Corporate Purpose in Public and Private Firms

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Abstract

Analyzing data from approximately 1.5 million employees across 1,108 established public and private US companies, we find that the strength of employee beliefs related to purpose is weaker in public companies. Among public companies, those beliefs are stronger for firms with more committed owners. These patterns are most pronounced within the salaried middle and hourly ranks, rather than senior executives. Differences across firms can be attributed, in part, to differences in leadership and incentive characteristics. Our findings are consistent with higher owner commitment, and the corresponding policies that arise alongside this higher commitment, enabling a stronger sense of purpose inside organizations.

Keywords: Corporate Purpose, Corporate Ownership, Long Term Investment

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Introduction

In 1928, Mary Parker Follett, one of the earliest modern management theorists, spoke of purpose as the "invisible leader" of organizations. Using English confectioner Rowntree to illustrate this idea, she recounted how every factory worker understood what she meant to the company, and what the company in turn meant to the local community and to industrial England overall. It was "that common purpose rather than Mr. Rowntree himself [that] is their leader" (Follett, 1940:288). This idea presaged what her successors Chester Barnard and Phillip Selznick developed into their theories of organizations (Barnard, 1938; Selznick, 1948): organizations, as "adaptive social structure[s]" (Selznick, 1948), overcome their collective action problems by instilling a common purpose, "the spirit shapes the ends of men" (Barnard, 1938).

Nearly a century after the Rowntree study, however, measurement and data challenges have limited empirical research on corporate purpose across organizations. These constraints persist despite purpose drawing increasing attention from policy makers, practitioners, and academics as an important foundation of strategy, governance, sustainability, and corporate performance (George *et al.,* 2021; Chapman *et al.*, 2017; Younger *et al,* 2020; Hollensbe *et al.*, 2014). This work has argued that a credibly implemented purpose can increase governance quality (Mayer, 2021; Fisch and Solomon, 2020); innovativeness (Henderson, 2021), financial performance (Gartenberg et al, 2019); and social performance (Porter *et al.,* 2019). Yet, we know little about what drives differences across firms, and why some firms are more effective than others at establishing a strong sense of purpose.

In this study, we explore ownership structure as one potential source of this difference. We focus on owners for several reasons. First, a firm's owners influence the choice of who is placed in management positions and where they focus their attention (Zhang and Gimeno, 2016). Owners have been shown to influence a firm's investment, financing, and governance choices (Trostel and Nichols 1982; Capron and Shen 2007; Asker, Farre-Mensa and Ljungqvist 2014; Gilje and Taillard 2016), as well as innovative direction (Feldman *et al.*, 2018; Bernstein 2015; Hoskisson *et al.,* 2002; David *et al.,* 2001) and competitive strategy (Connelly *et al.,* 2010; Chen and Feldman, 2018). As such, owners have broad power to affect core aspects of the organization.

Moreover, the relationship between owners and management is shifting. Among public companies, institutional investors have become increasingly active (Fisch *et al.,* 2020), and hedge funds routinely exert influence over corporations (Kahan and Rock, 2007). The largest institutional investors, such as index managers, are also becoming more engaged, increasing their informal communications with their portfolio firms and influencing board decisions (Fisch *et al.,* 2020). Ownership structures are also changing within the economy. In recent years, much attention has been placed on the "eclipse" of the public corporation, as the number of public companies has declined, and companies remain private for longer (Kahle and Stulz 2017; Doidge, Kahle, Karolyi, and Stulz, 2018), as well as on common ownership, the growing concentration of larger institutional investors (e.g., Backus *et al,* 2021). Given that management is ultimately accountable to firm owners, a natural question arises about the implications of these shifts for purpose, Follett's "invisible leader" of organizations.

In this paper, we consider one aspect of this question: the relationship between the strength of an organization's purpose and whether it is publicly held and, more generally, the commitment level of its owners. Public listing enables a firm to raise capital from many investors, whose shares are traded on public exchanges. The liquidity of these shares in turn creates an ownership structure that is more fluid over time. Indeed, the average holding period for stocks traded on the New York

Stock Exchange was nine months in 2019, shorter than any period since the 1920s.[2] In contrast, the limited liquidity in private markets translates into substantially longer ownership horizons. We explore whether this limited liquidity and, as a result, the higher resulting commitment of private market owners, translates into a stronger sense of purpose within the firm.

Corporate purpose is an intrinsically imprecise concept that is challenging both to define and measure. We conceive of corporate purpose broadly as a company's "reason for being."[3] We measure the strength of this purpose by aggregating actual employee beliefs in the meaning and impact of their work, using the approach established by Gartenberg *et al.* (2019). This approach circumvents corporate announcements that have been shown to be inconsequential "cheap talk" (Guiso *et al.*, 2015; Michaelson *et al.,* 2020), and instead relies on the collective set of employee beliefs to construct a credible, scalable, and comparable signal of purpose at an organization level. The rationale for this approach is that, when implemented effectively, corporate purpose results in employees on aggregate holding stronger beliefs that their work has meaning and impact. The overall strength of these beliefs can therefore serve as a proxy for the strength of the organization's purpose.[4]

Our data comes from a proprietary survey from the Great Place To Work Institute (GPTW). This survey, to our knowledge, represents one of the largest data sources on employee workplace perceptions available to researchers. We obtain measures of purpose for 1,108 firms based on the beliefs of 1,509,797 employees. These employees span the organizational hierarchy from hourly

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[2] https://www.mfs.com/content/dam/mfs-enterprise/mfscom/insights/2019/November/mfse_time_wp/mfse_time_wp.pdf, accessed Aug 5, 2020
[3] Purposeful Company Report, 2016.
[4] We use the term "purpose" throughout this study. "Purpose" generally refers to the content of beliefs. In this study, however, we are interested in the strength of the beliefs, or "purposefulness," and not the specific beliefs themselves. Similarly, when we refer to "meaning" within the workplace, we generally are interested in "meaningfulness," or the strength, rather than the content, of meaning. For readability, we often shorten "purposefulness" and "meaningfulness" to "purpose" and "meaning", respectively.

workers up to executives. Critically, the data includes both publicly listed and privately held firms, enabling us to conduct our analysis.

Following Gartenberg *et al.* (2019), we derive our proxy measure for purpose by performing a factor analysis on the full set of survey items. Of the four factors derived by the analysis, we identify the factor that includes beliefs regarding the meaning and impact of work (e.g., *"My work has special meaning: this is not just a job"; "I feel good about the ways we contribute to the community"*). This factor also includes beliefs about the clarity provided by management (e.g., *"Management has a clear view of where the organization is going and how to get there"; "Management makes its expectations clear.")*. This combination of meaning and clarity represent a single bundle of beliefs that covary across survey responses; respondents tend to record strong or weak beliefs in meaning and clarity in conjunction with each other. This combination of meaning and clarity, while emergent from our factor analysis, is consistent with research on the role of clarity in sustaining informal commitments within organizations (Gibbons and Henderson, 2012a, b). Moreover, it is important to note that these beliefs are orthogonal to a separate factor that captures perceptions of overall management quality as well as to overall satisfaction.

We begin by reporting how purpose differs across public and private firms. This first analysis yields several notable findings. First, purpose is weaker in public firms, relative to their private counterparts. This difference is substantial, translating to approximately 20 percent of a standard deviation difference in purpose within the sample. Next, we provide evidence that these patterns can be explained, at least in part, by differences in owner commitment levels. To do this, we construct three proxies for commitment, two related to public firms and one to private firms. Within the set of public firms, first, we measure the percentage of voting shares held by dedicated minus transient institutional investors, with a larger percentage corresponding to greater commitment to the firm (Bushee 1998; 2001, Eccles et al. 2014; Brochet et al. 2015; Zhang and Gimeno 2016). Second, we measure the percentage of shares held by hedge funds. Because hedge funds have higher cost of capital, targeting 15-20% investment returns, they typically have a high discount rate and are likelier to seek investments with large and relatively fast payoffs (DesJardine, Marti and Durand 2020). We use this second measure as a proxy of less commitment. Among private firms, we identify the set with private equity (PE) owners. Because of the contractually determined and limited fund lifetime, PE owners typically have a 5 to 6 years horizon when investing in the firm. Therefore, we expect PE owners to exhibit less commitment relative to other private market owners (e.g., owner-managed, family firms) that have been found to be financially, emotionally, and socially committed for decades or even generations (Villalonga and Amit, 2020; Gomez-Mejia et al. 2011; Carney et al. 2015). All three proxies show that greater owner commitment is associated with higher corporate purpose, although the results for PE do not obtain statistical significance in several specifications.

Given that we lack a natural experiment, we are cautious about making causal claims regarding the effect of ownership on corporate purpose. Specifically, we cannot definitively separate the interpretation that these empirical patterns reflect the match between owners and firms from the interpretation that owners directly influence the strength of purpose. Our view is that both mechanisms are likely at play. To separate the treatment from the matching interpretations, we perform several lead-lag analyses. We find that hedge fund ownership both leads and lags purpose while purpose leads more dedicated relative to transient investor ownership. As such, hedge funds appear to have both a treatment and matching effect on purpose, while dedicated institutional owners appear to select firms with stronger purpose. This dichotomy is plausible given that hedge funds are more likely than other institutional funds to be active owners. Moreover, dedicated investors, by construction, are slow to adjust their portfolios (i.e., lower portfolio turnover) and therefore their effect would be harder to detect in our data.

To provide further insights into the mechanisms through which purpose might be related to ownership, we augment our models with organizational features, including measures of leader commitment and the rewards structure inside an organization. We find that several of these measures—such as whether the CEO joined in lower ranks and was internally promoted, the pay gap between the CEO and employees, and the degree to which CEO incentives are based on nonmonetary factors—are related both to owner commitment and to purpose.

This study makes several contributions. First, we add to a growing body of work on the role of corporate purpose within firms (George *et al.,* 2021; Mayer, 2021; Chapman *et al.,* 2017; Thakor and Quinn, 2013, Henderson, 2021; Gartenberg *et al.,* 2019). In doing so, we respond to a call from Hollensbe *et al.,* (2014) for empirical work on the topic. Both this call and our study directly relate to a recent resurgence of interest in the role of firms in society (Mayer, 2020; Edmans, 2020; Hart and Zingales, 2017), with our study providing evidence that ownership structure and purpose are related. Second, our effort also contributes to recent work in strategy that has adopted a comparative governance lens through which to assess firm behavior (e.g., Luo and Kaul, 2019; Klein *et al.*, 2019; Connelly *et al.,* 2010; Bloom *et al.*, 2012). These studies address the impact of different institutional ownership arrangements on both strategic and social outcomes. Our study shows that ownership affects not only outside stakeholders, but also employees and their perceptions about the meaning and impact of their work. Last, we contribute to research on corporate ownership that assesses differences between public and private firms (Capron and Shen 2007; Asker *et al.,* 2014; Gilje and Taillard 2016; Bernstein 2015; Fitza and Tihanyi 2017). Our work suggests that the likely impact of public ownership extends beyond financial decisions and calls for further research focused on the implications of ownership for the management and governance of corporations.

Corporate Purpose

In this section, we first define corporate purpose. We then consider how it is shaped by a firm's leadership, and how these leaders in turn are shaped by a firm's owners. Based on this logic, we then present two hypotheses regarding the nature of a firm's owners and corporate purpose.

What is Corporate Purpose?

Corporate purpose is the "why" behind an organization's existence. It is often defined with a social orientation, as in Bartlett and Ghoshal (1994): "the statement of a company's moral response to its broadly defined responsibilities, not an amoral plan for exploiting commercial opportunity." Thakor and Quinn (2013) similarly consider purpose as "something that is perceived as producing a social benefit over and above the tangible pecuniary payoff that is shared by the principal and the agent." Purpose need not be explicitly prosocial, however. The Purposeful Company Report (2016) defines purpose more broadly as a company's "reason for being,"[5] a definition that includes companies driven by creative, technological or other deeply-held, but not necessarily prosocial, motivations. Gartenberg *et al.* (2019)'s definition is similar, as "a set of beliefs about the meaning of a firm's work beyond quantitative measures of financial performance." We view purpose as encompassing this broader perspective.

