



PERSPECTIVES ON CORPORATE PURPOSE

A COMPENDIUM OF KEY RESEARCH
FINDINGS ON CORPORATE PURPOSE
FROM THE ECGI WORKING PAPER SERIES

SEPTEMBER 2023

FOREWORD

By Colin Mayer

The world has fundamentally changed and, with it, business is changing. Business is the most important institution in our lives. It clothes, feeds, and houses us, it employs us, and invests our savings. It is the source of economic prosperity, poverty alleviation, and the growth of nations around the world. But there is also a growing recognition that it is a source of environmental degradation, destruction of nature, inequality, social exclusion and mistrust.

Business is changing with this. It is increasingly realising that its purpose is not simply to profit. It is recognizing that the means as well as the money matter – the source as well as the size of the profit matter. It matters whether business benefits from environmental degradation. It matters whether profits come at the expense of people. It matters whether shareholder value destroys societal values. And it matters because societal values create shareholder value. Business knows this, investors know it, regulators know it and they are responding.

Green washing, purpose washing, ESG bashing, and woke jokes reflect a deep-rooted cynicism, antagonism, and hostility which will bring responsibility and sustainability to a grinding halt. ESG is a problem not a solution. It is inconsistent, unverified, unassured, and unaudited. Very often, purpose statements are corporate promotion, and sustainability is simply unsustainable. This is because the existing system is incoherent. So long as it is profitable to benefit at the expense of others, it will go on happening and we cannot assume that competition, regulation, or government will solve the problem.

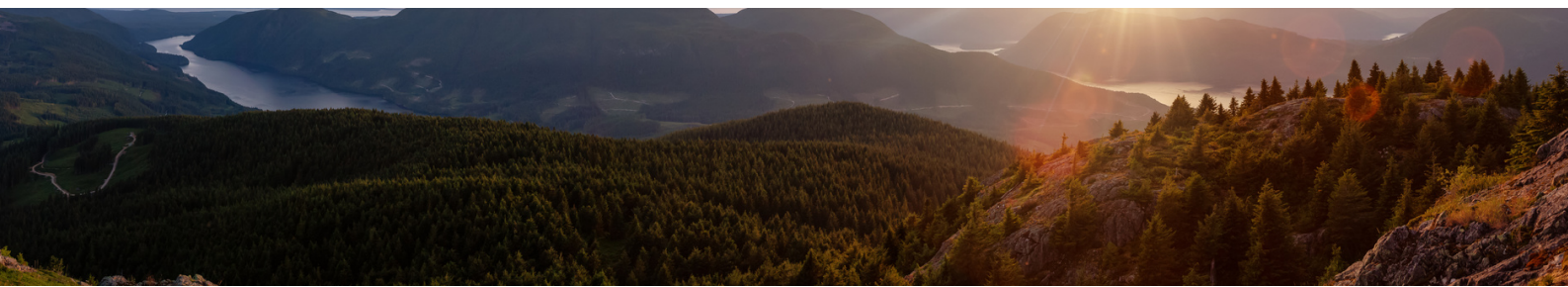
Corporate purpose is not simply a statement of a company's north star, its mission, its vision, its enlightenment, and its halo. So long as unfair pay flows from false profits, then corporate purpose and commitments are not worth the paper they are not written on. They must have real substance to have any significance. They must be a real challenge in terms of corporate ambition, and credible proof that a company does not profit at the expense of others.

The purpose of business is to solve problems – problems that we face as individuals, societies, and the natural world. And to do it in a way that is commercially viable and profitable.

We have the laws, ownership, governance, measurement, incentives, finance, and investment already to do this. There are solutions like public benefit corporations and impact investing, but they are no use if they remain as niche concepts. All companies must have a benefit as well as a profit purpose and profit from producing solutions not problems. And all institutional investors need to be impact investors who invest in and steward companies to produce profit from solving not creating problems. It is a way to recruit talent, create customer loyalty, promote societal support, and reward investors.

We have the tools to achieve a systemic change. But the world needs to adopt and implement them.

Colin Mayer is Emeritus Professor of Management Studies at the Saïd Business School at the University of Oxford and Visiting Professor at the Blavatnik School of Government at the University of Oxford. He was co-chair of the Scottish Government Business Purpose Commission and a past member of the UK Government Natural Capital Committee. Between 2017 and 2021, he led the British Academy enquiry into "the Future of the Corporation".



