

Purpose for PLCs

Time for Boards to focus



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Purpose - Why bother?

The Crisis

The Covid-19 crisis is a wake-up call for the importance of purpose in business. Many sectors of the economy have been badly affected and society, through Government and the taxpayer, has provided critical support to business. Society will look for a return, a return which it feels that it did not receive after the 2008 financial crisis. The crisis has also thrown into sharp relief inequalities in society, with the vulnerable and low-paid suffering disproportionately. The Black Lives Matter movement has also exposed deep and persisting injustices. These factors – alongside environmental issues – mean that business will need to refresh its credentials as a genuine **contributor to society** in order to underpin its **licence to operate** and re-establish trust (which has suffered from corporate failures over recent years).

Boards must meet this challenge. They should set out clearly a purpose beyond profit. The business needs to be led by that purpose, seeing itself as a social organisation which cares about people and generates the profit necessary to sustain the pursuit of that purpose. Is there a compelling narrative which explains that strategy follows from purpose and how the social and **environmental outcomes** link back to purpose?

The Code

The importance of purpose, is, of course, highlighted in the new UK Corporate Governance Code. It requires Boards to

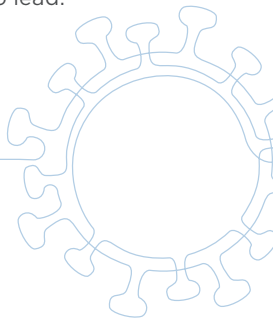
“establish the company’s purpose, values and strategy and satisfy itself that these and its culture is aligned”

and the accompanying Guidance explains that a well-defined purpose will help companies articulate their business model and engage with their workforce, customers and the wider public.

But there is little guidance in the new requirements as to what having a purpose really entails and what difference it might make to the company and the way it operates day in and day out. So it is probably not surprising that the Financial Reporting Council complained in their first report on the adoption of the new Code by FTSE 100 companies that

“too many companies substituted what appeared to be a slogan or marketing line for their purpose or restricted it to achieving shareholder returns or profit”.

These critical comments are given additional resonance by the Covid-19 crisis and suggest that a change of mindset is required if companies are to become purpose-led. But if Boards are to invest in that change they have to be convinced that there is real value in it. There has to be a genuine understanding of what purpose is and why it needs to lead.

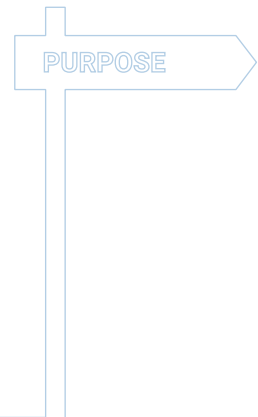


What is Purpose?

As LBS Professor Alex Edmans says, purpose is why an enterprise exists – who it serves, its reason for being and the role it plays in the world. It's the answer to the question:

“*How is the world a better place by your company being here?*”

Purpose is the particular and distinctive way in which an enterprise serves society and builds a stronger better business. A purpose might be to develop medicines which transform citizens' health; to provide an efficient rail network that connects people with their jobs, family and friends; or to manufacture toys that entertain and educate children.



Why it needs to lead?

Aside from underpinning the business's *licence to operate*, as described above, purpose is the essential motor in building a better business. Well understood, the purpose of a business is the North Star which guides the business, its strategy and the outcomes from delivery on the strategy and inspires those who work in, and with, the organisation. It is the key to ensuring that the business is better tomorrow than it was today, better still in a year's time and even better in five years' time. And for many businesses already purpose-led, that purpose has helped them shape an imaginative response to the Covid-19 crisis.

Purpose brings discipline to strategy. A purposeful business cannot be all things to all people and thus the strategy of such a business must be clear about what a business will *not* do. It will forsake a bad business line (a large retailer selling products in single use plastic when recycling options are available), even if that line is profitable, in order to pursue one which is consistent with a purpose that benefits people and the planet (a retailer partnering with manufacturers to collect, recycle and refill packaging). The ultimate goal is surely to provide *goods that are good and services which serve*.

What does being ‘purpose-led’ really involve?

The value created

Becoming ‘purpose-led’ involves a fundamental re-set in how a company thinks and acts. It orientates a company to make profits by creating value for society. The value for society lies not only in the quality of goods and services it provides and for whom, but also in the positive relationships it cultivates, and its wider impact on people, communities and the environment. It encompasses all five of Blueprint’s Principles (set out on page 11). The shift is from a narrow focus on financial value creation alone to a wider, richer view of what a company exists to do in the world. Profits remain essential, but as one vital outcome and not the purpose.

