

August 19, 2020

Enacting Purpose within the Modern Corporation

The Enacting Purpose Initiative (“EPI”), co-chaired by Colin Mayer of Oxford University, released a report yesterday, titled “[Enacting Purpose within the Modern Corporation](#).” The report articulates a framework for how modern corporations can translate their conceptions of corporate purpose into practice. While the initiative is largely designed for European and UK corporations, it contains insights into how boards of directors can work together with corporate managers and investors to pursue corporate purpose more effectively in the interests of long-term corporate stewardship. The EPI is planning an adaptation of the report for American corporations.

The EPI report’s view of global corporate purpose is similar to that of the British Academy’s Future of the Corporation Project, led by Professor Mayer, which posits that the purpose of corporations is to provide profitable solutions to problems of people and planet, while not causing harm. The EPI report advances the model of stakeholder governance and focus on corporate purpose that we have advocated for over 40 years, in which profit and purpose are not mutually exclusive, and directors have the flexibility to work with management and investors to deliver profit with purpose over the long term.

In our recent memo, [On the Purpose and Objective of the Corporation](#), we reiterated our simple formulation of corporate purpose and objective as follows:

The purpose of a corporation is to conduct a lawful, ethical, profitable and sustainable business in order to ensure its success and grow its value over the long term. This requires consideration of all the stakeholders that are critical to its success (shareholders, employees, customers, suppliers and communities), as determined by the corporation and its board of directors using their business judgment and with regular engagement with shareholders, who are essential partners in supporting the corporation’s pursuit of its purpose. Fulfilling purpose in such manner is fully consistent with the fiduciary duties of the board of directors and the stewardship obligations of shareholders.

Whether and how to pursue a purpose-based initiative is a question for each company; there is no one-size-fits-all approach. Any effective purpose initiative will require not just director engagement, but also management leadership and the committed participation of investors. So conceived as a partnership of key corporate constituencies—necessarily including institutional investors—corporate purpose initiatives have the potential to facilitate long-term corporate sustainability and to help protect companies and boards from the rising tide of shareholder litigation and short-term activist pressure.

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