

# Three experts explore the role of boards of directors in development of the corporate purpose statement and the value it has to investors and other stakeholders.

BY GINA VEAZEY

## THE BOARD ROLE IN ESTABLISHING

## CORPORATE PURPOSE

**G**rowing interest in corporate purpose is raising questions about board-level engagement in developing a written

statement. What role should the board play in developing corporate purpose? How do statements of corporate purpose fit into the broader corporate identity system of mission, vision, and values? How does purpose stand apart from ESG initiatives? What is the value to investors and other stakeholders?

To explore answers to these questions, NIRI Fellow Sam Levenson, Founder and Chief Executive of Arbor Advisory Group, hosted a panel of experts at the 2021 NIRI Investor and Issuer Invitational Forum™ (“The Big I”).

He was joined by NIRI Fellow Jane Okun Bomba, President of Saddle Ridge Consulting, who drew from her ongoing service on several corporate boards and prior IRO experience. Bob Eccles, Visiting Professor of Management Practice at the University of Oxford, also offered valuable perspective based on his extensive ties to corporations and investors around the world as a researcher and advisor.

They analyzed and addressed frequent points of confusion and disconnects on the path to corporate purpose.

### Integrating Purpose and Strategy

The subject of purpose often arises out of board efforts in environmental, social, and governance (ESG), Bomba observed. “I think there’s a big difference between corporate purpose and the subject of ESG.

“Corporate purpose is foundational. It answers the question, ‘Why do we exist?’ I find it’s really helpful to flip that question on its head, asking, ‘If we knew that our company was going to disappear tomorrow, what difference would it make to the breadth of stakeholders that the company serves?’ and to hone in on purpose that way.

“Purpose needs to be very well integrated with strategy. You need to know what you’re trying to do and why you exist to start

thinking about whether you have a strategy that's going to allow you to get to that. And then, how do you execute against that strategy?"

Although Eccles agreed, he said too often, companies don't have a written purpose statement. More than two years ago, nearly 200 CEOs representing many of the nation's largest companies signed a revised Business Roundtable (BRT) Statement on the Purpose of a Corporation.

Eccles noted that, among other things, the statement indicated that "each of our individual companies serves its own corporate purpose," yet Eccles said he was aware of only one written purpose statement among all of these companies.

"If you really are authentic about purpose, I don't think it's too much to ask to produce a one- or two-page statement of purpose," Eccles suggested. "Who are the stakeholders? What are the timeframes? How do you think about trade-offs? Make sure it is signed by the board of directors. The exercise will be incredibly revealing, because if you get that kind of consensus in one or two pages, everybody is going to get it and then you're going to have a great platform for discussions with your investors."


### Writing Authentic Purpose Statements

Even when companies do have a written purpose statement, Eccles said, "it is usually so generic that it could apply to any company in that industry: 'We're a bank. Our mission, vision, and purpose is to take care of the financial needs of our customers with financial inclusion and protect data privacy.' Any bank can say that. What is unique about you as a bank? As Jane [Bomba] said, what would be the consequences if you disappeared?"

Investors are clamoring for greater authenticity in purpose statements, Eccles observed. After more than 100 interviews with investors as part of his recent research, Eccles said there is a "disconnect between all of this talk about corporate purpose in the business community and the extent to which it is being perceived as authentic in the investment community."

The problem, he said, often stems from a failure to communicate. Investors say businesses typically don't articulate their purpose well. Moreover, investors say they really want to hear from the people who can articulate the purpose well — the board. That's also a problem since, particularly in North America, it's almost impossible for investors to have a direct conversation with board members.

To solve these problems, Eccles said IR professionals could consider giving investors what they want — direct access to one or more board members without a handler from investor relations, public relations or the general counsel: "It's not about metrics, not about ESG reporting," he said. "What's the link to strategy? What's the link to capital allocation?"



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— Jane Okun Bomba, President,  
Saddle Ridge Consulting

"Of course, as investor relations officers, we all get nervous about investors having direct contact with board members," Levenson acknowledged, yet Bomba, who previously had a long career in IR, indicated it could be workable under some circumstances. Although Bomba questioned whether all her board colleagues would feel comfortable if asked to have a one-on-one conversation with an investor, she said she probably would be given her years of IR experience and familiarity with the cadence of these types of discussions.

