



The Purpose *Tapes*

Purpose driven leaders in their own words

May 2021





The Purposeful Company was launched in 2015. A consortium of leading FTSE companies, investment houses, business schools, business consultancy firms and policy makers, it has been examining how the governance and capital markets environment in the UK could be enhanced to support the development of value generating companies, acting with purpose to the long-term benefit of all stakeholders.

The Steering Group, co-chaired by Clare Chapman and Will Hutton, oversees its work. Members of the Steering Group act in their personal capacity, and their views may not be taken to represent the views of their organisation. Equally the conclusions and recommendations that the Steering Group draw from its work, this report included, are ours and not every specific proposal or comment should be taken to represent the views of each of our interviewees or our task force members, although they do support our overarching principles and aims.

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Purpose driven leaders in their own words

The Purpose Tapes are interviews (conducted between November 2020 and March 2021) with fourteen organisational leaders who have a stated commitment to purpose.

Here are their purpose statements:

Barclays, CEO, Jes Staley

“We deploy finance responsibly to support people and businesses, acting with empathy and integrity, championing innovation and sustainability, for the common good and the long term.”

Capita, CEO, Jon Lewis

“We are driven by our purpose: to create better outcomes – for our employees, clients and customers, suppliers and partners, investors, and society.”

EY, UK Chair and UK&I Regional Managing Partner, Hywel Ball

“our purpose is building a better working world. The insights and quality services we provide help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all our stakeholders.”

Federated Hermes, CEO, Saker Nusseibeh

“we help people retire better.”

Fidelity International, CEO, Anne Richards

“helping people to build better financial futures.”

Hogan Lovells, Global Managing Partner for Diversity & Inclusion and Responsible Business, Susan Bright

“working with our stakeholders and society with the objective of using the law to build a better world.”

IFM, CEO, David Neal

“to protect and grow the retirement savings of working people.”

Infosys Ltd, President, Mohit Joshi

“to navigate your next.”

National Grid, CEO, John Pettigrew

“to bring energy to life.”

NHS England, CEO, Sir Simon Stevens

“high quality health for all, now and for future generations.”

NatWest, CEO, Alison Rose

“to champion the potential of people, families and businesses.”

PwC, Senior Partner, Kevin Ellis

“to build trust in society and solve important problems. In an increasingly complex world, we help intricate systems function, adapt and evolve so they can benefit communities and society – whether they are capital markets, tax systems or the economic systems within which business and society exist.”

Severn Trent, CEO, Liv Garfield

“to serve our customers and communities. This drives our vision to be the most trusted water company by 2020 and every year thereafter.”

Unilever, CEO, Alan Jope

“to make sustainable living commonplace.”

Introduction

The Purposeful Company was established in 2015 with the encouragement and support of the Bank of England to promote the proposition that *“profit is the outcome of identifying and pursuing a purpose that benefits society”*. This rather than profit is a company’s purpose.

Over the last six years our reports have helped create an evidence base that has influenced policymakers, regulators and business itself. Purpose in business is becoming more widely adopted and practised. This is part of the called-for “reset” of capitalism intensified by a sense in civil society and business alike that whether inequality, levelling up, diversity or climate change, business should play its part – intensified by business’s own experience of the financial and Covid-19 crises.

Business needs the trust of the societies in which it trades and putting purpose at the core of a business is seen increasingly not only as critical to managing the claims and interests of varying stakeholders, energising workforces and investors alike, but indispensable in earning a licence to operate. It is the best means to determine corporate strategy.

Thus the new Corporate Governance Code invites signatory companies to declare their purpose, an innovation introduced partly as a result of evidence marshalled by The Purposeful Company. Nearly nine out of ten quoted companies now do so. Our evidence also influenced the new Stewardship Code. However, the concept that purpose should be the source of a company’s strategy and profits is still young and turning it into policy and actions even younger. So,

- how do self-proclaimed purpose-led businesses understand and implement their purpose?
- how does it influence the way they approach staff, customers, supply chains, shareholders and wider society – indeed the way they shape their business model? Does it make good sense for their business and for shareholders?
- to what extent did they deploy purpose to navigate the Covid-19 pandemic?

- what are the blockers to purpose going beyond a statement of good intent actually to being lived and more widely adopted?

With **The Purpose Tapes** study we wanted to understand what motivated organisational leaders to put purpose at the heart of their organisations, and what they believed they were getting in return.

This is not a study that aims conclusively to prove the beneficial impact of purpose on performance or to offer a fail-safe guide on how to make a company purposeful. We are aware that there are “halo effects” from studying companies that have self-identified as being purposeful. Instead, this is an exploration of these leaders’ thinking, insights, challenges and resulting strategies as they choose to portray them. As such it will provide important triggers for reflection and potential action, including undertaking further research and marshalling evidence, rather than to provide scientific conclusions.

But it has been an engrossing and inspiring undertaking. These women and men employ approaching two million people and three of them are responsible for the investment management of nearly one trillion pounds. They all insist on the primacy of purpose while confronting varying challenges to their business models – just as the extent of their success in meeting them will vary. Yet purpose is their compass. Now is the time, as we emerge from the pandemic and plot a way forward, to gather the views of those who direct purposeful organisations into one report. Here, in their own words, is how they understand purpose.

The Purposeful Company Steering Group

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Preamble – *why purpose?*

The interviewees for **The Purpose Tapes** were united. Purpose is beginning to move into the mainstream as an over-arching value, informing business decision-making.

Hywel Ball, UK Chair of EY, captured the shared sense of a changing zeitgeist: *“we’re moving into the age of purpose-led organisations”*.

Anne Richards, CEO of investment managers Fidelity International, sees it in these terms:

“We are at a certain moment with a certain generation of leaders. I have never seen the corporate C-suite so receptive to the notion of purpose and that broader sense of societal responsibility. Why? You have battle scarred CEOs and shareholders who have gone through the two crises – the financial and Covid crises – and really feel that broader

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societal responsibility. Everybody has suddenly realised that their business doesn’t exist in isolation. It depends on a whole network of support. And with that realisation has come an understanding that if you do rely on that hidden support when times are good, you also have a certain duty and responsibility back. It’s not a one-way contract with society.”

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Every leader we interviewed emphasised the same themes to a greater or lesser degree; purpose is fundamental to generating the best functioning organisational culture and supporting values, the glue both holding a complex organisation together and animating staff, and the best compass for framing how decisions should be taken.

Crucially it means that shareholders become only one key stakeholder amongst others – employees, customers and wider societal obligations – all of whose interests have to be balanced in the pursuit of the over-arching purpose, but in so doing driving long term value creation. There may be trade-offs in the short term between a purpose-led business and delivering for shareholders, but in the long run stakeholder and shareholder value are inextricably linked.

Hywel Ball sums up the position thus:

“If your strategy delivers, and I mean truly delivers stakeholder value, then your operations will be successful and sustainable and you will get long term returns for your financial stakeholders whether shareholders or partners. Purpose is the catalyst – and the accelerator for the strategy that aims to deliver stakeholder value. And without purpose you lose the North Star that sets a clear direction.”

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Of course, there are difficult judgement calls, but **Alan Jope, Unilever’s CEO**, offers this unequivocal interpretation:

“There is a view there is a trade-off – that somehow or other it costs you to run your business on a sustainable or responsible footing. And we believe nothing could be further from the truth. As CEO you’re the architect of

Preamble – why purpose?

the multi stakeholder model. By looking after your people, your customers, your impact on society and your impact on the planet, worrying about the impact you have on your community – when you take care of those things, the shareholder will be better rewarded as a result. Every single day of my working life I get faced with a question which is rooted in a wrong paradigm: it is either ESG/sustainable business/purpose/responsible conduct or financial delivery. And I couldn't disagree more. It is not purpose or profit. It's purpose as a pathway to better profits."

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Mohit Joshi, President of Infosys Ltd (who speaks in a personal capacity) reinforces the point:

"When you have those really difficult decisions to make, if you have a purpose statement it gives you that frame – to know in what direction the result should be. There really isn't a conflict. Around ten years ago we set up large wastewater recycling and solar plants in all our campuses. We invested very heavily in training. But we didn't really see this as a conflict. Yes, some analysts and competitors said that building these campuses and investing in protecting the environment were wasteful, giant white elephants. But it allowed us to be aspirational as an employer and to present a very positive picture to clients. Even before green became fashionable (I hate to say it), clients were seeing what we were doing and were very complimentary because it fitted in with what they were trying to do. Now, it's become critical, so I don't think there's anything other than a very short-term conflict. In the long run there is no conflict: nobody can argue that doing the right thing should not drive your business. Purpose is the single most important ingredient to success."

Kevin Ellis senior partner of PwC and **Jes Staley CEO of Barclays** emphasise the role of purpose in driving a strong culture. **Kevin Ellis** says:

"You can invent what you like and recruit who you like but the only long-term advantage is the strength of your culture. Purpose is a key effective building plank in that. Purpose, culture and values fit well together. And that helps the company perform better, have better people and have better people better engaged. It is a unifying thing for everyone who works for us."

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Jes Staley frames the argument in these terms:

"If you embrace the notion of purpose you have to believe that doing the right thing across the board, or as much as you can, is clearly in the long-term interest of the firm. So, I don't think purpose is sustainable if the leadership of a firm that wants to be driven by purpose doesn't see that purpose as ultimately being the most viable pathway for the strength of an institution. So, Barclays doesn't make anything. What we sell is judgement. The only capital of this bank is intellectual capital – the judgement of the people in this bank using their intellect to the benefit of our customers. We are a better institution than the one down the street only if we have people who are smart and show judgement. Purpose brings to you people that have quality judgement – the single biggest asset of the bank. So that is how purpose connects with the long-term success of the bank."

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Preamble – *why purpose?*

Liv Garfield, CEO of Severn Trent,

concur on how purpose differentiates her company's culture, but also highlights how it offers a compass to decision making. Severn Trent is necessarily a heavy user of energy through intensive pumping and cleaning of water, yet its purpose requires it to be at the forefront of committing to carbon neutrality. Last year its board backed the management in launching a £1.2 billion environmental investment package to deliver carbon neutrality by 2030, in particular enlisting wetlands and a commitment to biodiversity to achieve its targets. **Garfield** takes up the story:

"It was a massive commitment to the future of the organisation – the second largest investment of its type ever made in the UK. It was complex. There are interweaving ambitions on net zero, biodiversity, pollution, future capital contracting strategy, how you play a future exit strategy on chemicals, using wetlands and nature to serve you and so create a circular economy. There is no perfect answer given the complexity: we had to scenario build rather than give an answer. It needed bravery to take the plunge – purpose both helped set the question and the answer. Our purpose committed us to be an environmental leader, not just in our sector but across the piece. Equally the line that determined our financial path was set by purpose."

In a very different industry, **Susan Bright, Global Managing Partner for Diversity & Inclusion and Responsible Business** of top international law firm **Hogan Lovells** says exactly the same thing:

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Sir Simon Stevens, CEO NHS England,

believes the NHS's clarity of purpose has been vividly demonstrated over the Covid pandemic and now the task is to see that response "bottled".

"Under the most extreme test the Health Service has ever faced, it has risen to that remarkably. Necessity has driven change and the questioning of accumulated ways of working in order to deliver care to a third of a million very severely ill hospitalised coronavirus patients successfully. The question for us is not: do we have a clear purpose? The question is how do we bottle and sustain the extraordinary response we've seen to the pandemic for the next phase of the Health Service's development?"

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The necessity of deploying purpose to drive forward organisational energy is echoed in the private sector. **Anne Richards** argues that purpose delivers essential clarity:

"Unless you have clarity of purpose in anything that you do, you are a gate blowing in a breeze. So purpose starts with that clarity. If you can't articulate why you're here and what it is that you're trying to do very concisely, then you don't know what you're trying to do. You don't get in a car and just drive off randomly because you've decided you want to go and

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visit anywhere. You go because you understand where it is you're trying to go. It's through its clarity of purpose that a business can then think about how it generates a valuable profit from that."

She continues: "clarity of purpose leads you to identify something which is of value to society (or a part of society) depending on what it is that you're trying to do – you then justifiably receive and retain profit. You don't start with: we want to try and make some money – how is it we go about doing it? Rather it should and must be: here is something of value which we can create – a gap or a need that we can plug and from that legitimately then, you have the right to earn a profit on that activity; and that's the way round that it comes, I don't want to diminish the importance of financial rewards. I think it spurs people and enterprises to great ingenuity and allows us to imagine new ways of doing things which are of immense benefit to society. My point is that profit is not the starting point. It's an outcome."

