

The New Era of Corporate Purpose

A Primer

June 2020



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1. Introduction

Knowing what you value can help you build more effective strategies, communications, measurement systems, trust, and an innovative culture.

Your internal stakeholders want to know that what they are working towards matters. They want to feel empowered to make their own unique contributions toward the overall aim of the business. While profit generation may be a simple objective to understand and pursue, it may be more suitable to conducting simple, repetitive tasks rather than ideation and complex problem solving. Moreover, incentives that only reward profit maximization can lead to unintended consequences that require the same creative problem solvers who are pursuing employment with purpose-driven companies whose business models and stated objectives align with the kind of world that top talent wants to help work toward.

External stakeholders are simultaneously emboldened through instant connectivity and access to data and frustrated by hyper polarization and the erosion of credible information sources. This tension plays out on many micro and macro levels, including the geo-political arena where some actors are investing towards poverty alleviation, carbon abatement, and prevention of future health emergencies, while others pursue harsh austerity measures to achieve short term measures such as improved GDP - a measure increasingly being debated as an outdated method to gauge the long term health of an economy, its citizens and the ecosystem.

The investment community in particular has emerged as an influential player in the "change agenda" and the business case for doing so is on their side. There are volumes of evidence that demonstrate conclusively, across all regions and sectors of society that companies, which are highly ranked for their sophisticated approach to environmental, social and governance (ESG) leadership are outperforming the rest of the market, even (and especially) during times of severe economic downturn such as the current period we find ourselves in.

As a result, many companies have rushed to demonstrate and articulate their ESG leadership to the market, often failing to make the structural, cultural, and incentive-based changes required to authentically claim they are doing much more beyond minor efficiency enhancements and improved storytelling.

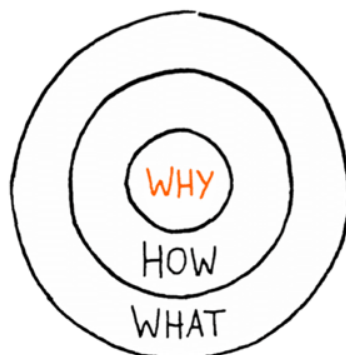
Transformation begins with an inspiring aspiration that has a realistic chance of being achieved through the company's core business operations and the unique contribution the business can make to society.

The Golden Circle

WHAT
Every organization on the planet knows WHAT they do. These are products they sell or the services

HOW
Some organizations know HOW they do it. These are the things that make them special or set them apart from their competition.

WHY
Very few organizations know WHY they do what they do. WHY is not about making money. That's a result. WHY is a purpose, cause or belief. It's the very reason your organization exists.



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2. What is the Purpose of a Corporation?

One of the longest held beliefs on corporate purpose is often traced back to 1962,¹ when Nobel Prize winning economist Milton Friedman proposed that there is “one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits.” The notion of profits as the primary form of corporate purpose began to pick up momentum, and when Friedman expanded on the original idea in a 1970 New York Time Essay, [*The Social Responsibility of Business Is to Increase Its Profits*](#),² he helped usher in the era of shareholder capitalism.³ Throughout the subsequent decades, profits above all else propagated across business schools, management consulting firms, and corporate America.⁴ In 1997, a collection of American CEO’s known as the Business Roundtable (BRT) acknowledged the shareholder as the most important stakeholder in their [*Statement on Corporate Governance*](#)⁵ and solidified the idea of shareholder primacy as corporate dogma.

The sole pursuit for maximum corporate profit generated great wealth for corporate shareholders, but also contributed to an era of scandals; WorldCom’s deception,⁶ Enron’s cooked books,⁷ Madoff’s Ponzi scheme,⁸ and ultimately a global financial crisis riddled with fraudulent activity. As the financial recovery from the turbulent 2000’s began, other problems grew in prevalence. Global inequality continued to rise, and evidence of devastating climate change impacts mounted, reigniting questions around the purpose of a corporation – perhaps maximizing profits for shareholders was too narrow of a focus?

