

DATA DELAWARE: Monday 9, 2019
SUBJECT: Rogue CEOs? (Part I Podcast transcript)

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- Dace Blaskovitz: Welcome back to Money and Politics in Delaware. Corporate governance guru, Charles Elson is segments three and four and We're breaking a story so I got to tease the segment. I've been a stockbroker. It's a career I love and continue roughly 43 years. I've owned stocks for half a century. I'm about to share, in my opinion, my opinion, the most shocking story I think I might've ever run into.
- Dace Blaskovitz: Last week, progressive's celebrated the extreme left cannot win at the ballot box. So they have increasingly attacked the corporate board room. The extreme left by the way, is some form of the squad, especially climate change, sometimes guns. Last week, the business round table, which is a group of 181 companies, Apple, Johnson and Johnson, Walmart. 181 and especially Jamie Diamond and JP Morgan, released a statement dramatically expanding their vision of stakeholders that rock corporate American and it rocked corporate governance expert Charles Elson. But, there's even a bigger story out there that we're going to tell today.
- Dace Blaskovitz: None, so I am told, none of those CEOs had their board's approval to make that vote. Therefore, rogue CEOs, illegal CEOs, he asked, welcome back, Charles Elson!
- Charles Elson: Good to be with you Dace.
- Dace Blaskovitz: Did I get that mostly right?
- Charles Elson: Well, we don't know if the boards knew or didn't know. But, I would kind of guess they didn't because I think that by saying what they said, particularly given the fact that shareholders elect the boards, you've just told the people who elect you, you're not worth anything. Or actually you're last in line behind everyone else. And, it's kind of like a Congressman saying, "I don't come back to my district, the heck with the voters." I actually, I don't represent this district. I represent something someone else and some group far away.
- Dace Blaskovitz: All right, let's do this. Let's do some basics though because we do get first time listeners. Charles Elson is a personal friend. He's a regular to the program. He has an event September 13th we're going to talk about that in the second half. But, let's start at the beginning, Charles. 30 seconds about you in 30 seconds about what you do.

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Charles Elson: I am the director of the John L. Weinberg Center for Corporate Governance here at the University of Delaware College of Arts and Sciences, which is a governance center. And, I'm also the Edgar S. Willard, ala DuPont at Willard, Chair in Corporate Governance at the University of Delaware as well.

Dace Blaskovitz: And, why have I dubbed you with a big smile, the 44 trillion in over 40 trillion dollar man.

Charles Elson: Well, I wish I could bank some of that, Dace but I don't think so.

Charles Elson: No, because the Weinberg Center is home to something called ISG, the Investor Stewardship Group, which is the largest collection of basically index investors in the United States. It is the largest. I mean there are some 50 funds representing, as you say, at many trillions of dollars in equity value. And, we are the home, if you will, of the groups, governance principles, voting principles. And, that group will be having a meeting here next week, which we're very excited about. And, so very, very interesting and very good for Delaware. Nice for the university, but particularly nice for the state of Delaware.

Dace Blaskovitz: Let's talk about the state of Delaware just a minute and again we're given primers to allow everybody in the audience to participate. We'll get in the weeds in just a minute, but keep it basic for 30 seconds here.

Dace Blaskovitz: Let's see, state of Delaware, Delaware is the incorporation capital. Roughly two thirds of the Fortune 500 is incorporated in the state of Delaware. That incorporation franchise means that those companies pay a fee to be here or to have access to the Delaware courts. That correlates to roughly 27-29% of the state of Delaware's annual revenues. Charles, you say if you add everything in, it's as much as 60% of the state of Delaware's annual budget. Did I get it mostly right? Clean it up. And, do you still hold to that 60% figure?

Charles Elson: Well, I think you're off to guess. Mr. Byrd, I think kind of abused it the same way you have to add to it the as cheat legislation, which is a good chunk of a change we get from it. The personal and corporate income taxes on the firms and individuals who do business in this space. And, I think you're pretty close to two thirds of the revenue coming, it comes from some way, shape or form this corporate regulation, and it's a big deal of the state. In my, again, fellow guest, Mr. Byrd, I think would as on the show agree, I believe.

Dace Blaskovitz: Bobby is, Bobby Byrd is a big time lobbyists, the ultimate insider in the state of Delaware and a former chair of DEFAC. DEFAC being the independent financial advisory committee board on the state of Delaware.

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Dace Blaskovitz: Charles, you have been on, I'll keep it simple, virtually every TV show you've been featured in every financial publication over the last week. You've been on a warpath. That's a compliment. Share with the audience why.

Charles Elson: Well, I think this refers back to what you mentioned to begin with and that the business round table, which is a collection of a CEO's of some of America's largest companies. Not as powerful as it once was, but still a big group, came out with a statement saying that shareholder primacy in their view, was out in the companies that they ran. And, instead they were focusing on the interest of stakeholders instead. Meaning the community employees as customers, suppliers over the rights and responsibility to the investors. Now this is a position they had taken many years ago in the early eighties. This was their historic position, the stakeholder position, but it led to some atrocious countability, atrocious results. And, a lot of those companies, in fact the near destruction of a number of those companies. And, ultimately the large investors said, "we have enough. You had a revolution in corporate governance where large investors focused on getting boards in place, who are independent of management, who had a lot of stock in the company. The idea to drive greater results and greater prosperity for all of us and save those companies."

Charles Elson: And, all ultimately the business round table in 1997 changed it's statement of purpose and said "yes, the corporation to reflect the reality should in fact put the put shareholders first." But, in doing so, the other stakes are important as everyone agrees with, but suddenly in a weird reaction, political reaction and perhaps, I don't know. They suddenly came out with a statement and said, "no, shareholders are in fact, last." Fact they described shareholders in this manifesto as quote, merely quote suppliers of capital, kind of like calling your parents a mere genetic contributors to your existence.

Charles Elson: It very disturbing to me and I think to a lot of people and you've got to think about investors days today, aren't a group of Wall Street Titans, it's all of us. It's retirement funds of millions of people, government workers, firefighters, police officers, factory workers, teachers. Our retirement is locked up in this stuff. And, frankly the largest holder of equities is frankly all of us. And, by deep six seeing us and saying we basically don't matter to them. Those, by the way, who salaries, their outrageous salaries I might add, created the problem and mistrust that probably has led to this statement of all people to tell us that our retirements are worth less because their obligation is to everyone else is I find very disturbing.

Charles Elson: A, by saying you're accountable to everyone. You become accountable to no one, even a stop watch gets time right twice a day. Meaning basically that they

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have no accountability to anyone anymore. If they're accountable to everyone. And, it was a statement and a shift that I found it quite self serving on their part and as an investor, as a retiree, I should say an investor who will be a retiree, I find it very disturbing.

Dace Blaskovitz: Charles, let me see if I get this right. I put my money up and I become a shareholder and the guy that owns a sub shop, Louis Sub Shop hypothetically, that sits next to my corporation has more rights as a stakeholder, Louis does, than me and I could lose all my money?

Dace Blaskovitz: You got 30 seconds.

Charles Elson: Well, I'd say a by way of saying that your employees, your customers have more value to you than the people who contributed the capital gave you money to start the business. And, ultimately they won't start, they won't give you the money again. And, it's not they, it's all of us because we all contribute our retirement savings to create the capital that fuels corporate America.

Dace Blaskovitz: I got to jump in. His name is Charles Elson, the guru of corporate governance.

Dace Blaskovitz: What's going to happen? We got to take a real short break, make sure those advertisers stay happy. When come back, are these CEOs rogue or not? And, we'll plug his event next week. We will be right back.