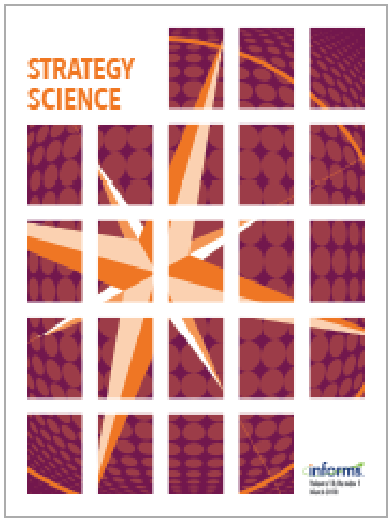

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Corporate Purpose in Comparative Perspective: The Role of Governance

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Abstract. Corporate purpose has become a central part of doing business as usual and in the social movement to involve corporations in solving complex societal and environmental challenges. In this essay, I first deconstruct what corporate purpose means from a sociological perspective, and I submit that it is important to identify to whom that purpose is targeted. Second, I seek to make the point that corporate purpose is not universal in that there is not a one-rule-fits-all template on how to develop corporate purpose. I draw on comparative corporate governance, stakeholder management, and institutional theory arguments to illustrate how corporate purpose means different things in different societies and that the departure point of the emanation of corporate purpose varies across countries. This differential meaning is explained in part by the institutional setting as well as very different societal expectations of corporations. Finally, building on insights from existing corporate governance research, I argue that stakeholder engagement can be a useful tool toward effectively deploying corporate purpose.

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Keywords: corporate governance • corporate purpose • cross-national • stakeholder management • institutional theory

Corporate Purpose: What It Means and for Whom

There is now a rich and heated debate across a wide variety of disciplines (ranging from philosophy to legal studies), as well as outside academia, on what corporate purpose is, how it differs from related concepts (e.g., corporate citizenship, mission, corporate social responsibility (CSR), responsible business, sustainability, and environmental, social and governance (ESG); George et al. 2021), and how corporate purpose contributes to a myriad of organizational and societal outcomes such as financial performance, ethical choices, employee turnover, mitigation of economic inequality, and protection of biodiversity. Corporate purpose is a fundamental sociopolitical concept because it refers to the firm's *raison d'être*, which should be closely aligned with the organizational values, norms, and strategies. Corporate purpose by definition is long-term oriented and encompasses economic and noneconomic (social) value extending beyond the corporation to the multiple stakeholders engaging with the corporation. Yet, it is not an abstract concept that must be discovered. Instead, an effective corporate purpose is well communicated and generally accepted within the different layers of the organization. It is intended to be explicit about "what problems companies are solving, for whom, how, when and why they are best suited to do that" (Mayer 2020, p. 1). And yet, these questions are very complex to address and difficult to measure—a related field of research focuses on managing and assessing social impact. The different approaches to conceptualize corporate purpose open up the organization to critical thinking about its relationships inside the firm as well as toward a system-level view outside the firm.

Corporate interest in purpose has emerged as a result of the realization that governments alone cannot fix the very complex problems of people and planet, problems that, in part, corporations have generated. Moreover, there is an increasing societal expectation, including among shareholders such as responsible investors and stakeholders such as generation Z employees, who demand that corporations integrate social responsibility in their "business as usual" practices, and consequently get involved and invested in addressing the complex problems of people and planet. For example, in employee management, having articulated a clear corporate purpose and demonstrating actionable plans to deploy it can help attract and retain critical human capital. Similarly, when negotiating with suppliers, the capability to commit to a longer time horizon as stipulated in the corporate purpose might reduce uncertainty that contracts cannot guarantee, particularly in environments with weak property rights (North 1990, Ostrom 1990).

Purpose-driven organizations are presented as an engine to solve ill-structured problems. There are several excellent and enlightened business models on how corporations can achieve this objective. For example, Serafeim (2022) highlights that companies must have the necessary infrastructure and values to make the *right* choices. Edmans (2021) emphasizes that in addition to necessary genuine altruism, purposeful behavior may unexpectedly make a company more economically profitable in the long term. These noteworthy studies follow companies that have successfully articulated a corporate purpose or common goal that organizational members will identify with and that will anchor all organizational decisions toward improving the well-being of organizational members, society, and the planet. However, we still need to understand better who defines and leads the purpose, who the organizational members (and stakeholders) are, what the power relationships among them are, and how these exemplars are influenced by how corporations are structured, where they are incorporated, and where they operate. Starting the strategic conversation with corporate purpose inevitably shakes the entire corporate economic system in which the corporation is embedded, that is, not only its organizational structures and boundaries, but also its more tacit power relations.

