



Session 1: Leading, Managing and Governing Corporate Purpose

Professor Ruth V. Aguilera

Fred and Darla Trustee Professor in Global Business

Northeastern University

Modern Capitalism and Corporate Purpose

Copenhagen, September 21, 2023



Agenda

- Some working definitions
- Discussion of Gartenberg's work



Three Remarks:

1. Corporate Purpose: For Whom?
2. Modern Capitalism, Institutions and Corporate Purpose
3. Way Forward: Corporate Governance as a tool towards deploying effective and inclusive corporate purpose

Definitions... from the Young Scholars Workshop



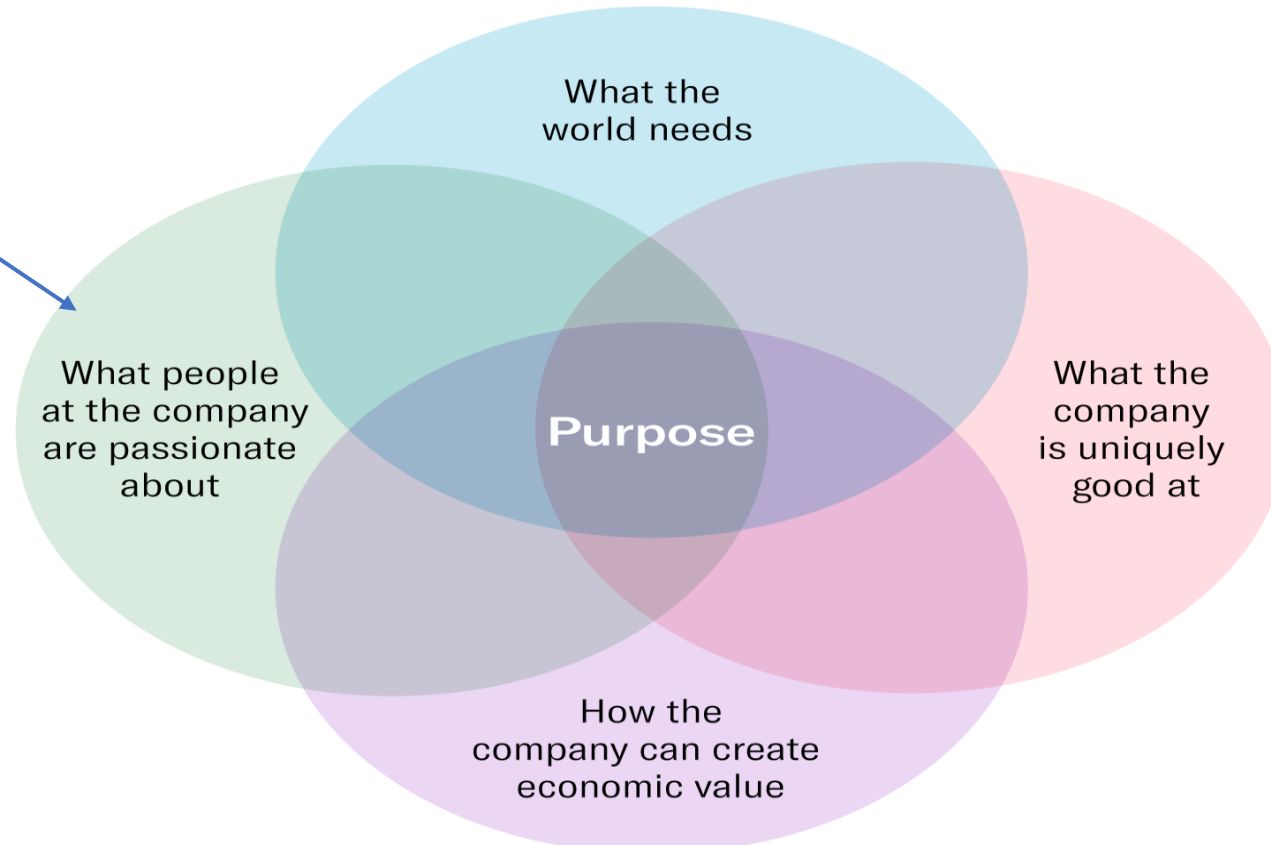
Hubert Joly's (Analytical) Definition of Corporate Purpose

Looking for Your Company's Purpose

It lies at the intersection of these four circles.



