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Rethinking ‘Shareholder Value’ and the Purpose of the Corporation

***“Tomorrow’s Corporation that We Need Today --
Getting There from Here”***

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Introduction

This topic – rethinking shareholder value and the purpose of the firm – is one which I have given a great deal of thought. It is almost where we need to start if we are to address some of the fundamental problems that are evident in society, and our capitalist system. I appreciate the opportunity to share my thoughts with you today, and hopefully, open a door to how we must move forward, and move the discussion from the theoretical to the practical, from ‘talk to action.’

I applaud the Kellogg School of Management and Dean Blount for hosting this event. And, knowing that we all stand on each others’ shoulders and benefit from the interchange of ideas, I want to recognize one person here today who has been a catalyst for me. Judy Samuelson is founder and President of The Aspen Institute Business and Society Program, which is a co-sponsor of this forum. I have had the privilege of working with Judy for nearly 15 years on this and related topics.

I have titled my remarks ‘Tomorrow’s Corporation that We Need Today – Getting There from Here’. I will start by addressing why ‘purpose’ is so important, looking at it from a number of perspectives, and then will lay out actions that, if taken, could drive us forward. Before closing, I will touch on a couple of counter-intuitive points which we need to consider if we are to have a constructive dialogue.

Purpose

The purpose of the firm: I believe that the lack of attention to this topic is one of the fundamental reasons why business finds itself near the bottom of the ‘trust’ scale in society today.

How we address a corporation’s purpose has far-reaching implications; it is fundamental to the kind of political and economic system on which our society is based, and the values we choose to bind us together. A question on the table today is whether we – the business and financial community – can pull ourselves out of our self-absorbed, self-rationalizing pursuit of narrowly defined, short-term self-interest to realize that we all have a permanent interest in preserving the system that has contributed so much good to society and which provides us with the freedoms we now take for granted.

We need to remember history, and reread a page from 19th century England. The ‘Tragedy of the Commons’ occurred when individual farmers were permitted to graze their animals on the common lands. But, there were no regulations to protect the land from overuse. Certain farmers profited by turning out more animals onto the common land to such an extent that overgrazing eventually

rendered the commons useless for the community. The pursuit of unchecked individual self-interest destroyed the system.

Today, corporate purpose is being held hostage by the myth of shareholder primacy. Society must decide whether it is to embrace a *property*, or solely economic view of the corporation, or a *citizenship* view. If we choose the property view – that the purpose of the corporation is for its shareholders – we are on a path to replay the ‘Tragedy of the Commons’ and we all will lose. Even more tragic, in the long run, we destroy our own motivations, beliefs and trust in each other and in our institutions. It becomes our own ‘Faustian’ bargain where we sacrifice our societal ‘soul’ for short-term, yet unsustainable gratification of the few.

If we embrace the citizenship view, we can regain the path where business is a trusted and responsible member of society delivering for all its constituents, including its shareholders. This last point is important, for we cannot fall into the trap of thinking that the citizenship model is an anti-shareholder model. Such a belief would be a huge mistake.

The great irony in the way this topic is debated is that in the long-term, I would posit that both the property-based and the citizenship-based arguments converge in agreement. The real issues are the timeframe in which one measures success, the priorities driving near-term decision-making, and a more careful consideration of the rights of shareholders. I will return to these points in a few minutes.

Let us look at corporate purpose from three perspectives: the law, good business practice, and human motivation. I then want to suggest there is a fourth perspective that I believe can open the door to a constructive way forward.

Purpose -- Legal Perspective

Why do companies exist? For whom do they exist?

Lynn Stout, Distinguished Professor of Corporate and Business Law at Cornell University, and one of the most thoughtful thinkers on this topic, has written:

“United States corporate law does not, and never has, required directors of public corporations to maximize shareholder wealth. To the contrary, as long as boards do not use their powers to enrich themselves, the law gives them a wide range of discretion to run public corporations with other goals in mind, including growing the firm, creating quality products, protecting employees, and serving the public interest. Chasing shareholder value is a managerial choice – not a legal requirement.”

The corporate charter is granted by society and provides, among other benefits, limited liability protection to the managers and owners of the corporation. The expectation is that in return for liability protection and other rights, the corporation will make a positive contribution to society. Edwin Gay, the founding Dean of the Harvard Business School, stated that the role of the company is to do well for itself by doing well for society... to do *‘both well and good’*, and for business leaders to *‘make a decent profit, decently’*.