In analyzing corporate purpose, we inevitably need to return to the fundamental question, for whom is the corporation managed? There is a debate within legal scholarship on who the company is accountable (Chandler 2021). The legal criticism against the view that the corporation is a stakeholder entity (Williams 2021) is that accountability to all stakeholders is accountability to no one. The debate continues to be highly polarized (Gordon and Ringe 2018). From a management and economic sociology point of view, it is difficult to understand why this question is so contentious, as the law is a social construct. Most firms would not be financially sustainable without the investments and contributions of various stakeholders in addition to shareholders, and yet the degree to which these stakeholders are involved defines the type of capitalism that these firms collectively embrace. From a strategic point of view, even in the so-called quarter capitalism, the goal of any corporation is to deliver long-term sustainable competitive value by managing risks and opportunities, as opposed to having short-lived corporate entities that are not able to extract the full value of their ventures.

The question of "whom the corporation is managed for" translated to strategic management language should read "how the value created by the corporation is going to be appropriated and subsequently shared among its different stakeholders"—those who have contributed and also those who have not contributed to the value creation (Bacq and Aguilera 2022). Corporate purpose should guide these value creation, appropriation, and distribution decisions. Yet, it also brings us to debates at the intersection of three well-established literatures: *corporate governance* (how the rights and responsibilities in the firm are distributed and accounted for), *stakeholder management* (who the key stakeholders are, and what their power is to influence how the value is created and ultimately distributed among the heterogeneous stakeholders), and *institutional theory* (broadly defined as the societal-level (country-level) rules and norms, including culture and logics, establishing the legitimate organizational practices). How corporate purpose is defined and enacted is very much part of the corporate governance process. The scope of the corporate purpose is delimited by the multistakeholder approaches. Moreover, both corporate governance and stakeholder management coevolve with the institutional environment in which the corporation operates.

Last, although corporate purpose can take on a global scope, corporate purposes are enacted and implemented in the organization's local institutional and cultural contexts. In other words, corporate purpose is in fact not a universal concept, as it often gets defined. Instead, it is imprinted in historical path dependencies, such as when the organization was founded (departing point); its political and legal national regimes; societal corporate expectations; and environmental shocks, such as natural disasters. I turn to these cross-national institutional and cultural contingencies in the next section.

Comparative Corporate Purpose

In this section, I maintain that a firm's corporate purpose is highly contingent on the institutional context in which the firm is incorporated and competes. Although regional context (i.e., within trade agreements or cultural regions) and industry context (i.e., competitiveness rules and industry standards) can shape the boundaries of a firm's corporate purpose, I will focus on how cross-national institutional and cultural factors influence how corporate purpose has emerged and evolved in the modern corporation. Indeed, corporate purpose is fueled by a country's formal and informal institutions, ranging from hard law, such as employment law on whether firms can or cannot fire employees at will and under what foreign policy regimes firms are protected from foreign competition, to informal institutions, such as how much trust a given society has in business or what society expects from profitable firms.

Probably the two institutions that have the most weight in defining a firm's corporate purpose, its institutional logic, and its supporting corporate governance system are the legal system and the nature of share ownership, both in its formal and informal settings. The legal system and its enforcement apparatus define individual rights such as pensions, unemployment benefits, and property rights, and leave undetermined what informal institutions will govern. Some corporate relationships are well specified, such as contractual employment, vis-à-vis other managerial obligations, which can be less codified. The corporate purpose of the firm, or knowing the reason that the firm exists, can, for example, align with the need for continuous employee training or investment in capital projects.

We are still unclear on who develops the corporate purpose. We would think that the founders or majority owners would be actively involved in defining it. However, here, once again, it will depend very much on their power and legitimation. In societies with strong development of democratic processes and fairness at all societal levels, it is possible that there is a consultation between the owners and the different stakeholders on what the purpose of the corporation should be. This approach is called deliberative governance, where there is engagement among the different interest groups (Scherer and Voegtlin 2020). Instead, in more hierarchical societies or in societies with strong conflicting stakeholder voices, the owners along with the board might define the purpose for which the firm exits.

