

Do Corporations Need a Purpose?

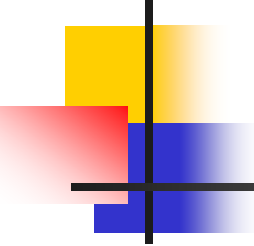


Professor Alex Edmans, London Business School

EDHEC, April 2023

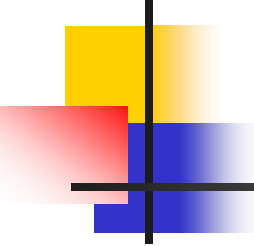


I. Do Corporations Need A Purpose?



A World Without Purpose: Friedman (1970)

- “The social responsibility of business is to increase its profits ...”
- “... focusing totally on making money, and forgetting about any concerns for employees, customers or society”
 - Steve Denning, Forbes



A World Without Purpose: Friedman (1970)

- “It may well be in the **long run** interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees, it may reduce the wage bill”
- See “What Stakeholder Capitalism Can Learn From Milton Friedman”



Study on directors' duties and sustainable corporate governance

FINAL REPORT

ABSTRACT (EN)

The focus of corporate decision-makers on **short-term shareholder value maximisation** rather than on the long-term interests of the company reduces the long-term economic, environmental and social sustainability of European businesses.



Short-Term Shareholder Value

- Finance 101: shareholder value is an inherently long-term concept

$$P_t = E \left[\sum_{t=0}^{\infty} \frac{C_t}{(1+r)^t} \right]$$

- The solution may be *more* shareholder capitalism
- But what about externalities?
 - Should be dealt with by the government
- But what if governments fail?
 - Then there's a case for purpose, but need to ensure that shareholders approve it



