The Purpose and Future of the Corporation, given by Colin Mayer, CBE, former Dean of Said Business School, Oxford University, on February 21, 2019 by as part of the Mossavar-Rahmani Center for Business and Government at the Harvard Kennedy School's weekly Business and Government Seminar Series.

<u>Transcript</u>

Intro: Welcome to the Mossavar - Rahmani Center for Business & Government at the Harvard Kennedy School. For more information on events, news, and research, visit www.mrcbg.org.

Scott Leland: Good morning! Thank you for being here. My name is Scott Leland from the Mossavar - Rahmani Center for Business & Government. We are delighted today to see you all and to welcome Colin Mayer as our guest speaker today from Oxford University. He is the author of the book, *Prosperity: Better Business Makes the Greater Good*. At the end of the session today, we will be raffling off five copies of the book, so if you haven't had a chance to put your name on the fishbowl, now is a good time to quickly run up and do that.

Professors Linda Bilmes and John Ruggie will be hosting the event and offering some questions back and forth for Professor Mayer. So with no further ado, I'd like to turn it over to Linda Bilmes so that she can get us started. Thank you.

Linda Bilmes: Fantastic! Okay. This is on. So greetings everyone and especially to some of my students in the audience. I'm Linda Bilmes. And today, we are focusing on a very timely issue, the role of corporations in society. Corporations play a key role in every aspect of our lives and yet, there is a growing sense that they are failing us in important ways.

When I was getting my degree at Harvard Business School many years ago, I was taught that the role of corporations, the sole responsibility was to maximize shareholder value. And today, we recognize that corporations have a profound impact on many aspects of life, from the environment to their employees, to how much taxes are paid, to the government, to the welfare of their customers. And as a result, the classic model of shareholder capitalism is increasingly in question. So what can we do?

Today, I'm very privileged to introduce two of the leading thinkers on this topic, John Ruggie, who is a Professor of Human rights and International Affairs at the Harvard Kennedy School and Faculty Chair of the Corporate Responsibility Initiative and who is the Architect of the United Nations guiding principles on business and human rights, and our extinguished guest and my friend, Colin Mayer CBE, Professor of Management Studies at Oxford, Former Dean of the Business School at Oxford and whose new book, *Prosperity: Better Business Makes the Greater Good*, speaks directly to this topic.

And just to start us off to underscore how radical this book really is, I'm just going to read you one quote from the book, "The corporation today is inhumane. It is inhumane because we have taken humans and humanity out of it and replaced them with anonymous markets and shareholders over home we have no control over."

Stephen Hawking has warned of the consequence of removing humans from control of artificial intelligence and making us no longer masters of our own minds. We have already done that in the corporation by allowing markets, not men, to become masters of our mindful corporations.

So welcome to Colin Mayer and we are very, very delighted to have you here. So I'm going to start off just asking you to outline what you see is the defects of the current model of corporate ownership.

Colin Mayer: Okay. Linda, thank you very much indeed and thank you to John and Linda for inviting me and Scott. And thank you very much to the other John for having agreed to discuss the book. I'm going to talk to you about the most or one of the most important institutions in our lives. I'm not talking about the state, religion, or the Kennedy School. I'm talking to you about an institution that clothes, feeds, and houses us, employs us and invests our savings. It's a source of economic prosperity and the growth of nations around the world. At the same time, it could be a source of bringing inequality, environmental degradation, and mistrust.

And to reflect that, a year ago, the British Academy, which is the National Academy of the Humanities and Social Sciences, launched a major program of research on the future of the corporation. It brought together more than 30 academics from across the humanities and the social sciences from around the world to look at the question as to how business needs to change over the coming decades to address the problems and challenges that it faces from politics, society, and the environment as well as the normal commercial and economic challenges, and how it can best take advantage of technological advances to benefit us as a society as a whole?

And what emerged from that was a remarkable consensus from people who came from very different disciplinary backgrounds, from very different institutions around the world as to what was needed around three things, first of all the urgency is kind, secondly, the need to reconceptualize our notion of business, and thirdly, policy levers for really bringing about effective change.

And to underscore that notion of urgency, let me just start off by referring you to Ipsos MORI, the market research company that undertakes surveys each year of a thousand people of which professions in Britain they trust to tell the truth. They survey 1,000 people over the past 35 years on that topic.

Near the top alongside teachers, doctors, and nurses, I'm pleased to say, come university professors. We might not have much power, pay, or prestige but at least people trust us to do nothing, earn nothing, and take the credit for it.

[Laughter]

At the other end lie business leaders, just ahead of real estate sellers, professional footballers, journalists, and rock bottom, come politicians. They come below trading officials, and the men and women in the street. And this is not just the bankers at the moment, because bankers are actually separately recorded and if anything, business leaders come below bankers. And it’s not just the post financial crisis phenomenon because nearly all of the 35 years of that survey, that has been the case.