Corporate governance practices, constrained by the type of society, delineate incentives and penalties, and how corporate purpose permeates throughout the corporation among its rank-and file-employees and outward toward its heterogeneous stakeholders. For example, we would expect a publicly traded firm incorporated in the state of Delaware and with the three largest asset managers as majority shareholders to follow a significantly different corporate purpose than an equally concentrated large publicly traded firm in Frankfurt, or than a large family firm in New Delhi, just to mention a few. It might not be legitimate for a German firm with an extensive welfare state to claim that it will protect stakeholders such as employees because this covenant is already well enforced in Germany's labor law and societal expectations. Therefore, a firm's immediate institutional (particularly legal) context, the nature of its owners, its pressing societal challenges and expectations, and the nature of its nonowner stakeholders dictate its priorities.

The purpose debate in the Anglo-American setting, and particularly the public statement by the Business Round Table (2019) boils down to the tension between shareholder and stakeholder capitalism. This division was established by Aguilera and Jackson (2003) and is also considered at the political economy level by Hall and Soskice (2001), to cite just two. The fault line tends to begin with the protection of minority shareholders all over the world and the salience of the shareholder primacy myth. The subsequent question for the Anglo-American system is how to naturally shift from shareholder-oriented model toward a stakeholder model. Will it require recalibrating the entire value system as well as engaging with those that resist the transformation? Importantly, Shin et al. (2022) show that in the decade of the 2000s, for a sample of large U.S. firms, boards responded less positively to practices with shareholder orientation, such as downsizing or refocusing the firm, and more positively to stakeholder-oriented practices such as CSR activities, which indicates that there might be a cognitive shift at the board level. However, the challenge for U.S. firms is to realize that shareholder interests intersect with most stakeholder ones, that is, being more inclusive, long term, and profit sharing. This is not to say that all American corporations have unanimously sought to maximize shareholder value; some have become highly competitive in the market by deviating from aligning with the legitimate corporate logic and have fully endorsed stakeholder-oriented practices (Aguilera et al. 2018). Other companies have incorporated in states where its corporate law allows them to fully integrate stakeholder considerations in their company status and deploy into their strategic decision making, that is, takeover protections (Kacperczyk 2009) or have incorporated as B-corps (Marquis 2020). Yet, inevitably, the resistance is driven by the path dependence of the legal system as well as the power of those with strong shareholder rights and corporate control.

In Delaware, the most important U.S. state for corporate law because a majority of publicly held companies are incorporated there, the fiduciary duty of directors and officers is to the corporation and its shareholders. When there is a conflict between the corporation and its shareholders, such as where shareholders want to tender into an above-market offer that the directors think ill advised for the corporation, the corporation's interests prevail (*Paramount Communications, Inc. v. Time*, 571 A.2d 1140, 1154 (Del. 1989)). However, translating the law into organizational purpose has generated a contested legal debate on the question of whom the corporation is managed for and its purpose. This debate is related to the imperative of shareholder primacy, which scholars such as Stout (2012) refuted based on the argument that the business judgment rule allows directors to make decisions that are not immediately in shareholders' financial interests but instead entail investing in long-term interests of the corporation and its stakeholders such as investing in research and development, or mitigating environmental risks. In this regard, Williams (2021) maintains that the corporation encompasses the inputs and expectations of multiple stakeholders, and therefore, corporate directors' fiduciary duties to promote the success of the corporation require directors to consider the effects of their decisions on stakeholders, even though directors do not have fiduciary duties per se to stakeholders. And Williams (2021, p. 23) states that "the law—at least as decided by the Delaware Supreme Court—does not yet require shareholder wealth maximizing as the standard of conduct in order for boards to meet their fiduciary obligations, except in the circumstances described as being in 'Revlon mode.'"[1]

This corporate-centric view is in tension with strong market forces such as stock options and overall imprinted short-term corporate culture that cause directors to run U.S. companies to maximize shareholder value. The famous *Dodge v. Ford Motor Company* case is an example, as well as the more recent (2010) Delaware lower court case *eBay Domestic Holdings, Inc. v. Newmark* (16 A.3d 1 (Del. Ch. 2010)), where shareholder value maximization prevailed.[2] Mahoney (2023) states that recognizing the corporation as a separate legal entity is descriptively accurate and instrumentally useful to understanding the corporation as requiring a stakeholder management approach to facilitate economic value creation. In the 2006 UK Companies Act, there is the concept of enlightened shareholder value, explicitly recognizing that attending to the interest of others can be in the best interest of shareholders. There is a new corporate governance theory advanced by Hart and Zingales (2022) that advocates shareholder welfare maximizing and models socially responsible shareholders and the effects of their decisions on the welfare of nonshareholders. The conversation continues, and it is worth following how it relates to purpose and the role of different stakeholder interests inside and outside of the corporation.

