Can Purpose Deliver Better Corporate Governance?

IESE-ECGI Conference

Conference Report
October 28-30, 2020

Organizers:

IESE Business School University of Navarra
Center for Corporate Governance

ecgi european corporate governance institute

Sponsored by: STI Social Trends Institute

Endorsed by: SMS Strategic Management Society

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New Perspectives on Corporate Purpose

The notion that companies should have a corporate purpose or mission that goes beyond financial performance has been considered in the fields of management, organisational behaviour, law and the economics of organisations for a long time. But the increasing weight of ESG dimensions in corporate governance and asset management, the call for positive societal impact, and the competition to attract and retain top talent -among other factors- draws us firmly closer to a deeper consideration of corporate purpose. At this turbulent time, 'Corporate Purpose' has galvanised a global movement that promises to restore trust in companies, produce goods and services in a sustainable manner, provide a fair return for all stakeholders, and result in well-governed companies.

Many of the world's most valuable companies already have a clear purpose. With a swelling of public discourse, the markets have joined the movement calling on businesses to make a positive contribution to society and to refocus corporate governance around a multi-stakeholder perspective. As businesses in turn, reflect on their purpose, they must also consider the questions that complicate the implementation of a vision or purpose and make it meaningful.

On October 28-30, 2020, the IESE Center for Corporate Governance (IESE CCG) and the European Corporate Governance Institute (ECGI) gathered leading scholars, CEOs and board members to explore these vital questions on the interplay between corporate purpose and governance. Over this three-day online event, academics and practitioners came together to discuss and debate not only whether purpose driven companies can deliver better corporate governance, but the very same role business should play in addressing some of the most pressing environmental and social challenges our world faces today.

Conference Program

Wednesday, October 28, 2020
DAY 1 (TIME ZONE: CET)

15:45 - 16:00 INTRODUCTION TO THE CONFERENCE. DAY 1: AN OVERVIEW
Marco Becht, ECGI and Université libre de Bruxelles
Jordi Canals, IESE Business School
Franz Heukamp, Dean of IESE Business School

16:00 - 17:00 SESSION 1
Are Corporate Purpose Statements "Verbiage"?
Colin Mayer, University of Oxford and ECGI
Discussant: **Luigi Zingales**, Chicago Booth and ECGI
Chair: **Mireia Giné**, IESE Business School and ECGI

17:15 - 18:15 SESSION 2
Company Valuation And The Effects Of Esg Factors
Patrick Bolton, Columbia Business School and ECGI
Discussant: **Sophie L'Hélias**, President of LeaderXXchange & Co-founder of ICGN
Chair: **Xavier Vives**, IESE Business School and ECGI

18:15 - 18:20 CLOSING REMARKS

Thursday, October 29, 2020
DAY 2 (TIME ZONE: CET)

15:45 - 16:00 DAY 2: AN OVERVIEW
Marco Becht, ECGI and Université libre de Bruxelles
Jordi Canals, IESE Business School

16:00 - 17:15 SESSION 3
Corporate Purpose and the Theory of the Firm
Bengt Holmström, MIT and ECGI
Paul Polman, Co-founder and Chair of IMAGINE
Chair: **Joan Enric Ricart**, IESE Business School
Moderator: **Henry Tricks**, The Economist

17:30 - 18:30 SESSION 4
Corporate Purpose, Ownership and Performance
Claudine Gartenberg, The Wharton School
Discussant: **Caroline Flammer**, Boston University
Chair: **Ernst-Ludwig von Thadden**, University of Mannheim and ECGI

18:30 - 18:35 CLOSING REMARKS

18:45 - 19:45 Parallel Sessions (by invitation)
GROUP DISCUSSIONS
Moderators:
John Almandoz, IESE Business School
Fabrizio Ferraro, IESE Business School
Joan Enric Ricart, IESE Business School

Conference Program

Friday, October 30, 2020

DAY 3 (TIME ZONE: CET)

15:45 - 16:00	DAY 3: AN OVERVIEW **Marco Becht**, ECGI and Université libre de Bruxelles **Jordi Canals**, IESE Business School
16:00 - 17:00	SESSION 5 **Unpacking the Purpose of the Corporation** **Rebecca Henderson**, Harvard Business School *Discussant:* **Jordi Gual**, Chairman of CaixaBank *Chair:* **Jill E. Fisch**, University of Pennsylvania Law School and ECGI
17:15 - 18:15	SESSION 6 **How Should Boards of Directors Deal with Corporate Purpose?** **Baroness Denise Kingsmill**, NED of Inditex and IAG **Juvencio Maeztu**, Deputy CEO and CFO of Ingka (IKEA) **José Viñals**, Chairman of Standard Chartered *Chair:* **Jordi Canals**, IESE Business School
18:15 - 18:30	WRAP-UP **Marco Becht**, ECGI and Université libre de Bruxelles **Jordi Canals**, IESE Business School

Can Purpose Deliver Better Corporate Governance?

Academic Committee

Jordi Canals
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IESE Business Schools and ECGI

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Fabrizio Ferraro
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Paola Sapienza
Professor of Finance
Kellogg School of Management
and ECGI

SESSION 1

Are Corporate Purpose Statements "Verbiage"?

Colin Mayer,
University of Oxford and ECGI

Discussant: **Luigi Zingales**,
Chicago Booth and ECGI
Chair: **Mireia Giné**,
IESE Business School and ECGI

Corporate purpose is a provocative topic that inspires fundamental questions about the nature of the corporation, as well as how to make purpose useful and valuable to firms. While purpose can deliver better corporate governance, corporate purpose statements are generally verbiage based on a vague understanding of purpose, according to Prof. Colin Mayer.

A Friedman Doctrine Alternative

Corporate purpose statements are often characterized by excessive wordiness and nonsensical statements, which generally fit the definition of verbiage. To better understand and clarify purpose, the concept will be considered as one of four theories offered as alternatives to the underlying paradigm that currently prevails – the Friedman Doctrine – which holds that the sole social purpose of business is to increase profits, as long as it plays by the legal "rules of the game." The four alternatives discussed are: enlightened shareholder value, stakeholder theory, shareholder welfare and corporate purpose.

The first alternative – enlightened shareholder value – rests on the notion that companies should take into account the interests of other stakeholders that might increase shareholder value, at least under certain circumstances. According to this view, companies should have a broader cross-sectional interest in terms of their stakeholders, a longitudinal interest in long-term performance and should promote the interests of stakeholders insofar as it enhances the value of the company over the long run.

