



A summary report from the
Purpose Governance panel at
the 22nd Annual Corporate
Governance Conference

PURPOSE GOVERNANCE:

A NEW ROLE FOR BOARDS

NOVEMBER 2020

INTRODUCTION

Purpose is replacing profit generation as the reason companies exist. Social purpose in business is becoming a global business trend. Yet how do boards ensure their corporate purpose is future-fit? How do they provide oversight of their corporate purpose? How do directors ensure the purpose is driving corporate strategy and culture and how do they know if the purpose is effectively and authentically implemented? What is driving the corporate purpose trend and why?

Governance Professionals of Canada (GPC) convened a panel of global purpose visionaries and practitioners to answer these questions and more at its 2020 Governance Summit. This is a summary report of the discussion, produced by the panel moderator, Coro Strandberg, President of Strandberg Consulting and ESG/Purpose Governance faculty member of [GPC's Governance in Practice Education Program](#). This report is a discussion-starter on the emerging role of boards and governance professionals in providing oversight of corporate purpose. It introduces this new practice which is fast becoming an expectation of boards and their advisors.

REPORT HIGHLIGHTS

- The pre-eminent role for the board is to have oversight of the organization's purpose and to make sure it is fit for the future
- "Profit purpose" is on the wane while "social purpose" is on the rise
- Canada is home to best practice leaders such as TELUS and Vancity whose boards have adopted a social purpose as the reason their companies exist and are bringing it to life in their organizations
- Social purpose reflects an evolution from corporate social responsibility approaches that address risks, to having a social purpose as the societal reason a company exists
- Once the board adopts or affirms the corporate purpose, it needs to ensure it is embedded in the corporate strategy and culture and in the overall governance mandate; this requires updating governance documents
- Governance professionals have a central role to play to raise purpose governance with boards and executives and ensure their boards keep abreast of these emerging governance best practices
- Resources to help boards and companies with this work are available, including the [Social Purpose Institute](#) and the [ISO 37000 corporate governance standard](#)
- Boards set the tone at the top for delivering on the purpose, and need values, guard rails, and a decision-lens to ensure it is executed properly

REPORT STRUCTURE:

The report answers these questions:

- What is a social purpose company?
- What is driving the social purpose company trend?
- Why is it important to have a social purpose?
- What is the board's role in Purpose Governance and Oversight?
- What is the governance professional's role in Purpose Governance?
- What are the implications for public and non-profit sectors?
- Where to go for more information?

CONTRIBUTORS

The discussion was informed by the following experts who contributed their insights and experience to the Purpose Governance conversation.

Moderator

Coro Strandberg, President of Strandberg Consulting, ESG/Purpose Governance faculty member of GPC's Governance in Practice Education Program, and Co-Founder of the Social Purpose Institute. She is a member of the board of BC Lotteries Corporation (BCLC) and sits on its Governance and Social Purpose Committee. (Note that one of the panelists also comes from BCLC.)

Purpose Governance Panelists

Victoria Hurth, Senior Associate, Cambridge Institute for Sustainability Leadership UK, and Convenor of ISO37000, a global ISO standard being developed on 'Guidance for the Governance of Organizations'

Peter ter Weeme, Chief Social Purpose Officer, VP Player Experience, BCLC

Dave Mowat, Director, TELUS and past CEO, ATB Financial

Shona McGlashan, VP Governance, Vancity Credit Union

The Panel included a crown corporation, publicly traded company, co-operative and academic/advisor. It also included a director, past CEO, governance professional, standards professional and company executive with diverse perspectives on the purpose of the corporation. All have decades of experience with purpose-driven organizations

A list of resources is provided in the Appendix, along with a link to a recording of the session.

COMPANION REPORT: GOVERNANCE IN THE NEW DECADE: THE RISE OF BOARDROOM ESG

Governance Professionals of Canada held a day-long conference on ESG Governance in September 2020.

[Click here for a copy of the report and to learn more about how ESG Governance is now a mainstream board practice.](#)

SUMMARY

This is the first time that Governance Professionals of Canada formalized Purpose Governance as a plenary topic at their annual conference. A number of other conference sessions also referred to the topic, indicating this idea is on the minds of directors and governance professionals. Some topics raised earlier in the conference include that a company's purpose should come before the company strategy, and that a corporate purpose could affect a company's risk outlook: companies may have a larger risk appetite when leaning into their purpose.