Mistrust in business is profound, pervasive and persistent. Why? I suggest that the answer is this, the free man doctrine, that there is one and only one social purpose of business, to increase profits so long as it stays within the rules of the game. And that idea has been the basis of business practice, business policy, and business education around the world ever since. And virtually, every business school course starts with a proposition that the purpose of business is to maximize shareholder value and everything else, strategy operations, management follows from that.

But it wasn’t always there. Indeed, the corporation was established with a very different purpose under Roman law 2,000 years ago to undertake public functions, collecting taxes, melting coins, building and looking after public buildings. And for nearly all of its 2000-year history is this combined public purpose with its commercial activities. It’s only over the last 60 years that this notion that business has only one purpose, to make money, histories, and it’s that which lies at the heart of the problems of inequality, environmental degradation, and mistrust.

And it’s going to get worse because technological opportunities offer tremendous opportunities for advancing humanity and contributing to our welfare, it also poses serious risks. And as technology accelerates, soon too does the leg of policy behind business innovation and the response of government and regulators becomes increasingly inappropriate.

But things are changing. A month ago, business leaders around the world received a letter from someone who has got the real power to influence our well-being. That letter said, “Every business needs a purpose, not a tagline, or a marketing campaign but a statement of its fundamental reason for being, what it does on the daily basis. Purpose is not the sole pursuit of profit, but the animating force for achieving it.” That person was someone who commands more assets and money than anyone else in the world. He is the President and CEO of BlackRock and he is not the only leader of a trillion dollar investment fund intercept us, so too are the leaders of Vanguard and State Street named us too.

And it’s not just leaders of asset management firms that are recognizing the importance of purpose. UK led the way in establishing corporate governance rules around the world following the Cadbury Committee that was set up in 1992. And that’s being the basis of corporate governance, codes in many counties in the POCD corporate governance roles. And what lay behind that was the notion that corporate governance was there to align the interest of management with shareholders.

The muscular – there was new corporate governance code that was brought out, sent out, that the role of corporate governance is not simply to solve the agency problem as it termed but to align management with the purposes of companies. And that that is what corporate governance needed to be.

And a month ago, there was a report set out a Stewardship Code that said that investment institutions need to have a purpose as well, purpose that's not only about upholding the interest of their beneficiaries, their investors, but also providing proper stewardship of companies in which they invest.

And this is also reflective in the views being expressed by many political figures around the world. And this country as this was where has put forth the notion of accountable capitalism in which it states that companies with revenue in excess of a billion dollars need to have a charter which states that they've got a public purpose.

And France President Macron has put forth the notion of raise on dent term and an intrinsic notion of purpose as a central component of French commercial code.

Now, all of this reflects the extent, the speed of change and recognition of the importance of this topic and the need for us to appreciate that we need to reconfigure our notions and visions around why it exists, why it's created, what it's there to do, and what it aspires to become, namely the purpose of business. And then everything follows from that in terms of business policy and business practice.

The purpose of business is not to produce profits. The purpose of business is to produce profitable solution to the problems of people and planet. And in the process, it produces profits. But profits are not per se the purpose of business. Everyone who runs successful businesses knows that to be the case, and they don't profit from producing problems for people and planet. Instead what they do is they commit to a common purpose and they commit to those who help to create that common purpose.

And those people in turn, commit to the company and that common purpose. And that gives rise to reciprocal relations of trust. And those reciprocal relations of trust create mutual benefits both for the firm and for the parties to the firm. It creates more loyal customers, more engaged employees, more reliable suppliers, more supportive shareholders, and societies. And that gives rise to greater revenues, lower costs, and more profits.

Now, what underlies this is the trustworthiness of companies to uphold those purposes and our ability then to trust businesses to do what they say. And underpinning that trustworthiness of the values of a business, values of integrity and honesty and cultures of a commitment to that corporate purpose, and it's those notions of corporate purpose as I've just defined it, trustworthiness and values that underpin the reformulation of business that needs to take place.

Now, to bring this about, there are four key policy leaders that are required. The first is in relation to law and regulation. Corporate law is at present focused on the rights of shareholders and the fiduciary duties of directors to uphold the interest of their shareholders. That's not right. Corporate role should be about the obligations of companies to state and uphold that corporate purpose and to require directors to demonstrate how they will achieve it.

Regulation is currently viewed under the Friedman Doctrine of being about the rules of the game and the enforcement of the rules of the game. But that is not sufficient because at the moment, the way in which business is structured is that there is a direct conflict between the interest of companies in promoting that profitability and regulators in upholding the public interest. And because companies are better-informed than regulators, they run rings around regulations and if possible, turn that regulation to their competitive advantage.

Instead, we need to recognize that regulation is also about aligning those private purposes of companies with a public interest in particular in companies which performs public functions such as the utilities infrastructure provided audited companies, banks. But for those companies, what one needs to do is to incorporate their public licenses to operate as part of the fiduciary responsibility of the directors of companies in their articles and charters.

The second set of policies relate to ownership and governance. Ownership at the moment, we associate with the rights of shareholders, and they could take the rights of institutional investments. But that is not what ownership should be about. Ownership is about the obligations and responsibilities to uphold the purposes of company. And there are many different types of owners that can perform that function, families, foundations, employees, estate, as well as institutional investment.

