

RIETI – ECGI – WBF Webinar
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A New Concept of the Corporation: Part 5

The Purpose of the Corporation and
How to Realize its Purpose

What is Corporate Purpose?

- Producing profitable solutions for problems of people and planet, not profiting from producing problems for either
- Dr Endo's presentation illustrates that
- Company's role is to design long-term vision for humans in society with continuous value creation
- NEC's purpose is to connect digital technologies and human hopes to implement visions of a brighter future world

What Are The Main Challenges?

- Defining purpose – consultation with people inside the organization
- Credible, authentic implementation
- Alignment of measurement and incentives with purpose
- Demonstration to investors of commitment to purpose
- Reporting on purpose and measurement of performance against purpose

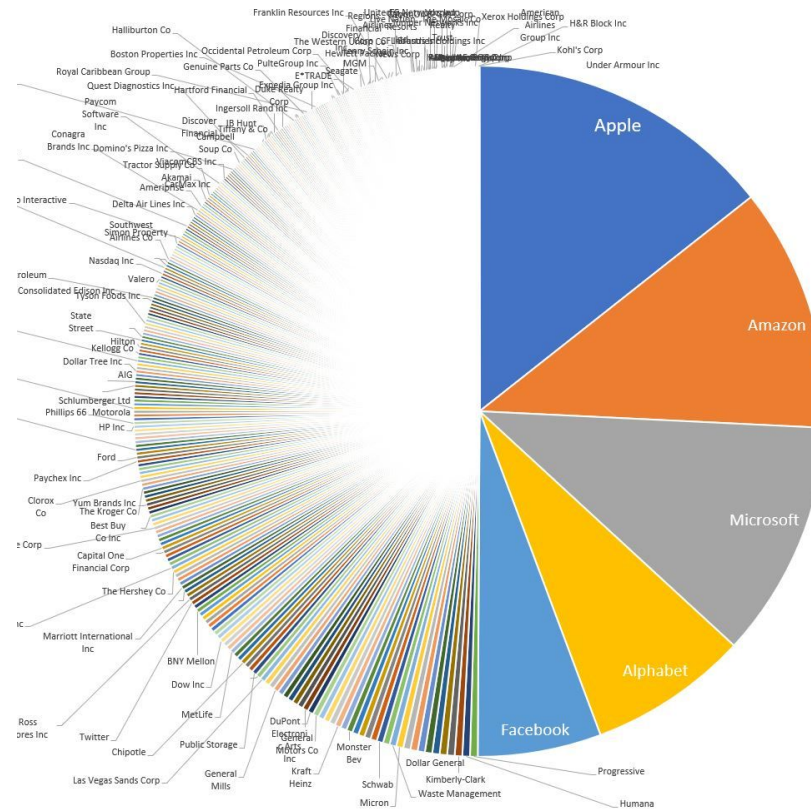
Is There a Tradeoff Between Purpose and Profit?

- Producing profitable solutions for problems of people and planet, not profiting from producing problems for either
- Profit is a sufficient statistic of societal and environmental solutions
- Sufficient condition: if there is a profit then there is a benefit
- Necessary condition: if there is a benefit there is a profit
- So, it is true by definition that profit increases if and only if society benefits

Relation of Purpose to Other Business Concepts

- Two differences from Friedman Doctrine – causation and definition of profit
- Pursuit of profit is legitimate because derivative of solving problems
- Profit only legitimate if not associated with producing problems
- Also different from stakeholder theory
- Involves many different measures, e.g. triple bottom line
- Purpose requires one – correctly measured, true profit
- No conflict between stakeholder and shareholder interests
- Requires innovation and investment in solving societal problems

Example: The Trillion Dollar Companies



Trillion Dollar Companies

- Highly driven, purposeful leaders – Steve Jobs, Apple; Jeff Bezos, Amazon; Bill Gates, Microsoft; Larry Page/ Sergei Brin, Alphabet; Mark Zuckerberg, Facebook
- Business innovations – user friendly, consumer focus, technical capabilities, accessibility, social connectivity – leading to problem solving
- But also problem creating – natural resource usage, global warming, weak employee protection, job substitution, anti-competitive, data usage
- True profit less than reported profit
- Cannot compare social/ environmental costs with financial value creation
- Instead need to know costs of remedying detriments
- Regulators cannot know until too late. Solving yesterday's problem
- True profit powerful driver for choice of right business model

Summary of Lectures 1 to 3

- Concept and definition of purpose
- Law and duty of directors to company purpose
- Regulation as promoting alignment of purpose with public interest
- Shareholders versus owners, agents versus trustees
- Block holders bring long-term stability
- Activism focus on shareholder value but in future more on purpose

Summary of Lectures 4 and 5

- Parallel ownership between universal shareholders and block holders
- Former concerned with global systemic risks; latter with firm specific
- Contrast between ESG/universal standards, and measurement of purpose
- Simplicity and power of purpose through correctly defined true profit
- Aligns private objective of firms and investors with society and environment
- Particular relevance of corporate purpose to Japan

Particular Relevance for Japan

- Concern about low growth, productivity, investment and innovation
- Emphasis on corporate governance reforms and foreign investors
- But also emphasis on social cohesion and values beyond financial value
- Purpose is powerful way of realizing both
- Focus on profit promotes efficiency, growth, innovation and investment
- Also aligns profit with social and environmental benefits
- So, no trade-off and consistency of objectives
- Particular relevance of corporate purpose to Japan, and all countries seeking to promote social and environmental wellbeing as well as economic growth, innovation and prosperity