just to make money, the type of decisions that you're going to be making are not going to be the ones that are going to guarantee the long survival of the firm and are not going to guarantee actually the success of the firm. And if you start thinking just about money, money, money, profits, profits, profits, you're going to be missing the opportunity to actually do that.*

*So it is a matter of how you think that the value creation occurs in society. So do you believe that happens because people want to get money and my feeling is that it is not the case. It has to be that you are passionate about a product, about serving a market, about doing something that nobody else has done. And that means in many cases thinking long-term, in many cases thinking about employees and how to better engage them in what you want to do. It's more of an inclusive view of the firm than what we normally see, at least in the United States and sometimes what we see in MBA students.*

The shareholder-value opponents will often speak in terms of “the greater good,” the essence, as one respondent noted, of utilitarianism – the belief that ethical actions are evaluated by the extent to which they confer the greatest good on the greatest number. Perhaps the most idealistic of the group, a corporate executive, put it this way:

*If I was to put it in its simplest terms, it would be that the world is much greater than oneself. As a result, each of us should be trying, and the company should be trying, to add value to that world, to society, to culture and not just take from it. But I truly believe that the interesting thing about a company is that it's actually not that different than a government or a religion or community. It's a place where people go to work every day. Not just on an organizational level but on a deeply personal level. Employees of that company, if they're striving toward the greater mission, by going to work and fulfilling whatever role that they have to the best of their abilities, are giving back to the world in a greater way.*

## **7. Shareholder-value thinking and practice entail a simplistic view and do not account for the natural complexity of the universe.**

The shareholder value rejecters say they recognize the lure of the clarity and precision of stock price as a metric of success, but they ultimately reject it. Interestingly, the rejecters tend to embrace complexity – while at the same time admitting to being befuddled by it and left without the kinds of ready answers that are so attractive to shareholder-value advocates. One academic opined:

*It (measuring shareholder value by stock price) definitely makes decision-making easier. So, I teach in a business school and I would say only a tiny minority of faculty would say, Nah, corporations aren't run for the benefit of shareholders. Basically, that is where the strategy begins and ends. It makes life a lot easier for them. Think how hard it would be to teach that class if every case you talk about, you're saying, well what is the real purpose of Walmart? What are we really about? It certainly makes things easier and clearer.*

The rejecters of shareholder primacy are likely to maintain that a complex world demands complex solutions, even though they may be very difficult to devise. Nevertheless, a number have

called for a focused investigation into creating metrics or monetizing the factors that they see as important but that currently do not have numbers attached to them. An academic argues:

*So the fact that something is easy to measure should not be whatsoever a reason to change the system to accommodate to that measure at all. If it's hard to measure something...look, we were able to go to the moon. I'm sure we'll be able to find ways to measure companies in many different aspects. Let's try to measure them and let's get to a convention that a company should hold to. We know, for instance, that slavery is not acceptable. We come to these conclusions as a society. So let's start talking about those. The fact that something is hard doesn't mean that it should not be done.*

Several rejecters invoked either the spirit or the terminology of ecology (or both) to explain their thinking on the complexity of the business world – and the inter-relatedness of business phenomena. One institutional investor embraced the metaphor:

*I think, or know, that leaders, great leaders, leaders of corporations are understanding the importance of the complexity of the ecosystem, the corporate ecosystem and government ecosystems that they're in. It's just a much, much more complex place to operate in that you have to do a number of things simultaneously that don't mean just making your widget. You do have to make your widget, but if you don't pay attention to the government, the government's going to shut you down and you'll lose your license to operate. If you don't take care of your employees, they'll make widgets for six months but then they'll leave you. If people are really an important part of you making that widget, you have to spend time and really understand employees and how to make it a great place to work, how to make it a place where they can balance family and their work lives and so forth. You have to play a role with the community. If the community doesn't want you there or thinks that you're polluting or doing bad things, you can't just make your widget in isolation. Of course, you can't make your widget in isolation of the other competitors that are out there, as well. Maybe making a better widget with lower costs might just be making it with greater innovation, maybe doing it geographically differently. So it's much more complex and I think the best CEOs, the best boards and teams are understanding that and putting that into place. I think boards are exercising probably greater authority and providing that ballast for the CEO in many cases. I think a number of the great ones, great companies do.*

## The Divergent Values – in Short

As noted, half of respondents assigned values of 4 or 5 to the statement, *The primary purpose of a corporation is to serve shareholders' interests*, and we would consider those people to be shareholder-primacy advocates. Not surprisingly (at least to some), high levels of belief in shareholder primacy correlated fairly closely with low levels (a value of 1 or 2) of agreement with the proposition that *The primary purpose of a corporation is to deploy large amounts of capital towards long-term projects that strengthen society*. These two statements in essence represent the antipodal points of view in this study. And most shareholder-primacy advocates on the extreme end (those who assigned a value of 5 to the idea that the corporation's primary interest is to the shareholder) essentially regarded these two points of view as mutually exclusive.

And so it may be telling to investigate what are the values that seem to distinguish each group? Are there themes that continuously arise in the conversations of one or both? There are a number of overarching principles – philosophical stances, in a sense, that unite each of the groups – and from which their more specific opinions seem to emanate.

It would be irresponsible to suggest that shareholder-primacy advocates are substantially different from their philosophical opposites (those who argue for deploying capital to strengthen society) and can be easily typified by certain characteristics. However we did find some differing assumptions that *tend* to delineate one style of thinking from another.

The listing of these values does not imply that one holds these premises and the other will have nothing to do with them. It is, rather, a matter of degree, of emphasis – perhaps something like the differences that exist within religious sects (Orthodox vs. Reform Jews; Catholics vs. Baptists). And the listing of these premises is not intended as a criticism. They are, in fact, perfectly reasonable precepts on which the various ideas rest.

### Premises of Shareholder-Value Advocates

- **The corporation is the moral center of our universe and it tends to be a positive one.** Put in another way, the corporation is the king of the hill around and through which the most important aspects of life are served. The corporation's interests should be attended to, and if it is, everyone else benefits because inherent in a corporation's drive to succeed is the well-being of the society at large.
- **They embrace clarity, simplicity and objectivity.** The certainty that is afforded by metrics, by numbers, is highly valued by shareholder-value advocates. And few matters are more concrete than the metric of the stock price.