WHO CARES ABOUT CORPORATE PURPOSE?

By George Dallas



Corporate purpose is not a new topic. It has been a subject of discussion, in different shapes and forms, since the formation of the modern corporation. Strands of corporate purpose can be traced to the feudal guild system in Europe through to the 19th Century and early 20th Century industrialists and philanthropists.

Historical perspectives

A simplified, albeit incomplete, history of corporate purpose from the early 20th Century features the case of *Dodge v Ford* in 1919 in the US — a landmark ruling in which the Michigan Supreme Court held that the primary purpose of a corporation is to benefit its shareholders, and that returns to shareholders are to be prioritised over other social objectives. This case is often cited by scholars in establishing the orthodoxy of shareholder primacy in the US and thereby shaping corporate purpose linked to shareholder interests. In the post-World War II era this shareholder ethos remained in place, famously articulated in Milton Friedman's widely cited *New York Times Magazine* article in 1970 that 'the social responsibility of business is to increase its profits' (qualified, to Friedman's credit, by the need for business to work within legal and ethical norms).

Outside the realm of law and finance, the issue of corporate purpose was flagged in the 1950s by the influential management thinker Peter Drucker, who is attributed with the quote that 'the purpose of a business is to create and keep a customer' — looking at company purpose through a marketing lens. Moving on to the 1990s, the management scholars Christopher Bartlett and Sumantra Ghoshal published an article in *Harvard Business Review* titled 'Beyond Strategy to Purpose' in which they argue that organisations must have a compelling purpose that goes beyond financial goals, and that this purpose must drive management and the formation of company strategy.

In the 1990s and early 2000s considerable attention was devoted by law and finance scholars to corporate governance, but not to corporate purpose per se (at least in Anglo American jurisdictions). And much of the early scholarship about corporate governance was rooted in the conventional grounding of shareholder primacy. But in the early 21st Century, things began to change.

From shareholder primacy to stakeholderism

The formation of the Principles of Responsible Investment (PRI) in 2006 helped to catalyse institutional investor thinking around the consideration of environmental, social and governance (ESG) factors as part of the investment process. The Financial Crisis of 2008 soon followed, giving rise to renewed broader social concerns about the impact of companies (particularly banks) on society. At the same time, the growing general awareness of profound systemic risks, most notably climate change, has triggered social concerns about company impacts (including externalities) that are increasingly shared by company stakeholders, institutional investors and the general public.

While the foundations of stakeholder theory had been articulated in 1984 by the University of Virginia business academic and ethicist R. Edward Freeman, these growing concerns about the potential ills of shareholder primacy led to a renewed stakeholder focus in the US in the 2010s. This culminated in the (seemingly improbable) US Business Roundtable letter of 2019 endorsing the concept 'stakeholder capitalism', which was in turn embraced in the World Economic Forum's Davos Manifesto of 2020 as an alternative to shareholder primacy.

Current academic discourse

So, did the pendulum simply swing from shareholder primacy to stakeholderism? Perhaps so, to some observers. But a renewal of scholarship and thinking about corporate purpose in recent years has begun to present a more nuanced approach to a simplistic and binary shareholder versus stakeholder debate. Led by ECGI Fellow and Oxford academic Colin Mayer, the British Academy published 'Principles for Purposeful Business' in late 2019. It makes the case for revisiting the contract between business and society and establishing the primacy of purpose over profit, supported by eight principles ranging from law and regulation, ownership, corporate governance, measurement and performance and finance and investment. Importantly, this approach to corporate purpose does not reject the fundamental role that shareholders play in company governance in favour of stakeholders. But it does challenge the premise that company purpose is defined by shareholder value maximisation.





The British Academy publication and other related scholarship by Professor Mayer has helped to stimulate a fresh round of academic discussion on corporate purpose in recent years. From the network of ECGI Research Members, over 35 working papers have been published on corporate purpose since 2020. A review of these working papers shows different approaches to the study of corporate purpose, and that there is no consensus in the academic community on this question. For example, Harvard Law scholars Lucian Bebchuk, Kobi Kastiel and Roberto Tallarita challenge this alternative to shareholder primacy, and there is also a sharp, but entertaining(!), exchange of views between Colin Mayer and Oxford law professor Paul Davies on the purpose— and purposelessness— of mandatory corporate purpose statements. More recently, Cambridge law professor Brian Cheffins has taken an historical view of the current corporate purpose debate, suggesting that it has been cyclical in nature, with pendulum swings that alternatively favour shareholders vis-à-vis stakeholders, and that this is likely to continue into the future.

