

# Make purpose operational

David Rodin discusses why the setting of a 'purpose' for a corporation is so important



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Many corporations articulate a purpose, and they do so for a variety of reasons. For many it is seen as a route to improve employee engagement and hence productivity. For others, purpose is an important part of their brand, or is part of the way they navigate relations with regulators. In our own advisory work with corporations, we have found a strong correlation between employee perceptions of purpose and lower levels of misconduct.

Within the Future of the Corporation programme, we have approached purpose in a different and altogether more foundational way. As Colin Mayer puts it, we have sought 'a radical reinterpretation of the nature of the corporation that focuses on corporate purpose, its alignment with social purpose, the trustworthiness of companies and the role of corporate culture in promoting purpose and trust.'<sup>1</sup> Rather than view purpose as a construct which corporations might use to further existing objectives (in the way they currently use concepts of strategy for example), we view purpose as the process of articulating the ultimate objectives of corporations. With this in mind, we have sought to understand purpose as a lens

through which to answer basic questions about how corporations should be structured, owned, regulated, and managed. In order to play this role fully and effectively, our understanding of purpose will require clarification and development in many important respects.

The purpose of a thing is what it is for: the reason for its existence. As a social creation of human beings, corporations must have a purpose. But what should that purpose be? Can purpose usefully guide the decisions of employees, managers, and policy-makers? And if so, how?

In our research for the Future of the Corporation, led by Marco Meyer and Jens van 't Klooster, we seek to make progress with these questions by distinguishing between two subtly different understandings of purpose, relevant to the external perspective of societies, and the internal perspective of company's management.<sup>2</sup> We define *social purpose* as the net contribution that corporations make to the production of societal goods. We define *corporate purpose* as the objectives that are actively pursued by the corporation's management for the production of societal goods.

1 Colin Mayer, 'The Future of the Corporation: Towards humane business', *Journal of the British Academy*, 6:s1 (2018).

Though it may be denied by certain libertarians, it seems plausible that corporations ought to have a social purpose. Unlike human persons, corporate persons have no intrinsic moral status or value. Moreover, corporations inevitably produce harms in the course of their operations. If they produce no sufficiently countervailing goods, then what reason do we have to tolerate their existence?

If it is true that corporations ought to serve a social purpose, then this creates scope for purpose to play multiple roles in the governance of corporate activity. We identify three domains in which this is the case.

First, purpose can be used as a guide to corporate strategy, regulation, and policy. We call this the constructive role of purpose.

Second, purpose can be used to manage the relationship between corporations and society, as well as within corporations, and to determine the proper scope of legitimacy over corporate form and decisions. We call this the communicative role of purpose.

Finally, purpose may be used as the basis for measurement of corporate activities in order to hold them to account for the societal goods and harms they produce. We call this the critical role.

Because corporations play an essential role in the delivery of public goods throughout the world, these three aspects of purpose create indispensable domains of engagement by governments, policy-makers, regulators, NGOs, and educators.

However, the question of purpose is most urgent for the managers of corporations. There is a controversial question as to whether managers should actively pursue a corporate purpose, and if so how. According to a prominent strand of classical economics, stridently interpreted by Milton Friedman, the social purpose of corporations is the efficient allocation of resources which is best achieved by managers acting to maximise profits, rather than directly pursuing a corporate purpose. In his memorable words ‘There is one and only one social responsibility of business – to ... increase its profits’.<sup>3</sup>

This minimalist view of corporate purpose long held sway in corporate and policy circles, but it is now increasingly

discredited. Part of the reason is that it is clear that market failures in many sectors create opportunities to increase profits through rentier activities which do not enhance the efficient allocation of resources and undermine rather than support social purpose. Moreover, the efficient allocation of resources is not the only or even the overriding societal objective of corporations. Other objectives include economic dynamism that creates growth and the fair distributions of resources. So even if corporations were to act always as though they were operating in a perfectly efficient market, as authors such as Joseph Heath suggest, this would not necessarily fulfil the requirements that societal purpose imposes of corporations.<sup>4</sup>

Furthermore, it is unclear whether it is even possible for managers to abstain from pursuing a positive conception of corporate purpose. While it is tempting to see the maximisation of profits as an

implicit objective of corporate activity that requires managers to adopt no positive conception of corporate purpose, this is in fact false. When a corporation creates a potential surplus through efficient operations, it can direct this to the production of various kinds of societal good. It may return the surplus to owners and shareholders as distributed profits. Alternatively, it may benefit customers through increased quality or lower prices. It may improve pay and conditions for employees. It may reduce environmental impacts, hence improving the life quality of affected persons. It may invest surpluses in R&D which may benefit generations far in the future. The pursuit and distribution of profits to owners is not a natural or inevitable consequence of the corporate form, but is rather one substantive corporate purpose objective amongst others. It must be assessed and justified on comparable grounds.

