A New Purpose for the Corporation

For more than two decades, the association that represents many of America’s most influential CEOs has explicitly put shareholders first. In an atmosphere of widening economic inequality and deepening distrust of business, that model no longer suffices. Here’s how the powerful Business Roundtable is redefining its mission. By Alan Murray

For Milton Friedman, it was simple. “There is one and only one social responsibility of business,” the Nobel economist wrote in 1970: to “engage in activities designed to increase its profits.” Companies must obey the law. But beyond that, their job is to make money for shareholders.

And Friedman’s view prevailed, at least in the United States. Over the following decades, “shareholder primacy” became conventional business wisdom. In 1997, the influential Business Roundtable (BRT), an association of the chief executive officers of nearly 200 of America’s most prominent companies, enshrined the philosophy in a formal statement of corporate purpose. “The paramount duty of management and of boards of directors is to the corporation’s stockholders,” the group declared. “The interests of other stakeholders are relevant as a derivative of the duty to stockholders.”

Times change.

On Aug. 19, the BRT announced a new purpose for the corporation and tossed the old one into the dustbin. The new statement (which readers can see in its entirety on page 94) is 300 words long, and shareholders aren’t mentioned until word 250. Before that, the group refers to creating “value for customers,” “investing in employees,” fostering “diversity and inclusion,” “dealing fairly and ethically with suppliers,” “supporting the communities in which we work,” and “protect[ing] the environment.”

Friedman must be turning in his grave.

The new statement is the result of a year-long reexamination that began with a testy dinner attended by a group of journalistic critics and involving a comprehensive survey of CEOs, academics, NGOs, and political leaders. “It has been a journey,” says Johnson & Johnson CEO Alex Gorsky, who chaired the effort. But it was a necessary journey because “people are asking fundamental questions about how well capitalism is serving society.”

J.P. Morgan Chase CEO Jamie Dimon, who chairs the Roundtable, said the statement “is an acknowledgment that business can do more to help the average American.”

I’ve covered business as a journalist for four decades and, over that time, have conducted hundreds of interviews with CEOs of the largest corporations in the U.S. and across the globe. In the past few years, it has become clear to me that something fundamental and profound has changed in the way they approach their jobs.

If you were to trace the history of that change, you might start with the speech Bill Gates gave in Davos in 2008, in his last year of full-time service at Microsoft, calling for a new “creative capitalism.” As Gates told the World Economic Forum, “the genius of capitalism” lies in its ability to “[harness] self-interest in helpful and sustainable ways.” But its benefits inevitably skew to those who can pay. “To provide rapid improvement for the poor,” he said, “we need a system that draws in innovators and businesses in a far better way...Such
a system would have a twin mission: making profits and also improving lives for those who don’t fully benefit from market forces.”

Over the next few years, Harvard Business School professor Michael Porter began pushing what he called “shared value” capitalism, and Whole Foods cofounder John Mackey propounded “conscious capitalism.” Salesforce CEO Marc Benioff wrote a book on “compassionate capitalism”; Lynn Forester de Rothschild, CEO of family investment company E.L. Rothschild, started organizing for “inclusive capitalism”; and the free-enterprise-championing Conference Board research group sounded a call for “sustaining capitalism.”

Capitalism, it seemed, was desperately in need of a modifier.

Setting all this grammatical soul-searching in motion was a global financial conviction. The financial crisis of the late 2000s shook the foundations of the sprawling market economy and bare some of its uglier consequences: an enormous and widening gulf between the über-rich and the working poor, between the ample rewards of capital and the stagnating wages of labor, between the protected few and the vulnerable many. Compounding these inequities, moreover, was a sweep of disruptive business technologies that began to come of age in the wake of the crisis—from digitization to robotics to A.I.—and that made vulnerable workers feel ever more so.

