Future of the Corporation: Research Summaries

The British Academy
Future of the Corporation

Contents

Towards humane business[1]

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This paper outlines the aims and summarises the principal conclusions from the first phase of the British Academy research programme on the Future of the Corporation. It is based on the work of all the participants in the programme and has benefited immensely from the advice and comments of the Corporate Advisory Group of the programme. It has also benefited from the many people who have participated in the activities of the programme and from the assistance of the British Academy administration, most notably Henry Richards, Kate Rosser Frost, Barbara Limon, Molly Morgan Jones, Jo Hopkins and Michelle Waterman. I am very grateful for comments from an anonymous referee, Hamish Scott, James Rivington and members of the British Academy Publications Committee.

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This paper sets out a radical reinterpretation of the nature of the corporation that focuses on corporate purpose, its alignment with social

1 This paper and the majority of the research in this booklet are published in Mayer, C. (ed.) (2018), *Reforming Business for the 21st Century: Findings from the first phase of the British Academy's 'Future of the Corporation' research Programme (Journal of the British Academy, 6(s1)).*

purpose, the trustworthiness of companies and the role of corporate culture in promoting purpose and trust. It suggests that external factors, in particular technological advances, are intensifying the need for this reinterpretation. It points to the increasing inadequacy of conventional policy responses in the form of regulation and competition policy, and the steady erosion of the traditional source of social capital from corporate taxation.

The paper records how neither the actions of the owners nor the practices of corporate governance have succeeded in providing internal resolutions to the alignment of corporate with social interests. On the contrary, the changing nature of ownership is creating a growing divergence between the functioning of the board and the interests of both shareholders and societies.

The paper puts forward an alternative approach that emphasizes the role of corporate purpose, commitments, trustworthiness and culture in which companies specify their purposes, clarify their associated commitments and demonstrate how their ownership, governance, performance measurement and management enable them to fulfil their obligations. Corporate and social purposes are aligned in companies and activities of particular social significance but not necessarily elsewhere.

The paper draws lessons for corporate practice and public policy and exemplifies how this alternative conceptualization of the firm helps address many of the major environmental, political and social issues of the 21st century.

Key words: Corporation, purpose, commitment, trust, ownership, governance, investment, technology, regulation, competition, taxation, measurement, incentives

Introduction

The Future of the Corporation is one of the most ambitious programmes of research to have been undertaken to date on the current state and future prospects of business. It is being organized by the British Academy, the UK's national body for the humanities and the social sciences. Its remit is to consider the implications of economic, environmental, political and social challenges, and scientific and technological opportunities for the future development of business around the world.

Its ambition reflects not only the scale of the issues it addresses but also its method to answer them. It draws on the British Academy's capacity to bring together leading academics across the humanities and the social sciences from around the world to tackle the questions. In addition, it exploits the Academy's convening power in the field of business and policy to engage leading thinkers in business and government in advising the researchers and ensuring the relevance of their research for business practice and public policy.

Some 31 academics from the humanities and social sciences have been participating in the first stage of the project, which began in January 2018. Thirteen research projects were selected in a competitive tender to look at different aspects of the future of the corporation. The papers were completed in September 2018 and this paper draws conclusions from this first stage of research. It does not summarize or comment on individual papers but instead draws together the main themes of the research.

What emerges is a profoundly novel and insightful perspective on business that lays the foundation for a radical reformulation of the concept of the firm. While the thirteen projects were undertaken independently by people from a diverse range of academic disciplines from institutions in different parts of the world, the conclusions of their papers demonstrate a remarkable consistency of thought and a coherent view of how business should adapt and respond to its challenges and opportunities.

Part 1. The nature of the corporation

Purpose[2]

A common theme running through many of the papers in the programme is the question of purpose. Why do companies exist? Purpose is the reason something is created, done and exists; what it aspires to become. There are two distinct notions of purpose — corporate purpose and social purpose. Corporate purpose is the purpose of the company. Social purpose is the purpose that society might wish of the corporation.

These two concepts are often conflated — by corporate purpose what people implicitly mean is social purpose and believe that there should be an alignment between the purpose of the corporation and that of society. Is this necessarily or always the case?

The question is of fundamental importance because the prevailing notion as enshrined in the Friedman Doctrine[3] is that "there is one and only social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud". This makes clear that there is not and should not necessarily be an attempt to equate corporate purpose with social purpose. It may result from market forces and the process of competition but social purpose should not drive corporate purpose

On the other side of the coin, those who advocate a corporate purpose other than profit often presume it to be social purpose. Both propositions may be incorrect. Corporate purpose is not necessarily to "increase its profits", but nor is it always social purpose. Companies can have purposes that

2 Hsieh, N., Meyer, M., Rodin, D. & van't Klooster, J. (2018), 'The Social Purpose of Corporations: A Literature Review and Research Agenda', *Pending Publication*

3 Milton Friedman (1962) *Capitalism and Freedom* and New York Times 13 September 1970.

are driven by neither profits nor society but reflect what they seek to do in promoting the interests and wellbeing of their customers.

In other cases, the nature of the corporation might associate its activities directly with those of society at large. What are sometimes termed the "commanding heights of the economy" — the utilities, banks and companies with significant market power — are ones where, for reasons of monopoly or human need, there is an intrinsic social component to corporate purpose.

Clarifying and distinguishing between corporate and social purpose is key to determining appropriate public policies to the company. Presuming that corporate purpose is simply profits potentially creates too great a divide between private interests of shareholders and those of society at large. Equating it with social purpose unduly restricts the corporate purpose to those determined by social interests. Determining where they should correspond and can deviate is a fundamental consideration that has received inadequate attention to date, and, as will be described below, there are profound changes in progress that are significantly altering the boundary between the two.

History[4]

There is nothing radical in promoting corporate purpose. On the contrary, it is a return to the Roman origins of the corporation. The Roman corporation blended corporate with social purpose, as it was used to perform public works and build public infrastructure as well as to generate profit. It was the legal form of municipalities, universities and the Roman Catholic Church. It was also the foundation of the guilds, which spread the corporate form around the world through merchant trading companies undertaking voyages of discovery and opening trading routes across the globe. Thereafter publicly chartered corporations built canals and railways.

It was only with freedom of incorporation that corporations were no longer required to adopt a public licence. Even then, the families that owned them

4 Davoudi, L., McKenna, C. & Olegario, R. (2018), 'The Historical Role of the Corporation in Society', *Journal of the British Academy*, 6(s1)

were heavily dependent on their nation states and often retained a strong sense of social responsibility as well as private rights. The most notable examples of these were the Quaker family firms, such as Barclays Bank, Cadburys, Clarks, Frys, Lloyds Bank and Rowntrees.

As ownership of families became diluted during the 20th century, financial market and institutional values replaced those of families. In particular, the rise of markets for corporate control, the takeover market, and hedge fund activism intensified expectations on corporate directors and management to put shareholder interests and profits first. So it is only in the last half century of the corporation's near two millennia existence that profit has replaced public purpose as the sole corporate purpose. And it is over this period that the environmental and social tensions of the firm have become most acute.

Trust[5]

Companies commit to the fulfilment of their corporate purpose. The commitments are specifications and manifestations of the forms in which purpose is implemented. They lend precision to corporate purpose. In some cases the commitments are contractual in nature and legally enforceable. In many cases they are not. They are stated, implied or inferred and require trust on the part of those receiving them in the trustworthiness of those making them.

There is not necessarily a general requirement of trustworthiness. Trustworthiness is a characteristic of a firm, analogous to the quality and reliability of its products, for which there is a market demand and price. Customers, employees, suppliers and communities pay for trustworthiness in the same way as creditors do for low risk investments and incur the costs of breaches of trust as creditors do on defaulting loans.

