Corporate *Purpose* Survey
2020

SquareWell Partners

Making Corporate *Purpose* Tangible

Views Representing **$22.1 trillion** Assets Under Management

Table of Contents

Forward

Purpose is one of the corporate buzzwords of 2020, with politicians, the public, and even investors themselves calling on businesses to deliver more than just profits. This trend stems from at least two sources. The first is the recognition that **business has a responsibility towards the rest of society**, beyond just shareholders. Given the severity of global challenges such as climate change, income inequality and the recent coronavirus pandemic, companies must play their part in addressing these challenges, rather than narrowly focusing on investor returns. The second is the increasing evidence that there is a **business case for purpose**. Surprisingly, deprioritising profits can actually lead to the company becoming more profitable in the long-term.

The existence of a business case means that **it is in investors' interest to hold companies accountable for purpose**, rather than viewing it as an unnecessary distraction. Indeed, while business reformers have argued that purpose can only become a reality if we tear up shareholder primacy and shackle investors' rights, **investors are not the enemy but partners in the repurposing of business**. Rigorous evidence shows that shareholder engagement doesn't simply change the division of the pie, extracting profit at the expense of society. Instead, it grows the pie, making companies more productive and innovative, benefiting both shareholders and stakeholders alike.

That's why SquareWell Partners' survey of investors is both welcome and informative. It has elicited the views of **investors collectively managing approximately $22.1 trillion in assets** on the relevance of purpose, who should be responsible for delivering it, how it should be measured and how they intend to hold companies to account for putting it into practice. A number of responses stood out. 93% of shareholders believe that **purpose is a necessary grounding for a successful long-term strategy**. Thus, purpose is not an ancillary activity to be delegated to a Corporate Social Responsibility department, but a CEO-level issue. Similarly, purpose is not a non-financial factor to be considered by only "socially responsible" investors, but a financially material factor that should be scrutinised by all investors.

Respondents also stress that purpose must go far beyond a mission statement. 86% expect firms to report on the delivery of purpose, with 75% emphasising the need for KPIs. They view both the **board and management team as equally**

responsible for putting purpose into practice. 64% are currently engaging with companies on their purpose, with only 22% reporting that they are not.

This survey is only a starting point. For future research, I view two questions as particularly warranting further investigation. The first is what purpose actually means. The word “purposeful” is often seen as a synonym for “altruistic”. But, semantically, “purposeful” means “targeted” or “focused”; to do something “on purpose” is to do it deliberately. Would investors view a mission to serve “customers, employees, the environment, suppliers, communities, taxpayers and shareholders” as purposeful? Or is **purpose about knowing what *not* to do as much as what to do**?

The second is whether being “purposeful” is distinct from simply being “long-term”. Critics of capitalism often cite Milton Friedman’s article, “The social responsibility of business is to increase its profits”, as “evidence” of how narrow-minded business is – but often without reading further than the title. Friedman actually stressed that a company must invest in stakeholders to be profitable in the long-term – that’s why he believed that it’s sufficient for companies to focus on profit. **Is “purpose” any different from *long-term* shareholder value maximisation**? Should long-term profit considerations already inspire a leader to make products that transform their customers’ lives for the better, provide employees with a healthy and enriching place to work, and preserve the environment for future generations? Or is purpose more than that?

But for now, the message from SquareWell’s survey is clear. Investors view a company’s purpose as the primary force that should guide the company’s strategy; see it as the responsibility of both management and the board; expect it to be meticulously reported upon; and are willing to engage if it is not translated into action. In short: **To reach the land of profit, follow the road of purpose**.

Alex Edmans
Professor of Finance
London Business School
aedmans@london.edu

Alex Edmans is Professor of Finance at London Business School and author of “Grow the Pie: How Great Companies Deliver Both Purpose and Profit”

Introduction

Calls for a more responsible capitalism have gone louder in recent years. A major shift happened last August 2019 when the **Business Roundtable** (BRT) published a 'Statement on the Purpose of a Corporation'. For the first time, the BRT, an organisation that represents the CEOs of America's largest companies, embraced the concepts of ***corporate purpose*** and *stakeholder capitalism*. This was followed by the **World Economic Forum**'s Davos Manifesto which highlighted that a company serves not only its shareholders, but all its stakeholders. Meanwhile, investors as well have announced the adoption of a more long-term view with the integration of environmental, social and governance factors into their investment decisions, while their sustainable funds experienced a massive rise of inflows.

