

**EPI**

# **THE ENACTING PURPOSE INITIATIVE**

**REPORT #2**

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**Directors & Investors:**  
Building on Common Ground to  
Advance Sustainable Capitalism



**07.2021**

# CONTENTS

## INTRODUCTION

## SUMMARY

### 1. CONTEXTUALIZING CORPORATE PURPOSE

- 1.1 The Business Context
- 1.2 The Investor Context
- 1.3 The Legal Context
- 1.4 The Political Context

### 2. DEFINING AND MEASURING CORPORATE PURPOSE

- 2.1 Distinguishing Purpose, Mission, Vision, and Values
- 2.2 Definitions of Corporate Purpose
- 2.3 Measuring Purpose

### 3. THE CORPORATE VIEW

- 3.1 Leveraging Purpose as a Decision-Making Tool
- 3.2 Distinguishing Purpose from ESG
- 3.3 Improving Managerial and Board Information Flow
- 3.4 Creating Time on Board Agendas for Purpose

### 4. THE INVESTOR VIEW

- 4.1 Demonstrating the Value of Corporate Purpose
- 4.2 Identifying the Right Metrics
- 4.3 Aligning Managerial Incentives with Corporate Purpose
- 4.4 Improving Board Diversity
- 4.5 Providing Greater Board Access

### 5. THE COMMON GROUND

- 5.1 Taking Ownership of Corporate Purpose
- 5.2 Being Properly Informed About Corporate Purpose
- 5.3 Connecting Corporate Purpose to Board Decision-Making
- 5.4 Governing Purpose
- 5.5 Communicating with Investors

### 6. THE ENACTING PURPOSE INITIATIVE

### 7. ACKNOWLEDGEMENTS

# INTRODUCTION

**T**here is a growing consensus in the global business and investment community that sustainable and inclusive capitalism is vital to society, the environment, and the economy. This paradigm shift is propelling corporate purpose to the top of the agenda for directors and investors.

The first report from the Enacting Purpose Initiative, [Enacting Purpose Within the Modern Corporation, A Framework for Boards of Directors](#), was published in August 2020. This report builds upon that foundation by setting out how directors can work with their investors to leverage corporate purpose to address societal issues and sustain long-term value creation.

This report's recommendations were informed by extensive dialogue with over 35 board members in the Director Steering Group and over 30 global investors and asset owners and managers in the Investor Steering Group. We remain encouraged by the common ground between investors and directors regarding the value of corporate purpose. This report lays out that common ground in order to produce actionable insights for directors seeking to deepen their collaboration with investors on corporate purpose.



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## SUMMARY

Increasingly, stakeholders are asking companies to articulate and operationalize a corporate purpose that accounts for their impact on society and the environment. We begin our report by summarizing the context for these developments across the business, investor, legal, and political domains.

We then address the debate, drawing out examples of best practices and outlining a new approach to measuring purpose developed by an interdisciplinary team of academics and practitioners<sup>1</sup>. We hope this will prompt renewed engagement and build consensus among stakeholders.

The main body of the report captures insights from directors and investors. We present the views of directors representing companies across different sectors in North America, or those who have significant operations there. These insights focus on the power of purpose as a driver of organizational value and alignment and capture the growing recognition that demonstrating purpose-led activity is no longer optional but an intrinsic board responsibility.

We then relate investors' views on purpose. Investors are increasingly focused on the value of purpose and seek to understand how companies and boards leverage purpose for competitive advantage as well as for meeting their environmental and social responsibilities. We identified an emerging consensus in several practical areas, which we describe in the section entitled "The Common Ground."

Initially, it seemed to us that directors felt they were doing all they could to communicate purposeful activity to investors. However, they found many investors to be uninterested unless it related to short-term profits. Likewise, we heard an initial view from investors that directors were not providing them with the information required to demonstrate a clear commitment to purpose or to undertake a proper assessment of whether such activities deliver shareholder value. However, as the discussions developed, we were encouraged to see common ground emerging across five areas: how purpose is owned; how directors and investors can ensure that they have the right information; how purpose informs and guides decision-making; how purpose is governed; and how purpose can best be communicated between directors and investors.

***We put forward this report to build upon this common ground. We hope that directors and investors will use this common ground to initiate dialogue on how they can work together to profitably address societal and environmental harms.***

<sup>1</sup>Measuring Purpose, An Integrated Framework, (working paper, January 2021), <https://enactingpurpose.org/assets/measuring-purpose---an-integrated-framework.pdf>

# 1. CONTEXTUALIZING CORPORATE PURPOSE

A “perfect storm” of developments increasingly requires that companies articulate and operationalize a corporate purpose that accounts for the impacts of their business on society and the environment.

## 1.1 | THE BUSINESS CONTEXT

The business community is embracing the momentum behind a stakeholder-oriented view that aligns corporate purpose with broader societal interests. In August of 2019, the Business Roundtable renounced its decades-long commitment to shareholder profit-maximization by declaring that a corporation’s purpose is to serve “all stakeholders,” including employees, consumers, and communities.<sup>2</sup> In January 2020, The World Economic Forum unveiled “the Davos Manifesto” and declared its allegiance to “stakeholder capitalism.”<sup>3</sup> And, of particular salience to this report, the Enacting Purpose Initiative is a multi-institution partnership that includes over 60 corporate directors globally, reflecting the director community’s commitment to corporate purpose. These developments reflect a shift in the business community that has been accelerated by employees who are increasingly asking that their employers serve a purpose that is broader than profit-maximization.<sup>4</sup>

<sup>2</sup>Source: BUSINESS ROUNDTABLE, STATEMENT ON THE PURPOSE OF A CORPORATION (Aug. 19, 2019), <https://opportunity.businessroundtable.org/ourcommitment/>; In 2019, 181 company CEOs endorsed a mission to redefine the role of business in society by signing a revised statement of purpose. See: David Gelles & David Yaffe-Bellany, Shareholder Value Is No Longer Everything, *Top C.E.O.s Say*, <https://www.nytimes.com/2019/08/19/business/business-roundtable-ceos-corporations.html>.

<sup>3</sup>Source: Klaus Schwab, Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution, *WORLD ECONOMIC FORUM* (Dec. 2, 2019), <https://www.weforum.org/agenda/2019/12/davos-manifesto-2020-the-universal-purpose-of-a-company-in-the-fourth-industrial-revolution/>.

<sup>4</sup>For more detail on how employees are demanding that their employers serve a purpose, visit: Edelman, Trust and the New Employee-Employer Contract, <https://www.edelman.com/research/trust-and-new-employee-employer-contract>

## PURPOSE IN PRACTICE

### Contextualizing Corporate Purpose—The Business Context

“

The demand on management teams and boards to address corporate purpose is growing by the year. And once you’ve committed yourself to purpose-driven leadership, there is no opting out—only rising to new challenges every year...

”



**BENNO DORER**  
Former Chairman  
and CEO,  
The Clorox Company

“

More than the articulation of a grand aspiration, purpose means creating value for the firm, and that starts with the active engagement of all stakeholders.

”



**KAYE FOSTER**  
Director,  
Agios Pharmaceuticals

“

When corporate purpose produces more engaged employees, a better sense of where customers are, and a broader social license to operate, it not only shields against risk, but also confers a competitive advantage in shareholder returns over the long-term.

”



**CLARENCE OTIS**  
Lead Director,  
Verizon Board of Directors

## 1.2 | THE INVESTOR CONTEXT

Due in part to the rise of index investing, capital is increasingly concentrated in large asset managers—sometimes referred to as “universal shareholders.” Compared to less diversified investors, universal shareholders own stock in companies across the entire market, have long-term investment horizons, and are more sensitive to systemic risks like climate change, which can impact their entire portfolio. Universal shareholders perceive companies that neglect stakeholders as threats to the longterm sustainability of the global economy as well as their own value prospects. Thus, the more a company externalizes its production costs onto society, the less tolerance universal shareholders have for systemic risk. This phenomenon has led them to take a more engaged stance, called “stewardship,” which implores externality-generating companies to account for their impacts on stakeholders through purpose-driven governance. Investment managers are also responding to empirical evidence suggesting that management of risk and return requires considering the wider societal impact of corporate operations.

## PURPOSE IN PRACTICE

### Contextualizing Corporate Purpose—The Investor Context

“

**As I have written in past letters, a company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders.** A pharmaceutical company that hikes prices ruthlessly, a mining company that shortchanges safety, a bank that fails to respect its clients—these companies may maximize returns in the short term. But, as we have seen again and again, these actions that damage society will catch up with a company and destroy shareholder value. By contrast, a strong sense of purpose and a commitment to stakeholders help a company connect more deeply to its customers and adjust to the changing demands of society. **Ultimately, purpose is the engine of long-term profitability.**

”



**LARRY FINK**  
2020 BlackRock  
Letter to CEOs

“

CalPERS is a fiduciary for two million pension fund members who rely upon us to provide their benefits for the long term. We believe that **long-term value creation requires the effective management of three forms of capital: financial, human, and physical.** Corporate purpose needs to articulate how boards exercise their stewardship to ensure they create sustainable value.

”



**ANNE SIMPSON**  
Managing  
Investment Director,  
CalPERS

“

I often like to start meetings with board directors by asking ‘why do you exist?’ If they can eloquently articulate an answer, that says a lot about the amount of time that they have put in at the board meeting to talk about it. If they say that the company exists to generate returns... without having a clear view as to ‘why’ and ‘how,’ that is quite telling.

”



**STEPHANIE LACHANCE**  
Vice President of  
Responsible Investment,  
Public Sector Pension  
Investment Board

“

In reality, companies implicitly acknowledge a purpose that transcends profits when they provide services to their community, interact with various governmental agencies, and so on. Yet they are not explicitly operationalizing that purpose as a matter of corporate governance. Doing so would open the door to articulating fiduciary duty in a way that encompasses more than just looking at the P&L of the company over one year, two years, or three years.

