The Purpose-Driven Corporate Forms: Tackling Grand Societal Challenges with Innovations in Governance and Corporate Responsibility

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Panel Symposium

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[1] This panel symposium is submitted with the help of Igor Filatotchev, Professor at *King's College London and Vienna University of Economics and Business (WU Vienna).*

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I. SYMPOSIUM PRESENTATION AND PURPOSE

Faced with urgent social, environmental and economic issues, and notably a number of "grand challenges" raised by the objective of building a sustainable future for the planet (George, Howard-Grenville, Joshi, & Tihanyi, 2016; Reid et al., 2010), companies' capacity for action, and especially for innovation, is more and more expected to contribute to public good (Stahl & Sully de Luque, 2014), and appears to be essential in providing new solutions (Voegtlin & Scherer, 2017). This, however, raises the issue of creating the appropriate conditions for businesses to combine innovation and social responsibility, notably through innovative "responsible governance" mechanisms to protect and foster responsible innovation (Filatotchev & Nakajima, 2014; Scherer & Voegtlin, 2018). Amongst original ideas experimented by businesses and legislation, one has started to draw attention from both practitioners and researchers: the "profit-with-purpose" or "purpose-driven" corporate form (Birkinshaw et al. 2014; Hiller, 2013; Prior, Cohen, & Fox, 2014).

This new corporate model introduces an explicit social purpose into the articles of incorporation of typical for-profit structures (Clark Jr & Babson, 2011). First introduced in some of the United States in *Benefit Corporation* statutes starting in 2011 (Reiser, 2011; Reiser & Dean, 2017), this corporate model has now spawned numerous variations in the United States, such as the *Flexible or Social Purpose Corporation* (Reiser, 2012) and the *Public Benefit Corporation* in Delaware (Alexander, 2017; Kurland, 2017), as well as in Europe with the *Società Benefit* in Italy and the *Entreprise à Mission* currently under examination by the Senate in France. Other countries (e.g. United Kingdom, Brazil, Australia, etc.) are currently considering introducing similar corporate forms (see for instance the report on "mission-led businesses" for the UK government[2]).

The proponents of these new corporate forms highlight the strong potential these new forms might have to renew corporate governance practices at a time where they are increasingly questioned for their suspected negative societal impacts (Clark & Vranka, 2013; Mac Cormac & Haney, 2012). By engaging the shareholders' commitment on social and environmental purposes, Profit-with-Purpose corporations intend to add credibility and protection to responsible and sustainable initiatives, reinforcing the strength of CSR practices against a risk of precariousness (Fleming & Jones, 2013). Numerous actors have already bet on the potential of those new organizations to structure new activities: dedicated investment funds, purpose-oriented consultancy firms, impact measurement methods, public support, etc.

However, this model's originality and novelty imply that its effects are still understudied to date. And the first papers published in the management field reveal nascent debates over the appropriate level of accountability that these forms will provide (Ebrahim, Battilana, & Mair, 2014; Kurland, 2017) as well as their necessity to tackle the current limitations of CSR approaches (Levillain et al., 2018; McMullen & Warnick, 2016; Rawhouser, Cummings, & Crane, 2015). How are they changing the generally accepted hypotheses underlying Corporate Governance theory? What new challenges are they likely to face and will these challenges affect the sustainability of this rapidly spreading model?

The aim of the symposium is to bring together panelists with contrasting theoretical and methodological approaches to pave the way for research assessing the true potential, as well as the theoretical and managerial implications of the adoption of such new corporate forms. We have invited a specialist in social enterprise law to discuss the challenges these companies face in selecting their legal forms and defining and maintaining their missions. Experts in corporate

[2] "Advisory panel to mission-led business review: final report" 2016, available at https://www.gov.uk/government/publications/advisory-panel-to-mission-led-business-review-final-report.

governance and strategy, will reflect on whether these new forms invent innovative governance practices, and discuss how managerial discretion and accountability (for instance on the additional purpose) can be affected positively or negatively, especially in relation to innovative strategies. Finally, experts in leadership and corporate social responsibility will investigate how the definition of a purpose might drive stakeholder engagement and enable to achieve the balance between their stakeholders' wishes.

We will also keep time for an interaction between the panelists and the audience through a moderated Q&A session of at least 20 minutes.

