LONG-TERM STOCKHOLDER AND STAKEHOLDER VALUE AND CORPORATE GOVERNANCE IMPLICATIONS

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Abstract

The key research question of this paper is to explore the major implications for corporate governance from the emergence of long-term stockholder and stakeholder value perspectives for the purpose of a corporation. The major implication for corporate governance is the significant opportunity for boards of directors to play a vital role in helping companies create long-term sustainable value. An initial step is to develop a clear understanding of the company's business strategy and how long-term value is created through innovation and deployment of resources. Boards of directors need to understand what really creates long-term value in their companies and then make sure their companies develop ways to measure and manage such value in order to be able to "govern like owners" and fulfill their fiduciary roles. To facilitate this fiduciary role, McKinsey & Company's Corporate Horizon Index with its five key indicators, investment, earnings quality, margin growth, quarterly management, and earnings-per-share growth, and their related hypotheses and measurement approaches can be used as a roadmap.

Keywords: Long-Term Stakeholder Value, Corporate Governance

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1. INTRODUCTION

In January 2020, Laurence Fink, Chief Executive Officer (CEO) of BlackRock with nearly $7 trillion of assets under management with offices in 30 countries and clients in over 100 countries, sent his annual letter to all chief executives of the world's largest public companies. He announced that BlackRock would make investment decisions with environmental sustainability as a core goal and that BlackRock would begin to exit certain investments that present a high sustainability-related risk, such as those in coal producers. His intent is to encourage every company, not just energy firms, to rethink their carbon footprints. He wrote: "Awareness is rapidly changing, and I believe we are on the edge of a fundamental reshaping of finance. The evidence on climate risk is compelling investors to reassess core assumptions about modern finance" (Fink, 2020).

The U.S. Federal Reserve Board agrees with this importance of climate change risk: "To support a strong economy and a stable financial system, the Federal Reserve needs to analyze and adapt to important changes in the economy and financial system. This is no less true for climate change than it was for globalization or the information technology revolution. Congress has assigned the Federal Reserve specific responsibilities in monetary policy, financial stability, financial regulation and supervision, community and consumer affairs, and payments. Climate risks may touch each of these. The staff across the Federal Reserve System are researching a wide range of topics related to climate risks, including how weather and natural disasters affect economic and financial outcomes and the economic implications of climate policies, including for the energy sector. We also benefit from working with international peers who are taking the lead in understanding the effects of climate-related risks on

their financial systems. For example, the Bank of England plans to assess climate risks to the financial system, including through their exploratory stress-test scenario" (Brainard, 2019).

In Fink's January 2018 letter to these chief executives, he urged them to start accounting for the societal impact of their companies and to focus upon economic growth that is sustainable and inclusive for most people. There should be a purpose beyond profits (Fink, 2018). In Fink's January 2019 letter to these chief executives, he elaborated linkages between purpose and profit by advocating for practices that will drive sustainable, long-term growth, and profitability. The purpose is a company's fundamental reason for being and not the sole pursuit of profits but the animating force for achieving them. When a company truly understands its purpose, it functions with the focus and strategic discipline that drives long-term profitability and unifies management, employees, and communities (Fink, 2019). Thus, there should be an expanded social and sustainable focus, including climate change risk, for the long-term intrinsic value of corporations with implications for the evolution of corporate governance towards that end (Grove & Lockhart, 2019).

BlackRock's new investment focus may give CEOs a license to change their own companies' strategy and focus more on sustainability, even if doing so cuts into short-term profits. Since much of BlackRock's investments are in passive index funds, like the S&P 500, it cannot simply sell shares in S&P 500 companies that were not focused upon sustainability but can do so in its actively managed funds. However major passive investors, like BlackRock and Vanguard, can actively influence corporate executives and boards of directors, especially since they will control over 50% of all money invested in U.S. mutual funds and exchange-traded funds by 2021 (Grove, Holcomb, Clouse, & Xu, 2020).