Fast forward to present day, and a new model of corporate purpose appears to be emerging on multiple fronts. The CEO of BlackRock, the world’s largest asset manager, talked in length about the need for a new form of corporate purpose in both his 2018 annual letter to CEO’s [*A Sense of Purpose*](#)⁹ and most recently in his 2019 version titled [*Purpose & Profit*](#).¹⁰ Even champions of the old dogma, such as the BRT have changed their tune. Earlier this year, in a statement titled, [*Business Roundtable Redefines the Purpose of a Corporation to Promote ‘An Economy That Serves All Americans’*](#)¹¹ the BRT replaced it’s 1997 statement with a new one, one that acknowledges stakeholders other than the shareholder and calls for corporations to find their purpose.

What does this new era of corporate purpose look like? It depends who you ask, however it would seem as though it is being asked more often and thus presents an opportunity for corporate sustainability leaders to leverage further. The following Spotlight provides an overview of what shape the new era of corporate purpose is taking, from the academic, consulting, investor, legal and political perspectives.

Figure 1. Social Purpose Continuum

| Business model | 1.0 Philanthropic | 2.0 Strategic | 3.0 Integrated | 4.0 Social purpose |
|----------------|-----------------------------|----------------------|---------------------------------|--|
| Motivation | Give back or PR | Achieve results | Be more competitive | Build a better world |
| Strategy | Sidelined | Siloed | Component of corporate strategy | Central to and inseparable from corporate strategy |
| Lead | Community relations manager | CSR manager | Chief sustainability officer | CEO |
| Customer role | None | Volunteer and donate | Join and co-create | Part of a social movement |
| Business value | Goodwill | Reputation | Profitability | Long-term viability |

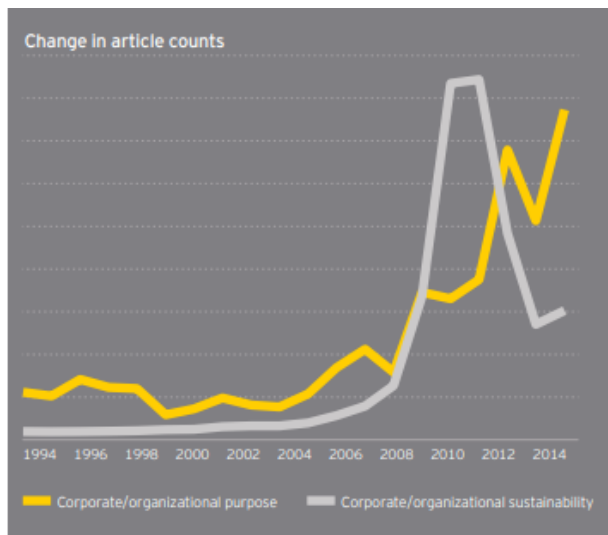
The Social Purpose Institute at the United Way, uses the term “social purpose company” to refer to companies whose overall corporate purpose is to benefit society. CBSR Associate and consultant to the Social Purpose Institute, Coro Strandberg developed the Social Purpose Continuum illustrated above.

The Social Purpose Continuum demonstrates the evolution of the corporate stance on addressing societal issues from a purely public relations play, to being central to corporate strategy.

Source: [The Social Purpose Company](#)

An impressive example of corporate purpose research was developed when the Beacon Institute partnered with the Saïd Business School at Oxford to understand how corporations can benefit from purpose. In this study, a literature review of more than 150 purpose themed books, academic and mainstream business articles was conducted, spanning from 1994 to present day. The figure below displays the dramatic increase of both corporate sustainability and more importantly, corporate purpose across the literature reviewed. Given that this study was published in 2015 prior to many of the recent milestones in the corporate purpose movement, the increasing trend line most likely continued to rise throughout 2016 to present day.