[5] The Purposeful Company Interim Report, May 2016.
http://www.biginnovationcentre.com/media/uploads/pdf/The%20Purposeful%20Company%20Interim%20Report.pdf,

While interest among practitioners has surged over the past decade, the importance of corporate purpose has long been recognized, initially by Mary Parker Follett, Chester Barnard, Philip Selznick, and the other early institutionalists from the mid-20th century who studied organizations and their role in society.[6] For these scholars, firms distinguished themselves from markets in their capacity to act as "cooperative systems," (Barnard, 1968), what Chandler referred to as the "visible hand" of formal organization (Chandler, 1977). In their view, purpose was as central to guiding organizations as prices were to markets (Ghoshal and Moran, 1996). It also represented more than organizational goals, providing an outlet for the deeply held aspirations of the members (Barnard, 1968: 282): "Organizations endure… in proportion to the breadth of the morality by which they are governed…Foresight, long purposes, high ideals, are the basis for the persistence of cooperation." Selznick had a similar conception: purpose enabled companies to evolve from "expendable organizations" to "enduring institutions…infused with value" (Selznick, 1957: 18).

In this view of firms as adaptive social systems, purpose guides the organization, providing the foundation of cooperation. Purpose is therefore realized not when it is formalized as a "purpose statement," but when it forms the basis of collective beliefs within the organization. José Viñals, the Group Chairman of Standard Chartered, the large UK financial services company with 100,000 employees worldwide, articulated this view from his practitioner vantage:

> Purpose can never simply be a nice statement written on the walls of the company; there must be a deep understanding of the purpose and its connection to decision making to make it a reality. We experienced this during Covid19: we didn't have a map to navigate the crisis, but we did have a strong compass of values and purpose to guide us.[7]

[6] For example see here for a legal perspective from Wachtell, Lipton, Rosen & Katz: https://corpgov.law.harvard.edu/2020/08/05/on-the-purpose-and-objective-of-the-corporation/
[7] IESE-ECGI Conference, Oct 30, 2020

In other words, purpose is intrinsically an intangible idea, existing as the collective set of beliefs about the meaning of the work that guides the organization. This view is sufficiently broad to encompass the myriad aims that underpin organizations, but not so sweeping as to encompass all intangible aspects of the organization, such as culture, identity, and values.[8] Moreover, the existence of these beliefs is not a foregone conclusion: there may be firms in which employees view the organization as devoid of purpose, and others for which the opposite is the case.

How Does Purpose Impact Employees?

From the early institutionalists onward, purpose was considered central to organizations precisely because of its impact on members. In this sense, it falls into a class of level-spanning constructs, situated at the level of the organization, but substantiated through the convictions of its members (Felin, Foss, and Ployhart, 2015).[9] This impact takes several forms.

First, purpose endows daily work with meaning (Besharov and Khurana, 2015; Bass and Riggio, 2006). Meaning has long been understood as one of the primary motivators of individuals, (Frankl, 1946). As Barnard (pg 93: 1938) argued, "it appears utterly contrary to the nature of men to be sufficiently induced by material or monetary considerations to contribute enough effort to a cooperative system to enable it to be productively efficient to the degree necessary for persistence over an extended period." Recent research has supported this view, showing that meaningful work is often valued above income and career advancement (Cascio, 2003) and increases employee effort and quality (Grant, 2008; Ariely *et al.,* 2008; Cassar and Meier, 2018). When employees can

[8] We consider the links with these other aspects in the discussion section. One construct that is difficult to separate from purpose is "mission" in that practitioners tend to use these two terms interchangeably. We use the word purpose to encompass both ideas.
[9] This class of constructs raises two questions: first, how can we justify this aggregation into an organizational construct, versus a simple umbrella label for individual beliefs? Second, how do these constructs relate to each other? We defer the first question to the data section and the second question to the discussion section, where we specifically consider four constructs that could closely relate to purpose: culture, identity, values, and stakeholder orientation.

connect their own work to a larger purpose, they can derive meaning even from the most pedestrian activities (Carton, 2018; Wrzesiewski, 2003).

Second, purpose reinforces identification with the organization (Bouchikhi and Kimberley, 2007; Henderson and van den Steen, 2015; Akerlof and Kranton, 2005). Identification, in turn, alters the relevant frame from the individual to the group, such that members consider the overall interests of the group, in addition to their own, when choosing their actions.

Finally, purpose enables alignment of discretionary effort (Rotemberg and Saloner, 2000) by providing a shared vision of where the organization is going. This alignment, in conjunction with traditional authority-based tools can become particularly important as firms grow in size and complexity (Ghoshal, Moran, and Almeida-Costa, 1995).

In performing these functions, purpose can exert a powerful influence on the members of an organization, beyond the extrinsic incentive effects considered in standard theories of the firm (Gibbons, 2005; Zenger *et al.,* 2011; Gartenberg and Zenger, 2022). Meaning, identification, and shared vision all contribute to positive outcomes at the individual-level within the firm (Henderson, 2021), including increased motivation (Deci and Flaste, 1995; Grant, 2008), trust (Henrich et al., 2001; Tyler, 2001), and cooperation (Kreps, 1996; Rotemberg and Saloner, 2000). These outcomes in turn have been shown to aggregate to positive performance outcomes at the firm level, which also corresponds to the finding by Gartenberg et al (2019) that stronger purpose is associated with stronger financial performance. These relationships are depicted in Figure 1, which builds on a similar conceptualization of corporate purpose by Henderson (2021).

<<Insert Figure 1 here >>

Leaders as Architects of Purpose

The responsibility for establishing shared purpose resides with the organizations' leaders. In Barnard's view, this responsibility practically defined the idea of leadership: "leadership…is the indispensable social essence that gives common meaning to common purpose." (1938:283). Barnard further emphasized that purpose does not mechanically arise in the presence of authority but must be deliberately shaped by leaders: "The inculcation of belief in the real existence of a common purpose is an essential executive function." (Barnard, 1938:87). Leaders accomplish this by endowing the organization's collective work with meaning and connect the work of individual members to that meaning (Besharov and Khurana, 2015; Carton et al, 2014; Carton 2018).

While a sense of meaning can arise from multiple sources, leaders have powerful levers to shape purpose at the organizational level. Of Selznick's four core responsibilities of leaders (1957:62), two concerned purpose: 1) "definition of institutional mission and role", 2) "institutional embodiment of purpose."[10] Recent studies have developed these ideas further, clarifying the actions by leaders that influence purpose. For Podolny *et al*. (2004), leaders create the conditions for meaningful action by employees via "agentic attributes, actions, or behaviors" that are directly ascribable to the leaders. This includes both communication – speeches, conversations, etc. – but also reward policies, formal structure, strategic actions (Beer *et al,* 2021).

These studies emphasize the role of leaders not simply in communicating purpose, but also in connecting it to the daily work of the employees. For this implementation of purpose to be effective, therefore, it must overcome the challenge common to all informal commitments by leaders: it must possess sufficient clarity and credibility to be believed by members (Gibbons and Henderson, 2012a, b). In this sense, purpose is rendered clear and credible through concrete actions by leaders and a connection to employees' daily work, and not through "purpose statements" or

[10] The other two roles are "defense of institutional integrity," and "ordering of internal conflict," also implicitly related to establishing and maintaining purpose.

“mission statements” that may only loosely be connected to reality. To highlight the need for this connection, Carton (2018) described one of the fundamental tensions inside organizations: that the greater the purpose of an organization, the more distant and less connected it appears to employees. Resolving this tension required leaders to act, not as “overseers” [monitors] or as “visionaries” (pg 355), but as “architects”: “focus[ing] less on the inspirational power of reaching the top of a completed structure than on depicting the entirety of the structure all at once, from the foundation to the top level.” In other words, leaders articulate a common purpose and then create a structure that allows employees to connect that purpose to their own work.

How is Purpose Related to Ownership?

While leaders are central to establishing purpose, they are also constrained by their accountability to the firm owners: whatever actions that might influence purpose within the organization must also concord with the preferences of owners. In this section, we consider how differences in owner commitment might affect differences in purpose across firms.

Greater owner commitment could lead to stronger purpose for several reasons. First and by construction, commitment entails a longer ownership duration, which in turn promotes greater engagement, a term used by corporate governance experts to represent a collaborative approach between owners and leadership (board and managers, in the case of public firms). As Mallow and Sethi (2015) state:

> “the engagement approach is one in which shareholders, primarily long-term ones, engage with management to understand firm objectives and strategies and potentially influence firm outcomes. Under this approach, voting is not the only means of being active and bringing about change. Engaging with board and firm executives on a continuous, long-term basis can bring about change through incremental, non-confrontational means.”

To the extent that this greater collaboration translates to an ability to think about the long-term and avoid short-term pressures, this would enable leadership to focus on its purpose rather than on optimizing short-term performance metrics. Conversely, a substantial focus on short-term performance metrics would plausibly reduce the credibility of management's commitment to the organization's purpose, particularly in settings with large intertemporal tradeoffs. This difference in focus, in turn, will be observable to employees and therefore influence their perceptions.

Second, the greater engagement of committed owners may yield more soft information about firms, which in turn allows managers to invest in productive but hard to verify projects that otherwise would not be approved by less committed owners (e.g., Grossman and Hart, 1986). For example, owners might be better able to identify when risky projects fail due to exogenous factors, thereby reducing managers' reluctance, due to career concerns, to make risky investments in pursuit of the organization's purpose (Bertrand and Mullainathan 2003). Once again, these projects should be observable to employees and therefore influence their perceptions.

Third, committed owners might mitigate free rider problems inside the firm, allowing employees to make firm-specific investments with greater confidence that they will not be held up by firm owners (Alchian and Demsetz 1972; Williamson 1985), which in turn could enhance the sense of purpose inside the organization.[11] Employees would not be invested in the same way in their work and would avoid making firm-specific investments if they perceive a high probability that owners would extract all the value from those investments (Blair and Stout 1990).

In sum, in the presence of more committed owners, leaders are more likely to behave in a way that will be interpreted by employees as consistent with the organization's purpose. In the presence of owners that possess more soft information about the firm and have longer temporal

[11] A similar argument could hold for customers, suppliers, and other stakeholders, who could see a strong sense of corporate purpose from owner commitment as a credible signal that enables the development of trust or 'relational contracts' (Gibbons and Henderson 2012a, b).

horizons, managers have greater discretion to select actions that have less easily verifiable outcomes and will be realized over a long time period. This discretion translates to a greater ability to engage in the "agentic behaviors" (Podolny *et al.,* 2004) that support purpose, since these actions are by construction connected to creating a meaningful context for the firm employees and less connected to immediate payoffs and verifiable returns.

To explore this relationship between owner commitment and purpose, the first major difference that we consider is whether firms are privately held or publicly listed. A defining characteristic of public owners is the relative ease with which they may buy and sell their holdings, given the liquidity of public equity markets.[12] Private markets, on the other hand, are substantially less liquid: ownership is privately negotiated and relatively costly to transfer, and owners of private firms generally must support their firms when performance declines (Fitza and Tihanyi, 2017). As a result, private owners commit to a firm for years, or even decades, in contrast to public market investors. Our logic, therefore, is as follows: this fundamental asymmetry in liquidity between public and private firms leads to differences in owner commitment to a firm. These differences in commitment lead to differential levels of engagement with managers in public and private firms, which in turn provides managers of private companies the discretion to engage in activities that foster a greater sense of purpose within their organizations:

H_1: Publicly listed firms exhibit a lower sense of purpose compared to privately held firms, all else equal.

