



Aspen Institute-NYU-Stern Roundtable

Rethinking “Shareholder Value” and the Purpose(s) of the Firm

March 1-2, 2012

STERN SCHOOL OF BUSINESS | NEW YORK, NY

Reflections from the Roundtable

On March 1-2, 2012 the Aspen Institute Business & Society Program convened a group of 35 scholars and business practitioners at NYU-Stern School of Business for the second roundtable in the series *Rethinking “Shareholder Value” and the Purpose(s) of the Firm*. Building on the first roundtable at UCLA School of Law in September 2011, our discussion explored the purpose of the corporation from two perspectives: the **role society assigns to business**, and the **strategic importance of purpose** at the firm level.

Key Themes

- **The way we conceive of corporate purposes is a choice**; it is not dictated by law.
- Conceptions of corporate purpose, on both societal and firm levels, are **highly context-specific**.
- A clear understanding of purpose at the firm level offers a **valuable strategic framework to create value by** aligning the interests of multiple constituencies.
- There is a pressing need to develop a better vocabulary to describe **how business creates value and how that value benefits society**.

Purpose in Context

This roundtable expanded on the premise established during the first roundtable that “**conceptions of corporate purpose are chosen**,” not dictated by corporate law. Corporate law helps establish boundaries within which business leaders exercise judgment, but the law has remained fundamentally “ambivalent”¹ regarding corporate purpose. Remarkd one participant, “Law is a stepping-off point, but we need to go outside the law to answer these questions.”

Corporate law creates **boundaries** within which choices about corporate purpose are made. Ultimately the role society assigns to business, however, is a normative decision reflecting myriad factors. Several were discussed during the roundtable.

- **Generational differences** can influence society’s expectations and the ways business leaders view their priorities and obligations.
- **The broader political economy** affects what society requires of business, whether it be growth, jobs, innovation, and/or social benefits such as retirement plans and health care. (Reflecting on today’s context, one participant asked “Where is the on-ramp to a middle-class life” when Apple, Intel, Google, Cisco, Amazon and Microsoft *combined* employ fewer people than the grocery store chain, Kroger?)

¹ Bruner, Christopher *The Enduring Ambivalence of Corporate Law*, Alabama Law Review [Vol. 59:5:1385]

- **Market conditions** today may suggest that we focus less on the publicly traded corporate form of business and devote more attention to other ownership structures and ways of organizing business activity. For example, the number of publicly listed companies in the United States has decreased by half since 1997. The prevailing narrative of business, based on the dominance of the public corporation, will have to adapt to this reality.
- **Other models of capitalism** employed around the world offer lessons about the roles of business in society and the variety of ways business activity can be organized. (The dynamic economy in Germany, for example, has fewer public corporations than Pakistan or Romania.)
- **Accumulated knowledge from our own experience** can also play an important role in how we conceive of corporate purpose. Notwithstanding the ascendance of “shareholder primacy” over recent decades, many, including some of the theory’s earliest advocates, openly question whether the promise of the theory has been met in practice.

Purpose, Strategy, and Value Creation

One insight carried over from our September 2011 roundtable on corporate purpose was that firms exist for different purposes. How a firm conceives of its purpose(s) can help establish its distinct identity in the marketplace. When implemented well, a firm’s **purpose is a strategic advantage**.

One executive outlined how his company implements purpose as an essential component of strategy. While shareholder primacy focuses on the *power relationship* between shareholders and management, a **strategic conception of purpose** focuses on how a business *creates value*. Purpose offers a framework for value creation by:

- distinguishing the company in the marketplace;
- providing clarity for investors and employees about management and strategy;
- focusing management on the inputs of business that create value;
- attracting and retaining talent;
- motivating employees; and
- inspiring customer loyalty.

When purpose is viewed strategically, management concentrates on **the inputs** required to produce **sustainable outputs**, including above-average financial and other returns. For a manager, clarity of purpose helps fix attention on **fundamentals of long-term value creation** - employees, performance metrics, policies, incentives, and strategy. For investors, a strategic appreciation of purpose provides deeper insight into the way a firm creates long-term value, as well as guideposts to assess the quality of a firm’s management. Investors are able to assess whether a company’s purpose is aligned with needs that will be valued in the marketplace, and whether management is pursuing the right strategy to achieve the articulated purpose.

What's Next?

Said one participant, **“The story of business is badly broken.... We don't have a governance problem, we have a narrative problem. And if we try to fix the problem using the same language, we'll still have a problem.”**

The issue of language has arisen at both roundtables on corporate purpose. The languages of corporate law (focusing on accountability and authority) and economics (focusing on the “outputs”² of business such as profits and share price, etc.) offer limited insight into the function of business within society and *how* businesses create value. The language that emerged in this roundtable began to address some of these limitations, emphasizing the ways that complex social context, leadership, motivation, and judgment converge to create value for employees, investors, customers and society as a whole.

