

THE LONG CLOCK · CHAPTER THREE

Four Objections, Answered Plainly

Chapter Three of The Long Clock

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Chapter Three of The Long Clock. The whole book, with every chapter, is at business.hautelumiere.life/library/the-long-clock (DOI https://doi.org/10.5281/zenodo.23989072).

A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

ABSTRACT

The argument for corporate purpose has a reputation, and some of it is earned. It has produced a great many mission statements, a great many conference panels and a smaller number of changed decisions. A reader who runs a company, or looks after a family's money, is right to ask whether purpose is a structure or a costume. Chapter 2 set out Colin Mayer's case: a company exists to create profitable solutions for the problems of people and planet without profiting from creating problems, and it needs owners patient enough to let it. This chapter gives the other side its strongest form. There are four objections that deserve an answer. Each has a scholar behind it and evidence beside it, and each points, once it is taken seriously, to a specific design choice rather than to a reason to give up.

CHAPTER THREE

Four Objections, Answered Plainly

An honest disclaimer

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Chapter 2 set out Colin Mayer's case: a company exists to create profitable solutions for the problems of people and planet without profiting from creating problems, and it needs owners patient enough to let it.[16] This chapter gives the other side its strongest form. There are four objections that deserve an answer. Each has a scholar behind it and evidence beside it, and each points, once it is taken seriously, to a specific design choice rather than to a reason to give up.

Ammanuel Santa Anna's *Ecstatic Economics* is a useful companion here because it is willing to criticise its own side. Its section on common pitfalls names the failures of purpose-driven enterprises as plainly as it names those of the extractive firm. He writes: "Organizations built on passion and purpose are paradoxically vulnerable to the very depletion they aim to heal." He ends the passage with a warning that applies to every objection below: without structure, such enterprises "will reproduce the extractive pattern in alternative clothing."[17]

The claim of this chapter is that each serious objection to purpose is an objection to purpose without structure, and each is answered by a particular structure. Read as a list, the objections are a specification. A designer who hears them out ends with a better building than one who never heard them.

One: a manager who serves everyone answers to no one

The oldest objection is about accountability. Milton Friedman's 1970 essay argued that a corporate executive is an employee of the owners, and that spending their money on goals they have not chosen amounts to imposing a tax and deciding how to spend it, functions that in a democracy belong to elected governments.[18] It is a serious argument about legitimacy, not a defence of greed, and it is worth reading in that light. Friedman was asking who gave the manager the right.

Michael Jensen, the Harvard financial economist, put the same concern in the language of management a generation later. In the abstract of his paper on the corporate objective function he writes that "since it is logically impossible to maximize in more than one dimension, purposeful behavior requires a single valued objective function."[19] A firm told to maximise several things at once, on this view, has in effect been told to maximise nothing, because there is no rule for trading one goal against another, and a manager without such a rule cannot be held to account for any choice at all. Every decision can be defended by pointing at whichever stakeholder it happened to serve. Jensen's own answer was what he called enlightened value maximisation: pursue long-run value, and attend to stakeholders because long-run value depends on them.

This objection is right about something important. Purpose that cannot be measured becomes discretion, and discretion without measurement is a gift to whoever holds it.

The way through is a purpose specific enough to rank decisions. Mayer's formulation helps because it is built around named problems, and a named problem can be measured: homes heated, patients treated, tonnes not emitted, apprentices trained. A purpose that excludes some profitable business gives the board exactly the trade-off rule Jensen said was missing. It does not tell directors to balance everything. It tells them which thing comes first. The British Academy's principles add a second half: performance should be measured against the purpose, and profits should be reported net of the cost of the harm the company causes.[16]

It is worth noticing how close this answer comes to Jensen's own. Enlightened value maximisation asks managers to pursue long-run value. A purpose sentence with a named problem and a named harm says which long run, and on whose behalf. The disagreement narrows to a question of what gets written down.

Santa Anna's reading of the Balanced Scorecard, in the Luminous 100, makes a related move. The four perspectives of Kaplan and Norton's scorecard, he argues, are not a menu of equal goals but a living system whose parts depend on one another, so that "the scorecard's true "balance" is developmental coherence, not just metric diversification."[20] Coherence is a stricter test than balance. It asks whether the measures point the same way, and whether the one that develops the organisation's capacity, which in the scorecard is learning and growth, is treated as the engine of the others rather than as one item among four. A board that holds itself to coherence has the single direction Jensen asked for without collapsing it into a single number.

