

# About Face?



## CEO Sea Change on Shareholder Primacy: Good Economics or Decreased Accountability?

By Lauren Cruz

In August, the Business Roundtable announced that it was officially abandoning its long-held belief in the so-called “shareholder primacy” theory of corporate governance.

**O**n August 19, 2019, the Business Roundtable, which includes the CEOs of 181 American companies (including Walmart, JP Morgan, and AT&T), announced that it was officially abandoning its long-held belief in the so-called “shareholder primacy” theory of corporate governance. Instead, the Roundtable “moderniz[ed] its principles on the role of a corporation,” propounding the idea that corporations should operate for the benefit of all stakeholders, including customers, employees, suppliers, communities, and shareholders. The Roundtable’s revised statement is intended to serve as “one element of Business Roundtable’s work to ensure more inclusive prosperity” in America after decades of deepening economic inequality. The group also called on leading investors “to support companies that build long-term value by investing in their employees and communities.”

While some commentators have responded positively to the Roundtable’s announcement, many investor groups fear that this change will encourage companies to obfuscate shareholder rights and mask poor management with seemingly good intentions. The Council of Institutional Investors,

comprised of entities with more than \$4 trillion in combined assets under management, stated that this change “undercuts notions of managerial accountability to shareholders” while proposing no “new mechanism to create board and management accountability to any other stakeholder group.” Thus, a new focus on “stakeholder governance” could create “hiding places for poor management” that would undermine the efficiency of the US equity markets and “the economy more generally,” the Council added. Moreover, many have noted that under state law, companies still owe a fiduciary duty to shareholders only and thus shareholder primacy is still the law — a law which the proposed policy change might violate.

Time will tell whether American companies indeed adopt this new operational focus for the benefit of all stakeholders and, if so, whether it would be consistent with various state laws. We will keep our readers updated as this story develops. ■

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