”



**SAKER NUSSEIBEH**  
CBE, CEO,  
International at  
Federated Hermes

## 1.3 | THE LEGAL CONTEXT

Just a few years ago, it was common for the General Counsel at even the most purpose-driven companies to advise against public proclamations of an expansive corporate purpose. Today, however, the changing expectations of investors and stakeholders have altered this legal risk calculus. A client memo drafted by the law firm Martin Lipton, Wachtell, Lipton, Rosen & Katz aptly sums up this evolution: “The salient question has shifted from whether a board of directors should take into account the interests of stakeholders other than shareholders, to how a board should do so.”<sup>6</sup>

Although directors are no more legally obligated to carry out their duties than they were before this paradigm shift, the law does not operate in a vacuum, and the changing priorities of investors and other stakeholders have cast such duties in a new light.

One significant outcome of the shift toward stakeholder governance has been increased Directors & Officers liability for boards of directors. Lawsuits against directors and officers for their failure to oversee and/or disclose environmental and social risks are on the rise, and, as described below, boards are responding by turning to corporate purpose as an organizing principle for effective risk oversight.<sup>7</sup>

It also bears noting that, in the U.S., there is growing interest in new corporate forms such as the Delaware Public Benefit Corporation or the California Benefit Corporation that explicitly create a fiduciary duty to consider stakeholders. The Delaware General Corporation Law defines “public benefit corporation” as “a for-profit corporation...that is intended to produce a public benefit...and to operate in a responsible and sustainable manner. To that end, a public benefit corporation shall be managed in a manner that balances the stockholders’ pecuniary interests, the best interests of those materially affected by the corporation’s conduct, and the public benefit or public benefits identified in its certificate of incorporation.”<sup>8</sup>

2020 was a breakthrough year for public benefit companies: Lemonade and Vital Farms, both public benefit corporations, had “blockbuster” IPOs and did better than most of their traditional counterparts.<sup>9</sup> Veeva also became the first public company to transition from a traditional Delaware Corporation to a Delaware Public Benefit Corporation, with over 99% of voting shareholders supporting the company’s proposal.<sup>10</sup> Institutional investors, including BlackRock, State Street, and ISS, were among the investors who supported Veeva’s conversion.

There are also many international changes taking shape that could impact U.S. legal context. For example, the British Academy’s Future of the Corporation initiative has proposed, among other reforms, aligning British corporation law to create an affirmative fiduciary duty of directors to implement a corporate purpose that does not profit off of negative externalities.<sup>11</sup>

<sup>6</sup>Source: Martin Lipton, Wachtell, Lipton, Rosen & Katz, <https://corpgov.law.harvard.edu/2020/12/03/spotlight-on-boards-8/>.

<sup>7</sup>For an overview of the types of lawsuits being filed against directors and officers for failure to oversee and/or disclose ESG risks, see: <https://www.lw.com/thoughtLeadership/ESG-litigation-roadmap>.

<sup>8</sup>Robert G. Eccles, Leo E. Strine, and Timothy Youmans offer a framework for putting corporate purpose into action. They argue that companies who wish to put their purpose into action should adopt a “statement of purpose”, embrace integrated reporting, and change their corporate form. See: <https://hbr.org/2020/05/3-ways-to-put-your-corporate-purpose-into-action>

<sup>9</sup>See: <https://www.forbes.com/sites/chloesorvino/2020/08/01/vital-farms-blockbuster-ipo-proves-wall-street-has-an-appetite-for-sustainable-farming/?sh=3d0255b0345b>

<sup>10</sup>See: <https://www.veeva.com/resources/veeva-becomes-first-public-company-to-convert-to-a-public-benefit-corporation/>.

<sup>11</sup>For an examination of the economic underpinnings of corporate purpose, and the fundamental reasons for reconceptualizing it, see: Mayer, Colin, *The Future of the Corporation and the Economics of Purpose*, <http://dx.doi.org/10.2139/ssrn.3731539>.

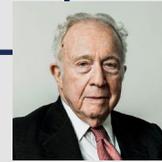
## PURPOSE IN PRACTICE

### Contextualizing Corporate Purpose—The Legal Context

“

The focus of investors and organizations concerned with corporate social responsibility, ESG, and sustainability is pervasive and intense. It has attracted the attention of investment banks, public relations firms, investor relations firms, law firms, and management consulting firms.”<sup>12</sup>

”



**MARTIN LIPTON**

Co-Founder,  
Wachtell, Lipton,  
Rosen & Katz

“

Veeva’s PBC conversion combined with their annual purpose reporting is leading the way for U.S. public companies to put corporate purpose into action...This is a great example of a public company aligning stakeholder-inclusive purpose and corporate governance in the interest of long-term value and societal benefit.

”



**TIM YOUMANS**

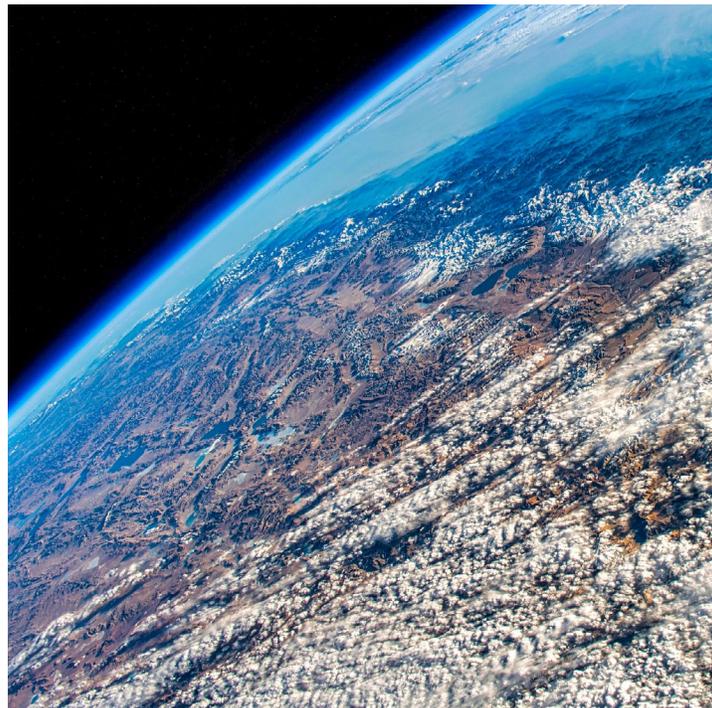
Lead-North America,  
EOS at Federated Hermes

<sup>12</sup>See Martin Lipton, Wachtell, Lipton, Rosen & Katz, <https://corpgov.law.harvard.edu/2020/12/03/spotlight-on-boards-8/>.

## 1.4 | THE POLITICAL CONTEXT

While we are mindful that we cannot predict what the Biden-Harris administration can or will do, in announcing his economic plan, President Biden offered a rebuke of shareholder primacy: “The idea that the only responsibility a corporation has is with shareholders: that’s simply not true. It’s an absolute farce. They have a responsibility to their workers, their community, to their country. That isn’t a radical notion.” The Biden administration has further emphasized that climate change, income inequality, and racial injustice are systematic risks that must be addressed to “build back better.” As a result, many predict that the SEC will implement mandatory disclosure of social and environmental risks and the Department of Labor will reverse its admonition that trustees disregard environmental and social issues as “non-financial.” These predictions are already being borne out. In February 2021, acting SEC Chair Allison Herren Lee issued a statement directing the SEC staff to enhance their focus on climate-related disclosure and stressed the need to establish a climate change disclosure framework. In March 2021, the SEC created inaugural climate and ESG Task Forces.

These developments reflect a new political will to create a regulatory framework that incentivizes companies to define their purpose in a way that is accountable to their impact on society and the planet.



# 2. DEFINING AND MEASURING CORPORATE PURPOSE

## 2.1 | DISTINGUISHING PURPOSE, MISSION, VISION, AND VALUES

Consistent with the findings in our first report, we continue to hear confusion about what purpose is and how it differs from values, mission, and vision. Therefore, the first challenge that directors must address is defining purpose. Here, we reiterate the clarity put forth in our first report.

Purpose sets out why an organization exists. The purpose of an organization should be durable and relatively stable, lasting well beyond the tenure of any one leadership team. An organization’s purpose informs its mission, vision, and values. More flexible than purpose, mission is what an organization does, and it evolves as management changes their views on how to operationalize strategy. Values, by contrast, speak to ‘how’ organizations act and may include things such as transparency (when it comes to sharing information), courage and innovation (how employees aspire to perform), respect (with and between colleagues), or integrity and accountability (to customers and to other stakeholders). Finally, vision refers to where the organization is heading. It articulates what successful delivery of purpose—orchestrated through the mission and delivered by the values—will produce. This is set out visually in figure 1 (below).