Gartenberg



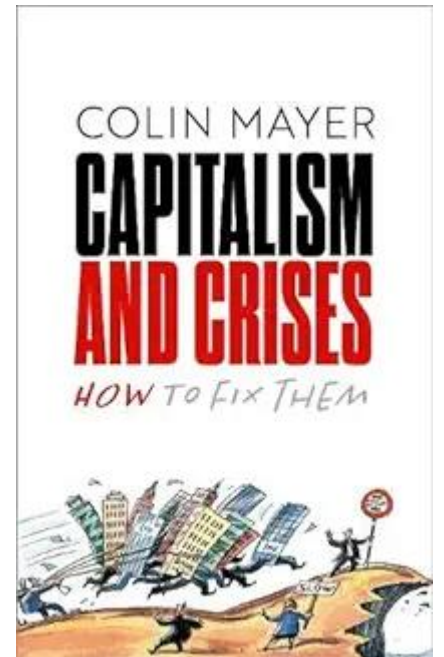
Joly, Hubert, and Caroline Lambert. *The Heart of Business—Leadership Principles for the Next Era of Capitalism*. Boston, MA: Harvard Business Review Press, 2021.

Colin Mayer's (Creatively Concise) Definition of Corporate Purpose

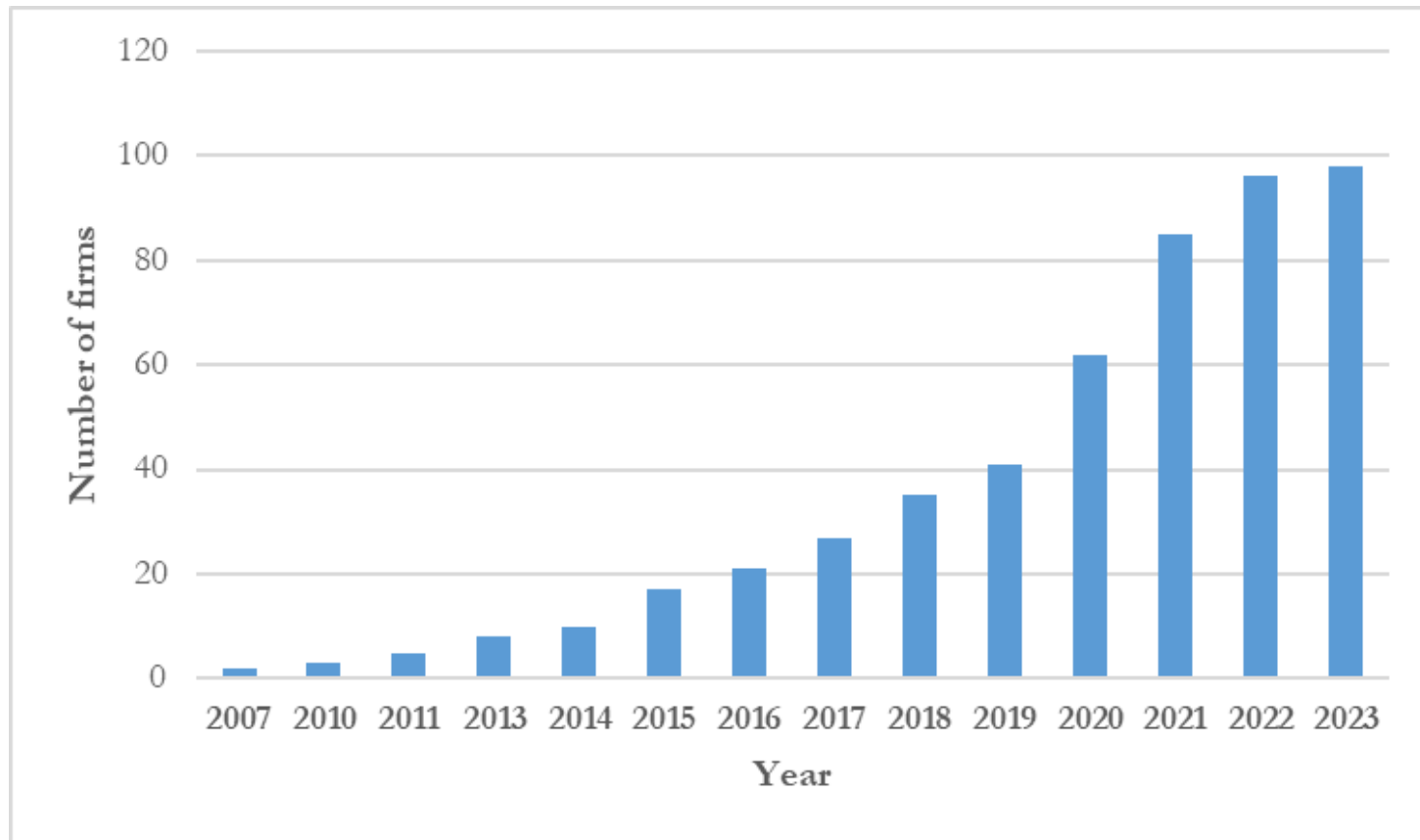


- The purpose of business is to produce profitable solutions to the problems of people and planet, and in the process ... it produces profits.

Source: The Future of the Corporation (2019)



S&P500 Firms: Pro-Social Goal (Purpose)



Webpages

Source: Chhillar (2023) "Duality of Purpose: When does organizational purpose align with employee experiences?"

