8 Corporate Purpose and Polarization

Claudine Gartenberg
Wharton School, University of Pennsylvania
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Abstract: The role of corporations in society is again the subject of debate across finance, law, and management. This essay aims to expand the debate beyond whether social benefits and costs be included in the corporation's objective function. I make the following two arguments. First, corporate purpose is broader than the debate recognizes. It is a mechanism for social choice, defining which problems a firm takes up, which solutions it pursues, whose interests count, and how conflicts among them are adjudicated. Purpose thereby shapes the admissible domain of corporate action, guides judgment among incommensurable alternatives, and helps form an organizational constituency capable of acting on that ordering. Second, polarization creates a larger divergence in values across the population, reducing consensus on the social issues raised by the modern economy. The appropriate locus of social choice—and therefore the appropriate scope of corporate purpose-- depends on both the breadth of the parties materially affected and the degree of contestation over the end. Purpose has its greatest capacity and legitimacy within bounded constituencies, while broad and contested effects call for government and the political process. Revisiting the institutional settlement that emerged from the debates of the 1930s, the essay presents corporate purpose and public authority as complementary institutions for governing modern capitalism.

8.1 Introduction

The role of corporations in society is again the subject of debate across finance, law, and management (Gartenberg 2022; Mayer, 2027; Zenger, 2023). One strand of the debate focuses on corporate purpose as an informal institution that aligns collective action within firms. Another concerns the formal institutions that allow corporations to flourish while limiting the social costs they create. Both address the same foundational challenge in capitalism: how to negotiate the relationship between firm-level profits and society-level welfare (Hart and Zingales, 2017; Kahan and Rock, 2023; Mayer, 2021; Tirole, 2001).

This discussion is not new. It first arose nearly a century ago during the 1930s, another period of major institutional stress. Many unresolved issues today echo those initially raised, which is not a coincidence. As during the interwar period, the structure of our economy has changed faster than the formal institutions supporting it. Corporations and the technologies they provide now mediate much of social and civic life, producing benefits and costs that are neither fully understood nor evenly experienced (James, 2027; Kwon, Ma, and Zimmermann 2024).

In this essay, I explore the contours of today's debate on corporate purpose, including its interplay with formal institutions of government and the parallels to this earlier period. I then speculate on why this debate has been unresolved for a century and is likely unresolvable. Finally, I make two arguments. First, corporate purpose is itself a way of making social choices and should be recognized as such in our discussions: it defines what problems a firm chooses to take up, which solutions it pursues, and, in doing so, whose interests count and how to adjudicate among them when they conflict (Arrow, 1951; Gartenberg and Zenger, 2026a, 2026b; Sen, 1970). Second, the increasing polarization of our times is leading to a large divergence in values across the population (Iyengar et al. 2019). This in turn poses a challenge to policies that seek social purposes for corporations, and particularly when corporate purposes entail social choices that should be made by government and the political process, rather than by firms. The debate on corporate purpose, therefore, should consider the appropriate division of the responsibility between corporations and public institutions, particularly as polarization reduces the consensus on the social issues raised by the modern economy. The more we rely on the informal institution of corporate purpose to drive social good, the more we risk both importing political conflicts inside corporations and, as importantly, diminishing government's capacity to perform its own role.

8.2 The Corporate purpose debate and its institutional setting

Corporate purpose can be described as an articulation of the collective aims of the organization (Gartenberg, Prat and Serafeim 2019; Henderson and van den Steen 2015). In management, it is the means through which leaders orient a large collective toward a common goal (Barnard 1938; Ocasio, Kraatz, and Chandler 2023; Selznick 1957). In finance, economics, and law, it is often treated as the firm's objective function, the goal for which the principal enlists agents to act (Hart and Zingales 2017; Mayer 2021; Tirole 2001). While not identical, these different meanings both focus on the aims of what corporations set out to achieve.

The contemporary debate over corporate purpose is often cast as a dispute about what these appropriate aims are: is there room for non-financial aspirations alongside economic value maximization and for stakeholders alongside shareholders (Gartenberg, 2022)? The conventional finance position provides managers a single maximand—usually articulated as long-run shareholder value—while assigning externalities and distributional concerns to law and regulation (Tirole 2001). This approach forces managerial accountability for a clear set of metrics, which is particularly appealing to those suspicious of managers cloaking private aims in the language of social responsibility (e.g., Bebchuk and Tallarita, 2020).

Alternative approaches broaden the objective or constrains the profit that may legitimately be earned. Hart and Zingales (2017) distinguish shareholder welfare from market value, allowing investors' nonfinancial preferences to enter corporate choice. Stakeholder approaches treat a wider set of parties as ends in themselves (McGahan 2023). Purpose-based work further emphasizes the capacity of firms to coordinate commitment around a collective aim (Henderson and Van den Steen 2015; Henisz 2023). These approaches differ, but each rejects the claim that financial value alone exhausts the corporation's legitimate ends.