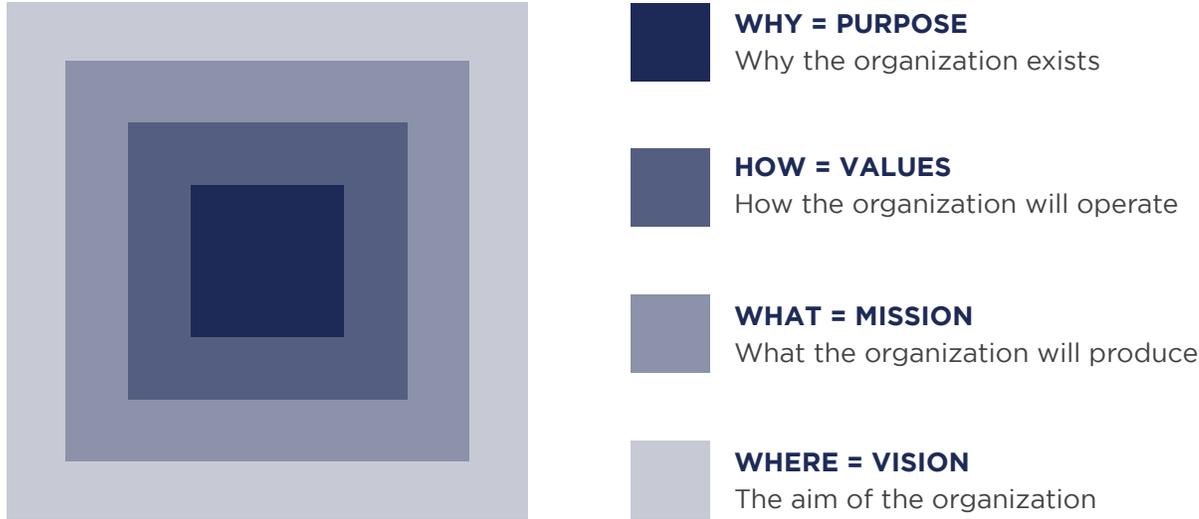


FIGURE 1: ENACTING PURPOSE INITIATIVE, REPORT #1 (AUGUST 2020)



## **PURPOSE IN PRACTICE**

### **Defining Corporate Purpose**

As Professor Colin Mayer has explained, “a purpose is precise about what problems it is seeking to solve, whose problems, how it will solve them, and when and why the company in question is particularly well suited to solving those problems.”<sup>13</sup>



**Our purpose is to build the digital highways that connect people, improve lives and develop communities.**

**MILLICOM**



**To connect people to what’s important in their lives through friendly, reliable, and low-cost air travel.**

**SOUTHWEST**



**Helping people on their path to better health.**

**CVS**



**Inspire, educate, and outfit for a lifetime of outdoor adventure and stewardship.**

**REI**

“

Purpose should align employees, policyholders, management, and the board around a shared, enduring, and easily articulated understanding of what we do.

”



**PATRIZIO M. URCIUOLI**  
EVP, Co-Head of Strategy,  
and Asset Allocation,  
Liberty Mutual Insurance

“

The board’s role is having the ability to step back and ask—‘why does this company exist?’

”

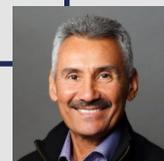


**KAYE FOSTER**  
Director,  
Agiros Pharmaceuticals

“

In elevating purpose, we must not lose sight of the fact that it is only powerful when part of an integrated ecosystem of vision, strategy, and values. Purpose as a standalone statement goes nowhere; only when it is brought to life through vision, strategy, and execution is it sustainable over time.

”



**ZEIN ABDALLA**  
Director,  
Cognizant

## 2.2 | DEFINITIONS OF CORPORATE PURPOSE

It is useful to contextualize any company-specific purpose in relation to prevailing views on the purpose of business more broadly. For the past few decades, the mantra of shareholder primacy animated the articulation of corporate purpose. Today, however, academics, policymakers, and business leaders have reoriented the purpose of business toward long-term value creation that derives from producing benefits to society. Some of the expressions of this business purpose are:

- “to meet society’s needs and wants, ethically and profitably.”  
**JONATHAN CHARKHAM, MEMBER OF THE 1992 CADBURY COMMITTEE AND FORMER ADVISOR TO THE BANK OF ENGLAND, AND ANNE SIMPSON, MANAGING INVESTMENT DIRECTOR, CALPERS**
- “to be generative in such a way that the benefits reach beyond the business.”  
**ASHLEY GRICE, CEO OF BCG BRIGHTHOUSE**
- “to solve the problems of people and planet profitably, and not profit from causing problems.”  
**PROFESSOR COLIN MAYER, CO-CHAIR OF THE ENACTING PURPOSE INITIATIVE, UNIVERSITY OF OXFORD**
- “to conduct a lawful, ethical, profitable, and sustainable business in order to create value over the long-term, which requires consideration of the stakeholders that are critical to its success (shareholders, employees, customers, suppliers, creditors, and communities)...”  
**WACHTELL, LIPTON, ROSEN & KATZ**
- “to engage all its stakeholders in shared and sustained value creation... through a shared commitment to policies and decisions that strengthen the long-term prosperity of an organization.”  
**THE WORLD ECONOMIC FORUM**
- “delivering value to our customers...investing in our employees...dealing fairly and ethically with our suppliers...supporting the communities in which we work...generating long-term value for shareholders.”  
**BUSINESS ROUNDTABLE**

Each of these views of corporate purpose emphasizes creating long-term value for shareholders by engaging stakeholders to address the needs, wants, and problems of society. This does not amount to philanthropy or corporate social responsibility. Rather, the focus is on aligning an organization’s core functions with its operational principles in a way that benefits shareholders and stakeholders alike, transcending the obsolete notion of long-term value creation as a zero-sum game.

In fact, there is mounting evidence against the presumption that purpose can only be pursued at the expense of profit.<sup>14</sup>

<sup>14</sup>Using a unique data set this study shows that “high Purpose brands” outperformed on common measures of financial performance, market valuation and shareholder value creation. See: Milano, Tomlinson, and Whately, The Return on Purpose: Before and during a Crisis, <https://ssrn.com/abstract=3715573>. Firms demonstrating high purpose and clarity of purpose across management teams exhibit systematically higher financial performance and shareholder value creation). See: Claudine, Prat, and Serafeim, Corporate Purpose and Financial Performance, <http://nrs.harvard.edu/urn-3:HUL.InstRepos:30903237>.

## 2.3 | MEASURING PURPOSE

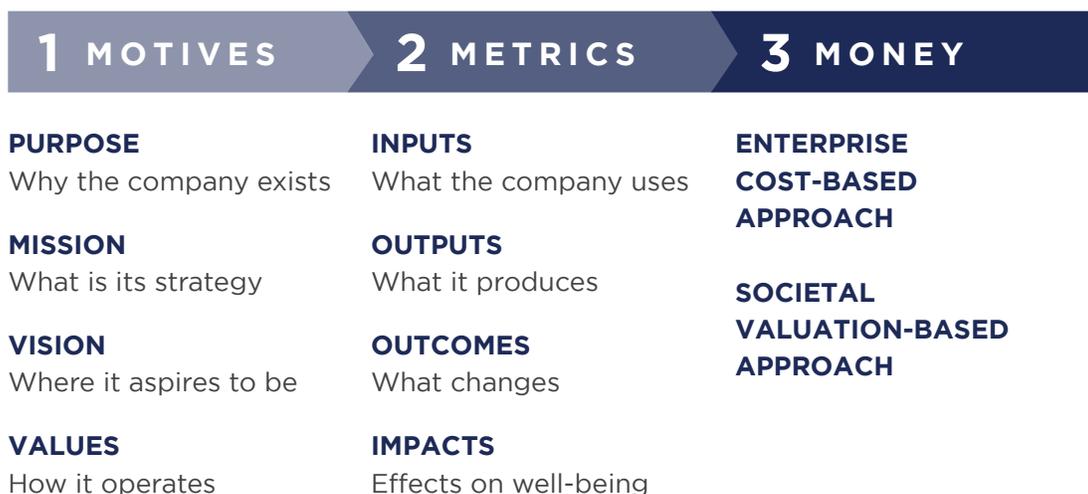
Boards of directors have become increasingly focused on how corporate purpose should be measured. This is partly driven by a sense that purpose drives positive corporate cultures, helps attract and retain talent, and is increasingly a differentiator when it comes to customers and suppliers. Investors are seeking to establish how purpose can best be measured and are also being asked to justify their investments based on environmental, social, and governance (ESG) factors as well as financial considerations. Additionally, regulators are seeking clarity on the value of purpose, being tasked to consider purpose among a group of emerging reporting and governance tools within various corporate codes.

In January 2021, a group of 11 different experts from academia, institutions, and organizations published a paper entitled ‘Measuring Purpose—An Integrated Framework’, which aimed to “clarify the confusion that arises in the context of how to measure performance in relation to purposeful business practice by putting forward a clear approach to measurement, drawing on real world management practices, comparing the different approaches that are being taken, and proposing a model that allows for better informed decision-making.”<sup>15</sup>

As the paper states:

“This combination of pressure points has focused attention on how purpose can be measured. To date, the general approach has focused on two largely disconnected considerations: first, articulating purpose as a set of intents, values, or desired behaviors and outcomes, and second, measuring and monetizing the impacts of company activities. These considerations have been subject to claims of imprecision on causality, and vagueness in determining monetary impacts.”

In an attempt to address these concerns, the authors propose the adoption of a three-step measurement model, as set out in Figure 2 below, which aligns measurement of business impacts with the strategic motives of an organization and monetization through two distinct but complementary methodologies.



**FIGURE 2: MEASURING PURPOSE: AN INTEGRATED FRAMEWORK (JANUARY 23, 2021)**

More information on this proposed methodology and approach can be found in the paper which is published as a working paper on SSRN (formerly the Social Sciences Research Network).

<sup>15</sup>Measuring Purpose, An Integrated Framework, <https://enactingpurpose.org/assets/measuring-purpose---an-integrated-framework.pdf>

<sup>16</sup><https://ssrn.com/abstract=3771892>

## 3. THE CORPORATE VIEW

### 3.1 | LEVERAGING PURPOSE AS A DECISION-MAKING TOOL

Directors recognize that purpose is most valuable when it guides strategic decisions. Two dimensions emerged in our discussions. First, purpose serves as a guiding star, sometimes called the North Star; by clearly articulating why the organization exists, directors can foster a corporate culture that inspires and aligns stakeholders, including employees and customers. Second, purpose provides a set of “guardrails” that help delineate the ethical limits of the board’s discretion. These “guardrails” protect the company from downside risk by ensuring that the company’s reputation and social license to operate remain viable.

A growing body of research points to a correlation between purpose-driven companies and strong financial performance. For example, a recent publication by Professor Colin Mayer “sets out how appropriately defined notions of corporate purpose can help to promote not only better social outcomes but also enhanced functioning of firms and markets.”<sup>17</sup> Other studies have also revealed that an organization’s financial performance is positively correlated with the degree of alignment between employees and management on the subject of corporate purpose.<sup>18</sup>

<sup>17</sup>Source: Colin Mayer, *The Future of the Corporation and the Economics of Purpose*, [https://onlinelibrary.wiley.com/doi/abs/10.1111/joms.12660?casa\\_token=znWKzMIWZF0AAAAA:Uixd-1Mv90OdPuWw4KM8x5dJDFXLSLNFwwwVxw-xOe7NBWseC5BKl1b01CjK6ejnZofnJcDKR10c4K](https://onlinelibrary.wiley.com/doi/abs/10.1111/joms.12660?casa_token=znWKzMIWZF0AAAAA:Uixd-1Mv90OdPuWw4KM8x5dJDFXLSLNFwwwVxw-xOe7NBWseC5BKl1b01CjK6ejnZofnJcDKR10c4K).

