# SESSION V: Unpacking the Purpose of the Corporation

**Marco Becht:** Good afternoon, I'm Marco Becht, Professor of Finance at Université libre de Bruxelles, and Executive Director of the ECGI. For those of you just joining us, let me briefly summarize our proceedings thus far.

In our first session on corporate purpose two days ago, Colin Mayer and Luigi Zingales made the case for rethinking, and modifying, the Friedman-Coase view of maximizing long-run shareholder value. But in yesterday's session, Nobel laureate Bengt Hölmstrom disagreed forcefully, arguing that today we are still very much experiencing the social benefits of the efficiency that comes from the Coase system, and that wholesale changes in capitalism at this point are unwarranted. Paul Polman, the former CEO of Unilever, then responded by disagreeing with Bengt, noting that much needs to evolve. Along with undeniable increases in global wealth and living standards, the last 40 years of economic gains have also inflicted more damage on the environment than the entire history of mankind and, in this sense, we are now borrowing from future generations.

Consistent with Bengt's endorsement of market-based capitalism, two of our speakers have also presented suggestive evidence that investors recognize "externalities"—positive as well as negative—when valuing companies. Patrick Bolton, for example, by showing that high-carbon emitting companies earn higher returns over long periods of time, demonstrates that such companies have a higher cost of capital, or what amounts to the same thing, a lower multiple and overall value for the same earnings stream. This return premium can in turn be seen as reflecting, at least in part, the higher perceived risk associated with media scrutiny and political and regulatory reaction. So, that's the *negative* externality. On the positive side, Claudine Gartenberg presents the findings of her work with George Serafeim and other colleagues showing that companies with "clarity of purpose," especially in their middle ranks, outperform their less purpose-driven counterparts.

But up to this point, we have not heard much about the financial services industry. Banks and financial markets have of course played critical roles in the progress of capitalism. Without banks to move capital from England in the 19th century, railways could not have been built in America. And without financial markets, we would not have the instant transmission of information across the globe.

At the same time, of course, we also know that financial services, and banks in particular, have contributed to problems. The financier J.P. Morgan did move capital from England to America, but he also facilitated the horizontal merger of companies into gigantic trusts that were then broken up by Antitrust action. And banks played a similar role in finanzkapital in Germany, creating cartels at the expense of consumers. Financial crises seem to recur with almost predictable regularity; but the most recent one, in 2008-2009, had a shattering effect on public confidence in capitalism and financial institutions.

Our next panel will touch on some of these questions, and I will now turn things over to the moderator of this session, **Jill Fisch.** Jill is Professor of Law at the University of Pennsylvania Law School, where she heads the Institute of Law and Economics. Jill is a prolific contributor to the "purpose literature" and is also a board member of the ECGI.

**Jill Fisch:** Thanks, Marco, and let me also start by thanking the ECGI and other conference organizers for including me in this special program.

Our featured speaker today is **Rebecca Henderson,** who is the John and Natty McArthur University Professor at Harvard Business School and an expert on innovation and organizational change. Rebecca's research explores the major role the private sector can play in building a more sustainable economy. In a pair of recent books that call for a "reimagining" of capitalism, she pays special attention to the challenge of climate change and the role of the private sector in dealing with it.

Rebecca's presentation will be followed by comments from **Jordi Gual**, who is Chairman of CaixaBank, a large Spanish bank with a highly unusual ownership structure and corporate mission, as well as a Professor of Economics at IESE Business School. Previously, Jordi was CaixaBank's executive director of strategic planning and chief economist, and he has written a number of excellent books on banking and other subjects.

Welcome Rebecca, welcome Jordi. Rebecca, the floor is yours.

## Reimagining Capitalism

**Rebecca Henderson:** Thanks, Jill, and thanks to the ECGI for a fantastic conference. I am very excited to be here.

I want to start by talking about why purpose might matter. Several previous speakers have discussed whether a strong sense of purpose can really drive firm performance, and whether firms will evolve successfully without outside action. I want to persuade you of two things. First, we need systemic change to reimagine and save capitalism. Second, purpose-driven firms can play an important catalytic role in this transformation.