Today, the question of corporate purpose plays out in the legal context in the debate between shareholder and multi-stakeholder primacy. There are many who will vehemently argue that the driving – even sole – purpose of the corporation is to maximize profit for its shareholders. But let’s be clear on this point: It was Milton Friedman – not corporate law – who wrote more than 40 years ago in *‘The Social Responsibility of Business is to Increase its Profits’* that the sole purpose of the corporation is to maximize profit for its shareholders.

Cases cited by supporters of the shareholder primacy theory include the 90-year-old *Dodge v. Ford*, and the more recent *eBay v. craigslist*. But, these cases actually don't make the point shareholder primacists want. Yes, a corporation should make a profit for its shareholders, but the courts recognize and respect the business judgment of directors. This 'business judgment' standard allows for more balanced and reasoned considerations and actions. Practically speaking, in our litigious society today it may be your safest of safe harbors to act to maximize profit for shareholders, but it is not your legal obligation.

This legal distinction is certainly important for legal scholars; it is important for business leaders and boards of directors as well to understand the basis on which the legal counsel they receive may be grounded. The 'business judgment' standard opens a wide door and provides business all that it needs to operate in a responsible, citizenship-oriented basis. In order to have the flexibility to operate in such a manner, I believe a business is well-served to be clear about its purpose, by which it creates a context for its own decision-making.

As an aside, let me say that I am not convinced of the B-Corp initiative – not because it is bad to have multiple goals and stakeholders, or that the mission of the B-Corp is not noble and good. I don't like what it tacitly allows or suggests about the C-Corporation. As previously noted, I believe that corporate law, by way of the business judgment standard, gives the C Corporation the latitude to serve broader societal needs and consider multiple stakeholders. By saying we need the B-Corp structure, are we effectively giving up on – or giving a pass to – the C Corporation as a responsible player when measured against societies' long-term needs? At this point, I am not willing to make that assumption.

Purpose – Good Business Perspective

The legal framework is important because it creates space for a balanced consideration of a multiplicity of interests; but, it doesn't compel action. I noted a minute ago my belief that the property and citizenship models actually converge in agreement. I believe that pursuing a multi-stakeholder approach to running a business will, in fact, deliver the best returns to shareholders.... *over time*.

The issue, of course, is time. This notion of time, and the timeframe over which positive results are to be delivered merits far more attention than it has received. The faceless 'market' demands results now or it will punish a company's stock price. At the same time, society wants to ensure that delivering results now for shareholders does not come at a far greater cost to society in the future, long after the shareholder beneficiaries have exited the stock. The lack of agreement on the appropriate timeframe over which to measure performance is a major cause of the 'disconnect' we face today around the role of business in society and is likely at the root of the problems, both real and perceived, that businesses face.

I will be the first to note that delivering the best results to shareholders over time means that it may not deliver the maximum return to current shareholders next quarter. This point takes us to the question of what constitutes good and responsible business.

What should the priorities of business be? What are the metrics of 'good business'? Wall Street focuses on financial output metrics: profit; profit this quarter v. last quarter; profit this quarter v. same quarter last year; revenue growth; margins. I won't argue that these metrics aren't important, but I will point out that these results are just that: results – of doing other things very well. There is no business from which to derive a profit without customers. To deliver for shareholders, every company first must ensure that the business continues to offer something that somebody wants to buy, and then focus on delivering for customers.

The frequently-cited example of this orientation is the pharmaceutical company, Johnson & Johnson. Its Credo, written by Robert Wood Johnson in 1943 just before the company went public, clearly lays out its priorities to put the needs and well-being of the people it serves, first. It orders its constituents as follows: first, the doctors, nurses and patients, mothers and fathers and others who use its products; second, its employees; third, the communities in which it lives and works, and the world community at large; and finally, its stockholders. Johnson & Johnson states clearly that by operating by these principles and priorities, its stockholders will earn a fair return.

I had the privilege of building a billion dollar national security company called Veridian in the 1990s and early 2000s. Just before we went public, I took a page from General Johnson's book and stated clearly our purpose, which was grounded in serving our customers in the government national security community, and articulating a financial goal around creating sustainable long-term value for our constituents, including our shareholders. When we went public, I received some push-back from investment bankers on this message, but I insisted on making the point because I felt that it was essential that prospective investors understood our priorities and the context in which we would act in making strategic and day-to-day operating decisions.