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Alison Rose, CEO of NatWest, sums up:

"if you're really serious about creating an organisation that is going to create and have value over the long term, then you have to create a purpose driven organisation. An organisation for whom people are going to want to aspire to work because people want meaning in their lives and they have choices where they want to work. An organisation with whom customers choose to have a relationship because they have multiple choices that they can make. The footprint large organisations leave is massive and you'll be judged by that footprint; and if your impact is for good, then it will create value. That is the case for purpose."

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But as a number of the CEOs acknowledged, while the purpose proposition is moving mainstream it is not yet fully established – facing challenges both theoretically and from varying business, financial and shareholder interests who are compelled – or choose – to organise themselves wholly around the pursuit of profit. Even within purposeful companies, as we shall see, there is a difference of emphasis about the degree to which there are short-term trade-offs. However, there is common agreement that in the long run purpose and shareholder value are aligned. This is an ongoing debate and discussion.

Finding, doing, *living* purpose

There is an itch to depict business efforts at doing the right thing as a form of window dressing. Commitments to purpose are sometimes portrayed as but a contemporary rehash of corporate social responsibility, chairs and CEOs making pious commitments to community, publishing glossy brochures and hoping that contributions to good causes – sometimes even blessed by royalty – will allow them to get on with the real business: sweating assets, focusing on the next quarter and engineering whatever deal to please the City.

As **Liv Garfield** says:

“there are companies where purpose is a bit of marketing... I see that sometimes.”

But it was impossible to interview these particular men and women without being impressed by their commitment – and their demonstration that their belief in purpose was matched by deeds.

Here is **Jon Lewis, CEO of Capita**.

“We have undertaken a range of initiatives to show that I was authentic and committed to purpose. We put employees on the Board. We signed up to the Fair Tax Mark, one of only I think eight or nine FTSEs that are currently signed up as of November. We signed up to Julian Richer’s Good Business Charter. We completely realigned our charitable giving to align with our purpose for the stakeholders we serve. We put a lot of emphasis on teaching digital skills for the underprivileged in society. We went from being the worst in the eyes of the Federation of Small Business in terms of prompt payment to being one of the best. I could go on...

... the point I’m trying to make here is as soon as you commit to being purpose-led, you’ve

got to send a message to all stakeholders that you’re deadly serious; and the most effective way of doing that is enacting deeds; and that we do and will continue to do. We’ve made decisions around contracts we would not bid upon because we did not believe they were aligned with our purpose. Again, make your commitment to being purpose-led abundantly apparent to all of your stakeholders”.

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Sir Simon Stevens identifies the NHS’s purpose as *“high quality health for all, now and for future generations”*. It underpins *“a shared sense of mission and common endeavour”*, but in parallel with purpose-led private sector organisations it is also a North Star for strategic decision making, recently most conspicuously in the roll out of Britain’s vaccine programme, who was prioritised and why:

“Take a practical topical example of the Covid vaccination programme. As well as expanding vaccination rapidly, we’ve also been seeking to do it in a way that is equitable. That has meant starting with the highest risk groups and being quite precise about the phasing of the vaccine roll out and being deliberate in looking at the differential uptake by different communities – whether those were in deprived parts of the country or amongst some vaccination minority communities. That commitment to equity as well as to excellence is being played out through the 25 million people who’ve been vaccinated in the last 100 days or so. So yes, purpose is a North Star that guides what we’re seeking to do.”

Finding, doing, *living purpose*

Federated Hermes is an investment management company, managing £80 billion of assets and advising on as much again, whose purpose is “we help people retire better”. It may be a very different organisation to the NHS, but CEO Saker Nusseibeh is no less committed to purpose. Like Capita’s Jon Lewis, he sees being purpose-led as both about what you do – and what you don’t do. Thus “to retire better” is not only to have a good income in retirement, it is to live in a good society. The NHS incorporates its purpose in a constitution. Federated Hermes captures its purpose in a public pledge:

Saker Nusseibeh:

“Our pledge is not about making money. Our pledge is about helping people retire better. Our pledge is about being open with the regulator. Our pledge is about being inclusive. Our pledge is about advocating for the environment. Our pledge is about treating everybody in a better way. What that has meant in this period of growth is we’ve created an environment where people like to work.

For our investors what that means is when you retire you do not want to live in a society where global temperatures are 2 degrees or 3 degrees higher than today or there are massive social ruptures, because that is not retirement – that is living in a fortress. So, we should take that into account when we invest your money.”

Hence the priorities the firm attaches to investing in companies committed to sustainability and the totality of environmental, societal and governance goals (ESG). But alongside the positive actions, the pledge is also a guide to what Hermes will not do; “we will not hire people who may be technically excellent but who don’t believe in the values that we believe in. In 2009

I inherited a commodities business which was incredibly profitable for us. But we weren’t engaging and advocating with the companies – we were simply buying futures in commodities and making money for the sake of making money. So we said we don’t want to do this. We can go and play in Vegas – it’s more fun! So there are things we don’t do. And there are people we don’t hire. There are businesses we don’t enter.”

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Some of the companies – like Unilever or PwC – have had an organising purpose for more than a century and know its value. Others have determined on adopting purpose only recently. **John Pettigrew, the incoming CEO of the National Grid**, decided to take the leap with some trepidation. How would an organisation of hard-headed engineers react to discussions about purpose and values? Very well, it turned out:

“To be honest, I started this exercise with a sense of trepidation – standing up in a town hall with a couple of hundred sceptical engineers asking what is it that drives you; tell me what your purpose is – your connection to the organisation. They’ve seen every manager come and go; they’re going to challenge my thinking. But I was delighted. We just struck a nerve about the pride that they have in what they do. And then articulating it in a way they can be proud of.

It was a process. The short cut is that the words we came up with were: ‘to bring energy to life’. Beyond that, we also looked at what values are important to the organisation. We had the classic ones of integrity, trust, honesty – the good things that most corporates have. But

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they didn't really resonate with me personally – not because they're bad words, but because I wanted something that was more specific to what I and the organisation stood for. So again another process which evolved to a few, very simple values: do the right thing, find a better way and make it happen.

So that led to our Responsible Business Charter – an articulation of what we believe a purpose-led responsible business stands for and thus what we stand for. The intent was to set out our ambition, our commitments and then to report on them so we could be held to account. What gets measured is what gets done. And we'll take it from there if you like. It's what we think purpose means to us."

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John Pettigrew brings to life a dimension of business, again emphasised in different ways by all the interviewees, that should not need to be said: the precondition for effective profitable business is people, their feelings, motivations and relationships. It could be no other way.

The purpose of IFM – an Australian based asset management group – is *"to protect and grow the retirement savings of working people"*. It is a purpose that reflects IFM's ownership by 26 Australian pension funds who operate on an *"all-profits-to-members"* or mutual basis. IFM also invests on behalf of another nearly 500 pension funds from around the world. Citing people in the company's purpose statement, says **CEO David Neal**, grounds the culture – it makes it more egalitarian, more long term, more team and socially oriented and even impacts on how people are paid.

"We have grown to be one of the largest infrastructure managers in the world and that scale allows us to have influence as owners or part owners of the utilities, roads, airports, seaports and other assets in which we invest. So if you want to protect and grow the retirement savings of working people then the focus of your investment approach has to be on the long term. Our shareholder pension funds reinforce the message that IFM does not exist to simply gather as many assets as possible by launching new funds. We're all working people, so it's a leveller: you're not working here enriching an elite or a rich shareholder. You're focused on a mass benefit to society.

We have talented staff, who perhaps could make more money elsewhere in the investment world, but they are here because they believe in what IFM does. I don't want to make us sound like saints wandering around. These are seriously hardnosed investment professionals, making at times quite aggressive investment decisions but they need to be fair and just, in line with our long-term purpose. Our owners and investors insist on this investment culture: staff are motivated and driven by our culture to work over a different long-time horizon, and so weigh things differently in their decisions."

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Alan Jope comments that William Lever who founded Lever Brothers back in the 1880s (one of the companies that merged to form Unilever) then defined the firm's mission, *"to make cleanliness commonplace and lessen the load for women"*.

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So at that time he was an advocate of public health. Now, with “the forceful advocacy” of his predecessor Paul Polman, the nineteenth century concern to promote public health has transmuted into the commitment “to making sustainable living commonplace”. It is the same foundational philosophy but in a contemporary guise, relevant in 21st century terms.

So even firms with long standing purpose statements need to revisit them: the original foundational philosophy stands, but it needs to be made relevant.

Similarly at Infosys Ltd. The purpose statement from the 1990s is “to be a globally respected corporation that provides best-of-breed business solutions, leveraging technology, delivered by best-in-class people”. But as **Mohit Joshi** says:

“I don’t think it fully captures the multi-dimensional manner in which we need to operate our business these days – for example now you need to be doing so much more from an environmental, social and governance perspective. If you put everything in the purpose statement it’s just going to become either too long or just too generic. We needed a restatement. The new tag line has become ‘navigate the next’, helping our clients deal with digital disruption. We did this about 3 years ago and it was very timely. Digital – data, digital experience, cyber security, the public cloud, the internet of things – was roughly 21/22% of our revenue. Now it is half of our revenue which is why we moved on to navigate your next.”

Kevin Ellis also reduces the long PwC purpose statement to a pithier statement:

“When I’m talking to our people and the stakeholders, I always say our purpose is to build trust in society and solve complex

problems. The longer statement goes into more detail: we’re a very intricate, complex, diverse business and it encompasses everything we do. Whether the short or the long statement, purpose informs our choice of clients, the scope of the work we’ll do and how we interact with our stakeholders and our people. And that leads to deeds.

So we produced our gender pay gap, our ethnicity pay gap and this year we added to

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it our black pay gap and obviously racial pay gap. We’ve always been more transparent. We did it on the median and the mean and we got some uncomfortable headlines. But, at the end of the day, only by shining a light on things and being transparent can you build trust. And our purpose does work. It’s stood the test of time and actually if I’m honest with you we talk about it more in the boardroom as well as in the media and to our people than we’ve ever done before.”

Hywel Ball is Ellis’s counterpart at EY:

“Big organisations”, he says, are like “super-tankers which have their own momentum”. Your purpose expresses itself in the discretionary investment decisions you take to steer the super-tanker and enact your strategy – “to give those signals to those who sail in it.”

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He continues: *"We believe there are four areas of disruption impacting the UK where EY can deploy its expertise and relationships to try and make a tangible difference – using our convening power to promote Britain's global trade, drawing on our international connectivity as a global firm; climate; building a fairer, more equitable Britain; and technology. Choosing to focus this way is driven by our purpose, by the desire to have an impact as an organisation, but also to give our people the opportunity to work with clients and other stakeholders to solve challenging problems."*

It is a sentiment echoed by **Liv Garfield**, who lives the tension as a PLC wanting to demonstrate a commitment to maximum profitability but as a purposeful company in the water business wanting consumers to use less of the product, especially at peak times, so reducing revenues and profits. She opts for her purpose.

"We are a water company – so on the one hand we want people to use water, but at the same time we want them to be able to use it responsibly. We have actively to manage this balance. We would far rather you use less of our product in order to save water, but it is quite expensive to create less demand for water. We have to educate people on water usage and on how to save water. The tension is that we would make more money if customers use a bit more water when there is peak demand, but equally is there more money to make if in the long term there is water scarcity, which we are exacerbating? Our purpose means we must take the long-term view by not wanting to make that extra revenue."

She cites another example: *"it can be cheaper to treat wastewater through capital investment rather than build a wetland – but a wetland is plainly the better environmental*

choice. So if your purpose requires you to be an environmental leader, there is only one choice however expensive."

Alison Rose believes that inevitably there are tough calls and short-term trade-offs, but purpose offers the best compass to make them.

"I always point out purpose is not about the easy decisions. There are short-term trade-offs. I've made one recently. I've decided to exit our Irish business, because that is not going to drive long term sustainable value for our

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shareholders. However, that does mean I'm exiting a market which will have impact on customers and colleagues. How I do it is going to be driven by my purpose. So I've taken the tough decision to protect shareholder value by exiting, but by doing as much as possible to protect communities and customers at the same time, I am informed by purpose. It's not about the easy choices: it's about the tough ones and the trade-offs. But you don't lose focus through managing trade-offs, because you embed it into your strategy: it gives the organisation an absolute laser like focus on what it means to deliver across a multiple lens – particularly in banking where you're very relationship led and need interconnected values to create durable relationships. More widely our staff engagement and customer engagement scores have gone up. And my income has been protected. So, we have evidence we are successfully managing those trade-offs. Over the long term it creates long term value."

