

CEOS REDEFINE THE PURPOSE OF A CORPORATION

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On August 19, the Business Round Table (BRT), a non-profit association of more than 180 Fortune 500 company chief executive officers (CEOs), released a "[Statement on the Purpose of a Corporation](#)." The statement was noteworthy because it offered a different perspective than the BRT's Principles of Corporate Governance which, "since 1997, advocated the theory of shareholder primacy—that corporations exist principally to serve shareholders."¹ The BRT's 2019 statement redefined a corporation's purpose as being "for the benefit of all stakeholders including customers, employees, suppliers, communities and shareholders;" the shareholder is one of five constituencies.

SHAREHOLDER PRIMACY TRACES TO THE 1970S

Shareholder primacy gained traction in the 1970s and is often associated with economist Milton Friedman's essay in *The New York Times* titled "The Social Responsibility Of Business Is to Increase Its Profits." He argued that it was inappropriate for corporations' boards of directors to focus on anything other than maximizing shareholder value.

Shareholder primacy marked a departure of its own from commonly held views of a corporation's purpose. Writing in *The New York Times* on August 20, 2019,² Andrew Ross Sorkin cites the 1932 book *The Modern Corporation and Private Property* as representative of "a time defined by organized labor, corporate pension programs, gold watch retirements and charitable gifts from companies that invested heavily in their communities and the kind of research that promised future growth." Sorkin also wrote about views of the shareholder primacy era that some critics hold: "Layoffs increased, research and development budgets were cut, and pension programs were traded for 401(k)s. There was a rush of mergers driven by 'cost savings.'"

In response, advocates maintain that shareholder primacy increased management accountability, advanced business efficiency, improved capital allocation and gave

shareholders—a company's owners—a greater voice in directing company strategies and operations. The BRT's statement of corporate purpose is at least in part an acknowledgement that the debate over ideas on capitalism, corporations, and their role in society continues.

Some suggest that the 181 CEOs who signed the statement sense the country is headed toward a corporate America that is more inclined to start sharing its successes with all business stakeholders. On the other hand, as observed in "Legal Implications of The Business Roundtable Statement on Corporate Purpose," the author offers that "The Statement of Purpose is for the moment mainly symbolic since legislatures and courts, not trade associations, define the scope of a director's fiduciary duty,"³ and those of corporate officers, for that matter.

WELCOME TO THE B CORP AND BENEFIT CORPORATION MOVEMENT: ADVANCING STAKEHOLDER INTERESTS

Symbolic or substantive, the BRT's August 19 Statement raised the profile of corporations that are expanding the view of their purpose. At Breckinridge, we share the BRT's commitment to delivering value to all our stakeholders. For example, Breckinridge serves on the advisory board for the Chief Executives for Corporate Purpose (CECP) coalition's Strategic Investor Initiative, which provided input on BRT's new statement.⁴ Our decision to pursue certification as a B Corp and to register as a Benefit Corporation demonstrates our commitment.

What is a B Corp? A certified B Corp is a for-profit corporation that has been certified by B Lab, which is a non-profit company that measures a company's corporate sustainability performance. In 2006, three friends left their careers in business and private equity and created an organization dedicated to helping mission-driven companies improve their positive impact over the long



term, creating shared value for all stakeholders. In that initiative, the *B Corp Movement* was created.

It was Breckinridge's view that we should hold ourselves accountable if we, as an investment manager, intended to hold the issuers of bonds held in our sustainable strategies to higher environmental, social and governance standards. In 2013, we became a certified B Corp. That same year, we also registered as a Benefit Corporation in Massachusetts, which provides legal authority for our mission, adding longevity and structure to our *sustainability efforts*.

In response to the BRT's redefinition of the purpose of a corporation, B Lab cofounders commented in *FastCompany* on August 22, "while it is appropriate to note, even celebrate," the announcement, those companies should put their words into action or risk losing public trust. B Lab and 33 B Corp leaders placed an advertisement in the August 20th edition of *The New York Times* calling upon their fellow CEOs to support their words with real action toward balancing profit for purpose.

The B Corp movement comprises over 10,000 certified B Corps and benefit corporations combined across 150 industries and 60 countries, as of September 30. We agree with the movement's founders that B Corps "represent the kind of action needed to put credible weight behind any public commitment to upend shareholder primacy and shift the cultural narrative of business in society."

ALIGNMENT IN OUR BUSINESS AND INVESTMENT APPROACH IS ESSENTIAL

In previous newsletter articles, we have discussed short-

termism, its potential distorting effects to capital allocation decisions and the need for incremental change in the corporate world (see *The Short-termism Debate Heats Up*). We believe that investors are better served by focusing on longer-term performance rather than near-term results. Our approach to long-term corporate sustainability aligns with the lens we use to analyze bond issuers in which we invest client capital.

To that end, Breckinridge established a Materiality Map that prioritizes themes and allows us to focus our efforts on what is most material to our firm: business ethics, human capital management, environmental, social and governance integration in financial analysis, corporate citizenship and operations and supply chain.

Breckinridge Director of Sustainability Tim Coffin describes the map as "a stewardship roadmap. It helps keep our sightlines further out on the horizon, to make sure we are innovating and evolving in a way that is in the best interests of our clients, our employees and our communities." For more insight on our Materiality Map and sustainability efforts, please review our *2018 Corporate Sustainability Report*.

Whether purpose and profits work together or are fundamentally at odds with each other is continually debated in our society. If the BRT's statement proves to be the genesis of a genuine effort by America's largest companies to change the view of their roles in creating solutions to the needs of customers, employees, suppliers, communities, and shareholders, then we may be embarking on an evolutionary era in corporate responsibility and fiduciary duty.

FOOTNOTES:

1. "So Long to Shareholder Primacy." <https://corpgov.law.harvard.edu/2019/08/22/so-long-to-shareholder-primacy/>. Harvard Law School Forum on Corporate Governance and Financial Regulation. August 22, 2019.
2. "How Shareholder Democracy Failed the People." *The New York Times*, August 20, 2019.
3. "Legal Implications of The Business Roundtable Statement on Corporate Purpose." Harvard Law School Forum on Corporate Governance and Financial Regulation.
4. The CECF Strategic Investor Initiative seeks to refocus the capital markets toward having a long-term view. It does this through research and by hosting CEO Investor Forums, which provide a venue for CEOs to share their long-term plans with investors.

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