II. INTEREST TO THE IM, SIM AND STR SPONSOR DIVISIONS

The emergence of new corporate forms dedicated to social and environmental impacts draws a new bridge between the Corporate Governance and Corporate Social Responsibility fields. Whereas CSR usually refers to practices that extend beyond the legal obligations pertaining to companies, Profit-with-Purpose corporations attempt to create a *voluntary commitment*, i.e. an optional statute within corporate law for interested entrepreneurs that is creating strong legal impacts. In that sense, it therefore opens new avenues beyond existing regulation practices (Gond, Kang, & Moon, 2011), which revisit the institutional setting in which companies embed their socially responsible practices (Aguilera, Filatotchev, Gospel, & Jackson, 2008), and create new means for policy makers to foster responsible innovation and steer political implications of CSR (Scherer, Rasche, Palazzo, & Spicer, 2016). However, some practitioners contend that such forms might on the contrary offer a new opportunity for unethical firms to use the label for greenwashing purposes. These issues are at the heart of the works and theoretical frameworks sponsored by the SIM division.

The proponents of these new forms claim that the model might attract large companies such as Google or Danone, or new tech companies such as Kickstarter, which ground some of their image to the public on a societal mission. The impact of such new governance mechanisms is however still unclear both on the economic performance and on the societal impacts. The existence of new corporate forms also directly impacts the strategic choices made by entrepreneurs regarding appropriate governance structure, firm attractivity to customers and workers, as well as discourse and interaction with investors (Gehman & Grimes, 2017). The study of the consequences of these innovations in governance and their relationship with corporate leadership and accountability is in direct connection with the expertise of the STR division.

Finally, as the purpose-driven corporation movement is gaining momentum at the international level, especially through the sponsoring of some associations and the growing interest of numerous governments, it raises the issue of competing legal frameworks for companies operating in several countries, and requires advanced examination of the consequences of defining a purpose for instance at the holding level for the various subsidiaries established under different regimes, and operating in different cultural environments (Matten & Moon, 2008), which might be of interest for the International Management division.

III. PANELISTS

1. **Dana Brakman Reiser**, Professor of Law at Brooklyn Law School, is an expert on law and finance for social enterprises. Her most comprehensive work on the subject is *Social Enterprise Law: Trust, Public Benefit, and Capital Markets* (Oxford University Press 2017) (with Professor Steven A. Dean). Her scholarship also has appeared in *Boston College Law Review, Emory Law Journal, Indiana Law Journal, and Notre Dame Law Review*, among others.
2. **Blanche Segrestin**, Professor of Management at MINES ParisTech, PSL Research University holds the chair « Theory of the firm. Models of governance & collective creation » since 2015. Her research connects the theory of the firm with the collective

development of innovation capabilities. She published a book *Refonder l'entreprise* with A. Hatchuel (2012) to propose a new innovation-based theory of the firm, which calls for a renewal of corporate law and of corporate governance principles (several awards, among which best book award in management from the French Academy of Management (2013)). She coordinates the interdisciplinary research program at the College des Bernardins on Government of the firm, creation of the commons and she chairs the European Academy of Management, since 2016, the topic "Rethinking the form, governance & legal constitution of corporations: theoretical issues & social stakes".

3. **Günter K. Stahl**, Günter K. Stahl is Professor of International Management at WU Vienna. His current research interests include the drivers of corporate responsibility, leadership in times of turbulence and crisis, and the changing nature of global work. He has held responsible positions within various academic associations (including the IM Division of the Academy of Management), is a Senior Editor of the Journal of World Business, and Academic Fellow of the Centre for International Human Resource Management, Judge Business School, University of Cambridge, as well as Senior Fellow of the Centre for Global Workforce Strategy, Simon Fraser University.
4. **Christian Voegtlin**, is Associate Professor in Corporate Social Responsibility at Audencia Business School. His current research interests are in responsible innovation, responsible leadership and corporate social responsibility. His research has appeared in outlets such as *Academy of Management Perspectives, Business Ethics Quarterly, Journal of Management Studies, and the Journal of Business Ethics*. The research on responsible innovation is currently funded through a project by the Swiss National Science Foundation.
5. **Kevin Levillain** (facilitator), is Assistant Professor at MINES ParisTech, PSL Research University. His research focuses on the development of innovative corporate governance practices in relation to emerging corporate forms such as the "Profit-with-purpose" companies and their potential to sustain firms' innovation capabilities. He published the

book “*Les Entreprises à Mission*” in 2017 (Ed. Vuibert, Paris), which received two awards as best book in management research in France (FNEGE and Consult’In France).

