Good FOR Business™

STATEMENT OF PRINCIPLES ON THE PURPOSE OF A CORPORATION

1 PRINCIPLE

We affirm that the proper purpose of business is to advance human flourishing by creating economic value through excellence in the provision of goods and services.

- Businesses meet human needs and wants by creating products and services in ways that contribute to the flourishing of every person involved with the business, whether owner, manager, worker, vendor, or customer.[1] When pursuing these ends, businesses should act morally within their sphere of competence and in accord with the requirements of just laws.
- Profit is essential for businesses to operate effectively and, in many cases, to survive. Accordingly, profit-making is a defining objective for any commercial enterprise, and profit-making is a positive—though instrumental—good pursued through excellence in the creation and provision of goods and services.
- We agree with business management theorist Peter Drucker, who said that "profitability is not the purpose of but a limiting factor on business enterprise and business activity. Profit is not the explanation, cause, or rationale of business behavior and business decisions, but the test of their validity."[2] In a context of free competition, profit realization is a visible indication that productive factors—like entrepreneurial creativity, capital, and labor—have been effectively and efficiently deployed.

2 PRINCIPLE

We affirm that the boards of directors and managers of traditional, for-profit business corporations, whether publicly traded or privately held, are principally accountable to their shareholders (i.e., owners)[3] whose goals they pursue and whose resources they steward.

- Because directors and managers steward the perpetual financial capital provided by their shareholders[4], they are accountable to their shareholders over the long term.
- The "separation of ownership and control" that characterizes modern corporate governance serves the subordinate good of efficiently advancing the owners' goals and must not become a pretext for excusing management from being held accountable by its owners.
- For directors and managers to be fully accountable to their shareholders as the corporation's ultimate owners, it is also necessary for intermediaries (e.g., asset managers and proxy advisors) to be robustly transparent with and accountable to shareholders.
- Directors and managers are not accountable to the ill-defined and seemingly ever-expanding array of stakeholders who seek to advance various agendas that prioritize their interests over those of the business and its shareholders.[5]

3 PRINCIPLE

We reject the politicization of business and the efforts by various campaigns and constituencies to compel corporations to the forefront of political controversies. This politicization, which places the advocacy of certain ideological programs above the generation of economic value and profit through excellence in the provision of goods and services, frequently reflects a failure of accountability to shareholders. Such politicization only drives division, imperils civil liberties, and detracts from the ability of businesses to fulfill their proper purpose. Neither business nor society is well served by such politicization.

- Activists seek to politicize business to advance specific political and social viewpoints and public-policy outcomes through the infiltration of programs under banners such as "environmental, social, and governance" (ESG), "diversity, equity, and inclusion" (DEI), and the like.
- Politicization of business—whether by directors, managers, investors, activists, or federal, state, or local government actors—both distorts corporate governance and undermines representative government by shifting the power to make society-wide decisions on consequential political and public-policy issues away from politically accountable individuals and institutions to highly unaccountable corporate bureaucracies.[6]
- Politicization of business imperils civil liberties. Denying employment and essential services (e.g., financial, technological, etc.) to persons or other businesses based on their speech, religion, association, or participation in a particular industry chills the free exercise of speech and religion.
- Politicization of business undermines the ability of businesses to create excellent and consistently profitable products and services in several ways—it:
    - Diffuses accountability, shifting it from shareholders, who have a direct legal interest in the company's performance, to stakeholders, who have only an indirect (or no) legal interest in the company.
    - Exposes businesses to legal liability in the form of potential civil-rights violations and fiduciary risk to management.
    - Distracts directors, managers, and employees and saps resources that otherwise could improve bottom-line performance and dedicates them to non-productive efforts.
    - Drives out talented directors and employees unwilling to surrender their conscience, faith, or speech to divisive ESG/DEI mandates or other narrow political, social, or public-policy agendas.

Good FOR Business

PRINCIPLE 4

We embrace a positive role for business to advance justice, civil liberties, and public welfare by conducting its business well—i.e., by fulfilling its proper purpose—and not by politicizing its business.