This approach is essentially an instrumental and extrinsic view of the promotion of stakeholder interest, which presents problems. For instance, it suggests that firms should only pay their employees fairly so long as it increases shareholder value. In other words, they should pay as little in the way of wages to employees to the extent that it does not harm the value of the company.

Stakeholder theory is the second alternative. This puts forth that companies should have an intrinsic interest in their other stakeholders and should promote their interests alongside those of shareholders. A Minnesota constituency statue introduced in 1991 illustrates this theory, stating that a director may, in deliberating the best interests of the corporation, "consider the interests of the corporation's employees, customers, suppliers and creditors the economy of the state and nation, community and societal considerations and the long-term, as well as the short-term interests of the corporation, including the possibility that these interests might be best served by the continuing independence of the corporation." The statute not only constitutes verbiage, but it is also an impossible management task.

The third option is shareholder welfare, which has been put forward by today's fellow discussant, Luigi Zingales. This notion retains a focus on shareholder interest but recognizes that those interests extend to societal and environmental considerations. Underpinning this idea is that the Friedman Doctrine errs in two assumptions: first, that a separation can be made between philanthropy and a company's commercial activities; and second, the doctrine's reliance on regulation to constrain the detrimental activities of companies.

This alternative, however, once again takes an extrinsic notion of interest. It posits that companies should take into account the interests of stakeholders to the extent that these reflect the interest of shareholders. Furthermore, these interests can diverge, as illustrated notoriously by the roles of Purdue Pharma and Sackler family in the U.S. opioid epidemic.

Corporate Purpose: Greater Precision Required

The final alternative – corporate purpose – hinges on what people generally understand purpose to be: why a business exists, why it was created and its reasons for being. When put in these terms, it's not surprising that purpose statements come out as verbiage. Thus, greater specificity to the notion of purpose is needed. Another definition currently being advocated is: purpose is about finding ways of solving problems that individuals, societies and the natural world face in forms that are profitable, and, not to profit from producing problems for either people nor the planet. This clearer definition brings credibility and innovation in its delivery.

If one brings precision to purpose by defining it around the notion of addressing problems of particular groups in society, then it can be introduced into corporate practice and embedded in the way that companies behave, while also being supported by public policies and corporate laws.

Discussant Reflections

Responding to the presentation was Luigi Zingales, who concurred with several points, but offered a contrasting view. First, it is true that the corporate governance system is crucial in shaping the capitalistic system, and is a topic that scholars do not spend sufficient time thinking about.; second, the Friedman Doctrine is indeed outdated; and third, it is evident that people are not only motivated by money and a sense of corporate purpose can be a motivating factor. The significance of intrinsic motivation is becoming increasingly evident in the workplace today, as more millennials and members of Generation Z join the workforce.
However, Mayer's presentation raises several issues. Is corporate purpose a moral precept for individuals, a managerial guide on how to improve companies or a policy prescription for corporations? In fact, it may be a mix of the three.

If corporate purpose is a moral precept, one should look to Kant's principle "act only according to that maxim by which you can at the same time that it should become a universal law." Following this principle – which suggests people should freely choose to behave in a certain way in order to solve problems faced by people and the planet, which now they do not – then a definition of "profitability" is not required.

If corporate purpose is considered a managerial guide, then it should already be moving the production possibility frontier (PPF). Yet entrepreneurs and VCs are not choosing public-benefit corporations; the traditional form of governance is still preferred. So as a managerial guide, the validity of corporate purpose is yet to be seen.

In terms of feasibility, Craigslist offers a useful example of how corporate purpose can sometimes go astray. Created with a social purpose, Craigslist was founded by a person firmly dedicated to the public good. Yet Craigslist destroyed local journalism and unleashed harmful social effects by taking advertising revenues earned through classified ads. Today, most people mistakenly believe that Google and Facebook killed local journalism. This example raises a key question: Is Craigslist producing profitable solutions or profiting from producing problems? It's important to make the distinction.

If corporate purpose is a policy prescription, we need to ask three things: why is this limited to just a corporation; two, how feasible is it; and three, what are the implicit risks of an approach such as this one? If one advocates the mandate of social purpose to fix society's problems, there is the question of whether it should it be mandated only for corporations, and if limited partnerships should be exempt from this.

Most importantly, great risks come with mandating corporate purpose. Capitalism is traditionally defined as "an economic system of private ownership of the means of production and its operation for profit." Nevertheless, an alternative and more relevant definition of capitalism is, "freedom of enterprise," which has other implications.

SESSION 2

Company Valuation and the Effects of Esg Factors

Patrick Bolton,
Columbia Business School
and ECGI

Discussant: **Sophie L'Hélias**,
President LeaderXXchange and
Co-Founder of ICGN
Chair: **Xavier Vives**, IESE Business
School and ECGI

Environmental, social and governance (ESG) factors have been gaining traction in recent years as investors, consumers, the general public and other stakeholders increasingly demand more from global businesses than short-term financial performance and shareholder returns. The devastating wildfires in California and Australia and other extreme weather events have increased awareness of ESG factors among the business and investment community, yet there is still no consensus on their impact.

Concerns regarding the long-term effects of climate change have given rise to some important reflections: Is material risk reflected in stock price? Can socially responsible investors "do well by doing good"? These are the questions explored in recent research by Profs. Patrick Bolton and Marcin Kacperczyk, of Columbia Business and Imperial College, respectively, in their analysis on the interplay between carbon risk and investment performance.

Carbon Risk: Do Investors Even Care?

A lack of alignment on the impact of climate change still reigns in the business arena. On the positive side, the Paris Agreement of 2015 was an important milestone, bringing the public and private sectors to the table for the first time to take steps against global warming. Higher engagement in the financial sector is another encouraging sign, with non-governmental players and global investors like BlackRock stressing the benefits – both financial and environmental – of integrating ESG factors into investment portfolios.

Nonetheless, considerable skepticism still remains, manifested by the U.S. government's decision to withdraw from the Paris Agreement and reverse environmental protections. Moreover, business leaders such as ExxonMobil's CEO Darren Woods have brushed off carbon targets as window-dressing stating, "Individual companies hitting targets and then selling assets to another company so that their portfolio has a different carbon intensity has not solved the problem for the world." He surely regrets his comments given the negative reaction they received in the press.

