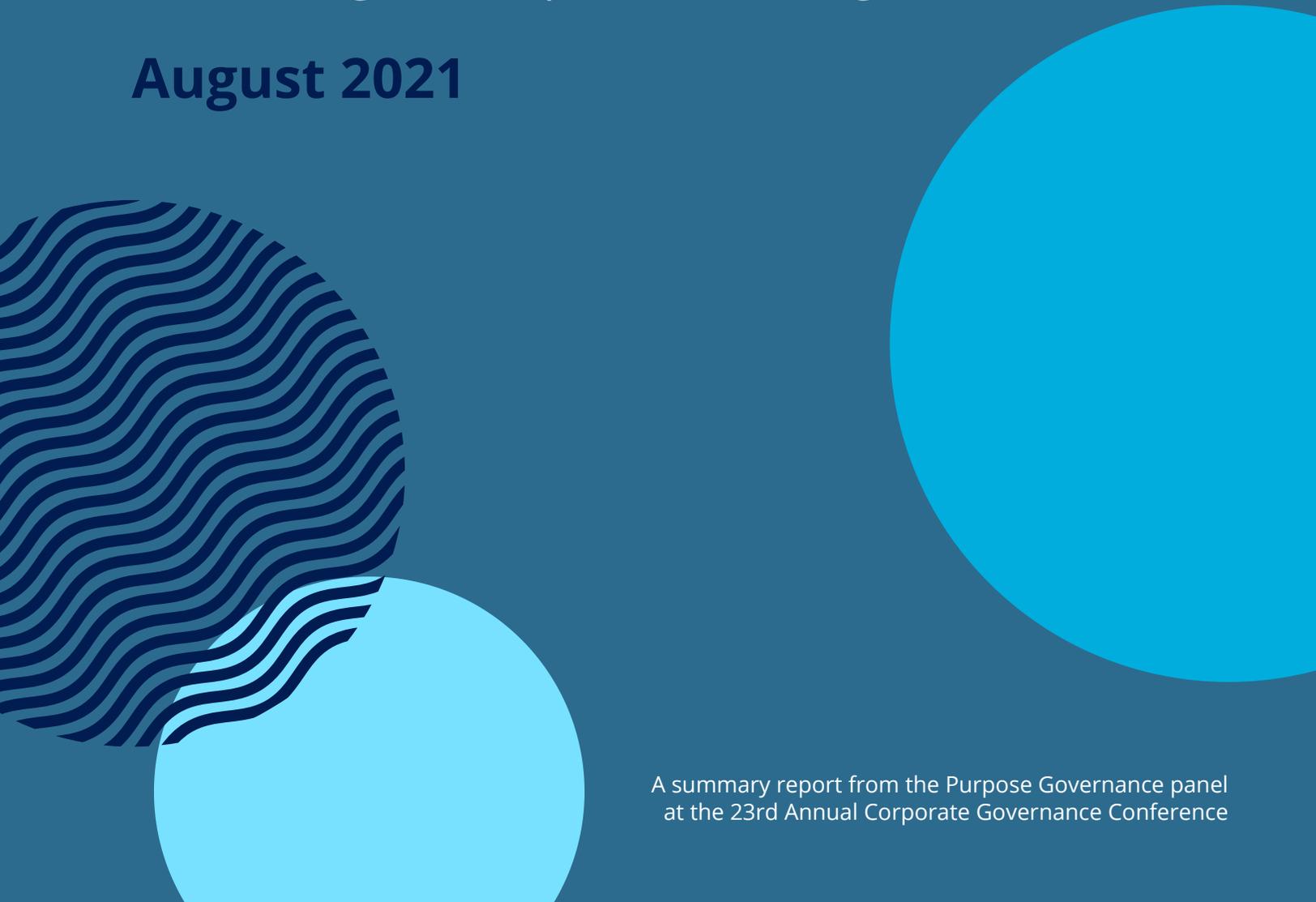


Purpose Governance:

The Role of the Board in Developing and
Overseeing the Purpose of the Organization

August 2021



A summary report from the Purpose Governance panel
at the 23rd Annual Corporate Governance Conference

1	Introduction
1	Report Highlights
2	Contributors
3	Panel Perspectives
3	Summary
5	Purpose Drivers
7	The Board's Role in Purpose Oversight
7	The Governance Professional's Role in Purpose Governance
8	Conclusion
9	Appendix
9	Acknowledgement



What is Purpose Governance?