- Directors and managers can (and should) be concerned about issues of truth, justice, and public welfare; but they should address those issues from within the sphere of the proper purpose of business and their competence.
  - Profit-making and providing excellent products and services means not providing shabby products or services, inflating financial metrics artificially, cheating customers, or engaging in fraud; rather, a business should strive for excellence, beauty, truth, and fairness through the creative act of providing products and services.
  - Contributing to human flourishing means treating employees, customers, and vendors morally, with dignity and respect, and within the bounds of the law.
- We seek a positive agenda of reform by which businesses would embrace policies and practices that advance economic and personal liberty and reject practices that endanger civil liberties and that embroil businesses in political disputes unrelated to their proper purpose and competence, including by:
  - Protecting the foundational roles of property, contract, and voluntary exchange within institutional frameworks that promote freedom and innovation.
  - Embracing equality of opportunity and belonging by abandoning policies and practices that expressly or implicitly discriminate unjustly against employees, customers, or vendors based on characteristics such as race, ethnicity, biological sex, or religion.[7]
  - Embracing a culture of freedom of speech, association, and religion for employees, customers, and vendors and refusing to punish them for articulating viewpoints about political, social, or public-policy issues or matters of conscience.
  - Establishing policies that provide robust religious accommodations in the workplace.[8]
  - Refusing to pressure employees to celebrate, affirm, or support particular or specific viewpoints on political, social, or public-policy issues.
  - Refusing to make formal pronouncements or take official positions on political, social, or public-policy issues unrelated to the business's purpose.

Citations

1. The 2019 Business Roundtable Statement on the purpose of corporations elucidated the need for businesses to deliver value for all stakeholders instead of merely generating profit for shareholders. The five stakeholder groups identified include: (1) customers; (2) employees; (3) suppliers; (4) communities "in which we work"; and (5) shareholders. While this delineation of stakeholders seems to mirror, in many ways, the statement of purpose contained in this document, it departs significantly on point (4), which challenges businesses to "respect the people in our communities and protect the environment by embracing sustainable practices across our businesses." While we oppose business practices that wantonly degrade and destroy natural resources, we also reject prescriptive policies that seek to channel corporate efforts into political programs aimed at advancing specific ideological interests. Similarly, point (2) demands those businesses "foster diversity and inclusion, dignity and respect." While we agree that businesses should treat employees fairly, we disagree with the embrace of the specific political program implied by the terminology "diversity, equity, and inclusion."

2. Peter Drucker, Management: Tasks, Responsibilities, Practices 60 (1974) (emphasis added).

3. Ownership varies by business structure, but for most corporate businesses, this means businesses are accountable to their shareholders. Accordingly, we will use the terms "owners" and "shareholders" interchangeably in this document.

4. In re *Trados Inc. S'holder Litig.,* 73 A.3d 17, 37 (Del. Ch. 2013) (Laster, V.C.) ("[The] corporation, by default, has a perpetual existence. Equity capital, by default, is permanent capital. In terms of the standard of conduct, the duty of loyalty therefore mandates that directors maximize the value of the corporation over the long-term for the benefit of the providers of equity capital, as warranted for an entity with perpetual life in which the residual claimants have locked in their investment." (internal citation omitted).

5. Samuel Gregg has written about how stakeholder theories actually reduce overall corporate accountability: "After all, the more stakeholders there are for a company's management to answer to, the less accountable those executives can be to anyone in particular." Samuel Gregg, THE NEXT AMERICAN ECONOMY (Encounter Books, 2022) 134.

6. Milton Friedman analogized corporate executives spending other people's money on social programs unrelated to generating corporate profits as the imposition of a sort of tax, which is a governmental function. In this sense, Friedman notes that corporate "social responsibility" efforts amount to a form of socialism by withdrawing from political accountability, and assigning to self-selected elites, the role of making public policy using the resources of others. In his words, "the doctrine of 'social responsibility' taken seriously would extend the scope of the political mechanism to every human activity."

7. *Students for Fair Admissions, Inc. v. President & Fellows of Harvard College*, 143 S. Ct. 2141, 2161 (2023) ("Eliminating racial discrimination means eliminating all of it."); Letter from 13 State Attorneys General to Fortune 100 CEOs (July 13, 2023) (applying Students for Fair Admissions to workplace employment and contracting programs), available at https://www.tn.gov/content/dam/tn/attorneygeneral/documents/pr/2023/pr23-27-letter.pdf.

8. *Groff v. DeJoy*, 600 U.S. 447, 470 (2023) ("We think it is enough to say that an employer must show that the burden of granting an accommodation would result in substantial increased costs in relation to the conduct of its particular business.").