<sup>18</sup>See: Claudine, Prat, and Serafeim, *Corporate Purpose and Financial Performance*, <http://nrs.harvard.edu/urn-3:HUL.InstRepos:30903237>; <https://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199734610.001.0001/oxfordhb-9780199734610-e-003>; <https://link.springer.com/article/10.1007/s10551-017-3487-5?shared-article-renderer>.

### PURPOSE IN PRACTICE Using Corporate Purpose as a Guiding Star or Guardrail

**T**he North Face’s purpose is *Dare to Lead the World Forward Through Exploration*. When the COVID-19 pandemic ushered in widespread stay-at-home orders, The North Face used this purpose to guide its response to the global public health crisis. But the restrictions and risks associated with travel and gatherings forced the company to re-envision its foundational belief that exploration leads to meaningful connections.

Arne Arens, President of The North Face, quickly focused the organization’s response by stating “[t]his global crisis has reminded us that empathy is a key driver of exploration, and when faced with adversity we’ll continue to do our part to champion that spirit of exploration. We believe that distancing shouldn’t mean disconnection.”

Following Arens’ statement, The North Face closed all of its stores until May 2020, donated 60,000 gloves to healthcare professionals and first responders in Colorado, where its headquarters are based, and opened its [video archive to the world](#) in order to bring the outdoors in for those feeling confined at home. It has also committed a million dollars through its [Explore Fund](#) to support outdoor communities.

“

The most important question is, ‘how do you manage the gray areas?’ And, when you’re in the gray, what’s your guiding star? That’s where I think purpose really matters. Would this decision align with our purpose, values, mission, way of doing business, reputation, and ultimately, how we want to be viewed?

”



**ROBIN WASHINGTON**

Board Member,  
Alphabet Inc., Honeywell  
International Inc., and  
Salesforce.com

“

Show me purpose under crisis...and I will tell you if I believe your purpose is good or not.

”



**MAURICIO RAMOS**

CEO,  
Millicom

“

The companies that have fared the best through COVID, reputationally, are those that have made public commitments—however unusual or costly—that are consistent with their purposes and in the best interests of employees and the larger community.

”



**COLLEEN JAY**

Director,  
Cooper Companies

## 3.2 | DISTINGUISHING PURPOSE FROM ESG

Board debate on purpose is made more difficult by the conflation of purpose ('why we exist') with ESG ('our commitments'). Directors recognize that they have a responsibility to discuss and debate both concepts, ensuring that they have clarity on how these differ but also how they are connected and mutually reinforcing for sustaining long-term value.

While purpose articulates why a business exists and the problems it will solve profitably, ESG represents its specific environmental, social, and governance commitments as well as its internal process for overseeing them. ESG commitments have a role to play when it comes to demonstrating purpose. First, material ESG activities deserve sustained focus and interrogation to the extent that they explicitly address critical societal themes, such as environmental degradation and employee treatment. Second, questions relating to ESG commitments have become the dominant focus of investor engagement, making them top of mind for boards and senior executive teams.

Boards and senior management need to align purpose with specific ESG commitments. Thus, purpose serves as a board's strategic guiding star, while ESG is the mechanism by which purpose is translated into specific measures and actions.

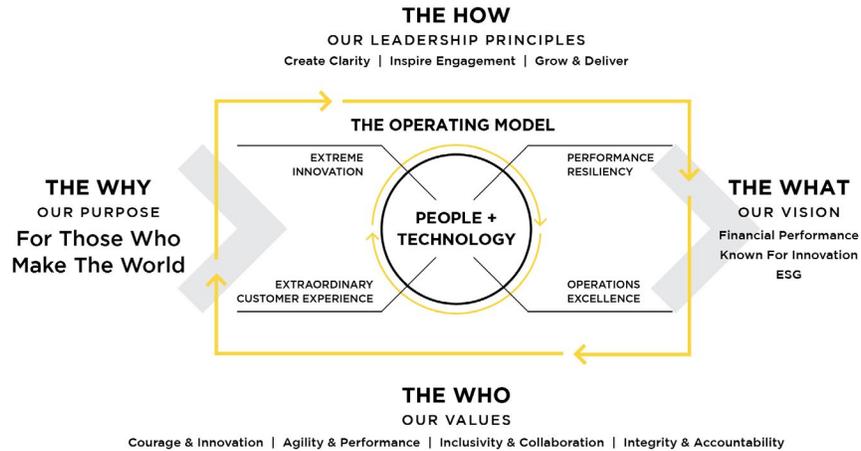
### PURPOSE IN PRACTICE Distinguishing Purpose from ESG



At Stanley Black & Decker, purpose is embedded into the organization and serves as a guiding star across functions. ESG does not own the purpose; it is held at the executive level and is used to guide the ESG strategy, just as it guides the corporate growth strategy and the culture strategy.

In 2016, Jim Loree was promoted to CEO of the 175 year-old organization, and he developed a strategy with ambitious growth plans that relied on high performance, technological transformation, and an elevation of the company's commitment to social responsibility.

These aims required willing mindsets, and its purpose, *For Those Who Make the World*, kept the focus on people using technology as the key success factor, not focusing on technology alone.



This framework for success clarified decision making around growth plans, recruiting efforts, and ESG. By elevating the purpose, the business was able to “get off the financial treadmill,” as described by Loree, and develop a new vision that brought financial performance, innovation, and ESG together. Introducing purpose in 2017 was never shared as a competing goal but rather a girder to growth and financial performance. By 2019, Stanley Black & Decker had upgraded its operating model and grown into a USD 14.4 billion operation.

Organizationally, the leadership took the unusual step of adding the AI function to the human resources function. Stanley Black & Decker became a talent magnet, competing with high-tech firms for top candidates, because people want to work for a company that focuses on innovation, technology, and high performance. The purpose clarified the connection between people and technology and Stanley Black & Decker’s role in serving people who use the tools and tech.

“

Technology augments people and people amplify the positive impact of technology. Our purpose and operating model that puts people + technology at the center enable us to recruit the best talent and position the organization to constantly move forward in a rapidly changing world.

”



**JIM LOREE**  
CEO,  
Stanley Black & Decker

Commercially, purpose guided Stanley Black & Decker to get better at understanding where its markets were going, such as construction, and to get ahead of the biggest opportunities in future markets, such as electric vehicles.

**\$34BN**

Today (as of Q1/2021) Stanley Black & Decker's earnings in fourth quarter of 2020 are the best in the company's history, the market cap has doubled in the past 5 years, and its market cap is nearly \$34bn.

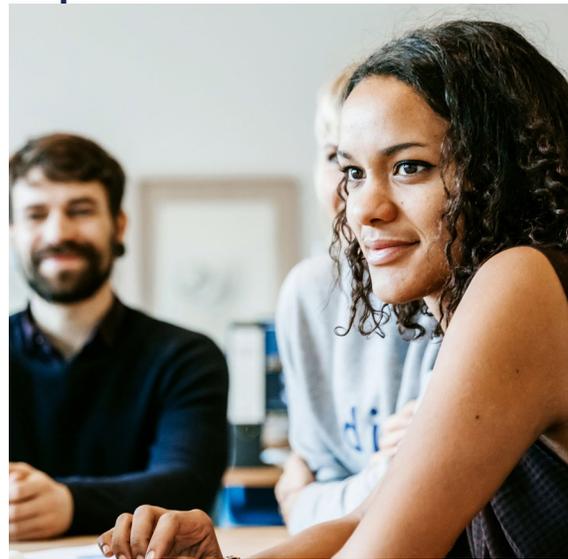
Additionally, the company's purpose sharpened focus during the pandemic. STANLEY + Techstars Acceleration is a partnership that began in 2018 to support innovative entrepreneurs who are focused on AI in Advanced Manufacturing, and it relies on Stanley Black & Decker experts to mentor and support startups as they move from the design to the production phase at an accelerated pace. The increasing agility in these startups meant they could respond quickly to the COVID-19 crisis including leading supply chain efforts for the manufacture and distribution of ventilators to New York hospitals, the manufacturing of personal protection equipment for healthcare workers such as face shields in India, Ireland, and the U.S., as well as the manufacturing of much-needed nasal swabs with 3D printing.



### 3.3 | IMPROVING MANAGERIAL AND BOARD INFORMATION FLOW

Directors say they are spending more time articulating to all stakeholders—including investors—how they oversee the delivery of corporate purpose. They recognize the need to continue to step up the transparency and frequency of these types of communication. One area that emerged from discussion was the potential for additional clarity within governance documents such as board charters, public filings, or by holding separate strategy days on how purpose translates into specific stakeholder outcomes. Key to this is ensuring that the board has access to information as it pertains to pursuing purpose. This information should clearly articulate how purpose-led decisions translate into commitments, actions, and outcomes.

Boards recognize the information asymmetry that exists between the executives and themselves.



### 3.4 | CREATING TIME ON BOARD AGENDAS FOR CORPORATE PURPOSE

Boards recognize that they have the ultimate responsibility for governing purpose. They also understand that they need to construct agendas to allow the focus of discussions to be on the long-term positioning of the organization for strategic value as opposed to compliance with short-term issues. Board meeting agendas should be specifically designed to allow time to be spent on the alignment of purpose, strategy, and values for competitive advantage.

Doing this well will allow for time to be productively spent assessing the information that is available on the strategic nature and importance of purpose. Boards understand that this has two dimensions—protecting against the risks from misalignment between intent and actions as well as creating new value through stakeholder connectivity with a particular focus on customer preferences and talent management.