Mayer (2027) occupies a distinct position within these alternative approaches. Broadly speaking, his critique is as follows: conventional measures of firm performance overstate profits when firms do not bear the full social costs they create, just as firms cannot recognize revenue for all the benefits they produce. He therefore proposes the governing principle that companies should solve problems profitably but should not profit from creating problems for people or planet. In doing so, he appeals to an institutional design argument: a disclosed and enforceable purpose together with a regulated definition of legitimate profit can jointly restrain firms from their costliest tendencies of creating business models that rely on shifting costs onto others (Mayer 2018, 2021, 2023; 2027).

Despite their differences, these approaches are developed largely within an objective-function framework. The shareholder value approach keeps the maximand financial and locates social welfare outside the firm. The broader approach expands whose welfare enters this measure or, alternately, constrains what may count as legitimate profit. This is not to say that every approach reduces value to money. It is that the debate concentrates on the scope of the corporate objective without fully examining the process or authority through which that scope is ordered.

My argument begins one step earlier. Any corporate objective presupposes decisions about which ends are worthwhile, how to navigate conflicting goals, and who may impose the resulting ordering. In reality, these decisions are far from straightforward but instead are often matters of social choice even when they presented in the language of welfare calculations (Arrow 1951; Sen 1970). The logical question is therefore not only what the corporation should maximize, but which choices may legitimately be made inside the firm and which require public authorization.

8.2.1 The first debate: Corporate purpose and public authority in interwar U.S. and Europe

The same questions animated the first major debate over corporate purpose nearly a century ago. The first debate over corporate purpose arose in the interwar era, a time of social and institutional distress in the United States and Europe. As Figure 8.1 shows, references to "corporate purpose" began rising during the 1930s. The Great Depression exposed the fragility of the prevailing laissez-faire order, while the growth of the managerial corporation complicated the older image of the firm as the private property of an identifiable owner (Berle and Means 1932). The questions raised were twofold: whether corporations had responsibilities to society, and whether those responsibilities should remain within managerial discretion or be placed within an enforceable public order.

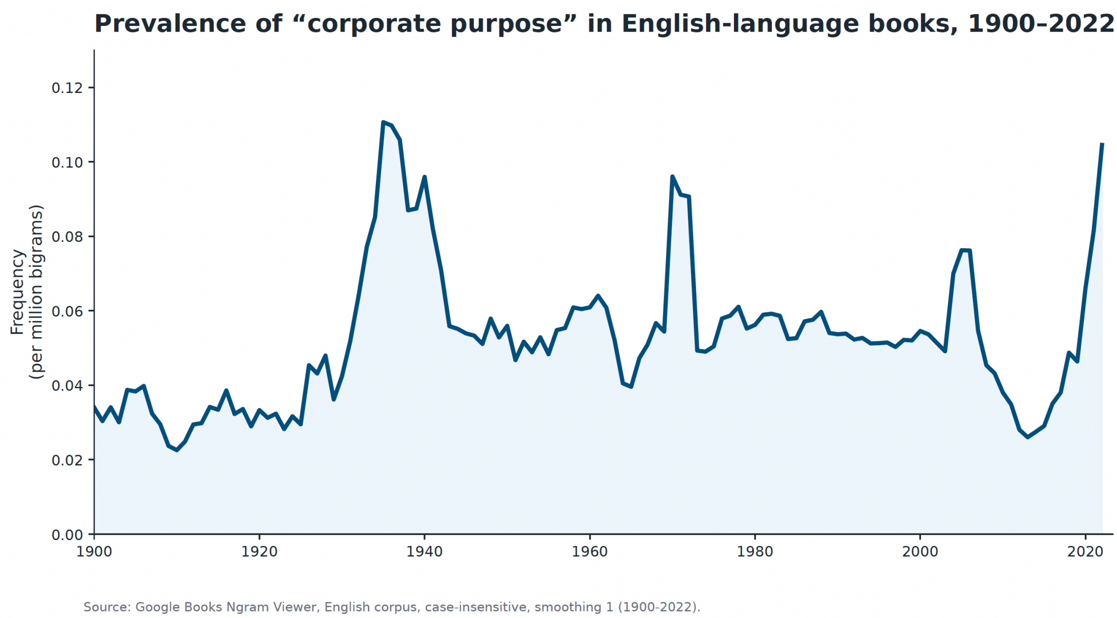


Figure 8.1: Prevalence of "corporate purpose" in English-language books

The debate must be understood in the context of the institutional architecture emerging during the decades prior. The Sherman Act of 1890 brought monopolization and restraints of interstate trade within the purview of federal law; the Clayton and Federal Trade Commission Acts of 1914 extended that architecture to anticompetitive acquisitions and practices. These laws recognized concentrated economic power as a public concern. But they did not resolve the underlying problem posed by large corporations: who would control those exercising corporate power, to whom would they be accountable, and how would responsibilities beyond competition be defined (Berle and Means, 1932)?