As Jill was kind enough to mention, I have recently published a pair of books on this topic, and the most recent one is called *Reimagining Capitalism in a World on Fire*. It is not an academic treatise, it is a work of rhetoric that makes the case for transforming capitalism; it says that this process of transformation is already underway, and that the purpose-driven firms are central to what we see happening. It is full of fun stories but also deeply rooted in the work of hundreds of researchers. I draw on the latest research to make my case.

Why is system-wide change needed? As Paul and Bengt reminded us, capitalism has been tremendously successful. I routinely open discussions of my book by saying that free markets are one of the great inventions of the human race, an unparalleled source of innovation and prosperity. I say this because so many of the groups I speak to ask: "Why should we reimagine capitalism? Why don't we just throw it out?"

And these are not people on the fringes, by the way.

In February 2020, when we asked the first-year class of Harvard Business School if capitalism was broken, fully half said yes. Most people under 30 in the U.S. now claim to prefer socialism to capitalism. Perhaps, they mean only that they want decent health care, but that result is not a good sign for those of us who are fans of capitalism. What is going on? Why do we need systemic change?

I suggest that there are three major reasons for this discontent. First, we are seeing massive environmental degradation and singularly failing to address it. California remains literally on fire. I am sure you remember the fires in Australia last year. This summer Bangladesh was 30% underwater with a third of its land area covered by the sea. We are already seeing massive floods, accelerating fires, and the possible collapse of agricultural systems in more vulnerable places like Africa. We have huge environmental problems and accelerating inequality.

So, yes, capitalism is a fantastic wealth generator. A billion people have been brought out of poverty in China. But in much of the developed world, growth in wealth and income has been concentrated at the top of the social pyramid. Indeed, social mobility in the U.S. has fallen consistently over the last 20 years. The average U.S. adult cannot expect their children to do better than they are doing now. We have huge social and environmental issues. This creates social unrest and disquiet, leading directly to declining trust in elites and institutions.

Business school professors or business people often say to me: "But wait Rebecca. These are public goods problems. They should be fixed by government." And, indeed, these are massive collective action problems that may only be fully addressed by strengthening our institutions. Prosperous free societies rest on three foundations. The first is free markets. Free markets are at the heart of freedom and prosperity, but to remain free and fair, they need effective supervision by democratically elected, transparently accountable, and capable governments.

Climate change illustrates this clearly. For market prices to encourage the push toward a cleaner environment and increase human welfare, such prices must reflect all real costs. Electric power is of course valuable, but the burning of coal to generate ten dollars of electric power also causes, on average, at least eight dollars of *unpriced* harm to human health because burning coal emits toxins like mercury, lead, and particulates. My colleagues at Harvard's School of Public Health say that burning coal results in U.S. healthcare costs equivalent to five or six percent of the GDP a year. But these costs are currently "negative externalities" that are not priced into what consumers pay for electricity. As a consequence, the usual welfare theorems do not apply and many profits are coming at the expense of massive social and health damage. We need our government to price such externalities.

This is not a radical idea. It has long been supported by most economists, and even social thinkers as libertarian as Friedrich Hayek. We need free politics to balance free markets and a strong civil society to sustain both. Having the rule of law, a free press, respect for minority rights, and a voice for employees all sounds conventional, but they are all critically important and should be central concerns for business. Business people tend to think, "OK, no problem. Why do we need to worry about purpose and other stuff? As long as the government prices in externalities, we can just put our heads down and maximize profits."

Why we do we need business to act, to help address these social problems? The short answer is, because our governmental institutions are not performing very well and because in the short term, business is better placed to deal with many of these problems. Collectively, business enterprises have a deep

Why we do we need business to act, to help address these social problems? The short answer is, because our governmental institutions are not performing very well and because in the short term, business is better placed to deal with many of these problems. Collectively, business enterprises have a deep economic interest in solving problems like climate change, racial exclusion, and inequality.

– Rebecca Henderson

economic interest in solving problems like climate change, racial exclusion, and inequality. The evidence suggests that economic growth is stronger and more sustainable in societies with strong, democratically accountable governments that provide the institutional guardrails that enable profit maximization to work its magic. Business thus has strong incentives to strengthen our institutions.