Such a long-term value focus of purpose beyond profits has already had impacts on corporate governance. In his 2020 CEO letter, Fink stated: "As I have written in past letters, a company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders. Ultimately, the purpose is the engine of long-term profitability. We believe that when a company is not effectively addressing a material issue, its directors should be held accountable". Last year, BlackRock voted against or withheld votes from 4,800 directors at 2,700 different companies (Sorkin, 2020a). Fink stated: "We will be increasingly disposed to vote against management and boards of directors when companies are not making sufficient progress on sustainability-related disclosure and the business practices and plans underlying them. Companies must be deliberate and committed to embracing purpose and serving all stakeholders – your shareholders, customers, employees, and the communities where you operate. In doing so, your company will enjoy greater long-term prosperity, as will investors, workers, and society as a whole" (Fink, 2020).

The key research question of this paper is to explore the major implications for corporate governance from the emergence of long-term stockholder and stakeholder value perspectives for the purpose of a corporation. The major implication for corporate governance is the significant opportunity for boards of directors to play a vital role in helping companies create long-term sustainable value. Boards of directors and their nominating, compensation, and audit or risk committees should pay attention to this broader focus on long-term stockholders and stakeholders. Such a focus ties in directly with the Business Roundtable (BR) Purpose of a Corporation with implications for corporate governance. Accordingly, the major sections of this paper are as follows. Section 2 reviews BR Purpose of a Corporation. Section 3 analyzes criticism of BR Purpose of a Corporation. Section 4 investigates an impact of corporate sustainability on company performance, and Section 5 analyzes an impact of short-termism on company performance. Section 6 reviews corporate governance implications, and conclusion is presented in Section 7.

2. BUSINESS ROUNDTABLE PURPOSE OF A CORPORATION

Founded in 1972, the Business Roundtable (BR) is a non-profit association based in Washington, D.C. whose members are exclusively chief executive officers of major public U.S. companies. BR promotes public policy initiatives favorable to business interests, such as NAFTA, as well as broader public policy initiatives, such as No Child Left Behind. In August 2019, the BR issued a 300-word Statement on the Purpose of a Corporation. Since 1978, BR has periodically issued Principles of Corporate Governance. Since 1997, each version of the document has endorsed principles of shareholder primacy, i.e., that corporations exist principally to serve shareholders. This new Statement supersedes previous statements and outlines a modern standard for corporate responsibility. It says that "BR members share a fundamental commitment to all our stakeholders and commit to doing well by our customers, employees, suppliers, and local communities. Each of our stakeholders is essential and we commit to deliver value to all of them, for the future success of our companies, our communities, and our country" (Business Roundtable, 2019a). This new Statement includes signatures by 183 of the 192 current CEO members of the BR (Grove et al., 2020).

The Statement says: "While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:

1. *Delivering value to our customers.* We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.

2. *Investing in our employees.* This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity, and respect.

3. *Dealing fairly and ethically with our suppliers.* We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.

4. Supporting communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.

5. Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow, and innovate. We are committed to transparency and effective engagement with shareholders.

The Chairman of the BR and CEO of JPMorgan Chase & Co., Jamie Dimon, summarized this Statement: "Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term. These modernized principles reflect the business community's unwavering commitment to continue to push for an economy that serves all Americans" (Business Rountable, 2019b). The Chair of the BR Corporate Governance Committee and CEO of Johnson & Johnson, Alex Gorsky, commented: "This new Statement better reflects the way corporations can and should operate today. It affirms the essential role corporations can play in improving our society when CEOs are truly committed to meeting the needs of all stakeholders. This Statement isn't an achievement; it's a call to action" (Business Roundtable, 2019b).

The world's two largest asset managers also signed this Statement: Laurence Fink, CEO of BlackRock with $7.4 trillion of assets under management and Mortimer Buckley, CEO of Vanguard with $5.3 trillion of assets under management. The former CEO of Vanguard, Bill McNabb, observed: "I welcome this thoughtful statement by BR CEOs on the Purpose of a Corporation. By taking a broader, more complete view of corporate purpose, boards can focus on creating long-term value, better-serving everyone – investors, employees, communities, suppliers, and customers" (Business Roundtable, 2019b). The world's largest private equity firm and activist investor also signed this Statement, Kewsong Lee, co-CEO of The Carlyle Group with $201 billion under management as did another large private equity firm, Robert Smith, CEO, and founder of Vista Equity Partners with $52 billion under management. Thus, the two largest global passive investors, the largest global activist investor, and another large activist investor are moving this idea of a broader stakeholder focus forward.

