Does Corporate Purpose Conflict With Shareholder Returns?*

Alex Edmans [a]
London Business School, CEPR, and ECGI

Vivian W. Fang [b]
Indiana University, ECGI

Lijun (Gillian) Lei [c]
University of North Carolina - Greensboro

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Abstract

This paper studies the link between purpose statements and future shareholder returns. We use deep neural networks to identify a "purpose statement" as one that views stakeholder value as a means to ultimately improve shareholder value, in contrast to "purpose-like" statements that put shareholders and stakeholders on an equal footing. A value-weighted portfolio of companies with purpose statements earns a 0.3% monthly alpha above characteristics benchmarks; a long-short portfolio that buys firms with purpose statements and sells those with purpose-like statements earns a 0.28% monthly alpha. Purpose statements are positively linked to future earnings surprises, suggesting a channel through which they lead to higher stock returns, but purpose-like statements are not. They are positively associated with unvested but not vested CEO equity ownership, suggesting that long-term equity more effectively aligns managers with shareholders' long-term interests.

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[a] *Email:* aedmans@london.edu, London Business School, Regent's Park, London NW1 4SA.
[b] *Email:* vfang@iu.edu, Kelley School of Business, Bloomington, IN 47405.
[c] *Email:* l_lei2@uncg.edu, Bryan School of Business and Economics, University of North Carolina at Greensboro, Greensboro, NC 27412

1. Introduction

Between 1997 and 2018, the Business Roundtable ("BRT") – an influential group of U.S. CEOs – issued a "Statement on the Purpose of a Corporation" declaring that "The paramount duty of management and of boards of directors is to the corporation's shareholders." On August 19, 2019, the group radically changed its statement to place stakeholders on a par with shareholders. The new statement read: "We commit to: delivering value to our customers . . . investing in our employees . . . dealing fairly and ethically with our suppliers . . . supporting the communities in which we work . . . generating long-term value for shareholders."

The embrace of "corporate purpose" extends far beyond the 181 CEOs that signed this new statement. Out of the Fortune 500, 425 companies now have a mission statement,[1] a declaration of a goal beyond shareholder value. Importantly, purpose appears to be more than a marketing slogan. Companies such as PwC, Deloitte, Hasbro, and Cisco now have a Chief Purpose Officer tasked with ensuring that purpose is put into practice. The World Economic Forum's list of stakeholder capitalism metrics and disclosures is headed up by "the company's stated purpose, as the expression of the means by which a business proposes solutions to economic, environmental and social issues."[2] The 2018 revision of the UK Corporate Governance Code now contains "Board Leadership and Company Purpose" in its first section.

However, purpose is also controversial. On the same day that the BRT changed its statement, the Council of Institutional Investors stated that "we respectfully disagree with the statement issued by the BRT earlier today . . . accountability to everyone means accountability to no one." More generally, the backlash against purpose, and related concepts such as environmental, social and

[1] https://purposebrand.com/blog/best-purpose-statements-fortune-500/
[2] World Economic Forum (2020): "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation"

governance ("ESG") issues, stakeholder capitalism, and sustainability, is driven by concerns that they are necessarily at the expense of shareholder value.

The shareholder value implications of purpose hinge critically on how it is defined. Many advocates of purpose highlight how it should encourage companies to invest in stakeholders *in order to* enhance shareholder value, but that stakeholder value should not be the end in itself. Edmans (2020) states that "a responsible business *creates profits through creating value for society*" (emphasis in original) and introduces three principles to constrain a company's purpose and ensure that it ultimately improves shareholder value; Edmans (2023) stresses how investing in stakeholders is subject to the same diminishing returns and trade-offs as any other investment. In contrast, some companies may seek to maximize shareholder value but overinvest in stakeholders due to the popular belief in a "win-win"; overinvest due to an agency problem (Jensen and Meckling, 1976; Masulis and Reza, 2015; Cheng, Hong, and Shue, 2023), or highlight stakeholder objectives to divert attention away from poor shareholder value creation (Flugum and Souther, 2024).

This paper studies the shareholder value implications of purpose statements. We define a *purpose statement* specifically as one that stresses the importance of investing in stakeholders as a means to ultimately create shareholder value, such as "We believe that environmental, social and governance ("ESG") initiatives are a vital part of corporate responsibility, which supports our primary goal of increasing stockholder value through profitable growth" (Healthpeak Properties, 2020 10-K). Importantly, a purpose statement not only includes references to both stakeholders and shareholders but contains a causal connection from the former to the latter. In contrast, we define a *purpose-like statement* as one that lists stakeholders and shareholders but contains no causal link. For example, the new Business Roundtable statement features them on an equal

footing, and "Our goal is to become the global leader in environmental, energy, fluid handling and filtration products and services by delivering exceptional value for our customers, shareholders, and employees" (CECO Environmental, 2017 10-K), if anything, gives priority to the environment over shareholders. An *ES statement* contains references to stakeholders only and not shareholders.

Central to our distinction between purpose and purpose-like statements is the use of a deep neural networks model that employs machine learning to identify the dependency relationship between words. Specifically, it identifies a purpose statement as one where shareholder and stakeholder keywords are grammatically linked through one of four dependency relationships (oblique nominal, adverbial clause modifier, relative clause modifier, or clausal complement) that suggest a causal association. This contrasts the common "bag of words" approach which investigates the inclusion of certain words but not the relationship between them. We conduct our analysis on purpose statements disclosed in 10-K reports between June 2004 and May 2023. We focus on 10-K statements since their regulatory nature means that firms must avoid making materially false or misleading statements; in contrast, annual reports or shareholder letters are partially used for marketing.

Our main analysis studies the link between purpose statements and shareholder returns. We do not hypothesize a causal relationship, i.e. that companies can increase their shareholder returns merely by issuing a purpose statement. Instead, we explore whether the companies that endogenously issue purpose statements are fundamentally different from those that do not. In contrast to those that issue no statement at all, they recognize the importance of investing in stakeholders to deliver shareholder value; in contrast to those that issue purpose-like or ES statements, they view shareholder value as the ultimate objective (the "value hypothesis"). There would be no link if purpose, purpose-like, or ES statements are uninformative about how a

company actually operates: for example, if they are issued predominantly for marketing or regulatory purposes, or if firms pay little attention to the crafting of such statements (the "irrelevance hypothesis"). There would also be no link if purpose statements are redundant: if all companies knew that building stakeholder capital is necessary to create shareholder value (the "redundance hypothesis").

We find a significant positive relationship between the issuance of purpose statements and shareholder returns. A value-weighted "Purpose Portfolio," of companies that issue purpose statements, delivers a monthly Fama-French five-factor alpha of 0.25% (3% annually). This alpha is 0.14% above industry peers and 0.3% above a characteristic-matched portfolio; all three alphas are statistically significant at the 10% level or better. In contrast, a "Purpose-Like Portfolio," of companies that issue purpose-like statements, delivers insignificant alphas over all three benchmarks. The same is true for an "ES Portfolio" of companies that issue ES statements. These results are consistent with the value hypothesis, but not the irrelevance or redundance hypotheses.

To more precisely contrast purpose statements with other statements, we next study the returns to a long-short portfolio that buys all companies with a purpose statement and sells all companies with a purpose-like statement. Such a strategy earns 0.28% per month (3.4% annually), significant at the 5% level. A similar strategy that sells companies with ES statements (no statements) earns an excess return of 0.23% (0.3%) per month, also significant at 5%.

The above portfolios are formed based on the fiscal year-end date of the 10-K report. They thus study whether firms with purpose statements perform differently from those without, irrespective of whether investors can act on any correlation. We then show that our results are robust to delaying portfolio formation until the actual filing dates of the 10-Ks, which can be up to 90 days after the fiscal-year end. Thus, irrespective of whether purpose statements cause a

company to invest in stakeholders differently, are an indicator that a company invests in stakeholders differently, or are an indicator of other factors such as good management, investors can use the existence of purpose statements to identify firms that are likely to outperform. We find similar results using the pooled panel regressions of Brennan, Chordia, and Subrahmanyam (1998) that control for a long list of firm characteristics rather than covariances.

We study stock returns because they capture all the mechanisms through which a company's different investment behavior, as captured by a purpose statement, may affect shareholder value. However, our stock return results admit alternative explanations: they may result from risks not captured by the five-factor model or changes in tastes (Pastor, Stambaugh, and Taylor, 2021). We study earnings surprises to identify a channel through which companies with purpose statements ultimately deliver higher shareholder returns. We find that firms with purpose statements systematically deliver earnings announcements that beat analyst expectations. In contrast, there is no link between either purpose-like or ES statements and earnings surprises.

Finally, we explore the types of firms that are more likely to have purpose statements. We find no link between the existence of a purpose statement and total CEO equity ownership. However, when we decompose equity ownership into its vested and unvested components, we find a significant positive link with unvested equity and an insignificant relation with vested equity. A one-standard-deviation increase in unvested equity is associated with a 2.9% increase in the likelihood of purpose statement inclusion, compared to the unconditional probability of 9.1%. This is consistent with unvested equity inducing the CEO to recognize the long-term benefits of investing in stakeholders, which might ultimately be reflected by the existence of a purpose statement. In contrast, unvested equity has no relationship with the issuance of ES statements, and either a negative or insignificant link with purpose-like statements.

This paper is part of a literature examining the goals of a corporation. Most closely related to Rajan, Ramella, and Zingales (2023) who identify purpose statements as expressed in shareholder letters. Their focus is the corporate goals that are expressed in such statements; ours is the distinction between purpose and purpose-like statements and its implications for shareholder returns. We also identify purpose statements from 10-Ks as they are more likely to reflect how a company fundamentally operates rather than used for marketing or investor relations objectives. Woolfe (2020) studies whether purpose statements of U.K. companies contain a link to business and a link to strategy, and the number of stakeholder groups they mention.

In an influential essay, Friedman (1970) argued that the only goal of a company should be to maximize shareholder value but stressed that doing so requires a company to invest in stakeholders. Jensen (2001) and Denis (2016) also advocate for this sole objective. If CEOs with this exclusive goal recognized the importance of investing in stakeholders to achieve it, then purpose statements would be redundant. In contrast, Edmans (2020) argues that purpose plays a useful practical role by highlighting the importance of stakeholder capital that CEOs might have otherwise overlooked, similar to how a strategy provides a company with clearer direction on how to maximize shareholder value than simply having shareholder value as an objective. A third perspective is offered by Bebchuk and Tallarita (2020), who suggest that having stakeholder value in the objective function is detrimental to shareholder value. Although Hart and Zingales (2017) point out that this may still be beneficial to shareholder welfare, the implications for shareholder value remain the same.

2. Purpose Statements

To identify purpose statements, we first download the latest 10-K reports filed by all U.S. public reporting entities through the EDGAR system for each fiscal year ending between June 1, 2004, and May 31, 2023. We focus on these SEC filings because, unlike annual reports and shareholder letters, 10-K reports are required for all publicly traded firms, audited, and less driven by marketing motives. By law, firms must avoid making materially false or misleading statements in their 10-Ks and have been sued for doing so; CEOs and CFOs must personally certify the accuracy of these filings under the Sarbanes-Oxley Act of 2002. The SEC reviews 10-K filings for compliance, and these filings are publicly accessible on the SEC's EDGAR website and often on companies' own websites. The mandatory nature of 10-K reports allows for a comprehensive sample to study; the regulatory nature suggests that firms are likely to be more accurate in their disclosures, reducing incentives to misrepresent true purposes and making any statement more reflective of fundamental business beliefs.[3]

As is common in the asset pricing literature, we exclude penny stocks (i.e., with a closing price below $5 at fiscal year-end) to avoid biases due to delisting (Shumway, 1997), illiquidity, and extreme volatility (e.g., Fama and French, 1993). The resulting sample comprises 59,529 downloaded 10-K reports for fiscal years 2004-2022, which are linked to 8,246 unique firms with a central index key (CIK) in the Compustat/CRSP merged database. This represents 80% of the U.S. publicly traded firms covered in the database, as some firms with CIKs (e.g., certain foreign entities and investment companies) are not required to file 10-Ks.