Today, I serve as President & Chief Executive Officer of TASC. We are re-establishing ourselves as an independent company having existed for the last two decades as a division of other companies, most recently Northrop Grumman. As a government contractor, we are taking these steps in a market environment that is facing gale-force head winds in the form of trillion dollar reductions in our customers' budgets over the next decade. We have established our purpose and vision, and set a strategic intent that establishes TASC as the pre-eminent company at what we do: high level enterprise and systems engineering, mission architecture and design in the national security and public safety markets. Our purpose is to strengthen the security and safety, and thereby protect the basic values of society; our vision is to be viewed as the most trusted, responsive and valuable long-term partner of our customers, particularly during these difficult times. Our strategy requires time to play out. It is a strategy designed to build sustainable long-term value for our constituents, beginning with serving our customers better than any of our competitors. The performance metrics that matter to us are not the typical Wall Street trailing financial output indicators. Instead, they are the metrics that reflect industry thought leadership, high customer satisfaction, low employee turnover, increasing market share and traction in changing our business model to delivering more solutions-based offerings rather than cost-based services. These are the metrics that will tell us if we are making progress in achieving our longer-term goal of building the leading company in our industry. If we can succeed against these metrics today, our financial investors will do just fine tomorrow.

Purpose -- Human Motivation

Let me now turn to the human side.

What does it take to motivate human beings?

If you are the sole proprietor of a business, do you think that you can motivate your employees for maximum performance by encouraging them simply to make more money for you? That is effectively what an enterprise is saying when it states that its purpose is to maximize profit for its investors.

Let me offer two examples to illustrate the point...

First, think about leading a community-based volunteer organization. You don't have money, you don't have employment contracts and often you don't have titles, but you still need everyone to contribute. Moreover, these days no one has time for anything, and everyone can walk away. What holds people together in such voluntary organizations is a compelling purpose in which they believe

and are vested. On this point, I think Aristotle was right when he said that the human being is, by nature, a social animal, and is most fulfilled by engaging with others. There are great leadership lessons for business in understanding this simple point.

Second, early in my career, I was part of starting a company called Space Industries where I had the good fortune to work with some of the leaders of the nascent U.S. space program – the people to whom President Kennedy turned to put a man on the moon: Bob Gilruth, Chris Kraft, Max Faget; Alan Shepard was one of our first shareholders, and later Neil Armstrong served as a director. I was struck by how these accomplished people would speak about the Apollo program – how it represented the most satisfying time of their lives. The reason: they were contributing to something that mattered; they were part of a team pursuing a grand adventure that was bigger than any one of them; they had a sense of contribution, responsibility and purpose that went well beyond their paycheck. A need at the most human level was being met.

I expanded on these lessons in building Veridian, and I bring the same approach to TASC. It is clear for me that a meaningful and shared purpose matters deeply. It is the key to unlocking employee commitment, building a positive operating culture, enhancing productivity, and ultimately, delivering exceptional performance. Most importantly, a clear purpose provides the foundation for institutional values. When your business depends upon attracting and retaining outstanding people, offering an environment where people are able to commit to a higher purpose than simply their job, and aligning institutional with personal values in such a way that neither is compromised – it's what the Apollo program did for those who worked on it in the 1960s. It surprises me that more corporations don't see these connections, nor see the benefits of addressing such a basic human need.

It may be helpful here to distinguish between the *purpose* of the firm and the *nature* of the firm. Those who think the purpose of the firm is to maximize shareholder value also typically think the nature of the firm is as an economic entity in which people are rational, economically self-interested actors. The purpose-driven, multi-stakeholder perspective that I embrace views people as social actors, and views the firm as fundamentally a *social* institution as well as an *economic* institution. In these firms, the foundation of the firm is meaning, identity and trust, rather than simply economic self-interest. By creating a meaningful purpose, engaging employees, and attending in a reliable and responsible way to the relationships with all stakeholders, corporate leaders can unleash higher levels of personal energy and establish relationships of trust, which in turn can enable their enterprises to outperform other firms over time. As work becomes more knowledge-based, and as corporations build the capacity to collaborate across more complex boundaries, understanding the firm as a social institution becomes ever more important. This line of thinking reflects the research of Mike Beer, Nathaniel Foote and Russ Eisenstat at TruePoint, and is articulated in their book, *'Higher Ambition – How Great Leaders Create Economic and Social Value.'*

My point is this: Together, purpose and values give you something to stand for in your life. Without knowing what you stand for, you are like a ship without a navigation system. You will have no basis for your own ethical grounding, and therefore no basis for ethical decision-making. Institutions are no different..... Clarity of purpose and strong institutional values mean you have the 'ends and means' covered, and you have created the context and foundation for a strong business that acts ethically, is a morally responsible member of society and delivers for all its constituents.