The multi-lens approach

The fact that the discussion of corporate purpose continues to crop up suggests that this topic may be perennial, or at least that it can be elusive— and is certainly far from resolved. And it can take shape differently when viewed through different lenses, such as leadership, management and governance; ownership; finance and investment; law and regulation; and measurement and performance. This helps to explain why ECGI has identified corporate purpose as one of three core pillars (alongside family capitalism and responsible investment) in its multi-year Responsible Capitalism initiative, launched in 2022.

We do not anticipate to achieve universal agreement on all of these areas. But we do hope we can have success in continuing to shape the contours of the corporate purpose discussion and to build awareness of its implications for practitioners as well as academics.

Who cares?

To answer the titular question about who cares about the issue of corporate purpose: Economists care, investors care, corporate managers care, workers care, regulators care, politicians care, consumers care, civil groups care ...and corporate law scholars really care!

George Dallas is Head of Content at ECGI. He has also served as Policy Director at the International Corporate Governance Network, as Director of Corporate Governance at F&C Investments and as a Managing Director at S&P Global.

CORPORATE PURPOSE: A HISTORY

Pre
C20th

Feudal Guilds to Early 20th Century: Strands of corporate purpose can be traced back to Europe's feudal guild system and the philanthropic efforts of 19th and early 20th Century industrialists.



1919

Dodge v Ford: A landmark case in the US where the Michigan Supreme Court emphasized the primary purpose of a corporation as benefiting shareholders, shaping corporate purpose around shareholder interests.



1950

Management thinker Peter Drucker introduced a marketing perspective, stating that "the purpose of a business is to create and keep a customer."



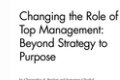
1960

Post-World War II Era: Shareholder primacy remained prominent, epitomized by Milton Friedman's 1970 statement that "the social responsibility of business is to increase its profits."



1990

Scholars Christopher Bartlett and Sumantra Ghoshal argued for organizations to have a purpose beyond financial goals, driving management and strategy.



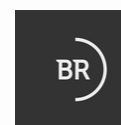
2000

Shift from shareholder primacy to stakeholderism with the formation of Principles of Responsible Investment (PRI) in 2006 and the impact of the Financial Crisis of 2008. Growing awareness of systemic risks like climate change triggered social concerns shared by stakeholders, investors, and the public.



2010

Renewed focus on stakeholders in the US culminated in the endorsement of "stakeholder capitalism" by the US Business Roundtable in 2019 and its adoption in the World Economic Forum's Davos Manifesto in 2020.



2019

Scholarship, such as the British Academy's "Principles for Purposeful Business," challenged the premise of shareholder value maximization, emphasizing the primacy of purpose over profit.



2020+

Over 35 working papers on corporate purpose have been published by legal scholars, highlighting tensions and potential superficiality in the discourse. ECGI identified corporate purpose as a core pillar in its Responsible Capitalism initiative in 2022, to explore contemporary interpretations of corporate purpose through five lenses: leadership, ownership, finance, law, and measurement.



ACADEMIC PERSPECTIVES

Recent ECGI working papers on corporate purpose highlight a range of overlapping views.

Corporate Social Responsibility through Shareholder Governance

Robert P. Bartlett, Ryan Bubb | July 2023



Enlightened shareholder value and shareholder social preferences, promise to address CSR through shareholder governance, with enlightened shareholder value being the most viable path for achieving social progress within the corporate system.



The Past, Present and Future of Corporate Purpose

Brian Cheffins | June 2023



The 1980s takeover wave probably was a “critical juncture” that altered corporate purpose in a shareholder-oriented manner that is unlikely to change for the foreseeable future.

Corporate Law in the Global South: Heterodox Stakeholderism

Mariana Pargendler | July 2023



While Brazil's Corporations Law of 1976 grants an unusual amount of power to shareholders, it requires directors and officers to act in the interest of the company, “subject to the public interest and to the social function of enterprise,” and imposes liability on controlling shareholders for orienting a company towards a purpose “harmful to the national interest” or favoring another company to the detriment of the “national economy.” Delaware lies on the opposite side of the spectrum from Brazil, where stakeholder-oriented fiduciary duties coexist with exceptionally strong shareholder power. Yet, given the dearth of enforcement mechanisms, there is no evidence suggesting that broader fiduciary duties to stakeholders make much difference where they exist.