II. The Business Case for Purpose



20

BANKI KUU YA KENYA
CENTRAL BANK OF KENYA

20

$\frac{D}{4}$ 377053

LEGAL TENDER FOR TWENTY SHILLINGS

SHILINGI ISHIRINI



DANIEL TOROITICH ARAP MOI
PRESIDENT OF THE REPUBLIC OF KENYA



1ST JANUARY 1981

FOR THE BOARD OF DIRECTORS

20


GOVERNOR


MEMBER

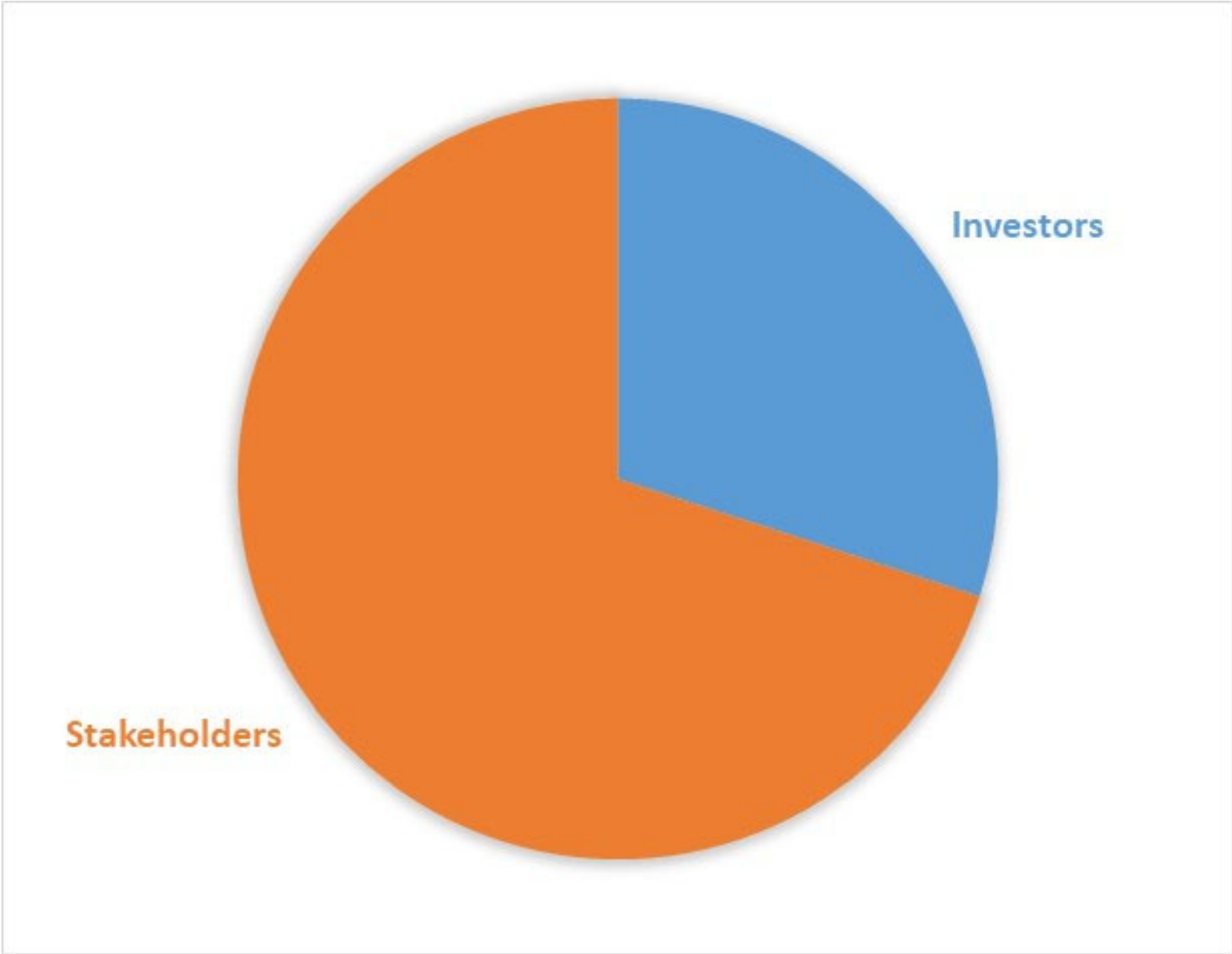
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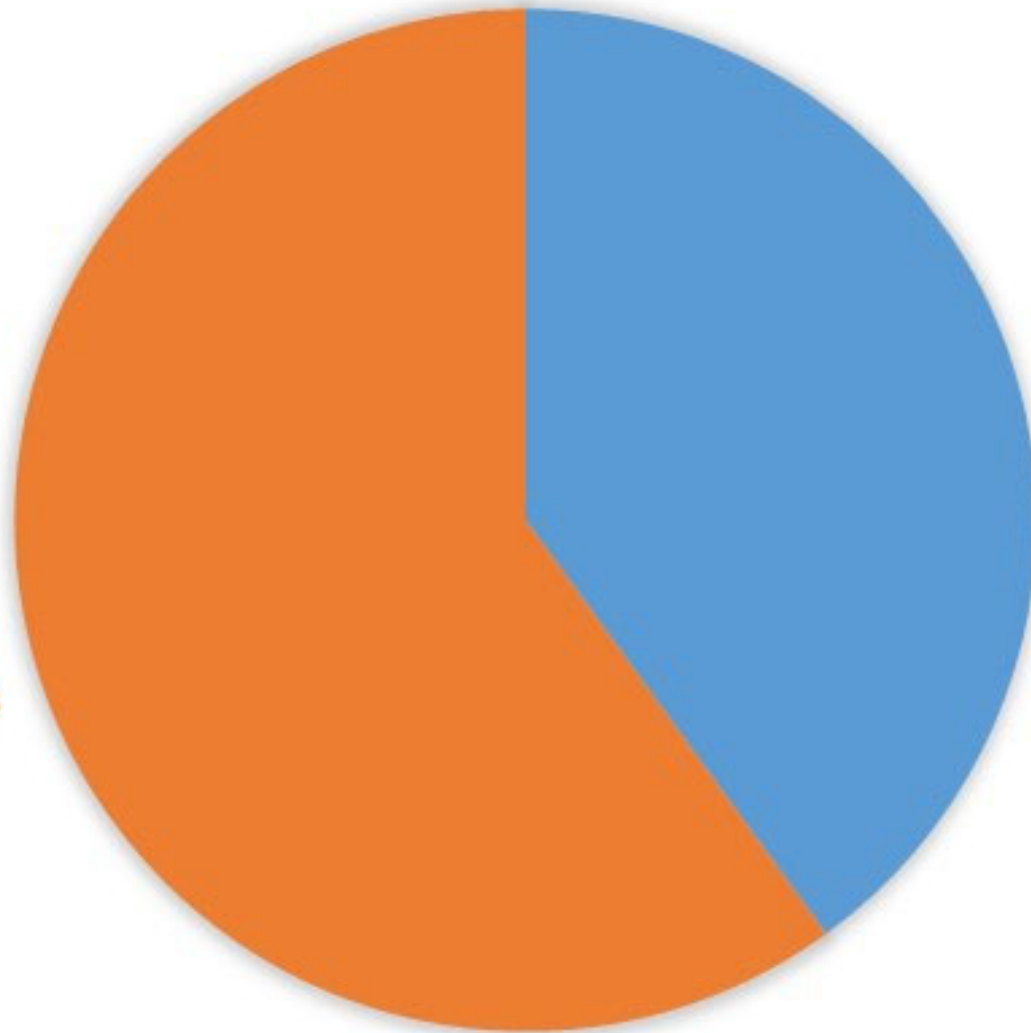
vodafone



