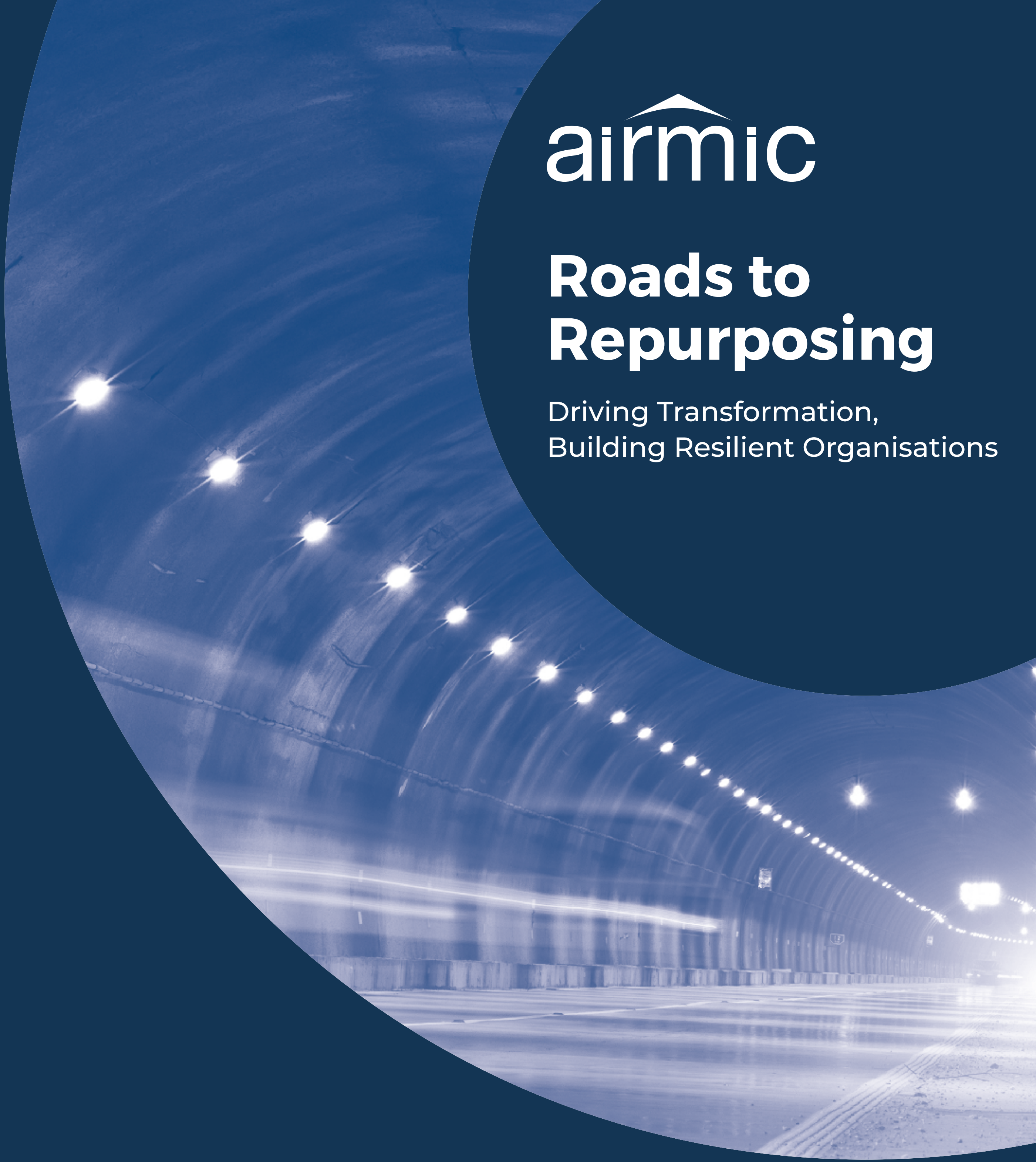
airmic

Roads to Repurposing

Driving Transformation, Building Resilient Organisations



qrco.de/2021R2R

ACCA Think Ahead

Crawford

LOCKTON

Knowledge partner:

University of Oxford Saïd Business School

Table of Contents

Executive summary

Interest in corporate purpose has increased significantly since the middle of the last decade to the point where it is now regularly featured in the business media and is being built into investors' assessment criteria. That's a remarkable development in a relatively short period of time.

The fourth in Airmic's *Roads to* series, this research aims to help companies understand the concept of corporate purpose, to develop it within their own business context, and to determine the implications for risk and insurance professionals.

What do we mean by repurposing?

The objective of a repurposing journey is to reach clarity about why the organisation exists which is distinct from its profit-making motive. Clarity of purpose will then inform the organisation's brand, values and desired behaviours, and act as a focus for everything the organisation does.

The idea of corporate purpose has incorporated related concepts such as Corporate Social Responsibility (CSR), Socially Responsible Investing (SRI) and Environmental, Social and Governance (ESG) criteria.

There are two key elements to an organisation's purpose – the 'why' and the 'who'. The 'why' explains the company's reason for being. The 'who' highlights which stakeholders an enterprise exists to serve.

This enables an organisation to define why it exists, what it exists for and who it benefits.

Why are we talking about this now?

These changes in business trends have come about as the result of social and economic shifts in the wider society. We can identify four factors.

1. Shifting business trends

Corporate purpose, ESG and related concepts such as investor stewardship have been gaining traction over the last half-decade to the point where, in the last two to three years, they have radically changed the conversation.

A sign of just how far the rules of the game have shifted can be seen from the statements of high-profile business organisations that, less than ten years ago, were champions of shareholder value and deregulation. For example, Business Roundtable in the US and the UK's Institute of Directors (IoD) have repudiated shareholder primacy and have called for businesses to serve a wide range of stakeholders.

There are good reasons to believe that this shift will be durable. The level and intensity of the discussion is different from that of previous decades.

2. Changing social attitudes

Social attitudes have shifted significantly over the last decade. This shift has been particularly marked in attitudes to gender roles and sexuality. It is reflected in the changing use of language. Terms that would have been considered acceptable even a decade ago are now being challenged.

Nowhere has the shift in attitudes been starker than in people's views on climate change. The proportion of people who believe that climate change is a serious problem has gone from a minority to majority in many countries over the past ten years.

Summer 2021 saw extreme temperatures, fires, floods and a report by the Intergovernmental Panel on Climate Change (IPCC), which concluded that continually rising temperatures are now inevitable over the next 20 years. Both the public concern over climate change and the disruption caused by it will increase over the coming decade. The political and consumer reaction is something organisations will find it impossible to ignore.

3. The impact of social media

These attitudinal shifts have occurred in parallel with the rise of social media. Corporations are now more visible. Rolling news and social media mean that more of what companies do gets reported and there are more people able to make their reaction to it heard.

The Covid-19 pandemic appears to have added momentum to these changes. Companies are coming under pressure to 'do the right thing'. It is likely that the aftermath of the Covid-19 pandemic will only increase pressure on companies to demonstrate their commitment to purpose and to groups of stakeholders beyond their executives and shareholders.

4. The challenge of the 2020s

The 2020s will be a decisive decade and one in which governments and businesses will face major challenges. In addition to the aftermath of the Covid-19 pandemic, three factors will have a significant impact on companies:

- The transition to a net-zero carbon economy
- An ageing population
- Rapid change, driven by technology.

Against this background, those companies that have a clear and shared idea of their purpose and a strong connection with stakeholders are likely to be at an advantage.

The importance of corporate purpose for risk professionals

With a potentially disorderly decade looming, both business uncertainty and the potential stakes in business decisions are likely to increase. Developing a response to this is likely to be beyond the scope of traditional risk management models.

The debate on corporate purpose and repurposing in any organisation is therefore one that must involve risk professionals at an early stage. Lack of engagement with corporate purpose carries a risk and also the potential for a missed opportunity. There is a growing interest among businesses in their reputation – not merely for branding purposes, but also because of the rising importance of intangible assets and stakeholder support to companies.

Companies therefore face potential risks in a number of areas, for example:

- Reputational damage from being seen to ignore social and environmental responsibilities
- Loss of business from a consumer backlash
- Increased scrutiny by stakeholders
- Flight of investors, themselves under pressure to demonstrate more active stewardship
- Recruitment and retention problems – loss of attractiveness to new employees and loss of key talent
- Political and media criticism – ultimately resulting in increased regulation impacting on time and resources
- Reputational damage diverting energy away from rebuilding and developing the business.

A clear definition of an organisation’s purpose and stakeholders can provide a reference point for managing and mitigating risks in these areas. In this new environment, corporate repurposing will take on a new salience.

The business case for the purposeful company

1. Purpose gives the company clarity and direction

In a rapidly changing world, it is easy to lose focus when running a complex business. Initiative overload is a well-documented problem in many organisations. As we move into a more volatile decade, this clarity of purpose will become all the more important.

Research shows that the combination of a clear purpose and a clear shared understanding of that purpose differentiates high-performing organisations. Those with high purpose-clarity exhibit superior accounting and stock market performance.

2. Investors are increasingly expecting statements of purpose

High-profile investment firms are increasingly asking questions about an organisation’s purpose, who it serves and who its stakeholders are. A clear stance on these questions and measurable ESG impacts are becoming key criteria for investment decisions. Institutional investors are being judged on stewardship criteria, which has raised their expectations of the companies in which they invest.

A statement of purpose and the clear definition of the ‘why’ and the ‘who’ of the company’s purpose is no longer an optional extra. It is becoming an integral part of doing business.

3. It improves the recruitment, retention and engagement of employees

There is a similar rise in expectations from employees. Recruiters warn that being “a purpose driven organisation” is becoming a prerequisite for attracting top talent. This is particularly so for 25- to 40-year-olds. For younger employees, corporate purpose is becoming as much a hygiene factor as a motivator. They expect a clear purpose other than the pursuit of profit.

Maintaining engagement will be that much more difficult if the level of remote working remains high after the pandemic. Organisations with a clearly stated and well-understood purpose will be in a better position to manage these tensions.

4. Protecting and enhancing brand and reputation

The shift in employee attitudes is mirrored in those of consumers. The 2021 Edelman Trust Barometer noted that 78 percent of consumers believe they can force a company to change its societal impact and that 54 percent of consumers expect a company to issue a statement on major issues within two to three days.

The pandemic has significantly shifted consumer expectations. Consumers – particularly among younger generations – are now making decisions based on an organisation's purpose, rather than on price.

Public expectations of companies are increasing and the Covid pandemic appears to have accelerated this trend. A disappointed customer can take to social media and a personal protest can quickly become a storm.

5. It improves financial performance over the long term

A focus on something other than profit can be beneficial for a company's financial performance over the longer term. A focus on employee satisfaction, customer satisfaction and eco-efficiency takes time to affect the stock price. The evidence shows that it is possible to be purposeful while still providing returns to investors. Pursuing a corporate purpose with social and environmental considerations need not be detrimental to the bottom line.

What makes a successful repurposing programme?

The evidence from the academic research and the case studies points to four critical factors in the process of defining (or confirming) an organisation's purpose and then turning that purpose statement into something that has an impact on the business.

1. Defining the 'why' and the 'who'

The 'why' needs to be based on the principle of comparative advantage:

- What is the organisation good at?
- What are its advantages in the market?
- Does the organisation deliver more value through this activity than other organisation?

The 'who' needs to be based on the principle of materiality:

- Which stakeholders are material to the firm's business?
- Which other stakeholders does the firm believe it ought to prioritise?

While this process must be initiated and led by top management, it is important to involve employees at all levels. Many will have been with the organisation for some time and they often have a sense of its purpose, or a view of what it ought to be, without necessarily having articulated it. This means that the purpose is more likely to have a sense of ownership among the people who have to execute it on a daily basis.

It is important to create a 'blame-free' environment of psychological safety to allow "risk talk" in which employees feel they have the freedom to speak openly.

2. Embedding purpose

Embedding purpose is where the real work starts. If a wide cross-section of employees and other stakeholders have been involved at an early stage, it is likely that the purpose definition process will take longer but also that the embedding process will be less of a challenge. If stakeholders have a stake in the purpose statement, that goes some way to achieving the sense of ownership necessary.

The purpose statement, the 'what' and the 'who', will need to inform everything else that the organisation puts in place. In this sense, it becomes like the DNA running through the entire operation. It is essential that the purpose statement inform the company's strategy, its operating model, its performance measurement, its culture and, most importantly, its reward systems.

3. Getting line managers on board

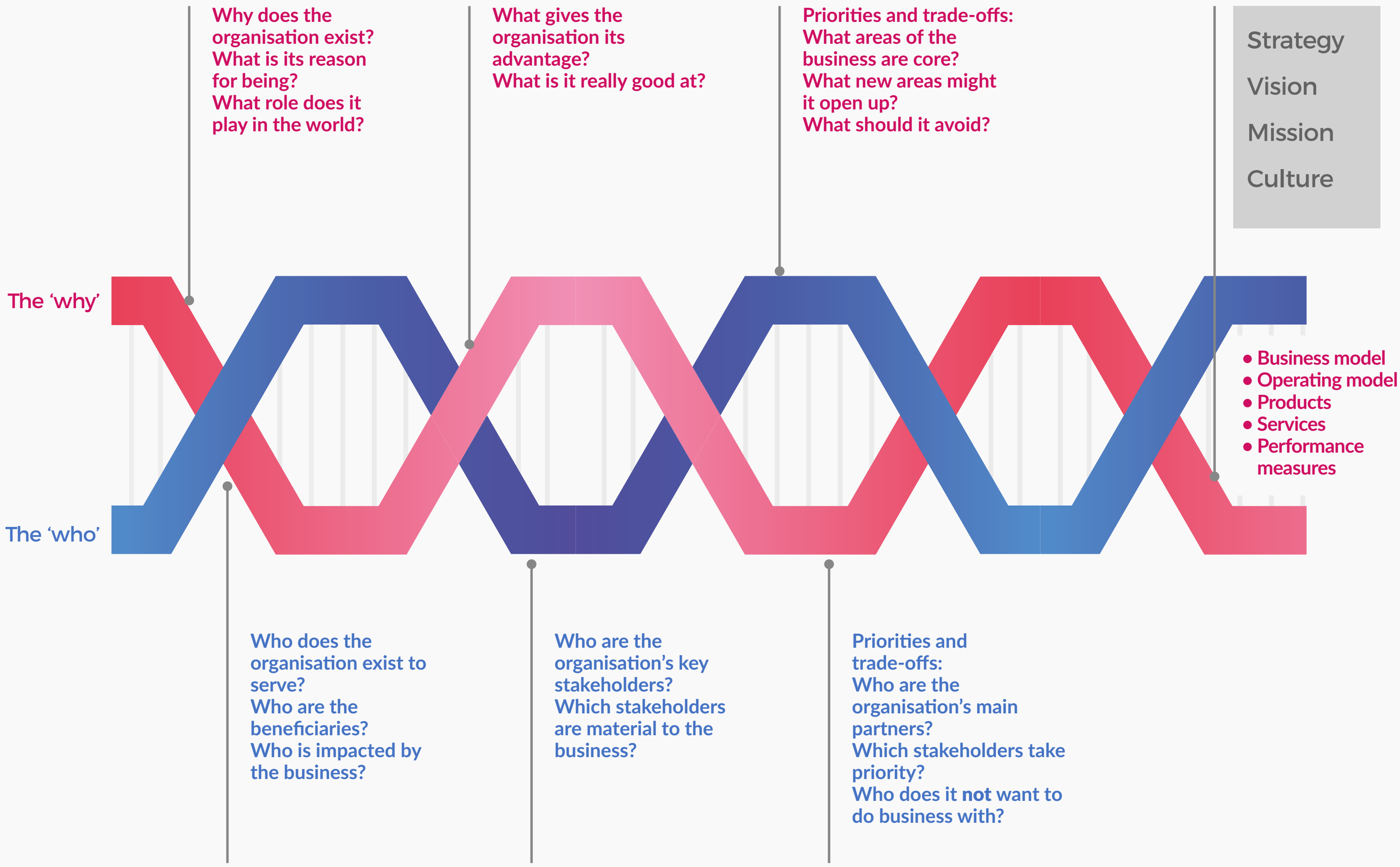
The key relationship any employee has is with their own line manager. So, although top management must clearly articulate the organisation's purpose, line managers play a crucial role in embedding it.

It is sometimes said that many corporate initiatives get lost in middle-management layers. To embed corporate purpose, line managers must share the understanding of the purpose and be able to explain it to their staff and customers.

4. Making the purpose part of the culture

Once the purpose – the 'what' and the 'who' – are embedded in the culture of the organisation, they then become fully part of it, running through it like a kind of corporate DNA, informing everything that it does.

The DNA of Purpose



ROADS TO REPURPOSING

Foreword

Purpose is a way to express the organisation's impact on the objectives of its stakeholders. At no time has this been more critical than during the pandemic.

In 2021, we find ourselves in a very different world to the one we could have expected back in 2018. The coronavirus pandemic has revealed the spectre of connected risks in our global economy.