IV. FORMAT

The format of the 90-minute panel symposium will be as follows:

- WELCOME AND BRIEF INTRODUCTION TO THE SYMPOSIUM THEME, PURPOSE AND FORMAT (5-8 minutes) by Kevin Levillain
- DISCUSSION BY PANELISTS (45 minutes) – Each panelist will develop their specific theoretical, methodological and/or practical point of view regarding the emergence of purpose-driven companies (10 minutes each).
- Q&A SESSION AND DISCUSSION WITH AUDIENCE (30 minutes) – Kevin Levillain will moderate the discussion
- DEBRIEFING & CONCLUDING STATEMENTS FROM THE PANELISTS (5-8 minutes) –

V. SUMMARY OF THE PANELISTS' DISCUSSION

A Critical Analysis of U.S. Purpose-Driven Corporate Forms

Dana Brakman Reiser (Brooklyn Law School)

Of the various legal forms U.S. state legislatures have designed to house purpose-driven for-profit firms in the past decade, the benefit corporation is most widely adopted. It is now available in at least 30 jurisdictions. The Delaware public benefit corporation (or PBC) is also highly significant, due to its provenance. The breadth and depth of these adoptions demonstrates the appeal of these forms as legislative products. State legislatures across the country, including the unchallenged leader in corporate law – Delaware – have jumped onto this bandwagon with breathtaking speed.

Yet these forms have proved less appealing to purpose-driven firms themselves. The most optimistic estimates still count the number of entities adopting them at a few thousand. Perhaps the benefit corporation and Delaware PBC forms simply need time to take off, but I believe the slow uptake reveals a more serious problem – one requiring significant redesign.

For the growing universe of purpose-driven firms to opt into benefit corporation or Delaware PBC form, doing so will need to brand them as genuinely purpose-driven and reliably prioritizing social good. These forms today establish no prioritization between profit and purpose; they simply say "do both." This lack of prioritization means a lack of guidance for those leading and investing in these organizations and, perhaps even more importantly, it makes enforcement impossible. Without clarity about their objectives, entrepreneurs and investors cannot rely upon and enforce the commitments of their counterparts. Indeed, benefit corporations and Delaware PBCs leave social mission vulnerable to unilateral termination by shareholders, who have unfettered discretion to discard social mission at any time, without penalty. These forms have achieved an important expressive victory, but they represent only a first step towards creating a legal regime that helps purpose-driven firms to flourish.

Corporate Governance for Responsible Innovation: How Participative and Reflexive Elements of Governance Can Contribute to Working With a Purpose and Add to Sustainable Development[3]

Christian Voegtlin (Audencia Business School)

The world is changing at an unprecedented speed, driven especially by technological innovation and the resulting behavioral changes in consumption, communication, mobility, and social life in general. These changes contribute to the grand challenges our planet is facing, like climate change, the economic disequilibrium between rich and poor, or mass migration, and in their wake, political and civil society movements emerge that propagate new forms of nationalism, fundamentalism and protectionism. These processes endanger the sustainable future for people and planet (George et al., 2016). In our presentation, we will outline our idea of responsible innovation and discuss the potentials and limitations of various models of corporate governance with regard to making responsible innovation feasible so that it contributes to sustainable development and helps addressing grand societal challenges. To this end, we will introduce alternative forms of participative and reflexive governance that can help address the social and environmental challenges that society faces. The presentation will thereby offer examples of innovative corporate governance aspects that can facilitate responsible innovation and link the discussion to the emerging purpose-driven corporate forms.