Gartenberg's Insights

- Empirically captures **employee** sense of corporate purpose
- Explores the relationship btw corporate **purpose** and **profits**
- Organizational hierarchy: Purpose Inequality
 - Low Purpose driven by Lower and Middle Rank Employees
- Contingencies are fascinating
 - Public vs private firms
 - Remarkable complementary/substitute profit/purpose across industries
 - Role of owners (i.e., transient)
 - Compensation schemes



Future work:

- One-sided: what is the firm/leadership saying? Chhillar's Phd dissertation
 - GlassDoor matched with website & 10k Statements → purpose washing, effects on ESG, performance
- What do we know of these companies' boards? Executives?

Three Remarks

Corporate Purpose in Comparative Perspective: The Role of Governance

Ruth V. Aguilera^{a,b}

^aD'Amore-McKim School of Business, Northeastern University, Boston, Massachusetts 02115; ^bESADE Business School, Ramon Llull University, 08034 Barcelona, Spain

Contact: r.aguilera@neu.edu, <https://orcid.org/0000-0002-1144-1499> (RVA)

Received: June 20, 2022

Revised: October 20, 2022

Accepted: December 20, 2022

Published Online in *Articles in Advance*:
June 5, 2023

<https://doi.org/10.1287/stsc.2023.0198>

Copyright: © 2023 INFORMS

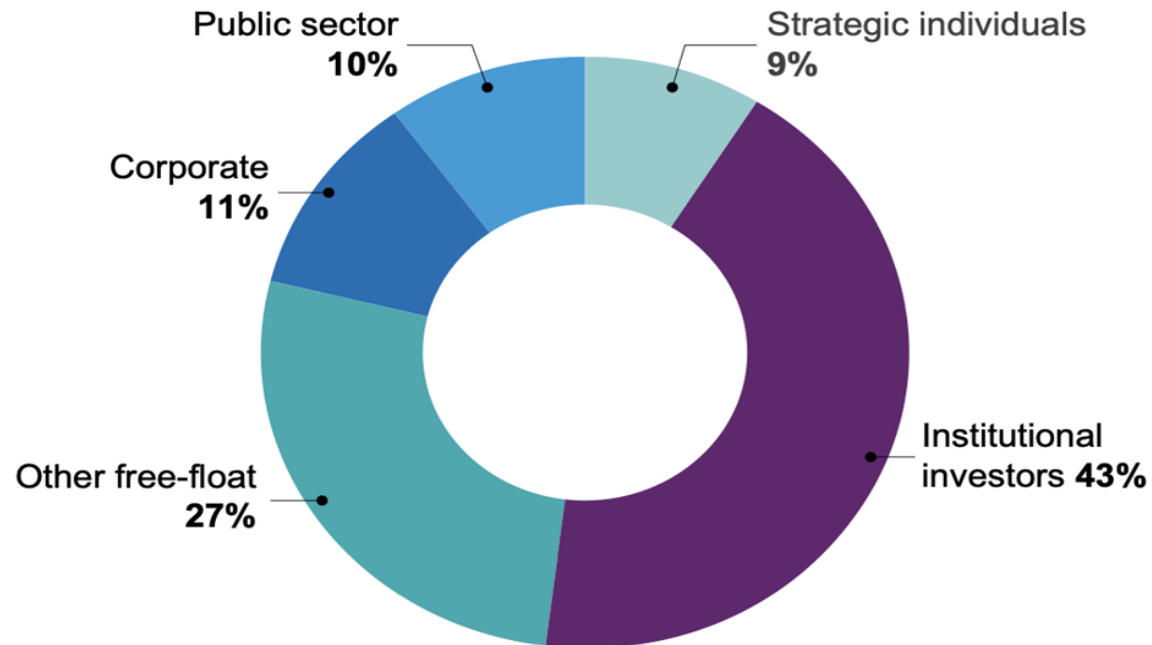
Abstract. Corporate purpose has become a central part of doing business as usual and in the social movement to involve corporations in solving complex societal and environmental challenges. In this essay, I first deconstruct what corporate purpose means from a sociological perspective, and I submit that it is important to identify to whom that purpose is targeted. Second, I seek to make the point that corporate purpose is not universal in that there is not a one-rule-fits-all template on how to develop corporate purpose. I draw on comparative corporate governance, stakeholder management, and institutional theory arguments to illustrate how corporate purpose means different things in different societies and that the departure point of the emanation of corporate purpose varies across countries. This differential meaning is explained in part by the institutional setting as well as very different societal expectations of corporations. Finally, building on insights from existing corporate governance research, I argue that stakeholder engagement can be a useful tool toward effectively deploying corporate purpose.

1. For Whom? Role of Ownership
2. Capitalism and Institutions
3. Role of Corporate Governance

1. Corporate Purpose: For Whom?

OWNERSHIP: One of the most important developments → increase in institutional ownership and in ownership concentration

Figure 1.6 Investors' public equity holdings, as of end 2020



Note: The figure shows the overall ownership share by market value of the categories of owners.