The purpose of the firm is an ongoing debate that also surfaces in some of the rising voices in the movement against the ESG social and investment movement, sometimes called the antiwoke movement. An example of this is the August 4, 2022, letter from 19 state attorneys general claiming that BlackRock's chief executive officer (CEO) is using "the hard-earned money of our states' citizens to circumvent the best possible return on investment (https://www.texasattorneygeneral.gov/sites/default/files/images/executivemanagement/BlackRock%20Letter.pdf)." Around the same period, BlackRock was also experiencing pressures from environmental groups saying that the investment fund was not decarbonizing fast enough. This institutional context, where large investors and leading CEOs take the lead in verbalizing corporate purpose, contrasts with hard law directives enacted at the European Union level requesting all large firms to conduct business while taking into account the planet and people.[3]

The nature of the corporate legal system has certainly defined firms in the United States and sustained its shareholder value maximization purpose for a long time. La Porta et al. (1999) show how, historically, strong minority shareholder rights have led to dispersed ownership. Yet, the U.S. corporate ownership structure has changed substantially by moving toward concentrated ownership by large institutional investors and delisting of a substantial number of formerly publicly traded corporations. These key changing ownership trends might offer an opportunity to refocus these firms' corporate purposes toward more social, longer-term goals that assuage some of the world's most complex problems. In other words, firms traditionally pressured by strong minority shareholder rights might be able to circumvent or overcome these short-term investors and respond to responsible investors that adhere to corporate purpose. In a very different environment, firms in civil law countries have been guided by soft law when it comes to corporate governance issues and, in particular, by codes of good governance operating under the comply or explain norms. Soft law is developed through a greater deliberative process and has introduced more degrees of freedom for companies to explore and attend to broader multistakeholder demands and to escape from the one-rule-fits-all template. It is interesting that even though there is not the hard law requirement to comply with certain corporate behaviors such as creating a diverse board that supports the corporate purpose, the very nature of voluntary internalization of certain norms allows for a legitimate adoption of corporate purpose. In addition, because of the concentration of ownership and the less developed capital markets in civil law countries, there is a much longer-term view of the firm and commitment of its members, and more patient capital. This again allows firms to invest resources into capabilities that might take longer to yield benefits, but that support and strengthen the corporate purpose.

Corporate purpose is tightly coupled with stakeholder governance framework, and its implementation should influence all firm strategic decisions. A simple comparison is the corporate purpose that could be stated in a firm in Denmark, which enjoys one of the most generous and well-covered welfare states, with the corporate purpose of a firm in a country with a weak social safety net. One would expect the latter to be more concerned about covering some of the voids in the country's social provisions. Here we uncover another key player, which is the role the government as an institutional developer, and how corporate purpose might not only complement but at times fill in for government voids. Corporate purpose is then an asset to build trust among stakeholders, but can also be deployed as a nonmarket strategy to benefit from firm–government relations.

Corporate purpose could also be symbolic or turn into purpose washing. The Business Round Table (2019) statement on the purpose of a corporation, in which a set of companies commit to "investing in our employees" as well as "compensating them fairly and providing important benefits," and promises to "foster diversity and inclusion, dignity and respect," is in stark contrast with some U.S. large firms' resistance to unions, collective bargaining, or the rights of workers to organize and advocate for themselves. An opposite example is the French enactment of the 2016 Florange Act benefiting long-term shareholders with loyalty shares that have preferential rights (see Durand 2023), establishing a clear commitment.