To shed some light on the potential impact of firm-level ESG integration and financial performance, Profs. Bolton and Kacperczyk aimed to answer two core research questions: First, whether carbon risk is priced – the short answer is "yes" – and second, whether stock markets are pricing carbon effectively. Is there an arbitrage opportunity by going short on high-emitting companies and long on low-emitting companies? The answer to this question is "no". To arrive at these conclusions, they merged firm-level information on disaggregated carbon emissions to estimate cross-sector carbon premia, and analyzed the economic mechanisms behind the returns, concluding that carbon emissions are indeed a transition risk for corporations.

In terms of the conceptual framework, the research highlights three static components that impact the pricing of transition risk: the size of carbon emissions, the degree of climate awareness among investors, and the degree of political and social awareness. In terms of total emissions, all carbon-emitting companies will need to intensify their efforts, which will prove extremely difficult. To provide some context, 2020 carbon emissions have dropped significantly but only as a result of Covid19. In order to reach the agreement's targets, the world would need to limit its carbon emissions at the same rate of decline. The benchmark underscores the immensity of this challenge.

Another aspect of this transition risk is investors' awareness of climate-change impacts and technological change. While dramatic innovations have emerged in the renewable energy space, uncertainty still lingers regarding the feasibility of carbon-capture technology. The materiality of this transition risk directly impacts the corporate and investment spheres by accelerating the shift toward a greener equilibrium.

Defining and Evaluating Carbon Emissions

Firm-level carbon emissions are sorted into three categories: scope 1, scope 2 and scope 3. Scopes 1 and 2 are directly associated with the company's activity, while those in scope 3 are indirect, such as inputs required to deliver their product or service or downstream impacts. As an example, consider the automobile industry and indirect emissions as a result of the customer's use of the car. In this sense, scope 3 emissions are much more difficult to measure.

Taking into account scopes 1, 2 and 3, the study analyzed emissions at the firm level; year-on-year changes in emissions; and emission intensity, a normalization calculated by dividing tons of CO2 by dollar-sales revenues. Based on the study, these measures are not well correlated. The correlation in scope 1, for instance, is only 0.49, since by normalization, the data comprises a broad range of both low- and high-emitting companies.

Headline Results

The headline result is that carbon emissions in all three scopes affect stock returns, a finding which holds true both in the U.S. and globally, with data from 77 different countries. This impact is robust across different markets and economically significant, which is an extremely important finding.

To discount the possibility of mismeasurement – for instance, carbon emissions picking up another risk factor – the study reviewed a range possible underlying causes and found that the premium could not be explained by a host of other firm-level predictors, profitability, earnings surprises, standard risk series or institutional divestment. Moreover, the premium was higher in periods of greater investor attention. Taken as a whole, these results show a correlation associating higher emissions with higher risk among investors.

Data Sources

The primary database covered 2005-2017 and leveraged two data sets: Trucost, which provides data on corporate carbon emissions from seven main sources, and FactSet, which offers data on stock returns, corporate fundamentals and institutional ownership.

The first important finding is the variation in emissions both across and within industries, for all three measures. In terms of premia, the most salient outcome is the connection between average monthly returns of U.S. companies and carbon emissions: the coefficient is positive and statistically significant, and even larger when industry fixed effects are added.

This indicates that variation in emissions is more salient within industries rather than across them, an effect that intensifies with year-on-year changes in emissions. Another important finding concerns emission intensity; based on the analysis, the premium as a function of emission intensity is neither significant statistically nor very large. This point is worth highlighting given the amount of attention the industry places on this metric.

Exploring Economic Mechanisms

As mentioned earlier, a carbon premium cannot completely be explained by a systematic risk factor nor by divestment, although limited attention and coarse thinking by investors clearly plays a role. In this regard, the premium slightly increased after the Paris Agreement, but even more significant is the premium observed in the 1990s, when climate change wasn't a frequent topic of debate. In terms of investor attention on the link between the premium and carbon emissions – imputed back, since no data exists from this time period – the study reveals that imputed data works just like reported data from the sample period. In the 1990s, however, no premium is perceived, which indicates an extremely important shift. Today's investors are concerned about climate change, transition risk and its impact on emission levels, and consequently, they are pricing this risk into stocks.

Discussant Reflections

According to discussant Sophie L'Hélias, these research findings are very consistent with what has been observed in governance and other studies on the impact of material risks: a company's stock will receive premia if material risks – in this instance, the environmental factor – are well managed, and conversely, will be subject to a discount if they are not. In other words, investors will integrate this correlation in the share price if they deem an ESG dimension as a material factor that could financially impact corporate performance.

Growing investor awareness on the impact of climate risks is key to understanding these findings. Prior to the Paris Accord, no common language or framework existed for investors to assess climate issues and evaluate their impact. The years following the 2015 Paris Accord saw the launch of the investor initiative Climate Action 100+. This major global investor initiative accelerated a global shift toward greater investor awareness and the desire for a common framework to assess climate risk and support climate transition.

While not mentioned in the presentation, also worth highlighting is the growing number of extra-financial disclosure frameworks on climate issues, including EU models, GRI, the Task Force on Climate-Related Financial Disclosures, and the SASB standards in the United States. These organizations offer companies and investors robust frameworks to identify, measure and disclose material non-financial topics, particularly those related to climate change.

At the same time, new regulations are emerging for investors themselves at the regional and country levels. In France, for instance, investors have to disclose their environmental impact and pay consequences if their portfolios reflect a high carbon footprint. This regulation compels investors to screen out high-emitting companies or justify the inclusion of these stocks. Over time, the premium paid to investors should grow if companies are not able to effectively transition to a low-carbon economy.

Finally, it is worth mentioning the notion of scope 3 and the risk of freeloading mentioned in the paper and the presentation. As cited earlier in the study with the example of remarks by ExxonMobil's CEO, many major companies will get the premium in recognition of their status as non-polluting, when in actuality, they are transferring their pollution downstream by shifting the burden to others and doing nothing to reduce the overall impact on climate change. By the same token, some investor commitments to support climate change initiatives do not always translate into action.

Greater transparency in terms of investor voting and investment portfolios of corporate equity and debt holdings increases the pressure on investors and holds them accountable.

SESSION 3

Corporate Purpose and the Theory of the Firm

Bengt Holmström, MIT and ECGI

Paul Polman, Co-founder and Chair of IMAGINE

Chair: **Joan Enric Ricart**, IESE Business School
Moderator: **Henry Tricks**, *The Economist*

The role of governance is shifting in what some consider to be a post-Milton Friedman world, in reference to his influential *New York Times* piece published in September 1970, where he wrote that a corporation's only social responsibility was to increase its profits. In this new era, how should CEOs and boards respond? What responsibilities do they have and how should these be carried out? Bengt Holmström described the impetus for the post-Friedman era, a view contrasted by Paul Polman and addressed in a follow-up segment, led by Henry Tricks of *The Economist*.

