

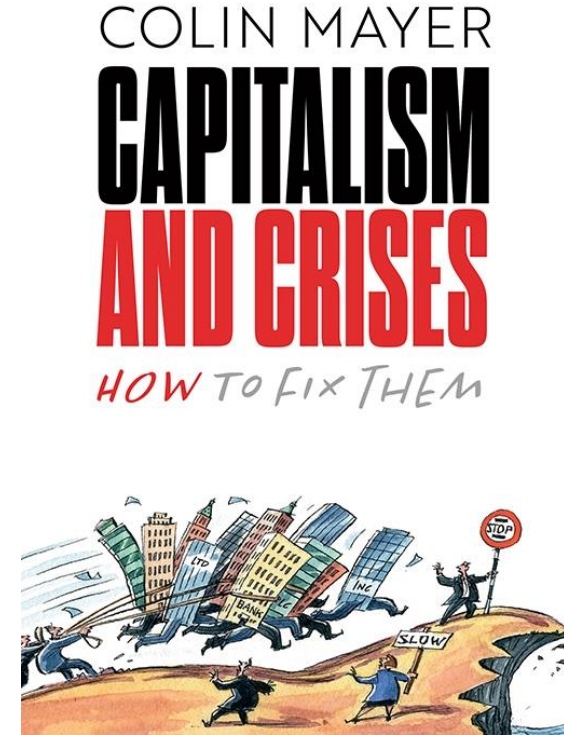
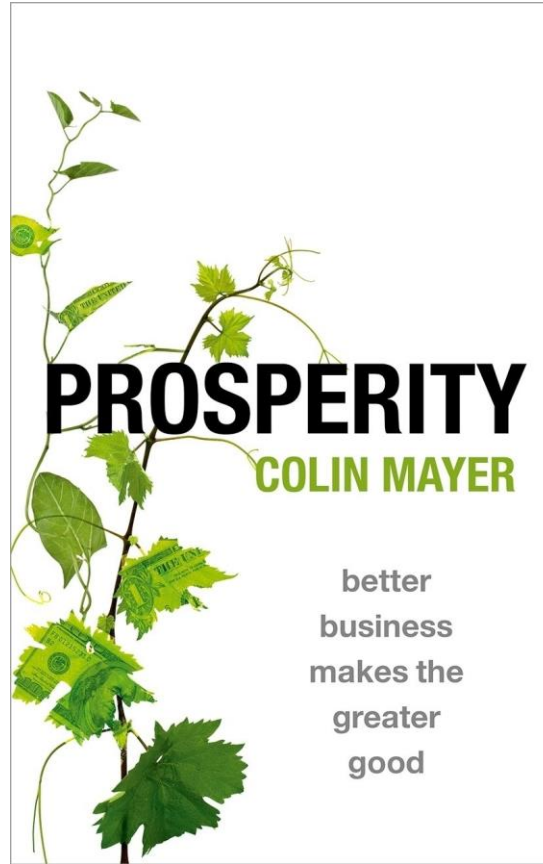
Shareholders, Corporate Purpose and Sustainability

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Purpose at the Core of Problem-Solving Capitalism



Purpose at the Core of Problem-Solving Capitalism

- Beyond shareholder value as the sole moral motive of business.
- Corporate purpose should be about **producing profitable solutions for the problems of people and planet, not profiting from producing problems for either.**
- **Profit should derive from producing solutions, not problems for others.** Companies should not profit at the expense of others and **should** incur the full costs of the problems they create.
- Corporate purpose should be **placed at the heart of corporate law** around the world.
- **Systemic Change:** Achieving this requires a coherent and consistent set of policies to coordinate necessary changes across all institutions and organizations.
- By embracing a problem-solving purpose, businesses can **align** their interests with those of customers, employees, societies, and the environment.
- Implementation of Purpose: embedding it in corporate **law**, clarifying and **communicating** purpose within organizations, connecting it to **strategy** and resource allocation, ensuring **ownership** of the purpose at all levels, **rewarding performance based on purpose delivery**, and exemplifying purpose through **narratives**.