In many parts of the world, leading with a corporate purpose (e.g., taking care of employees)—albeit not formalized in those exact words but enacted in its essence—has been an integral part of the competitive advantage of firms, entire industries, and even countries. Yet, corporate purpose has different meanings across societies, and it is an integral part of its overall corporate culture. For example, the Swiss Huguenot watchmakers who settled in Geneva in 1500 s had the shared purpose of living away from Reformation violence and following Calvinism while selling top-quality watches. Similarly, Japanese companies have always had as part of their purpose, which is stated in their chapters of incorporation, to protect all stakeholders. This approach became reflected in the high quality of their products and services, which was supported by strategies aligned with the corporate purpose: firm-specialized human capital, high employee loyalty, a seniority system, internal labor market promotions for managers, and enterprise unionism. There are also many examples of how corporate purpose has been an integral part of emerging markets' competitiveness, such as the tourism industry in Costa Rica, focused on protecting the natural environment, or the Tata corporation in India, which has been an advocate for lifting people out of poverty. As these examples illustrate, corporate purpose can try to solve societal problems without making them worse. And yet, the puzzle is not so straightforward. We could ask ourselves whether a Chinese state-owned corporation seeking to maintain full employment and avoid social unrest would qualify as a corporate-purpose firm. Would it depend on who you ask? How about if a corporation does very well on acting with purpose when it comes to people but is catastrophic when it comes to planet? If we operationalize this dichotomy in terms of ESG, we have plenty of examples of corporations that are unable to advance both sides and might even formulate their efforts in a compensatory way.

In addition to the nature of institutions, extant research has shown how national culture determines multiple firm outcomes (Tung and Stahl 2018). We would expect that national culture, as the beliefs, values, and schemas widely accepted in a given society, would also strongly influence the corporate purpose, corporate culture, and corporate governance of firms across countries (Griffin et al. 2017). First and foremost, national culture defines the expectations that society has from corporations, in part as a result of the trust that society has endowed on corporations vis-à-vis markets and government, and contingent on the strength of the existing institutions. For example, Gelfand et al. (2011) refer to tight versus loose cultures to capture the degree to which members of a given country adhere to formal norms. We would expect that firms in tight-culture countries are more likely to formally articulate a corporate purpose and strive to fulfill it, as it is understood that societal members will hold them accountable. Among the many different measures of national culture (individualism/collectivism, uncertainty avoidance, assertiveness, etc.), it seems that future orientation is critical for corporate purpose.

Corporate purpose is also encapsulated in a country's sense of temporality and historical dependencies (Suddaby 2023). Cross-cultural scholars show that there exist wide cross-national variations in the understanding of time and time horizons. The various existing societal value indexes (World Value Survey, Kaasa–Hofstede, GLOBE (Global Leadership and Organizational Behavior Effectiveness), etc.) measure long term-orientation (*flexibility v. monumentalism*; Minkov and Kaasa 2022) or degree of future orientation, capturing the degree to which a society engages in "planning, preparing and investing for the future" (Ashkanasy et al. 2004, p. 22). For example, assuming that companies with higher corporate social performance (CSP) are guided by a corporate purpose, Marano (2022) uncover that when comparing women on boards in countries with high future orientation, such as Malaysia with those in countries with low future orientation, such South Africa, the former exhibit CSP levels. In sum, cultures that have greater future orientation, which typically is also reinforced by philosophical and religious beliefs, will translate that orientation into the corporation and its long-term outlook.

Purpose has an important component of long-term focus or future rewards because it is understood as a sustained ethical and moral commitment to a given problem. Long-term orientation is misaligned with the corporate practices of quarterly reporting and yearly profits, which are short-term oriented. An example of a long-term orientation is Norway's sovereign wealth fund, which is concerned with ethical investing for long-term sustainable value. Another important component of timing is that the formal articulation or cognitive realization of corporate purpose as a strategic foundation of the company starts at different points in the temporal spectrum for different countries depending on their economic and political history. For instance, in a country that has been devastated by a war, such as Japan following World War II, corporations play an amplified role in supporting the government in its economic and social recovery, and therefore they inevitably get founded with corporate purposes that have embedded deeper and longer time horizons. However, companies in countries that experience rapid economic growth, due, for example, to the development of proprietary technology, might not see the urgency to share the value created with broader stakeholders, and their short-term orientation might blind them from externalities or their impact on people and the planet.