The connection between welfare and institutional authority was especially visible outside the United States, in interwar Austria. Divided between socialist “Red Vienna” and conservative (authoritarian-fascist) “Black” Austria, Red Vienna made municipal welfare institutions the material expression of one social order, while the Black bloc advanced a rival ordering, with corporations subservient to the state under either ordering. As polarization deepened, welfare provision became associated with competing political worlds rather than common civic infrastructure (Cockett 2023). Vienna provides the warning to our polarized society today: welfare provision may be administratively capable yet lose shared legitimacy when it becomes identified with a rival political order, and corporations may become identified with those rival orders. The United States experienced a milder version of these challenges, but still significant for the place and times. At the onset of the 1930s, social services were largely provided by large employers through welfare capitalism. These programs supported workers, but they also bound them to firms and could discourage independent unions or public regulation.

Against this backdrop, Adolf Berle and Merrick Dodd engaged dueling articles within the *Harvard Law Review* that are now treated as the two sides of the first debate on corporate purpose. Berle argued in 1931 that corporate powers be wielded strictly for the benefit of shareholders; Dodd replied that the corporation had "a social service as well as a profit-making function" and that managers could attend to employees, consumers, and the wider community (Berle 1931; Dodd 1932). Read through a contemporary lens, this exchange appears as an early manifestation of the shareholder-versus-stakeholder contest that persists today. That interpretation captures their immediate disagreement but passes over the institutional debate underlying it.

Berle's position can be understood in light of his wider concern with managerial power. The separation of ownership from control left shareholders largely dispersed and a small number of managers exercising authority over increasingly concentrated corporations (Berle and Means 1932). Shareholder interests, in his view, supplied a much needed legally enforceable restraint. Removing it without a credible alternative would allow managers to invoke "society" while remaining accountable to no one. Berle therefore refused to abandon shareholder primacy until a "clear and reasonably enforceable scheme of responsibilities to someone else" could replace it (Berle 1932, 1967). He contemplated claims by other constituencies, but insisted that those claims be defined through law rather than entrusted to managerial benevolence.

Berle is therefore better understood as an advocate of an economic rules-based order than as a straightforward ancestor of shareholder-value maximization. Berle and Means (1932) described corporate law as a potential constitutional law for the emerging economic state. Roosevelt's 1932 Commonwealth Club address, written by Berle, called for an "economic declaration of rights" and an "economic constitutional order" (Roosevelt 1932) that would order the emerging corporate actors and align their interests with society's.

The settlement that followed is often described as Dodd "winning" the debate, as Berle later conceded that corporate powers had come to be held in trust for the community rather than shareholders alone (Berle 1954). But broader corporate responsibility developed alongside, not instead of, enforceable public institutions. The New Deal established securities disclosure, independent worker protections, and social insurance through federal law. Important claims on corporations no longer depended solely on managerial discretion.

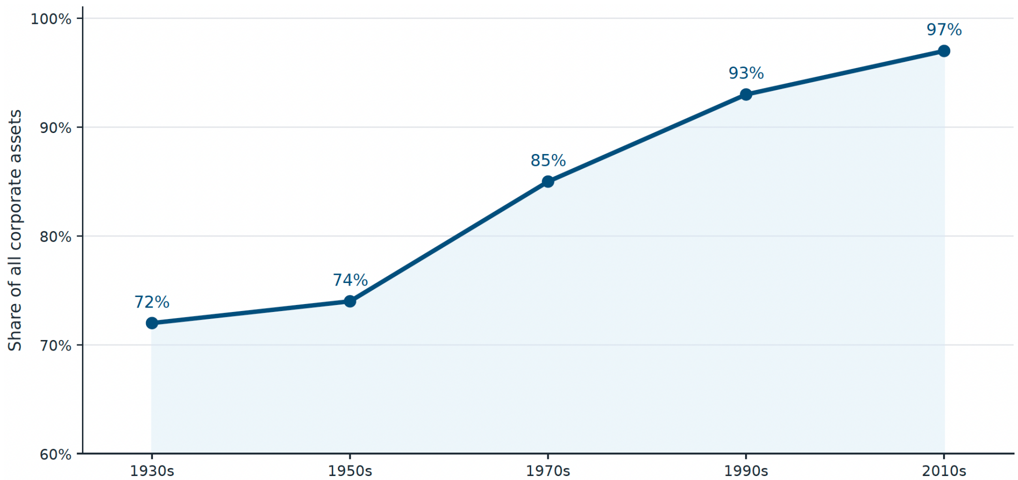
The lesson of the first debate therefore is not that stakeholderism prevailed or that New Deal regulation rendered corporate purpose irrelevant. The settlement treated corporate purpose and public authority as complementary institutions. Firms retained the capacity to organize collective effort guided by purpose as an informal institution by Selznick (1957)'s definition, while formal governmental institutions supplied rights and constraints that could not safely depend on managerial discretion.

The same risk arises when corporations are asked to assume contested social responsibilities. Before deciding what belongs inside the firm through corporate purpose, we must understand why the surrounding institutional settlement has again become inadequate.