- **The creation of wealth is a key driver in life.** This is not to say that other values aren't important: Shareholder-value advocates will almost invariably make a point that corporations are required to act ethically. At the same time, their assumption is that most shareholders *are* ethical and, therefore, that attending to them automatically involves ethical behavior on the part of the corporation.
- **They prize accountability and responsibility.** The idea of being responsible to someone or something is a fairly constant theme among shareholder primacy advocates. Both shareholder advocates and rejecters have argued that one reason for the emergence of shareholder primacy was the alleged lack of accountability in the 1970s and 1980s that allowed selfish and corrupt corporate senior managers to profit at the expense of shareholders. The widespread acceptance of shareholder primacy, in the view of shareholder-primacy advocates, has represented a new sheriff in town who has ensured that such corporate excesses will be seriously diminished.
- **They see shareholder-related issues clearly and unambiguously – and primarily because they see it as a legal matter.** They believe that the law demands that shareholders be carefully ministered to because the law demands it, and because the shareholders' clear role as owners of the corporation also constitutes a moral case for shareholder primacy.
- **They tend to have an upbeat view of business and the world.** A cynic might call this tendency of shareholder advocates as "Panglossian," reminiscent of the character in *Candide* who claimed that "we live in the best of all possible worlds." Shareholder activists see that the system is working quite well, and that the principles behind shareholder primacy have extricated us from the morass created by having too many masters – which is often attributed to the elevation of the stakeholder-primacy point of view. In fact, the primary annoyance they see is the threat to the hegemony of shareholder value. When one ardent shareholder-value advocate was asked, "**What is the greatest disadvantage of shareholder primacy?**" he said, only half-jokingly, "*It leads to debates like this.*"
- **Focusing on shareholder value and achieving corporate success are causally linked.** The dynamic is fairly simple: Your success in moving your company forward and accruing all the financial benefits that result is directly linked to your keeping your eye on the ball of the shareholder's financial interest. Again, they tend to believe that stakeholder-value did not work and caused numerous problems, and that focus on shareholders leads to success.



## Premises of Shareholder-Value Rejecters

- **The corporation is an institution that is only a segment of the multi-layered fabric of society – and thus not the center of interest.** Inverting the elevated position of the corporation that is assumed by shareholder-primacy advocates, the rejecters are more likely to see the corporation as just an implement through which society can attain certain benefits – like goods and employment. Moreover, rather than holding a generally optimistic view, shareholder-value rejecters tend to focus on the potential threats posed by corporations (e.g., to job security, the environment).
- **The possibility of change, entrepreneurship, and innovation are key drivers, and wealth creation is just a by-product.** This is not to say that the shareholder-value champions do not value entrepreneurship. However, in a very informal review of the transcripts, we were struck by the considerable difference between the number of times that “entrepreneurship” and “innovation” were used by both groups. Rejecters were considerably more likely to employ those terms.
- **They see complexity as the natural order of things – an order that is incongruent with numerical calculations and clear precepts for action.** As shareholder-value advocates are partial to employing concrete measures, rejecters tend to embrace concepts (e.g., “serving the community”) that are more resistant to measurement. They acknowledge the attractiveness of the kind of clarity that shareholder primacy provides, but they are skeptical of it because they perceive a fairly elaborate pattern of interrelatedness that, in their view, defies more simple approaches.
- **As shareholder-value advocates have a propensity to prefer the precision of using stock price as a measure of success, rejecters of shareholder value tend to argue that the most meaningful corporate contributions are those that are not easy to measure.** As noted, the value of a stock is fairly clear and immediately understandable and that is one reason it is so attractive to shareholder-value advocates. Rejecters, on the other hand are more likely to speak in terms of different kinds of value – like economic security, responsibility to the community, etc. And it can be argued that this is one reason why shareholder-value advocates rule the roost today: they provide the kind of clarity and certainty that many people seek and that is not readily apparent in broad concepts that are resistant to straightforward means of measurement.



## The Convergence of the Twain

### Where Both Sides (Mostly) Agree

The previous section of this report reveals some fairly sharp differences between shareholder-value advocates and those who, to varying degrees, oppose the idea of shareholder primacy and envision other very important purposes of the corporation. And certainly one definitive area of contention relates to the extent to which shareholder primacy paves a direct road to short-term decision making. Those who reject shareholder primacy generally tend to see the proclivity for the short term as the great and inherent failure of that philosophy in action, and some shareholder-advocates sympathize with that point and see short-termism as problematic. But here is the key difference that, ironically, ultimately unites the thinkers on this issue: Shareholder-value advocates do not regard a short-term orientation to be inherent in policies that place the shareholder first. But they join the rejecters of shareholder value in acknowledging, and quite ardently at times, that short-term decision making, for whatever the reason or cause, is the bane of American business and requires remediation to mitigate its most pernicious effects.

Before focusing on the comments of shareholder value advocates, we will simply acknowledge what was expected: that one of the key elements of shareholder-value opposition is their near-certain belief that shareholder primacy inevitably leads to short-term decision making. As one opponent, articulating the views of many put it:

*Shareholder value, as it's currently thought about, is a very short-term orientation. And current share price really does discourage corporate managers from making investments that really might be good not only for society in the long-run, but even for the shareholders themselves. So shareholder value in general, and a relentless pursuit of that objective, can have negative social consequences. And then the particular manifestation of shareholder value we see nowadays, namely current share price, involves a very short-term orientation that is even more socially destructive than a longer-term perspective would be. It can discourage investments in environmental sustainability, because that involves expenses today that may or may not generate shareholder value in the longer-run. A shareholder-value approach encourages companies to do the bare legal minimum as far as environmental concerns are concerned. It may also mean cutting corners with respect to workplace conditions, paying bare minimum wages and benefits to workers, selling products that maybe don't have any real social value or maybe are unhealthy. Crappy TV or fast food or tobacco, you name it. There are lots of ways in which a focus solely on shareholder wealth maximization really can be harmful to society as a whole and to particular constituencies in particular.*

That respondent's views about the dangers of short-termism were echoed by the vast majority of the most ardent opponents of shareholder value. But this may be the most surprising – and gratifying – outcome of the study: Some of the most vehement criticisms of short-term decision-making emanated from the enthusiastic shareholder-value advocates. Consider this comment from the individual whom we have classified as the most fervent advocate of shareholder value (the only respondent to attach the highest level of agreement, a value of five, to shareholder primacy, while grading each of the alternative propositions with a one).

