

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:

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.

HONEST AND FAIR WITH CUSTOMERS AND SUPPLIERS

- · Seeks to build lasting relationships with customers and
- · Deals honestly with customers, providing good and safe products and services
- · Treats suppliers fairly, pays promptly what it owes and expects its suppliers to do the same
- · Openly shares its knowledge to enable customers and suppliers to make better informed choices

A GOOD CITIZEN

- · Considers each person affected by its decisions as if he or she were a member of each decision-maker's own community
- · Seeks and provides access to opportunities for underrepresented groups
- · Makes a full and fair contribution to society by structuring its business and operations to pay promptly all taxes that are properly due

HAS A PURPOSE WHICH DELIVERS LONG-TERM SUSTAINABLE PERFORMANCE

A RESPONSIBLE AND RESPONSIVE **EMPLOYER**

- Operates true to a purpose
 Enables and welcomes that serves society, respects public scrutiny of the the dignity of people and so generates a fair return for responsible investors
 - alignment between stated purpose and actual performance

A GUARDIAN FOR FUTURE GENERATIONS

- · Treats everyone with dignity and provides fair pay for all
- Enables and welcomes constructive dialogue about its behaviour in keeping true to its purpose
- · Fosters innovation, leadership and personal accountability
- · Protects and nurtures all who work for it to ensure people also learn, contribute and thrive
- · Honours its duty to protect the natural world and conserve finite resources
- · Contributes knowledge and experience to promote better regulation for the benefit of society as a whole rather than protecting self interest
- · Invests in developing skills, knowledge and understanding in wider society to encourage informed citizenship

The sit 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.

Registered Office: 12A Charterhouse Square, London EC1M 6AX