Two: the statement is a press release

The second objection is empirical and recent. On 19 August 2019 the Business Roundtable, an association of chief executives of large American companies, published a new Statement on the Purpose of a Corporation signed by 181 of them.[21] It committed the signatories to delivering value to customers, investing in employees, dealing fairly and ethically with suppliers, supporting the communities in which they work, and generating long-term value for shareholders. It was widely read as the end of shareholder primacy.

Lucian Bebchuk and Roberto Tallarita, of Harvard Law School, then looked at what the signatories did. In "The Illusory Promise of Stakeholder Governance" they conducted, in their own words, "a conceptual, economic, and empirical analysis of stakeholderism and its expected consequences," and concluded that stakeholderism "is an inadequate and substantially counterproductive approach to addressing stakeholder concerns."[22] Their empirical work examined whether the commitments were followed by the changes in governing documents, director pay and board processes that a real change of objective would require, and they reported very few. Their argument is that stakeholderism, as practised, mainly serves to protect managers from shareholder pressure while giving stakeholders nothing they can enforce.

Mayer replied in a short paper whose title states his position: "Shareholderism versus stakeholderism – a misconceived contradiction."[23] Trade-offs, he argued, are present in shareholder governance as well as stakeholder governance, and making judgements among them is a board's ordinary work rather than an impossible burden. The exchange is worth reading in full, because both sides agree on more than their titles suggest. Neither thinks a signed statement changes a company.

Bebchuk and Tallarita's paper is a study of one statement by one group of companies at one moment. It is a law-review analysis, not a long-run study of firm outcomes. Within those limits it is persuasive. A promise that changes no document, no pay plan and no right of anyone outside the company is a press release.

The way through is to write the purpose where it binds. A purpose clause in the articles, a director's duty owed to it, a pay plan that measures it, and a party outside management who can enforce it. That last element is the one most often missing and the one Mayer's work emphasises: a foundation, a trust, an employee owner, a mission-locked shareholder. Santa Anna's sentence is the shortest version of the point: "Culture doesn't float free of structure."[17] A reader can test any company's purpose, including her own, with one question: if the managers ignored it tomorrow, who could stop them, and with what?

Three: patience shelters the comfortable

The third objection turns patient capital against itself. If owners cannot sell and managers cannot be removed, the company is free to think long-term. It is also free to drift, to over-pay its executives, to keep a failing division open for sentiment, and to be badly run for a generation without consequence. The market for corporate control is harsh, but it is also how a badly run company changes hands. Remove the threat of sale and you remove one of the few forces that reliably reaches a complacent board.

This concern has a specific form in two common structures. Dual-class shares give founders voting control with a minority of the capital; critics argue that the benefit of founder vision fades over time while the cost of entrenchment grows, and have proposed that such structures expire after a set period. Industrial foundations raise a subtler version. Henry Hansmann, of Yale Law School, and Steen Thomsen, of Copenhagen Business School, studied the governance of Danish foundation-owned firms.[24] Their starting point was a puzzle they state in their abstract: previous studies had found, "surprisingly, that companies con-

trolled by industrial foundations are, on average, as profitable as companies with conventional patterns of investor ownership." How are companies with no owner who can sell, and no owner who takes the profits personally, kept efficient? Rather than comparing foundation firms with investor-owned ones, they compared foundations with each other. Their answer turned on what they called managerial distance: foundation-owned companies did better where the foundation's board was separated from the company's management, so that the people who oversee the company are not the people being overseen.

That is the important finding, and the house draws a lesson from it: patience is not the same as absence. Read this way, the best long-horizon owners are present and demanding; they simply judge on a longer clock.

The way through is distance and a clock. Separate the body that holds the purpose from the people who run the company. Give long-horizon control a review date, a sunset, or a trigger: a set number of years after which ordinary voting returns unless the holders of the purpose vote to renew. Measure managers on the purpose over a period long enough to matter and short enough to act on.

Bosch is an instructive example of the first element. Its foundation holds roughly ninety-four per cent of the capital and, by the company's own account, does not steer the group's strategy; some ninety-three per cent of the votes sit with a separate industrial trust whose task is to exercise the owner's role, and the foundation funds its charitable work from the dividend it receives.[25] Chapter 6 reads that design in full. The point here is that the people who receive the money and the people who hold the votes are deliberately not the same people, and neither is the management.

Santa Anna's governance notes make the same distinction from the other side. The time-horizon problem, he writes, "is not a problem of individual virtue — it is a problem of institutional design."[26] Entrenchment is also a design problem, and it has design answers.

Four: short-termism is overstated

The fourth objection is the most technical. Some financial economists argue that the case against short-termism is built on anecdote and on a misreading of markets. Share prices, on this view, already reflect long-term prospects; companies that cut research to hit a quarterly target are punished for it; and the overall level of corporate investment is set by opportunities, not by impatience.