Purpose governance is the board's role in providing oversight of the organization's purpose.

Report Structure

The report answers these questions:

- What is a social purpose company?
- What is driving the social purpose company trend?
- What is the board's role in Purpose Governance and Oversight?
- What is the governance professional's role in Purpose Governance?

Introduction

Accelerated by COVID-19, more organizations are discovering and defining the purpose of their organizations, to steer and navigate through turbulent times and unlock greater social and business value. There is also growing demand among investors, employees, and customers that they do so.

This was the backdrop to a panel discussion on Purpose Governance at Governance Professionals of Canada's annual conference in August 2021. The discussion explored the definition and drivers of a social purpose company, the board's role in oversight of the purpose, and the role of the governance professional to support the board.

This is a summary report of the panel 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 describes 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 make sure it is fit for the future.
- Good governance is being redefined to include board purpose oversight.
- While there are different types of purposes, a social purpose propels a virtuous circle of value creation.
- There are many windows of opportunity that boards and governance professionals can open to develop and implement a purpose.
- Governance professionals hold key roles to influence an organization's progress in this area.

Contributors

The discussion was informed by the following governance practitioners 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 board member of BC Lotteries Corporation which has a social purpose, and sits on its Governance and Social Purpose Committee.

Purpose Governance Panelists



Janet Taylor, Corporate Secretary, Libro Credit Union. She has worked at Libro for 20 years in a governance professional capacity. She completed her GPC Designation through GPC and was recognized by Diligent Corporation as one of the Modern Governance 100 in 2020. Libro is a social purpose company.



Tim Rorabeck, EVP Corporate Affairs and General Counsel, Highliner Foods. He has been with the publicly traded company for nearly 10 years, and in addition to being corporate secretary and general counsel, he leads their ESG initiatives. Tim is a lawyer and active in governance for fifteen years. Highliner Foods adopted its social purpose in 2020.



D'Anne Hurd, former Board Member, Eileen Fisher. She served as its Lead Independent Director, Chair of the Governance and Nominating Committee, Interim Chair of the Audit (Quadruple Bottom Line) Committee, and a member of the Technology Committee. She has a background in law and finance and has sat on dozens of public and private company boards, often on their audit and nominations committees. She advises boards of directors with a focus on the board's role in understanding, tracking, and reporting ESG and purpose initiatives. Eileen Fisher is a social purpose company.

Companion Report

Purpose Governance: A New Role for Boards

Summary of Governance Professionals of Canada's first Purpose Governance Panel in November 2020.

[Click here for a copy of the report.](#)

Panel Perspectives

All panelists have long careers as governance professionals, including corporate director, general counsel, and corporate secretary. Panelists are from diverse sectors, including fashion, finance, and food, and include B2B (business to business) and B2C (business to consumer) companies. One company is publicly traded, another is a co-operative, and one is a privately held company. Two are from Canada and one is from the United States. This diversity demonstrates the relevance of this approach to all types of companies.

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

Summary

Increasingly organizations and their boards are defining, refining, or codifying the organization's reason for existence. This goes beyond the mission of the organization (what the organization does) or the vision of the organization (where it is headed). This move to companies adopting a purpose as its North Star reflects global trends away from shareholder primacy in which the purpose of the organization is to create shareholder value. Accelerated by COVID-19, more organizations are discovering and defining their purpose to steer and navigate through turbulent times and unlock greater social and business value.