[3] Rajan, Ramella, and Zingales (2023) note that while almost all public companies file 10-K reports, they do not necessarily include annual reports or shareholder letters. As the EDGAR system has facilitated the distribution of electronic 10-K filings, the popularity of annual reports has diminished. In some cases, the annual report has become a 10-K preceded by a letter to shareholders; in others, even the letter has disappeared. While Rajan, Ramella, and Zingales (2023) focus on shareholder letters of Fortune 150 companies to illustrate the evolution of corporate goals over the past seven decades, we aim to gauge stated purposes by U.S. public companies from the most comprehensive sample available.

Using this sample, we search for purpose statements within "Item 1 – Business" and "Item 7 – Management's Discussion and Analysis" ("MD&A") of the 10-K reports, as these two sections are most likely to contain purpose statements, if any are present. The focus on Items 1 and 7 to search for qualitative information follows prior studies, such as Hoberg and Phillips (2010, 2015, 2016).[4] To assess the rate of Type II error (false negatives), we review a random sample of 100 10-K filings, search for purpose statements in the entire report, and identify no instances of improper exclusion (i.e. statements outside of Items 1 and 7).

As defined earlier, purpose statements should not only articulate a firm's broad purpose—why a business exists, its reason for being, and the role it plays in the world—but also highlight how serving the firm's broad purpose aligns with the fundamental goal of creating shareholder value. Therefore, we search for statements that contain a firm's environmental and social ("ES") stakeholders and clarify how investing in these stakeholders ultimately benefits shareholders.

We implement the search in two steps. First, we search for sentences containing purpose-related keywords. Following Rajan, Ramella, and Zingales (2023), the list of keywords includes "purpose," "mission," "vision," "goal," "strategy," "objective," "commit," "focus," and their variants, consistent with the Oxford Dictionary's definition of *purpose* as "that which a person sets out to do or attain; an object in view; a determined intention or aim."[5] For sentences with successful keyword hits, we then examine whether they concern the firm's stakeholders, shareholders, or both. To identify stakeholders, we rely on a list that combines ES-related keywords from Baier, Berninger, and Kiesel (2020, Table 3), keywords referring to stakeholder

[4] A machine learning approach requires high-quality inputs to generate high-quality outputs. Items 1 and 7 are the most likely places to find purpose statements; expanding the search to the entire 10-K significantly increases the risk of false positives.

[5] The Cambridge Dictionary similarly defines *purpose* as "an intention or aim; a reason for doing something or for allowing something to happen."

groups other than shareholders (e.g., employees and consumers), and glossaries created by investment and consulting firms specialized in sustainable investing.[6] We remove keywords that need not have an ES meaning to reduce Type I errors (false positives). For example, "water" might refer to a utility company's core business, such as "*American Water is the largest and most geographically diverse, publicly-traded water and wastewater utility company in the United States*"; "green" can appear in a company name without necessarily indicating an environmental focus, such as "*Green Plains, Inc.*," and "foundation" can be used in ordinary language without implying a charitable foundation, such as "*We believe that the smaller format maintains the dynamic customer experience that is the foundation of our brand and allows us flexibility*."

Appendix A details the final list, which includes words such as "biodiversity," "decarbonization," "justice," "nondiscrimination," "safety," and "wages." For shareholders, we compile a concise keyword list including "shareholder," "stockholder," "investor," and their variants. We define statements containing only stakeholders as "ES statements." An example is the following sentence from Etsy, Inc's 2018 10-K: *"Our **mission** is to "Keep Commerce Human," and we're committed to using the power of business and technology to strengthen **communities** and empower people around the world."* We use "mission statements" as an umbrella term to refer to purpose, purpose-like, or ES statements.

Second, for sentences containing both stakeholders and shareholders, we analyze whether they simply include both in a list, or instead suggest a dependency relation – that the company invests in stakeholders in order to benefit shareholders. A *dependency relation* is an asymmetric connection between words in a phrase, where one word (the "dependent") relies on another word (the "head") for its meaning or grammatical function. For example, in the phrase "for the benefit

[6] These glossaries are provided by ROBECO, Global Affairs Associates, and First Affirmative Financial Network.

of our shareholders," "benefit" is the head and "shareholders" is the dependent. To identify dependency relations, we apply the Stanford Dependency Parser, a deep machine learning technique developed by the Stanford Natural Language Processing Group, trained on a deep neural networks model using articles from various sources such as the *Wall Street Journal*. It aims to identify syntactical features of sentences to extract the dependency relation between words and then apply this knowledge to effectively analyze new sentences; the reported accuracy of this parser reaches 92% (Chen and Manning, 2014). Thus, this parser analyzes contextual meanings, in contrast to other textual analysis tools (e.g., the bag-of-words approach) that merely identify words.

In applying the parser, we require that: (a) a shareholder keyword exists within ten dependency relationships of an ES-related keyword[7] and (b) the part containing the shareholder keyword and the part containing the ES-related keyword are grammatically linked through one of four dependency relationships (oblique nominal, adverbial clause modifier, relative clause modifier, or clausal complement[8]) that suggests that shareholders are served by investing in ES. Statements that meet both requirements are therefore defined as "purpose statements"; the rest are defined as "purpose-like statements."

The *oblique nominal* relationship arises when a nominal (noun, pronoun, or noun phrase) functions as a non-core (oblique) argument or adjunct.[9] An example is the following sentence from Apache Corporation's 2017 10-K:

[7] The average sentence in 10-Ks has 23 words and is increasing over time (Loughran and McDonald, 2014). The average distance between two words in a dependency relationship in English is three. Thus, 10 dependency relationships can cover a sentence.

[8] These four were selected by taking a large sample of purpose statements indicating that the company seeks to create stakeholder value in order to create shareholder value, and feeding them into the Stanford parser, which identified the dependency relationships between words. These four relationships were most common.

[9] In a grammatical context, an "argument" is a word or phrase that is required by a verb to form a complete sentence. Subjects, objects, and complements are arguments. An "adjunct" is an optional element that provides additional

*"Our **mission** is to grow in an innovative, safe, environmentally **responsible**, and profitable manner for the long-term benefit of our **shareholders**."*

In this example, the purpose keyword is "mission," the shareholder keyword is "shareholders," and the ES keyword is "responsible." "Shareholders" is within four dependency relations from "responsible": "shareholders" is in a dependency relation with "benefit," "benefit" with "grow," "grow" with "manner," and "manner" with "responsible."[10] The relationship between "benefit" and "grow" is oblique nominal because "benefit" is the object of the phrase "for the long-term benefit of our shareholders" which modifies the verb "to grow" by expressing the purpose of the growth. The relationship between "grow" and "manner" is also oblique nominal because the preposition "in" introduces the noun "manner," which describes how the action of growing is carried out. Thus, the above is classified as a purpose statement. It states that the company's mission is to grow in a responsible manner which benefits the shareholders.

The *adverbial clause modifier* relation arises when a clause modifies a verb. An example is from Wyndham Worldwide Corporation 2015 10-K:

*"Our **mission** is to increase **shareholder** value by offering the widest ranges of places to stay thereby allowing **customers** to experience travel the way they want."*

information but is not required to complete a sentence. For example, in "he taught her yesterday," "he" and "her" are arguments and "yesterday" is an adjunct.

[10] The phrase "grow in an innovative, safe, environmentally responsible, and profitable manner for the long-term benefit of our shareholders" is headed by "grow." "For the long-term benefit of our shareholders" is headed by "benefit" and modifies "grow," so there exists a dependency relation between "benefit" and "grow." Similarly, "in an innovative, safe, environmentally responsible, and profitable manner" is headed by "manner" and modifies "grow," so there exists a dependency relation between "manner" and "grow." Lastly, "for the long-term benefit of our shareholders" is headed by "benefit," and "shareholders" is a dependent that modifies "benefit."

The shareholder keyword, "shareholder," is within seven dependency relations from the ES keyword, "customers" (shareholder → value → increase → offer → stay → allow → customers). The relationship between "increase" and "offer" is an adverbial clause modifier because the adverbial clause "by offering the widest ranges of places to stay thereby allowing customers to experience travel the way they want" describes how the mission is accomplished. Thus, the extract is classified as a purpose statement. It states that the company's mission is to deliver an exceptional customer experience which creates long-term value for shareholders.

A *relative clause modifier* is a relative clause modifying the noun. An example is from Healthpeak Properties' 2020 10-K:

"We believe that environmental, social and governance ("ESG") initiatives are a vital part of corporate ***responsibility****, which supports our primary* ***goal*** *of increasing* ***stockholder*** *value through profitable growth."*

"Stockholder" is within four dependency relations from "responsibility" (stockholder → value → goal → supports → responsibility). The relationship between "supports" and "responsibility" is a relative clause modifier because the clause "which supports our primary goal …" describes how "responsibility" relates to the company's goal of increasing stockholder value. Thus, the sentence is classified as a purpose statement.[11] It states that the company's goal is to increase stockholder value by committing to corporate responsibility.

[11] In addition, the relationship between "goal" and "supports" is an oblique nominal, which is sufficient for the extract to be classified as a purpose statement.

A *clausal complement* of a verb or adjective is a dependent clause which is a core argument. That is, it functions like an object of the verb or adjective. An example is from California BankCorp's 2020 10-K:

*"We **focus** on creating value for the **communities** and clients we serve to provide exceptional return for our **shareholders**, and also growing relationship deposits and lending those funds to invest in and support the communities we serve, with the ultimate goal of yielding superior growth in earnings per share."*

"Shareholders" is within six dependency relations from "responsibility" (shareholders → return → provide → serve → focus → value → communities). The relationship between "provide" and "serve" is a clausal complement because the clause "to provide exceptional return for our shareholders" acts as a complement to the verb "serve" and explains the purpose of serving. Thus, the sentence is classified as a purpose statement. It states that the company's focus is to provide exceptional return for shareholders by creating value for the communities.

An example of a purpose-like statement is from CECO Environmental's 2017 10-K:

*"Our **goal** is to become the global leader in **environmental**, energy, fluid handling and filtration products and services by delivering exceptional value for our **customers**, **shareholders**, and **employees**."*

The purpose keyword is "goal," the shareholder keyword is "shareholders," and the ES keyword could be "customers," "environmental," or "employees." "Shareholders" is within one

dependency relation from "customers" and employees and six dependency relations from "environmental," but none of the four dependency relationships above is featured. Indeed, the sentence does not state that serving the environment, customers, and employees serves shareholders. Instead, shareholders are simply featured in a list that also contains customers and employees; if anything, it suggests that serving shareholders ultimately benefits the environment. Thus, it is not classified as a purpose statement.

We code an indicator variable, *Purpose*, which equals one if the firm's 10-K filing contains a purpose statement, and zero otherwise. Similarly, *Purpose-Like* is an indicator variable for a purpose-like statement, and *ES* for an ES statement – one that includes at least one ES keyword but no shareholder keyword. There are very few statements that contain a shareholder keyword but no ES keyword, so we do not classify them; this means that companies with such statements are combined with companies with no mission statement.

