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The Role of Corporate Purpose in Corporate Governance: A Framework for Boards of Directors and Senior Managers

JORDI CANALS
IESE Foundation Professor of Corporate Governance

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Abstract

In this paper, I review the notion of purpose in contemporary management theory and corporate governance, and present a framework for boards of directors to work on purpose. Corporate purpose has the potential to be an engine for organizational change, improve corporate governance and help reconnect companies with relevant stakeholders and society.

Recent empirical studies show a positive relationship between corporate purpose and financial performance. Nevertheless, the unique challenge that corporate purpose raises is not why purpose should be adopted, but how to adopt it effectively. This paper addresses this issue. It is based on some longitudinal real cases of firms that have been using corporate purpose in their governance and management.

This paper presents a framework for boards of directors and senior managers for adopting corporate purpose effectively. In particular, it highlights that purpose should have a clear scope, should be integrated in the firm's strategy and business model, should influence people's management and development, as well as innovation and other major corporate policies.

Keywords: Corporate purpose; Corporate governance; Boards of directors

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1. The Value of Purpose in the Firm's Long-Term Orientation: Corporate Transformation at Ingka[1]

The recent corporate crises of Bayer, Boeing, Facebook, Volkswagen, WeWork or Wirecard, among others, remind us that the quality of corporate governance does matter. Institutional investors are adding new pressure on boards of directors to take this duty seriously. Asset managers owning significant shareholdings are forcing boards to be more accountable on their environmental and social impact. The Covid-19 crisis is pushing boards to explain how they take care of their employees' well-being, diversity and upskilling. Moreover, the list of ESG (Environmental, Social, Governance) factors that some investors are asking boards to consider is getting longer. The call to reinvent capitalism is growing louder and boards should play a role in it.

Corporate purpose can help address some of these issues and is emerging as an anchor to provide some coherence to some of those themes. Some experts and investors are even suggesting that companies should adopt a formal purpose, beyond profitability. Regulators in France and the UK recently passed laws that require listed companies to adopt a statement of purpose. Is this the right way for companies to follow? Can purpose improve the quality of governance? If so, how to do it effectively?

Empirical evidence on the impact of corporate purpose on performance is increasingly clear[2]. Companies that include some dimensions of purpose in their strategy also show slightly superior economic performance. The challenge for companies is no longer why purpose is important, but how boards of directors can adopt purpose effectively.

Over the past decade, some companies have taken an innovative path by introducing the notion of purpose in their strategies and business models, moving beyond statements of purpose to truly integrate purpose in strategy and operations. Ingka is one of them.

In June 2020, Jesper Brodin, CEO of Ingka and Juvencio Maeztu, Deputy CEO of Ingka, were considering how to rethink some fundamental corporate governance questions and discuss them with the board of directors. Ingka was the retail arm of Ikea, the largest furniture maker and retailer company in the world. Ikea and Ingka had been two companies with a strong sense of mission in society, driven by Ingvar Kamprad, their founder. Ikea was considered one of the most advanced companies in the world in terms of environmental impact and inclusiveness. Both Jasper and Juvencio were proud of this, but thought that the company could do an even better job by introducing corporate purpose into the heart of strategic decision-making at Ingka.

Moved by a strong entrepreneurial drive, Ingvar Kamprad founded Ikea in 1943 in Småland, in the south of Sweden. It was a mail-order business that sold pencils, postcards and similar merchandise. Kamprad soon entered into the furniture manufacturing market and quickly explored innovative solutions such as furniture design, self-assembly and advertising in order to differentiate its products from competitors. In 1951, Ikea published its first furniture catalogue and in 1953 opened a showroom where customers could experience products before ordering

[1] Ingka is the retail business of Ikea. The complete Ingka case study is presented in Masclans and Canals (2020). This section is based on this case study.

[2] Most of these studies suggest that companies that include some dimensions of purpose in their strategy and business model also show slightly superior economic performance (see, among others, Margolis, Elfebein and Walsh, 2009; Edmans, 2011; Eccles, Ioannou and Serafeim, 2014; Flammer, 2015; Ferrell, Liang and Renneboog, 2017; Iannou and Serafeim, 2019; Gartenberg, Prat and Serafeim, 2019).

them. In the early 1960s, Kamprad's sense of innovation disrupted the furniture industry in Sweden and other European countries.

Kamprad had strong values and considered a sense of mission and corporate culture as key drivers of a successful organization. In 1976, he published the booklet "The Testament of a Furniture Dealer," in which he summarized Ikea's mission: "to create a better everyday life for the many." He also highlighted the core Ikea values that had to guide company's operations. These values were still present in 2020 and were aimed at guiding all managerial decision making.

Kamprad wanted to ensure that his vision would last. He looked for a model in the best interests of both the business and "the many." He wanted to grow Ikea but believed that being a listed, public company was not an option, since the company would be at the mercy of capital markets. He devised a unique governance and ownership structure. In 1977, he divided the ownership of Ikea into two companies: Ingka, which included the retail business, and Inter Ikea, which included the management of the Ikea concept, the brand and the franchise system. He also set up two foundations as the only shareholders of the two companies: the Interogo Foundation, the owner of Inter Ikea; and the Stichting Ingka Foundation, the owner of Ingka.

Both the business model and the ownership structure of Ikea helped the group thrive, and it experienced high organic growth from the 1980s through the 2000s. Ingka was initially responsible for product design, supply chain and production, logistics, retail, stores management and sales growth, and it became a key organization in Ikea's business success. It focused its strategy on a unique retail model in different markets, while maintaining Ikea's vision and culture. Ingka was strongly committed to sustainability, which played a central role in its business model. Innovation was also a key pillar in Kamprad's model. Ingka managers pushed for innovation in product design, packaging and logistics. The company offered products adapted to ever-changing customer needs.

The mission of Ikea's founder permeated the firm's culture and values, helped educate managers and employees about the values and was present in many decisions. Juvencio observed that:

> "Kamprad's view was a bold, big vision and aspiration, and helped inspire thousands of people at Ikea. It created an emotional link with the company. The challenge was how to continue developing the business and build a more structural connection between purpose and the whole company and its operations, in particular, once the founder had passed away. Since 2018, we had been trying to find ways to articulate purpose better and make it better integrated throughout the company's activities. We were trying to be more specific on how being a purposeful company would be reflected in a variety of contexts and operations."

The top management team had developed a series of questions to articulate Ingka's purpose around Kamprad's vision and assess the strength of the firm's purpose. The first question was: Is the notion of purpose well-articulated? The initial answer to that question among managers was that the definition of purpose was clear, and Ingka's people really understood it, but there was a need to make it more operational.

The second question was: Does this notion of purpose inspire our people? The results of several employee surveys reflected a deep understanding of the firm's purpose and that it helped inspire people in their work, providing some meaning to what they did in their daily activities, but there were areas for improvement.

The third question was: Is purpose integrated in Ingka's strategy and operations? In recent top management meetings, there was a shared view that the concept of purpose was well defined and people felt inspired by it, but it could be better integrated in strategy and operations.

The fourth question was: Do our people and customers recognize our purpose? The shared view of many managers was that Ikea had a practice of explaining little and delivering more. The founder's approach was to speak restrictedly about the company, but surprise customers with the product and its delivery. At the same time, there was also a feeling that a company with close to 200,000 employees around the world could do much more in terms of explaining the many new initiatives that were born out of a sense of purpose.

The management team was also aware that having a living purpose meant involving and training people better. In 2019, senior managers promoted some initiatives to connect deeper the company's eight corporate values with purpose. Cost-consciousness was one of those values. A traditional understanding of this value was to improve performance and profitability. The new approach of connecting this value with purpose required an educational process of helping Ingka's employees understand that being more cost efficient would also further the goal of offering lower prices and therefore improving affordability for customers. With this approach in mind, in 2019, Ingka managers worked to involve employees in new ideas around that value. By the end of February 2020, more than 23,000 employees around the world had contributed over 5,000 ideas. Of these, 1,000 were selected for their approval. Senior managers chose 25 ideas that would be applied and deployed without additional management decisions, and it was estimated that they would contribute to an annual savings of €25 million.

With the aim of strengthening the link between purpose and values, in the senior management meeting that took place in Paris on August 28, 2019, Jasper and Juvencio reminded managers of the need to create economic value and become a beacon for the whole company. This could be done by providing positive examples, competent decision-making and commitment to purpose.

Various initiatives for making purpose more explicit were adopted after the Paris meeting. The first involved a deep reflection on corporate growth and furniture sales. Should Ikea favor constant growth through unlimited consumption? This led to a reflection on new business models, including selling second-hand furniture, renting furniture and offering furniture repair services. A key question was how far Ingka should diverge from its current focus on furniture and basic elements for homes. Was it sensible to move away from this concept?

A second initiative, as the company pushed its digital business forward, was a set of ethical rules that would govern the use of customers' data. Ingka made an explicit commitment to not use data to sell more to current customers. While it was considered acceptable to use data to get to know customers better, was it justifiable to try to offer them goods or services that might fit their profiles?

A third initiative sought to boost Ingka's engagement with its stakeholders. Senior managers believed the company should become an activist voice in key social areas such as climate change, diversity and inclusiveness.

A fourth initiative focused on how the notion of purpose could help renovate the traditional retail business. With changing consumers' behavior, increasing online sales and new competitors, business growth in stores had been diminishing since 2014. In this area, the challenge was to make sure customers kept returning to Ikea stores due to an outstanding value proposition.

Jesper pointed out how corporate purpose pushed Ikea's innovation and long-term perspective:

> "As a big brand with a deep purpose we have a unique opportunity to really make a positive impact for people and the planet and contribute to wider changes in society. Actions speak louder than words, and we keep pushing forward to reach the Ikea ambition for 2030 – to

> become a circular and climate positive business, and to offer healthier and more sustainable solutions at scale that more and more people can afford."