8.2.2 Why the debate has returned

The institutional settlement that emerged from the 1930s was designed principally around an industrial economy and the corporate social benefits and costs visible within it. These benefits and costs differ today. Contemporary corporations increasingly operate through global supply chains and technologically mediated control over information and attention. Their effects may fall on people who never transact with it and may affect common-pool resources for which neither markets nor existing regulatory categories supply an adequate price (Coase 1960; Ostrom 1990; Mayer 2021). The return of the purpose debate reflects this evolution and the resulting distance between contemporary corporate activity and the institutions designed to govern it.

Current corporate scale widens that distance. Kwon, Ma, and Zimmermann (2024) document a century-long rise in production concentration in the U.S.: the asset share of the largest one percent of corporations increased from roughly 70 percent in the early 1930s to 97 percent in the 2010s (Figure 8.2). This measure does not by itself imply greater social costs imposed by these firms; however, it does show the growing aggregate importance of decisions made by them. As technological corporations mediate more of daily life, gaps in the surrounding institutional architecture become more consequential.



Source: Kwon, Ma, and Zimmermann (2024), AER, Table 3. Decade averages; production concentration, not product-market concentration.

Figure 8.2: Share of corporate assets held by largest 1 percent of corporations

At the same time, the public institutions expected to close those gaps command less confidence. In 2025, Gallup's average confidence measure for major U.S. institutions stood at 28 percent, its fourth consecutive year below 30 percent (see Figure 8.3). The aggregate also concealed an eleven-point difference between Republican and Democratic confidence, the widest partisan gap in the series (Brenan 2025). The 2025 Edelman Trust Barometer's finding that business is perceived as relatively competent and ethical helps explain why responsibility migrates toward corporations as confidence in government recedes (Edelman 2025).

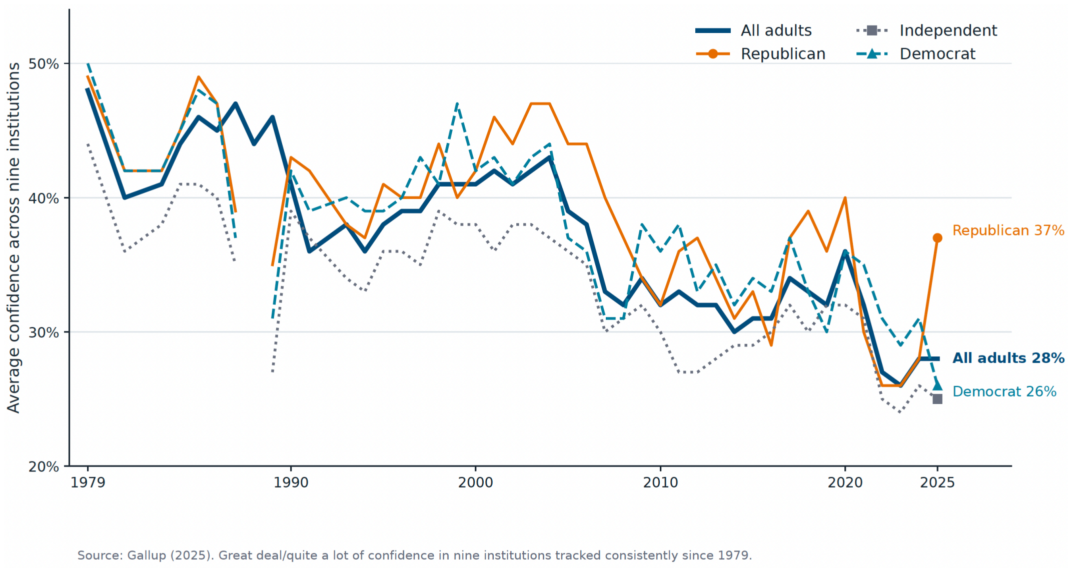


Figure 8.3: Confidence in major U.S. institutions, overall and by party, 1979-2025

The same polarization that weakens trust in public institutions also reduces agreement about the ends corporations ought to pursue. Many aspirations now situated inside corporate purposes are disputed not only in magnitude but in cause and meaning. Broadening the corporate objective may therefore bring political conflict into the firm without supplying a legitimate procedure for resolving it.

The contemporary debate thus echoes the 1930s because corporate power and institutional capacity have again drifted apart during a period of social and technological change (Table 8.1). As in this earlier time, our challenge is not to choose between a broader purpose and robust regulation. It is to determine which decisions can be coordinated legitimately through purpose and which require robust formal processes capable of representing and binding those who disagree.

Table 8.1. Corporate purpose and formal institutions: 1930s and present

Dimension	1930s	Present
Dominant corporation	Large industrial enterprise	Large technology enterprise
Salient externalities	Labor conditions, financial opacity, and consumer protection, political cooptation	Climate, generalized trust, AI risk, mental health, political cooptation, and diffuse community effects
Institutional gap	Laissez-faire order lacked modern labor, securities, and social-insurance institutions	Industrial-era institutions do not fully reach informational and intangible harms
Informal response	Welfare capitalism and managerial benevolence	Expanded corporate purpose and voluntary social commitments
Formal response	Economic constitutional order and New Deal architecture	Unresolved

Before drawing that boundary, however, the argument must confront a prior question: can welfare analysis resolve the disagreements placed inside a broadened corporate objective?