The Airmic *Roads to Resilience* report (2014), which followed on from *Roads to Ruin* (2011), was developed in a world where physical and commercial assets were well understood and where intangible assets and risks emerging. The report gave us a robust understanding of how businesses could build resilience. Industry 4.0 stimulated the reset of governance and risk management capabilities as a society, in business and in our own lives. The R*oads to Revolution* report (2018) helped us understand how the influence of technology might ultimately change our business resilience model, and how the digital revolution would transform the management of risk.

A clear purpose inspires the organisation's people to do good work. It can be an effective way to align effort across the organisation towards achieving a common goal. However, in a more connected and aware society, it is increasingly seen as a people retention and talent attraction selling point.

Risk professionals have already been catapulted to the forefront of their organisations, as boards and top management have turned to them for their expertise and insights during the coronavirus crisis. As businesses emerge from the pandemic, risk professionals will have a crucial role to play in helping their organisations navigate the uncertainties. In this new environment, corporate repurposing will take on a new salience. Purpose can make organisations more aware of shifting external consumer sentiments, policy directions and industry developments. Through deeper stakeholder engagement, organisations on a route to repurposing can identify and mitigate risks they might otherwise miss.

We hope you will enjoy reading about this next stage in our journey.

Julia Graham
CEO, Airmic

Hoe-Yeong Loke
Research Manager, Airmic

Project Advisory Group members

Name	Organisation
Rachael Johnson	ACCA
Jamie Lyon	ACCA
Andrew Bart	Crawford
Benedict Burke	Crawford
Sarah Horler	Lockton
Andy Bear	Lockton
Associate Professor Anette Mikes	Saïd Business School, University of Oxford
Julia Graham	Airmic
Hoe-Yeong Loke	Airmic
Steven Toft	Project consultant and lead researcher

We wish to thank Anette Mikes, Charles Wookey, Alex Edmans and Airmic members for their contributions towards the research.

About the project consultant and author

Steven Toft is a writer, business consultant and award-winning blogger, and was previously with the consulting practice of PricewaterhouseCoopers. He has written for *The Guardian*, *The New Statesman* and *Prospect*, and featured on *People Management*'s list of the Top 20 social media influencers.

Introduction

Corporate purpose is a concept that has risen up the agenda over the past decade. The idea that organisations should have a clear purpose is not new. However, there has been a growing sense among executive teams that they should be able to articulate a shared understanding of why the organisation exists and what the role of the business within larger society should be.

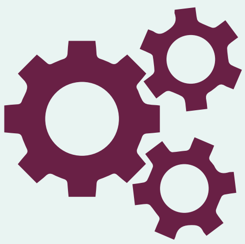
At the same time, business responsibility has gone mainstream as a boardroom priority. Moving beyond Corporate Social Responsibility (CSR), responsible businesses are now responding to a broadening and deepening of the concept of corporate governance – both directors and shareholders are now being held responsible not only for the financial performance of the company, but also for its social, economic and environmental impact. This reflects the growing interest of businesses in reputation – not merely for branding purposes, but also because of the rising importance of intangible assets and stakeholder support to businesses today.

As Airmic pointed out in its 2020 report *Closing the gaps on reputational risk management*, the line between corporate reputation and corporate risk is becoming increasingly blurred, yet corporate communications and risk management still operate with an unnecessary wall between them:

> "Traditionally, risk is dealt with by risk experts, while reputation tends to be managed by the corporate affairs or corporate communications teams. When those two teams work in silos, without any meaningful collaboration, risks can develop and remain undetected until it is too late, and an organisation can find itself as headline news. Greater collaboration is required between risk and corporate communications and corporate affairs professionals."

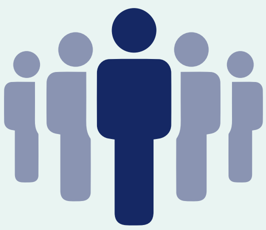
This research is the fourth in Airmic's *Roads to* series. In 2011, *Roads to Ruin* looked at major risk events and their implications, stressing the importance of corporate governance and the understanding of risk at board level. The 2014 report *Roads to Resilience* examined ways of building resilience in organisations, to protect their brands and enhance their reputations. In 2018, *Roads to Revolution* looked at how organisations can build resilience and growth in the context of the shifting business dynamics brought about by the digital revolution.

We find the business dynamics shifting yet again. We are dealing with the aftermath of the first global pandemic in living memory and heading into a decade in which climate change and the shift to net-zero carbon will change the foundations on which our economies and businesses have been built.



REDESIGN PROCESS

Organisations must combine process improvements with the de-sire to fully embrace developments in technology



RETAIN STAKEHOLDERS

Organisations must engage stakeholders in business process redesign, which should increase the chances of successfully retaining those stakeholders

REINVENT PURPOSE

Organisations must challenge their purpose and, as the pace of digital transformation increases, the frequency of reinventing purpose must match the speed of change

Looking longer term can encourage risk aversion. There is consequently a need to reward confident forward-looking behaviour to ensure commitment to constant business repurposing and evolution.

Realising this has led many organisations to revisit their entire purpose and to establish a clear 'North Star' to guide them through these turbulent times. This research will therefore examine the rapid rise in the idea of corporate purpose, the forces behind it, and the imperative it has created for senior executives and for the risk management profession.

The initial impetus for this research came from a recognition, noted in Airmic's 2014 report *Roads to Resilience*, that shared purpose was one of the key characteristics of resilient organisations. The report also noted that this shared purpose went beyond the boundaries of the organisation to include customers, suppliers and other business partners.

The research found that in the most highly performing organisations:

> "Resilient relationships and networks are based on shared purpose and values.
>
> "Risk management and achieving resilience are tightly integrated with strategy, tactics and operations. This starts with clearly defining their purpose and values. By doing so, these organisations also indicate what they are not about.
>
> "Resilient organisations realise that suppliers, contractors, business partners and customers represent a network of relationships aimed towards a common purpose."

Airmic's 2018 report *Roads to Revolution* reinforced the importance of purpose, noting that the most successful transformations occurred in organisations that were most willing to revisit and reinvent their purpose.

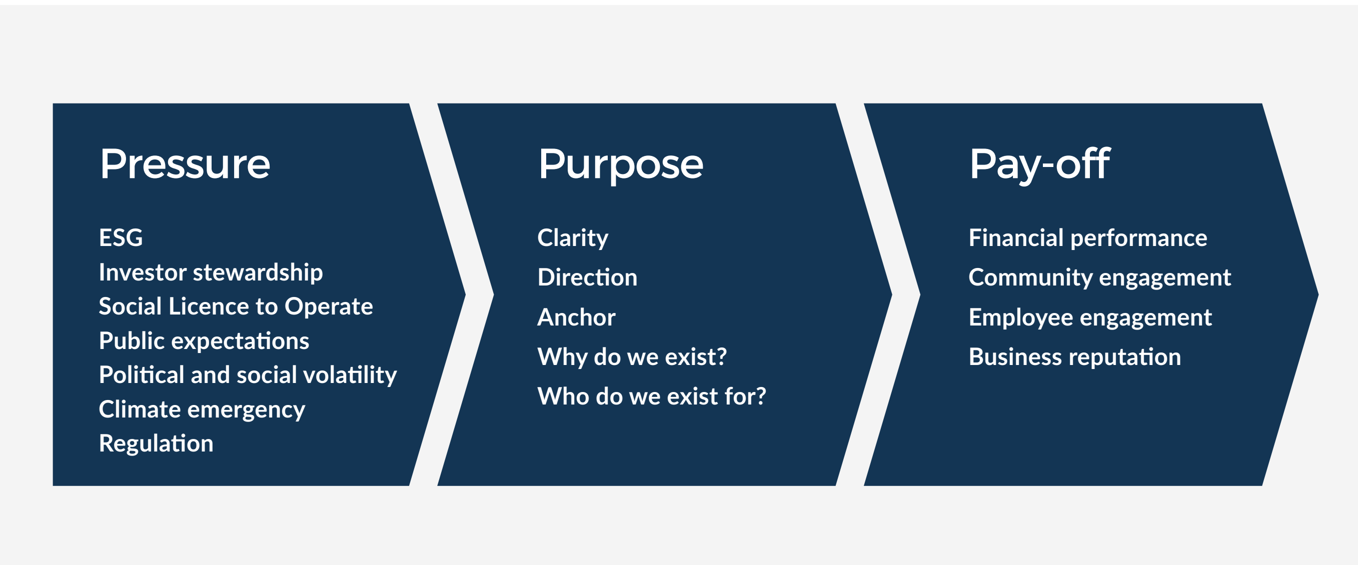
The Airmic Resilience and Transformation Model that came out of the research identified the reinvention of purpose as one of the prerequisites for surviving and thriving in a rapidly changing world:

> "Organisations must challenge their purpose and as the pace of digital transformation increases, the frequency of reinventing purpose must match the speed of change."

These statements have proved to be remarkably prescient. Since these reports were written, the concept of corporate purpose has moved from the pages of business journals to the boardroom agenda.

Even so, the Business in the Community's Responsible Business Tracker, which monitors the adoption of purposeful policies, has found that the practice is some way behind the rhetoric. In 2019, it reported that, although 72 percent of companies have started to formally engage employees and senior leaders to identify and prioritise responsible business issues, only 16 percent have embedded this in their risk register or in their strategic business objectives. It remarked that the number of businesses with defined purpose and values is encouraging, but that there remains a substantial gap between stated purpose and action. While there is clearly a lot of interest in corporate purpose, there is much less clarity about what it means in practice and how to apply it.

The Covid pandemic has given the subject greater urgency. The social and economic trends which have underpinned the



rise of corporate purpose have been given renewed force. Expectations of companies were already on the rise, but the scrutiny is now sharper than ever. Corporations which have been seen to take public money, either directly or through broader industry-wide support, are now under increased pressure to 'do the right thing'.

This business environment is likely to get more challenging as we go into what is shaping up to be one of the most volatile decades for some time. The challenges of the Covid aftermath, an ageing population, climate change and the transition to net-zero carbon will see considerable change at the level of governments, organisations and individual households. The supply chain disruption and skills shortages seen in many countries recently are an early warning of a more turbulent period. Trade Unions are flexing their muscles and wages are rising in occupations where skills are scarce. Some economists are warning of wage inflation and industrial unrest. Protest and anti-corporate rhetoric are in the air, transmitted at speed by social media. Questions about companies, their purpose, who they benefit, their impact on the environment and their Social Licence to Operate will only get louder.

Yet, at the same time, the aftermath of the Covid-19 pandemic is likely to see a renewed emphasis on corporate financial performance. Many companies have been severely damaged by the economic shutdown and urgently need to recover their financial positions. There is likely to be a renewed focus on productivity both at firm level and for the wider economy. Senior executives may find themselves urged by politicians to increase productivity while being criticised by those same politicians for policies that reduce pay levels and employment. Balancing these conflicting demands will be a challenge. In this context, there may well be a pushback against the idea of a purposeful company. There will still be demands for shareholder returns. The potential conflict between the need for financial performance and concern for the wider purpose and the impact of the company should not be ignored, and it is one that we will discuss in a later section of this report.

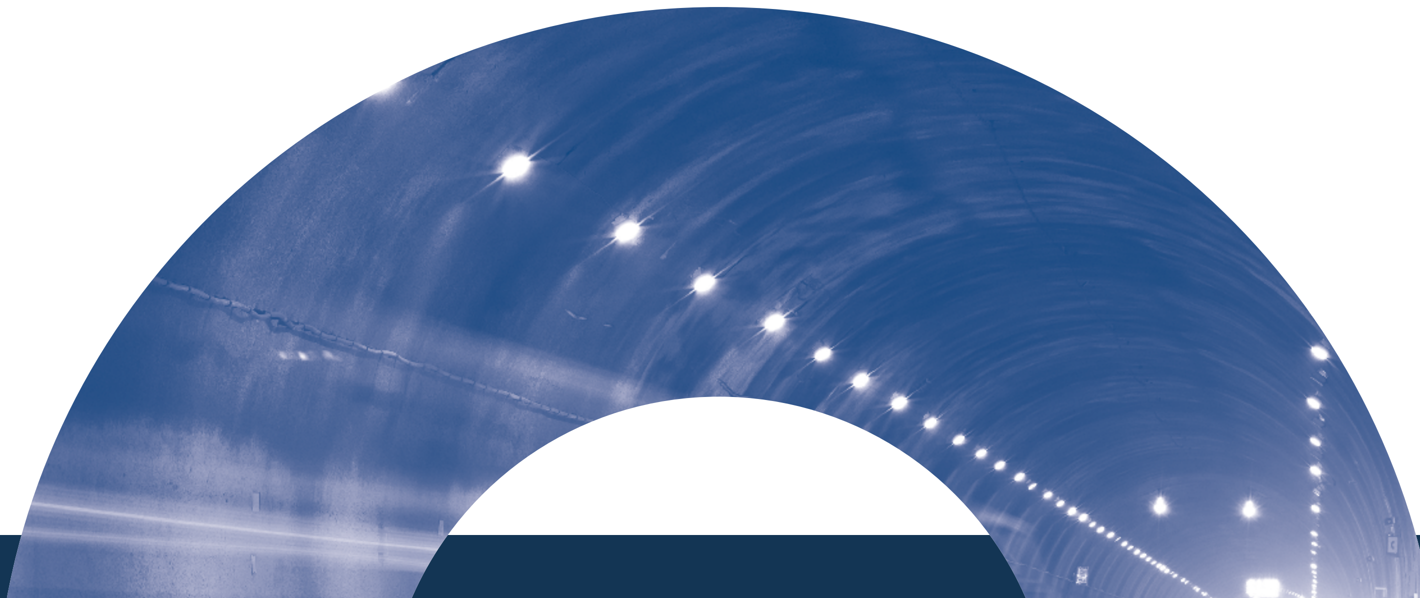
The challenge for companies, then, is significant. However, there are also opportunities. As we shall see, becoming a purpose-led organisation can bring significant benefits. Those that have chosen to focus on goals other than profit and on stakeholders other than shareholders have often found that, over the longer term, their performance has actually improved. There is pressure from all sides to state (or to clarify) a corporate purpose, but there are pay-offs too.

This also brings a challenge for the risk management profession. Clearly, there is a potential risk involved in any reassessment of an organisation's purpose, but there is also the potential for a missed opportunity should the organisation fail to engage with something that is clearly becoming so important. Risk professionals cannot stand on the sidelines of this debate. They must lead and shape it in their own organisations.

As Anette Mikes of the University of Oxford's Saïd Business School puts it:

"This is an important crossroads for the risk profession. Risk managers have a mandate to foster genuine communications about risks in their organisations. They are in a pole position to take up the mantle of the purposeful organisation and develop the tools and facilitate the processes that can effectively help their colleagues live the purpose and priorities of their organisation."

This report will examine the concept of corporate purpose in more depth. We will look at what is being covered under the labels 'corporate purpose' and 'repurposing', why these ideas have acquired such an urgency within the business world and how companies are applying them and using them to improve their business performance and mitigate their risks.



We begin in **Section 1** by setting the terms of reference for the research and defining the areas of focus.

In **Section 2** we build our understanding of the concepts of corporate purpose and repurposing, the elements that make them up and their relationship to concepts like ESG and Social Licence to Operate. We go on to look at how organisations might begin to define their purpose.

Section 3 sets the context with some history of the concept of corporate purpose and how it has evolved.

Section 4 looks at the more recent developments. What are the social, economic, political and environmental forces that have brought the ideas of corporate purpose and repurposing into the spotlight? We also explain why we believe the momentum behind these trends will increase over the coming decade.

Section 5 focuses on the importance of corporate purpose for risk professionals. The development of the idea of repurposing and the current sense of urgency around it provides an opportunity for risk professionals. There is also a risk posed by failing to engage with these shifts in the idea of a company's purpose or of doing so in an ineffective or counterproductive way.

In **Section 6** we examine the evidence of the impact of corporate purpose and purposeful polices on organisations. We look at the business reasons for defining (or reconfirming) a corporation's purpose and some of the benefits that an organisation's can expect from doing so.

Section 7 features some case studies of organisations that have revisited their purpose, and the benefits and learning points they have encountered along the way.

Drawing on the evidence from the literature and the case studies, **Section 8** looks at the characteristics of a successful repurposing programme.

Section 9 pulls the themes of the report together and provides some recommendations for organisations and for risk professionals to lead the conversation on corporate purpose within their own companies.

“This is an important crossroads for the risk profession. Risk managers have a mandate to foster genuine communications about risks in their organisations. They are in a pole position to take up the mantle of the purposeful organisation, and develop the tools and facilitate the processes that can effectively help their colleagues live the purpose and priorities of their organisation.”

Anette Mikes, University of Oxford's Saïd Business School

1. Terms of Reference

This research aims to help companies understand the concept of corporate purpose, to develop it within their own business context, and to determine the implications for risk and insurance professionals, particularly in the post-Covid-19 new normal.

The context and the urgency behind this is a rapidly changing business landscape, a significant shift in the priorities of corporate governance and a challenging decade ahead.