Adopting this broader view, whilst at odds with an approach which aims to maximise short-term profits and minimise costs, is consistent with delivering long-term competitive returns, and effectively managing external risks. Companies such as Unilever that have embraced this approach say that it drives growth, reduces risk, increases profit and is a magnet for talent. As LBS, Professor Alex Edmans argues:

“pursuing social value is often more profitable in the long term than pursuing profits directly.”¹

Win-win?

It is not always a frictionless win-win. Becoming purpose-led is a spur to innovation and new sources of revenue. But it also forces choices and requires companies to transition away from those profitable activities that do not serve its purpose, or which are exploitative or harmful.

Being ‘**a good citizen**’ and ‘**a guardian for future generations**’ also implies that the business should actively reduce its own negative impacts (such as by investing in reducing their carbon footprint or plastic packaging). Whilst there may be a cost here, investors also increasingly focus on externalities. They recognise that standard accounting profit can mislead when social or environmental impacts are not priced in. Failure to mitigate or address such externalities is associated with higher financial and regulatory risk.



Purpose and ESG²

As we know, societal expectations on companies to address both social and environmental issues are growing fast. Rising inequality is not a stable equilibrium any more than rising global temperature. Investors are increasingly seeking to assess companies through their ESG performance as a benchmark of long-term risk and corporate contribution to addressing these issues. However, the **ESG** landscape is also emergent and frequently disjointed, and presents the Board with a plethora of externally imposed reporting demands which are often inconsistent with each other.

Being **'purpose led'** offers the Board a much more powerful and consistent way of thinking about these issues. Instead of focussing on risk mitigation, external demands and standings in ratings tables, Blueprint's Five Principles invite the Board to bring together in its thinking:

- all the material relationships on which long term success depends;
- the business opportunities of creating value for society through sustainable business practice; and
- purpose-led innovation,

thereby delivering over the long term for both responsible investors and society.

Of course, a company can have a good purpose, and a strategy that follows from it, and yet still be exploitative in some of its relationships with customers, suppliers or communities. While some stakeholder relationships are more material to business success, being purpose-led means seeking to have a positive impact on all those whose lives are touched by the company, avoiding manifest unfairness³ to anyone. And as **a guardian for future generations** it demands an enduring and firm commitment to environmental sustainability. When well executed, being purpose-led means a company strives for excellence across all aspects of E,S and G.



How do we, as the Board of a purpose-led business, behave?

Trustees

In a purpose-led company, the job of the Board is to be the collective trustees of the corporate purpose.⁴ As such, the Board needs to behave - and be seen to behave - in a way that respects and cultivates all the *relationships* on which the long-term successful pursuit of that purpose depends, and through which the company makes its profits.

A meaningful purpose needs to be expressed in a way that is authentic, inspiring and practical. Only then can the purpose unite the Board, mould thinking and guide strategic decision taking.

It also shapes how the Board understands its role and broader accountability. As trustees of the corporate purpose, the Board is looking to the long-term future, beyond the tenure of existing incumbents, and should want to hand on the business for future generations in a better shape than they found it. A sense of trusteeship focusses on personal responsibility for the purpose of the company and shapes Board decision taking across the range of commercial and governance issues, including succession planning, to ensure the company stays true to its purpose.



Behaviour

At the heart of the alignment of purpose, strategy and culture is the quality of human relationships which the company creates and sustains. Blueprint's starting point is that

“each person is a someone not a something”

and, combined with the commitment to a purpose that benefits society, this has implications for how everyone acts. The behaviours needed (set out in Blueprint's Framework on page 12) apply as much to decision taking and relationships at Board level as anywhere else.

Critically, Board members need to commit themselves to a shared common good beyond their own individual self-interest. This **solidarity** also involves a commitment to acting fairly in Board decisions and making a fair contribution to society and future generations. It encourages the Board and the Executive to engage with the communities and customers they are serving or could serve, to both anticipate concerns and grow new markets. And when challenges extend beyond a single company, it invites the Board to look to partnerships and collective action.

Favouring **curiosity** and **openness**, purpose-led Boards will seek routinely to listen and engage in a dialogue with a wide range of stakeholders, inviting and welcoming scrutiny of alignment to its purpose. More distant voices are often not so much *‘hard to reach’* as *‘seldom heard’*. And how does the Board ensure that the voice and stake of future generations is effectively brought into the room?

In times of uncertainty the **capacity to change fast** is a crucial strength. Clarity of purpose gives a company strategic flexibility, enabling quick adaptation to changing circumstances without losing coherence as the Covid-19 crisis has demonstrated. But the Board of a purpose-led company also recognises the fragility of short-term efficiency cuts and transactional relationships. It will seek to enhance resilience by focussing on creating and sustaining the company as a healthy system of relationships, with the agility to adapt and innovate at pace.