Source: OECD Capital Market Series dataset, see OECD (2021), "The Future of Corporate Governance in Capital Markets Following the COVID-19 Crisis" for details.

Regional Ownership by Investor Category

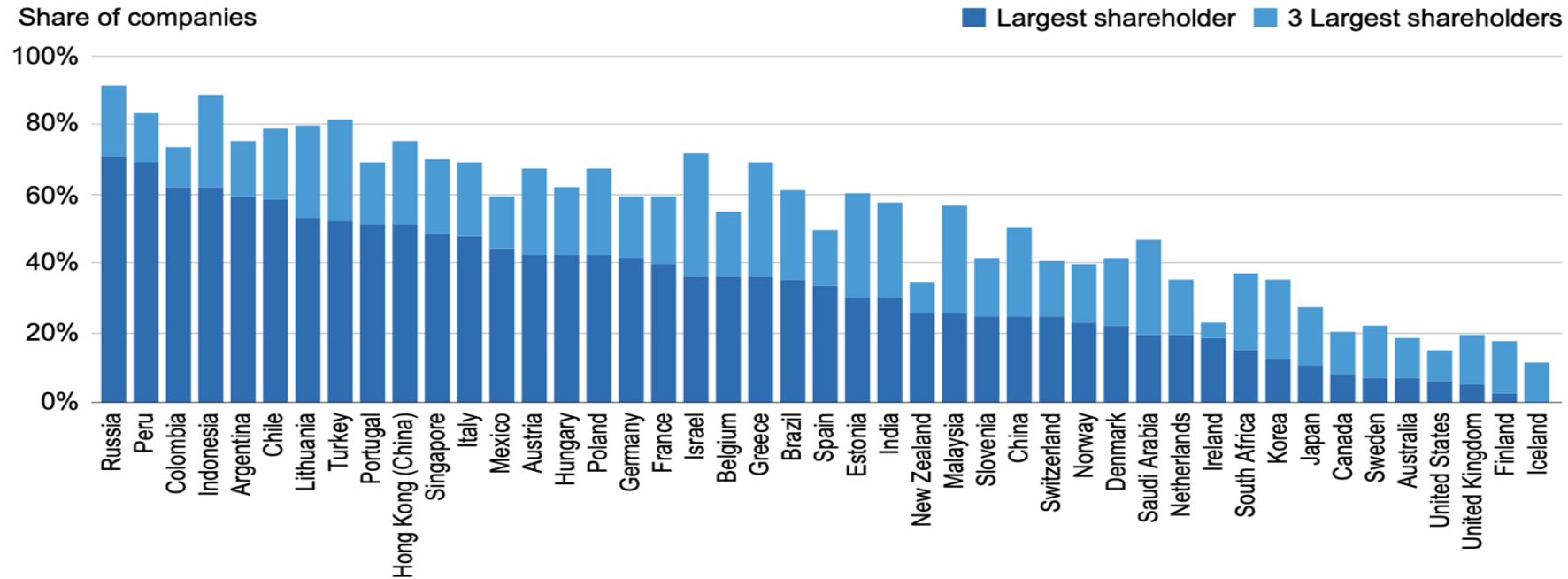
	Private corporations	Public sector	Strategic individuals	Institutional investors	Other free-float
United States	2%	3%	4%	72%	19%
Advanced Asia	17%	23%	7%	23%	30%
Europe	13%	9%	8%	38%	32%
China	11%	38%	13%	9%	28%
Emerging Asia excl. China	34%	19%	10%	16%	21%
Other Advanced	7%	4%	4%	39%	47%
Latin America	34%	7%	17%	20%	21%
Other Emerging	15%	28%	6%	20%	31%
Global average	11%	14%	7%	41%	27%

Source: OECD Capital Market Series dataset, FactSet, Thomson Reuters, Bloomberg; see Annex for details.

De La Cruz, A., A. Medina and Y. Tang (2019), "Owners of the World's Listed Companies", OECD Capital Market Series, Paris,

At least one third of all listed companies have a single owner holding more than 50% of the equity capital

Figure 1.8 Ownership concentration by market, as of end 2020



Note: The figure presents the number of companies where the largest and 3 largest shareholder(s) hold more than 50% of the equity as share of the total number of listed companies in each market across 45 jurisdictions. Jurisdictions with less than 10 companies with ownership information are excluded from the figure: Costa Rica, Czech Republic, Latvia, Luxembourg and Slovak Republic.
Source: OECD Capital Market Series dataset, see OECD (2021), “The Future of Corporate Governance in Capital Markets Following the COVID-19 Crisis” for details.