8.3 Why is this debate so hard to resolve? The limits of welfare calculations

The appeal of debating the breadth and role of corporate purpose using a standard welfare approach follows directly from the institutional gap described in Part 1. Corporate actions create social benefits and costs not included in financial statements, while the public institutions charged with mitigating negative effects have not kept pace. If profits are overstated because formal institutions do not prevent firms from shifting costs onto others, then a logical response is to turn to informal institutions (purpose) to prevent this: identify the relevant social effects, incorporate salutary approaches into the corporation's objective, and prevent companies from profiting through harm (Coase 1960; Mayer 2021).

This is an important advance over denying that the underlying problem exists. But it moves a great deal of weight onto the act of measurement. Before a firm can internalize its social effects, someone must determine what those effects are, which ones count, and how conflicting consequences should be compared. For familiar externalities, these questions may be difficult but tractable. For many of the problems now motivating the debate on purpose, however, the obstacle is not simply that prices are missing. It is that the values themselves are contested (Sen 1979).

The challenge becomes clearer when we move from this general discussion of accounting for social costs and benefits to a vignette of how such a decision is made in an actual corporate context.

8.3.1 Vignette: corporate decisions in the wild

I once asked a senior executive at a large technology company how they decided whom it would serve, given that its technology could be used for both beneficial and harmful purposes. This type of decision is precisely what a broader corporate objective asks firms to confront. The process he described, however, did not resemble the calculation of a single social-welfare measure. Instead, the company's leadership team engaged in free-wheeling debate that set profit considerations aside and instead used moral reasoning regarding the projected impact of their decision, progressing through a series of stages for increasingly harder decisions.

They began by applying categorial logic to the decision: the company would not do business with certain countries and industries, regardless of the opportunity or potential benefits. These were red lines: activities from which it had concluded it should not profit. After a decision cleared that categorical threshold did the firm begin to weigh consequences, using debate and judgement rather than netting welfare effects against each other. The team considered the various intended social benefits of providing the technology alongside the risk of misuse and deliberated on technical controls or contractual restrictions could reduce that risk. Where the remaining danger appeared manageable relative to the expected benefit—using judgment rather than any quantifiable threshold—the transaction could proceed.

The hardest cases arose when the anticipated social benefits remained substantial but the residual risks could not be fully addressed. At that point, the mode of reasoning changed again. Now the team shifted to asking: did the proposed use have a democratic mandate, could a public authority monitor the customer or intervene if the technology was misused? The decision turned on whether the potential usage was externally authorized and constrained via a reliable political process.

The company did not necessarily reach the right decisions in all cases, but the vignette illustrates that its intensive efforts to confront social consequences did not quantify these consequences into a single number that settled the choice. The company first determined what could not be traded, then compared consequences within the remaining space (using argumentation and judgement, not calculations), and finally looked for external authorization when its own balancing did not provide clear guidance. As the disagreement deepened, the decision depended on external institutional legitimacy.

This progression clarifies both the usefulness and the limitations of current treatments of purpose as an expanded objective function for the firm. Someone must determine which effects constitute social benefits and costs and whose judgment prevails when the answer is disputed.

A similar debate arose in interwar Vienna for the same reasons as today. Otto Neurath rejected the idea that different social goods could always be reduced to money, while Ludwig von Mises argued that rational economic calculation required market prices (Mises, 1920; Neurath, 1919). Although their debate concerned economic planning, rather than corporate governance, the tension is the same: when the impact of an action cannot be captured in a common value on which everyone agrees, measurement alone cannot settle what should be chosen.

This line of argument therefore opens three related questions that challenge welfare approaches to the debate on the appropriate breadth of corporate purpose: i) who measures? ii) when is legitimate measurement feasible? and iii) how are conflicts adjudicated when affected parties disagree?

8.3.2 Who measures?

The first question follows from the executive's role in the technology firm vignette above. Social benefits and costs are not technocratically determined. Someone must decide which consequences count and how they should be treated. Who shapes that process therefore affects the outcome. A corporate decision maker and a public institution may draw different conclusions from the same evidence. Evidence can inform the choice, but technical expertise does not confer authority to make it for others (Sen 1979).

8.3.3 When is legitimate measurement feasible?

The same problem arises with efforts to calculate a firm's "true costs": the party defining the metric is also deciding which forms of value the corporation will recognize. It is not that social consequences are never measurable. Welfare calculations remain feasible and informative when two assessments are sufficiently settled: that a consequence is harmful and that it can be attributed to an entity, such as pollutants discharged by an identifiable plant (Coase 1960; Pigou 1920). In these cases when harm and attribution are broadly accepted, the remaining challenge is measuring the impact. Welfare economics can establish the scale of the harm and inform the response.