In these times, to be effective stewards of their organizations, boards and their governance advisors need to be clear on what is meant by having a corporate purpose. Overseeing the corporate purpose is the board's pre-eminent role, the directors of which need to be engaged in defining why an organization exists and ensuring it is implemented.

Over the past decade boards have been asked to adopt CSR Governance, then ESG Governance and now Purpose Governance – purpose is becoming a new domain of boards. (See this link to GPC's 2020 ESG Governance Conference Summary.)

There is no doubt that purpose governance is rapidly rising as a focus for boards and executives, in large measure driven by COVID19 and other issues such as systemic racism and growing inequality. For example, KPMG's CEO 2020 CEO Outlook shows that three-quarters of Canadian CEOs feel they need to re-evaluate their company's purpose as a result of COVI19. Nearly two-thirds of CEOs said their principal objective is to embed purpose into everything they do to create long-term value for all stakeholders; nearly three-quarters recognize the public is looking for them to take a lead in addressing global issues; and more than three-quarters believe they have a personal responsibility to be a leader for change on societal issues. Canadian CEOs are aware of these issues and the need to respond – as they express these ideas with their boards, this is expected to further attention to purpose and purpose governance.

To explore this rising governance trend the panel discussed: what is a social purpose, why is having a social purpose important, and what is the role of the board and governance professional to foster good practices in purpose governance? The following is a summary of their response.

1. What is a social purpose company?

To answer the question “what is a social purpose company”, the panel first put this into the broader context of the evolving approach to shareholder value creation and societal issues management.

In addressing societal issues, companies adopt one of three philosophies:

- 1) They focus on public relations, philanthropy, and impression management to appease the resulting stakeholder demands for their company to change – this is often characterized as corporate social responsibility (CSR)
- 2) They focus on realizing profits in the long-term, which is about delivering value for stakeholders so they can ensure stakeholder profitability. This is an enlightened shareholder approach, representing a tweak to business as usual
- 3) They focus on delivering innovation at scale to address the global challenges society faces; this company is focused on deliberately contributing to long-term wellbeing for society by solving societal problems as its core reason to exist. This company adopts well-being as its north star – its meaningful reason to exist – and holds itself accountable to delivering on it

To date, companies appear to have one of four types of purposes:

- 1) a profit purpose: we exist to maximize profit for shareholders
- 2) a customer purpose: we exist to have the best experience for customers
- 3) a product purpose: we exist to have the best products
- 4) a social purpose: our ultimate aim is to benefit society

This plenary focused on the latter approach, a social purpose. The other three types of purposes are “how you achieve your purpose”, a “by-product of your purpose” or “the means to the end”.

The Social Purpose Institute, a program of the United Way of the Lower Mainland that helps companies adopt and implement a social purpose, defines a social purpose as “a company whose reason for being is to create a better world, and whose growth is a positive force in society”. Each purpose is unique to a company and its ability to create impact. To define its social purpose a company looks at a) its competencies and assets; b) the needs of society it can impact; and c) the sweet spot between those two worlds. The sweet spot (in the centre of the Venn diagram) is where the company’s social purpose can be found.

The growth of a social purpose company parallels its positive social impact: as the company grows and prospers, society and its stakeholders prosper as well. For companies with an active CSR program, social purpose takes the philosophy and tactics of CSR and elevates it in an organization. As such it becomes more relevant to the board and its purview.

Resource: [The Definition of a Social Purpose Company](#).

2. What is driving the social purpose company trend?

We live in an age of anxiety, whether driven by the pandemic or climate crisis. People are feeling like there needs to be a different path forward from where we are, and purpose-driven firms are seen to be a route to a more sustainable future. Customers and employees are thought to be driving this trend, as revealed by these statistics:

- 70% of Canadian consumers believe companies should show how products and services make the world better
- 90% believe business needs to place greater weight on society's interest, not just business interest
- Millennials and Gen Z generations are looking for more of a connection to the businesses they work for and interact with. They are not just looking for the best price, but for meaning

3. Why is it important to have a social purpose?

Companies that adopt and execute on their social purpose can:

- Meet evolving societal expectations
- Increase employee engagement
- Increase customer commitment
- Strengthen stakeholder relationships
- Foster innovation
- Navigate turbulent times
- Future-proof the organization
- Drive growth

Over the long-term, having a purpose doesn't result in a loss of profitability, it is not a trade-off, it is not profit or purpose. For some companies, their social purpose is a route to profitability. For others, their purpose transcends profitability.

Purpose-driven companies are far more likely to attract the energy of employees and a wide range of stakeholders to support the company in delivery of its purpose.