So far, I have touched on the topic of corporate purpose from the perspective of the law, good business practice, and human motivation. I want to suggest that there is a fourth perspective that I believe can open the door to a constructive way forward. This fourth perspective is one of our own choosing – the needs, goals and basic values of the society in which we choose to live.

Purpose – Needs of Society

What, in fact, is our goal?

One problem we have today is that we are still having too much of the conversations at the ‘buzz-word’ level. It is virtually impossible to gain traction around change until we get specific. We talk about corporate social responsibility, of long-term orientation, serving multiple stakeholders – but what, exactly, do we mean?

Before we address the proper or desired role of business in society, we need to be clear about what kind of society we want. What does a productive, just society look like? What is ‘good’, and therefore what does a ‘responsible’ business look like? If you pick up any newspaper, or check any current-event web-site, you can only conclude that we don’t like what we have today. Switzerland is proposing curbs on executive pay, and the European Union is discussing caps on bonuses. In the United States, we saw Occupy Wall Street movements across the country, and statistics that show that the top 1% received more than 100% of the economic gains of the last few years. What do these factors reflect about our society, today? Clearly, we are out of synch. So, what kind of rebalance, or realignment are we seeking?

Perhaps most importantly, we need a shared, societal view of what is just. What are the values we treasure and are willing to protect? Are there fundamental tenets of our society that we will take steps to keep out of the marketplace?

Moving Forward: Getting There from Here

The title I chose for this talk promises a way forward – how we ‘get there from here’. I believe there are specific roles we need a variety of actors to play. To state the obvious, there is no one problem that needs addressing, and therefore no single, silver bullet. We have a system that is out of synch. Excessive short-termism is a factor, but it is not the only factor.

One of the lessons we learned over the years at the Aspen Institute Business and Society Program is that everyone sees it as everyone else’s fault. Initially, we convened CEOs who complained bitterly about the pressures of the market. In subsequent years we convened CEOs and leading institutional investors; both complained about what the market forced them to do, and the conflict between incentives promoting short-term performance and the rhetoric crying for long-term orientation. We asked whether there was a role for government to address these issues, and were met, initially, with a chorus of ‘no’. Interestingly, as the years have passed, a grudging recognition has taken hold that the challenges we face may be so large that the government does need to step in – that it has a role to play. This recognition led to the second set of Aspen Principles entitled ‘Overcoming Short-termism’ that were unveiled in late 2009.

The situation in which we find ourselves now is that many public company CEOs dream of being private; everyone feels trapped. The demands for performance – now – are so intense that the longevity of public company CEOs is barely three years, on average.

What have we created? I am reminded of the great line from Mary Shelley’s book, *Frankenstein*, where the monster states, ‘*You are my creator, but I am your master; Obey!*’ Is this where we are today – having created a remarkable system of capitalism to now find that it is our master?

I, for one, believe we still remain in charge. Here is a way forward.

My approach looks at three critical players: first, all of us as citizens of society; second, the government, and by extension the non-government fiduciary and regulatory institutions; and third, corporate boards of directors.

Each must step up in a new way. All of us, as citizens, must be clear about the kind of world in which we want to live, and the values of our society that our principles of justice require be kept out of the realm of the market. We can't get the business and society part right until we address and decide what kind of society we want to have!

The government then sets the rules, and from time to time adjusts the rules to deal with the changing needs and desires of society. It is the role of government to protect the values its citizens deem important, to ensure equal opportunity is maintained, to ensure that the right rules are in place to balance short- and long-term goals and costs, and to make sure that unintended negative consequences are addressed such that society operates within the boundaries of what is fair and just. By setting the rules, the government not only determines what is legal, but also puts in place incentives that can drive desirable corporate behavior.