The reaction against “the system” was both broad and shocking in scale—particularly among younger people. A 2016 Harvard study found that 51% of U.S. respondents between the ages of 18 and 29 did not support capitalism; one-third, meanwhile, favored a turn to socialism. A 2018 Gallup poll of the same cohort found a similar rejection—only 45% viewed capitalism positively, a 23 percentage point drop from 2010, when Americans were still in the murky shadow of the Great Recession. Even a sizable chunk of Republicans were suddenly wary of the free market, other polls suggested.

The rejection of the system was manifest in the 2016 Brexit vote, when the British masses flouted the collective wisdom of corporate and political leaders. It was there in plain view during the bruising U.S. presidential election, when the leading Republican, Donald Trump, attacked the globalization and free trade that had driven U.S. business growth for three-quarters of a century—and as Democrats nearly drove socialist Bernie Sanders to the top of their ticket.

Capitalism, at least the kind practiced by large global corporations, was under assault from all sides, and CEOs were getting the message loud and clear.

That December, after the election, Fortune assembled roughly 100 big-company CEOs in Rome, at the encouragement of Pope Francis, and spent a day in working-group deliberations on how the private sector could address global social problems. The group—which included CEOs of Allstate, Barclays, Dow Chemical, IBM, Johnson & Johnson, Siemens, and many others—proposed ways that business could help reach the billions of people in the world who lacked basic financial services; support the effort to fight climate change; expand training programs for those whose jobs were threatened by technological change; and provide basic community health services to the half-billion people who had no access to care.

The aim of the gathering—in a very un-Milton Friedman way—was to maximize not shareholder value but rather social impact. And many of the CEOs seemed genuinely eager to use their business platforms to make a difference. But the backdrop for the conversation, as I heard again and again in private discussions, was never far from mind—and remains so today: More and more CEOs worry that public support for the system in which they’ve operated is in danger of disappearing.

“Society gives each of us a license to operate,” IBM CEO Ginni Rometty told me this August. “It’s a question of whether society trusts you or not. We need society to accept what it is that we do.”

What’s driving this change, more important, isn’t just an ominous “what if” but also an outspoken “who.” Public interest in corporate responsibility is unusually high: A July survey of 1,026 adults for Fortune by polling firm New Paradigm Strategy Group found that nearly three-quarters (72%) agree that public companies should be “mission driven” as well as focused on shareholders and customers. Today, as many Americans (64%) say that a company’s “primary purpose” should include
“making the world better” as say it should include “making money for shareholders.”

But CEOs invariably say the constituency that’s truly driving their newfound social activism is their employees. Younger workers expect even more from employers on this front. Though, according to the poll, fewer than half of Americans overall (46%) say that CEOs should take a stance on public issues, support for such action is overwhelming among those ages 25 to 44. Millennials, in particular, may be driving the change more than anyone—and, more important, they’re choosing to work at companies that are driving change too. Among those ages 25 to 34 in the Fortune/NP Strategy poll, 80% say they

Required Reading for a Realignment

Capitalism’s crisis of purpose has prompted as much soul-searching among authors and academics as it has in boardrooms. Here are three titles to guide idealistic CEOs.

The Future of Capitalism
BY PAUL COLLIER

Collier, an Oxford economist, delves into three divides that capitalism has exacerbated: the urban-rural split; the gap between the more and less educated; and the gap between wealthy and emerging nations. To close these rifts, he calls on business to support a stronger social safety net. “Capitalism needs to be managed, not defeated,” he says.

The Trillion-Dollar Shift
BY MARGA HOEK

This tome is a veritable textbook for green-minded business leaders. Hoek, a former construction industry CEO and the founder of the Dutch Sustainable Business Association, delves into 50 case studies of companies that have unlocked new opportunities, especially in the developing world, while still minimizing their environmental impact.

The Enlightened Capitalists
BY JAMES O’TOOLE

O’Toole, professor emeritus at USC’s business school, portrays more than 20 do-gooder visionaries, spanning the decades between 19th-century textile magnate Robert Owen and Patagonia founder Yvon Chouinard. Many of the lively profiles are also miniature tragedies: Too often, these leaders’ works were undone by their successors.