How will we know if we are making progress?

Can we measure success in being purpose-led?

One attraction of a purpose to maximise profit is the simplicity of having just one number to focus on, and a goal that is directly measurable. A Board embracing a purpose-led approach is immediately faced with a much more complex challenge. In addressing it, it is helpful to bear in mind two apparently contradictory truths

“*what counts is what gets counted and what really counts can't be counted*”.

Purpose cannot be measured directly and evaluating social outcomes and the quality of human relationships is difficult. However, particularly for large companies, some measures are essential to enable oversight, inspire progress and assess alignment to the purpose, and help enable the right conversations with management and investors.

Two things are needed:

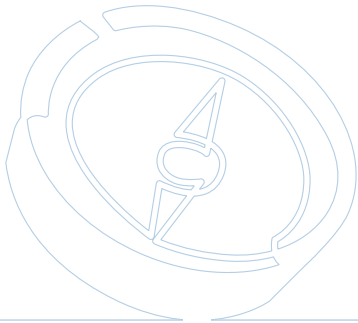
1. an integrated business model derived from the purpose which identifies **key relationships** alongside other inputs and outputs, and material **non-financial** outcomes alongside financial outcomes; and

2. the development of simple and appropriate non-financial proxies (such as customer churn, employee attrition and diverse representation) including qualitative and quantitative measures accompanied by an explanatory narrative:
 - a. to help assess how the purpose is changing **internal relationships** and driving decision-taking;
 - b. to give insight into the evolving quality of **external relationships** material to business success; and
 - c. to assess specific **social and environmental outcomes** (some of which are directly measurable) deriving from an assessment of the company's impact alongside financial results.

These steps give the basis on which management can bring social, environmental and financial outcomes together in decision taking and reporting to the Board. Social and environmental matters should **not** sit in separate sustainability reporting which can perpetuate siloed thinking. These combined outcomes also furnish a Board with necessary insights to inform strategic decisions on capital allocation and investments aligned to the purpose.

Any such non-financial measures need to be (a) easily understood and (b) deployed alongside financial measures under the responsibility of the CFO, emphasising that they are of first-tier import.

Arriving at the best proxy measurements is itself a key task. They need to be chosen - and then used - in a way that stimulates action in pursuit of the purpose but at the same time averts the risk that the proxy measures become boxes to tick or substitutes for the true goals of a purpose-led company in creating social value - thereby skewing priorities and behaviour.

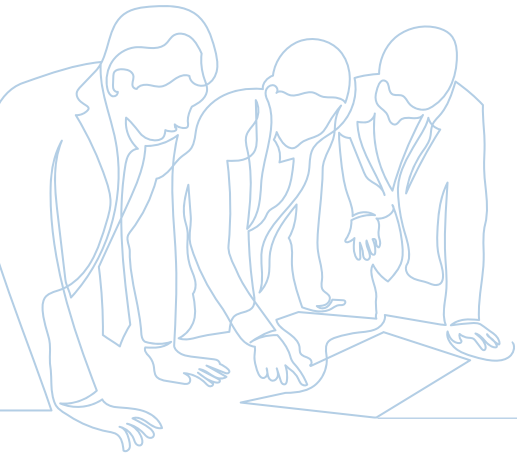


Materiality

One additional important exercise is a distillation of what, among these non-financial factors and in consultation with key stakeholders, are **material to sustainability**. One approach is to plot the importance of each factor which is material to stakeholders against the business impact of that topic. This will facilitate prioritisation. For example, **climate change** may well be very material to stakeholders and have a high business impact. So it would be prioritised over **wildlife conservation** which may be of modest importance to those stakeholders and of limited business impact. This helpful approach can be seen in operation in the annual report of **easyJet plc**, and **The Sustainable Accounting Standards Board (SASB)** helps to identify material issues for industries and sectors.

True success

A purpose-led company is not there to maximise anything but to balance decisions in a way that optimises for purpose. This requires management and the Board to be able to consider a range of factors not all of which can be reduced to numbers. Consistent, clear and verifiable measures of desired outcomes and relationships are vital. So, of course, are financial measures. But, as the trustees of the purpose, the Board will need to ask questions that go beyond the numbers and proxy measures and get to the heart of how management and the business thinks, behaves and builds relationships.