"How I do it is going to be driven by my purpose."

Finding, doing, *living purpose*

Moreover short-term expense in today's climate can pay off surprisingly quickly. There is real and tangible advantage to pursuing purpose. **Alan Jope** spells out Unilever's experience.

"The commercial value of purpose shows up in our brands, in our operations, in our extended value chain and our impact in society. Brands today, to have relevance, have to be talking about things that matter to people, especially young people – and that is very much social and environmental impact. We've now got about 60% of our turnover coming from brands that talk about and take action on purpose. And those brands typically are growing 70% faster than the rest of the portfolio. In other words, all of our growth is coming from those brands. And we have set quite a high bar to judge ourselves. So, the only reason why Dove can talk about girls' self-esteem is because we've talked to about 40 million girls one-to-one about unrealistic images of body type. The only reason why Domestos can talk about the right for everyone to have access to decent sanitation is because we have given 30 million access to a toilet. The only reason why Lifebuoy can talk about saving the lives of kids under the age of 5 from preventable illness is because we've taught 1 billion people how to wash their hands properly. The only reason why Hellmann's can talk about food waste is because they're really taking action to stop food waste. I can give you twenty more examples from our portfolio. The brands that are taking those actions and then talking about it are just more relevant to young consumers."

"We've now got about 60% of our turnover coming from brands that talk about and take action on purpose. And those brands typically are growing 70% faster than the rest of the portfolio."

Placing Unilever's operations on a sustainable footing has saved 1.8 billion euros. On top, he says, *"the company has a strong advocacy effort trying to change policy, trying to work across sectors, using Unilever's scale as a force for good – ranging from climate change to social equity. We think purpose is absolutely core to remaining relevant in the future – and deliver tangible commercial benefit."*

Jon Lewis at Capita describes how Capita playing its part in promoting more employment opportunities for prison leavers not only conforms to its purpose – it is commercially advantageous.

"Clearly if we can demonstrate to 50% of our client base – the government – that we have superior purpose-led, responsible business, social value credentials than our competitors – say by helping prison leavers to find work – then that will help us win business from Government. And that's a lovely virtuous circle in some ways, because we are being supported through contract awards to do more purpose-led, responsible, social values activities."

There is also the salutary experience of working in a business that has lost its purpose – perhaps as important a motivation as all the positive ones listed above. **Alison Rose**.

"I started in Nat West as a graduate. I've spent my career here. So I was in the bank when we went through the financial crisis and wear the scars that probably cast the longest shadow over me of anything. That is what happens when an organisation becomes singularly focused and forgets why it's there. So what is your purpose; what value do you add? And the damage you do when you lose that focus – how quickly reputations can be destroyed, how quickly your relevance

“So I was in the bank when we went through the financial crisis and wear the scars that probably cast the longest shadow over me of anything. That is what happens when an organisation becomes singularly focused and forgets why it’s there.”

in people’s lives can be destroyed. Your responsibility as a large systemic organisation goes beyond the walls of just transactional: you have to be relationship driven, recognising the impact that you have. if you’re not a safe and secure partner you’re not going to be there in the worst moments of the lives of your customers – in fact, you’re part of the problem. So I made a positive choice to stay; to be part of rebuilding the bank around a genuine reaffirmation of its purpose.”

So if that is the case for purpose in more general terms, how about the particular – relationships with staff?

Purpose and people

The purpose-led businesses were unanimous that one of the great advantages of adopting and living your purpose was its impact on their staff.

Susan Bright is eloquent.

"I don't think it's do-goodery. It's all joined up. The things that matter – creating an inclusive workplace, what you pay and how you treat people, how you deal with wellbeing, the work that you do with your clients (for many of whom this agenda is massively important), the work that you do in society and in your communities – they are all connected.

Working for a major international law firm is incredibly challenging and very demanding. Do you want people to be all in and believe in what they're doing? Of course – but people tend to be more all in and believe in what they're doing where they think they're having an overall positive impact. Hence the importance of purpose. It's what gets you out of bed in the morning!

“...people tend to be more all in and believe in what they're doing where they think they're having an overall positive impact.”

So one of the things that we do, right from the get-go for our lawyers who join us, is to have a training programme (the HL BaSE legal learning hub) which helps them to understand business concepts and social impact. Everybody goes through the programme, so for example, they learn about our commitment to the UN sustainable development goals, and they start to think about those concepts in terms of how we advise our clients. Part of the programme is to advise a social enterprise: it helps people to think differently, understand the concepts and talk the language of our clients, not of all

our clients of course, but language which an increasing number of our corporate clients are talking.

We have identity circles, a forum over Zoom at the moment, where people talk to a theme. We did one around race, another on mental wellbeing, even one on suicide. Pretty challenging subjects. People shared stories of depression that involved hospitalisation and dealing with family members who made suicide attempts. So really, really deeply personal stories.

Somebody gave me feedback following one of these sessions. 'Blimey! I can't believe I've been on a call in the workplace where people were able to share those sorts of stories, their impact on them and how they work.' Does that help you to be a business with purpose? I think it does. Where people can share that experience and create those sorts of relationships you're going to work together, give more of yourself and feel valued. It's about building that sort of culture.”

Sir Simon Stevens is emphatic that the NHS's well-understood purpose is a foundational pull in attracting and motivating NHS staff:

“Definitely! The mission of the Health Service is not only relevant to what we do on a daily basis, but it's also one of the reasons why people want to come and work and support the work of the Health Service. The last 12 months during the Covid pandemic the Health Service has been under the most intense pressure in its seventy-two year history. At the same time, that has provided a window for the country into some of the acute pressures on NHS staff and services. As a result we have seen a massive upsurge in interest, on the part of young people and indeed mid-career people, in joining the nursing profession. And applications to undergraduate medicine to become doctors are at record levels.

“The mission of the Health Service is not only relevant to what we do on a daily basis, but it’s also one of the reasons why people want to come and work and support the work of the Health Service.”

We’ve seen more than a million patients across the country volunteering to participate in clinical research and trials over the last year. The resulting clinical research done in the NHS to discover new improved therapies for Covid-19 has helped save over a million lives across the world. Volunteers are also supporting vaccination clinics across the country, and that too is a response and contribution to the mission of the National Health Service. So, yes, our animating purpose promotes our effectiveness.”

For **Hywel Ball** at EY the Covid-19 crisis also showed the worth of purpose – crystallizing what decisions the partnership made over what work it would do and which would make most difference – and had a dramatic impact on staff.

“I’ll use the crisis as an example. We helped the military and the NHS effectively project manage the establishment of some of the Nightingale Hospitals. We did some fantastic videos of what the teams were doing. So at the height of the pandemic we won an extraordinary emotional response from our staff about the work we at EY – a big professional services firm – were doing for the national good. The response – the pride that resonated through the organisation and whenever you talked to anyone – far outweighed the relatively small commercial benefit and scale of reputational risks we were running if it went wrong. That’s where you know you’re getting the purpose right, doing things because they are the right thing to do and living your purpose.”

Stories like these abound. **Jon Lewis**, for example, like John Pettigrew, arrived at Capita’s purpose statement through a huge exercise of talking to and engaging his staff “across the transept of the organisation” – challenging and educating them about the role of purpose – and letting them come back with suggestions. But he has gone beyond that and put two employees on his board as full board members, with one sitting on the company’s audit committee and another on the remuneration committee. Some shareholders took umbrage, voting against the proposal on the grounds it would compromise the principal of independence.

“I would argue that why wouldn’t you want an employee director on the Audit Committee? The Audit Committee remains independent, as the majority of its members are independent non-executive directors. It is chaired by an independent chair, a very strong one in our case. The employee directors give insights to the Audit Committee about what’s going on in the organisation that the head of Audit might not otherwise realise. I think next time around, the shareholders in question will almost certainly vote in support, because their concern was independence and they can see the value of how it has worked.

And as for compensation, you get into the whole perverseness of executive compensation in the Anglo-Saxon world. It’s out of control. It’s good to have employees on your remuneration board who understand the pros and cons of what is appropriate to incentivise CEOs whilst at the same time keeping an appropriate balance between the multiple of the medium

“It’s good to have employees on your remuneration board who understand the pros and cons of what is appropriate to incentivise CEOs.”

Purpose and people

salary in the company and the CEO. I think we have just massively over complicated executive compensation. Many of the CEOs I engage with, the John Petitgreys, the Alan Jopes etc of this world, of course want to be paid well, but it's not our primary driver. For all of them I suggest the primary driver is reputation."

Five years ago the Purposeful Company published its first report marshalling the evidence relating purpose-led business to performance, in particular staff engagement; see [The Purposeful Company Interim Report](#).

What you have read – and in the rest of the report to follow – is more grist to the mill.

Purpose and the pandemic

And then the Covid-19 pandemic. It is striking that every company interviewed in the Purpose Tapes had decided at the outset of the crisis unilaterally to suspend any threat of redundancies, and also to step up engagement with potential mental health issues.

Here is **Kevin Ellis**.

“So right at the very start we thought the biggest problem is uncertainty. We didn’t know in March how long we were going to be in lockdown, even whether the Wi-Fi would work.

“So right at the very start we thought the biggest problem is uncertainty.”

We just didn’t know how it would all work. We did know that people had children at home and possible mental health issues as well. So we took a view right at the very start that we would come out and publicly tell our people their jobs were safe. We were not going to use furlough and we would do everything we could to avoid redundancies. And we would keep them informed as we went along. And we’d work from home.

“We did know that people had children at home and possible mental health issues as well. So we took a view right at the very start that we would come out and publicly tell our people their jobs were safe.”

We used the internal media channels as well as the external media channels. Because everyone – all our 22,000 people and their families – were worried. We were in a situation that you could see the fear effectively impact not only in productivity but people’s mental wellbeing. So we were very public on that front.

With an average age of 31 we have had a lot of mental health challenges in this lockdown. We’ve got a lot of people living in places where they don’t want to be. And therefore reaching out to them regularly and connecting with them over a conversation about resilience, mental health, about the US elections or Brexit has been important to help their resilience. We try and do as much together to make people feel they belong. Which is really important.

The feedback from that was significant. People were very positive with lots of thanks. We can’t have any certainty about the illness, but what we can do is tell you: don’t worry about your job and your pay cheque is there. Immediately we had the opportunity to re-open the offices, we did surveys with our people. Overwhelmingly, people wanted the opportunity to use the office. They weren’t necessarily going to come in but they needed somewhere else to go; people were working from positions they didn’t want to work from. They were lonely and in some cases they were struggling with Wi-Fi and productivity – or just needed company.

What was really interesting were the results from our regular pulse engagement surveys. We’ve already got a very engaged workforce – regularly we get about 73% engagement. But during this time, it went up to over 90% being positive about how we’d helped them through Covid. So I think the visible leadership, both externally and internally and giving people confidence and comfort was good. And then when the business came back, productivity went back at the end of the day and we were able to pay people their bonuses and do the promotion round.”

Purpose and the pandemic

Liv Garfield's commitment to purpose allowed her to be similarly forceful:

"By having a social purpose, by having broad conversations about it, we had our commitments codified and public. So, for example, we had an ESG day on 6th March, just weeks before Covid and lockdown hit, where we laid out a huge amount of commitments on the environment, society and governance and asked to be judged against them. It has been brilliant. We could say to our investors and to all our stakeholders what our commitments were. So when Covid happened we had it codified. It was easy to make really good decisions. No furloughing. No government support. No redundancies. We will still pay people the same money and give a bonus. That wasn't hard because the purposeful road map was already built in. Other companies took ages to come out with their Covid answers because it wasn't really built in the same way."

"...when Covid happened we had it codified. It was easy to make really good decisions. No furloughing. No government support. No redundancies. We will still pay people the same money and give a bonus. That wasn't hard because the purposeful road map was already built in."

Jes Staley at Barclays was also fast moving, and like the others had an immediate weather eye on his staff.

