Broadening the purpose of the corporation requires purposeful implementation

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Abstract
The notion that the purpose of the corporation is to maximize profits to be distributed to its shareholders has been the guiding light of management for many decades. Nevertheless, in the last few decades many corporations, on their own, and in response to pressures from society, have realized that their operations, and hence profits, impact and are impacted by a broader set of entities: employees, clients, community, suppliers of goods and services and the environment, among others, besides the providers of capital. Corporations are recognizing that they have a responsibility towards society, that their purpose is broader that maximization of profits. This realization has been intensified with recent crises, where corporations have realized that they can and must also contribute to alleviate some societal needs. But the discussion has been so concentrated on the redefinition of this purpose and on the actions on the ground, beginning and end of a process, but the difficult task in the middle, the implementation of a broader purpose, has been neglected or underestimated, relying on the status quo or on small changes to the business as usual. But the redefinition of purpose, to be effective, to have impact, requires not only changes in strategy but also changes in culture, structure, governance and management processes among others, whose analysis is the purpose of this paper.

Key words
Purpose of the corporation, corporate social responsibility, stakeholder capitalism, profit maximization, corporate culture.

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1. Introduction

The last few decades have seen an acceleration of the interest on the role of corporations in society’s wellbeing. From the call of International Organizations to corporations to contribute to the achievement of the Millennium Development Goals (2000-2015) and their successors, the Sustainable Development Goals (2015-2030), passing through the financial crisis that started in 2008, attributed by many members of society to the greed and lack of ethics of financial institutions. More recently, the coronavirus crisis has put the spotlight on the contributions that private corporations can make to alleviate the social and economic impacts on society. Many have found a renewed purpose, beyond making money for shareholders.

These events have led to the realization that inequality and discrimination are problems that severely constrain human and economic development. Furthermore, the impact of climate change and the efforts to mitigate their effects, articulated in the Paris Agreement, have extrapolated the interest on the impacts of corporation’s activities on society and the environment, and led to a renewed interest on these activities and to a call on corporations to reevaluate their role and purpose.

In those multilateral efforts much of the burden falls on governments, but the failure to act in the part of some governments, the growing economic power of corporations, their access to financial resources and the impact of their activities on society, has led, at the corporation level, to a call to broaden their purpose to include other stakeholders beyond the shareholders, and at the aggregate level of the economy to make the operation of the markets more inclusive, to make capitalism more human, more compassionate, more fair, more responsible.

The narrow purpose of shareholder financial wellbeing has been promoted in most business schools over at least the last 50 years, partly because of its simplicity, only one group of stakeholders to consider: shareholders. The bulk of finance and economics literature used to teach being based on this objective and the inertia to continue to use the same teaching materials has led to its persistence in teaching and training. The hundreds of thousands of graduates and consultants have promoted it within corporations and the linking of manager remuneration to the achievement of purely financial goals has entrenched a culture that promotes this purpose (Brower & Payne, 2018, Stout, 2012). But given the visible consequences on society of the application of this purpose, the abuses and omissions (negative impacts) committed by some corporations on their way to maximize profits and the failure of markets (markets cannot deal with issues of social justice, as amply demonstrated by the coronavirus crisis), there is a call in the business community and civil society to question the primacy of shareholders and to broaden the purpose of the corporation, its raison d’etre, to include other stakeholders, to move from profits to shareholders to benefits to stakeholders, financial and non-financial.

To counteract what parts of society and some in the business world saw as a tendency to ignore the impacts of profit maximization on economic justice, environmental degradations, abuses on labor rights among others, the responsibility of business towards society (Corporate Social Responsibility, CSR) was rediscovered and emphasized during the last four decades. In that period, with emphasis on private enterprise as the solution to many economic problems, neoliberal
policies led by Prime Minister Thatcher in the UK and President Reagan in the US in the eighties, gave political acceptance to the idea that the purpose of the corporation was to make money. Helping society was a byproduct. Responsible production, sourcing, employment, and payment of required taxes, among other responsibilities was not the main consideration. Most corporations behaved as if their purpose was profit maximization. And that was reinforced by teachings in the main business schools.

And the financial crisis on 2008, in part the result of irresponsible and greedy practices of the financial sector, awoke the latent tension in society against what in many developed countries was perceived as unbridled capitalism, the uneven distribution of the gains of globalization and economic growth and the resultant inequality, that stimulated anti-immigration sentiments, localism in actions and populism in politics, both on the left and right of the political spectrum (Timbro, 2019). This made the business sector realize that they could no longer be indifferent to the needs of society and led to questioning the purpose of business.