The purpose of this research is therefore to:

- Build a framework to help companies understand the concept of corporate purpose
- Understand what is behind the recent rapid development of ideas of corporate purpose in organisations
- Explore the related concepts of business responsibility, Environmental, Social and Governance (ESG), Social Licence to Operate and their impact on corporate reputation
- Assess the extent to which drivers of that process are changing, particularly in the light of:
    - » The Covid-19 pandemic
    - » The rising importance of ESG criteria in corporate governance and investment
    - » Economic, social, environmental and demographic changes
    - » Technological changes
- Examine how organisations are repurposing and understand the characteristics of a successful repurposing programme
- Enable people to apply and develop these concepts within their own business context
- Determine the implications for risk and insurance managers.

This is of particular significance for risk professionals, especially given the recent shock of the Covid-19 pandemic and what looks likely to be a turbulent decade ahead. As Anette Mikes points out, these challenges are likely to increase both the level of uncertainty and the potential stakes involved in business decisions. This, she argues, takes us way beyond the traditional risk management models and even beyond the methodologies of crisis management.

In a paper Anette Mikes co-authored with Robert Kaplan, recently republished in the *Harvard Business Review*, she stressed the importance of the organisation's fundamental purpose serving as a "true north" for all employees to follow:[1]

> "Companies cannot anticipate every circumstance or conflict of interest that an employee might encounter. Thus, the first line of defense against preventable risk events is to provide guidelines clarifying the company's goals and values."

The debate on corporate purpose and repurposing in any organisation is therefore one that must involve risk professionals at an early stage. The fact that this subject has come to dominate the business pages presents both risks and opportunities for organisations. Risk professionals therefore need to understand the background and the issues, and must be leading the conversations on corporate purpose within their companies.

2. What do we mean by repurposing?

What do we mean when we use the term 'repurposing'? Its dictionary definition simply means to change or adapt something for a new purpose. People have been doing this ever since businesses came into existence. As the commercial environment changes, traders shift their assets to different uses. Inevitably, there will be a lot of repurposing of assets as a result of the Covid-19 pandemic. For example, retail units are already being repurposed as apartments or hotels. Many office blocks may yet go the same way if the move to remote working proves durable.

The development of repurposing as a 'hot topic' over recent years reflects a deeper and longer-term change though. Business commentators, academics and, more recently, CEOs, are talking about nothing less than the complete redefinition of the purpose of entire organisations and, in some cases, of the very concept of the company. This is a more philosophical and far-reaching discussion than the simple repurposing of assets.

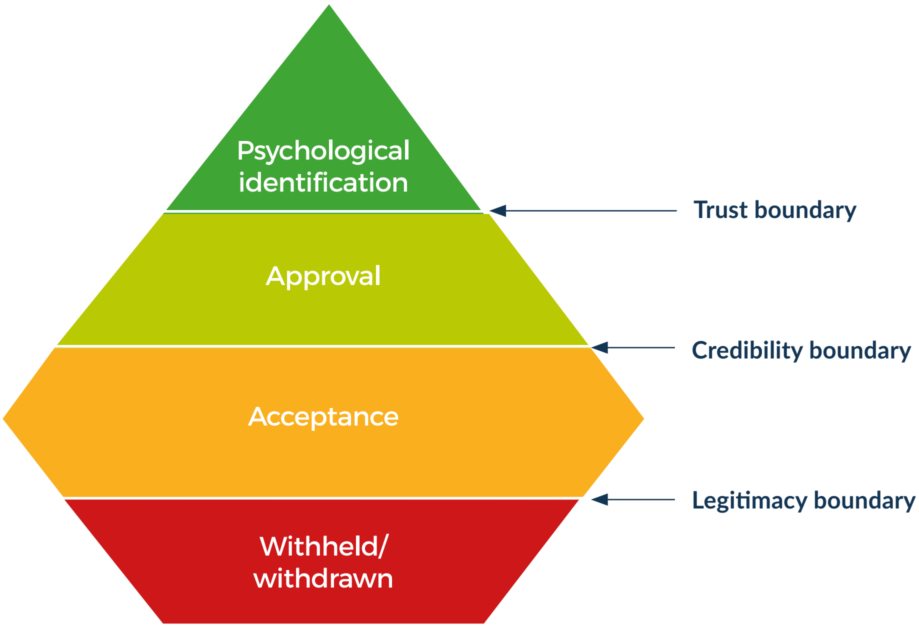
The objective is to reach a clarity about why the organisation exists which is distinct from its profit-making motive. All businesses exist to make a profit, but purpose helps to define what it is about a business that makes it different. Clarity of purpose, it is believed, will then inform the company's brand, values and desired behaviours, and act as a focus for everything the company does.

The idea of corporate purpose in its current form has incorporated related concepts such as Corporate Social Responsibility (CSR), Socially Responsible Investing (SRI) and Environmental, Social and Governance (ESG) criteria. Like corporate purpose, these concepts are also loosely defined. Pedro Matos of the University of Virginia's Darden School of Business recently developed a useful framework for understanding ESG and, by extension, it helps us to understand some of the elements that are being talked about under the banner of corporate purpose.[2]

Another related concept gaining currency is the Social Licence to Operate (SLO). Originating in the mining industry, this is the idea that, in order to operate, a business must achieve a certain level of approval from the community in which it is located. Based on their research of mining operations, Robert Boutilier and Ian Thomson developed a hierarchy of the SLO.[3]

Environmental	**Social**	**Governance**
A company's impact on the natural ecosystem.	A company's relations with its workforce, customers, and society.	The systems in place for management to act in the best interests of the company's long-term shareholders.
• Climate change and carbon emissions • Natural resource use and energy and water management • Pollution and waste • Ecodesign and innovation	• Workforce health and safety, diversity, and training • Customer and product responsibility • Community relations and charitable activities	• Shareholder rights • Composition of boards of directors (independence and diversity) • Management compensation policy • Fraud and bribery

Source: Pedro Matos (2020) *ESG and Responsible Institutional Investing Around the World: A Critical Review*



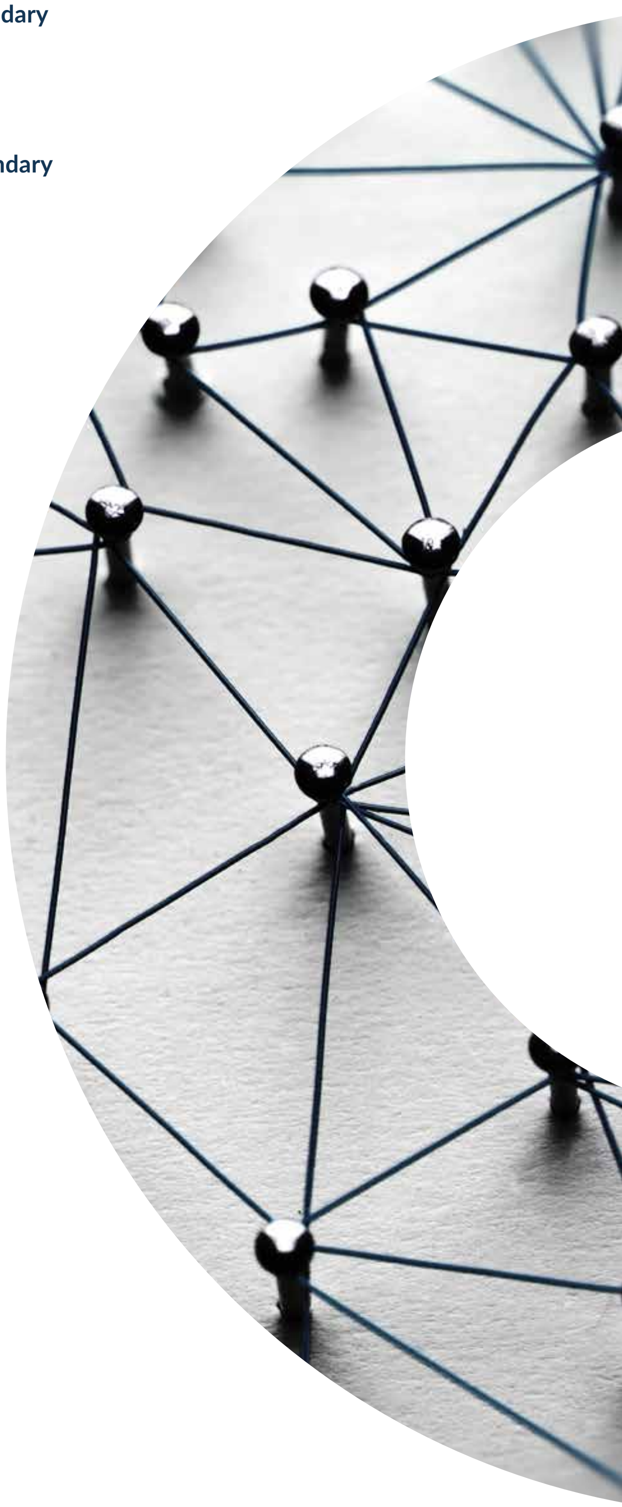
At the very least, argue Boutilier and Thomson, for the **acceptance** of a company, there must be economic legitimacy – the perception that it offers some benefit to the community. **Approval** comes at a higher cost – the perception that the company contributes to the well-being of the area, meets expectations about its role in society and acts fairly. To reach the point where people **identify** with the company, there must be the perception that relations between the community and the company are based on an enduring regard for each other's interests.

For reasons we will explore in later sections of this paper, the bar for the Social Licence to Operate is being raised. Simply providing jobs and not doing significant harm are no longer seen by many as being good enough. Employees, customers, investors and the wider society expect more from companies and their leaders.

Alex Edmans of London Business School says that there are two key elements to a company's purpose, the 'why' and the 'who':[4]

> "A purpose should contain two related dimensions – *who* it exists for and *why* it exists. The *why* explains the company's reason for being. The *who* highlights which members an enterprise particularly endeavours to serve."

We will examine this in more detail when we come to look at how companies define their purpose, but as a starting point for understanding the concept, the questions of the 'why' and the 'who' are useful. Corporate mission statements have been around for some time. They became very popular in the 1990s. They deal with the 'why' and the 'what'. Where the ground has



shifted on the corporate purpose debate is in the discussion of the 'who'.

If a company's purpose isn't just about making a profit, what else is it for? If it has a reason for being beyond profit, who should be the beneficiaries? It is here that the concept has become linked with the issue of social purpose, multiple stakeholders and business responsibility. When CEOs, academics and business commentators talk about 'purposeful organisations', they are increasingly using the term to describe businesses that have a social purpose beyond profit and, therefore, almost by definition, seek to benefit other stakeholders, such as employees, customers or even society as a whole.

There have been parallel developments in investment management, with a broadening and deepening of the concept of corporate governance. Directors and shareholders are now being held responsible not only for the financial performance of the company, but also for its social, economic and environmental impact. Like corporate purpose, the idea of investor stewardship has, with government encouragement, gained traction in recent years. Major investors such as BlackRock are now talking the language of corporate purpose.

All of this gives the task of repurposing a much broader meaning than its dictionary definition might suggest. Alex Edmans offers some useful guidelines. The 'why' should be based on the principle of comparative advantage, while the 'who' should be based on the stakeholders' materiality to the business.

This gives us a two-part framework for understanding repurposing:

- Redefining or confirming:
  - » Why does the company exist?
  - » What is the company good at?
  - » What are the people within it passionate about?

- Redefining or confirming:
  - » Who are the stakeholders?
  - » Which stakeholders are material to the business?
  - » Which stakeholders do we want to benefit?

The blending of these two aspects enables a company to reach a definition of why it exists, what it is for and who it benefits. We will discuss the practical application of this is more detail in Section 9.

We have mentioned both redefining and confirming here because it may be that, when an organisation undertakes a repurposing exercise, it finds that it is broadly happy with both the 'what' and the 'who'. In that case, the value comes from being clear about the organisation's overall purpose.

The objective of a repurposing exercise then is to define and bring clarity about the 'why' and the 'who' for an organisation. Why does it exist and who is it for?

None of this is to say that companies should not make profits. Companies can be both purposeful and profitable, and there is evidence to demonstrate this, which we will discuss in more detail in Section 7.

Colin Mayer of the University of Oxford's Saïd Business School has a similar view:

> "Purpose should be neither mundane nor aspirational. It is not purely descriptive of what a business does – a mission statement – nor unrealistic about what it seeks to do – an aspirational vision statement to save the world. It is about solving problems, 'to produce profitable solutions to the problems of people and planet' and "not to profit from producing problems for people or planet'."[5]

While there is a logic to this, it doesn't explain the recent focus on corporate purpose. A number of companies that have existed for decades, sometimes longer, are choosing to spend time on redefining their corporate purpose. So many are doing so that there is now a significant amount of discussion about it in the media and academia. What has brought about this new (or perhaps renewed) interest in corporate purpose?

"A purpose should contain two related dimensions – *who* it exists for and *why* it exists. The why explains the organisation's reason for being. The who highlights which members an enterprise particularly endeavours to serve."

Alex Edmans, London Business School

3. The history and evolution of 'Purpose'

Corporate purpose may be a concept that is very much of the moment in 2021, but it is one that has been around for some time. As Harvard Business School's Malcolm Salter points out, its recent popularity is a rehabilitation and a rediscovery rather than something new. The term itself has its origins in the 1950s, and the idea that companies should exist for something other than to make a profit is older still.

Originally, commercial companies were, as the name suggests, companies of men coming together for a business undertaking. The growth of companies and the legal framework that evolved to govern their activities created the concept of a corporate legal personality and limited liability, so that companies had a legal existence in their own right, separate from those who provided their capital and those who worked in them.

Companies are massive concentrations of economic power. It is perhaps not surprising, then, that suspicion of companies and of the motives of those who control them is almost as old as the concept of the company itself. In the years following the creation of the United States, many companies had constitutions mirroring that of the country, with weighted voting and governance to balance the interests of large and small shareholders. In the UK, the creation of a new joint stock company required an Act of Parliament until 1844. Few argued that shareholders should not see a proportionate return on their investments, but there was also a sense that this should not be the only concern of a company's managers.

David Guenther of the University of Michigan Law School argues that 18th and early 19th century America saw corporate purpose as "inherently public, even if accompanied by private gain" and that this assumption was reflected in legal judgements and commentary. The idea of the private corporation, "whose purpose was almost wholly pecuniary return on investment to the corporation's shareholders, with any benefit to the public only incidental" developed from the mid 19th century onwards.

The period that followed saw the emergence of many of the great American corporate behemoths and the age of the "robber barons", as the leaders of the huge rail, oil and automotive companies became known. The aftermath of the Great Depression, the New Deal and the Second World War saw the return of the idea that corporate purpose should be about more than making money for the investors. In tune with the spirit of the times, even in the world's most advanced capitalist economy, people were asking questions about what companies were for. Harwell Wells, professor of corporate law at Temple University, points out that, during the middle decades of the 20th century, from the 1940s to the 1970s, the prevailing view that the corporation was organised and carried on primarily for the profit of the shareholders was questioned, not only by academics but by some business leaders too.[6]

Peter Drucker said, in 1950, that management's responsibility "is to the enterprise, rather than to any one group: owners, workers, or consumers". In 1957, Harvard economist Carl Kaysen wrote that corporations should be responsible to stockholders, employees, customers and the general public.

This view was shared by many company executives. General Foods' president Clarence Francis said that he had a "three-way responsibility to the American consumer, to our associates in this business, and to the 68,000 stockholders". So widespread were such views that, in 1959, one writer in the *Harvard Business Review* complained that it was no longer "fashionable for the corporation to take gleeful pride in making money".

Viewed from the perspective of 2021, much of this sounds familiar, even down to the complaint about the unfashionability of making money. Yet, from the end of the 1970s, as Wells notes, the pendulum has swung back again towards shareholder primacy.

This was the era of shareholder value in which many of us have spent much of our working lives and which, until recently, was the unchallenged business paradigm. The shift to a different way of understanding companies is likely to come as a challenge to many of us. Yet, the idea that companies have a duty to the wider society and should have a purpose beyond simply making money for their owners also has a long history. History shows us that attitudes to and the understanding of companies changes over time. We appear to be on the cusp of one of those shifts. In the aftermath of the pandemic and the 2008 financial crisis, people are asking different questions of companies and expecting more from them.

4. Why are we talking about this now?

Our conversation about corporate purpose has come at an opportune moment. In recent years, a number of factors have combined to push the idea of corporate purpose up the business agenda to a point where it now looks as though a significant shift in the way that we understand the concept of the commercial company may be underway. If anything, the Covid-19 pandemic has been accelerating this shift.

These changes in business trends have come about as the result of social and economic shifts in the wider society. Attitudes are changing and, thanks to rolling news and social media, corporations are more visible and more actively scrutinised than ever before. Companies, albeit reluctantly in many cases, are finding themselves drawn into public arguments. Avoiding political controversy is becoming more difficult as campaigners demand that organisations take a position on key issues of the day.

Understanding these underlying forces is crucial to an appreciation of why corporate purpose has become such a hot topic and why it is likely to remain so for the near future. It is therefore useful to look in more detail at the forces behind it.

