SUMMARY REPORT

Modern Capitalism & Corporate Purpose

PREPARED BY

GEORGE DALLAS

CONFERENCE DATE

21-22 SEPTEMBER 2023

ecgi

CBS COPENHAGEN BUSINESS SCHOOL

A 3-DAY EVENT WHERE LEADING INTERNATIONAL ACADEMICS AND BUSINESS LEADERS CONVENED TO EXPLORE CORPORATE PURPOSE'S IMPACT ON CAPITALISM AND SUSTAINABILITY.

ORGANISED BY ECGI AND THE COPENHAGEN BUSINESS SCHOOL

WITH THANKS TO ALL THE STAFF AT THE COPENHAGEN BUSINESS SCHOOL

ecgi Responsible Capitalism Initiative

CBS COPENHAGEN BUSINESS SCHOOL

INTRODUCTION

As part of the Corporate Purpose pillar of ECGI's Responsible Capitalism initiative, this 3-day event was hosted by Copenhagen Business School and brought together academic scholars and business leaders to address the central questions relating to corporate purpose and capitalism more broadly. Following a workshop on corporate purpose designed for young scholars on the first day, there was conference on day two with five sessions to consider different perspectives on corporate purpose. The final day included the ECGI General Assembly meeting, the 2023 Wallenberg Lecture, working paper prizes and a session on corporate purpose in practice.
This conference summary focuses primarily on the Perspectives on Corporate Purpose event held on Thursday 21 September 2023.

Day 1: Young Scholars Workshop
Day 2: Perspectives on Corporate Purpose
Day 3: The 2023 ECGI Annual Meeting including:
The 2023 Wallenberg Lecture, Prizes, and Purpose in Practice

- Wednesday, 20 September 2023
- Thursday, 21 September 2023
- Friday, 22 September 2023

DAY 1 – YOUNG SCHOLARS WORKSHOP ON CORPORATE PURPOSE

This paper development workshop explored the emerging research agenda that links corporate governance to purpose and sustainability. It shed light on how shareholders, boards, and managerial incentives address corporate purpose and sustainability. The workshop was primarily aimed at young scholars (PhD students, post docs, assistant and associate professors) who are developing new work and are seeking to establish themselves in their profession. The goal of the workshop was to provide them with an opportunity to discuss their work with leading professors in the field to further develop and strengthen their scholarship.

09:00 Introductions and Welcome
Jette Steen Knudsen (Tufts University)
Steen Thomsen (Copenhagen Business School and ECGI)
Session 1: Paper presentations on Sustainability
09:15 "U.S. Corporate Accountability in the ESG Era"
Gilda Sophie Prestipino (Kirkland & Ellis LLP)
09:55 "Consumer Responses to the Revelation of Corporate Social Irresponsibility"
Anthony Joffre (University of Miami)
10:35 "Corporate Social Responsibility and Post-merger Labour Restructuring"
Jianjun Tao (Bayes Business School, City, University of London)

DAY 1 – YOUNG SCHOLARS WORKSHOP ON CORPORATE PURPOSE

Session 2: Paper presentations on Purpose
11:45: “Redefining the Corporate Purpose – The Influential Role of Academics”
Anne-Marie Weber (University of Warsaw and ECGI)
12:25: The Influence of Corporate Purpose on the Duty of Care and Standard of Diligence of Directors”
Luca Garcia Martin (Universidad de Alcalá)
13:05: “Corporate Purpose of Corporate Groups”
Bonheur Minzoto (University of Manchester)

Session 3: Paper presentations on Enterprise Foundations
14:45 “The Financial Performance of Private Foundation-Owned Firms”
Fabian Ahrens (Copenhagen Business School)
15:25 “Enterprise Foundations and Faithful Agency as Drivers for Sustainable Long Termism in US Philanthropy”
Mark Ørberg (Copenhagen Business School)
16:30 Sustainability and Purpose Workshop

Discussion: Big PIcture Conclusions and Next Steps
Terry McNulty (University of Liverpool), Ruth Aguilera (Northeastern University)
William Q. Judge (Old Dominion University) Jette Steen Knudsen (Tufts University)
Steen Thomsen (Copenhagen Business School and ECGI)

DAY 2 - PERSPECTIVES ON CORPORATE PURPOSE

The second day brought together academics and practitioners to examine the opportunities and challenges presented by corporate purpose and the evidence of its contribution to business success, investor performance and wider societal and environmental interests.

Executive summary of key takeaways

1. Management/governance

- For company purpose to be real, and not an abstraction (or greenwash), it must be clearly defined, understood and integrated in the firm’s strategy and resonate throughout the ranks of the organisation.
- There are elements of ESG and sustainability that have relevance for company purpose, but company purpose is not to be confused with or conflated as ESG.
- Who determines, or should determine, corporate purpose? While some argue this is the role of the board, they should seek shareholders’ endorsement. Purpose is a complex topic; context is critical and there is no universal solution.
- There is a critical human dimension. The implementation of purpose in practice needs to connect with strategy, policies and the business model, but at its core requires a ‘heart’ as well as a brain. Nurturing values is at the core of this.

2. Ownership

- Ownership can play an important role in shaping purpose, though this can take place legitimately in different ownership arrangements, including foundations, state owned companies, family companies and companies owned primarily by institutional investors. We also considered a common practice in Japan in which a company management is able to choose investors that fit the company's identity and strategy through selective placements of treasury stock which is favourably received by the stock market.
- Some owners – like foundations – are more likely to instil a robust corporate purpose. However, family businesses tend to underperform with regard to sustainability.

3. Finance and investment

- Investors have a key role to play in supporting purpose through their stewardship activities. Investors generally accept the need for companies to have a meaningful corporate purpose, but the concept of 'purpose before profit' is potentially problematic in the context of the fiduciary duty of institutional investors.
- Stewardship codes, which are now common throughout the world, have the potential to fill the fiduciary gap left by hard law, enabling investors to take a broader view of company purpose. Stewardship can be both at the micro or individual company level and at the macro or systemic level.
- While investors rarely engage on 'purpose' per se, they do engage on what had traditionally been 'non-financial' issues ('pre-financial' may be a better descriptor), including ESG factors, that do relate to company purpose and its relations to its stakeholders and communities.

4. Law

• Purpose is not a new legal concept and purpose clauses have long featured in corporate charters, but the debate has shifted to a broader societal discussion of purpose relating to the role of companies in society.
• Law plays an important role in providing accountability for companies that produce negative externalities: namely, companies that profit from creating problems.
• Law can therefore be an enabler in supporting corporate purpose, by ensuring that there are legal consequences for negative company behaviour, such as greenwashing and purpose washing. Legal mechanisms, which can be used to hold corporations and their controllers to account in the context of corporate purpose include: shareholder inspection rights and activism, clawbacks of executive compensation, facilitation of whistleblowing and derivative lawsuits, e.g., for misleading and deceptive conduct and breach of fiduciary duties.

5. Measurement

• Measurement of purpose is a great challenge, but it can be done, as demonstrated by what one of the presenting companies does in creating its own sustainability adjusted EBITDA metric. Purpose takes the form of metrics (often ESG related) linking to how companies create externalities or negative impacts. Such metrics can also feature as performance metrics in ESG based executive remuneration.
• The greatest need for objective metrics lies in the area of climate and greenhouse gas emissions, whereas other social issues may be company specific and do not require standardisation.
• While the concept of double materiality was discussed as a way to capture reporting on externalities, there was scepticism expressed about how effective double materiality will be in practice.
• Work is also being done in the accounting space to link purpose related metrics (especially climate) to financial statements (intangibles, contingencies, fair value, etc). This can invigorate the focus on purpose by relating it more directly to capital and financial performance.

DAY 2 - SESSION SUMMARIES

10:00 Introduction and welcome

Steen Thomsen (Copenhagen Business School and ECGI)
Colin Mayer (University of Oxford and ECGI)

Summary

Steen Thomsen and **Colin Mayer** opened the session and oversaw the day's wide-ranging discussions. Thomsen stated that the purpose of the conference was both to take stock of where we are in the corporate purpose debate and to identify promising avenues for taking the field forward.

Mayer began with the understated observation that corporate purpose is a hot, but 'disputed'' topic. He framed the day as an exercise on whether corporate purpose is 'foundational or fictional', and to get to the heart of what a meaningful corporate purpose entails. Mayer offered as a guiding definition of corporate purpose the formulation in the British Academy's 2019 publication, Principles for Purposeful Business, namely that 'the purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems.' This requires companies to identify the problems they are trying to solve, to ensure this process is appropriately managed and governed and to demonstrate that they can pursue a corporate purpose without creating other social and environmental problems—while also achieving profits.

Mayer explained the logic of the day approaching corporate purpose through the five sessions and laid down questions for each session to consider:

• **Management and governance**: how do corporate leaders and boards determine corporate purpose, its implementation and oversee how it is delivered?

• **Ownership**: what is the role of ownership in affecting corporate purpose? Are some ownership structures more conducive to fostering purpose? Families, firms, foundations, employees, or institutional investors?

• **Finance and investment:** What is the role of financial markets, including institutional investors such as asset managers and pension funds, in promoting corporate purpose, and how does this relate to sustainable finance?

• **Law:** What function can and should the law serve as an enabler to encourage companies in committing to corporate purpose and holding directors to account? Should corporate purpose be regulated?

• **Measurement and metrics**: how can one measure corporate purpose? How can companies meaningfully measure and report on how they are producing solutions or avoiding creating problems? What is the linkage of ESG to this discussion?