Where the government addresses rules and incentives at the macro level, Boards of Directors establish incentives to ensure performance and accountability at the level of individual corporations. To do so effectively, boards need to become more engaged in strategy, not just compliance, because strategy is the link between a clear purpose and vision and desirable operating results. Boards also must serve as more effective buffers between management and shareholders.

Let me get more specific about what is required of each actor, and then revisit the property v. citizenship debate and the short-term v. long-term tradeoff in this new context before wrapping up.

Moving Forward – Our Obligation as Citizens

Let's start with our responsibility, as citizens in a democracy. I believe it was the great American philosopher, Yogi Berra, who observed, *'If you don't know where you are going, you will wind up somewhere else.'* It makes an obvious point: we complain about market forces, short-term pressures, shareholder primacy – yet we haven't come together to articulate the characteristics and values of the society in which we want to live. What is the 'good', today and for the future, that we believe is important to be protected and that we want to see delivered?

150 years ago we went to war over a commitment to end slavery; in the last century we pushed for woman's suffrage and basic civil rights for all Americans; we fought wars to protect democracy and freedom around the world. Now, with the knowledge we have at the start of the 21st century, we need to recalibrate. We need to revisit such basic issues as wealth inequality, the hardening of strata in society that are leading to less economic opportunity and social mobility; the degree to which we care and therefore will provide a soft-landing for those that have less, or none at all.

By confirming what is important to us, we create the context for enlightened leadership by all parties – elected officials, institutional leaders and our corporations. Without this backdrop, how do we articulate, specifically, the role we want our corporations to play in society?

Moving Forward – the Role of Government

It is, in part, the role and responsibility of government to reflect, protect and enable the values of society.

Throughout history, we have had periods of societal imbalance, often the unintended consequence of extraordinary progress in productivity gains, wealth creation and an overall improvement in standards of living and quality of life. The technical and scientific breakthroughs of the Age of Enlightenment opened the doors to new discoveries, extraordinary invention, and ultimately led the way to the Industrial Revolution. Parts of the world witnessed huge increases in economic productivity, but also unemployment; we saw great efficiencies in agriculture, but also the impoverishment of the environment. In the last century, we have seen the development of modern conveniences – the automobile, air conditioning, air flight – but hand in hand with increases in pollution and industrial waste that threaten our environment, and our health. Look at China today – repeating history – but on a larger scale due to its size and the overwhelming force of state capitalism. Around the world, we are driven to increase wealth, improve productivity and increase near-term quality of life for some ... but to ignore all the costs, as well as those left behind.

Every now and then, society must re-examine the values it holds, and determine what is right, and just. Adam Smith, considered by many as the father of laissez-faire capitalism, famously wrote in *'An Inquiry into the Nature and Causes of the Wealth of Nations'* in 1776 that an individual, led by an *'invisible hand'*, and *'by pursuing his own interest ... frequently promotes that of the society more effectually than when he really intends to promote it'*. Today, this attitude has been embraced by many, and is translated into *'government – stay out!'*

But it was also Adam Smith who reflected on the unintended consequences of the extraordinary gains in productivity. About the division of labor, he wrote: *'The man whose whole life is spent in performing a few simple operations ... becomes as stupid and ignorant as it is possible for a human creature to become.... The uniformity of his stationary life naturally corrupts the courage of his mind.'* Smith goes on to say: *'But in every improved and civilized society this is the state into which the laboring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it'*.

Even Adam Smith recognized the dark, unintended, but inevitable consequences of great strides in productivity and economic gain – of progress -- and the necessary role of the government in protecting those affected.

Today, the government has three roles to play: first, it must demonstrate that it cannot be bought, and that it can rise above parochial self-interest and begin to act more consistently and conscientiously in our shared national interest. The government must rebuild and re-earn the trust we need to have in our government. Second, it must establish and enforce the laws required to protect the values of society. And third, it should introduce new regulations, policies and other measures to incentivize the different behavior we desire to see on the part of business.