3. CRITICISM OF THE BR PURPOSE OF A CORPORATION

Although the BR group should be commended for coming around to this broader stakeholder focus, it is undeniably late. It was not shareholder democracy that created this new enlightened moment. Public outrage pushed this forward as did the anger in Washington D.C. and regulatory scrutiny that is finally coming into focus. Also, democratic politicians have argued that the narrow focus on shareholder returns has worsened economic inequality, enriching wealthy investors at the expense of workers (Benoit, 2019). Also, concerning corporate giving and minimum wage standards, the aim should be to help create a society where we do not need places like food banks in the first place. We should be trying to put food banks out of business (Sorkin, 2020b).

The BR Statement should be seen as a prudent decision as the BR CEOs rightly see the direction the country is headed and have decided to get in front of the parade if they do not want to be trampled by it (Olsen, 2019). Also, most shareholders did not come around until they had no choice but to realize that this oncoming parade could have a negative impact on their investments. However, the Council of Institutional Investors (CII) disagreed with the BR Statement and said: "Accountability to everyone means accountability to no one. It is government, not companies that should shoulder the responsibility of defining and addressing societal objectives with limited or no connection to long-term shareholder value" (Sorkin, 2019). A critic agreed with the CII, commenting that the BR Statement was mostly a public relations exercise, designed to preempt more federal regulation and that companies need to take care of their shareholders. For example, in the 1980s, almost a third of Fortune 500 firms vanished through bankruptcy, mergers, and sales (Samuelson, 2019).

Another critic warned that if there is a recession, possibly caused by a pandemic, CEO activists will struggle to reconcile the interests of employees, other stakeholders, and their fiduciary duty to shareholders. Warren Buffett is the world's fourth richest person worth $124 billion and CEO of Berkshire Hathaway which has a market capitalization of $430 billion, even now with the ongoing coronavirus pandemic. Buffett commented that companies should not impose their beliefs about what is best for the world on their investors since it is shareholders' money (Sorkin, 2020b).

One way to try to reconcile these alternative views of the BR Purpose of a Corporation is to have executives and board of directors apply Warren Buffet's rules for running a business since he is a very successful business operator and the best known, wealthiest long-term investor in the world. His goal is to look at stock investments, just like owning an apartment, house, or a farm – look at them as a business. The rationale is to buy a piece of a business that you think will generate profits for a long time to come. This long-term investment perspective is at the core of his business advice offered as nine rules for running a business (Crippen, 2016):

1. *Keep calm in the face of volatility:* earnings gyrations do not bother us in the least.
2. *Keep good company:* he wants shareholders who share his long-term view.
3. *Keep your focus:* even a great company can see its value stagnate in the presence of hubris or of boredom that caused the attention of managers to wander, especially while purchasing other businesses that are so-so or worse.
4. *Keep costs low:* low costs permit low prices and low prices attract and retain good customers.
5. *Keep employee incentives simple:* do not use "lottery ticket" arrangements, such as stock options, whose ultimate value could range from zero to huge and is totally out of the control of the employees. Instead, incentives should be tailored to the economics of the business, be simple and measurable, and be directly related to the daily activities of plan participants. Board of directors' compensation committees should pay attention here.

6. *Keep out of trouble:* if we cannot tolerate a possible consequence, remote though it may be, we steer clear of planting its seeds.
7. *Keep your undervalued stock to yourself:* do not use your own stock to make a company purchase when that stock is not being fully valued by the stock market. Under such circumstances, a good business purchased at a fair sales price becomes a terrible acquisition.
8. *Keep it small:* he is skeptical about the ability of big entities of any type to function well. Size seems to make many organizations slow-thinking, resistant to change, and smug.
9. *Keep your reputation:* perhaps the most important piece of advice for businesses, and everyone else, is to maintain a sterling reputation for honesty by never doing something you would not want to see reported on the front page of your local newspaper or the internet. It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you will do things differently.