My mother was an entrepreneur, and I myself have 25 years of cumulative experience on major corporate boards. And I remain convinced that economic growth is the only way to solve the social problems we face. We need massive innovation and millions of new jobs. Capitalism is the only thing that is going to get the job done. But even if the economic rewards are evident, we still have a huge collective action problem to overcome. People and companies have to be persuaded to make voluntary contributions to the outcome—investments of time, energy, and, in some cases, capital for which the payoffs are neither immediate nor certain.

So, faced with this enormous collective action problem, how do we get where we need to go? We cannot simply click our fingers to solve big social problems. Purpose-driven companies have a central role to play. I define purpose-driven companies as those that are authentically committed to a goal beyond profit maximization even as they still generate adequate returns for their investors. I believe that you can have a goal beyond profit maximization and do very well financially. We all have to breathe to live, but breathing is not the point of life. For purpose-driven firms making money and creating long-run value for their investors are essential, but they are means to an end, not the goal of the firm.

Purpose-driven firms are ideally poised to exploit what my colleagues Michael Porter and Mark Kramer have called the "shared value opportunity." That is, to solve big problems and make money at the same time. We are now seeing enterprises at billion-dollar scale embracing solutions to large social problems and making money while they do so.

Walmart is one of my favorite examples. They added a billion dollars to their bottom line by reconfiguring their trucking fleet to reduce fuel use and greenhouse gas emissions significantly. Changes made by Walmart have transformed the lives of millions of people, significantly reducing environmental impact and effecting change in their industries. And at HBS we have put together more than 300 cases featuring companies pursuing these kinds of opportunities.

Once one company shows that there is money to be made, many others follow. Elon Musk's focus on electric vehicles has certainly accelerated the transformation of the world's automotive industry by probably five or six years. Individual firms can have real impact in industries that are in the middle of transformation such as electric power, electric distribution, transportation, agriculture, construction, infrastructure, and food, as distinct from agriculture.

But why then is purpose necessary? If there is money to be made, won't everyone be doing it? Many people believe that capitalism will just do it as long as there is a financial reward. But I disagree. I was Eastman Kodak Professor of Management at MIT for more than 20 years. Although completely coincidental, the association with Kodak was also deeply ironic because I spent the first 20 years of my career studying firms like Kodak, General Motors, and Nokia that recognized the world was changing, but were unable to respond effectively.

As a result, I am one of the world's experts on the difficulty of transforming large organizations. When faced with shrinking markets, the large established companies—we call them the "incumbents"—often go through almost psychological stages of decline, starting with denial. Then people acknowledge that change is happening, but say that they cannot find ways to respond that will allow them to make money. And then, even as change does create profit opportunities, the incumbents say they are too busy to pursue them.

During over 20 years of research, when I examined those firms that *had* managed to respond and outperform, I found that they were purpose-driven. By performance, I do not just mean financial performance. I mean innovation, creativity, and productivity. In every industry we have looked at, we have found that the 10% most productive firms are, on average, more than twice as productive as the lowest decile of firms. We cannot explain all the differences *among* firms within the same industry, but it is very clear that very high-performing firms have different management practices. They have much higher levels of communication, much more decentralized power, and much higher levels of trust.

All of which is to say that management really does matter. Purpose produces qualities associated with higher organizational performance—alignment of performance measures and incentives, intrinsic motivation, and high levels of trust. Over the last two days, we have heard several presentations suggesting that sometimes purpose leads to higher levels of financial performance, but sometimes it does not because pursuing purpose is expensive and requires investments that may not pay off right away. To be authentically purpose-driven, you must at least occasionally value purpose over profit. My position is that companies can be purpose-driven and thrive in competitive markets—and in so doing, they are also much more likely to be innovative and creative.

Some of my research has focused on the critical role of trust. For example, in work with Professor Robert Gibbons at MIT on what economists call relational contracts and everyone else calls trust, we found that organizational performance can be significantly improved if firms build relational contracts with their employees.