Figure 2. Public Discourse of Corporate Purpose & Corporate Sustainability



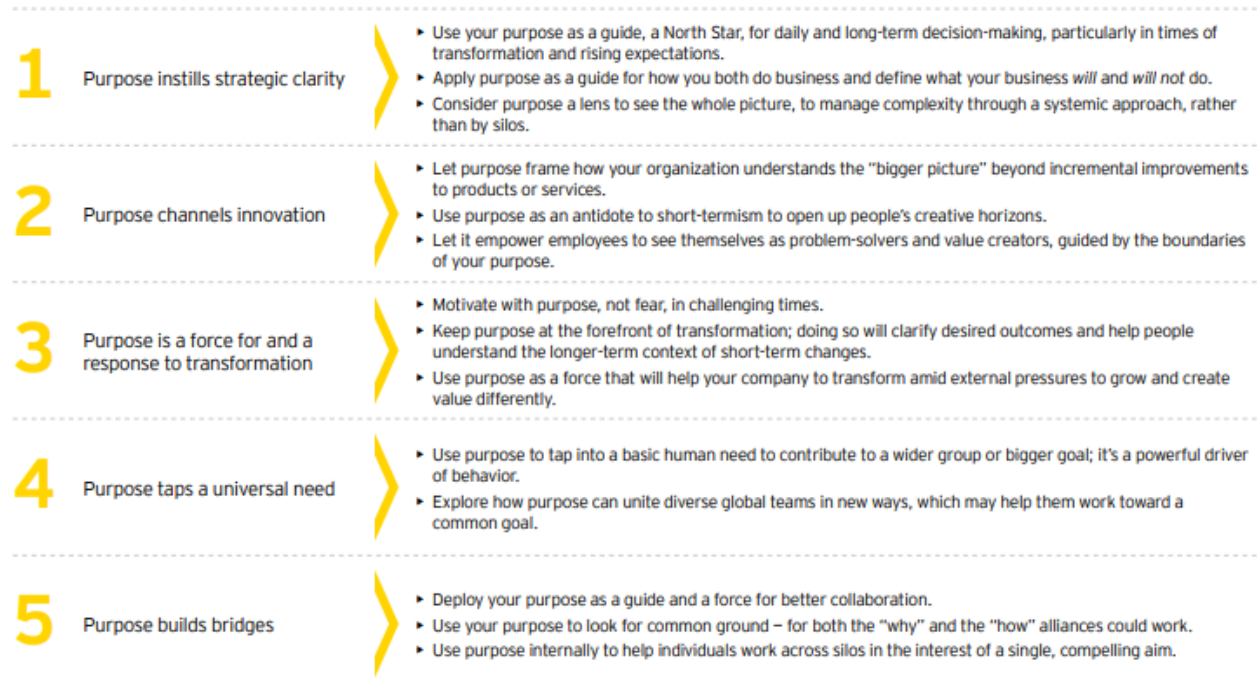
Public discourse about "corporate / organizational purpose" has increased fivefold since 1994, now trending at an exponential rate that surpasses the rage of public discourse about sustainability.

Source: "Standardized article count on corporate purpose and sustainability," An analysis of how and why top leaders of global organizations leverage purpose to transform, December 2015, Saïd Business School, Oxford University, EY, 2015.



The same body of research discovered that there were also common themes throughout the literature that identified how purpose enables the success of corporations. These five themes are summarized in the figure below.

Figure 3. Five Ways Purpose Enables Success



Source: [The State of the Debate on Purpose in Business](#)

Deloitte provides another notable perspective on corporate purpose. In their [2030 Purpose²³](#) report, the corporate purpose movement is connected to the Sustainable Development Goals (SDGs). Deloitte encourages corporate practitioners to align their own corporate purpose with SDGs and suggests that aligning your purpose with the SDGs is aligning it with future commercial success. In one of the harder hitting lines on corporate purpose, the report states:

The notion of ‘purpose’ is becoming an ever more established feature of the business lexicon, reflecting the idea that the narrow focus of shareholder primacy has no basis in law or economics and does not deliver better bottom-line results.

While there are a multitude of opinions on corporate purpose from the consulting perspective, a consensus is emerging that a clear corporate purpose not only has benefits but is also an essential aspect of the modern corporation.

