# *Foundations are an answer to the problem of short-termism*

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A fight has broken out over the future of Thyssenkrupp. Activist shareholders want the German industrial giant to sell off its highly profitable elevator division. Workers and politicians fear the disposal would hasten the company's demise and damage the larger community.

For most companies, which focus on profit maximisation and shareholder value, this would not be much of a contest. But Thyssenkrupp's largest shareholder is a charitable foundation. While it needs dividends to fund its philanthropy, it also has a mandate to "preserve the unity" of the company. So it is considering its choices carefully.

That thoughtfulness is instructive. The global financial crisis, the fight against climate change and the effects of the digital revolution all suggest that corporations need to broaden their purpose beyond a purely capitalistic approach. To do that, they may need a new type of boss. Right now many public companies have such a dispersed shareholder base that they lack a clear owner, leading to insufficient oversight of management by shareholders and conflicts of interest between managers and firm owners. As a result they often fall prey to short-termism.

There is too much focus on meeting quarterly forecasts at the expense of long-term value creation through the accumulation of human capital or the development of new technologies. Management pay levels often bear little relation to company performance. Business strategies may disregard the broader societal effects of company behaviour.

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Corporate governance reforms have rightly sought to help and encourage individual shareholders to monitor management. However, rules and controls can only do so much. Shareholders often hold differing views about a company's purpose and its time horizon. The lack of a clear mandate from the owners shifts power to management.

In this context, a leading shareholder with strong incentives to oversee management can make a difference. But it needs to be an owner that can exert a significant influence in shaping the corporation's purpose, its culture and its strategy. One that has a long-term commitment to the company and that views it as encompassing the interests of a wide set of stakeholders. Foundations, ironically ownerless themselves, may be very effective at carrying out this job. With their everlasting nature, they certainly have a long-term perspective. As non-profit institutions, they can easily incorporate the interests of several constituencies into their mission. They also need strong governance principles to help them manage potential conflicts between different stakeholders.

Research shows that foundation-owned firms tend to have longer time horizons than other types of companies. They are more likely to engage in long-term investments, with higher levels of research and development. They also tend to be more risk averse, which is understandable when the continuation of the business is a paramount objective. As a result, they have lower leverage and exhibit less volatile returns, even if at times they grow more slowly. They also enjoy better reputations, which is not surprising since the implicit contracts between stakeholders are less likely to break in times of stress.

The ranks of successful foundation-owned businesses include AP Moller-Maersk, Bosch and my own CaixaBank. It is probably no coincidence that Maersk was the first major container shipping company to commit to carbon neutrality by 2050; that Bosch spends more than 7.5 per cent of revenues on R&D and CaixaBank has committed to maintain its rural branch network, even as it cuts urban branches by 25 per cent.

Foundations with a strong governance and a clear mission can provide good guidance to businesses and contribute to a diverse capitalist ecosystem. A different type of boss fosters a more inclusive capitalism.

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