10:15 Session 1: Leading, managing and governing corporate purpose

Chair: Jordi Canals (IESE Business School and ECGI)

Speakers:
Ruth Aguilera (Northeastern University)
Claudine Gartenberg (Wharton School of the University of Pennsylvania)
Juvencio Maeztu (Deputy CEO, Ingka Ikea)

Session Summary

Jordi Canals framed the session's goal as to explore 'leading, governing and managing corporate purpose', both from an academic perspective and with regard to the key practical challenges of how to implement corporate purpose in practice. Canals asked **Claudine Gartenberg** of Wharton to kick things off by summarising the empirical work she has been conducting on corporate purpose over a ten-year period. He noted that this empirical research could serve as a useful basis of reference throughout the day's event.

Gartenberg began by citing the sharp increase in purpose related media coverage in recent years and observed that this is a growing element of conversation for boards, investors and employees. She stated that some companies may be truly invested in identifying and implementing their purpose, but that it can be difficult to distinguish substance versus form — there is a lot of 'twaddle' out there. She notes that purpose statements can be substance-less and self-promoting 'word salads of nothing', crafted more in the spirit of corporate public relations propaganda than good corporate governance. In this context a key concern is how to identify where purpose is real, what is does for businesses and how it allows them to compete.

To frame the parameters of the discussion Gartenberg cited Larry Fink of BlackRock's assertion that purpose is the animating force behind profits and that profits and purpose are 'inextricably linked'. But she also notes that ECGI Wallenberg lecturer Lucien Bebchuk has a more sceptical take, seeing corporate purpose primarily as a form of window dressing that empowers company managers and makes them less accountable to investors and other stakeholders.

Gartenberg proffered a definition of corporate purpose that guided her research programme: the meaning of a firm's work beyond quantitative measures of financial performance. She also was quick to point out that corporate purpose should not be conflated with ESG, CSR or stakeholder capitalism: they are not 'isomorphic'. Relating this to sociology and human psychology, Gartenberg sees purpose as relating to 'shared meaning' and cited the work of 20th Century social scientist Victor Frankl to suggest that humans are 'meaning motivated beings' who like to see positive meaning in their work as part of the human condition.

Gartenberg then presented her empirical research into corporate purpose, citing three inherent challenges: definition, measurement and distinguishing between correlation and causation. A distinctive feature of her approach is that her research ignores the 'usual suspects' of corporate purpose statements, CEO statements and public filings. This effectively is due to the potential 'twaddle effect', reflecting a lack of trust in what CEOs or companies say.

Instead, Gartenburg suggested that employees can be more reliable indicators of corporate purpose, using employees' aggregate beliefs as a credible informative signal: 'you can't fool all the employees all the time'. She cited her 2019 paper titled 'Corporate Purpose and Financial Performance', in which she created a measure of purpose at the employee level on the basis that a sense of purpose is often less established in lower management tiers. Her research identifies that it is clarity of purpose in the middle ranks of the organisation that can lead to company outperformance. Purpose must be believed by the employees, otherwise it may simply be empty chatter.

The second paper Gartenberg cited was her 2023 paper 'Corporate Purpose in Public and Private Firms'. It explores corporate ownership in the US and the nature of these owners, including both public and privately held companies. The conclusion is that there is an ownership effect: purpose is higher in private companies, and lower in public companies and in companies held by private equity firms. She suggests that this may reflect differing temporal horizons, with longer-term (e.g., private) companies demonstrating a higher level of purpose than hedge funds, for example. More specifically this may be manifested in differing 'corporate choices' such as more outsider CEOs, more inorganic (M&A) activity and a large CEO/employee pay gap.

Gartenberg's final paper cited was a 2023 paper on the 'The Contingent Relationship between Purpose and Profits'. By examining US companies in 14 different sectors, she finds that profit and purpose can vary widely across companies and industries. She suggests that differing sectoral contexts are key in determining how the pursuit of purpose might be correlated with higher profitability in some cases, but at a tradeoff to profitability in others. Health care is an example of a sector where purpose and profits go together. Financial services are the opposite: purpose can be a tradeoff that impacts profit negatively. To try to understand the underlying determinants, Gartenberg identifies industries and firms with high R&D/Sales as a leading indicator as to whether corporate purpose has a positive or negative effect on profitability. This is linked in turn to a company's level of intangible assets and the degree to which its sector requires creativity and innovation. Similarly, companies with longer term owners tend to link purpose and profit.

Gartenberg summarised her remarks by concluding:

• Purpose and profit can go together, but this requires clarity of purpose and belief in a company's purpose in the middle ranks of the organisation.

• Ownership and governance matter. Purpose is weaker in companies with active external owners (such as institutional investors or private equity firms).

• The linkage of purpose and profits is not a universal truth. There are settings where they come together; there are settings where they do not. Tradeoffs can exist, especially in sectors with low intangibles and shorter-term owners.

Ruth Aguilera from Northeastern then followed by extending the discussion by considering who is to benefit from corporate purpose and how corporate purpose can be affected by differing institutional settings.

She began with a few comments on Gartenberg's presentation. Offering her own definitions, Aguilera presented Hubert Joly's definition of company purpose as the intersection of four dimensions: what the world needs, what the company is uniquely good at, how the company can create economic value and what people at the company are passionate about. She observed that Gartenberg's research was primarily focused on the employee dimension, to the relative exclusion of the others.

While noting Gartenberg's important contributions, Aguilera also suggested this might be a bit 'one-sided' with the exclusive focus on the employee. Unlike Gartenberg, Aguilera does not dismiss reviewing CEO statements or company purpose statements, on the basis that it is important to know what the company is saying. She cited research underway seeking to study the linkage between employee relations and company purpose statements, potentially as a way to detect 'purpose washing' or impacts on company performance.

Aguilera's own remarks followed from her recent work, including the paper 'Corporate Purpose in Comparative Perspective: The Role of Governance.' Her first question is 'corporate purpose for whom?', exploring corporate purpose as it relates to ownership. Aguilera noted the differing forms of ownership globally, including the dominance of institutional investor ownership in the US and a lesser extent in Europe— as compared with more concentrated ownership in other regions, including Asia and emerging markets, where private or family corporations are predominant— or (especially in China) where there is significant public sector ownership.

Focusing on institutional investment, Aguilera cited the significant influence of the 'Big Three' index investors (BlackRock, Vanguard, State Street) who collectively own, on average, 22% of a typical S&P 500 company. She noted that the Big Three are becoming more actively engaged with pushing portfolio companies to decrease emissions and more generally align to net zero strategies, citing the specific example of BlackRock voting against Glencore's climate plan at its 2023 AGM. But Aguilera also observed that in the past two years shareholder support for E&S shareholder proposals has diminished, attributing this in part to an ESG backlash— which she effectively sees as a proxy to a backlash more generally on corporate purpose in the US.

Aguilera then went on to consider the role of institutions in modern capitalism, confronting a range of challenging issues, including climate risk, de-globalisation/ geopolitics and rapid digitalisation. She cited a 2023 paper by Ocassio, Kraatz and Chandler, 'Making Sense of Corporate Purpose', focusing on 'institutional logics' of capitalism, including corporate purpose, and how these have evolved in different forms of capitalism: industrial capitalism, managerial capitalism, shareholder capitalism and what is labelled sustainable capitalism. Aguilera highlighted in particular the institutional and cultural differences between the US and the EU on the role of companies in society, which can affect how corporate purpose is pursued in each of these jurisdictions. She also cited Dan Puchniak's award winning 2023 paper which speaks to the critical role that context plays in corporate purpose in Asia, with no one model suiting all jurisdictions.

Aguilera concluded by considering how corporate governance links to corporate purpose, in terms of the role of management and the board in determining corporate purpose and how this relates to corporate ownership, incentives, time horizons and corporate strategy. Accountability and trust building are critical governance challenges.

Juvencio Maeztu, Deputy CEO, Ingka Ikea (the retail unit of the Swedish furniture giant Ikea), provided a practical case study of how corporate purpose is integrated across Ikea's business. He spoke of three themes:

• How to integrate purpose in the business? There is no silver bullet. There is a need to interlink purpose with the business model and financial performance. This has to start with a 'vision' which forms the basis of company purpose. In the case of Ikea it was 'creating a better everyday life by making a better life at home'. This then links to ownership structure. Ingka Ikea's shares are owned by the Netherlands-based Ingka Foundation, that controls the company, appoints its board of directors and promotes many social initiatives related with the firm's purpose through Ingka Ikea's dividends. In that way purpose is aligned with how Ikea does businesses.

But how to measure purpose and whether we are achieving it in our business? Ikea considers four dimensions here: better homes for customers; a better planet for all; a better life for people (including stakeholders) and a better company for the long term — including financial performance to build resilience. From there strategies are developed which must align with people, planet and profit.

The greatest challenge lies in actions, where tradeoffs exist than can impact profitability, such as Ikea's decision to exit Russia as a result of the Ukraine war or to invest in making its own operations more sustainable. Decisions of this nature rely on an agreed set of standards and principles to support decision making.

Follow up is also critical, particularly in light of new ESG reporting standards in the EU. IKEA decided to use these standards as an opportunity to sharpen its focus on achieving its purpose and vision.

• The glass is half full. ‘It is working’. Purpose and profit can come together. Studies show the IKEA brand is now the most trusted brand in the world, with high levels of customer satisfaction. In terms of the environment, IKEA has worked in line with the Paris agreement and in recent years has lowered emissions in absolute terms by 14% across Scope 1, 2 and 3, while growing 24% in revenue. On the social side, the company is experiencing an all-time high in engagement with employees, and the financial performance of the company has also been at all-time high.