*Ultimately, shareholder value is the stock price. But, you have to look at the stock price over the long haul. It's gotta be over five years; it can't be over six months or a day. Good management is long-term oriented. Any management that is short-term oriented loses. But the market understands that . . . (Short-term decision thinking) is known as a fool's errand. A company that focuses on the short-term is a fool. Boards who insist are fools. That's not a problem with the theory; that's a problem with a foolish implementation of the theory. You know, most people, most companies, good managers, don't focus on the short-term, because in the end, you're going to lose. Yes, could a bad quarter be symbolic of a larger problem in an organization? Sure. If an executive says this quarter will be X and it turns out to be Y, it's not that it turned out to be Y, it's do you trust the person going forward? Is their judgment any good? Do they have their hand on the pulse of the business? It's an indicator; it's not a result. That's the point. It's not an end. A quarter is not an end; it's an indicator of a larger end . . . You've got to understand that most shareholders are long-term. Most shareholders in most of your large companies are obviously long-term holders, a la indexed. They're index funds that are there forever.*

And our most ardent proponent of shareholder value makes a very important distinction about why true shareholder value is incompatible with short-termism:

*Most investors are long-term investors. That's why the goal for directors is long-term value, not short-term. Short-term value is a misnomer, too. Short-term profit is not value. Value is never created by the short-term, only by the long-term. To get to long-term value, you have to respect the other stakes. That's why I said, the difference is more apparent than real.*

Nor does our most ardent advocate of shareholder value stand alone in this disdain for the short term. In fact, every one of the most adamant advocates of shareholder value articulated a similar point of view.

*I think the most important thing here in the U.S. is getting a timeframe introduced into the discussion rather than, Is it shareholder primacy or not? I think that's kind of a stale argument. It is much more about over what time should management be assessed on their performance? If we can get people thinking longer-term, I mean beyond quarters and beyond four quarters, then that helps a lot in focusing on the right things. How do you make companies perform financially and sustainably in the long term? Ultimately, if they don't have good financial performance, they're not going to be able to employ anybody, they're not going to be able to offer any services or products to clients; they'll be out of business.*

Or a senior corporate executive:

*You've got to be concerned about duration. You know, what is the best thing to do to ensure wealth creation, value creation in the long-term? You certainly can't do anything that's not sustainable. I don't think many shareholders would take what I call the hyper-short-term view of management's responsibility to run the corporation just to create alpha. So I guess I would temper what I said, which is, we have an obligation to create shareholder value but how do you do it? You don't want to do it in a value-destructive way. I've engaged with shareholders for this company and many of them find us attractive because of our consistent, long-term performance. Now, there may be some shareholders who want something else from us. But that would be the way I would define our obligation to increase shareholder value and be sustainable.*

And another executive shareholder-value enthusiast:

*I think the danger is focusing on the short-term share price and thinking that is helping shareholders. I think we always, in our own discussions, say long-term shareholder value. I think that the addition of the words "long-term" are very important.*

*There is a market mechanism. If your corporation is taking actions that only will create short-term shareholder value, you will not have nearly as much capital available to you as compared with a situation where you are doing things to create long-term value. Because, clearly, there are some providers of capital that are focused on short-term returns and trading in and out of stocks with no long-term interests. There is a vast amount of capital that is the opposite; that is focused on generating long-term value, investment value by investing in companies for the long-term. If you only serve the short-term, you'll have much less access to capital than if you're serving a wider swath of investors.*

*Again, I think if you maximize the value of the company, then it is reflected in the shares rather than driven by the shares. That may sound like a distinction without a difference, but I think that's quite a big difference. One of my colleagues in investor relations gave me an article one time that I thought was fantastic. It said that companies that focus on raising their stock price are like coaches in football that are focused on increasing the point spread. And that really if you're focused on winning the game, the point spread will reflect it, not the other way around. Focusing on raising the point spread doesn't increase your odds of winning the game, if that makes sense.*

*I think that's a big deal, because... and, I haven't said it yet but I should have. . . really when we're talking about shareholder value, we should say long-term shareholder value. That is the other danger that companies have; they attempt to do something shortsighted to drive a short-term increase in the shares that ends up hurting the company and all its stakeholders over time. Things like ENRON are product of that.*

A distinction that was raised several times by shareholder-value advocates is the one between "value" and "the short term." Several took great pains to suggest that the terms are mutually exclusive:

*Value is not a short-term phenomenon. Stock price might be a short-term phenomenon, but value isn't. Value is the discounted value of all those cash flows that you generate. Maximizing shareholder value cannot in and of itself cause you to be myopic or to forgo profitable research and development because your cash flows aren't sure for 10 years. I'm not going to say it's not the case that the managers make myopic decisions, that they sort of throw away profitable investment opportunities because they're trying to maximize current earnings, but I think they're doing it not because they're maximizing shareholder value. It's a different problem. Maybe it's misguided shareholder value thinking that causes these problems, not true shareholder-value thinking.*

And, lastly, one respondent, who became irritated by the tendency by opponents of shareholder value to link their belief in shareholder primacy with short-term thinking, was asked to describe the set of principles that guide these strongly-held points of view:

*Maybe it's something as silly as doing the right thing and making difficult decisions, even if you don't like them. I mean, that sounds way too trite, but it's kind of what is at my core. It's fighting short-termism, making good decisions and thinking from a corporate perspective. Good decisions that will create and compound the value over a long time horizon. That is how you serve your shareholders.*

One sizable portion of good news to emerge from this study, then, is that while opponents and advocates of shareholder value may differ in a number of ways, they are united in their contempt for short-term approaches that have had such an insidious impact on American business.

## Now What Do We Do About it?

The chief culprit that has vexed American business has been identified: the dangerous lure of short-term decision making. Is this an inherent deficit in our system, or are there remedies that can at least mitigate the effects of short-termism? A number of proposals emerged from our conversations, and we offer these for consideration.