To explore this commitment mechanism further, we hypothesize that the type of institutional owner might yield significant differences in purpose across firms, with stronger

[12] Of course, there are limits to liquidity and a significant percentage of ownership might take days or even weeks or months to sell, especially for illiquid stocks. However, in relative terms, even large percentage of ownership for illiquid stocks is more liquid than similar ownership in a private firm.

purpose likelier within firms with long-term institutional owners. These owners have a greater incentive to engage with corporate leaders than transient investors, since any threat of exit is by definition less credible. In fact, in their survey of institutional investors, McCahery *et al.* (2016) report a substantially higher degree of informal engagement between long-term investors and corporate leaders. Over their respondents, nearly 63% reported discussions with top management, 45% discussions with the board outside of management, and 35% proposed specific actions to management, trends that were driven by investors with longer investment horizons and less liquid holdings. This level of engagement is consistent with the principles for institutional investors advocated by Wachtell, Lipton, Rosen and Katz (WLRK), an established law firm known for advocating for a long-term orientation for directors and investors. This engagement, WLRK has advocated, enables the effective implementation of purpose:

> Any effective purpose initiative will require not just director engagement, but also management leadership and the committed participation of investors. So conceived as a partnership of key corporate constituencies—necessarily including institutional investors – corporate purpose initiatives have the potential to facilitate long-term corporate sustainability and to help protect companies and boards from the rising tide of shareholder litigation and short-term activist pressure.[13]

As with the logic preceding H_1, greater engagement enables management to act in support of the organization's purpose thereby reinforcing employee beliefs on the meaning of their work. Given this connection between long term ownership, engagement, and purpose, we would expect a positive association between commitment and purpose within the organization.

H_2: Purpose is higher in firms with more committed owners than in firms with less committed owners.

We consider three sources of variation of owner commitment. First, within public firms, we expect lower commitment from investors that have higher cost of capital and therefore higher

[13] Wachtell newsletter, August 19, 2020

discount rates. In the presence of high discount rates, an investor is likely to search for and attempt to influence management to make decisions that will yield significant profits within a short period of time, such as divestments, share repurchases, or strategic acquisitions, that will generate large price reactions (DesJardine, Marti and Durand 2020). A typical example of such an investor type in public markets is hedge funds, which generally target 15-20% absolute returns. Second, we expect that more dedicated relative to transient institutional investors to be associated with a stronger sense of purpose. Dedicated (transient) investors exhibit more (less) concentrated holdings and longer (shorter) holdings periods thereby, by definition, exhibiting a stronger (weaker) commitment to the firm (Bushee, 1998; 2001). Past research has found that more dedicated relative to transient investors translates into differences in a firm's adoption of sustainability strategies (Eccles, Ioannou and Serafeim 2014), CEO communication of long vs short-term oriented information in conference calls (Brochet, Loumioti and Serafeim 2015), competitive behavior (Zhang and Gimero 2016), and strategic vs tactical actions (Connelly et al. 2010).

H_{2a}: Within publicly listed firms, purpose will be lower (higher) in firms with more of the outstanding shares held by hedge funds (dedicated relative to transient investors).

Among private firms, we expect lower commitment from private equity funds due to the contractually preset and limited nature of the ownership horizon, relative to other private owners. For example, research on private family firms documents the commitment that these owners exhibit to their firms extending across generations (Carney et al. 2015) and the associated emotional and social ties (Gomez-Mejia at al. 2011). In contrast, most private equity funds have an expiration date of about eight years from their inception. Therefore, they typically target ownership horizons of five to six years and internal rates of return (IRR) of 15-20% (Phalippou

2020). The shorter the ownership period and the faster they return the money to their investors, for a given amount of absolute money earned, the higher the IRR (Phalippou, 2020).

H_{2b}: Within privately held firms, purpose will be lower for firms owned by private equity funds.

Data and Research Design

Research Design

We divide our analysis into three parts. In the first part, we test Hypothesis 1 by relating our measure of purpose to public and private ownership. In the second part, we test Hypothesis 2 by introducing our three proxies of owner commitment and explore how these proxies relate to corporate purpose. In the third part, we explore the role of various leader and reward structure characteristics in mediating the commitment-purpose relationship.

Note that our research design is correlational: our setting does not provide a clean instrument to isolate the causal impact of firm ownership on corporate purpose. We do perform a lead-lag analysis that provides partial evidence on the consistency of the reported correlations with a sorting or a treatment effect.

Measure of Corporate Purpose[14]

Our research question requires a scalable and reliable measure of purpose. Our approach is to use individual-level survey data to infer the strength of purpose at the organization level by aggregating the strength of employee beliefs. The measure is constructed from a survey of a

[14] This measurement approach is adapted from Gartenberg *et al.* (2019). While their sample stops at 2011 and includes only public firms, our sample extends to 2016 and includes both public and private firms. Using this expanded sample, the factor analysis yields substantively the same four factors that explain most of the variation. We refer the reader to their study for detailed descriptions of the four factors. We later consider "Purpose-camaraderie," as well as a composite index of the four meaning questions on their own, in the discussion section as alternative measures of corporate purpose.

randomized, stratified sample of employees across a large number of firms over time, an approach that permits the construction of a standardized measure that can be compared across firms.

This approach has two substantial advantages over alternatives. First, it circumvents the "cheap talk" challenge of purpose statements or CEO proclamations (Guiso, Sapienza, and Zingales, 2015; Michaelson, Lepisto, and Pratt, 2020), while retaining the ability to conduct a large-sample analysis across firms and over time. Second, it avoids the limitations of text analyses based on public employee evaluation databases (e.g, Glassdoor). These analyses have been shown to be effective in empirical studies of culture (Srivastava and Goldberg, 2017; Corritore *et al.,* 2020; Marchetti, 2020), but their free text format does not yield sufficient information on which to base a measure of purpose. Moreover, the self-selection into these evaluations introduces interpretation challenges that would be particularly acute in our case.

That said, our approach involves several choices that are important to highlight. First, we do not capture the content of purpose, *per se,* but instead the strength of beliefs associated with purpose, or "purposefulness." As such, we do not have insight into the content of the purposes that drive organizations. Second, we do not capture the actions that led to the formation of those beliefs, which can arise from a multitude of unobservable sources not directly related to an intentional "corporate purpose."

These two choices together highlight a general challenge for studies of level-spanning constructs such as purpose: beliefs exist within individuals from which the organizational construct must be inferred. This inferential process leads to both a "strong form" and a "weak form" interpretation of our purpose measure. In the "strong form" interpretation, the aggregated beliefs effectively constitute purpose, given Selznick's and Barnard's contention that purpose only exists as collective beliefs held by members of the organization. In the "weak form" interpretation, employee beliefs arise in organizations with purpose but are not purpose itself. Instead, these beliefs comprise an informative signal of that purpose: when the underlying purpose varies, individual beliefs should also systematically vary. In this latter interpretation, systematic variation in employee beliefs indicates variation in the strength of purpose. We interpret our results using this more conservative weak form approach: our measure should be viewed as a signal of underlying purpose, rather than as a direct measure of purpose itself.

Our measure has one additional challenge that is specific to our data source: it is based on a proprietary survey that is not explicitly designed to measure purpose, but instead the full range of employee beliefs about the workplace. As such, we construct our signal from the bundle of beliefs that are conceptually most closely related to the beliefs we would theoretically expect to arise in settings with strong purpose. We discuss the beliefs that we include in our measure later in this section, and the tradeoffs of this approach in the discussion section.

Data Description

The primary data for this study is compiled from applications to Fortune Magazine's annual "100 Best Companies to Work For" list, administered by The Great Place to Work® Institute. The applications comprise all submissions to the annual list, regardless of whether the companies were selected. These data have been previously used by Gartenberg *et al.* (2019), where it is described in further depth, as well as Guiso et al. (2015), and Garrett, Hoitash and Prawitt (2014).

All applicants are required to employ more than 1,000 workers in the US and to have existed for at least seven years. Since the submission process is costly for applicant companies, our dataset comprises a self-selected sample whose management believes that they have a credible chance of being included on the list and who place relatively greater value on human capital. One potential concern is that sample selection may limit the generalizability of our results if public and private firms differ in their levels of participation in a way that is also related to the strength of their purpose. On the other hand, this sample may also be a conservative setting for our analysis since these companies are more likely to aim for a sense of purpose among their employees, or at least the appearance of such, relative to the universe of firms. We consider potential sample bias in Appendix C.

The application package to the list contains two sections: The Culture Audit Survey© (CAS) and the Trust Index© employee survey (TI). The CAS includes structure and policy information about the applying company, including industry and location of headquarters, employee composition (e.g., numbers, age, and tenures at different hierarchical levels), and pay and benefit information. The TI, the main data of interest for our study, is a randomized employee survey that captures employees' beliefs about the workplace climate, including management quality, coworker relationships, and the nature of their work. The survey is stratified by job level, where the job levels include hourly employees, sales (commission-based) workers, middle managers and supervisors, salaried professional and technical workers, and executives and senior managers. The survey consists of 57 questions with responses ranging from 1 to 5 on a Likert-like scale, where 1 corresponds to "almost always untrue" and 5 corresponds to "almost always true."[15]

Our data agreement with the Institute provides access to all applications – both successful and unsuccessful – from 2006 to 2016. We combine summary information from the CAS with TI survey data, which we aggregate up to the firm-year level. We merge this dataset with the following additional data sources: Compustat to identify the publicly-traded companies in our

[15] While our data agreement precludes us from releasing the full set of questions from the survey, a public description of the survey instrument can be found here: http://www.greatplacetowork.net/our-approach/what-is-a-great-workplace, accessed 6/25/16. Our four questions on purpose fall under the designated "Employee Pride" category.

sample, Capital IQ to identify private equity owners, and Factset and Thomson Reuters for investor identity information on the public firms.

The sample includes 2,860 firm-year observations, aggregated from 1,509,797 survey responses from full time employees, with a median level of 563 responses per firm. Our sample includes 1,848 observations from public firms and 1,012 from private firms. The firms in our sample are large, with on average $10.8 billion in revenues and 11,300 full time employees. Appendix Table A1 shows the number of firms in our sample across years and industries.

Measure Construction

Our purpose measure is based on an exploratory factor analysis of the TI survey of employee workplace perceptions. [16] The factor analysis has two benefits over a simple index of the survey questions that most closely relate to purpose. First, it does not impose a structure on the data but instead reveals latent constructs driving response patterns. Second, the factors are based on a rotated loading matrix that orthogonalizes the measures. Given that the correlation between survey items ranges from 0.3 to 0.8, this rotation removes common variance, which in our case likely reflects overall job satisfaction. Conceptually speaking, the factors that emerge from the analysis can be considered bundles of beliefs that covary together: sets of questions that the survey respondents tend to answer similarly, independent of their overall job satisfaction.

The factor analysis reveals four underlying factors that explain the bulk of the variance in the survey. Of these four factors, one factor comprises beliefs most closely related to our conceptual representation of purpose as depicted in Figure 1, and we therefore use this factor to aggregate into our measure of purpose at the organizational level. Following the convention of

[16] We include 53 of the 57 questions, excluding four questions that are outcome measures of overall job satisfaction.

Gartenberg *et al.,* (2019), we label this factor "Purpose-Clarity" and use the aggregated measure as our dependent variable.[17] The beliefs captured in "purpose" component are as follows: "*My work has special meaning: this is 'not just a job'*", "*I feel good about the ways we contribute to the community*", "*When I look at what we accomplish, I feel a sense of pride*", and "*I'm proud to tell others I work here.*"[18] The items within the "clarity" component are: "*Management has a clear view of where the organization is going and how to get there*", "*Management makes its expectations clear.*" While clarity may seem distinct from purpose, these ideas are conceptually related. The clarity items reflect the role of clarity in upholding informal commitments within organizations (Gibbons and Henderson, 2012a, b), as well as research on meaningful work requiring a clear structure for individuals to contribute to the overall purpose (Beer *et al.,* 2021; Carton and Lucas, 2018; Pratt and Ashforth, 2003; Podolny *et al.,* 2004).