On the other hand, there are circumstances in which the right to breach commitments is not justified, in particular where there is dependency of

5 Kirby, N., Kirton, A. & Crean, A. (2018), 'Do Corporations have a Duty to be Trustworthy?' *Journal of the British Academy*, 6(s1); and Crean, A., Gold, N., Vines, D. & Williamson, A. (2018), 'Restoring Trust in Financial Services: Governance, Norms and Behaviour', *Pending Publication*, 6(s1)

those trusting on those being trusted. That dependency is a reflection of a lack of choice or alternatives on the part of the trusting, an incapacity or difficulty on their part to seek alternatives, or their subordination or subjugation to the market or political power of those they trust. In addition, there may be wider systemic consequences of a particular breach of trust for the perceived trustworthiness of companies as a whole that make a single violation unacceptable at broader industry, economy or society levels. In those circumstances, markets in trustworthiness fail and companies have a responsibility to remain true to their word.

It is striking that the conditions under which violations of trust are unacceptable are precisely those associated with market failures that lead to contractual incompleteness. In other words, trustworthiness must be upheld where contracts are incomplete and markets fail. There is therefore symmetry between the roles of trustworthiness and contracts, and later we will argue that the changing nature of economies is extending the role for trust relative to contracts.

In practice, breaches of trust are likely to undermine the perceived trustworthiness of all of a company's commitments. Instead of reneging on specific ones, companies may therefore prefer to limit the scope of the commitments they make in the first place. So the cost of fulfilling commitments may be reflected in fewer rather than weaker commitments.

The degree of commitment to corporate purpose is a reflection of the behavioural norms within organizations and the degree to which they are other- as against self-regarding. To what degree do they reflect the interest and wellbeing of parties other than the employees?

This issue has been particularly pertinent in banking and financial services where the adoption of high-powered incentives has engendered a culture of "me first". The last few years since the financial crisis have seen a recognition of the need to reframe the self interest of bankers and banks to other regarding customer, community and society based values.

Culture[6]

Culture needs to be embedded in an organisation's practices. There are many ways of doing this but most rely on organisational leadership, linking the strategic priorities of the business to its culture, and ensuring that corporate values are clearly articulated and consistently applied.

The values emanate from the founders. But as the Quaker values of Barclays and Lloyds illustrate, those founding values can dissipate over time. Leadership is clearly one of the determinants of how values evolve and whether the culture of an organization remains true to its purpose. However, as banking demonstrates, there are forces other than leadership at work, in particular from markets and investors, and, as the next section argues, there is one that will bring about particularly profound changes in the nature of the corporation over the coming decades.

Part 2. External influences and responses

External Influences[7]

Technology is fundamentally altering the conduct of firms. The most significant developments are in big data, machine learning and artificial intelligence, blockchain, computer vision, drones and autonomous vehicles, quantum computing and 3D printing. These technologies differ from those of the past in that they are substituting for human senses and minds and will in due course replace as well as assist human decision taking.

6 Hsieh, N., Lange, B., Rodin, D. & Wolf-Bauwens M. L. A. (2018), 'Getting Clear on Corporate Culture', *Journal of the British Academy*, 6(s1)

7 Birkinshaw, J. (2018), 'How is Technological Change Affecting the Nature of the Corporation?', *Journal of the British Academy*, 6(s1) and, Belenzon, S., Hamdani, A., Kandel, E., Hashai, N. & Yafeh, Y. (2018), 'Technological Progress and the Future of the Corporation', *Journal of the British Academy*, 6(s1)

The new technologies are promoting flatter organizations with companies outsourcing activities and employing platforms to coordinate activities that previously were performed in-house. At the same time, technology is establishing firms with technological advantages and network benefits that are dominating their industries. So, at the same time as some forces push in the direction of a proliferation of small, decentralized enterprises, others are moving towards large monopolists.

While corporate conduct is changing, organizational form is not altering as rapidly. Traditional corporate structures remain, with the new technology firms having similar ownership and governance arrangements to their predecessors. Institutional innovation to date has been slow in comparison with technological changes and corporate behaviour. This can be viewed as an indication of the strength of existing corporate forms in being able to adapt to the new environment or the difficulty of reforming current arrangements.

Where deficiencies in terms of speed of response are most in evidence are in relation to policy. Regulatory responses to the public policy issues created by the new technologies have been inadequate. Several cases illustrate. The effects of changing work practices on labour markets have been widely documented and concerns about the impact on the level and nature of work have been loudly voiced. However, there is little sense as to whether employment laws need to be changed and if so how.

Second, the main concerns that the newly emerging companies, such as social network firms, raise are very different from the standard problems of monopoly pricing and anti-competitive conduct of the past. Instead, they relate to such issues as the use and abuse of customer information, lack of transparency about social impacts of artificial intelligence and autonomous vehicles, and the risks as well as benefits of gene therapies. In other words, new technologies create inevitable uncertainties and concerns that existing regulatory frameworks are inadequately placed to address.

Third, regulation for the most part is organized at national levels while the newly emerging products and companies are international. Nationally based regulatory policy produces fragmented and ineffective responses to the global impacts of new products and markets. Social networks are good examples. By their very nature they seek to create global markets and competition policy needs to respond accordingly.

Regulatory and competition policy therefore suffer from serious lags in terms of the speed and scale at which they operate. They are at best able to respond to emerging issues but are rarely forward looking in anticipating future developments. It is neither in the nature nor capacity of regulators to outwit entrepreneurs and innovators with the result that the faster the rate of technological innovation, the more serious the regulatory and competition policy lag.

It is in this respect that the degree to which corporate purpose needs to adopt a social purpose is changing. The existing policy tools for aligning corporate and social purposes are becoming increasingly deficient as the speeds and global reach of technological advances accelerate. The problem will become progressively worse over the coming decades. Instead, it is corporations themselves that will have to adopt practices and structures that ensure that they can be trusted to uphold the public good as well as private interests. We consider below how best to achieve this.

External Responses[8]

Beyond the socially beneficial properties associated with competition in product, labour and financial markets, the way in which corporations are conventionally viewed as contributing to social welfare is through corporate taxation. However, the corporate tax base has been steadily eroded through the globalization of corporate activities that has allowed them to shift tax domiciles and transfer liabilities to the lowest tax regimes. This has prompted tax competition between nations that has created a run to the bottom in the taxes countries levy on corporations to the point where the viability of corporation tax is in question.

Several responses have been proposed involving international

8 Desai, M. & Dharmapala, D. (2018), 'Revisiting the Uneasy Case for Corporate Taxation in an Uneasy World', *Journal of the British Academy*, 6(s1); and, Armour, J., Enriques, L., Ezrachi, A. & Vella, J. (2018), 'Regulation and Law: The Role of Corporate, Competition and Tax Law', *Journal of the British Academy*, 6(s1); and, Buckley, P. J. (2018), 'Can Corporations Contribute Directly to Society or only through Regulated Behaviour?', *Journal of the British Academy*, 6(s1)

harmonization, the adoption of a cash flow based tax system and accruals tax. There are advantages and drawbacks to each of them. Consumption-based tax systems have advantages in taxing relatively immobile consumers but the feasibility of finding an effective resolution of international competition in corporate taxation remains in doubt.

The second way in which it is suggested that policy should respond to growing political discontent and social mistrust of business is to strengthen regulation. The response to the financial crisis was exactly that, tightening international rules about capital adequacy and liquidity of banks and imposing tougher domestic requirements on, for example, the ring fencing of commercial from investment banking activities.

There are calls for tighter rules on product, environmental, employment, governance, reporting, remuneration standards of companies and stronger enforcement of existing rules with larger penalties and greater personal liability for violations. Most seriously, the progressive liberalization of trade and capital flows across countries has been reversed with the imposition of tariffs and quotas restricting the ability of companies to source and distribute their products and services on a global basis.

These developments are seriously impeding the functioning of markets and firms, and distorting the allocation of activities and resources between sectors and geographies. It is unclear whether regulation is capable of correcting misalignments between private and social objectives and even less clear whether this is the best approach to tackling the problem.

There is growing evidence of commercial as well as social benefits associated with the adoption of socially responsible practices by companies, in particular of long-run rather than short-term financial benefits associated with social responsibility, and environmental, social and governance policies. These practices are becoming increasingly necessary in the face of the mounting inadequacy of conventional regulatory and competition policies to deal with newly emerging technologies.