Corporate Purpose

**Dorothy S. Lund, Elizabeth Pollman
June 2023**



First, corporate purpose can be understood at the level of the individual corporation. Enabling corporate law allows for customization and corporate organizers can specify their choice of purpose. Second, by contrast, corporate purpose is viewed as a generalizable and monolithic concept across companies. It is an abstract debate at the heart of corporate law, which ramifies deeper issues such as the role of corporations in society and in whose interest they should be run. We explore these two sides of corporate purpose and argue that while each aspect of corporate purpose is a commonly understood way of thinking about the topic, they operate in tension with each other.

ACADEMIC PERSPECTIVES

Shareholder Primacy versus Shareholder Accountability

William Bratton | June 2023



This Article looks closely at this confrontation between shareholder primacy and shareholder accountability, asking three questions: (1) whether investment institutions can legitimately sacrifice their investors' financial returns in connection with the installation of socially responsible business practices at operating companies; (2) whether, assuming ESG concerns take a permanent place at the top of the corporate governance agenda, shareholder primacy can continue to provide a viable cornerstone for corporate legal theory; and (3) whether recent institutional interventions in the name of ESG herald a structural shift toward a welfarist corporation. The Article answers all three questions in the negative.

Corporate Purpose and Stakeholder Value - Historical, Economic and Comparative Law Remarks on the Current Debate, Legislative Options and Enforcement Problems

Klaus Hopt | March 2023



The enforcement and enforceability of regulations to promote stakeholder interests are crucial, and various regulatory options and mechanisms are available, including market discipline, self-regulation, codes of conduct, disclosure and auditing, and both public and private enforcement.

The Purpose of Corporate Purpose Statements: A Response to "Shareholder Voice and Corporate Purpose: The Purposeless of Mandatory Corporate Purpose Statements" by Paul Davies

Colin Mayer | March 2023



Legally binding purpose statements for companies can enhance credibility and align objectives with shareholders, encompassing private as well as communal or social objectives, potentially benefiting all stakeholders involved, while addressing concerns and criticisms raised against them. But the ability of companies to inflict negative detriments on others may hinder widespread adoption of positive purposes and necessitate the use of both private and public law to restrain corporate conduct.

How Twitter Pushed Stakeholders Under The Bus

**Lucian Bebchuk, Kobi Kastiel, Anna Toniolo
April 2023**



When negotiating the acquisition of Twitter by Elon Musk, Twitter's leaders prioritized the interests of shareholders and themselves, disregarding the interests of stakeholders, including employees and the company's mission and values, which challenges the notion that corporate leaders are expected to consider stakeholder interests and suggests that corporate mission statements may be superficial.

ACADEMIC PERSPECTIVES

Firm Value versus Social Value: Dealing with the Trade-offs

Guido Ferrarini | March 2023



Firms can generate social value while increasing their long-term economic value by adopting organizational and technological innovations, promoting sustainability, adhering to ethical standards, and incorporating corporate governance practices that align with environmental and human rights concerns, suggesting that a narrow focus on economic value alone is insufficient in capturing the full potential of a firm's impact and success.

The Emergence of Welfarist Corporate Governance

**Marcel Kahan, Edward Rock
February 2023**



The emergence of corporate governance welfarism suggests a new paradigm focused on broader goals beyond shareholder value,



utilizing shareholder and stakeholder pressure to balance interests and potentially influencing needed regulatory change.

Purpose, profit and social pressure

**Fenghua Song, Anjan Thakor,
Robert Quinn | February 2023**



While profit-sacrificing higher purpose (HP) investments by firms can lead to lower wage costs and higher employee effort when there is no social pressure to adopt HP, introducing social pressure to promote HP can distort investments and reduce welfare for all agents, suggesting that mandating HP for all firms may not be the best regulatory response.



Stakeholder Capitalism in the Time of COVID

Lucian Bebchuk, Kobi Kastiel, Roberto Tallarita | December 2022



Corporate leaders, despite expressing commitment to stakeholderism during the COVID-19 pandemic, failed to prioritize stakeholder interests in deal negotiations, demonstrating that their incentives primarily align with shareholder interests rather than broader stakeholder concerns.