During our presentation, we will introduce responsible innovation as a normative concept that can be defined on the basis of three norms: avoiding harm, doing good, and coordinating with others to foster sustainable development (Voegtlin & Scherer, 2017). We will further argue that corporate governance can help facilitating such an idea of responsible innovation. Finally, we will propose participative and reflexive structures as useful mechanisms for corporate governance that contributes to responsible innovation. We consider the emerging purpose-

[3] The content of the presentation is based on research developed together with Andreas Georg Scherer, University of Zurich

driven organizational forms ideal for integrating elements of reflexivity and deliberation. However, being driven by a social purpose can create tensions for the business firm; limited resources must be deployed in pursuit of multiple objectives and bottom lines, thus raising questions about the prioritization of stakeholder demands. We will provide examples of corporate governance elements based on deliberation and reflexivity that should be conducive to dealing with these tensions (Dryzek, 1990; Dryzek & Pickering, 2017).

Purpose-Driven Companies and the Pursuit of a Social Mission: The Role of Executive Leadership

Günter K. Stahl (Vienna University of Economics and Business, WU Vienna)

The growing economic, social and environmental problems faced around the world are accompanied by increased pressure for corporations to "contribute to the creation of economic and societal progress in a globally responsible and sustainable way" (EFMD, 2005: 3). As the growing number of public-private partnerships, the emergence of dedicated CSR departments in many companies and corporate engagement in initiatives such the *UN Global Compact* demonstrate, many companies have committed to addressing these larger societal challenges. Some have gone even further and adopted "profit-with-purpose" business models (Levillain, Segrestin & Filatotchev, 2017) with the explicit goal of aligning their activities with stakeholder needs to create "shared value" (Porter & Kramer, 2011) and contribute to the "triple bottom line" (Elkington, 1997; Savitz & Weber, 2006) of social, environmental and economic responsibility.

We argue that executive leadership – particularly the CEO's approach to responsible leadership (Maak, Pless & Voegtlin, 2016) – plays a critical role in helping profit-with-purpose companies to pursue their broader social mission, incorporate responsibility and sustainability principles into their day-to-day operations, and build cultures that support the necessary transformation of business models, governance structures, and managerial mindsets (Brown & Treviño, 2006; Pearce & Stahl, 2015; Puffer & McCarthy, 2008). Ultimately, activities such as formulating corporate social responsibility (CSR) and sustainability strategies, aligning the business models and internal processes with stakeholder needs, and engaging in "responsible innovation" (Voegtlin & Scherer, 2017) are the result of top management (team) decisions, and so are activities that are widely considered irresponsible, such as fraudulent practices, employment discrimination, and harmful environmental policies. As Waldman (2011, p. 81) noted: "firms do not make decisions pertaining to responsibility or CSR; leaders do". It is striking, then, that – apart from anecdotal evidence – relatively little is known about the role of executive leadership in helping profit-with-purpose companies achieve their broader social missions.

In this presentation we will introduce a framework of responsible leadership that builds on the distinction between two kinds of responsible leader behaviors (see Crilly et al., 2008; Stahl & Sully de Luque, 2014; Wettstein, 2010): activities aimed at avoiding harmful consequences for stakeholders, such as avoiding employment discrimination, minimizing environmental pollution, enforcing safety standards, etc. (i.e., "avoiding harm"); and activities aimed at enhancing societal welfare, such as supporting community development, broadening access to products, designing employee-friendly workplaces, etc. (i.e., "doing good"). A company or manager may engage in responsible behavior (or refrain from irresponsible behavior) for a variety of reasons, e.g., to reduce legal and reputational risks (e.g., avoid practices that are potentially harmful to the environment); support the company's business model and strategy (e.g., invest in "green" technologies); or act in accordance with the company's mission and core values (e.g., Johnson & Johnson's famous credo, which challenges managers and employees to be "responsible to the communities in which we live and work and to the world community as well"). Thus, managers' motivations for engaging in economically, socially, and environmentally responsible behavior can roughly be classified into three broad categories: compliance-based; instrumental/strategic; and normative or values-driven. While these motivations are not mutually exclusive and all companies have to be compliant with the laws and regulations of the countries where they operate, decisions regarding CSR engagement often follow either an instrumental logic, stressing financial benefits and competitive advantages resulting from investments in CSR, with the ultimate goal of maximizing shareholder value; or a values-based and mission-led approach, with the ultimate goal of social wealth creation (e.g., Sully de Luque et al., 2008; Waldman & Siegel, 2008; Voegtlin, Patzer & Scherer, 2012). Some leaders have managed to reconcile the tension between social objectives and economic imperatives by embracing an "integrative responsible leadership" philosophy (Maak, Pless & Voegtlin, 2016: 470) that involves building long-term relationships with diverse constituencies, with the objective of generating social, environmental, and economic value for all stakeholders. An example is Frank Riboud, Chairman of Danone, who leads the firm as "a business that creates economic value by creating social value" (Kruglianskas & Vilanova, 2013).

