Steve Jobs and the Purpose of the Corporation

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In the torrent of commentary following Steve Jobs' death, few have noted that his career and his company say something profound in the endless debate about the purpose of the corporation. Apple existed to "delight customers" first — benefits to other stakeholders, including shareholders, followed.

For more than a quarter century, the mantra, of course, has been that corporations' primary focus should be on shareholders and the primary goal should be to "maximize shareholder value." The famous Michael Jensen and William Meckling article in 1976 argued that the solution to the principal-agency problem — business leaders advance their own interests not those of shareowners — was to make the goal of the corporation the highest return to shareholders and to align shareholders and business leaders through stock options grants.

Although many business people and business school professors would still say that maximizing shareholder value should be the goal of the corporation, there have also been many critics over the years. Among the questions they raise: shareholder value over what time frame? Does stock price accurately reflect intrinsic value? How does the concept help business people make critical trade-offs between short and long term or between competing, legitimate concerns of stakeholders — employees, suppliers, customers and shareowners?

One of the most recent and most trenchant critiques comes from Roger Martin, dean of the Rotman School of Management at the University of Toronto, in his book Fixing the Game (Harvard Business Review Press 2011). In essence, Martin argues that agency theory and the goal of maximizing "shareholder value" have had significant and harmful side effects. Pressures from institutional investors for stock price increases, as well as stock-based compensation for executives, have led many business leaders to manage to the "expectations market" of the public stock exchanges. This in turn has led to narrow short-termism, accounting manipulation, cutting of ethical and legal corners, failures to invest in the long-term, and to the financial crisis. (For my co-authored
account of problems raised by the rising power, and new types of, institutional investors see "Are Institutional Investors Part of the Problem or Part of the Solution."

Martin argues that, instead, the primary purpose of the corporation should be a return to management in the "real market," not the "expectations market," and that this means "customers are the focus, and the central task of companies is to find ever better ways of serving them." Martin's manifesto is: "We must shift the focus of companies back to the customer and away from shareholder value. In other words, we must turn our attention back to the real market and away from the expectations market. This shift necessitates a fundamental change in our prevailing theory of the firm." (Emphasis mine.) Martin cites Thomas Edison and Henry Ford as people who created customer value through "innovations in products, services and business models.

And, of course, Steve Jobs. Without repeating the hundreds of thousands of words written about Jobs and Apple since his death, there can be no question that his deep commitment was to make innovative, robust and beautiful products that delighted customers. He took the time necessary to meet his own exacting standards. He spent extra funds to ensure that the product was right (replacing plastic with glass on the iPhone, for example). He believed deeply in his own capacity to define new products that customers didn't even know they wanted, in the process overturning other real markets in, for example, personal computers, music, cell phones, tablet computing and animated movies.

At least in my view, there can also be no question that Jobs was not focused on shareholders or taking short-cuts or short-term actions to maximize shareholder value. Apple has paid no dividends since 1995. It hasn't used leverage. It holds $76 billion in cash with nary a thought of a buy-back. It is hard to argue that fundamental business decisions were driven by stock options (although there is the issue of options back-dating in the debit column).

Obviously, Apple shareholders have done just fine, with Apple and Exxon Mobile today changing places back and forth as the U.S. Company with the highest market cap. Yet this has been a long process of product design, introduction and success. Ten years ago, Apple was not even in the top 100 U.S. companies by market cap ($7B then; around $340B now). And dramatic increases have occurred in the last five years as the suite of Apple products gained popularity (with share price quadrupling in that period).

But this is at it should be. Those, like Roger Martin, who argue that the purpose of the company should be to create goods and services that serve important customer needs — and to do so with efficiency, risk management and integrity — would further say that the long term shareholder value will follow, as it has in Apple's case.

So, as people reflect on Steve Jobs' legacy, surely one fundamental issue should be his attitude toward corporate purpose — with his devotion to customers, not shareholders, and his ability to withstand short-term pressures in the name of product excellence. As he enters the pantheon of great business leaders, it is hard to argue against his vision
of the purpose of the corporation, given his remarkable success in carrying it out. Future debates on this fundamental subject must put Jobs’ conception at center stage.

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