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*Eric Audras*

**The Purpose of the Corporation in Business and  
Law School Curricula**

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For most of American history, businesses were run to provide livelihoods and “reasonable” profit. In the last few decades, though, business and society in general have moved toward emphasizing profit maximization and individual self-interest. The shift from “reasonable profit” to profit maximization has significant implications for corporate behavior and government regulation. Moreover, how society views the purpose of the corporation has significant implications not only for business, but also for the perceived responsibilities of its citizens, their interactions with each other, and their obligation to their fellow countrymen.

Today, it is common for corporations to direct their attention to serving shareholder and management interests, and to achieving the highest short-term financial return. Not only has this view become commonplace in society and the economy, it has permeated educational institutions and affected how young people see the role of corporations.

Lost in this orientation, though, is a sense of the corporation as a creature of the state, created and given special powers and privileges by the state. The historic balance between “we” versus “me” has shifted dramatically towards a focus on self-interest at the expense of societal interest. The result has been a decline in broad social and economic values in favor of viewing the corporation solely as a vehicle for personal financial enrichment. That view represents a significant shift from the historical – where the grant of corporate privilege was to advance public purposes such as building roads, bridges, and canals.

In this paper, I examine law and business school curricula to determine which perspectives are taught in professional education, and student perceptions about business schools based on surveys at leading business programs over the past decade. I focus on business and law schools because they train the leaders of tomorrow. For example, 38 percent of current House members and 55 percent of Senators hold law degrees.<sup>1</sup> And of the top 50 “best performing” CEOs, 58 percent of the Americans had an MBA.<sup>2</sup>

With this type of credentialing, the manner in which future leaders are taught will shape society in the decades ahead. Management science tells us that leaders need to be clear about the purpose of their organizations. As the training ground for future legislators, policymakers, corporate directors, and chief executive officers, it would seem that the purpose of the corporation should occupy an important place in law and business school curricula.

Yet what I found was troubling. Using an analysis of curricula, review of course syllabi, interviews with faculty members, and survey data on student perceptions, I find four important results:

- 1) many law or business schools do not require stand-alone courses that provide broad conceptions on the purpose of the corporation in society, although a number offer electives dealing in whole or part with this subject,



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- 2) of classes that do focus on the purpose of the corporation, many emphasize the goal of maximizing shareholder value, especially in law schools,
- 3) instruction affects views of the world because business school surveys show that after completing school, students are more likely to see shareholder value as the most important goal of the corporation, and
- 4) the relative paucity of required instructional materials on broad conceptions of the purpose of the corporation has important ramifications for business, government, and society.

## Historical Context

Debates over the purpose of the corporation have a long history.<sup>3</sup> Originally, the corporation was created to provide institutional forms and incentives to induce private investors to fund public projects. Allowing limited liability and the possibility of profit represented means toward that public end.

Over time, however, the balance between public purpose and private profit tilted more in favor of the latter. By the time of the 1929 financial crash, the subject of corporate purpose had become sufficiently arguable that leading legal scholars Adolf Augustus Berle of Columbia Law School and Merrick Dodd of Harvard Law School published divergent views on the role of the corporation in the *Harvard Law Review*.

Berle argued for shareholder primacy, writing that “all powers granted to a corporation . . . [are] at all times exercisable only for the ratable benefit of all the shareholders as their interest appears.”<sup>4</sup> Dodd meanwhile advocated for “a view of the business corporation as an economic institution which has a social service as well as a profit-making function.”<sup>5</sup> He grounded his argument in moral terms rather than seeing social responsibility as an obligation flowing from the privileges granted to the corporation.

Decades later, Milton Friedman wrote an influential 1970 *New York Times Magazine* article, “The Social Responsibility of Business is to increase its Profits,” which made clear his view that maximizing shareholder value was a company’s sole responsibility.<sup>6</sup> He made the argument that the free market is supreme, government regulation is inefficient and counterproductive, and corporations should focus on shareholder value alone. The father of the “Chicago school” of economists and a Nobel Prize winner, Friedman shaped the outlook of numerous business leaders, academicians, and thought-leaders, and affected America’s modern sense of the purpose of the corporation. This is one of the reasons that the *Economist* magazine named him “the most influential economist of the second half of the 20<sup>th</sup> century.”<sup>7</sup> In 1981, General Electric Chief Executive Officer Jack Welch helped popularize the concept of maximizing shareholder value by delivering a speech “Growing Fast in a Slow-Growth Economy.”<sup>8</sup>

In recent years, public concern over corporate behavior resulting from Enron

and other scandals of the early 2000s, and the financial crisis of 2008, led to renewed debate concerning the purpose of the corporation and its broader role in society. Should a corporation maximize profits even at the expense of the public? Can a corporation mislead the public if it is legal and will increase share price? What obligations flow from the grant of limited liability? Who bears the costs of the corporate shield and placing limits on corporate liability? Worry concerning these and other issues was instrumental in the adoption of the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010 requiring greater disclosure and transparency among American corporations.

## **The Analysis of Business and Law School Curricula**

The way that professional schools instruct future leaders is important because ideas shape how people think and behave. If schools emphasize a particular set of values or approaches, it will reverberate for decades to come. These values will determine how business leaders and lawyers behave, professional associations standards are set, and policies are adopted. Work done by the Olin Foundation decades ago to get law schools to start teaching law and economics is credit with the shift that has taken place in America's courts.

To analyze current patterns of education training, I collected data on college curricula. I analyzed the top 20 business and top 20 law schools as rated by media publications on four sets of questions (see Appendix for list of schools).<sup>9</sup> First, what perspectives on corporate values are taught in American professional schools? Second, what is taught as the primary purpose of the corporation, i.e., employee welfare, customer satisfaction, maximizing short-term profit, shareholder value, national or community benefit, or social responsibility? Third, is teaching of the purpose of the corporation part of the required core curriculum or is it an elective? Is it a stand-alone course or included as a component of a broader course? Fourth, are courses dealing with corporations taught by permanent or adjunct faculty members? This question is important because tenured faculty typically are thought to offer greater continuity in instruction than adjuncts hired on a year-by-year basis.