4.1. Shifting business trends

Corporate purpose, ESG and related concepts such as investor stewardship have been gaining traction over the last half-decade to the point where, in the last two to three years, these have radically changed the conversation. It's not just a few academics and think tanks talking about this. The idea of corporations having a purpose beyond simply making profit has gone mainstream. Colin Mayer commented on the speed of this shift:

> "There is a growing realization of the fundamental nature of business purpose. In a matter of just 18 months from the beginning of 2019, many of the largest corporations have discarded the conventional Milton Friedman doctrine that there is one and only social purpose of business to increase profits so long as it stays within the rules of the game in favour of a view that corporate purpose should reflect the interests of stakeholders as well as shareholders."

To say that corporate purpose is a hot topic is something of an understatement. Almost every week, there is a new article or conference discussing it. At the end of 2020, the *Financial Times* remarked:

> "Today's corporate zeitgeist looks notably different versus two years ago, never mind a decade back."[7]

A sign of just how far the rules of the game have shifted can be seen from the statements of high-profile business organisations that, less than ten years ago, were champions of shareholder value and deregulation.

In 2019, Business Roundtable published its Statement on the Purpose of a Corporation, signed by 181 CEOs of America's largest corporations. It repudiated decades of statements on shareholder primacy and replaced them with a commitment to serve a range of stakeholders, including customers, employees, suppliers and communities.

The UK's Institute of Directors (IoD) has undergone a similar reorientation. Once seen as one of the more free-market business lobby groups, it is now among several organisations calling for a change to UK company law, entitled the Better Business Act. This would effectively remove the primacy of shareholders, making them simply one group among a number of stakeholders in whose interests the company directors must act.

In January 2020, the World Economic Forum (WEF) published the *Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution*. It said:

> "The purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities and society at large."

In the same week, Larry Fink, CEO of BlackRock, one of the world's largest asset management firms, wrote his now famous letter:

> "I believe we are on the edge of a fundamental reshaping of finance. The importance of serving stakeholders and embracing purpose is becoming increasingly central to the way that companies understand their role in society.
>
> "A company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders.

"Ultimately, purpose is the engine of long-term profitability."

Former Bank of England Governor Mark Carney emphasised the importance of purpose in his Reith Lectures in December 2020. In response to a question from an investment manager at Legal & General, he linked the pursuit of long-term profit with purpose and the resolution of wider social problems.

At the start of 2021, a number of the sessions on the WEF's Davos agenda covered corporate purpose. Larry Fink and Business Roundtable also doubled down, making it clear that the Covid-19 pandemic had confirmed the importance of purpose and that they were talking about nothing less than a redefinition of what companies are for.

It is clear, then, that this is no flash in the pan. Those who were telling businesses to define their purpose and their stakeholders two years ago are delivering that message just as strongly today.

There are good reasons to believe that this shift in the corporate zeitgeist will be durable. While some will, no doubt, dismiss this as another management fad, the level and intensity of the discussion is different from that of previous decades. This time, more people are talking about it and those people hold more senior positions in the business hierarchy. Whereas discussions of purposeful business might once have been a fringe interest, in 2020, we saw CEOs of major companies, the heads of large investment management organisations, professors at prestigious business schools and central bankers all talking about corporate purpose.

The changed expectations of organisations reflect a significant shift in social attitudes over the past decade. It is to this that we will turn in the next section.

4.2. Changing social attitudes

Social attitudes have always evolved, usually quite slowly. Every so often, though, there are significant shifts. One such appears to have occurred over the last decade. Research by Ipsos MORI on social attitudes in the UK found that people's views were becoming more liberal on several fronts. Significantly, although the shift was stronger among the young, it was discernible among all generations. This was not simply a case of older and more conservative voters dying off. Across the generations, attitudes have changed. Slowly but surely, people's views are changing.

This shift has been particularly marked in attitudes to gender roles and sexuality. The proportion of the UK population saying that same-sex relationships were not wrong rose from under 40 percent to almost 70 percent. There is evidence, albeit with a less striking shift, of a similar trend in attitudes to race and ethnicity. The UK is far from unusual. Even more rapid changes can be seen in Spain and Ireland, where the erosion of the Catholic Church's authority has seen a parallel shift in social attitudes.

> ***"A company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders."***
>
> Larry Fink, CEO of BlackRock

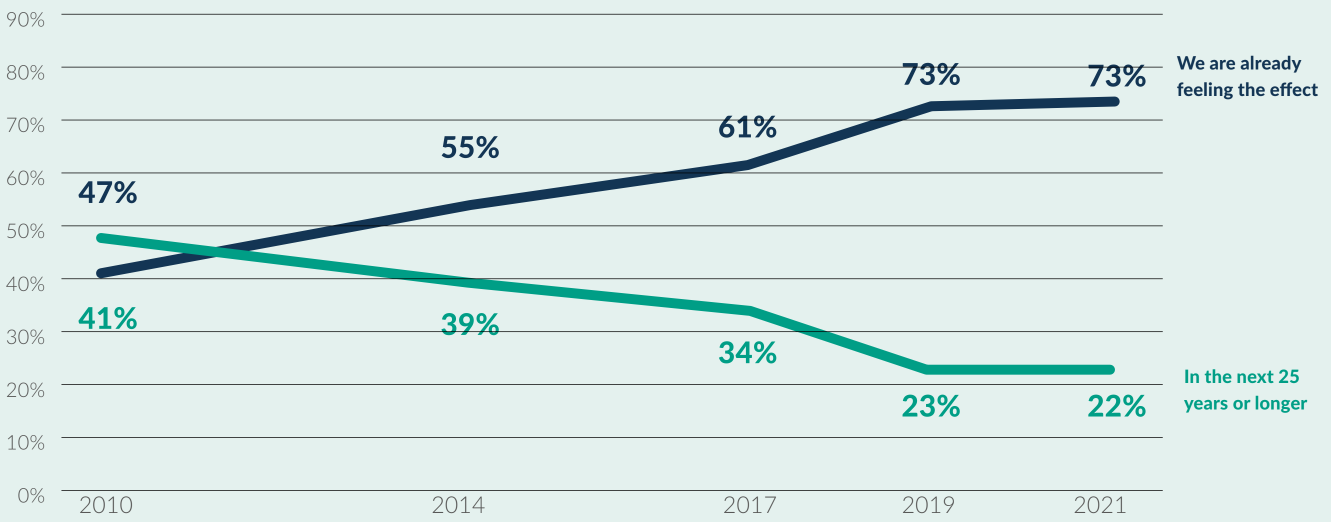
Evidence of changing attitudes can be seen in the use of language. Terms that would have been considered acceptable even a decade ago are now being challenged. The practice of choosing which pronoun you wish to be addressed by was routinely ridiculed in some sections of the media a few years ago but is now mainstream. Statements about preferred forms of address are now common on people's CVs and social media profiles. Some relatively modern terms, such as the BAME (black, Asian and minority ethnic) acronym, have gone from standard use to being deemed unacceptable over a relatively short period.

Nowhere has the shift in attitudes been starker than in people's views on climate change. In August 2021, Ipsos MORI reported that, at 85 percent of people polled, public concern over climate change was at a record level in the UK. The proportion of people believing that we are already feeling its effects has pivoted from a minority to a significant majority since 2010.

This, too, is reflected internationally. According to Pew Research, the percentage of people who believe climate change is a serious problem is rising in most countries. For example, in Australia, France, Russia and even the traditionally sceptical USA, this has gone from being a minority to a majority view over the past ten years.[8]

Summer 2021 saw extreme temperatures, fires, floods and a report by the Intergovernmental Panel on Climate Change (IPCC). Its findings, which were approved by most of the world's governments, concluded that continually rising temperatures are now inevitable over the next twenty years, that heatwaves will become more frequent and intense, and that sea levels will rise. Both public concern over climate change and the disruption caused by it will increase over the coming decade. The political and consumer reaction is something organisations will find it impossible to ignore.

Feeling the effects of climate change
When, if at all, do you think Britain will start feeling the effects of climate change?



Source: Ipsos MORI Political Monitor

4.3. The impact of social media

These attitudinal shifts have occurred in parallel with the rise of social media. As the *Economist* observed in June 2021, social media is enabling protest movements to spread rapidly across the planet.[9] In retrospect, the rapid appearance of protest movements on climate change, racism and violence against women should not be surprising. Nevertheless, all three have caught the authorities off guard.

At the same time, similar processes have made companies more visible. Rolling news and social media mean that more of what companies do gets reported and there are more people able to make their reaction to it heard.

Even so, companies too have been taken by surprise by protest movements and their impact on public opinion. Public relations departments have found themselves under unexpected pressure to make statements on issues such as #MeToo or #BlackLivesMatter. Typically, most companies try to avoid becoming involved in anything political, but that stance is becoming increasingly difficult to sustain. For example, Starbucks, after initially banning Black Lives Matter (BLM) T-shirts, reversed its decision and printed its own version. The same processes also fuel the backlashes against these protests, so companies can find themselves caught between different groups of customers threatening to boycott them for opposing reasons.

Anti-corporate rhetoric, once a preserve of the political left, can now be seen on the populist right and among the seemingly apolitical. As Mark Roe of Harvard Law School observed, criticism of corporations (both individually and generally) is on the rise:[10]

> "Anti-corporate ideas are in the air, and they do not originate from the political leaders who are expressing them. They will persist regardless of how any leader fared."

Yet, at the same time, these shifting social attitudes have also affected the people who run companies. Some have absorbed some of the values reflected in the new criticism. Executives are constantly adapting to changing environments and that includes social and political undercurrents.

Changing social attitudes, then, are exerting a gravitational pull on attitudes within companies. The Covid-19 pandemic appears to have added momentum to these changes. It is probably the first crisis to have affected most of the world at the same time since World War II. But, while the experience of the pandemic has been shared, its impact has not been. As Paul Johnson, Director of the Institute for Fiscal Studies, put it: "We may be in this together, but that doesn't mean we are in this equally."[11]

The fact that hitherto low-status workers kept economies running at great personal risk and that those on lower incomes suffered disproportionately, both medically and economically, has been noted, as has the fact that many companies, directly or indirectly, received government support. The 'Build Back Better' slogan has flashed around the world. As the *Financial Times* reported recently, executive pay awards are coming under scrutiny.[12] Companies are coming under pressure to 'do the right thing'. It is likely, then, that the aftermath of the Covid-19 pandemic will only increase pressure on companies to demonstrate their commitment to purpose and to groups of stakeholders beyond their executives and shareholders.

The pandemic thereby seems to be adding momentum to those forces that have raised corporate purpose to the top of the business agenda. Social changes that have been building up for many years, likely influenced by the financial crash, magnified by social media and almost certainly fuelled by concern about climate change, have combined to produce significant changes in opinions about what companies are for and what they have a responsibility to do. These changes are likely to increase in pace and intensity over the next decade, for reasons we will discuss in the next section.

4.4. The 2020s – a decisive decade

That the 2020s will be seen as a significant decade is already a certainty, given that it began with the first global pandemic in living memory and a blow to the world economy that is more serious than any in modern times. The long-term impact of this is difficult to forecast, but it is likely to have a significant effect on the organisation of business and work.

Yet, in the discussion of the Covid-19 aftermath, we run the risk of ignoring or downplaying other changes that were already underway. Three stand out as being likely to have a significant impact on companies and employment:

- The transition to a net-zero carbon economy
- An ageing population
- Rapid change, driven by technology.

The rising fear of climate change discussed above has led many governments to set legally binding targets to bring carbon emissions to net zero. Sweden has committed to net zero by 2045 and the UK, New Zealand, France and Denmark have set achievement of their legal targets at 2050. Similar legislation is imminent in Canada and Spain, and is likely to follow in most other advanced economies. To achieve this, much of the work will need to take place in the coming decade. In the UK, for example, it will be impossible to buy a petrol car or a gas boiler after 2030. This will require a massive set of changes to industrial processes – what financial commentator Frances Coppola has described as a “pivot from carbon to metals”.[13] It also implies a massive shift in consumption patterns and significant changes to people’s homes. As the Resolution Foundation put it, this will be the decade in which decarbonisation reaches into people’s lives.[14]

It is also likely, therefore, that regulation to compel companies to take account of factors other than financial performance and stakeholders other than shareholders will be implemented in some jurisdictions over the next decade. According to the OECD, most of its member states now impose some sort of stewardship obligations on investors. The European Union’s action plans on sustainable growth and sustainable finance indicate the likelihood of future regulation. The detail of this would require a report in itself, but suffice to say, the probability of legislation is likely to continue to move ideas of corporate purpose and repurposing up the business agenda. As environmental concerns gain greater traction and urgency, this pressure is only going to increase.

This will also be the decade in which the long-projected demographic change starts to impact on many economies. According to OECD projections, the 15 to 64 age group, those we have hitherto considered to be ‘working age’, will decline as a proportion of the population in most major economies. In many, the size of this age group will fall in absolute terms. It is already doing so in Germany and it is set to peak in 2028 in the UK. China’s working age population is set to decline by around 3.5 percent by 2030, or by some 34 million people.

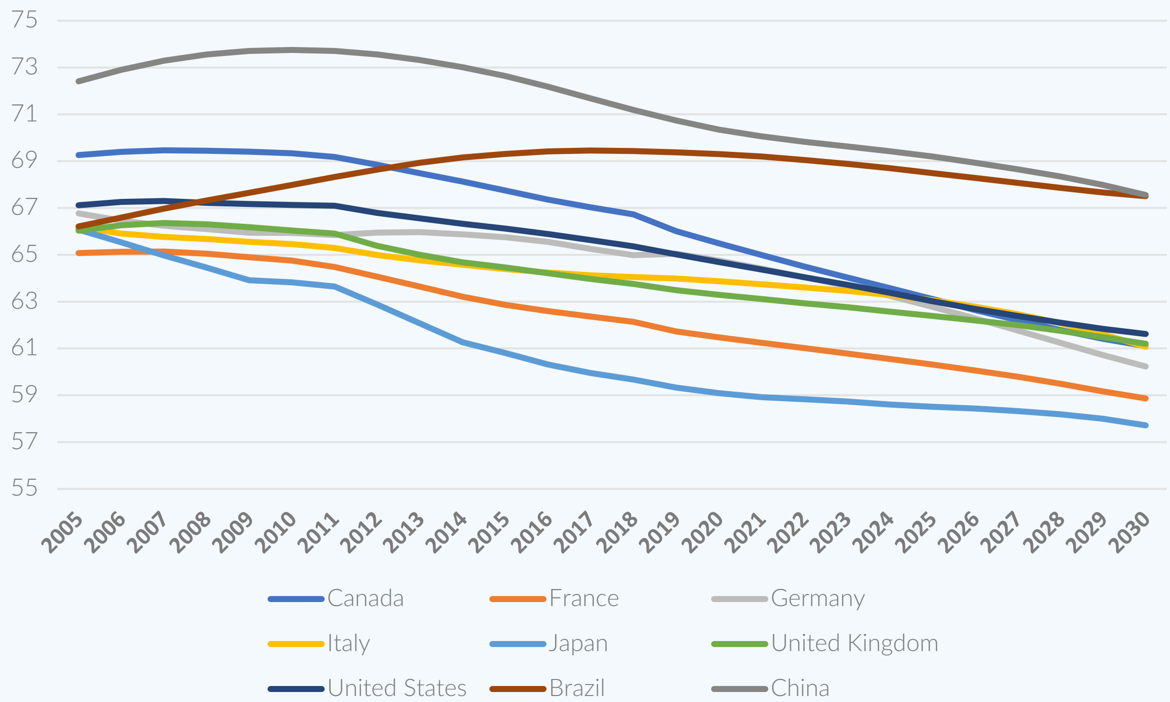
Even if we make some generous allowances for the continuing labour force participation of older workers, this is likely to mean labour shortages occurring at just the point when economies need to make a significant transition to achieve net zero. Those organisations that have traditionally adopted a ‘buy not build’ approach to resourcing may find themselves with recruitment problems. McKinsey famously came up with the term ‘War for Talent’ in 1997, but simple mathematics suggest that the competition for key skills is likely to get a lot fiercer over the course of this decade. The skills shortages currently making the headlines in many countries may set the pattern for the rest of the 2020s.

Executive search professionals are already warning that candidates are asking about their potential employer’s purpose before deciding whether to put their names forward. For many businesses, a clear and cohesive corporate purpose may soon be an essential factor in the recruitment and retention of key employees.

The impact of technology on organisations is also likely to speed up. The Covid-19 pandemic forced a rapid adoption of technology that had been available for some time but had not been widely adopted. The developers of remote working technology had been advocating distributed workplaces and reduced business travel for some years, but it took the pandemic to reset attitudes. Remote working, once regarded as an occasional Friday practice by many organisations suddenly became the norm. It is unlikely that many organisations, will go back to a five-day week in the workplace for those employees who can do at least some of their job from home.

