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The Purposeful Company Taskforce
Intrinsic Purpose Definition

The Purposeful Company Steering Group

Defining Intrinsic Purpose

1. Why define intrinsic purpose?

The Purposeful Company has developed a definition of intrinsic purpose with Blueprint for Better Business and Tomorrow's Company to set out a shared goal around the definition and promotion of purpose in business. The new FRC Code is insisting for the first time that companies establish their purpose and that Boards make very explicit the choice they are making about for what their company exists to deliver and for whom.

With the newly revised U.K. Corporate Governance Code the way is open for business to use the guidance as a radical call to arms for more responsible business. This means CEOs and Chairs using it to set new standards inspired by the evidence marshalled by The Purposeful Company that companies with a strong stakeholder orientation organised around a shared purpose deliver higher value in the longer term. The alternative is that the Code just becomes business as usual and an exercise in reputation management. The Code used in this way will just fuel the clamour to re-shape business by external force if it cannot reform itself for the benefit of society. We should not underestimate this risk.

2. A change in behaviour or a change in law?

It may well prove that a failure to be ambitious with the Code will result in a change to company law. But there is a danger that this will miss the point too. For too long, it has been assumed that the current law requires directors to maximise short-term shareholder value. It does not. Even the default framing of s. 172 requires that directors promote the success of the company for the benefit of shareholders as a whole, having regard to the impact of decisions over the long-term and stakeholders' interests - but crucially leaves it open for companies to define precisely what this means.

Moreover, the little advertised s. 172 (2) allows companies to define purpose other than for the benefit of shareholders, so within the current law much more flexibility exists than is commonly thought. The requirement for companies to be explicit about purpose and how it will hear the voices of material stakeholders, particularly employees, is, therefore, a radical step forward. Some clarification of the law may well be useful but why wait for a rule change when the current law is already permissive?

Profit is not the purpose of a company, profit is one outcome of identifying and pursuing a purpose that benefits society

A shared *Why?*
The role of business is to fulfil human wants and needs and to pursue a purpose that has a clear benefit to society. It is through the fulfilment of their chosen purpose that value is created.

A shared *How*?
Leaders in a company should put its purpose first and seek investors who are equally committed to pursue it and thereby achieve long-term, sustainable value. Investors and boards should recognise that making competitive returns for shareholders is essential to a company's success - but is not its purpose.

3. What are the implications for boards?

A statement of business purpose captures what a company does and why it does it. The notion of intrinsic purpose is key to this statement since it speaks to the motivation that informs how the business behaves both directly through its operations and indirectly within society. Business depends on a series of relationships that span people across multiple organisations, so purpose can be a unifying narrative that focuses on the end benefit provided to society. As such it contributes to a culture of collaboration through relationships within and across businesses in pursuit of the common good.

This means an explicit recognition of the need for companies to make products that transform customers' lives for the better, to provide employees with a healthy and enriching workplace and to preserve the environment for future generations. It means acknowledging the responsibilities business has within society and a recognition that the entire investment chain has a role in enabling a longer-term perspective to be taken with key stakeholders treated fairly in decision making.

The benefits of the intrinsic motivation of purpose are the unleashing of human creativity and innovation to contribute to human betterment. It also provides a language to discuss difficult trade-offs for all those operating right across the value-chain: from asset owners all the way through to company supply chains. This is achieved not through mere adherence to rules and contracts but rather through relationships that inspire the human desire to move beyond self-interest to the creation of something better for mutual benefit. It also makes clear that a fundamental shift is underway from seeing business as existing to maximise short-term returns to shareholders. We are recovering the idea that business exists to pursue a purpose that benefits society and that it is by doing that well that it creates sustainable long-term value, with profit and returns to investors being a vital and necessary outcome. After all, any successful business depends on a recurrent income stream, which will best and most reliably happen if the goods and services provided are meeting human needs. If sufficient value is not being created for stakeholders then the first place to look is whether the company's purpose is being pursued properly and stakeholder relationships are strong and contributing to success.

The consequences of this shift are fundamental and will lead to changes in the ecosystem within which business operates and to how businesses are structured, run and measured. It will also result in a shift in thinking, so decisions can become increasingly informed by the needs of the ultimate beneficiaries of investment returns rather than the needs of intermediaries who hold the shares. In being guided by purpose, companies will be required to think through the balance between short-term financial returns, longer-term value creation and the social and environmental impact of the business.

Managers in a company should put its purpose first and seek investors who are equally committed to pursue it to achieve long-term, sustainable value. Investors and boards should recognise that making competitive returns for shareholders is essential to a company's success - but is not its purpose.

Creating conditions for success in the U.K. will require policy changes across the investment chain such as in investment mandates, incentives and forms of engagement with ultimate beneficiaries. Through this process, the connection between business and society will be re-built. Over time, intrinsic purpose will also be seen as a catalyst for new business models, modes of collaboration and increased innovation, drawing on the deep reserves of human motivation and creativity.