Harder cases arise when either of the judgments above is contested. Deteriorating adolescent mental health is widely regarded as bad, but attributing it to Instagram or TikTok requires showing that the relevant outcomes have worsened and that features of the platform are a meaningful cause. In other cases, whether social costs themselves exist may be disputed. Claims that social media damages democracy are not settled, including whether they remove common ground or help mobilization and enable new voices to be heard. Better evidence may clarify the effects but cannot determine how people value them.

Proposals to pursue "profit without harm" or aggregate shareholder welfare are therefore most powerful in the first situation when there is general agreement that the social costs are real and attributable to firms (Hart and Zingales 2017; Mayer, 2027). When either is contested, however, a mandate to internalize these costs also forces the firm to assess both their degree and the firm's responsibility for it.

8.3.4 How are conflicts adjudicated?

The last question that arises is that, when conflicts do arise, how are they to be resolved? When there is no common agreement about the degree or existence of social costs, resolving it cannot be done by just creating a better or more expanded measure. Affected parties may accept the same evidence yet rank the alternatives differently (Arrow 1951; Sen 1970). A metric can combine those rankings only by adopting a rule about whose interests count and how their claims will be ordered.

The question is therefore how these conflicts will be resolved. Welfare analysis cannot determine the means of this resolution or whether the authority should remain with the firm or be assigned to a public institution (Adler and Posner 2006; Sen 1979).

Table 8.2. The three questions hidden inside social-profit measurement

Apparent question	Underlying social-choice issue
Who measures?	Who defines the benefits and costs and how they are measured?
How measure?	Which goods are commensurable, and what necessarily remains outside the metric?
How handle conflict?	Whose ranking prevails, through what authority, procedure, and safeguards?

The unresolved issue is no longer simply the content of the corporate objective, but the process and authority through which a collective ordering is formed. Part 3 develops that argument through social choice theory.

8.4 Purpose as social choice under polarization

Arrow (1951) formalizes the challenge left off in Section 2 with his Impossibility Theorem. This theorem demonstrates that no neutral procedure to make a collective decision can transform unrestricted individual rankings into a complete collective ordering while preserving a full set of reasonable conditions. Any workable arrangement must therefore make substantive choices about the domain of decision and the location of authority. For corporations, the implication is that complex decisions involving social impact are in fact social choice problems that the firm must navigate.

There are two implications of shifting this discussion from welfare calculations to social choice. First, purpose becomes an informal institution for navigating these contentious choices entailing incommensurable values. It helps a firm decide what it values and form an aligned group to act on those choices (Gartenberg and Zenger 2026a, 2026b). Second (and normatively), whether the firm should make those choices or leave it to political institutions depends on how many people are affected, including outsiders, and how much they disagree about the underlying end.

8.4.1 Purpose as a way to make social choices and align groups

This perspective changes how corporate purpose should be understood. In finance, economics, and law, purpose commonly appears as the firm's objective function: the end toward which managers are directed (Hart and Zingales 2017; Mayer 2021). In management, purpose is relatedly an articulation of collective aims—the informal institution through which organizational members understand what they are trying to accomplish together (Gartenberg and Zenger 2023; Ocasio, Kraatz, and Chandler 2023; Selznick 1957).

The technology company vignette discussed above illustrates how purpose fills a broader function. The company articulated a strong guiding purpose which its leaders reiterated consistently when debating its hard decisions. In Arrow's terms, during the company's first gate -- that created categorical limits to which countries or industries the company would transact with -- purpose defined the admissible set of options, ruling some conduct out regardless of its expected returns. During the second – where the leadership considered probable social benefits of the action against potential costs – purpose served to guide the ordering of the remaining alternatives. During the third – where the leadership determined that it could not confidently assess the costs and benefits -- it allowed the firm to seek external authorization from trusted political institutions. Both the social choice problem and the organizing role of purpose are present throughout the moral deliberation that the company engaged in, with the final gate focused on the appropriate institutional locus of that choice (Arrow 1951; Gartenberg and Zenger 2026a, 2026b; Sen 1970).

Purpose also helps form and align the group engaged in the social choice. Research on purpose highlights selection and treatment as means through which firms create shared beliefs and commitment (Gartenberg and Zenger 2026a; Henderson and Van den Steen 2015). A differentiated purpose can attract participants who share a values ordering and thereby transform society-wide disagreement into workable local agreement. In this sense, purpose helps delineate the organizational "we." Its coordinating power, therefore, comes not only from ordering preferences, but also from establishing the boundaries within which a common ordering is possible (Gartenberg and Zenger 2026b).

8.4.2 Polarization and the reach of corporate choice

Purpose can therefore be understood as an informal institution that shapes groups and aggregates social choice within them (Gartenberg and Zenger 2026a, 2026b). Enabling an aligned employee and investor base does not, however, fully resolve the social-choice conflicts confronting firms today. These conflicts also touch outside parties that bear consequences without joining the enterprise. Polarization infuses preferences with partisan identity, rendering differences more likely to become morally and politically opposed orderings (Fiorina and Abrams 2008; Iyengar, Sood, and Lelkes 2012).