Back to the 1960s

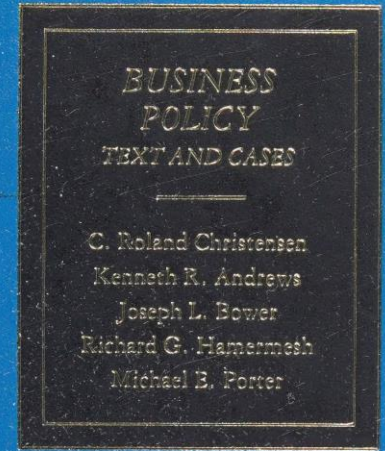
Barnard, Selznick, Christensen et al...

The Company and Its Responsibilities to Society: Relating Corporate Strategy to Ethical Values

We come at last to the fourth component of strategy formulation—the moral and social implications of what once was considered a purely economic choice. In our consideration of strategic alternatives, we have come from what strategists *might* and *can* do to what they *want* to do. We now move to what they *ought* to do—from the viewpoint of various leaders and segments of society and their standards of right and wrong.

Closely allied to the value criterion is the ethical criterion. As the professional obligations of the business are acknowledged by an increasing number of senior managers, it grows more and more appropriate to ask **whether the current strategy of a firm is as socially responsible as it might be.** Although it can be argued that filling any economic need contributes to the social good, **it is clear that a manufacturer of cigarettes might well consider diversification on grounds other than his fear of future legislation.** (1965 Edition).

Probably the skill most nearly unique to general management, as opposed to the management of functional or technical specialties, is the intellectual capacity to **conceptualize corporate purpose** and the dramatic skill to **invest it with some degree of magnetism.**



What do we know about Purpose and Sustainability so far?

...not much!

- Empirical research has so far relied on measures of **work meaning**:
 - A positive relationship between purpose and financial performance (Gartenberg, Prat, and Serafeim, 2019), contingent on higher levels of innovation intensity, intangible capital, and long-term investors (Gartenberg, 2023)
 - A weaker purpose in public companies than in privately owned ones (Gartenberg and Serafeim, 2023)
 - A positive correlation with employees' sustainability behavior (Bhattacharya, Sen, Edinger-Schons, and Neureiter, 2023).
 - Women sort into purpose-driven organizations and experience these contexts as more purpose-driven than men (Burbano et al. 2023).
- We need to find better ways of capturing **Corporate Purpose**
- Specify (and test) mechanism through which purpose can translate into better sustainability performance:
 - Governance & Shareholders: Shareholder Compositions, Time Horizon
 - Corporate strategy: M&A, Divestment, etc.
 - Business strategy: Positioning, Activities, Resources, Capabilities
 - Organizational mechanisms: Identity, Turnover, Human Capital, Social Capital, Productivity

Measuring Purpose With BERT - With Cavicchini (Católica)

Distinguished Organizational Purpose, Meaningful Work, and Other (generic uses of the term)

Label	Text
<i>Meaningful Work</i>	decent pay, work with purpose
<i>Not Purpose</i>	Great intranet resources. Great Six Sigma training program Great place to improve political skill set Great place to learn how to polish shoes of the top management Great place to learn for stepping stone purpose .
<i>Organizational Purpose</i>	Collaborative; innovative; ethical; inclusive; purpose-driven
<i>Organizational Purpose</i>	Purposed-driven management; I get to work with the cream of the crop in terms of bright, driven colleagues; 3M offers many career opportunities that have helped me grow my technical, critical thinking, and management skills; excellent compensation.
<i>Other</i>	Solid company for a broad starting experience base. Nothing about the company screams excitement, but it is definitely a solid place to be a part of and stay at. For the practical purpose of generating income and experience, 3M does the job. But the overall culture and drive is less felt company-wide and more dependent on the specific division and group.
<i>Other</i>	Great culture, good purposeful clients and opportunity to do good things and creative work.
<i>Organizational Purpose</i>	- Good company values and mission statement - Great benefits, pension, 401 K plan - Ethical
<i>Organizational Purpose</i>	- Great culture - Amazing work/life balance and WFH policy - Clear and altruistic company Mission
<i>Meaningful Work</i>	-- Managers care a tremendous amount about every single person in the company. They want you to grow, have fun, and leave every day with a sense of purpose and accomplishment.
<i>Other</i>	- Wonderful place to work the past +16 years! Thought unfortunately this new Administration is trying to strip the Agency of its sole purpose and mission .
<i>Meaningful Work</i>	* Ability to make a real impact on the business and in your area of expertise * Company purpose , mission and vision (Climate Take Back) * The people are incredibly dedicated to our purpose and the company. Everyone wants to make a difference.
<i>Organizational Purpose</i>	* Mission statement * Ethical values * Open Source Technology * Hands on experience - agile blended with retail * CEO - role model

