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How can investors identify purpose-led companies?

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EVERYBODY IS TALKING ABOUT PURPOSE

There is a fundamental shift occurring both within companies and more generally in society; rather than regarding profit maximisation as the purpose of business, profit is increasingly being regarded as an outcome of a company's purpose. In other words, rather than profit **being** the purpose, profit comes **from** pursuing a purpose that benefits society. This belief was commonplace in the pre-shareholder primacy era¹ and we appear to be rediscovering values that existed prior to the prevailing hegemony of the past forty years.²

There is now a growing expectation from investors that every business should be clear about its purpose. Larry Fink, the Chairman and Chief Executive of BlackRock, the world's largest asset manager, was unequivocal in his 2018 letter to his CEOs: "without a sense of purpose, no company, either public or private, can achieve its full potential."³ This is supported by growing evidence that purpose-led businesses deliver better long-term performance and are better able to attract, motivate and retain talent, especially among the millennials who will account for three quarters of the global workforce by 2025.⁴

This renewed focus on purpose is a highly significant opportunity but there is a major risk that the need for companies to challenge themselves and change their behaviour could be lost. A 'purpose industry' is rapidly turning purpose into a communications and branding exercise. This risks the language of 'purpose' being subverted to re-clothe existing strategies which have maximising shareholder value as their primary aim. If that occurs, the end result will be increased cynicism and distrust, and diminished long-term returns to both investors and society.

The challenge investors now face is both to help avert that risk and to seize the opportunity. But how can an investor tell the difference between a company which has undergone a slick communications exercise and one which is genuinely pursuing a purpose beyond profit, through which it seeks to generate its returns to investors?

WHAT DOES A PURPOSE-LED COMPANY REALLY LOOK LIKE?

There are two aspects to this. First is how far a company's purpose genuinely guides decision taking, and how consistently it is truly manifested. Does the purpose set out clearly how society benefits from the company's existence? Is it inspiring, authentic and above all practical?

Second, and more fundamental, is that the manifestation of a purpose depends on whether people affected by what the organisation does are respected and cared for. This is evident in the quality of a company's relationships. Blueprint's Five Principles (included in the appendix) are a way of picturing what a business with a purpose that benefits society might look like. It assumes that those involved have both the clarity of a guiding purpose and also care about the quality of relationships internally and externally. Furthermore, the Principles point to the need to assess not only how the company's purpose guides decisions but also the motivation behind the way the company thinks about people and all those affected by its actions.

The real power of purpose is to move people to commit to a shared worthwhile endeavour. This unlocks their potential to create greater value for both the business and society.



HOW CAN INVESTORS TELL IF A COMPANY IS GENUINELY PURPOSE-LED?

When considering purpose, not everything that counts can be counted. Evaluating the quality of human relationships is difficult. Investors need to ask questions that go beyond the numbers; questions that get to the heart of how a business leader thinks, behaves and builds relationships.

To help address this challenge Blueprint brought together leading investors from a range of asset management companies, with combined assets under management of over \$8 trillion. Together we came up with a short list of key questions which an investor can ask a Chair, CEO or other senior executives to glean insights into the extent to which a company is being genuinely and effectively purpose-led.

These questions touch on a range of areas that the group felt were important. They are not a checklist but designed to stimulate deeper conversation, encouraging personal rather than pre-scripted answers, and to explore the depth of thinking and consistency with operational priorities. They are not intended to be exhaustive but rather to support and enhance existing approaches. Investors will want to use their own preferred language and tailor them to different situations and companies.

That said, by asking these simple questions investors can get a much clearer idea of whether a business is truly committed to becoming purpose-led. Doing so will also send a clear signal to the business that the investor values their long-term sustainable success.



QUESTIONS

1. In simple terms, what is the company in business to deliver and for whom? How does that differentiate you?

2. What does success look like and how do you measure and review it?

3. How does your pay policy link to long-term success?

4. How are your board discussions and agenda anchored to your purpose? Can you give some examples of how your purpose has changed your decisions?

5. What positive and negative impacts does your company have on society? How are you maintaining your 'licence to operate'?

6. How are your people? Can you give examples of how you have responded to specific concerns?

7. Which external relationships are most important to achieving your purpose (e.g. customer, supplier, regulatory)? What key measures do you use to assess the strength of these?

8. [For Chairs] How do you as a board know you are doing a good job?

APPENDIX – BLUEPRINT’S FIVE PRINCIPLES

The Five Principles offer a picture of how a business might look if it is genuinely led by a purpose that benefits society. The Principles were rigorously developed through a year-long collaboration with a wide range of businesses, NGOs, investors, academics, different faiths and others in 2013.



REFERENCES

1. “Shareholder primacy” is the term that is most commonly used to describe Milton Friedman’s dictum in *Capitalism and Freedom*, 1963, that “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”
2. Lynn Paine and Joseph Bower’s article in *Harvard Business Review*, “The error at the heart of corporate leadership”, May-June 2017, examines the foundations and flaws of agency theory, and shows how a focus on maximizing shareholder value [can threaten companies’ health and financial performance](https://hbr.org/2017/05/managing-for-the-long-term?referral=03759&cm_vc=rr_item_page.bottom). Available at: https://hbr.org/2017/05/managing-for-the-long-term?referral=03759&cm_vc=rr_item_page.bottom
3. Larry Fink letter to CEOs, “A Sense of Purpose”, 2018. Available at: <https://www.blackrock.com/corporate/en-us/investor-relations/larry-fink-ceo-letter>
4. A good summary of the strongest academic evidence is in Big Innovation Centre, *The Purposeful Company Interim Report*, 2016, pp 23-33. Available at: <http://www.biginnovationcentre.com/media/uploads/pdf/The%20Purposeful%20Company%20Interim%20Report.pdf>.
Alternatively, Blueprint held an academic conference in Nov 2016 a summary of which is available here: <http://www.blueprintforbusiness.org/academic-conference-summary/>.
On millennials see Adam Smiley Poswolsky, “What Millennial Employees Really Want”, *Fast Company Leadership*, June 2015. Available at: <https://www.fastcompany.com/3046989/what-millennial-employees-really-want>.

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If you would like any more information about Blueprint or the Five Principles please contact enquiries@blueprintforbusiness.org.

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