How We Arrived

Stakeholder theory first emerged in the 1970s, followed by shareholder value in the 1980s, which has continued up until now. The term "stakeholder value plus" has now taken hold. During the shareholder value movement, conflict centered on how shareholders monitor management and boards, and how can they influence decisions.

Currently, there is an expanding set of issues being debated, deriving mainly from social concerns. Corporate governance adapts itself to needs of the world, the economy and society. Rather than incrementally moving towards a better form of corporate governance, corporate governance follows a pendulum. The corporate world shifted from stakeholder value to shareholder value, and is now returning to stakeholder value. New issues arise and the system adapts to the situation.

Heading into the post-Friedman world, it is evident that maximizing shareholder value helps address both social and environmental concerns. The logic of this argument stems from the notion that shareholders are residual claimants, which reflects a contractual point of view. Shareholders have a stake in how well they treat the world and how well their products are received, as well as a stake in social values and how well they respect those.

In order for this mechanism to work, it is crucial that firms maximize wealth for their shareholders. If companies are indifferent to their own wealth, the entire system breaks down.

Where We Are Today

Most firms today have statements that affirm social and environmental concerns. They recognize the value of creating these, in great part due to the pressure that comes from consumers and social media. Firms have responded to these pressures and most are genuine, despite accusations of verbiage. Investors are concerned because they see potential risk, especially in the age of social media, which can upend even large corporations. They understand that commitment to social concerns is a win-win.

This reality reflects post-Friedman at work in a descriptive sense, rather than a prescriptive sense. What is happening now in society is exactly the mechanism that Friedman described and the call to drastically change corporate governance is unwarranted.

Corporate governance can be improved by changing the information structure and how information is measured. Social media crowds, for instance, exert great pressure on companies, so better quality information on social and environmental value needs to be collected, perhaps through the creation of new agencies. New technologies such as AI and blockchain show great promise in helping facilitate this kind of information.

The Need for a Reality Check

According to Paul Polman, debating the validity of Milton Friedman's doctrine is no longer useful since Friedman lived in the United States, which has a different vision about how wealth should function as compared to Europe, and at a time when governments were functioning with clearer boundaries.

While the world has done a tremendous job lifting many people out of poverty over the last few decades, the way the global economic system has provided wealth is unsustainable. Endless growth cannot be perpetuated on a finite planet.

In the last 40 years, humans have done more damage to the planet than in its history as whole, with 68 percent of species disappearing. The COVID crisis is just a symptom of the shortcomings of the current system, showing that healthy people cannot thrive on an unhealthy planet. Just as U.S. President Franklin Delano Roosevelt created the New Deal in the 1940s and pivoted the U.S. to prosperity, the world needs another New Deal.

Systemic Problems

Today, corporations have excessive numbers of shareholders with highly varied opinions. Moreover, large amounts of money have flooded the system, chasing returns that are increasingly shorter term. Adding to this, a distance has been created between shareholders and the agents operating for the shareholders. Similarly, there are widespread differences today among the opinions of shareholders and board members. Companies have not invested in people and, as a result, have not contributed toward developing an inclusive economy. Over the last 10 years, 95 percent of profits that companies made in the U.S. went to shareholders and CEOs.

A stark contrast to this leadership approach can be seen in the example of the founder of Unilever, who aspired to improve hygiene in Britain and exemplified the notion of "shared prosperity." Rather than maximizing value for individual stakeholders, this concept focuses on firms having a net positive impact in the world and optimizing return for all stakeholders.

Public companies have much shorter lives than previously, with the average lifespan of a U.S. company being 67 years just a generation ago, while today it is shorter than 17. This deprives vast numbers of people of prosperity and pensions. Compounding this problem, the average tenure of a CEO is now four and a half years, leading them to cater to the desires of shareholders. As a result, the system focuses on a few billionaires, rather than the billions of people it serves. Today's system is focused on profit, rather than a purpose-driven system generating profit. These are fundamental differences in moral leadership and standards in how companies should be run.

How to Drive Change

Widescale change can be driven through three actions. First, a change in leadership of companies on a massive scale; second, firms should measure what they treasure –that is, they should adjust measuring systems and include environmental and social capital, in addition to financial capital; and third, different forms of partnerships must be formed to work for the common good.

The system can be improved through governance, policies and frameworks. An issue such as climate change cannot be addressed when only 25 percent of companies have science-based targets. In contrast, businesses running multi-stakeholder models are doing well and financial markets are waking up to ESG. But the question lingers: why weren't shareholders responsible earlier, demanding that companies tackle the issue of climate change and take care of people in the value chain instead of allowing child slave labor? A higher level of change is needed to ensure that corporate governance codes bend toward moral leadership.

Placing purpose at the center of a company is effective because it is anchored in values and beliefs. Companies that do this will succeed, while those that neglect to do so will find themselves obsolete.

Panel Discussion

Henry Trick posed the question of why enhanced shareholder value movement has emerged now and in what ways CEOs can address this while maintaining a long- term vision.

According to Bengt Holmström, the shift was triggered by the need for capital to be moved from sunset industries to sunrise industries. In the U.S., this was caused by takeovers and stronger financial incentives, which led to massive numbers of mergers and acquisitions, and restructuring. The world is currently experiencing a shift back, and this reality supports the view that governance systems follow society. Now, companies are looking at the latest cues provided by the public.

Paul Polman contrasted this view, stating that companies often resist following public cues due to their own interests. For instance, the few industries that denied climate change were the airline and car industries, as well as the fossil fuel industry. Some industries asked to be excluded from the Paris Agreement, illustrating that the corporate world is missing responsible management on a large scale.

A key problem is that leaders do not explain the value creation model and long-term optimization clearly to investors. Some 600 companies currently carry out ESG measures, but within these efforts significant greenwashing and a lack of clarity exist. Creating uniform standards across asset owners, asset managers and asset creators is vital.

Finally, CEOs should reexamine their own compensation systems and work with their boards, so they understand their fiduciary responsibilities. Boards should be aware that their duties go beyond maximizing shareholder wealth.

SESSION 4

Corporate **Purpose**, Ownership and Performance

Claudine Gartenberg,
The Wharton School

Discussant: **Caroline Flammer**,
Boston University
Chair: **Ernst-Ludwig von Thadden**,
University of Mannheim and ECGI

The topic of corporate purpose has increased markedly in the public discourse over the last 30 years. Media outlets frequently highlight its significance among millennial-aged professionals, yet research has found that the need for a sense of meaning in one's vocation actually intensifies with age.