I investigated these topics through an analysis of law and business school websites, course syllabi, and interviews with faculty members. I looked at what courses are offered, which are required or elective, who teaches them, and what topics and readings are assigned. I analyzed these questions to understand how leading professional schools think about their curricula and how much guidance schools are giving future lawyers, directors, executives, and shareholders regarding the corporation's place in society. And perhaps most telling, I looked at studies reporting on how student views of the corporation changed as a result of attending a business school.

It is a challenging task to examine the content of law and business school instruction. Top schools offer a range of required and elective courses taught by various faculty members, internship opportunities, field learning options,

readings, research opportunities, jobs, independent study projects, public lectures, online initiatives, faculty, staff, and alumni mentoring, and extracurricular activities, among other things. Schools employ a wide variety of pedagogic techniques such as lectures, discussion, case studies, collaborative exercises, and experiential learning.

Yet despite the variety of course opportunities, learning approaches, and instructional activities, there is a relative paucity of material on broader social conceptions of the corporation in many professional school courses. The dominant “law and economics” conception taught in many schools emphasizes profit maximization and enhancing shareholder value.<sup>10</sup> Former Yale Law School Dean Anthony Kronman has written that the law and economics approach represents “the intellectual movement that has had the greatest influence on American academic law in the past quarter-century.”<sup>11</sup>

This emphasis is noteworthy because of other conceptions that take a broader view of the purpose of the corporation. Profit maximization is a value but companies could satisfy other basic purposes such as employee welfare, customer satisfaction, national or community benefit, ethical considerations, or social responsibility. One argument is that corporations have special privileges in society and therefore must not focus exclusively on profit maximization – especially if it is at society’s expense. The risk of an emphasis on profit maximization is that it justifies or even requires self-serving behavior, regardless of the behavior’s effect on society. When directors or executives are presented with profit opportunities that are not illegal but nonetheless might harm some other part of society, how they have been taught to respond?

### Business Schools

The corporate scandals of the last decade have led some business schools to rethink their curricula and add ethics and corporate governance courses to their offerings.<sup>12</sup> At some places, there are specific required, stand-alone courses that address broader conceptions of the corporation. For example, Harvard Business School has a required course on Leadership and Corporate Accountability that includes discussions of the purpose of the corporation. The Ross School at Michigan requires a course on Ethics of Corporate Management. Berkeley’s Haas School has a mandatory course on Ethics and Responsibility in Business. The Tuck School at Dartmouth has a mandated Ethics and Social Responsibility requirement that can be satisfied by a number of mini-courses. The Stern School at New York University has a required class on Professional Responsibility. The Kenan-Flagler School at the University of North Carolina has a mandatory ethics core class. Stanford has required courses on critical analytical thinking, the global context of management, ethics, and leadership.

However, many of the courses dealing with this subject matter are electives, a number are taught by adjunct instructors, and discussions of the purpose of the corporation represent a relatively small portion of the overall class. For example,



the Booth School at University of Chicago offers an elective entitled A Guide to Business Ethics and one on Business, Politics and Ethics. Harvard provides a course on Commerce and Society. Among its 200 electives, the Wharton School at University of Pennsylvania has a course on Ethics and Responsibility and another on Social Impact and Responsibility. The Kellogg School at Northwestern has Ethics and Executive Leadership, and Values and Crisis Decision-Making.

Similarly, Stanford offers instruction in Ethics in Management. The Fuqua School at Duke offers Leadership, Ethics and Organizations and Corporate Social Impact Management. The Ross School at University of Michigan has a course on Ethics & Responsibility in Business, and Corporate Governance. Columbia has a class on Business in Society: Doing Well by Doing Good? Berkeley has courses on Corporate Social Responsibility and Ethics and Responsible Business Leadership. North Carolina offers a course on Strategic Corporate Social Responsibility. The Sloan School at MIT offers electives on Ethical Practice: Professionalism, Social Responsibility, and the Purpose of the Corporation, and Effective Sensemaking: Making Strategic and Responsible Business Decisions Regarding Community. There also are elective ethics courses at Cornell, Dartmouth, Carnegie Mellon, Virginia, Carnegie Mellon, UCLA, and Indiana University and corporate governance classes at a number of business schools.

Much of the curricular coverage of the purpose of the corporation takes place in classes on ethics, corporate governance, strategy, leadership, or crisis management. In these classes, teachers use cases such as Enron, the British Petroleum oil spill, or the financial market collapse to address the moral aspects of corporate action and how leaders have or should respond to crises created by unethical behavior. For example, the Fuqua School at Duke offers a course on Leadership, Ethics, and Organizations. Its syllabus states the course goals as three fold: 1) what principles can you draw on to analyze and improve performance in organizations? 2) do you have personal skills needed to be an effective leader? and 3) can you lead others in meeting the challenges of the global economy? It covers topics including leadership, incentives, organizational design, decision-making, negotiation, ethics, diversity, and innovation.

But in this and other ethics courses, much of the discussion is framed around individual ethical challenges, real or perceived conflicts of interest, and organizational dilemmas as opposed to the broader role of corporations in American society. The Duke course addresses cases such as Enron, Lincoln Electric, Bertelsmann, Carter Racing, El-Tek, Charlotte Beers, and Pixar, and has readings such as “Six Habits of Merely Effective Negotiators,” “Cult-Like Cultures,” “Managing Group Decisions,” and “Why Good Accountants Make Bad Decisions.” In discussing business codes of conduct, one part of the class explicitly contrasts the approach of Milton Friedman that “companies should maximize profits (without deception or fraud) and that any expenditure of shareholder profit for social causes is a form of ‘tax’” with that of Lynn Sharp Paine in “Up to Code” on business codes of conduct. According to her, corporate codes are “standards that govern [a company’s] conduct and thereby its commitment to responsible practice” and “these initiatives reflect an increasingly

global debate on the nature of corporate legitimacy.”<sup>13</sup> But this section represents just one of the nine class modules.