COVID has accelerated the pivot to purpose, making it harder for business to hide: governments have bailed out companies and won't tolerate the shifting of profits offshore, workers have been put at risk, people are being reminded of what the world looks like with less pollution – a crisis like this reveals which organizations are most likely to endure. Having a purpose helps future proof an organization in this context.

Resource: [The Business Case for Social Purpose](#)

4. Examples

Two panelists spoke to the social purpose of their firms:

TELUS: The purpose of TELUS is to connect all Canadians for good. It has branded itself “the leading social capitalism company” as an extension of this purpose. TELUS’ purpose evolved over time as the organization came at it through experience. A generation ago the company believed it was in business to make money and to make money it had to link with customers and engage team members, sharing its profits with local communities. It now sees the importance of reversing this order, recognizing that companies who focus on short-term profits are not likely to be viable in the long run. With the reversed order, communities and stakeholders are considered first, then customers and employees become engaged and the result is shareholder value. This way team members have something to put their shoulder into, fostering employee pride and a more engaged workforce. These days the board talks about driving social outcomes and expanding the company’s purpose. TELUS’ purpose is put at the front of the organization, as a lens on its business decisions.

TELUS follows this enlightened form of capitalism, which takes a longer-term view of things. Top performing companies, especially the new crew of leaders running companies, integrate this into their thinking. This is the most successful way to create shareholder value.

Vancity: Vancity’s social purpose is to redefine wealth. Its tag line is: “we make good money by putting money to good”. Some organizations skim off a percentage of profits for community initiatives. Vancity doesn’t follow this approach. Its intention is that every activity undertaken in the course of its business is to further the purpose. Its purpose is not an add-on, but fundamental to everything it does.

5. The Board's Role in Purpose Governance

Boards should ensure the purpose of their organization is their over-riding concern. Core board roles in governing the purpose include:

- 1) **Purpose Definition:** Boards should **articulate and own the purpose** to make sure it is and remains relevant. To do that the board needs to have its finger firstly on the pulse of the broader moral landscape in which it operates and secondly on its organizational competencies, capacities, and motivations.
- 2) **Corporate Strategy:** Boards should make sure the **company's strategy is delivering on the purpose**. This includes ensuring strategies to achieve the purpose are in line with its values and world view.
- 3) **Corporate Culture:** Boards should **define the desired culture that can deliver the purpose** and work with management to bring this culture about. This starts foremost with setting the right ethos and behaviours at the board level and actively communicating and living what it means to deliver the purpose in the right way. The board sets the tone at the top.

Additional purpose governance roles of the board include:

Board social purpose education: the board needs to be equipped to engage in strategic planning on its purpose and understand the commitments it is making.

Board participation in setting success metrics: the board needs to help define what success looks like by working with management to adopt indicators to assess if the company is moving towards its aspiration.

Revise committee mandates: the board needs to embed social purpose oversight in its committees as all have a role to play in purpose execution. If an existing committee is currently focused on tactical corporate social responsibility measures, it can focus instead on more strategic social purpose matters. (For example, changing the name of the Governance and CSR Committee to the Governance and Social Purpose Committee and amending its terms of reference to reflect the new role.)

Diverse perspectives on the board: the board can recruit diverse candidates who have diverse identities and diverse perspectives in their thinking. This diversity is necessary to identify opportunities and solutions to implement the purpose as this is a new lens on the business.

6. The Board's Role in Purpose Oversight

Fundamentally, directors need to ensure the purpose is driving strategy and decision-making – it needs evidence the company is executing on its purpose. Panelists identified these approaches to purpose oversight:

- 1) **Refreshed values:** Alongside articulating the purpose and associated mission, vision and business model, the board with support of management needs to deliver a clear articulation of its values and use these to create guardrails to guide the way the organization is delivering its purpose in day to day decision-making (e.g. if you are delivering purpose you wouldn't be doing this). Once the board has adopted the purpose, it needs to refresh its corporate values. Most company values are internal and focused on how employees work together. By updating its values to reflect its purpose, the board can ensure they are cascaded into the company's performance management system.
- 2) **Cultural alignment:** The board needs to deliberately govern the organization's culture to deliver the new core behaviours. Qualitatively the board can assess if people refer to the purpose in their conversations and decision-making. An option could be for the audit committee to ask internal audit to conduct a purpose audit to identify potential misalignment in marketing, employee relations, decision-making, etc.
- 3) **Expert advisory boards:** Boards can appoint stakeholder and expert advisory boards to bring new ideas and perspectives on how the company can execute on its purpose, helping to identify and address blind spots. This can ensure that boards have ongoing external insights into the evolving societal landscape.
- 4) **Audited purpose disclosures:** External auditors can be engaged to audit the company's purpose disclosures. This can show the board and stakeholders how the purpose is authentically implemented.
- 5) **New governance standard:** In 2021 ISO 37000 is expected to be published. It is a document that will provide guidance for the governance of organizations, regardless of the type of organization or where it operates in the world. This is expected to advance the heightened global debate about the nature of governance. The current draft places purpose at the centre of the governance principles. When available, boards can use these guidelines to refresh their approach to purpose governance.