The evidence here is genuinely mixed, and a reader deserves the mix rather than a verdict.

On one side, Jeremy Stein's 1989 model in the *Quarterly Journal of Economics* showed that managers can behave myopically even when markets are perfectly efficient.[27] The mechanism is about signals. Investors cannot see directly whether low current earnings reflect investment or trouble, so they read low earnings as trouble, and managers who know this sacrifice some investment to keep earnings up. Everyone is rational, and the company still under-invests. John Graham, Campbell Harvey and Shiva Rajgopal's 2005 survey of

financial executives found that a majority would give up economic value to deliver smooth earnings, and that many would delay a project with a positive net present value to avoid missing an earnings target.[28] These are the executives' own answers about their own behaviour.

On the other side, Brian Bushee's 1998 study of research and development spending tested the two competing views directly.[29] Critics argue that the frequent trading of institutional investors encourages managers to cut research to meet short-term earnings goals; others argue that the large stakes and sophistication of institutions let managers focus on long-term value. Bushee found that institutional investors, taken as a whole, made managers less likely to cut research to reverse an earnings decline, not more. The pressure came from a particular kind of owner: institutions with high portfolio turnover and momentum trading strategies. Where those owned a very large share of a company, managers were more likely to cut. Short-termism, on this evidence, is not a property of markets in general. It is a property of particular owners.

The way through is to choose the owners. Bushee's finding turns an abstract debate into a practical one. A listed company cannot control who buys its shares, but it can affect which investors it attracts: by declining to give quarterly earnings guidance, by reporting the measures that matter to its purpose, by speaking to long-term holders first. Chapter 8 follows the companies that tried the first of these and what the research found. A private company, a family firm or a household makes the choice directly every time it takes money from someone. The question is never only *how much* and *at what price*. It is also *on what clock does this money expect to be repaid, and what will it want from us if the clock runs short?*

The four objections, run on one company

Objections are easier to use when they are aimed at something particular. Chapter 2 worked through a composite company, invented for teaching: a regional heating installer with about two hundred staff, a family as its main owner, and a purpose sentence in its third draft, which names warm, safe and affordable homes in its region and refuses to profit from selling a household a system that costs more over its life than the one the company would choose for itself. Here is what each objection does to it.

Accountability. Can the sentence rank a decision? Mostly, yes. It ranks the regional contract above the distant one and the efficient system above the cheap one. It does not yet say how the board will know whether it is succeeding. The answer the board settles on is two measures reported every quarter beside the accounts: the average expected running cost, over fifteen years, of the systems installed that quarter, and the share of customers still served by the company five years after installation. Neither is perfect. Both are numbers a director can be asked about, which is what Jensen's objection requires.

Purpose-washing. Does the sentence bind? At the start, no. It is in the annual report and on the vans. The family writes it into the articles, which costs a lawyer's afternoon. The sales team's commission, which was paid on installation value, is changed so that a fifth of it depends on the fifteen-year running-cost measure. And the family's largest shareholder, the founder's daughter, is given the explicit right in the shareholders'

agreement to call a meeting if the measure worsens two quarters running. Now there is someone outside management who can enforce the sentence, and a reason for the sales team to care about it.

Entrenchment. Does the patience have a clock and a distance? The family's control is the patience, and there is a real risk that it becomes comfortable. The managing director is the founder's son-in-law. The board agrees two things. An independent director with no family tie chairs a short annual review of the company against its purpose. And the protections in the shareholders' agreement lapse after ten years unless the family votes to renew them, with the vote minuted along with its reasons.

The owners' clocks. Who supplies the capital, and on what clock? The family's equity runs on a generation. The company's bank facility is reviewed annually and carries a covenant on the ratio of debt to annual profit. In a bad year, that covenant is the shortest clock in the company, and it governs. The board's response is not to change banks at once. It is to open a conversation with the bank about a longer tenor for the part of the facility that funds training and service vans, and to write down, in advance, which long-clock spending would be protected if the covenant came under pressure.

None of these changes is dramatic. Each took a meeting or two and a page of drafting. Together they turn the sentence from something the company shows into something it runs on, which was the gap chapter 1 began with. And each was prompted by an objection. The critics did the specification work for free.

What the four have in common

Read together, the objections describe the conditions under which purpose fails. It fails when it is too vague to rank decisions, when nobody outside management can enforce it, when patient owners become absent ones, and when the company's money comes from people on a shorter clock than its work. Each is a gap in structure.