It is also important to note what this factor does not capture. Since it is based on a rotated loading matrix, it does not capture overall employee satisfaction, nor does it measure perceptions of overall management quality, which is included in a separate factor, labelled *Management*.[19] Appendix B includes the primary questions included in each factor that results from the factor analysis.

To construct a firm-year level measure of purpose, we take the average of the *Purpose-Clarity* factor across all survey respondents within a firm-year. Later in the paper, we substitute

17 The three other factors are: *Management,* which captures beliefs in the quality of firm's managers; *Non-discrimination,* which captures the sense that the firm does not discriminate on the basis of age, gender, race or ethnicity; and *Purpose-Camaraderie*, a second purpose-related factor in which the purpose questions covary with questions regarding the degree of collegiality within an organization. We examine *Purpose-Camaraderie* as an alterative purpose measure in the discussion section; however, choose *Purpose-Clarity* as our primary measure.

18 The four items that constitute the "purpose" component relate to the meaning of and pride in an individual's work. While meaning and pride represent different constructs, it is unsurprising that these items covary, as "authentic pride" (in contrast to "hubristic pride") is often linked to the meaningful achievement and prosociality (Tracy and Robins, 2007) and member identification, also discussed in Henderson (2021) and depicted in Figure 1.

19 Nor does it capture inclusion and non-discrimination, also reflected in a separate factor labelled *Non-discrimination*. A fourth separate factor includes purpose beliefs together with collegiality, which we consider as an alternative measure in the Appendix C.

this variable with other measures of purpose to assess how the results vary with the choice of purpose measure.[20]

Public/Private Ownership, Proxies for Owner Commitment, and Corporate Policies

To test H_1, we sort firms into two top-level categories: public and private. We identify public firms by whether they have a corresponding record in Compustat North America, cross-checked with an indicator within the GPTW survey of the public or private status of the firm. To test H_2, we construct three proxies of owner commitment. The first two proxies are based on the identities of the public market investors, which we identify by merging our sample with Factset and Thomson Reuters. We measure hedge fund ownership as the percentage of outstanding shares held by hedge funds. We define a variable for firms with high percentage of dedicated relative to transient investors following prior literature (Eccles et al. 2014; Brochet et al. 2015). We use the classification of institutional investors used by Bushee (1998; 2001), calculating for each firm-year the difference between percentage of shares held by voting dedicated and transient investors. Our third proxy, obtained via Capital IQ, identifies whether the firm is private equity-owned. We code a firm as PE-owned if a private equity firm is identified as an owner in Capital IQ.

Control Variables

We include the following control variables in our specifications: the natural logarithm of firm sales and number of employees, as the sense of purpose may be related to the size of the firm and the corresponding degree of bureaucracy required. We also include controls for firm age, and fixed

[20] In a supplementary analysis, we also constructed three alternative measures of purpose: 1) an index of only the four purpose-related questions, 2) an index of only the clarity related questions, 3) the second purpose factor from the factor analysis, *Purpose-Camaraderie*. None of these measures are related to acquisitions or the acquisition characteristics that we identify in this study. Results obtained using these alternative measures of purpose are provided in the appendix.

effects for year, industry, and the state in which the firm is headquartered, as all of these factors may influence the degree of purpose within firms.[21] In line with prior work (Guiso *et al.,* 2015) we include their "halo control," a variable measuring workplace physical safety, to absorb overall satisfaction with the workplace. The rationale for including this variable as a control is that while physical safety is also likely be inflated in an environment with overall job satisfaction, it is conceptually distinct from other aspects of the workplace environment. Finally, we include controls for the proportion of employees at different job levels to account for the fact that employees lower in the organization tend to have a lower sense of purpose.

Empirical Specification

We estimate the relation between *Purpose-Clarity* and ownership characteristics using an OLS model, clustering standard errors at the firm level to account for serial correlation within a firm over time. The models we estimate are:

$$\text{PurposeClarity}_{it} = \alpha + \beta_1 \text{ x Public}_{it} + \beta_2 \text{ x Industry}_{it} + \beta_3 \text{ x Year}_t + \beta_4 \text{ x State}_t + \sum \text{Firm controls}_{it} + \sum \text{Employee controls}_{it} + \epsilon_{it} \quad (1)$$

and

$$\text{PurposeClarity}_{it} = \alpha + \beta_1 \text{ x Public}_{it} + \beta_2 \text{ x Public x Hedge Fund}_{it} + \beta_3 \text{ x Public x Long-term Investors}_{it} + \beta_4 \text{ x PE}_{it} + \beta_5 \text{ x Industry}_{it} + \beta_6 \text{ x Year}_t + \beta_7 \text{ x State}_t + \sum \text{Firm controls}_{it} + \sum \text{Employee controls}_{it} + \epsilon_{it} \quad (2)$$

where *PurposeClarity* is the *Purpose-Clarity* factor for firm *i* in year *t*. *Public* is an indicator variable that takes the value of one if the firm is publicly listed. The omitted group in equation (1) is private firms. *State*, *Industry* and *Year* represent the state of corporate headquarters, industry, and year fixed effects. *Firm controls* include the natural logarithm of total sales, number of

[21] Controlling for firm fixed effects is difficult in our setting because we observe few changes in ownership for the period and the firms in our sample, and we do not have a good understanding of how fast changes in ownership might translate into changes in purpose. We leave this important question for future research.

employees, firm age, and the halo control. *Employee controls* include employee age and tenure. Coefficient β_1 in equation (1) is our main estimate of interest. It represents the incremental increase or decrease in purpose associated with public ownership structure relative to a firm that is privately owned. The omitted group in equation (2) is private firms non-PE owned. Coefficients β_1 - β_4 in equation (2) are our main estimates of interest.

Table 1 provides summary statistics by public or private ownership. Public firms are larger both in terms of sales and employees and have a different industry distribution. The top three industries for public firms in our sample are manufacturing, financial services, and information technology. In contrast, the top three industries for private firms in our sample are professional services, financial services, and retail. As such, we include controls for both industry and size across our analyses. Public and private firms also have different hierarchical structures, with private firms comprised of a greater proportion of hourly workers than public firms. Since hourly workers tend to possess a lower sense of purpose than salaried and executive level employees (Gartenberg et al. 2019), this hierarchical skew toward hourly workers would imply that, all else equal, purpose should be lower in private firms.

<<< Insert Table 1 here >>>

Purpose and Firm Ownership

Hypothesis 1: Purpose and Public Ownership

Figure 2 shows the distribution of corporate purpose by ownership type. The distribution is left skewed, indicating that purpose is lower in public firms.

<<< Insert Figure 2 here >>>

Table 2 presents the results of estimating equation (1). Columns 1-3 introduce progressively more control variables. In column 1, we control only for year fixed effects. In column 2, we add industry and state fixed effects. In column 3, we also add organizational controls. Across these columns, the explanatory power of the column increases from 17.2 to 37.4% suggesting that industry membership and firm size are both important explanatory factors. Adding organizational controls increases the explanatory power from 37.2 to 37.4%, and the coefficient on the *Public* variable changes very little. The coefficient on public firms is significant at the 5% level. The coefficient estimate of -0.0269 in column 3 represents 20% of a standard deviation of *Purpose-Clarity,* roughly the same magnitude as the impact of a one standard deviation increase in firm age or size.

<<< Insert Table 2 here >>>

Public and private firms differ systematically both in terms of size and sector membership. Although we control for both industry fixed effects as well as firm size in columns 1-3, a concern is that our controls might not adequately mitigate these differences. To understand the robustness of our results to a more balanced sample, we run a matching procedure where we implement nearest neighbor matching (Panel A) and coarsened exact matching (Panel B) with the same matched controls and sets of fixed effects as in Table 2. The results of this match are provided in Table 3 and are substantively unchanged. The stability of these measures in this matching process suggests that the effect on any omitted variables is either uncorrelated with that of observable controls or not substantial (Oster, 2019). Overall, we find strong support for Hypothesis 1. Purpose is lower in public firms, a result not driven by observable differences in firm size, age, or industry.

<< Insert Table 3 >>

Hypothesis 2: Purpose and Owner Commitment

We next test Hypothesis 2 by examining our three proxies for owner commitment. Figure 3 presents the binned scatterplot of *Purpose-Clarity* as a function of hedge fund ownership, revealing a clear negative association. Similarly, Figure 4 presents the binned scatterplot of *Purpose-Clarity* as a function of long-term investor ownership, revealing a clear positive association. Both associations are consistent with Hypothesis 2.

<<< Insert Figures 3 and 4 here >>>

Our multivariate analysis, shown in Table 4 is consistent with these patterns. In columns 1-3, the publicly listed effect is significantly exacerbated for firms with high hedge fund ownership and is mitigated for firms with long-term investors. Moreover, PE-owned firms also exhibit weaker sense of purpose than private firms, although the estimate is not statistically significant. This could reflect that different PE firms have different organizational development strategies, with a minority of them strengthening corporate purpose. Thereby the estimated coefficient is negative and close to the estimate for public firms and the standard error is high. Using the estimates in column 3, a one standard deviation increase in hedge fund ownership is associated with 6% of a standard deviation decrease in corporate purpose, while a one standard deviation increase in long-term investors is associated with 8% of a standard deviation increase in corporate purpose. The coefficient on the PE variable is of the same magnitude, although not statistically significant. These effects are the same magnitude as the effect of firm age on *Purpose-Clarity,* and roughly half the magnitude of the effect of firm size. Overall, the evidence provides support for Hypothesis 2.

<<< Insert Table 4 here >>>

We also replicated the analysis at the individual employee level, instead of the aggregated firm level observations. Table A2 presents the results of this replication, which confirm our firm-level analysis in both magnitude and significance. Public firms exhibit a weaker sense of purpose and that is exacerbated (mitigated) for firms with high percentage of shares held by hedge funds (long-term investors).

Alternative Ownership Variables

The boundaries between public and private firms are sometimes blurry. This is because some private firms are owned by public firms raising the issue of whether public firm ownership is transmissible. On the other hand, some public firms are family-owned companies, where the family has been owning the company for decades, in which case although publicly listed, part of the ownership structure would still be characterized by high commitment. We analyze both those cases separately to gain deeper insights.

Many public firms own other private firms that they choose to keep as separate private firms with their own leadership structure. Whether keeping a subsidiary as a separate legal entity is effective at insulating the firm from the pressures of the parent company is unclear. If indeed this is effective, then we expect the private firm to exhibit corporate purpose that is closer to other private firms. If it is not effective, we expect those firms to exhibit a corporate purpose that is closer to the one exhibited by public firms. Consistent with this latter perspective, Appendix Table A11 Panel A shows that these firms have significantly lower purpose. This result suggests that there are ownership spillover effects from public markets ownership structures to private firms when they are owned by a publicly listed firm.

An interesting subsample of publicly listed firms is firms where a significant percentage of the shares are held by the founding families. These firms might exhibit a stronger sense of purpose as families are likely to be much more committed owners and in fact hold the shares for decades if not more. We construct an indicator variable taking the value of one for all public firms where a family holds at least one percent of the shares tracing ownership structures in Capital IQ. For these firms, we find that corporate purpose is comparable to private firms, albeit with a noisy estimate (Panel B). This result provides additional support of the positive association between owner commitment and corporate purpose, this time using family owners as a type of committed owner.

Lead-Lag Analyses

Our findings are consistent with two distinct, although related, interpretations. The first interpretation is that different types of owners choose different types of companies, and hence we are reporting a sorting effect in the market for corporate control. The second interpretation is that owners have a direct impact on the employees of their companies, and so our patterns capture the treatment effect of companies under different types of corporate owners. We consider each of these interpretations now.