As a current outlook in these times of the coronavirus pandemic, Buffet is more focused on protecting Berkshire Hathaway, than using its current cash position of $128 billion to bail out other businesses, like he did during the 2008 financial crisis. His current primary focus is protecting Berkshire's balance sheet. He just wants to come out of this current crisis with a whole lot of liquidity, as opposed to so many public companies with little case reserves, having spent their cash on stock buybacks and dividends, and now needing another federal government bailout, just like the prior 2008 financial crisis when a $700 billion bailout program was financed by U.S. taxpayers. Conversely, Buffett wants to keep Berkshire safe for its investors, such as people who have 90% of their net worth invested in Berkshire (Zweig, 2020).

An empirical study asked why companies signed this BR Statement. The researchers saw two possibilities: either they were genuinely committed to lead in socially conscious business practices or they were trying to pre-empt criticism. They compared the behavior of the publicly listed signatory companies to that of public non-signatory firms in the same industries, matched by firm size and financial performance. They found four "sobering" results for the signatory companies:

1. More violations of federal compliance.
2. Increase in share buybacks.
3. Larger market shares.
4. Weaker association between CEO compensation and stock-return performance.

These findings suggested that BR signatories were not leaders in socially conscious environmental, social, or governmental practices or stakeholder orientation. Instead, the average signatory was more likely to enjoy a larger market share and had an incentive to pre-empt regulatory scrutiny that might expose rent-seeking behavior. The charitable explanation was that these companies are signaling their intent to change their ways but keep a close eye on whether they do change (Raghunandan & Rajgopal, 2019). However, two other empirical studies with much more extensive data found that companies with a broader stakeholder and sustainability focus outperformed those companies with just a narrower shareholder focus. The first study analyzed 180 U.S. companies over a period of 1992-2010 and the second study analyzed 615 U.S. companies over a period of 2001-2015. These two studies are discussed in the next two sections.

4. IMPACT OF CORPORATE SUSTAINABILITY ON COMPANY PERFORMANCE

Using a matched sample of 180 U.S. companies over a period of 1992 to 2010, this first empirical study found corporations that had voluntarily adopted sustainability policies, called high sustainability companies, significantly outperformed low sustainability companies, which had adopted almost no (or less than 10%) sustainability policies (Eccles, Ioannou, & Serafeim, 2014). This study used 27 sustainability policies, such as product innovation, product impact minimization, emission reduction, diversity, training, and development policy, to construct a sustainability policies index which could also be used by boards of directors in assessing their companies' sustainability policies and performance. This superior performance by high sustainability companies included both stock market and financial accounting results. This research study also found that the boards of directors of these high sustainability companies were more likely to be formally responsible for sustainability policies and top executive compensation incentives were more likely to be a function of sustainability metrics. Moreover, high sustainability companies were more likely to have established processes for stakeholder engagement, to be more long-term oriented, and to exhibit more complex measurement and disclosure of nonfinancial information.

In this research study, a $1 investment beginning in 1993 and ending in 2010 was compared for high and low sustainability companies. A $1 stock market investment in the high sustainability companies grew to $14.30 versus $11.70 for the low sustainability companies or a difference of $2.60 (18%) over this 18-year period. For the cumulative financial accounting performance of $1 based on return on assets, the high sustainability companies grew to $3.50 versus $3.30 for the low sustainability companies or a difference of $0.20 (6%). Similarly, for the cumulative financial accounting performance of $1 based on return on equity, the high sustainability companies grew to $15.80 versus $9.30 for the low sustainability companies or a difference of $6.50 (41%).

The low sustainability companies primarily followed the traditional model of corporate profit maximization in which social and environmental issues are predominantly regarded as externalities. In contrast, the high sustainability companies not only paid attention to externalities but were characterized by distinct governance mechanisms that directly involved the board of directors in sustainability policies and linked executive compensation to sustainability objectives. These high sustainability companies exhibited a much higher level and deeper stakeholder engagement; a longer-term time horizon in their external communications matched by a larger proportion of long-term investors; greater attention to nonfinancial measures regarding employees; a greater emphasis on external environmental and social standards for selecting, monitoring, and

measuring the performance of their suppliers; and a higher level of transparency in their disclosure of nonfinancial information. Thus, the high sustainability companies benefited relatively more as they were more dependent on their relationships with consumers, communities, and the environment. These high sustainability companies competed successfully based on brands, human capital, and environmental awareness, even when some of their products depended on extracting large amounts of natural resources (Eccles, Ioannou, & Serafeim, 2014; Grove & Clouse, 2018).