Instead of opposing shareholders and stakeholders, responsible capitalism should align shareholders and companies on long-term value creation. Could the current COVID-19 crisis accelerate this reconciliation? The COVID-19 pandemic crisis has pushed corporate leaders to decide how to protect their employees, while satisfying their customers and suppliers and reassuring shareholders of their capacity to deliver financial returns. How they are managing the trade-offs between their different stakeholders will evidence if these companies and their leaders are indeed embracing *stakeholder capitalism*. In the words of the historian Yuval Noah Harari: "That is the nature of emergencies. They fast-forward historical processes. Decisions that in normal times could take years of deliberation are passed in a matter of hours."

While much has been written on why companies should be defining their ***corporate purpose***, shareholders' expectations have mostly been left out of the debate. Therefore, SquareWell Partners decided to go directly to the source and ask investors their views and put forward tangible outcomes for the market to interpret. **Investors collectively managing approximately $22.1 trillion in assets** replied to the survey before the global onset of the COVID-19 crisis. However, we believe the findings hold true as many shareholders have declared that companies should not use the crisis as an excuse to hold off their sustainability efforts.

On the topic of ***corporate purpose***, hollow words will not be enough. Companies will need to "walk the talk" as the **current crisis is laying bare for all to see which stakeholders companies are prioritizing and how they have integrated sustainability considerations in their culture and operations**. Companies that had already defined their ***corporate purpose*** will most likely be in a better situation than their peers as the ***purpose*** should provide to board members a compass, a counterpoint to short-term financial metrics.

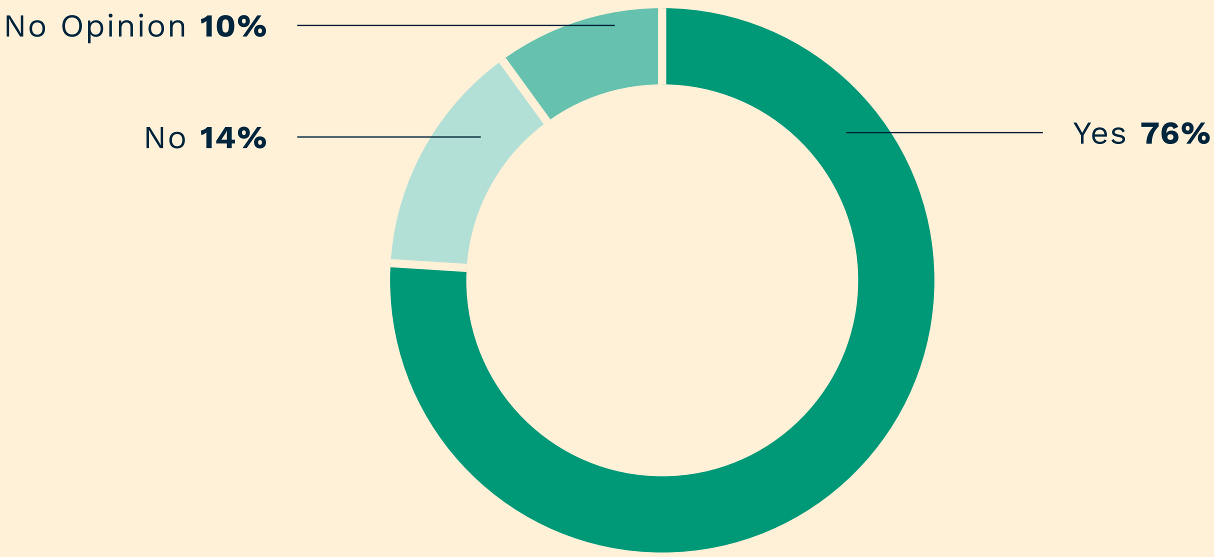
Methodology

SquareWell Partners surveyed investors from January to February 2020 using an online survey tool. Investors based in North America, Europe (including the United Kingdom), Japan and South Africa participated to this survey. Respondents to the survey were either from Stewardship teams (70%) or Responsible Investment teams (30%).

