

Roads to Repurposing

The Route to Responsibility and Reputation



1. REPURPOSING: THE CHALLENGE

Corporate purpose is a concept that has risen up the agenda over the past decade. The idea that companies should have a clear purpose is not new. But since the 2008 recession, there has been a growing sense among executive teams that they should be able to articulate a shared understanding of why the firm 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. The *2019 Business in the Community Responsible Business Tracker* reports that although 72% of companies have started to formally engage employees and senior leaders to identify and prioritise responsible business issues, only 16% have embedded this in their risk register or in their strategic business objectives.

Part of 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.

2. THE COVID-19 EFFECT

Into this mix have come climate change, political risks and digital disruption, and then the coronavirus pandemic, which has revealed the spectre of connected risks in our global economy, triggering what will almost certainly be a worse downturn than the one in 2008. Coming on the back of a period of sluggish growth and the fairly recent recovery of many economies from the last crash, it is likely that the capacity for recovery will be weak in some areas.

There is a widespread feeling, which is backed by a significant amount of data in some countries, that lower earners have been hit hardest by these connected risks. This situation is likely to persist during the recovery period as employment and

earnings for those in the lower half of the income distribution take longest to recover. Attempts by employers to adapt, transform or restructure their businesses, especially if these initiatives are seen to be at the expense of lower paid workers, are likely to attract adverse publicity if not handled carefully.

The last half-decade has seen an increase in anti-corporate rhetoric from both the left and the populist right. A sense that the poor suffer while elites are back to business as usual could fuel political extremism and create problems for individual firms and for business in general. Against this background, it should come as no surprise that there are calls for 'paradigm shifts' and new ways of doing business in the post-Covid world, and that these calls are reaching new audiences.

This is likely to reinforce 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 lockdown. For example, there is likely to be a focus on executive pay. Reward professionals are keenly aware that high pay and bonus awards are likely to attract the attention of a watchful media and a sceptical public. Remuneration Committees will want to avoid any suggestion that they have 'used taxpayers' money' to boost the pay of their high earners.

Corporate purpose is a way to express the organisation's impact on the lives and objectives of its stakeholders. At no time has this been more critical than during the Covid-19 pandemic. 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 socially connected and aware society, it is increasingly seen as a staff retention and recruitment selling point. Executive search firms report that being a purpose-driven organisation is now key to recruiting top talent.

Yet, at the same time, many companies will urgently need to recover their financial situation. There is

likely to be a renewed focus on productivity both at firm level and for the wider economy. Senior executives may find themselves encouraged 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.

3. POTENTIAL RISKS

The aftermath of the coronavirus pandemic, then, is likely to see a renewed and heightened focus on the need for clear corporate purpose. Emphasis on stewardship and on business, social and environmental responsibility will be reinforced. This focus on corporate purpose brings with it a number of risks:

- Reputational damage from being seen to ignore social and environmental responsibilities
- Loss of business from a consumer backlash
- The quantum leap in digital transformation, driven by the pandemic, bringing with it increased scrutiny by stakeholders, potentially higher stakes for reputational damage and loss of business – but also new opportunities for those with the confidence and courage to embrace these
- Flight of investors, themselves under pressure to demonstrate more active stewardship
- Recruitment and retention – 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
- Diverting energy away from rebuilding and developing the business.

There may be a temptation among some executives to take the idea of corporate purpose with a pinch of salt and dismiss it as the latest business fad. It may indeed turn out to be one, but there are reasons to believe we are looking at something more permanent here. The emphasis on company purpose is based on more than a few articles in the *Harvard Business Review*. It is underpinned by discernible shifts in social attitudes that have been underway for well over a decade. As one investment manager put it:

“Industry leaders need to understand that we now have new stakeholders. Stewardship and ESG (environment, social and governance) responsibilities are part of the industry’s social licence to operate.”¹

Or, as one chairman put it: “Shareholders get paid once stakeholders get taken care of.”

Companies that are seen to be failing to engage with stakeholders or to be not taking their responsibilities seriously may therefore find themselves looking exposed.