Investor Perspective

There are numerous sustainability related initiatives in the investment world that imply a growing emphasis on corporate purpose. These include social impact investing, the UN’s Principles of Responsible Investment, the rise of ESG, and the success of green bonds. However, one of the most significant developments symbolizing the onset of an era transitioning away from shareholder primacy is the voice

Investor Perspective

There are numerous sustainability related initiatives in the investment world that imply a growing emphasis on corporate purpose. These include social impact investing, the UN's Principles of Responsible Investment, the rise of ESG, and the success of green bonds. However, one of the most significant developments symbolizing the onset of an era transitioning away from shareholder primacy is the voice of Larry Fink from Blackrock. As the CEO of BlackRock, the world's largest asset manager with assets valued at \$6.8 trillion, he is arguably the biggest shareholder on the planet. Each year, Larry writes a letter to the CEO's of the companies which BlackRock invests in. The purpose of the letter is to advocate for practices that BlackRock believes will drive profitability, and the theme for both his 2018 and 2019 letters? Corporate purpose.

In his 2018 letter, [A Sense of Purpose](#),⁹ Fink recommends a framework to help the companies he invests in navigate the current corporate landscape. The entire framework focuses on having a clear corporate purpose embedded in both the business model and corporate strategy. This idea is expanded on in his 2019 letter, [Purpose and Profit](#),¹⁰ where he explains that purpose is best the force at achieving profit and makes a case exploring the linkages between purpose and profit. In what would appear to be an ironic twist, the worlds largest shareholder is stating that the best way to generate profit for shareholders is to stop obsessing over generating profit for...shareholders.

Legal Perspective

While some experts believe corporations will start to change their ways voluntarily, others believe an entirely new legal entity is required for a corporation to pursue financial and social goals simultaneously. Currently, the most popular form of new corporate entity is known as a benefit corporation, which developed out of the Certified B Corporation²⁴ (B Corp) movement. Unlike B Corp, which is a voluntary certification process for any profit seeking legal entity, a benefit corporation is a legal entity in itself. Benefit corporations mandate many of the voluntary aspects of the B Corp certification into core legal requirements and is often viewed as a more stringent standard from a legal perspective. Both benefit corporations and B Corps share much in common, and despite their few important differences, they are largely deemed complimentary. The table below summarizes both the differences and similarities between a benefit corporation and a B Corp:

Table 1. Benefit Corporation vs Certified B Corporation²⁵

| Issue | Benefit Corporation | Certified B Corporations |
|----------------|---|--|
| Accountability | Directors required to consider impact on all stakeholders | Same |
| Transparency | Must publish public report of overall social and environmental performance assessed against a third-party standard. | Same |
| Performance | Self-Reported | Must achieve minimum verified score on B Impact Assessment & recertify every 3 years against evolving standards. |
| Availability | Available for corporations on in 30 US states and DC | Available to every business regardless of corporate structure, state, or country of incorporation. |

Regardless of the benefit format selected, benefit corporations have modified obligations that commit corporations to higher standards of purpose, accountability, and transparency, while also committing them to creating public health benefits in addition to generating profits. Notable B Corps that currently exist include the Ben & Jerry's, Bullfrog Power, Business Development Bank of Canada, Etsy, Hootsuite, Patagonia and your very own Delphi Group! With mega-corporations like Danone and Unilever making public statements²⁶ aspiring to become B Corp certified in the future, it appears that this model has significant momentum and is fundamentally changing the way that corporations do business.

Another recent development in the legal realm is the Social Purpose Corporation (SPC). It should be noted that this entity is distinct from a benefit corporation. Unlike benefit corporations, SPC's are not obligated to consider the social purposes in their decision-making; they are only encouraged. Some believe that SPC's are merely a watered-down version of benefit corporations, taking the form of a less stringent benefit corporation approach that only exists in jurisdictions where benefit corporation legislation failed.²⁷

Political Perspective

Concern regarding negative consequences on society from companies focusing too narrowly on profits or shareholders often gets raised in political discourse. Consistent signals to companies from governments however are less common, given the fact that different political philosophies have varying degrees of concern regarding corporate purpose. For what is likely a myriad of reasons, corporate purpose has been a topic of interest in the US political landscape during 2018 and 2019. Beginning with the Green New Deal launched by Democrats in the US House of Representatives which includes many references to the role of companies in society as it relates to environmental issues.