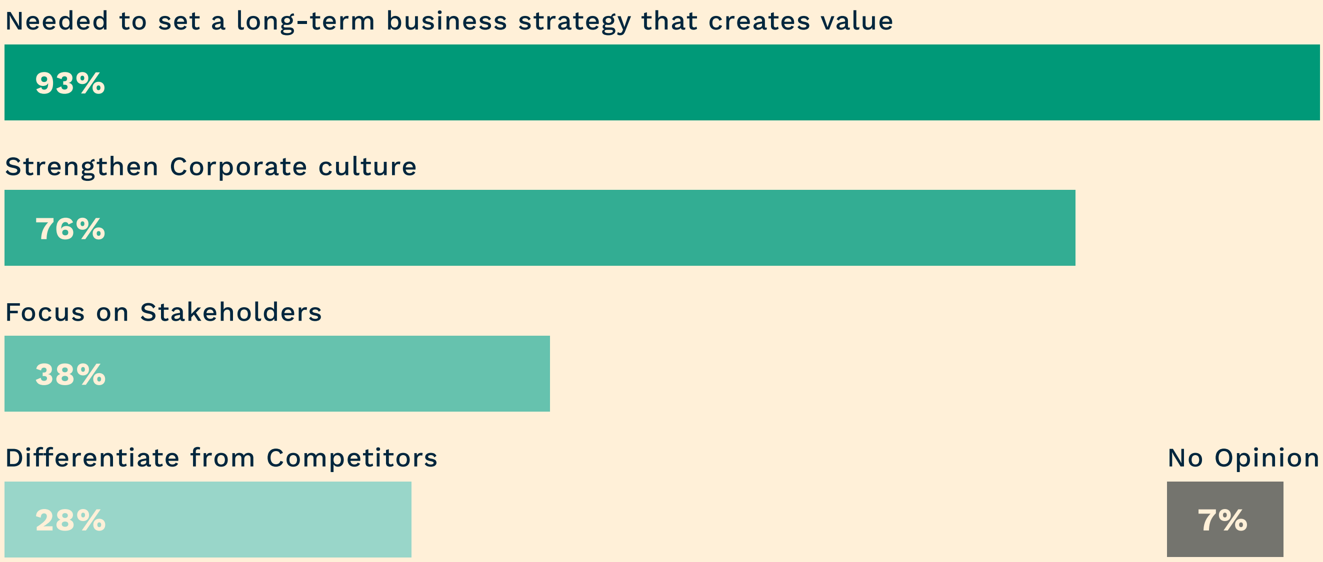
The results are presented in terms of number of investors and not by Assets Under Management ("AUM").

1. *Corporate Purpose*
Is it relevant?

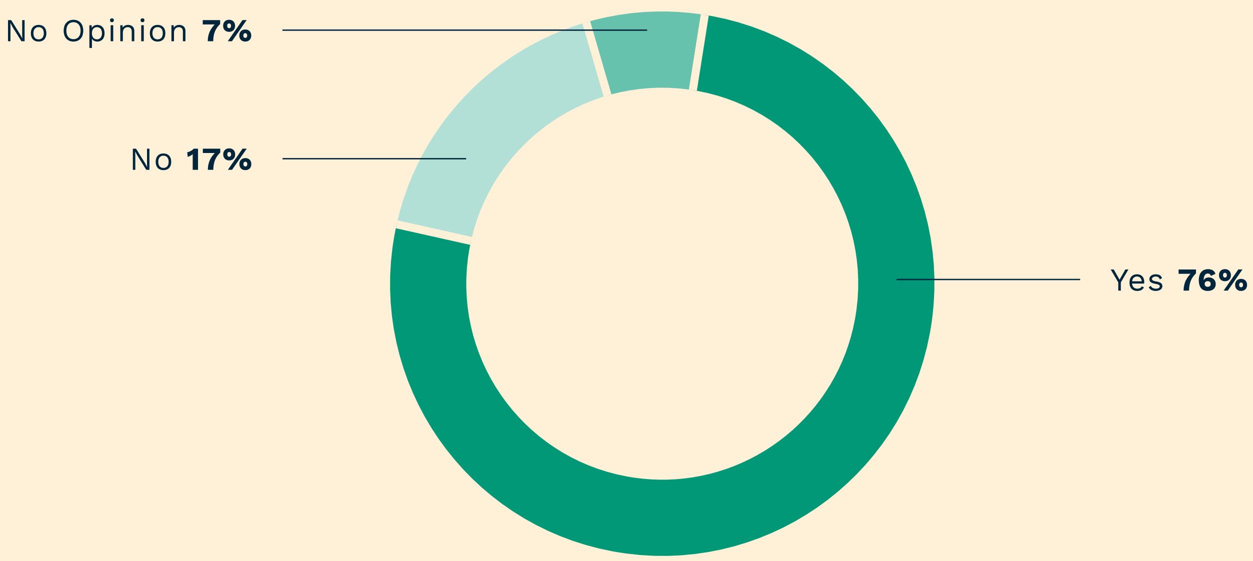
A. Are you expecting companies to have defined their ***purpose?***



