Introduction

In every religion, philosophical school of thought and political agenda one of the first questions to be addressed is that of their underlying and guiding purpose. Why do they exist? What purpose do they serve? It seems a fairly simple question but most of us discover early on that the simpler the question the more complex the answer in most things.

Now imagine having to answer the same question for a construct as multidimensional as a company. Suffice to say that we have witnessed a myriad of answers over the course of corporate history. From citizens and lawmakers to practitioners and academic experts, various definitions of the corporate raison d'être have been supplied, none of which held permanent consensus nor became a universal truth for the centuries. Nevertheless, the reason of corporate being remains the heart of heated debate and rightly so. If we cannot fathom sending a ship to wander into the ocean without any specific direction and final destination it is equally unfathomable to consider corporations void of specific purpose.

Let's go back a little, or better yet let's go back a lot. The first corporation was established under Roman law to undertake the public functions of collecting taxes, minting coins, building infrastructure, and maintaining public buildings. For its nearly 2,000-year history, the corporation combined its commercial activities with a public purpose, despite shifts and changes in its form, structure and operations.

Fast forwarding, we find what is commonly deemed the first multinational firms: the East India Company (also known as "The Company"), the French East India Company and the Dutch East India Company. The East India Company, founded as a joint-stock firm in 1600 by John Watts and George White, eventually managed half of the international trade back in the day and was openly instrumental to the British empire and its dominion in India. In a speech addressed to the House of Commons in 1833, Lord Macaulay elaborated on the dual purpose of the East India Company, which was to be involved both in trade and politics.[1] Similar destinies were prescribed to the French and Dutch counterparts of the East India Company. The latter, founded as a chartered firm immediately after the birth of the Company in 1602, constituted a pure company-state rather than a for-profit entity that both operated in trade and served as a key pawn in war for the Dutch Republic (Weststeijn 2014). Finally, the French East India company, otherwise known as Compagnie des Indes Orientales, was founded later in 1664 to compete with its British and Dutch predecessors. Once more, the company's purpose for being stretched far beyond mere trade. As a matter of fact, a key role in its creation and funding was played by King Henry IV who granted the firm with several exclusive rights and monopolies based on the colonization potential and expectations that ranked high among the company's objectives (Shakespeare 1997). With the demise of these mega-corporations, from the late eighteenth century to 1874 when the East India Company was defunct, came the birth of the public corporation as we know it today that reached maturity in the early twentieth century. The public corporation was largely preceded by privately held companies with a very limited shareholder base.

With the appearance of the new economic reality, however, surfaced the most elemental question of all: "Is a corporation to pursue the single interests of its shareholders?". Initially, a common view would have firms assuming the purpose their shareholders decided for them. The difference in function and structure, on the other hand, gave rise to a second school of thought on the matter, one that observed a broader corporate purpose: boards of directors and executives were to pursue multiple interests, including those of stakeholders like customers, employees and the society as a whole. With the above, what would come to be named the "Great Debate" commenced in 1932 between experts in corporate law Adolf Berle and Merrick Dodd (Allen, Jacobs and Strine 2002). While Berle (1931) assumed a shareholder primacy position, Dodd (1932) advocated a "business corporation" that not only produces profit but also secures jobs, quality products and social contribution. In the first half of the twentieth century, it was Dodd's view that dominated in the end. This stance was further reinforced by the Great Depression that hit the USA during the same period. One of the channels through which the country pursued its economic recovery was legislation that heavily pushed for a social role to be played by its corporate universe.

It was in the 1970s that the previous managerialism was questioned again by the birth of the Chicago School of the free-market economists and

[1] Macaulay, Thomas Babington. "Speech delivered to the House of Commons (10 July 1833)". *Columbia University in the City of New York*. Columbia University and Project Gutenberg. Retrieved 15 May 2020.

the famous New York Times article published by Milton Friedman, placing shareholders as owners of the corporation and denouncing corporate social responsibility as a socialist doctrine that fell far from the appropriate corporate pursuits and favored misuse of corporate resources. Soon after, Jensen and Meckling (1976) would create the pillar for the modern shareholder orientation of firms, describing shareholders as principals owning the firm and hiring directors and executives as agents. The "shareholder primacy" doctrine would coincide with an era of unleashed capitalism urged on by deregulation on anti-competition and laws that remained from the 1930s, along with intense technological innovation, removal of import barriers and a massive wave of privatizations (Luttwak 1999). The shareholder focus that took over practitioners, regulators and scholars would give rise to a series of fundamental developments in corporate law and practices that lead the way in the 1990s and early 2000s, further supported by hefty executive and CEO compensation schemes tied to performance by shareholder standards. Critics would question Jensen and Meckling's reasoning, arguing that both professors were economists and failed to capture the economic structure of a corporation or the stakeholders involved. Others would raise concerns regarding the singular focus corporations had assumed and point to various stakeholders that were being overlooked, such as employees, customers, the community or the environment. Nevertheless, all dissenters would be dismissed as irrational, anticapitalists that missed the point. The peak of shareholder value prevalence would be officially recognized in 2001 by Professors Kraakman and Hansmann who found the model to have achieved "ideological prevalence" (Hansmann and Kraakman 2001) not only in the United States but in the rest of the civilized world as well.

It was at the zenith of the shareholder value thinking that the first signs of its decline appeared. In the late 1990s and early 2000s we witnessed a wave of scholar attention to debunking the shareholder value myth. A pinnacle of this new opposition would be found in an interview given by the previously zealous supporter of the shareholder value idea, GE's CEO for twenty years Jack Welch. During his discussion on the 2008 financial crisis with a Financial Times journalist, Welch would call the shareholder value idea "the dumbest idea in the world"[2].

The rest of the book is organized in two parts; the first part elaborates the previously prevailing economic paradigm and the shift towards a new reality relying on CSR and stakeholder dimensions of corporate focus. Chapter 1 delves into the traditional shareholder value approach that has dominated the business world for the better part of four decades, discussing

[2] Guerrera, Francesco (March 12, 2009) "Welch Condemns Share Price Focus", *Financial Times,*www.ft.com/intl/cms/s/0/294ff1f2-0f27-11de-ba10-0000779fd2ac.html#axzz1eHkdklrf.

the basic premises and fallacies of its supporting theory and the stance that corporate law and literature assume regarding corporate purpose. The second chapter is dedicated to framing CSR within the two key financial theories, recognizing the risk aspects connected to responsible practices. In the meantime, the second part of the book offers empirical evidence on the way CSR is priced in by key actors evaluating the risk profile of corporations. More specifically, chapter 3 analyzes the approach adopted by credit rating agencies with respect to incorporating CSR into their risk valuations and rating assignment processes, with a focus on North America and Europe. Proceeding, chapter 4 provides a view of the debt market's CSR pricing mechanisms on a global scale, simultaneously offering insights on the role of the institutional and legal context of the firms. Finally, chapter 5 explores the internal risk valuations attributed to CSR, as conducted by corporate management, followed by the concluding remarks on the shape that responsibility is taking in the modern corporate world.