People understand that individual companies can be innovative, but we need broad-based systemic change because action by individual firms will not be enough. Most firms can reduce their carbon emissions by 30% to 40% in ways that are NPV-positive, but further gains are very hard to achieve unless you are in Texas and have cheap wind power right outside your window. In industry after industry, we see companies saying, "We would all benefit if we addressed these massive social problems collectively." For example, Paul Polman's Unilever committed to buying only sustainable palm oil, but then discovered it was 20 times more expensive than the old kind and no one was willing to pay for it. But they still had a brand to protect and needed to secure supply for the long term. So, they persuaded buyers of more than 70% of the world's publicly traded palm oil to commit to buying only sustainably grown oil.

The good news, then, is that the collective action problem, or "the prisoner's dilemma" as it's sometimes called, can be solved. The economic historian Elinor Ostrom has shown many historical examples of *voluntary* collective action working to overcome "the Tragedy of The Commons."[1] We know that there have been times when voluntary self-regulation has proved immensely successful in solving the collective action problem. That is the good news. The bad news, however, is that the examples have been so few and far between. So, while we know it can be done, we also know it is quite difficult. It is particularly hard to sustain voluntary self-regulation at a global level.

So what can be done? We need a focus on the long term and make a strong economic case for cooperating, but we also need to find ways to monitor others' behavior and to sanction those who "cheat." Interestingly, there is increasing evidence that if you include people with an "irrational" commitment to doing the right thing in the mix—that is, begin with pro-social players—it is a lot easier to build cooperation. Purpose-driven firms will be critical to launching and sustaining these kinds of cooperative efforts. But you must also be able to sanction those that fail to live up to their commitments. Otherwise, some will defect and cooperation will fall apart.

Who outside government could impose sanctions? Investors could and would be motivated to do so for at least two reasons. First, because focusing on these big problems has the potential to create a road map to growth and employee engagement, ESG may provide a road to alpha. Second, because very large investors are too large to

1 See, for example, Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action,* Cambridge, UK: Cambridge University Press, 1990 ISBN 978-0-521-40599-7; and Elinor Ostrom, Larry Schroeder, and Susan Wynne, *Institutional incentives and sustainable development: infrastructure policies in perspective,* Boulder: Westview Press, 1993. ISBN 978-0-8133-1619-2.

diversify away major systemic risks like climate change and political instability, the very largest investors may have a sufficiently powerful economic incentive to solve the collective action problem—and because there are not that many of them, they may be able to reach agreement and cooperate.

How might that work? Purpose-driven investors could give us a whole range of new ESG performance metrics. Billions of dollars now flow into ESG funds. This change will not happen overnight. It took 50 years to build modern financial accounting, and we will need at least five or ten years to find ways to link purpose to financial and operating performance measures. But change is underway and it has momentum from purpose-driven firms, leading with experimentation and investor communication.

Purpose-driven "universal investors" could also drive systemic change. I had the pleasure of working with Hiro Mizuno, Chief Investment Officer at the GPIF, Japanese Government Pension Fund, the largest pension fund in the world, with $1.7 trillion under management. He came to believe that he had a fiduciary duty to address climate change and social inclusion because doing so would ensure good long-run returns for Japanese pensioners.

And Mizuno is not alone. Generational changes in the big family firms are pushing in this direction. Groups like Climate Action 100+, with $40 trillion of investments, focus on the 100 largest carbon emitters in the world, demanding the emitters produce road maps and milestones to a low-carbon future.

But can business help rebuild our institutions? Would this increased concentration of wealth—and power—lead to good citizenship or crony capitalism? I believe business should be lobbying hard for the reversal of court rulings like Citizens United, which has flooded the American political system with money and is bringing the entire system into disrepute. I provide three major historical examples of business-government collective action in my book: Denmark in the 19th century, Germany in the 1940s, and Mauritius in the 1960s. In each of these three cases, representatives of the private sector, faced with the collapse of the society, sat down with government and with representatives of labor to rebuild the society's institutions.

Those of us who are academics and researchers can contribute to this in many ways. Let me close by saying, it's just the right thing to do. Thank you very much.