Another approach to examining how corporate purpose differs across countries is by considering research on corporate social performance and corporate social responsibility as corporate purpose in action. One would expect that CSP and CSR are guided by the firm's corporate purpose—presuming they are not decoupled (Westphal 2023). Ioannou and Serafeim's (2012) pioneering study of national institutions across 42 countries shows that the political system, followed by the labor and education systems and the cultural system, but not as much the financial system, has an impact on firms' CSP. Surroca et al. (2020) compare CSR investments and their effects on firm performance in firms with entrenched managers (sheltered from short-term pressures) in countries with liberal market economies (also known as shareholder capitalism) and coordinated market economies (also known as stakeholder capitalism) and uncover that firms in shareholder capitalism countries tend to invest in substantive CSR that leads to higher firm financial performance, whereas firms in stakeholder capitalism countries focus on symbolic CSR, and it does not revert on higher financial performance. These two examples offer empirical evidence that there exist sharp cross-national differences in the materialization of corporate purpose.

Finally, it seems sensible to assume that the corporate purposes of multinational or virtual firms (fully platform based) might be a lot harder to define, as both the sets of stakeholders' interests and the multiple institutional and cultural settings where these firms operate might not be compatible or might be in conflict with home corporate purposes. In addition, there is some empirical evidence that as corporate purpose moves further away from the home headquarters, it tends to be diluted if not ignored or even violated (Surroca et al. 2013). Having said this, some global companies have a clear and transparent corporate purpose, such as IKEA's, "to create a better everyday life for the many people," which expands beyond selling furniture and percolates into a worldwide corporate culture that affects who they hire and how they relate to the very last supplier in the global value chain. This corporate purpose also allows global companies to legitimately establish a set of *hypernorms* (Spicer et al. 2004) to overcome detrimental practices such as bribery and learn from local cultures such as India on how to serve the bottom of the pyramid. For IKEA, clearly articulating its purpose enables its development of a unified and multistakeholder strategy.

Corporate Governance as a Tool Toward Effective Corporate Purpose

Given myriad global and local challenges, including climate change, pandemics, supply chain crises, and geopolitical conflict, there are skeptics to the usefulness of the mere exercise of declaring corporate purpose. For example, referring to the United States, Davis (2021, p. 907) provocatively states that "[Purpose] … cannot solve the problem of shareholder primacy because shareholder capitalism is inherently corrupting of purpose. … Purpose is weak and malleable, but share price is strong and inflexible." Others, like Westphal (2023), discuss the social symbolic artifact of decoupling, particularly when it comes to CSR practices and the aligned managerial incentives. Thus, articulating why the company exists is in itself an important analytical and moral exercise, which gets reinforced when it is formally and publicly stated. This communicative tactic is key so that the organizational decision makers commit to the different interests within the organization and delineate boundaries as to what is legitimate and what it is not within the established corporate purpose. It becomes a high-level *raison d'être* within which to socialize stakeholders, develop an organizational identity, and, more broadly, request a "license to operate" in society.

My main argument is that effectively activating corporate purpose as a strategic asset through sound corporate governance practices can add short-term value to the firm and assure its long-term sustainability. Thus, the UK Principles for Purposeful Business state "companies can only lead with purpose when their corporate governance aligns with their objectives" (The British Academy 2019). I agree, yet note that it easier said than done. The challenge is still how to deploy it given the complexity of the problems of people and the planet, as well as the wide array of types of firms scattered across different institutional and cultural settings. Corporate purpose needs to be materialized, made tacit, be observable and measurable, and transpire throughout the firm and to its stakeholders. Corporate purpose expands into the firm by at least two pillars: (1) internally, by shaping the firm's corporate culture as it becomes a key asset for executives to promote firm cohesion and meaning (Graham et al. 2022), and (2) at the interface of internal and external forces, where corporate purpose is the guiderail of the corporate governance system, being both more tacit and explicit. A firm's corporate governance understood in its formal (rules and practices such as compensation) and informal (unwritten rules and ethical norms) dimensions is the link that aligns a firm's corporate purpose and the fulfillment of its strategic and business projects.

In this section, I propose several actions that firms can take to avoid purpose washing or purpose statements that become grand managerial manifestos with which organizational members and stakeholders do not identify and put firms' reputations and trustworthiness at risk.