- **Alter incentive arrangements, especially compensation packages, and gear them for the long term.**

Shareholder-value champions and opponents are united in their view that corporate leaders are too often incentivized to generate short-term results, and the not-surprising outcomes are decisions and strategies that are realized in the near term. Some relevant comments from various respondents:

*So you could change the compensation contracts. Think about the incentive problems we got into in the financial sector in banking – where people had short-term compensation contracts and as a result a very short-term view: roll the dice and make a ton of money and I go home rich. If I lose a ton of money, yeah I move on and the corporation or the shareholders eat it, so to speak. So you can think about optimal compensation. You change the way you compensate managers and you'll change the way they behave.*

*Companies do make decisions for the short-term. That's why incentive systems need to be built with a long-term focus. Not on any particular quarter. It's back to the three, five, seven, ten-year phenomenon and not your stock price on any day. Take away Bloomberg terminals.*

*There's a study being done out of the UK. There's a consultancy called Tomorrow's Company." Tony Manwaring is the CEO of Tomorrow's Company and he's done some work on long-termism in the markets. And what I talked about - again - is very much the incentivization structures. He tried to look at different pieces of the capital markets . . . Because, it's not just the stockbrokers, it's not just the analysts or the PMs or the CIOs; it's the whole...the whole global credit crisis...this was not all caused by Wall Street. This was a complete breakdown in every piece of the system, based on screwed up incentive structures for everyone.*

*The idea is to lock the director into the company. That was my idea many years ago. You lock the director in long-term and take a long-term view. And seek long-term value. That's what your responsibility is.*

- **Fully investigate a way to monetize the matters that are currently regarded as “abstract” in order to compete for attention with or complement concrete metrics like the stock price.**

A number of shareholder-value advocates commented on the utility of having a metric, stock price, that is a clear and concrete measure of corporate success, and the rejecters of shareholder primacy admitted that having a clear metric is one reason for the allure of the shareholder-value stance. And a large number on both sides of the debate, agreeing at least in part with the “if you can’t measure it, you can’t manage it” dictum, argued that finding a means to measure the values that we currently view as abstract would be a very useful ally in the battle against short-term approaches.

*I think there are a lot of intangibles that we’re not very good at measuring, that do impact on the company’s valuation in some way. But the question is, how do we measure that and can we gain some consensus around the metrics?*

*If you could develop metrics of value, shareholder value, that were more long-term in their nature, then I think what you would find is that there are things that companies do in terms of respecting the interests of employees, respecting the interests of communities, respecting the interests of countries in which they operate, respecting the interests of the environment, that actually do become part of the long-term that add to the long-term value of the company, rather than being at odds with it.*

*But you know, if you could demonstrate that there are certain metrics around employee retention and investment, productivity...that’s the one area where I might actually start. I think that we can easily measure the financial performance of the firm, and we can pretty easily measure the performance of labor in the firm and what we’re getting from the workers who are providing their labor services. We actually have a history when corporations have done things that don’t seem to be in their self-interest with respect to their workers that have paid off big time. The famous example is Henry Ford with the efficiency wage back in the 1920s. That might be one area where I might start. I think probably the other area would be, and this is one of course that’s gotten a lot of attention and is much better understood now than before, is the environment and in particular carbon emissions and the famous McKinsey carbon cost curve shows that there’s a below-the-line component where basically these are emissions reduction opportunities that are not only good for society, but good for companies. So I think that there are some limited metrics that could be focused on . . . I think they’re promising. I think these are the \$64,000 questions that have to be addressed.*

*So yeah. I think that’s the 21st century challenge for corporate theorists and finance theorists and maybe strategy theorists is to develop practical metrics that can be pushed down into a complex organization, lead to good, non-political (decisions). You don’t want your organization to devolve into basically a lot of politics. Can you push down a multi-dimensional organization into a complex*

*organization that people can coalesce around and make good decisions around? I like to think that the answer is that it's possible.*

- **Alter or simplify the tax code.**

There is considerable agreement among respondents, but particularly among shareholder-value champions, that American corporate tax policies are a travesty and are a major cause of ineffective and even unethical behavior and short-term decision making.

*Simplify the tax system. I mean, it's ridiculous that a company like Apple is keeping most of its revenues offshore because it's thinking that any day now, the withholding tax might be reduced, the re-appropriation tax might be reduced. So I think it comes down to longevity or long-termism in policymaking, which is woefully inadequate. And in having a very simple tax system that makes it so that there's no incentive to cheat or to try and complicate things so that you can be as efficient as possible.*

*In the 1980's New Zealand was on borderline bankruptcy and IMF was going to come in and run the country. The incoming government was forced to just simplify everything and cut subsidies and all that sorts of stuff. Basically, it reduced the tax code to, in effect, one page of bullet points. So personal tax went to, I think, 25%. I'm just making the numbers up, I've forgotten. All corporate tax was 30%. There was no special pleading for anything. Then there was a sales tax of a certain percentage. The tax take went up because it was so simple it was nearly impossible to cheat and there was nearly no incentive to cheat. It's an idealistic thing to say, but just simplifying it, I think, would make a huge difference.*

*I think that the company should be compensating society for creating those conditions. So in that sense, the tax structure plays a role. And I think the idea that companies can evade taxes, even if it's legal to do so – I think there's a real moral or ethical weakness in this argument. And I think that's evident to a lot of stakeholders, as we've seen. Even if they're legally able to evade taxes, then they still get a lot of criticism for doing so. And I think rightly so. But the mission of a company is ultimately different than supporting the society. I mean, hopefully it winds up doing that. But I don't think that that's the ultimate mission.*

*We collect taxes at the government level to provide the basic services to enable companies to exist and hire people and pay them wages so those people can pay taxes. To me, that thought process just leaves out the fact that tax collection is the way that you fund these things. And that's on corporate profits and individual income. I don't want to get into the tax code, which is a total disaster . . . Our system is broken in that regard . . . There have been many initiatives over the years to try to correct that. It should be simple and straightforward without lots of loopholes, and it's not.*



- **Promote the partnership between a clear and formal declaration of mission and a thorough alignment with that mission.**

Little disagreement exists between shareholder-value advocates and the opposition on the need for corporations to be very clear and explicit about what they stand for – whether it’s boosting stock price or pursuing entirely non-monetary, long-term growth strategies based on a mission like LinkedIn’s call to: “*connect the world’s professionals to make them more productive and successful.*” The key to success, according to several respondents who used the same term, is “alignment” —that the mission is an essential part of the corporate culture and guides all significant actions within the company.