Corporate governance classes often focus on the role of the board or how corporations make decisions. For example, the Corporate Governance class at the University of Chicago Booth School is organized around the topics of development of a board of directors, how to start a new board, the role of a nominating committee, the board’s role in evaluation, the board’s legal responsibilities, the impact of the Sarbanes-Oxley legislation, ways to assure fiduciary integrity, crisis management, dealing with dissidents, compensation, corporate strategy, and bankruptcy. Individual cases examined included Southwest Airlines, Morgan Stanley Dean Witter, the Sears takeover of K-Mart, Enron, and WorldCom.

Harvard has a team-taught course on Leadership and Corporate Accountability that examines “decisions that involve responsibilities to each of a company’s core constituencies—investors, customers, employees, suppliers, and the public.” It offers a wide range of readings such as Lynn Sharp Paine’s “Notes on Insider Trading Liability,” Joseph Badaracco Jr.’s “Personal Values and Professional Responsibilities,” Sandra Sucher and Daniele Beyersdorfer’s “Notes on Socially Responsible Investing,” and “Notes from a Birmingham Jail,” among others. The class has modules for each major constituency with study questions that ask students to focus on insider trading rules, the fall of Enron, human character, employee responsibilities, labor laws, corporate citizenship, socially responsible investing, and serving the public interest.

The Kellogg School at Northwestern has an elective course on Values and Crisis Decision-Making that explores what happens when ‘companies are being held accountable by standards other than legal constraints or financial performance.” It looks at ways to manage the media, deal with activists and non-government organizations, understand the moral implications of management decisions, and handle crises.

Some business school professors such as Aneel Karnani of Michigan’s Ross School argue that “the idea that companies have a responsibility to act in the public interest and will profit from doing so is fundamentally flawed.” Not only is this an illusion, he says, it is “a potentially dangerous one” because “in most cases, doing what’s best for society means sacrificing profits.”<sup>14</sup>

Schools such as Stanford University cover the purpose of the corporation subjects in a variety of required and elective classes (see table below). According to Lisa Schwallie, senior associate director of the MBA program, “corporate purpose and responsibility pervade many areas of business including strategy, accounting, governance, and leadership.” She noted that “we encourage our faculty to highlight these important issues in their classes, to ensure that every student will have studied them broadly prior to graduation.”<sup>15</sup>

Stanford Courses	Corporate Purpose Values and Concepts Taught
<b>REQUIRED COURSES</b>	
GSBGEN 202: Critical Analytical Thinking	<ul style="list-style-type: none"> <li>• Corporate Social Responsibility (CSR): cases, readings and discussions that highlight tensions between profits and social good; discussion about the role of a corporation and how to balance this tension</li> <li>• Corporate vs. individual right to choose: cases, readings and discussions on corporations offering products that could potentially be harmful if used inappropriately (e.g., soda); talk about a corporation’s role in disclosing facts; acting paternalistically to prevent poor use of product</li> <li>• Role of corporations in promoting technology that is beneficial to society: readings and discussions of roles and responsibilities of corporations in promoting new technologies that are beneficial to society (e.g., electric vehicle technology)</li> </ul>
GSBGEN 203: Global Context of Management	<ul style="list-style-type: none"> <li>• Corporate roles in different global contexts: cases, readings and discussions on different market, institutional, cultural and technical contexts, and how to adapt the corporation in different countries</li> <li>• Role of corporation vis-à-vis national institutions: cases, readings and discussions about the role of the corporation and role of government; a corporation’s responsibilities when the government’s position is one that goes against corporate values</li> <li>• Role of corporation vis-à-vis multi-national institutions: cases, readings and discussions corporate role vs. multinational institutions (e.g., United Nations, European Union)</li> </ul>
GSBGEN 208: Ethics in Management	<ul style="list-style-type: none"> <li>• Ethical corporations: cases, readings and discussions to heighten students’ awareness of potential ethical issues in management, and help prepare them lead ethical corporations. Issues include: corporate social responsibility; how to spot and prevent accounting fraud and deception; how to recognize potential tricky areas and ethical frameworks in areas such as corruption and negotiations; how to think about economic justice</li> </ul>



Stanford Courses	Corporate Purpose Values and Concepts Taught (Cont'd)
<b>REQUIRED COURSES</b>	
STRAMGT 207: Strategic Leadership	<ul style="list-style-type: none"> <li>• Role of corporations in learning and innovation: cases, readings and discussions on the role of the corporation in generating learning and innovation, and how to do so</li> <li>• Corporate culture: cases, readings and discussions about different corporate cultures, and how to foster a strong, ethical one</li> </ul>
STRAMGT 209: Leadership Laboratories	<ul style="list-style-type: none"> <li>• Upstanding corporations: Readings and experiential learning to provide individual skills in areas such as emotional intelligence, conflict resolution, managing diversity to help our graduates create and lead corporations that are open, honest, welcome diversity, etc.</li> </ul>
HRMGT 280: Human Resources	<ul style="list-style-type: none"> <li>• Upstanding corporations: cases, readings and discussions on how to set incentives and managerial control systems to encourage desired behavior and culture, including high ethical standards</li> </ul>
POLECON 230: Strategy Beyond Markets	<ul style="list-style-type: none"> <li>• Role and boundaries of the corporation: Cases, readings and discussions on the role of the corporation when working with governments, interest groups, multi-national institutions, the media, etc.</li> <li>• Upstanding corporations: Cases, reading and discussions on issues such as corporate social responsibility, monopolistic power – how to compete fairly, global citizenship, etc.</li> </ul>
<b>ELECTIVE COURSES</b>	
GSBGEN 540: Understanding the recent financial crises	<ul style="list-style-type: none"> <li>• Readings and discussions to assess causal factors for the recent financial crises, including the role corporations played, with an emphasis on how to prevent such crises in the future</li> </ul>
GSBGEN 566: Real life ethics	<ul style="list-style-type: none"> <li>• Business leaders present ethical dilemmas that they faced. Students talk through dilemmas and the corporation's and individual's responsibility in them, with a goal of creating more ethical leaders and companies</li> </ul>
GSBGEN 575: Leadership and Crises Management	<ul style="list-style-type: none"> <li>• Cases, readings and discussions on how to scan business practices for risks, including political and social risks, and how to change practices to avoid problems and crises, i.e., how corporations should behave to avoid contributing to potential social or political problems</li> </ul>