Appendix – A ‘worked example’ for boards

Definitions often come to life through examples of what they mean in practice so below is a summary of how the concept of intrinsic purpose can inform a board’s thinking around the recent requirement in the UK Corporate Governance Code to give stakeholders – particularly employees – a voice.

The easy temptation is to view the requirement to give stakeholders voice as stating the obvious – a bit of repackaging and smarter communication is all that’s needed. This would be a grave error. The public, still sceptical after the financial crisis, can tell when they are being spun a line. Attitudes, particularly amongst the young, are shifting decisively and unquestioning political support for a free and open business environment can no longer be taken for granted.

In this context the new Code’s focus on purpose should be seen as a radical call to arms. Companies that have, rather than just talk about, a clear purpose that benefits society also add more value over time. They invest in innovation, foster open cultures and develop sustainable relationships with key stakeholders.

So what is required of boards? They should spend the most time reflecting on what the Code describes as “Board Leadership and Company Purpose”. The board is required to establish the company’s purpose and to ensure its values, strategy, and culture are aligned with it. They should ensure effective engagement with, and participation from, stakeholders. Workforce policies and practices, including reward, should be consistent with the company’s values and the fruit of genuine dialogue with employees.

Boards can choose whether they are going to ‘do the minimum’ or if they have already moved beyond that, they could reaffirm the importance of creating value for all stakeholders and report on how they are doing that. The risk, however, is that when push comes to shove it will be back to short-term profit maximisation with the shareholders being the only intended beneficiaries. Worse, this mercantile approach to other relationships can erode the very value of the intangible assets the business is seeking to create as stakeholders realise that they are being used to benefit the only stakeholders the company really cares about – its shareholders.

This approach, of considering stakeholders only when it favours shareholders, has allowed business and society to be portrayed as a them-and-us trade-off. This is a false dichotomy. Sustainable business exists to serve the needs of society and sustainable value comes from fulfilling these needs. But this is too often forgotten in the chase for short-term returns. Rather than making money without harming society, the purposeful business serves society and thereby makes money as one outcome.

The intrinsic motivation of purpose can be hugely beneficial in unleashing human creativity, motivation and innovation and provide clarity to otherwise difficult trade-offs for managers. It builds confidence in those outside of the enterprise who are more likely to ‘lean in’ and contribute to what they see as a shared endeavour.

There are of course risks as well as benefits. Intrinsic purpose should not be a license for financial ill-discipline, suppressing returns to shareholders and reducing the flow of capital to these companies. Nor should it become a cynical image management tool. Both of these risks need board attention. So how is this managed in practice?

Take employees. Three options are described in the Code: designating a non-executive director to oversee workforce engagement, appointing an employee onto the Board or setting up a consultative forum. Just adopting one of these though and changing nothing else would be like signing on for a gym membership but then never showing up for exercise or paying attention to what you eat.

Boards need to consider three things – mindset, mechanics and metrics

A mindset based on 'managing' employee feedback, for instance, will get very different results to one based on giving employees a real voice. There is also a need for checks and balances. Mis-selling to customers in the financial sector proved that customers were treated as a tradable commodity rather than stakeholders where there is a covenant relationship to be honoured. The same issues can easily exist with employees. After all, how employees are heard is a proxy for how other important voices will be considered (customers, suppliers, communities, investors and investment beneficiaries).

As profound is the need to understand the trade-offs involved in running the business consistent with clear covenants with material stakeholders. At the very least there has to be a mechanism for real dialogue to take place, with boards willing to adapt based on feedback. The fundamental question is whether the business is genuinely trying to enhance value for all stakeholders or just optimising a single dimension – short-term shareholder value? The metrics must capture this new truth.

This may be a quiet revolution, but its impact will resonate throughout UK PLC. The boards that own this change and raise standards will be doing far more to create long-term value than short-term box tickers. In doing so they will also revitalise business as a force for good that not only has the ear of the public but their active support.

The Purposeful Company Steering Group

This Task Force is co-chaired by Clare Chapman and Will Hutton and is led by a Steering Group and supported by a wide group of contributors. Other Steering Group members are:

- Alex Edmans, Professor of Finance at London Business School
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Cross Industry Collaboration

This definition of intrinsic purpose was developed in collaboration between the Purposeful Company Steering Group, Blueprint for Better Business and Tomorrow's Company. We'd like to thank the following people for working with us on this definition:

- Charles Wookey, CEO, Blueprint for Better Business
- Loughlin Hickey, Founding Trustee and senior advisor, Blueprint for Better Business
- Mark Goyder, Founder, Tomorrow's Company
- Norman Pickavance, CEO, Tomorrow's Company

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