

## CORPORATE PURPOSE AND COMMITMENT ISSUES

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## CORPORATE PURPOSE AND COMMITMENT ISSUES

### Abstract:

The challenge of corporate commitment to purpose is well-known. This article examines it through a decision tree lens, revealing that corporations rationally avoid commitment unless legally compelled. Offering historical examples, this article argues that legal mechanisms were put in place to ensure commitment; in our present day, such mechanisms are gone, and so are the incentives of the corporation to adhere to its purpose. The article identifies only one setting in our existing framework — outlier corporations with a so-called “self-destructive” purpose — where the corporation opts to commit even in the absence of legal mechanisms that incentivize it to do so.

### Keywords:

Corporate Purpose, Commitment, Decision tree, Legal Constraints, Corporate Governance

## I. INTRODUCTION

Centred at the crossroads of business and ethics, the issue of commitment to corporate purpose remains a recurring theme in academic debates (Henderson, 2020; Mayer, 2021, Farfaix, 2022), because commitment, in many ways, serves as a testament to a corporation's devotion to its own existence. Ensuring commitment would allow a corporation to show its unwavering fidelity to its purpose, but the major challenge in accomplishing this lies in identifying the adequate institutional and legal frameworks in corporate governance and beyond that incentivise credible commitment, albeit often found to be underdeveloped or complex (Bebchuk and Tallarita, 2020; Lund and Pollman, 2021; Aguilera, 2023; Vatiero, 2024; Hardman, 2025a, 2025b; Stroehle et al., 2022; Claassen, 2025; Corrigan, 2025).<sup>2</sup> When surveying the academic debate on corporate purpose to identify the right frameworks that ensure commitment, one notices that the issue remains largely underexplored (Fairfax, 2022; Kaplan, 2023).<sup>3</sup> The aim of this article is to contribute to this gap in the academic scholarship.

To be fair, there is a burgeoning sustainable corporate governance scholarship that looks at various challenges that are present in the corporate purpose debate and how they impede progress when it comes to commitment to purpose (Rock, 2021; Ricart and Rey, 2022). For starters, the main challenge of commitment to purpose over time stems largely because from a modern perspective, the purpose of a corporation itself is often not clearly defined (Afsharipour, 2016; Fisch and Solomon, 2021, Ocasio et al, 2023). Indeed, the

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<sup>2</sup> In his work, Hardmann highlights the fact that "changing corporate purpose law requires a number of further incidental changes to company law (indirect corporate purpose law), which necessitates a fundamental re-write of UK company law.

<sup>3</sup> Fairfax examines this idea using the "theory of credible commitment as an ideal lens," which provides a framework for analyzing the extent to which actors uphold their promises the corporate world.

purpose clause — the clause in the charter of a corporation that defines its reason for being (Pollman, 2021) — seems to have lost its historic aim, as most purpose clauses today are overly broad and mimic something like the following: “The purpose for which the Corporation is formed is to engage in any lawful act, activity or business for which corporations may now or hereafter be organized under the Maryland General Corporation Law (the ‘GCL’).”<sup>4</sup> Such purpose clauses are indicative of one thing: defining the purpose of the corporation is of fundamental importance, not just for knowing why a corporation has emerged, but because it is the only way to figure out if commitment mechanisms are working or not (Langford, 2020; Pollman, 2021; Ocasio et al, 2023).

That being said, defining the purpose of a corporation is more challenging than it seems (Ocasio et al, 2023). For example, Mayer defines purpose as follows: “Purpose is therefore about finding ways of solving problems profitably where profits are defined net of the costs of avoiding and remedying problems.” (Mayer, 2021), whereas Gartenberg (2024) states that “corporate purpose can loosely be understood as a shared and often values-laden understanding of why the organization exists”. As Jasinenko and Steuber (2022) and Spamman and Fisher (2023) point out, there is no existing consensus on one precise definition of corporate purpose.

In the absence of a precise definition of corporate purpose, normative views on the subject have led to a vibrant debate on what the purpose of the corporation is or should be

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<sup>4</sup> As pointed out in Kaja (2024), this is the purpose clause of Lockheed Martin, but one could basically look at numerous other purpose clauses of various companies. For example, Walmart has the following purpose clause: “The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.”. CVS Health Corporation has an almost identical one: “The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended (“Delaware Law”).” Starbucks Corporation has the following: “The corporation is organized for the purposes of transacting any and all business for which corporations may be incorporated under Title 23B of the Revised Code of Washington, as amended, including, but not limited to, establishing and operating retail coffee and espresso bars in the State of Washington and in other states.” As one can notice, one can shuffle such purpose clauses to the different parties, and one would struggle to identify what the respective company does or the industry it operates.

(Fisch and Solomon, 2021; West 2011; Galanis, 2024). In surveying such debate, one gets glimpses of what scholars imagine the purpose of the corporation to be: a tension between long-term commitments and short-term incentives (Grossman, 2010; Gartenberg, 2024; Claassen, 2025; Hardman, 2025). Whether such tension is better encompassed via the shareholder primacy or stakeholder interests seems yet to be settled (Bhagat & Hubbard, 2022; Galanis, 2024). What is important to note is that such tension between long-term commitments and short-term incentives brings to life the dilemma that a corporation faces consistently once it emerges. For example, Corrigan (2025) points out this dilemma through the ESG movement, arguing that corporations cannot, at once, be agile in governance, maintain liquid ownership, and commit credibly to their social mission.

At its core, my article engages with such dilemma as well. Employing a decision tree approach to display corporate behaviour, I analyse the best response strategy of a corporation in different scenarios, highlighting how legal and institutional factors affect its commitment. Such scenarios are historically driven, meaning that they trace the journey of the corporation at different periods of time in human history; the idea behind these scenarios is to show that context matters in the decision of the corporation. In deciphering the behaviour of the corporation under such scenarios, my main finding is that, by and large, corporations have a best response to not commit to their purposes, given the additional costs associated with commitment. However, as I show in this article, legal mechanisms (i.e. specific purpose clauses or charter revocation tools to name a few) had been put in place over time to ensure that the corporation remained committed to its purpose.

Today that is not the case. Legislative acts in the nineteenth century liberalised the access to the corporate form, abandoning much of these restraints on the corporation (Butler, 1985; Hilt, 2017; Ireland, 2017; Turner, 2018). As such, present-day corporations do not have adequate incentives to choose to commit to their purpose, largely for the following two

reasons: (1) purpose itself is not well-defined or enumerated, so it is hard to figure out what the corporation is committing itself to, and (2) the final payoff under capital lock-in is unknown, and the costs associated with commitment in the long run make it unappealing to commit, when tempting opportunities present themselves along the way. Faced with such legal and institutional framework, I identify only one scenario where a present-day corporation can still opt to commit to its purpose; such outlier corporations with a so-called “self-destructive” purpose are largely driven from the final payoff that its purpose promises to deliver, a payoff that extends beyond the purpose of the said corporation.

My main contribution — that corporations rationally avoid committing to their purpose unless legal constraints force them to do so — places squarely within current interdisciplinary debates on corporate purpose, particularly in law, economics, and organisational theory. In their respective works, Bebchuk and Tallarita (2020) and Fairfax (2022) highlight that corporations lack a credible commitment mechanism to adhere to stakeholder-oriented governance, which aligns with my argument that commitment entails costs that corporations rationally avoid. Furthermore, my historical observations on early corporate charters, showing that they contained well-tailored purpose clauses and revocation mechanics, are also acknowledged within existing scholarship on corporate purpose (Bebchuk & Tallarita, 2020; Fisch & Solomon, 2021; Pollman, 2023; Lund, 2024; Kaja, 2023; Kaja, 2024; Rock 2020; Hayden & Bodie, 2021). That being said, my analysis here extends this existing scholarship by showing that once these constraints were lifted in the nineteenth century, corporations no longer had sufficient incentives to commit to their purpose, largely due to the ambiguity of their new purpose clauses and due to the uncertainty of long-term payoffs.