What is far less clear is what the impact of technology is likely to be on the overall employment situation. Estimates of the number of jobs displaced vary widely from those who envisage large-scale job destruction to those who forecast the replacement of tasks within jobs rather than the jobs themselves. From an employer’s perspective, the idea that technology might mitigate the labour shortage caused by demographics might be somewhat optimistic. Consultancy firm Mercer, which has done a significant amount of research in this area, warned as early as 2018 that companies

Working age population (15-64) as percentage of total
G7 plus Brazil & China



Source: OECD

will not be able to recruit their way out of the workforce crisis. It is unlikely, too, that automation will save the day. The impact of automation will be patchy and, in many sectors, is unlikely to cover the shortfall in the number of skilled workers.

It is quite likely that, as the International Monetary Fund (IMF) warned, we may find ourselves simultaneously with skills shortages and unemployment, as new technology and the net-zero carbon agenda create labour demand in new areas while, at the same time, displacing workers who are unable to reskill quickly enough.

Against this background, those companies that have a clear and shared idea of their purpose, and can articulate what and who they are for will find themselves at a recruitment advantage.

Early indications suggest that the coming decade will be increasingly complex, connected and unpredictable, and that the velocity of any changes will increase. Many of us assumed that, after the 2008 financial crisis, we would return to the relatively stable business environment that preceded it. Instead, we have had two "once in a generation" economic upheavals and it looks likely that we will soon be seeing a third. As Resolution Foundation CEO Torsten Bell remarked:

"Navigating the 2020s successfully will be no small task given both the scale and cumulative nature of the changes ahead."

Consultancy firm EY described purpose as "a 'North Star' by which business can navigate and thrive in the 21st century". In what looks like it will be a turbulent decade, taking the time to develop a clarity of purpose and a strong connection with stakeholders looks like a good investment for many companies.

"The first thing young people ask is not, 'what will I earn and do I have a company car and a phone?' They ask about the company's purpose."

Maurits van Tol, Chief Technology Officer, Johnson Matthey.

5. The importance of purpose for risk professionals

With a potentially disorderly decade looming, both business uncertainty and the potential stakes in business decisions are likely to increase. As Anette Mikes says, developing a response to this is likely to be beyond the scope of traditional risk management models.

The debate on corporate purpose and repurposing in any organisation is therefore one that must involve risk professionals at an early stage. The discussion of the subject is now so widespread and ubiquitous, it is going to be difficult for most medium to large organisations to ignore. The rise of corporate purpose is having an effect on the attitudes of investors and employees – it's becoming an issue when attracting talent and in investor relations. In short, then, even if a company chooses to ignore corporate purpose and repurposing, there is a good chance that its investors and potential recruits will not.

Lack of engagement with corporate purpose therefore carries a risk and also the potential for a missed opportunity. There is a growing interest among businesses in their reputations – not merely for branding purposes, but also because of the rising importance of intangible assets and stakeholder support to companies. A clear definition of an organisation's purpose and stakeholders can provide a reference point for managing and mitigating risks in these areas.

While these factors were already in place before the Covid-19 pandemic, the seismic impact of the disease and its effect on economies and businesses the world over have added a sense of urgency. The pandemic is already reinforcing the emphasis on corporate responsibility and purposeful organisations. In such an environment, business responsibility and integrity of corporate reputation will be increasingly important. There is likely to be a high level of scrutiny of companies, many of which have had to be supported by government spending during the lockdowns. A watchful media and a sceptical public will be on the lookout for any company seen not to be taking its public responsibilities seriously. As one senior executive put it: "People will remember what we did during the pandemic for a long time."

Companies therefore face potential risks in a number of areas, for example:

- Reputational damage from being seen to ignore social and environmental responsibilities
- Loss of business from a consumer backlash
- Increased scrutiny by stakeholders
- Flight of investors, themselves under pressure to demonstrate more active stewardship
- Recruitment and retention problems – loss of attractiveness to new employees and loss of key talent
- Political and media criticism – ultimately resulting in increased regulation impacting on time and resources
- Reputational damage diverting energy away from rebuilding and developing the business.

The Covid-19 pandemic has seen risk professionals catapulted to the forefront of their organisations, as boards and senior management have turned to them for their expertise and insights in the midst of the crisis. As businesses emerge from the lockdowns of 2020 around the world, risk professionals will have a crucial role to play in helping their organisations navigate the uncertainties of the post-Covid-19 new normal.

The digital transformation, driven by the pandemic, is likely to raise the stakes. It will mean greater scrutiny but also new opportunities for those with the confidence and courage to embrace the changes and develop new strategies for thriving in the new environment.

In this new environment, corporate repurposing will take on a new salience. Purpose can make organisations more aware of shifting external consumer sentiments, policy directions

"A clear definition of an organisation's purpose and stakeholders can provide a reference point for managing and mitigating risks in these areas."

and industry developments. Through deeper stakeholder engagement, organisations on a journey of repurposing can identify and mitigate risks they would otherwise miss.

Establishing a clear corporate purpose, when combined with a consistent culture and associated behaviours, can help to mitigate these risks. Corporate repurposing – the process of defining and refining a company's purpose – provides an opportunity to rethink the company at every level and to do a thorough review of existing processes and systems. Risk professionals must be among those who top management look to for guidance when undertaking a repurposing exercise – as they understand the opportunity that repurposing presents in the quest to build the resilient organisation.

At the same time, the enthusiasm for corporate purpose brings its own risks. As Airmic's *Road to Revolutions* report commented:

> "Some 'profit-with-purpose' enterprises have opted for innovative forms of 'open' governance to support their business models and represent an open governance system involving key stakeholders. Ultimately, these considerations shift the view of corporate governance from an essentially internal, formal mechanism associated with monitoring and control towards an 'open system' view of corporate governance that involves external, informal channels of influence. A key challenge for corporate boards is, therefore, to recognise these channels and integrate internal processes with these external factors. This is no small feat considering that corporate governance traditionally considered external factors exclusively in the context of compliance."

Engaging with a broader group of stakeholders and the wider public implies opening up the organisation in ways that might be uncomfortable to business leaders.

Furthermore, there is a risk that senior executives will seize on the concept of corporate purpose as a way of providing direction in troubled times. This could be a double-edged sword. If a company pays lip service to corporate purpose and then gets found out, it could end up doing significant damage. A tick-box exercise is unlikely to be of much use. Corporate purpose shouldn't be seen as just another project. It is not a substitute for other organisational change initiatives. It also impinges on the whole question of corporate culture – as the Massachusetts Institute of Technology's (MIT) authority on culture, Edgar Schein, said, that culture is about shared assumptions and meanings. Unless these change, an organisation will not do or be anything different. That's why so many corporate initiatives fail.

Anette Mikes warns of the danger of corporate hypocrisy when it comes to statements about a company's purpose. Commenting on the Fukushima nuclear accident and the BP Deepwater Horizon disaster, she notes:

> "Both companies had an official Safety First principle, as have many other companies that nevertheless found themselves harming the environment, their communities, or their own clients, and paying a hefty price for it, ultimately hurting their own shareholders, too.
>
> "With corporate hypocrisy increasingly seen as a strategic risk, risk professionals have to ask themselves: what values, other than financial, are at stake in company operations? Accordingly, risk managers themselves need "repurposing.""

'Doing purpose' in the hope that it might change something is unlikely to get a company very far. Employees and other stakeholders will see through it. They will know when people don't mean it. There is a risk that a botched corporate purpose programme could do more damage than having never engaged with the idea in the first place.

The growing importance of corporate purpose, then, presents companies with both risks and opportunities. As a means of anchoring and guiding the organisation in troubled times, it could be invaluable. Getting it wrong could be seriously damaging, particularly in a time of heightened scrutiny of large companies. Who better than risk professionals to guide their organisations through this process?

"Purpose can make organisations more aware of shifting external consumer sentiments, policy directions, and industry developments. Through deeper stakeholder engagement, organisations on a journey of repurposing can identify and mitigate risks they would otherwise miss."

6. The business case for the purposeful

There are, then, strong arguments for defining (or redefining) an organisation's core purpose and for using this as a platform for building stronger relationships with a wide range of stakeholders. As we have seen, there is a shift in the mood of the times and companies are going to find it very difficult to ignore this.

However, there are those who argue that this emphasis on purposeful organisations is a distraction. The pandemic has damaged the finances of many companies, especially in sectors such as travel and hospitality. Many have been marking time, concentrating on survival and now need to make up for lost ground. Against this background, spending resources on defining purpose and identifying stakeholders might look like an unnecessary diversion.

Our view is that restoring a company's financial performance and developing a clear corporate purpose are not necessarily in conflict. Nevertheless, it is important not to dismiss the argument. As can be seen from our more detailed discussion of the evidence on financial performance in Appendix 1, not all of the studies purporting to show financial benefits from corporate repurposing are robust. Just because we would like them to prove the benefits, it doesn't necessarily mean that they do.

It is important, then, to be clear about the benefits to be gained from more clearly defining a company's purpose and its stakeholders. The business case can be summed up under five headings:

1. Purpose gives the company clarity and direction

2. Investors are increasingly expecting statements of purpose

3. It improves the recruitment, retention and engagement of employees

4. It protects and enhances brand and reputation

5. It improves financial performance over the long term.

6.1. Clarity

In a rapidly changing world, it is easy to lose focus when running a complex business. Initiative overload is a well-documented problem in many organisations. Writers have used metaphors such as 'anchor' or 'North Star' to illustrate the importance of purpose. As we move into a more volatile decade, this clarity of purpose will become all the more important. Defining the 'why' and the 'who' gives clarity of direction but also helps organisations make decisions about what they are not going to do. Many business judgements involve trade-offs. Purpose statements therefore need to be selective.

Research on 429 organisations by Claudine Gartenberg, Andrea Prat and George Serafeim found that the combination of a clear purpose and a clear shared understanding of that purpose differentiated the high-performing organisations in their sample. Those with high purpose-clarity exhibited superior accounting and stock market performance.

Reaching a shared understanding of the 'why' and the 'who' is, then, a prerequisite for coming up with an effective mission and strategy, and for decisions on new products processes and business opportunities.

6.2. Investor expectations

As we discussed in Section 5, high-profile investment firms are increasingly asking questions about an organisation's purpose, who it serves and who its stakeholders are. A clear stance on these questions and measurable ESG impacts are becoming key criteria for investment decisions. Institutional investors are being judged on stewardship criteria, which has raised their expectations of the companies in which they invest.

> "Our purpose is our guiding light."
>
> Michelle Montgomery,
> Chief Marketing Officer of Crawford.

As Robert G. Eccles of Saïd Business School and Svetlana Klimenko of the World Bank pointed out in their article in the *Harvard Business Review*: "Shareholders are getting serious about sustainability." This is for the simple reason that they can't afford not to. As they pithily remarked:

"Firms that have trillions of dollars under management have no hedge against the global economy; in short, they have become too big to let the planet fail."

Their research found that ESG went mainstream in investment firms before it did so in many other organisations:

"Historically, the ESG group at investment firms was separate from portfolio managers and sector analysts (on both the buy side and the sell side) in much the same way that corporate social responsibility groups were historically separate from business units. Now senior leaders are making sure that ESG analysis is being integrated into the fundamental financial activities carried out by analysts and portfolio managers."

In June 2021, the *Financial Times* reported on an "ESG talent war" as investors competed to recruit professionals with Environmental, Social and Governance expertise. The paper reported that PwC intended to increase its headcount by more than a third, as it expects ESG advice to become a core part its business.

Against this background, the advice for companies from Eccles and Klimenko is to articulate their purpose, as a matter of priority. Their conclusion:

"A sea change in the way investors evaluate companies is under way. Its exact timing can't be predicted, but it is inevitable."

A statement of purpose and the clear definition of the 'why' and the 'who' of the company's purpose is no longer an optional extra. It is becoming an integral part of doing business.

6.3. Attracting new talent and employee engagement

If investors now expect companies to have a clear statement of purpose, there is mounting evidence that the same is true of employees. The CEO of recruitment firm Hays warned that being "a purpose driven organisation" is becoming a prerequisite for attracting top talent. A London Business School article noted that this is particularly so for 25- to 40-year-olds who will make up a majority of the world's workforce by 2025. A survey by Deloitte showed the increased impact on retention if millennial employees are satisfied with their company's sense of purpose.

As we discussed in Section 4, this generational shift is, in part, driving the social changes that have made corporate purpose such a salient issue. For younger employees, corporate purpose is becoming as much a hygiene factor as a motivator. They expect a clear purpose other than the pursuit of profit.

Gallup, which has been running a global annual survey of employee engagement for 35 years, noted a fall in engagement this year, which it put down to the pandemic and social unrest. It also stressed the link between engagement and purpose, particularly for younger workers:

"Younger generations of employees want more than a paycheck. They want a job that will make an impact."

Maintaining engagement will be that much more difficult if, as looks likely, the level of remote working remains high after the pandemic. Organisations with a clearly stated and well-understood purpose will be in a better position to manage these tensions.

6.4. Brand and reputation

The shift in employee attitudes is mirrored in those of consumers. The Edelman Trust Barometer has tracked the increasing importance of customer trust in brands over the last decade, but in 2021, it reported a worldwide decline in trust in institutions in the wake of the Covid pandemic, with a particularly steep loss for the financial services sector. It concluded that "brands have an unprecedented responsibility to improve society" and noted that 78 percent of consumers believe they can force a company to change its societal impact. It also noted that 54 percent of consumers expect a company to issue a statement on major issues within two to three days.

A UK report published just before the Covid pandemic documented the rise of ethical consumer spending – a fourfold increase in twenty years. Recent reports by Accenture and IBM have noted that the balance between consumers making decisions on price and those making decisions on a company's purpose is now roughly equal, and this balance shifts towards purpose among younger generations.

Accenture found that the pandemic has significantly shifted consumer expectations. It also found that 53 percent of consumers who are disappointed with a brand's words or actions on a social issue complain about it. It is likely, then, that those consumers who base their purchases and brand loyalty on a company's purpose are more likely to pose a risk to the company's reputation should those expectations not be met.

As we noted in Section 5, public expectations of companies are increasing and the Covid pandemic appears to have accelerated this trend. A disappointed customer can take to social media and a personal protest can quickly become a storm. The purpose-led customer is more likely to do so.

6.5. Financial performance

When it comes to company performance, though, the bottom line is still important. One of the objections raised about pursuing a purpose other than profit is that to do so means putting the financial performance of the company at risk. In the past, looking after employees, customers and the wider community was seen as a 'nice to have' but something that should not interfere with shareholder value.

However, there is a growing body of evidence to suggest that this need not be the case. While it is difficult to measure financial performance against such a multifaceted concept as corporate purpose, several studies have explored elements of it and have shown that financial performance need not be adversely impacted and is often improved by purposeful policies over the longer term.

This evidence is summarised in the table below and covered in more detail in Appendix 1.

Demonstrating the impact of corporate purpose on the bottom line is difficult for a number of reasons, but there is enough evidence to show that a focus on something other than profit can eventually be beneficial for a company's financial performance. Social performance benefits investors – but only over the longer term. A focus on employee satisfaction, customer satisfaction and eco-efficiency takes time to affect the stock price.

At the very least, the evidence shows that it is possible to be purposeful while still providing returns to investors. Pursuing a corporate purpose with social and environmental considerations need not be detrimental to the bottom line.

Subject	Outcomes	Author
Employee satisfaction - Best 100 firms	Firms' stock returns beat the market by 2.3% to 3.8% per year.	Alex Edmans
Customer Satisfaction – Top 20% of firms	Firms earned double the returns of the Dow Jones over 5 years.	Claes Fornell, Sunil Mithas, Forrest V. Morgeson III, and M.S. Krishnan
Eco-efficiency – Companies with low negative impact in the environment	The most eco-efficient companies outperformed the stock market over 8 years.	Jeroen Derwall, Nadja Guenster, Rob Bauer, and Kees Koedijk
Execution of social and environmental policies – Companies which had adopted and executed a high number of these policies	Companies outperformed both in terms of stock market and accounting measures, such as return-on-equity.	Robert G. Eccles, Ioannis Ioannou, and George Serafeim
Risk of ignoring stakeholders – Corporations that negatively impact on communities or the environment	Substantial damage to share prices is associated with social irresponsibility. When corporations decrease the welfare of the firm's main stakeholders, shareholders also lose money.	Philipp Krüger
Investor-initiated CSR proposals – Companies adopting investor-initiated social performance proposals	Adopting investors' CSR proposals correlated with superior financial performance measured by return on assets and net profit margin.	Caroline Flammer
Targeted ESG investment – materiality Companies focusing ESG investment on stakeholders that are material to their business	Companies performed significantly better than the market.	Mozaffar Khan, George Serafeim and Aaron Yoon
Clarity of Purpose Companies where middle-managers are clear about the organisation's purpose	Firms exhibiting both high purpose and clarity performed better on both accounting and stock market measures.	Claudine Gartenberg, Andrea Prat and George Serafeim

7. What do our case studies say?

7.1. Crawford

Background

Crawford & Company is the world's largest publicly listed independent provider of claims management and outsourcing solutions globally with nearly 9,000 employees in over 70 countries. It was founded in 1941 by Jim Crawford, who stated at the outset that the company was to be built on three principles:

- Honesty and integrity above all
- Hard work pays
- Knowledge and creativity is power.