5. IMPACT OF SHORT-TERMISM ON COMPANY PERFORMANCE

This second empirical study of 615 U.S. companies over the period of 2001 to 2015 examined the economic impact of short-termism behavior by these companies and provided systematic evidence that a long-term approach can lead to superior performance for revenue, earnings, investment, market capitalization, and job creation (McKinsey & Company, 2017). A Corporate Horizon Index (CHI) was constructed based upon patterns of five variables, grounded in the academic literature. The five variables were an investment, earnings quality, margin growth, quarterly earnings management, and earnings-per-share (EPS) growth. The CHI weighted each of these five variables equally, making no attempt to assign different weights to the five factors.

The CHI relied on ordinal rankings of firms on each indicator (relative to their industry peers) to form a composite score for each company for each year of sample data. All companies were treated as “long-term” or “short-term” each year, based on whether they were above or below their industry median for that year. Long-term companies were generally those with CHI scores above their industry median for at least 12 of 15 sample years. Approximately 27 percent of the 615 companies were classified as long-term and compared to the remaining companies in the data set, and 20 of the 26 industry groups had nearly identical representation within the two groups.

From 2001 to 2014, the revenue of long-term firms cumulatively grew on average 47 percent more than the revenue of other firms and with less volatility. Cumulatively the earnings of long-term firms grew 36 percent more on average than those of other firms and their economic profit (earnings less a capital charge: invested capital times the opportunity cost of capital) grew by 81 percent more on average. Long-term firms invested more than other firms and spent almost 50 percent more on R&D than other companies. Long-term firms on average grew their market capitalization $7 billion more than other firms and their total return to shareholders on average was also superior with a 50 percent greater likelihood that they would be top decile or top quartile by 2014. Long-term firms added nearly 12,000 more jobs on average than other firms.

6. CORPORATE GOVERNANCE IMPLICATIONS

Due to the documented success of companies focusing upon the long term, boards of directors could use the five variables or indicators of “short- or long-termism” to assess the perspectives of their companies. Per the McKinsey’s 2017 study, the Corporate Horizon Index has five indicators with corresponding hypotheses and measurement approaches as follows:

1. *Investment:* long-term firms will invest more and more consistently than short-term firms; the measurement approach is the ratio of capital expenditures to depreciation. We assume long-term companies will invest more and more consistently than other companies.

2. *Earnings quality:* long-term firms will generate earnings that reflect cash flow, not accounting decisions; the measurement approach reflects the accounting decision of accruals as a share of the revenue. Our belief is that the earnings of long-term companies will rely less on accounting decisions and more on underlying cash flow than the others.

3. *Margin growth:* short-term firms are more likely to grow margins unsustainably in order to hit near-term targets; the measurement approach is the difference between earnings growth and revenue growth. We assume that long-term companies are less likely to grow their margins unsustainability in order to hit near-term targets.

4. *Quarterly management:* short-term firms will do whatever they can to hit short-term targets, whereas long-term firms are willing to miss them if needed; the measurement approach is the incidence of beating EPS targets by less than 2 cents and incidence of missing EPS targets by less than 2 cents. We assume long-term companies are more likely to miss earnings targets by small amounts (when they easily could have taken action to hit them) and less likely to hit earnings targets by small amounts (where doing so would divert resources from other business needs).

5. *Earnings-per-share growth:* long-term firms are less likely to over-index on EPS rather than true earnings and act to boost EPS (e.g., with buy-backs of their own stock); the measurement approach is the difference between EPS growth and true (recurring or non-extraordinary, regular) earnings growth. We hypothesize that long-term companies will focus less on things like Wall Street’s obsession with earnings per share, which can be influenced by actions such as share repurchases and accounting method choices, and more on the absolute rise or fall of reported earnings.