Ingka's journey had been very successful. The role of mission in its evolution was accepted by all major stakeholders as a fundamental pillar of the company. At the same time, Ingka had to go through a fundamental transformation process that involved more investment in online sales, with a different business model and lower margins. This entailed less investment in traditional stores and city centers, which had higher margins and more reliable investments. The change in the relative importance of the physical model and the online model would also imply business restructuring and a different resource allocation process.

The evolution towards becoming a multi-channel company was also urgent. Yet the traditional governance criteria and mechanisms, including financial criteria, were anchored in the old model. How should the company move forward? How should the board change the governance model to adapt to the new business models of the future? Which criteria should the board use for strategic decision-making? Which role should Ingka's mission play in this transformation? What does it mean for a company that is speeding up its transformation toward becoming a purpose-led company? And was it the right time for Ingka to become a more purpose-driven company, given the deep financial pressures the company was under, compounded by the Covid-19 crisis? Ikea and Ingka had made significant progress by placing mission and sustainability at the heart of the firm's strategy and management. But Jasper and Juvencio felt the challenges ahead were formidable and that they needed to convince their board of directors to act upon those challenges.

Defining corporate purpose and articulating corporate strategy, policies and activities around purpose, as well as new performance measurement systems, are responsibilities of board directors and CEOs. They are complex tasks. The experience at Ingka, briefly described above, suggests that introducing corporate purpose at the heart of a company is a long-term commitment, takes strong determination, requires excellent management and requires constant renewal. Corporate purpose can become a powerful engine in the transformation process of a company.

Ingka started this transformation around purpose with the founder's vision still very much present in the life of the company. To be an effective tool for organizational change, purpose needs to be credible and become embedded in the firm's strategy, corporate culture, people's development and reward systems. The value and impact of purpose stand out as unique factors in companies' governance and management models.

Based on some clinical cases of some companies (Fluidra, Ingka, Nestlé, Unilever and Schneider), in this paper I present a framework that helps boards of directors and senior management teams discuss and adopt corporate purpose effectively. I review the origins of corporate purpose in Section 2. The different perspectives of the notion of purpose are discussed in Section 3. I present a framework with the basic elements to articulate a notion of purpose in Section 4. In Section 5, I introduce a model to help boards of directors' work on corporate purpose and discuss the impact purpose may have on key strategic decisions that boards make, including strategic acquisitions or divestments, hiring and developing CEOs and senior managers, and executive compensation.

2. The Origins of Corporate Purpose

The notion of purpose has relevant roots in the field of management[3]. It includes the work of pioneering management thinkers in the first half of the 20th century (Barnard, 1938; Drucker, 1955), and distinguished scholars in more recent decades, including Selznick (1957), Andrews (1971), Donaldson and Lorsch (1983), Bartlett and Ghoshal (1994), Khurana (2007), Canals (2010b), Birkinshaw, Foss and Lindenberg (2014), Mayer (2013, 2018), Gartenberg, Pratt and Serafeim (2019), Quinn and Thakor (2019), Blount and Leinwand (2019), Henderson (2020), and Edmans (2020), among others. Henderson and Van den Steen (2015) and Henderson and Serafeim (2020) have opened up this debate in the field of organizational economics.

As Davoudi, McKenna and Olegario (2018) pointed out, the original concept of the corporation in Roman Law included a sense of purpose: "from the *piae causae* of Ancient Rome to Medieval monasteries and the City of London, corporations have been purveyors of education, civic administration, public works, philanthropy and spiritual engagement for millennia." In the Renaissance and the modern era, some kingdoms in Europe gave corporations the license to operate under the condition of providing some goods for society or some of its citizens in a fair way. Until mid-19th century, this was the condition under which a company would be set up and investors were offered some state protection and limited liabilities (Fisch and Solomon, 2020; Rock, 2020).

With the industrial revolution, the development of capitalism and new growth opportunities brought about by technical change, the role of profits in financing new ventures and motivating entrepreneurs became more powerful. The emergence of stock exchanges and the growing number of listed companies reinforced the importance of financial performance and investors' protection. But this motivation never excluded the action and motivation of entrepreneurs with the desire and commitment to have positive social impact through their business. As O'Toole (2019) documented in his excellent story about enlightened capitalists, there have been entrepreneurs over the past two centuries with a willingness to address some of the world's most chronic and entrenched problems through a business, beyond philanthropy.

At the heart of these businesses, there were some ideas and a core ideology on higher purpose beyond making money. The value of ethical principles was connected not only with the notion of purpose, or the hypothesis that ethics is good for business. In many cases, ethics was understood as a set of principles to show respect for every person, employee or customer. For the leaders of those businesses, respect for human dignity and service to the common good were principles above other criteria or management practices. Those entrepreneurs also considered philanthropy a good practice, but wanted to have a positive social impact through their companies' operations.

Philanthropy is a good action. Nevertheless, corporate purpose is a more articulated and effective way that companies have to help address some social challenges. This approach is more complex than pure philanthropy, but also more sustainable. By starting a company, entrepreneurs are trying to address social needs with new products, business models and practices, that should be sustainable from a financial viewpoint, while creating jobs, paying decent salaries and improving the education of employees.

[3] Corporate law also has a rich tradition in dealing with corporate purpose. For a comprehensive view of corporate purpose in corporate law, see Stout (2012), Mocsary (2016), Fisch and Solomon (2020), and Rock (2020), among others. In this paper the focus is on the field of management.

This view of companies and entrepreneurs and their connection with society was implicit in the development of capitalism in Western Europe in the 19th and 20th centuries, in particular, in the West Germany economic model after World War II. Even in countries and industries where shareholders' profitability was the first criteria, the assumption that companies had to help society was an implicit notion in the social contract between companies and society. Governments gave companies the license to operate in exchange for providing social good, while avoiding social harm (Mayer, 2013). As Drucker (1973) observed many years before the growth of the CSR movement, "Free enterprise cannot be justified as being good for business; it can be justified only as being good for society." Even if companies were not especially clear in articulating a notion of purpose, large shareholders – many times, families in business – and top managers realized that they had a duty towards society. Since the 1950s through the 1970s, with demographic and economic growth in Western Europe, rapidly rising income per capita and the development of the welfare system, there was a perception that companies were also working for the common good of society. But these ideas were in competition with the notion of shareholder primacy that was emerging in the US. Berle (1931) and Berle and Means (1932) started an important discussion on the growing dispersion of ownership in US listed companies in the early 1900s and the power of senior management in defining the goals of their companies. The primacy of shareholders was their natural conclusion – in part, as a reaction to protect minority shareholders from senior managers' follies. The fact is that the notion of minority shareholders without legal protection does not reflect the reality of ownership today. In the US and Western Europe, close to 65% of the shares of listed companies is in the hands of professional asset managers who do have some responsibilities and power to remove board directors if they want to do so (Rock, 2020).

At roughly the same time, Dodd (1932) expressed his view of the firm: companies are not simply vehicles to produce shareholders returns, but rather social entities whose interests are shared by multiple groups or constituencies. This is one of the early foundations of the multi-stakeholder view of the firm. Dodd's definition of the firm suggests that companies have some common, shared interests that different parties pursue. This reasoning was expanded upon by Drucker (1955), who considered that the purpose of a firm is to have and serve customers. Berle and Means supported the notion of shareholder primacy. Dodd and Drucker, the stakeholder vision. Each perspective focused on a specific goal: either profit maximization (shareholder primacy perspective), or value creation for all (the multi-stakeholder view). In between these extremes, different options can be found, including some specific combinations of profit and purpose, or purpose and profit, depending on the individual's preferences.

Shareholder primacy and the notion that profit maximization gained traction with Friedman (1962, 1970), Ross (1973) and Jensen and Meckling (1976), among others, in the 1970s. Acceptance of these ideas accelerated in the 1980s with the explosion of hostile takeovers and highly leveraged MBOs. The radical deregulation of capital markets in the US and the UK in the 1980s, and increasing pressure to place shareholder primacy above any business activity – a trend originated in academia (Rappaport, 1986; Jensen 1989) and in the investment banking world – contributed to its acceptance (Cheffins, 2020). Maximizing shareholder value became the new business mantra. Outsourcing, first, and globalization and offshoring, later, were considered drivers that improved corporate performance, irrespective of their longer-term impact on companies and societies at large. Shareholder returns became the overwhelming metrics of success. The opening of emerging markets and the Internet revolution in the mid-1990s gave incredible power to these ideas. In this context, employees gradually came to be viewed primarily as human resources. Individuals could be readily hired and fired, without other considerations beyond effectiveness and financial performance.

The goal of maximizing shareholders' value and the savings glut in global capital markets in the 1990s and the early 2000s started to put more pressure on companies to increase shareholder economic value in the short term. The global economy became more integrated, less localized, more dominated by finance, and disrupted by new digital technology. Companies such as Amazon, Facebook and Google led a huge disintermediation process, making obsolete many companies that were operating as retailers or distributors of goods and services. The lax monetary policy dominating these years and the aggressive bank lending led to companies and families to increase borrowing, and lenders and investors misallocating financial resources by mispricing risk in search of higher returns.

The explosion of the 2008 financial crisis brought the world economy to the brink of collapse and, for a while, the excess of irrational borrowing and lending appeared to end. But due to the global savings glut in search of profitability and the lax monetary policy of previous years, the basic problem of investors seeking profitable destinations for their savings persisted. Investors viewed companies as mere assets in their portfolios, adding to the pressure on companies to deliver profits in the short term.