From an economics perspective, my decision tree approach builds on existing theories on agency theory and corporate finance. For example, Jensen & Meckling (1976) hint to the

fact that corporate managers act in their own self-interest in the course of running the corporation; they can only alter such innate interest when enforceable contracts or external discipline oblige them. In a similar vein, Gilson and Schwartz (2015) argue that while the separation of ownership and control creates risks of private benefit extraction, the most effective way to achieve credible commitment to limit such behaviour is through a combination of judicial oversight and private contracting, with legal defaults and non-legal mechanisms serving as complementary tools depending on institutional context. My findings here show that the law played a similar enforcement role for corporations to commit to their purpose prior to the mid nineteenth century. These findings also complement the work of Tirole (2001), who remarks on the importance of the law in implementing stakeholderist goals in corporate governance.

Another facet of my findings resonates with existing work on organisational behaviour and management studies literature. Particularly, the work of Gartenberg, Prat, and Serafeim (2019) highlights the fact that corporate purpose is often too vague, making long-term commitment difficult. In a subsequent study, Gartenberg (2024) argues that there is a synergy between corporate purpose and firm strategy that is worth investigating further, as corporate purpose can potentially explain the strategic behaviour of a corporation. My analysis here strengthens this by showing that: (1) without a properly defined purpose, corporations face higher uncertainty, which discourages commitment, (2) purpose was historically well-defined, leading to a best response of commitment in the early days of the corporate form (Koslowski, 2000; Mayer, 2021).<sup>5</sup>

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<sup>5</sup> Mayer's article asserts that clearly defining corporate purpose benefits social outcomes and promotes better firm performance. It also provides a framework for reform to assist in implementing corporate purpose effectively. Koslowski argues that a primary focus on shareholder value alone cannot serve as the purpose of a company, as it excludes other stakeholder groups. He concludes that shareholder value should instead function because of delivering good products and maintaining a strong corporate purpose.

My findings also contribute to the legal debate predicting the future of corporate purpose. Bruner (2022) and Lipton et al. (2020) argue that there are growing external pressures — such as ESG regulations, investor activism, and social activism in general — to push firms towards an embrace of stakeholder principles (Briscoe & Gupta, 2016; David et al., 2007; Petrin, 2020; Root Martinez, 2021). Indeed, there is growing evidence that various governments around the world are embracing the idea that regulation is the tenable way to instil desirable behaviour into corporations when it comes to relevant issues such as sustainability (Paccès, 2021; Kaja and Nagler, 2025; Redzheb & Kaja, 2025). Yet, there seems to be a debate on legal circles on the type of clear legal enforcements to use to achieve such goal, where some scholars have argued that the absence of clear legal enforcement and a proper institutional context make the commitments unrealistic and subject to the corporation's discretion (Koh, 2024; Strine 2017).

In response, a growing body of work has shifted from debating the need for legal intervention to examining how the law might secure genuine purpose commitment, pointing to mechanisms such as controlling shareholders' rights, dual-class shares, and purpose-driven incorporation forms (Rock, 2020; Mayer, 2021; Kershaw and Schuster, 2021). For example, Kershaw & Schuster (2021) state that, arguably, one of the simplest ways to ensure purpose commitment is via a controlling shareholder who believes in such purpose; this way, management is insulated from short-term, purely financial shareholder pressures, and can dedicate its energies to the fulfilment of the agreed purpose. Hamdani and Goshen (2016) also share such view, stating that corporate control allows entrepreneurs to pursue purpose in the manner they see fit.

In a similar vein, Paccès (2024) argues that institutional investors that are interested in climate-conscious investments should finance controlling shareholders through dual-class shares; such shares, if properly devised, would allow controlling shareholders to commit to

long-term sustainable goals that may be otherwise sacrificed for short-term benefits.

Lauterbach and Pajuste (2015) also acknowledge such line of argument, whereas Battocletti et al. (2022) caution that such mechanism may enable controlling shareholders who disregard environmental or macroeconomic externalities to entrench their control in ways that ultimately undermine the firm's broader, socially desirable purpose.

New forms of legal incorporation (such as benefit corporations, etc.) have also been touted as a potential solution to ensure commitment to purpose (Reiser, 2011; Hiller, 2013; Segrestin et al., 2020; Dammann, 2024); social entrepreneurs seem to have embraced such idea as well, because they believe these new forms help them emphasise their purpose or enhance their legitimacy in the eyes of the public (Argyrou et al, 2025). From this perspective, a purpose-oriented incorporation represents another institutional attempt to translate aspirational value into binding organizational mechanisms.

As my analysis shows, all these modern efforts over control structures and purpose-based incorporation can be categorized as a quest to emulate to a degree the older mechanisms (i.e. specific and enforceable purpose clauses to name a few) that were in existence in the past to ensure commitment to purpose. Lastly, my work reinforces further this argument by showing that without explicit enforcement tools, corporations will continue to opt from commitment to their purpose, as doing so maximises their ability to capitalise on potential payoffs; this point connects well with the work of Bolton, Patrick and Kacperczyk, Marcin T., (2020), who show that firms have a tendency not to follow through with their voluntary commitments.

The rest of the article is organised in the following way. Section 2 covers the methodology, highlighting some of the main assumptions. Section 3 provides the results of how the corporation would react under different, historically informed scenarios. Section 4

highlights some policy implications and offers brief remarks on potential challenges. Section 5 concludes.

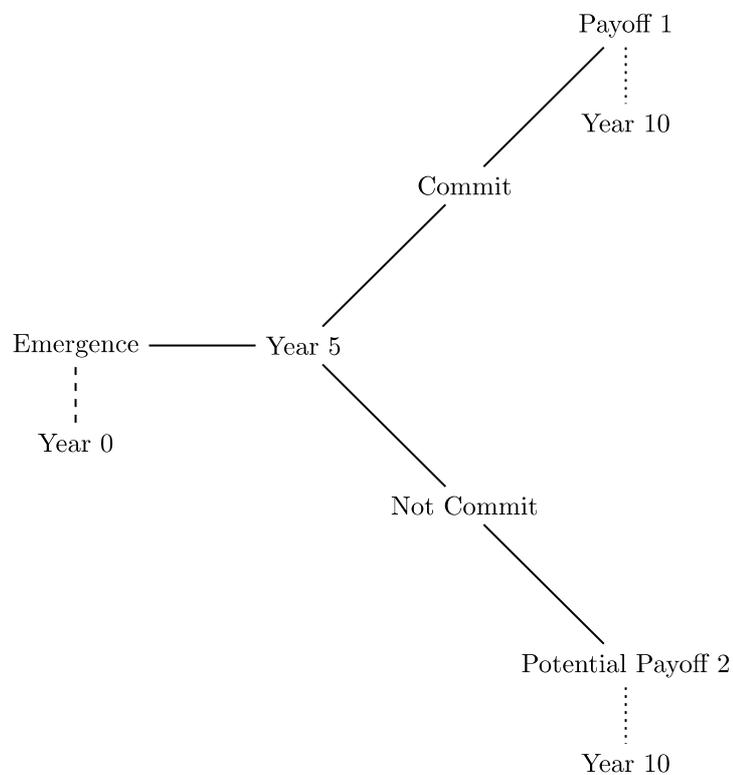
## II. METHODOLOGY

For purposes of this article, a standard decision tree mechanism will be employed because the decision on whether to commit or not can only be raised sequentially, as it implies that there is already a purpose to be committed to. In such a sequential decision-making process, the tree structure helps illustrate how different actions can lead to different possible outcomes (Hespos & Strassmann, 1965; Moshkov, 2021). Commitment problems are presented as dynamic games, where the firm chooses to commit or not to commit; if a firm chooses not to commit, then it is assumed that such choice will be its ultimate payoff and there are no more sequential decisions beyond it.

