KPMG

# Governing through corporate purpose

**KPMG Board Leadership Centre**

Just as the very purpose of organisations is being questioned today and organisations try to become clearer about what they stand for, what role can boards play in strengthening the perceived legitimacy of the business? How should social licence and considerations about implied corporate values shape board decisions?

*Dr. Meena Thuraisingham, Author of "Identity, Power and Influence in the boardroom" (Routledge, 2019)*

Questions about social licence are, at their core, questions about the purpose of the company – the enduring statement of why a business exists. Seen in this way a clear statement of purpose should anchor all decisions, in particular strategic decisions…giving a meaning to everything the company does. While the focus on shareholder value has the benefit of specificity, it is an incomplete statement of legitimacy, let alone success.

The growing importance of purpose was succinctly captured by BlackRock's CEO, Larry Fink, in his 2018 letter to the CEOs of the S&P 500:

*"Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the licence to operate from key stakeholders. It will succumb to short-term pressures to distribute earnings, and, in the process, sacrifice investment in employee development, innovation, and capital expenditure that are necessary for long-term growth"*

The concept of shared value is a response to the capitalist system being questioned, rising societal disquiet and declining trust in business (and in capitalism more broadly). A shared value approach brings business and society together to generate economic value for society by addressing its challenges, reconnecting business success with social progress.

Much of this disquiet can be attributed to companies (with notable exceptions) trapped in a narrow sense of shareholder value and profit maximisation as a primary goal or purpose - a management and investor ideology that boards should challenge and redefine.

Boards can and must govern, indeed lead, by embracing a wider range of issues than they have done in the past. Disregard or disrespect of the trust communities place in companies that are designed to serve them is more likely to destroy shareholder wealth not preserve or create it. There are many notable examples of this. Such disregard will also encourage greater governance and regulatory scrutiny and intervention. Despite this, how much board time is allocated to such issues? Nowhere near enough.

We have all of late witnessed executive remuneration becoming the lightning rod for community and shareholder dissatisfaction. However, the continuing inaction or disinterest of boards will also result in other issues such as the board's role in ensuring greater clarity of purpose progressively generating the ire of long-view investors and other stakeholders. This is not simply the preoccupation of do-good investors.

As companies and whole sectors experience disruption to their business models (this is not merely a reference to digital disruption), a company must determine if it is strategically fit to meet these challenges. Boards need new ways to assess how strategically fit the company is. The corporate purpose while needing to stand the test of time, may from time to time be challenged by unprecedented change and unknowable uncertainties. Revisiting the organisation's purpose is a good place to start. Three critical questions will help make the guiding purpose clearer:

- Why are we here and what are we here to do?
- Who are we doing it for and why?
- How are we moving the organisation closer to its strategic goal?

In doing so boards may need to also ensure that management is able to disrupt often well-entrenched thinking, challenge the cash cows and up-end long-held business models. Landing on a strong unifying purpose provides the rudder for a business: employees know why they come to work, customers are motivated to buy the company's products and investors can see the long-term business case for investing. In a 2018 JP Morgan study, they found that socially responsible investment is becoming mainstream and is now worth USD23 trillion globally. Investors have a legitimate and growing case to ask how in touch boards are with the reason their companies exist beyond short-term shareholder returns. Boards may also need to consider the role that Integrated Reporting (integrating both financial and non-financial reporting) plays in revealing the true performance of a company.

What contribution can your board play in strengthening organisational purpose and responsibilities associated with the company's social licence?

*Dr. Meena Thuraisingham, Director of BoardQ, is an organisational psychologist with extensive experience consulting with and coaching top teams, directors and boards on strengthening effectiveness. This is one of a series of short pieces on the many dilemmas that directors face in navigating boardroom cultures. Meena's book,* Identity, Power and Influence in the Boardroom, *a unique view of board functioning through the prism of social psychology, will be published by Routledge UK in May 2019. She will be speaking at a KPMG hosted event on the 10th June in London and participating in a panel discussion on board culture and renewal.*

Contact boardleadershipcentre@kpmg.co.uk for more details and to register your interest in attending.

## Contact us


**Timothy Copnell**
KPMG Board Leadership Centre
**T:** +44 (0)20 7694 8082
**E:** tim.copnell@kpmg.co.uk