Rohit Verma, CEO of Crawford, explained that rather than repurposing, the company refreshed and re-articulated its existing purpose. People had a sense of what the company was about but could not necessarily express it. In 2018, Crawford formalised its purpose as "Restoring and enhancing lives, businesses and communities".

Also in 2018, Crawford established its company values, represented by the RESTORE acronym which stands for: Respect, Empowerment, Sustainability, Training, One Crawford, Recognition, Entrepreneurial Spirit.

Crawford's executive team believe that its company purpose is increasingly important. Corporations have the potential to create change and this is becoming one of the priorities of Generation Z when it comes to working for corporations.

The time was ripe, then, for a re-definition and re-statement of Crawford's purpose.

Process

The journey started in 2018, when the firm decided to take a step back and re-evaluate. It had an outdated mission statement that was quite lengthy. It was not widely articulated and few people in the organisation seemed able to explain it. Crawford embarked on a process of redefining its purpose, calling it a cultural renaissance.

The process of coming up with the statement of purpose involved brainstorming sessions with employees at different levels in the company. This enabled them to tease out what they believed the essence of the company to be.

When they considered the work they do, they realised that at the centre of it they help people during their darkest times. Often, it's a catastrophic or traumatic loss. That's when they landed on restoring and enhancing lives, businesses and communities.

As Bonnie Sawdey, Chief People Officer of Crawford, explained:

"The more we talked about it, the more powerful it became. Every individual in the organisation can link their work back to that.

"Once we had it, we knew we had it. Once we had the statement, our RESTORE values followed naturally. It was a lightbulb moment. This works, this sums it up."

This was not so much a process of re-defining the firm's purpose as finding a new way of expressing that purpose.

Embedding

The Crawford leadership team emphasised that coming up with a defined purpose was only half the battle. Bringing that sense of purpose to life throughout the organisation was a vital next step.

It took time to cascade the purpose statement down into the company for it to gain currency. The senior executives organised town hall meetings and asked people how they saw the company's purpose. This dialogue helped to embed the purpose statement and the ideas underpinning it.

The content produced during this process was developed into internal videos used for onboarding and training, and the RESTORE values were built into the employee evaluation process. Restoring and enhancing lives, business and communities has been infused through the company's marketing material and social media posts. It is reiterated in every touchpoint and backed up by constant reinforcement of the purpose, through internal social media channels that celebrate success stories.

Outcomes

Crawford's executive team have seen a significant change to the organisation and a noticeable impact on employees as a result of having a defined purpose statement that is embedded into its culture.

The changes they have observed include:

- Sense of pride in the brand
- A common language
- A guiding light in decision-making
- People finding it much easier to talk about what Crawford does.

The renewed sense of purpose has also helped create a sense of cohesion throughout the pandemic. The timing was serendipitous. Crawford would have undertaken its repurposing exercise regardless of the pandemic, but the events of 2020 added to the impetus. Additionally, in a summer of civil unrest, it helped Crawford to confirm its position in the communities where it operates.

The clarity of purpose has helped with recruitment in a competitive labour market and has become part of the firm's selection and onboarding process. Candidates ask what the company purpose means and ask about the culture of Crawford. They understand that the work is meaningful and aides in attracting people to the organisation in a highly competitive labour market.

The renewed sense of purpose has gone down well with clients. It has become the norm to discuss the firm's purpose in our client interactions. "Our purpose is our guiding light," said Michelle Montgomery, Chief Marketing Officer of Crawford.

It has helped Crawford to make necessary decisions– not only identifying the business it wants to do, but also the business it does not.

7.2. Lockton

Background

Lockton is the world's largest privately held insurance brokerage firm. It was founded in 1966 by Jack Lockton and now operates in 35 countries. The firm has remained family owned and controlled.

Lockton's purpose continues to be built around the same core values and philosophies which were put in place when the business was formed. Their purpose remains valid because it continues to remain relevant for its key stakeholders – clients, the business, the communities of which Lockton are a part and its associates (employees) – through a changing world.

Lockton routinely revisits its purpose. For example, Lockton has broadened its work around areas such as diversity, inclusion and ESG.

As a privately held, fiercely independent company, Lockton believes that the values of its founder hold true today and are key to the continued growth and success of the business.

Outcomes

The firm's sense of purpose has enabled it to grow organically over the last 50 years, going from a two-person start-up to revenue of over $2bn.

The strong client focus, central to Lockton's business philosophy, means that the leaders of the business are first and foremost client leaders rather than managers. Even those at senior level spend around 70 percent of their time dealing with clients.

Lockton associates are highly empowered and entrepreneurship is keenly fostered. Doing the right thing for clients – and our communities – is seen as a precursor to the success of the business itself.

This sense of purpose provides a framework in which associates are then given significant flexibility. It allows them the freedom to operate in the way that they see is most relevant to their clients and their markets.

It also enables the firm to decide which markets and locations to expand into and which to avoid. It has looked at a number of sectors where it has not been able to get the right identity. In these circumstances it has deferred going into a particular sector or geography until it can find the talent it wants.

The firm would rather forego an opportunity than risk damaging or diluting its corporate purpose, which it sees as its core strength.

7.3. Fenchurch Law

Background

Fenchurch Law was founded in 2010 to focus on representing policyholders in insurance coverage disputes. The founders' aim was to allow policyholders access to the same specialist legal advice that insurers have enjoyed for decades.

Eighteen months after forming, the firm made a decision to work exclusively for policyholders and to stop doing any other sort of work. Its business is now solely coverage work for policyholders.

Process

Fenchurch Law's repurposing process is somewhat unusual in that it began a year-and-a-half after the company was formed. The team knew what they were passionate about but it took them until their second year in business to gain the clarity and confidence to focus on it to the exclusion of other areas of business. This was less a repurposing in the sense which it is often used and more the revealing and clarification of a purpose that had been there from the beginning. It was intended to be the current expression of the firm's founding core purpose of "*solving complex problems simply and efficiently*".

That founding purpose deliberately said nothing about being lawyers, doing insurance work, or even representing policyholders. That was deliberate, and intended to ensure that the firm was capable of remaining relevant even if the market and the types of work available changed. However, 18 months into the life of the firm, discussions within the team led to clarity about how that purpose should be focused, and the specific complex problem that the firm decided to try and solve was the challenge of "*levelling the playing field between policyholders and their insurers*".

That objective is now set out in the contracts of every member of the team, and is built into performance criteria and assessments.

Outcomes

Fenchurch Law has found that its renewed clarity of purpose has bound people together. It has improved recruitment, in that the firm's reputation is clear and so most of the people who apply already have a clear idea of what the firm exists to achieve, and therefore also what the culture will be like.

It has also improved the customer satisfaction scores, which are independently validated. The market perception of the firm has shifted, especially among brokers. In the early years, many people didn't believe there was a market for the sort of work Fenchurch wanted to do. That has now very much changed. The firm's clarity of purpose has enabled it to shape and define its market. People now get what it is about.

Since its clarification of its purpose, Fenchurch Law has grown consistently and has now opened a second office. It aims to replicate its model internationally. Levelling the playing field is, the firm believes, a need that exists in every insurance market around the world.

7.4. Calgary Parking Authority (CPA)

Background

Agile, innovative, technology-driven, and community-focused, the Calgary Parking Authority (CPA) is committed to helping build a better Calgary by managing on-street and off-street parking for the City of Calgary.

The focus of CPA's corporate purpose stemmed from a realisation that the nature of motor transport and therefore of driving patterns and parking demand is likely to change over the next decade. Parking margins have been declining and are likely to continue to do so due to the competitive environment. Its board also realised the importance of the Environmental, Social and Governance agenda and its escalating focus from stakeholders.

CPA realised that traditional parking businesses would be less viable in the long run given the emergence and increased adoption of shared mobility, bike sharing, e-scooters and, ultimately, shared autonomous vehicles. The trend of reduction in parking demand further accelerated with the current pandemic and the phenomenon of working from home.

It was clear to the board that the old model would require a rethink and need transformation to be viable. Changing operating models was expected to involve a difficult balancing act in engaging with the diverse group of stakeholders – customers, employees, local politicians, suppliers, Business Improvement Areas (BIAs), Business Revitalization Zones (BRZs) and the local community. The CPA needed to continue to provide parking services to meet current demand and provide financial returns while keeping an eye on future developments.

CPA developed a strategy to leverage technology to meet its changing business objectives and improve service to enhance its competitive advantage. CPA also increased its focus on ESG issues and adapting the organisation to meet the challenges of the next decade.

CPA emphasised environmental sustainability goals, including providing electric vehicle charging stations in several parkades, offering safe and accessible bicycle parking, transitioning facilities to LED lighting, prioritizing hybrid vehicles for the ParkPlus fleet, testing electric bikes for potential future use, and transitioning sites to fixed cameras to significantly reduce the need for vehicle patrols. CPA eliminated the need for physical permits or hang-tags by digitization of residential parking permits and monthly parking passes. It also used technology to provide flexible parking options that only became possible by investments in its Park Plus technology.

Process

An enterprise-wide study was conducted to strategize options to maximize long-term stakeholders' value. Some changes were viewed more favourably than others.

Persuading stakeholders of the need to focus on ESG issues required a balanced focus and commitment from senior management. A strong communication strategy played a key role to help with stakeholders' alignment with the new direction. Maintaining balance at times was challenging as focus on one priority would leave fewer resources for remaining priorities that were equally important.

CPA also took the time to reflect on the importance of actively promoting diversity, equity, and inclusion in the workplace. CPA considered its very diverse work force and committed to fostering a work environment with diversity and inclusion at the forefront. Changing the work environment to promote a positive, flexible, respectful and inclusive culture was a key pillar for the ESG strategy.

These processes involved a lot of relationship and trust building by the CPA's senior management and other stakeholders. Stakeholder management and communication was the most difficult and most important part of the trust building process. The time and efforts taken paid off and enabled the organisation to deliver its new vision.

Outcomes

Technology has enabled CPA to enhance its competitive edge and be a choice for customers by introducing dynamic pricing, smart infrastructure, Internet-of-Things applications, machine learning, sensor-equipped physical assets and payment systems based on license-plate recognition.

These innovations have enabled the CPA to serve a broader Canadian and international market. It is able to provide drivers with real-time information on parking spaces and to provide services in any part of the world. These data points are an important foundation to its focus on data-driven decision-making to improve its product and service offering.

By leveraging and investing in a 'software as a service' (SaaS) strategy, it has been able to transform its business model to be more agile and has optimised its growth strategy. Shahid Qureshi, Chairman of the Board of Directors at CPA, points out that customer needs and technological developments were already changing in this market before the pandemic and the board's vision from an ESG perspective is expressed through investment in communities, mental health initiatives, diversity and inclusion, being a better civic partner, and improved financial and operational governance.

In December 2020, the Calgary Parking Authority was featured on CNN for its 'place-making' approach in creating innovative spaces as demand for parking continues to shift. It publicised the construction of a state-of-the-art multi-purpose Innovation Centre in Calgary being built to support local tech start-ups and their parking needs.

CPA also received several awards including 2021 Award of Excellence for the Best Design/Implementation for a Surface Lot by 'International Parking & Mobility Institute'.

The implications of the shift in parking demand means that some of CPA's car parking areas have been repurposed as community assets, such as event venues, art galleries, parks and play areas. Its recently built Platform Parkade has been designed to be re-purposed as apartments or office accommodation, should the need for parking space decline in the future.

After some initial hard work that included some setbacks as well, stakeholders were mostly on board about the changes in direction. Employee engagement at CPA has increased over the last three years. Its most recent survey put it at 92 percent.

The CPA's achievements can thus be summed up:

- Realization of Corporate purpose
- Increasing stakeholder value beyond financial returns
- Increasing margins and brand recognition
- Reducing carbon footprint
- Improving stakeholder and employee engagement.

7.5. Johnson Matthey

Background

Johnson Matthey (JM) is a global leader in sustainable technologies. Founded in 1817, JM's expertise in precious metals built a scientific base in areas such as catalysis, and has applications ranging from air purity to medicine. JM was an early adopter of the integrated annual report and, in 2012, won an award from the Chartered Governance Institute for best FTSE 100 annual report. It was praised for explaining its business model with great clarity, while taking account of the importance of its wider impact on society.

In 2014, Johnson Matthey sold its gold and silver refining business to focus on developing its technological solutions. With the arrival of a new CEO in 2014, JM gave a boost to a 're-calibration' of the business that was already underway. This saw the company define its purpose as being "to accelerate a cleaner, healthier world, today and for future generations through our ground-breaking technologies".

In July 2021, the company announced its sustainability goals, including zero emissions by 2040. 85 percent of its R&D expenditure can be linked to four of the UN sustainable development goals and its target is to reach 95 percent by 2030.

The company believes it is well placed to develop the solutions that will be needed during the next decade. As Chief Technology Officer Maurits van Tol remarked:

> "The change is prolific and fast. All of a sudden, we are not talking about fossil fuels. We're talking about renewable electricity. We're talking about a hydrogen economy. That has changed in 18 months and that is a massive global societal shift. We've never seen that before.
>
> "The problems that humanity and the planet are facing need technological solutions. We strongly believe we have a lot of the scientific and other capabilities to develop the technologies people are going to need."

Process

The impetus for the recalibration was an intake of new chief officers on the executive committee. They reviewed their strategy and looked at where their personal and company drivers overlapped. It was clear that the relevance of making the world cleaner and healthier was more important than ever.

The company used a variety of tools to build an ongoing conversation with employees at all levels and locations. This involved town hall meetings, Q&A sessions and enterprise social networking tools such as Yammer. The visibility of senior executives was particularly important, using articles and interviews to promote the message.

As Group Insurance and Risk Director Xavier Mutzig explained, the emphasis was on re-discovering the long-standing essence of the company and re-stating it for today's world:

> "This was about finding the company's roots, or its DNA. What is it that has enabled the company to be in business for 200 years? Let's look at where we've come from and why we're here. How do we express that in a way that makes sense for the 2020s and beyond?"

From this, a series of transformation initiatives followed and Johnson Matthey is doing a significant amount of work on diversity and inclusion. Communication was key. If senior leaders changed the way they talked about the company externally, this would gradually spread through the organisation.

Outcomes

Johnson Matthey believes it has struck a balance between 'doing the right thing' and improving the company's financial performance and that its environmental stance will improve its financial performance over the longer term.

The company has also found that its clear environmentally orientated purpose is key to attracting talent in a very competitive labour market.

As Maurits van Tol points out, for younger recruits in particular, purpose is often the most important discussion in a job interview:

> "The first thing young people ask is not, 'what will I earn and do I have a company car and a phone?' They ask about the company's purpose.
>
> "In general, people like to work for a company with a purpose. They join a company like Johnson Matthey and we gain their capabilities and their capacity to change the world for the better."

Xavier Mutzig added:

> "Actually, what motivates our employees and our scientists is doing work for a better world."

The conversation about the Johnson Matthey's purpose has changed the atmosphere in the organisation. It is front and centre of the conversations people have about the organisation and its work.

The leadership team also found that the company's strong purpose helped it navigate through the uncertainties of the last two years, sticking together as OneJM.

7.6. Conclusions and learning points from the case studies

The case studies cover diverse companies in different markets and at different stages in their defining of their purpose. Nevertheless, a number of common themes emerge:

1. A clear shared purpose gives the firm a solid grounding

2. This gives it a framework and guidance for making decisions – a North Star, especially valuable in a period of volatility and change

3. It gives the firm a clarity to make trade-offs and decisions on those opportunities to pursue and those that do not fit with the business purpose

4. In defining the purpose, involve people in different locations and at different levels in the organisation at an early stage

5. Involving more people earlier in the process means the initial definition will take longer but embedding the purpose will be easier

6. The purpose has to be grounded in how the organisation works, in its culture and in what it already does

7. It is likely to take longer in larger and more complex organisations

8. It may be useful to engage external organisations to give some structure to the process and gain insights

9. Managers are crucial to the process – they translate and embed the broad purpose into meaningful actions at team and individual level.

8. What makes a successful repurposing?

The evidence from the academic research and the case studies points to four critical steps in the process of defining (or confirming) an organisation's purpose and then turning that purpose statement into something that has an impact on the business.

8.1. Defining purpose

As we discussed earlier, this requires the definition of the 'why' and the 'who'. The 'why' needs to be based on the principle of comparative advantage:

- What is the organisation good at?
- What are its advantages in the market?
- Does the organisation deliver more value through this activity than other organisations?

The 'who' needs to be based on the principle of materiality:

- Which stakeholders are material to the firm's business?
- Which other stakeholders does the firm believe it ought to prioritise?

As Robert G. Eccles and Svetlana Klimenko said:

> "Sustainable investing is about materiality. A company that spends vast sums of money trying to address every conceivable environmental, social, and governance (ESG) issue will likely see its financial performance suffer; however, companies that focus on material issues tend to outperform those that don't.
>
> "Mainstream investors now look for evidence that their portfolio companies are focused on the material ESG issues that matter to financial performance, rather than on some ill-defined commitment to "sustainability.""