In terms of setting up the decision tree, several key components are highlighted: (a) decision nodes, (b) branches, and (c) the terminal nodes (Fudenberg & Levine, 1997). Decision nodes represent the points where the corporate must make a choice, whereas branches highlight what happens when the corporation chooses to commit or not, emphasising the penalties (i.e. costs) associated with each choice. The terminal nodes indicate the moment where the decision tree ends, displaying the final payoff of such decision.

The goal is to figure out if the corporation has an optimal strategy — a strategy that maximises a player's expected payoff or utility given the structure of the game and the available information (Samuelson, 2016). Put differently, the goal is to figure out if the corporation will make the best possible decision in this scenario, considering all available

information (i.e. purpose, constraints, payoffs etc). For the purposes of this article, the optimal strategy is the choice that results in the highest expected profit (Payoff – Costs). Another crucial assumption to highlight is that, to some degree, purpose is defined normatively, sort of “doing the right thing”. “Doing the right thing” also *de facto* implies that committing to it must bear some additional marginal cost than non-committing. If that is not the case, then the decision on whether to commit or not would be entirely dependent on the final payoff, all else equal.



**Fig. 1** Illustrates the potential payoff difference between companies who engaged in commitment as opposed to corporations that do not

As presented in Figure 1, if the final payoff under non-commit is equal or lower than the final payoff under commitment, then the best response of the corporation would be to commit; if the final payoff is higher, then the best response would be not to commit.

However, such analysis would be too simplistic; it would never present some sort of “moral dilemma” for the corporation in its decision. Indeed, for the corporation to decide on whether to commit or not, then there needs to be some temptation; such temptation only arises when “doing the right thing” is marginally costlier.

### III. HISTORICAL EVOLUTION AND CASE SCENARIOS

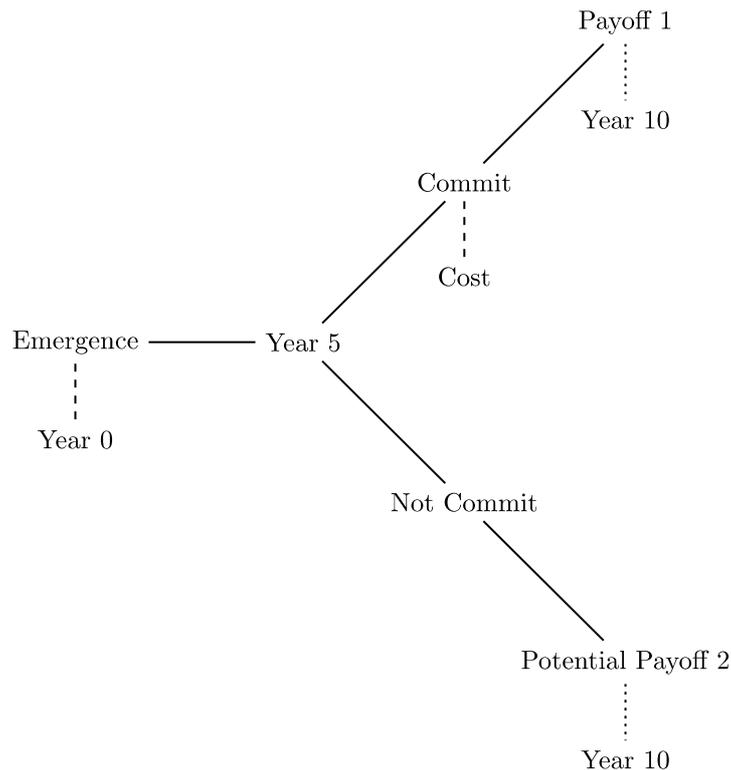
#### *A. Scenario 1: Prior to Capital Lock-in*

In determining corporate behaviour towards commitment, the starting point of such analysis should be historically driven. After all, historical context shapes corporate behaviour in a crucial way; corporate commitment is rarely a spontaneous choice, but rather a byproduct of the frameworks in place (Hazen, 2021; Chen et al., 2024). A plethora of factors such as economic forces, political interests, regulatory developments, and societal expectations constantly shape these frameworks themselves, providing nuance to corporate governance mechanisms over time (North, 1990; Millon, 1990; Hansmann and Kraakman, 2001).

For example, a useful starting point in such analysis is the recognition that, for all its appeal, the corporate form as we know it today remains a novel invention by historical accounts (Ireland, 1996; Hansmann and Kraakman, 2001; Hilt, 2014). As one traces the emergence of the corporate form, one struggles to pinpoint the exact timeline when the actual corporate form emerged (Anello et al., 2022). However, various forms of business and legal entities have existed for centuries, adapting to the economic and social needs of their time. For example, Dari-Mattiacci et al (2017) point out that traditional Roman partnership law saw the emergence of businesses as a purely contractual relationship. Such partnerships (or *societas* as they were known) lacked the attributes of the corporate form (no tradeable shares, no limited liability, no entity shielding, no representation, and no capital lock-in). Indeed,

such early business arrangements were often informal and short lived; as a rule of thumb, early partnerships dissolved upon the withdrawal or death of a partner or once their purpose was fulfilled, making them fundamentally different from the enduring corporate entities we witness today (Williston, 1888; Fisch & Solomon, 2021).

Given these limitations of early partnerships, Milhaupt and Pargendler (2017) note that the development of corporate entities was driven by the need for continuity and enforceable rules beyond personal relationships. The Medieval and early modern periods were crucial in pushing the evolution of the corporate form. During the Middle Ages, various states, monarchies, and economic systems started to experience consolidation; the idea of attaining separate legal personality gained momentum and various institutions (often religious, charitable, and social) established themselves separately of their individual members (Ogilvie, 2014; Mayer, 2018; Davoudi et al., 2018). However, as capital lock-in was not yet invented, such established corporations could not function as long-term economic actors; when it comes to their timeline, for all practical reasons, they faced similar challenges to the *societas* (Dari-Mattiacci et al, 2017). For example, chartered corporations typically emerged with the blessing of their sovereign ruler for a specific project with a limited timeline; once their purpose was achieved or the timeline lapsed without the petitioner of such charter being able to secure a new charter, the corporation would cease to exist (Laski, 1917; Holdsworth, 1922; Andersen, 2013; Ocasio et al., 2023).



**Fig. 2** Demonstrates further the potential payoff a corporation could have if they choose to commit while providing the additional element of choosing to recommit or decommit at year 5 of existence

Turning to our analysis on corporate commitment, Figure 2 shows a possible scenario that such an entity could potentially face. At year 5 of its existence, the corporation is presented with a dilemma on whether to commit to its original purpose or not to commit. The potential payoffs are highlighted respectively under each scenario. Payoff 1 is known with certainty and can only be achieved if the firm commits (i.e. incurs the additional cost of commitment); the purpose is considered fulfilled, leading to the dissolution of the corporation. Potential Payoff 2 is more uncertain but doesn't have any additional costs associated with it. In Figure 2, the choice on whether to commit or not will depend entirely on the final payoffs. If we assume that Payoff 1 is equal to Potential Payoff 2, the final net payoff would still be lower under Payoff 1, considering the costs that are associated with

commitment. Hence, in such a scenario, the best response, all else equal, would be to not commit.