4. THE ROLE OF RISK PROFESSIONALS

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 do a thorough review of existing processes and systems. There is potential for risk professionals to be among those who top management look to for guidance when undertaking a repurposing exercise – as risk professionals understand the opportunity that repurposing presents in the quest to build the resilient organisation.

Risk professionals have already been 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 coronavirus crisis. As businesses around the world emerge from the lockdowns of 2020, risk professionals will have a crucial role to play in helping their organisations navigate the uncertainties in the post Covid-19 new normal.

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 journey of repurposing can identify and mitigate risks they would otherwise miss, as McKinsey and Co has highlighted.²

5. RISK OF GETTING CORPORATE PURPOSE WRONG

The enthusiasm for corporate purpose is not without its risks though. 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.”

¹ PARC (2019) “Is stewardship really the role of the investor?”

² McKinsey Quarterly, “Purpose: Shifting from why to how”, 22 April 2020.

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 as a way of providing direction in troubled times. As EY puts it:

“Purpose is (re-)emerging as a ‘North Star’ by which business can navigate and thrive in the 21st century.”³

If an organisation pays lip service to corporate purpose and then gets found out, it could do more harm than doing nothing. 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 Edgar Schein said, culture is about shared assumptions and meanings.⁴ Unless these change, an organisation will not do or be anything different. That’s why so many corporate initiatives fail – a bit like a body rejecting a transplant.

‘Doing purpose’ in the hope that it might change something, is unlikely to get a company very far. Employees and other stakeholders are not mindless. 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.

6. THE CENTRAL QUESTION

In the context of these issues, Airmic – in partnership with the Association of Chartered Certified Accountants (ACCA), Crawford, and Lockton, and with Anette Mikes, Associate Professor at the University of Oxford’s Saïd Business School, as a member of the project advisory group – is embarking on the *Roads to Repurposing* project. The aim is to build a framework to help companies understand the concept of corporate purpose, and the related concepts of business responsibility and reputation, and develop these within their own business context, and to determine the implications for risk and insurance managers, particularly in the post-Covid-19 new normal.

The headline research question for the project will be:

Why and how are organisations repurposing, and what are the characteristics of a successful repurposing programme?

The objective is to reach 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 and objectives, it is believed, will then inform the company’s brand, values and desired behaviours, and act as a motivator, recruiter and marketing tool for support from all stakeholder groups.

This is likely to present a significant challenge for organisations. After all, we have been here before. Corporate missions, visions, cultures and shared values were all supposed to provide the bedrock out of which a cohesive organisation would emerge. Get those things right and everything else would follow, or so the consultants and business writers would have us believe. In the event, for most organisations, it never quite happened like that.

Is repurposing just like culture change or defining a new mission? Is it another business fad that will founder along with all others?

It’s too early to say, but there are good reasons to think that, this time, something more fundamental might be happening and companies would be wise to take notice.

“There’s no better time than now for company leaders to reflect on their *raison d’être* and the findings of this research project will be invaluable in helping them steer their way through the choppy and fast-moving waters in which we find ourselves.”

Rachael Johnson, Head of Risk Management and Corporate Governance, ACCA

“Recent events have accelerated the need to explore and repurpose business models to meet the ‘new normal’ for employees, clients and the wider communities in which an organisation operates. This report will provide insights to facilitate organisations’ responses so that they can lead and thrive in the evolving world economic order.”

Joseph Blanco, President, Crawford & Company

“Contributing to the communities in which we operate has been an integral part of our identity since inception. It’s not a box-ticking exercise, it’s part of our DNA, and we approach it with the same single-minded commitment and creativity we bring to seeking the best outcomes for our clients. We are delighted to be supporting this initiative and hope that it will be thought provoking to companies who seek to articulate a renewed sense of purpose.”

Chris Brown, Managing Partner, LLP Board, Lockton

³ EY Beacon Institute (2016) *The state of the debate on purpose in business: Executive summary*, p. 2.

⁴ Edgar H. Schein, with Peter A. Schein (2017) *Organizational Culture and Leadership*, 5th edition Hoboken, (NJ: Wiley).