THE PURPOSE OF THE CORPORATION

The purpose of early corporations was to benefit society, for instance to build bridges and railroads. Gradually, corporate culture has shifted to mostly serve the needs of shareholders, pushing companies to extract value instead of creating it. The shareholder-centric model has led companies to prioritise short-term profits at the expense of innovation and sustainability, as well as employee and societal well-being. Side effects include inequality and poverty, environmental destruction and human rights violations. The long-term health of corporations themselves is also at risk.

New ways of thinking, like B Corporations and Creating Shared Value, are catching on worldwide, as is increased awareness of the importance of long-term thinking. To achieve sustainable development and long-term stable corporations, we need to debunk the myth of shareholder primacy and foster systemic change in business thinking. Corporate governance needs to go beyond mere code compliance and box ticking. Vanguard companies and responsible investors are already paving the way. Governments need to rethink their approaches to corporate regulation, which still serve to strengthen capital market dominance over corporate strategy.

Healthy corporations define their purpose to consider the long-term, for themselves and the greater good. They invest strategically in research and development, and determine their value by the benefit they provide to customers, shareholders and society at large.

The business landscape is changing rapidly. Customers now expect transparency and recognise real efforts to improve. Taking the wellbeing of people and the environment into account is increasingly seen as good business. Studies show that firms with good performance on sustainability issues significantly outperformed traditional companies in the long term.

Healthy corporations define their purpose to consider the long-term, for themselves and the greater good. They invest strategically in research and development, and determine their value by the benefit they provide to customers, shareholders and society at large. The board and CEO work transparently and responsibly, considering people and the environment as their life support.

87% of 500 global executives declared that purpose is key to success.

87% of 1,000 CEOs across 103 countries see sustainability as important to the future success of their business.

BP caused the largest marine oil spill in human history.

The Rana Plaza factory collapse in Bangladesh.

How public companies spend their profits (USA)

1970 | Today
---|---
Profit paid in dividends to shareholders (UK)

1970 | Today
---|---
£10 out of every £100 | £70 out of every £100

To achieve sustainable development and long-term stable corporations, we need to debunk the myth of shareholder primacy and foster systemic change in business thinking. Corporate governance needs to go beyond mere code compliance and box ticking. Vanguard companies and responsible investors are already paving the way. Governments need to rethink their approaches to corporate regulation, which still serve to strengthen capital market dominance over corporate strategy.

Looking forward, it’s up to all stakeholders to re-imagine and create corporations ready to face 21st century challenges.

Want to learn more?
Visit www.purposeofcorporation.org/infographic