**Jill Fisch:** Thank you, Rebecca, that was fantastic. You gave us an awful lot to think about. Jordi, you're up next.

## Call for "Type 2" Firms

**Jordi Gual:** Thank you very much. It is a pleasure to participate in this exciting conference. I truly feel at home today, having been a member of the board of ECGI and a faculty member of IESE Business School. Thanks, Marco and Jordi, for putting this conference together.

Let me start by conceding that I am unlikely to do justice to the work of Professor Henderson, having read only a summary of her book. But let me offer a few thoughts in response to her presentation.

Rebecca starts by recognizing the tremendous possibilities of capitalism as an engine of wealth creation—and I concur completely in this. She also emphasizes the potentially adverse effects of what she calls "global capitalism," particularly negative externalities and very skewed income distributions. She is worried, as we all should, that the harmful effects of capitalism may undermine the political legitimacy of the free market system, which on its own has done so much to raise global standards of living.

I will focus on her two central points. The first is that companies have a moral duty to mitigate these harmful effects. The second point is that this is not only a moral obligation, but it is also in their own long-run economic interest. The idea is sometimes expressed as "doing well by doing good." And let me elaborate a bit on this.

Saying we have a moral obligation to act is quite a strong statement. Such a statement calls for a rethinking and possibly a complete reformulation of the purpose of the company. More specifically, it asks companies to think long and hard about each of its important stakeholders and, in this sense, to embrace a kind of "stakeholder" theory of the firm. Companies must take their stakeholders into account *for their own sake*, as Colin said earlier, not merely as instruments but as ends in themselves.

Rebecca's second major point is that, even if it is not in the interest of each firm to correct the externalities individually, it is in their collective interest. But there is a collective action problem that makes it challenging for companies to internalize the externalities. Rebecca argues that when take governments fail to take action, the private sector should enforce cooperation and self-regulation that has the effect of "internalizing" those externalities.

I find Rebecca's second point to be somewhat contradictory with her first. If you can internalize the externalities and solve the collective action problem, The limitation of [Rebecca's] second approach is, as I suggested, its view of stakeholders as instruments, means to an end, not ends in themselves. In the case of regulation, companies are forced to do the right thing; and in the case of enlightened shareholder value, they do it because in the end it will maximize long-term shareholder value. But there is a fundamental tension between these two approaches that needs to be recognized and addressed. – Jordi Gual

you can achieve the "first best solution" with proper government regulation. And if you can do so voluntarily with some sort of enlightenment shareholder value motivation, so much the better. The limitation of this second approach is, as I suggested, its view of stakeholders as instruments, as means to an end, not ends in themselves. In the case of regulation, companies are forced to do the right thing; and in the case of enlightened shareholder value, they do it because in the end it will maximize long-term shareholder value. As the *Financial Times* put it in response when the Business Round-Table published their letter in 2019, "In companies we face the tragedy of the corporate commons, and we should solve it ourselves instead of waiting for governments to do so." But there is a fundamental tension between these two approaches that needs to be recognized and addressed.

Let me try to clarify this basic trade-off. Imagine a world where you have two distinct kinds of companies, and let us call them Type 1 and Type 2. Type 1 firms maximize long-term shareholder value subject to the restriction of capital and labor markets and government regulation. Type 1 restrictions today include those imposed by ESG indicators that institutional investors watch as well as the reputational pressure exerted by consumers and the political system. Type 2 firms maximize financial and non-financial value for the sake of *all* stakeholders that work in, collaborate with, or buy from the firm, often trading off one stakeholder benefit against another while ensuring that the company still earns the cost of equity required by the markets. In the case of Type 2 firms, although all stakeholder groups have an interest in the long-run success of the firm, conflicts *among* stakeholders continuously arise and must be addressed. Even when you succeed in creating aggregate value, you still have competing stakeholder claims to that value and the rules for distribution are far from obvious. The enlightened shareholder value paradigm is of little use here and those conflicts will have to be resolved somehow.

The financial goals of Type 1 firms are relatively straightforward, but Type 2 firms must somehow obtain a minimum risk-adjusted return to satisfy investors, and then try to satisfy the rest of its stakeholders. And the big question is, can Type 2 firms compete with Type 1 firms, which do not choose to bear the same social and environmental costs borne by Type 2 firms?