"Part of the challenge there is that the board is not involved in the day-to-day operations of the company, nor are they involved in ongoing investor discussions and the record of disclosure created," Bomba said. "In a board-level discussion, strategy, performance, culture, mission, vision, values are all very fair game. Board members should be 100% knowledgeable and on top of those topics. When certain boards weren't paying attention to things like culture, bad things happened. Certainly, the boards I'm on spend a lot of time talking about these things, but it is not a board member's role to be deeply involved in the day-to-day operations of the company. And I think that's potentially where the angst comes in."

Another potential source of angst is the lack of uniform terminology. For example, in Bomba's experience, many companies have their purpose in the mission statement. "I think there aren't clear, well-understood definitions of each of these things, which creates part of the problem," she said.

In the absence of a clearly articulated purpose, however, investors may be left to infer a company's purpose through its actions. "Since most companies don't articulate their purpose very well,

revealed purpose is their capital allocation decisions," Eccles said.

For example, many companies faced a terrible choice as COVID-19 shutdowns began to affect workers. "You had a choice. You could lay off people, and you could keep your dividends. Or you could do it the other way. That told us something about how they thought about purpose," he explained.

### Engaging All Stakeholders

Beyond the investor community, purpose is essential for stakeholder engagement.

"If you're serving a good purpose, you want to make sure you can do it profitably so you can exist for a long time," Bomba said. "As we look at strategy and consider why we exist as a company, other stakeholder groups absolutely come into that."

Although ESG initiatives have brought the community at large into the conversation, Bomba observed that, "at least in the last decade, there has been almost a maniacal focus on customers and on employees."

In her experience, it's for good reason, particularly with young people. "They do want a clear articulation of not only what the purpose of that company is, what good it does, why it exists, but also their role in it, Bomba explained. "They need that clear line of sight, for whatever it is we're hiring them for, to the ultimate impact that that company is going to have, and they switch organizations very quickly if they can't see that."

Again, Eccles agreed, sharing a personal anecdote: "Purpose is corporate meaning. People want meaning in their lives. I have four millennial children. One of them, a data engineer, was working for a software company that does 'marketing stuff,' and asked, 'Like, why am I doing this, right?' He's a hipster, living in Brooklyn; he's a vegan. He's working for a company now that does urban farming. He's doing the same kind of work, but he finds it is much more meaningful to be doing it in this particular kind of company than another."

In addition to this human capital issue, Eccles shared an early warning about another system-level vulnerability that he says is beginning to come up in the investment community — the issue of pay equity. "Just like climate is an issue for everybody, regardless of your industry, because it's creating system-level effects that the big investors care about," he said. "The other thing you hear about is income inequality."

Investors are raising the issue due to its role in the breakdown of social structures and the risks that poses to corporations. "If you look at how wealth has been created, and you look at what's happened in America with the minimum wage, and you look at the top 1%, you look at how people are paying taxes, and

corporations paying taxes, or not being taxed as is often the case, this is creating political polarization," Eccles explained. "We see it dramatically in America. It is contributing to the breakdown in the multilateral world order."

Although he said income inequality is not yet on the radar for every industry, Eccles advised investor relations officers to be prepared to field questions about a living wage policy. "You don't have to have a living wage policy, and you may have good reasons why you don't. But — mark my words — three, four or five years from now, that's something every company is going to have to be able to speak about. This is a real systemic issue. I think it is going to come back to companies at some point. We might get closer to it just because of the war on talent right now."


### A Call to Action

In closing remarks, Bomba emphasized the importance and value the board brings to the development of a corporate purpose statement.

"A statement of purpose — and having one that is well thought out and agreed to by the board and by the management team — really means that that group of leaders of a company has clarity around why the organization exists, which then helps do all the things that we've been talking about." This includes clarity about the long-term strategy, how success is defined, and the long-term sustainability of the company.

Levenson added, "It has to be simple and strong enough that anybody in the enterprise can understand. And then you can write the mission and the vision and the values to lay out how we achieve that purpose. If you have a purpose that you're not properly pursuing, that might not be sustainable."

For Eccles, the case for a board-approved corporate purpose statement is clear. He wants to see more investor relations professionals take up the charge.

"Do whatever you need to do to get this process started in your company, and push and don't give up. You've got a responsibility as a citizen as an employee of this company," urged Eccles. "I'm hoping that by the time we get to the 2022 reporting season, I've got more examples of companies [with a written purpose statement]. I'm quite serious about this. If 20% of the people listening to this session were successful in getting their companies to boost the statement of purpose — and NIRI can share best practices — I think that would be a great outcome." 

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