Several participants also noted that the US economy is evolving from one dominated by publicly traded corporations, to a more heterogeneous system with other organizational forms and ownership structures playing more central roles. Our narrative of purpose should account for this shift as we explore different ways to organize business activity to create value. We appear to be at a turning point, leaving many asking, “what's next?”

Participants suggested an array of factors to consider as we craft a new narrative, including:

- a greater emphasis on the **role of business in meeting human needs** within the context of the broader political economy;
- the realities of human behavior, motivation, and the power of leadership (“The idea that people are narrowly self-interested has been shown to be false through 50 years of research. What drives people to work together is to create something together that they cannot do alone.”);
- a vision of accountability that encapsulates the complexity of business activity and its influence in society; and
- a broader understanding of value and *how* business creates it.

Though “fixing” the narrative of corporate purpose presents an enormous challenge, a 45-minute action planning session at the close of the roundtable offered encouragement. Stated one participant, “The corporation is a social construct, and we can construct it as we choose.”

² As opposed to “inputs” which include employees, the organization's purpose, the business model, and relationships with customers, suppliers, and other stakeholders.

Appendix: Participant List

1. **Constance Bagley**, Professor, Yale School of Management
2. **Tamara Belinfanti**, Associate Professor, New York Law School
3. **Margaret Blair**, Professor, Vanderbilt University Law School
4. **Karen Brenner**, Clinical Professor, NYU-Stern
5. **Christopher Bruner**, Associate Professor, Washington and Lee University School of Law
6. **Bruce Buchanan**, Professor and Director of Business & Society Program Area, NYU-Stern
7. **Bill Budinger**, Founder, Rodel Inc. and Co-Founder, Rodel Foundations
8. **Peter Conti-Brown**, Academic Fellow, Rock Center for Corporate Governance, Stanford
9. **Robert Corcoran**, Vice President, Corporate Citizenship, General Electric
10. **Donna Dabney**, Vice President, Secretary and Corporate Governance Counsel, Alcoa Inc.
11. **Rebecca Darr**, Senior Fellow, Aspen Institute Business & Society Program
12. **Gerald Davis**, Professor of Management and Sociology, University of Michigan
13. **Thomas Donaldson**, Professor, The Wharton School, U-Penn
14. **R. Edward Freeman**, University Professor, University of Virginia & Professor, Darden School
15. **Martin Gelter**, Associate Professor, Fordham University School of Law
16. **Holly Gregory**, Partner, Weil, Gotshal & Manges LLP
17. **Daniel Green**, Program Officer, Freedom & Free Enterprise, John Templeton Foundation
18. **Jim Hawley**, Professor, St. Mary's College of California School of Economics and Business
19. **Witold Henisz**, Associate Professor, The Wharton School, U-Penn
20. **Linda Hill**, Professor, Harvard Business School
21. **Consuelo Hitchcock**, Principle, Deloitte LLP, Regulatory and Public Policy
22. **Ryan Jacoby**, Co-Location Head, IDEO
23. **Andrew Kassoy**, Co-Founder, B Lab
24. **Peter Knight**, Partner, Generation Investment Management
25. **David Langstaff**, President and CEO, TASC, Inc.
26. **James Lootens**, Corporate Secretary and Deputy General Counsel, Eli Lilly and Company
27. **Krishen Mehta**, Co-Chair, Global Financial Integrity & Retired Partner, *PwC*
28. **Joe Nocera**, Op-Ed Columnist, *The New York Times*
29. **Miguel Padró**, Project Manager, Aspen Institute Business and Society Program
30. **Claire Preisser**, Senior Program Manager, Aspen Institute Business and Society Program
31. **Paul Roberts**, Journalist-Author
32. **Malcolm Salter**, Professor Emeritus, Harvard Business School
33. **Judith Samuelson**, Executive Director, Aspen Institute Business and Society Program
34. **Amy Sepinwall**, Assistant Professor, The Wharton School, U-Penn
35. **Faith Stevelman**, Associate Director, Berle Center on Corporations, Law & Society, Seattle University School of Law; Professor of Law, New York Law School
36. **Robert Whitelaw**, Professor and Chair of the Finance Department, NYU-Stern
37. **Larry Zicklin**, Clinical Professor, NYU-Stern
38. **Robert Zivnuska**, Director, America's Corporate Governance and Responsible Investment Team, BlackRock

OBSERVERS: Laurie Ginsberg & Paige Reidy, Aspen Institute Business and Society Program