"When the crisis hit, we created a Crisis Team that would meet two or three times a day and immediately identified three priorities that were critical to this bank, that reflected our purpose and values. One – financial integrity. Two – to be part of the solution not the problem as

banks were in the financial crisis. Three – to offer maximum assurance to our staff.

"...three priorities that were critical to this bank, that reflected our purpose and values. One – financial integrity. Two – to be part of the solution not the problem as banks were in the financial crisis. Three – to offer maximum assurance to our staff."

Banks are by their nature leveraged. We have lots of assets and lots of liabilities. And managing the quality of those assets and liabilities is critically important. Our primary obligation is to sustain our financial integrity and the reality of financial strength – only thus can a bank contribute to customers, clients, communities and employees

The second one, the banks were in many ways the catalyst for the financial and economic crisis of 2008 and 2009, and in many cases had to be bailed out by governments. That was politically toxic, particularly given how banks were rewarding themselves. And banks came out of that economic financial crisis with a pretty dark reputation amongst the broader public.

So this time round our second priority was to commit ourselves, particularly in the UK, to partner with the government where we can. And then work with our customers and small businesses, particularly those that are financially challenged or vulnerable. And do the right thing, using the financial strength of the bank to be seen as a partner in dealing with the pandemic and hopefully participating in the recovery of the British global economy.

Purpose and the pandemic

This encompassed all the way from taking our own decisions to waive 100 million pounds worth of interest charges and banking fees for small businesses and consumers that were struggling, managing £25 billion of UK government programmes for large companies that employ a lot of people in the UK, to the whole Bounce Back Loan Programme for small businesses – pushing through the natural bureaucracy of the banks to deliver this funding to the economy as quickly as we possibly could, hopefully to manage the horrible impact of the pandemic. We put together a £100 million charitable foundation essentially to direct money to charities that were focused primarily on the vulnerable being impacted by Covid 19.

And keeping our branches open. The branch near where I live serves 3 hospitals. Our branch employees were heroic, keeping these branches open during the pandemic with all of the footfall, despite the personal challenges that many of them will have faced. That has been an extraordinary demonstration of the character of many of the people that work at Barclays.

The third priority was our employees. So, again, to go back to that financial strength, that allowed us literally in a 3 minute conversation between myself and Tristram Roberts, Head of HR, to suspend any redundancy programmes for 6 months.”

For **Jon Lewis** at Capita his priority was again his staff:

“When we set up our pandemic planning committee in February, priority number one was the wellbeing of colleagues. If we had healthy colleagues then we would have business continuity, we would be able to continue to serve our clients and therefore we would have continuity of revenue. They’re not isolated facts or issues – they are all part of a continuum. We had 85% of our workforce working from

home just weeks after the first lockdown began. And we put in place extraordinarily stringent mechanisms to prevent the spread of Covid. We went beyond government guidelines. As a result our Covid death rate has been 19.3 per 100,000 – not a hundred plus which is the norm in most larger populations across the UK. I am convinced that is because we told people to work from home which we did first and foremost because we were concerned about the wellbeing of our colleagues.”

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At the National Grid, it was the same story. **John Pettigrew:**

“When the pandemic struck we immediately told staff that they wouldn’t be furloughed or made redundant. It took away the risk of feeling uncertain on the basis that uncertainty creates a distraction. And distraction can result in mistakes. There was a cost to that.”

Similarly at Fidelity, **Anne Richards:**

“Covid for us became – look after our people as well as we possibly can in order that they can look after our customers as well as they possibly can. And that was front and centre of the whole of the last 12 months.

“Covid for us became – look after our people as well as we possibly can in order that they can look after our customers as well as they possibly can.”

Purpose and the pandemic

We introduced thank you days for people to just try and make sure they understood that we understood how much extra time people in the organisation had been putting in. So we gave them extra leave. We're trying catch up days to reduce Zoom fatigue – days where we just switch off Zoom for the entirety of the business. No formal meetings. And all the fun stuff as well. We've tried to be very people led in our approach. Because it's been a long haul – a very long haul.”

And at Infosys Ltd, **Mohil Joshi**:

“There was never any discussion about doing large scale layoffs. Even though towards the end of March and early April we honestly thought our revenue was going to fall off a cliff. And we've continued to hire through the pandemic. I think the focus on employees has also meant that during this Covid era we've been very focused on making sure employees are not just productive but they're healthier. There's been a huge focus on hiring additional help for employees who need support for mental health issues. So again, 'navigate your next' has helped us keep the focus on digital. And the long-term focus on employees has helped us make decisions about not letting anybody go, helped us make decisions about the focus on the long-term health investment in employees.”

“There's been a huge focus on hiring additional help for employees who need support for mental health issues.”

Over at Hogan Lovells a similar reaction.

Susan Bright:

“We had people who were out of the office not working during the first lockdown but we did not claim any furlough money because that didn't feel right to us, because as an organisation we could afford to pay people

while they were not working; and so we did. That was a decision if you like which was driven by our values. We also have kitchens in central London which are largely unused while our people are working remotely. So we set up a partnership with our caterers, Bartlett Mitchell and with a couple of charities whereby we're cooking 2,500 lunches every week in our kitchens, soup largely. These are then being shared out through the Felix Project and through Food For All. So feeding really hungry people in London.”

At IFM. “Covid-19 has illuminated how our purpose guides our approach”, says **David Neal**.

“For example we own third of Manchester Airports Group (Manchester/Stansted/East Midlands) – a pretty calamitous environment in terms of air traffic basically stopping, going to zero and staying there for a while. From the perspective of long-term returns, we are focused on enhancing the value of the airports over twenty years not 12 months. So working closely with trade unions, and the local councils with whom we jointly own the airports, we have injected equity into the business. It would have been value destroying to do anything else. There have been redundancies, but fewer than at our peers.”

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Purpose and the pandemic

UK unemployment in the round over 2020/21 grew by less than many feared when the pandemic struck, the first lockdown was announced and output subsequently collapsed with the largest ever one year fall for three centuries. In part this was because of the furlough scheme and in part because many companies – notably, but not only, the purpose-led companies we interviewed – took the view that looking after staff during an unprecedented crisis, in particular suspending redundancies and going out of their way to sustain staff morale, was simply right for all the reasons our interviewees highlighted. Yet their unanimity on this question is still striking.

Purpose and society

The death of George Floyd and sudden prominence of Black Lives Matter took almost everyone off guard – publicly, within their own organisations and even within families. **Hywel Ball** recalls debating with his sons and saying that he was no racist.

“Eventually, the penny dropped that that was not sufficient. You had to be anti-racist. It was a powerful realisation. And then witnessing the response in my organisation to Black Lives Matter and unpicking the micro aggressions some colleagues experience was a big moment. You could see the societal change that’s coming. If us old people can’t harness purpose to help deliver that change then we’ll lose societal cohesion.”

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The impact was felt across all the organisations interviewed. The challenge to their preconceptions was severe, but all drew on their purpose to govern how to react.

Saker Nusseibeh:

“When George Floyd died in the States everybody suddenly realised there’s a problem. Our BAME representation was more than the London percentages, but our black representation was not. So, we had an open conversation with every single member of the company phoning in; our black colleagues told us how and why they felt what they felt. Because I’m brown and not black I had a blind spot; I saw everybody as white or non-white as opposed to thinking much more directly about the specifics. And so we shifted what we do. How we’re trying to present programmes that help not just our black colleagues but the black community. We were drawing on our culture,

informed by our purpose, which has now taken on a life of its own; we are where people want to stay.”

“...our black colleagues told us how and why they felt what they felt. Because I’m brown and not black I had a blind spot; I saw everybody as white or non-white as opposed to thinking much more directly about the specifics.”

Federated Hermes was not the only company caught out by the surge of support for Black Lives Matter in the wake of the George Floyd killing. Here is Capita’s **Jon Lewis** speaking with candour:

“The Black Lives Matter issues were not responded to in Capita in as timely a manner as we should have. There was something that the George Floyd incident catalysed, more than anything else in my career, that was profoundly disturbing. I had BAME people with whom I work telling me that when they get in their nice car as successful people they had to dress smartly because when they drove that calibre of car dressed casually they’d get stopped by the police. And lots of stories – more heart wrenching ones – than that.

About a week later I told the organisation we are not fulfilling our purpose with regard to our BAME colleagues. We have failed you with regard to creating better outcomes for you. And that then catalysed a whole series of actions we have taken since; defining the percentage of BAME people, creating opportunity, listening forums etc. Part of being purpose-led is being authentic. Part of being purpose-led is fessing up when you’re not meeting your purpose. And that’s hard for some CEOs to do because that’s admitting an element of failure.”

Purpose and society

But this would not have been the case even ten years ago. The world has changed. He continues:

"I have yet to meet a CEO in 2020 who didn't feel compelled to comment, internally or externally or both, on the George Floyd incident."

"I have yet to meet a CEO in 2020 who didn't feel compelled to comment, internally or externally or both, on the George Floyd incident."

That's a massive shift in the expectations that your employees have of what your role is as the CEO of a public company. Their expectation is that you have to be much more holistic. You're not just about the role of your enterprise alone. You have to be thinking much more holistically about the role of your enterprise in the broader society. Millennials and younger just expect it. And whether shareholders like it or not, or these academics writing these articles for and against shareholder or stakeholder value, modern day CEOs have a broader set of issues, responsibilities, stakeholders that they factor into every decision we make. You can't run."

"...modern day CEOs have a broader set of issues, responsibilities, stakeholders that they factor into every decision we make. You can't run."

Alan Jope of Unilever reacts the same way to Floyd's death exposing a weakness.

"We needed to have a position and get our act together on it. If you take inclusion and equity for example, we were and are in really good shape in terms of what we've done on gender. We're doing quite a good job on people with disability. We have an okay track record with the LBGQTQA community. But we realised at the beginning of Black Lives Matter that we were not where we needed to be on racial equity. So, we're running up that hill as fast as we can."

Similarly with climate change. Eighteen months ago only a quarter of the world's countries had targets for net zero carbon emissions – now it's three quarters. Fossil fuel companies are taking enormous write-downs on their oil and gas reserves – stranded assets – because they cannot be burned without increasing global temperatures. It's an inflection point. The purposeful companies have got the message.

Here is **Jes Staley**.

"I think climate change is obviously being increasingly embraced as one of the great challenges of our generation. Banks touch all parts of society. So, if you wanted to find an instrument to impact how people confront the climate challenge, banks are a great place to start. We in turn have to believe that climate change will present opportunities for investment, growth, new technologies and new jobs. And therefore, getting behind these environmental issues is a wise decision. Time horizons may be different, but whether our commitments are to 2030, 2035 or 2050, they are more than just a statement."

"We want to focus on supporting clients with their transition, but in some cases our commitments to our shareholders and stakeholders more broadly will rightly mean that we will leave revenue on the table."

We want to focus on supporting clients with their transition, but in some cases our commitments to our shareholders and stakeholders more broadly will rightly mean that we will leave revenue on the table. I think fundamentally or philosophically in line with our purpose, you have to believe that recognising the firm's obligations go beyond just the bottom line is in the best interest of the bottom line in the long term."

Purpose and society

The National Grid published its Responsible Business Charter in 2020 setting out wide-ranging commitments and ambitions in five areas – the environment, communities, people, economy and governance.

Barclays is committed to having no commercial involvement with any company that is not a net zero carbon emitter by 2050. The National Grid makes the same commitment, but importantly is committed to reducing the emissions of SF6 – a stable but noxious gas that at the moment is essential to the transmission of electricity – by 50% by 2030 and is “ambitious” to eliminate it altogether by 2050. **John Pettigrew** explains:

“We probably spent five months internally debating whether to set out our ambitions. After debate with the board and with the Executive Committee we decided that it was important we showed ambition while distinguishing between ambition and commitment.”

I have detailed plans to meet the commitments, but I don't necessarily today have all the answers to how I'm going to meet the ambition even if it's the right ambition. And therefore we deliberately put it out there not knowing the answers to some of these questions, but wanting to be held accountable. It will drive innovation and technology.

So take a polluting gas called SF6. It's used all over the world as insulating gas basically to break an electrical current. It's very efficient. But when it leaks it's horrible for the environment – it's about 20,000 times more pollutant than CO2. But there is no solution or an alternative today in the world. We're working with three different suppliers to find a solution. So our commitment is that we will find a solution, a new gas, a green gas, which

will do what is needed on power systems not just in the UK but in the world. I could have said I will reduce our SF6 leakage, by improving our processes. But we fundamentally believe it is a horrible gas. So we have set ourselves the ambition of finding a solution.”

