In late fall 2006, Saskatchewan Wheat Pool (SWP), now known as Viterra, launched a successful bid to take over Agricore United (AU). This was a watershed event in the history of western Canada, marking the end of almost a century of farmer control of the grain handling industry—an era that began in 1906 with the formation of the Grain Growers Grain Company (GGGC). In 1917, the company changed its name to United Grain Growers (UGG), and in 1923 and 1924, the three provincial wheat pools—Alberta Wheat Pool, Saskatchewan Wheat Pool and Manitoba Pool Elevators—were created. These four companies then dominated the western grain industry for almost 70 years.

The purpose of these companies, wrote Vernon Fowke in his classic 1957 work The National Policy and the Wheat Economy, was to balance “the bargaining strength of agricultural producers...with that of the groups to whom farmers sell and from whom they buy.” Over 40 years later, UGG president Mac Runciman echoed Fowke, describing the corporate purpose of his company as giving “the guy who puts his life and his bucks into farming...absolute controlling input into how his business is handled.”

Fowke was on the left of the political spectrum. Runciman, who also served inter alia as director of a number of large Canadian companies (the Royal Bank of Canada and Power Corporation, to name but two) and as chair of the Board of Governors of the University of Manitoba, was not. Both, however, could agree on why the large agricultural co-ops existed.

For over four decades following the end of the Second World War, modernization of the grain handling and transportation system was delayed by misguided government policies, and as a result, by the 1990s, the industry required a massive recapitalization and renewal. Each of the four co-ops approached this problem somewhat differently.
In 1993, UGG issued “limited voting public shares,” but largely maintained its co-op governance, with 12 out of 15 directors being elected by farmers. In 1996, SWP followed suit, but retained a fully farmer-elected board. AWP and MPE raised the necessary capital through borrowing, but were unable to handle the resulting debt load. In 1998, they combined to form Agricore, but by 2001 were forced into a second merger with UGG to form Agricore United. SWP, in part because of some unfortunate business decisions, came close to bankruptcy and in 2005, converted to a Canada Business Corporations Act (CBCA) company.

The following year, SWP launched its takeover bid for AU. Although AU was the larger and more successful company, the directors of the company did not oppose SWP’s bid, which is somewhat puzzling given the company’s history. Runciman had retired before UGG redefined its financial and corporate structure, but his vision had been carried forward in the 1992 UGG Act, under which the company operated until its disappearance.

This legislation defined the corporation as consisting of both members and shareholders, retained farmer control, and said “it is desirable to maintain…the historic connections with farmers of Western Canada.” Although these provisions seem to mandate a corporate purpose that was wider than the interests of shareholders, both members of the board and senior management had evidently come to believe that the fundamental purpose of the company had changed from serving its members to maximizing shareholder value.

Why do modern corporations exist?

However, AU’s stated reason for failing to resist the SWP bid raises a most interesting question: Why do modern corporations exist? It is clear that AU changed its position from the one articulated by Runciman and Fowke and embodied in its legislation to the one it held by the fall of 2006. But it is a question that also applies to publicly owned businesses: What is their ultimate purpose? It turns out that there are two answers.

Shareholder primacy

The first was given by Milton Friedman in an oft-quoted article in the New York Times Magazine, namely, “to conduct the business in accordance with [shareholders’] desires, which generally will be to make as much money as possible.” There is no doubt that today, Friedman’s view—commonly called “shareholder primacy”—predominates.

Serving society’s needs

The second answer is provided by business professor Henry Mintzberg and two of his colleagues, respectively from the Harvard Business School and Oxford University. They dismiss shareholder primacy as “a fabrication”—one of “five half-truths” or “assumptions that we have constructed, not truths we have discovered.” Ominously, they claim that “we are all captives to these assumptions, that they ‘shape the way we think about business and the way we do business.” Even more seriously, they claim that the impact of these assumptions may be “destroying the very thing we cherish.” They go on to say that “the current worship at the altar of shareholder value is…a reversal of our prior beliefs” which were “that corporations exist to serve society” and were “designed to serve a balanced set of stakeholders, not just the narrow economic interests of the shareholders.”

Which answer is correct?

Corporations are formed under corporate law, and the Delaware Court of Chancery is probably the preeminent court of corporate law in the English-speaking world. So when William Allen, the former chancellor of that court, speaks, we are hearing an authoritative voice. An article in the 2002 University of Chicago Law Review, co-authored by Allen and two sitting vice-chancellors, says: “We begin a new century with a question that is old but persistent [namely] what is the purpose of the corporation? In rough terms, the question is…whether corporation law exists solely [for] shareholder…welfare or whether [it recognizes] values in addition to implementing shareholder will. On this question, we think that the corporation law of Delaware remains ambivalent.”

The article in its entirety deals with what they call “The Great Takeover Debate” and analyzes these two competing concepts. As the above quote indicates, Allen and his colleagues do not choose between them.

Allen, however, writes from an American perspective. What does Canadian law say about the issue? Two recent cases argued before the Supreme Court of Canada provide some guidance.

Canadian view

The first is the 2004 decision in Peoples Department Stores Inc. v. Wise. In that case, the court cited the duty of directors as defined in the Canada Business Corporations Act, which is that directors must act “in the best interests of the corporation.” The court observed, however, that “the phrase the ‘best interests of the corporation’ should be read not simply as the ‘best interests of the shareholders.’” Rather, the court said, “In determining… the best interests of the corporation it may be legitimate…for the board…to consider, inter alia, the interests of shareholders, employees, suppliers, creditors, consumers, governments and the environment.”

Beyond shareholders

It appears, then, that considerable contrary evidence exists to the proposition that corporations exist solely to maximize shareholder value. Mintzberg and his colleagues provide an intellectual argument against it. Allen and his co-authors advise that the Delaware court has refused to endorse it. And judgements by the Supreme Court of Canada point clearly to a spectrum of corporate responsibility that goes beyond shareholders.

Perhaps, therefore, we all have a responsibility—academics and businesspeople alike—to spend more time pondering what the true purpose of a corporation actually is, and asking whether Vernon Fowke, Mac Runciman and AU were onto something. Perhaps the balance of power between the many participants in our economic society—investors, employees and citizens at large—is not as it should be.

And perhaps that is what a close examination of the current business environment, of which the AU takeover was but one element, would show.

Paul Earl, PhD, is assistant professor of supply chain management at the Asper School of Business. earlpd@ms.umanitoba.ca