Regulatory lag is disconnecting corporate social and environmental problems from policy responses. A variety of responses in the form of, for example, forward rather than backward corporate compliance with prospective as well as past regulatory requirements are suggested but ultimately the corporate sector itself will need to take more responsibility for addressing its political, social and environmental deficiencies.

Part 3. Internal responses

There are two parties that are regarded as having a particular influence on the conduct of firms: owners/investors and directors/managers.

Ownership and investment[9]

Much empirical work has recently examined the way in which ownership of firms influences their social responsibility and pursuit of environmental, social and governance policies, and the impact this has on the financial performance of firms. In particular, contrasts are drawn between publicly listed with private companies, and family with institutional ownership.

One of the striking features of ownership has been the decline of the publicly listed company in the UK and US. In both countries, the number of listed companies has halved over the past two decades. One explanation of this is the less onerous regulatory requirements imposed on private than public companies and the intensification of short-term financial pressures from institutional investors that, it is argued, undermine the ability of listed firms to promote long-term financial success and broader social and environmental policies.

In contrast, family owners have a very real interest in the performance of their firms. In general, they hold significantly larger blocks of shares in companies than financial institutions, which give them the ability as well as incentives to monitor and engage in stewardship of firms. There is evidence of this occurring but equally there is evidence of family run businesses having poorer records than other companies in promoting environmental and social objectives. At present

9 Villalonga, B. (2018), 'The Impact of Ownership on Building Sustainable and Responsible Business', *Journal of the British Academy*, 6(s1); and, Offer, A. (2018) 'Patient and Impatient Capital: Time Horizons as Market Boundaries', *Pending Publication*

there is therefore no clear association between particular forms of ownership and socially oriented corporate policies.

One way in which investors influence the conduct of firms is through the allocation of financial resources for investment. Private capital markets allocate funding to the highest return activities and thereby promote the creation of shareholder wealth. However, there are well known deficiencies of financial markets in that regard, not least in their supposed short-termism in discounting long versus short-term returns excessively.

A different way of viewing this problem is in terms of the payback period that financial markets impose on investments. This limits the scope for private capital markets to fund large-scale long-term investments, in for example, infrastructure projects. That deficiency makes public sector ownership a potentially more effective way of funding infrastructure.

This raises the question of the relative merits of private and public sector ownership of corporations. It is a question that has been lent particular significance by the rise of China and the success of its state-owned enterprises in promoting its economic growth. It has also risen to the fore in western economies where the relentless drive to privatisation has been thrown into question by the poor performance of privatized corporations. Such is the concern that in some countries, renationalization has appeared on the political agenda.

Past experience of state owned enterprises makes many sceptical of the merits of nationalization. However, the very fact that it has re-emerged as a potentially viable policy points to a failure to identify an appropriate private sector ownership solution to the promotion of socially compliant policies in the corporate sector.

Governance[10]

The other approach that companies are urged to adopt is strengthened corporate governance. In particular, the board of directors is regarded as the instrument for

10 Gordon, J. (2018), 'Is Corporate Governance a First Order Cause of the Current Malaise?', *Journal of the British Academy*, 6(s1); and, Buckley, P. J. (2018), 'Can Corporations Contribute Directly to Society or only through Regulated Behaviour?', *Journal of the British Academy*, 6(s1)

aligning the interests of the company with its shareholders. It sets the direction and strategy of the firm and is responsible for monitoring its implementation in an organization.

The emergence of index funds, whose performance is linked to stock market indices such as the FTSE and S&P indices, has created a dilemma for corporate governance. The internationally diversified portfolios of index funds means that the only risks in which they are interested are global systemic ones that affect the total value of their portfolios. The performance of individual stocks is of little interest, with the exception perhaps of those with the largest market capitalization.

The risks that concern investors are those created by governments, international politics, social unrest, financial systems and the global environment. These are precisely the factors over which boards of companies have no control. Ironically then the emergence of what is termed the universal owner – namely shareholders who hold global portfolios of shares – has promoted interest in environment, social and governance considerations at global levels

On the other hand, shareholder activism, in the form of hedge fund engagement, is pushing boards of directors to focus increasingly on their own idiosyncratic shareholder risks and seek to maximize their shareholder value. One solution to this dilemma is for governments to address the systemic effects over which companies have no control. So for example, in relation to the impact of new technologies on employment, governments should address the consequential reskilling needs of employees by providing publicly funded training programmes.

Much focus on corporate governance has been on remuneration and in particular promoting longer-term incentive plans in the form of long-term share and option schemes. However, the achievement of social and environmental as well as financial objectives requires broader measures of performance than just share price returns, in particular relating to human, natural and social as well as financial capital. At present, these measures are poorly specified and do not provide a sufficiently reliable basis on which to structure executive remuneration plans.

In addition to remuneration, diversity in age, ethnicity, experience, gender and nationality of board membership has been a focus of corporate governance attention. Some point to superior performance, and others to fairness and equality of opportunity in arguing for board diversity. But it follows much more naturally from diversity in corporate purposes that necessitate a wider range of experiences, background, nationalities, ethnic and gender balances than has been the case in corporations focused solely on the pursuit of financial returns.

In summary, there is a serious disjoint between the interests of shareholders and management that intensified shareholder engagement and corporate governance reforms have failed to address. That disjoint is still more significant when the range of interested parties is extended to include communities, employees and societies as well as investors.

Part 4. An agenda for reform

Part 1 set out a radical reinterpretation of the nature of the corporation that focused on corporate purpose, its alignment with social purpose, the trustworthiness of companies and the role of corporate culture in promoting purpose and trust. Part 2 then suggested that external factors, in particular technological advances, are intensifying the need for this reinterpretation focusing on the role of purpose and trust. It pointed to the increasing inadequacy of conventional policy responses in the form of regulation and competition policy, and how the traditional source of social capital from corporations in the form of corporate taxation is eroding. Part 3 recorded how neither owners nor corporate governance have succeeded in providing internal resolutions to the alignment of corporate with social interests. On the contrary, the changing nature of ownership is creating a greater divergence between the functioning of the board and the interests of either shareholders or societies.

How can the new view of the firm be reflected in public policy and corporate practice? The suggested answer is that the reinterpretation of the firm described in Part 1 be reflected in policy and practice in Parts 2 and 3:

1. The starting point should be to recognize that the purpose of corporations is not simply to maximize shareholder value.

2. Corporations should specify their corporate purposes.
3. They should clarify the commitments that they make to the different parties to the firm associated with their purposes.
4. They should demonstrate how they can be trusted to uphold their commitments.
5. In particular they should record how their ownership, governance, performance measurements and incentives promote commitments to their purposes.

This suggests that in relation to Part 3, the ownership and governance of firms should be the means by which corporations demonstrate a commitment to purpose.

The way in which companies are encouraged to do this is through public policy:

1. Corporate law should require companies to specify their corporate purposes.
2. It should enable companies to adopt structures that are best suited to the delivery of their purposes.
3. It should require companies to demonstrate how their ownership, governance, performance measurements and incentives encourage them to commit to the delivery of their purposes.
4. It should require certain classes of companies that perform particular public and social functions, such as utilities, banks and companies with significant market power to align their corporate with their social purposes.
5. The regulatory system should promote an alignment of corporate with social purposes where required and ensure that companies' ownership, governance, measurement and incentive systems are appropriate for this.

This implies that corporate law should be the means by which companies make credible their commitments to their purposes. Corporate law enables companies to adopt a diverse range of purposes and structures.

It does not in general restrict corporate to social purposes. However, for those companies and activities that have particularly significant social consequences then regulation requires corporate and social purposes to be aligned and ensures that companies are fit for their social as well as private purposes.

In sum, the Future of the Corporation programme has laid the foundations not only for a radical reinterpretation of the nature of the corporation but still more significantly for a fundamental reformulation of the ownership and governance of firms and policy towards the firm in relation to corporate law and regulation.