Organizational Purpose

Items
classified by
the model

Review Text	Org. Purpose
Friendly management and purposeful mission	100.00
At UHG we live the mission of helping people live healthier lives	100.00
Co-workers, CEO and mission and values of the company. All great.	100.00
...	
This is a great company to work for. Best one I've ever worked for. Great atmosphere and positive environment.	80.03
Great culture and vision. You feel that the company truly cares for you not only as an employee but also as a person. Fantastic product lineup and compensation plan for sellers that produce results. Issues are addressed quickly with a focus on getting better and becoming more efficient.	80.04
Interesting work, always learning, solid training programs, everyone wants to succeed. Mission is inspiring. Pretty good systems in place to facilitate the work.	80.04
...	
- Great Organization with fantastic values. - GM is passionate and is always looking to drive a positive change.	65.66
- Leadership communication is effectively and engagement across the business is high.	
Great Benefits & Perks, and Support Network Corporate Culture of Understanding and Acceptance Global Family of Employees and Advocates Generous Profit Sharing Policy Complex and Challenging Business Operation Numerous Opportunities for Volunteering and Social Impact Initiatives	65.67
Inspiring leadership strategy and vision since Satya is onboard. A lot of freedom to work the way you prefer. Great place to work that has a workplace adjusted to your needs. Great colleagues, lot of smart people. Fun business trips. Good pay. Potential to grow further as company.	65.68
...	
job security is stable and money is decent	47.39
The people, benefits, and culture! Excellent place to build great customer relationships while you work towards your career goals and drink the best coffee in the world!	47.39
Amazing culture , Apple hires great people who have a ton of drive	47.35
...	
job security is stable and money is decent	0.01
Friendly staff 10% discount about 15 hours week	0.01

Very different Concepts

Organizational Purpose



Meaningful Work



Purposeful Firms have lower Scope 1 CO2 Emissions

VARIABLES	(1)	(2)	(3)	(4)
	Scope 1	Scope 1	Scope 1	Scope 1
	CO2 Emissions [0-2]	CO2 Emissions [0-2]	CO2 Emissions [0-2]	CO2 Emissions [0-2]
<i>Org. Purpose</i>	-0.0210+ (0.0111)	-0.0238* (0.00968)	-0.0229* (0.00912)	-0.0272* (0.0109)
<i>Prior Emissions</i>		0.362*** (0.0383)		0.316*** (0.0440)
Constant	11.49*** (0.176)	7.588*** (0.463)	3,389 0.978	7.257*** (0.728)
Observations	4,343	3,760	3,389	2,915
Num. of Companies	769	680	623	545
R-squared	0.978	0.982	0.978	0.981
Within r-squared	0.00185	0.203	0.121	0.263
Controls	NO	NO	YES	YES
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