Boards of directors could use their audit or risk committees to apply these five measurement approaches to assess whether the five corresponding hypotheses related to the five indicators are supported. Short-termism has been the focus of many U.S. firms in recent years to “make the numbers” predicted by Wall Street analysts for both quarterly top-line (revenue) and bottom-line (net income) numbers. Many CEO and top executive bonus compensation plans have been tied to such results, facilitated by both revenue and earnings management or manipulation with much discretion using Generally Accepted Accounting Principles (GAAP). To help assess such shenanigans, all five indicators are relevant for boards of directors and their audit and compensation committees. For example, one earnings quality indictor, which links to McKinsey’s earnings quality indicator, has been used for many years by financial analysts with their

slogan: "GAAP is CRAP, Cash is King" (Grove & Clouse, 2017b).

Also, boards of directors could use their audit or risk committees to assess whether their companies are using a similar long-term investment approach to McKinsey's five indicators which is the GARP strategy with six key fundamentals. GARP is growth at a reasonable price, a combination of both growth and value investment strategies, popularized by the legendary Fidelity fund manager, Peter Lynch, whose Fidelity Magellan fund was the largest investment fund in the U.S. for many years in the 70s and 80s before he retired. These six long-term investment fundamentals are (Liberty Capital Management, 2020):

1. P/E ratio: a company's share price to earnings. The higher the ratio, the higher the expectation of growth potential. To avoid volatility, GARP looks for ratios lower than the company's historical average P/E or in line with its peers in its industry.
2. P/B ratio: a company's share price to the company's book value (Assets-Liabilities/ Outstanding shares). GARP looks for lower P/B ratios which tend to indicate greater value and a larger potential for profit when the market corrects itself and values the company properly.
3. PEG ratio: a company's P/E ratio/Projected Growth in Earnings. The lower this ratio the better as it indicates a company that is undervalued, given its growth potential, hence growth at a reasonable price.
4. ROE: a company's return on equity. The higher this ratio, the better as it is a good indicator of a company's financial performance.
5. Debt to capital: a company's long-term debt to shareholder equity. A lower ratio indicates that a company is less encumbered with debt and the interest cost. It also shows a company can be more flexible in a difficult economic environment.
6. Daily trading volume: companies that have an average trading volume of at least 50,000/day lessens price fluctuation, due to large purchases or sales.

Boards of directors could also assess the CEO, the Chief Financial Officer (CFO), and other top executives' traits or characteristics for strategic, long-term focus from DePaul University's CFO Strategic Leadership Initiative (Frigo, CMA, & CPA, 2018):

1. Think and communicate strategically with the ability to clearly articulate how the company will create long-term value.
2. Develop a clear understanding of how long-term value is created in the business and where the company is on the competitive life cycle to guide investment decisions.
3. Develop a deep understanding of the real long-term value drivers from innovation and align resources and funding accordingly.
4. Use their finance and business talent and expertise to drive and support innovation.
5. Understand what really creates long-term value and incorporate ways to measure it in the performance measurement and incentive system.
6. Build and lead forward-thinking strategic finance organizations.
7. Actively engage and collaborate with others on the executive team.

DePaul University's Center for Strategy, Execution, and Valuation found that high-performance companies had a commitment to creating maximum long-term value, consistently reinvesting in the business and displaying a clear sense of purpose and attention to creating stakeholder value, which is the focus of the Business Roundtable's Purpose of a Corporation. Also, institutional investors, like BlackRock and Vanguard, and corporate boards play key roles in the "investment value chain, a virtuous circle of long-term value creation (Frigo, CMA, & CPA, 2018).

The investment value chain has three sequential players which then repeat or recycle in this virtuous circle (McKinsey & Company, 2014). The three sequential players are:

1. *Individual savers:* directly or indirectly invest savings into financial markets and ultimately realize returns from the net cash received on their indirect or direct investments in corporations.
2. *Institutional investors:*
   - asset owners are trusted to steward most of the individual savers' capital to realize desired returns. They include pension funds, insurance companies, sovereign wealth funds, endowment funds, and mutual funds;
   - asset managers are appointed by asset owners to invest capital in corporations and include internal portfolio managers at asset owners, appointed external investment management firms, and hedge or other investment funds.
3. *Corporations:*
   - corporate boards are responsible to oversee how this capital is directed by management and to fulfill a fiduciary duty to serve the best interests of the company;
   - management operates businesses for profit and to develop a sustainable competitive advantage to in turn provide returns to investors.