Yet, when looking back to academic scholarship, one can trace that early corporations remained committed to their original purpose (Pollman, 2023; Kaja, 2024). What helps explain this puzzling behaviour is the existence of additional legal mechanisms put in place to deter the corporation to not commit. For example, legal mechanisms of that time ensured that the purpose clause was well-defined and enumerated (which is vastly different from today) (Holdsworth, 1922; Ciepley, 2023); as a rule of thumb, corporations would dissolve once the purpose had been fulfilled or when the timeline had lapsed (Fleckner, 2020). Hence, all the parties (shareholders and stakeholders) had clarity on the purpose and knew that the only way to get the final payoff is to remain committed to the original purpose. In the case of early Roman partnerships, Roman law afforded the partners the right to force liquidation if one of the partners deemed that the other parties were departing from the contractual terms (i.e. the specified purpose of such contract) (Brown & Basis, 1937). By giving each partner a veto power, so to say, this mechanism ensured that no partner would want to deviate from the contractual terms; it *de facto* ensured that the parties remained committed to the purpose of why such partnership emerged as well.

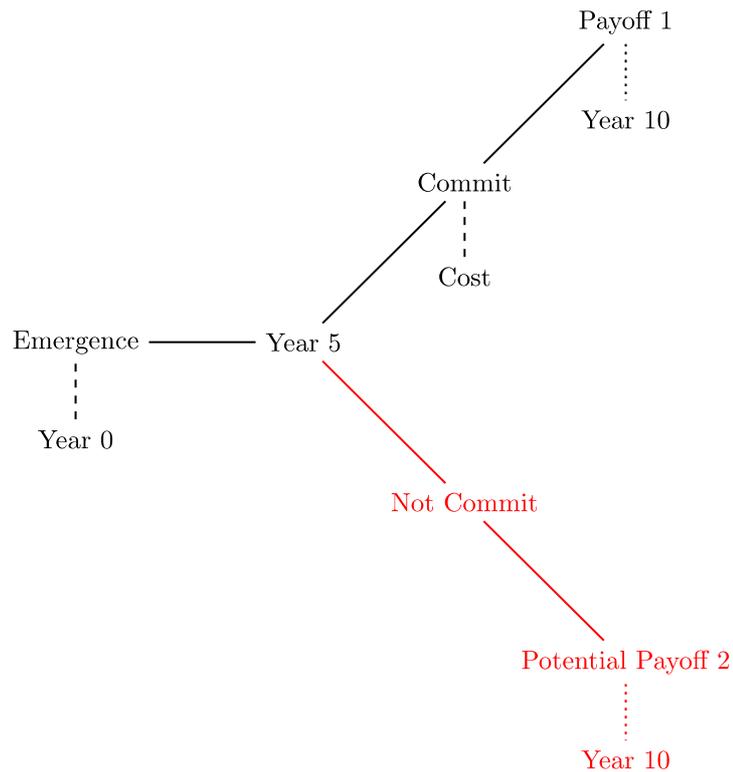
Early chartered corporations were also subject to a mechanism to ensure their commitment to their original purpose. As Kaja (2024) points out, the purpose of corporations under UK royal charters was well-defined, often renumerated, and was enforced. These charters often specified the rights, privileges, and responsibilities of the corporation, ensuring that the entity remained aligned with the objectives for which it was created (Mansell & Sison, 2020; Ciepley, 2023, Pollman, 2021). Unlike modern corporations, which generally have broad discretionary powers, chartered corporations operated under a legal framework that required them to fulfil their designated functions (Holdsworth, 1922). Furthermore, many

chartered companies had financial obligations in exchange of attaining their charter, such as annual payments or contributions to the state, which reinforced their accountability and ensured that the Crown kept a tight oversight over the corporation.

Importantly, failure to adhere to the stated purpose of the charter could lead to serious consequences (Pollman, 2021). The Crown — and later Parliament — retained the authority to revoke a corporation's charter; it was a quite common practice to put a revocation clause on the charter, stating that if the corporation was found to be acting beyond its legal scope or failing in its duties, then its charter could be revoked (Laski, 1917; Lund & Pollman, 2023; Strine et al., 2009).

Other key legal mechanisms used to ensure the revocation of charters was the writ of *quo warranto* and writ of *scire facias* (Pollman, 2021). Such legal tools were avenues to question whether a corporation was entertaining activities beyond its purpose; if the corporation was found to have exceeded its purpose or neglected its obligations, its charter could be annulled, effectively dissolving the entity. Early English jurisprudence is rich with instances where such mechanisms have been used, showcasing their popularity and applicability over time. (Jenks, 1922).

Hence, from a historical perspective, the option to non-commit under the aforementioned scenarios, as presented in Figure 3, carries significant costs; these costs vastly outmatch the commitment costs, as the potential payoff under non-commitment can no longer be attained due to forced dissolution. Considering such heightened penalty, then the option of non-committing is not an actual choice, as the corporation will be incentivised to always stay committed if it wants to remain in existence. As such, it is unsurprising that early corporations remained, by and large, committed to their purposes.



**Fig 3.** Legal mechanism in place made it impracticable for a corporation to choose non to commit

*B. Scenario 2: After the Invention of Capital Lock-in*

The legal innovation of capital lock-in gave rise to one of the most defining features of the corporate form in modern times. Capital lock-in — a restriction preventing investors from withdrawing or reallocating their invested capital — fundamentally reshaped the corporate form (Dari-Mattiacci et al., 2017). By preventing investors from freely withdrawing their invested capital, corporations gained a new sense of reassurance and stability in their financial foundations. This, in turn, led to the corporate form becoming significantly popular, vastly outpacing general partnerships or other non-legal personality forms of incorporation (Blair, 2003). It is easy to see why: unlike partnerships, where capital could be withdrawn