But do purpose statements significantly impact corporate performance or are they mainly superficial and nonsensical declarations? Does corporate purpose resonate equally at all organizational levels? Do firm ownership and investor commitment make a difference? Prof. Claudine Gartenberg and her team explored these issues in two recent empirical research studies.

What Do We Mean by "Purpose"?

Different definitions of "corporate purpose" have emerged over the years. HBS Profs. Rebecca Henderson and Eric Van den Steen describe it as "a concrete goal that reaches beyond profit maximization." Others take a more expansive view, labelling it "a company's reason for being." In Prof. Gartenberg's research, meanwhile, corporate purpose is framed from a slightly narrower perspective as "a set of beliefs about the meaning of a firm's work beyond quantitative measures of financial performance." In this definition, prosocial components are deliberately eschewed since "prosocial" will mean different things to different groups.

Corporate purpose enables a shared sense of meaning in the workplace and the words "shared" and "meaning" are both critically important. In his seminal work *Man's Search for Meaning*, the social scientist and Holocaust survivor Viktor Frankl described people as "meaning-motivated beings," whether this meaning stems from family, religious beliefs, vocations or work.

Multiple studies have focused on the significance of purpose and meaning for individuals, yet little progress has been made to extrapolate these findings on an organizational level. Three main issues are likely to blame for this lack of headway: the intangible nature of purpose, the "data desert" manifest in a scarcity of metrics on corporate purpose across firms and years, and lastly, "academia identification," which entails disentangling the impact of corporate purpose from other core organizational aspects, such as its leadership and governance structure.

Corporate Purpose and Financial Performance

The 2019 study "Corporate Purpose and Financial Performance" (Gartenberg, Prat & Serafeim) analyzed 500,000 survey responses of worker perceptions about their employers in a sample of U.S. companies. One of the largest studies on meaning in the workplace, the study leveraged data from a multi-year proprietary survey of individual employees at multiple firms as the most reliable source to assess the credibility of the firm's corporate purpose.

The study circumvents the intangibility challenge by measuring the overall strength of employee beliefs in the degree to which their work is meaningful, aggregating the responses to four survey items: (1) "My work has special meaning: this is not just a job"; (2) "I feel good about the ways we contribute to the community"; (3) "When I look at what we accomplish, I feel a sense of pride"; and (4) "I'm proud to tell others I work here."

The study has two very salient findings. First, corporate purpose progressively weakens down the corporate ranks: hourly workers have the lowest sense of purpose and CEOs report, the highest. And second, the study finds that purpose-driven organizations come in two separate flavors: "purpose-camaraderie" companies ("I find meaning in my work and also feel a special sense of family in this organization") and "purpose-clarity" companies ("I find a high sense of meaning in our work, I believe that management has a clear view and I have a clear view of what I need to do to be successful").

In this regard, the study found that purpose alone and purpose-camaraderie had zero relation to performance, yet purpose-clarity was highly predictive of performance: it corresponds to approximately a 4 percent increase on return on assets (10-90 decile), a 0.7 percent annual return on enterprise (10-90 decile) and about a 7 percent alpha annual stock return (top quintile). These impacts are highly significant, on the same order of magnitude as well-governed firms. In terms of driving organization-wide corporate purpose, the middle ranks are critical: when these employees feel a strong sense of purpose-clarity, their companies outperform.

Corporate Purpose in Public and Private Firms

The 2020 study aimed to expand upon these findings by exploring whether a correlation existed between the type of firm ownership – public firms, private firms and private equity firms – and the level of purpose among employees. The study analyzed a dramatically larger sample of 1.5 million employees across 1,108 established public and private U.S. companies and spanned a longer time period.
Based on its findings, higher owner commitment is associated with a stronger sense of purpose among employees. In public companies, employee beliefs about their firm's purpose were weaker, with more pronounced differences within the salaried middle and hourly ranks than among senior-executive cadres, suggesting that the difference between public and private firms is driven by lower-ranked employees.

Within publicly-traded firms, the nature of shareholders and shareholder composition also influenced purpose, which was lower in public firms with high hedge fund ownership and higher in firms with long-term investors.

The research also revealed interesting insights relating to the firms' management structure and managerial choices, finding that firms controlled by less committed investors are more likely to hire outsider CEOs, favor CEOs with financial backgrounds and pay CEOs more relative to employees. They also engage more frequently in corporate restructuring processes, particularly mergers and acquisitions.

In sum, the study found that purpose is lower in public firms and firms with less committed shareholders, and driven by lower-ranked employees, indicating a high purpose inequality. The findings also indicate both a sorting and a treatment effect: different types of owners choose different types of companies and owners have a direct impact on the employees of their companies. In this regard, the findings account for about half the gap between publicly public and private firms by the nature of the firm's management decisions, including CEO characteristics and corporate structure.

Purpose and Corporate Governance

The conference is titled "Can purpose deliver better governance?" but perhaps purpose should be approached from the opposite angle: does better governance lead to better purpose?

According to the research, purpose is complementary to performance: a higher sense of purpose among employees is correlated with better long-term performance, and this appears to be a causal or treatment effect. The nature of firm ownership also impacts corporate purpose, which is more pronounced among employees in firms with more committed owners.

Discussant Reflections

Prof. Caroline Flammer appreciated this multidisciplinary research, which bridges academic silos and offers rich insights about employee perceptions and the meaningfulness of their work. Perhaps more importantly, it offers key insights for practice on the impact of these intangible factors. Prof. Flammer's comments centered around four main areas: the studies' definition of corporate purpose and its larger impact on practice, underlying mechanisms, investor influence, and finally, empirics and identification.

Corporate Purpose: Definition, Measurement, and Its Larger Impact

The research deliberately avoids a social orientation when defining corporate purpose. Under this premise, for example, weapons dealers or tobacco-product manufacturers might also qualify as purpose-driven organizations if their purpose aims to market the most effective deadly weapon or the world's most addictive cigarette. However, this interpretation of corporate purpose is unlikely as it pertains to social contributions and "performance beyond profit maximization". Yet, it raises the question of explicitly defining corporate purpose and delineating it from other concepts such as corporate mission and corporate social responsibility.

Another consideration is how the studies measure the notion of purpose. The 2019 study measures employees' perception of the meaningfulness of their work – regardless of the companies' actual purpose or mission – yet the 2020 study uses a different measure, expanding employee work meaningfulness with management clarity. To this end, the studies would be more consistent and impactful if the theory was better aligned with what is measured, namely, employee work meaningfulness and management clarity (instead of purpose).