It therefore should affect the ease at which that social license can be earned by the corporation. The broader the reach of the corporation, the more exposed it is to opposed partisan groups. A restriction one group experiences as an obvious moral boundary may appear to another as partisan exclusion. Corporate decisions may then become interpreted as ideological commitments even when managers understand them as operational judgments.

Figure 8.4 depicts one consequence of this link between purpose and polarization: polarization narrows the range of corporate ends that command broad assent. This in turn leaves firm with two options. First, they can absorb the resulting conflict internally, using levers of corporate governance as a forum for disputes that public institutions do not (or have failed to) resolve. Second, they can differentiate themselves based on locally aligned groups. Employees, customers, and investors may sort toward organizations that reflect their identities and values

(Van den Steen 2010). This sorting may produce greater agreement within a firm, but also make purpose less higher common aim and more a marker of coalition membership.

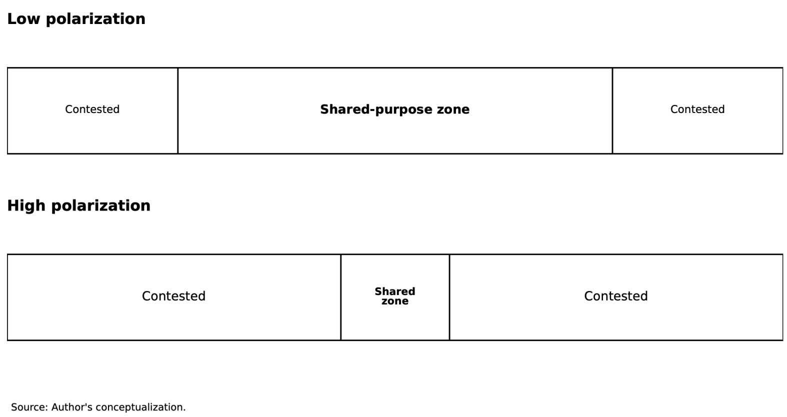


Figure 8.4: Shared purpose and contested purpose domains under lower and higher polarization. Source: author

This logic bridges research on firms as social communities with work on affective polarization (Gartenberg and Zenger 2023; Iyengar et al. 2019). It represents presents potential risks to firms, rather than a positive description of what necessarily occurs. Breadth does not necessarily produce disagreement, and polarization does not make every corporate decision partisan. But the risk matters, particularly since weak public institutions make delegation to corporations more tempting, while polarization makes the choices delegated to them harder to legitimate (Bénabou and Tirole 2010; Edelman 2025). The expansion of corporate purpose may then have two inadvertent effects in polarized contexts: it risks politicizing firms while at the same time further weakening public institutions by permitting them to retreat from their core governance function.

8.4.3 Who should decide: the corporation or government?

Figure 8.5 maps this problem along two dimensions. The horizontal axis measures the breadth and diversity of the people affected by the company, including people outside its value chain.

The vertical axis measures how much people disagree about the end. The quadrants show where I believe the choice should generally be made and the role purpose can play.

When few people are affected and agreement is high, ordinary firm governance can handle the choice. When agreement is high but the effects are broad, a common public standard can guide decisions across firms. The upper-left quadrant covers cases in which an end is disputed in society but the firm affects a bounded group that shares it. A strong purpose can help the firm make the choice and align that group. This works only when people can meaningfully choose whether to participate, effects on outsiders are limited, and the firm is not an unavoidable gatekeeper. When both disagreement and effects are broad (upper right quadrant), however, political process and formal regulation become more normatively desirable because the choice is contentious and binds many who did not consent to it.