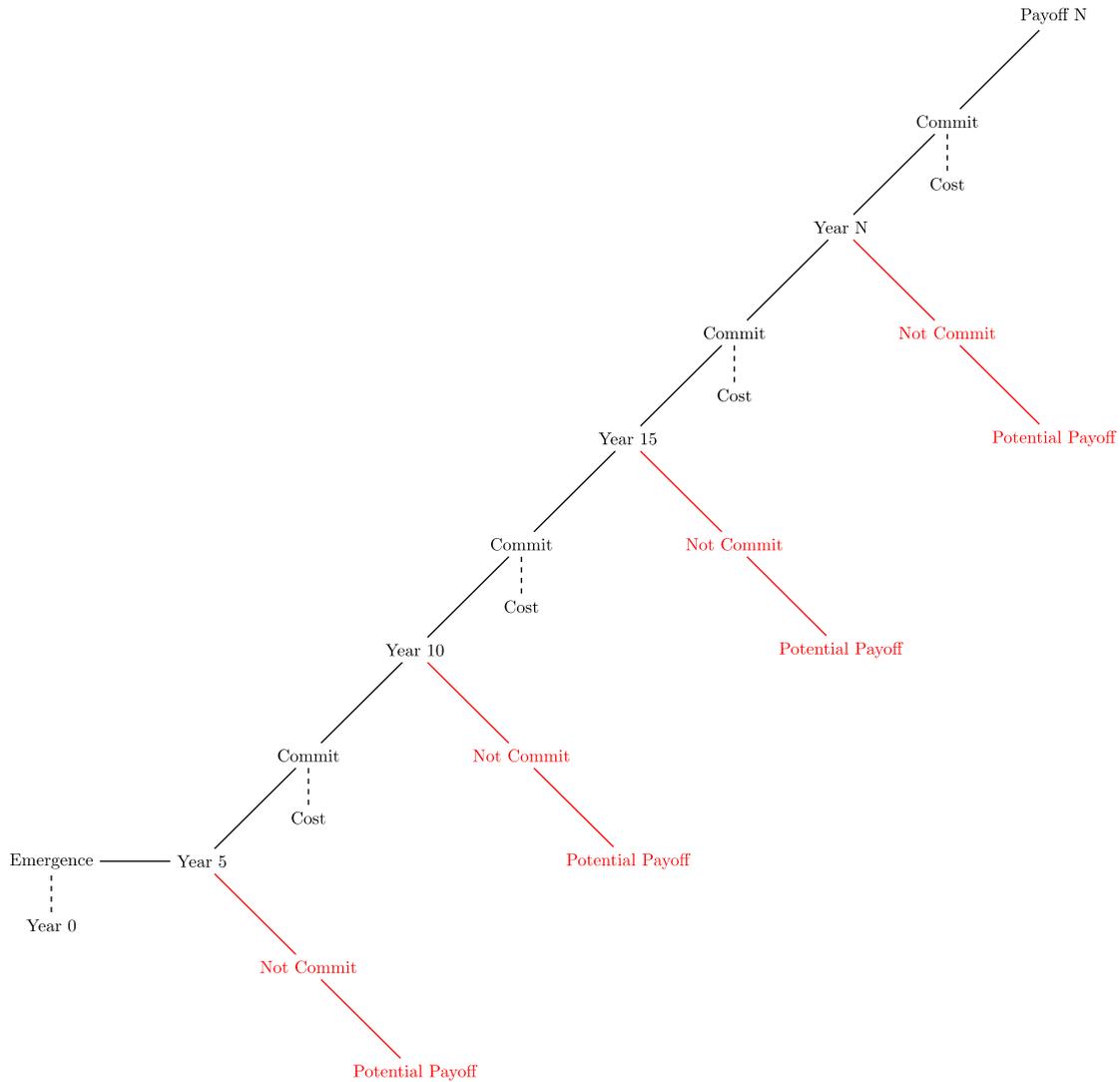
relatively easily and led to forced liquidation, corporations with capital lock-in had a much greater capacity for longevity, expansion, and stability.

More than just a legal innovation mechanism, capital lock-in did not only have profound implications for the nature of the corporate form but also affected the purpose of corporations. One key consequence was that the timeline for fulfilling a corporation's purpose shifted dramatically. Traditionally, general partnership or early chartered corporations were often established with a clear, finite timeline in mind; it was not uncommon that early corporations requested subsequent charters to ensure that they were still in operation beyond the initial allotted timeline. This limited timeline was partially linked to the fact that most early chartered corporations were often established with one particular goal in mind, such as an infrastructure project or a colonial enterprise; after a couple of years, the idea was that the project should be completed. However, with capital locked into the firm, corporations no longer had a predefined endpoint. As their purpose was no longer tied to a specific short-term objective but could, theoretically, extend indefinitely, corporations had now the potential for a perpetual existence (Schwartz, 2012; Yosifon, 2023).

This perpetual nature also meant that a corporation could be tested more than once regarding its commitment to its purpose. While it is true that early chartered corporations (without capital lock-in) could face the same number of moral dilemmas within the same timeline that corporations (with capital lock-in) could face, the fact that corporations with capital lock-in could have a much longer lifespan automatically means that the number of dilemmas is much higher. This ongoing decision-making process on whether the corporation should commit to its purpose or not has also become an inherent feature of modern corporate governance, as boards and executives must navigate an indefinite future rather than a predetermined endpoint.

Moreover, the legal innovation of capital lock-in also introduced a higher degree of uncertainty when it comes to the corporation's final financial outcome. In business partnerships or early chartered corporations (without capital lock-in), the general idea was that investors/petitioners saw the dissolution of the corporation as the most natural point for settling accounts and distributing profits, giving a clearer sense of when all the parties might realise their returns. This degree of certainty is lacking when the corporation's lifespan becomes indefinite, making it impossible to predict accurately the endpoint. The value of an investment becomes contingent on ongoing performance rather than a fixed timeline, unless the shareholder opts to cash out. This creates a dichotomy that did not exist before: purpose and financial expectations are no longer aligned with a singular, foreseeable event, but bifurcate over an endless timeline.

The importance of this latter development cannot be stressed enough, as it will have fundamental impacts on corporate purpose. Given the legal innovation of capital lock-in, Figure 3 would transform into something like Figure 4.



**Fig 4.** Game set-up after the invention of capital lock-in, but with legal restrictions in place.

The legal innovation of capital lock-in did not alter the existing legal limitations on corporate purpose; for the time being, purpose clauses remained specific enough for the governments to enforce the revocation of the corporate charter. The corporation, when faced with a legal framework that retains the power to revoke its charter even after the introduction of capital lock-in, has only one best response: to commit. The rationale for this choice is straightforward: the continuous existence of the corporation as a legally recognised entity is a precursor for its ability to access the Payoff N in the future. If the corporation were to abandon its commitment to the purpose, then the risk of charter revocation would kick in;

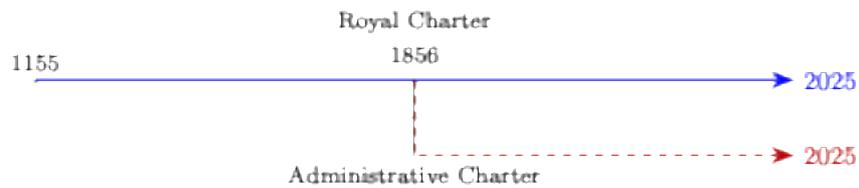
odds are the charter would be revoked before the corporation reaped any of the potential payoffs that came from non-commitment. From a game-theoretic perspective, this set up gives rise to a form of dynamic consistency — a principle that states that a person's preferences should remain consistent over time (Demil & Lecocq, 2010; Machina, 1989).

From a contract theory perspective, capital lock-in itself presents an interesting development (Smith, 2004). On the one hand, it aligns the incentives of the shareholders and the managers thanks to its binding nature. As capital lock-in prevents capital withdrawals that might otherwise jeopardise long-term projects, then it ensures that, theoretically speaking, a corporation has a longer timeline of existence in mind. On the other hand, capital lock-in does not eliminate the inherent uncertainties surrounding future payoffs. For example, capital lock-in cannot fully eliminate the uncertainty that comes from external shocks (i.e. macroeconomic downturns or industry disruptions due to competition); this, in turn, might force the corporation into early liquidation.

It is precisely for such reasons why the presence of legal mechanisms that penalise the corporation for abandoning its purpose is essential. Charter revocation ensures that the corporation has additional incentives to commit. In sum, rational decision-making under this institutional structure dictates that the corporation remains committed, despite the uncertainty surrounding future payoffs.

### *C. Scenario 3: After the Invention of Capital Lock-in*

The invention of capital lock-in did not just give a new key characteristic to the corporate form; it also fuelled a proliferation of the demand for the corporate form via private law (Dagan & Zipursky, 2020; Dari-Mattiacci et al., 2017). Indeed, the pressure on the legislature to relinquish its hold on the corporate form increased substantially (Butler, 1986). In the UK, Parliament was able to pass a series of laws in the mid nineteenth century that made the corporate form more freely available, as indicated in Figure 5 (Cheffins, 2015; Snaith, 2007).



