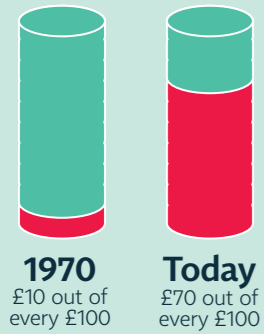


THE PURPOSE OF THE CORPORATION

The purpose of early corporations was to benefit society, for instance to build bridges and railroads.

Gradually, corporate culture has shifted to mostly serve the needs of shareholders, pushing companies to extract value instead of creating it.

Profit paid in dividends to shareholders (UK)

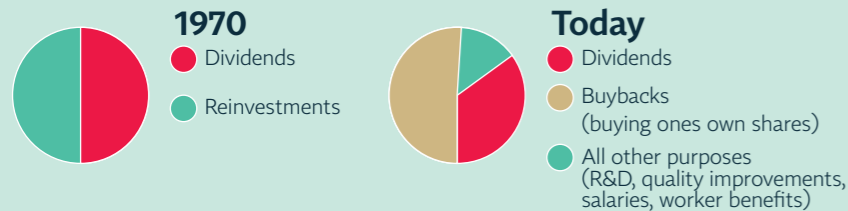


The corporate culture shift began in the 1970s, when US scholars promoted shareholder value maximisation as the sole purpose of a company.

No country requires share price or short-term profit to be maximised. But the idea is now embedded in business practice, education, and incentivised through regulation.

The shareholder-centric model has led companies to prioritise short-term profits at the expense of innovation and sustainability, as well as employee and societal well being. Side effects include inequality and poverty, environmental destruction and human rights violations. The long-term health of corporations themselves is also at risk.

How public companies spend their profits (USA)



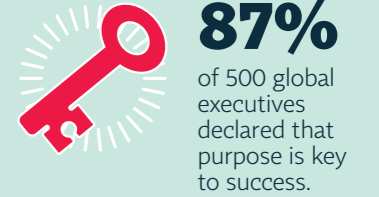
Examples of the effects of cost-cutting:

The Rana Plaza factory collapse in Bangladesh

BP caused the largest marine oil spill in human history.

Healthy corporations define their purpose to consider the long-term, for themselves and the greater good. They invest strategically in research and development, and determine their value by the benefit they provide to customers, shareholders and society at large.

The board and CEO work transparently and responsibly, considering people and the environment as their life support.



The business landscape is changing rapidly. Customers now expect transparency and recognise real efforts to improve.

Taking the wellbeing of people and the environment into account is increasingly seen as good business.

New ways of thinking, like B Corporations and Creating Shared Value, are catching on worldwide, as is increased awareness of the importance of long-term thinking.



To achieve sustainable development and long-term stable corporations, we need to debunk the myth of shareholder primacy and foster systemic change in business thinking. Corporate governance needs to go beyond mere code compliance and box ticking.

Vanguard companies and responsible investors are already paving the way. Governments need to rethink their approaches to corporate regulation, which still serve to strengthen capital market dominance over corporate strategy.

Looking forward, it's up to all stakeholders to re-imagine and create corporations ready to face 21st century challenges.

Want to learn more?
Visit www.purposeofcorporation.org/infographic

An initiative by
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