But the rediscovery of CSR emphasized its implementation, the “what” of the social responsibilities of business, the “how” to implement the needed actions and in particular the “why”, mostly in order to counteract the pressures of those that defended the primacy of profit and attacked the distractions or other responsibilities (Friedman 1970). The business argument, the competitive advantage of being responsible, had to justified. The moral argument, responsible because it is the right thing to do, was not convincing, although has lately come to fore with the financial crisis of 2008 and the pandemic of 2020. It was a rediscovery of CSR as most of what today is considered as those responsibilities had already been articulated in a seminal article in the Harvard Business Review (Donham 1927) and a book (Bowen 1953).

Now that the “why”, “what” and “how” to do it have been accepted by larger segments of businesses, there is a return to fundamentals and corporations and business associations are asking the basic and overarching question of what is the purpose of the corporation: it must be more than just making the most money possible. Corporations should have started with this question, but for the reasons described above and their drive to action, the priority was doing it over what appeared to be almost a philosophical question.

The purpose of the corporation is becoming the buzzword of the 20s. Recent statements have responded to these expanded concerns about the role of corporations in society and the environment, questioning the purpose, explicit or implicit, of maximizing profits for shareholders. In August of 2019, the Business Roundtable, BRT, the association of chief executive officers of the USA’s leading companies, unveiled their revised Statement on the Purpose of a Corporation, to move from the primacy of shareholders to include other groups of stakeholders (customers, employees, community and suppliers), taking a long term view. It was signed by 181 CEOs (BRT, 2019, Vives, 2019). In January of 2020, at the annual meeting of the World Economic Forum in Davos, a revised Manifesto 2020 was launched, calling for Stakeholder Capitalism (the original Manifesto already calling for this was from 1973) (WEF, 2020a, WEF, 2020b, ). The most recent Manifesto goes beyond the statement of the BRT calling for “performance must be measured not only on the return to shareholders, but also on how it achieves its environmental, social and good governance objectives. Executive remuneration should reflect stakeholder responsibility”. Another
prominent recent call has been that of Lawrence D. Fink, CEO of BlackRock, one of the largest investment funds in the world, in his last three annual letters to other CEOs. The 2018 letter, A Sense of Purpose stated (Fink, 2018)

To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all their stakeholders, including shareholders, employees, customers, and the communities in which they operate. Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders.

But these and many other calls for a change in purpose have met with detractors. For instance, the BRT statement was immediately denounced by the Council of Institutional Investors, a powerful institution that promotes maximization of profits, arguing that “shareholders are merely seen as providers of capital and not as owners” (CII, 2019). More recently the Wall Street Journal published an Op-Ed, The ‘Stakeholders’ vs. the People with a rather strident argument: “I don’t want American capitalists to play a larger role in defining and implementing the country’s political and social values.” (Ramaswamy, 2020, Vives, 2020b)

Most statements are declarations of good intentions and none deal with how to implement the broadened purpose of the corporation or the “stakeholder capitalism”. The problem of implementation is assumed away, that somehow it will be taken care of. A recent article on the Harvard Business Review blog, We Are Nowhere Near Stakeholder Capitalism, laments that despite all the recent announcements, there is still a long way to go to achieve a generalized implementation of stakeholder’s concerns (Govindarajan & Srivastava, 2020). But as in the case of the statements, it does not offer a way to get there. Indeed, we are nowhere near, but this does not mean that we have be content with statements and lamentations. While the implementation is indeed company specific, there are some areas that are common to all. Even though a generalized solution is not feasible, at the very least corporations must devise a path to get there, from purpose to actions, adaptable for each case. This is the purpose of this article.

2. Purpose of the corporation

“It you do not know where you are going, any road will take you there”. The purpose of this article is to discuss the process of implementation of Purpose, to fill the void in those general statements. We will not go into detail as to what the broader purpose should be, will offer only some general comments to set the framework for the discussion to follow. Purpose is very company specific, as each company is different, has different commercial objectives, operates in different contexts, have different capacities and willingness to incorporate their specific stakeholders, while making the needed compromises between the large variety of conflicting objectives, particularly between financial and social and environmental sustainability.