*This idea of alignment, putting a word on it, is much more recent kind of thinking. But aligning a company around its purpose and its higher business and operations around its purpose, becomes crucial for that company to perform well over time and in building up to that, having an employee base that’s motivated, that’s happy, that is going to give everything it has to fulfilling that mission.*

*Again, it becomes crucial to the company achieving its goals. At (my company) we work ourselves to the bone, but we are doing it for a greater purpose, and we will all go to the mat, every single employee - I think - will go to the mat for that mission. We talk about it every two weeks in our company, this idea of alignment.*

*Part of the reason execution is strong is because everybody here at this company is aligned around the same set of goals, which ultimately are rooted in our mission. We don’t make decisions that go against our value system by and large. This is where the idea of alignment and the culture of integrity comes into play: we have an incredible amount of integrity and an incredible amount of alignment, which means our ideals and how we actually execute day to day. . . they also have to make business sense and be rewarded by the market.*

- **Foster transparency – vastly better communication skills among corporate managers to counter the pernicious effects of short-term thinkers.**

Several respondents on both sides of the shareholder value debate acknowledged that there are times when short-term approaches may be necessary. From the perspective of the corporation, a short-term strategy may be necessary during difficult periods when simple survival is the most immediate goal. And from the investor’s point of view, those shareholders on the verge of retirement may need to build the nest egg fairly rapidly. The greater good for investors, corporations, and society, a number of respondents suggested, demands a corporate clarity of mission, which enables the best range of choices to meet diverse interests.

*Oh yeah. Management says, how are the analysts going to react? How is the street going to react to this? What they should be saying is, we need to make sure we’re communicating clearly with the buy and hold shareholders so that regardless what the street does, that’s a blip and long-term shareholders are not carried away with the sort of reaction of the trading fraternity. And maybe they can’t*

*communicate. Maybe the street is right. Maybe selling is the right thing to do. But I think the management who are only trying to communicate with Wall Street investment bank analysts...who do play a very important role, don't get me wrong, I'm not trying to criticize them but I do think they hold too much sway. But management who are only trying to communicate to them miss the point that they're not the shareholders. They're clients of the shareholders.. If management went directly to their shareholders, they might get a better hearing. I think good management teams have good IR and good corporate secretaries and they are doing something about it. It's about building trust in your management team and if people are convinced you will deliver, then you'll get the support.*

*I think transparency is a key part of it. I think in the U.S. we really suffer from an issue of disclosure and not communication. Too many companies see what they report to shareholders as a regulatory filing rather than a communication with people who are invested in the business.*

*You would hope that in some sense the managers of the corporation would perhaps set down those values, so that when you decide to buy or not to buy stock, to take ownership in this corporation, you can make the decision as to whether those values are aligned with your values. The hope would be that because these are somewhat general or universal values, that it would be true for most people if they were.*

- **Create better balance in the corporation's decision-making structure, particularly by expanding the influence of employees, whose well-being tends to be linked with long-term planning and success.**

Interestingly, this idea resides in the minds of both shareholder-value advocates and rejecters, both of whom are represented in the quotations below.

*We need employees and employee representatives to have more influence over the direction and the discipline of corporate leaders. If you look, historically, from the 1940s through the '70s, there was more of a stakeholder perspective and that wasn't because the executives of that era were more moral or concerned than perhaps today's executives. But, what was really driving that was a stronger balance of power. The labor movement was stronger, the people coming out of the great depression and WWII had a sense of commitment to their communities and to the need to rebuild society. The educational institutions ... everything including the Harvard Business School and other business schools taught courses and generated leaders who saw their responsibility as stewards of multiple interests. Change the power equation. When unions were stronger, as I said, you didn't see these skyrocketing CEO salaries. They'd get a backlash from their employees and from the unions that represent them.*

Even our most ardent advocate for shareholder primacy seeks a greater role for employees, including ownership.

*If you look at it on the humanistic level, it's terrible; people are making profits on other people. That's the surface. It's just... societies that don't have shareholder value as a goal, never succeed. That was*

*the old Soviet Union that was the ultimate stakeholder society. It didn't work because the incentives got screwed up. I think that's the problem. I think the disadvantage of shareholder primacy is that on the surface it creates some discontent. That's why education, economic education, is so important. And, why broad-based ownership is so important. I believe in ESOPs. The employees own a company. I think if you own a company you take much better care of it than if you don't. I'm a firm believer in employee stock ownership; that's the way to go in the end.*

- **Place a greater commitment to attracting and training strong leaders.**

This call for strong leadership is neither new nor surprising, and it seems like an obvious need for any organization. Yet, so many of our respondents saw a dearth of strong leadership in America's corporations, suggesting that extraordinary leadership characteristics constitute an element that is *considered* for promotion to the highest levels of the corporation, but not necessarily required. In addition, as a number of respondents emphasized, great leadership is not an isolated phenomenon. Rather, it is exceptionally effective when it works in tandem with the previously discussed matters of transparency, mission, and alignment. When strong leaders offer a long term vision and a mission – and are able to communicate it and drive their teams to enact it– they are able not only to defend their fortresses from the slings and arrows of short-term thinkers and other crises, but to move the company forward to innovate. Moreover, weak leadership, many respondents argued (particularly shareholder-value advocates) is usually the product of weak CEOs or boards who do not stand up to their provocateurs and forcefully and clearly explain what they are doing and why they are doing it.

*I feel like a lot of the great CEOs of companies, maybe they've never explicitly said that's not our number one goal, but I feel like the ones that I've read about and come across and the ones who are motivating their companies to achieve as their number one objective the mission or purpose of the company, those are the companies that just wildly outperform. Google has always been mission oriented. Apple is mission-oriented, under the watch of Steve Jobs. In technology, there are lots of other examples that shine out and usually it takes a very strong leader to be able to drive that. I think it's hard for an organization to come to that resting place without a very strong leader. I think strong leadership becomes important to a company achieving its mission. I think, more broadly, it's important to a company doing a good job of identifying and executing on the right objectives, too. Otherwise, you have chaos or entropy or some disorganization that is pretty natural for any human community.*

*We haven't been public for a long time. But a lot of it is how the company is managed, because it used to be a private company. Two, we have very strong leadership. But ultimately, the biggest thing goes back to leadership. We have strong leadership. The founder and the CEO, those two have aligned the management team around a singular mission for the company. And a mission that engendered and created an entire culture and value system that we repeat and internalize as an entire organization. We're aligned in that. I think with different leaders, the outcome would be different.*

- **Increase the visibility and exploit the power of research that measures and evaluates corporate reputation.**

In keeping with the idea of making concrete that which is abstract, the matter of corporate reputation arose quite frequently. Several respondents cited reputation as one of the most important drivers of long-term corporate success, they suggested that publicizing studies of corporate reputation might be an effective (non-government) means to encourage ethical activities.