It will take some time, but I believe that in imperfectly competitive markets where excess rents can be generated, some Type 2 firms can create sustainable competitive advantage thanks to the contribution of all stakeholders and generate adequate returns for investors. Colin Mayer has developed the commitment framework which captures this idea, and so have, to a certain extent, Michael Porter and Mark Kramer with their shared value approach.

There are two obstacles to the success of Type 2 firms. First, corporate law imposes restrictions on the development of stakeholder firms. Second is the challenge of resolving conflicts between the interests of different shareholders. It is hard for diverse shareholders to agree on common, non-financial goals. Such an agreement is easier in the presence of a "reference" shareholder.

To support my case, let me just close by mentioning the special arrangements at our company, CaixaBank, which we manage with a stakeholder approach. CaixaBank has a "reference" shareholder, a nonprofit foundation that owns 40% of the bank and has been undertaking social work for more than 100 years. The combination of such a foundation with the usual presence in public capital markets has allowed us to pursue long-term value strategies. The foundation supervises management to make sure that our "shared," socially oriented principles are upheld, while we maintain a continuing dialogue with the capital markets to ensure that our enterprise model, which is somewhat unusual, is fully understood.

Unfortunately corporate governance guidelines and most corporate law are designed for the conventional shareholder-owned corporation, and sometimes it is difficult to accommodate within the same legal rules other ownership structures. I strongly believe that it would be good if the positive aspects of having a diversity of enterprise models were to be more fully recognized in corporate governance legal frameworks.

I will stop there. Thank you.

**Fisch:** Rebecca, do you want to respond to Jordi briefly before we get to the questions.

## Profit with Purpose: Toward an Intermediate Solution

**Henderson:** Thanks, Jordi, for that insightful summary of the issues that we face. And let me use your language to suggest an answer.

People today are recommending what are basically one of two ways to go forward. One says we should continue to rely on conventional value-maximizing Type 1 firms, and we just need government to fix the rules. This approach assumes that it is not the business of business to "internalize the externalities"; we will leave that responsibility to government and concentrate on making money. The other approach, which is essentially Paul Polman's, says to move everyone onto the stakeholder model."

I come out, confusingly, somewhere in the middle. I do not believe that business passivity will result in the kind of regulation that will enable Type 1 firms to maximize profits while leaving the rest to government. So, doing nothing is unadvisable.

At the same time, depending on the region of the world, it is also unrealistic and unadvisable to allow or encourage everybody to be Type 2 firms. It would put far too much discretion in the hands of managements that have already been running Type 2 models—though that might work in countries like Japan or Germany, which have strong institutions that constrain and support the actions of managers in running their firms.

What I would propose, then, is that the Type 2 firms that can only survive currently in certain markets with certain business models be allowed and encourage to become drivers for achieving the conditions that will push Type 1 firms to internalize the externalities. But to allow such companies to survive in competitive markets, we need political and regulatory change, and the right kind of pressure—and perhaps some forbearance—from the capital markets. Purpose-driven firms can be important catalysts in doing that. That said, I do not believe trying to move everyone to stakeholder capitalism is, in the long run, feasible.

I understood Colin to be saying that it is desirable to have firms with a diversity of purposes. And diversity of purposes suggests some sort of spectrum of approaches to me, not necessarily just Type 1 and Type 2. We already have the public benefit corporation, which allows firms today to commit to being Type 2 firms. But there is a whole gray area in the middle. You focused on purpose-driven firms as responses to collective action problems. But if some of my firms are out there trying to deal with climate change, and some are interested in wealth and income inequality, and some are focused on social justice and diversity, I'm not sure how we either solve the collective action problems or provide the impetus for necessary regulatory change.

So, I believe our situation is desperate; we have unaddressed public goods problems and I am looking for some solution, for any solution. I agree with you: I do not think an end-state economy where everyone is a Type 2 firm is the solution for the reasons you laid out. It won't be viable because investors will still be bottom line oriented, and capital markets won't provide funding for all these firms. We must change the rules so that investor-oriented, bottom line driven firms cannot continue generating massive negative externalities. For me, it is not a free market if firms can fix the rules to suit themselves. That's just not fair. And I fear we may go to very dark places if we don't move, that we're going to left or right-wing populism and neither is good for business or for society. I think Paul Polman was saying something similar.