• The glass is half empty. More needs to be done, we’re just scratching the surface. Billions of people are still suffering. The world has huge problems, including climate, social inequalities, and polarisation.

Maeztu concluded that his number one priority is ‘nurturing the values of the organisation’ as a moral compass to guide the practical implementation of company purpose, particularly in the ‘grey areas’.

In the question session, Gartenberg was asked when does a company have a corporate purpose? Is there any data on how often companies change their purpose?

Gartenberg responded that she does not opine on when or how companies form their purpose. Her research focuses on when the purpose is recognised by the workforce, noting that as a matter of human psychology and agency theory people will not feel meaning if their sole purpose is deemed to serve instrumentally as agents for making other people money. There are many types of purpose that can motivate people, but the ways that companies articulate purpose makes this hard to measure. In terms of changing corporate purpose, Gartenberg does not, at least yet, have data on this point, but as a new frontier of research she intends to study the content of purpose. However, she did indicate anecdotally that companies do not often change their purpose, as many leaders ‘let the purpose guide them’.

11:35 Session 2: Corporate purpose and ownership

Chair: Steen Thomsen (Copenhagen Business School and ECGI)

Speakers:
Morten Bennedsen (Copenhagen Business School and ECGI)
Julian Franks (London Business School and ECGI)
Majken Schultz (Chair, Carlsberg Foundation)
Thomas Thune Andersen (Chair, Ørsted)

Session Summary
Steen Thomsen opened the session by posing the question as to whether there is an optimal form of ownership to promote corporate purpose. The session was structured to review differing forms of ownership, including case studies, to consider the relationship that ownership and ownership structure have on purpose.

He first turned to **Majken Schultz**, Chair of the Carlsberg Foundation in Denmark, to present the case of the Carlsberg Foundation, which owns the brewer Carlsberg. Carlsberg was founded in late 19th Century and today its Foundation board consists of five academics— which itself represents a signal as to Carlsberg's purpose. The first role of the foundation is to serve majority owner of the Carlsberg Group and to oversee the Carlsberg laboratory. The second purpose of the foundation is to use its profits to donate for basic research in natural science, social science, and the humanities.

Majken noted that the term purpose actually appeared in Carlsberg's corporate charter of 1882, in the form of Carlsberg founder JC Jacobsen's 'Golden Words'. At the time the charter articulated Carlsberg's purpose as 'regardless of immediate gain, to develop the art of beer making to the greatest possible degree of perfection… and at a high and honourable level'. This charter serves a moral beacon in dilemma situations, helping guide the company, for example, in its 2022 departure from the Russian market shortly following the onset of the war with Ukraine. This was a costly financial loss for Carlsberg, but the Foundation determined that this was a necessary moral choice, consistent with the company charter and purpose. She observed that Carlsberg's legitimacy as a company was on the line when this decision was taken.

The Carlsberg foundation donates 100% of its share of company dividends to support basic research. Majken stated that the foundation structure enables Carling to take a longer-term outlook and address important sustainability issuers, such as the company's performance on science-based targets relating to its climate impact and on promoting non-alcoholic beer. She also argued that a well-crafted corporate purpose can provide a competitive edge in terms of branding, talent acquisition and retention and stakeholder relations.

Thomas Thune Andersen, Chair of the Danish alternative energy company Ørsted presented the example of a company with 50+% state ownership. He stated his view that ownership is critical in affecting company purpose, but also noted that there are different types of legitimate ownership and governance structures. In the case of Ørsted, Andersen characterised the state as a 'light touch' shareholder, supporting the company during the critical strategic transition from brown to green energy.

Emphasising the 'soft' side of governance Andersen argued that purpose should reside 'in the heart, not the brain.' Companies should be regarded as the vehicle with which they achieve their purpose. ESG and purpose are different but interlinked. ESG may be a way to measure purpose. Andersen characterised his interactions with institutional investors as overly focused on short term profits or technical governance points— and was also critical of investors who do not attend AGMs. Andersen stated that both the board and company management must 'own' purpose, but perhaps in different sequences. And then the company needs to present its purpose to investors and demonstrate how it aligns to company strategy.

Julian Franks of London Business School presented a paper co-written with Colin Mayer, Hideaki Miyajima and Ryo Ogawa on the topic of how managers can manage their own company's ownership. This idea cuts against the grain of regulation in many markets which is intended to limit, not boost, managerial discretion. He observed that it is important to focus on the alignment of owners and corporate purpose: some owners/investors may align well with corporate purpose; others may not. Nintendo and Suzuki. Franks asked the question as to whether managers should be able to shape the ownership of the company – and thereby align company owners and company purpose. He cited a live 'experiment' in modern day Japan, where significant intercorporate holdings are common and can have a strategic grounding.

The experiment is based on these companies being able to repurchase their own shares and hold them as treasury stock. Management can then use its discretion to place its treasury stock to companies to create intercorporate holdings of their own choosing. This in turn can lead to strategic partnerships, as was illustrated in the cases of Nintendo and Suzuki.

In assessing the financial impact of this form of strategic place, the Franks et al paper showed notably higher cumulative abnormal returns for 'strategic' private placements, as compared with public sales or a non-strategic placement. Franks concludes that the internal management of ownership (allowing for strategic private placements) can be used to promote value enhancing outcomes and align ownership with purpose. This raises the question of how managerial discretion links to corporate purpose. He also observed parallels with Hart/Zingales paper on shareholder welfare to interlink ownership with company purpose.

Morten Bennedsen of CBS focused on purpose and family firms, noting that family ownership is the most dominant ownership form in the world. He says there is relatively limited research on this topic, but cited a study using ESG ratings and their links to ownership structure (effectively using ESG ratings as a proxy for purpose). In this study family firms came out poorly as a whole relative to other forms of ownership with regard to ESG performance. Bennedsen argues that families can be both the best and the worst form of ownership, citing Cadbury family in the UK as a positive example and the Sackler family in the US as a negative example.

Thomsen asked Bennedsen if families often personalise corporate purpose. Bennedsen agreed that a family legacy can have the effect of personalising purpose in ways that can be good or bad, but it can allow for agility in challenging times, as demonstrated by family firms' strong support of stakeholders during the Covid crisis.

Dan Puchniak raised the question of state ownership, noting that it is not always as benign as in the case of Ørsted, citing the example of many Asian countries where companies are often managed with a political agenda that can be value destroying.


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13:40 Session 3: Corporate purpose, finance and investment

Chair: George Dallas (ECGI)

Speakers:
Franklin Allen (Imperial College Business School and ECGI)
Guy Jubb (Former Global Head of Governance and Stewardship, Standard Life Investments, and ECGI)
Dionysia Katelouzou (King's College London)
Claudia Kruse (Managing Director, Global Responsible Investment & Governance, APG Asset Management)

Session Summary
George Dallas opened the session by observing that discussion of purpose and investment is a very logical follow-on from the prior session's focus on ownership. He noted that he brings a practitioner's perspective to this discussion, building from his experience in asset management— and that institutional investment would be the focus of this session. He posed the question as to whether the discussion of purpose is an arcane debate for scholars or whether it has 'sharp edges' or practical implications for investors. To help set the scene, Dallas highlighted the British Academy's emphasis on 'purpose before profit' and then asked if this formulation might be challenging for institutional investors given their fiduciary duties to provide returns their beneficiaries. He also noted the British Academy's conclusion that 'financial institutions should steward investments in companies to promote companies' purposes'. Dallas raised the question of what this means in practice.

He introduced **Claudia Kruse** of APG in the Netherlands and **Guy Jubb**, formerly Head of Governance & Stewardship at Standard Life Investments in the UK, to share their practitioner perspectives on these questions, complemented by the perspectives of finance scholar **Franklin Allen** and law scholar **Dionysia Katelouzou.**

Given the distinctive composition of this panel, Dallas proposed framing the objective of the session as to articulate the theoretical and practical implications of the corporate purpose debate with regard to institutional investors.
Where is there alignment, where might there be disconnects? Are investors the problem, a solution to the problem— or a bit of both? What should investors be doing about corporate purpose that they are not doing now?

Putting this in an economic context, Allen observed that the traditional approach to market failures is for governments to impose regulation, but that does not always resolve every problem.
He cited climate change as an example, where there is no political consensus as to how to deal with it, for example by imposing a carbon tax. This leads to the need for private solutions to intervene where government regulation is inadequate, and it is here where finance has a role. He cited an example of a bonds that have contingencies relating to a company's greenhouse gas emissions as achieving a similar climate outcome, but without a carbon tax. Allen then referred to corporate purpose as a 'private methodology' to encourage a desirable outcome for investors without the need for a political consensus.

Kruse began her comments by noting that APG itself is a purpose-driven investment firm, focusing on the welfare of its beneficiaries, and to providing pension incomes to 4.5 million Dutch citizens, many of whom are not high earning. The social context is critical for APG, as they are held to account by both their beneficiaries and by the Dutch Parliament for their investment management. Kruse did not embrace the formulation of 'purpose before profit', noting that APG is not a philanthropic organisation with its beneficiaries' pension assets. But she did say that APG's investments must be balanced in the 'diamond' of risk, return, cost and sustainability.