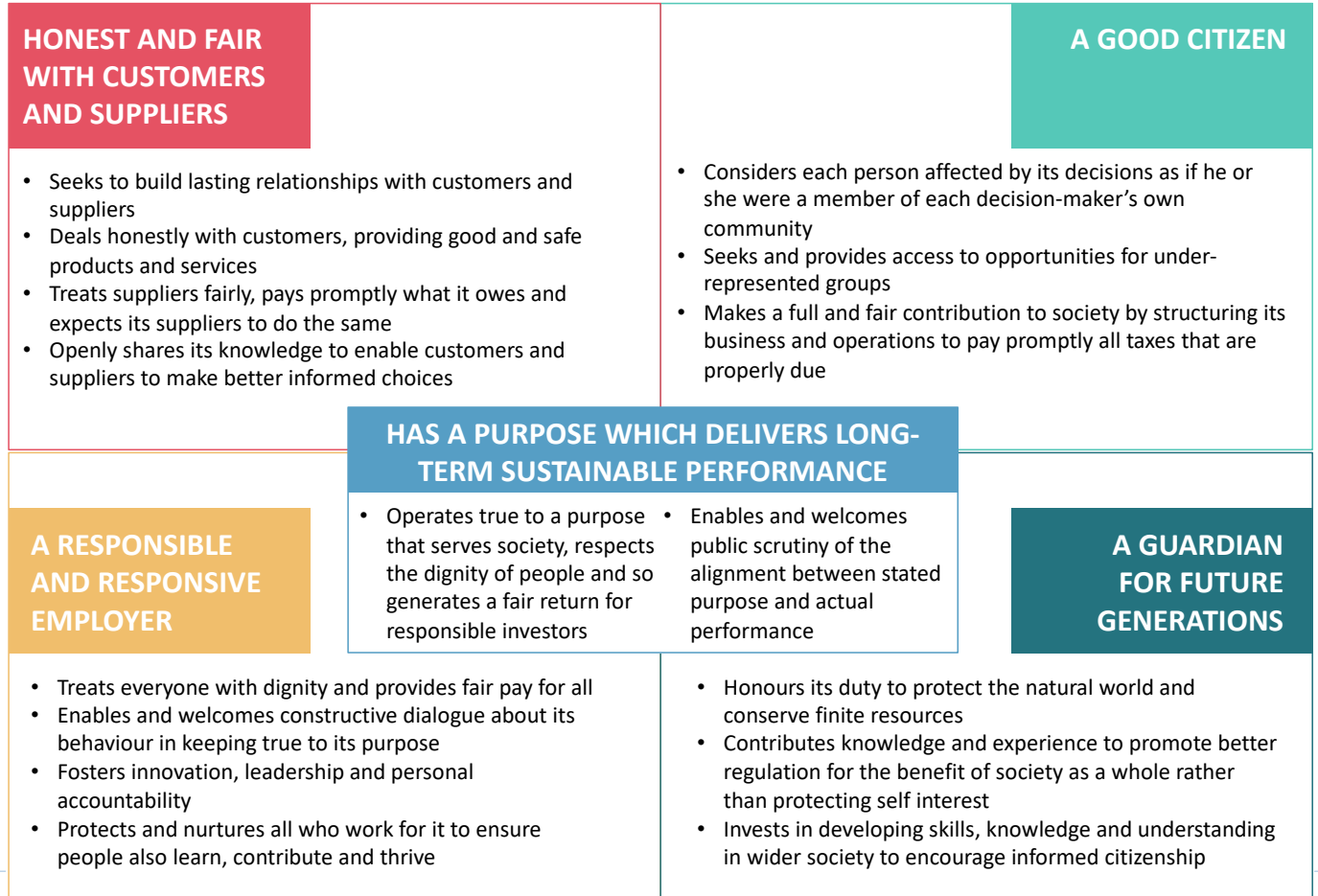
Questions for Boards to Consider:⁵

1. In simple terms, what is your company in business to deliver and for whom? How does this differentiate you?
2. How does the purpose inform how the company operates?
In particular:
 - How does purpose inform values, strategy, operating model, measurement, incentives and reporting? Examples?
 - How does purpose inform the way that insight is collected, capital is allocated, assets are invested in and stakeholder propositions developed? Examples?
3. How aligned are your Board and management on purpose?
In particular:
 - Can you give some examples of how the company's purpose is used to inform decisions around which business lines to discontinue or promote and around reputational/financial risk management?
 - How anchored in purpose are Board discussions and agenda?
4. How are your people? Can you give examples of how you have responded to specific concerns?
What do people need to do to get on in your company?
5. What positive and negative impacts does your company have on society and the environment?
How are you using the assets of the Company to contribute to society and maintain your licence to operate?
6. What motivates you personally to be on the Board and how do you know if individually and collectively you are doing a good job?