The studies' core conclusions, together with the insights from the existing literature (see, e.g., work by Alex Edmans, Luigi Guiso, Paola Sapienza, and Luigi Zingales) have important implications for managers and investors – corporate culture, employee work meaningfulness, and employee satisfaction are positively associated with financial performance. These intangibles could, in fact, represent a new addition to the broader bundle of governance mechanisms. In this sense, the "big picture" implications of these research findings and their impact on leadership deserve further exploration.

Underlying Mechanisms

In the 2020 study, the employee perception of work-meaningfulness is stronger in private firms than in publicly-traded firms, and this effect is more pronounced at lower levels of the organization. These findings raise two questions: first, what are the mechanisms underlying the relationship between ownership structure and employees' perception about their work meaningfulness? And second, why are lower-level employees more responsive than higher-level employees? To which extent are lower-level employees aware of their firm's ownership structure or top-level policies? A conceptual and empirical exploration of the underlying mechanisms would add more perspective.

Investor Influence

Investors can influence their portfolio companies in different ways, passively through ESG screening or ESG integration, or more actively through shareholder engagement and proxy voting. Based on the insights of the existent literature, voice (i.e. active engagement) seems to be more effective than exit in triggering changes in corporate behavior. In this regard, the research would benefit by examining how investors influence their portfolio companies in a way that affects employee work meaningfulness, and embedding it in literature on shareholder engagement and activism.

Empirics and Identification

Classic endogeneity issues arise when comparing public and private firms. To overcome this issue, the study uses a matching, which poses certain limitations since most private firms are much smaller than public firms. Ideally, a quasi-natural experiment would be used. One approach could be to analyze a sample of successfully IPO'd firms and compare them with firms that filed for an IPO but had to withdraw (and hence remained private) for quasi-exogenous reasons.

In her rebuttal, Prof. Gartenberg agreed with the benefits of delving deeper into the underlying mechanisms and adding qualitative evidence to broaden the impact in future research. In terms of the treatment effect in corporate ownership, she underscored the divergent managerial approaches when a private firm was acquired.

Aside from the leverage they put on their firms, owners who are more committed have different preferences on how the company should be run, down to store-level issues, personnel shifts, work structure and the messages transmitted to employees. These aspects can change drastically if the firm is acquired. In terms of mechanisms, there are a number of case studies that could offer insight although much is anecdotal.

Another point worth clarifying is the agnostic view the research takes on prosocial elements of corporate purpose. But what differentiates the right corporate purpose from the wrong corporate purpose? To illustrate this point, employees at Google exerted their voice and pressured the company to withdraw some of their work with the U.S. Defense Department. Soon afterward, another company picked up this business. Both are purpose-driven firms but with vastly different purposes: Google employees voiced their opposition to these defense contracts while the other firm perceived their work as critical to bolstering national defense.

In this sense, allowing voice and information disclosure are critical mechanisms. The alternative is some type of centrally imposed purpose with an arbiter who determines the definition and scope of social purpose. Ideally, purpose emerges as the aggregate of social preferences with enough information disclosed to enable people to decide for themselves.

SESSION 5

Unpacking the Purpose of the Corporation

Rebecca Henderson,
Harvard Business School

Discussant: **Jordi Gual**,
Chairman of CaixaBank
Chair: **Jill E. Fisch**, University of Pennsylvania Law School and ECGI

Capitalism is undoubtedly one of the world's greatest inventions, lifting millions out of poverty and serving as an unmatched wellspring of freedom, innovation and prosperity. However, against the present-day backdrop of immense environmental degradation, burgeoning inequality, failing institutions, rising populism and extensive social unrest, the time has come to reimagine capitalism.

The capitalist model is in need of broad-based systemic change, according to HBS Prof. Rebecca Henderson, and purpose-driven businesses have a crucial role to play.

Rebuilding Inclusive Institutions

In the face of global challenges as colossal as climate change, growing inequality and widespread social disquiet, some might argue that these are public-goods problems and as such, need to be addressed by government. As a collective-action dilemma, government may indeed need to take the lead but global business is still critical to rebuilding our institutions.
Drawing from the fields of political science and developmental economics, prosperous societies rest on three foundations. The first is absolutely free markets, which are at the heart of freedom and prosperity. In order to excel and serve the common good, however, they need to be counterbalanced by the second core element: democratically elected, transparent, accountable and capable governments.

Climate-change actions illustrate the vital link between free markets and solid governance. In genuinely free markets, prices reflect real costs yet we have seen numerous cases in which profits are maximized to the detriment of global health and social welfare. Coal-fired electricity is a prime example: researchers at the Harvard School of Public Health estimate that $10 worth of coal-fired electricity generates $26 in damage to human health, with no guarantee that welfare theorems will emerge. In these cases, government needs to take action to price these externalities.

The need for balance between free politics and free markets leads to the third key component: a strong civil society to guarantee the rule of law, free press, minority rights and a voice for labor. In the past, global businesses maintained their focus on maximizing shareholder returns, yet in a context of extensive global unrest and institutions under stress, business must also step up and address these social and public problems.

A Purpose-Driven Theory of Change

All data suggests that business as a whole has a deep economic interest in solving complex social issues like climate change, racial exclusion and inequality: economic growth is stronger and more sustainable in societies with strong, democratically accountable governments that provide a solid framework to enable profit maximization to thrive. In order to address these immense challenges and preserve the legitimacy of capitalism, we must rebuild our institutions, which requires the participation of purpose-driven institutions.

Purpose-driven firms are authentically committed to goals beyond profit maximization. To paraphrase Prof. Colin Mayer, purpose is about finding ways of solving problems which are profitable without causing new problems. In these cases, purpose is not at odds with financial returns, rather, avenues exist for what HBS Profs. Michael Porter and Mark Kramer coined as the "shared value opportunity," which entails solving large social problems while making money at the same time.

Business models, even those at multibillion-dollar scales, are increasingly stepping forward to embrace these complex issues. Walmart is one recent example: they took a billion dollars in incremental profit to the bottom line after rejiggering the efficiency of their trucking fleet and significantly reducing their energy and greenhouse gas emissions. Another example is Tesla's Elon Musk, whose focus on electric vehicles has significantly catalyzed the transformation of the global automotive industry.

Without a doubt, individual firms with purpose-driven strategies and operations can make an important impact by inspiring positive change for companies both in and outside their industries, especially those in the midst of transformation like electric power, transportation, agriculture and construction.