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2 Nien-he Hsieh, Marco Meyer, David Rodin and Jens van 't Klooster, ‘The social purpose of corporations’ (pending).

3 M. Friedman, ‘The Social Responsibility of Business Is to Increase Its Profits’ (13 September 1970)

4 J. Heath, ‘A Market Failures Approach to Business Ethics’, in *The Invisible Hand and the Common Good* (Springer, 2004), pp. 69–89.

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The scope for managers to define and pursue a corporate purpose is obviously framed and constrained by regulators who permit or mandate some forms of corporate purpose and not others. But regulation can never supplant managerial responsibility for corporate purpose. For one thing, management retains considerable discretion to pursue differing corporate purposes within many regulatory environments.

Second, even when regulation requires corporations to serve the interests of shareholders narrowly, it must be recognised that shareholders have moral interests and moral obligations connected with their ownership rights. These exist alongside and inform their commercial interests. Shareholders, and their agents, are increasingly vocal on the corporate purpose they expect the managers of their assets to pursue.<sup>5</sup>

Third, managers have never been simple passive rule takers. Corporations often have a voice in the shaping regulation, and have numerous means to affect the way these are implemented. These processes of influence have often been abused to the detriment of social purpose, but they undoubtedly have the potential to enhance social purpose if undertaken responsibly.

Finally, corporations sometimes operate in weak or captured regulatory environments that diminish or destroy social goods. In such environments, managers may have the moral liberty, or even obligation, to push back strongly against existing regulation in order to achieve a proper corporate purpose.

There are also strong objections to giving managers a role in setting corporate purpose. Most managers lack the skills and experience to deliberate on complex normative questions of this nature. Because metrics of corporate purpose will always be fuzzier than pure financial metrics, there is a risk that managers will escape proper oversight and accountability. They may even use the concept of corporate purpose to enrich themselves or pursue idiosyncratic projects. There are also fundamental questions of managerial legitimacy. As the power and reach of corporations grow, many of the social impacts they create are deeply politically contested. Who gives managers (overwhelmingly members of the technocratic elite) the right to use the massive resources



Photo: Alamy

of the corporation to pursue complex social objectives?

The requirement for managers to deliberate on, articulate, execute, and monitor a conception of corporate purpose is fraught with danger, but for the reasons given above, it seems inescapable. Much more needs to be done to create effective decision-making frameworks on corporate purpose, to build deliberative skills and capacities at both an individual and institutional level, and to create metrics for measurement and accountability. All this will need to be done with the oversight and support of government, regulators and the third sector.

There is, however, no substitute for responsible, capable and credible corporate

leadership. There are a number of considerations that corporate leaders usefully deploy when they engage with corporate purpose.

First, they must recognise that corporate purpose is most centrally concerned, not with philanthropy, sponsorship or other charitable activities, but with the core operations and activities of the company.

Second, the social goods aimed at in a conception of social or corporate purpose must be ultimately cashed out in terms of the production of goods of intrinsic value. Intrinsic goods include autonomy, security, health, beauty, happiness, equity and justice. It is helpful for managers to map the ways in which their corporations

5 See Larry Fink's annual letter to CEOs, 'A sense of purpose' (Blackrock), [www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter](http://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter)





produce intrinsic goods by interrogating questions such as: what problems are we solving?; what basic needs are we meeting?; what excellences are we demonstrating? These questions should always be reflected in a dynamic context, focusing not only on the organisation's current capabilities, products and services, but also involve scenario planning of how those capabilities, products and services might be developed in the future.

Third, corporate purpose necessarily involves an honest assessment of social harms as well as goods. What problems are we creating? What basic needs are we frustrating? What excellences are we diminishing? What is more, goods and harms are asymmetric in the reasons for

action that they provide. Corporations have considerable discretion as to which intrinsic goods they choose to engage and create: not every company needs to be in the business of enhancing health, for example. But the production of harm provides an equal reason to all: the fact that an activity harms the health of others will provide a negative reason for all corporate actors.

Finally, measurement and accountability remain huge issues for corporate purpose when used in a constructive role for guiding management activities. The dream of reducing all societal costs and benefits to a small number of comparable and quantifiable accounting-like metrics, as Triple Bottom Line accounting

has hoped to do, may be in vain.<sup>6</sup> In part this is because intrinsic goods like health, autonomy and justice are incommensurable and also non-fungible. But this does not mean that management cannot find meaningful, clear and impactful measures to form the basis for effective reporting and accountability on corporate purpose.

The purpose agenda is powerful because it focuses on the most basic reasons why corporations exist, and the ways they can further or frustrate fundamental social ends. The notion of purpose has the opportunity to play a significant role in making the future corporation truly fit for purpose. To do that it must become clearer, more robust, and more operational.

6 Wayne Norman and Chris MacDonald, 'Getting to the Bottom of "Triple Bottom Line"', *Business Ethics Quarterly*, 14:2 (2004), 243-262.