## 4. THE INVESTOR VIEW

### 4.1 | DEMONSTRATING THE VALUE OF CORPORATE PURPOSE

Investors would like boards to be clearer about the value of purpose, demonstrating how purpose is connected to, and enables, key organizational performance indicators. Without that clarity, investors will be skeptical, most likely concluding that purpose statements amount to little more than ‘greenwashing.’

Investors would like to see boards playing an active role in ensuring that purpose is well governed and that intent and actions are aligned. Investors will interpret the seriousness of the company’s purpose partly through a sense of how this joint ownership and articulation is constructed.

When articulating purpose, boards need to focus not just on the obvious broad statements around big societal issues, but also on how they are managing conflicts and deciding on capital allocation tradeoffs. Investors would like to see discussions around how the company is managing these decisions using its purpose as a guiding star.

### 4.2 | IDENTIFYING THE RIGHT METRICS

Investors place a high priority on the need to establish a set of comparable metrics against which purpose can be assessed. Investors noted that they are comfortable with company unique metrics if they are credible and clearly tied to purpose. They acknowledge that many organizations already do considerable work to capture and report the business impacts arising from purpose-led activity but argue that what is lacking is greater clarity on how they report this to investors in meaningful financial terms. Essential to these efforts will be the articulation of financial impacts across multiple time horizons and clarity on how the accounting of costs will match the delivery of returns.

## PURPOSE IN PRACTICE

### Understanding How Purpose Leads to Shareholder Returns

**9%**  
HIGHER TSR

**10%**  
HIGHER GROWTH

**41%**  
HIGHER PRESENT  
VALUE OF GROWTH  
OPERATIONS

BCG BrightHouse, a strategic advisor to the Enacting Purpose Initiative, claims that fully leveraged corporate purpose has tremendous impact. An articulated and activated purpose not only has a positive societal impact but also leads to improved culture, aligned people, accelerated growth, and stronger overall performance. More specifically:

**Organizations that elevate purpose also elevate performance.**

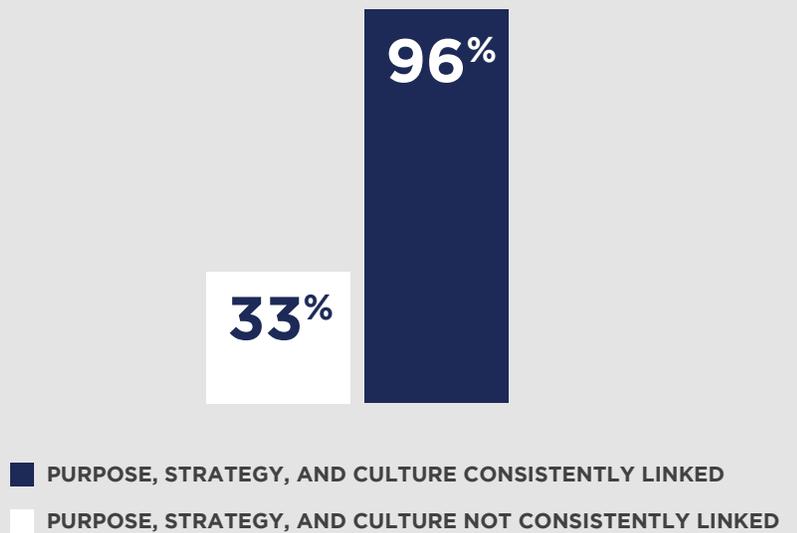
Over the next 15 years, organizations with a greater sense of purpose in the way they speak are expected to earn 9% higher Total Shareholder Return, 10% higher Growth, and 41% higher Present Value of Growth Operations.

Source: BCG Henderson Institute: “The Humanization of the Corporation”  
<https://www.bcg.com/en-us/publications/2018/humanization-corporation.aspx>

**Transformations succeed when Purpose, Strategy, and Culture are aligned.**

96% of companies show sustained performance improvement after a transformation when purpose, strategy, and culture are consistently aligned, whereas only 33% of companies show sustained improvement when they are not aligned.

Source: BCG, "The Head, Heart, and Hands of Transformation," <https://www.bcg.com/publications/2018/head-heart-hands-transformation>



Average employee retention



Average annual savings from manager turnover cost reduction

**Employees who find meaning in their work stick around longer, creating huge savings for their organizations.**

This boosts employee retention by an average of 7.4 months and cost savings from reduced manager turnover by an average of \$5.5M a year.

Source: BetterUp: "Meaning and Purpose at Work" <https://www.betterup.com/en-us/resources/reports/meaning-and-purpose-report>

“

Purpose enabled us not only to successfully navigate the pandemic but to ultimately thrive. Integrating purpose into our business and ESG strategy allows us to see trends in the marketplace and meet stakeholders where they are. Purpose resonates with so many and can operate like a magnet for talent.

”



**JIM LOREE**  
CEO,  
Stanley Black & Decker

### 4.3 | ALIGNING MANAGERIAL INCENTIVES WITH CORPORATE PURPOSE

Investors would like to see boards demonstrate specifically how long-term capital allocation policy and managerial incentives are aligned with, and informed by, purpose.

Investors are increasingly asking for regular evidence and disclosure around purpose-led decision-making, particularly on how purpose informs the allocation of capital toward corporate projects. Investors also want to understand the logic behind the inevitable tradeoff decisions. An example given was whether to maintain dividends while laying off employees or vice versa.

Alongside this is the alignment of managerial incentives. Put simply, investors state that if purpose is meaningful, it should be rewarded. Investors are increasingly engaged with organizations on remuneration models, and while this is welcomed, greater effort should be directed at specifically connecting stated purpose with senior managerial incentives. Investors expect boards to also have discussions with other critical stakeholders, such as government and civil society, to ensure that the incentives match what is required to fulfill its stated purpose.



### 4.4 | IMPROVING BOARD DIVERSITY

Investors would like to see an immediate and persistent step up in effort to improve diversity within the boardroom. Investors would like to see evidence that a wider group of backgrounds, experiences, expertise, and debate are being introduced into board discussions, as they regard this as critical to the long-term viability and performance of the organization. Being able to demonstrate this commitment will be an important signal to not only investors calling for this, but also broader stakeholders. Delivering on this, through the deliberate appointment of directors with the right skills as well as differing backgrounds and perspectives should enhance the quality of decisions made and will further the ability of organizations to deliver on stated purpose.

Some investors expressed the view that there were fundamental problems with corporate governance that needed to be addressed before companies could be authentic about purpose. In addition to diversity, issues raised were overboarding, how directors are selected, the time spent by directors, what this time is spent on, and the levels and structure of compensation.

## 4.5 | PROVIDING GREATER BOARD ACCESS

Investors would like more access to board directors, specifically being able to speak to individual directors who have skill sets in particular areas of interest. They would also like to be able to speak to directors without having management and staff interfering with excessive coaching.



## 5. THE COMMON GROUND

### 5.1 | TAKING OWNERSHIP OF CORPORATE PURPOSE

THE COMMON GROUND

**Directors should take a more active role in ensuring that the company’s purpose aligns with its strategy and values. Doing so will require them to “take ownership” of their role in corporate purpose and explicitly communicate to management and investors that corporate purpose is a priority for the board. One way that boards could do this is by incorporating purpose into the charters of several board committees.**

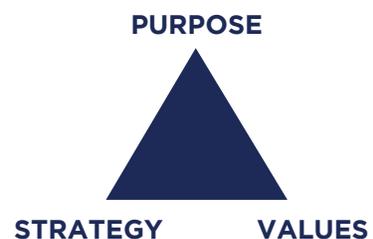
To leverage the full power of corporate purpose, directors should first embrace their unique role relative to that of CEOs. Members of the Investor Steering Group emphasized that directors should take a more active role in driving corporate purpose, and that many directors delegated that role to the CEO or executive management too often. Some directors, on the other hand, felt strongly that management, not the board, must own purpose. Given this tension, our discussions with investors and directors sought to find common ground by clarifying the role that an independent director, as opposed to the CEO or management, ought to play in advancing corporate purpose.

While some directors disagreed with the use of the word “own,” investors maintained that it connotes the sort of active board oversight that they expect from directors.

As we emphasized in our first report, responsibility for corporate purpose must be distributed throughout the organization. At the same time, it is imperative that directors take ownership of corporate purpose. That is because purpose must transcend CEO and management tenures, becoming a part of the board’s fiduciary duties to actively oversee business strategy as well as legal and business risk.

By using the word “own,” we are not suggesting that directors must always be responsible for defining the organization’s purpose. We acknowledge that the process by which each company defines, or redefines, its purpose varies greatly. At many companies, the purpose may already have been articulated by a founding CEO or rearticulated by their visionary successor. At other companies, the board and executives might co-create the company’s purpose with input from management, employees, and even external stakeholders. Regardless of how the company articulates its purpose, the board is ultimately responsible for continually assessing whether the company’s purpose is aligned with its strategy and values.

Many investors we spoke with also reiterated that they expect directors to do more than ensure compliance with legal mandates. We therefore put forward a triangle of responsibilities for the board intended to ensure the alignment of purpose, specific strategy choices, and embedded values (see right figure).



## PURPOSE IN PRACTICE

### Taking Ownership of Corporate Purpose

“

The board has to own corporate purpose because management comes and goes. While management often takes the lead because they are closest to the heartbeat of the company, ultimately the board has to own it.

”



**CLARENCE OTIS**  
Lead Director,  
Verizon Board of Directors

“

We know the pressures on management. The board’s role is to take a much longer-term view so that the executives do not get lost in the challenges of today. The board must ensure that there is a clear understanding of why the company exists and that corporate purpose remains the North Star.

”

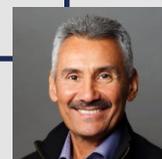


**DEIRDRE MAHLAN**  
Audit Committee Chair,  
Experian PLC

“

In my opinion, co-creation of corporate purpose between the board and management is the most powerful way to get a well-aligned purpose. One way to do this is to devote one day for the board and management to discuss their distinct roles in advancing corporate purpose...