Corporate governance as I just described is traditionally viewed as being about solving the agency problem of aligning managerial interest with those of shareholders. That is not **[0:18:25] [Indiscernible]**. It’s about the managerial obligations to uphold and demonstrate that they are holding that corporate purpose.

The third set of policies relate to measurement and performance. At the moment, what we measure are financial capital and material capital. And we measure performance in terms of profits, net of the cost of maintaining material capital. We need to realize that increasing what is the main form of capital for companies that are no longer just for the mass but it’s human capital and social capital and natural capital. And we need to measure those and recognize that profits should be measured and not only net of the depreciation of their material capital but also net of the depreciation of their human, social, and natural capital.

And the final set of policies relate to finance and investment. The mass at the moment is predominantly associated with contractual arrangements between providers and users of mass. And that reflects the fact that the tax system encourages companies to use contractual sorts of finance in particular, debt by favoring debt over equity. But that should not be the case.

And furthermore to the extent that companies do use equity, it comes from dispersed investors because our regulatory system places emphasis on protecting minority investment. We need to recognize the importance of substantial blockholders with whom companies can have relation because they cannot have relation with anonymous dispersed investors. And it’s not only relation with the capital market that they need, they need relations with government, in particular, in the provisions of large, long-term investment.

Now, those four sets of policies around rule and regulation, ownership of government, measurements and performance, finance and investment of the means by which one can bring about fundamental change in business to reconfigure it around the notion of corporate policies, trustworthiness, and values and culture.

And then the next phase of that British Economy Project which I just heard where they need to be focusing on how to develop specific proposals along those lines which allow these ideas to be implemented by businesses and governments around the world.

Now, what I've just been describing is a process that involves a fundamental reformulation of our ideas around business. And to achieve that, what we need to recognize is that we have to change our notion of what capitalism is fundamentally about. The traditional view of capitalism is one that states that it is an economic system of private ownership of the means of production and that operation for profit.

And ownership is traditionally viewed as being a bundle of rights over assets that confer consideration powers of authority over those possessions.

And firms are regarded as being **[0:22:31] [Indiscernible]** of contracts that are run by boards of directors in the interest of the owners.

Now, that is a coherent, self-contained set of ideas which says that capitalism is about private ownership for profit through control and power over others who are employed in the form of contract. And what aligns that with the public interest is then competitive markets and whether on market failures regulation to align the interests of companies with the public terms.

But there's a parallel which says that capitalism is not – it's an economic and social system to produce profitable solutions to the problems of people and finance by private and public owners who do not profit from producing problems for people and the planet.

And ownership then is not simply about the rights of control but the obligations and responsibility to uphold those purposes. And firms are not just **[0:24:04] [Indiscernible]** of contracts. They are **[Indiscernible]** of reciprocal relations based on values and principles enshrined by the board of company. Now, that too is a coherent, consistent set of ideas which says that capitalism is about solving problems and the obligations on owners and directors of companies to provide the solutions to those problems based on relations of trust with other parties.

Now, the reason why this is so important is that between that notion of market efficiency and regulatory effectiveness, there is a void. And indeed as technology accelerates, it's becoming a chasm, a chasm of both market inefficiency and regulatory and government failure. And in that chasm, we rely on companies to transform our individual self-interest into a collective, communal, common purpose.

And to do that, we rely on the trustworthiness of companies to achieve it. And trust is an essential ingredient that really distinguishes what I'm talking about here from the conventional view of the firm, because trust is one if not the most important asset of business and at the same one of the most unrecognized assets of business. Because ultimately, trustworthy corporations are commercially successful corporations and the competitiveness of nations depends on the trustworthiness of its corporations.

And that our prosperity for the many, not just the few and the future as well as the present depends on that trustworthiness, and that happens to be the title of my book. Thank you.

[Applause]

Linda Bilmes: Well, okay. Thank you. So I'm going to ask Professor Ruggie now to comment on – there's quite a lot to comment on so I'm going to ask John to comment now.

John Ruggie: Thanks very much, Linda. Thanks very much, Colin for, first of all, for writing this book which I think is one of the most radical not even the left-right sense but radical in getting at the roots of things. The most radical books I've read on the subject in a very long time. It's extremely thoughtful. The historical sweep is impressive. The comparison across countries of how they've dealt with these issues is insightful.

And of course, I've never been a great fun of Milton Friedman myself. [Laughs] And I agree that the slavish attachment to shareholder – maximizing shareholder value not only by corporates but by regulators has had significant adverse effects on the trends toward companies not internalizing externalities contributing to inequality, to environmental degradations, and so on and so forth. So I just wanted to establish that I think we are very much on a similar wavelength.

But I would like to ask a few questions if I may. Some of your argument, only you will know how much, depends on the notion that there is a continuity of the concept of corporation that goes back to Roman times. And traditionally, the corporation you argue has had a public purpose.