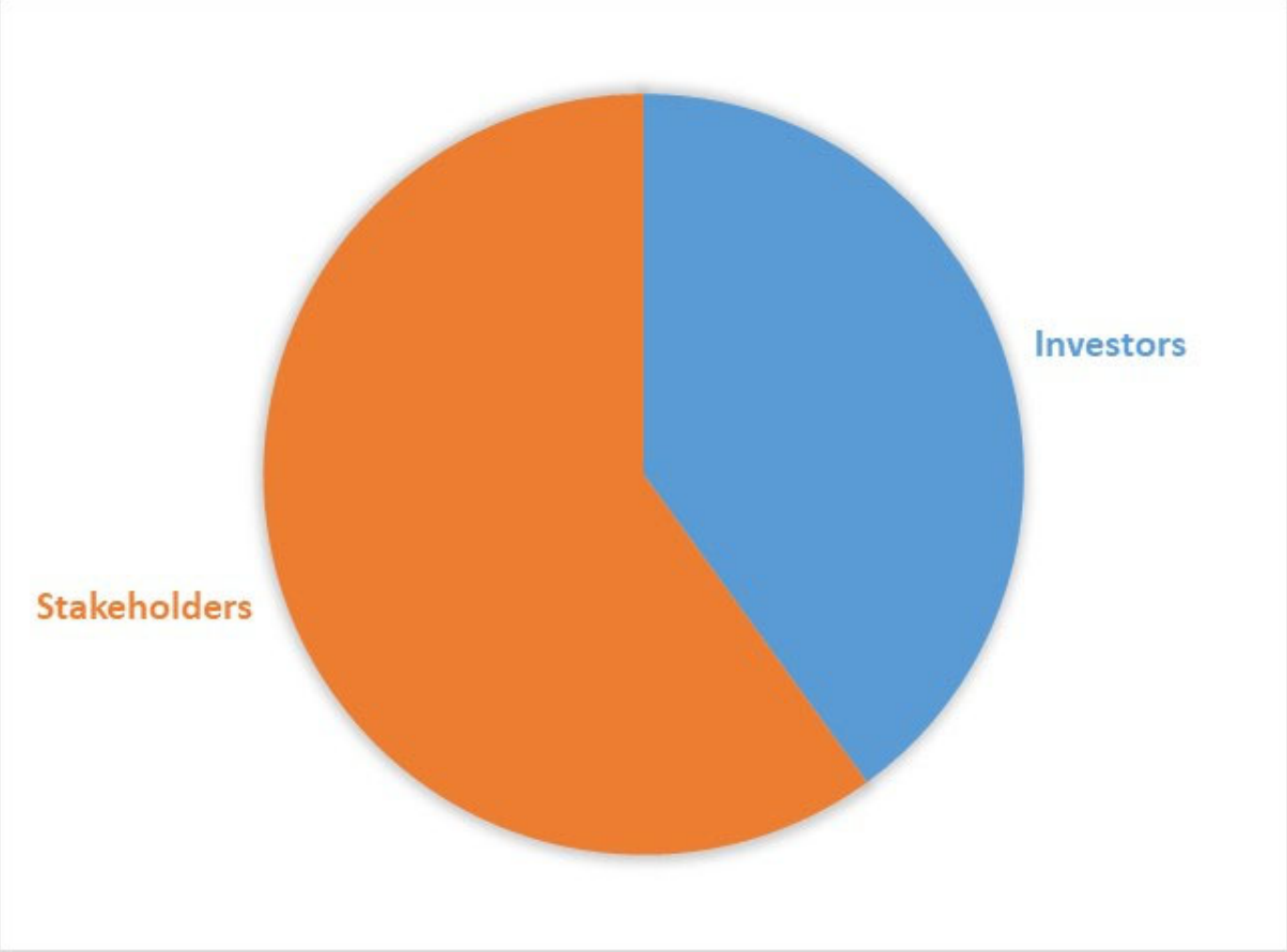
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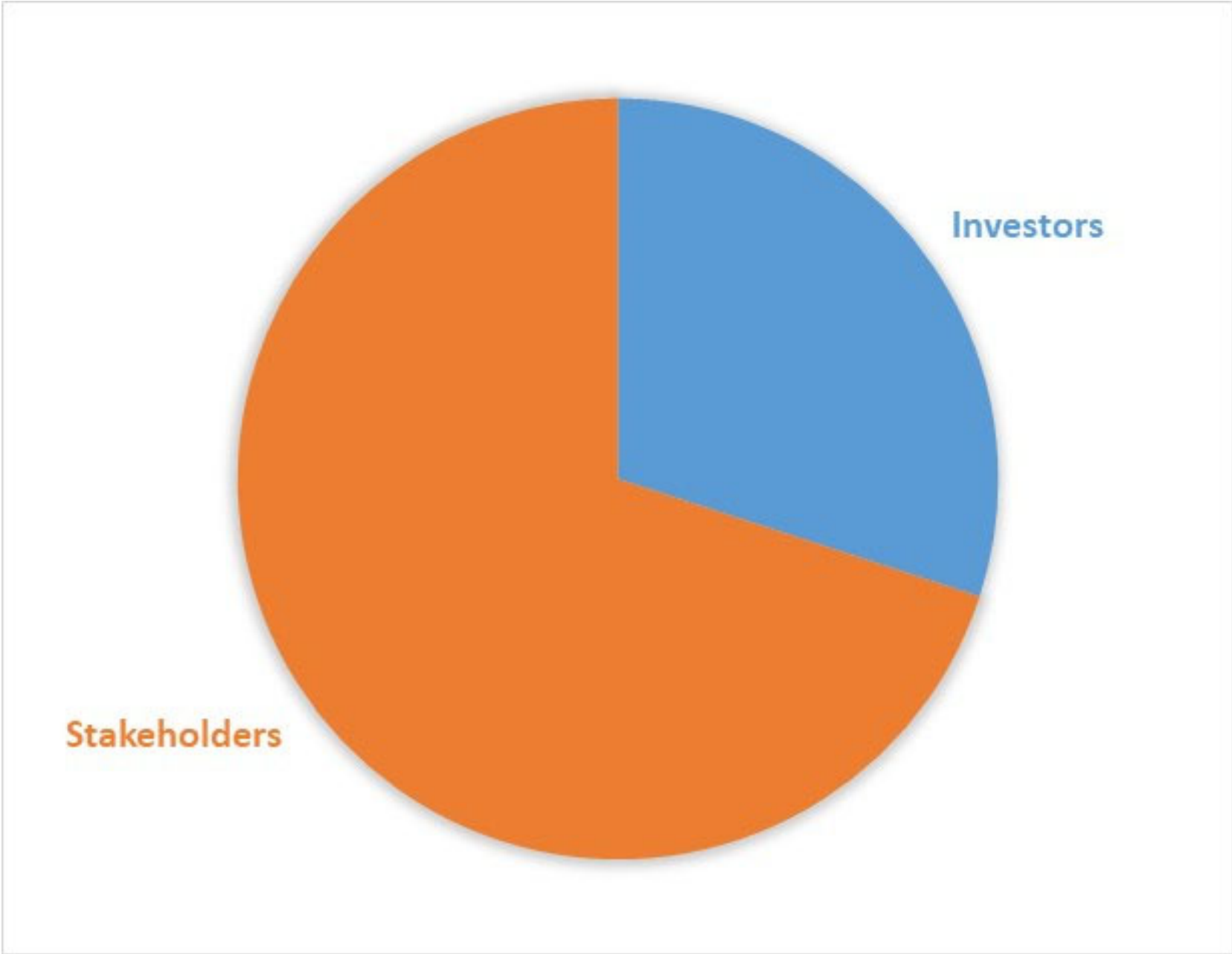