The panel was convened to explore this trend from the perspective of governance professionals with experience in social purpose companies. The following are the main points of the panel to unpack Purpose Governance, defined as the board's role in providing oversight of organizational purpose.

What is a social purpose company?

To date, it appears companies have one of four types of purpose:

- **Profit purpose:** Purpose to generate profits for shareholders
- **Product purpose:** Purpose to have the best products
- **Customer purpose:** Purpose to offer the best customer experience
- **Social purpose:** Purpose to make the world better

Based on research conducted by the [Social Purpose Institute at United Way](#), the definition of a social purpose company is one whose purpose is to contribute to a better world. And while it uses the term “social”, it can include an environmental or social aim. The panel focused on this last approach to purpose: social purpose.

Recognizing that a purpose that is not implemented runs the risk of becoming a tagline or marketing slogan, it is important that the purpose is operationalized in the company. Failure to do so might result in accusations of purpose-washing and foster cynicism among stakeholders, including employees. This is where the board of directors comes in – to ensure the purpose is implemented throughout and across the organization and its relationships.

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



***Our previous mission,
vision and values had run
its course and we needed
to update ourselves with
the times.***

What is the difference between Purpose, Mission and Vision?

Purpose: why your company exists

Mission: what it does and how it does it
Vision: where it is headed

What is driving the trend to social purpose?

There is growing demand among investors, employees, and customers that companies have an authentic social purpose. Here are two investor perspectives on the topic:

- Every year the CEO of BlackRock, the largest asset management firm in the world, issues a letter to the CEOs of the companies in which his firm invests. Starting in 2018 and every year since Larry Fink has called upon companies to have a social purpose, [for example](#): *Society is demanding that companies, both public and private serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.*
- In 2021 Morrow Sodali, a global shareholder services company, [published a report](#) of a survey of 25 percent of global capital markets. It found that 85 percent expected boards to disclose their company's purpose and would engage the board if they didn't.

Another marker of businesses pivoting to adopt a societal purpose as the reason they exist is the [statement](#) issued by the American Business Roundtable in 2019. The statement, endorsed by over 180 CEOs of some of the world's largest corporations, signaled their move away from shareholder primacy as the purpose of the corporation, towards a commitment to instead serve all stakeholders.

Finally, a 2021 report authored by the panel moderator on the [Future of Business in Society](#) concluded that businesses adopting a social purpose as the reason the company exists will be hallmark of leadership in future.

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

Purpose Drivers

There are many situations that propel companies to adopt a social purpose. Here are three:

- Amalgamation of two organizations was a good time to examine why the merged organization existed
- Developing an ESG (environmental, social, governance) strategy surfaced the idea of having a social purpose to set the corporate direction
- Refreshing a company brand raised questions about why the organization existed to direct the brand

On the matter of brand and marketing strategies, companies with a compelling social purpose are able to attract younger customers and open new markets. The purpose-led consumer is becoming a more powerful force in the marketplace. Sometimes it is even possible to charge a premium for purpose-led products..

For some, the purpose is inherent in the DNA, but the process of formalizing and codifying it allows the organization to set goals and priorities against it. The purpose can now become an explicit factor in decision-making.

In developing a purpose, it is important to have one that is relevant to the business and industry in which the business operates. Once adopting their purpose, companies also develop a definition or narrative about what their purpose means to go along with it, as the purpose statements are typically short

From ESG to Purpose

We were looking at our ESG initiatives and wondered what did we want to stand behind, what did we believe in? We developed our purpose to help prioritize our ESG efforts, and then had a eureka moment – we realized our purpose feeds into the entire organization, from how we do business with customers, to how we hire and manage talent internally and everything in between.

Virtuous Circle of Social Purpose

Instead of doing good things after earning a profit, we earn a profit by doing good things. When we invest in our purpose it attracts employees, customers, partners, and investments which contribute to our success.