Katelouzou raised the question as to whether law is an enabler of company purpose or a bottleneck with regard to institutional investment. She focused on two key dimensions: stewardship codes and fiduciary duty. Citing the UK Stewardship Code, Katelouzou observed that the ambition of stewardship extends both at a micro level to companies and at a macro/societal level, but that the fundamental priority for investors is to generate long term value for their beneficiaries— which can, in turn, lead to social benefits.

She expressed this as a form of ‘enlightened stewardship’, reminiscent of enlightened shareholder value, wherein investors may consider sustainability factors, but not compromise beneficiary returns to achieve social outcomes. She questioned how this aligns with prevailing interpretations of investors’ fiduciary and non-fiduciary duties. A narrow interpretation places clients and beneficiaries as the top priority. But she observes that this simplistic approach to fiduciary duty might not take into consideration other members of the ‘investment chain’ as a whole. She concluded that stewardship codes have the potential to fill the fiduciary gap left by hard law, enabling investors to adopt a more comprehensive view of company purpose.

Jubb observed that the term ‘purpose’ as we know it today is not well-socialised in institutional investment circles, noting that the parlance relating to purpose is closely linked to ESG factors. But Jubb describes purpose as an anchor to help align and support ESG performance as it relates to the company’s purpose. This can be good for the long-term investor. He also raised the question of who determines purpose— the chief executive, the board, or a combination thereof— and in whose interests' purpose is developed for.

With regard to purpose, Jubb noted the challenges of measuring purpose but stressed that it is important for investors to have some degree of third-party assurance in terms of how purpose is put into effect. He also raised the role of the AGM as a practical opportunity for investors to engage the entire board.

Jubb described AGMs as underplayed by institutional investors and by stakeholders as well, suggesting that investors can miss out on a significant opportunity to highlight areas of concern. He noted that even if an investor only attends only, say five AGMs a year, the impact is signalled to a much larger number of companies. Jubb also discussed a proposal by the group Share Action to separate the AGM from the vote on proxy resolutions, to allow shareholders to fully digest the AGM and thereby make more informed decisions before exercising their votes.

Allen acknowledged that there can be tradeoffs between purpose and investor returns. But he said that is important to know who the shareholders are and the extent to which they recognise and buy into the purpose that the company has undertaken, noting that investors can construct their own portfolios themed around purpose-led companies. Kruse suggested that purpose-led companies may also benefit from providers of capital with longer term horizons.

Dallas raised the question of what investors can do to encourage corporate purpose, and whether or not purpose should emerge as a stand-alone engagement issue to be added an already long, and growing, list of factors for engagement with companies. In this regard Jubb referred to Standard Life Investment's practice of holding a handful of 'Chairman's dinners' involving selected members of a company's board and senior Standard Life Investment executives. This was used an opportunity to have a more open and wide-ranging two-way discussion on issues relevant to a major long-term investor, including succession planning, many of which could relate to corporate purpose and culture. He also noted that M&A activity presents a particular challenge here, to the extent it involves a clash of incompatible corporate purposes coming together.

From her own research on investor stewardship reporting statements, Katelouzou noted that the term 'company purpose' rarely crops up as a tangible goal of investor stewardship. Dallas agreed, but did note that ICGN's Global Governance Principles (an investor statement on corporate governance) call for a company to publish a statement of purpose as a matter of what investors are looking for in good corporate governance. Kruse said she was not surprised that 'purpose' itself is not mentioned that often in stewardship, and stated that the investor challenge is to go underneath the skin of purpose statements to determine what it means in practice and how it is evidenced. Jubb added that investors can engage not only in the case of public equities, but also with regard to bonds and private equity, noting that the role of debt capital can be underplayed. He noted that when a company's purpose is changing that should provide a useful 'hook' for investors to engage with boards on issues relating to corporate purpose.

Dallas asked Katelouzou how purpose relates not only to individual company stewardship, but also how it fits with macro or systemic stewardship, taking into consideration issues such as climate change, biodiversity, human rights and income inequality. She indicated that purpose is very much linked to systemic issues and that this is manifested in practical terms by investors engaging with companies on ESG related issues. She highlighted the role of the end investor beneficiaries and the need for institutional investors to know beneficiary preferences with regard to company purpose and systemic level stewardship. In a strict fiduciary context, investors should not pursue systemic stewardship if they cannot explain to their beneficiaries why it is in their financial interest to do so. However, this remains the Achilles heel of investor stewardship when pursuing sustainability factors.

Jubb agreed that it is important for investors to understand the preferences of investor beneficiaries relating to questions of purpose and stewardship, and shared a tactic employed by Standard Life Investment's ethical funds to survey its client beneficiaries annually on key issues to help inform its engagement programme and priorities. In noting the important of the social context in the Netherlands, Kruse emphasised that pension funds are APG's clients, and APG implements its investment management services to match the objectives of these funds. In turn, the pension funds do consult their own beneficiaries directly, so that there is an understanding of individual beneficiaries' priorities and expectations. She cited the example of a Dutch pension fund whose beneficiaries wanted an investment option focusing on the United Nations Sustainable Development Goals. Kruse also said she is not convinced there need be a tradeoff between systemic stewardship and financial returns for beneficiaries.

Before turning to the audience for questions Dallas asked Allen the overarching question of what the purpose of finance and investment is. Allen noted that there may be many purposes, but started with the goal of financial return, particularly as it might apply in situations such as providing pension incomes. He noted that investors have other legitimate objectives as well that extend beyond investment returns. Allen noted that there is a lack of good models to replace the simplicity of the 'invisible hand' and classical shareholder value model, particularly given that something as abstract and complex as corporate purpose is difficult to measure. But he sees that corporate purpose can serve a useful role in prompting companies to state what they are trying to do so that this can inform investors.

Tom Gosling posed a question relating to the role of investors in influencing purpose in portfolio companies. Noting that controlling investors have a clear role in shaping or defining corporate purpose, the question focused on the influence of institutional shareholders with small individual stakes in companies: should they simply try to understand the company purpose, or should they try to influence it? Jubb responded that institutional investors can have meaningful minority stakes that boards should be aware of. But his view is that the management and the board should own the definition of company purpose and that this can be informed by investor and stakeholder views.

Expanding to the discussion on the AGM, Jubb was asked how stakeholders might be able to play a more meaningful role in the purpose debate. He referenced as an example the Share Action approach which would allow for stakeholder presence and participation in company AGMs. Hermann Daems followed up this point citing a case of a company where militant activists each purchased one share of the company and 'made a mess' of the general assembly. His basic warning is that the AGM risks becoming an unproductive battleground between shareholders and stakeholders. Kruse observed that in the Netherlands there is an investor association Eumedion which effectively addresses the issue of investor AGM attendance by dividing AGM attendance among the Eumedion membership to make AGM participation a collective activity and a more practical proposition.

Marleen Ochs asked how a company's purpose might be rated? Jubb observed that we are moving in the direction of more standardised sustainability reporting, which might be a start, and repeated the point that to build investor confidence that sustainability needs to be independently assured. Kruse added that a high purpose rating may not have much meaning if it does not align with the investor's own priorities and sense of purpose. Purpose alone does not make a company investment worthy.

Mayer returned to the question of who determines corporate purpose. And in response to Jubb's assertion that corporate purpose is owned by the company's management and board, he observed that in other jurisdictions, such as Denmark, the owners themselves have a more fundamental role. He asked the panel which is the better model. Allen responded that it is good to have different models so that people have a choice. Katelouzou added that one size does not fit all. Context is critical and you cannot isolate purpose from context. Context is not limited to ownership and can include culture and legal frameworks as well.

Kruse spoke to a continuum of influence relating to level of ownership stakes and the size of the company itself. Investors may provide input to the board regarding the consideration of purpose, without themselves 'defining' it. Jubb concluded with another option relating to 'foundation shares' that allow a company to preserve its values and purpose through priority voting rights on relevant issues. While this form of ownership does have its own governance challenges, Jubb suggested that this could be used as another mechanism to protect and promote corporate purpose.

Canals added the observation that each company has its own distinct history, culture, ownership and values such that there is no universal decision maker on corporate purpose. Each company must find its own approach. This can be easier with large shareholders in controlled companies than with widely held companies. Ultimately, the board of directors serves to interface between the company and its shareholders. We should be flexible about and should not expect that institutional minority shareholders with hundreds or thousands of companies in their portfolios will get deeply involved with forming company purpose. But Canals stated that ultimately company purpose requires the support of its shareholders, otherwise purpose 'won't fly'.

Dallas concluded that, like most things that are important, purpose is complex and that it is hard to generalise. It must ultimately be company specific, but that does not mean that we should not explore best practice.

Session 4: Corporate law, regulation, ESG and purpose

Chair: Jennifer Hill (Monash University and ECGI)

Speakers:
Michal Barzuza (University of Virginia and ECGI)
Christina Bruun Geertsen (Managing Partner, Kromman Reumert)
Elizabeth Pollman (University of Pennsylvania and ECGI)

Session Summary

Jennifer Hill stated that the goal of this session was to explore the role of law in promoting company purpose. She referred to a suggestion made by Colin Mayer in the prior day's Young Scholars event that law, rather than supporting corporate purpose, might constitute an obstacle to it. She therefore framed the session as an investigation about how law can play a constructive role in the corporate purpose debate.

Elizabeth Pollman began by observing that corporate purpose is not a new concept. It came with the creation of the corporate form as a legal personality and has served as a coordinating mechanism to frame what it is this legal personality does. There is a long history of purpose clauses in corporate charters which enable corporate leaders to define their own purpose. She noted that the current debate on corporate purpose is, however, broader in scope, taking into consideration the role of purpose in society, linking to issues of fiduciary law and shareholder value maximisation, something Hill labelled as purpose at a 'meta level'.