”



**ZEIN ABDALLA**  
Director,  
Cognizant

“

Boards should embrace the company’s purpose and ensure its continuity as management teams and leaders change. Over decades, Boards have the opportunity to help evolve purpose as circumstances change.

”



**JIM LOREE**  
CEO,  
Stanley Black & Decker

## 5.2 | BEING PROPERLY INFORMED ABOUT CORPORATE PURPOSE

THE COMMON GROUND

Boards should ensure that they are informed about the impact of the company’s operations on stakeholders. That starts with ensuring that there is a diversity of backgrounds represented on the board. Boards should also construct their agendas to allow for time to be spent on the alignment of purpose, strategy, and values. Finally, boards should ensure that they are getting information from a diversity of perspectives. They can do so by asking management questions about how it is embedding purpose into its key strategic decisions as well as by periodically meeting directly with middle management and external stakeholders.

Many investors felt that directors are often not sufficiently informed about how the company is operationalizing its purpose. Directors also emphasized that crisis management and short-term pressures often prevent directors from staying informed about corporate purpose. The information asymmetry between senior executives and directors is a longstanding corporate governance problem. Given that management is responsible for implementing the corporate strategy on a day-to-day basis, it will always have an informational advantage over the board. We agree that the board should not be mired in the minutiae. Rather, the board needs to ensure that the company has a robust process in place for eliciting information from internal and external stakeholders so that it can consider whether the company is using purpose as its guiding star and guardrails. Our discussions uncovered three methods for enhancing the information flow to the board: 1. increasing board diversity; 2. creating time on the board’s agenda to discuss purpose; and 3. communicating with internal and external stakeholders.

## Method 1. Increase Board Diversity

There are many reasons why investors and other stakeholders have made board diversity a key priority, including ones that are fundamentally grounded in equality. One theme that emerged from our discussions with investors and directors is how diversity helps the board advance corporate purpose by improving its decision-making process. Our discussions repeatedly emphasized that a lack of board diversity often leads to ‘groupthink’ and impedes the boards’ ability to elicit and consider information from a wide range of stakeholders. A growing body of academic research supports the link between board diversity (or the board’s broader commitment to diversity) and sound risk oversight.<sup>19</sup> Diverse board members are more inclined to elicit and consider information that reflects the concerns and expectations of a diversifying workforce as well as consumers, investors, and other stakeholders.

Board diversity is even more important at a moment when racial justice is central to the global public debate. A diverse board is more likely to elicit information regarding how the company’s operations will advance or impede racial justice.

<sup>19</sup><https://www.sciencedirect.com/science/article/abs/pii/S0304405X17303215>; <https://corpgov.law.harvard.edu/2021/03/04/duty-and-diversity/> (arguing that the diversity, equity, and inclusion ‘DEI’ should be part of the board’s fiduciary duties because “DEI is necessary for businesses to avoid the severe reputational harm, legal risk, and other downside consequences of being perceived as not being a business committed to treating all Americans with respect.”)

## PURPOSE IN PRACTICE Increasing Board Diversity

“

Board diversity in all regards is critical to ensure our purpose is thoroughly considered from the perspective of all stakeholders.

”



**CHRISTINE DETRICK**  
Director,  
RGA

“

Board diversity is a governance issue; the more a board reflects its community, customers, and stakeholders, the better for the company’s governance.

”



**ROSE MARCARIO**  
Former CEO,  
Patagonia

## Method 2. Make Time on the Board's Agenda

Even for purpose-driven companies, many directors felt that short-term pressures had a tendency to eclipse board discussions about corporate purpose. To address this pitfall, directors identified practical steps they can take. Some companies designate a significant amount of time to discuss corporate purpose at board offsites. Others begin each board meeting with their company's purpose. While it may seem trivial, this technique helps to ensure that purpose continues to operate both as a guiding star and as a set of guardrails against the board's decisions.

Investors would like to see more active integration of purpose into board discussions. They noted that boards often become overwhelmed, both with the amount of information they have to process with dominating risk and regulatory compliance issues. They ask that boards devote a much larger part of the agenda to "steering" as opposed to "compliance," particularly over a longer-term horizon.



## PURPOSE IN PRACTICE

### Making Time on the Board's Agenda for Corporate Purpose

“

Some companies start every meeting with their Statement of Purpose to remind the board of why the company exists.

”



**CHRISTINE DETRICK**  
Director,  
RGA

“

Boards, just like shareholders, can really guide this. If the board doesn't want to talk about purpose, that's how the company is going to be guided. Giving directors not only license but a mandate to make purpose part of the discussion is critical. Adding specific time on the board's agenda and creating accountabilities for purpose are important components.

”



**BILL ROGERS**  
President & COO,  
Truist Financial Corporation

“

Our board carves out time annually at an offsite to do a much deeper dive into the core of the business, which includes a focus on corporate purpose.

”



**JOE RIGBY**  
Director,  
Dominion Energy

“

On one board that I serve on, we have leveraged our annual board survey to be more thoughtful about corporate purpose. We ask someone from the senior management team, such as the General Counsel or head of HR, to develop ten or more questions for the board to reflect upon. We then set up a board meeting during which we discuss and debate those questions.

”



**DR. DAVID SCHENKEIN**  
Board Chair,  
Agios Pharmaceuticals

### Method 3. Communicate with Stakeholders and Middle Management

As we noted above, boards must ensure that management has a robust process in place for gathering information from internal and external stakeholders as well as considering how that information is aligned with corporate purpose. In order to do so, directors should not rely exclusively on the CEO or executive management for their information. Rather, directors should pressure test the company's information-gathering processes by periodically meeting directly with key stakeholders and middle management.

Some directors we spoke with specifically asked for presentations from middle management at board meetings, for example. Others stressed the benefits of visiting key locations for business operations, such as factories or stores. The specific methods will vary by company and industry, but the important thing is that directors are not exclusively relying on the CEO or executive management for their information. Even when the source of the information is the CEO or executive management, the board can clearly articulate that it wants management to provide information relating to corporate purpose. Seeing as management's priorities are often dictated by what the board deems important, boards should not underestimate the value of inquiring about corporate purpose.

#### PURPOSE IN PRACTICE

##### Communicating with Stakeholders and Middle Management

“

Asking some of the unthinkable questions that are critically important is the responsibility of the board.

”



**ROBERT MALCOLM**  
Board Director,  
The Hershey Company

“

[Boards] have to enact a consequence when the purpose isn't being followed... the role of boards with purpose is to prod and gather information to adequately exercise their oversight function.

”



**JOE RIGBY**  
Director,  
Dominion Energy

## 5.3 | CONNECTING CORPORATE PURPOSE TO BOARD DECISION-MAKING

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THE COMMON GROUND

Boards are doing good work reporting on how purpose-led strategies deliver valuable societal outcomes through sustainability and ESG reports. Investors, however, would like to see more evidence of how purpose-led activities deliver shareholder value alongside societal value, and how this is rewarded. For example, more board discussion on how decision-making is driven by corporate purpose, including instances of where decisions have or have not been made as a result of such linkages and how managerial incentives are tied to these decisions. They also would like to see more standardization in how purposeful business translates into greater market capitalization, ideally with common methodologies being adopted across peer group organizations when it comes to capital allocation policies and returns targets.

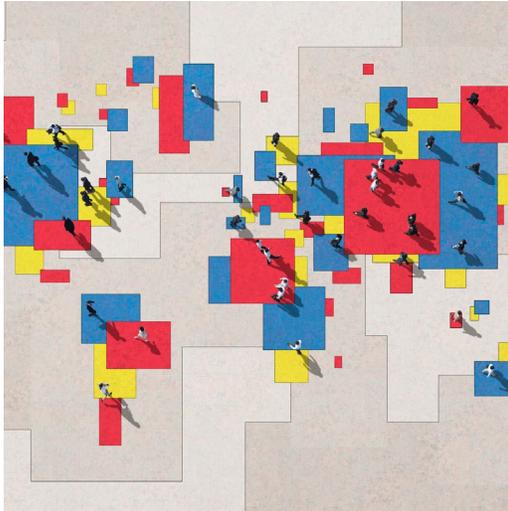
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In order to cultivate the power of purpose, boards must embed corporate purpose into key decisions. This can be accomplished by incorporating purpose into their strategies for executive compensation and capital allocation.



## Method 1. Link Executive Compensation to Corporate Purpose Metrics

Incentives matter. They drive individual behavior at all levels of every organization. Investors stressed that boards of directors have the responsibility to set and maintain the right incentive structures for executives.



As we have pointed out in the Enacting Purpose Initiative’s other reports, “[t]raditional methods of corporate performance measurement fail to account for the emerging phenomenon of purpose-based belief systems and managerial practices.”<sup>20</sup> These traditional methods instead measure assets and costs that the company has “ownership” of, such as physical production plants. Rather than viewing investments in social or environmental projects as assets (recognizing that these enhance a company’s brand and hence create value), traditional accounting deems them expenditures. The same is true for investments in the workforce.

Our first report detailed that, for the majority of management, financial metrics are most relevant to compensation and promotion. To effectively enact corporate purpose, however, the relevant metrics should reflect the organization’s success in delivering on its purpose. Thus, these financial metrics should be combined with others that account for the organization’s success in delivering benefits to stakeholders beyond its shareholders. Boards must treat these purpose-aligned metrics with the same importance as sales or returns metrics. Boards should also identify and publish the key metrics they use to inform their decisions. The specific metrics will depend upon industry. Internally, explicit purpose metrics should be at the forefront of executive appraisal and performance reviews. Recruitment should also ensure that new talent commits to corporate vision and purpose before any offer is formally made.

## ***Both directors and investors see an urgent need to actively link incentives to wider, purpose-led goals.***

As long as managerial incentives are tied to financial rather than purpose-aligned outcomes, it will be hard to see real progress in embedding purpose within business strategies.