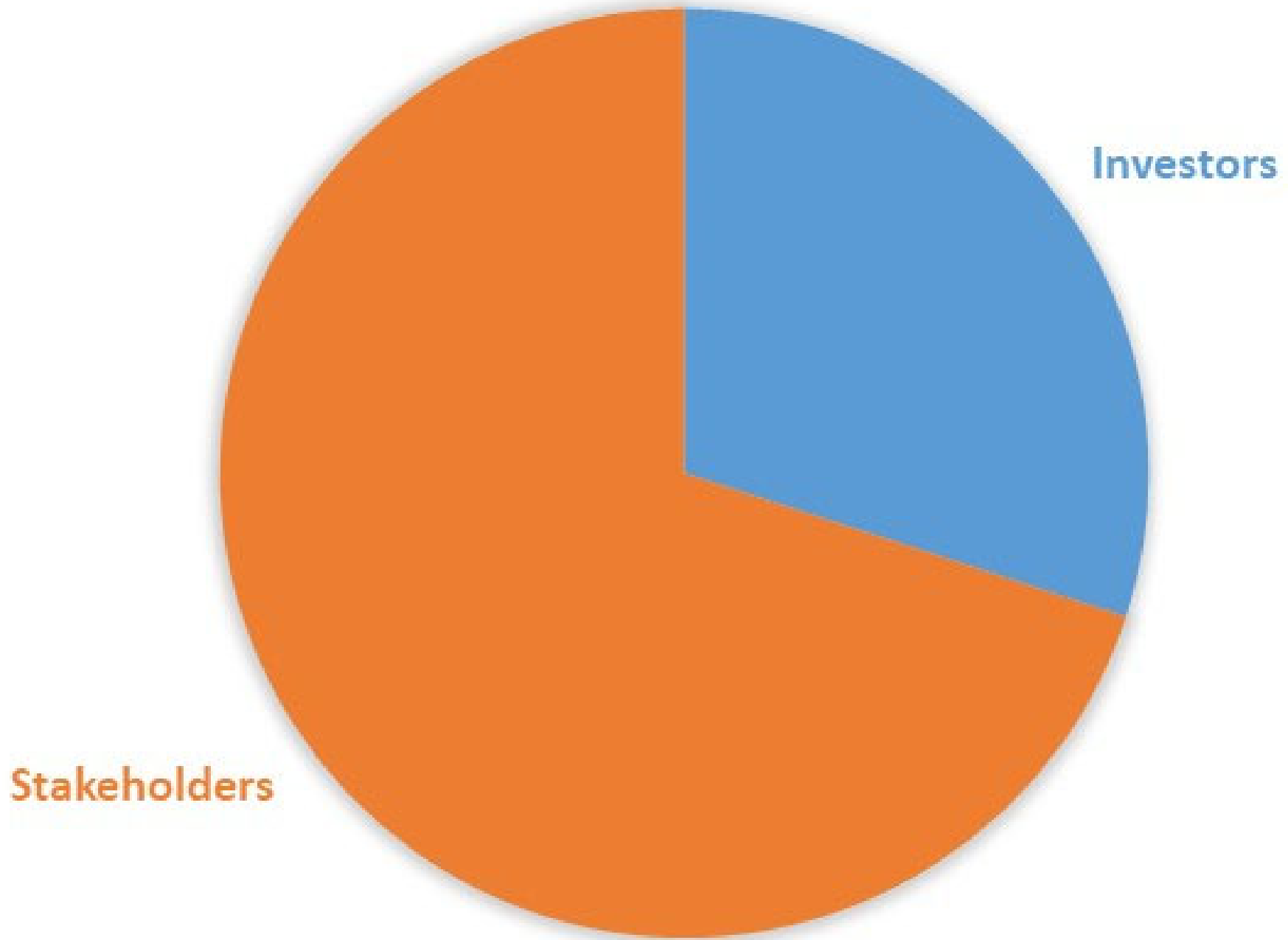
Stakeholders



Investors







Is This Really About Purpose?





vodafone



m-pesa



III. Does Purpose Pay Off?



Does Purpose Pay Off?

