

August 31, 2020

A Wake-Up Call on Short-Termism:
Study on directors' duties and sustainable corporate governance

In a damning indictment of short-termism and a devastating critique of shareholder primacy, the European Commission has published a comprehensive [study](#) of directors' duties, sustainable corporate governance and the root causes of short-termism: *"the prominence of shareholder primacy in corporate governance and the pressure it generates to pursue short-term profit maximisation leads **board members not to take sufficient account of the long-term interests of stakeholders other than shareholders** (such as employees, creditors, suppliers, customers and the society at large as well as the environment)."*

The study goes on to detail the adverse impacts on business, each of the stakeholders, the macroeconomy, investment, innovation and equality. It explains how short-termism and shareholder primacy are barriers to sustainability and long-term value creation and notes the harm from short-term oriented activist hedge funds. The study warns that companies lack a strategic perspective over sustainability and that current practices fail to effectively identify and manage relevant sustainability risks and impacts.

The study is further support for the efforts of U.S. and multinational corporations to implement the Business Roundtable's embrace of stakeholder principles and incorporate ESG factors as business imperatives, the World Economic Forum's [Davos Manifesto](#) and [The New Paradigm: A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth](#), and for the work of [Focusing Capital on the Long Term](#) and the [Enactment of Purpose Initiative](#).

The study supports the [purpose and objective](#) of the corporation that we have formulated, with companies taking a range of approaches to enact purpose in company-specific ways:

The purpose of a corporation is to conduct a lawful, ethical, profitable and sustainable business in order to ensure its success and grow its value over the long term. This requires consideration of all the stakeholders that are critical to its success (shareholders, employees, customers, suppliers and communities), as determined by the corporation and its board of directors using their business judgment and with regular engagement with shareholders, who are essential partners in supporting the corporation's pursuit of its purpose. Fulfilling purpose in such manner is fully consistent with the fiduciary duties of the board of directors and the stewardship obligations of shareholders.

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