Now, my question I guess is that there are many things that have been called corporations which aren't really alike. The board of trustees of Harvard University is called The Corporation. The American Sociological Association is incorporated. FIFA, the world governing body of football is incorporated under Swiss Ball.

These are very dissimilar kinds of things. And I guess my question – and they can all be said to have some public purpose. So my question to your is, has the modern commercial corporation in your view ever really internalized a public purpose? That's my question.

Colin Mayer: Okay. Well, first of all, thank you very much for your comments and observations. And the notion of corporation being very different in different circumstances and at different points in time is basically the center point of what I'm talking about, because I'm going arguing is that diversity in corporate form, it has been its real strength through the ages.

What I talked about in that large sweep of history to which you refer is how the modern corporation emerged as the fusion of two separate types of entities in the middle ages. And those two separate types of entities, well, first of all, an administrative structure. And to give you an illustration of that, one of the oldest examples in the world happened to be Oxford and Cambridge Universities which are both corporations and all of the colleges of the university are separately legally incorporated entities.

Now, that notion of a corporation as an administrative function was then fused with the other type of entity which gained scale over a thousand year period in Babylonian times. It was that of a partnership. And that partnership rose to its prominence in the Middle East from the 7th century onwards in what was termed the **[0:31:37] [Indiscernible]**, which was a particular form of partnership contract. Then it took the form in Europe with the ***compañía*** **[Phonetic]** which is the basics of the company, ***companes*** **[Phonetic]**, showing bread and the commander.

Now, that partnership arrangement is basically used to undertake commercial activities, in particular, trading activities. What then happened around the 14th, 15th century was that that partnership model was fused with the administrative model to form a modern corporation which combines an administrative function with the ability to raise capital in the form of the partnership and then to issue insurance.

Now, that combination is really what the corporation was set up to do, to combine that ability to raise capital with having a very strong administrative function. And that is how it then progressed over the subsequent 500 years. And there were many examples that emerged of companies that did perform that in terms of combining a public and a commercial function.

And at the end of the year, in 20th century, Alfred Marshall, the Father of Industrial Economics, observed a wonderful spirit of uprightness and honesty in commercial matters by which the leading offices by great companies do not yield to the vast temptations of fraud laying their way. What he saw at the end of the 19th century, what companies of real integrity that fulfilled the notion of commercial activities with a strong sense of a purpose of the business. And in many cases, those were Quaker-owned companies like Cadbury’s and Boots or something.

John Ruggie: Or family-owned, yeah.

Colin Mayer: And they were family-owned. Now, what made that particularly impressive was that those companies operated in an environment in which there was a Wild West of business, a great deal of corruption. But they were able to establish that element of integrity because of the nature of the corporate form.

But what has happened since then is being this notion of that in essence, the firm is entirely accountable for just one thing and that is its responsibilities to its shareholders and that’s the stage now at which this combination of combining that public administrative function with just the commercial activity took over and where we lost the direction of what the company was going to be.

John Ruggie: Great. Thank you. So I have a question about the notion of purpose. It has given rise to quite a following as you know. Marty Lipton, the Dean of Wall Street Commercial Lawyers said, "This subsumes CSR, ESG, GRI, and a whole bunch of other alphabet super things.

Colin Mayer: Yup.

John Ruggie: And so, he advises boards of directors to move in this direction before they get regulated.

Colin Mayer: Yeah.

John Ruggie: That's one drift. And other drift is the Larry Fink letter that you referred to which essentially says, "This is a new social compact and we would advise the companies in which we invest to move in that direction."

Then there is a long article via Cambridge England PhD student who says, "This is the newest big business gimmick." It's the new buzz word behind which business will try to claim that it is trustworthy and is addressing social issues.

Colin Mayer: Yeah.

John Ruggie: Who is right and who is wrong and why?

Colin Mayer: The answer is both are right.

[Laughter]

Okay? And it is a growing movement in terms of a realization of the importance of purpose but it's also potentially a technique that companies can use for greenwashing or whitewashing their businesses. And that is why I'm emphasizing here is first of all, clarity around the notion for purpose because people basically use the term to mean whatever they like. And there's a great debate about, well, does a purpose have to be public or can it just be a private purpose? Is it all right to have a purpose which is just about making money?

And so the notion that I'm putting forward about what purpose is about is around this notion of solving problems and doing so in a profitable way to emphasize the fact that it is not about charity or CSR, it's about putting purpose at the heart of companies and it's a way of reformulating what companies are about. It's not even about just stacking them high and selling them cheap. It's about thinking about how you actually other people's problems. And that's the potential basis for a trustworthy corporation.

Now to ensure that this is not greenwashing or whitewashing, what is required is an ability to be able to oversee what is happening and to be sure that those who are doing this are accountable for what they are doing. And that's where the notions of governance and measurement become critical important to demonstrate the extent to which companies are really upholding their social capital and natural capital and human capital.

And the way in which they are providing a degree of accountability to not only their investors but also to the other parties of the firm that have invested capital alongside that of the financial capital. So that is what is required to ensure that this does not end up as being the second form of purpose that we described but is the real form along the lines of the first time.