Part 5. Objections

This agenda will raise a variety of different objections ranging from “there is nothing new or interesting” to “there is nothing feasible or desirable”. On the first, the claim will be made that (a) everyone is already talking about corporate purpose, (b) of course companies adopt and pursue corporate purposes beyond profits, (c) institutional investor practice is already reflecting it and (d) government policy and corporate governance are already promoting it.

There are elements of truth in all of these points but the simple fact remains that shareholder primacy is still dominant, it is the conventional basis of management and executive education around the world, and both institutional practice and public policy are hesitant reformers.

Regarding the feasibility or desirability of what is being proposed, it will be said that (a) multiple objectives obfuscate and confuse corporate management, (b) the rights of shareholders derive from fundamental property rights, (c) competitive product markets make the pursuit of anything other than profits idealistic, and (d) national policy makers are constrained by global competition. What undermines these arguments is the premise that the competitiveness of corporations depends on their trustworthiness in fulfilling their corporate purposes and their ability to sustain relations of trust with different parties to the firm. Companies exist to rectify the defects of markets through sustaining relations of trust based on commitments to their corporate purposes.

A third line of objection will be that nothing much has changed to date, so why should anything change now. There are two responses. The first is, as mentioned above, there is a great deal in progress in corporations, institutional investment, government policy and academic thinking. But what has been lacking to date is a comprehensive, unified body of intellectual thought to underpin proposals for reform and counter received wisdom. That is precisely what the Future of the Corporation programme has sought to provide and what the results of the first phase of research suggest is very much in evidence.

Part 6. Next steps

The reason why the Future of the Corporation programme has provided such powerful insights into the problems of the 21st century is that it has pinpointed the deficiency of the existing paradigm of the firm in emphasizing contracts and markets at the expense of the potentially more significant contributions of commitment and trust. The duality between contracts and markets on the one hand and commitment and trust on the other is critical in identifying appropriate business practices and public policy prescriptions. Purpose led corporations internalize many of the externalities that conventional profit motivated businesses fail to resolve and align private with public interests in humane organizations.

The next phase of the Future of the Corporation will turn to implementation of the conclusions of the first phase. It will commission working parties to investigate three areas. The first is corporate law and regulation. The second is corporate ownership and governance. The third is measurement and performance. Underlying all three will be the influence of technological change.

The first phase has identified the importance of corporate law in promoting corporate purpose and the need for law to enshrine purpose in the objectives of the company. It has demonstrated the need for regulation to align corporate with social purpose in certain parts of economies and particular types of corporate activity. It has also emphasized the role of supportive ownership and governance of organizations and the need to measure outcomes across relevant dimensions of performance that encompass the interests of different parties to the firm.

It is intended that working parties will be established in all three areas to consider and make recommendations on the reforms required to corporate law and regulation, corporate ownership and governance, and corporate measurement and performance. In the process, the programme will seek to address some of the major public policy debates of the day, including

- The Environment, Climate Change and Natural Capital
- Meaningful Employment and the Future of Work
- Inequality and the Contribution of Business to its Cause and Alleviation
- Ownership – Public Ownership and Private Alternatives
- Populism, Nationalism and Trade Wars – The Relevance of Business to Their Rise and Fall

In light of the manifest failures of existing arrangements, there is considerable urgency about progressing this final stage of the Future of the Corporation programme to arrest and reverse the economic, environmental, political and social detriments they are causing.

1. The Historical Role of the Corporation in Society

Davoudi, L., McKenna, C. and Olegario, R.

This paper discusses the historical role of the corporation in society from antiquity to the present day. It argues that since the dawn of legal personhood, social purpose has been the defining trait of the corporation. This connection was formally broken in the 19th century through general incorporation laws but many corporations continued to impact society positively on a voluntary basis. Contemporary concerns regarding corporate power are rooted in a long history of similar sentiments.

From the earliest records of goods being traded in the third millennium BC, through Hammurabi's Laws in Babylon and the partnership contracts of the Ancient Romans, corporate laws evolved to include concepts and practices recognisable today. The 'moral person' legal form spread through Medieval Europe, adopted by municipalities, towns and universities for political, religious, educational and civic purposes and organised through the Medieval Guilds such as the Hanseatic League, the cohong in China, the esnaf or loncalar in the Turkish world and the Livery companies of the City of London.

The early modern corporation was an instinctively and inherently social entity. The global chartered trading companies of the 17th to 19th centuries, backed by the imperial ambitions of their governments, were mandated to increase trade and economic prosperity, but also to provide employment, housing, medical and educational services in their trading localities.

However, their immense scale and power eventually provoked protest strikingly similar to contemporary concerns, leading to new Trust legislation and greater regulatory scrutiny. From 1811, different US states passed their own legislation. In Britain, the Registration Act of 1844 permitted anyone to register a corporation, just in time for the railway company mania. Under the Joint Stock Company Act of 1856 firms no longer depended on Parliament to incorporate, ending the statutory link with social purpose.

While some industrialist philanthropists such as Macy's and the DuPont families in the US, the Cadbury Brothers in the UK, and Krupp in Germany initiated corporate welfare plans, corporations in general grew larger and more powerful, and finally, once again, became an issue in US politics. In 1890 the US Congress passed the Sherman Antitrust law, and after further constraints, the National Labor Relations Act in 1935 was another step to control the perceived excesses of big business.

The period from 1950 to the 1980s proved the heyday of worker-orientated, industrial paternalism, but by the 1990s, the social contract between America and the 'good corporation' had disappeared. Corporate performance was measured in shareholder value rather than jobs created. There were exceptions: Germany passed the Codetermination Act passed in 1976. The Co-Operative Group and the John Lewis Partnership formed in the UK and the Mondragon Corporation flourished in Spain, but a profit-maximising ideology dominated.

The history of the corporation puts in clearer perspective the current criticisms against publicly traded, multinational behemoths, seen to be exploiting regulatory arbitrage and driven by short term profit targets to the detriment of social, fiscal and environmental concerns. History demonstrates that social purpose was not incidental to the privilege of incorporation; instead, it was inseparable from the right to incorporate. It is within the power of the state to devise forms which meet this ambition.

2. The Social Purpose of Corporations: A Literature Review and Research Agenda




Hsieh, N., Meyer, M., Rodin, D. and van't Klooster, J.

What are Corporations for? This paper provides an analytical review of relevant research on this question, and some thoughts on the moral evaluation of corporations. It distinguishes between the concepts of social purpose and corporate purpose. Social purpose concerns the specific contribution that a corporation makes to realising societal goals. Corporate purpose concerns the goals the corporation should actively pursue.

Related questions of whether corporations ought to serve a social purpose, whether they ought actively to pursue their corporate purpose, and how to articulate, pursue and measure corporate purpose are explored. Determining social purpose quickly raises difficult political questions. The arguments for a minimalist and maximalist approach to social purpose are set out and debated.

The authors conducted interviews with 24 business leaders which highlighted frustration at the vague concept of social purpose and exactly how social and corporate purpose relate to each other. There was broad agreement that corporations should serve some social purpose, but not precisely what this might be.

The authors outline three reasons why societies become entitled to make claims on corporations, based on the principle of reciprocity. Corporations rely on society's legal system for adjudication and protection. They rely on access to scarce resources that might otherwise be deployed elsewhere, and they are a constant source of social and economic disruption as they undertake their business.

Efficiency and market competition are often cited as forces that might steer firms to social purpose, but the paper argues that pervasive market failures suggest social purpose cannot be left entirely to the corporation. A web of other factors might also obstruct that goal.

Likewise, corporate purpose cannot be determined by the corporation alone due to a lack of 'epistemic competence' or the ability to balance and judge competing stakeholder interests, and the fact that corporations interact within political and social structures. The paper considers the societal responsiveness and shared value approaches to articulating corporate purpose, and the shortcomings of these methodologies.

One of the most complex challenges is the meaningful measurement of corporate and social purpose. Most current measures of corporate purpose are accounting measures. Social purpose also uses holistic action-guiding measures for environmental, social and governance impacts. However, none are yet satisfactory, and measurement remains 'the most important condition for giving bite to corporate purpose'.