- How to measure purpose?
- Input: expenditure on CSR?
- Output

FORTUNE



100

**BEST COMPANIES
TO WORK FOR 2021**

The “100 Best Companies to Work For in America” beat their peers by 2.3-3.8%/year over 1984-2011

(89%-184% cumulative)

Boustanifar and Kang (2022):
continues to hold until 2020

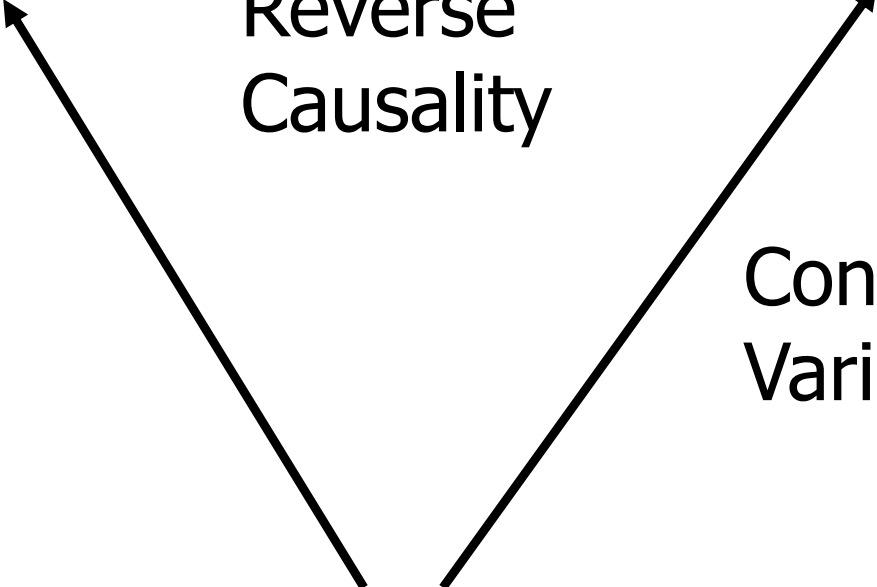
Employee
Satisfaction

Financial
Performance



Reverse
Causality

Confounding
Variables



Tech Industry

IV. Putting Purpose Into Practice





Purpose

- “Our purpose is to serve customers, workers, suppliers, the environment, and communities while generating returns to investors”
- Purpose is **why** a company exists – **who** it serves, its **reason** for being and the **role** it plays in the world

1 NO POVERTY



2 ZERO HUNGER



3 GOOD HEALTH AND WELL-BEING



4 QUALITY EDUCATION



5 GENDER EQUALITY




6 CLEAN WATER AND SANITATION



7 AFFORDABLE AND CLEAN ENERGY



8 DECENT WORK AND ECONOMIC GROWTH



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



10 REDUCED INEQUALITIES



11 SUSTAINABLE CITIES AND COMMUNITIES



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



13 CLIMATE ACTION



14 LIFE BELOW WATER



15 LIFE ON LAND



16 PEACE, JUSTICE AND STRONG INSTITUTIONS



17 PARTNERSHIPS FOR THE GOALS



SUSTAINABLE DEVELOPMENT GOALS





1. Doing New Things

- New business generation, driven by the desire to serve clients
 - New products/services for existing clients. Problem-finding, not problem solving
 - New clients
- Purpose-driven cost-cutting



2. Doing the Same Thing in Different Ways

- Purpose doesn't mean shying away from commercially necessary decisions
 - Instead, take these decisions in a different manner
- Excellence is hugely purposeful