To this latter point, I am not suggesting that the government try to curtail the market; instead it can co-opt it and let market forces drive different behavior – *because it makes economic and self-interest sense for such different behavior to occur*. Market forces are powerful and cannot be ignored. Frankly, we cannot expect a groundswell of enlightened CEOs to make decisions that work against market forces. But, the government can introduce changes that redirect market forces and therefore influence a different kind of behavior. Let me offer some examples:

- An inversely progressive capital gains tax that starts high and declines to zero over time, thereby encouraging more patient capital by creating an economic incentive to hold investments for a longer period of time;
- A transaction tax on the buying and selling of securities that would create an economic disincentive to frequent trading and churning;
- Differentiated voting rights among shareholders to favor those shareholders who have demonstrated a long-term commitment to a company from those who are in and out of the stock on a more rapid basis;
- An extension of the obligation of fiduciary duty to financial intermediaries; and
- Modernizing our accounting system and required reporting metrics to reflect true costs of products and services, and to reflect the fact that our economy now includes companies that are knowledge-based, rich in intellectual property, or people-based rather than just the asset-based businesses of earlier industrial ages on which our current system is based.

This last point is one of my 'hot-buttons'. If you start with the premise that more often than not you get what you measure, we ought to examine more carefully what we are measuring. It should be no surprise that we get what appears to be short-term profitable behavior if we don't have to measure or otherwise account for long-term costs. While there are government agencies that weigh in on these issues (the SEC being an example), there are also non-government institutions like the Federal Accounting Standards Board, or the Public Company Oversight Accounting Board that also have a role to play. And, let me suggest that this topic is one where business schools can play, as well, by challenging the adequacy of the systems we have today.

The cold reality is that we aren't going to see 'responsible' long-term behavior, and avoid long-term harm if we choose to ignore long-term costs and impacts. Similarly, why are we surprised at the judgments being made about investments if we teach students and financial analysts to ignore difficult-to-measure long-term costs when performing a discounted cash flow analysis. Once again... we get what we measure.

Moving Forward – the Role of the Corporate Board of Directors

Let me turn to the role of the Board of Directors. Although boards don't set the rules of the game, they do drive company performance by way of the expectations they set and the incentives they put in place at the individual company level.

Roger Martin, Dean of the Rotman School of Management at the University of Toronto, and author of two recent books that touch on these topics – *Fixing the Game* and just recently, *Play to Win* – commented a couple of weeks ago that if one could blow up the boards of directors of all of the Fortune 500 companies, we would see no degradation of value. Just the fact that Roger makes such a statement tells you we have a problem. Whether Roger is right or not, I believe there is an important role for a board to play; it's just that it's not being played.

Many boards have fallen into the trap of believing their primary role is one of ensuring compliance. This role, while necessary, is insufficient. Boards must spend more time looking forward, not backward; they must spend more time on matters of strategy and direction. By doing so, they open up both time and space for responsible decision-making.

The role of the Board is to ensure that purpose, vision and core values are in place, and then to give the CEO and executive team the time and space to act responsibly. Boards must understand and support company strategies, confirm the metrics that will indicate both success and progress, and hold the CEOs accountable for performance. Boards also must help CEOs counter the short-term pressures of the market, and ensure that companies do not make short-term accommodating decisions that are not in its long-term interest as responsible contributors to society. To date, boards have become too compliance-oriented, are insufficiently grounded in company purpose, vision and strategy, and are too quick to buckle to the short-term market pressures, thereby denying CEOs and executive teams the time and space necessary to run the company in a responsible fashion. Said another way, boards of directors must step up to the whole job, not just the easy part.

It is worth noting that if our aim is to find a better balance among short, medium and long-term goals, and if we are committed to addressing more of the needs and expectations of multiple constituents, then boards of directors have an obligation to re-examine executive compensation through this lens. I think we will find that the unconscionable levels of executive compensation at many companies can no longer be justified by what shareholders might approve under the property theory of the corporation.

There is an ironic parallel that I feel compelled to point out. A board is to the shareholder in our current corporate governance construct what our elected officials are to the voting public in our democratic republic. In the same way that James Madison envisioned our elected representatives serving as a buffer against the potential tyranny of a pure democracy, the board of directors needs to protect management against the tyranny of vocal, active short-term oriented shareholders. Today, on this issue, neither our elected officials nor our boards of directors are performing the job required of them.

Revisiting Shareholder Primacy and the Short-Term/Long-Term Debate

Before closing, I want to offer a few more nuanced thoughts on the debate around the property v. citizenship view of the corporation, and the short-term versus long-term tradeoff.

We may be creating the wrong dichotomy when we position the property theory against the citizenship theory. As a long-term investor, your interests are aligned with society in that you want to see the continuation of a productive, healthy company that creates sustainable long-term value. Such a long-term investor has a seat at the table along with other stakeholders in the citizenship theory. All are united in their desires for sustainable long-term value to trump short-term, potentially damaging considerations. All see the corporate institution as a desirable ongoing member of society.