John Ruggie: Let me just quickly follow up. By definition, does a tobacco company not have purpose?

Colin Mayer: The answer is no. And I want to illustrate this in relation to some of those admirable companies that I was just referring to at the end of the 19th century, the Cadbury, Ram Foods **[0:39:03] [Indiscernible]**, et cetera, as I said, nearly all Quaker companies. Nearly all involved in manufacturing of chocolate. Okay? Why were they, nearly all involved in the manufacturing of chocolate? The answer is because in 19th century Britain and I think America, the typical working person's breakfast consisted of drinking ale. So they started off the day drunk before they got any further. And there was a feeling amongst many Quaker companies that this was not the best condition for British society.

[Laughter]

And so, they came up with the idea, well, instead of drinking ale, why don't they drink a nice hot cup of chocolate instead? So that's literally why they place so much emphasis on chocolate. Now, it did actually contribute to solving that particular problem. But 150 years later, they realized that there's another problem associated with chocolate, and that is of course, obesity and diabetes.

And so now, there is a recognition that actually chocolate manufacturers need to change their business. And the more enlightened of them are recognizing they have to fundamentally change the nature of their business away from the focus on cheap forms of confection.

Now, a tobacco company is in a similar position. And the issue is to what extent are companies seriously committed to changing their models in such a way that they do not continue to sell essentially addicted products to people?

And the question as to whether or not a company be it a confectioner company or a tobacco company has a purpose relates to the extent to which they don't disregard this as being the journey that they can drag gradually and move along, but something that is of great urgency in terms of them recognizing the change in societal needs away from they've traditionally becomes to what they need to produce going forward.

John Ruggie: Thank you. Along the same lines, in the early days, not recently, in the early days of Facebook, did Facebook have a purpose as you define it?

Colin Mayer: Yes, very much.

John Ruggie: And then it went off the rails.

[Laughter]

Colin Mayer: Okay. So Facebook very much had a purpose in terms of creating social capital, and that's the cleft that these social network companies create huge amounts of social capital. But the interesting feature about social capital is that it is in essence a prime form of a natural monopoly because the more people that are connected to the system, the greater the success of that system. So it almost immediately creates a public policy problem, namely, how do you control this natural monopoly?

But the natural monopoly then takes on a particular form in the case of social network companies like Facebook. That is to say, they are global natural monopolies. And not only multinationals, the product itself is a global product. And that makes traditional forms of regulation most inappropriate for dealing with them because regulations are based on the large on national boundaries whereas the products, let alone the companies are international and global in nature. That's the second problem.

The third problem is as I described earlier on, they don't employ for the most part either the material capital or financial capital. The main capital that they employ are human capital and social capital. And one thing we have no idea about in terms of regulation is how to measure the assets of businesses on the basis that we use for regulating traditional utilities or other monopolies.

So we have no firm foundation on which to design regulation even if we could actually control these global monopolies. And that reflects a final feature that makes that control particularly difficult, and that is to say competition policies that grow up in the Chicago Street was all about antitrust in relation to product monopoly distortions. That's not the primary issue. That's not the main problem that one faces. It's a matter of the social problems that are created, and the use of data and issues like that, again, about which we know very little in terms of how to structure regulation and competition policy.

John Ruggie: Right. And even in terms of human capital, there are really two types of human capital involved, one is the people who write the algorithms and the other is the people from whom they extract information.

Colin Mayer: Absolutely.

John Ruggie: Facebook is sort of a new extractive industry.

Colin Mayer: Absolutely, but not unusual because if you think about Uber for example, it does exactly the same.

John Ruggie: Well, yeah. I guess – yeah.

Colin Mayer: And has exactly the same sort of confident.

John Ruggie: Right. Well, thank you. I don't want to monopolize the time. We have a lot of other people here who would love to hear from you.

Colin Mayer: Thank you very much indeed for those comments.

Linda Bilmes: I'm going to open it up for question. But before I do, I just like to ask one question of my own. We are the Kennedy School of Government and I'm wondering, Colin, if you can talk about what is the role in the reforms that you are talking about, I mean you are talking about a very major radical overhaul of the definition of capitalism with a number of implementation issues, what is the role of government in this? And for the students in the audience, they are thinking about working in the private sector or working in government, how did they think about that?

And just to start off, I mean why can't government do all this? Why do we need the change in the corporate sector itself? Why can't government fix the problems?

Colin Mayer: Okay. On the last point, I've given you an illustration of how government is just not placed using its traditional tools for controlling the types of problems that are emerging. And on the contrary, the issue that's arising is that corporations are growing to a scale wherein some cases, they are larger than countries. And as they grow in scale and as governments find themselves increasingly unable to finance the public services they traditionally provided, they turn to the private sector to do it for them.

And hence, we have observed privatizations contracting out as the mechanism for century providing services, goods and services, to which we termed governance to satisfy our needs. So we are increasingly dependent on institutions that are – we have no effective means of controlling using traditional tools to provide a lot of our needs.