3. Doing the Same Thing in the Same Way

- But recognise the purpose of what you're doing





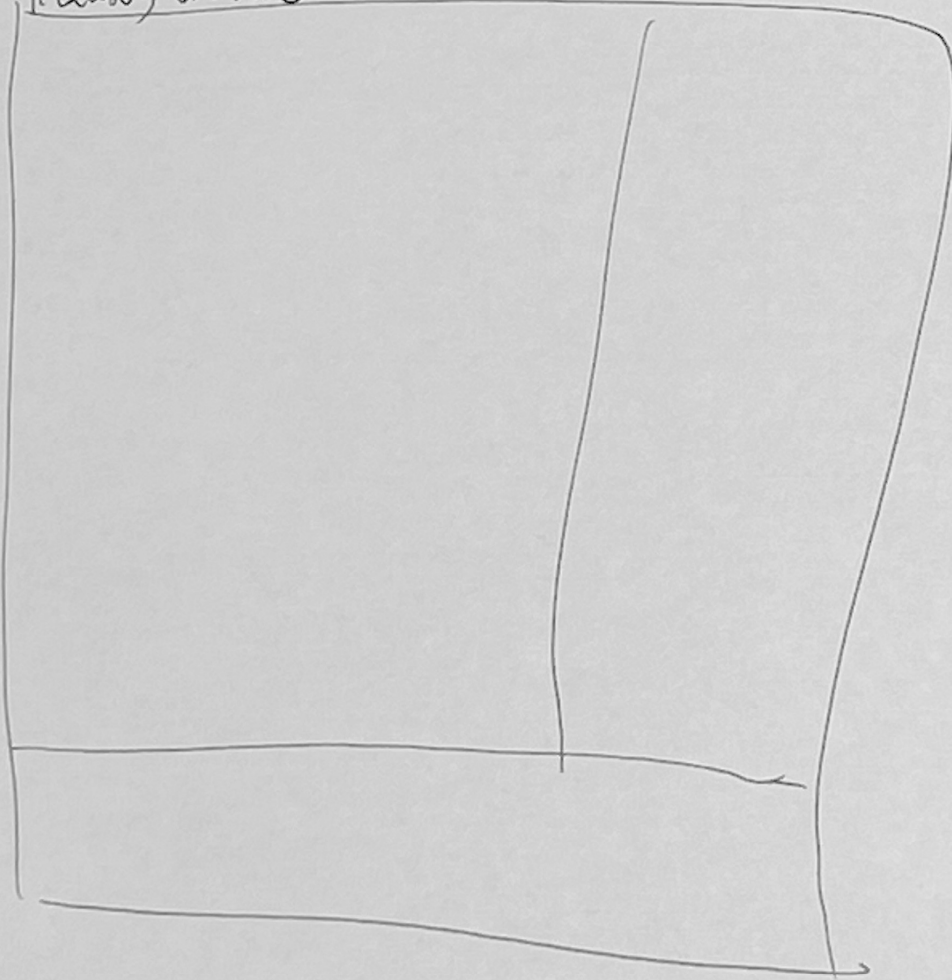
3. Doing the Same Thing in the Same Way

- But recognise the purpose of what you're doing
- Have clients report the short- and long-term impact of your products and services
- Tell juniors and support teams how they made a difference