Investors also tend to discredit an organization’s stated purpose that purportedly values stakeholders if its compensation strategy solely rewards financial goals and is tethered to short-term measures like quarterly earnings. For this reason, corporate boards of purpose-driven companies are increasingly aligning executive and board compensation with environmental metrics, such as carbon reduction goals, and social targets, such as diversity or workplace safety.<sup>21</sup>

<sup>20</sup>Source: EPI, Measuring Purpose – An Integrated Framework, <http://enactingpurpose.org/assets/measuring-purpose---an-integrated-framework.pdf>  
<sup>21</sup><https://hbr.org/2020/02/a-new-framework-for-executive-compensation>

## PURPOSE IN PRACTICE

### Linking Executive Compensation to Corporate Purpose Metrics

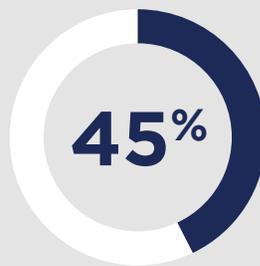
United Health Group’s short-term incentive plan aligns executive behavior with the interests of stakeholders by rewarding behavior that improves customer feedback measured by improved net promoter scores and employee engagement survey data. In its proxy statement, the company emphasizes that the teamwork metric “fosters company growth and performance, optimizes the use of enterprise-wide capabilities, drives efficiencies, and integrates products and services for the benefit of its customers and other stakeholders.”<sup>22</sup>

#### DIVERSITY TARGETS:

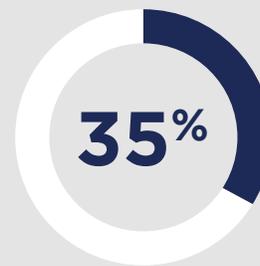
Set to be implemented through a five-year plan, Nike announced that it will be tying its executive compensation to diversity targets.



By 2025, the company aims to achieve 50% representation of women in its global corporate workforce...



and 45% representation of women in leadership positions—VP level and above.



It’s also targeting 35% representation of racial and ethnic minorities in its U.S. workforce by then.<sup>23</sup>

Nike’s transparency in reporting its metric percentages is notable. Other corporations set to begin linking executive compensation to DEI goals include Starbucks, Wells Fargo, and Uber.<sup>24</sup>

<sup>22</sup>United Health Group’s Proxy Statement: <https://www.sec.gov/Archives/edgar/data/731766/000104746919002425/a2238439zdef14a.htm>

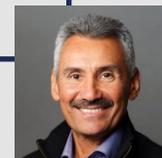
<sup>23</sup>See: <https://www.hrdive.com/news/compensation-dei-goals-diversity-execs-accountable-mercer/586238/>

<sup>24</sup>See: <https://www.hrdive.com/news/wells-fargo-diversity-executive-pay-incentives-performance-management/580110/>

“

One of the most important elements of the SCORE framework that boards must take accountability for is the reward mechanism...make sure the investors understand why that reward mechanism is in place because it is about sustainable long-term value creation for them.

”



**ZEIN ABDALLA**  
Director,  
Cognizant

“

When I write the introduction letter for the Compensation Report, I always start with purpose and strategy and their link to incentives and compensation. That’s what stakeholders are after, a clear articulation of how the board is translating purpose and strategy into a compensation framework.

”



**BRUCE BROWN**  
Board Member,  
Nokia and Glatfelter

“

We have made purpose-driven metrics a component of the score card for our CEO as well as the top executives. The score card includes: Human capital, retention, growth, how we are interacting with our partners, including other measures.

”



**VICKI ESCARRA**  
Director,  
DocuSign, Inc

“

A big part of this is to change the definition of success within the company. If the only celebration is the financial achievements, that is a red flag.

”



**JOHN BRYANT**  
Retired Chairman and CEO,  
Kellogg Company

## Method 2. Align Capital Allocation with Corporate Purpose

The International Corporate Governance Network (“ICGN”) recently defined capital allocation as:

“[t]he process of distributing an organization’s financial resources with a purpose of enhancing the firm’s long-term financial stability and value creation—while providing fair returns to providers of risk capital and showing proper regard to the needs of employees, customers, suppliers, and other stakeholders.”

When an organization’s capital allocation is inconsistent with its corporate purpose, it is a red flag for investors that the board does not take purpose seriously. The COVID-19 pandemic has exposed the fragility of many companies and sectors, concentrating investors’ focus on capital allocation decisions like share buybacks, dividends, leverage, and executive compensation. Investors are also paying attention to how companies address their responsibilities to protect workers’ health and safety during the pandemic, particularly in regard to paid sick leave, health and pension benefits, and training.

### PURPOSE IN PRACTICE

#### Aligning Capital Allocation with Corporate Purpose

“

When boards talk to us about purpose, what we always look for as investors is some sort of quantitative data to help us evaluate those statements. And I feel that’s often left out of the discussion.

”



**ROB WILSON**  
Investment Officer and  
Research Analyst,  
MFS Investment  
Management

“

In our case, the board discussed how our purpose ‘to save our home planet’ aligned with the capital allocations decisions we were making. If we were investing in new building infrastructure, for example, it had to have the lowest possible environmental impact, which in some cases meant our costs were higher.

”



**ROSE MARCARIO**  
Former CEO,  
Patagonia

3M provides a good example of a capital allocation policy that is aligned with corporate purpose. The Policy:

- 1** commits to sustained reinvestment in organic growth, most notably by allocating 5% and 6% of sales to CAPEX and R&D respectively;
- 2** reports 100+ years of paid dividends without interruption, expected to grow in line with earnings over time; and
- 3** maintains a minimum threshold for repurchases, based on relative value and influenced by other demands on capital.

Source: <https://investors.3m.com/about-3m/investor-overview/default.aspx>

## 5.4 | GOVERNING PURPOSE

THE COMMON GROUND

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**There is strong common ground on the need to distinguish between purpose and ESG measures and between purpose and stakeholder engagement. Clarity on these elements will create positive alignment and unlock benefits for investors and companies.**

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### **Method 1. Distinguish Purpose from ESG**

While purpose articulates why an organization exists, ESG represents that organization's environmental, social, and governance measures against which it is assessed by external parties.

First, ESG activities deserve sustained focus and interrogation to the extent that they explicitly address critical societal themes, like environmental degradation and employee treatment. Second, questions relating to ESG commitments have become the dominant focus of investor engagement, making them top of mind for boards and senior executive teams.

Boards and senior management need to align purpose with ESG criteria because they are the basis on which the firm is externally evaluated. Thus, purpose serves as a board's strategic guiding star, while its ESG requirements are one of the ways in which its performance will be assessed.

While it is true that purpose-driven companies must account for the impacts of their business on stakeholders, that process is conceptually distinct from corporate purpose.

## Method 2. Distinguish Purpose from Stakeholder Governance and Dialogue

As noted above, purpose-driven companies must account for the impacts of their business on stakeholders. To ensure their long-term sustainability and maintain their social license to operate, companies cannot limit considerations to shareholder benefit. Even shareholders agree that companies must build trust with their employees, customers, suppliers, local communities, NGOs, and regulators that their survival depends on. By doing so, they enhance shareholder value.

To that end, companies must be responsive to the needs of internal and external stakeholders. Stakeholder governance, also referred to as stakeholder dialogue, is the process by which companies incorporate stakeholder input into their strategy and decision-making. Although stakeholder governance is foundational to delivering on corporate purpose, it is conceptually distinct in that corporate purpose seeks to articulate the reasons why a corporation exists in the first place.

### PURPOSE IN PRACTICE

#### Distinguishing Purpose from Stakeholder Governance and Dialogue

Patagonia clearly sets forth why it exists by stating that “We are in business to save our home planet.”

To deliver on that purpose, Patagonia has established a robust stakeholder governance process in which it actively solicits stakeholder feedback through an ongoing dialogue with employees, NGOs, local communities, suppliers, and policymakers.

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[To engage employees,] the process we used at Patagonia was a detailed survey performed each year by a third party to ensure consistency and arms length from senior management...The survey ranked management on how they were performing in all areas related to the company’s stated values, not related to financial metrics. This annual scoring was used as a tool by the board to set direction for the management team to address the concerns of the organization when it came to company values and how they were being executed by the leadership team.

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**ROSE MARCARIO**  
Former CEO,  
Patagonia

“

The board at Patagonia was comprised of members who understood the environmental movement and were well versed in the nuances of these topics... With respect to carbon, we used the Scope 1-3 framework to guide actions on our footprint and other tools such as the UN Sustainability Goals and the Planetary Boundaries. The executives also held a Footprint Council meeting monthly that addressed supply chain issues, which included social and environmental goals across the company; this team provided updates and brought key decisions to the board.

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The best thing an individual consumer can do to curb their personal environmental footprint is to keep the products they own in use longer. When we sold a product to a customer, because of our purpose, our relationship did not end at the completion of the sale. While the cost of repairing products could be considered prohibitive in a strict financial analysis and some of our product teams felt the secondary market would compete with new products, we were guided by our values to find a responsible solution to repairing and reselling our product. What first began as a repair department became a resale business, as well, to offset the cost of repair and turn a profit.

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**ROSE MARCARIO**

Former CEO,  
Patagonia

### **Method 3. Recognize the Need for Different Governance at Different Stages of the Corporate Purpose Journey**

There are stages to a corporation's 'journey' when it comes to purpose. Some organizations have been working on articulating and aligning purpose-led business models for many years, others are at a much earlier stage in this process, and some might even be just starting out. Investors and boards agree that these differences should be recognized, and that they might require different approaches to governance and a different set of expectations around what can be achieved within different timeframes. Working collaboratively, investors and boards can share emerging best practices, providing explicit guidance for early stage, mid stage, and late stage purpose companies. In crafting these guidelines, questions to consider relate to stakeholder prioritization, evolving metrics, and internal ownership and governance options, such as purpose oversight committees.

### **Method 4. Adopt the SCORE Framework**

A consistent theme of our discussions with directors and investors was their shared appreciation for the intrinsic value of corporate purpose. Both directors and investors repeatedly noted that purpose-driven companies are more resilient and better able to deliver long-term value to stakeholders, including shareholders. While the "how" is not yet clearly defined, the "why" is not disputed.