And the role of government then goes beyond this traditional form of essentially crying and punishment of saying that we sack the rules and then punish those who abuse the rules to saying we need to think about aligning the interests of companies with us as societies more generally. And the way in which government has a role to play in doing that is through the various instruments that I talked about earlier on. That is to say, thinking about how we've misconceived the nature of the company under our current corporate law and how we need to reformulate that corporate law, how we need to reconfigure regulation among the lines of what I was just talking about.

And I'll give you an illustration of how it can use existing forms of law quite effectively in this area. One of the most interesting developments in this country is being the emergence of B Corps and in particular, the benefit corporation by which directors of companies have a legal obligation to uphold a public purpose as well as a commercial objective. And if they fail to do so, then their shareholders can take out adjunctively against the directors of those companies.

Now, those benefit corporations to date have been relatively small companies. But what I'm suggesting here is, that actually, the most useful application of that model is exactly the opposite end of this spectrum in relation to the commanding heights of the economy like utilities and infrastructure providers and public goods and services providers. It's in those companies that we want to incorporate their public license to operate in the articles and the charters and to pose a fiduciary duty on directors to uphold the public purpose as well as their commercial activities.

So those are some areas where government can play a very productive role in bringing about the changes that I'm talking about. But perhaps the most significant, and this comes on to your issue about, well, what should people thinking about moving into the private or the public sector consider in making those choices?

What I'm arguing here is that that division between the public and the private sector is an unfortunate, unnecessary, and unhealthful one because in essence, what I've been describing here when I talk about the purpose of companies as being to solve problems of people and planet and property. You can interpret that as being a private objective or you can interpret it as being a social objective. And the extent to which it's one or the other depends on the choice of companies except where regulators deliberately align the purpose with the public and social objective.

So we have use this model equally well for thinking about how to run state-owned corporations as we do in relation to privately-owned corporations. And what we need to think about in this regard is building effective partnerships between the public sector and the private sector so that this conflict is not any of the feature of the system but instead, one has an element of commitment by companies to uphold that public purposes when they are supposed to do that.

Linda Bilmes: OK. That's great. So why don't we open it up for questions now? Okay. Over there.

Participant: Thank you very much, Professor. My question relates to the meaning of the purpose of the company.

Colin Mayer: Yeah.

Participant: I wanted to know who defines the purpose? How is it defined? How to avoid the politicization of the purpose? Wouldn't that purpose goes against the majority of the population? And do you define what is a good or bad purpose for a company to uphold?

Colin Mayer: Okay. Well, thank you for that question. And it's a very important one because first of all, your question as to who defines it is that initially, it's clearly defined by the founder of the company. You set up a company as an entrepreneur. You define the purpose of why you set up that company, why you created. Remember what I defined as being purpose was why something exist, why it's created, what it's there to do. So that purpose is initially defined by the founders of companies.

And in many cases, the founders of companies also want to retain control so that they can go on ensuring that that purpose is not lost as the company develops. One of the striking features about the US is the ability of many founders to do exactly that. So Larry Page and Sergey Brin in the case of Google retain control over the purpose of what was Google and now is Alphabet.

Reid Hoffman retained control of LinkedIn until he sold it off to Microsoft. And Mark Zuckerberg who we have just referred, retains control of the purpose of Facebook.

What has allowed all of them to do that has been the existence of "dual-class shares" by which founders are able to go on retaining control even as the raised capital and sell off the shares in the company. Now, that's a very important distinction between the United States and the UK. One of the reasons why we've lost that purpose from the founders is that in the case of the UK, we are not able to use dual-class shares.

Now to come to your point about politicization and what makes for a good or a bad purpose and what happens when the purpose is contrary to the interest of the population at large. That comes to exactly the issue that I was talking about in terms of the need then for governments and regulators to be able to step in as in the case of companies like Google and Facebook and ensure that there is an alignment between the public interest and the private purpose.

So when companies are starting up in small, it's perfectly appropriate and we want to have as much diversity in terms of corporate purposes as possible and the need to align public with – private with public only then emerges when the sorts of conflicts that you're talking about appeared.

Linda Bilmes: Okay. That's great. So I'll take the next question. I did want to just mention that I see we have ***Kojis*** **[0:54:37] [Phonetic]** here from Japan and ***Maris*** **[Phonetic]** from Germany and people from – a number of people around the world called in. So one of the things that is great in the book is that you've drawn examples from all over the world. And so maybe in a couple of these questions, you might touch on situation in Germany and Japan for some of the slightly different ownership model.

Okay. So the next – I think you had your hand up, and then John.

Participant: Yeah. I'd like to ask you about the implementation if you can. So you say we need wholesale changing the corporate ***bulk*** **[0:55:10]** and you know how it goes, right? Maybe over 10, 20, 30, 40, 50 years we can get something big happen. There are maybe other ways, ESG, reporting. I don't know. Do you care about the implementation at all or do you want to leave it to others?

Colin Mayer: No. I'm absolutely focused on implementation. And as I described via the current stage of the future of the corporation program, it's all about implementation, of identifying policies and mechanisms for implementing these ideas and what will bring about effective change.

