



Financial Reporting Council



In Focus: Corporate Purpose and ESG

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This brief is a follow-up to the FRC's [Creating Positive Culture – Opportunities and Challenges](#) report, published in December 2021, and thus should be read together. Corporate purpose and ESG, which are inherently interlinked, are the remaining two themes that repeatedly came up during the interviews conducted by Dragonfish and joint roundtables.

The brief draws attention to some of the key observations, best practice and examples of application identified in our research. For more details on the methodology and scope of the research, please refer to the above report.

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Corporate Purpose

Why should corporate purpose be considered?

In line with **Principle B** of the [2018 UK Corporate Governance Code](#), the board should establish the company's purpose, alongside values and strategy, and satisfy itself that they are aligned with its culture.

The **CEO** has a key role in driving purpose and embedding it throughout the company; and **managers**, when empowered and supported, are critical to activating it and ensuring day-to-day applicability.

'Purpose engages and drives loyalty. Shareholder dividends will never achieve this.' Mark Allan, CEO, Land Securities Group PLC

Common myths and misconceptions:

- Purpose comes at the expense of profit
- Purpose is just for millennials
- Purpose is the remit of brand
- Purpose can't be measured
- Purpose is a fad

In fact, corporate purpose can help businesses to:

- Strengthen their strategy and help them to stay focussed
- Develop deeper connection with their existing and prospective workers, customers, suppliers and communities in which they operate, and (re)build trust
- Frame board discussions about their stakeholders and decision making, and discharge directors' s.172 duty – in line with [investor expectations](#)
- Boost innovation, profitability and access to capital
- Better protect long-term value and be more resilient to various shocks
- Navigate social change to ensure that the "moral compass" is not diluted

To scale those benefits requires time and commitment, as purpose is **not a quick win**.



How may corporate purpose be addressed in practice?

Purpose statement, together with supporting information, may contain the following elements:

- Why the company exists
- What the company does
- In what market the company operates
- What the company is seeking to achieve
- How the company will achieve it

A purpose that is clear and understandable optimises its ability to be effectively embedded across the business, helping to guide strategic decision-making.

In doing so, they should clearly demonstrate the link with the company's business model and strategy.

Purpose should not be considered in isolation; setting the context and joining up across the organisation – vertically and horizontally, is critical.

For example, alignment with culture, values, behaviours and strategy, and embedding across operations and into decision making, leads not only to a more consistent messaging but also more impactful outcomes.

'Company purpose should be supported by a concept of excellence and strong values' Paul Hockley, Group Ethics & Compliance Officer, Mott MacDonald

To work for multiple stakeholders (see [here](#)), reporting on purpose should:

- consider multiple needs and be driven by delivering those needs rather than specific stakeholders per-se
- consider multiple mechanisms and formats – much wider than the current paper/pdf.
- engender trust, engagement and accountability
- be authentic
- be both top-down (from the board's perspective) and bottom-up (from the employees/supplier etc)
- focus on creating a focused, coherent story

While companies need to take into account the interests of a broad range of stakeholders, in line with s.172 of the [2006 Companies Act](#), only through sustained growth and healthy profits can they have sufficient resources for redistribution and "doing good" (see [here](#)).

Therefore, purpose should not become an aim on its own or be an empty statement. Instead, underpinned by ethics, it should serve as a "**moral compass**" through which innovation and profitability are pursued.

Spotlight on framing purpose

Unilever PLC framed their purpose into a compass – a fully integrated corporate strategy which builds on the successes and lessons since the launch of the [Unilever Sustainable Living Plan](#) in 2010, the company says. At the heart of the organisation is a strong belief that sustainable business drives superior performance.



The compass has three core beliefs: “brands with purpose grow”; “companies with purpose last” and “people with purpose thrive”. It also has 9 imperatives, 15 multi-year priorities and targets that are holistic, inclusive and far-reaching. It is underpinned by a clear set of values – “Integrity”, “Respect”, “Responsibility” and “Pioneering”.