Christina Bruun Geertsen offered a real-world view as a practising Danish lawyer. She noted that some of the Danish foundations that hold shares in companies have two purposes: a financial purpose and a broader social/philanthropic purpose. Limited liability companies in Denmark require company purpose to be set out in company by-laws or articles of associations. In practice, these purpose statements tend to have 'creative' wording that gives boards considerable flexibility to act as they see fit (which can include paying attention to ESG topics).

Michal Barzuza suggested that management incentives have changed, given increasing demand from both investors and stakeholders for companies to be more ESG friendly. She observed that CEOs face personal risk from cancel culture and boycotts, which can negatively affect CEO reputations and careers for those CEOs linked to bad ESG performance. These self-serving reasons helped to motivate companies to pay greater attention to sustainability issues such as climate risk and DEI. Barzuza also cited the 'Big Three' index funds (BlackRock, State Street, Vanguard), whose incentives have been affected by the rising interest in ESG investment to maintain and attract clients.

Hill linked the question of corporate purpose statements in corporate charters to the ultra vires doctrine which defines the company's scope of authority, noting that some scholars might see a purpose statement as having the effect of reducing managerial discretion. Pollman noted there can be a tension in creating purpose statements in finding the right balance of managerial authority— holding management accountable, without being unduly restrictive. Returning to the earlier sessions' discussion of who determines corporate purpose, Hill noted that the definition of company purpose can lie in company constitutions. So a technical question is: who controls the company constitution? In the US, for example, the corporate charter of a Delaware company cannot be changed without board approval. But in other jurisdictions, citing Australia and the UK, shareholders can also play a role by proposing, without board support, resolutions to change the company constitution.

Hill asked how corporate purpose interfaces with other current and related topics such as ESG, culture, trust and reputation. Is purpose the overarching organising principle? Bruun Geertsen stated that corporate purpose can be regarded as an umbrella embracing these issues, which provides a foundation for guiding boards how to act. Barzuza considered that purpose is being driven by external demand for more sustainable corporate behaviours.

Pollman, on the other hand, did not see corporate purpose as a unifying umbrella for these concepts. Specifically, she observed that corporate purpose is not identical to ESG or sustainability, noting that they have different historical trajectories and meanings. She stated that much of the initial impetus in the investment world was to use ESG to better understand portfolio company risks in a pecuniary context, rather than to motivate meaningful company purposes.

Raising the question of executive pay, Hill observed that ESG in executive pay can play a role in the corporate purpose debate — being used 'pro-socially', as forward-looking metrics (to incentivise good ESG behaviour) or punitively, as backward-looking metrics to penalise bad ESG behaviour (citing a recent example of Qantas and anti-competitive behaviour). Bruun Geertsen indicated that in Denmark ESG incentives in executive pay are not a common feature. Pollman noted a growth of ESG linked compensation in the US, but also observed that doing this effectively is challenging and potentially problematic. Barzuza argued that strong ESG incentives already exist for corporate managers, such that inclusion of ESG factors in executive pay or other legal mechanisms are not necessary. Hill considered that clawback provisions may become a more important strong negative incentive for investors to avoid ESG related infractions. Barzuza added that social media such as Instagram can also be a strong incentive for promoting positive ESG related behaviours— or at least discouraging negative behaviours.

Hill noted that in the past constituency statutes were used in some US jurisdictions (though not Delaware) to allow directors in to take consideration of stakeholders' interests to protect them against takeovers. However, whereas corporate managers themselves supported the adoption of constituency statutes, Barzuza made the point that the new competitive and reputational pressures are forcing managers to consider stakeholder interests and ESG. These recent developments are therefore quite different in nature to the earlier adoption of constituency statutes, which were strongly supported by corporate managers.

Hill also raised the issue of corporate lobbying and political spending. This has been a particularly topical issue in the US ever since the US Supreme Court's Citizen United decision of 2010, which had the effect of allowing corporations, as legal personalities, to engage in political spending to accompany their lobbying objectives. Barzuza noted that the ExxonMobil/Engine No. 1 case was in part driven by ExxonMobil's limited disclosure around its anti-regulatory lobbying and spending activities and by whether these activities were consistent with the company's public support of the Paris Agreement.

Before turning to the audience Q&A, Hill asked the question— what can law and legal doctrines do to prevent organisational hypocrisy and 'purpose washing'? Bruun Geertsen indicated that in the Danish context, where there are often large owners of companies, problems of hypocrisy can be dealt with relatively easily and directly by the owners themselves. Pollman said that, in addition to securities filings, there are other public company disclosures relating to sustainability that can have liability consequences if they are inaccurate, including private class action suits or enforcement actions from regulators.

Hill suggested additional legal tools for consideration, such as shareholder inspection rights, which enable shareholders to review a company's internal documents relating to sustainability actions. Inspection rights can be used a way to identify cases of organisational hypocrisy and provide the foundation for individual or class action suits. Using the example of Australia, she also mentioned using law to enforce directors' fiduciary duties, where, for example, directors fail to consider the impact of climate change on the company's purpose, business model and strategy. This reflects the view that directors who do not take material sustainability issues into consideration can be in breach of their duty of care. Barzuza noted Leo Strine's arguments that ESG factors can be considered by directors under Delaware law when viewed as matters of board risk oversight. Building from the references to Gartenburg's earlier presentation on the relevance of purpose needing to resonate in the middle of the organisation, Hill then raised whistleblowing as another legal mechanism that can enable the workforce to flag deviations in company practice and purpose.

In the question period, Simon Whitney, a UK based lawyer, articulated his view that law can and should be an enabler regarding corporate purpose, citing, in particular, the recent EU regulation relating to sustainable corporate governance due diligence. But, from a practitioner's lens, he also broke down the British Academy definition of corporate purpose into two parts:

• Doing 'good': Producing profitable solutions to the problems of people and planet. Practising lawyers would have trouble with this from an enforcement perspective, as what is needed to 'do good' can be subjective and difficult to define and regulate.
• Not doing harm: not profiting from creating problems. Here is where lawyers feel that they are on more solid ground. This links to the need for companies to address negative externalities, where there is clearer legal guidance. Recent EU legislation is focusing on this, namely making companies responsible for identifying harms they cause (double materiality) — including in the supply chain—and also ensuring that they are responsible for mitigating these harms.

Tom Gosling posed a question about alternative forms of corporate ownership, such as public benefit corporations, and whether these are the way forward — or a sideshow. Barzuza responded that it depends on the system. The US differs from other systems in that money can influence law through political lobbying. Pollman explained the background of the benefit corporation model, which at core has a strong shareholder orientation, notwithstanding its dual purpose. She also observed that the concept is still young and there are relatively few of these companies in number. She asked if there is another possible model that might have more traction with the broader business community.

Rui Diaz from the Portuguese Corporate Governance Institute raised the question as to whether there should be legally binding corporate purpose statements or legal ways to challenge deviations from corporate purpose. Hill observed that shareholders can vote on changes to a company constitution in Australia (75% supermajority). Pollman added the concept of how 'sticky' a purpose can be over time - how can it evolve as circumstances evolve; purpose needs to be created and recreated over time.

Colin Mayer entered the discussion at this point to address the amicable gauntlet thrown down earlier by Hill and to clarify his position on the interaction between law and corporate purpose. He confirmed that law is central to corporate purpose, but, on its own, is inadequate to support corporate purpose. For example, he noted that it is also a matter of culture, which does not necessarily respond to legislative fiat. But he agreed with the notion that law is well positioned to address the negative dimension of corporate purpose — namely, the creation of problems and negative externalities. He raised the question as to what is the legal duty of companies to ensure they do not profit from detriment.

Barzuza commented that under Delaware law, which is the most influential corporate law in the US, derivative lawsuits provide a deterrent against creation of negative externalities, even where such acts might be strictly 'legal'. This would, however, need to relate to how detrimental corporate actions might ultimately affect the firm itself, not society in the abstract. Given the current focus on ESG issues, it is now easier to argue that causing externalities can negatively affect firm value. Harm to the firm itself is the critical hook that can provide a foundation to a derivative lawsuit.

Pollman stated that legal obligations under US fiduciary law need to be clearer to establish accountability, such as for a board's oversight duty. She considered that it is difficult to apply fiduciary law to make corporate controllers liable for negative externalities that are strictly 'legal'. Hill noted that Australia has gone somewhat further and that harming the company's reputation can potentially result in liability for company directors and officers. She pointed out that there is effectively no liability for breach of the duty of care in the US (given the strength of the business judgement rule and the widespread use of liability exoneration clauses), but duty of care liability is a reality under Australian law. The absence of liability for breach of the duty of care in the US has led to a greater focus on the duty of loyalty. Barzuza suggested that pressure by the Big Three index investors may in fact have more practical influence on director performance than the law itself.

16:20 Session 5: Corporate purpose, measurement, and performance

Chair: Colin Mayer (University of Oxford and ECGI)

Speakers:
Paolo Lanzarotti (CEO, Asahi Europe and International)
Gaizka Ormazabal (IESE Business School and ECGI)
Karthik Ramanna (University of Oxford)
Judith Stroehle (University of St. Gallen)

Session Summary

Colin Mayer opened the session by observing that measurement is critical to make corporate purpose work in practice. He also noted this is very difficult to do well and that it is a challenge for investors or other stakeholders to really understand if a company is truly putting its purpose into practice. He posed the question as to how ESG or sustainability factors relate to the measurement of corporate purpose.