Table 1, Panel A reports the yearly distribution of the three types of statements in the initial sample. ES statements are the most frequent type, appearing in 31,375 of the 59,529 10-K reports, or 53% of the sample. However, their popularity has varied considerably over the sample period: the annual frequency ranged between 49% and 56% in the first six years (2004-2009), peaked at 61% in 2010, stabilized around 59% until 2015, and then gradually declined to 42% in 2021 and 43% in 2022. Only 5,141 (9%) of 10-Ks contain purpose statements, while 10,137 (17%) contain purpose-like statements. Although the frequencies of the two types of statements differ, they follow a similar pattern over the same period: reaching a low of 4% (11%) for purpose (purpose-like) statements in 2009, and a high of 14% (25%) in 2017. Interestingly, there appears to be a substitution between ES statements and purpose or purpose-like statements. The year 2009 precedes the peak frequency of ES statements, while 2017 precedes the decline of ES statements

into the 40% range. Figure 1 illustrates the time trends in the three types of statements. The fourth category of 10-Ks feature no mission statement at all.

Table 1, Panel B illustrates where purpose statements appear in the 10-K reports. On average, a slightly higher percentage of purpose statements are included in the Business (Item 1) than in the MD&A section (Item 7), at 60% vs. 52%.

Table 2, Panel A presents the characteristics of firm-years with purpose statements and Panel B compares them across firm-years with purpose-like or ES statements. Compared to the average firm in the Compustat database, firm-years with purpose statements tend to be larger, more profitable, more leveraged, and invest less in intangibles. These differences become even more pronounced when comparing firm-years with purpose statements to those with ES statements. However, the differences become less pronounced when comparing firm-years with purpose statements to those with purpose-like statements, although the former still tend to be larger and more leveraged.

3. Stock Returns

3.1 Hypothesis development

Our hypothesis is that firms differ in their objectives and the investments that they will pursue to achieve these objectives, and that mission statements are valuable in shedding light on these objectives and strategies. We call this the "value hypothesis."

Under this hypothesis, there are three sets of companies. *Enlightened shareholder capitalists* seek to maximize shareholder value and recognize that doing so requires significant stakeholder investments – including many that take a long time to ultimately translate into shareholder value. However, they view stakeholder value as a means to create shareholder value rather than as an end

in itself. Such companies will issue a purpose statement, which encapsulates their goal and their intended means of achieving this goal.

The second set, *narrow shareholder capitalists*, seek to maximize shareholder value but do not recognize the role that stakeholder investments play in doing so. This may be due to having short time horizons or believing that stakeholder value is at the expense of shareholder value, as commonly expressed by opponents of stakeholder capitalism. They may make investments with a direct link to shareholder value (e.g., R&D and advertising) but not others that indirectly benefit shareholder value through creating stakeholder value (e.g., employee wellbeing). Such companies will issue no statement (or a shareholder-only statement).

The third set, *stakeholder capitalists*, view stakeholder value as an end in itself, and pursue it even if doing so does not maximize shareholder value. One reason may be that their goal is shareholder value but they do not recognize that some stakeholder investments are negative-NPV, or that initially positive-NPV investments eventually hit diminishing returns, potentially due to the "win-win" arguments proposed by many stakeholder capitalism advocates. The survey of Edmans, Gosling, and Jenter (2025) finds that 68% of equity fund managers believe that companies overinvest in at least one stakeholder issue (out of eight options). Other reasons are an agency problem, where CEOs pursue stakeholder value even if investors' sole objective is shareholder value (e.g. Masulis and Reza, 2015; Cheng, Hong, and Shue, 2023), or investors' objective function including stakeholder value (Hart and Zingales, 2017). These companies will issue either purpose-like or ES statements.

Under the value hypothesis, firms issuing purpose statements will outperform those issuing no statement, because they will make positive-NPV investments that the latter will not; they will also outperform those issuing purpose-like or ES statements, because the latter may invest in

stakeholder capital beyond the point that it increases shareholder value. However, we do not have strong predictions for whether companies issuing purpose-like or ES statements will outperform those without: they will take both positive- and negative-NPV investments that the latter will not.

An alternative hypothesis is the "irrelevance hypothesis" – that mission statements are irrelevant. Their content (or absence) simply reflects a firm's marketing or investor relations activities with no link to how the firm is fundamentally run. Under this hypothesis, there should be no association between any type of mission statement and shareholder returns.

A third hypothesis is the "redundance hypothesis" – that purpose statements are redundant. All companies, whose objective is shareholder value, know that investing in stakeholders is necessary to achieve this objective (Friedman, 1970; Jensen, 2001; Denis, 2016). All shareholder capitalists are enlightened; there are no myopic shareholder capitalists. Some choose not to issue purpose statements as they believe that it is stating the obvious; others may do so anyway believing that even though it has little benefit, it has little cost. Thus, firms issuing purpose statements should perform the same as firms with no mission statement: both will pursue all positive-NPV investments. In addition, both will outperform firms with purpose-like and ES statements as the latter will undertake some negative-NPV investments.

The table below summarizes the statements issued by the three types of firms, and the return implications, under each hypothesis:

	Value	Irrelevance	Redundance
Enlightened shareholder capitalists	Purpose statement	Any statement or no statement	Purpose statement or no statement
Narrow shareholder capitalists	No statement	Any statement or no statement	*[Non-existent]*
Stakeholder capitalists	Purpose-like or ES statement	Any statement or no statement	Purpose-like or ES statement
Return implications	Purpose statements outperform no,	None	Purpose statements perform similarly to no statements; both

	purpose-like, and ES statements		outperform purpose-like and ES statements

We test the value hypothesis by studying the link between purpose statements and shareholder returns. The latter captures all the channels through which being an enlightened shareholder capitalist ultimately benefit shareholders: it may lead to higher current profits, higher expected future profits, new products and contracts, more valuable intangible assets such as brand and corporate culture, or a company announcing positive-NPV investments. In contrast, studying (for example) the link with current accounting profits would only capture the first channel. Valuation ratios or event study returns may substantially underestimate any relationship, given previous evidence that the market fails to fully incorporate intangibles. Firms with superior governance (Gompers, Ishii, and Metrick, 2003; Giroud and Mueller, 2011), employee satisfaction (Edmans, 2011, 2012; Boustanifar and Kang, 2022), customer satisfaction (Fornell et al., 2006), environmental efficiency (Derwall et al., 2005), and high R&D and advertising expenditure (Chan, Lakonishok, and Sougiannis, 2001) all earn higher long-run returns. The link between purpose statements and shareholder returns is thus a joint test of the association between purpose statements and shareholder value, and the extent to which this association is not priced by the market. If the market partially prices in this association, then any long-run returns will be an underestimate of the correlation between purpose statements and shareholder value.

Note that we are not hypothesizing a causal relationship between purpose statements and stock returns – that a firm can increase its future stock returns merely by issuing a purpose statement. Whether a firm has a purpose statement (versus a purpose-like statement, an ES statement, or no statement at all) is clearly endogenous. Instead, our hypothesis is that firms that endogenously choose to issue purpose statements are different types of firms: they are enlightened shareholder

capitalists that recognize the importance of creating stakeholder value to increase shareholder value, but do not view it as an end in itself. We are exploring whether the firms that issue purpose statements perform better than those that do not, in contrast to concerns that purpose statements are irrelevant because they are simply marketing slogans, or redundant because the exclusive goal of shareholder value is sufficient to induce positive-NPV investments in stakeholders. In addition, any relationship would be of interest to investors as they can use the existence of purpose statements as a window into the company, and thus a guide to their investment decisions.

We recognize that there are different definitions of what a "true" purpose statement is. Some argue that the only purpose of a company is to maximize shareholder value; others believe that a company's purpose is to have a positive impact on society irrespective of the shareholder value implications. We use "purpose statement" to refer to one that has two elements: the goal of shareholder value, as it is consistent with the legal fiduciary duty of a for-profit company; and the mechanism of investing in stakeholder value, given the widespread belief that purpose involves positive societal impact. Note that different views on what constitutes a "purpose statement" would not affect our hypotheses (whether companies that issue what we call a purpose statement outperform other companies), but only what to call such an announcement.

3.2 Portfolio analysis

We begin with a portfolio analysis. We first form a monthly portfolio of all public firms in our sample that included a purpose statement in their 10-K filings for fiscal years ending within the past 12 months. A firm is thus included in the Purpose Portfolio for 12 months following the fiscal year-end month of its 10-K filing. As 10-K filings enter our sample at different times, we rebalance the portfolio monthly. We similarly create two additional monthly portfolios—the Purpose-Like

Portfolio and ES Portfolio—comprising firms with purpose-like statements and ES statements in their 10-K filings, respectively, for fiscal years ending within the past 12 months. The three portfolios are designed to be mutually exclusive; thus, if a firm's 10-K filing includes multiple types of mission statements, the firm is assigned to only one portfolio based on the following order: Purpose, then Purpose-Like, and finally ES.

Since our sample of 10-Ks covers fiscal years ending from June 2004 to May 2023, we form the three portfolios from July 2004 (the first month after the earliest fiscal year-end in our sample) to May 2024 (one year after the latest fiscal year-end in our sample). During this period, the monthly Purpose Portfolio contains an average of 251 firms, while the Purpose-Like and ES Portfolios contain an average of 495 and 1,621 firms, respectively.

We calculate abnormal stock returns after controlling for the Fama and French (2015) five risk factors in the following regression:

$$R_t = \alpha + \beta_{MKT}MKT_t + \beta_{SMB}SMB_t + \beta_{HML}HML_t + \beta_{RMW}RMW_t + \beta_{CMA}CMA_t + \varepsilon_t, \quad (1)$$

where R_t represents the average excess return for all firms in a given portfolio (as defined above) in month t. MKT_t, SMB_t, HML_t, RMW, and CMA_t are the returns on the market, size, value, profitability, and investment factors, taken from Kenneth French's website. Our variable of interest is α, the intercept that captures the risk-adjusted abnormal return. Standard errors are calculated using Newey and West (1987), thus allowing for heteroskedasticity and autocorrelation. In unreported analyses, we verify that all results continue to hold when calculating excess returns relative to the Carhart (1997) four-factor model.

To calculate R_t, we first calculate the excess return for each firm included in a portfolio during month t relative to a benchmark. We use three different benchmarks: the risk-free rate from Kenneth French's website; the average return on an industry-matched portfolio based on Fama and French's (1997) 49-industry classification; and the average return on a characteristic-based benchmark proposed by Daniel, Grinblatt, Titman, and Wermers (1997) ("DGTW"), which matches each firm to a portfolio of stocks with similar size, book-to-market, and momentum. Compared to the risk-free rate, calculating a firm's excess return over the industry-based benchmark controls for industry-specific risks not captured by the Fama and French (2015) risk factors in equation (1), while using the characteristic-based benchmark adjusts for firm characteristics. It is conservative, but not superfluous, to subtract the returns on characteristic-based benchmarks in addition to including the size, book-to-market, and momentum factors, as characteristics have explanatory power beyond covariances (Daniel and Titman, 1997).

Table 3 reports the results. The Purpose Portfolio exhibits significantly positive risk-adjusted abnormal returns across all three benchmarks; the monthly alpha is 0.25% when unadjusted (3% annually), 0.14% when industry-adjusted (1.7% annually), and 0.3% when characteristics-adjusted (3.6% annually). In contrast, the returns for both the Purpose-Like and ES Portfolios are insignificant for all three benchmarks.

To further examine the differences in abnormal returns between the Purpose Portfolio and the other two portfolios, we form a trading strategy that buys firms in the Purpose Portfolio and sells firms in either the Purpose-Like Portfolio, the ES Portfolio, or the No-Statement Portfolio of firms without a mission statement. Table 4 presents the returns from this strategy. A strategy that buys the Purpose Portfolio and sells the Purpose-Like, ES, and No Statement portfolio earns a monthly unadjusted alpha of 0.28%, 0.23%, and 0.3%; all are significant at the 5% level.