So in terms of mechanisms such as ESG and reporting, those as I described are very much the focus under what we are terming the measures of performance and alternative ways of doing that and ensuring that there is an alignment of the interests of companies in terms of what they report and are centered with the achievement of these objectives.

So it’s very much focused on bringing about the types of change that we are talking about here.

Linda Bilmes: John?

John: Intrigued by your kind of reference earlier to Larry Fink and maybe we can use that as an example and I want to extend that as something that John brought up Marty Lipton and Larry Fink and public relations kind of aspect of it. I could make an argument that the private and social incentives are actually aligning and that Larry Fink is taking the path that he is on not just because he maybe believes it and thinks it’s an important central contribution but because it’s also his interest as a fiduciary.

And the argument would go something like he has a bunch – first of all BlackRock has $7 trillion under management assets.

Colin Mayer: Yup.

John: Right? Half of that is in equities.

Colin Mayer: Yup.

John: And half of the equities are in index fund.

Colin Mayer: Yeah.

John: So he doesn’t have the ability to go into an index fund and say, “I don’t like that company. Get rid of it.”

Colin Mayer: Yup.

John: He also has investors that are primarily pension funds and they have a long term perspective on the retirement funds. And so it’s in his fiduciary interest to make sure that the system as a whole works because that’s the one thing that he can affect in some ways. And that he is really doing this. And so you are starting to see an alignment of the private incentives with the social incentives in a way that could be incredibly constructive for rethinking elements of capitalism and how you define a firm. Because if you take BlackRock, Vanguard, and State Street as you mentioned …

Colin Mayer: That's $23 trillion.

John: And if they control about 18% of the equity …

Colin Mayer: Yeah.

John: And so, am I just being overly optimistic that there maybe these incentives that are aligning or is it John version where it's a public relations ploy and it's just that lots of shiny objects over here while we all go make money?

Colin Mayer: Well, the answer is and no. It is – you are absolutely right in terms of what is described as the universal owner, a feature that increasingly, we as investors and institutions like BlackRock, Vanguard, Fidelity own a global portfolio, okay? And we haven't got much choice in terms of what we own because increasingly as you are describing, we are all just holding the ***industries*** **[0:58:52] [Phonetic]** around the word.

And that has the feature that what then concerns us as investors and what concerns the BlackRock and Fidelity is exactly the things that should concern us as society. It's the systemic risk. It's not the risk of individual company. It's the system risks of political intervention of trade rules, of environmental degradation giving rise to regulation, et cetera. Those are the real risks that concern investors and institutions.

And therefore, it is as you say in the interest of the leader for those institutions to get companies focused on solving problems and putting purpose first. So in that respect, I think you are absolutely right. There's quite a lot of optimism behind those statements that are being made.

What makes me more cautious are a number of features. And that is, first of all, the extent to which Larry Fink has put his money where his mouth is as being pretty limited. He has expanded the number of people working in this area from 20 to 60, three times. But 60 for managing several thousand companies is a bit of a joke.

John: That's what my hedge funds friends would say too. It's like we will see what he really does.

Colin Mayer: Absolutely. So that's the first cause of concern. The second is I think that these all miss a key element and it comes back to something that I was saying and I want to pick up on what Linda was suggesting just now. And that is, distinguishing between the UK and the US which have these highly diversified systems of capitalists by which basically everyone is investing in dispersed institutional investments. That is not a feature of virtually every other country in the world. Nearly every country in the world even the largest listed companies have substantial blockholders in them that command a significant fraction of the shares in a company.

Now, those blockholders are in a large majority of cases families. So in most companies in the world and I'm not just talking about the 200 million private companies in the world, I'm talking about the 40,000 listed companies which are relatively large companies in the world, even in those companies they are dominated by families in particular that have controlling shareholders in those companies.

What's the importance of that? The importance of that is that those large blockholders have both the incentives and the ability to be able to exercise control in such a way as to ensure that the purpose is stated and the purpose is upheld. And if they fail to do so, the consequences not just the financial consequence but also a reputational consequence on the name of those families. And that element of having an identifiable shareholder not just anomalous dispersed shareholder is extremely important in creating the notions of relationships that are underpinning as being key to the successful development of these purpose-driven corporations. So yes, some optimism but no, that is not the entire solution to the problem.

Linda Bilmes: Do you want to comment on that? No? Okay. So the next question is here. Yes.

Participant: Excellent. The areas that I think **[1:02:49] [Indiscernible]** which is corporations have to compete with each other not only in one country but globally to survive.

Colin Mayer: Yup.

Participant: So how do you make a balance between commercial competition and public purposes?

Colin Mayer: Okay. So this question often comes up about to what extent is a focus of purpose inconsistent with companies having to operate in a competitive, an increasing competitive global world? Does it undermine the competitiveness of companies and the nation? The answer I would give is exactly the opposite. And I suggested that the most successful companies in the world are those that have clearly defined purposes and ownership and governance structures which demonstrate that they uphold those corporate purposes.