The paper notes important gaps in existing studies of business ethics, listing six issues which are not sufficiently addressed and which would be useful areas for future study: purpose failures; articulating and measuring corporate purpose; corporate purpose and organisational culture; the corporation's relation to the political system; social purpose and political legitimacy, and how the legal form of the corporation impacts its ability to pursue a social purpose.

3. Do Corporations Have a Duty to be Trustworthy?



Kirby, N., Kirton, A. and Crean, A.

Since the global financial crisis in 2008, corporations have faced a crisis of trust, with growing sentiment against 'elites and 'big business' and a feeling that 'something ought to be done' to re-establish public regard for corporations. Trust and trustworthiness are deeply moral significant. They provide the 'glue or lubricant' that begets reciprocity, decreases risk, secures dignity and respect and safeguards against the subordination of the powerless to the powerful. However, in deciding how to restore trust, it is difficult to determine precisely what should be done, by whom, and who will bear the cost, especially if any action involves a risk to overall market efficiency and corporate profitability.

The paper explores whether corporations have a moral duty to be trustworthy, to bear the cost of being so and thus contribute to resolving the current crisis of trust. It also considers where the state and other social actors have strong reason to protect and enforce such moral rights, while acknowledging that other actors have similar obligations to be trustworthy.

The author outlines five 'salient factors' that trigger specific rights to trustworthiness and a concomitant duty on corporations to be trustworthy: market power, subordination (threat and intimidation), the absence of choice, the need to preserve systemic trust and corporate political power which might undermine a state's legitimacy. Absent these factors and corporations do not have a general duty to be trustworthy, since a responsible actor in fair market conditions should be able to choose between the costs and benefits of dealing with generally trustworthy corporations.

A trustworthy corporation is defined as one with a robust disposition to fulfil its commitments to another, providing rational grounds for that other to rely on. A commitment (implicit or explicit) involves an overriding obligation to act or not act. It transcends, for example, corporate aims, including profit and offers accountability (remedy, compensation etc) if the obligation is not met.

The author notes that commitments may or may not be enforceable, and not all breaches undermine trustworthiness of a corporation, which may breach for reasons of self-defence, for example. Corporations might also face conflicting commitments, raising the difficult moral question of prioritisation.

Trustworthiness involves reliance, or not adopting contingencies against risk, resulting in vulnerability to an unfulfilled commitment. Being worthy of reliance means how the corporation is structured, resourced, incentivised and motivated, and crucially, may be very costly to the corporation. Making commitments that were implicit explicit, and allowing others to make your commitments enforceable are two ways of demonstrating reliability.

External measures, derived from agents such as the state, professional bodies, unions or consumer groups, may make internal measures more reliable. Reputation, which can be enhanced or damaged by other corporations in the same sector, is another source of evidence of reliability. Likewise, people may trust systems, groups and societies because of the qualities of one individual.

The author notes a widespread desire, partly born of legitimate frustration and injustice, to 'take back control' and restore trust in corporations. That will involve both controlling measures such as regulation, vigilance and threat or punishment, but also measures to instil values, culture and purpose to corporations, increasing the social capital and rewards of trustworthy behaviour and structuring markets in a way that avoids a 'race to the bottom'. To rebuild trust, we must distribute the duties to make it happen and the responsibilities to bear its cost.

4. Restoring Trust in Financial Services: Governance, Norms and Behaviour




Crean, A., Gold, N., Vines, D. and Williamson, A.

How can trustworthy behaviour amongst financial firms be supported by governance and by the internal relationships within such firms? We argue that norms, or patterns of behaviour, need to change to ensure a trustworthy outcome for the industry as a whole.

Trustworthiness requires reliable competence and honesty. Lack of trustworthiness in finance can be attributed to short termism, occurring both because self-interested boards of firms pursue short-term maximisation of shareholder value and because employees also act in a self-interested manner. Neither of these behaviours take true account of the longer-term interests of investors or savers. Pursuit of reputation by self-interested firms, combined with the effects of regulation, is unlikely to circumvent these problems in anything other than a fragile manner.

In our paper we ask what could be done to make such financial firms more trustworthy. We consider a range of actors within the firms: shareholders, the board, mortgage lenders, fund managers, insurers, traders, and middle-managers. We show in detail how, for all of the activities other than trading, a concern for the wellbeing of clients might sustain more trustworthy patterns of behaviour, i.e. more trustworthy norms, in circumstances when self-interested behaviour will not do this. Going beyond this, there is a widespread understanding that patterns of behaviour are often copied. As a result, the behaviour of those with a concern for others might influence the behaviour of self-interested actors. It might be that trustworthy behaviour becomes the norm.

A policy of financial reform might therefore attempt to change motivations. Alternatively, such a policy might set out standards of trustworthy behavior. In addition, it might be possible to directly intervene to bring about changes in the work practices of at least some people, in a manner that is informed by psychology and behavioural economics, in order to cause these people to act in a more trustworthy manner. Such trustworthy behaviour might spread and become the norm. Ensuring a change in norms appears to be an essential part of the required change of culture in finance.

But trading activity is different. Trading does not need to be – and cannot be - supported by actors whose motivations relate to the wellbeing of clients. Trading is a self-interested activity, it is not concerned with achieving 'fair' outcomes. What matters is the avoidance of fraud.

This difference matters. Actors providing the other services in finance might come to copy traders, and regard the wellbeing of clients as unimportant. Then it may not be possible to sustain trustworthy standards, or behaviour in the provision of these services. There is some evidence that this has happened.

Our work identifies two key challenges for the governance of financial firms. First, there is a need to prevent the self-interested motivations of traders from infecting the motivations of those in other parts of the institution. Second, even if this contamination of motivations does not happen, there is a risk that activities of traders in a firm can damage the wellbeing of the clients in other parts of the firm. It may be, for example, that these clients hold assets the price of which the traders in the firm are seeking to depress. There may thus actually be a need for a board to protect the customers in the client-facing parts of the firm from the effects of the activities of its traders.

5. Getting Clear on Corporate Culture




Hsieh, N., Lange, B., Rodin, D. and Wolf-Bauwens M. L. A.

The construct of organisational or corporate culture is elusive and so there is disagreement and confusion as to its precise definition, importance and measurement.

This paper reviews more than 70 articles on corporate culture, drawing on work from the disciplines of business ethics, management studies, psychology, anthropology and economics, as well as interviews with 24 business leaders, to offer an integrative and holistic review of corporate culture.

It explores notions of culture and the frameworks most often used to measure it. The authors set out different views on how culture can be operationalised and moulded within an organisation and consider the relationship between corporate culture and corporate purpose.

Organisational culture research emerged in the 1970s from anthropology and sociology, which used qualitative methodologies to focus on how values develop and are transmitted within groups. That research had its roots even further back in the Gestalt psychology of the 1930s, which introduced the idea of ‘social climate’.

The paper considers the constructs of ‘culture’ and ‘social climate’ as largely congruent. It surveys a large variety of different definitions and captures their commonalities: organisational culture is a multi-layered, scalar, social phenomenon, concerned with values and related to actions.

Culture is often seen as the ‘soft’ side of business, but the literature shows it is critical for the successful implementation of strategy, for business performance and how the corporation operates in a socio-political context. When aligned with personal values, drives and needs, culture can unleash tremendous amounts of energy. On the other hand, a ‘false’ culture, misaligned with corporate strategy and purpose, can inhibit changes.

Culture is also important in relation to politics. Governments can manipulate corporate culture to further their own agenda or consolidate their grip on power. What is not yet clear is whether there is a correlation, and the direction of influence between politics and corporate culture.

Measurement frameworks of organisational culture may use quantitative or qualitative measures, or a combination of both. Examples of some of these frameworks, their commonalities and differences, are given. However, the authors note there is little consistency amongst different methodologies, and no pre-eminent approach.