*Well, I don't think if we talk about regulation and legislation, I think making this other than voluntary here in the United States has a snowball's chance in Hell. So the secret to success is to reward those companies that do it well. There's no stronger force in the universe than CEO envy. That when corporations do well as a result of being good corporate citizens, it causes other CEOs and other business leaders to wonder how they can achieve that for themselves, too. Because, it's low-risk, but high reward.*

*I think there needs to be more rigor around how you value ESG (Environmental, Social and Corporate Governance) kinds of metrics and especially intangibles like reputation. There are lots of people who kind of bandy about the number - I think 80% of your company's worth is tied up in its reputation. I'd love to see that unpacked and kind of supported by a little bit more rigorous research. It's hard for me to take that to the boardroom and kind of present that, without it. If X amount of your stock price is linked to reputation, then how do you measure reputation? How is that measured?*

*Well, I think a lot of people are saying that companies that perform well in the environmental, social and government space - or the non-perceived core areas of business, out-perform their peers.*

*Olga Hawn, who is at Duke, did a very cool study on which mergers and acquisition were completed across borders by emerging markets companies. So think of a Russian company, a Chinese company trying to buy a company in Belgium or in the U.S. . She found that those transactions were much more likely to be compensated if the company had a good social reputation. If they were well regarded and economists hate this kind of talk because it's hard to quantify this stuff but if Taiwan Semiconductor came into San Jose and said we want to buy a small semi-conductor company in San Jose, I think they would sail through that process. People look at your behavior. I think you have a real reputational challenge for companies that are trying to go from national to global. Do they think we're additive to their society? Do they think that we're bringing a great value proposition? If they don't, you're not going to win.*

- **Explore the possibilities in new ways of forming corporations.**

Several respondents suggested that new approaches to forming corporations represent a way out of any shareholder-value dichotomy that may exist.

*Now, I would also say that I'm intrigued by alternative corporate forms and charters. You've got these things called benefit corporations, where you build right into the charter, the responsibility to address these multiple considerations and interests. Co-operatives, employee owned firms, all of those are alternative forms that under the right circumstances, could really be helpful to society. So, there's nothing sacrosanct about corporations as the only organizational form for doing productive work in the economy or in society. I think we ought to encourage these alternative forms to grow as well.*

*The things I'm most excited about don't look like traditional companies very much. So, the co-ops in Cleveland - I like a bunch. They're worker-owned cooperatives. And then, there are sort of privately owned businesses that just don't bother with investors at all and the founders have a particular vision of what they want those companies to accomplish, making their communities better...My favorite locally is Cascade Engineering in Grand Rapids. I just met up with the CEO on Thursday night at a talk up there. They're a triple bottom-line company, certified B Corporation. They preferentially hire people from low-income areas to promote them, give them economic opportunities . . . Fred owns this thing and he can do what he wants and this is what he wants to do. Those seem like bright spots to me and the various formats of worker-ownership and co-ops seem interesting to me. They don't have the pathologies of worrying about share price.*

- **Offer different classifications of stock that reflect the extent to which they represent long- or short-term orientations by the shareholders.**

This idea was offered by only one respondent, but we found it so intriguing that we presented the idea to other respondents, some of whom reacted positively, others of whom envisioned legal problems. But we offer it as an example of the kind of thinking that can generate breakthroughs.

*There is some short-term pressure that might be somewhat excessive. So it might be appropriate in some way to have different classes of stock. There might be tax laws that more heavily favor long-term holdings. If the government thinks it's a big issue and doesn't think corporations are investing for the long run, then be tougher on the short-term trading. But having categories of holdings and giving them different voting rights, and correcting the hedge fund situation that allows them to avoid everything being traded as long-term. So I think there should be some adjustments to give short-term emphasis or have there be less short-term emphasis. Traders can come up with excessive power and it would be better to listen to its long-term investors as much as they can.*

*But you could help management out a little bit by causing more long-term holding or be giving more long-term holders more votes. Technology has changed things and you can trade in nanoseconds. Technology has changed things to give short-term traders more power than they used to have. And we*

*need to correct things. It's not that they've got all the power, but let's potentially look at re-leveling the playing field, if you will.*

*(You can also have different) categories of holdings. So it's possible that your vote depends on how many years you've held the stock. If I've held the stock 7 years then I get 7 votes. If I've held it 1 nanosecond, I get .00001 votes. That's excessive, but maybe there could be categories of holdings and weight their votes based upon how long they've been in. If you just put your money in for a little while, then you haven't been invested...you haven't had as much invested in us. The long-term (shareholder) has had more invested in our company and therefore should get more of a vote.*

*Both my former CEOs thought that was a worthy idea. So it's not just me suggesting it. It's two former Fortune 500 CEOs mentioning it.*

*You need details to work it out. I think it's important and there are many ways that it could be positioned. But with a little bit of research I think there could be answers. Again, if I've owned that yacht for 7 years, and some newbie comes in and he's just bought a brand new yacht, if you're the owner of the marina, who should you listen to? Should we both get equal votes? Or, do you want to listen a little harder to somebody that's been investing in your marina for 7 years? I've got more investment in this marina than that newbie. It really works out mathematically.*

## Appendix

### 1. Study Participants

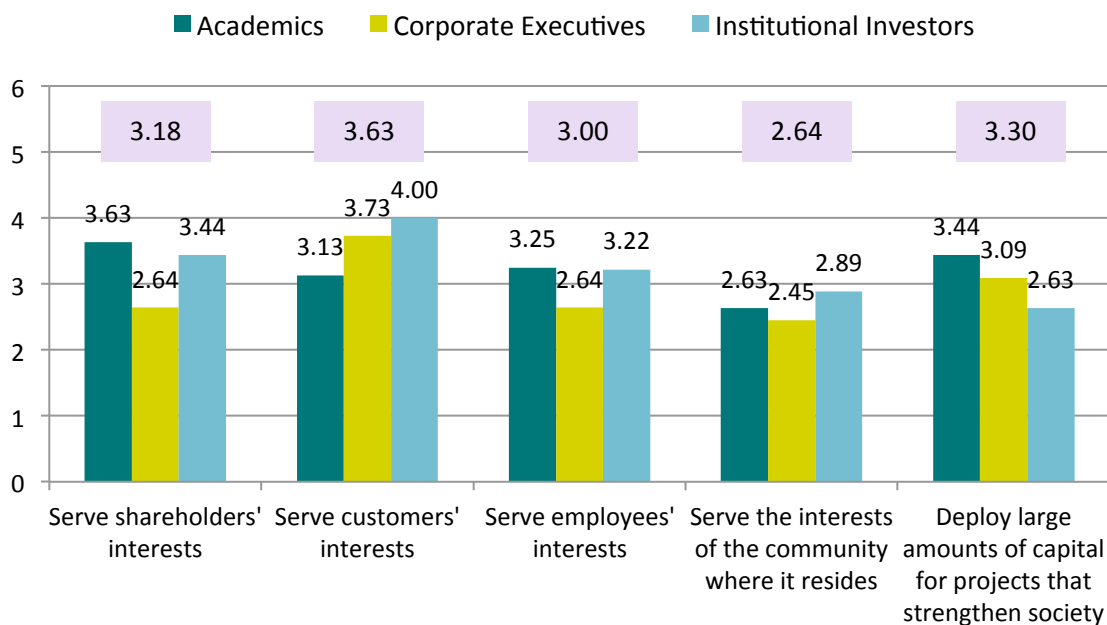
The following individuals were interviewed for this research study:

1. John Conover – CohnReznick LLP
2. Matt Sonefeldt – LinkedIn Corp.
3. James Lootens – Eli Lilly and Company
4. John Hulbert – Target Corp.
5. Douglas Chia – Johnson & Johnson
6. Gabrielle Toledano – EA (Electronic Arts Inc.)
7. David Dillon – The Kroger Co.
8. John Buckley – BNY Mellon (The Bank of New York Mellon Corp.)
9. Larry Thompson – PepsiCo, Inc.
10. Paula Luff – Hess Corp.
11. Mary O’Malley – Prudential Financial, Inc.
12. Paul Schneider – Ontario Teachers’ Pension Plan
13. Michelle Edkins – BlackRock, Inc.
14. Erika Karp – Cornerstone Capital Group
15. Matthew Benkendorf – Vontobel Asset Management
16. Lloyd Kurtz – Nelson Capital Management, LLC.
17. Peter Knight – Generation Investment Management LLP
18. Stephen Brown – TIAA-CREF
19. Ann Barber – Hall Capital Partners LLC
20. Anne Chapman – Capital Research and Management Company
21. Robert Whitelaw – NYU Stern School of Business
22. Charles Elson – University of Delaware Alfred Lerner College of Business & Economics
23. Juan Alcacer – Harvard Business School
24. David Millon – Washington and Lee University School of Law
25. David Besanko – Northwestern University Kellogg School of Management
26. Gerald Davis – University of Michigan Stephen M. Ross School of Business
27. Stephen Davis – Harvard Law School
28. Thomas Kochan – MIT Sloan School of Management



## 2. Personal Feelings About the Role of the Corporation

In the only “quantitative” section, respondents were asked to assign a value of 1 through 5, for which 1 means “strongly disagree” and 5 means “strongly agree,” for a series of statements concerning the role of a corporation. The chart below shows the average rating assigned to each statement per respondent segment. The average rating assigned to each statement across all three segments is shown in the yellow box above each statement. Each statement began with ***The primary purpose of a corporation is to:***



### 3. Areas of Discussion Not Captured in the Body of the Report

The body of the report focuses on the different values and opinions of our respondents, and it coalesces the answers to a wide range of questions that we asked. However, due to spatial considerations and coherence, we could not include everything that was asked during the course of the interviews in addressing what we saw as “the big picture.” There are two that do not receive explicit attention in the report, and we will address them here.

**1. To what extent is putting shareholders first the “conventional wisdom” about corporations in the U.S. today?**

There is wide-spread agreement among our respondents, regardless of their personal position on the matter, that belief in shareholder primacy is widespread and the prevalent point of view concerning the purpose of the corporation in the U.S.

**2. Who have been the most persuasive people or institutions to have influenced your thinking?**

As expected, responses to this question varied widely. Most respondents said that the greatest influence on their thinking has been personal experience – and that personal experience is the element that is most likely to alter their current way of thinking. Nevertheless, some names of individuals or organizations were mentioned, and we have classified the names by the leanings of the respondent – toward or away from shareholder primacy. It is important to emphasize, that several respondents cited writers and thinkers with whom they did not agree, but whose arguments they found interesting or compelling – and helped them shape their thinking.

**Lean toward Shareholder Primacy:**

Generation Investment Management

E.M. Dodd

Eugene Fama

Milton Friedman

Sandy Grossman

Ira Millstein

Ned Regan

Steve Roth

Dick Sailor

Robert Shiller

**Lean away from Shareholder Primacy:**

American Pragmatists

John Dewey

William James

U.N. Global Compact

Bill Allen

Margaret Blair

John R. Commons

Stephen Davis

Frank Easterbrook

Bob Eccles

Michelle Edkins

Alex Ehrlich

Ron Gilson (Columbia)

Kent Greenfield

Neil Irwin

David King

Paul Krugman

Leonard Mitchell

Ian Pittfield

Michael Porter

Jean Rogers/SASB

Andrei Shleifer

Adam Smith

Bennett Stewart

Lynn Stout

Larry Summers

## 4. Interview Guide

### Introduction

I want to begin by telling you how much I appreciate your participation in this conversation, which I'll do everything I can to make as meaningful and interesting for you as possible. And if there is anything that is unclear to you as we go along, I hope you'll feel free to bring it to my attention. Also I want to emphasize that our goal is to generate the most candid responses possible. I hope you'll feel free to take this opportunity to offer your most heartfelt opinions, and if I'm somehow impeding your ability to do so, I hope you'll let me know.

The focus of our conversation is on the purpose of the corporation in society. This is a timeless debate that seems to have been reinvigorated in recent years, particularly around the idea that the primary purpose of a corporation ought to be to maximize shareholder value by engaging in practices that increase the price of the company's shares. The debate is couched not only in business considerations, but also in legal, moral and ethical obligations.

### Personal Feelings about the purpose of the corporation in society

1. I'd like to begin, then, by asking you if you would rate the strength of your advocacy about the role of a corporation. I promise this will be the only time you'll be asked to give me a numerical rating, but on a scale of 1 to 5 where five indicates your most deeply felt, favorable position – and I just want to emphasize that by “primary” I don't mean the *only* purpose, but the *foremost* among several – to what extent would you say:
  - The primary purpose of a corporation is to serve the shareholders' interests?
  - The primary purpose of a corporation is to serve its customers' interests?
  - The primary purpose of a corporation is to serve its employees' best interests?
  - The primary purpose of a corporation is to serve the interests of the community in which it resides?
  - The primary purpose of the corporation is to deploy large amounts of capital towards long-term projects that strengthen society?