Higher unemployment, more precarious working conditions, decreasing income and reduced social welfare payments became a lethal combination of factors that many citizens in Western countries began experiencing after the 2008 financial crisis. Social and political activists in the US and Europe began targeting companies that had cut jobs and reduced investments at the same time they had increased profits or returned cash to investors, as well as banks that had been rescued by governments. Unfortunately, populism started to re-emerge in many Western countries.

The overall impact of the principle of maximizing shareholder value has been controversial. The debate on whether it created benefits for the many or only for the few (e.g., the top 1%) is still an open question, with a heated debate going on, in particular, triggered by Piketty (2017). Investors and, to some degree, boards of directors have focused too much on the short term, paying insufficient attention to creating sustainable value in the long term (Barton and Wiseman, 2014; Bower and Paine, 2017). In developed countries today, a widespread opinion among the public is that companies have become institutions disconnected from people and their local communities (Edelman Trust Barometer, 2020). Their boards of directors have allowed executive compensation to soar for the benefit of the few and their reputation has plummeted. Moreover, companies have been slow to recognize key trends, particularly environmental concerns. An increasing number of asset managers worry that this disdainful approach to social and environmental issues is driving greater financial risk in companies that are not taking into account the costs of those factors (Fink, 2019).

The pressure to replace the paradigm of shareholder value maximization by notions of purpose is growing among asset managers. Impact investors such as Norges Bank, TCI, ValueAct Capital and Hermes, as well as many family offices, and the large asset managers such as BlackRock, Vanguard or State Street, among others, emphasize that companies have to come to terms with this more complex reality. These asset managers invest in all industries across economies and cannot externalize social and environmental costs. For this reason, they are putting pressure on firms to take into account the costs and risks associated with the environmental, social and governance (ESG) issues associated with their regular activities. Moreover, large asset managers have started to speak loudly about the need for companies to specify a purpose and care for the environment, explain how they nurture a positive corporate culture, and report on ESG factors They have embraced the view that purpose and corporate culture shape behaviors and eventually may have an impact on the firm's capability to create sustainable economic value.

Regulators are also stepping in. A clear example is the Global Financial Stability Group, a group of 35 central banks that prepared a letter in April 2019 asking banks and financial institutions to include climate change risks in their estimates of overall risk, and the impact of climate change in the risk profile of each bank. This is an early move and many more will come from other regulators as well. Regulation, as well as professional practices in some industries, can help redefine new standards of behavior and reporting in the corporate world and in the asset management industry, in particular. The steps taken by the Financial Reporting Board in the UK or the new governance code in France that encourage boards of directors to think about their firms' purpose also signal an inflection point in dealing with purpose at the regulatory level.

These forces driven by investors, asset managers and regulators are tipping points for companies' corporate governance. They are pushing boards of directors to define their firm's purpose and think deeper about their wider impact on society. As Mayer (2018), Eccles and Klimenko (2019), and Henderson (2020) point out, in the coming years regulators and investors will put additional pressure on companies to include those social and environmental dimensions in their reporting. Nevertheless, most asset managers and shareholders need to change their mindsets and investment criteria and frameworks, and academia, investment banks and consulting firms should offer new paradigms for decision-making.

Public opinion is also having an impact on this[4]. A major driving force behind the need to reconsider the role of purpose is the evolving perception of companies in society today[5]. Firms' reputations have barely recovered since the 2008 financial crisis and the trust gap between firms and society remains wide. Younger generations hold increasingly unfavorable views about companies for being indifferent to the social and environmental problems they create through their activities. They see that large, established organizations may not provide a sense of purpose about what they do. They also complain about their lack of flexibility to adapt to diverse personal and circumstances. Moreover, if companies want to keep attracting talented professionals, they need to understand these social and environmental factors. The role of companies in society is an important ingredient in the motivation and engagement of young professionals. The Covid-19 crisis may provide companies the opportunity to do the right things. Otherwise, their reputation may receive another heavy blow.

It is in this specific business context that companies such as Ingka, Unilever or Schneider, among others, have become increasingly relevant since they base key decisions on a clear sense of purpose. Their experience is pertinent, as these firms are creating new paradigms of performance and accountability and can be considered as groundbreaking references in the business world. They are not perfect organizations. They do not provide definitive models or ways to do things, but instead offer useful references for how corporate purpose can anchor business activities and operations, as well as how purpose can connect with strategy, culture and organizational design. In the end, these companies also reveal the innovative power of management, not only in turning a company around, but also in building strong pillars of respect,

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[4] Some recent polls show this low perception of companies in society. See, among others, Edelman Trust Barometer (2020) or OECD (2019), *Business and Finance Outlook*.

[5] The August 2019 Business Roundtable statement on corporate purpose highlights this change in perception in society and how business leaders in large US companies perceive the views that society has of them. This statement supports the view of the company as a multi-stakeholder institution that should take care of different stakeholders, not only shareholders. With this statement, The Business Roundtable goes back to its positioning in 1981 regarding companies as multi stakeholder institutions, a position that was changed in 1997 when it clearly supported the notion of shareholder primacy. The World Economic Forum (2020) issued a statement highlighting the importance of companies becoming multi-stakeholder organizations, going back to some ideas that the Forum had already expressed in 1973. See Bebchuk and Tallarita (2020) for a critical view of these statements. Mayer (2020) provides support for stakeholder management.

concern for society and accountability to shareholders and other stakeholders. These factors provide solid foundations for sustainable reputation and performance.

3. Can We Agree on a Name? Different Perspectives on Corporate Purpose

Over the past few decades, the dominance of the shareholder value maximization paradigm has left the role of purpose in management theory and practice behind. The recent interest in purpose has created a multitude of practices – companies stating their own purpose in different ways - and scholars trying to define this concept and derive some implications for boards of directors, management and regulators.

An increasing number of CEOs are adopting this approach. Speaking from his long experience as the CEO of Medtronic, Bill George expressed that, "The real bottom line of the corporation is not earnings per share, but service to humankind" (Melé and Corrales, 2005). In this section, I highlight some complementary notions and approaches to corporate purpose. In the next section, I will describe the basic elements of corporate purpose that are relevant for corporate governance.

There is no unique, widely accepted notion of corporate purpose. Moreover, for the past few decades, the notions of purpose and mission have been used by management scholars indistinctly, with very similar meanings[6]. Both of these terms seek to ask the key questions of why a firm exists and what it tries to do to achieve its goals. Some management scholars described these questions as the purpose of the firm (among others, Barnard, 1938; Drucker, 1955; Selznick, 1957; Andrews, 1971; Collins and Porras, 1996; Kouzes and Posner, 2017). Other authors prefer the notion of mission[7] (Drucker, 1973; Pearce III and David, 1987; David, 1989; Duane Ireland and Hitt, 1992; or Kaplan and Norton, 2001, among others). Drucker (1973) uses both mission and purpose in the same context.

Some notions of purpose highlight serving customers as the first priority (Drucker, 1955, Thakor and Quinn, 2013). Other notions highlight the role of employees and their motivation and engagement (Henderson and Van den Steen, 2015; Gartenberg, Prat and Serafeim, 2019). Some notions of purpose highlight the role of the firm in addressing major social problems – such as climate change – through a business perspective, as Unilever or Ingka do (Henderson, 2020; Porter and Kramer, 2011).

Some scholars suggest that purpose does not involve intrinsically a pro-social objective for the firm (Henderson and van den Steen, 2015). Other authors go a step further and support this pro-social stance. As Thakor and Quinn (2013) suggest, purpose is something that is perceived as

[6] In the management literature, mission and purpose have been widely used over the past decades to refer to the same reality. The Oxford Dictionary offers some useful distinctions. It defines purpose as "The reason for which something is done or created, or for which something exists." This noun comes from Latin "propositum," which refers to something that has an end. It defines mission as "A strongly felt aim, ambition or calling." This noun comes from the verb "mitto," to send somebody for a specific end.

[7] The firm's purpose is different from a vision statement. Purpose explains why a company exists. The firm's vision expresses an aspiration on what the firm is trying to become (Collins and Porras, 1996; Collis and Montgomery, 1997) through some specific decisions and policies. Each perspective complements the other. Kamprad' s vision for Ikea, to create wealth for the many, is more a reflection on purpose than a business vision, even if his colleagues still refer more to it as the founder's vision. A corporate purpose is not about a financial estimate of future benefits associated with a certain competitive positioning, or an efficient business model. It is an explanation of why a company exists, what it tries to do for its customers and people, what impact it is having on society, what difference this company is making, and how it tries to do those things and also create economic value.

producing a social benefit over and above the tangible pecuniary payoff that is shared by the principal and the agent. In other words, purpose involves a higher, non-financial dimension of performance. This is an open question – one that should be left to a company's senior management and board directors' business judgment.

In practice, the origin of purpose in each company is unique. In some firms, corporate purpose is defined by the firm's founder (Ingka). In others, it is the role of their top management and board of directors (Unilever or Schneider) to define it and develop it. In the rest of this section, I will highlight some relevant perspectives on the notion of purpose, based upon different goals and stakeholders.

Purpose as Serving Customers First

Drucker (1955) offers a good starting point. He explains that the purpose of a company in general is to create a customer, while making a profit to cover the risk of business activities and avoid losses. Management should aim for this goal and employees should work in a coordinated and engaged way to serve customers. Two decades later, Drucker (1973) described the relationship between purpose and objectives: "a business is not defined by its name, statutes or articles of incorporation. It is defined by the business' mission". Drucker offers a simple view of purpose, but one that includes the key ingredients: focus on some objectives, people's engagement, the need to be efficient and create economic value, or the role of management. It is also a notion that can both include pro-business and pro-social dimensions, or both, in the firm's orientation, but it is not bounded by the notion of maximizing shareholder value.