As noted above, it all starts with the founders or owners of an organization, who define the corporate purpose of their enterprise or are asked to define it by other interest groups such as investors and consumers. They are the ones who not only own the company but also have a responsibility toward some stakeholders to operate in alignment with the corporate purpose and to deliver on its corporate purpose. Corporate purpose is conceived to affect strategy and performance, includes a nonfinancial focus, and seeks the long-term success of the firm. Thus, a first turning stone that owners must discuss with the board and the top management team (TMT) is how to conceptualize and measure performance in light of the firm's corporate purpose. This exercise is critical, as it is closely related to how contracts are designed in the relationship with managers and how they operate the business, and more specifically, how corporate governance practices are established to incentivize or penalize the implementors of the corporate purpose. For example, if a given firm's corporate purpose has a strong prosocial component among its employees, not only should this be properly communicated to employees, but boards should develop the appropriate metrics so that mangers who work toward accomplishing this dimension of the firm's corporate purpose can be rewarded or penalized if they fall short. Equally, it will require the appropriate corporate governance practices to evaluate the adherence of managers toward this social dimension and adopt the adequate governance mechanisms to prevent misalignment.

There are several challenges to what seems a fairly straightforward model of developing a corporate purpose and then implementing it: (1) the heterogeneity of owners and, more broadly, stakeholders and their respective voices; (2) the need for deliberative governance; (3) the need for effective governance structures to adopt knowledge; (4) the role of regulation and government; and (5) professionalizing boards. I discuss each of them in turn:

1. Even though a firm might have a controlling owner, there might be a set of owners with strong voices and views on how the firm's corporate purpose should be deployed. This is the case in the United States, where the three largest asset managers (BlackRock, Vanguard, and State Street) own close to 25% of the average company in the S&P 500 (*The Economist*, April 17, 2022) and thus have an opportunity to set the tone at the top and to influence the firms where they invest along their corporate purposes. For example, "BlackRock Inc., the world's largest asset manager, stated in a report that during last year's proxy period, 'it voted to back 64% of shareholders' environmental proposals and 35% of social proposals put forward to companies in which BlackRock held stock'" (*Wall Street Journal*, February 11, 2022). Interestingly, not only are large institutional investors speaking up in alignment with their purposes, but, possibly because of the Securities and Exchange Commission's (SEC's) stance on nonaction letters (where issuers can omit fewer shareholder proposals), there has been a significant increase in the number of activist shareholder proposals in the social and environmental spaces that have gone to vote (both against and in favor of a corporate purpose). This indicates that shareholders are increasingly speaking up through this corporate governance mechanism. Recent examples include Engine No. 1 activism in the Exxon board and shareholder activist Carl Icahn's proxy fight with McDonald's over animal welfare.

2. Let us remember from the prior section that corporate purpose is neither universal nor static. Instead, it is continuously evolving, particularly, considering rapidly changing and often uncertain environments (triggered by digital innovations, technological advances, geopolitical changes, natural disasters, etc.), industry peer pressures that force companies to adapt to new legitimate strategies and behaviors, stakeholder demands, and investors' stewardship. In light of these pressures, some organizations might go as far as revising their charters of incorporation to explicitly capture purpose-driven organizations, such as the French *enterprise à mission*, stewardship ownership, or the public benefit corporation, whereas other firms might retract into whispering corporate purpose statements and hoping not to get much attention. In a nutshell, because corporate purpose is a moving target in terms of its achievement, there should be a mechanism in place to introduce deliberative democratic governance where owners consult not only their boards and TMTs, but also other key and not-so-key stakeholders. Not all stakeholder interests can be satisfied equally or simultaneously. Inevitably, there will be interests groups marginalized or neglected. Therefore, the first task is for boards to engage in a fruitful dialogue with both shareholders and managers on what can be accomplished and when, and to involve the input of all stakeholders. Davis (2021, p. 903) laments the power of corporations (particularly in the United States) vis-à-vis the role of government and proposes that, "if we want the corporations that remain to behave themselves, the surest path is more democracy … greater worker control from below, and more effective state regulation from above." Democratic deliberative governance is a key process in the new stakeholder management proposed by Bacq and Aguilera (2022), where governing value creation and appropriation is not sufficient, and there must be an effective corporate governance system that guides strategic decision making on how the firm's value will be distributed in line with its corporate purpose.

3. A third important key for corporate purpose to be legitimate, and a useful compass to guide firm strategy and behavior, is that the various corporate governance responsibilities are properly staffed. Whereas there is quite a bit of research on how compensation is decided, we know a lot less about how to incorporate measurements of nonfinancial social purpose into the corporate governance system. For example, the Deloitte director survey (Deloitte 2022) shows that most directors feel unqualified to assess issues of ESG. These skills among the board members, and also among the TMT, are key to assuring accountability and transparency of the corporate purpose. The board should be aware that there are different audiences (stakeholders) that will be looking at the board for accountability, ranging from internal employees to external analysts, regulators, and potential suppliers.