Corporate Purpose: Theoretical and Empirical Foundations/Confusions

**Holger Spamann, Jacob Fisher
November 2022**



While there are theoretical arguments in favor of socially-minded corporate decision-making and the influence of legal and governance mechanisms, empirical evidence shows limited detectable effects on corporate purpose and decision-making, suggesting that many arguments for or against specific corporate purposes are flawed or based on selective evidence.



Shareholder Voice and Corporate Purpose: The Purposeless of Mandatory Corporate Purpose Statements

Paul Davies | November 2022



A single change to corporate law, requiring companies to include a social or communal purpose alongside profit-making, is unlikely to transform corporate conduct without significant changes to shareholder-centric features of corporate law or a shift in how investors perceive their goals, suggesting that the mandatory purpose requirement would either be ineffective or unnecessary.

ACADEMIC PERSPECTIVES

The New Corporate Governance

Oliver Hart, Luigi Zingales | August 2022



When externalities are important and investors are at least somewhat prosocial, shareholder welfare maximization, not value maximization, is an appropriate goal for corporations.



No Need for Asia to be Woke: Contextualizing Anglo-America's "Discovery" of Corporate Purpose **Dan Puchniak | July 2022**



Asia's economies, which are key drivers of global economic growth, have long embraced corporate purpose and stakeholderism, and the Anglo-American push for corporations worldwide to adopt purposeful governance may have adverse effects in Asia, where multiple purposes already exist, potentially hindering reforms and minority shareholder protection. It emphasizes the importance of recognizing the diversity of corporate purpose models across jurisdictions for achieving prosperity.

What is Wrong with Corporate Law? The Purpose of Law and the Law of Purpose **Colin Mayer | June 2022**



Corporate law can address the divergence between private interests and public interests by requiring appropriately formulated corporate purposes, enabling corporations to commit credibly to long-term prosperity and aligning their incentives with societal and planetary interests, thereby providing a remedy for the intensifying crises caused by the failings of current laws governing corporations.

Will Corporations Deliver Value to All Stakeholders?

Lucian Bebchuk, Roberto Tallarita | May 2022



The signing of the Business Roundtable (BRT) Statement by corporate leaders, which expressed a commitment to stakeholders, did not lead to meaningful improvements in stakeholder treatment, indicating that relying on the discretion of corporate leaders to serve stakeholders is an ineffective and counterproductive approach.



Does Enlightened Shareholder Value Add Value?

**Lucian Bebchuk, Kobi Kastiel,
Roberto Tallarita | May 2022**



Replacing shareholder value maximization (SV) with enlightened shareholder value (ESV) does not provide significant benefits to stakeholders or society, as the trade-offs between shareholder and stakeholder interests are often significant. SV and ESV are operationally equivalent under standard assumptions, and arguments in favor of ESV are flawed. In fact, the switch from SV to ESV could create a false impression of stakeholder protection and hinder meaningful reforms.

ACADEMIC PERSPECTIVES

Higher Purpose, the Greater Good and Finance

Anjan Thakor | May 2022



Higher purpose, which is distinct from CSR and ESG, can have positive effects on economic outcomes when implemented effectively by organizations. More research is needed to establish a robust causal relationship between higher purpose and economic outcomes, and there is potential for banks to adopt an authentic higher purpose that benefits both borrowers and society.

The Purposive Transformation of Corporate Law

David Kershaw, Edmund Schuster | November 2021



In order to harness the economic and social benefits of purposeful companies, corporate law should enable the construction of a zone of insulation to protect a company's mission-purpose from immediate shareholder pressures, thereby promoting a more inclusive and interconnected form of modern capitalism.

Purpose Proposals

Jill Fisch | April 2022



Purpose proposals serve as a platform for engaging shareholders in the debate on stakeholder governance at the firm level, allowing for the articulation of views and generating responses from management, while also highlighting the challenges of intermediated stock ownership in evaluating normative trade-offs related to stakeholder governance.

Strategic Leadership in Corporate Social Responsibility

Rui Albuquerque, Luis Cabral | September 2021



Firms may choose to deviate from profit maximization by adopting a stakeholder model through a CSR policy and still achieve higher profits due to strategic complementarities in the industry, challenging the traditional dichotomy between purpose and shareholder value. The presence of mission statements and green-activist investors is more likely in industries with prominent strategic complementarities, and the importance of considering industry equilibrium when analyzing CSR.