“I have detailed plans to meet the commitments, but I don't necessarily today have all the answers to how I'm going to meet the ambition even if it's the right ambition. And therefore we deliberately put it out there not knowing the answers to some of these questions, but wanting to be held accountable.”

Over at IFM they too have committed to net zero by 2050. **David Neal:**

“Long-term purpose also shapes our approach to climate change. Our shareholders demand it. So we did that (committing to net zero in 2050). Actually, some of our shareholders are pushing us to go further faster. Many of them have got there – as individual funds – a bit quicker. Infrastructure assets are complex, they have to be transitioned because they are an essential part of the economy. As a long-term investor-owner, we are well placed to transition assets but there are complexities. Setting interim targets – for example for overall carbon emission reductions – has implications for buying 'brown' assets so as to transition them to a 'green' investment opportunity.”

Liv Garfield is unhesitating. Severn Trent's commitment to achieve its purpose and in the process be an environmental leader, is to achieve net zero by 2030. But as she says.

“Actually it's more powerful for the whole sector to go for zero carbon together by 2030.

Purpose and society

On top as a sector we want to be together on leakage and pollution solutions for the next 20 years. So in our sector social purpose – to be really socially purposeful – is a mixture of doing some things together and some things separately which as an individual company is your USP. So how we treat our colleagues, some of our customer service, charitable giving, what proportion of our profit to charity – on these areas we can pursue our own course and define our USP; and we do.

We are co-equal with others as leaders in societal and governance goals, but I think on the environment we are seen as a leader. We don't do it because we want to be competitive with the others or to access all those dedicated ESG funds. We do it because there is a responsibility for the company – if we do it properly – to be right at the forefront of those things. We want Severn Trent to be that kind of company."

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These are expressions of great intent, and as far as we could judge, the companies mean what they say. It is of a piece with their purpose commitment. The open question is whether it makes commercial and economic sense.

Does *purpose* make commercial sense?

One piece of support for the commercial usefulness of purpose is **Alan Jope's** earlier description of how those Unilever brands that can demonstrate their authenticity by being purposed, outperform the rest of his portfolio – but is that generalised? **Jon Lewis** would certainly agree:

“Our revenues have been remarkably resilient through Covid and I attribute that to our ability to continue to serve our clients by having colleagues who can do that. How is that not in shareholder interest? Our ability to attract talent has improved. It's unrecognisable today compared with how it was when we started this transformation. We've been able to attract talent out of large US tech companies for less compensation because they felt some of those US tech companies weren't purpose-led.”

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NatWest had a similar reaction, **Alison Rose:**

“During Covid we stood alongside customers and made sure that we supported them during what was the most difficult time. The easiest thing would have been to withdraw from the market. So we've invested in customers and in communities, but not gone crazy on our balance sheet. The proof on all measures – from customer satisfaction to cross-selling rates – is positive, So, actually informed by our purpose and creating that connection and staying in a supportive mindset we've driven better long-term relationships, which will drive value.”

John Pettigrew endorses the point:

“Last year we used large elements of our Responsible Charter as part of a campaign to recruit. We saw a six-fold increase in the number of people who want to be part of a company that is purposed and responsible – and we were already massively oversubscribed. People no longer just want to work for an organisation that is purely focused on profit. They want to understand what the purpose of the organisation is and the direction of the vision. They want to know what we're doing about the environment, what we're doing to support local communities. So through purpose and being a responsible business I get better profit and better talent. So that's the hardnosed answer to it. In the recruitment campaign we called it 'the job that can't wait.' We were staggered by the response that we got. And it's because the next generation has a very different lens. So purpose is engrained in the culture of the organisation. Over a very long period if we sustain that level of behaviour and that purpose then fundamentally we will be sustainably more successful.”

“People no longer just want to work for an organisation that is purely focused on profit. They want to understand what the purpose of the organisation is and the direction of the vision. They want to know what we're doing about the environment, what we're doing to support local communities.”

Fidelity, a privately owned company, manages \$700 billion of assets globally, operating in 25 countries with 2.5 million customers ranging from private customers to central banks. **Anne Richards** is under no doubt that a commitment to purpose makes sense commercially.

Does **purpose** make commercial sense?

“What I tried to do when I came in two years ago was to reiterate and reinforce the purpose – and then put a lot more emphasis on the behaviours that we needed to fulfil that purpose.

So now I track employee satisfaction very closely. We pulse survey how people are feeling about life very, very regularly – every few weeks – because I believe employee satisfaction and customer satisfaction are closely linked. I track ‘Net Promoter Scores’ (NPS) which are a way of measuring customer satisfaction, so I can see what improvement is coming through. So, as we’ve improved employee satisfaction, you can see our NPS scores improving as well.

On investment performance you have to be careful about timeframes. Of course not every Fidelity fund outperforms every day or over all time periods. There are funds which languish just as there are funds which are stellar at any point of time. But Fidelity has, across the entirety of its fund range, really strong performance and over a very, very long period of time. So, in aggregate on the investment side Fidelity has got one of the strongest track records of any business I’ve been involved in.

So, in the round you can see that the purpose is pulling us through. But purpose is necessary and not sufficient. You need granular focus on some of these other things in order to fulfil that purpose and so make it a reality.”

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Sir Simon Stevens is equally convinced there is a strong relationship between employee satisfaction, quality of care and clinical outcomes – and they are similarly tracked in the NHS.

“Of course we carefully listen to and track patient and staff experience. As Europe’s biggest employer, we run this country’s biggest staff survey and more than half a million members of staff complete it on a regular basis. We can see at individual hospital, mental health service or GP practice level how people are feeling – whether they feel they can give their caring best – and their views on the quality of care that’s being offered.

There is a clear correlation between staff feeling well supported and enabled to give their best on the one hand and the quality of care that patients experience and the clinical outcomes on the other.”

Susan Bright rams the proposition home.

“Why do we take it so seriously? Because it makes us a better business. Delivering on our commitments to be a responsible business ranks equally with putting clients at the centre of what we do and increasing profitability. And why do we do it? Frankly at the end of the day responsible businesses are better places to work and more profitable. So, people say is it the right thing to do and of course it is. But actually, business with purpose makes a much more successful business.

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Does **purpose** make commercial sense?

It's a place that people want to join and stay. I have done a lot of work in graduate recruitment over the years. People now have much clearer expectations of what they want to work for. If you want the best, you better meet those expectations."

One way or another, there was a common stress on the value of purpose to employees.

Saker Nusseibeh:

"Here we sit in the City of London with a highly competitive industry around us. We have some of the most sought-after portfolio managers you can get and we don't lose that many, even though we only pay at the median. People want to be here for two reasons.

One, they feel that they're changing the world for better. And they really do – in delivering the purpose of helping people retire better we are changing the world. So that gives them purpose and two because we support each other, as we did in the reaction to George Floyd. People like working with us – which is why we don't lose people, which is one of the banes for people who run financial business companies. So, I'd argue having purpose works financially and has led to better returns."

“...having purpose works financially and has led to better returns.”

Kevin Ellis at PwC has been senior partner as the partnership has won the social mobility employer of the year award for two consecutive years. It may derive from being purpose-led but the call – endorsed by his partners – has hard-headed roots.

"We do it because it's an economic good. Because at the end of the day, we sell to all stratas, businesses and society. We sell across the country to all entrepreneurs.

People buy from those who look like them. So, unless we are socially diverse and ethnically diverse, then we won't reflect society who buy our service.

So, we're very proud of the fact that we recruit from a very wide diverse group. We got rid of A Levels as a filter system for graduates 6 years ago. That was very successful because we found that was too biased in terms of both South East and independent schools.

Purpose will only win through if people see the most successful companies being those that have a purpose and live it. So long term success is the ultimate filter of the success of purpose.

“Purpose will only win through if people see the most successful companies being those that have a purpose and live it. So long term success is the ultimate filter of the success of purpose.”

I find that what gets measured gets done. So, if you shine a light on these things and show everyone your journey – a bit like the gender pay gap, the ethnicity pay gap, the black pay gap – we can stand up and be counted. By publishing them, along with our commitment to social mobility, you can show the journey you're on and show your commitment to change. So, our purpose statement has to reflect the economic endeavours of the business alongside societal ones. And it has to be able to work for the most junior member of staff as it does for the most senior partner."

Does *purpose* make commercial sense?

But perhaps the over-riding issue is the one that **Hywel Ball** made at the very outset of this paper:

“Stakeholder value creation is so much more important now for society – effectively a business societal contract. If we don’t deliver, government will be forced to intrude into business in a way that will be ever more invasive. So, the imperative of being purpose-led is not completely altruistic.”

The quest for shareholders who support *purpose*

The proposition that purpose-led organisations, balancing the needs of all stakeholders to serve a great purpose, ultimately produce no less long-term shareholder value than otherwise, and almost certainly more, is not accepted by every shareholder. Yet to be purpose-driven requires having a critical mass of shareholders who do buy into both the general proposition and the company's particular purpose.

It's not easy to close that gap. **Mohit Joshi** explains:

“Every company wants patient shareholders who are long term, supporting the long-term strategic direction the management is taking. We are no different, looking to have shareholders who have a long-term intent to invest, who take the time to understand what it is that we're doing and where we are going – who are very focused on the quality of management, on ethics, culture and on the long-term brand that we're creating for ourselves. We don't want shareholders who will exit the first time they disagree with the management position.”

“We don't want shareholders who will exit the first time they disagree with the management position.”

What we're trying to do is to create a long-term base of patient capital. A lot of our retail investors based in India are really patient and have been with the company in some cases for almost three decades. And they've seen the wealth creation that has happened in the enterprise over time. A Goldman Sachs Chairman in the 1980s – Gus Levy I think – made the much quoted line about the need

to be 'long-term greedy'. It's not that you're not greedy and don't want returns for your shareholders. But you're long-term greedy. You're not looking to make a nickel every single day. 'Long-term greedy' aligns very well with purpose.”

“What we're trying to do is to create a long-term base of patient capital.”

In the same spirit – wanting “greedy” shareholders but only in the long term – **Liv Garfield** at Severn Trent has made it her particular mission to create a base of shareholders who share her and her board's commitment to Severn Trent's purpose. It is hard work – but a vital prerequisite to what the company wants to do.

“Probably twelve or thirteen of my top twenty shareholders have stayed with us. If I look at my

“Probably twelve or thirteen of my top twenty shareholders have stayed with us.”

top five, I've worked to introduce three of them to the company, then worked to increase their shareholding so they now own big numbers. Of my top five, three were not in the water industry until my time. We targeted them because they are really good, long term shareholders of the type we would like – ESG oriented and wanting long term investment.”

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The quest for shareholders who support **purpose**

Liv Garfield went on to say:

“There is the Qatari Investment Authority. They typically buy between five and ten per cent of a company. They expect a lot of engagement with management, to be told stuff in advance, and are more needy than the average FTSE 100 shareholder. Once they’ve bought in and done due diligence, they typically back management and will take a sympathetic view – say on dividends. We wanted that approach so we targeted them.

Next place we targeted: Lazard Frere in Australia. They tend to buy big stakes. They like infrastructure, investment repaying over twenty-five years and look through the short term. They want a conversation about your twenty-five year outlook. Then Reef in Chicago. They devote more management time and effort into discussing strategy and service performance. They typically buy one company in a sector based on service performance. We wanted shareholders who played to our natural strengths and values. We have them, but there is more to do.”

62 per cent of NatWest may be owned by the government, but **Alison Rose** is already thinking about her future shareholder base.

“I have to manage the business for all my shareholders. So, the Government owns 62% of the bank, but it doesn’t sit on my board or determine my strategy. I have active shareholders for whom I’m trying to drive value. At the forefront of my mind is who are going to be my future shareholders? I want them to be long term income holders. So, the government shareholding is not a safety net for my purpose strategy: it’s the other way round. The purpose strategy enables me to build a shareholder value story that will allow the Government to sell down their stake.”

“At the forefront of my mind is who are going to be my future shareholders? I want them to be long term income holders.”