Stanford Courses	Corporate Purpose Values and Concepts Taught (Cont'd)
<b>ELECTIVE COURSES</b>	
OB 363: Leadership Perspectives	<ul style="list-style-type: none"> <li>• Explores concepts of principled leadership, how leaders help create responsible and ethical companies, and difficult challenges that leaders sometimes face when trying to apply their principles in a tough, fast-paced business environment, where others may not share the same expectations</li> </ul>
GSBGEN 346: Comparing institutional forms: public, private and non-profit	<ul style="list-style-type: none"> <li>• Discusses missions, functions, and capabilities of nonprofit, public, and private organizations, and the managerial challenges inherent in the different sectors</li> <li>• Focus is on sectors with significant competition among institutional forms, including health care, social services, the arts, and education</li> </ul>
GSBGEN 585: Social Innovation Through Corporate Social Responsibility	<ul style="list-style-type: none"> <li>• Provides an overview of Corporate Social Responsibility (CSR), the frameworks and models for developing a CSR strategy and the growing utilization of cross-sector partnerships in CSR and innovation efforts</li> <li>• Particular focus on cutting edge business strategies for squaring social and environmental responsibilities with competitive demands</li> </ul>
POLECON 349: The Business World: Moral and Spiritual Inquiry through Literature	<ul style="list-style-type: none"> <li>• Examines the moral and spiritual aspects of business leadership and of the environment in which business is done.</li> <li>• Literature provides illumination of the cultural contexts of values and beliefs within which commercial activities take place in a global economy</li> </ul>
LAW242: Corporations	<ul style="list-style-type: none"> <li>• Focuses on problems that arise because a firm's managers and owners have conflicting interests. Looks at the financing, control, and conflicts of publicly held corporations</li> </ul>
LAW 340: Comparative Corporate Capitalism	<ul style="list-style-type: none"> <li>• Examines the organization of enterprise in a range of both developed and developing countries in an effort to comprehend their variety, including the character of a country's political governance, to probe the reasons for the patterns that we see, and to understand the particular problems that the various systems present</li> </ul>
<p><i>Note: List Compiled by Lisa Schwallie of the Stanford Graduate School of Business</i></p>	

## Law Schools

Required classes that cover the purpose of the corporation are rare in law schools. Of the top 20 law schools, most don't have such requirements. Cornell has a "professional responsibility" requirement through a course on the Law and Ethics of Business Practice. Berkeley's Law School has a required course on Professional Responsibility that can be satisfied through courses, such as Avoiding 'Club Fed'--Ethics and Integrity in Law and Business. Some schools, such as Duke, Northwestern, and George Washington University Law Schools, have mandatory ethics courses.

More common are stand-alone or parts of classes that are elective in nature, although often taken by many students at law schools. Most law schools provide optional courses on Corporations that stress the shareholder value model and feature readings such as *The Proper Role of a Target's Management in Responding to a Tender Offer*<sup>16</sup> and *The Economic Structure of Corporate Law*.<sup>17</sup>

Yale Law School has optional courses on Designing Organizations as well as Law and Economics of Corporate Control. The University of Chicago Law School has an elective on Business Associations and Corporate Governance. The University of Pennsylvania, University of Texas, and Berkeley offer electives on Corporate Governance and Northwestern has one on International Corporate Governance. The University of Michigan has a course on Financial Regulation. Duke University has an elective on Bank Regulation in the Post-Crash Economy. UCLA has an elective on Business Associations. Harvard University and the Gould School at the University of Southern California offer electives on Business Organizations and Corporate Fraud: Enron and the Financial Crisis of 2008.

Yet many of these courses teach only the primacy-of-shareholder-value model. Northwestern's classes on Business Associations and Corporations look at various forms of corporate organization using the well-known casebook *Business Associations, Cases and Materials on Agency, Partnerships, and Corporations* by William Klein, Mark Ramseyer, and Stephen Bainbridge and other readings. Professor Jim Speta leads the course and notes that "as to the primary purpose of a corporation, I teach the settled law: the board of directors are to treat the corporation as if its purpose is to maximize the value for the shareholders. We do discuss alternatives – such as allowing the directors to consider other potential stakeholders. And, of course, we discuss the possibility that those who form a particular corporation have other purposes, and that this is permissible. We also discuss how to accomplish that end in the context of a close corporation. But, from the perspective of the duties of the board of directors, this isn't really open to much debate as a matter of legal doctrine."<sup>18</sup>

The University of Pennsylvania course on Corporate Governance looks at theories of the firm, governance lessons from the 2008 financial crisis, shareholder voting, executive compensation, risk management, institutional investors, corporate political activity, and shareholder litigation. Professor Jill Fisch says, "I teach the dominant view, that is, to maximize value to shareholders based on the premise that shareholders are the owners of the corporation," but added that "we

talk about alternative constituencies that we might consider ... [in determining] corporate purpose, and the pros and cons of looking at other stakeholders".<sup>19</sup>

The Yale course on Designing Organizations examines topics such as ownership of organizations, law versus contracts in structuring governance, social enterprise, nonprofits, corporate personhood, and corporate law. It draws on a range of readings from Michael Klausner's *The Contractarian Theory of Corporate Law* to Henry Hansmann's *The Anatomy of Corporate Law*. Its instructor, Professor Hansmann, is co-author of a widely-cited article entitled "The End of History for Corporate Law" which trumpeted the primacy of shareholder value.<sup>20</sup>

In his Corporations course syllabus, Professor George Geis of the University of Virginia notes that "Much of corporate law seeks to balance three problems. First, lazy or dishonest managers might use their control and knowledge of a firm's daily operations to make poor decisions or steal that which rightfully belongs to shareholders. Second, greedy shareholders may leverage their influence over managers to siphon wealth from other investors, such as lenders or preferred shareholders. And third, a controlling majority shareholder, again working through puppet managers, may wrongfully grab value from minority owners."