While this process must be initiated and led by the senior executives, it is important to involve employees at all levels. Many will have been with the organisation for some time and they often have a sense of its purpose, or a view of what it ought to be, without necessarily having articulated it. This means that the purpose is more likely to have a sense of ownership among the people who have to execute it on a daily basis.

As Anette Mikes comments:

> "Research has confirmed the importance of communications inside the firm encouraging employees to speak up freely about issues related to purpose.
>
> "Such communications can be easily initiated and facilitated by risk-management functions. They give a good sense of the authenticity of the values and purpose that top management espouse."

She also emphasises that it is important to create a 'blame-free' environment of psychological safety to allow "risk talk" in which employees feel they have the freedom to speak openly.

8.2. Embedding purpose

Embedding purpose is where the real work starts. If a wide cross-section of employees and other stakeholders have been involved at an early stage, it is likely that the purpose definition process will take longer but also that the embedding process will be less of a challenge. If stakeholders have a stake in the purpose statement, that goes some way to achieving the sense of ownership necessary.

The purpose statement, the 'what' and the 'who', will need to inform everything else that the organisation puts in place. In this sense, as we said earlier, it becomes like the DNA running through the entire operation. Not to do so risks the charge of corporate hypocrisy that Anette Mikes warned about. If the purpose statement exists in isolation and is contradicted

"Research has confirmed the importance of communications inside the firm encouraging employees to speak up freely about issues related to purpose."

Anette Mikes, University of Oxford's Saïd Business School by other policies or practices in the organisation, it will look like a paper exercise. The concept of corporate purpose may be relatively new, but there is already a term in use for those organisations that don't really mean it. 'Purpose-washing', like 'green-washing', is an epithet no company wishes to hear. The risk from 'doing purpose' but then not following through on it is probably greater than that from not having done it at all.

It is essential, then, that the purpose statement inform the company's strategy, its operating model, its performance measurement, its culture and, most importantly, its reward systems. Saying that you want people to behave in one way and then rewarding them for behaving in another way is bound to cause confusion, yet it is remarkable how many organisations actually do so.

8.3. The manager is key

While it is true that leaders set the organisation's culture through their own behaviours, what they stress as important and what they reward, the key relationship any employee has is with their own line manager. So, although the senior executives must clearly articulate the organisation's purpose, line managers play a crucial role in embedding it. As Gallup pointed out:

> "Gallup has interviewed tens of millions of employers and managers across 160 countries and found that 70% of the variance in an employee's engagement – the level of psychological commitment to work – ties back to the immediate supervisor.
>
> "The manager is uniquely positioned to be the one person in the organization who unlocks purpose, especially for younger generations."

This is as much the case in highly creative organisations as anywhere else. In his exquisitely titled study of 400 tech companies, *People and Process, Suits and Innovators*, Ethan Mollick, Wharton School of the University of Pennsylvania, found that good middle managers are essential when taking innovations from ideas to reality. It is the performance of the 'suits' rather than the 'creatives' that make the difference, even in a cutting-edge sector.

The study by Gartenberg, Prat and Serafeim, referred to above, also found that middle managers were the "difference that made the difference". The clear understanding of purpose among middle managers was a strong indicator of company performance.

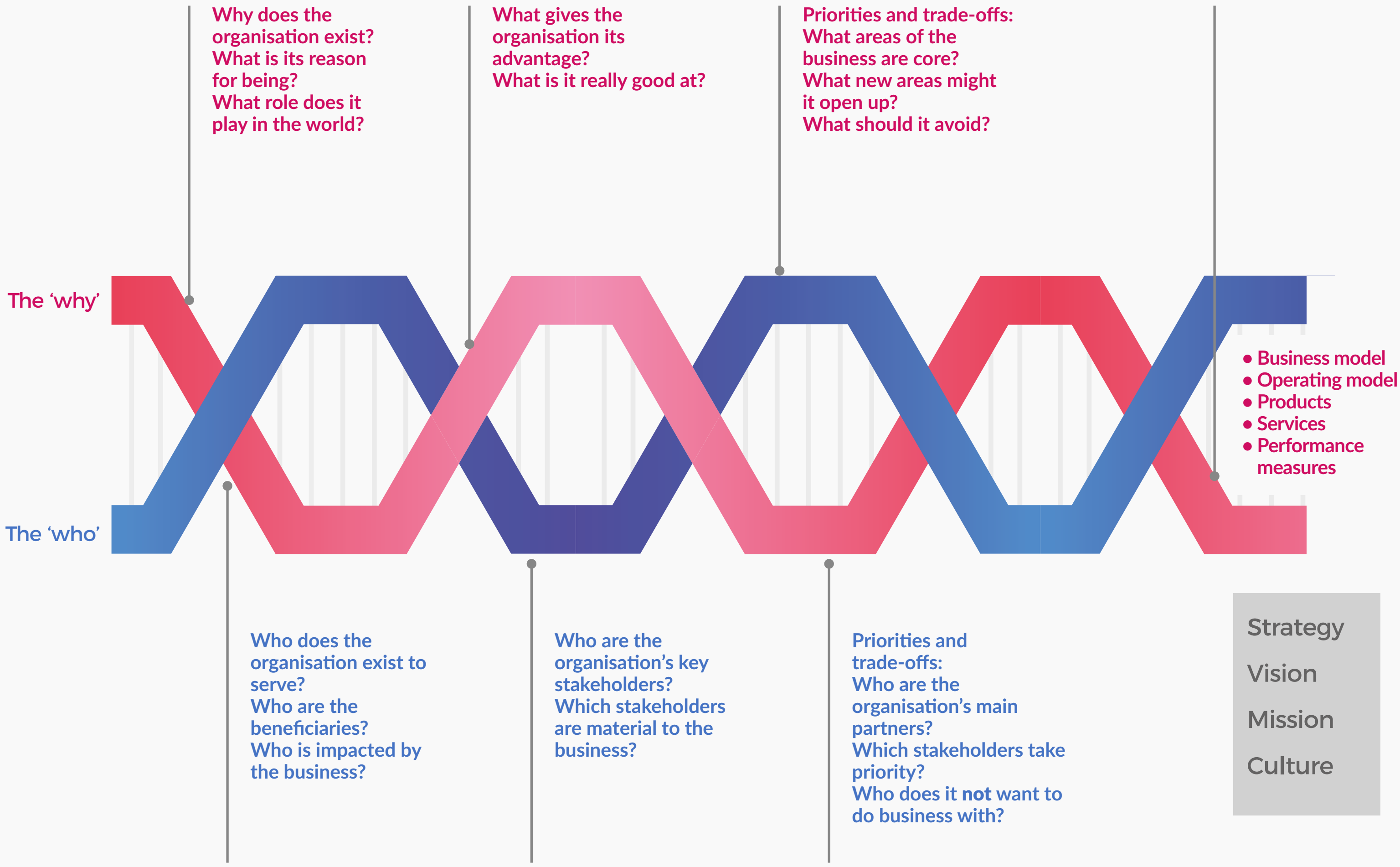
> "It is solely the middle managers and salaried professionals that drive the relation between high "Purpose-Clarity" organizations and financial performance."

It is sometimes said that many corporate initiatives get lost in middle-management layers. To embed corporate purpose, line managers must share the understanding of the purpose and be able to explain it to their staff and customers. Only then will the purpose truly live.

8.4. Culture

Much has been written over the years about organisational culture, but some of the early writers on the concept are still the most illuminating. Edgar Schein told us, in the 1980s, that culture is "a pattern of shared basic assumptions". Because these assumptions are unspoken, those who share them don't realise they are doing so. These assumptions and beliefs underpin the organisation's unwritten rules.

The DNA of Purpose



Another key question, raised by Linda Smircich, is whether culture is something an organisation has or something an organisation is. If culture is something an organisation has, then you can just dump it and get a new one. If it is something an organisation is, then the reason why so many companies find it so difficult to change starts to become clear. To embed a new corporate purpose in an organisational culture, then, we are talking about changing people's assumptions and changing what the organisation is. When it is the purpose that defines people's assumptions about the organisation and their role in it, you can say you have fully embedded it. That is likely to take time.

Once the purpose – the 'what' and the 'who' – are embedded in the culture of the organisation, they become fully part of it, running through it like a kind of corporate DNA, informing everything that it does.

8.5. Stakeholders as partners

Opinion is divided on the extent to which stakeholders outside the organisation should be involved at the purpose definition stage. This will be dependent on the quality of the organisation's relationships with key customers, suppliers and members of the community in which the organisation is located.

Involving them at an early stage once the company's managers have some clarity could pay off though. If a company is looking at a long-term, two-way relationship with its stakeholders, involving them in conversations about the definition of the organisation's purpose sends a strong message. They might also have some good ideas and bring some new insights to the process.

9. Conclusions

Viewed from the Autumn of 2021, as we emerge from the synchronised shock of a global pandemic, it appears that the momentum behind the idea of corporate purpose has strengthened. When we started this research, we wondered whether the impact of the pandemic and the need to repair the damage to organisations and balance sheets might see a renewed focus on the short term and the transactional. Perhaps, we thought, a discussion about corporate purpose might be something that companies would postpone until a more convenient time. From what we see, though, the opposite seems to be happening. The pandemic has heightened the interest in corporate purpose and is causing many organisations to review and rethink their role, and who they are in business to serve. Organisations like Business Roundtable in the US, the UK's Institute of Directors and the World Economic Forum have reiterated their commitment to the ideas they put forward at the end of the last decade.

In retrospect, this is not surprising, as the social forces that have underpinned the rise of corporate purpose have also been boosted by the pandemic. Public expectations of companies, already on the rise in the 2010s, have now moved up a level. Since the pandemic, scrutiny has become sharper. Corporations are expected to make statements on the key issues of the day and to be seen to be doing the right thing. Many organisations, including those we interviewed, report that job applicants now ask about purpose before they ask about salary. The idea that companies must have a Social Licence to Operate is becoming ingrained to an extent that would have seemed unlikely even five years ago.

Investors, too, are raising their expectations. The idea of shareholder stewardship has taken root and, even if governments don't impose ESG targets on companies, it is very likely that the major institutional investors will. This pressure will only increase as the decade goes on. Besides the Covid pandemic, three other major stories from 2020 and 2021 were the street protests, the climate incidents and the IPCC's devastating assessment on global warming. Companies came under pressure to declare their stances and demonstrate their actions.

Most of the companies we spoke to had revisited their corporate purpose in the years immediately before the Covid pandemic and the Summer of Protest. Many of the executives told us that having clarified their corporate purpose before these issues came to a head gave them a level of confidence to respond and a degree of cohesion which held their organisations together during the pandemic. Nautical metaphors abound, with a corporate purpose being described as a North Star, guiding the company through troubled waters, or a strong anchor in a storm. Those companies that had defined or redefined their purpose before the pandemic were glad that they had done so and were in no doubt that it had helped them to deal with the uncertainty and disruption of the last two years.

As we discussed in Section 4, the 2020s will be a decade of significant change for businesses, probably more so than any since the 1980s. The enshrining of net-zero carbon targets into law will require a massive deployment of resources which will need to start very soon. A number of headwinds could combine to create 'perfect storms', with climate incidents, skills shortages and supply chain disruption being likely contenders.

Some of the organisations we spoke to had already anticipated this and it had played a part in their decision to revisit their purpose. With what is likely to be a challenging decade ahead, gaining clarity about why you are in business and who you are in business for seems to be something that more companies are seeing as an essential strategic priority, rather than a nice-to-have. We may have reached the stage where it's no longer an advantage to clarify and confirm the company's purpose. Rather, it is a disadvantage not to.

That said, redefining purpose is not something that can be done overnight. As our case studies and evidence from other organisations show, even when a company has a well-established operating model, teasing out and defining the core purpose – the 'why' and the 'who' – can still be difficult. A redefinition and shift in direction still more so. In either case, embedding the clear purpose within the corporate culture and making it part of the organisational DNA takes time and effort. Of those executives we interviewed, most said that the process took longer than they expected and that, with the benefit of hindsight, they wished they had started sooner.

All of which puts risk professionals firmly in the spotlight. As we discussed earlier, corporate reputation now falls increasingly within the remit of the risk profession. Given the trends we have examined in this report, does a lack of engagement with corporate purpose now present its own risks? What might the missed opportunity be? If a clear and coherent corporate purpose gives an organisation direction and a framework for making trade-offs, surely it is likely to improve the management and mitigation of risk. As Anette Mikes said, the widespread interest in corporate purpose creates a new opportunity for risk professionals. They are well positioned to lead their organisations in the process of defining their purpose and priorities and of embedding it within the corporate culture.

Anette Mikes' description of the risk profession being at a crossroads is an apt one as we go into a decade of radical change. Defining the organisation's direction and finding its North Star seems like a logical step to take. Risk professionals should be leading the way.

Appendix

Impact on financial performance

Being able to demonstrate the importance of corporate purpose and purposeful policies to the bottom line is something of a holy grail for the concept's enthusiasts. The idea of the purposeful company is not without its detractors. There are still some who argue that it is a distraction from the pursuit of profit and shareholder value, which should be the corporation's only goal. Arguments have raged about whether or not the pursuit of a purpose other than profit enhances or impedes financial performance.

It is possible to demonstrate the positive impact of purposeful policies on company financial performance, but it is important to be aware of the strengths and limitations of the data. The more interest there has been in this subject and the more difficult it has become to sift out the more rigorous evidence.

Alex Edmans of London Business School has looked into this in some depth over many years and has concluded that profit and purpose are not mutually exclusive. He has found evidence that it is possible to be a purposeful company and to improve the company's financial performance over time. Even so, he says that some of the more enthusiastic claims on both sides of the argument are overstated:

> "The recent focus on ESG has led to some really bad studies. Because people are so excited about ESG, any study that claims it works will be widely shared, even if that study is bad, and studies that claim ESG never works will also be widely shared. The truth is in the middle, but people love to view the world in black-and-white. And, any study that's in the middle is far less likely to go viral."

Problems of definition

The definitions of 'corporate purpose' and of a 'purposeful company' vary, making it difficult to establish measures. Related concepts such as ESG suffer from a similar lack of definition.

As Robert G. Eccles of the University of Oxford's Saïd Business School pointed out in a 2018 paper:[15]

> "The biggest barrier is the lack of high-quality data about the performance of companies on their material ESG factors—a scarcity that the authors attribute to the lack of standards for measuring ESG performance and the lack of ESG performance data reported by companies."

For example, some studies measure the performance of ESG funds and report positive correlations with business performance, while others report the opposite. What we don't know is whether ESG or purposeful company (or, indeed, CSR and SRI) means the same thing in each case. Without knowing the detailed criteria, the term is something of a black box.

This problem is compounded by the proliferation of meta-analyses, which may contain studies in which many different definitions are used. As Pedro Matos noted:

> "There have been several meta-analyses of CSR/ESG, but note that very few of the studies covered in those reviews have been published in what are generally considered to be among the top-ranked finance and economics academic journals.
>
> "This literature is unfortunately plagued by many issues: what aspect of CSR/ESG is being measured, the time horizon considered, what country is being examined, the data comparison methods, and so on."

Therefore, when we read that purposeful companies outperform others or that socially responsible investors deliver superior returns (or, indeed, when we read that they don't), we don't really know what these studies are measuring. Quite often, companies in the 'purposeful' bucket may have been placed there for a variety of different reasons.

Opinions are not facts

Furthermore, some studies are simply opinion based. It may be that a high number of CEOs or investors say that they believe corporate purpose to be important or that they are running purposeful companies, but that doesn't say much about what they are doing. There is a similar problem with the rating of companies for purposeful criteria.

In a study entitled *Aggregate Confusion*[16] a team from MIT and Zurich University concluded that ESG ratings varied according to the raters' views of the firms.

> "Measurement divergence is the most important reason why ESG ratings diverge, i.e., different raters measure the performance of the same firm in the same category differently. Human Rights and Product Safety are categories for which such measurement disagreement is particularly pronounced."

As Alex Edmans points out:

> "If you use multiple measures of social performance, this gives you great flexibility to manipulate the results by choosing whatever weighting mechanism gives you the result you want."

Cause and effect

In any study, it is difficult to establish cause and effect. There might be reverse causality. As Pedro Matos puts it:

> "Is it more a case of "doing good by doing well" than of "doing well by doing good"?"

For example, it might be that those companies that score well on corporate purpose have high-quality managers who simply do lots of things well. Or it might be that they have an already advantageous market position which allows them to invest in social purpose while simultaneously succeeding in other areas. Their ability to do corporate purpose well might simply be a function of their success in other areas.

The impact of purpose

To get a sense of what impact purposeful policies might have, it is perhaps more helpful to split out the measurable elements of purpose and study their impact on the company over time. A number of studies have done this and have shown that the implementation of what we might call socially purposeful policies need not have a detrimental effect on a company's financial performance. Indeed, in some cases, it has been shown to have had a positive impact.

Listed below are some of the relevant studies.

