

STREETWISE

Shareholders Reign Supreme Despite CEO Promises to Society

An analysis of takeover deals shows CEOs deliver for shareholders—and themselves



JPMorgan CEO Jamie Dimon embraced the concept of stakeholder capitalism when he chaired the Business Roundtable.

PHOTO: ANDREW HARRER/BLOOMBERG NEWS



By

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Chief executives love to talk about “stakeholder capitalism.” But when they face a final choice to sell a company and divide the spoils between workers and shareholders, guess who gets the money? You got it: Shareholders are the winners—along with the executives themselves.

An [analysis of takeover deals during the pandemic](#) by academics at Harvard Law School reveals the priorities of America’s corporate leaders. In public, they talk about the importance of employees, communities, the environment and other stakeholders in the

business. In private, they negotiate deals they know will lead to job losses and closed offices but don't demand compensation for the losers.

Stakeholder capitalism has turned out to be standard shareholder capitalism, with a smiley face. That should be a wake-up call for those listening to high-profile investors such as BlackRock Chief Executive Larry Fink, who wrote to fellow CEOs in January to advocate having a corporate purpose, and announced the creation of BlackRock's "Center for Stakeholder Capitalism."

Out of 116 takeovers of companies worth more than \$1 billion since April 2020, precisely none included any legally binding protection of jobs or guaranteed compensation for those who would be laid off.

By contrast, executives of the target firms were able to negotiate an average takeover premium of 34% for shareholders, compared with the pre-deal price. As well as the gains on the stock they held, 98% of deals offered executives a takeover payout of some kind, and just under half changed compensation terms to reward top management further.

The crumbs thrown to stakeholders were explicitly unenforceable, except for a tiny amount of required bonuses. The required and nonbinding bonus pools provided for in deal terms together amounted to 0.4% of the gains made by shareholders from the takeover, according to Harvard Law School authors Lucian Bebchuk, Kobi Kastiel (also of Tel Aviv University) and Roberto Tallarita, whose paper isn't yet peer reviewed.

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Is "stakeholder capitalism" a realistic policy for companies to uphold? Join the conversation below.

This isn't what supporters of a nicer approach to running companies expected when the Business Roundtable, representing the biggest corporations and then chaired by Jamie Dimon, JPMorgan Chase & Co.'s CEO, embraced the concept in 2019. World Economic Forum founder Klaus Schwab then lectured the world's elite on how business was changing to stakeholder capitalism at his Davos gathering in 2020, just before the pandemic.

"The enthusiasm for the Business Roundtable and Davos visions was because people can read into them whatever they like," says Prof. Lucian Bebchuk, director of Harvard Law

School's program on corporate governance and co-author of the research. "They avoid the difficult trade-off questions."

CEOs often dispute that there are trade-offs between gains for shareholders and gains for employees, society or the environment. When Mr. Dimon announced his commitment to stakeholders he said it was "the only way to be successful over the long term."



Klaus Schwab, the founder and executive chairman of the World Economic Forum.

PHOTO: DENIS BALIBOUSE/REUTERS

But not everything is win-win, and not everyone gets a puppy—especially when a business is sold. There is no need for the company to be nice to anyone anymore, since the stakeholders will be someone else's problem after the deal is done. An idealist stakeholder CEO ought to share the billions of dollars of takeover premium available between shareholders and others—and doesn't.

There are a couple of defenses of stakeholder capitalism that could be made. Maybe it just hasn't caught on yet. Or maybe the companies that were taken over in the past couple of years were run by especially greedy boards, and the rest of big business is far nicer. Only two CEOs out of the 22 \$10 billion-plus takeover targets had signed the Business Roundtable statement of support for stakeholders (they ran Slack Technologies and Noble Energy).

I don't think these excuses are valid. Instead, I think people are confusing the fluffy image projected by the talk of stakeholders with the reality. Where change is happening, it is driven by competition.

IN 116 TAKEOVERS OF MORE THAN \$1 BILLION, APRIL 2020 TO NOV. 2021, FIGURES FOR TARGET COMPANIES

•Average shareholder gain: 34%

•Average payment to executives*: \$57 million

•Deals with limits on firing workers**: 4%

•Deals with payments to fired employees: 0%

•Deals with protection for suppliers 0%

•Deals with protection for customers 0%*not including stock price gains | **Not enforceableSource: Lucian Bebchuk, Kobi Kastiel and Roberto Tallarita

It is true that no company can succeed without its workers, suppliers and customers, as the Business Roundtable says. Free-market economist Milton Friedman would have agreed wholeheartedly.

What's changed is that workers and

customers, helped by social media and tight labor markets, are able to demand more from companies on issues they once let slide. When employees can easily find a job elsewhere, and customers are able to organize boycotts with a few tweets, it is easier to press complaints about child labor in the supply chain, treatment of minorities and women, carbon emissions and crass executive comments. Companies vulnerable to such issues—not all are, but most—need to pay attention, and are increasingly dressing up such attention as “stakeholder” concerns.

But don't be fooled. CEOs still care primarily about the bottom line (and their bonus), because that is what they are motivated to care about. They will pay attention to stakeholder concerns only to the extent that they affect that bottom line, and in a takeover they rarely matter.

Frankly, I'm fine with that. Workers who want a better deal need to organize and demand one, or quit, not rely on handouts from a benevolent corporate leader. Customers who want businesses to change should vote with their wallets, or at least threaten to. And in a democracy, it is society as a whole—via taxes and regulations—that should decide on minimum labor standards, how to cut carbon and the balance of reward between capital and labor.

Leave those decisions to CEOs, and takeover deals show what happens: investors get almost everything and what's left is mostly grabbed by the executives.

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