Under the first interpretation, the patterns that we report reflect companies with higher purpose choosing to remain private. Our findings would also suggest that, among public firms, hedge funds choose to invest in lower purpose companies while long-term investors invest in companies with strong purpose. This assortment may arise either because these companies have other attributes that attract certain investors or that investors – for whatever inexplicable reason – find lower purpose an attractive attribute on its own. Under this interpretation, investors have no direct influence on purpose of the company, and the differences strictly reflect a selection effect. Under the second interpretation, owners have a direct impact on purpose. This effect could manifest as the impact of these investors engaging with management in ways that directly influence the strength of purpose felt by the employees. For example, if investors influence the identity or rewards for the management team, these changes could meaningfully affect the employees.

Absent a convincing exogenous change to company ownership, it is impossible to definitively separate these two effects. Moreover, from a theoretical perspective, it is implausible to us that only one is present in our setting: it is much more likely that owners match to different types of companies, and then influence the sense of purpose within those companies in different ways. While we cannot separate these two interpretations, Table 4 column 4 shows our best attempt to isolate these two effects in our setting. In this table, we replace the ownership categories with lagged ownership and forward ownership throughout all specifications.[22] The PE ownership variable exhibits negligible time variation in our sample and as a result we focus here on the hedge fund and long-term investor variables. If a sorting effect is present, we expect purpose to lead ownership. If a treatment effect is present, we expect ownership to lead purpose.

We find a statistically significant association between lag and lead hedge fund ownership and purpose. In contrast, for long-term investors we find that purpose exhibits a significant association with lead ownership. Overall, the results are more consistent with a treatment and sorting effect for hedge funds and a sorting effect for long-term investors in our setting. This intuitively makes sense as hedge funds tend to be some of the most active owners in public markets.

Small Sample Switching Analysis

We also identified four firms that went public in our panel for which we have observations both during their private and public periods. We conduct an analysis at the individual level using

[22] We impute any missing values at the sample mean to retain a common sample without affecting the point estimates.

firm fixed effects for these four firms to observe how the change of status from private to public is associated with change in *Purpose-Clarity.* Appendix Table A3 provides the results of this analysis. Using the estimated coefficient on *Public* in column 4, a change in status from private to public is associated with a 9 percent within standard deviation drop in *Purpose-Clarity,* roughly half the magnitude the estimate from our main analysis as represented in Table 2. Given the very small number of firms we cautiously interpret these results as evidence consistent with our primary findings. Overall, these findings support H_2, that stronger owner commitment is related to stronger sense of purpose within firms.

Organizational Mechanism: Leader Commitment and Rewards

So far, our analysis provides evidence of the link between owner commitment and purpose. There is, however, a considerable distance between investors and employees within the organization. How, therefore, do committed investors enable the conditions for a stronger sense of purpose among these employees?

While this partnership is unobservable in a large-sample setting as ours, we can look for evidence in certain leadership and reward structure characteristics that reflect owner commitment. Podolny *et al.,* (2004), in their study of leaders as meaning-makers, emphasized the importance of organizational design for the credibility of leaders' proclamations of purpose: "the medium is very much part of the message, and the organization is the medium (pg 27)." To illustrate this point, they discuss how articulations by leadership of shared purpose lack credibility within firms with vast compensation differentials senior leaders and employees. Compensation structure, rewards, and the choice of leaders are examples of characteristics that influence purpose that are in turn influenced by investors. As such, we predict that these factors can help explain the link between owner commitment and corporate purpose.

We examine four categories of these factors. The first category is background of the CEO, and specifically overall tenure at the company and whether he or she was promoted from the lower ranks of the organization or brought from the outside. The second category is the structure of CEO compensation, and specifically the relative pay of the CEO versus the median salaried worker. The third category is the incentive structure of the CEO, and specifically whether his or her incentives are based on cost and profit margin measures or on growth and non-monetary measures, such as employee satisfaction and customer retention and other longer time horizon activities. The fourth category covers the compensation structure and benefits offered to employees. Our prior is that measures within these four categories should broadly vary with owner engagement, per the discussion above. That is, more committed owners will enable the choice of CEO and an incentive structure to enable them to focus more on purpose-building activities, which is also complementary to greater rent-sharing with employees7.

We create our measures using GPTW data for CEO background (ISS data for CEO compensation, Incentive Lab for incentive metrics), and GPTW data for employee compensation and benefits. For CEO background, we include *CEO joined in lower ranks,* an indicator variable whether the CEO has been internally promoted from the lower ranks of the organization, and *CEO tenure at company,* the natural logarithm of tenure in the organization. For CEO compensation, we include *Pay gap relative to salaried ranks*, the ratio of CEO compensation to that of the median salaried worker in the firm, and *CEO total compensation.* For CEO incentive structure, we measure *Number of margin incentives,* and *Number of non-margin incentives*, the number of incentive provisions explicitly tied to margin and non-margin metrics as reported to Incentive Lab. Finally, for employee compensation, we calculate a *Benefits Index,* a composite index of employee benefits provided to the company, *ESOP,* an indicator variable whether the company offers an employee stock ownership plan, and *Bonus as % comp (salaried)*, the percentage of total compensation that is variable for salaried employees. Note that we do not include mean employee salary here, as it is collinear with the CEO-employee pay gap measure in the CEO compensation category.

Table 5 Column 1 is the baseline reproducing the existing results and are presented for comparison purposes. Column 2 includes the CEO background measures and shows that *CEO joined in lower ranks* loads with a positive and significant coefficient, while *CEO tenure* is not significant. The coefficient on *Public* declines in magnitude somewhat from -0.031 to -0.025, in column 2 relative to column 1, as do interaction terms *Public*Hedge fund* and *Public*Long term investors*, although the decline is smaller in magnitude. However, all three variables remain significant, suggesting that CEO background might be an important driver of corporate purpose, but it mostly operates independently than ownership commitment.

Column 3 includes the CEO compensation variables, including *Pay gap relative to salaried ranks*, the ratio of CEO compensation to that of the median salaried worker in the firm, and *CEO total compensation*. These variables load significantly in the columns and further decrease the magnitude of the *Public* coefficient. Firms with higher CEO to average employee pay gap have lower sense of purpose after controlling for average CEO pay level, which is significantly and positively correlated with purpose. These results provide support to the idea that in organizations where the CEO is higher paid, purpose is weaker when employees are not similarly rewarded with proportionally higher pay. Column 4 also includes CEO incentive structure variables, and specifically *Number of margin incentives,* and *Number of non-margin incentives*, the number of incentive provisions explicitly tied to margin and non-margin metrics as reported to Incentive Lab.

Column 5 adds employee compensation measures. The results in this table suggest that firms with a reward structure that reflects a commitment to its workforce have higher purpose.

<<< Insert Table 5 here >>>

Appendix Table A4 show the results of a supplemental endogenous two-stage analysis, in which we predict the corporate policies as a function of firm owners in the first stage and then correlate these predicted policies with purpose in the second stage. We specifically consider the variables that were significantly related to purpose as reported in Table 5 and instrument these variables in a two-stage endogenous least squares regression with our two owner commitment measures.[23] This result in Table A4 is consistent with the role of fit between owner commitment, reward structure, and resulting corporate purpose. It is important to note, however, that the inclusion of these measures explains approximately 35% of the difference in *Purpose-Clarity* between public and private firms, still leaving unexplained a significant proportion of the association between ownership and purpose.

Overall, the results from these analyses are consistent with the following mechanism: that firms with more committed owners exhibit leadership and reward structure characteristics and those correlate with stronger beliefs in the meaning of work and in turn corporate purpose.

Results by Job Level

To this point, all our results document the variation in *Purpose-Clarity* as measured using responses from employees across all levels inside an organization. An interesting question is how our results differ considering different hierarchies. One might expect that executives might have

[23] We also include two periods of lagged commitment measures as instruments for these policies. Given the likely relationship between owners and purpose, this analysis should be interpreted as evidence of fit between ownership, policies and purpose, rather than as evidence that these policies impact purpose directly.

higher sense of purpose unconditionally of ownership. For example, very high levels of compensation or a large span of control over the future of the organization might lead executives to possess stronger beliefs in the meaning and clarity of their work. The same would be the case if owners match with executives that share similar objectives, thereby making purpose again independent of ownership type. There are additional reasons why we are motivated to disaggregate our *Purpose-Clarity* measure across job levels. First, there is a distinction in the literature between how leaders feel about their actions versus how those actions are perceived by the rest of the workforce. A purposeful organization is one where a strong sense of purpose is diffused inside the organization. Therefore, understanding how ownership type might affect the sense of purpose at different levels of the organization can be instructive in understanding the ability of leaders to instill a sense of meaning across the organization.

Several findings emerge from this analysis, shown in Table 6. First, public firms have lower *Purpose-Clarity* across all job levels except for senior executives. Second, the magnitude of the coefficient increases monotonically as one goes down the organizational hierarchy. Executives in public firms hold the same beliefs about corporate purpose as their peers in private firms but this changes for middle management, even more so for professional staff and then even more for hourly workers. We can also think of these results in terms of “purpose inequality”: senior executives of public firms experience a greater sense of purpose than their employees, and that inequality of purpose is exacerbated the deeper one goes within the organization. This is not the case for private companies. This is true even when adjusting for standard deviations by job level: the point estimates for executives (Column 1) represent 0.5% of a standard deviation and are statistically insignificant, while the point estimates for middle managers, professional and hourly workers represent 15%, 19% and 29% of a standard deviation for purpose within each of these job levels, respectively, and are all statistically significant at conventional levels. This decline in relative purpose is presented graphically in Figure 5, with the difference in corporate purpose plotted at each job level, and the relative decline in purpose down the hierarchy clearly visible.

<<< Insert Table 6 and Figure 5 here >>>

Table 6 reveals that the negative link between hedge fund ownership and purpose is particularly strong at the hourly level, while the positive link between long-term investors and purpose is driven by the salaried levels. Interestingly, the lower purpose within private equity firms is driven by the executive and middle manager levels, rather than the lower ranks of the organization. A potential explanation for the significant effect on PE ownership on executives is that executives lose a sense of purpose when they relinquish control to PE owners, or that the executives recruited by PE firms find low meaning in their work. Importantly, this result suggests that, given the high-powered incentives provided by PE funds, high levels of compensation are unlikely to be the culprit for the insignificant result between executive levels and public ownership.

Moreover, we find that CEO joining in lower ranks, CEO-worker pay gap, and non-margin incentives are strongly correlated with purpose in lower levels. These patterns are indeed consistent with owners enabling leaders to make structural choices that impact workers down the hierarchy.

Overall, our results are consistent with our prediction that ownership commitment – and the structural factors that vary by commitment – have a particular impact among workers at lower levels in the organization.

Discussion

In this paper we find that our measure of purpose is substantially stronger in private firms relative to their public counterparts. We provide evidence that these patterns are explained in part by differences in owner commitment that are in turn related to structural choices within the firm such as compensation, reward structure, and the background of the CEO.

In this section, we consider several important questions that our analysis raises, with a particular focus on how corporate purpose relates to other aspects of organizations, our measurement approach, proposed mechanism, and potential alternative interpretations of our findings. Appendix C includes a supplemental discussion of additional considerations, including alternative measures of our dependent and explanatory variables, sample selection, and several additional tests for omitted variable bias.

Purpose and Other Intangible Organizational Concepts

One question that arises from our research question is whether corporate purpose is a construct that is theoretically distinguishable from other intangible aspects of organizations. We therefore begin our discussion by considering how purpose conceptually relates to constructs most related to it. specifically consider four constructs in turn: culture, identity, values, and stakeholder orientation.