Purpose as the Function That a Company Wants to Perform in Society

Mayer (2018) proposes that "the purpose of the corporation is to do things that address the problems confronting us as customers and communities, suppliers and shareholders, employees and retirees". Profits are not the purpose of the corporation, but an outcome. This definition leads to a wider perspective on purpose. He also points out that corporate purpose is neither a definition, nor an aspiration. It is a specific perspective on a problem that the company wants to solve[8].

Companies may use purpose to produce nice statements that may be good for public relations, but with little impact on the company's management and performance. Board directors and CEOs should be cautious about these good intentions regarding corporate purpose. They maybe noble, but if are not implemented well, may create new problems, including the perception that those statements have marketing motivation, and this will have a negative impact on reputation. With the growing importance of purpose in corporate governance, there is a wave of initiatives to make sure that purpose has its right place on the table of governance. The intention is good, although limiting purpose to some statements may do purpose and corporate governance more harm than good[9].

[8] *The Principles for Purposeful Business* (2019), an innovative project sponsored by the British Academy and led by Colin Mayer, defined the purpose of business as "to solve the problems of people and planet profitably, and not profit from causing problems." A corporate purpose defines how an organization helps people and society address some challenges and tries to minimize the problems that companies can create.

[9] *The Principles for Purposeful Business* (2019) or *Enacting Purpose Within the Modern Corporation* (2020) are reflective elaborations on what purpose means and how it can be included in the real world of governance and management. They provide clear frameworks that go beyond simple statements of purpose.

Mayer's definition understands that purpose should not be reduced to a statement or some guidelines. It is a central pillar of a firm's corporate governance and management model. Companies should be explicit about the specific contribution that they want to make in terms of addressing some specific needs with a business solution. Corporate purpose should help clarify this and should have an impact on strategy, organizational culture and the firm's business model. Strategy, organization and policies should be articulated around the unique value proposition or service that it wants to provide to customers (Canals, 2010a).

Purpose, Employee's Identity and Reputation

Henderson and Van den Steen (2015) define purpose as a concrete goal or objective for the firm that goes beyond profit maximization. This notion is simple, but also presents in a clear way that purpose is a goal or a project that goes beyond financial performance. As a result, it is possible to infer that maximizing shareholder value or economic profits is not a purpose by itself. More specifically, Henderson and Van den Steen present a model that explains how firms can create value through purpose, not only through impact investment or other social dimensions of their activities, but by strengthening people's identity and reputation. Purpose finds this specific channel through which purpose can be translated into higher economic performance.

Gartenberg, Prat and Serafeim (2019) use this definition of purpose and elaborate on the relations between purpose and performance. This notion allows these authors to measure the beliefs of employees in the meaning and impact of their work. These two features – meaning and impact – capture two dimensions of corporate purpose and its relevance for employees. This is interesting because they include how purpose shapes employees' attitudes and engagement, which can make a true difference in the life of any company, including a positive impact on performance.

Purpose as a Moral Response of Top Managers to the Firm's Challenges

Bartlett and Ghoshal (1994) connect purpose with the firm's wider responsibilities. Purpose is "the statement of a company's moral response to its broadly defined responsibilities, not an amoral plan for exploiting commercial opportunity." They support a shift from strategy, structure and systems, to a model built on purpose, process and people. The primary role of top management, in their view, is not to set strategy, but instead instill a sense for shared purpose. A key challenge in this definition is whether a board of directors or senior managers are subjected to the shareholder primacy principle – as some scholars and corporate lawyers suggest – or they have the discretion to exercise their business judgment and take into account other stakeholder's expectation with a view for long-term value creation (see Fisch and Solomon, 2020; Rock, 2020). I will deal with this question later.

A corporate purpose provides an umbrella for the different motivations that individuals in an organization may have. Different people bring to their daily work a variety of motivations. As Barnard (1938) or Selznick (1957), among others, pointed out, individuals may experience different types of motivation. The first is extrinsic motivation, the pursuit of some external goals such as money, status, reputation or recognition. The value of these motivations is related with the decision-maker satisfaction coming from those external factors. The second is intrinsic motivation to achieve some final goals that people pursue for their own sake, because they can get through them some positive outcomes for themselves: learning, satisfaction for getting things done, or some sense of accomplishment. This motivation is not related with external factors. Pérez López (1993) also defined a third type of motivation: transcendent motivation, by which people do things for the sake of serving and helping other people. They generate personal satisfaction when other people can benefit from their work or contribution. This notion is consistent with the empirical results of Gartenberg, Prat and Serafeim (2019).

Corporate purpose does not exclude extrinsic motives. A good organization needs them. Purpose simply helps put them in a wider perspective. In any organization, work with others in a cooperative and coordinated way is indispensable, since the company is created to serve some customers' needs. Serving customers requires not only knowledge or financial resources, but also capabilities that enable people to serve customers in a sustainable way. Purpose really helps people work together in a collaborative way, and may help develop some unique corporate advantages. This may be one of the reasons – together with investors' own preferences and choices – why a growing number of asset managers are including purpose as one of their areas of concern in the quality of the firm's corporate governance and has spanned a growing volume of investors focusing on impact investment (Yan, Ferraro and Almandoz, 2018). In this way, a corporate purpose helps integrate those different motivations into an overarching goal for the company, one that goes beyond some financial indicators – which are very important for its development –, but are not the only measure of the success of the organization.

Eventually, purpose will encourage positive attitudes and may help generate a virtuous circle: purpose drives motivation, motivation increases engagement, engagement drives cooperation with other colleagues, engagement and cooperation foster innovation and better customer service, and better service may lead to higher sales and performance.

Purpose and Stakeholders' Purposes

Purpose helps articulate the notion of multi-stakeholder company, with its duties and responsibilities (Freeman, 1984; Melé, 2009; Porter and Kramer, 2011; Bower and Paine, 2017; Lipton, 2019). By placing corporate purpose at the heart of companies and integrating it into the companies' strategies and policies, as I discussed in the Ingka case above, corporate purpose helps understand the role of the different stakeholders. It can help the firm align their stakeholders' expectations better, by offering more clarity on what the company intends to do and how it considers different stakeholders' contributions[10].

Salter (2019) introduces an interesting dimension related with stakeholders' expressions of purpose. He supports the principle of reciprocity as the foundation of the relationships among the different stakeholders. Reciprocity is closely connected -although different from- collaboration in the workplace, a quality required for organizations to be effective. This principle – originally defined by Aristotle[11]– opens up a new perspective in corporate purpose, since it allows expressions of purpose to reflect the interests of different parties. Each party may have different interests. Each party has different minimum goals of fair returns. Companies – in particular, public companies with dispersed shareholders – are free to pursue a wide variety of purposes, only constrained by the duties towards different parties. Reciprocity enhances commitment and collaboration.

[10] See Bebchuk and Tallarita (2020) for a summary of some problems related with the stakeholder view of the firm.

[11] Some of the basic notions on companies and individuals are associated with schools of philosophy and ethics. See Aristotle, *Ethics to Nicomach*. Melé (2009) provides some useful frameworks on how Aristotle's notions of fairness and justice can help develop the notion of corporate purpose and eventually make companies more human.

A Holistic Notion of Purpose

Purpose expresses why a company exists and which customers' needs it wants to serve, in a profitable and sustainable way and with a positive impact on all its stakeholders (Canals, 2010a, 2010b). By using this notion, corporate purpose should make explicit why a company exists, what it tries to do to serve its customers, how it counts on its people and other stakeholders, how it tries to do those things and also create economic value, and what impact it is having on planet and society. This definition of purpose allows the inclusion of ESG factors that a company needs or wants to consider, but goes beyond those factors and tries to integrate them into the firm's strategy. This definition also expresses that purpose should take some key ESG dimensions into account, but goes beyond ESG dimensions.

4. Corporate Purpose: Some Key Pillars for Boards of Directors and Senior Managers

In the debate on corporate purpose, the real challenge for companies is not the convenience of corporate purpose. The impact of some indicators of purpose on corporate performance is positive. The challenge is how boards of directors and senior managers articulate purpose in an effective way for a better governance and management. This paper began by discussing the role of purpose in Ingka's transformation. I continue in this section exploring the role of purpose at Unilever. Ingka and Unilever's experiences provide some interesting approaches on how to articulate corporate purpose.

4.1. Unilever: Purpose and Corporate Strategy

Paul Polman, CEO of Unilever, was pondering the firm's challenges and how to sustain corporate growth in preparation for an investors' meeting on April 4, 2017. In particular, after an unsolicited and failed takeover attempt of Unilever by Kraft Heinz in February 2017, the need to provide a clear strategic framework became even more important for Unilever. Paul Polman had spent a lot of time over the past few months with the Board of Directors and his top management team. He tried to focus his colleagues more on how to adapt the company in a more volatile global economy and new challenges coming from consumers and investors. In the first week of April, Unilever would announce new strategic decisions to highlight that Unilever was moving in the right direction.[12]

Unilever had its roots in two Dutch companies founded by Van den Berg and Jurgens, two Dutch entrepreneurs and butter merchants who diversified into margarine, a new butter alternative; and in a British company set up by William Lever, a British entrepreneur who started to make an inexpensive household soap in the late 1890s. In the 1920s, Van der Berg and Jurgens merged their businesses and created Margarine Unie. Lever had conversations with the new Dutch company and in 1927 they merged both companies. Unilever started to operate as one on January 1, 1930. William Lever always had a strong belief that a company would grow if it operated well and with ethical principles, an approach that he defined as shared prosperity or "doing well by doing good."