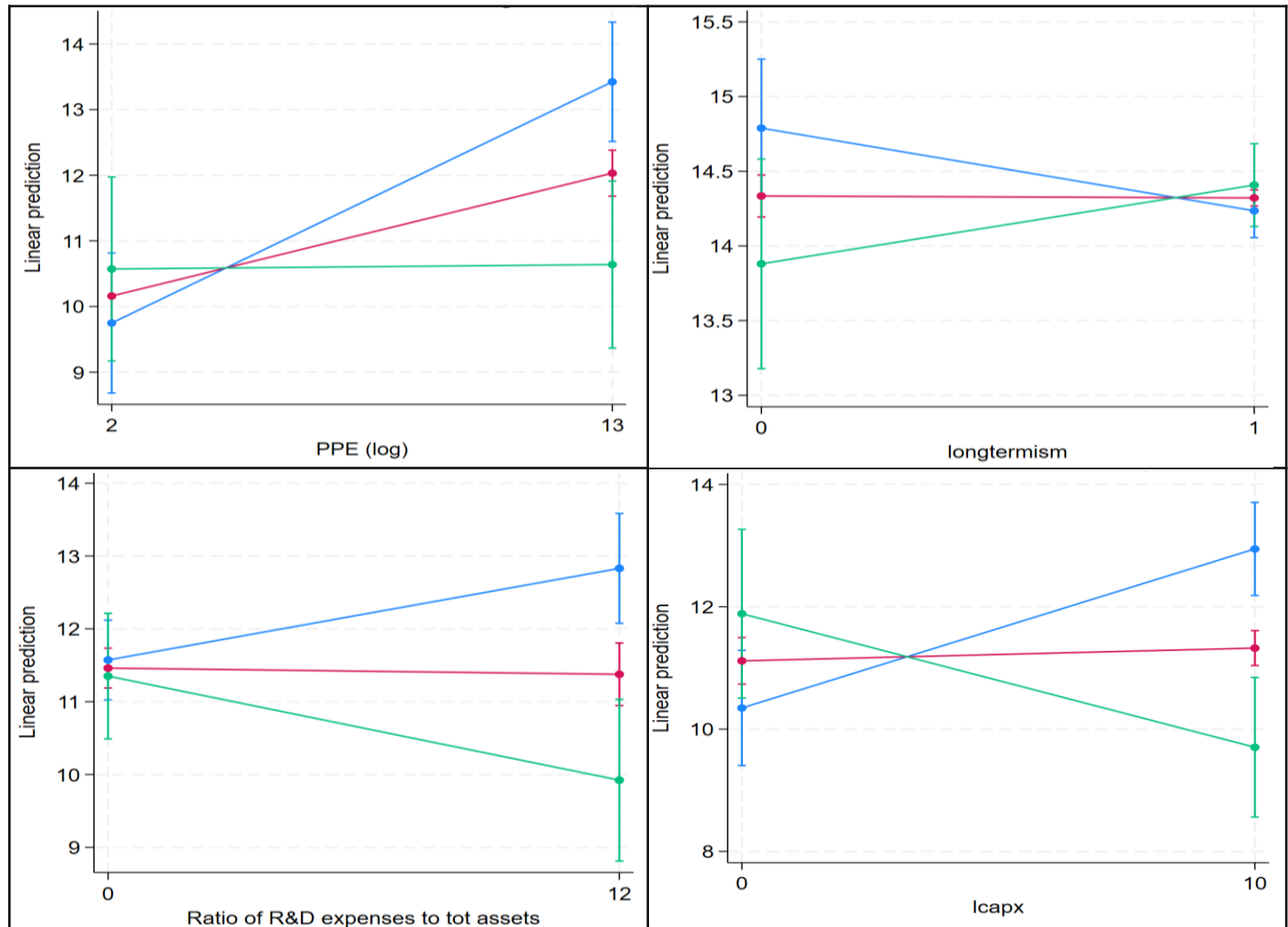
Robust standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05, + p<0.1

Scope 1
CO2
Emissions

Interaction
With
Measures of
Long-termism

- Org. Purpose=0
- Org. Purpose=20
- Org. Purpose=40



Is Purpose Enough?

Our purpose is to drive change to defeat serious chronic diseases, built upon our heritage in diabetes.

We focus on developing medicines and diagnostics that will help patients live longer, better lives.



Purpose without Responsible Investing (ESG)....

....is like going back to the 1960s

- “Profit without harm is a **necessary and sufficient condition** for markets to promote social wellbeing.”
- What mechanisms will be there to even know what a company, board member, executive is actually doing?
- How can externalities be measured and internalized without the infrastructure that the Responsible Investing movement was building?
- Who is going to measure what? For whom?
- What about systemic risk? Will purpose be enough to derisk our out-of-control financial markets?
- Are we going back to leaving this to the “moral character” of men?

As far as I know, nobody was listening to our colleagues back then, and most cigarette manufacturers have not divested!

ESG without Purpose
might be Soulless

But

Purpose without ESG is
Toothless

Integrating Purpose in Responsible Investing

- Acknowledge that if ESG became a target for the American Far Right authoritarian project...
- ...perhaps it was doing something right!
- **Responsible Investing** can become a vehicle for value expression through intermediaries like pension funds, asset managers, etc.
- Redirecting **capital allocation towards** profitable solutions for the problems of people and planet, and **away** from those that profit from producing them.
- And contribute to **monitoring** the implementation of purpose, as an external monitoring device (in alignment with corporate law and government regulation)

Thank **you**



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