

Discussion of
Ownership, Agency, and Trusteeship
by Colin Mayer

Charlotte Ostergaard

BI Norwegian Business School

IESE CCG—ECGI

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Overall Message

Currently dominant “property view” of corporation is flawed

- Theoretically
- Renders societies incapable of dealing with major challenges of our time
 - ▶ Failures of capitalism
 - ▶ Political instability
 - ▶ Climate change

Must adopt “purposeful business” / “social entity” view

- Must reform law and regulations to promote purposeful companies

Two legal views of the corporation

Property view

- Owners strong legal authority to impose own objectives
- BoD/managers are agents: max owners' financial wealth

Purposeful business view

- A corporation is a legal privilege
 - ▶ Operations impact others
- Enlarge concept of “owners” → beneficiaries
 - ▶ Firms established with a **purpose**
 - ▶ Those who benefit from the firm's business
- BoD is trustee for beneficiaries, incl. owners
 - ▶ Manage acc. to purpose
 - ▶ Internalize externalities
- Novo Nordisk fights diabetes
 - ▶ *Cities Changing Diabetes*

FT Series **The Company of the Future: Profit and Purpose**

Novo Nordisk AS

Insulin maker Novo Nordisk walks moral tightrope

Danish pharma group has faced criticism in the US over its pricing



Sarah Neville YESTERDAY

This article is part of an [FT series](#) examining the risks and trade-offs companies face when they try to define a broader purpose for their business.

At the Centre for Diabetes in Copenhagen, a cooking class with a difference is under way.



Equinor—the world's leading floating offshore wind developer

Close to 80% of the oceans resource potential is in deep waters.
That's ideal for floating offshore wind power.

Comments on trusteeship-model

Who decides what the purpose/social good is?

- Dynamic, can't be carved in stone by founder
- Defining purpose: relative weight of BoD vs. owners?
- Many masters: how is BoD held accountable?
 - ▶ By construction board must trade off interests

How far away from Hart-Zingales' "shareholder welfare"?

- In practice, purpose will be what shareholders care about?
- Or does BoD override shareholder preferences?

Viability of purposeful business model

Undercuts wealth maximization/efficiency?

- “Trust-based systems dominate shareholder primary in terms of commercial as well as societal performance”
 - ▶ Mechanisms:
 - ▶ Consumers trust purposeful firms
 - ▶ Regulations punish

Evidence that trustee model is viable:

1. Thomsen (2018), Thomsen et al (2013, 2018)

- Industrial foundations are equally profitable, survive longer, but grow somewhat slower
- Industrial foundations more likely to embrace trusteeship
- Doesn't tell us what the mechanism is
- Self-selection

2. Ostergaard, Schindele, and Vale RoF (2016)

- Norwegian savings banks got competition from commercial banks
 - ▶ SBs designed as trustees
 - ▶ Deregulation
 - ▶ Geography
- Estimate survival model
- **Mechanism: social capital**
 - ▶ SBs act in community's interest in return for patronage
 - ▶ Putnam (1993) "Making Democracy Work"
 - SC/civic engagement are key to institutional performance

Findings

- Social capital increases survival by up to 20%
 - ▶ No similar effect on CBs' survival
- High SC banks raise more deposits locally
- distribute more surplus to local charity
- have lower loan and higher deposit rates

3. Studies on US social capital and CB lending

- Hasan et al JFQA (2017)
 - ▶ High SC firms get lower bank loan spreads
- Cornett et al WP
 - ▶ High SC banks offer higher deposit rates, lower fees, and are less risky
- ⇒ Not nec. limited to firms w/o owners

Thoughts on overall picture

Are businesses really the cause of our problems?

- Cooperations have “potential to produce untold wealth, prosperity, inequality and misery in equal measure”
- They didn't support Brexit, Trump, Erdogan, Urban, Kacynski
 - ▶ Ironic backlash from the beneficiaries
- Putnam's emphasis is on **civic engagement**

Twist the angle?

- Cooperations can be a vehicle for change exactly bc many businesses are formed with a purpose