‘The Unilever’s purpose compass is on display in our board meetings and is used to frame conversations and decision-making. Sustainability is at the heart of our strategy and employees often challenge the board, leadership and decisions through the lens of purpose.’ John Rishton, AC Chair, Unilever PLC

Spotlight on embedding purpose into the business

Aviva plc encapsulated their purpose into: “with you today, for a better tomorrow”. The company says that it is central to the culture of the organisation and grounded in the customer focused nature of the business. They further explain that their purpose demonstrates the company is alongside their customers, helping them make decisions and plan for their future.

The company’s decisions and actions are also informed by their corporate purpose, which they say is embodied in their values, including a framework which is used in terms of assessment, reward and recognition. At a leadership level, 25% of performance is assessed against them, putting emphasis on role modelling. Their purpose is also said to be a platform to attract and retain talent (see below).

‘If you want to attract and hold onto the brightest and best, you have to be a company that espouses the things they believe, the things that really matter to them.’ George Culmer, Chair, Aviva plc

The four principles to embedding corporate purpose, according to the company’s Chair:



Consistency and noise of message



Play your part - be visible, role model the values



Bring the purpose to life through the working environment



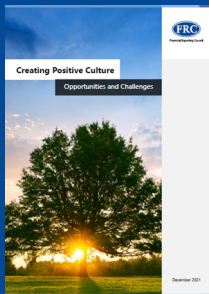
Take action when people don’t support the purpose and values

When to review purpose?

If the corporate purpose is no longer reflective of the business model, operations and pursued strategy, either the purpose needs to be redefined or actions need to be realigned with the company's core strategic objectives.

For example, Tate & Lyle PLC restated their purpose to match the changing nature of their business. This served as a catalyst to a much broader transformation, which helped the company to gain a greater focus, be more ambitious and attract talent, among other benefits.

For more details, please see the [case study](#) and the company's comprehensive [reporting](#).



After **consulting and communicating** with stakeholders, purpose needs to be **embedded and periodically monitored**, just like culture.

[Creating Positive Culture – Opportunities and Challenges](#) offers some examples of how to approach those steps and other useful tips.

Spotlight on repurposing the business

Larger scale change may be needed, for example, following on from the introduction of a new business model, to retain or regain the company's social license to operate, or to respond to various social movements. In such instances, corporate purpose may serve as a reaffirmation of the commitment to transform or as a guiding principle to lead through the change.

One of the companies explained they were so focused on meeting financial objectives that they have lost "*moral compass*" along the way, leading to a disconnect between the company and their customers and other stakeholders. Following new leadership and board appointments, they worked collaboratively to refresh corporate purpose which helped not only to unite its workforce but also led to a cultural change.

The five things the company has learnt about purpose:



Align your leadership around the purpose, give people the time and space to explore options, challenge and debate the role they play subsequently in championing and role modelling purpose



Ensure your purpose works both internally and externally to strengthen emotional connection and commitment with stakeholders, employees, customers and communities



Consider purpose through the lens of sustainable long-term value and put in place the means to translate purpose into practice



Focus on monitoring, including measuring the impact of purpose through committees and internal audit



Invest time in embedding it across the organisation, in everything you do, including goals, KPIs and capital allocation planning

The COVID-19 pandemic drove many businesses to carefully reflect on their corporate purpose and the role they play in a wider society.

While many organisations treated their purpose as the **“north star”** that allowed them to keep going and helped them make decisions during this turbulent time, some decided to restate it to adjust to changing business environment and customer demands.

Concluding remarks

By undergoing this review process, and guided by investors and regulators, **corporate disclosure** on purpose has improved but still often lacks the broader context and provides little narrative on the alignment with culture, values and strategy, and ‘joining the dots’ more broadly, as found in FRC’s [2021 Review of Corporate Governance Reporting](#).



Dragonfish found, through the discussions with boards, that purpose remains to be viewed as a key priority. Unfortunately, translating board thinking in this area into insightful disclosure clearly remains a challenge.

