A FRAMEWORK for Purposeful

An interview with Oxford professor **COLIN MAYER**

THE FUTURE OF THE CORPORATION PROGRAM set out to ask the question: "What is the role of business in society?"

Led by Professor Colin Mayer of Saïd Business School, Oxford University, and run out of the British Academy, it published its final report in October 2021. Described by the *Financial Times* as one of the most ambitious programs to reform capitalism for the 21st century, it had commissioned 17 academic papers, held 29 round tables and drawn on hundreds of experts in business, policymaking and civil society internationally over the four years since it began in 2017.

Entitled "Policy and Practice for Purposeful Business," the final report argues that "business can and does do more than maximize returns for shareholders." It concludes that the role of business is:

> "to create profitable solutions for the problems of people and planet, while not profiting from creating problems for either."

Brunswick Senior Partner Lucy Parker was a member of the Advisory Group of the Future of the Corporation program and interviewed Professor Mayer when the report was published, inviting him to reflect on the lessons for business leaders from this extensive program.

What's the proposition at the heart of your report on purposeful business?

Our argument is that business should be solving problems. And doing that in a way that is commercially viable, financially sustainable and profitable. So, business should be producing profitable solutions for the problems of people and the planet. And the second proposition is that in producing those profits, it should not be doing so to the detriment of others; business should not be profiting from producing problems.

Now those two propositions—that profit should derive from solving problems and not creating problems—sound blatantly obvious. It's almost a pair of axioms that it will seem incredibly hard for people not to accept. But there are two reasons why, despite the fact that they appear to be so appealing and obvious, they are subject to debate.

The first is, some people say, that it's not necessary to specify them because the market's competitive process will deliver that anyway. And the second is that if you try to specify what companies should be doing in that way, you'll damage the way in which our economies function—and business will take on activities that governments should be performing. Business should just be doing the job of making money. That would be all very well, except for the fact that markets are increasingly failing to work like that. And also we've got major social and environmental problems that have arisen and they're not being solved—and need to be.

The report is about the need for business to adapt in the 21st century for it to function in the way in which we need it to function—and how it can do so. What motivated the writing of it, from starting the program back in 2017, was an acute sense that business was going astray and increasingly failing to deliver what we really need.

When you say "business was going astray," what's the problem we're trying to fix?

The problem we're trying to fix is that business should really be there to solve our problems as a society. There was a view until recently that business—almost on autopilot—would do that for us. That was the underpinning of the theory of markets: that profit-seeking firms will produce social benefits, because that's the outcome of the competitive process. And, the theory went, we didn't really need to do very much except to regulate businesses where they were monopolies, and tax to redistribute, otherwise economies just automatically worked for our benefit. Well, we've increasingly come to realize that this very simple and powerful idea which has prevailed over the last 60 years, unfortunately, is increasingly not working like that.

That prompts me to ask: What's changed? Is it the world that's changed or companies that have changed? Why do we need to do something about it now?

Both have changed. That's why now is so important. First of all, companies have become much more single-mindedly focused on the generation of profit,

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irrespective of anything else. But in large part, it's the way in which markets, and in particular financial markets, have operated that's really driven a lot of this—most recently, with the emergence of hedge fund activists who really concentrate the boards of directors' minds on what is going to increase profits and share prices. So, there's that intensification.

Then the world has also changed. We're all increasingly aware of the environmental boundaries within which we operate, and the real risks we face as a world going forward.

But it's not just that; there's been a growing problem in the way in which our societies have been functioning, and a shift away from them being cohesive to very disrupted, fractured. And that level of growing inequality, social exclusion, has really made the problems created by profit-driven firms increasingly severe.

So, this too has intensified the need for business to recognize that there are environmental boundaries, and also social and political boundaries, that they are frequently now violating, and acting in a way that is seriously detrimental to society.

> "You don't profit by harming others. That has to be a fundamental requirement."

That's a significant challenge to put to businesses to say that they are violating social boundaries; what do you mean?

I think people were shocked by the financial crisis, which I know seems distant now. They were willing to accept significant levels of income inequality, for example, in the way bankers were paid relative to the rest of society—on the presumption the financial system was, in general, delivering benefit to all.

The realization that came out of the financial crisis was of widespread abuse; abuse of the trust of others. And it's that decline and loss of trust that has, I think, been particularly damaging. Because business, at the end of the day, really depends on the trust of others. We depend on business being trustworthy.