He assigns cases which have adjudicated problems in each of these areas. He starts with the famous *Dodge v. Ford Motor Co.* case from Michigan that decided Henry Ford must operate his auto company to benefit his shareholders rather than employees or the community as a whole and then reviews a number of other corporate law rulings.<sup>21</sup>

According to Lynn Beller, assistant dean at Columbia Law School, its professors include material on the purpose of the corporation in classes on corporations, advanced corporate law, corporate finance, and corporate reorganization and bankruptcy. She notes that "students are exposed to the basic lines of debate about the extent to which a corporation has a responsibility to do more than make a profit and obey the law (Milton Friedman's famous argument) and if so, what sort of other responsibilities it has, to whom, and how such responsibilities can/should be enforced."<sup>22</sup>

In his Northwestern course on corporations, Professor Stephen Presser notes that "the question of what purpose the corporation serves is a major theme of the whole course, and quite implicit in most of what we do. There are elements in Delaware and other case law which makes quite clear that the primary purpose of the corporation is to maximize returns to shareholders, but there is other case and statute law we study that just as clearly indicates that corporations (like natural persons) have a duty to obey the law, whatever it is, and that some law (and some case law) indicates that managers of corporations are under a duty to promote the welfare of a corporation's employees, its customers, its creditors, and the community in which it functions."<sup>23</sup>

Many professors at top schools argue that corporations have a fiduciary responsibility to maximize value to shareholders. Stanford Professor Michael Klausner writes that in his corporate law courses, "I teach that the purpose of a corporation is to maximize value for shareholders. I am doubtful that there is a

difference between short-term and long-term value and explain that in a somewhat idealized way, share price on average over time will equal the present value of projected future prices. Corporate social responsibility comes up and I explain that being a good corporate citizen can accrue goodwill, which can redound to the benefit of shareholders.”<sup>24</sup>

UCLA Professor Stephen Bainbridge argues that the corporation “has proven to be a powerful engine for focusing the efforts of individuals to maintain economic liberty”.<sup>25</sup> According to the prevalent view, legal courses should teach court precedents in relevant areas and focus on how business leaders should uphold their legal responsibilities. They cite past court cases such as *Dodge v. Ford*, *Schlensky v. Wrigley*, and *Revlon, Inc. v. Forbes Holdings* requiring companies to maximize immediate shareholder value. The Delaware decision regarding Revlon was particularly noteworthy because more than half of Fortune 500 companies are incorporated in that state and therefore subject to Delaware case rulings.

In a similar vein, USC Professor Michael Chasalow says “the law still mandates that maximizing shareholder value is the primary purpose of a corporation. In class, we discuss the times in which it is permissible to take into account the welfare of other contingencies. We also discuss the possibility that shareholder value may be maximized by taking the welfare of customers, employees, and society into account (“doing well, by doing good”), as well as the possibility that short term loss may lead to long term value”.<sup>26</sup>

USC Professor Nina Walton offers a corporate governance course, and says “we do briefly touch on the purpose of the corporation, but pretty much take it as a given that shareholder interests are paramount. This is absolutely the dominant perspective in laws schools and amongst law and economics scholars. We do talk about corporate social responsibility, but this too is generally couched in terms of maximization of shareholder welfare.”<sup>27</sup>

USC Professor Ehud Kamar teaches a course on Business Organizations using the Allen, Kraakman, and Subramanian casebook, *Commentaries and Cases on the Law of Business Organization*. Citing p. 2 of that book, he says the course “takes a law and economics approach to corporate law, and regards the purpose of the corporation to be the production of wealth through the facilitation of voluntary, ongoing collective action. This goal is achieved by maximizing the value of the corporation”.<sup>28</sup>

Others argue that law schools should teach a corporation conception emphasizing broader conceptions of stakeholder interests. For example, Professor Lynn Stout of UCLA has written an article on “Why We Should Stop Teaching *Dodge v. Ford*” that challenges the argument that “corporate law requires boards of directors to maximize shareholder wealth.”<sup>29</sup> She says this view is mistaken based on the 1919 Michigan Supreme Court decision *Dodge v. Ford*. According to her, “U.S. corporate law does not and never has imposed a legal obligation on directors to maximize shareholder wealth. She claims such a principle “would be bad policy and lead to inefficient results.”

George Washington University Professor Arthur Wilmarth notes that



“Shareholder maximization theory of the directors’ primary duty is very much the Chicago School view. The alternative is the stakeholder theory of director duties; that directors either can or should consider broader questions of stakeholder interests.”<sup>30</sup> The George Washington University Law School has several faculty who offer a broad view of the purpose of the corporation in their courses.

UCLA Professor Iman Anabtawi notes that “I do discuss that those cases suggest that the board should be serving the interests of the shareholders. Yet we also discuss some reasons why we don’t always observe the rule of maximizing shareholder value. Under the business judgment rule doctrine, it becomes clear that boards have some flexibility. This can lead to decisions that do not maximize shareholder value. I try to explain and discern why some businesses make decisions that don’t appear to maximize shareholder value.”<sup>31</sup>

Debates over the purpose of the corporation are not merely academic exercises. They have consequences in terms of how people think and behave. Professor Lyman Johnson of the University of St. Thomas School of Law argues that corporate law professors play a critical role in shaping instruction about the purpose of the corporation. He notes that “wrongheaded ideas picked up in law school can critically shape how lawyers discharge their all-important role as legal counselors to business people.”<sup>32</sup> He specifically complains about two paradigms—the power of markets to constrain business leadership and shareholder primacy—that he believes dominate corporate law and have corrupted contemporary conceptions of the corporation.

A number of law school courses explicitly note the tension between competing conceptions of corporate purpose. For example, Stout’s UCLA course on Business Associations covers topics such as organizational forums, process of incorporation, corporate securities, officer authority, shareholder authority and rights, and director duties. She also has sessions on theories of the corporation in which she explores “duties to whom?” and the broader relationship between the corporation and society.