4. Regulations, be they hard laws, such as the SEC admitting broader shareholder proposals or the French PACTE (Plan d'action pour la croissance et la transformation des entreprises) statute, or soft laws, such as accounting standards or new industry-wide regulatory initiatives like international accounting sustainability standards, can support the achievement of a stated corporate purpose. Durand (2023) discusses three examples of how this revised legislative act has affected how French boards work and shows that it is an effective corporate governance tool that helps CEOs and boards to have the complex conversations on how their stated corporate purpose will influence different firm strategies.

5. A current challenge is the need for behavioral change at the board level, where more candid discussions

might be necessary, as well as a rebalancing of power dynamics. Boards, owners, and managers should develop a common language so there is better communication. A high number of inefficient boards in pursuing corporate purpose need to be refreshed with individuals who have the expertise and interest to protect and revise their organizational purpose. Given new challenges, from cybersecurity and climate risks to human capital scarcity, this might entail engaging board members with diverse human capital profiles, that is, shifting from directors who focus solely on maintaining business as usual to directors who are also interested in exploring the medium- and long-term risks and opportunities to improve people and planet, while continuing to be profitable.

To close, there are risks in effectively articulating and succeeding in having a corporate purpose that serves the firm. If the corporate purpose is not aligned with the country's institutional or cultural setting, it may not be well received by intended stakeholders (i.e., they do not identify with the purpose), or it might be impossible to deploy. This is why it is necessary to design corporate governance practices that support the enactment of emerging or deliberate corporate purpose by having the right tools for incentivizing and monitoring the different actors participating in the collective activation of a corporate purpose.

Conclusion

I hope I have shown that corporate purpose varies across countries because countries have very different sets of institutions and societal expectations on corporations. Corporate purpose, or why a given corporation exists, even if it is trying to solve problems of people and planet, will have a unique scope depending on which country the corporation is chiefly in and who the owners are, and, secondarily, how multiple stakeholders are organized and able to exercise voice.

In this emerging debate on corporate purpose, it seems that there exist two large challenges that will be critical to follow, document, and analyze. The first one is to verify whether corporations and their key decision makers have internalized the need for the dual bottom line—financial and nonfinancial goals—and in turn to what degree they are willing to sacrifice one over the other. This diffusion through the corporation and outside its boundaries can get fuzzy and has been neglected. The first one is to verify whether corporations and their key decision makers have internalized the need for the dual bottom line—financial and non-financial goals, and in turn to what degree they are willing to sacrifice one over the other. There will be a gradual implementation into the business operations. This diffusion of the purpose through the corporation and outside its boundaries can get fuzzy and has been neglected. The only way to measure and evaluate the implementation of a given corporate purpose is by observing the evolution of strategic and behavioral changes. Thus, corporate decision makers should map the risks and opportunities in terms of what corporate purpose seeks to accomplish. Thus, corporate decision makers should map the risks and opportunities in terms of what corporate purpose seeks to accomplish. Clear articulation and communication of the corporate purpose as well as periodical revisiting seem essential to avoiding purpose washing. The second challenge is that for corporate purpose to be effective, it needs to be materialized into strategies and it in its different applications, which might range from relationships with suppliers to investments in environmental technology.

To conclude, I emphasize that we cannot conceptualize corporate purpose as a universal concept that encapsulates the same message for all firms to solve problems of planet and people while being financially sustainable. Instead, we need to *contextualize* corporate purpose into its social setting and to unpack why any given corporation exists.

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Endnotes

[1] Williams (2021) documents that there is one circumstance where shareholders' wealth must be maximized, and that is where the shareholders are being cashed out (i.e., when the focal firm is being acquired), as in *Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc.*, 506 A.2d 173 (Del. 1986).

[2] The Delaware Chancery Court decision stated: "Directors of a for-profit Delaware corporation cannot deploy a [policy] to defend a business strategy that openly eschews stockholder wealth maximization—at least not consistent with the directors' fiduciary duties under Delaware law." (Delaware General Corporate Law (DGCL), § 141 (a)(2016))

[3] "On 23 February 2022, the [European] Commission adopted a proposal for a Directive on corporate sustainability due diligence. The aim of this Directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance. The new rules will ensure that businesses address adverse impacts of their actions, including in their value chains inside and outside Europe" (European Commission 2023).

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