Similarly, the short-term v. long-term debate can be problematic in that, at some point, the long-term we talk about today needs to be reflected in tomorrow's short-term. Said another way, prudent, long-term decisions made today need to translate into economic value: higher productivity, greater market share, consistent new product innovation, higher quality offerings, lower cost of capital, lower employee turnover, etc. These results benefit not only investors, but also society's sustaining interests. Clamoring for greater long-term focus cannot be an excuse for continuing poor short-term results. Further development of this idea takes us back to the need for greater transparency, and the question of metrics – whether we have a system of measurement that fails to reveal long-term costs and implications, and therefore inappropriately biases decisions for the short-term.

The real issue is how companies make decisions. Are they made with the long-term interests of the company in mind, or are they made in a way that sub-optimizes the creation of long-term value due to short-term market pressures or demands of short-term investors? Consideration of this issue opens the door to the topic of executive compensation, and more fundamentally executive tenure, which, in turn, takes us back to the points raised in the discussion of the role of the board of directors.

Final Comments

I keep on my desk one of the statements of Confucius. It reads: *'To know what is right and not to do it is the worst cowardice.'*

I think it is right to put this discussion in a moral framework, and not just consider it in an economic context.

People across the United States, and around the world are saying today that things aren't right... they aren't fair. There are too many undeserved winners, and undeserving losers. We have come to accept so much money in politics that we politely call what is legalized corruption 'lobbying', and 'campaign finance.' We have become beaten down by forces that we claim we don't control and which we believe are wrong. Yet, we accept them.

'You are my creator but I am your master' said Shelley's monster to Dr. Frankenstein. Is this really where we are with the market forces of capitalism? We created the system, but it now controls us? The fact is, we hide behind the notion that market forces act on their own, and how they act is not our fault. Market forces, in fact, are amoral – not immoral. It is we, the humans, who must bring a morality to our society. But, we should not fool ourselves into thinking that markets can be made moral. We must be the ones to say where the market can play, and where it must stop so that life is governed by other values. As Arthur Okun, the economic advisor to President Johnson, noted in his 1975 book, *Equality and Efficiency: The Big Tradeoff*, *'Society needs to keep the market in its place... Given the chance, it would sweep away all other values, and establish a vending-machine society.'* And, wasn't it George Will who famously wrote many years ago that the welfare state is the price we pay for free market capitalism?

Society will push back, and insist on new laws and regulations that, if history is to be our guide, will likely be poorly thought through yet passed into law in an effort to protect what it considers important. The business environment will only become more difficult. Business has a choice: we have a powerful long-term self-interest to act before new restrictive rules are imposed, and re-win the confidence of society. Or, we can simply wait and see what will be imposed. If we take the latter approach, I think we run a high risk of witnessing our modern day version of the 'Tragedy of the Commons' play out: each party acting in accordance with its own short-term self-interest, with no one taking responsibility for the Commons. As the Honorable Leo Strine, Chancellor of the Delaware Courts has noted, *"we don't have time to relearn the lessons of the 19th Century!"*

We need a 'world view' – a goal we share about the kind of society in which we want to live and be part. Arguably, this is what our elected officials should be addressing, and the laws and policies we have should reflect the values we share, the limits we believe need to be set for everyone, and the safety net we believe to be just. It is not clear to me that our politicians will or can agree on such a shared vision. In fact, it would appear that we are in a war of fundamentally different visions for the future, and what constitutes a just society.

Despite these obvious challenges, business should not get a free pass. I believe that every business should articulate clearly what it sees its role to be, and the contribution it will make to society. It can do this, of course, through a clear statement of purpose.

Similarly, if we shared a common world view, it would be easier for us to outline the role and behaviors of business in the society we seek to build. Absent a consensus, a business can articulate its chosen path, and the contributions it will make, in its vision.

I believe a clear purpose is an essential building block in the foundation of a more responsible capitalism. You can't achieve your purpose in a quarter, or a year. It serves as a statement of why a company exists, and more fundamentally why a company merits having a corporate charter and receive the protections of society. Absent a world view of the kind of society we want to have, it is every company's opportunity, and responsibility, to articulate the contribution it seeks to make to society and to the improvement of life on earth.

Thank you.