Five principles of a purpose driven 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.



A framework to guide decision making

The **Framework** outlines how purpose should be defined and 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.

DEFINING PURPOSE

<p>Each person is a someone, not a something (DIGNITY & VALUE OF PEOPLE)</p>	<p>Show respect for the dignity of each person and for the whole person; never use people merely as a means to achieving business objectives. Respecting the whole person includes thinking of people in all their various roles in relation to the business: as employees, customers, suppliers, investors and citizens. Demonstrating respect means setting a purpose and seeking outcomes that enable each person to reach his or her full potential, not least being able to contribute fully to building relationships and communities both within the workplace and beyond. Such purposes and such outcomes engender trust between people and between business and society.</p>
<p>Delivering value by serving society (THE COMMON GOOD)</p>	<p>Genuinely aim to promote the good of society as a whole through the provision of goods and services that benefit society; never use stakeholders, and society as a whole, as a mere means to business success. This gives meaning to the purpose of the business within society and demands innovation to achieve that purpose alongside a financial return. Society and communities of people determine the licence, and freedoms, of business to operate and grow; these will be broader if business actively aims to reduce harm and produces goods that are truly good and services that truly serve.</p>

BEHAVIOURS NEEDED TO BUILD CHARACTER & ACHIEVE PURPOSE

<p>Other people matter (SOLIDARITY)</p>	<p>Freedom with responsibility (SUBSIDIARITY)</p>	<p>Building trust and trusted relationships (RECIPROCITY)</p>	<p>Valuing diversity and building bridges (PLURALITY)</p>	<p>Stewardship of people, values and resources (SUSTAINABILITY)</p>
<p>Judge decisions as good, or not, in the context of the best values, expectations and needs of those with whom we should seek to build relationships. Do not make decisions in a self interested, self determined, closed world that does not weigh sufficiently the impact on others. Make a fair contribution to society and avoid actions that cause inequality. Opportunities should be sought to serve the broadest community, including the underserved, the under-represented and the excluded; not to emphasise the divide but rather to bring people together, through new job opportunities, innovative goods and services, and new markets.</p>	<p>Allow people to develop by being able to contribute to making decisions at all levels. Do not create dependency through reserving decisions unnecessarily to higher levels in the hierarchy, or lose accountability through inappropriate delegation. Give people the freedom, and support where necessary, to take on the risk of decision making and to have a voice in their work, thus fostering innovation, creativity and a sense of shared responsibility.</p>	<p>Start with basic honesty and integrity so that each and all receive what they are entitled to or can reasonably expect. This is the first stage of building trust. Then go beyond this minimum, using knowledge and capabilities to provide benefits that people desire and value but cannot expect or demand, in particular in situations of information asymmetry or power imbalance. Fair and efficient markets depend on trust and trusting relationships</p>	<p>Be clear as to who you are and what you stand for, combining this with an openness to enrichment from others, valuing diversity of thinking and cultures. Favour curiosity and inclusion over suspicion and exclusion of those who think differently. Maintain consistency of purpose and values whilst embracing diversity, encouraging closeness to people, markets, innovation and growth.</p>	<p>Acknowledge and seek to measure the impact the business has on people, values, resources, and the environment. Accept responsibility for those impacts. Then take steps to develop people, nurture values, preserve and restore existing resources and create new ones where possible so that others may enjoy their benefits. Use your knowledge, influence and experience in collaboration with others for the benefit of all.</p>

Notes

1. Edmans, A. (2020). Grow the Pie: How Great Companies Deliver Both Purpose and Profit. Cambridge: Cambridge University Press, pg. 43
2. See Blueprint article on Purpose and ESG <http://www.blueprintforbusiness.org/purpose-and-esg/>
3. See Blueprint report on Fairness in Business: http://www.blueprintforbusiness.org/wp-content/uploads/2019/02/Blueprint-for-Business_Fairness-in-Business-Paper.pdf
4. Mayer, C.[2018] Prosperity: Better Business Makes the Greater Good, Oxford University Press, Chapter 5
5. This list of questions is not intended to be exhaustive and it complements a list of eight questions put forward by investors in 2018. <http://www.blueprintforbusiness.org/wp-content/uploads/2018/05/Blueprint-how-can-investors-identify-a-purpose-led-company-May-2018.pdf>

A [Blueprint for Better Business](#) is an independent charity which works as a catalyst to help businesses be guided and inspired by a purpose that benefits society. Our work is about stimulating and energising a different way of thinking and behaving in business rather than about compliance, kite-marks or regulation.

If you would like any more information about Blueprint or the Five Principles please contact:

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