

Corporate governance

Companies under pressure to declare 'social purpose'

Bid to counter perception that directors' only fiduciary duty is to shareholders



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Andrew Edgecliffe-Johnson in New York AUGUST 22 2019

A group of influential investors, academics and lawyers is pushing for big companies to publicly declare how they will “profitably achieve a solution for society” after a major US business group unexpectedly dropped its creed of [shareholder primacy](#).

The initiative, led by Oxford university’s Saïd Business School, Berkeley law school and Hermes EOS – the investment manager’s engagement and stewardship division – wants company directors to provide a one-page “statement of purpose”, detailing the most important stakeholders and timeframes for evaluating strategy and how capital is spent.

Their aim is to counter what they call the “misconception” that directors’ only fiduciary duty is to shareholders.

Robert Eccles, visiting professor of management practice at Saïd Business School, said this week’s change of stance from the Business Roundtable, which had espoused the doctrine of shareholder primacy for more than two decades, had accelerated the group’s plans and put an onus on companies to spell out how they would change.

“Simply having such a corporate group back off on the classic Milton Friedman shareholders-come-first [philosophy] I think is symbolically good but if it stops there, so what? Now tell us what the purpose of your particular corporation is,” Mr Eccles said.

Companies have been under increasing pressure over the past two years to articulate their social purpose from large investors including BlackRock, Vanguard and State Street.

“What I think this initiative brings is a way of articulating that [purpose] more formally,” said Vanessa Havard-Williams, head of Linklaters’ sustainability practice.

Wachtell Lipton in New York and Linklaters in London are providing advice on the legal context companies will need to consider.

Amelia Miazad, director of Berkeley Law’s Business in Society Institute, said there was an important distinction between the Roundtable stance and the “statement of purpose”, which seeks to distinguish the board’s role from that of management and assert board directors’ responsibility for the long-term interests of the company.

“From a governance perspective the board should set the strategic direction and articulate the purpose of the corporation,” she said.

The change to the Roundtable’s stance has brought mixed reactions.

Democratic senator Elizabeth Warren was among those saying it would be “meaningless” if it was not followed by changes in behaviour including fewer share buybacks, higher salaries for employees and lower CEO pay.

“It’s boards that hold CEOs accountable. If there’s accountability it needs to be baked into how the board oversees management and that starts with executive compensation,” Ms Miazad said.

Daryl Brewster, CEO of CECP, an organisation focused on “corporate purpose”, welcomed the initiative. “I think we now have an opportunity to create a new narrative for business,” he said: “I think the next level down is how that translates company to company. How do you make it happen?”

Letter in response to this article:

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