The corporate purpose concept received additional high-profile attention recently as one of the leading candidates in the Democratic Party leadership race - Elizabeth Warren proposed that companies should be federally chartered in the US so that, if they abuse the interests of staff, customers, or communities, their licenses could be revoked. Warren penned an article entitled "[Companies Shouldn't Be Accountable Only to Shareholders](#)". It references a bill that She tabled, which would require "corporations to answer to employees and other stakeholders as well." She also released a one pager entitled: [The Accountable Capitalism Act](#), which outlines the ideas in more detail.

While Elizabeth Warren was eventually unsuccessful in her bid as the Democratic nominee, her ideas seemed to resonate and were referenced during the historic announcement by nearly 200 chief executives, including the leaders of Apple, Pepsi, Walmart, and Amazon, who issued a joint statement on "the purpose of a corporation," arguing that companies should no longer advance only the interests of shareholders. Instead, the group said, they must also invest in their employees, protect the environment and deal fairly and ethically with their suppliers.

Conclusion

While the definitions of corporate purpose currently vary, the general themes are the same. A Harvard Business Review (HBR) article²⁸ published earlier this year provides an excellent summary that captures the core of the corporate purpose movement as follows: "corporations are being pushed to change – to dial down their single-minded pursuit of financial gain and pay closer attention to their impact on employees, customers, communities, and the environment...a growing number of business leaders now understand they must embrace both financial and social goals."

The table below provides a summary of some of definitions that various thought leaders and organizations have on corporate purpose.

Table 2. Interpretations of corporate purpose

| Type | Organization | Terminology | Purpose Definition |
|------------|-----------------------------|------------------------|---|
| Academic | Michael Porter, Mark Kramer | Creating Shared Value | The purpose of the corporation must be redefined as creating shared value, not just profit per se. |
| Academic | Social Purpose Institute | Social Purpose Company | Corporate purpose is aligned with sustainability principles, where sustainability drives value and what the company does is a benefit to society. |
| Consulting | EY Beacon Institute | Corporate Purpose | An aspirational reason for being which inspires and provides a call to action for an organization and its partners and stakeholders and provides benefit to local and global society. |
| Investor | BlackRock | Corporate Purpose | Purpose is a company's fundamental reason for being - what it does every day to create value for its stakeholders |
| Legal | Certified B Corporation | B Corp | Purpose driven organizations, creating benefits for all stakeholders, not just shareholders |

Table 3. Social Purpose Institute Framework

| Business Area | Social Purpose Perspective |
|-------------------|--|
| Motivation | Build a better world |
| Activity | Business purpose, mission, whole of enterprise |
| Strategy | Central to/inseparable from corp. strategy |
| Resources | Leverage collective resources |
| Investment Models | Value creation |
| Issue Selection | Address complex social challenges |
| Lead | CEO |
| Employee Role | At work, at home, and in community |
| Customer Role | Customer movement |
| Brand Promise | Meaning |
| Marketing | Everything you do tells a story |
| Participation | Innovation labs for system change |
| Timeline | Long term |
| Measurement | Impact |
| Business Value | Long term viability |

3. Case Study: Lafarge

Lafarge has been through a formal process of defining its social purpose, through the United Way in Vancouver's Social Purpose institute. For the purposes of this Spotlight we interviewed Jonathan Moser, Head of Environment for Lafarge to better understand the background on this effort, and what the outcomes were.

The initiative was a local effort championed by the United Way, and its Social Purpose Institute. The initiative brought together multiple businesses from across the lower mainland / Vancouver area to further develop their corporate social purpose. For Lafarge it was important to join this effort given their significant presence in the Vancouver market, plus a desire to connect the local community's interests with those at Lafarge. The company was looking for ways to take their sustainability efforts to 'the next level'.

