

## CULTURE SERIES

# PURPOSE AND CULTURE

PREPARED IN ASSOCIATION WITH A BLUEPRINT FOR BETTER  
BUSINESS

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## Purpose and Culture

Purpose is having a moment. From Larry Fink’s letters to CEOs<sup>i</sup>, the changes to the new UK Corporate Governance Code in July 2018<sup>ii</sup>, to the recent statement from the US Business Roundtable<sup>iii</sup>, there is now a growing expectation that every business should be clear about its purpose.

Investors can play a major role in advancing the purpose movement through their investment decisions and active ownership as well as through themselves being purpose led businesses.

### What is purpose?

Purpose is an enduring reason for the business to exist beyond just making a profit: a purpose that benefits society and respects people, with profit as one outcome rather than the purpose of the business.

A good purpose is not about crafting a catchy statement. Purpose is *why* the business exists; it should set out clearly how society benefits from the company’s existence, in a way that is inspiring, authentic and above all practical.

<p><b>Inspiring</b> Inspire people both within and outside the business Reinforce the connection between the business and what it contributes to wider society</p>	<p><b>Practical</b> Provide the strategic direction for the business Enable people to make decisions about what they do, using the purpose as a reference point.</p>	<p><b>Authentic</b> Connect what the business believes, says, means and what it actually does. Enable scrutiny of the alignment between the stated and actual purpose.</p>
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Purpose is the glue that inspires all of the people on which the business depends to succeed: its employees, customers, suppliers, the communities in which it operates, its investors and the future generations affected by what it does. The power of purpose is to move people to commit to a shared worthwhile endeavour, unlocking their potential to create greater value for both the business and society.

Research on human motivation shows that human beings seek meaning through their work, and are motivated by autonomy, mastery and purpose<sup>iv</sup>. This is supported by a growing body of evidence which shows 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.<sup>v</sup>

This goes beyond employees: consumers are increasingly looking to businesses to provide products that respect the environment, pay their taxes, treat their people fairly, take responsibility for their supply chains and be honest with their customers.

Fundamentally, purpose depends on whether the people in the organization respect and care about the people affected by what the organisation does. This is evident in the quality of the company’s relationships. A purpose led business is conscious and intentional about the potential and the well-being of all of the people affected by the business in a manner that produces profitable outcomes, a better society and a healthy planet.

The change which is needed is therefore fundamentally a mindset and behavioural shift – a change in the culture of the business.

What does a purpose led business look like?

The Blueprint Principles provide a picture of what a purpose led business might look like:



How can investors contribute?

This focus on purpose is a significant opportunity but there is also a risk that the need for companies to challenge themselves and change their behaviour could be lost. There is a risk that companies' attempts to have a purpose end up being simply a communications or branding exercise and they fail to change their culture. The challenge faced by investors is how they can support businesses to be genuinely purpose-led.

When considering purpose, one of the challenges investors face is that 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 people in business think, behave and build relationships; questions that help assess the culture of the business.

In 2018, Blueprint brought together leading investors from a range of asset management companies, with combined assets under management of over \$8 trillion, with the aim to help answer this challenge. 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 are designed to stimulate deeper conversation and to explore the depth of thinking and consistency between the purpose and operational priorities. They are not intended to be exhaustive but rather to support and enhance existing approaches and be tailored to different situations and companies as appropriate.

By asking these simple questions investors can get a much clearer idea of whether a business is truly committed to becoming purpose led, as well as sending a signal to the business that the investor values their long term sustainable success. The questions can also be used to assess your own company's purpose. It is much easier to advocate for purpose and cultural change if you have achieved this in your own organisation.

### 8 questions to help tell if a company is purpose led

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?

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## References

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<sup>i</sup> Larry Fink's letter to CEOs 2019: <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

<sup>ii</sup> UK Corporate Governance Code, July 2018: <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.PDF>

<sup>iii</sup> <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>

<sup>iv</sup> Dan Pink, RSA Animate: The surprising trust about what motivates us:  
<https://www.bing.com/videos/search?q=rsa+animate+the+surprising+trust+about+what+motivates+us&view=detail&mid=8674603B0C3B3E1F23118674603B0C3B3E1F2311&FORM=VIRE>

<sup>v</sup> 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>.

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<https://ssrn.com/abstract=985735>

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>.