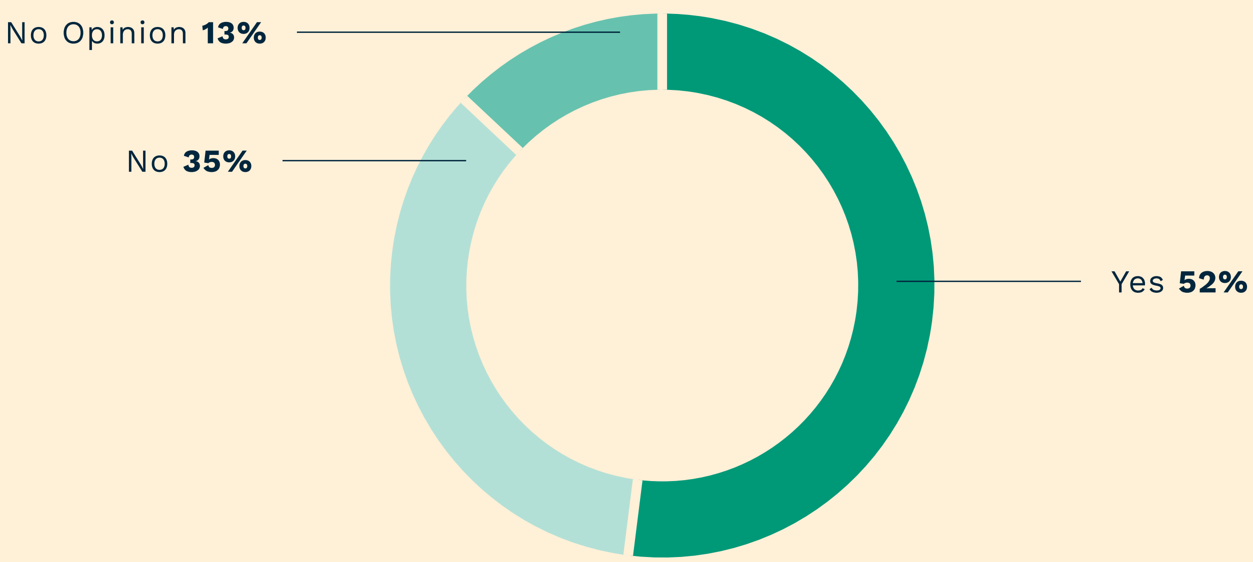
B. Why do you think it is important for companies to define its ***purpose*** (you can pick more than one)?



