

# The purpose of the corporation

## Mark Goyder delves once more into what companies are for

Not long ago I was invited to take part in a debate at Chatham House in London. It was entitled “The purpose of the corporation: Adam Smith Revisited”. That man Smith again! On the agenda were six propositions from Allen White, co-founder of Corporation 2020, an organisation formed in the United States to “rethink corporate purpose, rights and obligations”.

The first proposition was: “The purpose of the corporation is to harness private interests in service to the public interest.” The others referred to “fair returns” for shareholders, operating sustainably, equitable wealth distribution, participatory and ethical governance, and the need for companies not to infringe on universal human rights.

For many of us, especially in the UK, these questions were not new. Fifteen years ago this month, an Englishman called Charles Handy gave a lecture entitled “What is a company for?” Did it exist for society or for shareholders?

In terms quite similar to White’s, Handy asked: “Is the pursuit of self-interest bound to be for the common good or do we need to recognise that Adam Smith lived in a simpler world, at a time when, for instance, you loved both yourself and neighbours because you knew them and could not ignore them? Do we need new rules for a new and more complicated world?”

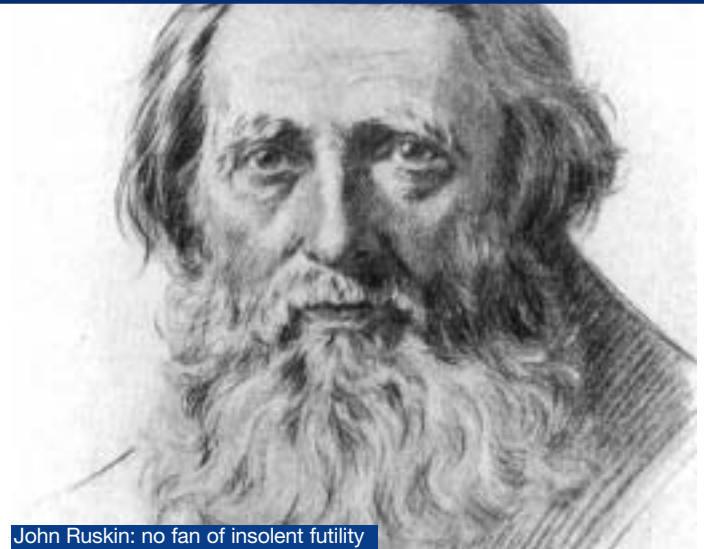
Looking around my bookshelves, I can find others asking the same question. Here is George Goyder, the inventor of the social audit, writing in 1987: “The challenge we face is to discover a philosophy of company law which is socially and morally acceptable and at the same time encourages efficiency. We need to apply the principle of trusteeship, which is an expression of the natural law.”

### Hark back to Ruskin

In 1862, in “Unto this Last”, we find John Ruskin writing about the difference between political and mercantile economy. He says: “The idea that directions can be given for the gaining of wealth, irrespectively of the consideration of its moral sources ... is perhaps the most insolently futile of all that ever beguiled men throughout their vices.”

Since the industrial revolution, each generation has searched for a better balance between making money and meeting the needs of society. Today’s generation needs answers on a global scale. But is there any single answer to Handy’s question? My answer, and that of Tomorrow’s Company over the past 15 years is a firm “no”.

All over the world, people are starting businesses for all kinds of reasons: to climb out of poverty, to gain independence, to earn a living, to prove a point, to get rich, to express themselves, to



John Ruskin: no fan of insolent futility

have fun, to beat the hell out of the competition, to put someone they hate or fear out of business.

It is untrue to human experience to claim, as the first Corporation 2020 principle does, that the purpose of every corporation is to harness private interest in service to the public interest. This first principle is, however, a good description of the purpose of capitalism.

It then remains for each company, like each human being, to work out its purpose and its own way of squaring the circle linking the claims of society, shareholders, employees and other stakeholders – and for society to create a framework of such powerful transparency that those companies and their leaders are held truly accountable. We cannot expect to like all the answers we hear: but we can at least ask of companies that they say what they mean.

It is unrealistic to imagine that you can retain the competitive dynamics of capitalism while asking companies to look after social equity. If they want to say they are in business to get rich – fine. Let companies tell us. We know where they stand. Equally, if they want to put the needs of the planet into their purpose, then let us hold them to that. That is why I suggested that Corporation 2020’s first principle needed a profound one-word change:

*The purpose of capitalism is to harness private interests in service to the public interest*

The remaining principles can be reduced by one:

- Companies exist to meet human need, but shareholders, customers, employees, the community and future generations all embody different aspects of that need.
- Within the law each company can – and should – adopt its own purpose. Diversity of purpose is part of the richness of a market economy.
- Directors are elected by shareholders to fulfil that purpose; they are accountable to shareholders but should see their duty as being to the company.
- All companies, but especially large ones, have a duty that goes beyond legal obligations to manage and explain their impact on human rights, social well-being, the natural environment and future generations. ■

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### Useful links:

[www.tomorrowscompany.com](http://www.tomorrowscompany.com)

<http://forums.seib.org/corporation2020>

[www.c4cr.org](http://www.c4cr.org)