We will work under the assumption that the corporation will seek the good of society, for all stakeholders, stockholders and the environment included. We are not advocating for prioritizing society, neither for prioritizing profits. Contrary to an extended belief, there is no legal imperative
to maximize profits, the fiduciary responsibility of the Board is to manage the resources efficiently and effectively (Stout, 2012). The purpose of the corporation must seek a balance between the interest of all relevant stakeholders, which may conflict with each other, within the financial, physical and managerial constraints it faces. The purpose must be realistic. Many companies spend significant resources in consultants to develop a nice sounding purpose, to be later ignored as it is not feasible or not specific enough to guide implementation. As expressed by the Boston Consulting Group in Optimize for both Social and Business Value: Winning the 20’s (Young, Woods & Reeves, 2019):

“Purpose” should not be a comforting and self-congratulatory statement of what the company already does, however—that would be an impediment to progress. Rather, it should define the aspirational societal contribution of a company based on its unique attributes and inspire awareness of the broader context and progress toward business and societal value.

And the establishment of a purpose should be to guide the company to fulfill its role in society, not to, supposedly, achieve larger profits, although those profits may come as markets show appreciation for a purposeful company. Some studies have concluded that companies with a well-defined purpose are more profitable (Birkinshaw, Foss & Lindenberg, 2014). But it could well be that profitable companies are well managed and a fundamental part of this is having a well implemented purpose. (How to Harness the Power of Purpose, BCG, 2020). It is beyond the scope of this paper to detail the benefits of having and implementing a purpose.

The current, new or revised purpose will be determined by the evolution of the company, its culture, the financial and managerial constraints it faces, the context and environment in which it operates, the structure, power, urgency and needs of stakeholders, among others. For instance, it will be very different for a multinational versus a purely domestic firm, for a consumer-oriented firm versus a business oriented one, for one operating in very developed markets versus one operating in developing regions.

Once the corporation has decided to establish or revise its purpose a process of implementation must be activated.

3. State of implementation

By the middle of 2020, the emphasis on the purpose of the corporation has been concentrated on the need to articulate it, the supposed competitive advantages that it brings (Izzo and Vanderwiel 2018, Ernst and Young & Harvard Business Review, 2015) and as a strategic guidance. The actual implementation has not had a broad discussion in academic and professional publications, and it has been mostly confined to internal discussions, thereby the need for an implementation program as proposed in this article. Given the recent interest, corporations have taken isolated actions, but not an integral approach.

A recent survey by a shareholders relations advisory firm (SquareWell, 2020) of investors with over US$ 22 trillion of assets under management, found that 79% considered how the purpose is
implemented the most important aspect and only 12% how the process was formulated and 5% the actual wording. 86% expect that its implementation will be reported and 75% expect that it will include key performance indicators to measure progress. But only 21% of those investors have incorporated corporate purpose in their evaluation of ESG risks and opportunities.

4. From purpose to actions: The path through the ecosystem

The setting of a realistic purpose is the beginning. But the hard part is its implementation, maybe the reason why there is so little written on it. To implement it we propose the consideration of ten elements of the ecosystem that envelop the path from Purpose to Actions (figure 1):

Figure 1

The path from purpose to actions

Source: Own elaboration.

1. **Culture.** Determines and it is determined by purpose, they are extremely linked. Culture must be conducive to implementing the stated purpose. This is probably the key issue where most purposes fail. For instance, it is unlikely that a culture that favors internal competition and financial results will be conducive to consider the welfare of stakeholders other than shareholders. A culture that favors internal cooperation and learning will be more conducive. The soil of culture must favor the seed of purpose for concern for society to grow (see the five articles, The Leader´s Guide to Corporate Culture, Groysberg et.al., 2018). We must note that the term culture is used as if it were a homogenous concept within the company, but there are subcultures, which may complicate the implementation of purpose, as we discuss below. Also, large companies operating in different regions of the
world, may face different external cultures and different groups of stakeholders with differing expectations. This may require adapting purpose and its implementation to the different environments.

2. **Shareholders.** It is one of the most critical groups of stakeholders. Even though most of them have similar concerns about profits, the major reason for holding the shares, it is not a homogenous group. Regarding a broader purpose there is a group that may be against it: activist shareholders, concerned about maximization of financial returns over the short term, can disrupt it. There may be groups in favor of a broad purpose, for instance some institutional investors with a wider and longer-term view. The vast majority of stockholders may be indifferent (the average holding period of shares in the NYSE is 4 months). The structure of shareholding will determine the feasibility of implementing a broader purpose, as besides their actions in shareholders meetings, some groups may be able to appoint members of the Board and influence management (Vives, 2020a).

