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The Enduring Nexus Between Value and Values

As the ESG backlash continues to unfold, some observers have suggested that criticism of ESG applies with equal force to the notion of stakeholder governance and, relatedly, vindicates Milton Friedman's theory of shareholder primacy. This erroneously assumes that ESG is congruent with stakeholder governance, and that the two concepts are inextricably intertwined. To the contrary, as the pendulum swings back and forth, the enduring relevance and common sense of stakeholder governance has become even more salient.

As a starting point, it is important to note that stakeholder governance as articulated by the Business Roundtable in 2019 was hardly a radical departure from traditional business norms. In its Statement on the Purpose of the Corporation, the Business Roundtable noted that prior versions of that document had stated that "corporations exist principally to serve their shareholders" and, in seeking to modernize this statement, "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, whose long-term interests are inseparable." In effect, the statement was updated to reflect what seasoned business leaders and boards of directors have been doing for decades – namely, considering the interests of various stakeholders critical to the success of the business, seeking to eliminate blind spots in order to identify both risks and opportunities, and then exercising business judgment to weigh varying considerations to maintain and grow a thriving business.

This nexus between value and values is common sense: A business that has healthy and well-trained employees, environmentally sound business practices, a symbiotic relationship with communities and other business practices that are consistent with societal values, will be more sustainable and valuable over the longer term. The essence of stakeholder governance is not about altruism, nor does it empower a company to favor the interests of some stakeholders at the expense of others for reasons that are not squarely anchored in the best interests of the company. Instead, in the words of Jamie Dimon, who was the Chairman of the Business Roundtable at the time it issued its endorsement of stakeholder governance, "Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term."

In the current environment, this link between value creation and societal values is being actively debated and scrutinized – particularly with respect to DEI, activism by corporations on political and social issues, and environmental issues. Notably, there has been less controversy surrounding other components of ESG, many of which resonate with stakeholders across the political spectrum – such as employee training and health, customer safety, or the well-being of local communities. In any event, debates about whether and the extent to which stakeholder interests drive long-term value creation and, if so, how best to balance those interests with other considerations, go to the heart of stakeholder governance. The point is not to cut short these debates, or to mandate the dogmatic promotion of some interests over others. Instead, the animating logic of stakeholder governance is that it is incumbent upon the board of directors and management team to engage in precisely these kinds of inquiry as they work to drive long-term value creation.

The board in particular is uniquely situated at the helm of the company to undertake this holistic assessment and serve as a sounding board for management. Accordingly, we developed a set of principles for the World Economic Forum – *The New Paradigm* – which recognized the pivotal role of boards in performing this governance function, and sought to forge a shared understanding among companies and investors with a view toward rejecting a myopic focus on short-term profits and supporting long-term, sustainable value creation.

In contrast to this approach, the shareholder primacy model, as espoused by Milton Friedman, asserts that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." Under this theory, corporations should leave questions regarding societal values – such as the fair treatment of employees and environmental responsibility – to the purview of laws, regulation and taxation. While this argument might be persuasive in an ideal world, it seems at best naïve – and at worst, a grave mistake – given the complex dynamics of the modern political and regulatory landscape. As observed by Joseph L. Bower and Lynn S. Paine in their 2017 article in the *Harvard Business Review*, it "results in a narrowness of vision that prevents corporate leaders from seeing, let alone acting on, many risks and opportunities."

Furthermore, to the extent the current political outlook is trending towards reducing rather than increasing the scope of laws and regulations, with a focus on the role of the private sector to provide solutions to pressing societal and economic problems, this would seem to go hand-in-hand with the benefits of the stakeholder model of governance. To state the obvious, just because an action (or lack of action) is legally permissible and will boost near-term profits does not mean it is a sound business decision.

Now as much as ever, it is incumbent on business leaders to consider the ways in which employees, customers, local communities, the environment and other stakeholders are important drivers of long-term value creation, and in turn, the impact that businesses have on the resilience and well-being of these stakeholders. Although ESG has become a widely criticized and politically charged acronym, the paradigm of stakeholder governance continues to offer the best path to creating sustainable business success.

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