Fidelity’s **Anne Richards** thinks that Liv Garfield and Alison Rose are right to take the structure of their shareholders register so seriously:

“I do think that companies that are serious about sustainability and purpose need to think really hard about what they want their shareholder structure to look like. There are many large investors like ourselves, who are trying to put sustainability and purpose much higher up the evaluation ranking. But we’re not every investor. There are unquestionably investors out there who are focused on a much more short-term view on financial returns. And so it’s important – as corporates have always historically done – to think about getting in the right shareholders who will be supportive to a corporate’s purpose, particularly if you are a corporate that is really trying to pivot. For example, if you’re a heavy fossil fuel-producing or fuel-using corporate, and you’re trying to pivot requiring some quite sizeable investment, you want to try and attract supportive shareholders who will give you a longer period of time in which to earn a return – rather than having a book of investors who will turn off the taps on you to maximise profit in the short term. But longer-term horizons should not allow latitude on sloppy financial metrics.

“...it’s important – as corporates have always historically done – to think about getting in the right shareholders who will be supportive to a corporate’s purpose, particularly if you are a corporate that is really trying to pivot.”

The quest for shareholders who support **purpose**

A commitment to sustainability cannot be a panacea against an appropriate level of capital and financial efficiency. I realise I keep using the 'sustainability' word rather than the 'purpose' word. But they are very linked for me. Corporates can't use that as an excuse not to run a tight ship. We need both."

Jes Staley at Barclays is frustrated with the division of labour within many investment houses – the structural division between those responsible for actual portfolio decisions and those who evaluate environmental, social and governance policies.

"A development I would love to see in the UK – is fully aligning the governance and portfolio management professionals, consistently across asset management firms, so that within each firm they are fully connected and speak with one voice. Or, at least, having the governance and portfolio manager professionals sitting in the same room and having the same conversation would be very welcome. It would be refreshing to have more portfolio managers ask about purpose."

"It would be refreshing to have more portfolio managers ask about purpose."

Jon Lewis believes that improvement is afoot – but has further to go:

"There is a growing recognition of the importance of purpose amongst investors – but it's patchy."

Anne Richards understands the complaints – but argues things are changing.

"I'm sympathetic to those views, but only so far. 'Socially Responsible Investing' as it was called 20 years ago has very much morphed via different iterations into what we think about today. Quite often it definitely was a

lone analyst in a firm sitting chipping in from the side of the desk while the fund managers did their thing. So yes, some investment organisations have continued to grow entirely separate teams. But the view we took was to try and embed all the analysis in one body of research. We've got a team of about a dozen ESG specialists internally, and their role is the training and guidance of all analysts, so the actual ESG ratings are owned by the same analysts who do the financial metrics. Now, it is also true that if you're a CEO of a business and you come in and talk to Fidelity International you might have sitting in the same room a couple of portfolio managers, a dedicated stock analyst and an ESG specialist. So if there is something particularly thorny or interesting that the ESG analyst wants to bring out as the real expert in a particular part of the sustainability landscape, that is possible while the portfolio manager is going to give the management team a hard time about the financials and capital structure etc. Because those are their respective jobs. We're interested in all aspects and the team work very closely behind the scenes to present a united front."

Sometimes the CEOs want to get credit for all the lovely things that they're doing about sustainability and don't want to have awkward questions asked about the capital structure or the finances or anything else. In our world they are simply two sides of the same coin. So, I have a little bit of sympathy, but it only goes so far.

"Sometimes the CEOs want to get credit for all the lovely things that they're doing about sustainability and don't want to have awkward questions asked about the capital structure or the finances or anything else. In our world they are simply two sides of the same coin."

The quest for shareholders who support **purpose**

Portfolio managers are always going to ask those difficult questions regardless of the other stuff as well. That's their job – and so they should."

Alan Jope shares concerns about the structure of the asset management industry, but thinks that things may be changing:

"I can report a significant change even over the short two years since I first came into the job. Typically when I first met with investors, the ESG person would be a young person in the corner of the meeting room. But now, the portfolio managers themselves are asking good questions about ESG performance. How are you doing on your carbon commitments? Your nature commitments? Your social commitments? Is it really true that your brands with purpose are growing faster? They're really digging in, the portfolio managers themselves, as direct investors. And it's because there is growing evidence that ESG investing generates better returns."

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ESG is certainly a growing force: in 2020 UK ethical funds attracted £4bn of new investment quadrupling from around £1bn of inflows in 2016 and tending to produce higher returns (at least for the moment) than more conventionally invested funds. Although only constituting about 3% of all the funds run by members of the Investors Association, the rise of dedicated ESG funds nonetheless reflects a change in the general mood.

The National Grid's 72-page Responsible Business Charter contains a plethora of ESG commitments and ambitions and

John Pettigrew says he received an overwhelmingly positive response from investors – 81% approval.

"In 2016 the question about your ESG credentials sort of had to be asked of me as I headed to the door. Today I'd say for 80% of our investors it's on their agenda as part of the normal meeting. There's been a massive shift."

However, he agrees that while ESG may derive from being purpose-led, the range of issues and performance metrics are wider and more diffuse, measurement is hard and the expected returns to shareholders – hard to guarantee – will lie in the long term.

"Purpose and ESG are not the same. Purpose is hard to measure. The difference that purpose makes has to be looked at over a very long period to see the impact. We're a long-term business and being purpose-led is engrained in the culture of the organisation, the day to day decisions, the expected behaviours through the values that we set. But how will it impact on my profitability? It's difficult for me to say. Measurement would include the basket of measures in the Responsibility Charter, but they would be particular to us and hard to compare with others. But over a very long period if we sustain that level of behaviour and that purpose then fundamentally we will be sustainably more successful."

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The quest for shareholders who support **purpose**

Alison Rose also acknowledges that while ESG and purpose are linked, they are not the same: purpose is the bigger deal:

“ESG and purpose are intrinsically linked. Purpose for me is strategy and ESG I put firmly at the heart of my strategy. ESG can get boxed into the sustainability box – climate, the Human Rights Act. The company is going to do all of this. That’s just tick box. Actually, it has to be embedded in strategy, and then it becomes inherently part of purpose. So, you can’t just assume that purpose and ESG are combined unless you bring them into strategic focus. For example, my sustainability team now sits in my strategy team; they don’t sit somewhere else – because their action is strategic.”

“Actually, it has to be embedded in strategy, and then it becomes inherently part of purpose. So, you can’t just assume that purpose and ESG are combined unless you bring them into strategic focus.”

IFM’s mandate to invest purposefully derives from its mutual structure, so that those foundational aims necessarily imply long-term horizons. **David Neal** explains it produces ‘a collective mindset’ that drives the purpose.

“Our shareholders keep us very honest on these things, reminding me very regularly what kind of organisation we are and must continue to be. The CIO or the CEO of the pension funds that own us, phones me up and gives me a bollocking! It is about the network, the relationships, the regular conversations that I have with my peers at our shareholder funds and our board – the chair in particular, former leader of the Australian trade unions – that ground our approach to purpose. That’s why we invest as we do. What results are deep

and challenging conversations that drive us forward based on our long-term purpose to grow and protect retirement savings.”

For **Sir Simon Stevens** the shareholder is the British people – but its support cannot be taken for granted. Interestingly the NHS is now migrating to being more joined up after the 2012 Health and Social Care Act compelled experimentation with a more fragmented structure in the name of competition. The joined-upness is to be legislated following the 2021 Health and Social Care white paper, which in part has been driven by the need to keep on winning the people’s support by having an agile NHS that delivers its purpose:

“The NHS has to earn the support of patients and the British people each new generation. And there will be challenges, and sometimes missteps along the way. And so continually listening hard is vitally important.

We have inherited a somewhat fragmented and compartmentalised service between the GPs versus the hospitals, between physical and mental health services and between health and social care. The NHS in the round is actually a very efficient health care service compared with many internationally. But where we have inefficiency is at the hand offs between different elements of care. So, we are creating more joined up and integrated services. As we saw with the Covid pandemic when you get that right you bring about hugely agile change that benefits everybody.

That is true across many countries given aging populations with multiple health conditions. So the traditional ‘care and repair’ model fixes a particular condition and then sends you on your way. But that is not the care most of our highest need patients need. They need ongoing support for multiple health problems.

The quest for shareholders who support **purpose**

So, you've got fundamentally to redesign healthcare for that. This also means multi-channel options – not just face to face diagnosis and consultations. Digital and online options have suddenly become a healthcare reality in the last 12 months, as part of the redesign of services during the pandemic."

This need to continue earning support and win buy-in to purpose is echoed across the organisations interviewed. PwC and EY are partnerships, so the partners double up as shareholders and stakeholders who elect their powerful senior partners for a term of four years, renewable for one term only. It's a process that ensures the owners – the partners – and the leadership team share the same purpose without the gaps of comprehension and engagement that bedevil public companies. There are manifestos, hustings and Q and A sessions – it's a genuine election process.

Both Hywel Ball (EY) and Kevin Ellis (PwC) had to say what they were standing for in their election manifestos – both men made adherence to purpose a core plank of what they would do, in itself a testimony to new times and mores. They are in a constant dialogue with their electorate of partner-owners. **Ball** takes up the story:

"My shareholders and primary stakeholders are our partnership – they are all owner managers. They experience the socio-macro forces on the front line more than a shareholder would and so are readier to see the point of view of our broader stakeholders. They look for what is going to motivate their teams and engage their people, and they also want their clients to feel engaged with what we do.

But they're still worried about their financial returns. So, we are balancing all the time, delivering the financial returns and delivering on purpose for all our stakeholders. But if you've got it right, those partners as owner managers truly feel the impact of purpose in action. Some corporates talk the talk without necessarily walking the walk; their shareholders don't really see it. Our owners do on a daily basis."

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Ensuring that an organisation's direction, culture and values are both right and supported by its owners is never easy, but these partnerships offer important insights about how to do it. A partnership democracy forces a constant conversation, dialogue and exchange between owners and leaders within an embedded framework of accountability. It works. Both Ellis and Ball have the same answer to how to align owners and leaders: establish a shared purpose, pursue it consistently and engage in an ongoing dialogue to ensure it's understood and owned by every partner and colleague. But can this principle be extended more widely?

What blocks *purpose*?

If purpose is so instrumentally useful, what are the blockers to its wider adoption? An obvious one is that for many key actors – from asset owners and managers to C-suite leadership teams – the proposition remains unproven. For them while purpose may be worthwhile, it can only to be pursued at the expense of financial performance, certainly in the short term, and any long-term gains are likely to be elusive. At worst there may be no long-term gains at all.

Here is **Alan Jope**.

“The biggest blocker I believe is the mental paradigm – the false paradox that it’s either sustainable, purposeful, responsible business or superior financial performance. The belief that there is a trade-off, the belief that it’s either/or, is the single biggest blocker. It’s not the

“The biggest blocker I believe is the mental paradigm – the false paradox that it’s either sustainable, purposeful, responsible business or superior financial performance...”

investing institutions in isolation. I think it’s the whole system. It’s business leaders themselves. It’s the media. It’s academia. It’s investing institutions. It’s NGOs. It is a widely held belief that it’s incompatible to deliver strong financial performance and do it the right way. I passionately disagree.”

I “...I passionately disagree.”

As we’ve seen NatWest’s **Alison Rose** thinks there are trade-offs in the short term which purpose helps her navigate better. Nonetheless she agrees the whole ecosystem is unfriendly to purpose. There needs to be wholesale change.

“Fundamentally, you’ve got to have the whole ecosystem move. You’ve got to have the right breadth of executives coming through organisations who are prepared to lead, driven by purpose, and have that vision. You need boards who are going to embrace it and understand what it is – about long term rather than short term value. So, the investor analyst market needs to move away from its quarterly mantra and see companies through a longer-term value lens: indeed the investment community as a whole must be prepared to believe in that. Rather than being a strong marketing message, purpose is truly about shaping value – and that means creating a generation of leaders who can thrive in that environment and survive.”

“You need boards who are going to embrace it and understand what it is – about long term rather than short term value.”

How to progress purpose is a dilemma with which all the interviewees in this paper are, one way or another, wrestling. One advance is that the 2019 UK Corporate Governance Code invites companies to state their purpose, which taken together with the provisions of Section 172 of the 2006 Companies Act for directors to take into account the interests of multiple stakeholders in their decision making, represents a major step forward. But there is much further to go in the view of **Jon Lewis**.

“The UK Corporate Governance Code is far too weak in its expectations of purpose-led companies. Firstly, the code should enforce companies to define what their purpose is; it should not be optional. Certainly, any companies that are serving government should have to define their purpose.”

