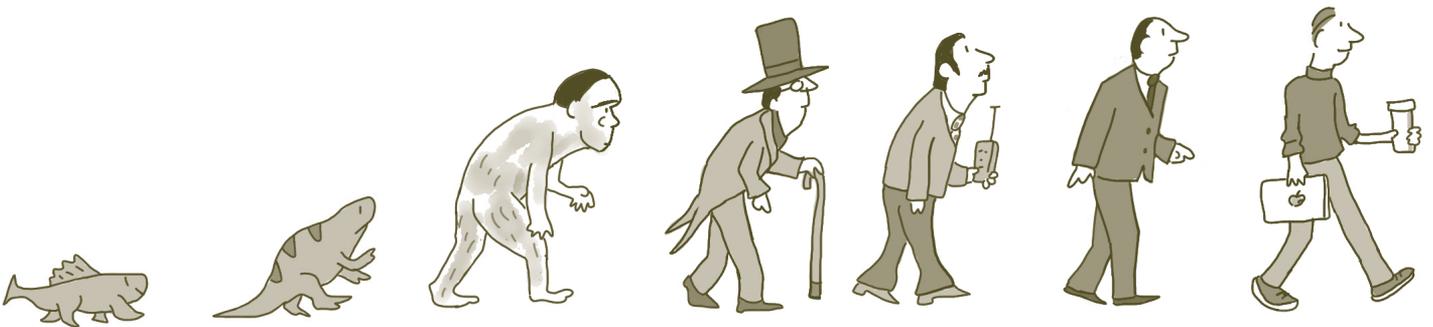


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# the evolution of *Corporate Responsibility*



In August, the Business Roundtable, an association of CEOs from major U.S. companies, released a revised “Statement on the Purpose of a Corporation” and made headlines in the process. Going back to 1997, previous versions of this document have always stated that, primarily, corporations exist to serve their shareholders. But, as the Business Roundtable noted in this year’s release, “It has become clear that this language on corporate purpose does not accurately describe the ways in which we and our fellow CEOs endeavor every day to create value for all our stakeholders.” The revised statement discussed delivering value to customers, investing in employees with a focus on fostering diversity and inclusion, dealing “fairly and ethically” with suppliers, and supporting communities, all before ever mentioning “generating long-term value for shareholders.”<sup>1</sup>

The statement was heralded as a dramatic shift from a focus on shareholders to a focus on *stakeholders*. It kicked off a deluge of articles with titles like “CEOs ... Just Changed the Purpose of Business”<sup>2</sup> and “Did the Business Roundtable Sound the Death Knell for Shareholder Primacy?”<sup>3</sup> We don’t disagree

that the revised statement illuminates an important transformation in the perception of the role of corporations, but we do believe the hyperbolic reaction the document received illustrates an erroneous and problematic view about the *previous* role of corporations.

To help break down this view, we believe it’s important to draw out an assumption buried in its premise. To imply that the purpose of business has now changed to a purpose focused on the stakeholders involved is to accuse previous corporations of not having this purpose. And, in this specific case, the Business Roundtable’s revised statement emphasizes an involvement with and focus on the community—via direct community involvement, promoting diversity, and ethical relationships with suppliers. To then call out this perspective as a “change” implies that these issues were not also a central part of what corporations were doing previously. This not only goes against our own personal experiences with employees and executives at major corporations from across the country, but it also contradicts something at the heart of RMB—our investment philosophy. »

As investors in high-quality<sup>4</sup> companies, our view has always been that the primary responsibility of the corporation is to thoughtfully allocate capital with a long-term mindset for creating value. In order to accomplish this in the long term, we believe it is essential to simultaneously create sustainable value for customers, employees, and communities, as well as shareholders. In fact, the Business Roundtable doesn't dispute this. As JPMorgan Chase chairman and CEO and Business Roundtable member Jamie Dimon clarified on an earnings call shortly after the statement was released, the Business Roundtable wasn't attempting to get rid of shareholder value or to mark a change in how corporations were doing business. He explained that, while "a lot of the world looked at shareholder value, and they hear rapacious profit-seeking...most CEOs are thinking pretty long-term, building people, taking care of their employees, their customers." He went on to agree that doing

the right thing for communities, employees, and stakeholders collectively is also doing the right thing for shareholders in the long term.<sup>5</sup>

At RMB, we believe we should invest in high-quality companies that effectively balance the creation of value for customers, employees, communities, and shareholders, while avoiding those that prioritize short-term profits. We believe corporations that achieve the right balance in creating long-term value for *all* their stakeholders will produce stronger and more sustainable financial results, making their shares more likely to outperform the market. The environment in which those corporations conduct business will change throughout time, and thus corporations will adjust the balance between various stakeholders, but we believe a holistic view is essential if corporations are going to create value. Or, said another way, corporations should keep evolving as they always have. ■

<sup>1</sup> "Our Commitment," Business Roundtable, <https://opportunity.businessroundtable.org/ourcommitment/>.

<sup>2</sup> Peter Gasca, "In This Single Statement, CEOs from the Largest U.S. Corporations Just Changed the Purpose of Business," Inc., August 20, 2019, <https://www.inc.com/peter-gasca/in-this-single-statement-ceos-from-largest-us-corporations-just-changed-purpose-of-business.html>.

<sup>3</sup> Judith Samuelson, "Did the Business Roundtable Sound the Death Knell for Shareholder Primacy?" The Aspen Institute, August 26, 2019, <https://www.aspeninstitute.org/blog-posts/did-the-business-roundtable-sound-the-death-knell-for-shareholder-primacy/>.

<sup>4</sup> For more information about what we believe constitutes high quality, see "The Case for High Quality" from our Winter 2019 issue of INVESTED.

<sup>5</sup> "3Q19 Financial Results: Earnings Call Transcript," JPMorgan Chase & Co., October 15, 2019, <https://www.jpmorganchase.com/corporate/investor-relations/document/3q19-earnings-transcript.pdf>.