## **MBA Student Perceptions**

Curricular content is important to professional school operations, but is also important to look at student perceptions regarding their professional school education. What students think and perceive about their education is important because it provides information on what is getting through to students and how they are internalizing instructional material. In other words, it is important to look not just at what is taught, but what is being learned.

To look at student perceptions, I draw on Master’s of Business Administration student survey data on attitudes towards business and society collected by the Aspen Institute’s Center for Business Education.<sup>33</sup> That Center has collected survey data from 2001, 2002, and 2007 on how students view the primary responsibilities of companies, perceptions about MBA course content, and ways to introduce social responsibility into the curriculum.<sup>34</sup> These survey data on the

purpose of the corporation compliment the instructional material compiled above. Students participating in the survey included those from Carnegie Mellon, Columbia, Duke, London Business School, Thunderbird, California – Berkeley, UCLA, Colorado, Michigan, Notre Dame, Penn, Virginia, Western Ontario, and Yale.

*Views about the Primary Responsibility of a Company*

In 2007 the Aspen Institute conducted the last of three surveys of students at 15 business schools. Of the 1,943 respondents, 65 percent were male and 35 percent were female; 67 percent were American citizens; 55 percent of respondents had recently begun their MBA program, 37 percent were halfway through the program, and 8 percent were about to graduate.

The survey asked students what they believed were the primary responsibilities of a company. Respondents were given a list that included maximize value for shareholders, satisfy customer needs, produce useful and high-quality goods and services, and invest in employee well-being, among other items. Each person was asked to choose up to three corporate values being important.

In 2007, students were most likely to see the maximization as of shareholder value as the top responsibility of a company. Sixty-four percent chose that as the primary responsibility, compared to 51 percent who thought it was satisfying customer needs, 48 percent who believed it was producing useful goods and services, and 45 percent who thought it was investing in employee well-being. Only six percent thought that enhancing the environment was the primary responsibility and four percent believed that offering equal employment opportunity was most important.

There were some variations from year-to-year in student impressions. In 2002, maximizing shareholder value was rated as the second most important responsibility at 71 percent. Seventy-four percent believed that satisfying customer needs was most important, 46 percent emphasized investing in employee well-being, and 36 percent believed in producing useful goods and services.

In 2001, maximizing shareholder value was the most frequently emphasized corporate responsibility (75 percent), followed by satisfying customer needs (71 percent), investing in employee well-being (50 percent), and producing useful goods and services (32 percent).

<b>MBA Student Views about Primary Responsibilities of a Company</b>			
	<b>2007</b>	<b>2002</b>	<b>2001</b>
Maximize Shareholder Value	64%	71%	75%
Satisfy Customer Needs	51	74	71
Produce Useful Services	48	36	32
Invest in Employee Well-Being	45	46	50
Comply with Laws	34	27	23

<b>MBA Student Views about Primary Responsibilities of a Company (Cont'd)</b>			
	<b>2007</b>	<b>2002</b>	<b>2001</b>
Create Value for Local Community	33%	25%	24%
Enhance Environment	6	4	5
Offer Equal Opportunity Employment	4	4	8
Ensure Confidentiality of Information	3	2	2
<i>Source: Aspen Institute Center for Business Education Survey on "Where Will They Lead? 2008"</i>			

*Weighting of Customers, Employees, Shareholders, and Social and Environmental Conditions*

Students believe that when the leadership of a typical company makes decisions, the greatest weight is placed on creating value for shareholders (46 percent), compared to 30 percent for customers, 18 percent for employees, and eight percent for social and environmental conditions. These perceptions about weighting are consistent over time as student felt shareholders received the most important consideration in each year surveyed over the past decade.

<b>MBA Student Views about How Much Consideration Existing Company Leadership Gives to Various Factors when Making Decisions</b>			
	<b>2007</b>	<b>2002</b>	<b>2001</b>
Shareholders	46%	47%	50%
Customers	30	30	28
Employees	18	15	16
Social and Environmental Conditions	8	8	7
<i>Source: Aspen Institute Center for Business Education Survey on "Where Will They Lead? 2008"</i>			

Interestingly, when students were asked about how much consideration various factors would be given if they were leading the company, the results were different. Students stated that if they were in charge, 31 percent would be placed on creating value for shareholders compared to 30 percent for customers, 25 percent for employees, and 16 percent for social and environmental conditions. Those results are noteworthy because with the exception of customers, they reflect different priorities than what students perceive to be the case with existing company leadership. Students place relatively less weight on shareholder value than what they think currently is the case and more emphasis on employees and social and environmental conditions.

**MBA Student Views about How Much Consideration Company Leadership Would Give to Various Factors when Making Decisions if They Were in Charge**

	2007	2002	2001
Shareholders	31%	32%	35%
Customers	30	31	29
Employees	25	23	24
Social and Environmental Conditions	16	15	14

*Source: Aspen Institute Center for Business Education Survey on "Where Will They Lead? 2008"*

*Most Effective Ways to Introduce Corporate Social Responsibility into Graduate Program*

The survey asked students what the most effective ways would be to introduce issues related to the social responsibilities of companies into MBA programs. The most highly-rated idea was the integration of content across many core courses (73 percent), followed by having guest speakers (51 percent), having dedicated core courses on corporate social responsibilities (46 percent), and using external or community projects (42 percent).

**MBA Student Views about Most Effective Ways to Introduce Corporate Social Responsibility into Their Graduate Program**

	2007	2002	2001
Integration of Content Across Core Courses	73%	--%	--%
Guest Speakers	51	57	55
Social Responsibility Courses	46	50	47
Community Projects	42	40	45
Consulting Projects	37	36	44
Electives	29	28	31
Student Clubs	25	16	19
Orientation	23	27	21
Research Papers	20	20	21

*Source: Aspen Institute Center for Business Education Survey on "Where Will They Lead? 2008"*

*View of MBA Program*

About half (51 percent) of students strongly agreed that they had opportunities to practice ethical and responsible decision-making as part of their MBA program. Seventy-seven percent indicated their business school was the kind of place where they felt free to raise issues related to the social responsibilities of companies in the classroom. Fifty-five percent stated they felt the faculty at their business school was interested in discussing the social impacts of business decision-making.