Harnessing the power of purpose starts with the board. Our first report set forth a governance framework, the SCORE framework, which included five elements for how directors can embed corporate purpose into board governance:

- 1 SIMPLIFY** Articulations of corporate purpose must be sufficiently simple, precise, and persuasive for all stakeholders—including the entire workforce and wider supply chain—to understand.
- 2 CONNECT** Corporate purpose initiatives must drive strategy and capital allocation decisions at the board level in order to affect substantive change.
- 3 OWN** Boards should establish appropriate structures, control systems, and processes for enacting corporate purpose initiatives.
- 4 REWARD** Boards should define performance metrics that evaluate how the organization delivers on its purpose and align incentives and awards by promoting purposeful behavior.
- 5 EXEMPLIFY** It is incumbent upon boards and executives to bring corporate purpose to life through vivid communication and narrative strategies to foster a sense of shared identity.

The SCORE framework has been well received by investors and boards as well as by regulators and other stakeholders. Therefore, we reiterate that advocating again for its adoption by boards as a simple governance framework. As this becomes more widely adopted, investors will be able to assess organizations across peer group sectors and more widely.

## 5.5 | COMMUNICATING WITH INVESTORS

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THE COMMON GROUND

There is common ground that directors should increase both the volume and quality of communication with investors on corporate purpose. Various recommendations emerge from the EPI discussions, including the option of publishing a ‘Statement of Purpose’ signed off by the board that reflects both purpose intent and how it is governed and a more proactive approach to investor communication and interaction.

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Our interviews identified a rich stream of insights into how directors can more effectively communicate with investors on corporate purpose. For one thing, investors want to hear directly from directors on how the board is incorporating corporate purpose into its decision-making processes. Directors are also keen to engage more directly with investors through discussions more explicitly related to corporate purpose.

In North America, most large, publicly listed companies specify in their corporate governance guidelines that one of the duties of the independent chair, or lead independent director, is to communicate with major investors. However, the robustness and proactivity of how this duty is executed varies greatly. In order to meet investors’ desire for more robust engagement with directors about business purpose, investors had several recommendations, which we detail below.



## Method 1. Publish a Statement of Purpose

Our interviews with directors and investors revealed that many directors conflate disclosure on specific ESG or sustainability goals—such as carbon reduction or diversity—with disclosure of how the board actively oversees and validates corporate purpose. The two must remain conceptually distinct. Sustainability or ESG disclosure undoubtedly provides investors with material information, and the board should ensure that the organization’s ESG disclosure is accurate and robust. **But what investors seek from directors for corporate purpose disclosure is assurance that:**

- 1** the board understands the organization’s purpose;
- 2** the board has ensured that management has sufficient systems in place to advance that purpose;
- 3** management and the board continually receive and consider stakeholder input when making decisions; and
- 4** boards evaluate their firm performance against its purpose.

In this regard, the information that investors seek resembles a “Section 172 statement” in the U.K., which now requires boards to issue a statement describing how the board oversees the impact of its decisions on stakeholders. In the U.K., unlike in the U.S., Section 172 of the corporate code explicitly requires directors to consider:

- a** | “The likely consequences of any decision in the long term,
- b** | The interests of the organization’s employees,
- c** | The need to foster the organization’s business relationships with suppliers, customers and others,
- d** | The impact of the organization’s operations on the community and the environment,
- e** | The desirability of the organization maintaining a reputation for high standards of business conduct, and
- f** | The need to act fairly as between members of the organization.”

Despite Section 172’s enactment in 2006, U.K. companies are required, as of 2019, to disclose how the board of directors monitors the organization’s impact on stakeholders. While no corresponding legal mandate to issue such a statement exists in the U.S.,

***The Section 172 requirements emulate the type of information that the investors we interviewed are seeking.***

Drawing inspiration from and building upon the Section 172 statement—which does not explicitly refer to corporate purpose—one effective strategy for boards to better address investor expectations is publishing a concise Statement of Purpose. Each organization’s Statement of Purpose would be unique and provide details, in a narrative, about the organization’s purpose and how the board is ensuring that it is enacted.

**The Statement of Purpose could address the following topics:**

- 1** | The organization's purpose;
- 2** | How the board measures the company's resource allocation and performance against its purpose;
- 3** | How the board aligns its management oversight, including incentive structures, to advance the organization's purpose;
- 4** | How the organization's purpose acts as a guiding star and a guardrail to help the board make key strategic decisions;
- 5** | The organization's key stakeholders, including its investors;
- 6** | The organization's strategy for seeking regular input from key stakeholders;
- 7** | How the board receives information from stakeholders, either directly or through management or external advisors or intermediaries;
- 8** | The issues and factors that are most important to the organization's stakeholders;
- 9** | How the board uses information from stakeholders to advance its purpose; and
- 10** | How the board has taken the impact on key stakeholders into account when making key decisions or weighing trade-offs.

While there is unanimous support for clarity of articulation, we recognize that there is also some disagreement over whether any Statement of Purpose should be issued as a separate statement or form part of the regular annual operating review. The important point that both directors and investors did agree on was the need for any such statement to be backed up by clear governance and actions/accountability.



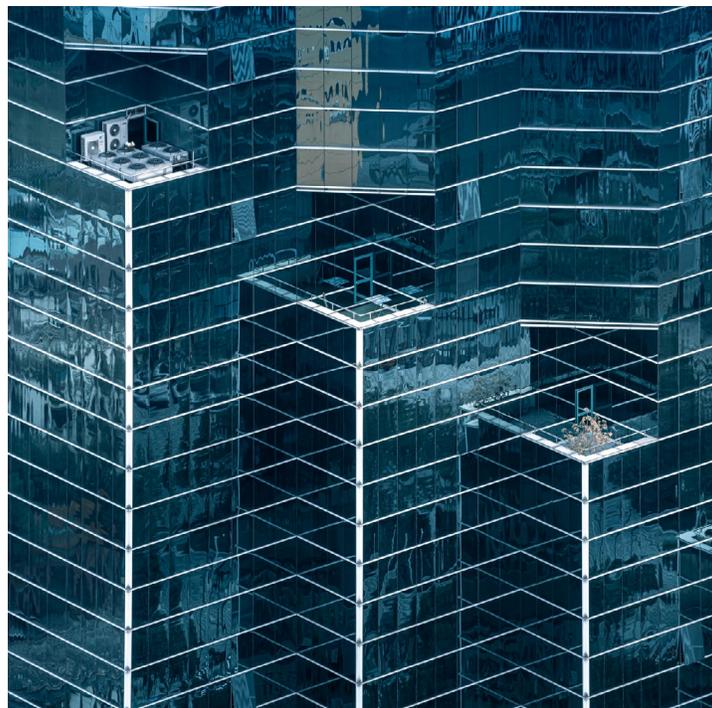
## Method 2. Create Engagement Opportunities for Board Members and Investors

Investors find meetings with directors extremely valuable to ascertain. In a more direct and nuanced way, investors value the board's view of the company's purpose, how clear it is, whether this view is aligned with how management implements it, and how the board is overseeing and measuring corporate purpose. While the board members we interviewed regularly met with investors, they are in the minority. Many investors expressed frustration that some companies still refuse to provide investors with the ability to meet with board members. At the risk of stating the obvious, investors who cannot meet with directors to discuss corporate purpose will infer that those directors are not engaged in or actively overseeing purpose.

We appreciate that companies need to manage the demands of investors for the opportunity to engage, and many now organize investor days to specifically address these issues. There is also a need to ensure that such discussions do not stray into material non-public information. Within these boundaries, however, there is room for expanding the dialogue beyond quarterly earning calls that typically focus only on the needs of analysts who inform trading decisions, rather than those of long-term shareholders.

As noted above, the topics outlined in the Statement of Purpose provide directors with a useful framework for engaging with investors on long-term and sustainable value creation.

One particularly effective way for directors to demonstrate to investors that they are meaningfully engaged in corporate purpose is to describe how their engagement has helped the board navigate trade-offs with stakeholders over time as well as how it has made the organization more resilient during times of crisis.



## 6. THE ENACTING PURPOSE INITIATIVE

**T**he Enacting Purpose Initiative (“EPI”) is a multi-institution partnership between the University of Oxford, the University of California Berkeley, BCG BrightHouse, EOS at Federated Hermes, and the British Academy. It aims to research and report on emerging global best practices around the implementation of corporate purpose within organizations.

The EPI published its first report, *Enacting Purpose Within the Modern Corporation, A Framework for Boards of Directors*, in August 2020. That report captured the insights from over 30 corporate directors in companies headquartered in the EU and provided definitional clarity around purpose, mission, values, and vision. That report introduced a new governance model for enacting purpose, SCORE, which has been welcomed by boards, investors, and regulators for its clarity and applicability. This second report captures the insights of over 30 board directors from companies headquartered in North America as well as over 35 global asset owners and investors and builds upon the first report.

We aim to develop these insights through a wider set of discussions between organizations, investors, and other stakeholders in a series of events during 2021 and beyond.

We are extremely grateful to participants involved in this initiative, who have been generous with their time, energy, and insights.



## 7. ACKNOWLEDGEMENTS

The insights in this report are informed by extensive dialogue with over 35 board members in the Director Steering Group and over 30 global investors and asset owners and managers in the Investor Steering Group. The Director Steering Group represents over 29 companies across at least 17 industries with a majority of the companies being listed on the S&P500 and Russell 5000. Further, the investor group represents over \$13 trillion in assets under management.

We are grateful to every member of these steering groups for their insights, engagement, and the generosity of their time.

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## RESEARCH TEAM MEMBERS

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The work referenced in this report draws on insights from a number of people involved in this initiative. In particular, Amelia Miazad from the University of California at Berkeley and our partners from the Saïd Business School at the University of Oxford including Robert G. Eccles, Colin Mayer, Judith Stroehle, and Rupert Younger. Additionally, we were supported by Anne Simpson from CalPERS and Gage Giunta and Tim Youmans from EOS at Federated Hermes.

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