Paolo Lanzarotti began by noting that Asahi Europe has been on a purpose 'journey' and raised the question of how corporate purpose relates to a brewery, including the consideration of what problem is being 'solved' in a corporate purpose context. He also echoed Mayer's observation that measurement is required to make this meaningful. Lanzarotti explained that he initially was not able to provide a succinct statement of purpose and that this led to a period of internal reflection at Asahi by employees at all levels of the business, which resulted in the articulation of Asahi's corporate purpose as 'creating meaningful connections'.

This was broken down into two subgoals: planet positivity (noting Asahi's need for reliable access to its raw materials of water, yeast and barley) and creating a positive and inclusive experience for society. From this foundation the company began to consider questions of what they need to do differently in terms management processes and decision making— and how this purpose can be captured by measurement to let managers know if they are implementing this successfully, or not. Regarding measurement Lanzarotti noted three points:

1) Don't overcomplicate things. Start with information that is already available, making use of existing metrics about brand value, carbon emissions, water usage or similar operational metrics; 2) link relevant KPIs to the company's purpose narrative in ways that can create top-down overarching metrics and goals. For Asahi this resulted in the company making adjustments on its internal management reporting to internally charge for carbon and plastic usage against its profits, creating a 'sustainable EBITDA' metric. 3) This adjusted profitability metric is then used to guide decisions such as capital expenditures and as performance metrics for its senior leaders' long term incentive compensation.

Gaizka Ormazabal began his intervention by looking at the role of ESG metrics in executive compensation and the relation between sustainability reporting and financial reporting. Regarding ESG he showed statistics revealing that ESG linked pay is growing rapidly, occurring in 38% of a data base of thousands of companies globally in 2021, as compared to just 1% in 2011. He cited the example of the French multinational Schneider Electric where 20% of short-term compensation relates to Schneider's internal metric for sustainability impact and 25% of long-term compensation relates to external ESG ratings relating to climate, resource efficiency, intergenerational sustainability and empowering communities.

Ormazabal then outlined the key arguments for and against linking compensation to ESG, noting that there remain ESG sceptics— and that even for ESG advocates there are concerns about linking it to pay, based on views that ESG performance should not require incentives or the view that pay should focus primarily on financial metrics. But he also noted that financial metrics can have limited information and that ESG metrics can provide additional information that is increasingly sought by both shareholders and stakeholders. Ormazabal raised the issue of corporate 'signalling', noting that this can enhance the company's credibility regarding its public commitments. At the same time, he also observed that ESG metrics run the risk of being 'fluffy' or used by management as a way to 'game' their pay to increase bonus payments to executives.

Citing his own research linking ESG to pay, Ormazabal observed that ESG related pay generally follows an economic (e.g., business case) rationale. Importantly, he concludes that while ESG pay metrics can lead to better ESG performance, ESG metrics do not result in better company financial performance.

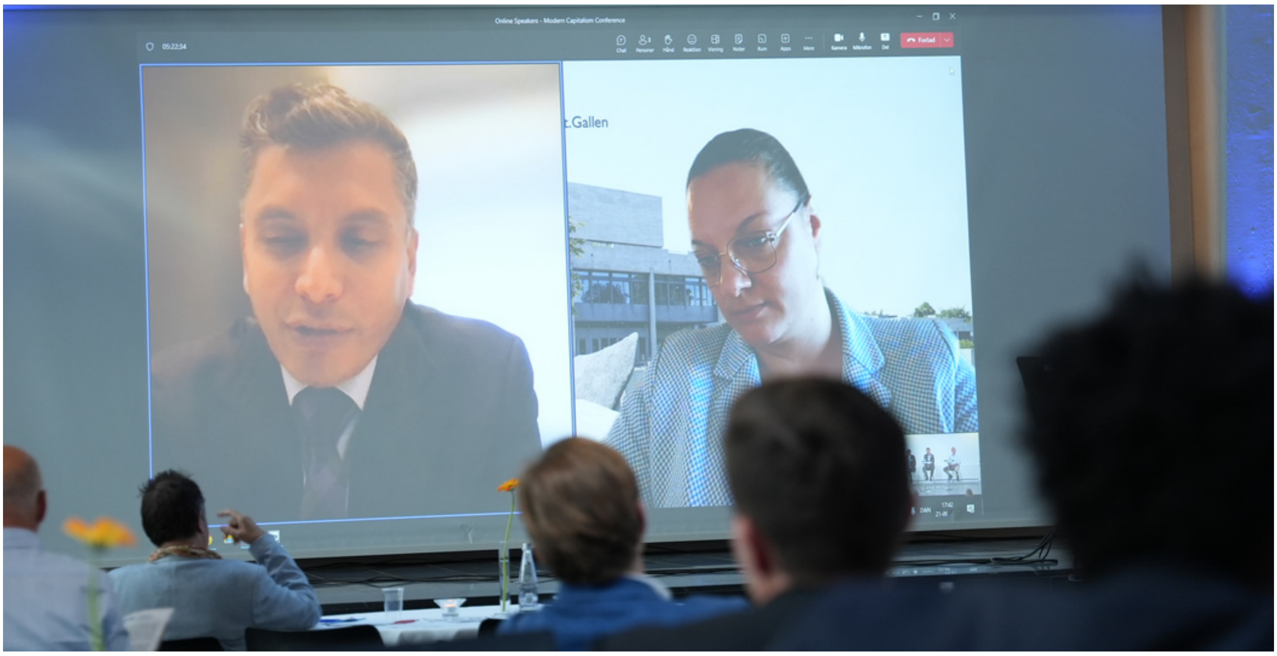
Ormazabal then focused on the integration of ESG into financial reporting, noting a range of accounting issues — inventory, intangibles, asset impairment, contingencies, income tax and fair value measurements— that can be affected by ESG performance. He noted this is increasingly being pushed by regulators, citing as an example of an ESMA (European Securities and Market Authority) statement in 2021, calling for both issuers and auditors to consider climate risks in financial statements. He specifically cited emission trading systems and carbon allowances, such as the cap-and-trade system and observed this being employed not only in Europe, but globally. But Ormazabal noted that there are 'frictions' that can inhibit climate risks from being recognised in financial statements, citing lack of incentives and effort, regulatory lack of clarity due to the principle of conservatism, the cost of modelling and quantifying ESG accounting impacts and the fact that we are still just learning how to do this.

Mayer asked Ormazabal if the current consolidation of global sustainability reporting standards will facilitate greater use of ESG metrics in the financial accounts. Ormazabal replied that we do not yet know, as we do not have sufficient evidence and he observed that there may be regulatory initiatives by bodies such as EFRAG or the ISSB to push the application of financially material ESG factors into financial statements.

Focusing on the US market **Karthik Ramanna** observed that there currently is much ESG disclosure, citing Regulation SK as an example, but he noted that there is not a strong initiative to link this disclosure to financial accounting. Ramanna noted that there are several issues that might inhibit the application in financial reporting, including the potential financial 'chicanery' by companies to flatter their results. He drew the distinction between carbon accounting and carbon disclosure. His own research seeks to identify basic principles that can facilitate the link of carbon and other ESG factors (such as water usage or unfair labour practices) to financial statements. Ramanna identified three stages or levels that are necessary to take this further:

- At the individual company level, we need metrics that are both accurate and verifiable. Accuracy requires faithful representation of what is being measured. Ramanna cited Scope 3 carbon reporting as an example of metrics that fall short of the definition of accuracy. And if something is not accurate it is also not verifiable.
- At the market level, there is the challenge of comparability between companies. Citing the case of Scope 3 Ramanna noted that true comparability is not currently possible. He also flagged the issue of and simplicity, especially with regard to the ability of retail investors to understand the links to financial reporting and make decisions on that basis.
- On a social or systemic level, he emphasised the importance of mutual exclusivity and being collectively exhaustive. Mutually exclusive means that a metric should be counted only once. Collectively exhaustive in a carbon context means that it should relate to all GHG emissions that occur globally through companies.