What blocks **purpose**?

Secondly companies should then have to demonstrate the deeds that follow on and how they've been executed: how they deliver the business model in terms of that purpose. It's vital to draw distinctions between what has and hasn't been achieved vis a vis ESG – and where there is just god-awful box ticking. For example, a company reports supporting a school in Mozambique as a single act. That's fantastic. But in the context of what might be a very large and broader enterprise, how material is that? How meaningful is that in terms of how that company is contributing to being a responsible, purpose-led business in helping society more broadly?

I think the code needs to say: show us how you're living your purpose with tangible examples. Do you make those auditable by independent auditors? And then I really like The Purposeful Company's idea of a say on purpose which is that you consult with your shareholders in the same way you do with, say, remuneration policy or the governance of your business. It serves several purposes. Firstly, I have talked to many people about purpose since I've been in Capita and the narrative is moving in the right direction more widely. But there are still an astonishing number of older generation chairs of public companies who think it's a marketing thing. They just don't get what being purpose-led means, so there is absolutely a risk that being purpose-led becomes a box ticking exercise in the way that ESG and CSR, to some extent, have become. But that is precisely why I feel so strongly about the code having the power to encourage companies to demonstrate through deeds what it is they're doing in support of being purpose-led. The code has to test the degree to which boards, executive management teams, are living that purpose. Otherwise it becomes meaningless. It has no currency. It has no weight."

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The argument for a '**Say on Purpose**' is spelled out by two of our Steering Group and also in The Purposeful Company's policy papers – both to prompt and reinforce a two-way iteration over, and embrace of, purpose between companies and shareholders; and also to flush out and make explicit any trade-offs. Others interviewed are concerned that the structure of the UK capital markets militates against growth, long-term thinking and over-prioritises near term capital returns and dividends. Purpose takes a back seat.

Mohit Joshi:

"The way that the UK capital markets are structured does not work. I don't think the alternate market has worked; nor has AIM. They are way too short term. Investors think about the FTSE 100 and the FTSE 50 in terms of a dividend and of immediate share price growth. I think that has to change. The UK needs the equivalent of NASDAQ, and that is not AIM. Too many UK institutional shareholders are too focused on short term capital return and dividends and not so focused on growth, culture and long-term thinking."

All the banks, insurers and energy companies are grappling with the same challenges, but time wasted, say, on dividend strategy doesn't leave very much time for the board to think about growth."

What blocks *purpose*?

Nor is AIM liquid enough. There's a perception that it is a junior market, and not for the big boys. The transition from AIM to the FTSE hasn't been very smooth. Too many investors in the UK don't really have an understanding of technology, which is why even secondary technology stocks in the UK often talk about moving to the US markets where they can get a higher multiple and better returns. Why do UK institutional investors think so very differently from institutional investors the world over? Why is there a shortage of risk capital in the UK, despite having some of the most advantageous tax rates? Why isn't there a conveyor belt taking companies from venture capital to the public markets? It has broken down. So despite Britain's wealth of start-ups in biotech and in technology more widely, we've not been able to convert those into actual listed public companies."

“Why do UK institutional investors think so very differently from institutional investors the world over? Why is there a shortage of risk capital in the UK, despite having some of the most advantageous tax rates?”

All CEOs are keenly aware of the high price the capital markets exact for any failure, especially a decision to cut a dividend, however well signalled or however much the fault of wider circumstances like a recession or pandemic. You need buttresses all around – a supportive board, a personal reputation and a critical mass of shareholders who will stand by you.

Liv Garfield:

“I'm not a brand new chief executive. I have a long-term reputation with my investors. But lots of chief execs don't do very long in their

job – quite British – and then it's a problem to get the market to understand their decisions, say on a dividend cut, and very tough to get the market to agree their longer-term story. I've cut a dividend once in my time – it wasn't a brilliant day in my life – but because I was able to explain why, how I was going to recover it and could describe the journey we were on, it was fine.

Running Severn Trent purposefully is very easy on the basis that I've got a brilliantly supportive board which is able, even wants, to be intellectually stimulated by the trade-offs and why they make sense. Mates of mine are not in that position. If you've not got a board that collectively understands you can't do everything, but enough to make your company right – then it's very hard work. I've got a lot of mates who struggle with the dynamic of their board; a third might accept the environmental priority, a third accept an equal trade-off between colleagues and society, and a third put financial growth first. Then you are in trouble.”

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There is also the vexed question of executive pay, frequently criticised for sheer quantum and the behaviours, far from purpose, that some executive pay packages have incentivised. Purpose-led organisations are aware of the tensions and try to reset the dial. For example, at NatWest incentives are long term with newly introduced purpose metrics. **Alison Rose:**

What blocks **purpose**?

“All the incentives for my management team are long term and have purpose targets in them. None of my executive team receive annual cash bonuses. They are all on long term incentive (LTI) rewards which are deferred between 7-10 years. And their LTI measures include the elements of purpose that I’ve put in as three focus areas to make our purpose live – around growth of female entrepreneurship, creation of new businesses and the type of support. On climate, we’ve set targets around transition of funding to achieve halving emissions. On financial education, among the targets are the numbers educated to help them manage and save money better. All the metrics are updated every year. They’re relatively nascent because it’s the first year, but are embedded as hard annual target measures within their LTI annual reward. If you’re really serious about purpose, it’s strategic – and strategy is linked to reward. So you have to hard wire it in. So, that was the first thing I did. If you don’t measure it as part of long-term rewards, it doesn’t get done.

I have also made it part of board governance. All of my board focus is on whether every decision demonstrates purpose, thus hard-wired into governance. How have you demonstrated purpose? So we’ve embedded it in the governance and we’ve embedded it in the LTI. If you’re serious about it that’s how you have to do it.”

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Jes Staley is no less outspoken: pay and purpose have to be aligned.

“Banking’s values got distorted during the late nineties and the early part of this century where personal wealth accumulation dwarfed the values of the profession of banking. One of the great advantages of the rise of the hedge fund and private equity world for a bank like Barclays is if you want to be really rich, work for them instead. The combined compensation of the ten leaders of Barclays right now is a tenth of what it was twelve years ago, and we’re still very well compensated. We need to pay fairly but do not come here for money. We have marginally brought back the profession of banking. And that is part of the new purpose where there are values and interests of all our staff that must weigh beyond the financial rewards of our senior management. I agree we should be paid in stock, which we should hold for many years. Most of my stock goes out for seven years. Trying to bring back the professionalism of the profession of banking and what that means has been important to me for a long time”.

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The Purposeful Company is an advocate of paying in deferred stock ([deferred shares progress review 2020](#)) and we endorse the growing trend that the leadership teams of purposeful companies are being paid in stock that can only be accessed after seven years.

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However, some of the hardest to convince are the asset managers who have to vote through such packages. Within the asset management industry there is growing soul searching, facilitated by the Investor Association and Investor Forum, on how best to support purposeful leadership.

Saker Nusseibeh:

“The margins of the asset management industry vary between 35% and 45%; in commercial terms crack cocaine. Can you name any industry that has such high margins? There isn't one. Biotech – 20% margin. Oil companies – 10% margin. Retailers – 2% margin. We've always run our company on a 15-18% margin.

So, firstly we create the resource that then can go into stewardship. Secondly, we've always said that to do engagement you need to be committed to speak to the same company over ten to fifteen years – preferably employing people who have actually worked in the industry – and it needs to be a large team. Investment management is not a scalable business. I don't want to badmouth the industry that I come from, but I do want to badmouth the model. You can't scale stewardship; you've just got to have more and more people. It's not scalable.

We can't cover all stocks that are in the index. What we do is very different from what everybody else does. Essentially, we run it almost like the Co-op; we engage with all of our clients who give us their funds to manage. We suggest what we think are the main topics of the day – could be Covid or social justice – and on which we should concentrate. We get a consensus between all of our clients, so that we can concentrate on 50 companies over time to make enough change to make an impact. We don't think stewardship is voting or a five minute conversation. That does not work. The agenda is collectively set by our clients – and that is what we put forward.

“We get a consensus between all of our clients, so that we can concentrate on 50 companies over time to make enough change to make an impact. We don't think stewardship is voting or a five minute conversation.”

Our approach is not to tell the companies what to do. That would be ridiculous. Our approach is that we and the companies are partners in ensuring that they have better long-term returns. With companies that we don't spend a lot of time talking to, yes, we do come out with principles that we have learnt from other companies. But it's never directive – rather suggesting a shift from bad practice to good practice will produce a substantial impact on your return for your shareholders and we'll send you the evidence. The same on social impact by the way. We try to analyse the underlying data and show this to companies. And because we've been doing it for such a long time, we are trusted. That's why we do it quietly, behind the scenes. We rarely go public – this is not about showmanship. This is about long-term practice.”

Regulation and regulators are another key part of the ecosystem, directly or less directly, affecting all the companies interviewed. It's not only some shareholders who are blockers to the implementation of purpose – there are some in the regulatory community, in part because their statutory duties force them to take a very constrained view of how firms operate. **John Pettigrew:**

“Regulation is an issue. UK regulators have very narrow statutory duties which do not necessarily extend to purpose. So, we are a natural monopoly that is thus properly and rightly regulated, but quite often that translates into minimising cost today. Yet some of the things we need to do, particularly around the

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environment for example, require investment. That is definitely something that can be an inhibitor. We're working with the regulators to try and establish frameworks to recognise that. It is the same story in the US."

"Regulation is an issue. UK regulators have very narrow statutory duties which do not necessarily extend to purpose."

Liv Garfield's instinct is to use Ofwat the water regulator as a partner to entrench the commitment to purpose.

"We proposed a licence change to Ofwat to codify our social purpose, but we're open to other ideas about achieving the same end. Our objective is to ensure strong foundations for our future purposeful growth."

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Regulators themselves walk a tightrope – wanting to be sympathetic to proper requests but determined to avoid “regulatory capture” – being perceived and sometimes seeing the world through the eyes of the regulated company. The relationship cannot be too cosy. Both PwC and EY have been criticised by their regulator for audit lapses, sometimes spectacular. **Hywel Ball** was reflective after the Wirecard scandal in which EY Germany, as auditor of the failed tech company, was widely criticised for failing to spot management deception:

"There is a fundamental difference between how a statutory auditor will look at a set of accounts and how a forensic accountant will look for fraud. Most management behave legally and want a working control environment, the auditor's role is to remain sceptical to validate this position through the audit. So whilst fraud is as old as human behaviour, nobody, wants to pay each year for an intensive forensic statutory audit if this is not required."

My hope is that improvements in technology will allow us to look for the data points that validate the assumption that management is not corrupt, and if this data suggests that assumption is wrong then you can tip from one mode to another much more seamlessly. So improved technology and clarity about auditors' responsibility – going some but not all of the way to using the techniques of forensic auditing, a half-way house if you like – is the way I believe we should be going."

Kevin Ellis accepts there will be outcries over audit lapses – indeed that comes with the territory – and where there have been mistakes, lessons must and are being learned. But business failure is part of the capitalist process of reallocating resources and sometimes the reaction goes too far.

"I accept that there will be more regulation, including operational separation. We will form a part of that and will be supportive. And I'm fine with regulatory change that enhances trust and the quality of audit. But where it is change for change's sake, I think that isn't in our interest. Because at the end of the day, the UK in its present state needs to have strong governance and be an attractive place to do business. And the audit profession is a part of that ecosystem. Thousands of audits go right: plane landing safely is never a headline is it?"

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After the interviews were undertaken the government announced consultations on proposed legislative change which were broadly welcomed by the accounting industry, including the introduction of challenger auditors to reduce the influence of the Big Four.

But purpose should not be a cover for conduct that should be better, neither should it be abused – something of which Sir Simon Stevens is keenly aware in the way NHS staff can be treated, for example over pay. Yes, the NHS's commitment to its purpose is total, an exemplar of the case for purpose-led organisations, but government and society alike should not take it for granted.

Sir Simon Stevens:

“My personal mantra guiding how I approach my role is ‘Think like a patient, act like a taxpayer.’ Despite the amazing dedication of NHS staff, that must not be taken for granted. They need to be properly rewarded and supported. They’ve been under huge stress for an extended time over the last year.

If you’re an intensive care nurse, if you’re a respiratory physician, keeping going under that pressure day in day out has been very tough. We’ve got to think about how we give people the space to reflect and recuperate.”