Dodge v. Ford: What Happened and Why?

Mark Roe | November 2021



The traditional interpretations of the Dodge v. Ford shareholder primacy decision overlook the crucial industrial context, including Ford's monopoly, labor tensions, and the need for cash investment in expanding the monopoly, suggesting that stakeholder pressure can be influential in firms with significant economic rents.

ACADEMIC PERSPECTIVES

The Governance of Corporate Purpose

Colin Mayer | September 2021



There is a shift in the governance and measurement framework of corporate purpose, recognizing the importance of solving problems and considering the impacts on various stakeholders, leading to a reevaluation of the traditional understanding of corporate profits and a need for new governance and measurement systems to align corporate values with the delivery of purpose. This shift is already underway at national and international levels, indicating a significant transformation in the corporate system.

Corporate Purpose and Corporate Competition

Mark J. Roe | August 2021



Rising purpose pressure in corporations is more likely to succeed when the underlying industrial organization allows for it, specifically due to eroded competition, winner-take-all industries, shareholder concentration, and labor's ability to obtain value from industries with supracompetitive profits. However, the interaction between industrial organization and purpose also carries political risks and can contribute to increased polarization and instability in society.

Is There a Role for Benefit Corporations in the New Sustainable Governance Framework?

Guido Ferrarini, Shanshan Zhu | June 2021



While benefit corporations offer a potential means to reconcile profit and social values in business corporations, the emerging sustainable governance framework in the EU partially overlaps with and serves as a substitute for benefit corporation laws, reducing the relevance and interest in adopting this corporate form, except for non-listed SMEs and companies using it primarily for communicating their commitment to sustainability.



Corporate Purpose: A Management Concept and its Implications for Company Law

Holger Fleischer | February 2021



Many large companies have embraced the concept of corporate purpose, influenced by leading management scholars, to go beyond profit-making and adopt a broader societal focus, and this concept is linked to the historical context of corporate social responsibility (CSR), while legislative reforms in different countries have provided avenues for incorporating corporate purpose into company law. The demand for legally obligating companies to have a corporate purpose in their articles of association lacks support, while a periodic say-on-purpose vote could be debated with the integration of a more meaningful purpose report into CSR reporting, and the adoption of dual-purpose corporate forms should be seriously considered in jurisdictions without benefit corporation models.

ACADEMIC PERSPECTIVES

Higher Purpose, Banking and Stability **Stuart Bunderson, Anjan Thakor |** **February 2021**



Individuals working in organizations with written statements of higher purpose are happier, trust their leaders to be socially responsible, and make better business decisions, which can be attributed to the signaling of ability by higher purpose investments and the alignment of employee values with the organization's purpose. The higher purpose in banking, as higher capital in banks pursuing a higher purpose leads to higher wages, increased employee effort, and lower failure probabilities, indicating the regulatory and stability implications of purpose-driven banking.

Higher Purpose, Incentives and Economic Performance **Anjan Thakor, Robert Quinn |** **October 2020**



Pursuing an organizational higher purpose can reduce agency frictions, lower wage costs, and increase employee effort, but the impact on profits depends on whether employees value the authenticity of the firm's higher purpose or simply the level of investment in it, with profitability either declining or exhibiting a non-monotonic relationship with the commitment to higher purpose. Additionally, the possibility of agency costs of external finance creates negative externalities, crowding out higher-purpose investments by other firms, and when customers and/or investors value the firm's higher purpose, employee wages decrease while higher purpose investments by firms increase.

The Future of the Corporation and the Economics of Purpose **Colin Mayer |** **November 2020**



Refocusing corporate objectives on purpose is a profound reconceptualization of economic activity that can improve the functioning of markets, address market failures, enhance productivity and economic performance, and provide meaning to individuals and society.

Varieties of Shareholderism: Three Views of the Corporate Purpose Cathedral **Amir Licht |** **October 2020**



There is a tension between individual and societal/national perspectives on the purpose of the corporation, as reflected in national corporate laws endorsing shareholder primacy, personal human values, and the challenges of legal injunctions on corporate purpose, highlighting the need to acknowledge and navigate these tensions in corporate governance discussions.