‘Purpose is important, it was always important and will always be important but for most people, the culture, the behaviours, the people and how they are treated is the most important thing. You can get excited about a company’s purpose in a meeting, but when the company’s day-to-day reality is they’ve got a horrible boss, they don’t like their colleagues, they’re worried about redundancy, this trumps everything by far.’ Sir Ian Davis, former Chair, Rolls-Royce plc

Key takeaways:

- Purpose acts as an anchor and grounds business in times of volatility and uncertainty - it serves as a *“moral compass”* and acts a navigational guide to ethical decision-making
- Purpose unifies and drives delivery of strategic objectives and business performance using ethical conduct, culture and values as key enablers
- Purpose requires activation and embedding across the value chain of a business through leadership action
- Purpose requires higher levels of disclosure and transparency in reporting by setting the context and joining up across the organisation

Why the link between culture, purpose and ESG is critical?

Environmental, Social and Governance (ESG) reporting requirements maintain the focus on culture, purpose and values, largely due to their direct link with Social (S) factors.

This was particularly evident during the COVID-19 pandemic. How organisations define and communicate their ESG responsibilities and commitments is at the centre of board's attention.

More boards also appear to be conscious of the critical nature of ESG in the sustainability and long-term value creation, and that embedding it into the company's purpose and strategy can unlock access to capital and investments.

Setting clear objectives and goals, and demonstrating how the organisation is going to meet them, can help build market confidence even further.

'ESG is becoming a really significant influencer on our shareholders. When I took over, I don't think our shareholders cared too much about ESG. But what we're now finding is that a number of shareholders are investing in the company because of what we do and the increased awareness of our social purpose and its importance.' Malcolm Le May, CEO, Provident Financial plc

Companies that underperform or underreport, by using a tick box approach on ESG matters, and remain unresponsive to raised concerns, are increasingly exposed to **shareholder activism** (see [here](#)).

Better leveraging of corporate purpose, culture and values, and greater emphasis on the impact rather than the process, can help reporting against all sustainability frameworks, for example the UN Sustainable Development Goals (SDGs).

'In defining the targets for the next 10 years, we also considered which of the United Nations Sustainable Development Goals (SDGs) are most closely aligned to our purpose, and where we can have the most impact.' Nick Hampton, CEO, Tate & Lyle PLC





How to approach ESG objectives and commitments?

Companies should regularly assess their ESG objectives and commitments, frame and embed them across the organisation through **clear language, regular communication** and **measurable targets**, and monitor and report on the impact on their stakeholders and achievement of goals.

While there is **no one size fits all** approach, and activities and reporting need to be reflective of this, embedding ESG into culture, and aligning it with purpose, values and strategy can be particularly impactful.

For example, AstraZeneca aligned their ESG objectives, organisational culture, values and ethics, and assess their performance through this lens – across their operations and value chain. This joint approach heightened awareness internally, improved decision making and strengthened their competitiveness. For more details, please see the [case study](#).

Spotlight on framing ESG

Keller Group plc identified the importance of addressing ESG-related issues internally using simple language that everyone could understand — Environment is phrased as “*Planet*”, Society is phrased as “*People*” and Governance” is phrased as “*Principles*”.

Alongside the use of simple language, the company has broken down their commitment to ESG into four clear goals: climate and carbon; safety; diversity and inclusion; and governance. This has given the organisation greater focus on making a genuine change in relation to their ESG commitment, while aligning their people to have a greater impact, they say.

ESG commitments are also supported by their purpose defined by: “*Building the foundations for a sustainable future*”.

Key takeaways:

- Culture, purpose and values are at the centre of workforce-related issues, the ‘S’ of the ESG
- If aligned with the strategy and embedded across the organisation, ESG can help to strengthen the resilience and boost competitiveness on the business as well as access to the capital
- Focussing on those ESG issues that have the greatest impact on the company and their stakeholders will lead to more insightful reporting
- Disclosure of ESG related risks and opportunities, as well as measurable targets and outcomes lead to greater board accountability and helps investors to make informed decisions



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