[12] See Canals (2019) for the recent evolution of Unilever and the connections between corporate governance and corporate purpose. This section is based on Canals (2019). Paul Polman's quotes in this paper are taken from the conversations with the author and were edited for the Unilever case (Canals, 2019).

By the end of 2016, Unilever owned more than 400 brands in close to 200 countries, with a total revenue of €52.7 billion in 2016. Its portfolio of brands was outstanding, including some of the best brands in the industry, each with annual revenue above €1 billion, including Dove, Rexona, Lipton, Knorr and Magnum, among others. But the explosion of the financial crisis in 2008 coincided with a feeling at Unilever that it was time for a large change after years of stagnating sales and lowering margins and profits.

Paul Polman became Unilever's CEO in January 2009, right after the onset of the 2008 financial crisis. He arrived at Unilever with many years of experience as a senior executive at Procter & Gamble and as Nestlé's CFO and President of Americas. Under his leadership, Unilever had adopted an ambitious approach to combining business performance with wider social impact, with its Unilever Sustainable Living Plan (USLP). This was a radical management innovation that included the firm's social impact as a central element of its corporate strategy. This plan was also the main pillar in making Unilever a multi-stakeholder company, a concept in which Unilever was a pioneer and a leader.

Polman was the first CEO to come from outside of the company. After four months of intense work and with the ideas and suggestions from hundreds of managers and employees, customers and shareholders, in April 2009 he made some decisions. He reorganized his team, announced that Unilever should double the size of its business and that 75% of that growth would come from emerging countries, which already represented nearly 45% of total revenues, a higher figure than that of competitors. He also announced a new project, the "Unilever Sustainable Living Plan," (USLP) which was a completely new way to present Unilever's strategy. It planned to integrate strategy and business activities with the broader impact that the company would have on society. At the heart of the plan, there was an ambitious notion: "Unilever has a clear purpose: to make sustainable living commonplace. We believe this is the best long-term way from our business to grow."

The Sustainable Living Plan was presented to investors and other stakeholders in 2010. Unlike many Corporate Social Responsibilities initiatives, the plan took responsibility for the total value chain. It included some targets to be achieved by 2020: help more than 1 billion people improve their health and hygiene; double the proportion of the portfolio meeting the highest nutritional standards; halve the greenhouse gas impact and water consumption; and source 100% of its agricultural raw materials sustainably. The goals were very ambitious, but an even bigger challenge was that they had to be achieved not only by business units or geographies, but along the whole value chain. As Polman put it: "you might outsource your supply chain but you cannot outsource your responsibilities." Polman announced that Unilever would double its size and, at the same time reduce emissions, water consumption and waste. Some estimates pointed out that in the case of greenhouse gas emissions, the breakdown of the main drivers was as follows: 5% came from manufacturing activities (those of Unilever), 22% came from suppliers and more than 70% came from consumers themselves. Shaping consumer behavior was therefore going to be very important.

What distinguished these initiatives from many other effective socially responsible action plans led by other companies was not the scope and ambitions of those policies; the degree of detail of the actions to be achieved; or the integration of those goals with traditional business of Unilever. Instead, it was Polman's clear determination in steering the company in this direction, while providing the board information and persuading them to follow this route. For this reason, USLP was at the center of Unilever's strategy: engage consumers, drive growth, reduce costs, inspire employees and sustain innovation. As Polman pointed out: "The world is at a point that it needs decisions to help solve some big social problems. It is not enough for companies to say that they contribute to a better world. Companies are important social players and need to come up with solutions and be part of the solution. They must strive to be a net contributor to a world that gives them a reason to exist in the first place. After all, businesses cannot succeed in societies that fail nor can they be bystanders in a system that gives them life in the first place."

Paul Polman and his team were very committed to developing Unilever as a multi-stakeholder company, with a willingness to serve customers well, generate profits and meet the company's sustainability plans and goals, while having a wider impact on society. At the same time, Unilever wanted to serve shareholders well. Polman explained this concept in a clear way: "Unilever is a company defined as a multi-stakeholder corporation. We serve all stakeholders, not only shareholders. It is important that we deliver very good financial results and offer shareholders a good financial return, but strategy discussions at the board level need to have this perspective in mind. We need to serve customers first. If we do this well, we can also serve well shareholders and other stakeholders. We like to call our model one of long-term compounded and responsible growth."

Unilever's clear purpose was an expression of the values of the company and helped reinforce them: integrity, respect for every person, making a positive impact, working in cooperation with partners and continuous improvement, among others. Top management expected these values to be present in daily management, particularly in management systems: how top executives managed, how they were accountable and how managerial performance was assessed. Polman expected culture and values to have an impact in terms of how people used these in decision-making. As Polman said: "It is very relevant to see how values influence major strategic decisions, like acquiring another company or investing in a new category or in the network of suppliers in the value chain. We try, for example, to see the social impact in everything that we do, the capital allocation process and the potential development of our people."

He considered that Unilever could succeed only with a long-term horizon for serving customers. This was the reason why right after taking over as CEO in 2009, he announced that Unilever would stop offering quarterly earnings guidance and moved compensation to the longer term. He wanted its shareholders to focus on the long term, not the short term. By putting pressure on managers in the short term, Unilever might miss long-term opportunities. Polman also believed that companies should help solve major societal problems, such as climate change, poverty, food security and youth unemployment. They could not be solved by governments alone, or by companies focused on quarterly, myopic goals. Those challenges required public-private coalitions and a long-term focus. This was a defining moment of his tenure at Unilever, because he shaped how he wanted to work with shareholders from his own perspective: by delivering economic value but also focusing on other dimensions in a company that he defined as a "multi-stakeholder company." He was one of the first CEOs to point out the devastating effects of short termism and the shareholder primacy focus that so many listed companies used to operate. As he asked rhetorically, "If business does not have a deeper purpose to serve society, then what is its purpose?"

Polman was also realistic on how to work with investors: "We need to work on those long-term issues and, at the same time, be able to deliver value to our shareholders. In the long term, we can guarantee better returns if we help tackle those big issues, because we will discover new opportunities. I have also tried to convey a sense of urgency about performing financially. We need to execute our sustainability plan well and deliver financial results. It does not mean 'trust us and we will come back in 10 years.' No. We are committed to delivering well every year, year in year out and so we have done this. Our own people are so mission-driven that they understand that our model depends on it."

The board, top managers and the whole team also had a complex task in integrating those dimensions in the company's strategy and implementing it. As Polman put it, "we need to keep developing the culture and values of the company, have the creativity to develop sustainable businesses around them, work with broader stakeholders to accomplish transformative changes and find shareholders who like our strategy. It is difficult and complex, but it may be the only way to put companies at the center of society."

Although progress had been complex and the path ahead appeared uncertain, Unilever's board of directors, employees and investors agreed that Unilever had had a successful transformation since Polman' s arrival in 2009. A key pillar in his leadership was to develop a deeper sense of corporate purpose in a company that had excelled at social values, but that never had explicitly made purpose a central element of its strategy and organization. The new purpose helped connect the different business functions and business units, giving meaning to Unilever's different activities around the world. The Unilever case also sheds light on the fact that purpose takes into account ESG factors, but its scope goes beyond these.

4.2. The Notion of Purpose for Boards of Directors and Senior Managers: A Framework

The Unilever and Ingka experience on purpose help unbundle the notion of corporate purpose and its use by boards of directors and senior managers. Corporate purpose expresses why a company exists and how it plans to serve some customers' needs or solve some customers' challenges in a profitable and sustainable way. In this section, I present a framework that unbundles the main dimensions of corporate purpose to be useful by boards of directors and senior managers (see Figure 1).

Figure 1
Corporate Purpose: A Framework

A Challenge to Be Solved or a Need to Be Served

A good purpose is not only a statement with positive, aspirational intentions. It needs to be specific about the challenge that the company aims to tackle, and the type of need or problem that it wants to solve. A good purpose needs to include both a goal that engages people along with dimensions that require a business solution. Without a challenge, a purpose may lose its drive. That challenge may not have a very high aspirational goal, but has to be related with other people's needs. It may include special customer demands that need to be addressed, some unresolved concerns that current consumers have, the aspiration to make the consumers' efforts to buy from that company less costly (including lower prices), or the ambition to reduce the environmental impact of the firm's operations.

Schneider, the French company that provides energy and digital solutions for efficiency and sustainability, promises energy use to be safe and reliable, efficient and sustainable, open and connected. Over the years, it has offered effective solutions for the use of energy and has been focusing on the design of software to reduce energy consumption, both by companies and by families and individuals. From its origins as an engineering and manufacturer of products and services for the efficient use of electricity, Schneider has become a company that uses software and connectivity not only to make buildings and manufacturing plants more energy-efficient, but also to reduce their environmental impact.

In this process, its purpose of managing electricity efficiently to reduce its consumption and its global environmental impact has placed Schneider at the forefront in the fight against climate change and sustainability. This focus has been key in redesigning strategy, reconfiguring its business model and, more importantly, more deeply engaging its people to solve some specific problems around the use of electricity. At the same time, it has become an employer of choice among engineers, computer scientists and other professionals, for its technical capabilities and concern for clean energy (Masclans and Canals 2021a).

Make Explicit How the Firm's Purpose Serve Customers

The dominance of efficiency in organizations and society is that the focus on performance leaves little space for the human perspective of work in organizations. In this context, companies should make an explicit commitment to serve customers in a fair, respectful way by trying to address their needs. Schneider provides a good lesson. In its efforts to help customers use energy more efficiently with innovative products, it has adopted a strategy of helping them make the transition to more sustainable energy. This was not easy for Schneider, but while applying fair energy management criteria, top management was able to generate a considerable variety of innovative solutions for customers.