3. **Employees/Managers.** This is probably the most critical group of stakeholders and a common one to all companies. The concern for this group is twofold. On the one hand, their welfare is one of the objects of purpose. On the other hand, they are the instruments for the implementation of purpose, which is done in the trenches, granted, under the order and guidance of the Board and Upper Management (Quinn & Thakor, 2018). They must be convinced of the purpose. But not all will be on board as we comment below.

4. **Other stakeholders.** These groups do vary from company to company, and their relevance can even vary through time. As the broader purpose is precisely to include these groups, there is a need to identify the critical ones, those that are most impacted and can impact the company operations, their likelihood of acting, their power, their urgency, their needs and expectations. Again, even though we use a common name, there are many different groups of stakeholders (consumers, governments, communities, suppliers, competitors and partnerships, among others), and even within groups there are differences, which may have different concerns, which need to be balanced. It must also be emphasized that, even though the purpose may include all stakeholders, the company must be selective in addressing the critical ones, it cannot do everything for everybody, financial feasibility is still priority one.

5. **Material issues.** The broader purpose will have identified, in rather general terms the types of stakeholders, but not the issues that matter. Based on the analysis of stakeholders above, the company must determine the issues that is willing and able to address. It will have to prioritize them based on the relevance of stakeholders and the issues that are critical to them. Shareholders and employees will have priority and most likely will have their issues identified and hopefully addressed, but it bears a review in the context of the overall strategy with other stakeholders. This part of the ecosystem will already be in place for any company that has sustainability, in its broader sense, already under consideration. For many firms there will no need for special analysis. The material issues and stakeholders to be addressed will determine in large part the activities of the company in addressing the broader purpose.

6. **Governance of purpose.** This governance of purpose goes beyond the traditional understanding of governance, the G in ESG analysis, which tends to refer to issues related
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to the Board and Upper management (composition, separation of Chairperson and CEO, independent directors, diversity, compensation, ethics, audit and control, compliance, classes of shares and voting power, etc.). In the context of purpose, governance refers the whole set of policies (whistleblowing, diversity, compensation, ethics, consultations, political action, etc.), processes and procedures to implement them on the ground (employee participation, consensus seeking, cooperation, etc.) and internal institutional arrangements (grievance committees, decision making processes, etc.), that are used in the management of stakeholders. This part of the ecosystem must, eventually, be made compatible with purpose.

7. **Incentives.** People, which must implement purpose, respond to incentives. These may be explicit (remuneration) and implicit (unwritten expected behavior), positive (rewards) and negative (penalties). The most effective ones are the financial ones and the factors to be considered in salary and promotion decisions. But with the changing composition of the work force, nonfinancial incentives can also be effective (recognition, enhanced responsibilities, etc.). Incentives must be part of the culture and, eventually, be made compatible with purpose. This is one of the factors that most influences the success of the implementation of purpose.

8. **Conflict management** (subcultures, stakeholders). The implementation of purpose will require change, and in all change, there will be winners and losers (there will be boulders and pothole builders on the path), and these ones will tend to oppose change. Furthermore, as mentioned, culture is not homogenous and inside every firm there can coexist many subcultures, some more conducive than others to implement the broader purpose. For example, marketing, production and legal departments tend to face different sets of incentives and be populated by professionals with very specific cultures, for instance sociologists versus salespersons, versus engineers versus lawyers. These potential conflicts of objectives must be proactively managed. And there will be conflicts in the interests of the different stakeholders and even within a group of stakeholders. A clear example is the conflict of interest between shareholders and employees, the first may want to reduce labor costs under adverse conditions and the second will want to maintain employment levels and remuneration. Balancing the interests of all groups is one of the large obstacles faced in the implementation of purpose.

9. **Structure.** Company structure tends to be relatively rigid and only changes under strong changes in the environment in which it operates. But the implementation of purpose, with the changes required outlined above may require some adaptations to the structure. It may require, for instance, assignment of more responsibilities to middle management, which may require either consolidation of units to enhance cooperation and coordination of implementation or dispersion of responsibilities to enhance effectiveness. It may require the creation of special units to handle the enhanced relations with stakeholders, identification, consultations, prioritization, management of conflicts and the like.

10. **Monitoring and Champions.** There will be a need for a process of continuous adaptation to the changing stakeholders and the need to assure, to the best extent possible, the compatibility within all the components of the ecosystem as they are adapted. This will require continuous assessment of the relevance of purpose, of these components, their
compatibility and the strategy of adaptation. A dedicated group of individuals, with a holistic view of the company and its context, may be necessary to oversee the process, and its implementation may require strategically located “champions” to move the process along and overcome the obstacles.