<b>MBA Student Views about Their MBA Program (Percent Saying Strongly Agree)</b>			
	<b>2007</b>	<b>2002</b>	<b>2001</b>
Opportunities to Practice Ethical and Responsible Decision-Making	51%	--%	--%
Felt Free to Raise Issues about Corporate Social Responsibilities in Classroom	77	70	51
Faculty Discussed Social Impact of Business Decision-Making	55	40	--

*Source: Aspen Institute Center for Business Education Survey on "Where Will They Lead? 2008"*

### Most Important Priorities after Graduation

After graduation, students say their top priorities are focusing on family (88 percent), having a positive societal impact (61 percent), developing their career (61 percent), and earning a high income (57 percent). Being involved in the community (46 percent) rated seventh out of the list of nine priorities.

<b>MBA Student Views about Their Most Important Priorities After Graduation</b>			
	<b>2007</b>	<b>2002</b>	<b>2001</b>
Focusing on Family	88%	90%	93%
Having Positive Societal Impact	61	60	56
Developing Career	61	65	60
Earning High Income	57	57	54
Pursuing Personal Interests	48	54	59
Enhancing Business Skills	47	40	36
Being Involved in Community	46	45	47
Starting Business	36	37	37
Paying Off Debt	20	20	16

*Source: Aspen Institute Center for Business Education Survey on "Where Will They Lead? 2008"*

## **Conclusion**

In this analysis of business and law school curricula, I found that many professional school courses emphasize maximizing corporate profits and shareholder value. There are few stand-alone courses on the purpose of the corporation and much of the instruction about corporations takes place in courses on ethics, corporate governance, leadership, strategy, and crisis management. Most of these courses are electives for students, and a number are taught by adjunct or temporary faculty.



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The emphasis on shareholder value is especially prevalent in law schools. Analysis of course syllabi and discussions with faculty teaching key courses reveals that a number of faculty view the focus on financial returns as “settled law.” They cite federal court precedents and state rulings (especially from Delaware, the home of many corporations) as having resolved these issues, and believe they have a responsibility to teach what the law is, not what some would like it to be.

Business schools, in contrast, have a broader range of courses and perspectives regarding the corporation. Due to the recent period of corporate implosions, business scandals, compensation controversies, major market collapses, and legislative and regulatory responses in the form of the Sarbanes-Oxley corporate governance and Dodd-Frank financial regulation reforms, master’s of business administration programs have added new courses on ethics and corporate governance that ask tough questions about corporate behavior. While many of these classes frame the conversation around the bad behavior of individuals as opposed to system-wide structural problems, business professors have gone further than law professors in questioning the social impact of the corporation.

Student survey data clearly demonstrate the need to teach more regarding the purpose of the corporation in the classroom. In business schools, instructional materials about the corporation have had a major impact on student perceptions. Examination of MBA student survey data over the past decade demonstrate that students believe the primary purpose of a corporation is to maximize shareholder value and they believe this is how current corporate leaders behave when they are making decisions. Interestingly, though, when asked how they would decide if they were in charge of companies, more students are likely to say they would emphasize employees and social and environmental considerations and fewer indicate they would stress shareholder value.

These results suggest business students see considerable tension between the ideas that dominate today and their own personal preferences for broader conceptions of the corporation. Those who might be predisposed to building strong companies that do great things in their communities seemingly are taught that their job as corporate leaders is to enhance shareholder value and not to follow broader conceptions of the corporation.

This sentiment is troubling because many courts, including those in Delaware where numerous corporations are based, have not ruled that maximizing shareholder value is the sole purpose of the corporation. While many law professors say this is “settled law,” other legal scholars argue that most decisions do not require that emphasis as either the sole or dominant approach. It appears that some law and business professors mistakenly are training future lawyers and corporate leaders that corporations have no authority to do good or benefit society other than its shareholders.

Professional school content and student perceptions are important because what is taught in classes and how students internalize information have consequences for society, government, and business. In an era where chief

executive officer compensation has risen to hundreds of times that of the average employee, we need to think about the role of the corporation in society and commerce.<sup>35</sup> Economists Thomas Piketty and Emmanuel Saez found that from 2002 to 2008, incomes of the top one percent in the United States rose 30 percent, while that of the bottom 90 percent dropped by 4 percent adjusted for inflation. Based on this analysis, they argue that “we need to decide as a society whether this increase in income inequality is efficient and acceptable and, if not, what mix of institutional reforms should be developed to counter it.”<sup>36</sup>

There has to be a better understanding about corporate duty to the commons and teaching social responsibility in business and law schools. Doing so would help prepare the way for laws, regulations, and tax policy that bring financial incentives in line with broader social objectives.<sup>37</sup> As long as students focus mainly about profit maximization, the consequences for business, society, and government are likely to be problematic.<sup>38</sup> It will be difficult to address the fallout from corporate malfeasance, executive compensation, and the importance of maintaining a balance between “we” and “me.”<sup>39</sup> Having broader conceptions of corporate purpose is necessary to effectively address the ways in which corporations impact life in contemporary society.

**Governance Studies**

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## Appendix: List of Top Business and Law Schools

Business Schools	Law Schools
Chicago	Yale
Harvard	Harvard
Pennsylvania	Stanford
Northwestern	Columbia
Stanford	Chicago
Duke	New York University
Michigan	California – Berkeley
California – Berkeley	Pennsylvania
Columbia	Michigan
MIT	Virginia
Virginia	Duke
Southern Methodist	Northwestern
Cornell	Cornell
Dartmouth	Georgetown
Carnegie Mellon	UCLA
North Carolina	Texas – Austin
UCLA	Vanderbilt
New York University	Southern California
Indiana	Washington University
Michigan State	George Washington University

## Endnotes

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<sup>1</sup> Jennifer E. Manning “Membership of the 112th Congress: A Profile,” Congressional Research Service, March 1, 2011.