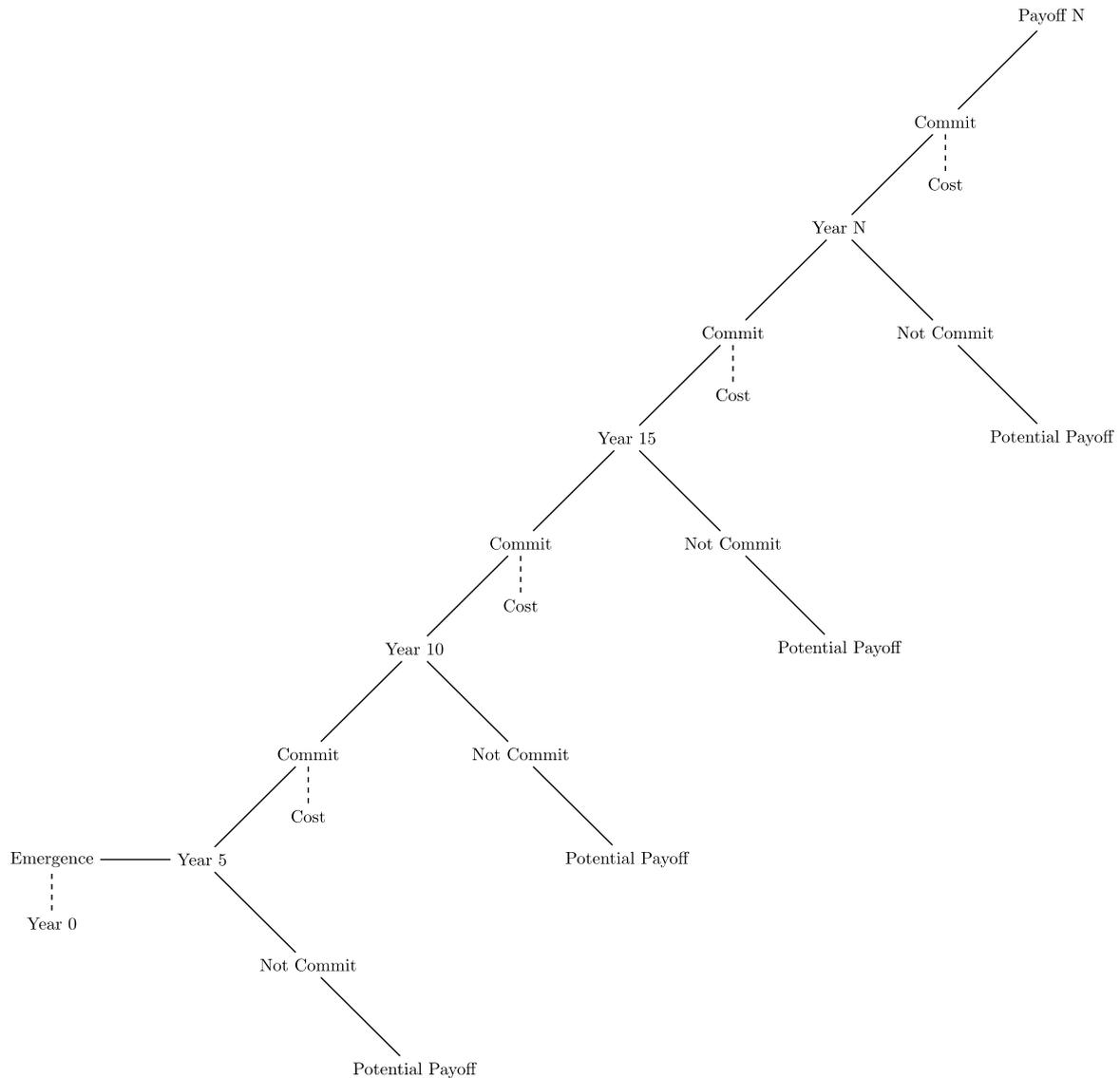
**Fig 5.** Relation between laws passed by Parliament and availability of corporate form

Prior to 1856, obtaining a charter required royal approval or a special act of legislation; this was a time-consuming endeavour and came with a lot of strings attached (Paul et al., 2023; Pickering, 2003). For example, the Crown dictated the terms of the charters in ways that it deemed reasonable and beneficial. In some instances, clauses of an expropriating character were instilled in charters with colonial endeavours, whereas all chartered corporation needed to fulfil a publicly oriented sense of corporate purpose, which was explicitly stated in its charter. Furthermore, the revocation clause, namely, a clause stating that in case the corporations fail to abide to its purpose, then the charter could be revoked (*British Council Royal Charter and Bye-Laws*, n.d.) remained popular in charters. This policing mechanism allowed the Crown and later on, the Parliament, to still keep a tight oversight on the corporation, despite the fact that after seventeenth century capital lock-in had been invented and such corporations could, theoretically, be perpetual.

However, the liberalisation of the corporate form allowed for a new option of incorporation, the one called the “administrative” charter in Figure 5. Such mechanism of incorporation was and remains a relatively easy process of incorporation (Ferran, 2001). Basically, the system of incorporation gets simplified enough that any individual who wants to establish a corporation just needs to follow a series of administrative steps; once all the steps are fulfilled, then one can attain the corporate form without any of the strings attached under the royal charter. Under the administrative charter, a new change is also introduced: the

corporation is not obliged to have a detailed corporate purpose that fulfils some public interest. Furthermore, there are no revocation clauses attached with such process of incorporation; theoretically speaking, the corporation is now perpetual for as long as it is in mere compliance with the other laws of the jurisdiction.

Academic research shows that this ease of incorporation was pervasive; it spread quickly on both sides of the Atlantic and beyond (Butler, 1968; Hennessey & Wallis, 2017; Lamoreaux & Novak, 2017). It is also often credited in contributing to a dramatic increase in incorporation over time (Harris, 2013). Given this, corporations that incorporate under the administrative charter face a new framework for the purposes of the analysis in this article. Under it, Figure 4 would transform into Figure 6.



**Fig 6.** Showcases how the ease of incorporation optimising long-term value while also demonstrating the continual need for corporations to have to revisit commitment, ultimately resulting in non-commitment

Under Figure 6, the corporation's best strategic response hinges on managing uncertainty while optimising long-term value, given that the final payoff N remains unknown. The perpetuality of the corporation now provides an additional challenge: the corporation will have to face the “moral dilemma” of commitment more than once. As such, the presence of commitment costs at each decision node means that these costs will

accumulate over time; only a sufficiently high final expected return could dissuade the financial disincentive to choose to commit. Albeit, the sufficiently high expected return remains unknown here, because it is impossible to predict with certainty the lifespan of the corporation. The corporation could cease to operate (for a variety of reasons) before reaching the next decision node or after a hundred years from when the moral dilemma presents itself; it could choose to commit on the second node, say at Year 10, and choose not to commit at Year 15, increasing the uncertainty associated with such decisions.

From an economic standpoint, such a set up resembles the sunk cost problem in dynamic decision-making. The sunk cost problem dictates that since the corporation chose to commit on the first node, then it will be a natural choice for it to opt to commit in each subsequent node, given that it has already incurred some costs and may be influenced by loss aversion and commitment bias. This “path dependency” ignores alternative (and potentially optimal) courses of action. Rational decision-making, however, requires that future choices depend solely on expected marginal costs and marginal benefits rather than past expenditures. The fact that the corporation has already invested in the second node should be irrelevant for its subsequent decision in the next node; this, in turn, feeds into the uncertainty, because if you are at Year 10, it is impossible to know what the corporation will choose at Year 15, so if the corporation at Year 10 is choosing to commit with the hope that one day it will reach its ultimate payoff, it might be embracing wishful thinking.

If the ultimate payoff  $N$  is highly uncertain, then the corporation risks paying upfront without assurance that the final payoff will ever become tangible; this is counter to what a rational actor would do. Real options theory suggests that when investment costs are ongoing and uncertainty is high, then delay in decision-making is preferred. Delaying the decision in this case would *de facto* translate into non-commitment; the corporation has an incentive to embrace this best response of non-commitment strategy as early as possible.