For all that, he is optimistic. The terrible circumstances of the Covid-19 pandemic have shown what an integral part of

this country the NHS is, he thinks, and public support has grown even stronger. Intriguingly there has been a small improvement in reported trust in business over the same period so that, according to Edelman's 2021 UK Trust Barometer, business is the most trusted institution above NGOs, government and the media. Purpose-led businesses would argue the gain should be built on as an important driver in the hoped for recovery and theirs is the best means to do so.

“My personal mantra guiding how I approach my role is ‘Think like a patient, act like a taxpayer.’”

A last word from our CEOs

Purpose-led business is on the rise, believe our leaders, which the Covid-19 crisis is accelerating. “Covid will deepen the socio macro forces that underpin why purpose is so important.” says **Hywel Ball**. “What these forces will do is to make focusing on creating value for all your stakeholders more important than it has been before.”

Alan Jope concurs:

“Over time capital will move away from companies that only look at the numbers without reporting on how they’re derived – the evidence will build that that is not a superior way of building, creating value.”

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There is a parallel shift in CEO attitudes, with a growing number embracing the purpose culture. Here is **Alison Rose**:

“I do think boards and executive teams are changing. I think there is a ground swell amongst investors and analysts and customers. It’s super important they stay in touch with what’s happening in the real world.

The leaders that I want to work with are much more value driven leaders who create value and hand it on, rather than the old-style cult of the CEO. A different type of leadership is needed now, particularly in a future that has more ambiguity. I’m leading people where I’m having to say I don’t know what your job will be in the future: it’s going to change. My children are being educated for roles that don’t exist yet. That change requires a different type of

leadership rather than one born out of crisis. It’s one born out of optimism and ambiguity and value creation.”

However, as our interviewees variously acknowledged, not everyone is convinced, and, even if they are, may not have the boards, business model or shareholders that allow them to develop a purpose-led business.

On top **Anne Richards** issues this warning:

“My fear is that as this generation of battle-scarred CEOs who have lived through the financial and Covid crises makes way over the next few years for a new generation, then the moment might pass. They have learned they are part of society and have a responsibility and duty to it. A whole combination of things means that now is the time to push purpose, sustainability and climate change up the agenda. But just like after the war, eventually the generals retire and a new generation takes over, there will be a moment of transition. We need to use this moment now to push for the change and cement it – something that we should all be trying to do.”

“A whole combination of things means that now is the time to push purpose, sustainability and climate change up the agenda.”

However, all the interviewees were agreed, Capitalism can best secure its future and win public support the more it is overtly committed to purpose.

Concluding thoughts from The Purposeful Company

The business leaders interviewed in The Purpose Tapes share the view that an organisation should organise itself to deliver an intrinsic purpose.

- All these leaders viewed purpose as integral to their company's long-term success.
- Purpose provides clarity over strategic direction.
- It is viewed as the source from which profit can and will flow. Profit flows from purpose.
- In consequence these leaders of purposeful business both accept and welcome the concept that business is an implicit contract with society.
- Shareholders are of course important, but customers, staff, the supply chain, community and the wider environment are stakeholders in the company too. Their views and interests have to be acknowledged as part of the pursuit of purpose, indeed are integral to its delivery.

As advocates for purpose-led business, we are heartened by the commitment shown by these leaders, which comes through so strongly in their accounts, their grappling with the challenges and how they see the benefits. But it is not all plain sailing. How can we draw together some of the themes from what we heard?

- **These leaders believe that purpose is commercially valuable.** It brings clarity to strategy, commitment to employees, brand loyalty, and thereby results.
 - Hogan Lovells, Barclays and Fidelity International pointed to the strategic clarity pursuing purpose imparts.
 - IFM, Fidelity International and Federated Hermes all believe their investment performance and staff engagement are superior because of their purpose commitment.

- Similarly, Unilever believes its brands associated with purpose outperform their other brands. Capita, the National Grid, the NHS and NatWest track a discernible relationship of staff engagement with improved customer and patient satisfaction.
- The professional service partnerships EY, PwC and Hogan Lovells along with Capita and the National Grid think their capacity to recruit, retain and motivate is better enabled by their commitment to purpose.
- **They also believe that purpose helps them respond to external disruptions.**
 - Covid-19 provided a testing ground for purpose. Many of our interviewees described how being sure of their purpose, thereby understanding their stakeholder relationships and impacts, enabled them to react quickly and with confidence to the pandemic.
 - While many were candid that disruptions like Black Lives Matter might have exposed problems within their organisations, they found that a purposeful orientation aided an authentic response.
 - There is an expectation among staff that the company has a position of integrity on these issues which can be defended publicly.
- **A common theme was that purpose has to be made to live by deeds: concrete commitments followed up by action.** Examples varied from
 - National Grid's Responsible Business Charter.
 - Federated Hermes' Pledge.
 - Capita signing up to the Fair Tax Mark.
 - Unilever committing to the UN Sustainable Development Goals.

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- Severn Trent's ESG day and commitment (along with the water industry) to achieve net zero emissions by 2030.
- The character of the NHS's vaccination programme.
- Barclays commitment to achieve net zero in all dimensions of its business, including its balance sheet lending, by 2050.
- **Purpose invites accountability.**
 - PwC voluntarily discloses diversity data, even when it makes uncomfortable reading.
 - Capita has invited worker directors onto its board, including the remuneration and audit committees.
 - Severn Trent educates its consumers to use less water.
- **Purpose necessarily evolves, but the core philosophy remains.**
 - Infosys's purpose has evolved into "navigating your next" but the original philosophy of engagement with frontier technologies stands.
 - Unilever's 19th century commitment to making cleanliness commonplace has morphed into a 21st century commitment to make sustainability commonplace.
 - Making purpose live demands constant dialogue with staff, shareholders and wider stakeholders within a framework of accountability.
 - All the quoted companies are doing this, but so are the professional service partnerships – with EY and PwC's leaders elected around clear manifestos – where shareholders and stakeholders are one and the same.
- **There was a common view that there is no long-term trade-off between purpose and shareholder value.**
 - Some acknowledged – for example NatWest and Severn Trent – that there can be short term trade-offs between different stakeholder groups.
 - Purpose provides a guide to managing these in a way that respects the welfare of all parties, and protects the reputation of the company, over the long term.
- **There is friction in the interaction between companies and investors around purpose.**
 - Companies feel that, while there has been some improvement, too many investors still focus on the financial numbers and present a disjointed face to companies on purpose, ESG and performance.
 - Investors do not want companies to use purpose as an excuse for evading accountability for running a tight ship.
 - They want to see the tangible connections between purpose, ESG, culture, performance and expect companies to be able to demonstrate this.
 - Improving dialogue and understanding between companies and investors on purpose is an important place on which to focus.
- **Some CEOs identified the importance of a shareholder base that aligns with the directors' and organisation's purpose,** but this can be demanding to achieve in a British context.
 - A step towards that is the leadership teams who are increasingly focused on who constitute their lead shareholders and actively court those who commit to the company's purpose.
 - This is an explicit aim of Severn Trent, for example, but also shared by others like Infosys Ltd and NatWest.

Concluding thoughts from The Purposeful Company

- **There's a prevailing sense that too many people still need to be persuaded.**

- The case for purposeful business needs to be made, and made again.

So where do we go from here? How do we at The Purposeful Company suggest we build on these insights to ensure that truly purpose-led business spreads beyond the vanguard to become the general way of doing business?

- **We need to continue to make the case to change the paradigm.**

- There is no direct trade-off between purpose and long-term value. The more that purposeful companies succeed, the more that will be reflected in conceptions of best practice, a growing body of evidence and supporting theory.
- As a new generation of leaders brings their world view to bear, the more we can expect purposeful business to cease to exist as a separate idea. It will just become the way we do business.

- **However, purpose itself does not dissolve away the need to navigate trade-offs between stakeholders that can occur over the short and even long term.**

- This was acknowledged by some of our interviewees. This could include the conventional trade-offs between, for example, sustaining employment and lowering costs.
- Or they could include the emerging trade-offs between the environment and areas of carbon intensive activity on which communities may currently rely.
- Purpose cannot relieve an organisation from difficult decisions, but it does provide a framework for analysing them and then acting congruently.

- **Purpose requires action to support words. But the actions must be focussed.**

- Purpose is not about being nice to stakeholders.
- Purpose is about understanding the stakeholder with whom the business has the most material relationships, which impact most on it fulfilling its purpose and creating value.
- A focused approach to stakeholder relationships will enhance value. A scattergun one will not.

- **Purpose is a living concept.**

- It may come from the organisation's founders, from within an organisation and its staff, from its leadership team or from its stakeholders.
- To be kept alive and material it needs constant engagement and orchestration with all stakeholders – and revision when needed – retaining the philosophic essence but ensuring relevance and applicability.

- **In this respect the dialogue between investors and companies over purpose needs a step change.**

- Investors need to be clear to companies about where the locus of decision making lies between portfolio managers and ESG specialists which otherwise creates confusion and frustration.
- At the same time, company reporting on purpose should address how purpose contributes to value to avoid sceptical investor responses.
- Finding better ways for companies and investors to communicate and engage about purpose is a vital area of focus. This will require improvements in reporting and transparency.

Concluding thoughts from The Purposeful Company

- It may also require new mechanisms to enable dialogue, such as a “Say on Purpose” to win ongoing buy-in to the concept, to promote a material dialogue over it and in the process make explicit any perceived or actual trade-offs.
- Purposeful companies with sufficient of their shareholder base aligned to their purpose could thus be developed as an asset class.
- **Investors should thus make stewardship a priority, viewing it as a profit rather than a cost centre.**
- However, stewardship should be focused and targeted on first-order concerns that they have expertise in addressing – it is not investors’ prerogative to micromanage a company, nor is it their responsibility for each one of its problems.
- To lay the grounds for stewardship, actively managed funds should be truly active, holding a concentrated portfolio where every stock is a ‘conviction holding’ whose long-term story in which they either believe or believe they can turn around.
- Investors should ensure that companies’ pursuit of purpose is similarly focused – on material stakeholder issues that they have a comparative advantage in addressing.
- **Codes and regulation matter. Purpose is now at the heart of the Corporate Governance Code and Stewardship Code.**
 - We now need words to be followed up by deeds as companies and investors fulfil their obligations under these codes.
 - For now, the objective should be to improve the application of, and reporting on, these existing codes. Time will tell whether these codes are sufficient as written or need further strengthening to clarify the expectations of business.
- The importance of purpose needs to be recognised by other regulators in the corporate realm, whether financial regulators such as the FCA and PRA or utility regulators such as Ofwat and Ofgem, so that purpose-led business can flourish in the regulated realm.
- **Obvious barriers to purpose should be removed.**
 - Moving away from short term pay schemes to longer term incentives aligned with purpose is a clear example.
 - This applies within the asset manager community as much as within companies.
 - Similarly, asset owners should give long-term mandates to asset managers.

Finally this is a unique moment to be seized. The more purposeful companies, the greater the chance of success in building a stronger economy post the pandemic.

Thank you to all the organisations who took part, whose commitment to purpose we admire. We at The Purposeful Company will continue to make the case and examine the evidence base for purposeful business, engaging with policy makers and all parts of the investment chain.

Find us and join us!

www.thepurposefulcompany.org

Like you, our aim is to transform UK business with purposeful companies that create long term value by promoting the welfare and serving the needs of society.

TPC Steering Group May 2021

Appendix

Full purpose statement from **Barclays Bank**:

“Finance is the oxygen of the economy. Acting transparently and with expertise, we deploy finance responsibly to support people and businesses. We have the capability and capital, the operational resilience and the commitment, to make a real and lasting difference to the economic lives of customers and communities. This is as true today as it was when our bank was founded over 330 years ago.

Acting with empathy and integrity, we aim to be a leader in the profession of banking and to engender trust amongst our key stakeholders. We understand the power of building a supportive and inclusive culture for everybody, knowing that we make a bigger difference when we pull together as one team.

We operate with energy and imagination, championing innovation and sustainability, to make a positive and enduring difference, to take pride in leaving things better than we found them. New ideas and technologies can help customers and communities to unlock opportunities.

Our success is judged not only by commercial performance, but also by our contribution to society, and how we act responsibly for the common good and the long term, because these outcomes are mutually dependent. We are at our best when our clients, customers, communities, and colleagues all progress.”

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