Employee satisfaction

Alex Edmans set out to examine the relationship between the purposeful social performance of companies and their financial performance.[17] [18] To do this, he focused on employee satisfaction as measured by the '100 Best Companies to Work for in America' survey and correlated it with future stock returns (the change in the share price + dividends). By looking at future returns, he mitigated the reverse causality because, presumably, an organisation that already performed well in a number of areas would already see this reflected in its share price.[19]

The 100 Best Companies survey provided a large source of data over a long period of time. Each year, it surveyed 250 employees at all levels in several hundred companies across the US to come up with its Best 100 companies. Edmans' research showed that the 100 Best Companies delivered stock returns that beat the market by an average of 2.3 to 3.8 percent per year over the 28-year period between 1984 and 2011, inclusive.

Edmans also cites Parnassus Endeavor, a fund started in 2005, which invests based on employee satisfaction ratings. It delivered annualised returns of 12.2%, over ten years, compared with 8.5% for the S&P 500.

Edmans extended this approach to study 30 global companies across 30 countries. In a 2020 paper, he concluded that the results were dependent, to an extent, on the degree of regulation in the labour market.[20]

> "Employee satisfaction is associated with superior long-run returns in flexible labor markets, such as the US and UK, but not rigid labor markets, such as Germany.

> "These results are consistent with employee satisfaction improving recruitment, retention, and motivation in flexible labor markets, where firms face fewer constraints on hiring and firing and employees have greater ability to respond to higher satisfaction."

Where the minimum level regulation is higher, it becomes more difficult to distinguish between companies that manage people well and those that don't, because a certain amount of process is forced on all companies.

Customer satisfaction

A study by a group of marketing academics[21] found investment in customer satisfaction to be high return and low risk. The research found that companies in the top 20 percent of the American Customer Satisfaction Index (ACSI) earned almost double the returns of the Dow Jones over a five-year period and outperformed the market over a period of five years, after controlling for firm size. The authors were surprised by the results as they had expected the investment in customer satisfaction to reduce profits to an extent.

The authors concluded:

> "Firms that do better than their competition in terms of satisfying customers (as measured by ACSI) generate superior returns at lower systematic risk."

Eco-efficiency – overall impact on the environment

A team from Maastricht University looked at the concept of eco-efficiency – the economic value a company creates relative to the waste it generates.[22] This gives a measure of the company's impact on the environment.

They selected companies from the Innovest database, which evaluates companies' environmental impact using more than twenty different information sources. The research found that the most eco-efficient companies outperformed the stock market over a period of eight years. Again, the authors were somewhat surprised by the results concluding:

> "Using several enhanced performance attribution models to overcome methodological concerns, we showed that the observed performance difference cannot be explained by differences in market sensitivity, investment style, or industry bias. Even in the presence of transaction costs, a simple best-in-class stock selection strategy [based on eco-efficiency] historically earned a higher market risk-adjusted and style-adjusted return of 6 pps than a worst-in-class portfolio.
>
> "Overall, our findings suggest that the benefits of considering environmental criteria in the investment process can be substantial."

Adoption and execution of social and environmental policies

Robert G. Eccles, Ioannis Ioannou and George Serafeim[23] looked at 180 companies that had voluntarily adopted social and environmental policies. These included policies to reduce emissions and to use environmental criteria in supply chains, and policies on work-life balance and commitments to corporate citizenship.

They scrutinised company annual reports and interviewed executives to determine the extent to which these policies were genuinely being acted on. They found that, over the following 18 years, the companies that had adopted a high number of these policies outperformed those that had adopted a few, both in terms of stock market performance and in accounting measures, such as return on equity and return on assets.

The authors also noted that the high-performing firms had integrated their sustainability policies into their organisational processes:

> "The boards of directors of these companies are more likely to be formally responsible for sustainability and top executive compensation incentives are more likely to be a function of sustainability metrics. Moreover, High Sustainability companies are more likely to have established processes for stakeholder engagement, to be more long-term oriented, and to exhibit higher measurement and disclosure of non-financial information."

The accountability goes right to the top of the organisation and people are incentivised and rewarded accordingly.

Risk of ignoring non-shareholding stakeholders

Philipp Krüger found that investors react "strongly negatively" to negative news on CSR, remarking, "there is a substantial and non-negligible cost associated with social irresponsibility".[24] His study of 2,116 publicly observable corporate events found that news of corporations' behaviour that negatively impacted on communities or the environment was most damaging to their share price.

His conclusion:

> "My estimates place the median cost at approximately $76 million, implying that when events that decrease the welfare of the firm's main stakeholders occur, shareholders also lose money."

Adopting investor proposals relating to social performance

As we have seen, as the idea of investor stewardship has gained currency over the last decade, investors have started to put pressure on companies to adopt more socially responsible policies.

Caroline Flammer of Boston University examined the extent to which these investor-initiated proposals improved stock returns.[25] She studied 2,729 proposals and found that adopting CSR proposals correlated with superior financial performance over the long term, as measured by return on assets and net profit margin.

She concludes:

> "Our finding that 'doing good' pays off has potentially far-reaching implications for corporate decision making and strategic management. In particular, companies may find it worthwhile to devote sufficient resources to developing and implementing their CSR strategy. From a broader perspective, this insight suggests an important, and perhaps unique, feature of CSR: everybody wins—shareholders, employees, environment, and society at large."

Materiality

One problem with measuring investment in socially purposeful activities is that some companies invest in activities that might look good but that are not material to the enterprise. For example, the well-being of employees, suppliers or a wider local community in an area important to the company might be material to a company's business. In contrast, a charitable cause, which might be a good thing to do in its own right, might have little impact on the business.

The Sustainability Accounting Standards Board (SASB) has devised a map to enable companies to assess the materiality of different stakeholders. Harvard Business School professors Mozaffar Khan, George Serafeim and Aaron Yoon studied more than 2,000 companies across two decades.[26] They found that companies that scored highly on multiple ESG stakeholder dimensions barely outperformed other companies over the period. However, using the SASB assessment of materiality, they discovered that when they looked at those companies that scored highly on stakeholders that were material to their business, they performed significantly better than the market.

The authors note that much of the literature fails to make this distinction. A study might conclude that ESG investment has not paid off, but is it reasonable to expect, say, donations to good causes to pay off? Where such investments do bring a financial return is where they affect stakeholders that have an impact on the company's business. As Alex Edmans puts it:

> "Indiscriminately investing in stakeholders doesn't deliver long-run value to investors, but targeted investment in material stakeholders does."

Or, to put it another way, while support for worthy causes might be good in itself, it is unreasonable to expect it to deliver a financial return to the company. Investing in stakeholders closer to the business, such as employees, suppliers, local communities and the local environment has been shown to have a positive effect on the bottom line over the long term.

Importance of clarity of understanding

Research on approximately 500,000 employees in 429 organisations found that the combination of a clear purpose and a clear shared understanding of that purpose differentiated the high-performing organisations. The authors found:

> "High purpose firms come in two forms: firms that are characterized by high camaraderie between workers and firms that are characterized by high clarity from management. We document that firms exhibiting both high purpose and clarity have systematically higher future accounting and

stock market performance, even after controlling for current performance."

The study found that middle managers were particularly important to this process. The authors remarked:

"Our analysis suggests that high Purpose-Clarity organizations exhibit higher financial performance in the future, and particularly when these beliefs are held in the middle ranks of the organization."

Counter evidence

Despite that upbeat conclusion, though, there is counter evidence which shows socially responsible companies underperforming. For example, Geczy, Stambaugh and Levin (2003), Renneboog, Ter Horst and Zhang (2008), and Hong and Kacperczyk (2009) show that portfolios screened for social responsibility underperform. Barber, Morse and Yasuda studied private investing funds and found that those with social as well as financial objectives underperformed traditional venture capital funds.

It is important, says Alex Edmans, to acknowledge that the data doesn't all point one way:

"We'd like to live in a world in which ethical investing works - we want the good guys to win [but] we must take seriously the fact that most SRI funds don't perform."

However, he also notes that some of the 'socially responsible' funds use a broad range of criteria to screen firms. For example, a company may be excluded for not having enough diversity on its board but that doesn't tell us much about its environmental impact. The performance of funds made up of companies deemed to be socially responsible doesn't tell us much about what the component firms actually do so, while studies of socially responsible funds may sound a note of caution, they don't necessarily refute the evidence of those studies that look at aspects of company behaviour and their impact.

Verdict – Purpose raises financial performance but it takes time

What this tells us, then, is that there is some evidence of a causal relationship between purposeful policies and business performance. However, Edmans sounds a note of caution for the following reasons:

- Social performance benefits investors – but only over the longer term. A focus on employee satisfaction, customer satisfaction and eco-efficiency takes time to affect the stock price

- The performance of Socially Responsible Investment funds doesn't necessarily tell us much: Their definitions of social performance are often flawed – for example, the presence of minorities on the board doesn't necessarily tell us much about how the company is run

- Some firms perform well on some aspects of social purpose and not others – devising a composite measure of the purposeful organisation is difficult

- Some of the results are weaker in countries outside the US where there is greater regulation – for example, in Europe, where the floor of regulation is higher, it is more difficult to distinguish between the employment practices of companies

- Most of the research has been carried out on listed companies – there is very little data on private non-quoted companies.

Demonstrating the impact of social purpose on the bottom line was never likely to be easy, but there is enough evidence to show that, over the long term, a focus on something other than profit can be beneficial for companies. With the increasing public scrutiny of companies and the consumer and employee focus on corporate purpose, it is reasonable to expect that the competitive advantage of purposeful companies over purely profit-driven firms is likely to increase over time. At the very least, the evidence shows that it is possible to be purposeful while still providing returns to investors.

ROADS TO REPURPOSING

Endnotes

1 Robert Kaplan, Anette Mikes (2020) Managing Risks: A new Framework In Harvard Business Review's Ten Must Reads in Strategy 26-5-2020

2 Pedro Matos (2020) ESG and Responsible Institutional Investing Around the World: A Critical Review

3 Robert G. Boutilier, Ian Thomson (2011) Modelling And Measuring The Social License To Operate: Fruits Of A Dialogue Between Theory And Practice

https://socialicense.com/publications/Modelling%20and%20Measuring%20the%20SLO.pdf

4 Alex Edmans (2020) Grow the Pie: How Great Companies Deliver Both Purpose and Profit

5 Mayer, Colin (2020) The Future of the Corporation and the Economics of Purpose (November 16, 2020). European Corporate Governance Institute – Finance Working Paper No. 710/2020, Forthcoming in the Journal of Management Studies, 2021

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3731539

6 Harwell Wells (2016) The Purpose of a Corporation: A Brief History

https://www2.law.temple.edu/10q/purpose-corporation-brief-history/

7 ESG is a-changin', Financial Times, 2 December 2020

8 Concern over climate and the environment predominates among these publics, Pew Research, 29 September 2020

https://www.pewresearch.org/science/2020/09/29/concern-over-climate-and-the-environment-predominates-among-these-publics/

9 Social media are turbocharging the export of America's political culture, The Economist, 12 June 2021

https://www.economist.com/international/2021/06/12/social-media-are-turbocharging-the-export-of-americas-political-culture

10 Mark Roe, Why America's CEOs Are Talking About Stakeholder Capitalism, Project Syndicate, 4

November 2019

https://www.project-syndicate.org/commentary/america-business-roundtable-ceos-corporate-purpose-by-mark-roe-2019-11

11 Paul Johnson (2020) We may be in this together, but that doesn't mean we are in this equally Institute for Fiscal Studies, 27 April 2020

https://ifs.org.uk/publications/14821

12 Helen Thomas (2021) Why Covid should have a lasting effect on executive pay, Financial Times, 27 April 2021

https://www.ft.com/content/323ce491-de86-43a0-9ef5-a087eef7af54

13 Frances Coppola (2021) From Carbon To Metals: the Renewable Energy Transition, 16 March 2021.

https://www.coppolacomment.com/2021/03/from-carbon-to-metals-renewable-energy.html

14 Resolution Foundation (2021) The UK's decisive decade.

https://economy2030.resolutionfoundation.org/reports/the-uks-decisive-decade/

15 Robert G. Eccles, Mirtha D. Kastrapeli, Stephanie J. Potter (2018) How to Integrate ESG into Investment Decision-Making: Results of a Global Survey of Institutional Investors.

https://onlinelibrary.wiley.com/doi/abs/10.1111/jacf.12267

16 Florian Berg, Julian F. Koelbel, and Roberto Rigobon (2020) Aggregate Confusion: The Divergence of ESG Ratings.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3438533

17 Alex Edmans (2011) Does the stock market fully value intangibles? Employee satisfaction and equity prices.

http://faculty.london.edu/aedmans/Rowe.pdf

18 Alex Edmans (2013) The Link Between Job Satisfaction and Firm Value, with Implications for Corporate Social Responsibility.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2054066

19 Jen Wieczner (2017) How Buying Stock in the 'Best Companies to Work For' Helped This Investor Crush the Market.

https://ca.news.yahoo.com/buying-stock-best-companies-helped-113046797.html

20 Alex Edmans, Lucius Li and Chendi Zhang (2020) Employee Satisfaction, Labor Market Flexibility, and Stock Returns Around the World.

https://www.efmaefm.org/0EFMAMEETINGS/EFMA%20ANNUAL%20MEETINGS/2021-Leeds/papers/EFMA%202021_stage-2049_question-Full%20Paper_id-381.pdf

21 Claes Fornell, Sunil Mithas, Forrest V. Morgeson III, & M.S. Krishnan (2006) Customer Satisfaction and Stock Prices: High Returns, Low Risk.

https://www.researchgate.net/publication/345064092_Customer_Satisfaction_and_Stock_Prices_High_Returns_Low_Risk

22 Jeroen Derwall, Nadja Guenster, Rob Bauer, and Kees Koedijk (2006) The Eco-Efficiency Premium Puzzle.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=594967

23 Robert G. Eccles, Ioannis Ioannou, and George Serafeim (2021) The Impact of Corporate Sustainability on Organizational Processes and Performance.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2031958

24 Philipp Krüger (2015) Corporate goodness and shareholder wealth.

https://www.sciencedirect.com/science/article/abs/pii/S0304405X14001925

25 Caroline Flammer (2013) Does Corporate Social Responsibility Lead to Superior Financial Performance?

https://corporate-sustainability.org/wp-content/uploads/91-Flammer.Apr_.13pdf.pdf

26 Mozaffar N. Khan, George Serafeim, and Aaron Yoon. (2016) Corporate Sustainability: First Evidence on Materiality.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912

Airmic

The leading UK association for everyone who has a responsibility for risk management and insurance in their organisation, Airmic has over 450 corporate members and more than 1,500 individual members. Individual members are from all sectors and include company secretaries, finance directors, and internal auditors, as well as risk and insurance professionals. Airmic supports members through learning and research; a diverse programme of events; developing and encouraging good practice; and lobbying on subjects that directly affect our members and their professions. Above all, we provide a platform for professionals to stay in touch, to communicate with each other, and to share ideas and information.

ACCA Think Ahead

ACCA

We're a thriving global community of **233,000 members** and **536,000 future members based in 178** countries and regions, who work across a wide range of sectors and industries. We uphold he highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation. Find out more at **accaglobal.com**

Crawford

For over 80 years, Crawford has led the industry through a relentless focus on people and the innovative tools that empower them. Our services set industry standards for quality and customer satisfaction.

Crawford's expertise and global presence is unmatched, but we earn our clients' trust through much more than that. We get to know your business, your employees and your customers. We pull together the perfect suite of solutions and the best-fit resources from across our global organisation to deliver results that truly make an impact on your bottom line.

www.crawco.com

Lockton

Lockton is the world's largest privately owned global insurance broker.

As such, our focus is our clients and our people rather than external shareholders. we can make long-term decisions that benefit our clients and improve service delivery. Our 6,000 associates help over 50,000 clients in 125 countries. They place over $20 billion of insurance premiums.

For six consecutive years, Business Insurance magazine has recognised Lockton as a 'Best Place to Work in Insurance'.

Our clients value our bespoke solutions, innovative ideas and great service rather than efforts to sell more products. StrategicRISK's 2015 UK Corporate Insurance Buyers Survey (a survey of insurance buyers in FTSE 250 companies) ranked Lockton top of all brokers for 'client responsiveness'.

Our 96% client retention rate speaks for itself.

Saïd Business School, University of Oxford

We aspire to be a world-class business school community, embedded in this world-class University, tackling world-scale problems. The talents and efforts of our faculty, students, alumni and staff have translated into accomplishments that demonstrate that we are achieving our aim. The people at Oxford Saïd are exceptional, not only as measured conventionally but in the depth of their character. Our ideas, produced through rigorous research, are measurably changing the way leaders think and act, and in so doing, helping make businesses more effective and principled. By bringing young and experienced leaders to Oxford Saïd, whether as undergraduates or MBAs, or as CEOs or Nobel laureates, we are at the centre of the most important issues of the day.

Marlow House
1a Lloyd's Avenue
London
EC3N 3AA
Tel: +44 207 680 3088
Fax: +44 207 702 3752
Email: enquiries@airmic.com
Web: www.airmic.com