#### D. Scenario 4: Self-Commitment Outliers After Capital Lock-in

If all modern-day corporations face the decision tree in Figure 6 and if its rationality would prevail, then it should be the case that there would not be any corporation that is committed to its purpose. Yet, there seems to exist some corporations that do commit to their purpose, creating a somewhat puzzling phenomenon. Their existence, however, can be explained.

For starters, such corporations are, *de facto*, outliers; their existence is unique rather than indicative of a broader trend. If corporate commitment to purpose was a widespread phenomenon, there would be little need for ongoing calls to action in this front in public discourse. The fact that calls to action —whether via newspaper op-eds, CEO letters, social media campaigns for corporations to do the right thing — are so persistent is an indicator that corporations that commit to their purpose are scarce (Borden, 2007; Fink, 2022; Whiting et al., 2019). Indeed, if asked on the spot to list corporations that consistently adhere to their purpose, most academics and industry experts would, most likely, struggle to name more than a handful.<sup>6</sup> This dearth itself signals that corporate commitment to purpose is seen as an anomaly rather than the norm (Fassin, 2005; Craig Smith et al., 2007).

A useful strategy for identifying such corporations is through industry-specific comparisons. The benefits of such strategy could stem from the fact that it is easier to assess corporations relative to their peers rather than evaluating commitment to purpose in absolute terms. Within a given sector, certain companies stand out as being unusually devoted to their purpose. For example, in the clothing industry, Patagonia frequently emerges as a leading example of a purpose-driven corporation (Eich, 2021). As it is often pointed out, the company's commitment to sustainability is its differentiating characteristic from its main competitors (Rattalino, 2017).

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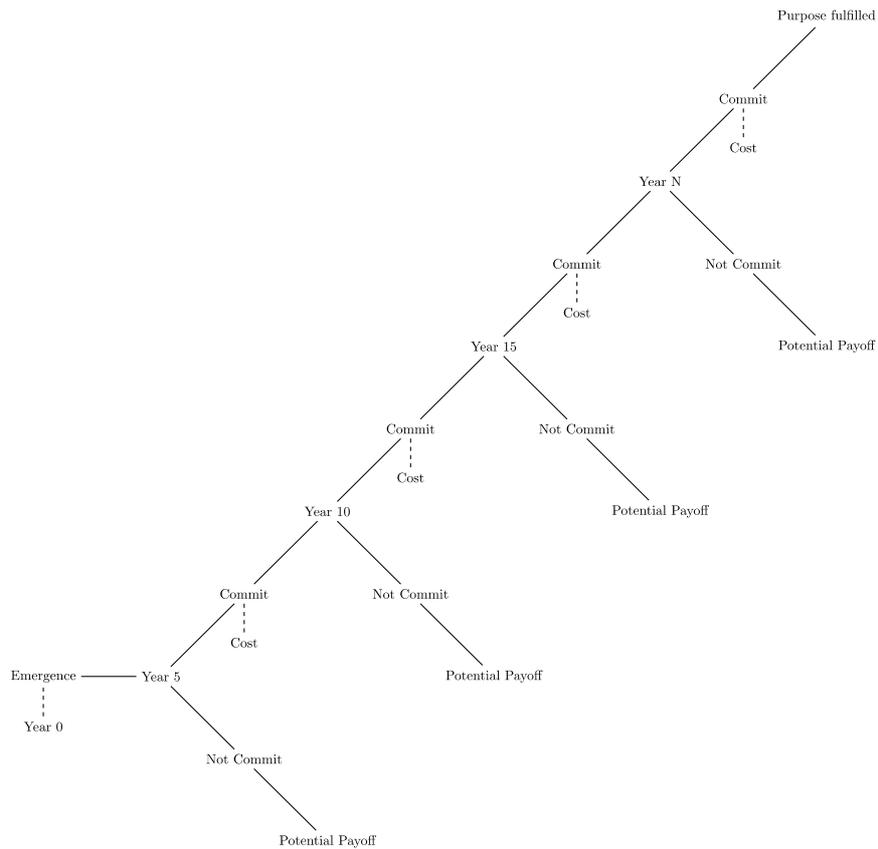
<sup>6</sup> While I do not have data on this claim, for now at least, I challenge the reader to do the exercise on the spot.

The success of these outlier corporations' hinges on their ability to redefine the prevailing industry standards. Unlike firms that merely adopt corporate social responsibility (CSR) initiatives as a marketing strategy, true outliers make it their purpose to transform the fundamental expectations within their sector. Patagonia, for instance, does not simply advocate for sustainable fashion; its purpose is to radically change the way people look at the clothing industry and its environmental footprint (Michel et al., 2019). Campaigns such as "Don't Buy This Jacket" exemplify this commitment by encouraging customers to extend the lifespan of their clothing rather than continuously purchasing new items — an audacious move considering that clothing companies benefit from mass sales (Peterson & Dover, 2021).

Now, consider a scenario where a corporation aspires not just to redefine industry norms, but it positions itself in such a way that it wants its purpose to be the industry standard. Tony's Chocolonely, for example, does not just aim to differentiate itself within the chocolate industry; it explicitly states that its purpose is to "end all forms of exploitation in the cocoa industry" (Markovic et al., 2021). As consistently mentioned in its marketing materials, the ultimate objective for Tony's Chocolonely is a 100% slave-free cocoa industry (Tony's Chocolonely, 2019). The purpose of Tony's, in and of itself, should lead to a radical and fundamental restructuring of the entire chocolate industry, if Tony's succeeds.

Theoretically, in a perpetual timeline of existence, Tony Chocolonely would continue to commit to its purpose at each subsequent decision node until the final payoff — a 100% slave-free cocoa industry. Once that is the case, Tony Chocolonely could mimic the early Roman partnerships and dissolve after fulfilling its purpose; continuing to exist beyond fulfilling its purpose seems redundant, unless the corporation alters its *raison d'être*.

In this scenario, the decision tree presented in Figure 6 would no longer be applicable. Instead, it would evolve into the decision tree depicted in Figure 7.



**Fig. 7** Showcases how the newer companies with knowledge of the ultimate payoff while choose to stay committed to their purpose

As previously highlighted, the decision tree presented suggests that at each stage, the corporation must choose whether to commit to its purpose or abandon it to avoid incurring the commitment costs. In Figure 6, the conclusion was that corporations would opt to not commit, as the ultimate payoff was unknown, given the perpetual nature of the corporation and the uncertainty that comes with it.

However, when analysed through the lens of backward induction — a fundamental concept in dynamic game theory— it becomes evident that an outlier corporation (like Tony’s for example) will end up choosing to commit at every stage, precisely because the ultimate payoff is both known and desirable (Aumann, 1995). The firm’s ability to foresee the final payoff allows it to work backward from that point, ensuring that each preceding

decision aligns with the end goal. In doing so, it eliminates the temptation to deviate in earlier periods, even when faced with intermediate costs.

Here, Tony's knows that the fulfilment of its purpose (and the final payoff that comes with it) is the highest possible payoff associated with its existence. Assuming rationality is in place, then it is safe to conclude that this outcome is preferable to any other alternative. Moving backward from this point, at Year N-1, the corporation must decide whether to commit. Knowing that commitment leads directly to the ultimate payoff, and that deviating would prevent reaching that outcome, the firm rationally chooses to commit. This logic extends recursively to earlier decision nodes, ensuring that at every point in the timeline — whether Year 15, Year 10, or Year 5 — the optimal choice remains commitment. Any deviation at an earlier stage would disrupt the progression toward fulfilment of the firm's purpose, ultimately reducing long-term value.