2. Why do you feel that **(select respondent's two or three highest-rated positions)** are the most important and others less so?
3. Among your highest rated positions are \_\_\_\_\_; if there were ever to be a conflict among those different ideas about the role of the corporation, which do you feel is the most important priority and why?
4. Would you say that you have some guiding, overarching personal principles about the relationship between corporations and society that help shape your thoughts on this topic – and if so, would you be willing to share those with me?
5. Do you think a uniform “purpose” like putting shareholder interests first is helpful to the leadership of the corporation in making the best decisions for its long-term health and growth or should a corporation define its own purpose (within legal constraints, of course) and be free to prioritize goals as it sees fit?

*(If clarification is requested: Ford sees its purpose as enabling mobility for people. eBay suggests that it aims to connect people and enable commerce. Novo Nordisk has said its purpose is to cure diabetes. In other words, these companies do not explicitly offer as a primary value the idea of putting the shareholder first.)*

### **The Corporation in Society**

6. There is an argument that corporations receive certain benefits from the state – like limited liability for shareholders or the development and maintenance of infrastructure like roads and schools that enables the corporation to do business – and that these benefits are conferred to the corporation as part of an understanding that the corporation in turn is obligated to confer benefits to society and the community. In your view, what, if anything should society expect in return for their “investments” that facilitate corporate success?
7. To what extent do you think your peers and colleagues consider a corporation’s obligations to the larger society and/or environment in their day-to-day decisions?

**Influences on their thinking**

8. Who would you say have been the most persuasive people or institutions – including columnists, bloggers, publications, television programs, and business leaders whom you admire – to have influenced your thinking on this topic: what makes them credible influencers and what was it that they said or did that made a significant impact on you?
9. How strongly do you hold these views now versus earlier in your career? In what ways would you say your viewpoint has changed, if at all? What would you say generated that change?
10. And as you look at your point of view now, can you imagine any arguments or information that could alter your current point of view?
11. I'm also curious if you have any mixed feelings from time to time. That is, as a **(business leader/ investor/ analyst)**, you might feel one way, but as a member of a community or as a spouse or parent, you might feel otherwise. Would you say that you sometimes find yourself questioning or even opposing your beliefs on this the role of the corporation today?
12. I am wondering about the extent to which you would agree that putting shareholders first is the “conventional wisdom” about corporations in the U.S. right now?

**Legal boundaries of corporate purpose**

13. Related to that point, there seems to be some question in the U.S. of the legal obligations or corporate management to their shareholders. Do you believe that maximizing shareholder value is a general legal obligation for corporate management, or would you say that belief in this issue is driven by something else?
14. An alternative point of view might run like this: Shareholders don't legally own the company – rather they are one of several constituencies that have a *contractual* relationship with a corporation, but because shareholders have the market power and the vote to elect the board of directors, companies are still strongly incentivized to put shareholders first. What is your opinion of that point of view?

**Practical Implications of corporate purpose**

15. Aside from your point of view on this matter, what would you say are the advantages to a corporation that adheres to a policy of putting shareholders first?
16. Again, regardless of your personal point of view, what would say are the disadvantages of putting shareholders first— and if you have any specific examples that come to mind about how those disadvantages manifested themselves, I'd love to hear them.
17. One prominent legal scholar makes the following assertion: "Put bluntly, conventional shareholder-value thinking is a mistake for most firms – and a big mistake at that. Shareholder value thinking causes corporate managers to focus myopically on short-term earnings reports at the expense of long-term performance; discourages investment and innovation; harms employees, customers, and communities; and causes companies to indulge in reckless, sociopathic, and socially irresponsible behaviors." That's quite a lot to deal with, but I'm interested in your reactions to that statement and any specific observations you may have about any or all of it.
18. I'd like to focus on one point that is often made in opposition to shareholder primacy from corporate leaders: In practice, shareholder primacy offers incentives for corporations to place short-term interests (for example, hitting quarterly earnings targets) above long-term interests (i.e., investing in research and development, giving raises and promotions to retain effective employees, etc.). Do you believe that shareholder primacy often or usually has a negative impact on long-term success – and why or why not?
19. Another point of view is that rather than being one monolithic group with a defined set of interests, shareholders may have different interests – some, for example, looking for short-term gains, others seeking to forego short-term gains in favor of long-term value. In light of that kind of distinction, would you say that some shareholders' interests are more important than others – and if so, can we delineate which shareholder interests should receive priority?
20. Some argue that companies need a singular focus in order to be purposeful and since stock price is a concrete measure – a metric that has a clear and understandable meaning—it is the best definition of corporate success. I'm curious to hear your reaction to that argument.



21. One argument that is used to counter the idea that stock price is a meaningful metric is that the price of a share doesn't really reflect the value of a company – it reflects only a current *perception* of the value of a company – and, therefore it is unsteady and unreliable. I'm interested in your reactions to that point and if you would say, for example, that a company's stock price is an accurate measure of a company's future or the quality of its management?
22. Do you think it's possible for corporate decisions to be made primarily on the basis of maximizing shareholder value (or share price) and, simultaneously, serve the best interests of employees or is that a contradiction? And if you can give any real-life examples to illustrate, I'm eager to hear them.
23. Some prominent thinkers and business people suggest that the real purpose of a corporation ought to be to attract and maintain as many satisfied customers as possible. What are your thoughts about that alternative?
24. If putting the shareholder first shouldn't be the primary goal of a publicly held company, what would you offer in its place as the appropriate goal or goals?
25. It appears that our time is up. But, I have one final question for you regarding the topic of shareholder value. How often do you discuss this topic with others and under what circumstances might it come up?

Thank you very much for taking part in this research project. One last thing I would like to ask you: If possible, we would prefer to include your name with your responses in the report. I mention this because it's conceivable that some participants may desire to remain anonymous. We certainly want to respect those wishes, but, as I said, we would prefer to link the responses with your name. Are you agreeable to our using your name attached to your responses when we issue the report?

And one final comment: The Aspen Institute is conducting this study, and if you don't know the Institute, it is a non-partisan educational and policy-studies organization whose declared mission is to foster leadership based on enduring values. If you would like, I would be happy to make sure that the organization sends you more information about its mission and work.

Many thanks, again. It's been an honor to talk with you and to hear your very intriguing thoughts on this topic.