The results reported above are based on portfolios constructed over the 12 months following the fiscal year-ends of the 10-K filings. This approach examines whether companies with purpose statements are different from those without, without being concerned about whether investors can exploit any relationship. We now explore the exploitability of any link. Given that most companies have up to 90 days after their fiscal year-end to file their 10-Ks, the inclusion of purpose statements or other disclosures may not be known to the market at fiscal year-end. To address this, we repeat the analysis in Tables 4 using portfolios reconstructed over the 12 months following the actual filing dates of the 10-Ks. The results, reported in Table IA1 of the Internet Appendix, remain consistent: a long-short portfolio that buys the Purpose Portfolio and sells either the Purpose-Like, ES, or No Statement Portfolio earns significantly positive returns.

3.3 Stock-level analysis

This section explores the link between purpose statements and shareholder returns using a stock-level analysis which allows us to control for a broader set of firm-specific characteristics. Specifically, we estimate the following Fama-MacBeth (1973) regression:

$$R_{it} = \alpha + \beta Purpose_{it} + \gamma Control1_{it} + e_{it}, \qquad (2)$$

where R_{it} represents either the raw or industry-adjusted return of firm i in month t. $Purpose_{it}$ is an indicator variable that denotes whether firm i included a purpose statement in its 10-K filing for a fiscal year ending within the past 12 months. $Control1_{it}$ is a vector of firm characteristics for firm i-month t, constructed following Brennan, Chordia, and Subrahmanyam (1998). $Mktcap_{it}$ is the natural logarithm of firm i's market capitalization at the end of month t-2; BM_{it} is the natural

logarithm of firm *i*'s book-to-market ratio, calculated at the end of the fiscal year preceding month *t* and held constant through the following fiscal year-end. $Divyield_{it}$ represents firm *i*'s dividend yield, defined as the firm's common dividends from the previous fiscal year scaled by its market value at the fiscal year-end. Like *BM*, $Divyield_{it}$ is calculated at the end of the fiscal year preceding month *t* and held constant through the following fiscal year-end. $RET2\text{-}3_{it}$, $RET4\text{-}6_{it}$, and $RET7\text{-}12_{it}$ represent the natural logarithm of the cumulative returns over months *t*-3 to *t*-2, *t*-4 to *t*-6, and *t*-7 to *t*-12, respectively. Vol_{it} is the natural logarithm of the dollar trading volume of firm *i* in month *t*−2, and Prc_{it} is the natural logarithm of firm *i*'s stock price at the end of month *t*−2. We include year-month fixed effects in all columns.

Column (1) of Table 5 reports the regression results of estimating equation (2) with the firm's raw return as the dependent variable. The results show that the inclusion of a purpose statement is associated with a 0.19% higher monthly raw return over the 12 months following the fiscal year-end of the filing. This is significant at the 1% level and corresponds to 2.3% annually. Column (2) repeats the analysis with the firm's industry-adjusted return as the dependent variable. A purpose statement is also associated with a 0.19% higher monthly industry-adjusted return, corresponding to 2.3% annually and significant at the 1% level.

Columns (3)-(4) of Table 5 repeat the analysis in columns (1)-(2), replacing $Purpose_{it}$ with $Purpose\text{-}Like_{it}$, an indicator for a purpose-like statement. In contrast to the *Purpose* results, the coefficient estimate on $Purpose\text{-}Like_{it}$ is negative in both columns and statistically significant at the 10% level. Columns (5)-(6) of Table 5 replace $Purpose_{it}$ with ES_{it}, an indicator for an ES statement. The coefficient estimate on ES_{it} is statistically insignificant in both columns.

Overall, after controlling for firm-specific characteristics, the firm-level regression results in Table 5 align with the portfolio-level results in Table 4, reinforcing the conclusion that firms with

purpose statements are fundamentally different from those with purpose-like or ES statements in terms of their subsequent stock return performance. As in the previous section, we again repeat the results in Table 5 measuring firm returns over the 12 months following the actual filing dates of the 10-Ks. The results, reported in Table IA2 of the Internet Appendix, remain consistent.

4. Purpose statements and earnings surprises

One interpretation of the stock return results is that companies with purpose statements are better at creating shareholder value, and that this ability is not fully priced by the market. However, the results also admit alternative explanations. A second is that such firms are fundamentally riskier in ways not captured by our risk factors or firm characteristics. Third, increasing demand for such firms, due to changing tastes, drives up their prices over time (Pastor, Stambaugh, and Taylor, 2021). Fourth, the market could wrongly think that purpose statements are detrimental to shareholder value and price them at a discount, and the higher future returns represent the unwinding of this discount over time.

While these alternative hypotheses might explain the outperformance of the Purpose Portfolio relative to benchmarks, they have more difficulty in explaining its outperformance relative to the Purpose-Like and ES Portfolios. For example, it is more challenging to think of reasons why firms with purpose statements are riskier than firms with purpose-like or ES statements, and why tastes may have increased for the former more than the latter. However, we can conduct further tests to distinguish between the hypotheses.

If firms with purpose statements are fundamentally better at creating shareholder value, and that this ability is not priced by the market, then their earnings announcements would outperform analyst expectations. In other words, they would exhibit more positive earnings surprises. We thus follow prior studies (e.g., Atilgan et al., 2024; Core, Guay, and Rusticus, 2006; Edmans, 2011;

Giroud and Mueller, 2011) in using earnings surprises to disentangle outperformance from other explanations for high stock returns such as risks and tastes. Specifically, we estimate the following panel regression:

$$Surprise_{it+1} = \alpha + \beta Purpose_{it} + \gamma Control2_{it} + e_{it+1}, \quad (3)$$

where $Surprise_{it+1}$ represents the one-year earnings surprise, defined as the difference between the actual earnings per share (EPS) for firm *i*'s fiscal year ending in year *t* and the median forecast from the Institutional Brokers' Estimate System (I/B/E/S) analysts, deflated by the firm's stock price at the fiscal year-end. This timing ensures that analysts have access to the prior year's earnings when making their forecasts, as most firms have up to 90 days to file 10-Ks after fiscal year-end. To address outliers, we follow Edmans (2011) and Giroud and Mueller (2011) by removing observations for which the forecast error is larger than 10% of the price. $Control2_{it}$ represents two control variables: the natural logarithm of the book-to-market ratio and of market capitalization in year *t.*

Column (1) of Table 6, Panel A reports the regression results of estimating equation (3) without any controls. The results indicate that a purpose statement is associated with a $0.36 per share higher earnings surprise, or 19% of the mean absolute earnings surprise, significantly positive at the 5% level. This positive association remains robust when controlling for the book-to-market ratio in column (2), and for both the book-to-market ratio and firm size in column (3). The result also holds when including year fixed effects and clustering standard errors by year in columns (1)-(3) and including both year and firm fixed effects in column (4) and clustering standard errors by firm and year.

Table 6, Panel B and Panel C repeat the analysis in Panel A, replacing $Purpose_{it}$ with $Purpose\text{-}Like_{it}$ and ES_{it}, respectively. Unlike purpose statements, we find no evidence that the inclusion of a purpose-like statement or an ES statement is positively associated with earnings surprises. Overall, these results suggest that earnings surprises contribute to the outperformance of firms with purpose statements relative to various benchmarks. Based on the specification in column (3), a chi-squared test shows that the difference in coefficient estimates between *Purpose* in Panel A and *Purpose-Like* in Panel B and that between *Purpose* in Panel A and *ES* in Panel C are both statistically significant at the 5% level.

5. CEO Incentives

Section 3 studied the consequences of having a purpose statement for shareholder returns and earnings surprises. This section studies what types of firms have a purpose statement in the first place. Since a purpose statement ultimately seeks to create shareholder value, we hypothesize that its existence is positively associated with CEO equity incentives. To test this hypothesis, we run the following panel regression:

$$Purpose_{it+1} = \alpha + \beta CEOWealth_{it} + \gamma Control3_{it} + e_{it+1}, \qquad (4)$$

The independent variable of interest is $CEOWealth_{it}$, the dollar change in the CEO's wealth (from both shares and options) for a 1% change in the stock price at the end of year *t*, scaled by CEO total compensation in year *t*. We scale by total pay to give a measure that is theoretically and empirically independent of firm size and thus comparable across firms of different sizes (Edmans, Gabaix, and Landier, 2009). We compile data on CEO incentives from the ExecuComp database, which is limited to S&P 1500 firms.

Control3$_{it}$ represents a comprehensive list of control variables, mainly derived from Edmans, Fang, and Lewellen (2017). Their paper studies investment; since a mission statement also reflects a company's long-term goals and strategies, we use similar control variables. They can be divided into two groups. The first group contains the CEO's other incentives such as the CEO's salary (*Salary*), bonus (*Bonus*), age (*CEOAge*), and tenure (*Tenure*), as well as a new CEO indicator (*NewCEO*) to capture career concerns in year *t*. The second group includes firm characteristics such as firm age (*FirmAge*), Tobin's q (*Q*), the natural logarithm of the firm's market capitalization (*Mktcap*), the compounded monthly market-adjusted stock return over the past twelve month (*Momentum*), cash and short-term investments (*CASH*), leverage (*Leverage*), retained earnings (*RetEarn*), and the return-on-assets ratio (*ROA*), all measured at the end of year *t*. Since shareholders may influence a company's goals, we augment the controls in Edmans, Fang, and Lewellen (2017) with two variables to capture institutional influence in year *t*, namely, the number of blockholders owning 5% or more of the firm's shares (*NumBlock*), and the total percentage of shares owned by these blockholders (*Block%*). We cluster standard errors by firm in all columns.

Column (1)-(2) of Table 7, Panel A reports the regression results of estimating equation (4) using a probit model. We include year fixed effects to control for temporal variation in the inclusion of purpose statements, industry fixed effects to control for variation in the inclusion of purpose statements across industries, and lagged *Purpose* to control for any persistence in a firm's tendency to include a purpose statement as boilerplate. Given the nonlinear model, we do not include firm fixed effects due to the incidental parameters problem.

We find no significant association between CEO stock ownership and the likelihood of a firm including a purpose statement in its 10-K filing, as indicated by the statistically insignificant coefficient on *CEOWealth* in column (1). To explore how CEO incentives may differ between

long- and short-term equity pay, we break *CEOWealth* into *Unvested* and *Vested*, the sensitivity of the CEO's unvested and vested equity respectively. The coefficient on *Unvested* is significantly positive at the 10% level, while the coefficient on *Vested* is insignificant. A one-standard-deviation increase in *Unvested* is associated with a 2.85% increase in the likelihood of purpose statement inclusion, compared to the unconditional probability of 9.09%. This contrast suggests that long-term equity compensation is more effective in aligning the CEO's interests with those of shareholders, particularly when the firm aims to address broader ES responsibilities. In contrast, Panels B and C show that *Unvested* has no association with the frequency of either purpose-like or ES statements, and *Vested* is positively related to the frequency of purpose-like statements and negatively related to the frequency of ES statements. The latter finding might be because vested equity causes CEOs to have a short-term focus and underestimate the importance of ES for long-term shareholder value.

Columns (3)-(4) of Table 7 repeat the analyses in Columns (1)-(2) but use a linear probability model (LPM). Compared to a probit model, an LPM assumes a homoscedastic error term and potentially gives unbounded predicted values of *Purpose* but allows for non-normal errors and enables us to include firm fixed effects to control for firm-level heterogeneity in the inclusion of purpose statements. With the inclusion of firm fixed effects, we drop lagged *Purpose* as a control.