Santa Anna's book frames failure in a similar way. Of the extractive firm, he insists that its harms come from the system rather than from bad people: "Not because they're evil. Because the system has severed the feedback loop that would normally connect action to consequence."[17] The purposeful firm is not exempt from that logic. A purpose with no feedback loop, no measure that tells the board how it is doing and no owner who will act on the answer, is as cut off from consequence as any quarterly target. In his workbook on the keystone effect, he writes of fragmented systems generally: "When you operate from fragmented thinking in an integrated reality, the reality eventually sends feedback. And the feedback has been getting louder."[30]

The four objections are some of that feedback. They are worth hearing in full because each tells a designer where to put a beam.

There is a second thing the four share, and it matters for chapter 4. Each objection, in its own way, is about time. Accountability is about the period over which a manager can be judged. Purpose-washing is about

the gap between the day a statement is signed and the day it would have to cost something. Entrenchment is about how long a shield lasts. Short-termism is about time by name. The answers to all four are, at bottom, ways of setting clocks: a measure reported on a stated cycle, an enforcement right that outlasts the current management, a sunset on a protection, an owner whose holding period matches the work.

The finer points, for a leader

Four habits follow, one for each objection.

Write the trade-off rule. Under the purpose sentence, write the one or two things that come first when the purpose and this year's profit disagree, and the one thing that never gives way. Take it to the board and ask each director to name a past decision it would have changed. If nobody can, the rule is not yet specific enough.

Name the enforcer. For each commitment in the purpose, name the person or body outside management who can enforce it. If the answer is nobody, the commitment is a hope. Some firms solve this with a mission-locked share, some with a foundation, some with an employee trust, some with a lender's covenant. The form matters less than the fact that the enforcer exists and knows it.

Set the clock. For any structure that shields the company from short-term pressure, write a review date. Patience that has to be renewed is still patience; it is also accountable. The review should ask one question of the shield: what has it allowed us to renew that we would otherwise have drawn down?

Map the owners by horizon. List who supplies the company's capital, debt included, and the period each expects to wait. The list is often surprising. Many companies with patient shareholders have impatient lenders, and the lender's clock governs in a bad year.

The finer points, for a household

The same four objections apply at the kitchen table. A family's stated purpose for its money is often vague. Nobody outside the family enforces it. Long-term savings sometimes become a place nobody looks. And the household's own capital frequently comes from lenders on very short clocks, a card balance or an overdraft. None of this is advice about what to buy or hold. It is the same structural reading at smaller scale: name the purpose specifically enough to decide with, decide who will hold the household to it, review it on a date, and know which of the household's commitments are owed on a shorter clock than the life they are meant to support.

Santa Anna's book insists that the inner work and the outer structure belong together, and the household is where that is easiest to see. The structural changes and the steadier nervous system, he writes, "are two hands of a single body, reaching toward the same horizon."[17] A household that writes its purpose and also lowers the temperature of its money conversations is working with both hands.

The Tool: The Purpose Stress Test

Run this on a company, a fund, a family's money, or your own. One page. An hour.

1 · The purpose, in one sentence

2 · Objection one: can it rank a decision?

- A profitable opportunity this purpose would refuse: _____
- The trade-off rule when purpose and this year's profit disagree: _____
- The measure of the purpose itself, reported how often: _____

3 · Objection two: does it bind?

WHERE THE PURPOSE APPEARS	YES / NO
The articles, partnership deed, trust deed or will	
The duties of the directors or trustees	
The largest pay or bonus plan	
A right held by someone outside management	

- If management ignored it tomorrow, who could stop them, and how: _____

4 · Objection three: is patience present?

- Who holds the purpose, and are they separate from those who run the company: _____
- The review date or sunset on any shield from short-term pressure: _____
- The last time the long-term owner asked a hard question, and what it was: _____

5 · Objection four: who are the owners, and on what clock?

SOURCE OF CAPITAL (EQUITY, LOAN, CARD, INVESTOR, FAMILY)	AMOUNT	EXPECTED PERIOD BEFORE REPAYMENT OR RETURN	WHAT THEY CAN DO IF THE PERIOD RUNS SHORT

- The shortest clock in this table: _____ months
- The longest-lived thing the purpose depends on: _____ years
- If the first is much shorter than the second, the one change that would lengthen it: _____

6 · The verdict

Strong on: __ · weakest on: _ · *the one structural change to make this quarter:* ___

Where a beam goes

A builder who has heard four objections to a design does not abandon the building. She walks the plan with each objection in turn and marks where a beam is needed. Chapter 4 reads the problem of time horizons as a living system, which is where Santa Anna's book is most its own. Two of the beams marked here, the employee owner and the owner who speaks rather than sells, are taken up in *Owning the Work* and *The Embedded Market*.

Four objections, four marks on the plan, and a house that stands more squarely for every one of them.

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