To be more than empty words, culture needs to be embedded in any organisation’s practices. There are many ways of doing this, including ‘innovation parenting’ to encourage employees to internalise the values of the company. Most approaches rely on the organisation’s leaders to live the core values and strategic priorities of the culture, ensuring flat hierarchies and avoiding micromanagement.

The paper identifies how culture affects individual behaviour both within and outside the workplace, how it can help or hinder corporate innovation, and how it can be affected by location, office design and staff diversity, with examples from other industries, including technology, engineering and consumer goods.

The authors conclude that culture is only one ingredient in the recipe that leads to a (good) corporation of the future. It is connected to many other areas, most importantly the question of a corporation’s purpose, where there is a significant gap in understanding the connection between social purpose and culture.

There is also a need for closer examination of the conditions that influence the different measurement frameworks of culture, for a more holistic study of approaches to operationalise culture and the role of leadership in those efforts.

6. Is Corporate Governance a First Order Cause of the Current Malaise?

Gordon, J. N.

The United States, indeed much of the OECD, is facing a 'Triad' of three salient problems: significant inequality; economic insecurity; and slow economic growth. In the search for causes and remedies, some have identified the governance of large public corporations as a first order cause.

For example, US Democrat Senator Elizabeth Warren has recently proposed an "Accountable Capitalism Act" based on the view that relentless maximisation of shareholder value has caused many of America's fundamental economic problems. The remedy is a corporate governance solution involving co-determination for all companies with revenues over $1 billion, with at least 40% of the directors selected by employees.

This paper argues there are important corporate governance elements in inequality and economic insecurity but not in slow economic growth. It offers a board reform that could enhance financial inclusion and could perhaps lead to some additional growth. It's most far-reaching proposal calls for a new government-private sector "match" in human capital renewal.

The most important consequence of corporate governance changes since the 1980s has been a risk-shift in the adjustment costs of economic change from shareholders to employees. Shareholders have had access to effective vehicles for diversification, but employees' firm-specific investments are harder to diversify. Firms have reduced job security for employees and shrunk guaranteed pension payouts tied to employment-based wage levels.

The principal reason for these shifts is an increasingly competitive environment with global product markets and capital markets. Pressures also come from domestic disrupters which have up-ended retail distribution networks of goods, entertainment, and media. These forces have forced adaptations within many firms on cycles that are shorter than the career-span of most employees, leaving few companies with the capacity to provide the "thick" insurance packages conducive to human well-being.

The paper proposes a new form of subsidy or "public endowment" between the government and private sector, with lifetime advanced training and retraining to give employees the freedom to choose careers and life plans, and provide an initial allocation of bargaining power.

This 'insurance' may help address the risk of skills obsolescence, a modern form of dis-ability that calls out for socialization. Risk diversification techniques have given shareholders protection against firm-specific risks. Owners benefit from growth in the economy as a whole, irrespective of whether particular firms are diminished or even survive. Employees simply cannot effectively diversify against these risks. or simply an effort to assure that gains that increase the whole pie do not result in smaller slices for many. Rather, a long-term strategy is needed to address adverse demographic trends and the increasing mismatch between tax receipts and the cost of social benefits.

Enhancing on-going productive capacity will enlarge the labour force. The classic defence of downsizing and layoffs is not that it increases shareholder value, but that it frees up scarce resources. Given the specialized training that many good jobs require, a government-backed life-time re-training offers the promise of high dividends.

There also need for innovations in the Board. For example, the present Board model is not well-suited for companies whose projects and business strategy may be difficult for equity market analysts to evaluate. Independent directors may lack the skills to serve as credible monitors of management's strategy and operational performance.

This governance shortfall may provide an economic reason both for high levels of executive compensation and for the growth of the private company equity market relative to the public equity market. The development of a new, optional Board 3.0 governance model consisting of "thickly informed" directors with deep commitments, will be more credible with investors. It would be optional for firms whose business model justified the extra monitoring costs. A Board 3.0 option would make public markets more inviting, which would enhance financial inclusion and growth in public companies. By contrast, mandatory co-determination for the boards of all US companies is likely to degrade US economic performance.

7. Technological Progress and the Future of the Corporation





Belenzon, S., Hamdani, A., Kandel, E., Niron, H. and Yafeh, Y.

The evolution of the corporation, its ownership and structure has followed major business, market and legal developments, including the antitrust legislation in the United States in the late 19th century, to the dissolution of corporate pyramids in the 1930s and 1940s, and the unravelling of diversified conglomerates in 1960s to 1980s.

Throughout, however, the basic structure of the corporation has remained the same. Today, many corporations are threatened by disruptive technological changes, while technology giants seem to grow stronger, threatening many industries.

These changes have become more drastic, driven by the ability to rapidly collect and process vast amounts of data and then combine them with Artificial Intelligence (AI) to make smarter decisions. Data and knowledge have dispersed away from large corporations, undermining their traditional advantages, and the cost of digital innovation has dramatically declined. At the same time, online platforms gather data from users over whom they have considerable control, and analyse and use the information to dramatically affect consumer and producer decisions. Regulators, meanwhile, struggle to keep pace with these trends.

The structure and governance of future corporations are very likely to be impacted by technological changes as competitive threats, but also by technologically improved contracts, increased labour productivity along with some labour replacement (by robots), improved organisational efficiency and the technologically-increased ease of market transactions.

Traditionally, novel technologies have been developed in house (within companies), but increasingly corporations are collaborating with outsiders, altering organisational structures and the ways in which business is done and. New hybrid forms of the corporation, such as public benefit firms, are evolving, albeit still on a very small scale. Technological developments might facilitate these forms (reducing agency costs, for example), but the basic legal construct of the corporations is likely to remain unchanged.

Using a 'nexus of contracts' framework, the paper identifies some technologies which likely to disrupt large businesses in the next decade and describes their possible effects on corporations. Examples of technologies which are significant in this respect include Big Data/AI, Blockchain and Smart Contracts, computer vision, drones, quantum computing and 3D printing. These technologies are different from innovations of the past in that they substitute for human senses and brains, rather than muscles. Sophisticated algorithms are already performing more consistently, more fairly and more accurately than humans in some domains. Other technologies are also set to replace and reallocate labour, with significant social implications.

The rate of technological change appears to intensify over time and is perhaps becoming less predictable. Most economic models suggest that there is no real threat to the corporation as the entity of choice for organising economic activity. But is the current wave of disruptive technology qualitatively different? The authors note the hazard that well-known economic models may be missing the possibility of 'cataclysmic' events provoking political responses which could endanger the future of the corporation.

Aside from the nature, pace and effects of technological changes on the structure and purpose of the corporation, the paper also addresses several possible socio-political effects, including upheaval in labour markets and further increase in inequality, leading to a bifurcated economy, where small atomistic companies coexist with giant companies that become increasingly distrusted by the public and governments, as happened numerous times in the past.

New market or regulatory paradigms need to be developed to address these negative effects; the authors suspect that the existing regulatory tools (e.g. antitrust enforcement) are insufficient and inadequate and, as in previous historical episodes (e.g. the introduction of US antitrust in 1890; the dissolution of pyramidal business groups in the 1930s), new measures will have to be introduced. Without such measures, which should be designed in good time and after thorough consultation, public frustration may bring about poor regulation and policies.

8. How is Technological Change Affecting the Nature of the Corporation?

Birkinshaw, J.

The transition to the Industrial era in the late 19th century brought a fundamental shift in the scale, scope and structure of firms. It also led to new institutions (limited liability corporations, competition laws, accounting standards) to support and monitor these firms. The history of that evolution demonstrates how the structures of corporations adapted, alongside the types of products and services, and the wider social context within which the firms operated.

An equally profound transition to a digital era is underway, causing firms and policymakers to re-think basic assumptions about what they do, and why. This paper looks at the collective effect of the digital revolution on the fundamental choices firms make about their size and scope and the implications for governments and policymakers.

Elements of the transition are already in place. The emergence of tech giants has highlighted the superiority of platform-based business models compared to traditional linear business in markets for digital goods. However, government policies are ill-equipped to deal with such corporations because regulations derive from the pre-digital era.