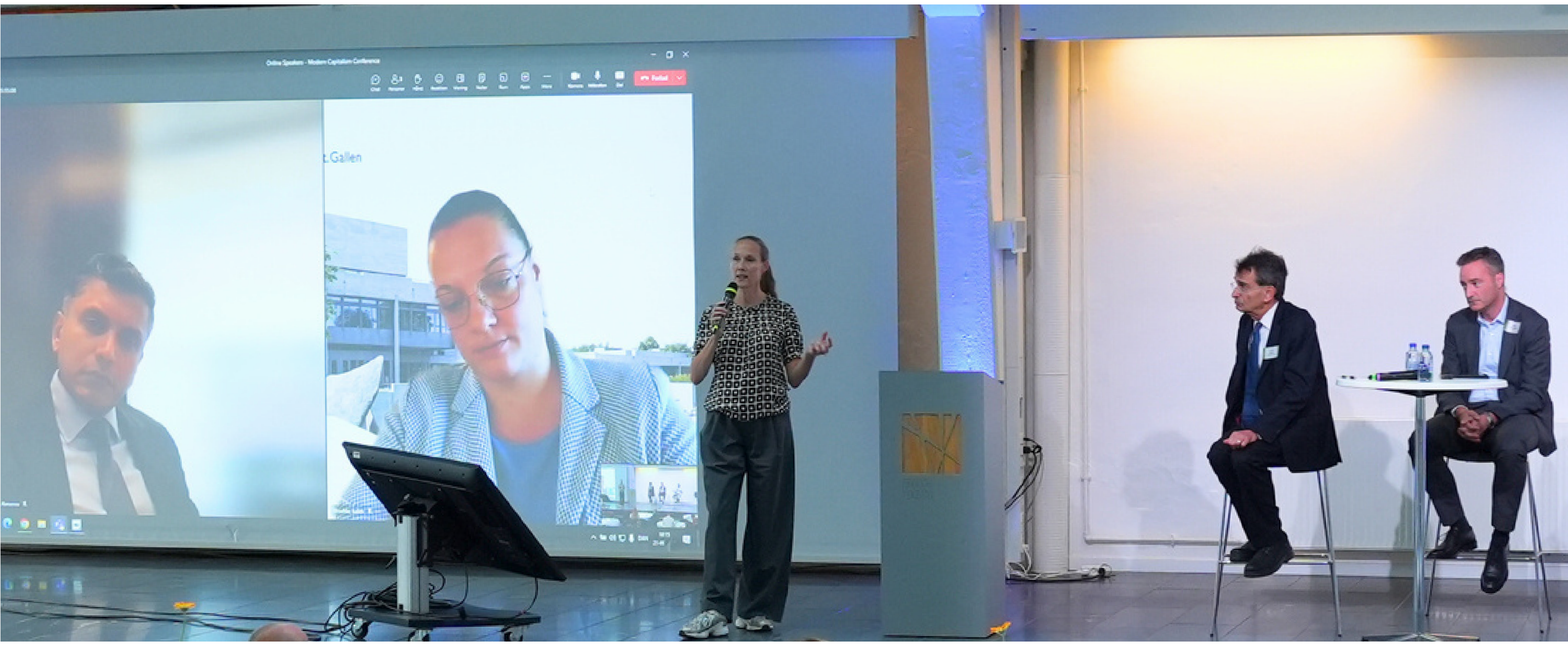
With regard to carbon accounting Ramanna observes that across all three levels these principles currently fail to meet the required standards to be adopted into financial reports, labelling this as a dysfunctionality. But he concluded by noting that if we are successful in bringing sustainability reporting to the required levels to allow for integration into financial statements that financial accounting will have a much greater impact on promoting real change than voluntary disclosure alone.



Judith Stroehle approached this question from a management angle, exploring measurement and implementation issues. A key challenge in measuring purpose is that we tend to want to measure 'everything' relating to ESG— and that does not work, or at least does not always relate to financial outcomes. It needs a strategic component to reflect the material ESG drivers. Looking at ESG simply through the lens of risk and opportunity is too limiting and can lose the notion of externalities and impact on supply chains and business models. We need to start with profit being regarded not as an end, but as a means for achieving purpose. She also argued that we need to think more about ecosystems and impact pathways: what are we creating value for?

Stroehle called for companies to crack this by 'embracing radical prioritisation'. She cited materiality as particularly problematic. Assessment of materiality can be a useful tool but can fall short of helping businesses focus on what they should prioritise in terms of achieving their corporate purpose. Radical prioritisation of some ESG metrics necessarily implies that other ESG metrics must effectively be deprioritised. Radical prioritisation enables businesses being able to focus on the 'high hanging fruits' in terms of sustainability. Companies should then explore and seek to measure these few priorities in much greater depth and complexity than is possible if a wide range of ESG factors is considered. She noted that this would be better way for companies to capture value and opportunity.

Stroehle also emphasised the important of radical prioritisation for company boards to allow directors to focus on the sustainability factors that are the greatest performance drivers. This relates directly to the fiduciary duties of directors. To govern well, boards need to have deep understanding of the complexities of these drivers, and she noted that it really is not possible for boards to achieve this level of in-depth understanding vis-à-vis all ESG factors.



In response to the three tiers of accounting principles laid out by Ramanna, Lanzarotti observed that we really are not able to wait until all these issues are completely resolved, suggesting in effect that the perfect can be the enemy of the good in terms of driving and implementing corporate purpose. He stated that Asahi has chosen not to wait. He recognised that the metrics that used by Asahi are imperfect, but he argued that starting is better than doing nothing. Particularly since Asahi's metrics can affect employee pay, he observed that this has helped to animate the discussion and implementation of corporate purpose at Asahi, and this can be contentious with employees. He cited some specific metrics that are employed by Asahi. This includes greater inclusivity of women in the Asahi workplace and management structure and, given that the potential conflict regarding a brewer's societal impact, Lanzarotti identified the metric of having a higher percentage of non-alcoholic beer (aiming for 20% of total beer production) as one of its ways to address this potential societal disconnect.

Ormazabal emphasised the need to link purpose to capital, which could include financial, social and natural capitals. He identified three sources of demand for relevant metrics: internal management for operational metrics, external reporting for shareholders and stakeholders, and 'contracting', such as with executive compensation or debt contracts that depend on sustainability metrics. Ramanna stressed that the issue of 'collectively exhaustive' is critical with regard to the issue of climate and greenhouse gas emissions. He emphasised the need to be aware of what is happening not just at the individual company level, but across companies at a macro level, given that many carbon-related company initiatives have the effect of shifting GHG emissions from one corporate balance sheet to another, with no absolute progress being made in a global context in reaching geological net zero.

Ramanna compared this to rearranging deck chairs on the Titanic. Unless we are having a real and practical impact on the GHG molecules in the atmosphere we are not saving anything. He stated that climate is the area where the need for accurate metrics is the most critical, and that we can live, at least for the moment, with less precise metrics on other sustainability metrics that relate to corporate purpose.

Stroehle applauded the fact that Asahi is an example of experimentation: to see what does and does not work. She also agreed with Ramanna's point that we need to really get GHG emissions and climate change right as accurate and objective metrics. Regarding other social metrics she argues that it is less important to standardise. Companies have their own bespoke/idiosyncratic requirements relating to purpose and value creation; standardisation could be counterproductive.

Mayer then invited **Birgitte Kofod Olsen** to intervene to share the EC's perspective on how reporting on purpose meshes with recent EC regulation. Olsen stated that the reporting paradigms and regulatory framework are already in place in the EU. She cited the EU taxonomy and the EU Directive on corporate sustainability reporting, which now require companies to report on their positive and negative impacts on the environment and society through the concept of double materiality, which she called a 'fantastic idea'. She argued that double materiality fits nicely with the concept of corporate purpose and that it should allow companies to go beyond compliance to pinpoint strategic issues where they can make a positive difference for society, the environment and the company's own bottom line.

Stroehle expressed some scepticism about the practical impacts/effectiveness of this EU regulation. Starting with the EU taxonomy, she noted that it is incomplete and will only affect a minority (around 30%) of EU companies. She also stated that the Corporate Sustainability Reporting Directive (CSRD) has been watered down. She agreed that there is the potential for this reporting to guide companies strategically, but that the current reality is that companies are more in compliance mode. She said that it remains to be seen whether these EU reporting requirements might be used for prioritisation, strategic action and decision making— such as in capital allocation. She agreed that the concept of double materiality has the potential for providing strategic insights with companies, but only if it is not seen simply as a compliance requirement.

There was another question about impact assessments and how companies can 'capture' the value that is given back to society, raising the concept of the social return on investment, and noting the importance of ensuring that there is no decoupling between external reporting and internal management reporting. Lanzarotti also expressed some scepticism about the practicalities of the EU reporting framework, and agreed that at least today this reporting is mainly used for compliance and not for strategic purposes. He also agreed with the earlier discussion that reporting on climate needs to be absolute and objective, whereas there is legitimate scope for subjectivity and flexibility relating to social performance metrics. A separate question sought to understand the difference between a company's purpose and mission. Lanzarotti said he prefers to think in terms of purpose and company values, and that he finds concepts like vision and mission potentially confusing and 'old'.

17:20 Closing remarks

Colin Mayer (University of Oxford and ECGI)
Steen Thomsen (Copenhagen Business School and ECGI)

Thomsen began his closing remarks by making observations about definitions, noting the purpose and sustainability are not the same thing, but that they have a symbiotic relationship. He argued that purpose is only real if it adds value to society, but noted that we must be humble and recognise that companies will never be able to address all areas of sustainability and stakeholder impact; they must prioritise. Purpose relates to what companies can practically do and achieve from their core businesses. The key is to look where the core business is going. Thomsen argued that purpose is forward looking, and that sustainability is a more backward-looking static concept, which aims to preserve natural capital.

Thomsen also revisited the earlier discussions relating to where purpose should reside in the company, noting that while there is a role for the board, owners and stakeholders, the role and the viewpoint of the CEO is critical. He used the analogy of an electric circuit to suggest that there should be a direct connection between the owners, the board, the CEO and the employees— and if this connection fails at any point the whole system will fail. All the actors in this ecosystem are required for corporate purpose to function properly.

Mayer concluded by observing that there is a strong consensus about what we are trying to do: to encourage business to solve problems of society profitably, and not to profit from creating problems. He agreed with Thomsen's conclusion that corporate purpose needs to involve the entire ecosystem of boards, executive management, investors, employees, and other stakeholders. Everyone has a part to play.