Some assumptions that are needed to be present for this to work are worth highlighting. For starters, the purpose of the corporations needs to be such that it makes the existing ecosystem in the industry obsolete. This will make the ultimate payoff extremely appealing; middle ground outcomes are not enough. The idea behind such outlier corporations is that they must aspire to a fundamental change in the way things are currently being done. Take the case of Tony's. If Tony's sets up a purpose of "80% slave-free cocoa industry", then, beyond the ethical implications of such purpose, it would also be seen as setting a very low bar; fulfilling such purpose would mean that Tony's could dissolve much earlier, leaving competitors with a lot of room for plenty of socially undesirable behaviour.

This reasoning leads to another important tangent worth mentioning. In theory, the commitment costs of these outlier corporations get to be attached to the competitors as well along the journey. If the ultimate payoff is socially desirable (e.g. "end all forms of

exploitation in the cocoa industry"), any progress — regardless of its magnitude — that the corporation makes towards this ultimate payoff directly translates into an obstacle for its competitors, particularly if they have chosen to disregard this. Indeed, such competitors will eventually have to play catch up, which will be very costly for them; for normative thinkers, this can serve as a silver lining towards convincing all corporations to have a purpose and to stay committed to it to begin with.

The final key assumption that needs to be mentioned is the role of controlling shareholders. If such outlier corporations will opt to commit at every decision node, then shareholders need to be on board with this choice. In scenarios where shareholders are constantly changing or it is challenging to make up a majority of shareholders that prioritises the long-term purpose over short-term financial gains, then the decision to stay committed would not be reached. However, if decision-making power is concentrated in controlling shareholders, consistency is introduced (Paccès, 2024). Whether controlling shareholders are present via concentrated ownership or dual-class shares is irrelevant for as long as they plan to be involved for the long run (Battocletti et al., 2024; Paccès, 2024). If the incentives of the controlling shareholders are closely aligned with the corporation's purpose, then they can be the engine that drives the corporation to remain committed.

#### IV. POLICY IMPLICATIONS

The analysis above offers food for thought. If current corporate governance systems are such that do not incentivise corporate commitment, then expecting or demanding socially without taking any action that corporations commit to a purpose is pointless. The scenario in Figure 7 cannot be the knight in the shining armour either; outlier corporations are, by definition, very low in numbers. To put things into perspective: an outlier corporation per industry yields roughly a total of 163 corporations if we use the most generous reading of the Global

Industry Classification Standard (GICS) — MSCI and Standard & Poor’s industry taxonomy<sup>7</sup>. The world would, for sure, be better with 163 corporations that commit to their purpose, but, on the grand scheme of things, this is a hole in the water; the state of Delaware alone had roughly 60,000 new corporations established in 2023 (Bullock, 2023).

If the socially desirable outcome is for corporations to commit to their purpose, then revisiting the regulatory framework of corporations merits attention.<sup>8</sup> From a legal and economic perspective, the question on whether new rules should emerge to dissuade corporations to not commit to their purpose hinges on three critical points: (1) the identification of the right rules, (2) the economic trade-offs of imposing such rules, and (3) the effectiveness of such rules in ensuring corporate commitment in a modern context.

Historically, two rules were fundamental in dissuading corporations not to commit. First, purpose clauses were specific, so the purpose of the corporation was easily deciphered. Holding the corporation accountable to such purpose or discovering on whether the corporation was committing to it was effortless. Bringing back such a rule would likely help with both points. It would probably limit the modern corporation on what it can do. The liberalisation of the corporate form in the nineteenth century eliminated constraints in favour of flexibility and economic dynamism; this shift allowed corporations to respond faster to changing market conditions (Guinnane et al., 2017). If a corporation is deemed to be perpetual, then the context in which it emerges might be vastly different from the context it operates later on. The second strategy was to introduce charter revocation for failure to abide to the purpose. Forcing the corporation to have a specific purpose and then reintroducing penalties for purpose abandonment would require a delicate balance; such measures might

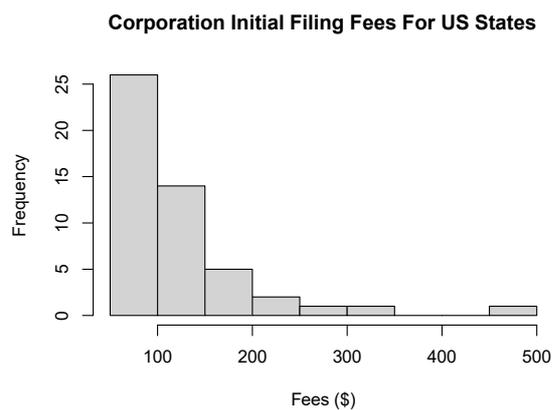
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<sup>7</sup> The GICS structure consists of 11 sectors, 25 industry groups, 74 industries and 163 sub-industries.

<sup>8</sup> Hardmann (2025) rightly cautions about making multiple changes to corporate purpose laws, as partial reform is ineffective and could potentially turn out to be counterproductive.

deter opportunistic behaviour, but they could also discourage corporate innovation and adaptation in a rapidly evolving global economy.

For all purposes of corporate law, rethinking the latter strategy seems a taboo. Countries in general take great pride on their ease of incorporation. The difficulty in attaining the corporate form has gone down substantially over time. Whereas initially petitioners had to do immense lobbying under the early chartered corporations and even exposed themselves to a huge degree of expropriation (and oversight), there has been a race towards the bottom among countries on how easy it is to incorporate in the respective countries. Take the US for example (*Company Formation Fees in the US | Stripe, 2024*).



**Fig. 8** Histogram of the corporation initial filing fees for each state

Figure 8 represents a histogram of the corporation initial filing fees for each state. The range is from \$50 to \$455, whereas the median and mode are \$100 (the mean is roughly \$122). One hundred dollars are not a cheap price tag, but, put into a historical context, seem nothing compared to the struggles that petitioners for early corporate charters had to go through to attain the corporate form. One argument can be made that the ease of incorporation has also led to an allocative inefficiency; as the number of corporations has skyrocketed, the state's ability to dictate, oversee, and enforce corporate purpose has

diminished. Having stringent criteria for parties who would like to access the corporate form could help alter the trend, particularly, when research has shown that voluntary initiatives driven by civil society are not enough to push companies to commit wholeheartedly (Bolton and Kacperczyk, 2020).

## V. CONCLUSION

By employing a decision tree approach, this article explores the issue of corporate commitment to purpose, revealing that corporations have a rational incentive to avoid commitment unless legally mandated. Taking a historical approach, the article shows that legal mechanisms were put in place to ensure commitment. Early corporate charters contained well-defined purpose and reconvoation clauses; additional revocation mechanisms were deployed to ensure commitment to purpose. As such mechanism were well-known, then corporations had a strong incentive to always commit to their purpose.

Historical developments led to a weakening of such mechanisms. For starters, the legal innovation of capital lock-in led to perpetual corporations, departing from the limited timelines that were associated with the existence of early corporations. Nineteenth-century legal reforms liberalised the corporate form, removing legal constraints that dissuaded corporations to abandon their purpose. As corporations attained greater flexibility, they defaulted to opportunistic behaviour rather than long-term commitment, as enforcement mechanism were now lacking.

The implications of this study suggest that policymakers should reconsider the role of legal constraints in corporate governance. It is often believed that external pressures such as ESG regulation or investor activism will push the corporations to realign their priorities; while that might be the case, such external pressures remain insufficient. Without clear legal enforcement mechanisms that dissuade corporations for abandoning their purpose, much

cannot be expected to happen. If commitment to purpose is desirable, then future research could explore how contemporary regulatory frameworks could be altered to adapt these historical mechanisms into a modern context.

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