In this investment value chain, there are government and regulators who create a legislated framework within which all participants interact. Also, there are observers who through their opinions, counsel, and/or actions influence the main value chain participants. These observers include media, proxy advisory firms, investment consultants, and portfolio managers. The implications for corporate governance are emphasized by the important role of the corporate board in this investment value chain as elaborated above. A McKinsey senior partner commented that one very important action is related to defining and clearly communicating the purpose of the company, especially to investors but also to employees and other stakeholders which fits nicely with the BR Purpose of a Corporation. Also, concerning corporate governance and long-term value creation, this representative emphasized that board members have relevant industry knowledge, diverse expertise, and a proclivity for thinking independently in both "peace time and war" (Frigo, CMA, & CPA, 2018).

A similar perspective was given by Mark Leonard, Constellation Software founder, and CEO. In his 2018 letter to shareholders, he focused on the role that boards play in the success of a company and the importance of a culture where employees are encouraged to realize their full potential. He argued that a board's real mission is to build long-term intrinsic value. One analyst observed that

Leonard's sentiment acknowledged the source of value that corporations play in our society at large (Cunningham, 2018). Leonard said that for building such intrinsic value, directors need to intently study industry and company over a period of many years to acquire sufficient relevant expertise in order to contribute more than basic corporate governance, like firing a CEO who has been involved in fraudulent financial reporting (Grove & Lockhart, 2019). Board of directors' nominating committees need to pay attention here.

Corporate executives need to develop and refine performance measures to focus on long-term value creation. Boards of directors need to oversee such efforts to fulfill their fiduciary responsibilities. They can begin this process by asking a few key questions, especially relating to the Corporate Horizon Index and long-term value creation drivers (Frigo, CMA, & CPA, 2018):

1. How can performance measures in our organizations be better aligned with creating sustainable long-term value?

2. Which performance measures are clearly leading to counterproductive short-term outcomes at the expense of long-term value creation?

3. How can we better align our performance measures with the characteristics of long-term companies as described in the Corporate Horizon Index?

4. How can we measure the key drivers of long-term value creation including the role of intangibles in our performance measures?

For a company to shift from short-termism to long-term value creation, this McKinsey senior partner recommended three important elements (Frigo, CMA, & CPA, 2018):

1. Businesses need to redesign incentives and structures to focus on the long term by measuring long-term value creation and performance relative to metrics from the company's long-term strategy. For example, establish reporting metrics that reflect the company's model for value creation, identifying value drivers and metrics for each reporting unit, and reporting on these consistently. Board of directors' compensation committees can play an important role here.

2. Executives must infuse their organizations with the perspective that serving the interests of all major stakeholders (employees, suppliers, customers, creditors, communities, as well as the environment) is not at odds with the goal of maximizing corporate value; rather serving the interests of all major stakeholders is essential to achieving that goal. This means communication with their entire organization from the front line to the Chairman of the board of directors. This focus is entirely consistent with the BR Purpose of a Corporation and the role of the board of directors here (Grove et al., 2020).

3. Public companies must cure the ills stemming from dispersed and disengaged ownership by bolstering the board of directors' ability to "govern like owners" and use this philosophy as a roadmap to develop strategic performance measures for long-term value creation. Senior management will not be able to make this shift alone. They must engage their investors and their board of directors to embrace a longer-term mindset through communications and transparency. This involves identifying who the long-term investors are and rebalancing investor engagement to those key stakeholders. A good example is the role of passive investors, like BlackRock and Vanguard, who are focused on such long-term value creation (Grove, Clouse, & King, in press), as are many activist investors (Grove & Clouse, 2019). Similarly, the board of directors should focus on building long-term intrinsic value, including climate change risks and opportunities (Grove & Lockhart, 2019).