David Redfern, who was the most senior executive for Western Canada at the time was the champion for their participation. Given the ideas and concepts were so connected to the company's sustainability effort, Jon was asked to be the lead on it for the company. Lafarge's key objectives from participation were – support their efforts to be a leader on sustainability - attract employees – attract more business – and leverage the initiative to bolster their image within the community, including customers.

Ultimately Lafarge landed on the following social purpose statement: “**Build better cities**”. The process recommended creating a simple statement, and one that ensured that every word mattered. It helped them validate that this purpose statement was a good one which could truly be leveraged :

- They broke all three words down for more detail (guidance was that every word matters),
 - Cities was meant to be interchangeable – play ground, village, home, community
 - Build meant all aspects of what the word implies
 - Better is well....better

In the end, Lafarge found it to be a useful exercise for introspection, asking themselves what do they want to do as a company to make the work a better place and to align that with their mission and values. In future efforts they would get additional value from the collaborative aspect of this type of process if there was either a customer or supplier involved. The benefits of participation are seen to be more important at the local level, and thus the company will be looking in other regions where they can champion or be a part of similar processes.

4. Additional Resources

The following table is a compilation of additional resources that are focused on developing corporate purpose. The table is listed in alphabetical order.

Table 4. Corporate Purpose Resources

| Name | Type | Author | Description |
|---|-------------------|---|---|
| 2030 Purpose: Good Business and a Better Future | Guidance, Report | Deloitte | This report from Deloitte is designed to help corporations to identify business opportunities that benefit society through the lens of Sustainable Development Goals. |
| B Corp Certification | Certification | B Lab | A complete guide to the performance, legal, and transparency requirements to become a Certified B Corp. |
| Embedding Purpose: Fewer Slogans, More Action | Article | McKinsey | This article demonstrates the 9 ways McKinsey found organizations are successfully embedding purpose. |
| EY Beacon Institute | Various | EY | The EY Beacon Institute is dedicated to discovering how to inspire, transform, and grow organizations by putting purpose at the heart of what they do, and routinely publishes resources on corporate purpose. |
| Future Fit Guidance | Various | Future Fit Business | Future Fit has developed a variety of free tools that guide companies and investors to create value for themselves and society, now and in the future. |
| Is Your Company Transformational? | Guidance, Report | Canadian Business for Social Responsibility | The goal of this guide is to provide an aspirational and inspirational roadmap for companies to scale up their corporate social responsibilities and sustainability efforts in order to address systemic societal risk, challenges, and opportunities and improve their long-term business prospects. |
| Social Purpose at Maple Leaf Foods | Case Study | Social Purpose Institute | This case study explores how purpose at Maple Leaf Foods evolved through several company strategies and how in 2017 its leadership elevated it to its core purpose. |
| Shared Value Initiative | Various | Various | Launched from the research of Harvard professors Michael Porter and Mark Kramer, this website provides case studies, guidance, and insight within the realm of creating shared value. |
| The Dual-Purpose Playbook | Guidance, Article | Harvard Business Review | Recommendations and best practices stemming from a global study of corporations that pursue both financial and social goals simultaneously. |

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6. About CBSR

In 1995, Canadian Business for Social Responsibility (CBSR) helped introduce Canadian businesses to a groundbreaking idea now widely accepted as a compelling truth:

That businesses do better – by every measure – when they operate in a socially and environmentally responsible way.

For the past 25 years, we've served as conveners and consultants, creating safe spaces for business, government and non--profit professionals to freely reveal challenges, share information and work toward building a more sustainable future.

We recently launched a formal partnership with the GLOBE Series Constellation to scale our growth, expand our reach and enhance the service offerings that our members enjoy.

We are proud to recognize Gibson Energy as a CBSR member and look forward to a long and mutually beneficial relationship with you and your team members.

For more information visit **cbsr.ca** or contact Executive Director, Leor Rotchild at **leor@cbsr.ca**