Role of the BIG 3

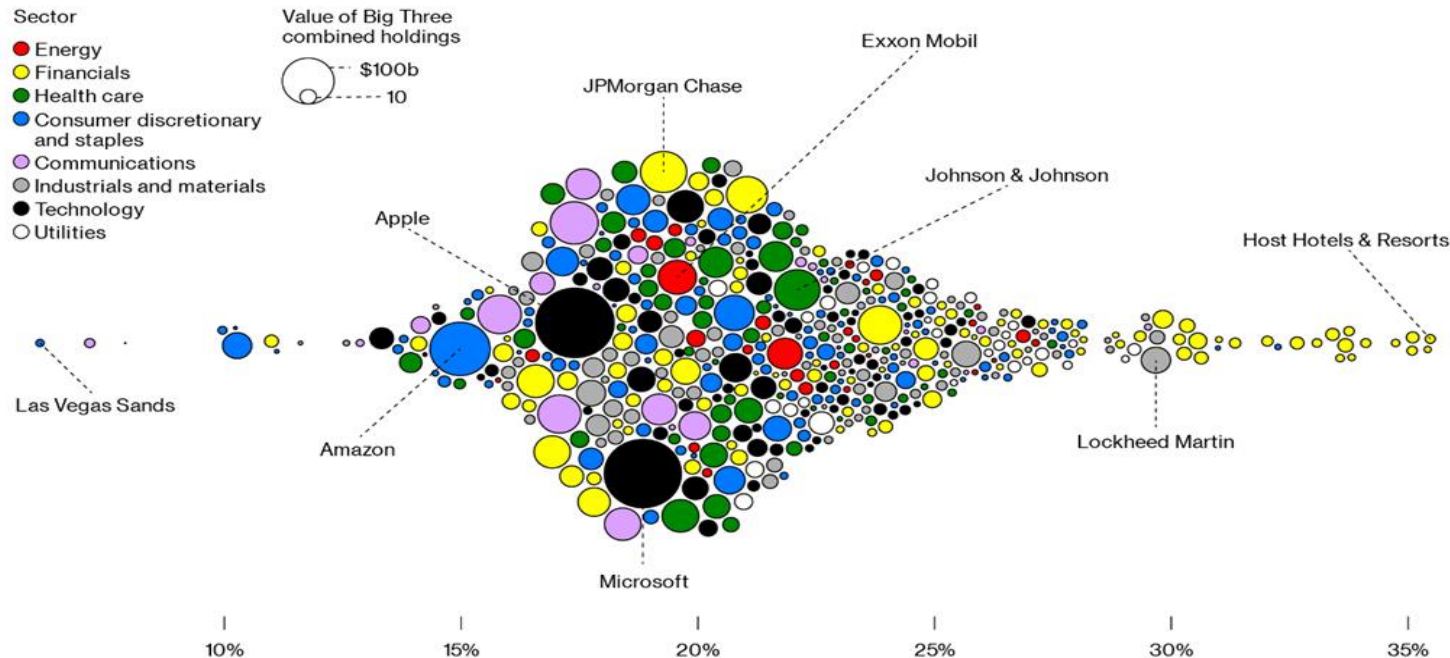


Role of the BIG 3

- The Big Three now collectively account for a staggering 75% of all indexed funds (Azar et al. (2021) note, making them the largest investors in many companies.

The Big Three's Stake in Corporate America

As investors pile into index funds, BlackRock, Vanguard, and State Street have become the leading shareholders in many public companies. With combined ownership ranging from 35.5% at Host Hotels & Resorts to 6.1% at Las Vegas Sands, on average the Big Three own 22% of the typical S&P 500 company.



Ownership stakes as of Sept. 30, 2019. Market value of those stakes as of Jan. 3, 2020.
Data: Compiled by Bloomberg

