



Council of Institutional Investors®

The voice of corporate governance

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Council of Institutional Investors Responds to Business Roundtable Statement on Corporate Purpose

Washington, D.C., August 19, 2019—The Council of Institutional Investors (CII) today expressed concern on a new Business Roundtable (BRT) statement on the purpose of a corporation. The statement undercuts notions of managerial accountability to shareholders, in CII's view.

The Council has a productive relationship with BRT that has included discussion on corporate "stakeholder" obligations, but we respectfully disagree with the statement issued by the BRT earlier today. The BRT statement suggests corporate obligations to a variety of stakeholders, placing shareholders last, and referencing shareholders simply as providers of capital rather than as owners.

CII believes boards and managers need to sustain a focus on long-term shareholder value. To achieve long-term shareholder value, it is critical to respect stakeholders, but also to have clear accountability to company owners.

Accountability to everyone means accountability to no one. BRT has articulated its new commitment to stakeholder governance (which actually resurrects an older policy view) while (1) working to diminish shareholder rights; and (2) proposing no new mechanisms to create board and management accountability to any other stakeholder group.

Americans depend on strong companies not only as employees and communities, but also as owners, including through pension funds and other retirement holdings. CII supports putting capital to its best use for long-term performance, which includes addressing stakeholder contributions to that objective. It is government, not companies, that should shoulder the responsibility of defining and addressing societal objectives with limited or no connection to long-term shareholder value.

CII has welcomed BRT's earlier focus on long-term value for shareholders, including recent BRT steps to combat excessive focus on the short-term, notably by discouraging company provision of quarterly earnings guidance. We do believe it is a challenge for boards and executives to keep their focus on the longer-term. But clearly companies with strong leadership have shown an ability to do so, particularly where they provide shareholders with thorough disclosure and clear articulation of long-term strategic vision.

Much of the discussion on “stakeholder” governance focuses on individual companies, and seems to downplay or ignore the role of markets. Shareholders have a very particular role in allocating (and re-allocating) equity capital. Public equity generally is highly liquid, and no doubt company managers often are frustrated by a sense that they are vulnerable to changes in company valuation that can be rapid, as investors reassess company prospects. While we appreciate that CEOs do not like to feel constrained and subject to market forces, nothing in the BRT statement will change this real-world dynamic of public equity markets.

While it is important for boards and management to have and articulate long-term vision, and sustain focus on the long-term strategy where they have strong conviction, a fundamental strength of the U.S. economy has been and continues to be efficient allocation of equity capital. If “stakeholder governance” and “sustainability” become hiding places for poor management, or for stalling needed change, the economy more generally will lose out.

The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of pension funds, other employee benefit funds, endowments and foundations, with combined assets of about \$4 trillion. Our associate members include non-U.S. asset owners with more than \$4 trillion in assets and a range of asset managers with more than \$35 trillion in assets under management. CII is a leading voice for effective corporate governance, strong shareowner rights and vibrant, transparent and fair capital markets. CII promotes policies that enhance long-term value for U.S. institutional asset owners and their beneficiaries.

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