PEOPLE ARE ASKING FUNDAMENTAL QUESTIONS ABOUT HOW WELL CAPITALISM IS SERVING SOCIETY.”
—ALEX GORSKY, CEO, JOHNSON & JOHNSON
want to work for “engaged companies.”

In that light, it’s perhaps no wonder that Salesforce’s Benioff publicly took on a “religious liberties” law in Indiana that he viewed as discriminating against gay people. Or that Bank of America CEO Brian Moynihan publicly objected when the legislature in North Carolina, the bank’s home base, passed a bill limiting transgender access to public bathrooms. Or that Delta CEO Ed Bastian battled with his home-state Georgia legislature when he discontinued a discount program for the National Rifle Association. Or that Merck CEO Kenneth Frazier withdrew from President Trump’s advisory council after the President’s equivocal comments about the Charlottesville riots. The CEOs in each case took courageous moral stands, in my view, but it’s also likely their workforces—and a good chunk of their customer bases—were deep in support.

That said, as a chronicler of CEO behavior, I can confidently state that none of these actions would have happened a decade earlier. The standard chief executive response, when faced with a controversial social issue that didn’t directly affect the bottom line, was to shut the heck up.

Not everyone, of course, sees this new social consciousness on the part of business as an authentic change—or even necessarily a good one. Anand Giridharadas, author of the book *Winners Take All: The Elite Charade of Changing the World*, has emerged as one of the most articulate critics (see “An Insider Takes Aim at ‘The Elite Charade’” in this issue).

“I absolutely see the change,” Giridharadas told me recently. “It has become socially unacceptable as a company or a rich person not to be doing good. CEOs are asking the question: ‘What can I do to make the world better?’

“But what many are failing to do is ask: ‘What have I done that may be drowning out any of the do-gooding I’m doing?’” He cites the 2017 tax bill, supported by the Business Roundtable, as an example. The lion’s share of the benefits, he argues, ended up in the hands of the top 1%, increasing the income inequality underlying many social problems.

“What I see are well-meaning activities that are virtuous side hustles,” he argues, “while key activities of their business are relatively undisturbed ... Many of the compa-
“Is an acknowledgment that business can do more to help the average American.”

JAMIE DIMON, CEO OF JPMORGAN CHASE AND CHAIR OF THE BUSINESS ROUNDTABLE, SPEARHEADED THE EFFORT TO REEVALUATE THE BRT’S STATEMENT OF PURPOSE. THE RESULTING REVISION, HE SAYS, “IS AN ACKNOWLEDGMENT THAT BUSINESS CAN DO MORE TO HELP THE AVERAGE AMERICAN.”

But he left the dinner agreeing to take a second look at the 1997 statement.

The resulting reevaluation led to a lively internal debate. “There were members who spoke up and were spirited,” says Joshua Bolten, the BRT’s CEO. But, at the end of the day, “most of them were persuaded this was the right articulation” of corporate purpose. The board agreed “that it is really important for us collectively to highlight and proactively communicate the positive role of business in society.”

“We had some real good discussion and debate,” Gorsky tells me. But, in the end, “I was impressed with the unanimity of the BRT members in support of this.”

Bolten insists the change is more than just words. Under Dimon, the BRT has taken more high-profile positions on social issues—its recent endorsement of raising the minimum wage is an example. “The traditional role of the BRT was policies that promote or hinder economic growth. We haven’t lost that. That’s still bread and butter.” But the group has added an “opportunity agenda”: recognizing the need to adopt policies that will help better spread the benefits of economic growth.

The new purpose statement should “raise the bar for everyone,” says Rometty. “And I know for a fact it will have an effect on the agenda the BRT pursues. We will take a broader view of the policy agenda and not be as narrow as we have been in the past.”

Rometty herself has been a reflection of that change in the work she has done as chair of the group’s workforce and education committee. She has pushed companies to support a broad training and workforce program that goes far beyond their individual interests and is more focused on the needs of a society in the grips of huge technological change that

nies are focused on doing more good but less attentive to doing less harm.”