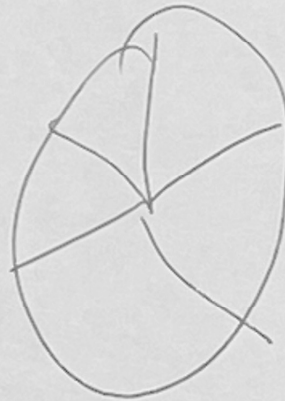
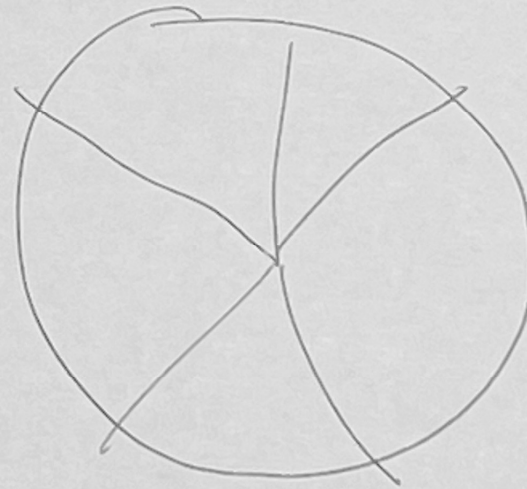
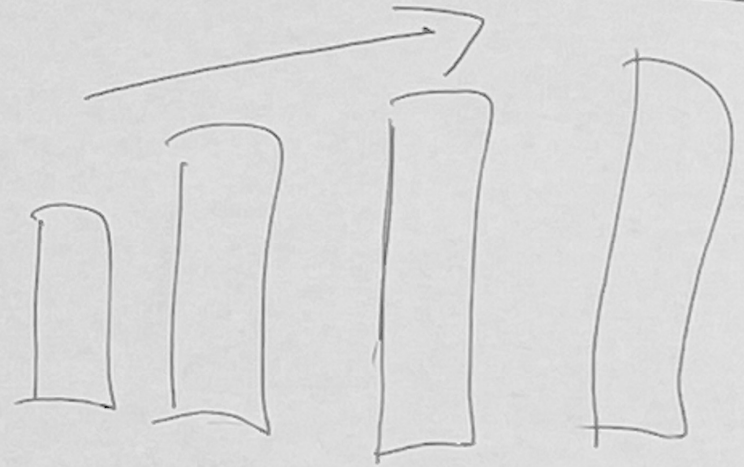


Key Industry Trends

Industry Structure



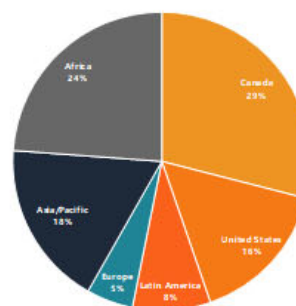
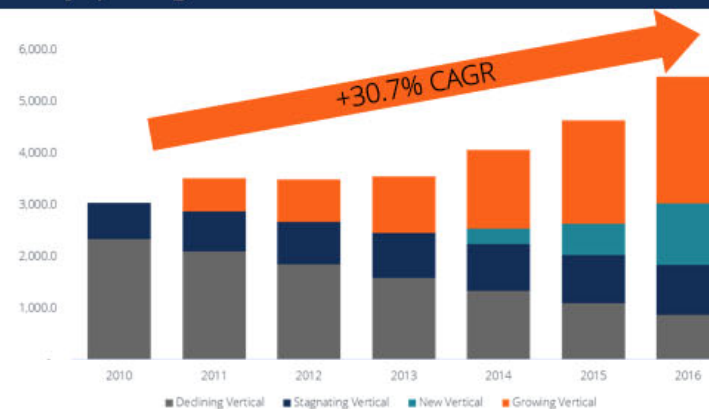
Industry Spending



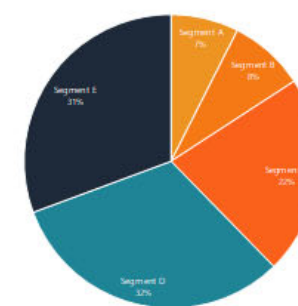
Key Industry Trends

| Industry Overview | |
|---|--|
| Industry Revenue Breakdown by Major Segment (2016) | |
| Growing Vertical Revenue | |
| New Vertical Revenue | |
| Stagnating Vertical Revenue | |
| Declining Vertical Revenue | |
| Key Industry Averages | |
| Total Debt/EBITDA | |
| Total Debt/EV | |
| EBITDA margin | |
| EV/EBITDA | |
| P/E Ratio | |
| Market share of top 5 players | |
| Global Industry | |
| Total revenues | |
| Forecasted 5-year revenue growth | |
| Revenue Profile | |
| (What are the secular trends in this industry? What is the industry outlook? What do the financial metrics imply?) | |
| (What are the aggregate totals? Where have we witnessed deviant trends? Where have we witnessed convergent trends?) | |

Industry Spending



Geographic Revenue Breakdown



Segmented Revenue Breakdown



Source: TCdeOliveira



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COOLING

70

80





V. Further Reading

Further Reading

- “Grow the Pie: How Great Companies Deliver Both Purpose and Profit”
 - Financial Times Books of the Year