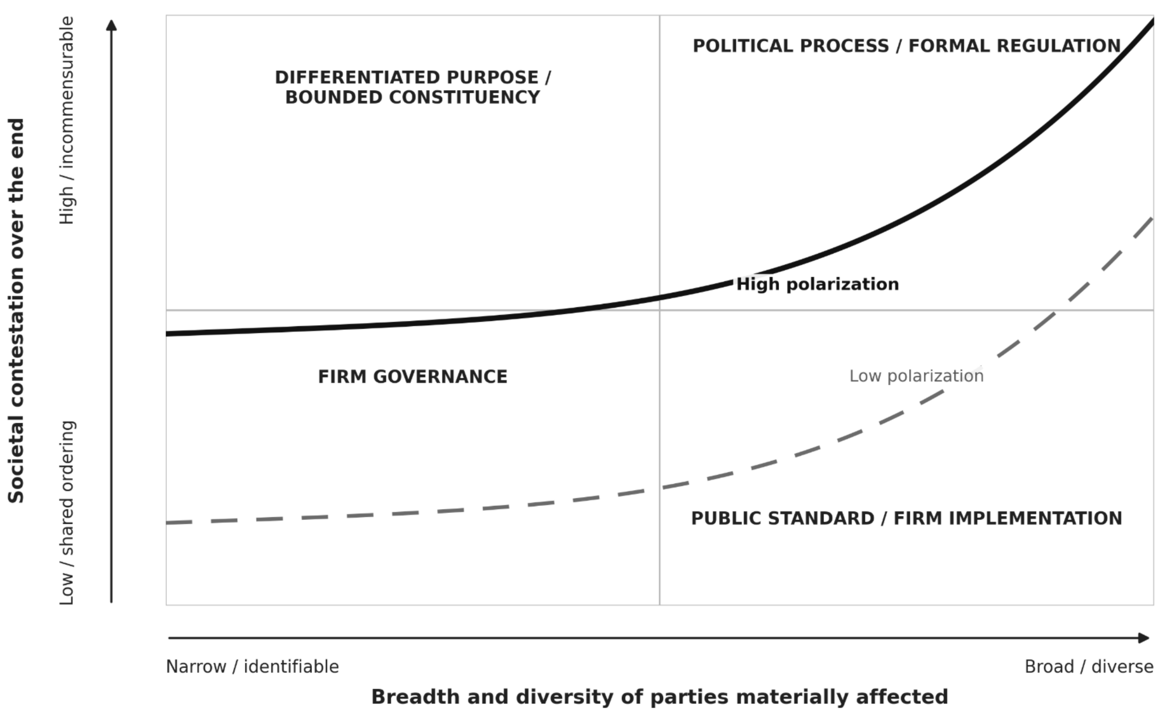


Figure 8.5: Institutional locus of social choice by breadth of affected parties and polarization

The curves are illustrative of the role of polarization in this setting. Under low polarization, agreement can hold across a broader group. Under high polarization, even firms that affect relatively few people may need either a strong but differentiated purpose or guidance from the political process. As a firm's reach grows, it becomes harder to contain the effects of its choices or maintain agreement without approval through a public process.

When a company affects many people who disagree, I argue that the choice should generally move to public institutions. This is not because government always makes better decisions. Firms may have better information and may act faster. But public institutions can represent people who disagree, allow decisions to be challenged and changed, and enforce rules across society. The boundary should therefore depend on two questions: can the institution act effectively, and does it have the right to bind those affected? (Ostrom 1990; Sen 1970; Williamson 1991).

This framework also helps define the limits of corporate purpose and proposals such as "profit without harm." When people broadly agree that an outcome is bad, or a public rule defines it as such, the firm can treat it as a clear limit. When people disagree and the effects reach outsiders, changing the firm's purpose pushes the firm decide the dispute for them. Purpose necessarily makes social choices, but Figure 5 shows when those choices should instead be made through a public process.

8.5. Conclusion

The contemporary debate over corporate purpose parallels concerns about the functioning of capitalism and the role of firms in society. The unprecedented scale and technological progress of the modern corporation have created enormous value overall but have also shifted substantial costs onto people who may neither choose nor benefit from the activities that produced them.

The institutional architecture surrounding firms has not kept pace with these changes, and conventional accounts of profit can obscure this dynamic (Mayer, 2027).

This essay argues that the prevailing debate on the role and scope of purpose is too narrow. Before a corporation can maximize welfare or avoid harm, an institution must construct a collective ordering to resolve social choice conflicts that welfare arguments obscure. Some of the greatest social benefits and costs that we face today are not reduceable to a common currency and nettable using standard welfare arithmetic. Corporate purpose therefore is not simply about defining the breadth of the firm's objective function, but is also a means of managing social choice problems confronted by firms in today's context. Purpose performs this function by defining the admissible set of problems and solutions that a firm will pursue, guiding decisions within that pursuit, and helping form an aligned constituency that will act on that ordering. Debating how purpose can be adjusted as an objective of the corporation that is tractable to welfare analysis, therefore, is incomplete. It is itself an informal institution for social choice to enable firms to select which problems it chooses to solve and how to navigate their solutions (Arrow 1951; Gartenberg and Zenger 2026a, 2026b; Sen 1970).

This logic defines both the promise and the limits of corporate purpose. Within a bounded group, purpose can inspire participants and guide judgment. As a corporation affects more people, it must either take on more disputed choices itself or turn them over to political institutions that make decisions for society. Polarization adds pressure by making different interests more likely to harden into opposing moral and political commitments (Iyengar et al. 2019). The question is not whether either firms or governments should make every social choice, but when each institution is right to do so.

The lesson of the 1930s debate was not that stakeholderism defeated shareholder primacy. It was that broader corporate responsibility had to develop alongside enforceable public rules (Berle 1954; Berle and Means 1932) because it necessarily is entangled with complex and contested social issues that corporations are only imperfectly equipped to handle. The same is true today. Purpose that is too narrow leaves important social consequences unaddressed. Purpose that is too broad asks companies to decide political disputes without representation, while allowing government to avoid its own responsibilities. These disputes become more prevalent and particularly contentious during polarized times. The task therefore is to consider the boundary of which choices firms should appropriately make without eroding trust in corporations as an institution and which should appropriately be made by the government or political process. As we learned during the 1930s, purpose and political institutions are complements because social choice requires both the capacity to act and the legitimacy to bind those affected.

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