<sup>2</sup> Morten T. Hansen, Herminia Ibarra, and Urs Peyer. “The Best Performing CEOs in the World,” *Harvard Business Review*, Volume 88, Number 1; pp. 104-113, 2010.

<sup>3</sup> For differing reviews of this history, see Henry Hansmann and Reinier Kraakman, “The End of History for Corporate Law,” *Georgetown Law Journal*, Volume 89, no. 2, 2001, pp. 439-468 and Lynn Stout, “Bad and Not-So-Bad Arguments for Shareholder Primacy”, *Southern California Law Review*, Volume 75, no. 5, July, 2002.

<sup>4</sup> Adolph A. Berle, “Corporate Powers as Powers in Trust,” *Harvard Law Review*, Volume 44, 1049, 1931.

<sup>5</sup> Merrick Dodd, “For Whom Are Corporate Managers Trustees?” *Harvard Law Review*, Volume 45, 1145, 1148, 1932.

<sup>6</sup> Milton Friedman, “The Social Responsibility of Business is to Increase its Profits,” *New York Times Magazine*, September 13, 1970, pp. 32-33 and 122-6.

<sup>7</sup> *Economist*, “Milton Friedman, a Giant Among Economists,” November 23, 2006.

<sup>8</sup> Jack Welch, “Growing Fast in a Slow-Growth Economy,” Speech delivered at Hotel Pierre, New York City, August 12, 1981.

<sup>9</sup> Top business schools were identified based on rankings developed by *Bloomberg Business Week* in November, 2010, while top law schools were rated by *U.S. News* in 2010.

<sup>10</sup> Adolph Berle and Gardiner Means, *The Modern Corporation and Private Property*, New York: Macmillan, 1932.

<sup>11</sup> Anthony T. Kronman, *The Lost Lawyer*, Cambridge, Massachusetts: Harvard University Press, 1995, p. 166.

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<sup>12</sup> Kunal Mehta, "Accounting Scandals Have Prompted Business Schools to Implement Ethics Courses," *Daily Bruin*, June 12, 2005.

<sup>13</sup> Lynn Paine, Rohit Deshpahde, Joshua Margolis, and Kim Eric Bettcher, "Up to Code: Does Your Company's Conduct Meet World-Class Standards?" Harvard Business School, December, 2005.

<sup>14</sup> Aneel Karnani, "The Case Against Corporate Social Responsibility," *Wall Street Journal*, August 23, 2010.

<sup>15</sup> Lisa Schwallie email communication, March 25, 2011.

<sup>16</sup> Frank H. Easterbrook and Daniel R. Fischel, "The Proper Role of a Target's Management in Responding to a Tender Offer," *Harvard Law Review*, Volume 94, 1161, 1981.

<sup>17</sup> Frank H. Easterbrook and Daniel R. Fischel, *The Economic Structure of Corporate Law*. Cambridge, Mass: Harvard University Press, 1991.

<sup>18</sup> Jim Speta email communication, April 4, 2011.

<sup>19</sup> Jill Fisch phone interview, April 4, 2011.

<sup>20</sup> Henry Hansmann and Reinier Kraakman, "The End of History for Corporate Law," *Georgetown Law Journal*, Volume 89, no. 2, 2001, pp. 439-468. Also see Henry Hansmann, "How Close is the End of History?" *Journal of Corporation Law*, Spring, 2006, pp. 745-751.

<sup>21</sup> George Geis email communication, March 23, 2011.

<sup>22</sup> Lynn Beller email communication, March 25, 2011.

<sup>23</sup> Stephen Presser email communication, March 30, 2011.

<sup>24</sup> Michael Klausner email communication, March 22, 2011.

<sup>25</sup> Stephen Bainbridge, "Reflections on Twenty Years of Law Teaching," *UCLA Law Review*, Volume 13, 2008, pp. 13-23.

<sup>26</sup> Michael Chasalow email communication, March 28, 2011.

<sup>27</sup> Nina Walton email communication, April 5, 2011.



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<sup>28</sup> Ehud Kamar email communication, April 14, 2011.

<sup>29</sup> Lynn Stout, "Why We Should Stop Teaching Dodge v. Ford," UCLA School of Law Research Paper No. 07-11, September 18, 2007, Lynn Stout, "Bad and Not-So-Bad Arguments for Shareholder Primacy," *Southern California Law Review*, Volume 75, no. 5, July, 2002, and Lynn Stout, "New Thinking On 'Shareholder Primacy'," unpublished paper, 2011.

<sup>30</sup> Arthur Wilmarth email communication, April 11, 2011.

<sup>31</sup> Iman Anabtawi phone interview, April 11, 2011.

<sup>32</sup> Lyman Johnson, "Corporate Law Professors as Gatekeepers," *University of St. Thomas Law Journal*, Volume 6, no. 2, 2009, pp. 447-453.

<sup>33</sup> The Aspen Institute, "Where Will They Lead? MBA Student Attitudes about Business & Society," April, 2008.

<sup>34</sup> Mary Gentile, "Corporate Governance and Accountability: What Do We Know and What Do We Teach Future Business Leaders?" undated Aspen Institute paper.

<sup>35</sup> Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America*, Ithaca, New York: Cornell University Press, 2009 and Peter Whoriskey, "With Executive Pay, Rich Pull Away From Rest of America", *Washington Post*, June 18, 2011.

<sup>36</sup> Andrew Ross Sorkin, "Rich and Sort of Rich", *New York Times*, May 15, 2011, Week in Review p. 1.

<sup>37</sup> Lynn Stout, *Cultivating Conscience*, Princeton: Princeton University Press, 2011.

<sup>38</sup> Margaret Blair, *Ownership and Control*, Washington, D.C.: Brookings Institution Press, 1995 and "Locking In Capital: What Corporate Law Achieved for Business Organizers in the Nineteenth Century," *UCLA Law Review*, Volume 51, no. 2, 2003, pp. 387-455.

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