Research conducted over the last 20 years finds that purpose-driven firms reach higher levels of corporate performance, as defined by both financial results and creativity, innovation and productivity. In sum, purpose-driven firms can survive and thrive in competitive markets while being significantly more innovative and creative.

Individual Initiatives Aren't Enough: The Need for Collective Action

The individual actions of these forerunning firms are undeniably a step in the right direction, but they aren't enough to move the needle. For broad-based systemic change, collective action is required. In this regard, collective voluntary self-regulation has proven immensely successful in solving the collective action problem, with firms ranging from Unilever to the Sustainable Apparel Coalition driving positive change initiatives defined by clear-cut objectives, performance metrics and audits.

Unfortunately, sustaining voluntary self-regulation is nearly impossible at a global level, which is why a comprehensive approach is needed. In order to make an impact, this system must espouse a long-term perspective, offer solid economic incentives for cooperation, monitor corporate behavior and sanction firms that don't comply.

Can Investors Enforce Cooperation?

In terms of promoting cooperation, investors have an interest in enforcing action to resolve large social and environmental problems for two main reasons. First, focusing on these big problems could offer a roadmap to growth and employee engagement. In this sense, ESG might possibly be a pathway to alpha and higher levels of performance.

In addition, investors – particularly very large ones – cannot diversify away from the major systemic risks on issues like climate change or political instability. In this regard, the very largest investors have a strong economic incentive to solve these challenges.

Purpose-driven investors offer numerous metrics of non-financial performance although much is left to be done to align and standardize these impacts. Moreover, the investment arena alone can't solve the world's problems, especially complex social problems like racism and inequality – which is where the business community comes in.

The Role of Business in Promoting Systemic Change

Purpose-driven organizations have a key role to play in driving systemic change: they are uniquely poised to create shared value, rewire finance, build cooperation and rebuild global institutions.

Economic incentives aside, it ultimately boils down to "doing the right thing." As expressed in a popular political cartoon, 20 or 30 years down the line, we don't want to end up saying, "Yes, the planet got destroyed. But for a beautiful moment in time, we created value for shareholders."

Discussant Reflections

Discussant Jordi Gual concurred on the tremendous power of capitalism as a driver of wealth creation and focused his comments on two key ideas proposed by Prof. Henderson. The first is that firms have a moral duty to act in the presence of the adverse side effects of global capitalism. The second is that it is in their interest to do so. That is, even if each individual firm has an incentive not to contribute to the production of public goods or to the internalization of externalities, the overall business sector would benefit if most companies assumed these actions.

According to Prof. Gual, arguing that firms have a moral duty to act is quite a strong statement. If internalizing externalities and reducing income inequalities are moral obligations, the whole purpose of the firm must be reformulated, embracing some sort of "stakeholderism", where the interest of all stakeholders must be considered.

To try to clarify the issues at stake professor Gual considers two firm types. Type 1 firms are those that maximize (long term) shareholder value subject to the restrictions imposed by the market as well as government regulation. Type 2 firms are those that maximize (financial and non-financial) value creation for the sake of all stakeholders, balancing their often-conflicting interests and subject to the financial restriction that profitability should be above the cost of equity, at least in the medium to long term.

In such a world, the goals of shareholders and other stakeholders are totally or partially in contradiction, not only in the short term but also in the long term.

In a world of **type 1 firms**, the financial objectives are dominant and non-financial goals may be partially achieved if regulation is appropriate and/or ESG information is widespread and actively used by consumers and the investor community.

In a world of **type 2 firms**, financial objectives are softer. The firms need not maximize shareholder value, but rather it is enough to generate at least the minimum risk-adjusted returns demanded by investors. A world populated by type 2 firms is thus a world where businesses may take on board the moral duty to care for natural resources and the overall welfare of society.

The key question is, of course, whether type 2 firms will be able to endure the competition of pure profit-driven companies which bear little or no environmental and social costs.

It is clear that type 2 firms are only viable in imperfectly competitive markets where excess rents can be generated. Those firms that, thanks to the contribution of all stakeholders, can implement strategies that lead to a sustainable competitive advantage. Such a positioning in the market provides the extra resources that ensure that the interests of all stakeholders can be met.
Prof. Gual argues that there are two factors that prevent the expansion of type 2 firms. The first is the corporate law framework, which, despite the business judgement rule in most jurisdictions, is biased towards the primacy of shareholder value. And the second is the nature of ownership that prevails in most of the corporate world, at least for large companies.

In her rebuttal, Prof. Henderson believes that, rather than a "type 1 or type 2" dichotomy, a middle path is the way forward. While unrealistic in many regions of the world, the type-2 stakeholder capitalism approach is viable in certain kinds of markets with certain kinds of business models. Type 2 firms can play an instrumental role in transforming the conditions that will lead the Type 1 firms to internalize the externalities.

In a world where most firms are driven by the bottom line, we need to change the rules of the game to prevent them from generating massive negative externalities that degrade environmental, educational and healthcare systems. After all, it is not a free market if firms can fix the rules to their own advantage. System-wide transformation must focus on both the bottom line and inner purpose. It is not an either-or proposition.

SESSION 6

How Should Boards of Directors Deal with Corporate Purpose ?

Baroness Denise Kingsmill,
Non-Executive Director
of Inditex and IAG

Juvencio Maeztu,
Deputy CEO and CFO of Ingka
(IKEA)

José Viñals,
Chairman of Standard Chartered

Chair: **Jordi Canals**,
IESE Business School

The session opened up a number of interesting academic debates and discussions in the realm of corporate governance, exploring questions such as:

- Should statements of purpose be integrated into corporate law?
- How can business leaders and investors strike a balance between shareholder and stakeholder primacy?
- What steps are necessary to better measure and standardize the impact of non-financial performance?

In this Directors Roundtable, IESE Prof. **Jordi Canals** moves the spotlight from an academic to a practitioner-focused perspective by gathering the insights of three globally renowned business leaders: **Baroness Denise Kingsmill**, non-executive director of Inditex and AIG; **Juvencio Maeztu**, deputy CEO and CFO of IKEA; and **José Viñals**, chairman of Standard Chartered.

In this dynamic session, they explored whether conference prescriptions and solutions were viable in a corporate context, specifically for corporate boards, as well as the role of corporate purpose toward enhancing the performance of corporate boards. Below is an abbreviated and edited version of their discussion.

What is your view on corporate purpose and its role in the development of capitalism around the world?