The coefficient estimate for CEO's total ownership, *CEOWealth*, remains insignificant in column (3). The link between purpose statements and unvested equity is now stronger, with *Unvested* significantly positive at the 1% level in column (4) while *Vested* remains insignificant. A one-standard-deviation increase in *Unvested* is associated with a 6.6% increase in the likelihood of purpose statement inclusion. Panels B and C show that unvested equity remains unrelated to the frequency of ES statements, and is now negatively related to the frequency of purpose-like

statements at the 10% level, while vested equity continues to be positively related to the frequency of purpose-like statements and negatively related to the frequency of ES statements.

6. Conclusion

Corporate purpose is a controversial topic, with advocates claiming that it is accretive to shareholder value and detractors arguing, equally vocally, that it is detrimental. This paper shows that the shareholder value implications depend critically on how purpose is defined. We classify a purpose statement specifically as one that seeks to invest in stakeholders in order to ultimately benefit shareholders, contrasting it with a purpose-like statement which views puts stakeholders on at least an equal footing with shareholders, and an ES statement that contains stakeholders alone. We use the deep neural networks technique to identify the grammatical relationship between words, in contrast to a "bag of words" approach that focuses only on the inclusion of words. We apply it to purpose statements as expressed in 10-K filings that are more likely to reflect how a company fundamentally operates rather than marketing concerns.

We find that companies that have purpose statements deliver significantly higher future shareholder returns than those with purpose-like or ES statements. In addition, they also enjoy significantly higher future earnings surprises, while companies with purpose-like or ES statement do not. Total equity ownership is unrelated to the likelihood of issuing a purpose statement, but unvested equity has a positive link. Our results do not necessarily suggest that the act of issuing a purpose statement has a positive causal effect on future shareholder returns. Instead, companies with purpose statements may be fundamentally different than those that do not, in recognizing that stakeholder value is a means to improving shareholder value but the latter remains the ultimate objective. The market does not fully recognize this link, leading to higher future earnings surprises and stock returns. These results are inconsistent with the idea that purpose statements are irrelevant

as they reflect marketing activities, or redundant because companies know that creating shareholder value requires long-term investments in stakeholders.

Our results have ambiguous implications for whether such links will exist going forwards. If investors start using the inclusion of a purpose statement as an investment criterion, then some companies may start issuing purpose statements (consistent with Cao et al. (2023) who find that firm disclosure responds to the use of artificial intelligence by investors). If they simply do so in their 10-K filings without any change to how they operate, then the link between purpose statement issuance and stock returns should dissipate over time as purpose statements cease to be a signal of how a company actually operates. However, if the issuance of a purpose statement causes the company to change how it makes investment decisions and allocates resources, and the market still fails to immediately recognize this link, then the superior returns to companies with purpose statements may persist going forwards.

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Appendix A. Environmental and social keywords

Keywords in Baier, Berninger, and Kiesel (2020)					
alcohol	alcohols	bargaining	biodiversity	biofuel	biofuels
biphenyls	bisexual	carbon	charitable	charities	charity
citizen	citizens	cleanup	climate	communities	community
conformance	consumer	consumers	contamination	customer	customers
defect	defects	deforestation	dignity	disabilities	disability
disabled	discriminate	discriminated	discriminating	discrimination	diversity
donate	donated	donates	donating	donation	donations
donor	donors	educate	educated	educates	educating
education	educational	eicc[12]	emission	emissions	emit
emits	emitted	emitting	employ	employee	employees
employment	environment	environmental	environmentally	ethnic	ethnically
ethnicities	ethnicity	equal	equality	equity	fairness
female	females	freedom	freshwater	gay	gays
gender	genders	greenhouse	groundwater	harassment	harassments
hazard	hazardous	hazards	headcount	health	hire
hired	hires	hiring	homosexual	human	humanity
humans	immigrant	immigration	inequities	inequity	injuries
injury	labor	labour	learning	lesbian	lesbians
lgbt	mentoring	minorities	minority	nondiscrimination	nonprofit
occupational	overtime	patient	patients	pesticide	pesticides
philanthropic	philanthropy	pollutant	pollutants	pollute	polluted
pollutes	polluting	pollution	poverty	privacy	racial
recycle	recycled	recycles	recycling	religion	Religious
renewable	ruggie[13]	safe	safely	safety	Scholarships
sick	social	socially	societal	society	Staffing
sustainability	sustainable	sustainably	teach	teacher	Teachers
teaching	training	transgender	unemployment	veteran	Veterans
vulnerable	wage	wages	warming	warranties	Warranty
welfare	wetland	wetlands	wildlife	woman	Women
workplace	workplace	zoning			
Keywords in Baier, Berninger, and Kiesel (2020) that need not have an ES meaning and are removed					
green	stewardship	water	weee[14]	un	Eeo[15]
fla[16]	ms[17]	sex	ilo	employ	Expression
marriage	nations	endowment	endowments	people	Foundation
foundations					
Keywords from glossaries proposed by investment and consulting firms specialized in sustainable investing					
ROBECO					
decarbonization	thematic	thermal	circular		
global affairs associates					
ozone	culture				
f*irst affirmative financial network*					
cleantech	divestment	microenterprise	inclusion	justice	

[12] "eicc" refers to the Electronic Industry Citizenship Coalition, now known as the Responsible Business Alliance (RBA). The EICC/RBA is a nonprofit coalition established to promote responsible supply chain management, ethical labor practices, environmental stewardship, and sustainable business practices across the global electronics industry.
[13] "ruggie" refers to Professor John Ruggie, who developed the United Nations Guiding Principles on Business and Human Rights. These principles are also commonly known as the "Ruggie Principles."
[14] "weee" refers to Waste Electrical and Electronic Equipment.
[15] "eeo" refers to Equal Employment Opportunity and is covered by the word "equal."
[16] "fla" refers to Fair Labor Association and is covered by the word "labor."
[17] "ms" refers to Marine Stewardship

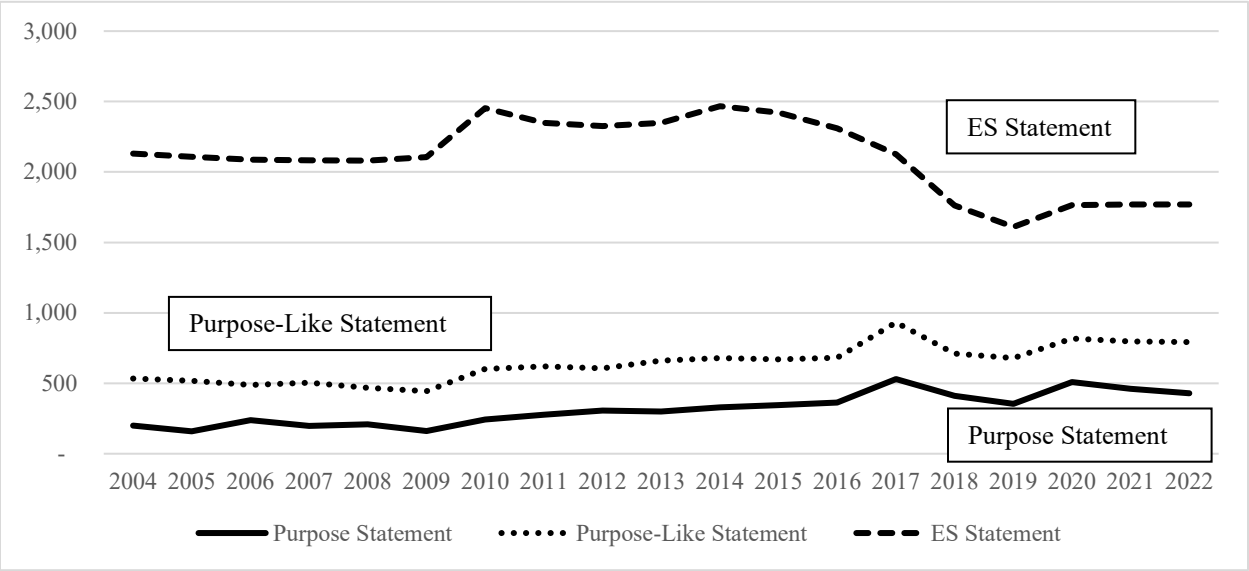
Appendix B. Variable definition

Variable	Source	Definition
Statement-related variables		
$Purpose_{it}$	10-K	An indicator variable that equals one for firm-years including a purpose statement in its 10-K filings in year *t*, and zero otherwise. Purpose statements address a firm's environmental and social (ES) responsibilities and specify how fulfilling these responsibilities serves shareholders.
$Purpose\text{-}like_{it}$	10-K	An indicator variable that equals one for firm-years including a purpose-like statement in its 10-K filings in year *t*, and zero otherwise. purpose-like statements address both shareholders and ES responsibilities but do not specify how fulfilling ES responsibilities serves shareholders
ES_{it}	10-K	An indicator variable that equals one for firm-years including an ES statement in its 10-K filings in year *t*, and zero otherwise. ES statements address only ES responsibilities.
Firm characteristics		
$Mktcap_{it}$	Compustat	The natural logarithm of market capitalization at the end of year *t*.
BM_{it}	Compustat	Book-to-market ratio, calculated as book value of equity scaled by market value of equity at the end of year *t*.
PE_{it}	Compustat	Price-earnings ratio, calculated as stock price at the end of year *t* scaled by earnings per share in year *t*.
$EBITDA_{it}$	Compustat	Market capitalization plus short-term and long-term debt minus cash and cash equivalents at the end of year *t* and then divided by operating income before depreciation in year *t*.
ROE_{it}	Compustat	Return on equity, calculated as income before extraordinary items in year *t* scaled by stockholders' equity at the end of year *t*.
$Intan_{it}$	Compustat	The sum of R&D expenses, Intangible assets, and goodwill scaled by total assets at the end of year *t*.
$Leverage_{it}$	Compustat	The leverage ratio, calculated as short-term and long-term debt minus deferred tax and investment tax credit scaled by stockholders' equity at the end of year *t*.
Variables used in the stock return analysis		
R_t	CRSP	Monthly stock return. Raw R_t is the raw monthly stock return for a portfolio. Industry-adjusted R_t is industry-adjusted monthly stock return for a portfolio using the 49-industry classification of Fama and French (1997). Characteristic-adjusted R_t is the monthly stock return for a portfolio adjusted using the characteristic portfolio benchmark of Daniel, Grinblatt, Titman, and Wermers (1997). Raw, industry-adjusted, and characteristic-adjusted R_{it} are analogously defined for firm *i*-month *t*.
$Mktcap_{it}$	CRSP	The natural logarithm of market capitalization at the end of month *t-2*.
BM_{it}	Compustat	The natural logarithm of book-to-market ratio, calculated as book value of equity scaled by market value of equity at the end of year *t*.
$RETm\text{-}n_{it}$	CRSP	The compounded returns in month *t-m* (m = 2, 4, 7) to month *t-n* (n = 3, 6, 12).
$Divyield_{it}$	Compustat	Dividends declared in year *t* scaled by market capitalization at the end of year *t*.
Vol_{it}	CRSP	The natural logarithm of the dollar trading volume (in millions) in month *t*-2.
Prc_{it}	CRSP	The natural logarithm of the dollar trading volume (in millions) stock price at the end of month *t*-2.
Variables used in the analysis of earnings surprise		
SUE_{it}	I/B/E/S	The actual earnings per share (EPS) minus the median forecast from the Institutional Brokers' Estimate System (I/B/E/S) analysts, deflated by the firm's stock price at the fiscal year-end.