I want to again draw examples from around the world and in particular focused on Denmark as a country which has what are termed industrial foundations. Those are companies that are owned by trust and foundations, that have as their primary objective to uphold the purposes and values of the founders of those companies. So companies like Bertelsmann, Bosch, Carlsberg, IKEA, Tata, Tata is an Indian is an conglomerate industrial foundation, in all of those cases, the primary function of those foundations is to ensure that the companies, the commercial activities below them have defined purposes that are upheld and the values of the founders of those businesses.

Those companies have been commercially extremely successful in terms of their profitability but they also display another feature, and that is, they survive. They have a much longer life than companies in similar industries, of similar size but of different ownership structure. And it's an illustration of the extent to which unconventional views and comment, forms of ownership that many people would say as the worst type of ownership and governance because it's essentially putting companies in the hands of a small group of people who determine the destiny of the firm.

On the contrary, it's essentially providing the stability for companies to be able to really develop a strong purpose and uphold these purposes.

Linda Bilmes: So, we are running short of time. So why don't we take your question and your question both quickly and then you can respond to those two and then I think we will have to end at that point? So …

Participant: Thank you very much. This might be an introduction to others. My question is concerned with the operationalization of purpose. So if we don't go with Milton Friedman's idea, we have to go probably with Peter Drucker's idea who says, "Free enterprise cannot be justified as being good business but as being good for a society." So partners have to make a contribution to societal value to say public value creation. But as a CEO, you can only manage what you measure. So how do we measure this societal license to operate this public value creation that is the ultimate result of the good purpose?

Linda Bilmes: Okay. And so, let's take your question as well and then Colin, you can answer both.

Colin Mayer: Sure.

Participant: Yes, thank you. I have a 40 years of arduous experience in this field so let me ask you this question. Is there a role for a "world corporate charter organization" to reconcile the mismatch between large companies particularly the 40,000 you mentioned, probably 140 or 50,000 that have truly some international market supply chains customers and so forth? On one hand – on the other hand, the licensing of each corporations be in under British law, German law, Chinese law, or US law where that disconnect, the national charter versus the global footprint and handprint, can we resolve that through a new regulatory global regulatory body?

Colin Mayer: Okay. So firs of all, the question on measurement, the answer is that that is a key element of it and the development of measures that reflect other forms of capital is what is being undertaken in a number of different organizations. And there are some very interesting ideas that are emerging in terms of how to do this effectively. And I'll just give you one illustration.

I sit on a committee in the UK that's concerned with natural capital, preservation of our environment and our natural capital. And the key element of what we've doing as part of that is to determine to measure natural capital both in terms of how government should be measuring it from a national point of view but also how corporates should be measuring it from the point of view of accounting and evaluation from the perspective of investors.

And what has emerged has been a mechanism by which one can do it in a form that doesn't involve creating very subjective valuations based on discounting benefits in the long term. But essentially used traditional forms of accounting which focused on the cost involved in terms of investing in natural capital and maintaining and sustaining natural capital.

So I just want to emphasize that as being an illustration and the way in which one can provide very effect mechanisms for allowing management to measure what they manage in such a way as to now just be focused on financial capital alone.

In terms of your question about should we be looking to have a global of charter or a global form of regulation to address the problems that I've been describing, the answer is that that clearly would be merits in terms of having some form of global regulatory system for dealing with companies that are becoming increasingly global in terms of the nature of their activities.

But we have to be cautious in terms of not then imposing a particular model of what the firm should look like. So when you talk about a global charter, what would concern me is the notion that there is in essence, one particular form in which we should be looking for companies to structure their activities.

To illustrate the concern around that, if we took the card paradigm as the guide to what that global charter should be, it would focus on for example, Delaware, it would focus on the notion that it's all about shareholder interest. That for the reasons I was saying would not be an appropriate form on which we should be harmonizing our global charters. We need to allow companies to choose forms that are suited to their particular types of activities. If we could essentially create a system of corporate law which did that both at the national and the global level them I would be less concerned about this development.

But at the moment, the best way of achieving that is in essence to having a diversity of forms of corporate laws in different countries around the world which for example allow companies in Europe that chose to incorporate under German law to have a 2-tier bullet structure which allows for employee represented on the board, whereas if they choose to incorporate in the UK, at least so long as it remains part of the EU, allows European companies to emphasize the importance of shareholder interest.

So at the moment, the best way of creating that diversity is through allowing that multiplicity of corporate form.

Linda Bilmes: Okay. Well, unfortunately, we are out of time. But I want to thank, first of all to thank the Mossavar - Rahmani Center for Business & Government and John Haigh and Scott Leland for sponsoring this session, and to thank very John Ruggie and our special guest, Colin Mayer, for really provocative conversation. The book is *Prosperity: Better Business Makes the Greater Good* by Colin Mayer. And it has gotten absolutely rave reviews in the Financial Times and elsewhere and we are all very, very grateful to you, Colin, for coming over and speaking to us. So thank you.

[Applause]

[End of transcript]