Purpose and Culture While purpose and organizational culture are often considered interchangeably, these constructs are distinct in nature. As with purpose, culture is intrinsically imprecise, although its conceptualization has been sharpened over time. In 1989, political scientist James Q. Wilson reflected a broad view of organizational culture when he stated “culture is to an organization what personality is to an individual” (Wilson, 1989: 91). Research in tradition has characterized strong culture organizations as those with employees holding similar values, assumptions, and norms (Schein, 1990; Harrison and Carroll, 2006). More recent work has refined culture into "a common set of expectations about appropriate or inappropriate attitudes and behaviors" (Chatman and O'Reilly, 2016, p. 2016). This definition has engendered two empirical approaches, both of which reveal the substantive differences between culture and purpose. One approach studies the culture by the relative strengths across specific values such as "adaptability," "results orientation," or "detail orientation" (O'Reilly *et al.*, 2014), "innovation," "quality," "integrity," "teamwork," (Li, Mai, Shen, and Yan, 2021) or similar categorizations in Marchetti (2020) and Weber and Tarba (2012), among others. The second approach studies culture by the degree of linguistic convergence among employees (Corritore *et al.,* 2020; Srivastava, Goldberg, Manian, and Potts, 2016; Srivastava and Goldberg, 2017). Neither of these two approaches considers the degree or strength of shared meaning—central to the construct of purpose—as aspects of culture. As such, while purpose and culture cover two important intangible aspects of organizations, they are not equivalent. Nor are they necessarily related: as Podolny et al (2004) point out in their article about meaning-making inside organizations, nothing about strong acculturation within organizations necessarily promotes the emergence of shared meaning and may at times impede it.

Purpose and Identity Purpose and organizational identity are arguably more related than purpose and culture, although they are definitionally distinct. Whereas purpose is concerned with "why we exist," identity is concerned with "who we are" (Albert and Whetten, 1985; Pratt and Foreman, 2000). These distinctions, however, are often obscured in application. For example, leading identity scholar Michael Pratt writes in his overview of identity research (Pratt, 2016: 107): "When Selznick (1957) refers to organization as 'infused with meaning,' and when leaders' propose a higher organizational 'purpose,' they are referring to an organization's normative identity."

Our view is that this interchanging of terms obscures important differences in their underlying roles. Rivalry – say between Pepsi and Coke, or Yankees and Red Sox, or Boeing and Airbus – can form a strong basis for identity and identification while having little to say about purpose. In contrast, when Satya Nadella initiated a profound turnaround at Microsoft, his primary focus was on reinvigorating the company's purpose, a focus that he explicitly contrasted to Microsoft's prior focus on "envy" of its rivals as the basis for action (Nadella, 2017). His re-articulation of Microsoft's purpose, "to empower every person and every organization on the planet to achieve more," was clearly a response to "why" the company exists, rather than "who" it is.

That said, purpose and identity are highly related: companies with effective purposes are likely to foster strong identities and member identification, while companies devoid of purpose are likelier to foster the opposite. This conceptual link is also shown in Figure 1 and discussed in Henderson (2021) and Gartenberg and Zenger (2021). However, the fundamental focuses of the two ideas remain different: purpose on the "why" and identity on the "who" underpinning an organization.

Purpose and Values Organizational values also relate to purpose. Values can be broadly understood as deeply-held beliefs about the moral worth of actions (Benabou and Tirole, 2011). Statements such as "inspiring minds," "bridging cultures," or "looking out for all" that are featured on Apple's website under "Shared values" reflect this idea.[24] Based on this definition, it is clear that values and purpose are conceptually related but distinct: effective purposes should enable shared values to be realized, but are not equivalent to those values.

[24] https://www.apple.com/careers/us/shared-values.html, accessed December 14, 2021.

Purpose and Stakeholder Orientation. While purpose and stakeholder orientation are related, they are also distinct. Specifically, higher stakeholder orientation refers to the idea that a company explicitly accounts for and seeks to balance the interests of multiple stakeholders (e.g. customers, employees, suppliers, local community) (Freeman 2010). To manage this balance, a company must develop governance and management control systems, such as board committee responsibilities, incentive plans, metrics, and stakeholder engagement mechanisms, to implement a strategy that balances tradeoffs across stakeholders (Eccles, Ioannou, and Serafeim 2014). An outcome of such stakeholder orientation could be that company is perceived as more socially responsible and a better corporate citizen.

Given that corporate purpose involves motivations beyond quantitative measures of financial performance, many firms with a strong purpose likely also have a strong stakeholder orientation. However, the two constructs are not restatements of each other. First, purpose is a common understanding of “why” a firm exists, a question that stakeholder orientation does not explicitly address. Moreover, a strong purpose does not mechanically imply a strong stakeholder approach. While stakeholder orientation assumes that a firm’s objective function should be to achieve better outcomes for a diverse set of stakeholders through better stakeholder management, a compelling purpose may involve a single-dimensional focus, while imposing negative outcomes on some stakeholders.

An illustrative example of this difference between purpose and stakeholder orientation is Tesla. The company’s purpose revolves around the acceleration of the transition towards sustainable energy and decarbonization of the economy. However, at the same time, the company has been accused of mistreatment of its employees through extremely long working hours, a physically unsafe workplace, and an unwelcoming environment for women. As a result, Tesla is often excluded from lists and rankings of companies that are viewed as stakeholder oriented.

That said, we conceptualize a complementary relation between corporate purpose and the ability of a company to implement an intentional strategy that considers stakeholder interests in the creation of financial value (Grewal and Serafeim 2020). A strong corporate purpose can enable intentionality by defining the meaning of actions that need to be taken and increasing alignment of all levels of the organization behind those actions. In turn, the measurement of societal impact can hold managers accountable, enhance credibility and signal authenticity, in turn reinforcing employee beliefs around that purpose inside the organization.

In sum, purpose – as the "why" behind an organization's existence – is not equivalent to culture, identity, values, or stakeholder orientation. Simplifying the above discussion, purpose beliefs address "why we exist," culture beliefs address "what are appropriate attitudes and behaviors," identity beliefs address "who we are," values address "where we assign moral worth," and stakeholder orientation addresses "how we allocate scarce resources across different stakeholders." These ideas, however, are interrelated. Effectively implemented, purpose should be consistent with the culture and values of the organization, lead to greater member identification, and facilitate stakeholder-oriented actions. Our view, however, is that when we measure the aggregated strength in meaning within the enterprise, we are measuring a signal of purpose and not of these other ideas. We next turn, therefore, to our measurement strategy.

Strengths and Limitations of Purpose Measure

We construct our measure of corporate purpose based on an employee workplace survey. This measurement approach reflects both the core opportunity and challenge for our study. It has the benefit of being based directly on large sample of employee beliefs, circumventing the cheap talk challenge of formal purpose statements. On the other hand, since the survey was not explicitly designed for our study, we must infer purpose-related beliefs from the questions available. Moreover, as with any study using survey data of this nature, we must also address the high degree of covariance between responses that is driven by overall satisfaction. In other words, simple indices of purpose-related questions will be collinear with satisfaction.

To address these two challenges, we construct our measure using an exploratory factor analysis that permits us to isolate discrete bundles of beliefs that reflect latent underlying factors that are both independent of each other and also not proxies for general satisfaction. From the four identified factors, we identified the factor that most closely reflects beliefs we would theoretically expect in settings with a strong purpose. This factor, which we use as a signal of purpose, encompasses a bundle of beliefs in meaningfulness, authentic pride, and clarity that have been linked in prior work on purpose as a credible informal commitment (Podolny et al, 2004; Gibbons and Henderson, 2012a,b; Henderson, 2021; Gartenberg et al, 2019).

That said, a question arises whether these employee survey items can, in fact, be used to represent corporate purpose or whether the construct-to-measure gap is too wide. While the resolution to this question is ultimately a matter of judgement, there are two compelling reasons to consider that this factor is an informative measure. First, the four factors identified in the factor analysis are derived from the full set of questions of the employee survey, a survey designed to capture the most important employee perceptions of the workplace. Given that, it is reasonable that beliefs in purpose should be included in one of four factors, and it is clear from Appendix B that *Purpose-Clarity* is the most closely aligned with the theoretical construct and its impact on employee beliefs. Earlier research has highlighted the connection between purpose to meaningfulness in daily work, a shared vision, and identification (Henderson, 2021, see Appendix B), each of which is included in *Purpose-Clarity*. Of the three remaining factors, only one other, labelled *Purpose-Camaraderie,* could reasonably be considered as an alternative. While we consider this possibility in Appendix C, it is important to note that this alternative factor does not include beliefs related to clarity, which are linked to effectively-implemented informal commitments in organizations (Gibbons and Henderson 2012,ab). Neither of the other two factors, *Management* and *Nondiscrimination*, reasonably capture beliefs related to purpose.

Second, it is important to note that we are not aiming to explain all aspects of purpose, but instead systematic variation. In this sense, our results can be explained by the conservative "weak form" interpretation of our measure. In this weak form interpretation, variation of our signal *Purpose-Clarity* beliefs at the firm level is indicative of variation in the underlying purpose, even if *Purpose-Clarity* captures related beliefs, rather than purpose itself.

That said, a fundamental limitation of our approach that we cannot definitively rule out the possibility that systematic variation in meaning, authentic pride, and clarity together does not reflecting variation in corporate purpose, but instead variation in another organizational attribute. Given our discussion above, it is unlikely that we are capturing culture, trust, or satisfaction. The likeliest attribute in our view is identification, as it is empirically and conceptually challenging to separate from purpose. As such, our results should be interpreted with this limitation in mind. We do not, however, view this overlap as a fundamental challenge to our interpretation: it is implausible that these beliefs would reflect a variation in underlying identification that is independent of variation in purpose. In other words, our measure may reflect changes in both underlying purpose and identification, but it is highly unlikely to reflect variation in identification on its own.

In summary, the corporate purpose measure reflects several desirable features. It is orthogonal to other empirically derived organizational constructs, scalable and comparable across a large number of firms, and it derives from a randomly drawn set of employees inside organizations. However, we can observe its manifestation through employee beliefs, which raises the possibility of overlap primarily with identification.

Alternative Interpretations

We next consider other interpretations of our reported results. Differential commitment between private and public market investors is not the only difference in characteristics among public and private firms. These firms also differ in their management practices, access to finance and investment opportunities, access to talent, and agency costs (Renneboog, Simons, and Wright 2007). We must consider, therefore, whether any of these alternatives might explain our results.

One alternative explanation is that better management practices are associated with stronger purpose, and specifically, a stronger sense of purpose-clarity within firms. However, this explanation is inconsistent with prior research on management practices that documents stronger management practices within public, rather than private, firms (Bloom et al. 2012). Given we find the exact opposite for purpose, either worse management practices result in stronger purpose, an implausible explanation, or better management practices are unlikely to explain the presence of stronger purpose in private firms.

Another alternative explanation is differential access to finance and therefore investment opportunities. Given that public firms have better access to finance and therefore can be more responsive to investment opportunities, if being able to undertake those investment opportunities enables fulfilment of corporate, public firms should have a stronger sense of purpose. Therefore, differential access to finance and investment opportunities is also unlikely to provide an explanation for public firms having lower purpose.

A third alternative explanation is that public firms are more attractive workplaces and therefore attracting better talent. This in turn could create a stronger purpose inside public firms. Again, this is inconsistent with the empirical finding that public firms exhibit lower purpose, suggesting access to talent is also an unlikely explanation for our results.

A fourth alternative explanation is that public firms are subject to higher agency costs due to their separation of ownership from control. To the extent that agency problems between owners and managers weaken the sense of purpose, private firms might have a stronger sense of purpose. To more formally test this alternative channel that agency problems drive lower purpose, we estimate the relationship between purpose and ownership concentration inside public firms. Ownership concentration is measured as the percentage of shares held by the largest five investors. A significant body of research suggests that the presence of blockholders and higher ownership concentration is associated with lower agency problems (Edmans and Holderness 2019).