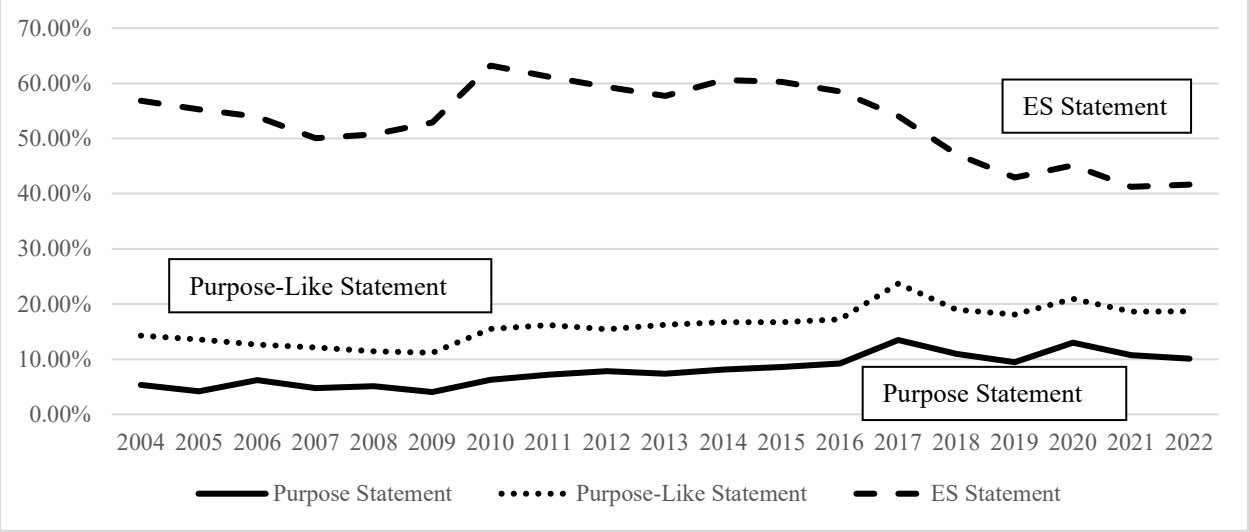
Variables used in the analysis of CEO equity incentives		
$CEOWealth_{it}$	ExecuComp	The dollar change (in 10 billions) in the CEO's wealth for a $1 change in the stock price at the end of year *t* multiplied by the stock price at the end of year *t* scaled by CEO total compensation in year *t* and then divided by 10,000,000, including both shares and options.
$Unvested_{it}$	ExecuComp	The dollar change (in millions) in the CEO's unvested wealth for a $1 change in the stock price at the end of year *t* multiplied by the stock price at the end of year *t* scaled by CEO total compensation in year *t* and then divided by 1,000.
$Vested_{it}$	ExecuComp	The dollar change (in 10 billions) in the CEO's vested wealth for a $1 change in the stock price at the end of year *t* multiplied by the stock price at the end of year *t* scaled by CEO total compensation in year *t* and then divided by 10,000,000.
$Salary_{it}$	ExecuComp	The natural logarithm of one plus a CEO's base salary in year *t*.
$Bonus_{it}$	ExecuComp	The natural logarithm of one plus a CEO's cash bonus in year *t*.
$CEOAge_{it}$	ExecuComp	CEO age in year *t*.
$Tenure_{it}$	ExecuComp	CEO tenure in year *t*.
$NewCEO_{it}$	ExecuComp	An indicator variable to denote new CEO in year *t*, and zero otherwise.
$FirmAge_{it}$	Compustat	Firm's age in year *t*, approximated by the number of years listed on Compustat.
Q_{it}	Compustat	Tobin's q at the end of year *t*, calculated as market value of equity plus liquidating value of preferred stock plus book value of debt minus balance sheet deferred taxes and investment tax credit divided by total assets at the end of year *t*.
$Momentum_{it}$	CRSP	Compounded market-adjusted monthly stock returns over the twelve months ending in the last month of year *t*, with market-adjusted monthly stock return calculated as the firm's monthly raw stock return minus the corresponding monthly return on the CRSP.
$Cash_{it}$	Compustat	Cash and short-term investments at the end of year *t* divided by total assets at the end of year *t*.
$Leverage_{it}$	Compustat	Book value of debt at the end of year *t* divided by total assets at the end of year *t*.
$RetEarn_{it}$	Compustat	An indicator variable that equals one if balance sheet retained earnings at the end of year *t* divided by total assets at the end of year *t* is positive, and zero otherwise.
$NumBlock_{it}$	Thomson Reuters	The number of blockholders at the end of year *t*, defined as those who hold 5 percent or more.
$Block\%_{it}$	Thomson Reuters	The total percentage of shares owned by blockholders at the end of year *t*, defined as those who hold 5 percent or more.

Figure 1. Sample Distribution of Statements in 10-Ks

Panel A: Number of 10-Ks with statements



Panel B: Percentage of 10-Ks with statements



Panel A shows the number of 10-K filings containing purpose, purpose-like, and ES statements. Panel B shows the percentage of 10-K filings that include each of these three types of statements.

Table 1. Sample Distribution of Statements in 10-Ks

Panel A: Yearly distribution of the three types of statements

Fiscal Year	Number of 10-Ks	Purpose statement		Purpose-like statement		ES statement	
		Number	Percent	Number	Percent	Number	Percent
2004	3,106	179	5.76%	449	14.46%	1,728	55.63%
2005	3,167	142	4.48%	441	13.92%	1,696	53.55%
2006	3,281	214	6.52%	426	12.98%	1,727	52.64%
2007	3,221	190	5.90%	430	13.35%	1,660	51.54%
2008	2,744	142	5.17%	328	11.95%	1,336	48.69%
2009	2,869	126	4.39%	312	10.87%	1,498	52.21%
2010	3,070	200	6.51%	481	15.67%	1,885	61.40%
2011	2,949	223	7.56%	509	17.26%	1,742	59.07%
2012	3,007	255	8.48%	506	16.83%	1,798	59.79%
2013	3,283	266	8.10%	592	18.03%	1,943	59.18%
2014	3,416	297	8.69%	609	17.83%	2,046	59.89%
2015	3,287	313	9.52%	593	18.04%	1,930	58.72%
2016	3,256	330	10.14%	600	18.43%	1,839	56.48%
2017	3,241	457	14.10%	803	24.78%	1,699	52.42%
2018	2,951	333	11.28%	570	19.32%	1,375	46.59%
2019	2,967	305	10.28%	553	18.64%	1,271	42.84%
2020	3,209	438	13.65%	683	21.28%	1,441	44.90%
2021	3,489	409	11.72%	664	19.03%	1,463	41.93%
2022	3,016	322	10.68%	588	19.50%	1,298	43.04%
Total	59,529	5,141	8.64%	10,137	17.03%	31,375	52.71%

Panel A presents the yearly distribution of three types of statements in 10-Ks: purpose statements, purpose-like statements, and ES statements. Purpose statements address a firm's environmental and social (ES) responsibilities and specify how fulfilling these responsibilities serves shareholders; purpose-like statements address both shareholders and ES responsibilities but do not specify how fulfilling ES responsibilities serves shareholders; and ES statements address only ES responsibilities. The sample comprises of 59,529 10-Ks for fiscal years 2004 to 2022.

Table 1. Sample Distribution of Statements in 10-Ks (Cont'd)

Panel B: Location of purpose statements in 10-Ks

Fiscal Year	Purpose statement	In Item 1		In Item 7		In both Items	
	Number	Number	Percent	Number	Percent	Number	Percent
2004	179	119	66.48%	73	40.78%	13	7.26%
2005	142	95	66.90%	48	33.80%	1	0.70%
2006	214	116	54.21%	105	49.07%	7	3.27%
2007	190	119	62.63%	80	42.11%	9	4.74%
2008	142	60	42.25%	91	64.08%	9	6.34%
2009	126	50	39.68%	83	65.87%	7	5.56%
2010	200	121	60.50%	98	49.00%	19	9.50%
2011	223	138	61.88%	108	48.43%	23	10.31%
2012	255	150	58.82%	129	50.59%	24	9.41%
2013	266	152	57.14%	144	54.14%	30	11.28%
2014	297	177	59.60%	151	50.84%	31	10.44%
2015	313	184	58.79%	162	51.76%	33	10.54%
2016	330	206	62.42%	167	50.61%	43	13.03%
2017	457	291	63.68%	235	51.42%	69	15.10%
2018	333	195	58.56%	177	53.15%	39	11.71%
2019	305	181	59.34%	168	55.08%	44	14.43%
2020	438	259	59.13%	244	55.71%	65	14.84%
2021	409	246	60.15%	228	55.75%	65	15.89%
2022	322	205	63.66%	169	52.48%	52	16.15%
Total	5,141	3,064	59.60%	2,660	51.74%	583	11.34%

Panel B illustrates the locations of purpose statements within the 10-Ks, specifically in Item 1, "Business," and Item 7, "Management's Discussion and Analysis" (MD&A). The sample comprises of 59,529 10-Ks for fiscal years 2004 to 2022.

Table 2. Descriptive Statistics

Panel A: Descriptive statistics of firm-years with a purpose statement

	Firm–years with a purpose statement (N=4,623)					Compustat firm years (N=56,717)		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Variable	Mean	Std. Dev.	P25	Median	P75	Mean	Std. Dev.	(1) – (6)
Mktcap	7.379	1.854	6.036	7.283	8.660	6.981	1.811	0.398***
BM	0.592	0.438	0.258	0.517	0.855	0.564	0.425	0.028***
PE	11.703	55.548	3.990	11.664	20.367	12.038	54.751	–0.336
EBITDA	8.404	31.253	5.455	9.466	14.368	8.409	30.460	–0.005
ROE	0.068	0.413	0.017	0.090	0.159	0.051	0.445	0.017**
Intan	0.144	0.168	0.005	0.070	0.245	0.156	0.167	–0.012***
Leverage	0.234	0.218	0.055	0.183	0.364	0.206	0.211	0.029***

Panel B: Comparison of firm–years with the three types of statements

	(1)	(2)	(3)	(4)	(5)
Variable	Purpose (N=4,623)	Purpose–like (N=9,437)	ES (N=30,262)	(1) – (2)	(1) – (3)
Mktcap	7.379	7.093	6.928	0.287***	0.451***
BM	0.592	0.604	0.542	–0.011	0.050***
PE	11.703	11.793	12.240	–0.090	–0.538
EBITDA	8.404	8.630	8.538	–0.226	–0.134
ROE	0.068	0.062	0.041	0.006	0.027***
Intan	0.144	0.142	0.170	0.002	–0.026***
Leverage	0.234	0.214	0.199	0.021***	0.035***

Panel A reports summary descriptives for firm-years with a purpose statement compared to the Compustat universe. The firm characteristics include market capitalization (*Mktcap*), book-to-market ratio (*BM*), price-to-earnings ratio (*PE*), EBITDA multiple (*EBITDA*), returns-on-equity (*ROE*), Intangible intensity (*Intan*), and leverage (*Leverage*). Column (8) tests whether a mean value of a firm characteristic in column (1) equals the corresponding value in column (6). Panel B presents a comparison of firm-years with each of the three types of statements: purpose statements, purpose-like statements, and ES statements. Purpose statements address a firm's environmental and social (ES) responsibilities and specify how fulfilling these responsibilities serves shareholders. Purpose-like statements address both shareholders and ES responsibilities but do not specify how fulfilling ES responsibilities serves shareholders. ES statements address only ES responsibilities. Column (4) ((5)) tests whether a mean value of a firm characteristic in column (1) equals the corresponding value in column (2) ((3)). Variable definitions are in Appendix B. *** (**) (*) indicates significance at the 1% (5%) (10%) level using the two-tailed tests.