PHOTOGRAPH: COURTESY OF SAÏD BUSINESS SCHOOL

That was a violation of the way in which we can legitimately expect business to behave. At the very least, you don't profit by harming others. That has to be a fundamental requirement—and it's a fundamental requirement of what we are now putting forward as the purpose of this report.

The idea that companies are there to solve problems resonates strongly with business leaders, I find. They feel that is exactly what their business does, so they're attuned to that first part of your purpose proposition, but they don't hear that second half so easily—the part about not profiting from creating problems. Do you find that to be true?
You're absolutely right, and that's very important. Because if we just say, produce profitable solutions for the problems of people and the planet, businesses say: Yes, that's what we're doing. Of course, we're making this or that—and people want to buy it, so we're solving people's problems.

So that's when we have to ask: What are you doing in terms of your CO2 emissions? What are you doing in terms of social inclusion?

In fact, that is probably the most important element to emerge from this. So long as it remains unclear that companies cannot legitimately profit at the expense of others, you undermine the competitive process. Because companies that are focusing on solving problems profitably are, of course, undermined by those who do profit at the expense of others and you get a run to the bottom. It ends up that competition does exactly the opposite of what we wanted it to do; instead of creating that socially beneficial outcome, it encourages everyone to do whatever it takes to make a profit, irrespective of the impact on others.

In your report you speak about purposes; you make it plural and that brings a new—and I think often overlooked—dimension to the question.
Yes, because by definition it must be purposes—plural—rather than purpose. One of the major drawbacks of the traditional view is it suggests one purpose: profit. This is saying there is a "multiplicity of purposes," encouraging a flourishing of different purposes and making them commercially viable.

This is not, in any sense, a diminution of the significance of markets and competition. On the contrary, it's a way of getting better performing and more competitive markets, and markets that deliver much more in terms of variety of outcomes than is the case at present.

> "So long as it remains unclear that companies cannot legitimately profit at the expense of others, you undermine the competitive process."

My experience is that a lot of people in business still interpret being purposeful as doing great philanthropic work—maybe because that is the historic norm. Do you experience that?
Absolutely. And it's only when you start talking through this with the board of a company that this really emerges.

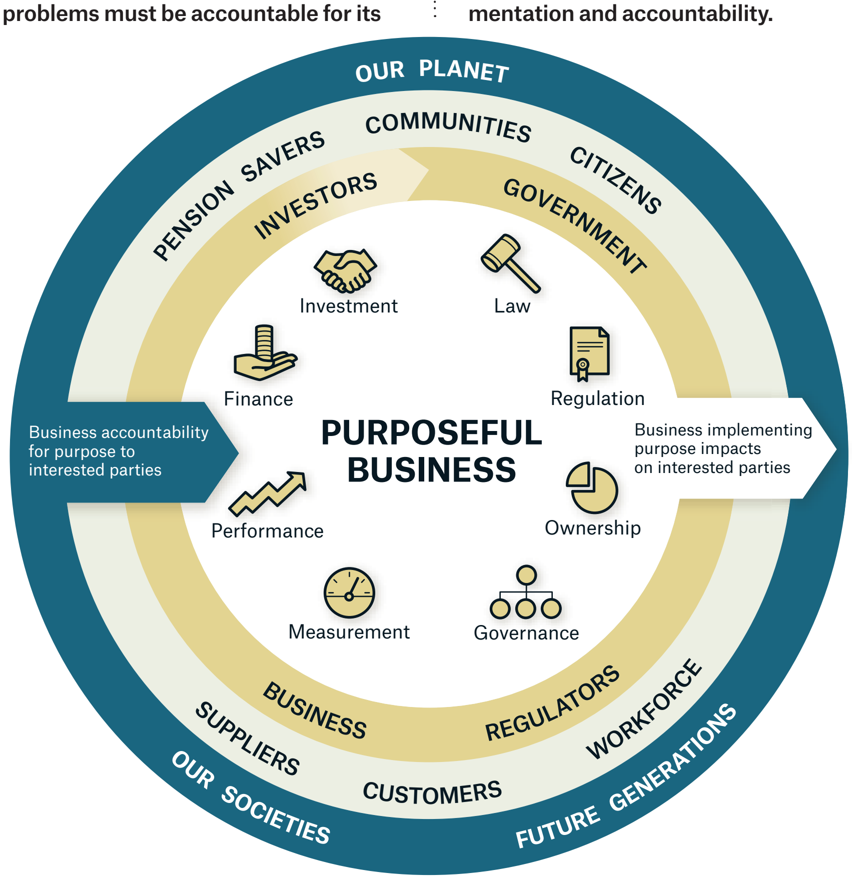
People need to think deeply about what it is to be purposeful. Are they organized for it? What are the problems they should really be seeking to tackle? What does it mean to embed that in the organization? It's only then that people begin to understand both the force of the way of thinking—and the challenge that it poses to an organization.

