

A working paper on Purpose and ESG – July 2020 – Version 1.0

How does Blueprint's view of a 'purpose-led' business incorporate environmental, social and governance (ESG) considerations?

The heart of the [Blueprint Five Principles](#) (see below) is a belief in the power for good that companies can provide – via their purpose – for society. The Principles advocate respect for the dignity of people; they welcome public scrutiny and crucially (honouring the importance of profitable enterprises) a fair return for responsible investors. It is represented as a series of relationships, connected through being purpose-led and in dialogue, with a commitment to enabling and welcoming scrutiny of alignment to purpose. Two of the Principles are *A Good Citizen* and *A Guardian for future generations*. These together reflect the reality that a business is part of society and the environment, and a purpose-led company will care not only about relationships with employees, customers and suppliers but also the quality of these external relationships it creates and sustains, including its impact on the natural world.

The thinking behind Blueprint incorporates Environmental, Social and Governance (ESG) elements and provides a natural linkage and coherence between them. They envisage governance, which links returns to investors with relationships connected by purpose, includes within its scope relationships with planet and society and also promotes engagement and dialogue in pursuit of public commitments to purpose and the relationships on which it depends. The governance of a purpose-led business and indeed all its relationships will be fundamentally shaped by the mindset about purpose and people. When well executed, being purpose-led means a company strives for excellence across all aspects of E, S and G.

The rise in prominence of ESG in recent years has compelled companies to look differently at risk and to think hard about the potential environmental and societal harms associated with their business activities. There is increasingly compelling evidence on the alignment of long-term performance with higher ESG ratings, so many companies are now focused on measures to address ESG risks and improve their standing in external assessments.

ESG requirements focus on measurable outcomes, as a way for investors to screen their investments, and businesses to challenge themselves against external benchmarks. The ESG landscape is also emergent and frequently disjointed, and present businesses with a plethora of externally imposed reporting demands, which are often inconsistent with each other. Work is also underway within purpose-led companies seeking to assess and measure progress, including on social and environmental impact and outcomes. One fundamental challenge, however is that we are not just dealing with a measurement issue, but also with an underlying question of mind-set. Purpose shapes what a company sees itself as existing to do in the world, and though measures are essential it is also the case that while *“what counts is what gets counted, what really counts cannot be counted”*.

From this, the following may be noted:

1. Being purpose-led is fundamentally a matter of mindset which considers the wider social and environmental factors on which the long-term success of the business depends. It does *not* arise from reporting requirements or investor pressure. It does *not* just cover particular aspects of the business but instead it incorporates *everything* the business does. It invites the business to have a holistic value creation story, which integrates all the factors

contributing to how each business creates value for society. The governance of a purpose-led business will seek to ensure that decisions and strategy flow from the purpose, that all the relationships, marked by respect for the dignity of people are seen as constitutive aspects of the success of the business. It will therefore act as an accelerator of ESG progress to enhance positive outcomes, as distinct from merely adopting a compliance-led ESG approach.

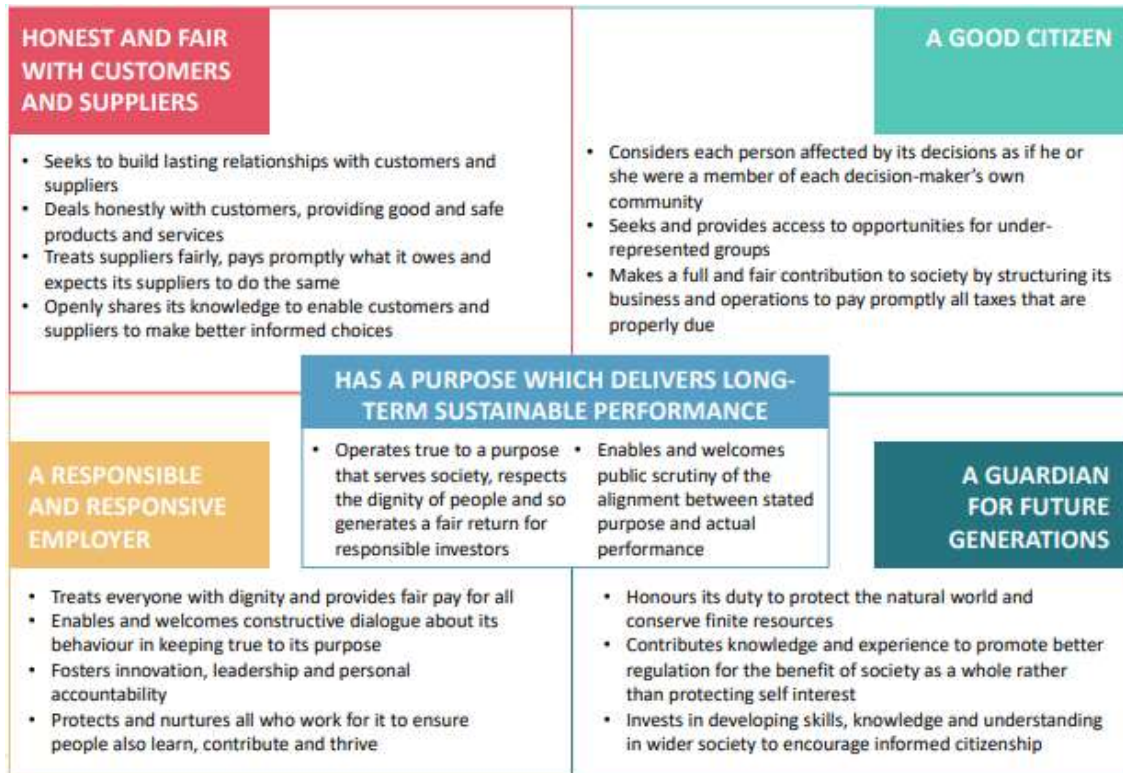
2. The requirements of ESG thought of in isolation are an externally imposed collection of overlapping but heterogeneous risks amalgamated under a single “ESG” label. Consequently seeking to manage a business in terms of responding to ESG requirements as defined by third parties (such as institutional investors or independent ESG ratings agencies) risks an *ad hoc* and siloed approach focused on compliance, risk mitigation and reputation management – the kind of classic “tick box” that has failed to meet societal expectations for decades. Furthermore, while investors increasingly see corporate exposure to climate-related risk as material to financial performance, other aspects of the “E” (as well as the “S” and “G”) tend to receive less detailed scrutiny. There is a risk of a parallel frame for corporate evaluation where financial and ESG performance are separated.
3. A serious commitment to becoming purpose-led, embracing all Five of Blueprint’s Principles, will lead a business, whatever its starting point, to adopt a way of thinking and acting which over time should place the business in the upper echelon of ESG leaders. Blueprint’s Principles, and the thinking behind them, offer a rationale for a business to examine how to characterize all the “E and S” relationships it needs to create and sustain, and also to place due value on what cannot be measured in those relationships, recognizing the value created for society goes beyond what can be controlled and measured. It shapes, too, the way these relationships are thought about, and the role that a company can have, for instance, in influencing the regulatory environment in a way that serves the common good of society rather than self-interest.

Charles Wookey 28th July 2020

This working paper is a stimulus to discussion and has been enriched by comments from people working on both ESG and purpose. We warmly encourage thoughts and comments on this topic. To join the discussion email: enquiries@blueprintforbusiness.org

The Five Principles of a Purpose-led Business

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.



The site alongside a [Framework](#) that sets out the behaviours needed to sustain purpose. It also provides the link to the underlying provenance of the **Blueprint**, which is one its distinguishing features.