Mayer expressed the main messages of the individual sessions as follows:

·Management, governance and leadership. Purpose needs to be clear and well understood throughout the organisation. It has to be focused; companies must be focused and ensure that the employees are engaged.
·Ownership. The role of owners can be critical to determine purpose, especially if they are active owners with significant stakes in the company, noting that the conference explored how different ownership structures, including foundations, can facilitate the development of meaningful corporate purpose.
·Finance and Investment. Institutional investors also have a critical role in monitoring and engaging with companies to evaluate if companies are fulfilling their purpose.
·Law. Mayer revisited the conversation between the positive dimension of purpose (solving problems) and the negative dimension (creating problems) and noted that the law may be better positioned to address the negative dimension.
·Measurement. Companies must get on with reporting on purpose without waiting for perfect solutions. Metrics relating to social factors should be company specific, relating to the company's individual sector and circumstances, — and there is some scope for flexibility. However, climate and environmental reporting needs to be more objective and absolute in scope. There needs to be a more elaborate system of measurement in this domain.

Mayer concluded that these ideas give us much to work with and that future work in the purpose debate will need to focus on practical action steps for implementation.

DAY 3
THE 2023 ECGI ANNUAL MEETING
Friday 22 September 2023
Venue: Copenhagen Business School

The third day comprised the ECGI AGM, the Working Paper Prizes, the distinguished Annual Wallenberg Lecture, and a Practice Session on Purpose.

DAY 3 - THE 2023 ECGI ANNUAL MEETING, WALLENBERG LECTURE & PURPOSE IN PRACTICE

09:00 ECGI Annual General Assembly (members only)

Herman Daems (Chair, ECGI)
Marco Becht (Executive Director, ECGI)
Elaine McPartlan (General Manager, ECGI)

11:00 Conference welcome
Marco Becht (Solvay Brussels School and ECGI)

DAY 3 - THE 2023 ECGI ANNUAL MEETING

ECGI Working Paper Prize Sessions
Jennifer Hill (Chair, ECGI Research Committee and Monash University)

Intesa Sanpaolo Finance Prize
Mike Burkart (Editor, ECGI Finance Series and London School of Economics)
Matteo Boaglio (Head of Institutional Special Projects and Policies, Intesa Sanpaolo)

Prize Paper:
"Revisiting the Anticompetitive Effects of Common Ownership".
José Azar (IESE Business School and ECGI) and Xavier Vives (IESE Business School and ECGI)

ECGI Law Prize
Amir Licht (Editor, ECGI Law Series and IDC Herzliya)

Prize Paper:
" No Need for Asia to be Woke: Contextualizing Anglo America's 'Discovery' of Corporate Purpose".
Dan Puchniak (Singapore Management University and ECGI)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THREE-DAY

13:30 The 2023 Wallenberg Lecture

Welcome
Marco Becht (Executive Director, ECGI)

Opening speech | “Purpose in the Wallenberg ecosystem”
Peter Wallenberg (Chair of the Board of Directors, The Knut and Alice Wallenberg Foundation)

The conference featured the Wallenberg lecture, the first time this annual lecture had been given to a live audience since the ECGI lecture had been sponsored by the Wallenberg family in Sweden. Peter Wallenberg, one of the family’s senior leaders, spoke about the Wallenberg family holdings, held through a network of 16 not-for-profit foundations, which includes many of Sweden’s leading industrial companies. As the family is now in its sixth generation since the formation of the Wallenberg group, its own purpose is anchored in the Family Constitution, supported by family governance arrangements including a Family Council and a Family Assembly. This purpose is expressed in part through the Swedish term ‘Landsgagneligt’ (serving society) and is carried out in practice by the Wallenberg group contributing 80% of its dividend income to support basic science research in areas including wood science, artificial intelligence, quantum computing, life sciences and materials science.

13:30 The 2023 Wallenberg Lecture

"Purpose in the Wallenberg ecosystem"
Peter Wallenberg (Chair of the Board of Directors, The Knut and Alice Wallenberg Foundation)

14:30 Wallenberg Lecture | "Stakeholder Governance and Stewardship"

Speaker: Lucian Bebchuk (Harvard University and ECGI)

Discussant: Elizabeth Pollman (University of Pennsylvania and ECGI

Summary of the Wallenburg Lecture:

The Wallenburg lecture itself was given by Profession Lucien Bebchuk of Harvard, in which he presented Three conceptions of capitalism: Friedmanesque Capitalism, Managerial Stakeholderism and Democratic Capitalism. In walking the audience through these conceptions, Bebchuk advocated Democratic Capitalism, which he framed as focusing on law and regulation to address corporate externalities and sustainability issues, rather than private ordering without regulation. In doing so he also labelled managerial stakeholderism as 'illusory' and a 'siren's song' for three key reasons: an incentive problem for corporate leaders to serve stakeholder interest; weakened accountability, particularly to shareholders; and the potential for rhetoric, rather than real commitments. Bebchuk concluded that 'the only game in town is strong government actions.'

Elizabeth Pollman the University of Pennsylvania began her discussion response by paying tribute to Professor Bebchuk's vast scholarship and thought leadership in corporate governance. In response to Bebchuk's lecture, she questioned whether Friedmanesque Capitalism and Democratic Capitalism are mainly different labels for shareholder primacy. She also challenged the assumption that Managerial Stakeholderists would discourage or inhibit needed regulatory change. Her final point was whether we need to think of a better normative model to address the tensions between shareholders and stakeholders in corporate governance.

16:20 Purpose in practice

Moderators:
Colin Mayer (University of Oxford and ECGI)
Steen Thomsen (Copenhagen Business School and ECGI)

Speakers:
Lene Skole (CEO, The Lundbeck Foundation): Foundation Ownership and Purpose
Paolo Lanzarotti (CEO of Asahi Europe and International): Purpose in a Beer Business
Jakob Topsøe (Chair, Topøe Holding): Purpose in a Family Business
Hannah Köenig (Co-Founder, Stapelstein): Purpose in a Start-Up
Génica Schäfgen (DACH Manager, Ecosia): Purpose in a Search Engine

Session Summary
Companies around the world are stating their purposes, while some have been doing so for decades or even centuries. The quality and sincerity of the statements vary, and purposes are often restated, but a growing number of companies take their purpose statements very seriously and use them to guide their strategies, sustainability initiatives and performance measurement. We discussed how leading companies work with purpose, what it means in practice to be a purposeful company, how to avoid purpose-washing and how corporate purpose can be rooted in corporate governance.

Lene Skole explained how the foundation's purpose influenced the companies owned by the Lundbeck foundations and how it was sometimes necessary to take action when a company was out-of-purpose.

Paolo Lanzarotti talked about his work with purpose in the Asahi group, illustrating how purpose links to factors such as the transition to producing more non-alcoholic beer, limiting water consumption and making use of green energy are relevant in a beer business. He also spoke about how the corporate purpose initiative can be led by company executives.

Jakob Topsøe illustrated the special role of purpose in a family business, how purpose in Topsøe played a special role in uniting the family, and how it had led to a strategic focus on green energy.

Hannah Köenig explained the purposeful nature of her company and how a transition to steward ownership (no dividends, stable ownership) had enabled a greater focus on purpose – illustrating how outside investors often spoil the original idea.

Génica Schäfgen explained how a wish to save the planet had inspired a green search engine, whose advertising revenues are used to plant trees.

18:00 Concluding remarks
Marco Becht (Executive Director, ECGI


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About the Responsible Capitalism Initiative

ECGI's Responsible Capitalism initiative is a vibrant, global, interdisciplinary hub examining the crucial interactions between corporations, finance, government and society.

In 2022 ECGI embarked on an ambitious plan to answer key questions about the future of global capitalism, calling for a research debate that seeks to explore the tension between the beneficial outcomes of capitalism, and the unequal consequences.

The concept is defined by ECGI as
'an economic system that accommodates private ownership and the pursuit of market opportunities while achieving societal goals'.

The project aims to:

- Serve as a global knowledge portal and a neutral platform for exchange, dialogue and dissemination
- 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 practical conclusions and real world, adaptable solutions.
- Become a prime resource for teaching at business schools, law schools, university departments and other educational institutions or programmes.
- Shape the future of capitalism, influence the global policy landscape and be a conduit for positive change.

"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."

Baron Herman Daems

Corporate Purpose Programme

Overview

The purpose of business is the reason why it has been created and its reason for being. It has become a central focus of business practice, policy, and academic research.

There is a need for a substantial body of research that evaluates the relationship between purpose and performance of firms in not just financial terms but also in relation to impact.

Research Questions

What precisely is meant by the purpose of business? Is it a business tool, a reconceptualisation of business, or a policy agenda? Is it, or should be, legally relevant and, if so, how? How does it
relate to such topics as sustainability, responsibility, inclusivity, and ESG?

The Team

Programme Director:

Jennifer Hill

Monash University and ECGI

Programme Chairs:

Colin Mayer

University of Oxford and ECGI

Jordi Canals

IESE Business School

About the European Corporate Governance Institute (ECGI)

www.ecgi.global

The ECGI is an international scientific non-profit association which provides a forum for debate and dialogue focusing on major corporate governance issues and thereby promoting best practice. It is the home for all those with an interest in corporate governance offering membership categories for academics, practitioners, patrons and institutions.

Its primary role is to undertake, commission and disseminate research on corporate governance. Based upon impartial and objective research and the collective knowledge and wisdom of its members, it can advise on the formulation of corporate governance policy and development of best practice. In seeking to achieve the aim of improving corporate governance, ECGI acts as a focal point for academics working on corporate governance in Europe and elsewhere, encouraging the interaction between the different disciplines, such as economics, law, finance and management.

Contact

membership@ecgi.org

Elaine McPartlan
General Manager
European Corporate Governance Institute
elaine.mcpartlan@ecgi.org
www.ecgi.global

c/o The Royal Academies of Belgium
Palace of the Academies
Rue Ducale 1 Hertogsstraat
1000 Brussels
Belgium

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