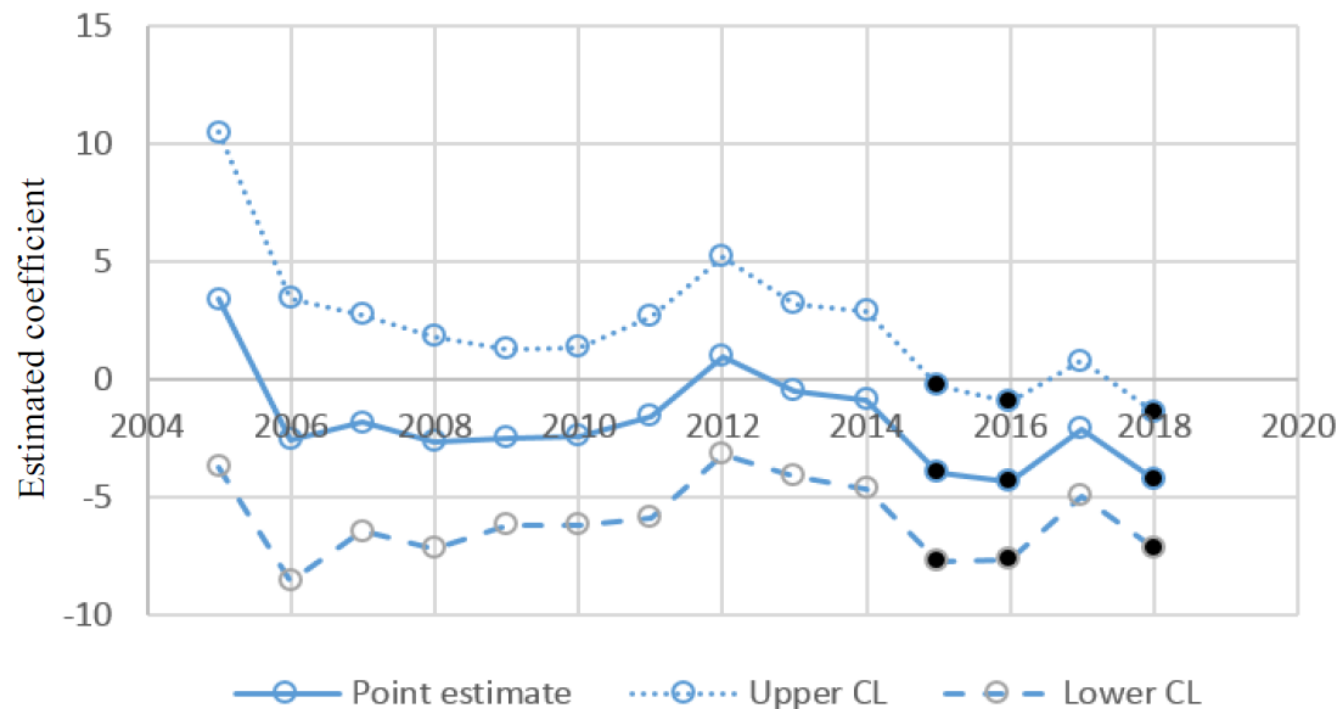
With 80% of market share firmly established in three companies, 100 other firms are fighting for the rest.



ESG Shareholder Activism is on the Rise

The Big Three are effectively pushing firms to decrease emissions

$$\text{Log}(CO_2)_{it} = \alpha + \beta * \text{Big3_Hldg}_{it-1} + \gamma * \text{NonBig3_Hldg}_{it-1} + \Phi * \text{Controls}_{it-1} + \tau_t + \delta_i + \varepsilon_{it}$$



(Azar, Duro, Kadach, Ormazabal, JFE 2021)

Ownership and Voice: 2023 Proxy Season

Proposal volume increased but support dropped off

Shareholder support for E&S proposals plummets

Say-on-pay support rebounds and severance agreements gain the spotlight

Directors are still subject to shareholder scrutiny

Russell 3000 shareholder proposals	2023 YTD*	2022	2021
Proposal announced before proxy filed	182	256	152
14a-8 No-action letters submitted	116	140	224
Proposals in proxy statements	580	562	463
Total	878	958	839

Submissions by category	2023 YTD*	2022	2021
Environmental and social	62%	62%	50%
Governance	27%	28%	38%
Compensation	8%	6%	6%
Other	3%	4%	6%

* Data provided as of 6/30/2023
Source: Proxy Analytics

2. The Role of Institutions in Modern Capitalism ... in a Climate Risk, De-Globalized, and Digitalized World



2. Institutional Logics of Corporate Capitalism

Institutional Logics

Corporate Purpose

Sources of Power

Basis of Firm Strategy

Focus of Attention


Exemplars

Making Sense of Corporate Purpose

William Ocasio,^{a,*} Matthew Kraatz,^a David Chandler^b

^aGies College of Business, University of Illinois Urbana-Champaign, Urbana, Illinois 61801; ^bManagement, University of Colorado, Denver, Colorado 80204

*Corresponding author

Contact: wocasio@illinois.edu,  <https://orcid.org/0000-0002-3881-4603> (WO); kraatz@illinois.edu (MK); david.chandler@ucdenver.edu (DC)

Received: May 12, 2023

Accepted: May 16, 2023

Published Online in *Articles in Advance*:
June 13, 2023

<https://doi.org/10.1287/stsc.2023.0054>

Copyright: © 2023 INFORMS

Abstract. Both the societal purpose of the corporation and an individual corporation's sense of purpose have been subject to increased attention by business elites and academics alike. This special issue presents diverse viewpoints on these two distinct yet interrelated topics. In this introduction, we present the various contributions and build on their insights to develop our independent sensemaking of what corporate purpose entails. Thus, we define corporate purpose, at both the organizational and societal levels, as an institutionalized ideal, a historical, value-based aspiration guiding strategic decision making and practices. We interpret the current societal movement on corporate purpose as one rejecting the logic of shareholder capitalism and proposing sustainable capitalism in its place: an ideal for corporate purpose based on sustainable prosperity for society and its population. At the organizational level, corporate purpose can thus be articulated as a distinctive and meaningful intent to enhance the lives of people. We identify four strategic issues to consider in reconstituting a corporation's purpose: corporate governance, strategic leadership, stakeholder engagement, and implementation. We conclude by highlighting the centrality of purpose to corporate strategy, an emphasis that was present in the field during its origins but one that got displaced under a logic of shareholder primacy.