Companies with purpose should serve customers in a fair and professional way, while respecting people, caring about the firm's environmental and social impact, realizing that they are citizens of society and helping them with tangible and intangible benefits. Corporate purpose can help companies become respected institutions and generate an atmosphere of trust and goodwill.

Purpose Shapes Corporate Culture

The Ingka experience shows that the founder's vision influenced both the firm's strategy and its culture. When the senior management team was considering how to renew corporate purpose at Ingka in 2020, they realized that it was not only a matter of writing or refining a statement. It was a complex process that eventually had to influence corporate strategy and corporate culture.

Corporate culture is the implicit code of behavior that individuals follow in their professional activities in an organization. This is not because certain norms and rules are written, but because they have been assumed by most people working in that company (Kotter and Heskett, 1990; Schein, 1985; Guiso, Sapienza and Zingales 2015; Groysberg, Lee and Price, 2019).

If the firm's purpose engages employees and encourages them work to fulfill certain goals, the firm's culture must reflect this purpose and aspiration of the firm's members to truly achieve a solution for the challenge defined.

When a purpose becomes part of the culture of the firm, it can help change behaviors. An important distinction can be observed between a purpose that has made a deep impact inside the organization and a statement of purpose that is vague and generic. Time will tell whether a purpose has a positive impact. But if purpose does not become part of the corporate culture, it won't have a deep impact and probably won't last.

Purpose Should Influence Strategy to Create Sustainable Value

A corporate purpose needs to shape the business strategy. Strategy, goals and policies have to form a consistent system that helps the firm serve customers.

At Unilever, the Unilever Sustainable Living Plan was not only a strategic framework that included a statement of purpose. It opened up new initiatives regarding product development, supply chain, sourcing and operations around the world that had as an explicit goal to reduce carbon emissions and water consumption and make sourcing in some emerging countries more sustainable. Strategy was not defined once and for all. Purpose helped nurture a sense of aspiration and a spirit of innovation around the basic challenges that Unilever wanted to solve and stimulated the initiative and creativity of its employees around the world.

The experience of companies that have been doing a good job in defining purpose suggests that the most difficult part of purpose is its translation into strategy and the business model. The real challenge is clarity in purpose and its implementation through different policies. In particular, an answer to some key questions is very relevant: what purpose specifically means for individuals in this company; how individuals' sense of meaning is strengthened; how the firm's strategic goals are defined and how coherent they are with purpose; how the activities and policies that define the business model are shaped by purpose; how goals are measured; how the organization is structured; and how measurement and rewards systems are defined and influenced by corporate purpose.

Monitoring goals and reporting systems are particularly important for companies that define a corporate purpose. If a company continues to measure performance with the same economic indicators as it did before the definition of purpose, or the priority continues to be short-term economic performance, the impact of purpose will be limited. If purpose helps top management redefine goals and establish indicators that can truly reflect how the company is doing regarding purpose, it will help align strategy and people's behavior around what its purpose expresses.

Purpose and Stakeholders' Goals

Corporate purpose expresses which goals and specific impact a company wants to have. Its board should assess whether the firm is reaching the goals established. When purpose is included, some key criteria will not have the same quantitative nature as financial indicators, but should consider quantitative and non-quantitative indicators that will serve the board of directors and the senior management team to define what it expects from the adopted notion of purpose and assess the firm's performance.

In recent years, the consideration of ESG dimensions has converged towards corporate purpose. Purpose has a wider scope than ESG factors, although it can reinforce them. As it has been expressed and discussed in this paper, some notions of purpose may lead to special definitions of ESG objectives. The important thing is not that regulators step in and define how purpose should be assessed. The challenge is for each company, its board of directors and its senior management team to define the firm's purpose, integrate it in strategy and operations, and make explicit some specific dimensions of purpose, which may encompass dimensions of ESG factors.

An example of how ESG factors are being used in an incomplete way by rating agencies and asset managers is that they do not include key dimensions of a firm's success under the S (Social) factor, such as the quality or diversity of its employees, their professional competences, the level of trust in an organization or the positive attributes of corporate culture. There is a long tradition of research in management on the importance and impact of those dimensions on economic performance (Drucker, 1973; Pfeffer, 1997; Ulrich and Brockband, 2005). In order for ESG indicators of good governance to facilitate progress, they should move beyond financial indicators and quantitative analysis, and include some qualitative dimensions, particularly those related with customer satisfaction, and employee engagement and development. I suggest that companies should look at PESG, P being the firm's people.

5. The Role of the Board of Directors in Nurturing and Supporting Corporate Purpose

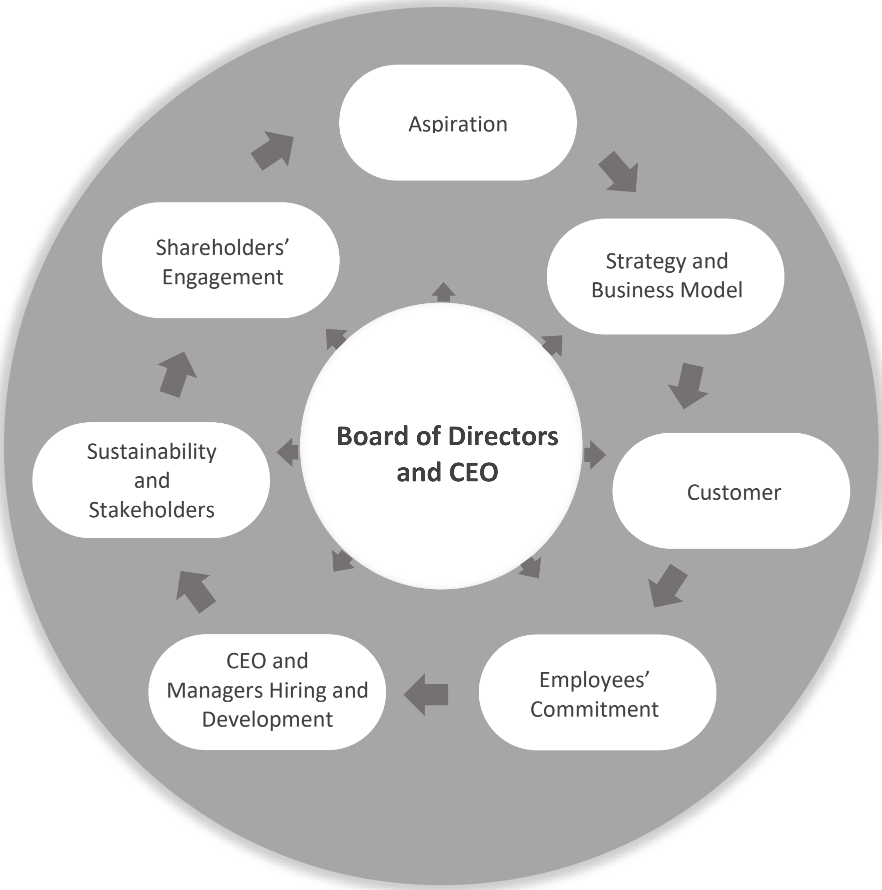
Some investors are showing an increasing interest in companies to define their purpose. Moreover, they are paying attention to the wider impact of companies in society through the ESG dimensions. In particular, the asset management industry is more concerned about purpose and the way companies include ESG dimensions in their reporting. If large investors are serious about it, their attitude may change the game and make purpose an indisputable key pillar in discussing a company's performance. Boards of directors are experiencing this growing pressure.

Regulatory pressure on some aspects of corporate purpose is also increasing. New regulatory efforts include a light approach by some national regulators that want to include ESG factors in their corporate governance annual reports. This is the case of an explicit statement of purpose, such as the one recently approved in the UK or France, or some similar ways of approaching it, as is the case with the German code of corporate governance.

But as Lipton (2019) suggests, companies should adopt a positive attitude in this area, and avoid a passive perspective to those broad trends. Boards can be drivers of change and companies can act as a positive reference in society. They should not wait for new regulation to be implemented. It is better that companies adopt a pro-active attitude trying to manage companies and their stakeholders in a more holistic way, taking purpose seriously and including ESG dimensions in their strategy, goals and policies. This approach also considers that a diversity of ways in defining and implementing corporate purpose can be a very healthy process.

In this section, I will review some policies and practices regarding corporate purpose that boards of directors should consider and eventually adopt (see Figure 2). Those practices go beyond the prescription of writing a brief statement of purpose, which could be useful in some cases, but only when this statement reflects a deeper reality, is integrated in the firm's business strategy and business model, and signals the willingness to move forward.

Figure 2
The Role of the Board of Directors in Corporate Purpose



The notions and practices that I present here stem from the experience of companies analyzed in this book. An interesting feature of these dimensions is that they essentially connect with the functions and responsibilities of the board of directors, because they fall into their legal responsibility, help define the firm's strategy better or because they are considered to be a good practice. As with other functions of the board of directors, working on purpose is primarily the work of the CEO and the management team. The board should help the CEO by reviewing purpose and making sure that it is a comprehensive and actionable project, connected with corporate strategy and corporate culture, and that it influences hiring and developing people. The board may add some areas of expertise and evidence, and give advice on how its principles and metrics can be shared effectively with shareholders and other stakeholders. Communication with the investor community in this respect is not only the responsibility of the CEO or the CFO. The board should take this responsibility seriously and act accordingly. Purpose offers a wider perspective of the role of boards of directors and the duties of board directors. In the end, it gives boards of directors a unifying and useful sense of long-term direction that can be shared by the whole company.

Understand, Define and Renew the Firm's Purpose

The importance and impact of corporate purpose require that boards of directors spend time on it, understand it, and explore the implications that purpose has on the firm's strategy, business model, strategic decisions, organization design, CEO and senior management hiring, people development, specific behavior and performance, and compensation systems, among other policies and factors.