I find that it's quite transformational, in terms of the way in which the board begins to start thinking about why they exist, what to do and how they interact with the world.

It brings out all of those issues in a way in which they haven't thought about before.

A PURPOSEFUL BUSINESS ECOSYSTEM

The British Academy report suggests that business that creates profitable solutions to the problems of people and planet and does not profit from creating problems must be accountable for its purpose to the interested parties. Business implementing its purpose has an impact on the parties and results in a beneficial cycle of implementation and accountability.



Source: Reproduced from *Policy and Practice for Purposeful Business* (The British Academy, 2021)

GRAPHIC: PETER HOEY

Companies are very concerned about being accused of "purpose washing." How should they think about that?

Purpose washing is simply the use of purpose as a way of promoting and marketing a company, making it look good without it bearing any serious resemblance to what is actually going on in the business. And it's reflected in an immense cynicism within the organization—as well as outside it—in terms of the disparity between what it's saying and what it's doing.

And one of the points I emphasize with companies is the importance of having very effective communication from the lowest levels in the organization, as well as people outside, about what they think the company is actually doing that is meaningful and purposeful.

As a professor in one of the world's leading business schools, you must have a view on what business education can do?

It's central. We've been having a quite extensive discussion about this at Oxford. The first point to make is it's not just business education. What we're talking about here is transformative leadership that's required to promote collaboration between a large number of organizations—it takes collaboration between the private sector and public sector, and in many cases NGOs, to do this. So this is a real opportunity for business schools to recognize they're not just business schools.

In our case, we're going to work with the Blavatnik School of Government; with people in science departments on the environment, and so on. This is an opportunity to recognize that there is a role for almost an entire university to educate people who are going to be taking leadership roles.

Once you think in those terms, it is much more enlightening for everyone involved, and also much more interesting than the bog-standard tools that people currently get. It begins to create a completely different curriculum for any business course and, indeed, any course in public policy.

In your final report, what are you recommending should happen?

The report is about what policy and practice levers are needed to make companies purposeful. By that we mean that it has to become intrinsic to a company; it has to be something in the constitution of a company that directs everyone in the organization to gather around that purpose.

The two key elements discussed in the report are strengthening accountability and promoting more effective implementation. That means in the roles for governments and regulators, and also investors. And it means looking at real accountability and implementation in terms of the governance of companies. It also requires a change in the mindset of companies, from their leaders and everyone in the organization; really thinking about why companies find this so difficult to do.

So in one sense, publishing the final report is the conclusion of the program, but it's actually just the beginning in terms of generating debate.

What do you want this project to do next?

Very simply, we hope it will be seen to have laid out a framework around which policy and practice can be formulated going forward. To my mind, this shouldn't just sit on shelves, it should become something that is not just read but acted on. That's what I see as the next priority. ◆

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LUCY PARKER, a Senior Partner, leads Brunswick's global Business & Society offer.

PRINCIPLES FOR PURPOSEFUL BUSINESS

The report sets out eight principles of how a system that enables and encourages purposeful business could operate:

1. Corporate law should place purpose at the heart of the corporation and require directors to state their purposes and demonstrate commitment to them.

2. Regulation should expect particularly high duties of engagement, loyalty and care on the part of directors of companies to public interests where they perform important public functions.

3. Ownership should recognize obligations of shareholders and engage them in supporting corporate purposes and in their rights to derive financial benefit.

4. Corporate governance should align managerial interests with companies' purposes and establish accountability to a range of stakeholders through appropriate board structures. They should determine a set of values necessary to deliver purpose, embedded in their company culture.

5. Measurement should recognize impacts and investment by companies in their workers, societies and natural assets both within and outside the firm.

6. Performance should be measured against fulfilment of corporate purposes and profits measured net of the costs of achieving them.

7. Corporate financing should be of a form and duration that allows companies to fund more engaged and long-term investment in their purposes.

8. Corporate investment should be made in partnership with private, public and not-for-profit organizations that contribute toward the fulfilment of corporate purposes.