COVID Implications

While COVID-19 was challenging for everyone, panelists commented that having and focusing on purpose and values helped business navigate and emerge stronger than before. Customers are attracted to the purpose because of the shared values. Evidence shows that having a purpose fosters organizational resilience, which will become necessary in the future. Purpose-driven companies are able to make decisions quickly and efficiently because of internal organizational alignment around the purpose.

The Board's Role in Purpose Oversight

Boards are involved both in developing and approving the purpose, and in having oversight of the purpose once it's approved.

Once the board approves the purpose, here are some roles they play to monitor its implementation:

- The full board monitors progress on the purpose through regular management reports
- The board provides advice on, and approves, purpose metrics for the balanced scorecard and corporate strategy
- Committee roles:
 - The Governance Committee has oversight of ESG matters, including purpose
 - The Audit Committee (called quarterly bottom line committee at this company, which stands for people, profit, planet, and purpose) has oversight of the purpose metrics

Our purpose is our North Star, something we continually aim for, that the board monitors closely.

The International Standards Organization (ISO) is publishing governance guidelines in the fall, called ISO 37000. It sets out a framework to guide boards in this area.

The Governance Professional's Role in Purpose Governance

Governance professionals have several roles they can play to start and support the organization's purpose journey. These include:

- Become educated about this trend, including on the social purpose business case – become informed on how social purpose fosters good governance and enhances financial viability
- Arrange for board education on the topic
- Share information and articles with the Governance Committee
- Raise the topic in board and committee discussions, especially with the Governance Committee Chair



***Become an advocate.
Have courage. Be a
change agent.
Act as the bridge
between board and
management on
purpose.***

- Talk to colleagues in different departments across the organization about the topic, whether commercial teams, finance, HR, procurement, etc. Help them understand how social purpose can add value to their work
- When updating the governance manual use this as an opportunity to recommend the board include oversight of purpose in its roles and responsibilities
- When updating committee charters use this as an opportunity to recommend including purpose roles
- Recommend including questions on purpose knowledge and oversight within the board evaluation
- Raise this topic with executive sponsors of board committees. Purpose can connect to succession planning, CEO success profiles, incentive compensation and culture, making this relevant for the Compensation Committee. It connects to performance metrics and risk management, making it relevant for Audit Committees, etc.

Chances are there is an upcoming item on a board, committee, especially governance committee, agenda where purpose governance can be raised as a discussion topic. Governance professionals can look at upcoming board calendars and likely find opportunities to bring this governance practice forward.

Conclusion

It is good governance for organizations to have a reason for existing and for boards to ensure it is future-fit and that they provide oversight of progress on the purpose. If a brand refresh is underway, if the organization is creating an ESG strategy, merging or hiring a CEO, these are all milestones moments that create windows for the development of a purpose. Even updating the governance manual or reviewing committee terms of references create openings for a purpose discussion. All the tools of governance can and should be leveraged to ensure boards and their organizations are equipped to create value for shareholders, stakeholders, and society in the years ahead.

Appendix

Conference recording

The conference recording is available for free until December 31, 2021 to the 23rd Annual Corporate Governance attendees here: <https://gpcanada.org/page-1861463>

For non-attendees, the conference recording can be purchased here: <https://gpcanada.org/event-4223074>

References and Resources

Definition of a Social Purpose Company: <https://socialpurpose.ca/wp-content/uploads/sites/6/2021/03/sp-business-definition-united-way.pdf>

Business Case for a Social Purpose Company: <https://socialpurpose.ca/wp-content/uploads/sites/6/2021/08/sp-business-case-united-way.pdf>

Purpose Governance: A New Role for Boards (Summary of GPC's November 2020 Governance Panel, 2020): <https://corostrandberg.com/wp-content/uploads/2020/11/purpose-governance-2020-gpc-report.pdf>

Acknowledgement

GPC wishes to thank **Coro Strandberg**, *President of Strandberg Consulting*, for writing this report.

