

What is the purpose of your company?

Purpose of this article

This article enables the board of directors and C-Suite to begin the discussion regarding company purpose.

What is purpose?

Purpose answers the question: Why does the company exist?

- 1) Without cash paying customers, the company does not exist. One aspect of purpose is to address the problems and needs of cash paying customers who are able to and choose to buy the company's solution.
- 2) The company also impacts other stakeholders in its ecosystem which includes overall society. This may include providing value to them and extracting value from them. The stakeholders can also impact the value of the company. Some stakeholders may deny the company its social license to operate.
- 3) What society needs does the company meet?
- 4) Why should employees work for the company?

What are some perspectives regarding purpose?

- 1) Only 7% of Fortune 500 CEO's believe their companies should mainly focus on making profits.¹
- 2) The top two employee priorities in a McKinsey survey were: contributing to society and creating meaningful work. These priorities were the focus of only 21% and 11% of respective company purpose statements.¹
- 3) Larry Fink, in his 2018 letter to CEOs, said "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.....Without a sense of purpose, no company, either public or private, can achieve its full potential.....And ultimately, that company will provide subpar returns to the investors."²
- 4) U.S. Business Roundtable in 1981 "Corporations have a responsibility, first of all, to make available to the public quality goods and services at fair prices, thereby earning a profit that attracts investment to continue and enhance the enterprise, provide jobs, and build the economy." "Business and society have a symbiotic relationship: The long-term viability of the corporation depends upon its responsibility to the society of which it is a part. The well-being of society also depends upon profitable and responsible business enterprises."⁴

What is the value of purpose

Boston Consulting Group analysis revealed that the majority of companies with high purpose scores achieved above median long-term total shareholder returns. The majority of companies with low purpose scores achieved below median long-term shareholder returns.³

What are the challenges of gaining value from purpose?

- 1) Company purposes may be "...little more than catchy slogans and posers....so generic they could apply to just about any company...."⁴
- 2) There are different legal and regulatory requirements around the world. e.g. The UK Corporate Governance Code states: "To succeed in the long-term, directors and the companies they lead need to build and maintain successful relationships with a wide range of stakeholders. These relationships will be successful and enduring if they are based on respect, trust and mutual benefit." "A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society." "The board should establish the company's purpose, values and strategy....."
- 3) What to do the legal and regulatory requirements actually mean when it comes to decision making by the board of directors and officers? The Further Reading section below has the "duty of care of directors and officers" from the Canada Business Corporations Act.
- 4) There may be multiple purposes for a multi-national or multi-business unit companies.
- 5) In a private company, the shareholders agreement may restrict a number of key decisions to the shareholders rather than the board of directors or C-Suite.
- 6) Stakeholders may have different perceptions of what is value and how the company should allocate this value among stakeholders. It may not be possible to meet the expectations of all stakeholders. There could be situations where a company decision or action does not satisfy any stakeholder.

How does a defined purpose enable a board of directors and C-Suite make difficult decisions?

The following are just a few examples of difficult decisions:

- 1) Should employees be paid a living wage e.g. live above the poverty line in their community?
- 2) What should the employer in a single company town do when the plant is not meeting profit objectives, and the middle aged work-force has no other options for employment?

- 3) How much employment should be shifted to lower paid off shore staff?
- 4) How much work should be done by lower cost contractors rather than employees?
- 5) How should the companies profit be allocated among: employees, C-Suite, and shareholders?
- 6) Should the company be lobbying the government to change laws to reduce the companies taxes or reduce environmental standards?
- 7) Should the company be structured to minimize or eliminate taxes?
- 8) Etc.

Purpose is tied to values, morals, and ethics

The decision making and behaviour of the board of directors and C-Suite reflects both purpose and their values morals, and ethics.

What are your next steps?

- 1) Identify the stakeholders. Interview and survey stakeholders to determine how they perceive the company's purpose, values, morals, and ethics. How do stakeholders perceive the company relative to other companies? How has this perception impacted stakeholder actions?
- 2) Collect the currently documented purpose, values, morals, and ethics. Where do the board of directors agree and disagree on these?
- 3) Analyze key historical decisions of the board and CEO to identify the degree to which they demonstrated purpose, values, morals, and ethics. How do the historical decisions and behaviours of the board support the purpose, values, and morals.
- 4) Create your own list of difficult decisions. Discuss how each board director and C-Suite member would make each decision.

Footnotes

¹ Purpose: Shifting from why to how, McKinsey Quarterly, April 2020

<https://www.mckinsey.com/business-functions/organization/our-insights/purpose-shifting-from-why-to-how>

² <https://www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter>

³ Ralph Gomory and Richard Sylla, "The American Corporation", April 2013, page 6, The Wall Street Journal

<http://online.wsj.com/public/resources/documents/50b74ca9c91e6TheAmericanCorporation11292012.doc.pdf>

⁴ Purpose with the power to transform your organization, Boston Consulting Group, May 2017

<https://www.bcg.com/en-ca/publications/2017/transformation-behavior-culture-purpose-power-transform-organization>

⁵ UK Governance Code 2018

<https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>

Further reading

Canada Business Corporations Act – 2021 Jan 28 Duty of care of directors and officers

122 (1) Every director and officer of a corporation in exercising their powers and discharging their duties shall

- (a) act honestly and in good faith with a view to the best interests of the corporation; and
- (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Best interests of the corporation

(1.1) When acting with a view to the best interests of the corporation under paragraph (1)(a), the directors and officers of the corporation may consider, but are not limited to, the following factors:

- (a) the interests of
 - (i) shareholders,
 - (ii) employees,
 - (iii) retirees and pensioners,
 - (iv) creditors,
 - (v) consumers, and
 - (vi) governments;
- (b) the environment; and
- (c) the long-term interests of the corporation.