2. Institutional Logics of Corporate Capitalism in the US

Institutional Logics	Industrial Capitalism
Corporate Purpose	Rapid economic growth
Sources of Power	Owner- Directors
Basis of Strategy	Economies of Scale
Focus of Attention	Production Size
Exemplars	Carnegie Steele (Carnegie)

2. Institutional Logics of Corporate Capitalism in the US

Institutional Logics	Industrial Capitalism	Managerial Capitalism
Corporate Purpose	Rapid economic growth	Economic prosperity
Sources of Power	Owner- directors	Managerial hierarchy
Basis of Strategy	Economies of Scale	Diversification
Focus of Attention	Production Size	Sales growth
Exemplars	Carnegie Steele (Carnegie)	General Motors (Sloan)

2. Institutional Logics of Corporate Capitalism in the US

Institutional Logics	Industrial Capitalism	Managerial Capitalism	Shareholder Capitalism
Corporate Purpose	Rapid economic growth	Economic prosperity	Economic freedom; market efficiency
Sources of Power	Owner- directors	Managerial hierarchy	Institutional Investors
Basis of Strategy	Economies of Scale	Diversification	Competitive advantage
Focus of Attention	Production Size	Sales growth	Market valuation
Exemplars	Carnegie Steele (Carnegie)	General Motors (Sloan)	General Electric (Welch)

Institutional Logics of Corporate Capitalism in the US

Institutional Logics	Industrial Capitalism	Managerial Capitalism	Shareholder Capitalism	Sustainable Capitalism?
Corporate Purpose	Rapid economic growth	Economic prosperity	Economic freedom; market efficiency	Sustainable prosperity
Sources of Power	Owner- directors	Managerial hierarchy	Institutional Investors	Strategic Leadership
Basis of Strategy	Economies of Scale	Diversification	Competitive advantage	Value proposition
Focus of Attention	Production Size	Sales growth	Market valuation	Value Creation & Distribution
Exemplars	Carnegie Steele (Carnegie)	General Motors (Sloan)	General Electric (Welch)	Unilever (Polman)

2. Cross-National Institutional (Cultural) Comparisons

- Significant USA – EU institutional differences
 - Coordinated vs liberal markets
 - Tight vs Loose cultures
 - Hard law/soft law
 - Societal expectations
 - Etc.

Glencore chief says European investors too focused on ESG



“In Europe, investors seem a little bit more focused on ESG [...] and it seems to be the ESG desk that makes more decisions — and returns are sometimes put second or third in the list. That’s a concern for us,” said Nagle, speaking at the Melbourne Mining Dinner in London on Thursday.

2. Institutions and Corporate Purpose Yet, is this Old Wine in New bottles?

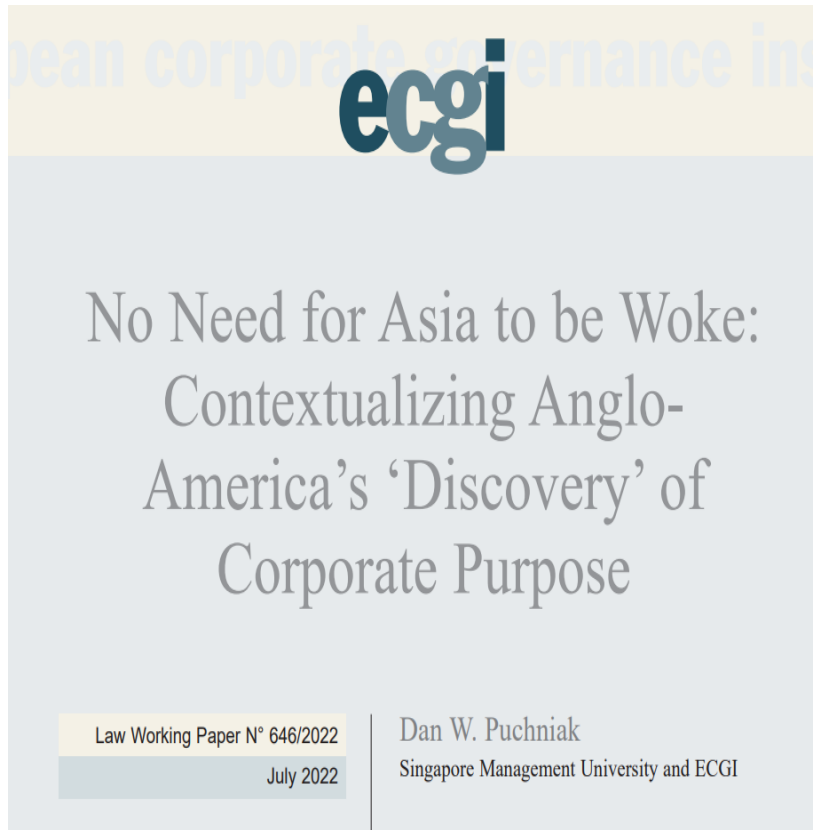
**Is managerial entrenchment always bad and
corporate social responsibility always good?
A cross-national examination of their combined
influence on shareholder value**