In untabulated results, we find no evidence that firms with high ownership concentration is related to higher purpose, and in fact, we find the opposite relationship. Moreover, this agency channel is not consistent with lower purpose for PE-owned firms and for firms with hedge fund ownership. Both asset managers are thought to implement governance practices that mitigate agency costs (Bebchuk, Cohen and Hirst 2017). Although, the hedge fund ownership results might also be reconciled with the agency problems driving lower purpose, this would require that lag low purpose correlates with higher future hedge fund ownership. We find instead that lag hedge fund ownership correlates with lead purpose. Overall, the mosaic of evidence is hard to reconcile with differential agency costs driving differences in purpose.

Ownership, Purpose, and Profit

An important question arises regarding the performance implications of our results. If purpose can be value accretive over time, as shown by Gartenberg et al. (2019) and Gartenberg and Yiu (2021), why would public firms pursue actions that could be associated with lower purpose? This question relates to findings in the literature, such as the declining rate of internal innovation and departure of inventors, that suggests costs of public ownership (Bernstein 2015).

There are several plausible reasons in our view why this phenomenon could arise. Public firms are thought as suffering from higher agency costs, due to the separation of ownership and control, and lower investor monitoring, due to the dispersed ownership structure that gives rise to free rider concerns and declining marginal benefits from monitoring (Berle and Means 1932; Holmstrom 1982; Bertrand and Mullainathan 2003). This could lead managers to make decisions that lead to lower employee beliefs about purpose, even if doing so might be detrimental to the performance of the organization. A prediction of the monitoring and agency explanation, would be that firms with investors more likely to reap the benefits of monitoring would exhibit higher purpose. These would include firms with more long-term owners, as our results suggest. However, as we discussed above, the fact that we find a lower level of purpose associated with hedge fund ownership, a type of investor thought to play a significant monitoring role in markets, and that PE ownership is associated with lower or insignificantly different purpose, suggests that, at best, this explanation lacks convincing empirical evidence.

A second explanation, relates to the fact that public ownership shifts the set of opportunities and priorities for management. If those opportunities and priorities are thought to be value enhancing but negatively correlate with purpose then the result would be a lower sense of purpose.

For example, a significant benefit of public ownership is more access to capital, allowing them to attract new leaders and human capital that often needs to be compensated significantly more and pursue risky and difficult to implement strategies, such as merger and acquisitions (Celikyurt, Sevilir, and Shivdasani 2010). Our results, regarding CEO internal promotions and lower pay gap between CEOs and employees, as well as results in Gartenberg and Yiu (2021) that show deteriorating purpose following many acquisitions, suggests that this explanation is likely to be true in our setting.

Finally, a third explanation relates to differences in time horizon. If lower sense of purpose will affect the performance of an organization beyond the time horizon that managers making the decisions that lower purpose, then the costs are outsourced to the next management team and the long-term investors of the organization. A similar argument can be made for investors if they choose leaders and take actions that will have negative consequences after they are not invested anymore in the company. Because purpose is hard to observe, particularly among employees below the executive ranks, it is not clear that the costly effects of such actions will be priced by new investors and thereby will not be borne by existing investors.

In sum, shifting priorities and opportunities from a public listing leading to choices that are detrimental to corporate purpose, alongside the inherent difficulty for investors to observe employees' beliefs of corporate purpose and differences in time horizon could explain why public firms might exhibit systematically lower purpose, even if such purpose might be value accretive.

Conclusion

This study shows that purpose is lower in firms with less committed owners. Publicly listed firms exhibit systematically lower purpose than private firms. This is particularly the case for companies with a high percentage of shares owned by institutional investors with high discount rates (i.e., hedge funds), while public companies with more dedicated investors have a stronger sense of purpose. These patterns are explained, at least in part, by governance differences: higher-purpose firms are ones with internally promoted CEOs, CEO incentives structured on growth and non-monetary incentives, and with a lower CEO-salaried employee pay gap.

Our measure corporate purpose is constrained by the data available to us and our ability to delineate purpose from other organizational constructs. This is a challenging task, given that corporate purpose is related to, although conceptually distinct from, organizational culture, identity, values, and stakeholder orientation. Even with these obstacles, the measurement of corporate purpose represents a significant opportunity for scholars.

In this paper, we have relied on a large survey of approximately 1.5 million employee-years covering a wide range of beliefs about the workplace. This is one of the few, if not the only, datasets that provides scalable, comparable, and relevant data for the measurement of purpose across both public and private firms. Using exploratory factor analysis, we constructed a measure representing a set of survey questions that provide a measure, albeit imperfect, of corporate purpose. We believe that the measurement of corporate purpose through employee beliefs rather than corporate statements presents many advantages, as employees are the stakeholders that have the most knowledge about why an organization does what it does and they are less likely to represent 'cheap talk' statements made by management.

However, the survey that we use in this study is not explicitly designed to measure corporate purpose. This is a shortcoming that future research should address through the development and administration of purpose-specific survey instruments. Moreover, advances in technology, including availability of large, unstructured datasets and increasing applications of machine learning techniques could be helpful in extracting useful information from text responses to surveys, social media, management presentations at conferences and investor days, and information intermediaries, such as media, NGOs, and financial analysts. While these approaches will entail tradeoffs of their own, a range of empirical strategies will only deepen our understanding of this important topic.

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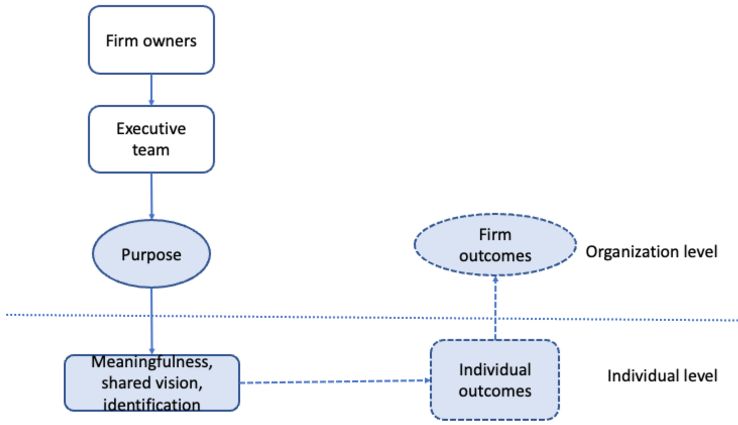
Figure 1: Ownership, purpose, and meaning within the organization



Adapted from Henderson (2021); solid line denotes focus areas in this study

Figure 2: Corporate purpose by ownership type

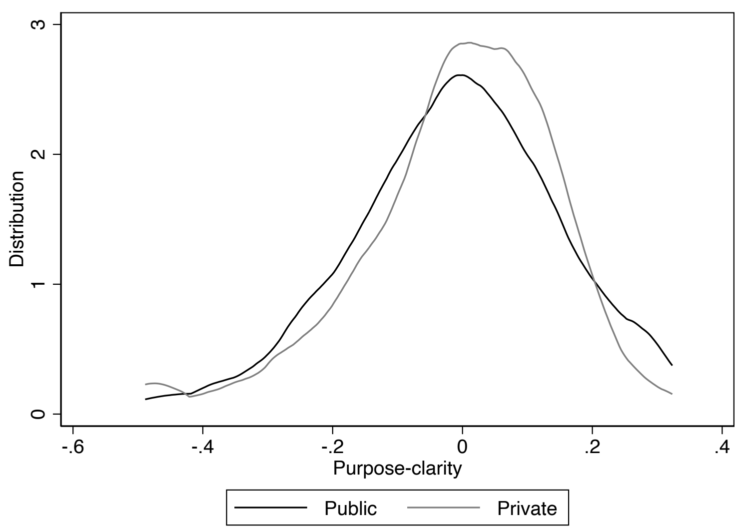


Figure 2: Corporate purpose by hedge fund ownership

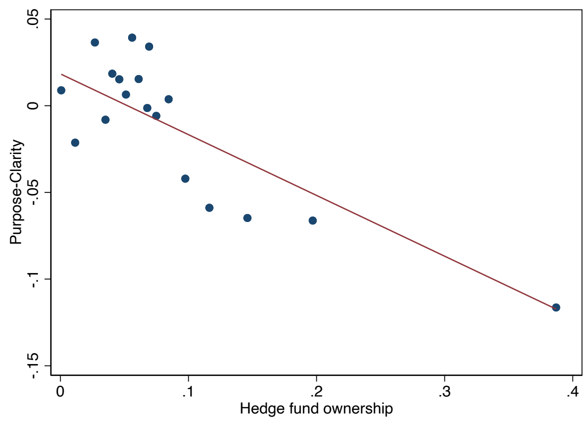


Figure 4: Corporate purpose by investor commitment

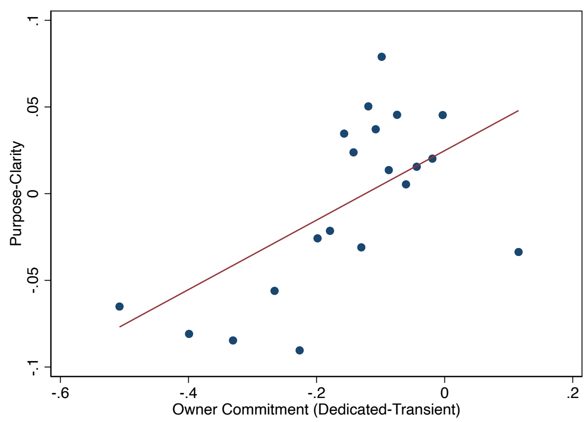


Figure 5: Corporate purpose by job level

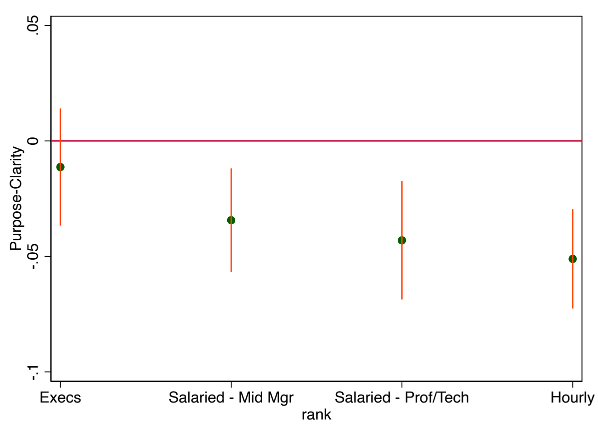


Table 1: Differences across Public and Private Firms

Sample: Variable	Public Mean	Private Mean	Difference P(Public-Private)
Explanatory variables			
Hedge fund	0.089		
Long term investors	-0.154		
CEO joined in lower ranks	0.327	0.579	**
CEO tenure at company (log years)	9.495	11.414	**
CEO pay gap relative to salaried ranks	12.093		NA
CEO total compensation ($000)	8,501		NA
Number of margin incentives	2.208		NA
Number of non-margin incentives	7.952		NA
Benefits index	2.502	2.313	**
ESOP	0.131	0.133	
Bonus as % comp (salaried)	0.148	0.162	*
Controls			
% workforce - hourly	0.455	0.514	**
% workforce - commissioned	0.081	0.067	**
% workforce - salaried prof/tech	0.284	0.253	**
% workforce - salaried mid manager	0.143	0.122	**
% workforce - executive	0.037	0.044	**
Sales	13,150	6,613	**
Full-time employees	14,516	5,143	**
Firm age (years)	57	65	**
Halo control			
Industry			
Adv and Marketing	0.009	0.009	
Aerospace	0.010	0.003	*
Agriculture	0.008	0.004	
Biotech and Pharma	0.046	0.001	**
Confidential	0.001	0.001	
Construction and Real Estate	0.045	0.112	**
Education and Training	0.009	0.003	†
Electronics	0.010	0.001	**
Engineering	0.000	0.002	†
Financial Services and Insurance	0.143	0.144	
Health Care	0.029	0.076	**
Hospitality	0.061	0.072	
Industrial Services	0.013	0.009	
IT	0.129	0.042	**
Manufacturing and Production	0.202	0.127	**
Media	0.035	0.004	**
Mining	0.003	0.000	†
Missing	0.011	0.005	†
Other	0.007	0.003	
Professional Services	0.049	0.240	**
Retail	0.123	0.123	
Telecommunications	0.026	0.005	**
Transportation	0.031	0.007	**
Utilities	0.001	0.000	