ACADEMIC PERSPECTIVES

Corporations, Directors' Duties and the Public/Private Divide

Jennifer G. Hill | September 2020



There is a tension between public and private conceptions of the corporation, this tension is not binary or irreconcilable. Multiple problems exist in corporate law there is a need to address negative externalities and social harm caused by corporate actions, leading to a more comprehensive vision of the corporation that encompasses both private and public aspects and expands the role of company directors in monitoring corporate integrity and social impact.

Shareholderism versus Stakeholderism – A Misconceived Contradiction. A Comment on “The Illusory Promise of Stakeholder Governance by Lucian Bebchuk & Roberto Tallarita

Colin Mayer | June 2020



Dichotomy between shareholderism and stakeholderism is a misconception and that both concepts can coexist in a company's governance structure. Purpose and values hold management to account to a degree that enlightened long-term shareholder value cannot.

Personal and Organizational Higher Purpose, Corporate Governance and Shareholder Value: Survey Results

Stuart Bunderson, Anjan Thakor | July 2020



Personal higher purpose and organizational higher purpose contribute to greater personal happiness, better stress management, improved productivity, and a stronger connection between individuals and their employing organizations, suggesting that purpose-driven organizations focused on external stakeholders can lead to better corporate governance and more motivating workplaces.



For Whom is the Corporation Managed in 2020?: The Debate over Corporate Purpose

Edward Rock | May 2020



The ongoing public debate on the purpose of corporations involves four separate questions related to the theory of the corporation, academic finance, management strategies, and the social roles and obligations of large publicly traded firms. Using corporate law to enforce specific and legally binding "purpose" provisions as a solution to address the pathologies associated with profit maximization is unlikely to be effective and may have unintended consequences, as it requires a wholesale restructuring of corporate law and faces challenges of legitimacy and coherence in the corporate form. Additionally, the author argues that regulatory solutions are more suitable for addressing social problems rather than relying solely on corporate law.

ACADEMIC PERSPECTIVES

Should Corporations Have a Purpose?

Jill Fisch, Steven Davidoff Solomon |

April 2020



Corporate purpose serves an instrumental role in managing expectations, coordinating interests, enhancing transparency, and accountability, and that for purpose to be effective, it should be articulable and enforceable through concrete measures such as charters, reporting standards, compensation metrics, and board composition. Additionally, market forces, including shareholder-driven initiatives and the growing focus on ESG and Public Benefit Corporations (PBCs), play a crucial role in shaping and enforcing corporate purpose.



Companies Should Maximize Shareholder Welfare Not Market Value

Oliver Hart, Luigi Zingales | August 2017



Maximizing shareholder welfare differs from maximizing market value, and managers should align policies with investor preferences, utilizing shareholder voting to achieve this alignment, particularly when dealing with prosocial shareholders and inseparable externalities.



The Economics of Higher Purpose

Anjan V. Thakor, Robert E. Quinn |

December 2016



The pursuit of "higher-purpose" projects, along with wealth maximization, can result in cost reductions, increased investments, and a symbiotic relationship between principals of different motivations, preventing market breakdown.



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Responsible Capitalism Initiative

Capitalism is a system for the creation and distribution of wealth. Like any human product, capitalism certainly does not work perfectly. It has many shortcomings. The issues of sustainability, inequality and exclusion create new challenges for capitalism and corporate governance. Stimulating capitalism to act more responsibly is an effective way to make markets, companies and governments respond to today's ESG challenges while safeguarding creativity, innovation, and climate-compatible growth.

Corporate governance has changed in recent years. The corporation, how it is financed, its purpose, its governance and its impact on society are subjects that have moved centre stage in all regions. The collect-all term 'ESG' is symptomatic of this trend. Embarking on an ambitious plan to answer key questions about the future of global capitalism, ECGI is actively pursuing a focus programme on 'Responsible Capitalism' which will aim to address and contribute to progress under these themes.

The initial three key pillars of the Responsible Capitalism initiative are Corporate Purpose, Family Enterprises and Responsible Investment.

ECGI aims to advance the global debate in each of these critical areas and engage and assist policy makers and other constituencies in interpreting research findings and to confront their thinking with the best available evidence. It will enable the different parties to understand what the academic evidence suggests and to draw actionable, flexible real-world solutions.

It's time for Responsible Capitalism.

PERSPECTIVES ON CORPORATE PURPOSE

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