The author shows how changes in firm size and scope are occurring more rapidly than changes in internal organisation, which in turn are adapting more rapidly than the institutional structures surrounding firms. These lags are creating tensions between traditional and digital firms, and between digital firms and policymakers. Both management innovation and institutional innovation are needed.

Firms are shifting from hierarchical to platform models that bring users and providers of services together more efficiently. In a digital economy, the bigger firms are, the bigger they are likely to become. Large firms spend more on technological innovation which impacts the nature of work and the number of jobs. Transaction costs between firms are falling and need less human intervention. The greater transparency offered by technological processes makes it easier to resolve disputes and problems. On the other hand, the trend is from vertically integrated firms to horizontally specialised structures with deep expertise in one narrow area, and from standalone firms to ecosystems of interacting firms and individuals who co-evolve.

The author notes the widening gap between the growing digital economy and the shrinking industrial economy where firms employ capital and people in traditional ways. These firms often consolidate to counter the new threat. While this process of creative destruction may ultimately be good for society, the short-term costs are huge.

Institutional structures are responding even more slowly that most traditional firms. The paper examines four particular areas. Intellectual property ownership rules have adapted successfully to the economics of digital production. However, employment law, audit and measurement, and competition policy are moving more slowly. There is agreement that change is needed but not where or how. A major challenge is how to value to data and information which makes digital firms so powerful.

There have been attempts at institutional innovation, for example the General Public License for software, but instances are still rare and more research is needed to identify other successful innovations and the roles played by different actors (governments, activists, firms) in implementing them.

One theme that cuts across the entire review is the trend towards computer-based automation and how it is likely to result in wide-scale unemployment. In a competitive market, firms have to match the cost stricture of their competitors but job sharing, employing more people for fewer hours and expanding flexible and freelance arrangements present opportunities for progress.

9. Revisiting the Uneasy Case for Corporate Taxation in an Uneasy World

Desai, M. A. and Dharmapala, D.

The dynamics of tax policy in a world of mobile corporations has become considerably more complex. There is a view that firms have become increasingly aggressive in seeking tax advantages, while there has been growing popular discontent about the apparent ability of corporations to relocate activity in response to tax differences.

These trends are thought to be manifest in declines in corporate tax rates around the world. The paper shows how this applies to four groups of countries where corporate tax rates have declined by an average of over 40% in 1980 to around 25% today. The authors suggest that the erosion of corporate tax also poses challenges for the sustainability of personal income tax systems.

Company tax no longer fits the realities of the contemporary world and must either be abandoned or thoroughly transformed to accord with global realities, the authors argue. Such issues are a manifestation of deep tension between nation states and firms, and also serve as a prism through which to consider the responsibilities of a corporation to a 'home' country.

Corporate tax makes the government (and

by extension society at large) one of the principals of a corporation because of its interest in receiving revenue. Tax avoidance by corporations imposes a fiscal externality on other taxpayers -- but whether society should be viewed as the ultimate principal of corporate entities is a matter for normative judgement.

The paper addresses how corporate taxation needs to change in an increasingly digital and global setting. It examines existing scholarly literature on company taxation in the global economy, providing a framework for future debate. It offers three alternatives for corporate tax and assess them with respect to various policy objectives, including efficiency, administrability, corporate responsibility, the perceived legitimacy of tax systems, and equity.

One option involves the development of multilateral taxing authorities, matching the global reach of corporations, which would mitigate against tax competition between countries, even at the risk of increased efficiency costs.

If the world is heading towards a dystopian future of de-globalisation, among the implications are increasing frictions for cross-border mobility and reductions in tax competition. This might make a corporation easier to tax but is also likely to reverse the substantial growth in global prosperity enjoyed in recent decades.

If income taxation of individuals and corporations is closely tied together, another alternative may be to jettison both personal and corporate income taxation, in favour of various forms of consumption taxation, implemented through the familiar VAT (Value added tax) system or other mechanisms. While this approach offers considerable efficiency gains, the degree of progressivity achieved by income taxation could be affected.

The authors note that the absence or erosion of company tax has created tax planning opportunities for individuals, who may use corporations as vehicles for the deferral of taxes. This can be eliminated by imposing personal income tax on an accrual basis, abolishing the realisation requirement that has long been an integral element of income tax.

This approach, which has been considered by previous studies, would render income tax viable even in the absence of a company tax. Accrual-based taxation faces substantial challenges, but the authors argue that it eliminate entity-level company tax while achieving any desired degree of progressivity through an accrual-based personal income tax.

10. Regulation and Law: The Role of Corporate, Competition and Tax Law




Armour, J., Enriques, L., Ezrachi, A. and Vella, J.

Society's primary challenge today is to cope with the effects of accelerated innovation and the disruptive technologies it generates. This paper focuses on the ways in which business law (comprising corporate, competition and tax law) can be moulded to both facilitate innovation and assuage emergent societal risks.

It considers means of enhancing investment in research and development and optimising corporate organisation, but also the risks associated with, for example, the use of technology to exploit consumers, manipulate markets or – unwittingly or not – distort the political process.

Artificial intelligence, algorithms, platforms and distributed ledger technologies are changing the scope of business activity and leading to greater substitutability of firms. Policymakers can use business law to promote innovation but also deter the use of exclusionary or exploitative technology.

The authors consider the challenges for law and regulation associated with financing innovation-focused businesses. Competition may increase the incremental profit from innovating but may also reduce innovation incentives for laggards. The trend towards concentration in many key sectors of the economy affects not only levels of innovation, but also its nature. Increased market concentration is correlated with significant increases in mark-ups between prices and marginal costs.

With business success and consumer welfare ever more dependent on innovation and R&D, the focus of corporate governance, antitrust and taxation must shift to account for this new reality. The paper suggests a potential role for public subsidies for R&D, raising finance for innovative projects and the impact of changes in corporate ownership on innovation. An increasing number of countries incentivise R&D activity through the tax system.

Businesses also have to respond to increasing digitalisation, the rise of 'smart contracts as an alternative to the corporate form, and the associated potential for regulatory arbitrage. Digitalisation is set to have a major impact on the incidence of agency costs within firms. New technologies have implications for external regulation and corporate compliance, the implementation of systems of internal control, and the international corporate tax system.

Two possible, interlocking solutions to the currently weak incentives to invest corporate resources in compliance would be to lengthen the vesting period for managerial compensation and institute personal compensation clawbacks and/or personal liability for compliance. Mandating disclosure on compliance programmes would also immediately remove the fear of creating an adverse signal by voluntary disclosure, and permit greater scrutiny of a firm's activities.

To address the fact that, in a time of rapid technological change, regulation lags the emergence of actual risks, the authors propose a dynamic system of forward compliance, where the firm focuses not just on applicable rules, but also their potential trajectory. Firms therefore start to act in terms of ethics and compliance, rather than compliance alone, and lead rather than follow regulatory guidance.

The paper considers the ways in which the environment for business law reform is subject to new political risks, following the threats to the liberal order coming from populism and the rising power of dominant technology companies. New technologies have spurred globalisation and made migration easier by reducing the risks of moving away from home. Cross border trade has raised living standards in lower income countries but also concentrated wealth in high income countries.

Political dynamics may change in directions that are hard to predict, with profound implications for the ability of policymakers to implement any programme of reforms. Intellectual and regulatory capture is another force that may distort lawmakers' and policymakers' priorities and preferences.

11. Patient and Impatient Capital: Time Horizons as Market Boundaries

Offer, A.

Since the 1980s privatisation and outsourcing have been promoted on the grounds of efficiency and fiscal convenience. The paper argues that private enterprise does and should provide for society's future needs, but it is circumscribed in what it can and should do.

Despite the promotion of market mechanisms, the public sector has not contracted in recent years. Public spending typically remains between 40% and 50% of GDP in most advanced countries. The level appears to be trendless and counter cyclical and endures despite austerity policies. Such persistence suggests that something more powerful than ideology may be at work, and that the public-private boundary is an expression of economic fundamentals. The paper aims to identify what these may be.