Now, I also hear people like Colin saying that such changes, if done properly, would actually end up contributing to the bottom line. But for whatever reason, shareholders and, mostly, managers seem skeptical about and resistant to this possibility. They know change is necessary but they do not know how the market will react. Maybe purpose is a tool that they can use for getting buy-in from different stakeholders to do something that they acknowledge has to happen anyway.

As Jordi said, I do believe there is a fundamental moral case and authentic purpose, but even authentically purpose-driven firms can uncover profit opportunities that purely financially focused managers cannot find. So, yes, I am saying both things are possible. I published a piece called "Climate in the Boardroom: Struggling to Reconcile Maximizing Shareholder Value with the End of the World as We Know it." What I am describing is the reality I see faced by the managers I work with, who although forced to be focused on the bottom line, are also authentically purpose-driven—and the big surprise here for many in all of this is their discovery that being authentically purpose-driven often turns out to be good for the bottom line.

I spent the early part of my career trying to persuade economists that inertia was real. My first academic paper was called "Underinvestment and Incompetence in Response to Radical Change." The editor of the prestigious economics journal to which I sent it, sent it back saying, "Rebecca, you have written a paper about how the moon is made of green cheese, and economists have paid too little attention to the motion of cheesy planetoids."

Thanks to the revolution in behavioral economics, we know that there are persistent cognitive and perceptual biases. Thanks to huge amounts of work in organizational and social psychology, we know that groups refuse to admit new reality and to shift in response. And mobilizing authentic purpose to bust through these kinds of barriers may be either instrumental or the most purpose-driven thing you can do. We do not have to call it purpose; it is just what good business decision-making is about.

It's becoming clear to many boards that they need to shift because the world is changing. Second, those of us who focus on purpose never tell firms we work with to ignore profits, but rather they should also be scanning the world for social problems they can address while seeking profit.

I had the good fortune of facilitating Paul Polman's strategic retreats for the first few years of his tenure at Unilever. He would give fabulous talks, saying the world is burning and we need to do such and such. His senior team would look at him and say, "Paul, we still have to manage the deodorant business." One of the strengths of a leader like Paul is his ability to negotiate the tension between competing demands. He manages to pursue both inner purpose and the bottom line. It is not an either/or approach, it's a dynamic process.

**Gual:** I agree that the advice in Rebecca's book falls somewhere in between Type 2 and Type 1 in the terminology that I used. My preference is that all companies, at some point, become Type 2. But in very competitive industries this is difficult and I can see that we need both types. I believe that policy should remain open to alternative corporate structures so that different models can compete in the marketplace as well as in labor and capital markets. Under that kind of competition, the incentives would be right. Board members, as well as investors and employees, would join companies which have purposes that they like, and neither the law nor the capital markets would prevent them from achieving their purpose.

**Henderson:** Yes, I agree with you completely on this.

**Fisch:** There are many kinds of shareholders in the world and several ways to structure ownership. Those will affect the ability to achieve purpose. Having a charitable foundation as a substantial shareholder may strengthen your commitment to purpose. In the U.S. we see some shareholder and hedge fund activism that could qualify as purpose driven. That seems consistent with the story you tell. It may be a hedge fund that intervenes with a hide-bound board to recognize the importance of this ESG stuff. That sort of activism can be very powerful.

One thing I worry about is how to deal with the shareholder drive for purpose when the shareholder is itself an intermediary, and when its ultimate beneficial owners may have conflicting views about purpose. I had the good fortune to go to a conference a couple of weeks ago on this idea that investment intermediaries are in fact agents for their principals. And that in some cases they have a duty to pay attention to these issues. If your agent, say it's the Japanese government, wants you to focus on the long term and climate change because they think that is part of their fiduciary duty, how do you respond to that? Leo Strine and Patrick Bolton have written fascinating papers in this area, and I think we need to talk much more about agency costs in the investment management business.

But since I'm now compelled to call a close to the session, let's leave that for another meeting. Thank you, Rebecca, and thank you, Jordi. That was a fantastic discussion.