Table 3. Purpose Statement and Stock Return: Portfolio Analysis

	Purpose Portfolio			Purpose-Like Portfolio			ES Portfolio		
	Excess return over								
	Risk-free	Industry	Characteristics	Risk-free	Industry	Characteristics	Risk-free	Industry	Characteristics
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
α	0.246**	0.143*	0.303***	-0.034	-0.039	-0.033	0.018	0.005	0.020
	(0.102)	(0.076)	(0.104)	(0.059)	(0.050)	(0.060)	(0.040)	(0.041)	(0.033)
β_{MKT}	1.052***	-0.028	0.000	0.989***	-0.037**	-0.008	0.996***	-0.021	-0.021*
	(0.028)	(0.025)	(0.024)	(0.020)	(0.015)	(0.019)	(0.011)	(0.014)	(0.012)
β_{SMB}	0.133**	0.088**	0.029	0.079***	0.017	0.047*	-0.034*	-0.014	-0.079***
	(0.065)	(0.038)	(0.041)	(0.030)	(0.024)	(0.029)	(0.020)	(0.021)	(0.014)
β_{HML}	-0.018	-0.055	0.009	-0.031	-0.084***	-0.001	0.045**	-0.009	0.029
	(0.050)	(0.038)	(0.042)	(0.030)	(0.029)	(0.026)	(0.019)	(0.018)	(0.023)
β_{RMW}	-0.108	-0.088*	-0.080	0.019	0.084***	0.029	0.036	0.034	-0.005
	(0.069)	(0.051)	(0.053)	(0.031)	(0.029)	(0.034)	(0.026)	(0.021)	(0.026)
β_{CMA}	-0.039	0.017	-0.009	0.110**	0.139***	0.096**	-0.021	0.030	0.033
	(0.091)	(0.064)	(0.061)	(0.046)	(0.038)	(0.047)	(0.035)	(0.029)	(0.024)

This table presents results of regressing monthly risk-adjusted returns on the Fama and French (2015) five factors, *MKT*, *SMB*, *HML*, *RMW*, and *CMA*. In columns (1)-(3), the portfolio comprises firms including a purpose statement in their 10-K filings. In columns (4)-(6), the portfolio comprises firms including a purpose-like statement in their 10-K filings. In columns (7)-(9), the portfolio comprises firms including an ES statement in their 10-K filings. The dependent variable is the value-weighted portfolio return based on the risk-free rate, the industry-adjusted excess return, or the characteristics-adjusted excess return. The alpha is the excess risk-adjusted return. Standard errors calculated using Newey and West (1987) are in parentheses. The sample consists of 216 months from June 2004 to May 2022. Variable definitions are in Appendix B. *** (**) (*) indicates significance at the 1% (5%) (10%) two-tailed level, respectively.

Table 4. Long-Short Strategy

	Purpose-Like portfolio	ES portfolio	No-statement portfolio
		Raw Return	
	(1)	(2)	(3)
α	0.280**	0.228**	0.299**
	(0.124)	(0.111)	(0.130)
β_{MKT}	0.063*	0.056**	0.050
	(0.037)	(0.027)	(0.041)
β_{SMB}	0.054	0.167***	0.146*
	(0.083)	(0.063)	(0.081)
β_{HML}	0.013	-0.063	-0.019
	(0.065)	(0.049)	(0.069)
β_{RMW}	-0.127	-0.145**	-0.157*
	(0.084)	(0.073)	(0.083)
β_{CMA}	-0.149	-0.018	-0.057
	(0.106)	(0.098)	(0.114)
N	216	216	216
R^2	8.22	14.04	9.56

This table presents the monthly regressions of returns to a trading strategy that buys firms in the Purpose Portfolio and sells firms in, the Purpose-Like Portfolio (columns (1)), the ES Portfolio (columns (2)), or the no-statement Portfolio (columns (3)) on the Fama and French (2015) five factors, *MKT*, *SMB*, *HML*, *RMW*, and *CMA*. The dependent variable is the raw return. The alpha is the excess risk-adjusted return. Standard errors calculated using Newey and West (1987) are in parentheses. The sample consists of 216 months from June 2004 to May 2022. Variable definitions are in Appendix B. *** (**) (*) indicates significance at the 1% (5%) (10%) level using the two-tailed tests.

Table 5. Purpose Statement and Stock Return: Regressions Analysis

Dependent variable	Raw R_{it}	Industry-adjusted R_{it}	Raw R_{it}	Industry-adjusted R_{it}	Raw R_{it}	Industry-adjusted R_{it}
	(1)	(2)	(3)	(4)	(5)	(6)
$Purpose_{it}$	0.192***	0.187***				
	(0.063)	(0.065)				
$Purpose\text{-}like_{it}$			-0.016	0.010		
			(0.048)	(0.050)		
ES_{it}					-0.033	-0.042
					(0.034)	(0.037)
$Mktcap_{it}$	-2.903***	-2.485***	-2.894***	-2.482***	-2.902***	-2.484***
	(0.154)	(0.136)	(0.154)	(0.135)	(0.154)	(0.135)
BM_{it}	0.294***	0.254***	0.290***	0.255***	0.296***	0.255***
	(0.065)	(0.045)	(0.064)	(0.045)	(0.064)	(0.045)
$Divyield_{it}$	3.868***	3.866***	3.892***	3.921***	3.913***	3.906***
	(1.019)	(1.081)	(1.015)	(1.084)	(1.014)	(1.076)
$RET2\text{-}3_{it}$	-1.058***	-0.824**	-1.062***	-0.820**	-1.053***	-0.818**
	(0.390)	(0.342)	(0.388)	(0.342)	(0.390)	(0.342)
$RET4\text{-}6_{it}$	-0.955**	-0.899***	-0.989***	-0.899***	-0.955**	-0.902***
	(0.375)	(0.326)	(0.374)	(0.326)	(0.375)	(0.326)
$RET7\text{-}12_{it}$	-1.172***	-1.153***	-1.190***	-1.150***	-1.169***	-1.150***
	(0.181)	(0.169)	(0.181)	(0.169)	(0.181)	(0.169)
Vol_{it}	1.686***	1.436***	1.676***	1.436***	1.687***	1.437***
	(0.118)	(0.109)	(0.118)	(0.109)	(0.118)	(0.109)
Prc_{it}	3.728***	3.190***	3.720***	3.189***	3.728***	3.191***
	(0.146)	(0.135)	(0.145)	(0.135)	(0.146)	(0.135)
Constant	11.400***	9.076***	11.389***	9.068***	11.410***	9.096***
	(0.771)	(0.567)	(0.769)	(0.568)	(0.767)	(0.564)
Year-month FE	Yes	Yes	Yes	Yes	Yes	Yes
N	591,649	550,944	594,254	550,944	591,649	550,944
Adj. R^2	6.95	5.78	6.97	5.79	6.96	5.79

This table presents the monthly Fama-MacBeth regressions of individual stock returns on a dummy variable for whether the firm includes a purpose statement, a purpose-like statement, or an ES statement in their 10-K filings. The sample excludes small-cap stocks. *Purpose* equals one for firm-years including a purpose statement, which addresses a firm's environmental and social (ES) responsibilities and specify how fulfilling these responsibilities serves shareholders; *Purpose-like* equals one for firm-years including a purpose-like statement, which addresses both shareholders and ES responsibilities but do not specify how fulfilling ES responsibilities serves shareholders; *ES* equals one for firm-years including a ES statement, which addresses only ES responsibilities. The dependent variable is the raw return in columns (1), (3), and (5) and the industry-adjusted excess return in columns (2), (4), and (6). *Mktcap* is the log of the firm's market capitalization (in billions) in month *t*-2. *BM* is the natural logarithm of the firm's book-to-market ratio at the fiscal year-end preceding month *t*. *Divyield*is the firm's dividend yield in fiscal year preceding month *t*. *RET2–3*, *RET4–6* and *RET7–12* are the compounded returns in, respectively, month *t*-3 to month *t*-2, month *t*-6 to month *t*-4, and month *t*-12 to month *t*-7. *Vol* is the natural logarithm of the dollar trading volume (in millions) in month *t*-2. *Prc* is the natural logarithm of the stock price at the end of month *t*-2. Standard errors are in parentheses. Inclusion of Fixed Effects (FE) is as indicated. Variable definitions are in Appendix B. *** (**) (*) indicates significance at the 1% (5%) (10%) two-tailed level except for the *F*-statistics which is one-tailed level, respectively.

Table 6. Purpose Statement and Earnings Surprise

Panel A: Purpose statement and earnings surprise

Dependent variable	$Surprise_{it+1}$			
	(1)	(2)	(3)	(4)
$Purpose_{it}$	0.362**	0.373***	0.309**	0.235*
	(2.388)	(2.679)	(2.214)	(1.911)
BM_{it}		-0.301***	-0.211***	-0.839***
		(-6.863)	(-4.646)	(-4.508)
$Mktcap_{it}$			0.166***	-0.264*
			(7.538)	(-1.790)
Constant	-0.438***	-0.671***	-1.770***	0.786
	(-9.884)	(-12.099)	(-11.352)	(0.797)
Year FE	Yes	Yes	Yes	Yes
Firm FE	No	No	No	Yes
N	43,949	42,415	42,415	41,399
Adj. R^2	0.002	0.003	0.005	0.071

Panel B: Purpose-like statement and earnings surprise

Dependent variable	$Surprise_{t+1}$			
	(1)	(2)	(3)	(4)
$Purpose\text{-}like_{it}$	-0.098	0.066	0.023	-0.067
	(-0.862)	(0.631)	(0.222)	(-0.782)
BM_{it}		-0.297***	-0.205***	-0.838***
		(-6.772)	(-4.527)	(-4.505)
$Mktcap_{it}$			0.169***	-0.264*
			(7.665)	(-1.785)
Constant	-0.098	0.066	0.023	-0.067
	(-0.862)	(0.631)	(0.222)	(-0.782)
Year FE	Yes	Yes	Yes	Yes
Firm FE	No	No	No	Yes
N	43,949	42,415	42,415	41,399
Adj. R^2	0.002	0.003	0.005	0.071

Panel C: ES statement and earnings surprise

Dependent variable	$Surprise_{it+1}$			
	(1)	(2)	(3)	(4)
ES_{it}	0.015	-0.064	-0.013	0.088
	(0.180)	(-0.808)	(-0.158)	(1.180)
BM_{it}		-0.298***	-0.205***	-0.837***
		(-6.788)	(-4.518)	(-4.501)
$Mktcap_{it}$			0.169***	-0.264*
			(7.647)	(-1.787)
Constant	-0.415***	-0.602***	-1.751***	0.758
	(-6.613)	(-8.979)	(-10.645)	(0.752)
Year FE	Yes	Yes	Yes	Yes
Firm FE	No	No	No	Yes
N	43,949	42,415	42,415	41,399
Adj. R^2	0.002	0.003	0.005	0.071

This table presents the regressions of earnings surprises on a dummy variable for whether the firm includes a purpose statement, a purpose-like statement, or an ES statement in their 10-K filings. *Purpose* equals one for firm-years including a purpose statement, which addresses a firm's environmental and social (ES) responsibilities and specify how fulfilling these responsibilities serves shareholders; *Purpose-like* equals one for firm-years including a purpose-like statement, which addresses both shareholders and ES responsibilities but do not specify how fulfilling ES responsibilities serves shareholders; *ES* equals one for firm-years including a ES statement, which addresses only ES responsibilities. The earnings surprise is the actual earnings per share (EPS) minus the median forecast from the Institutional Brokers' Estimate System (I/B/E/S) analysts, deflated by the firm's stock price at the fiscal year-end. *Mktcap* is the natural logarithm of the firm's market capitalization (in billions) at the end of year *t*. *BM* is the log of the firm's book-to-market ratio at the end of year *t*. Inclusion of Fixed Effects (FE) is as indicated. Standard errors are clustered by year in columns (1)-(3) and by firm and year in column (4). Variable definitions are in Appendix B. *** (**) (*) indicates significance at the 1% (5%) (10%) two-tailed level.