**Jordi A. Surroca¹ | Ruth V. Aguilera^{2,3} | Kurt Desender⁴ |
Josep A. Tribó^{4,5}**



2. Asia: Institutions and Corporate Purpose

2023 ECGI Law Prize Paper
By **Dan Puckniak**

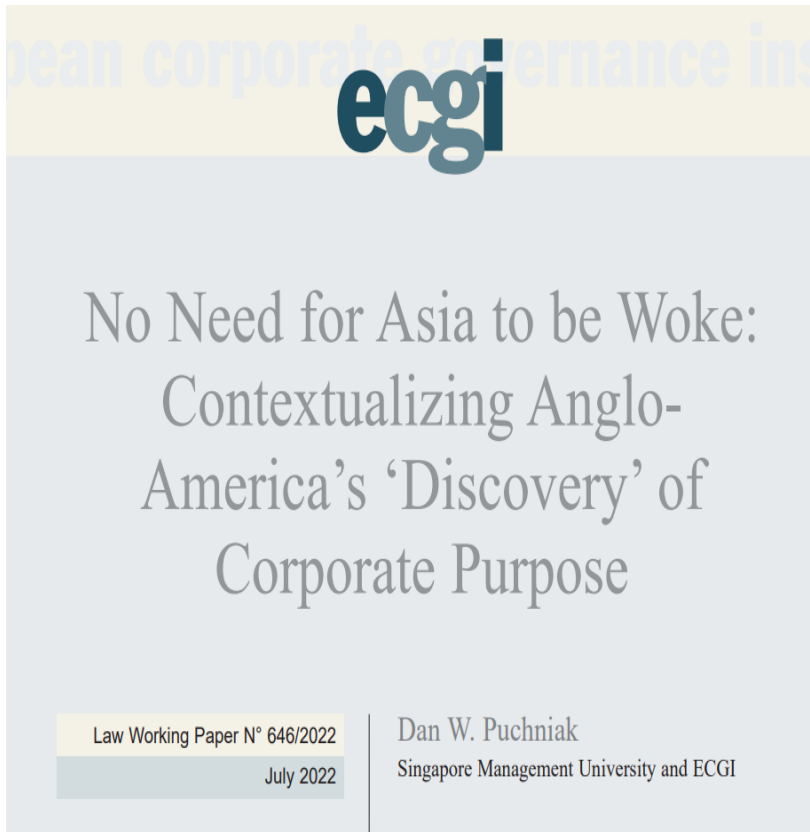


“Anglo-America’s recent “discovery” that corporations have stakeholders (other than shareholders) and purposes (other than maximizing shareholder value) is hailed as a corporate governance solution that can deliver global prosperity.

However, this article demonstrates that long before Anglo America’s “discovery” of corporate purpose, Asia was already awake to it.”

2. Asia: Institutions and Corporate Purpose

2023 ECGI Law Prize Paper



- “... different jurisdictions have different understandings of the purpose that corporations should serve and that there is no one model that fits all.”
 - China: common prosperity
 - Japan: company community
 - India: Stakeholderism
 - Singapore: Profit making state-owned & family firms

3. From Corporate Purpose to Corporate Governance

- What are we trying to achieve? (C. Mayer)
- Who develops the corporate purpose?
- How do owners influence purpose? What are their rights across jurisdictions?
- How are the intra-organizational power relations distributed?
- Purpose in boards (Canals, 2022 – *Boards of Directors in Disruptive Times*)
 - Long term strategic view
- Purpose relationship with incentives, time horizon, corporate strategy, etc
- Strengthen corporate purpose with accountability and trust
- Business can play a big role in helping to solve big problems

Acting and voting consistent with Corporate Purpose

BlackRock breaks with Glencore over environment policy

Latest filings show two top 10 shareholders voted against Swiss miner's climate plan



- BlackRock is 3rd largest shareholder, 8.2%
- MFS Investment Management is the 9th largest shareholder

Thank you!

r.aguilera@northeastern.edu

Corporate Purpose and Corporate Governance

- How does purpose relate to firm boundaries and theories of the firm?
- – How is purpose influenced by firm owners and governance structures?
- – How does purpose influence entry mode (make/buy/ally), target selection and deal success?
- – How does purpose shape a firm's strategic time horizon, and how do purpose-driven organizations navigate intertemporal tradeoffs differently from other organizations?
- – What role does purpose play in shaping the dynamics of executive incentives, and what tradeoffs exist between purpose-driven performance metrics and traditional financial measures in determining executive pay and corporate strategy?