Denise Kingsmill (DK): The pandemic has shown us how fragile capitalism is without a strong underpinning of government support, as well as the importance of corporate purpose as it relates to human capital, since there is no sense having one if your employees don't embody the values you hold dear. Lastly, everything has to be customer-oriented, which is another area where corporate purpose manifests itself.

Juvencio Maeztu (JM): The main issue is avoiding a dilemma emerging between business and purpose since corporate purpose must be fully integrated in business operations in order to be effective. In this sense, I would highlight five main dimensions: ownership with a long-term perspective at the shareholder level; a governance structure that integrates this purpose in the decision-making process; values which form part of the system's DNA; leadership, with an emphasis on the strategic importance of recruitment; and finally, financial resilience as a pre-condition to promote sustainability. It is the combination of these five dimensions that can eliminate this dilemma by building a sustained integration of both purpose and business.

José Viñals (JV): For me, corporate purpose is all about ensuring that organizations are aligned with the long-term goals of humanity. Authentic purpose is what really defines the soul of the organization and it is critical both internally to ensure your employees are aligned and externally, providing clear financial and non-financial metrics for your investors. The bottom line doesn't need to be at odds with the common good.

Let's discuss how can companies unbundle their corporate purpose into strategic decisions at the board level. Denise, as a board member, how do you bring purpose into the conversation when strategizing about firm's long-term orientation?

DK: I've served as a board member of both start-ups and very large companies. At the start-up bank Monzo, for instance, we developed our corporate purpose and, as our client base grew, we became more aware of what our customers required and adapted it. This contrasts with long-established companies, where the corporate purpose is established by the founders. In both cases, the corporate purpose is very apparent: everybody accepts and understands it.

José, as the chair of a large, complex organization, how do you ensure the corporate purpose is taken into account in the bank's long-term orientation?

JV: It's very important to have the right individuals to translate the corporate purpose into a strategy. In 2018, we made a decision to discontinue financing coal in emerging and developing economies. We knew this would lead to a reduction in revenues. Fast-forward two years, and this hasn't occurred, and the business is in a much better place vis-a-vis our ESG. I have yet to experience a situation in which corporate purpose is in conflict with financial performance and social purpose.

Juvencio, you deal with both the supervisory board and the top management team. How do you make sure purpose is present and serves as a growth driver for the company?

JM: First, we make sure that these values are a living reality, and second, ensuring that sustainability is completely integrated inside the business model. This integration has to be a win-win approach because sustainability has to be good business. In addition to sustainable production, I would also stress responsible consumption and affordability. Sustainability cannot be a luxury.

Denise, you have served on the boards of listed companies, which now are held to higher standards transparency and accountability in terms of ESG factors. With respect to these socially driven goals, do you feel more pressure from within the company or externally, from capital markets and investors?

DM: The pressures are different depending on the committee. The pressure is perhaps greatest when chairing the remuneration committee since it is subject to a lot of questioning and the focus is very much about financial performance. That said, in terms of the pressure to do the right thing, that comes the culture of the company. **Juvencio, we know that some firms engage in greenwashing. How do you "walk the walk" and ensure your corporate purpose trickles down to your employees?**

JM: The most important thing companies can do is show proof points that you are actually moving, with reporting built on both transparency and progress. In this regard, companies need a solid verification plan to quantify these proof points and a focus on sustainability that is integrated into the business model, as I mentioned before.

Now a question for José: how can we make sure that non-financial performance metrics and specifically ESG factors are standardized and easily understood?

JV: I would first say we need to broaden the conversation from ESG factors to include SDGs or sustainable development goals, which are much more precise in terms of how they measure these dimensions. Right now we have a terrible alphabet soup of initiatives from both the private and public sectors. We need to reach an agreement on some common standards so companies can transparently communicate their progress in terms of sustainability.

On previous days of the conference, we have explored whether statements of purpose should be included more clearly into corporate governance codes and corporate laws in major jurisdictions. Denise and José, what are your views?

DM: Obviously, as a lawyer and a former regulator, you can predict my answer is going to be "yes"! I have pushed very hard for a public-interest test and by "public interest", I mean the very issues we're talking about in terms of corporate purpose, sustainability, the environment, human capital and customers.

JV: I have a slightly different view. I believe purpose needs to come endogenously in companies, rather than being exogenously imposed. That said, public policy can definitely help companies carry out their purpose by establishing common reporting on environmental, social and governance matters [...] and a supervisory process that incentivizes firms to take their statement of purpose seriously.

Denise, you have been leading commissions in the UK on the interplay between corporate culture, corporate governance and the development of human capital. What role does the board of directors play in nurturing a good company culture?

DK: You won't get the sense of the culture simply from sitting around the boardroom table: you have to familiarize yourself with what's going on in the factory and on the shop floor. Talk to the people on the shop floor, in the shops, in the hotels, in the restaurants, to know what's really going on and get a sense of what they believe the corporate purpose and corporate culture are.

José, your bank recently led a transformation process to reboot some of the values and elements of the culture. Any reflections on how corporate culture can lead to better governance and eventually management decisions?

JV: A few years ago, we led an enterprise-wide process in order to rethink and redefine our purpose given that the world was changing and we were changing along with it. It was a bottom-up and top-down process – the entire organization was consulted – and we adopted a new statement of purpose based on their input.

Lastly, I would like each of you to share your final reflections on purpose. What advice would you give to other senior executives or institutional investors attending this conference on the topic of purpose?

JM: Purpose can never simply be a nice statement written on the walls of the company; there must be a deep understanding of the purpose and its connection to decision making to make it a reality. We experienced this during Covid19: we didn't have a map to navigate the crisis, but we did have a strong compass of values and purpose to guide us.

DK: I would highlight two things: sustainability and resilience. Sustainability is looking to the long term about what is going to make a good and sustainable business, and it must have a moral element because we are dealing with people: we employ people, we serve people. Companies also need to focus on resilience since we don't know where the next shock is coming from, whether it is a political shock, a populist shock, a terrorist shock, a virus shock.

JV: Business has a great opportunity now to work alongside governments and the rest of civil society to redefine what type of new social construct we want to build: an economy and society which is more sustainable, inclusive and resilient. Purpose is the true soul of the organization, everything emanates from there, so let's make sure we have our soul in the right place.

For investors, I would ask three things. First, be very demanding of companies to demonstrate how they are moving the needle. Second, please think long-term, otherwise the private sector won't be incentivized to align. And third, put your money where your mouth is. If you truly believe that ESG factors and SDG are the right direction, use your power and vote with your shares.

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