In our presentation we will contrast the different approaches to CSR (instrumental, normative, integrative) and explore the interplay of CSR approach/motivation and leadership. We propose that a predominantly instrumental approach to CSR will be associated with transactional leadership, whereas a predominantly values-based, purpose-driven approach will be associated with transformational leadership (Groves, 2014; Zhu, Avolio, Riggio & Sosik, 2011) and the integrative approach will combine elements of both transformational and transactional leadership. We further propose that misalignment between a company's CSR approach and executive leadership will be associated with various negative outcomes, such as lower employee commitment and stakeholder engagement (the purpose-driven/ transactional leadership combination) or perceptions of leader hypocrisy and mistrust in management (the instrumental/ transformational leadership combination), as illustrated by Table 1. In the latter case, leaders who use the firm's broader social mission instrumentally by engaging in CSR when their "real" motivation is maximizing shareholder value face the inherent risk that stakeholders will detect their "moral fakery" (Quinn & Jones, 1995: 29) and sanction the company's "moral deceit". We will conclude with a discussion of the leadership challenges facing senior executives of "profit-with-purpose" companies, showing that the leaders of these companies face a fundamental challenge with regard to leadership – building commitment on the company's broader social mission among the shareholders (which will happen only if there is a perception on their part that management acts as a custodian of their interests, i.e., runs the business with the primary purpose to maximize shareholder value) *and* garnering trust from stakeholders by credibly communicating the non-intrumental nature of the firm's social mission (which tends to show in situations in which shareholder and stakeholder interests conflict). Resolving this tension requires authenticity and a careful balancing of shareholder and stakeholder interests (i.e., an "integrative responsible leadership" philosophy).

Profit-with-Purpose Corporations: towards a reexamination of our theories of the corporation

Blanche Segrestin (Center for Management Science, MINES ParisTech, PSL Research University)

With the Profit-with-Purpose Corporations (PPCs), different corporate laws have introduced an innovation to support the development of responsible business and stakeholder management. These new corporate forms blend a voluntary basis (only interested entrepreneurs choose one of the new legal forms) with judicial commitment (the chosen purpose is introduced into corporate bylaws with clear legal consequences).

This legal innovation raises a theoretical question: why is it necessary to change corporate law? While some stakeholder theorists have called for a "legal version of the stakeholder model" (Donaldson & Preston, 1995), most scholars have so far considered that the CSR practices and stakeholder management were compatible with existing legal frameworks. While the dominant Agency theory framework is more and more criticized for being deceptive to the nature of corporate law (Lan & Heracleous, 2010; Bower & Paine, 2017), several scholars contend that corporate law is indeed fundamentally more consistent with a stakeholder approach than a shareholder approach (Lipton & Rowe, 2007). For instance, the Team Production theory, suggesting a director primacy model instead of a shareholder primacy, holds that directors are not agents of the shareholders but represent the corporation as a legal entity, and that the core principles of corporate law have thus been conceived precisely to avoid conflict between the various constituencies (Lan & Heracleous, 2010). In this view, corporate law enables the pursuit of joint welfare and a fair allocation of results among team members (Blair & Stout, 1999). How, then, can we interpret the widespread adoption of Profit-with-Purpose Corporations within these theoretical frameworks? Does this legal innovation not lead us to revise some of the premises of our views of the corporation?

In this presentation, we critically re-assess the compatibility of corporate law with stakeholder management. We aim at reviewing first the legal and managerial issues that justify the need for a new legal framework, and second the theoretical implications of such legal innovations. As they make explicit the purpose of collective action, beyond the mere rights of stakeholders, profit-with-purpose make visible in law the mandate and the role of management. We will thus discuss how profit-with-purpose corporations invite us to question our conceptualization of corporation and the way corporate law is viewed by corporate governance theories.

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