Additional board actions could include refreshing risk models, embedding the purpose into executive compensation, ongoing director education on purpose topics and embedding the purpose model into succession planning, CEO recruitment, director onboarding and talent management. Basically, most traditional aspects of governance should have a purpose dimension to them once the purpose has been agreed.

7. The Governance Professional's Role in Purpose Governance

Governance professionals have critical roles to play to bring this new governance expectation to the board and management. Their role changes depending on the stage of the company in the purpose journey. The first step is to evaluate where the company is on the purpose continuum. If the company is just starting out, the governance professional might create space for discovery, surfacing the topic, bringing in experts to talk to the board and executive, circulating articles, and making connections to organizations that have defined their social purpose. At this stage, the main idea is to elevate the conversation in the boardroom.

For those whose companies have a social purpose and who are further in the social purpose journey, the governance professional can continue to hold the space for the conversation, and make sure it doesn't get lost in the noise. It is important to make sure there is time on the agenda to continue the purpose discussion.

Additional actions governance professionals can take to advance social purpose include:

- Educate yourself on the topic, through sessions such as this with Governance Professionals of Canada
- Raise the idea of purpose governance, perhaps with the governance committee or board chair
- Determine executive readiness, look for entry points to bring purpose into your conversations with them
- Ensure the board has the resources and expertise. Traditional business media are raising this issue, share these articles with board and management
- Once the purpose has been adopted, refresh the company's governance documents to reflect this new approach, including board and committee mandates, board evaluations, etc.

8. Impact of the Purpose Governance Trend on the Public and Non-Profit Sectors

The audience was interested in how this trend to companies adopting and implementing a social purpose as the reason they exist would affect the public and non-profit sectors. Panelists responded:

Non-Profit Sector Impact

The divide between for-profits and not-for-profits won't make sense in the future, and the profit distinction will evaporate. These labels are already old and out-dated. The private and non-profit sector worlds will increasingly merge.

Charities that begin to question their role in this new reality will likely thrive in the future. There will continue to be a need for many agents to drive social change, given the societal challenges ahead. While companies may put one or more of these issues as their north star, to achieve this purpose they will need to engage a range of stakeholders including customers, governments, and non-profits. It is likely that going forward traditional non-profits will also redefine their role, becoming even more relevant in the future.

Public Sector Impact

It is important for crown corporations to develop a social purpose that helps propel their mandate. They need to ensure the government ministry they report to is briefed and supportive of the undertaking along the way – and can understand how the social purpose will help the agency fulfill its original mandate, while also contributing to the betterment of communities. Crown corporations that adopt a social purpose are unlikely to deviate from the overall purpose of their government shareholders in the Canadian context. Governments that have as their overarching purpose to help citizens, the economy and the environment thrive will now have additional actors helping them achieve this objective.

CONCLUSION

The times we are living in demand exceptional actions from our organizations and from us as individuals. We are collectively going through incredible conversations on racism, climate crisis, mental health – boards that embrace a social purpose, and have the challenging conversations about it, will be better equipped to deal with what is next down the line. Having a social purpose is key to future proofing organizations. Businesses that focus on creating well-being create meaningful places for people to work and provide something for customers to look up to.

Purpose Governance is a topic that needs to be discussed in every organization and every sector. Governance Professionals of Canada will continue to offer these insights to boards and those that advise them as this practice is advanced in Canada and beyond.

APPENDIX

Conference Recording

The conference recording is available for free to the 22nd Annual Corporate Governance Conference attendees HERE: <https://gpcanada.org/page-1861404>

For non-attendees, the conference recording can be purchased HERE: <https://gpcanada.org/event-3920772>

References and Resources

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British Academy ‘Principles of Purposeful Business’, purpose, governance and stakeholders session: <https://www.thebritishacademy.ac.uk/programmes/future-of-the-corporation/events/purpose-summit/what-role-stakeholders-purposeful-business/>