**, *, † signify statistical significance at the 1, 5, and 10% level respectively

Table 2: Purpose and Public Ownership

Dependent variable:	Purpose-clarity		
Model:	OLS	OLS	OLS
	(1)	(2)	(3)
Public	-0.0223†	-0.0274*	-0.0269*
	(0.0122)	(0.0108)	(0.0105)
Revenue (log)	0.0197**	0.0124**	0.0124**
	(0.0033)	(0.0025)	(0.00260)
FT employees (log)	0.0031	0.0160**	0.0155**
	(0.0044)	(0.0037)	(0.00366)
Firm age (log)	0.0312**	0.0178**	0.0182**
	(0.0058)	(0.0057)	(0.00576)
Halo control	0.1970**	0.261**	0.273**
	(0.0259)	(0.0278)	(0.0287)
Constant	-1.190**	-1.594**	-1.657**
	(0.1270)	(0.146)	(0.155)
Observations	2,860	2,860	2,860
R-squared	0.172	0.372	0.374
Org Controls	N	N	Y
Industry and State FE	N	Y	Y
Year FE	Y	Y	Y

OLS regressions in Models 1-3. *Revenue* is total worldwide revenue in latest fiscal year and *FT employees* is the full-time employees. *Firm age* is the number of years that the firm has been incorporated. *Halo control* is a variable measuring how physically safe is the workplace according to survey responses by employees. *Org Controls* refers to percent of workforce at each hierarchical level. See text for full description. Standard errors clustered at firm-level. **, *, † signify statistical significance at the 1, 5, and 10% level respectively

Table 3: Purpose and Public Ownership, matched analysis

Panel A: Nearest neighbor match

Dependent variable:	Purpose-clarity		
Model:	Nearest neighbor match		
	(1)	(2)	(3)
Public	-0.0241**	-0.0296**	-0.0191**
	(0.0071)	(0.0070)	(0.0070)
Observations	2,860	2,791	2,791
Match criteria	Table 2(1)	Table 2(2)	Table 2(3)

Panel B: Coarsened exact match

Dependent variable:	Purpose-clarity		
Model:	Coarsened exact match		
	(1)	(2)	(3)
Public	-0.0298*	-0.0334*	-0.0530*
	(0.0137)	(0.0130)	(0.0262)
Revenue (log)	0.0260**	0.0010**	0.0247
	(0.0045)	(0.0035)	(0.0153)
FT employees (log)	-0.0003	0.0205**	-0.0119
	(0.0063)	(0.0055)	(0.0147)
Firm age (log)	0.0292**	0.0169†	0.0321
	(0.0076)	(0.0087)	(0.0257)
Halo control	0.158**	0.278**	0.340**
	(0.0425)	(0.0476)	(0.0933)
Constant	-1.039**	-1.858**	-2.160**
	(0.202)	(0.230)	(0.517)
Observations	1,674	1,016	259
R-squared	0.173	0.441	0.581
Match criteria	Table 2(1)	Table 2(2)	Table 2(3)

Nearest neighbor matching Model 4, with average treatment effect presented. Match based on exact match without replacement on year and industry, and nearest neighbor on firm size and geography. Private firms are omitted category. *Revenue* is total worldwide revenue in latest fiscal year and *FT employees* is the full-time employees. *Org Controls* refers to percent of workforce at each hierarchical level. See text for full description. Standard errors include Abadie-Imbens (2011) bas adjustment for nearest neighbor match (Panel A), and clustered at firm-level for CEM (Panel B). **, *, † signify statistical significance at the 1, 5, and 10% level respectively

Table 4: Purpose by owner composition

Dependent variable:	Purpose-clarity			
	(1)	(2)	(3)	(4)
Public	-0.0316**	-0.0306**	-0.0305**	-0.0265*
	(0.0115)	(0.0114)	(0.0114)	(0.0117)
Public*Hedge fund	-0.122*		-0.109*	
	(0.0505)		(0.0504)	
Public*Long term investors		0.0998*	0.0922*	
		(0.0428)	(0.0421)	
Private Equity	-0.0288	-0.0280	-0.0289	-0.0300
	(0.0206)	(0.0208)	(0.0208)	(0.0209)
Lagged measures				
Public*Hedge fund				-0.0868†
				(0.0459)
Public*Long term investors				-0.0352
				(0.0408)
Leading measures				
Public*Hedge fund				-0.0721†
				(0.0376)
Public*Long term investors				0.154**
				(0.0404)
Controls				
Revenue (log)	0.0121**	0.0121**	0.0119**	0.0117**
	(0.00258)	(0.00255)	(0.00255)	(0.00255)
FT employees (log)	0.0156**	0.0149**	0.0150**	0.0148*
	(0.00363)	(0.00360)	(0.00359)	(0.00360)
Firm age (log)	0.0162**	0.0164**	0.0156**	0.0159**
	(0.00577)	(0.00576)	(0.00575)	(0.00573)
Halo control	0.269**	0.268**	0.266**	0.268**
	(0.0285)	(0.0284)	(0.0284)	(0.0284)
Constant	-1.603**	-1.589**	-1.568**	-1.564**
	(0.153)	(0.155)	(0.154)	(0.155)
Observations	2,860	2,860	2,860	2,860
R-squared	0.377	0.378	0.379	0.384
Org Controls	Y	Y	Y	Y
Industry and State FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y

OLS regressions. Private firms are omitted category. *Hedge fund ownership* is percent of outstanding equity owned by hedge funds. *Long-term investors* is measured as voting shares of dedicated minus transient investors for firms. *Private Equity* is indicator equal to one for firms with private equity owners. See footer of Table 2 and text for variable descriptions. Standard errors clustered at firm-level. **, *, † signify statistical significance at the 1, 5, and 10% level respectively

Table 5: Purpose, CEO background and incentives

Dependent variable:	Purpose-Clarity				
	(1)	(2)	(3)	(4)	(5)
Public	-0.0306**	-0.0253*	-0.0234*	-0.0235*	-0.0219†
	(0.0114)	(0.0119)	(0.0118)	(0.0118)	(0.0119)
Public*Hedge fund	-0.107*	-0.0966†	-0.0897†	-0.0875†	-0.0890†
	(0.0506)	(0.0502)	(0.0504)	(0.0503)	(0.0505)
Public*Long term investors	0.0912*	0.0824†	0.0828*	0.0799†	0.0640
	(0.0421)	(0.0422)	(0.0414)	(0.0411)	(0.0401)
Private Equity	-0.0286	-0.0248	-0.0265	-0.0267	-0.0267
	(0.0208)	(0.0212)	(0.0213)	(0.0212)	(0.0204)
CEO background					
CEO joined in lower ranks		0.0260**	0.0260**	0.0270**	0.0251*
		(0.0010)	(0.0100)	(0.0099)	(0.0100)
CEO tenure at company (log years)		-0.0024	-0.0021	-0.0020	-0.0009
		(0.0066)	(0.0064)	(0.0064)	(0.0063)
CEO compensation					
Pay gap relative to salaried ranks			-0.0030**	-0.0029*	-0.0031**
			(0.0012)	(0.0011)	(0.0011)
CEO total compensation			0.0406**	0.0393**	0.0389**
			(0.0087)	(0.0087)	(0.0083)
CEO incentive structure					
Number of margin incentives				-0.0015	-0.0014
				(0.0027)	(0.0027)
Number of non-margin incentives				0.0017*	0.0016*
				(0.0007)	(0.0007)
Employee compensation					
Benefits index					0.0067*
					(0.0032)
ESOP					0.0079
					(0.0111)
Bonus as % comp (salaried)					0.0780**
					(0.0272)
Constant	-1.565**	-1.521**	-1.778**	-1.771**	-1.749**
	(0.154)	(0.154)	(0.150)	(0.150)	(0.151)
Observations	2,860	2,860	2,860	2,860	2,860
R-squared	0.379	0.384	0.397	0.399	0.406
Controls	Y	Y	Y	Y	Y
Org Controls	Y	Y	Y	Y	Y
Industry and State FE	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y

OLS regressions. Private firms are omitted category. See footer of Tables 2 and 4 and text for variable descriptions. *CEO joined in lower ranks* is an indicator variable for CEOs that have been promoted internally from a lower rank. *CEO tenure at company* is the number of years that the CEO has been the CEO. *Pay gap relative to salaried ranks* is the ratio between CEO to median worker pay. CEO total compensation is the total compensation reported for the CEO. Number of margin (non-margin) incentives is the sum of provisions in the CEO compensation contract based on cost or margin (sales, growth, or nonfinancial) metrics. *Benefits index* is a composite index of indicator variables for the number of childcare and flexible workplace benefits offered to employees. *ESOP* is an indicator variable if the firm offers an ESOP to all employees. *Bonus as % comp* is a variable that measures the percentage of total compensation for salaried employees that is based on bonus. Standard errors clustered at firm-level. **, *, † signify statistical significance at the 1, 5, and 10% level respectively

Table 6: Purpose, CEO background and incentives by job level

Dependent variable:	Purpose-Clarity			
	Execs	Salaried mid mgr	Salaried prof/tech	Hourly
	(1)	(2)	(3)	(4)
Public	0.0006	-0.0182	-0.0281†	-0.0371**
	(0.0157)	(0.0136)	(0.0152)	(0.0131)
Public*Hedge fund	0.0209	-0.0568	-0.0289	-0.117†
	(0.0807)	(0.0623)	(0.0816)	(0.0692)
Public*Long term investors	0.0407	0.0692	0.183**	0.0206
	(0.0661)	(0.0487)	(0.0522)	(0.0459)
Private Equity	-0.0631*	-0.0410*	-0.0280	-0.0218
	(0.0260)	(0.0182)	(0.0267)	(0.0239)
CEO background				
CEO joined in lower ranks	0.0146	0.0271*	0.0232*	0.0262*
	(0.0135)	(0.0107)	(0.0115)	(0.0110)
CEO tenure at company (log years)	-0.0096	-0.0040	-0.0118	0.0009
	(0.0076)	(0.0070)	(0.0075)	(0.0065)
CEO compensation				
Pay gap relative to salaried ranks	-0.0025	-0.0026*	-0.0029*	-0.0031*
	(0.0015)	(0.0013)	(0.0014)	(0.0014)
CEO total compensation	0.0523**	0.0447**	0.0497**	0.0313**
	(0.0114)	(0.0105)	(0.0112)	(0.0085)
CEO incentive structure				
Number of margin incentives	-0.0111*	-0.0012	-0.0009	-0.0033
	(0.0044)	(0.0033)	(0.0032)	(0.0034)
Number of non-margin incentives	0.0015	0.0023*	0.0022*	0.0015
	(0.0015)	(0.0009)	(0.0010)	(0.0009)
Employee compensation				
Benefits index	0.0097*	0.0073†	0.0089†	0.0073*
	(0.0046)	(0.0038)	(0.0048)	(0.0037)
ESOP	-0.0087	0.0133	-0.0051	0.0011
	(0.0165)	(0.0130)	(0.0140)	(0.0136)
Bonus as % comp	0.0449	0.106**	0.0312	0.0174
	(0.0400)	(0.0310)	(0.0472)	(0.0290)
Constant	-1.603**	-1.458**	-1.686**	-1.961**
	(0.277)	(0.171)	(0.237)	(0.175)
Observations	2,805	2,835	2,803	2,838
R-squared	0.187	0.296	0.193	0.346
Controls	Y	Y	Y	Y
Org Controls	Y	Y	Y	Y
Industry and State FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y

OLS regressions. Private firms are omitted category. See footer of Tables 2, 4, 5 and text for variable descriptions. Standard errors clustered at firm-level. **, *, † signify statistical significance at the 1, 5, and 10% level respectively