The appropriate choice between business and public enterprise is determined by the interaction between a financial time horizon and a project time horizon: the prevailing interest rate defines a credit time horizon, while payback appraisals define a unique break-even point for the private sector. The paper suggests that any project which has a break-even longer than the payback period cannot be funded by business alone. The payback method is used here as a diagnostic, and is not recommended for project appraisal.

Public-private partnerships were intended to overcome credit time boundaries, but their implementation has given rise to inefficiencies and corruption. Long term projects such as infrastructure development involve an array of uncertainties concerning the time-scale, budget and benefits. Attempts to control these by means of rigid financial contracts invariably lead to inferior outcomes. Uncertainties cannot be dissipated by mere contract.

In the UK, Private Finance Initiatives (PFIs) were a response to the financial sector's quest for yield after 1980. The form was sustained because of the 'magical thinking' of politicians, but it has failed. The desire to lock down terms may be advantageous for financiers but is likely to undermine overall project quality, and very often the promised savings and risk transfers failed to materialise. Consequently, the number of PFI projects declined, although the financial liabilities continue far into the future.

Another method of transcending credit boundaries is through a 'franchise', defined as a revenue flow with pricing power, of long duration and low variance, with some protection from competition provided by social and government agencies. It runs counter to the neoclassical premise that business superiority arises from competition, relying instead on some form of state-backed protection. Franchises allow longer credit break-evens and provides social leverage for imposing corporate compliance with the public good but do not eliminate inefficiencies or corruption.

The author argues that franchising or any other form of public-private partnership requires integrity to be efficient, and that integrity is not 'naturally abundant'. Public management therefore needs to be governed more strongly by intrinsic normative motivation, or 'ethical capital'.

For long term projects, local knowledge and market choice, as advocated by the economist Friedrick Hayek are not sufficient. The drive by public authorities to promote market mechanisms has created perverse incentives. The task of social planning is to manage uncertainty, but it is private finance which needs certainty most. Private enterprise works best in the short term, public management is required for long term projects.

12. The Impact of Ownership on Building Sustainable and Responsible Business

Villalonga, B.

Equity ownership of corporations is a critical factor in building sustainable and responsible businesses. The paper sets out to review previous studies of this relationship and adopts a multidisciplinary approach to identify gaps in the understanding of how ownership impacts business practices and policies.

Given the sharp decrease in the number of public corporations in certain equity markets in the last two decades, the relationship between the environmental and social activity of different types of organisations, and their financial performance is an important focus. The author notes that the corporate form is properly the choice of the equity owners, who also choose how to manifest their environmental or social concerns through their investment and management processes.

Early studies of the relationship and correlation between better environmental, social and governance practices and financial performance show mixed results but later studies indicate a positive relationship, particularly over the long run. Equity owners supporting a sustainable business model may agree to transfer value from shareholders (themselves) to other stakeholders but it is not clear whether that represents net value creation, or a trade-off between financial and non-financial performance.

The sheer perception of a trade-off may deter investors from engaging in, let alone driving sustainable business practices, but some studies demonstrate that the trust built by investing in social capital is particularly valuable when the overall level of trust in corporations and markets suffers a negative shock, and that CSR (corporate social responsibility) is positively related to firm value.

Other motivations may bolster an impression of corporate social responsibility, without underlying substance, and provide an effective entrenchment strategy for inefficient CEOs. Managerial engagement in responsible business practice has also been decried as a form of agency behaviour, enhancing personal reputation at the expense of shareholders.

The author notes that no research to date has examined the relations between financial returns to shareholders and taxes paid as a form of social contribution, nor the trade-off that might exist between taxes paid and direct investments in CSR practices.

From purely incremental steps to radical business transformations, the research explores ways corporations can build a sustainable and responsible business.
It is important to recognise the range of approaches, since there is likely to be a mutual dependency between each one, and the business ownership.

Different corporate forms do appear to create different types of social value. There is plenty of literature on co-operatives and social enterprises but little information comparing their social performance to other organisations.

Family owners, for example, target profit maximisation but also tend to protect their 'socio-economic' wealth, despite limited resources. Many have significant philanthropic activities, which prioritise social purpose even at net cost.

Institutional investors have a range of passive to active strategies from positive and negative screening to fully engaged impact investing, but which stakeholders bear the costs and benefits of these is still not clear.

Ownership by the same institutional investor across firms that are horizontally or vertically related make socially responsible behaviour more likely and effective, but they depend on other highly variable factors such as competitive advantage, activist engagement and customer awareness.

The paper also notes the role of stakeholders including employees, customers, suppliers, local communities, the government or proxy advisors in building responsible businesses. The question remains as to which is most effective at transforming the ecosystem. Some research indicates that internal managers are often the ones to initiate CSR practices, while activist investors have an increasingly powerful voice.

Overall, much more research is needed into the long-term impact of different types of investors, the trade-off between long-term benefits and short term costs for shareholders and stakeholders. Better data, longer time series and better research methodologies may help address causality and identification issues.

13. Can Corporations Contribute Directly to Society or only through Regulated Behaviour?

Buckley, P. J.

Can corporations contribute directly to society of their own volition or do they need to be constrained by regulation into contributing beyond their own corporate goals, such as profit, growth or market share? What might be the best mechanism for 'autonomous' or non-regulated contribution?

The author suggests two potential mechanisms: the creation of incentives for key executives to contribute to societal values, represented by, for example, the United Nations Sustainable Development Goals (SDGs), and the creation of a company culture where societal values are built into corporate decision making.

The research process revealed that corporations – defined as the legal entity -- are not only constrained by regulations and their own business models, but also by a changing web of signals and rules that emanate not just from government but from many aspects of civil society. The mechanisms by which corporations can and do contribute to society are rich and varied, but a small-scale survey for the research supported the case for social goals to be included more generally in corporations' objectives.

The paper examines the way corporations contribute to society through three juxtapositions: Regulation versus autonomous social action, Compliance versus Initiative, and Regulatory authority versus good governance. It considers Lundan's (2018) three varieties or pro-social behaviour from the 'minimalist' – the idea that 'the business of business is business', and 'doing good by being good', to the acceptance of 'burdensome responsibility', where the corporation commits to positive social change, even at a cost to its corporate profits.

The evolving concept of corporate social responsibility (CSR), lies in between, implemented either as an add-on, or as a shared value which the corporation may promote through its social goals. CSR may not impose costs on the business, but it may also fail to address major challenges effectively. The outliers to this spectrum are social enterprises and principled organisations.

The author sets out and compares three policy models by which corporations do or may contribute to society. The Received Policy is based on a top-down system of Compliance. An international body sets the moral basis for policy which is then implemented by national governments through treaties and agreements. Corporations then adjust their decisions to adhere.

In contrast, a direct policy model, implemented through proactive strategies, would start from the same international guidelines but the objectives would be embedded in the strategic decisions of corporations, either through executives incentives or corporate culture. The model for social enterprises is different, starting with their Mission, which underpins strategic and sustainable economic or social goals. The outcome is a trade-off between sustaining business and achieving the goals.

Modern corporate governance means balancing authority and responsibility, through the ownership, organisational and capital structure of the corporation, and then through Boards and directors. Debt or equity financing, the influence of large shareholders, Standards, Codes of Conduct, other internal and external stakeholders and the overall reputation of the firm all shape if and how a corporation contributes directly to society. But these factors may still not be enough.

The paper argues that government regulation for pro-social activity among corporations solves the governance problem, in that firms need no further justification for diverting resources, and also the problem of competitive dynamics, since each firm knows all others will have to bear the costs of compliance. Pro-active and forward-looking firms might enjoy a lower cost than lagging firms, but regulation helps level the playing field. To be administered effectively, regulation needs accurate, timely information, and the paper argues that firms can and should contribute to the common good by contributing that information.

We are keen to collaborate with other research and policy initiatives that are covering similar issues. We maintain a regular series of events and we will continue to share invitations to these events and updates on the project by way of our mailing list. To get involved in the programme, please register your details on our mailing list with this link:

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