Some of that may indeed be true. But given the immense power large companies exercise in society, the new social consciousness of business surely should be seen as a step in the right direction. At a time when the nation’s political leadership is tied in knots, more interested in fighting partisan battles than in uniting to solve public problems, business leadership is filling the leadership vacuum.

The Business Roundtable’s apostasy got its start back in June of last year, when journalist Steven Pearlstein wrote a column in the Washington Post criticizing the group’s 1997 statement. That “decision to declare maximizing value for shareholder[s] as the sole purpose of a corporation” is “the source of much of what has gone wrong with American capitalism,” he wrote.

Soon afterward, the Drucker Institute’s Rick Wartzman echoed the theme in a column for Fast Company. He praised the BRT under Dimon for advocating the abandonment of quarterly earnings guidance, criticizing Trump’s immigration policies, and pushing for expanded workforce training efforts. But he said that “for all of these developments, the Roundtable is failing in an area that lies at the very core of the connection between business and society: It continues to elevate shareholders’ interests above everybody else’s.”

Never one to take criticism lightly, Dimon invited Pearlstein, Wartzman, and a small group of others to a testy, off-the-record dinner in October at JPMorgan headquarters. His argument to the group was that most BRT companies already take into account the concerns of a broad range of stakeholders in their decision-making.
threatens to leave many workers behind. “In this era, we do stand a chance there are going to be people who have won and not won, have and have-nots. We need to make sure everyone feels they can participate. We have to make this an inclusive era so everyone can see they have a role and can get a good job.”

General Motors CEO Mary Barra, a member of the BRT board, is another example of the trend. She assumed her CEO post just before the company came under attack for faulty ignition switches that led to more than 100 deaths. “We were very values-driven,” she says. “That was a big aha moment for me. There was a huge outpouring of support,” Barra says. “That was a big aha moment for me.” Levi Strauss’s Chip Bergh, who took a strong stance on gun control, tells of a similar epiphany.

Barra and Bergh are in good company, it appears. Four in 10 Fortune 500 CEOs (41%), according to a poll we conducted in March through SurveyMonkey, agree that solving social problems should be “part of [their] core business strategy.” (Seven percent, it’s worth noting, still stick to the Friedman view that they should “mainly focus on making profits and not be distracted by social goals.”)

Wartzman of the Drucker Institute notes that the current focus has a “back to the future” quality to it. Many American corporate leaders came out of World War II with a profound sense of the need to put social goals and workers’ needs high on their corporate agenda. But that commitment broke down in the last quarter of the 20th century, in part because globalization broke the bond between many companies and their local communities.

Just as this was happening, another radical financial notion came into vogue. It was called the theory of shareholder primacy, and it turned out to be more powerful that anyone could have predicted. Who knows? Maybe the new corporate philosophy will too.

Statement on the Purpose of a Corporation
PUBLISHED BY THE BUSINESS ROUNDTABLE, AUG. 19, 2019

> Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity. We believe the free-market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment, and economic opportunity for all. Businesses play a vital role in the economy by creating jobs, fostering innovation, and providing essential goods and services. Businesses make and sell consumer products; manufacture equipment and vehicles; support the national defense; grow and produce food; provide healthcare; generate and deliver energy; and offer financial, communications, and other services that underpin economic growth.

While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:

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<td>We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.</td>
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<th>DEALING FAIRLY AND ETHICALLY WITH OUR SUPPLIERS</th>
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<td>We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.</td>
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<th>INVESTING IN OUR EMPLOYEES</th>
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<td>This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.</td>
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<th>GENERATING LONG-TERM VALUE FOR SHAREHOLDERS</th>
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<td>[They] provide the capital that allows companies to invest, grow, and innovate. We are committed to transparency and effective engagement with shareholders. Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities, and our country.</td>
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<th>SUPPORTING THE COMMUNITIES IN WHICH WE WORK</th>
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<td>We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.</td>
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