Framing a discussion around purpose requires a skillful preparation by the chairman and the CEO, to put the right questions and challenges in front of the board, and prepare useful information to be studied before the board meeting. The boards of Ingka and Unilever, among others, have gone through this process several times. Doing this effectively helps the board frame other strategic decisions better.

If the style, the quality and the tone of questions are indispensable qualities for a good board debate, these attributes are even more important in the case of a discussion on purpose in a board of directors' meeting. Many board members may prefer a more specific discussion on some strategic decisions, or how to improve the financial performance of a company. Purpose has the potential to integrate people and develop initiatives that help increase the firm's reputation, and eventually may improve economic performance. Purpose may also have an impact on the capability that a company has to attract and retain people, and this is a key success factor for any organization. This wide scope of perspectives requires an additional effort by the chairman and the CEO in preparing and running a board meeting on this topic.

There are some specific questions that may help improve the quality of the debate, and place this debate in the context of what is expected from a board of directors in this area (see Table 1). Some of those questions are related with the basic structure of purpose as presented in Figure 1. The first question is: Does the board understand the firm's purpose and its implications for the governance and management of the firm? (Younger, Mayer and Eccles, 2020) This is a key question, a pillar to help employees understand corporate purpose and the role it plays in their professional decisions.

Table 1
Some Questions on the Firm's Purpose for Board Directors

- Does the board of directors understand the firm's purpose and its implications for governance and management?
- What specific customer need is this company serving? What role do customers play in the management of the firm?
- Why would talented people want to work in this company?
- Why do investors want to invest in this firm? Which time horizon do they have?
- What is the overall impact of purpose?

The second question is how this company serves customers and makes the life of its customers better. Is this company solving some problems for its customers? Is this company making a difference in them? If the answer is negative, the company has a problem and its main challenge in terms of sustainable economic performance may not be an issue of productivity or efficiency.

The third question is why talented people would like to work in this company. Hiring and retaining good CEOs and senior managers are important functions of the board of directors. A good compensation plan and an attractive professional project will be major factors of engagement for senior executives. Nevertheless, individuals have a wide range of motivations, and there is a growing trend among high-performing professionals to be engaged in socially motivating ventures. Boards of directors should understand why a CEO or a manager would like to join the company. It may also reveal a lot about the motivations of that individual and the personal fit with the company's purpose and culture.

The fourth question is about why investors would like to invest in this company and what time horizon they have. Financial performance may be an important reason. But the investors' revolution and the increasing concern that they have about corporate purpose and ESG factors seems to be an irreversible trend. A good discussion on purpose has to eventually produce a better set of reasons and indicators that are convincing enough for investors to commit to the company.

The fifth question is about the overall impact of the company on the society it operates in. There are some clear impacts related with customer service and satisfaction, economic performance, and employee retention and development. Boards also need to consider other environmental and social factors that make a company a respected institution in the society where it operates. This should include job creation, involvement in education, reskilling and training (in particular, their own current and potential employees), taxes paid, and how the company can become a dynamic hub for local communities. Respected companies consider these dimensions (Canals, 2010a) and boards of directors need to check the quality of their organizations in this highly relevant area.

Connect Strategy and Strategic Decisions with Purpose

The quality and strength of a company's purpose lay not so much in their level of aspiration, but in the way that they connect with strategy, strategic plans and decisions, and implementation. Strategy is a very important area of responsibility for the board of directors, to be shared with the CEO and the top management team. A positive impact of corporate purpose is how it nurtures and improves the quality of strategy discussions. For this reason, the board should look at corporate purpose as a very important pillar for formulating and executing strategy (McKinsey, 2020).

Paul Polman and his team designed the Unilever sustainability plan in such a way that it became fully integrated with its strategy and business model, including product design, sourcing, operations, logistics, manufacturing and distribution. Their main goal was that the Unilever Sustainable Living Plan should cover the firm's whole supply chain and not outsource the responsibility for sustainability and environmental impact to third parties through outsourcing programs. Product innovation and new product launches also included sustainability as a key dimension of decisions, so that corporate growth through innovation was bound together with sustainability dimensions.

Schneider (Masclans and Canals, 2021) also offers a very interesting perspective on the integration of purpose with strategy. In its quest for smart energy and reduction of the environmental impact of generation and distribution of energy, some strategic investment decisions clearly reflected the company's concern for connecting strategic decisions with purpose, including investment in software to reduce carbon emissions. This is very relevant, because Schneider is not an energy producer, but an engineering company that designs and manufactures energy management and control systems serving and helping other companies make better use of generation, distribution and consumption of energy.

Jean-Pascal Tricoire, CEO of Schneider, and his top management team, realized the need to improve the quality and impact of their products and services in helping customers reduce energy consumption, while speeding up the digital transformation of the company. They observed that software development could help Schneider better monitor the performance of their systems, use data more effectively, offer some additional services depending upon data, and eventually develop a smarter energy consumption monitoring process.

The acquisition of Aveva, the British software company, in 2017 was a special case in point. It was a risky acquisition. The board had some doubts about the culture of the company and the fit with Schneider's own culture. And there were concerns about the Schneider's ability to retain Aveva's key managers and software developers. It was a complex acquisition, but it was approved and executed with the conviction that it could help Schneider in moving faster to energy management software that could be more efficient for customers and with a positive impact on the environment. This was not only a business opportunity. This was a case where the sense of purpose not only shaped strategy, but became a very important driver of the decision.

Striking the right balance in nurturing purpose and developing a profitable strategy is essential. PepsiCo, under CEO Indra Nooyi, adopted a notion of purpose ("Performance with Purpose") in 2006, based upon the impact of their products on people's health and the environment, and the capacity to attract talent (Nooyi and Govindarajan, 2020). But the firm's strategy adapted slowly and its performance disappointed some investors for a while. In the summer of 2013, Trian Partners, an activist investor, declared to control 1% of the company's shares and started a campaign forcing PepsiCo's board to restructure the company and the split it into two firms (snacks and beverages).

PepsiCo's board and its CEOs listened to the activist investor. They took those challenges more seriously, refined the company's strategy and made some key decisions. Its performance dramatically improved. In 2016, Trian Partners exited PepsiCo. The consistency between purpose, strategy and business model is indispensable to make purpose impactful. Nestlé is a great company that adopted a notion of purpose and faced the challenge of integrating purpose into strategy and business model. In this process, economic performance disappointed for a while. But, both companies found a way to combine purpose with a profitable business model.

These cases help reflect on some key questions that boards of directors should consider if they take corporate purpose seriously and think about the link between purpose and strategic decisions (see Table 2). The first question is how strategy and strategic decisions are linked with corporate purpose. A second, related question is how the main activities and policies that define the business model reflect the firm's purpose and reinforce it. Many strategic decisions are considered because they provide opportunities for growth, by increasing profitability or market share.

A third question is how influential purpose is in generating innovation, new projects and, eventually, strategic decisions. Companies do not only need consistent strategies to be executed in the short-term, but discovery processes to find future growth avenues.

Table 2
Corporate Purpose and Strategy: Some Questions

- How is strategy linked with corporate purpose?
- Does the business model reflect the firm's purpose?
- How does purpose fosters innovation?
- Does a strategic decision reinforce the sense of purpose?
- How does a strategic decision change the risk profile of an organization?

Innovation is an indispensable driver for any company and the firm's strategy should be nourished by new ideas coming from innovation. As the cases of Unilever and Schneider highlight, companies with good purpose find a source of inspiration in it when exploring new strategic projects.

The fourth question for the board of directors is whether a specific strategic decision reinforces the sense of purpose. Do employees understand that decision in the context of the corporate purpose? Do they feel motivated or inspired by it? Once the strategic decision has been made and implemented, will the sense of purpose in the organization be higher or lower? Will that decision strengthen the firm's purpose? These are very relevant questions, particularly in decisions that have an impact on growth, the scale of the company and the sense of engagement and commitment that people feel and show.

Just as a non-related diversification decision may not reinforce the core capabilities of a company (it may even have a negative impact on financial performance), a strategic decision disconnected from the firm's purpose may have a negative impact on the company, particularly customer and employee engagement. Consistency between purpose, strategy and implementation is essential.

The fifth question for the board of directors is how strategic decisions will change the risk profile of the company. This question involves not only the financial risk profile stemming from a specific decision, but also how it changes the notion of risk embedded in the purpose of the company and its culture, or how the decision puts the very notion of the company's purpose at risk. It may seem that purpose and the firm's risk profile are not related concepts. Nevertheless, they are. In fact, a higher risk profile may weaken the firm's purpose and its capacity to impact strategy, organization design and people development.

Make Purpose Relevant in CEO and Senior Management Hiring and Development

A company with a purpose and a rich culture needs to hire professionals who have a good fit. Cultural fit is a requirement in recruitment. It is even more important in the case of management hiring, since managers coordinate people's work, engage people and eventually are responsible for the professional development of other people. Ingka is a good example of a successful company with a very professional management team that manages its hiring processes while taking cultural fit into account. Professional competence is indispensable, but cultural fit is critical for companies with a clear purpose. As Ingka senior managers explain, hiring for fit is compatible with diversity and inclusiveness.

Unfortunately, it is a recurrent pattern that hiring is often decided in terms of capabilities that drive productivity and impact on performance, rather than in terms of cultural fit. In too many companies, senior management recruiting decisions tend to have a bias towards the candidate's track record in meeting financial goals, or increasing shareholder value or market share. It is not that these indicators of performance are bad ones. But a company that wants to distinguish itself from others by highlighting a special purpose, also needs to include other dimensions and attributes in its hiring process (Pfeffer, 1997).

