

For Whom is the Corporation Managed in 2020 The debate over Corporate Purpose

Presented by Professor Ed Rock

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The paper of Professor Roch impressed me. He made a very comprehensive review of the discussion on the role and responsibilities of corporate boards with respect to the trade of between profit and purpose and on the question whose preferences in this tradeoff come first and carry the most weight, shareholders or stakeholders. Reading the paper I learned a lot. Let me first clarify from what side I approach the debate. First of all I am an academic but over the last twenty years I have chaired some 7 boards of publicly quoted companies, and some 13 boards of family firms. I have also been a board member in hospitals and in cultural organizations. Finally I have been chair of the Belgian Corporate Governance Committee. But I want to stress that I am not a legal scholar and I approach Corporate Governance from a management and finance perspective, a practical perspective although inspired by theory. This should allow you to position me in the framework that professor Roch has used in his paper. Let me make my comments in a few points.

1. I agree with Professor Roch that corporate governance cannot be a substitute for failures in public policies with regards to inequality and climate change. I think these problems are extremely important but they are collective and truly public issues for which the corporation is not able to step into the shoes of government. Corporates can implement solutions and regulations for these worldwide problems but they cannot step into the role of public authorities. Local solutions will not provide truly global solutions. Policy makers cannot withdraw from the problems by arguing that corporations will or should solve them. That does not mean that corporations have no social responsibility. To the contrary.

Corporations should act as responsible citizens: they should treat employees respectfully and well, they should be honest and fair to customers, they should deal with suppliers in a fair way and they should make sure that shareholders and financiers get a competitive return on the funding they provide. To sum up: corporations should add value to the communities in which they operate.

2. I also agree with Ed that legal changes in the corporate form are not necessary. I believe that within the existing legal forms there is sufficient room for the board to develop a meaningful purpose for the corporation.
3. Within the constraints mentioned in my points 1 and 2 I feel that a corporation needs to develop a purpose for three fundamental reasons:
 - a. Employees are not very enthusiastic to work for companies with the only motivation that they have to make shareholders rich. That is not very motivating. You also cannot give all collaborators a meaningful share in profits, except in private equity or venture capital settings. Therefore in order to manage a modern corporation you need a purpose.
 - b. Customers today have probably less trust in corporations that are only driven by profit motivation. As has become clear from the VW case and some of the pharmaceutical examples. Customers accept that corporations need profits but they do not want to be taken advantage of.
 - c. Shareholders and banks have changed to. Some investors do not want to invest in corporations that have no meaningful purpose: pension funds, university funds etc. and specialized funds, in Belgium the largest growing part of the funds business. The same is true with family firms. Finally banks are no longer able to fund some activities that are bad for individuals and for the environment.
4. In the current corporate forms there are sufficient barriers to excessive spending on the purposes of the corporation. Professor Roch sees two barriers I see three. Ed mentions the fact that shareholders appoint directors. This indeed is a barrier for excessive spending on purpose related activities. But one should add that at least in Europe to day, shareholders of banks have no longer complete freedom to appoint directors and directors must first answer to the ECB before being held responsible by the shareholders. Second barrier mentioned by Ed are takeovers. They are barriers indeed. But I see a third barrier, which plays a role as well, the

cost of capital. Companies that overspend on purpose related activities in my mind will in the end face a higher cost of capital, which will refrain the board from overspending on purpose.

5. Let me sum up. I strongly encourage firms to seek a corporate purpose for a variety of reasons: corporate citizenship, attracting young people, keeping customers and shareholders. I think it is possible to do this within the current legal structures and the current financial markets, they are strong masters but they are in my observation not straight jackets. My current observation is that in Europe many firms, not all, are pursuing a purpose driven strategy not for green washing reasons but because they are pushed by shareholders and society.

Thank you.

Herman Daems
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