Table 7. Purpose Statements and CEO Wealth

Panel A: Purpose statement and CEO wealth

Dependent Variables	$Purpose_{it+1}$			
	Probit		LPM	
	(1)	(2)	(3)	(4)
$CEOWealth_{it}$	-17.425		0.001	
	(18.204)		(0.001)	
$Unvested_{it}$		1.151*		0.381***
		(0.684)		(0.038)
$Vested_{it}$		-16.743		0.001
		(18.067)		(0.001)
$Purpose_{it}$	1.156***	1.155***		
	(0.047)	(0.046)		
$Salary_{it}$	-0.005	-0.004	-0.007	-0.006
	(0.013)	(0.014)	(0.005)	(0.005)
$Bonus_{it}$	0.004	0.004	0.001	0.001
	(0.005)	(0.005)	(0.001)	(0.001)
$CEOAge_{it}$	0.002	0.002	0.001**	0.001**
	(0.002)	(0.002)	(0.001)	(0.001)
$Tenure_{it}$	-0.003	-0.003	-0.001	-0.001
	(0.002)	(0.002)	(0.001)	(0.001)
$NewCEO_{it}$	0.036	0.037	0.009	0.009
	(0.042)	(0.042)	(0.006)	(0.006)
$FirmAge_{it}$	-0.001	-0.001		
	(0.001)	(0.001)		
Q_{it}	0.001	0.001	0.003	0.003
	(0.025)	(0.025)	(0.006)	(0.006)
$Mktcap_{it}$	-0.015	-0.015	-0.001	-0.001
	(0.026)	(0.026)	(0.004)	(0.004)
$Momentum_{it}$	0.056***	0.055***	-0.002	-0.003
	(0.007)	(0.007)	(0.005)	(0.005)
$Cash_{it}$	-0.101**	-0.103**	-0.015*	-0.015*
	(0.047)	(0.046)	(0.008)	(0.008)
$Leverage_{it}$	0.103	0.103	0.038	0.038
	(0.087)	(0.087)	(0.033)	(0.032)
$RetEarn_{it}$	0.169*	0.171*	0.029	0.030
	(0.097)	(0.097)	(0.026)	(0.026)
ROA_{it}	0.005	0.004	-0.020*	-0.020*
	(0.037)	(0.037)	(0.010)	(0.010)
$NumBlock_{it}$	-0.169	-0.158	0.041	0.043*
	(0.174)	(0.171)	(0.024)	(0.024)
$Block\%_{it}$	0.025	0.025	0.002	0.002
	(0.022)	(0.022)	(0.004)	(0.004)
Constant	-0.465*	-0.462*	-0.018	-0.018
	(0.252)	(0.251)	(0.047)	(0.047)

Table 7. Purpose Statements and CEO Wealth (Cont'd)

Dependent Variables	$Purpose_{it+1}$			
	Probit		LPM	
	(1)	(2)	(3)	(4)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	No	No
Firm FE	No	No	Yes	Yes
N	26,330	26,330	26,163	26,163
Pseudo (Adjusted) R^2	0.144	0.144	0.156	0.156

Panel B: Purpose-Like statement and CEO wealth

Dependent Variables	$Purpose\text{-}Like_{it+1}$			
	Probit		LPM	
	(1)	(2)	(3)	(4)
$CEOWealth_{it}$	0.176***		0.042***	
	(0.025)		(0.003)	
$Unvested_{it}$		-0.333		-0.113*
		(0.465)		(0.061)
$Vested_{it}$		0.176***		0.042***
		(0.025)		(0.003)
$Purpose\text{-}Like_{it}$	1.016***	1.016***		
	(0.021)	(0.021)		
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	No	No
Firm FE	No	No	Yes	Yes
N	26,330	26,330	26,163	26,163
Pseudo (Adjusted) R^2	0.116	0.116	0.148	0.148

Panel C: ES statement and CEO wealth

Dependent Variables	ES_{it+1}			
	Probit		LPM	
	(1)	(2)	(3)	(4)
$CEOWealth_{it}$	-0.119***		-0.033***	
	(0.025)		(0.003)	
$Unvested_{it}$		-0.506		-0.147
		(0.623)		(0.091)
$Vested_{it}$		-0.119***		-0.033***
		(0.025)		(0.003)
ES_{it}	0.908***	0.908***		
	(0.020)	(0.020)		
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	No	No
Firm FE	No	No	Yes	Yes
N	26330	26330	26,163	26,163
Pseudo (Adjusted) R^2	0.124	0.124	0.192	0.192

Panel A presents the regression results on the relation between purpose statements and the CEO wealth; Panel B presents the regression results on the relation between purpose-like statements and the CEO wealth; and Panel C presents the regression results on the relation between ES statements and the CEO wealth. The sample consists of 14,525 firm-years from ExecuComp with available data to calculate the variables for fiscal years 2004 to 2022, excluding small-cap firms. Columns (1)-(2) estimate a probit model, and columns (3)-(4) estimate a linear probability model (LPM). *CEOWealth* is the dollar change (in 10 billions) in the CEO's wealth for a $1 change in the stock price at the end of year *t* multiplied by the stock price at the end of year *t* scaled by CEO total compensation in year *t* and then divided by 10,000,000. *CEOWealth_Unvested* is the dollar change (in millions) in the CEO's unvested wealth for a $1 change in the stock price at the end of year *t* multiplied by the stock price at the end of year *t* scaled by CEO total compensation in year *t* and then divided by 1,000. *CEOWealth_Vested* is the dollar change (in 10 billions) in the CEO's vested wealth for a $1 change in the stock price at the end of year *t* multiplied by the stock price at the end of year *t* scaled by CEO total compensation in year *t* and then divided by 10,000,000. Inclusion of Fixed Effects (FE) is as indicated. Standard errors are in parentheses, clustered by industry in columns (1)-(2) and firm and year in columns (3)-(4). Variable definitions are in Appendix B. *** (**) (*) indicates significance at the 1% (5%) (10%) two-tailed level, respectively.

Table IA1. Long-Short Strategy Based on Filing Dates

	Purpose-Like portfolio	ES portfolio	No-statement portfolio
		Raw Return	
	(1)	(2)	(3)
α	0.278**	0.200*	0.276**
	(0.119)	(0.108)	(0.124)
β_{MKT}	0.043	0.048*	0.037
	(0.036)	(0.026)	(0.040)
β_{SMB}	0.038	0.132**	0.111
	(0.073)	(0.060)	(0.075)
β_{HML}	0.042	-0.020	0.024
	(0.062)	(0.048)	(0.067)
β_{RMW}	-0.132	-0.147**	-0.155*
	(0.081)	(0.071)	(0.082)
β_{CMA}	-0.147	-0.007	-0.044
	(0.103)	(0.100)	(0.112)
N	216	216	216
R^2	7.78	12.10	8.39

This table presents the monthly regressions of returns to a trading strategy that buys firms in the Purpose Portfolio and sells firms in, the Purpose-Like Portfolio (columns (1)), the ES Portfolio (columns (2)), or the no-statement Portfolio (columns (3)) on the Fama and French (2015) five factors, *MKT*, *SMB*, *HML*, *RMW*, and *CMA*. The dependent variable is the raw return. The alpha is the excess risk-adjusted return. Standard errors calculated using Newey and West (1987) are in parentheses. The sample consists of 216 months from June 2004 to May 2022. Variable definitions are in Appendix B. *** (**) (*) indicates significance at the 1% (5%) (10%) level using the two-tailed tests.

Table IA2. Characteristics Regression Based on Filing Dates

Dependent variable	Raw R_{it}	Industry-adjusted R_{it}	Raw R_{it}	Industry-adjusted R_{it}	Raw R_{it}	Industry-adjusted R_{it}
	(1)	(2)	(3)	(4)	(5)	(6)
$Purpose_{it}$	0.203***	0.192***				
	(0.065)	(0.066)				
$Purpose\text{-}like_{it}$			-0.003	0.037		
			(0.047)	(0.049)		
ES_{it}					-0.047	-0.060
					(0.035)	(0.037)
$Mktcap_{it}$	-2.905***	-2.486***	-2.896***	-2.485***	-2.904***	-2.486***
	(0.154)	(0.135)	(0.153)	(0.135)	(0.154)	(0.135)
BM_{it}	0.296***	0.256***	0.291***	0.256***	0.297***	0.257***
	(0.065)	(0.045)	(0.065)	(0.045)	(0.064)	(0.045)
$Divyield_{it}$	3.874***	3.872***	3.903***	3.925***	3.912***	3.899***
	(1.020)	(1.080)	(1.016)	(1.084)	(1.015)	(1.077)
$RET2\text{-}3_{it}$	-1.079***	-0.847**	-1.083***	-0.844**	-1.074***	-0.840**
	(0.389)	(0.341)	(0.387)	(0.341)	(0.389)	(0.341)
$RET4\text{-}6_{it}$	-0.959**	-0.902***	-0.993***	-0.902***	-0.959**	-0.905***
	(0.374)	(0.326)	(0.374)	(0.326)	(0.374)	(0.326)
$RT7\text{-}12_{it}$	-1.168***	-1.149***	-1.187***	-1.147***	-1.166***	-1.147***
	(0.180)	(0.168)	(0.180)	(0.168)	(0.180)	(0.168)
Vol_{it}	1.688***	1.437***	1.678***	1.437***	1.688***	1.438***
	(0.118)	(0.109)	(0.117)	(0.109)	(0.117)	(0.109)
Prc_{it}	3.729***	3.193***	3.722***	3.192***	3.729***	3.193***
	(0.146)	(0.135)	(0.145)	(0.135)	(0.146)	(0.135)
Constant	11.410***	9.082***	11.396***	9.070***	11.429***	9.114***
	(0.770)	(0.568)	(0.767)	(0.567)	(0.765)	(0.564)
Year-month FE	Yes	Yes	Yes	Yes	Yes	Yes
N	592,172	551,424	594,778	551,424	592,172	551,424
Adjusted R^2	6.95	5.78	6.96	5.79	6.95	5.79

This table presents the monthly Fama-MacBeth regressions of individual stock returns on a dummy variable for whether the firm includes a purpose statement, a purpose-like statement, or an ES statement in their 10-K filings. The sample excludes small-cap stocks. *Purpose* equals one for firm-years including a purpose statement, which addresses a firm's environmental and social (ES) responsibilities and specify how fulfilling these responsibilities serves shareholders; *Purpose-like* equals one for firm-years including a purpose-like statement, which addresses both shareholders and ES responsibilities but do not specify how fulfilling ES

`responsibilities serves shareholders; *ES* equals one for firm-years including a ES statement, which addresses only ES responsibilities. The dependent variable is the raw return in columns (1), (3), and (5) and the industry-adjusted excess return in columns (2), (4), and (6). *Mktcap* is the log of the firm's market capitalization (in billions) in month *t*-2. *BM* is the natural logarithm of the firm's book-to-market at the end of fiscal year preceding month *t*. *Divyield* is the firm's dividend yield in the fiscal year preceding month *t*. *Ret2–3*, *Ret4–6* and *Ret7–12* are the compounded returns in, respectively, month *t*-3 to month *t*-2, month *t*-6 to month *t*-4, and month *t*-12 to month *t*-7. *Vol* is the natural logarithm of the dollar trading volume (in millions) in month *t*-2. *Prc* is the natural logarithm of the stock price at the end of month *t*-2. Standard errors are in parentheses. Variable definitions are in Appendix B. *** (**) (*) indicates significance at the 1% (5%) (10%) two-tailed level except for the *F*-statistics which is one-tailed level, respectively.