In particular, the board has a special responsibility in the CEO appointment. If the board truly believes that purpose is a special dimension of the company, board members should also ask themselves how to assess the candidates' capacity to absorb and renew the firm's purpose, and translate it into strategy, strategic decisions and the firm's operations, as well as how to make the firm's business model sustainable.

CEO recruiting presents some special challenges. Different boards of directors follow different processes in appointing a new CEO (Bower, 2007). These processes take into account different approaches to internal or external candidates; some involvement of external, headhunting firms; and the personal knowledge of different board members on potential candidates. Whatever practices each board follows, a key question in this process should be how the purpose of the company is taken into account. The board is the final gatekeeper in the CEO selection process. It should control the whole process and, even when it relies on external consultants for some functions, it should not delegate to external firms what is essentially its responsibility.

In the CEO selection process, the board usually starts with some corporate challenges that the company is facing, the required capabilities expected from the new CEO, and the recent experience of previous CEOs in the company and in the wider industry. A close examination of the candidates' backgrounds is due, including past professional performance, capabilities and attitudes, and major professional and personal achievements. Boards often prefer candidates with vast experience in the industry, along with a proven track record in economic performance and facing some of the challenges that the company currently has.

Only more recently, some specific indicators and processes around cultural fit of the candidate with the organization – such as tracking the candidate's experiences and fit in other companies – have become relevant in the final decision. The same applies to the sense of purpose. Purpose is not associated with a single person, not even a CEO. But it is also clear that the moral and effective authority of a CEO can help a company accelerate the adoption of a wider notion of purpose and make it relevant for the whole company and its strategy and business model. Paul Polman and Jean-Pascal Tricoire are examples of the enormous energy that competent and decent CEOs bring to the discussion on purpose and its impact on their organizations.

Boards of directors should approve compensation packages for the CEO and the senior management team that truly reflect the firm's commitment to purpose (Younger, Mayer and Eccles, 2020). Purpose-related indicators should also help define the structure of executive compensation. The combination of financial and non-financial factors is essential in performance-based pay for companies with a purpose.

Boards should also consider that the high growth of executive compensation over the past two decades – higher in the US than in other countries – has generated some controversy (Bebchuk and Fried, 2004). This is particularly because the pay gap inside some organizations has risen, as well as overall inequality levels in some societies and countries. It is difficult to sustain a company with a high-level purpose if the drivers of executive compensation are not clear, irrespective of performance, and widen the pay gap within the organization.

Purpose and Relations with Shareholders

Shareholders are not accountable for the long-term development of the company, although they have a responsibility through their influence on the board of directors and the overall quality of the firm's corporate governance. They should be good stewards and serve their companies.

Board directors are elected by the firm's shareholders and should take their duties of care and loyalty in serving the company seriously. They require reasonable, prudent and competent oversight of the company's business and operations, so that it can develop for the long term and generate economic value sustainably. They also need to avoid conflicts of interest with the company.

As part of their duty of care, board directors need to understand their firm's purpose well, articulate it and share it with shareholders. As share owners who can exercise some rights, shareholders need to understand some basic questions. These include why the company they have invested in exists, what it is trying to achieve, which strategy it follows to generate economic value, how it serves customers in a unique way, how the company is organized so that strategy is effectively executed, how good is the leadership pipeline, and what defines the company's culture. Any responsible shareholder should understand these dimensions well. Board directors need to be able to explain to investors these attributes of the company whose boards they serve. It is not that each director will be in touch with shareholders. This is not their legal function. But in some circumstances, this may be the case, such as in a takeover attempt, a transaction with a private equity firm, or the entry of a new shareholder who may control the company with a relevant shareholding

Both in large public companies such as Unilever and in a family business, such as Puig –a leading fragrances company-, board directors need to be able to clearly articulate purpose and explain to shareholders its main attributes and links with strategy and business model. When this process is done effectively, shareholders are likely to support the firm's purpose. On the contrary, when boards do not do this job well, shareholders won't understand purpose and, if performance is not good, will likely sell their shares or revolt against the board.

It is also the responsibility of the board of directors to find the best long-term shareholders for the company. The current firm's shareholders may not be in the firm in the future. Investors may change their minds and do not have many constraints that prevent them from selling their shares. Successful companies have the support of the right type of shareholders (Canals, 2010a; Mayer, 2018).

Assessing the Overall Impact of Purpose

The definition of purpose includes many different perspectives and is complex. Its measurement is also difficult. Purpose also helps define and unify the value that the company wants to bring to key stakeholders. This may include some ESG factors, but taking stakeholders into account goes beyond them. The introduction of purpose with a view to different stakeholders' goals is complex and requires board directors' competence. But the board of directors should help design and support the firm's purpose and assess its real impact, beyond a list of ESG factors. Assessing purpose also invites managers' initiative in describing the firm's purpose and establishing indicators that can help understand how well the company is doing in achieving it. Financial performance continues to be very relevant and investors do not want to lose the value of their investments. Nevertheless, the success of any organization and the level of achievement of purpose should include other dimensions. Each company should identify them and report.

The unbundling of purpose and the need to specify its key dimensions help boards of directors and senior managers lead their companies in an effective way and communicate better with their employees on dimensions of purpose that are relevant. Measuring some indicators of purpose has become indispensable for boards of directors and CEOs in their communication with shareholders and other stakeholders.

Each company needs to develop its own reporting model. It will depend on the nature of each firm and the definition of purpose that the company adopts. In many cases, corporate purpose will include the well-being of customers and employees, and some environmental and social goals.

ESG factors do not capture the entire purpose of many firms, although they are becoming key dimensions of purpose. Their assessment and measurement are also very relevant. As Eccles and Klimenko (2019) point out, investors and corporate leaders increasingly understand that companies have a role to play in social challenges such as climate change. Environmental, social and governance dimensions have become relevant questions for investors who want to know how companies they invest in perform in those dimensions. Asset managers that have trillions of dollars under management have no hedge against the global economy. They cannot allow the economy or the planet to fail. Investors also require some additional metrics and indicators of performance in some key social or environmental dimensions both to understand the companies they invest in better and manage their portfolios of investments in a more professional way. Those dimensions can be an integral part of companies' corporate purpose, if they choose to do so.

When Unilever approved the Unilever Sustainable Living Plan in 2010, it established some key financial indicators to be tracked. It also set up some specific indicators in three key areas that expressed where Unilever wanted to have impact. The first was environmental impact, including greenhouse emissions and water consumption, the effects of their sourcing in emerging countries, and the sustainability of local agriculture production. The second was health and hygiene factors through the use of personal care products in poor countries that would help improve local population's health, better nourishment and the prevention of infections and diseases. The third was social impact, including the level of development and inclusion of its own employees, and labor rights, particularly in emerging countries.

Although it seemed to be a complex scorecard of goals and indicators, this approach eventually helped Unilever managers to develop a more holistic framework to manage a very large company. It helped top management take into account a variety of dimensions and spurred creativity within the company to help improve performance, not only financially, but also in terms of environmental or social impact. This wider perspective of organizational performance has been credited as being a great driver of leadership development inside Unilever. It has also become a formidable magnet for attracting young talent throughout the world in recent years. As such, it has enabled the company to compete with leading high-tech companies that very often offer attractive work attributes, such as working on the next big thing or solving complex societal problems.

The combination of quantitative with qualitative indicators is a complex issue, because some areas – such as job satisfaction and employee engagement – cannot be assessed with quantitative indicators only. The experience of many boards of directors and top management teams is that unless the chair and some senior board members show great concern for non-financial dimensions, these may be left aside and subordinated to financial, quantitative dimensions. The assessment of purpose and ESG factors still needs a lot of work. Some initiatives have already developed over the past few years, led by regulators, asset managers and the audit professions. In September 2020, the World Economic Forum, with the support of some leading audit firms, published a report on how to assess ESG dimensions[13]. On December 31, 2020, the IFSR, the foundation that promotes the International Accounting Standards Board, closed a consultation process to establish a Sustainability Standards Board to define a framework for reporting on sustainability. Nevertheless, to make progress in this area, there is a need for a large coalition of audit firms, asset managers, other shareholders, scholars and regulators to come up with new solutions to this new important challenge.

6. Some Final Reflections

In this paper, I have reviewed the notion and main dimensions of corporate purpose, its impact on corporate governance and how boards of directors should work on it. This paper summarizes some complementary perspectives on the notion of purpose, how it can be articulated so that it is effective for boards of directors, and why purpose plays an important role in corporate governance and in the board of directors' functions.

A firm's purpose should include a clear reason about why the company exists and which specific challenge or customer need it seeks to solve. It should help explain how the notion of purpose connects with strategy, the business model and main corporate policies –in particular, people's hiring and development, and product development. There should be a clear understanding of how purpose is measured and the performance indicators the board of directors should consider. It should nourish a solid and healthy corporate culture, as well as be present in hiring and developing talent, particularly in people's hiring and development.

Finally, I presented a framework to help boards of directors' deal with corporate purpose. The role of boards of directors is essential in this respect and boards have a very special responsibility to make sure that their company has a well-defined purpose in place. This will have a positive impact on the firm's long-term development.

From a rather limited presence in boards of directors' agenda, purpose has emerged more recently as an important area of interest for members of boards of directors and senior managers. Purpose is also a pathway that boards can follow to try to reconnect companies with the wider society, a bond that was broken a few decades ago when companies began to be assessed exclusively in financial terms. It is a worthy effort for companies that want to become respected institutions in society.

[13] World Economic Forum (2020): *Measuring Multi-stakeholder Capitalism*. Geneva.

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