7. CONCLUSION

The key research question of this paper is to explore the major implications for corporate governance from the emergence of long-term stockholder and stakeholder value perspectives for the purpose of a corporation. The major implication for corporate governance is the significant opportunity for boards of directors to play a vital role in helping companies create long-term sustainable value. An initial step is to develop a clear understanding of the company's business strategy and how long-term value is created through innovation and deployment of resources. Boards of directors need to understand what really creates long-term value in their companies and then make sure their companies develop ways to measure and manage such value in order to be able to "govern like owners" and fulfill their fiduciary roles (Frigo, CMA, & CPA, 2018). To facilitate this fiduciary role, McKinsey & Company's Corporate Horizon Index with its five key indicators, investment, earnings quality, margin growth, quarterly management, and earnings-per-share growth, and their related hypotheses and measurement approaches can be used as a roadmap, supplemented by GARP's six long-term investment fundamentals. Accordingly, the major sections of this paper were the purpose of a corporation, criticism of the purpose of a corporation, impact of corporate sustainability on company performance, impact of short-termism on company performance, corporate governance implications, and conclusions.

No current research was found that linked the creation of long-term shareholder and stakeholder value to the BR Purpose of a Corporation and/or to the McKinsey Corporate Horizon Index to provide guidance to boards of directors to govern like owners in their fiduciary role to both shareholders and stakeholders. The closest research efforts appear to be Kostyuk, A., Kostyuk, O., Mozghovyi, and Kravchenko (2013) who created a corporate social responsibility index as a standard metric with a specific methodology for assessing performance measurement for Ukrainian banking institutions in comparison to Swedish banks. Khan, Nijhof, Diepeveen, and Melis (2018) did a meta-analysis of academic research published between 2006 and 2016 to disclose proven relationships between good corporate governance variables and the financial and/or non-financial performance of companies. They found evidence for the correlation between five corporate governance variables (board independence, board diversity, CEO characteristics, remuneration, and oversight) and company performance but no elaboration between short-term and long-term value creation.

Salvioni and Gennari (2016) found that sustainability and the broader concept of social

responsibility implied a change in the spirit of governance, which promotes a de-facto convergence between the different corporate governance systems existing all over the world. Companies that perform better with regard to the triple bottom line can increase shareholder value and contribute to the sustainable development of the societies in which they operate. Other research studies were limited to individual countries concerning corporate social responsibility, sustainability, and firm performance: Italy (Pichet, 2019); Indonesia (Sitorus, T., & Sitorus, T. V. T., 2017; Haryono, Iskandar, Paminto, & Ulfah, 2016); South Africa (Rampersad, 2017); Egypt (Basuony, Elseidi, & Mohamed, 2014); Brazil (Emmanuel, Carvalhal, & Avila, 2012). The interactions between sustainability and corporate governance were studied in positive and negative cases, respectively (Grove & Clouse, 2017a, 2018).

Future research could analyze the agenda for future research advocated by McKinsey & Company (2017) concerning the economic impact of short-termism versus long-termism on long-term shareholder value, which is not confined to the United States:

1. Company-level drivers: is it possible to identify predictors of short-termism at a company level, and if so, what are they? Can these drivers be used to identify interventions to reduce short-termism?

2. Industry and sector differences: to the extent that short-termism differs between sectors and industries, what differentiates long-term sectors and industries from others? Are the differences driven by broad, secular trends, or are they within the control of companies, governments, or investors?

3. Ownership structure drivers: are the effects and extent of short-termism different among private companies? What can public companies learn from the ways private companies approach long-term planning? Among public companies, are there differences between those that are narrowly owned versus broadly owned, and those represented by different investor types?

4. Additional geographies: what are the costs of short-termism in other markets? Do the same relationships between short-termism and financial performance and economic growth hold, and what distinguishes markets where results differ?

5. Secular stagnation: is corporate short-termism linked to secular stagnation, in particular as a source of low investment rates? Is it possible that tackling short-termism can help resolve the tension between low investment and growth and high corporate profits?

6. Productivity: is corporate short-termism linked to declining productivity growth? Is it the case that short-term companies, and markets, where they are concentrated, are less productive due to short-term firm-level decisions?

Concerning the limitations of this paper, it is just a review paper. Thus, there is no research design for an empirical study nor any instrumentation, data collection, or quality control for any empirical research. Future research could do empirical studies of how companies increased their stockholder focus to encompass a stakeholder focus and how the stock market reacted to such a change. Empirical research could investigate financial and stock market performances by stakeholder-focused companies in specific industries or various countries, especially did they revert to just a shareholder focus in these times of the coronavirus pandemic.

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