It is important to emphasize that in real life, unlike in academic oversimplifications, this path is not straight, goes back and forth, has bumps, diversions, at time it appears random, is traveled in spurts, with progress in some areas, regression in others, full of obstacles, mostly man-made. Every company will find itself at some stage in the development and implementations of purpose, sometimes purpose may only be implicit. The path can be started at any of the stages and will go back and forth. Many corporations, without an explicit, broad purpose, will start developing one and then analyze if the rest of the elements of the ecosystem, particularly culture and governance of purpose, are compatible with the new purpose and proceed to make adjustments, where and when it finds suitable and feasible. The important thing of the suggested path is that it shows the direction, it may never be completed, will be in constant flux. Implementation will depend on available resources, degree of commitments, perseverance, impact of stakeholders, particularly shareholders, among other factors.

5. Actions to Implement Purpose

It is beyond the scope of this paper to detail the on-the-ground actions needed to achieve purpose. We will discuss only briefly these on-the-ground activities as these are amply covered in the Corporate Social Responsibility/ Sustainability literature, but some examples and comments are in order to illustrate the third pillar, Actions. For instance, to include the interests of employees, good working conditions must be established, some benefits to improve their quality of life, like health insurance and support for professional development. To include the interests of clients, quality and reliability of products and customer services are essential. To include the interest of the surrounding community, depending on their impact, the company will strive to be a good neighbor, to be as little disturbing as possible (noise, traffic, dust, etc.) and depending on their needs it may support local education and sporting activities. And to implement, it will need to adapt, over time, the company structure and governance to the revised purpose and set up a process for implementation, evaluation and feedback.

The implementation will not be complete without these actions geared to achieve the interests of stakeholders. Again, the nature and scope of these actions will depend not only on the stated purpose, that most likely will not have the level of detail needed to guide implementation, but also on the reality that the company faces. It will need to balance the interests of the different groups, within the constraints that the company faces, will have to decide what is feasible within what is desirable.

And these actions should not be isolated, occasional, uncoordinated activities undertaken by the different units. They must be part of an overall strategy, compatible between themselves and compatible with the goals of the company, hopefully with synergy. This is possibly the most likely
cause of the lack of credibility in the reported sustainability activities of corporations, what is called the “purpose gap”, the perceived gap between stated intentions and results. As mentioned at the beginning, and given the relatively novel emphasis on the statement of purpose much attention is devoted to having an inspiring statement, but much less to its implementation, under an implicit assumption that if it is well articulated it will take care of itself.

Also, given the relative novelty, the complexity and their overarching impact, most corporations do not yet carry a comprehensive effort and implementation tends to follow the aspects that are more feasible in the short run, given the human and financial endowment and constraints. Most corporations can adapt, for instance, to the elements related to shareholders, employees and managers and material issues that are actively managed on an ongoing basis. On other the hand, elements like culture change, adaptation and conflict anticipation and changes in structure require special attention. Corporate culture, for instance, is something that evolves slowly and if the change in purpose in noticeable, it will require proactive special efforts over longer periods of time.

This uneven and incomplete implementation of purpose not only provides an inconsistent image but contributes to the criticism that purpose is divorced for action, and accusations of greenwashing.

The proposed implementation path is an ideal that may not be assumed by even the most advanced corporations, but it shows the way to close the gap between words and actions.

6. Conclusions

In the current economic and social environment, it is not enough for corporations to produce goods and services that society demands and enhance the financial accounts of shareholders and top management. Society expects and demands a broader role, especially of the larger corporations. Corporations must recognize, in their actions not in rhetoric, that they are part of society and have responsibilities in their wellbeing. Purpose should establish that role, but it needs to be implemented properly.

Most corporations that manage to develop a purpose, move directly to actions and fail to undertake the required activities for their implementation. Many times, they are content with disseminating these statements throughout the organization via internal memos, seminars, training, etc. But it is like sowing in fallow ground, notice is taken but the implementation will be weak. The statement of purpose must be followed by strong, broad and sustained implementation activities.

Like any strategy implementation it is not an easy task, that can be left to itself. It must be emphasized that it is the rank and file, the middle and lower levels that implement the purpose, not the directives or orders form the top. Follow up is also necessary. The setting of purpose is a necessary but not sufficient condition, and more and more, especially after crises, society demands actions, not words.
This paper has discussed an issue which is relatively neglected in the expanding literature on corporate purpose.

7. References