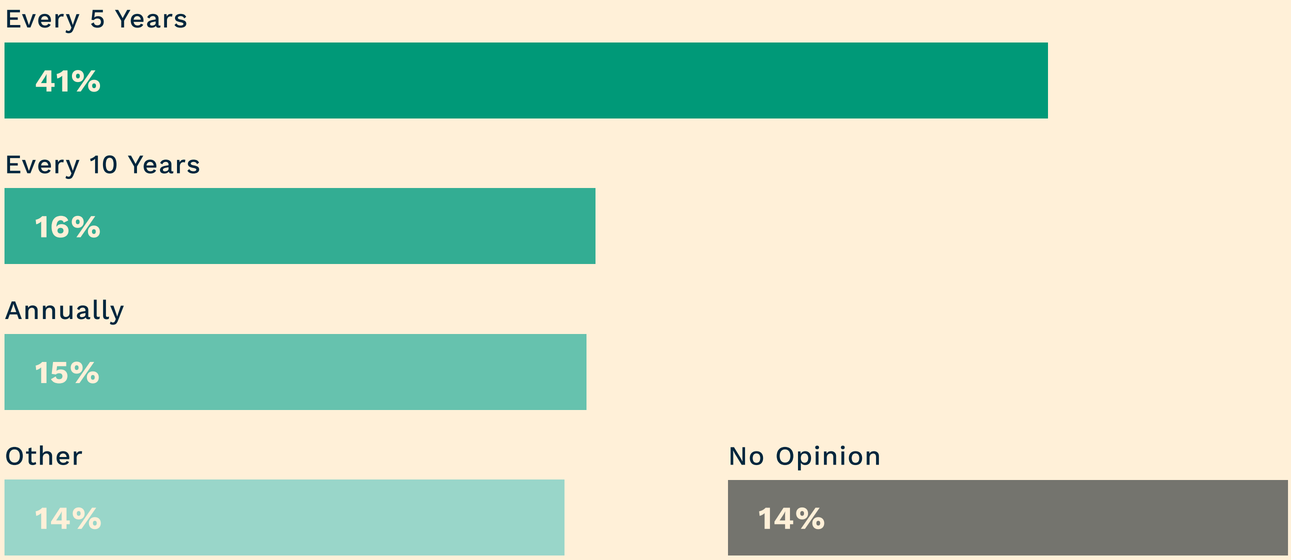
C. Should the company's ***purpose*** be the primary force to guide the company's strategy?



D. Would you expect the ***purpose*** to be in line with the UN Sustainable Development Goals?

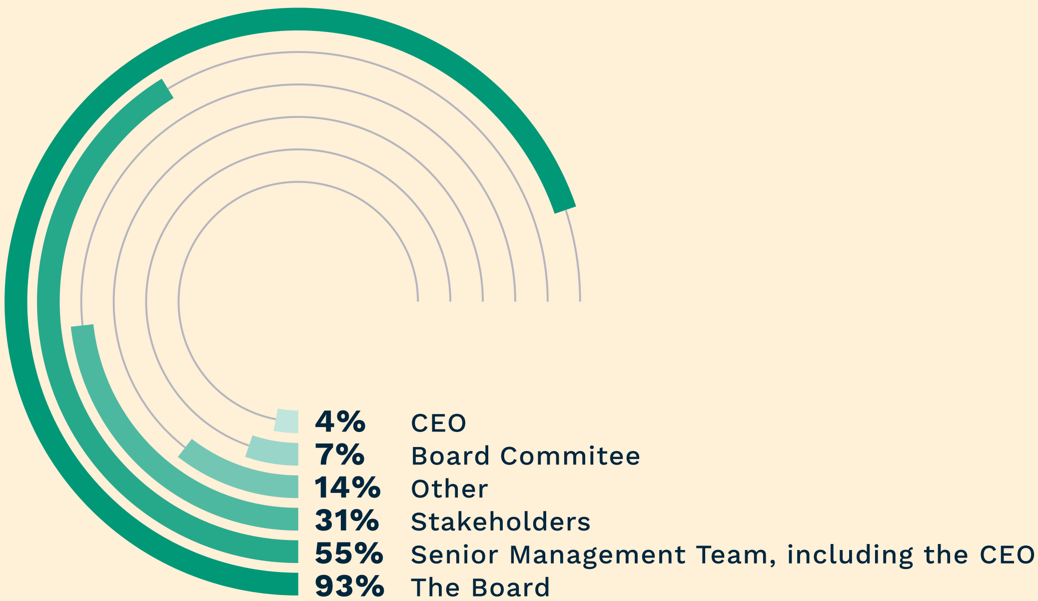


E. How frequently should a company's ***purpose*** be reviewed?



2. *Corporate Purpose*
Who sets it and who is accountable?

A. Who is responsible for defining the company's ***purpose*** (you can pick more than one)?



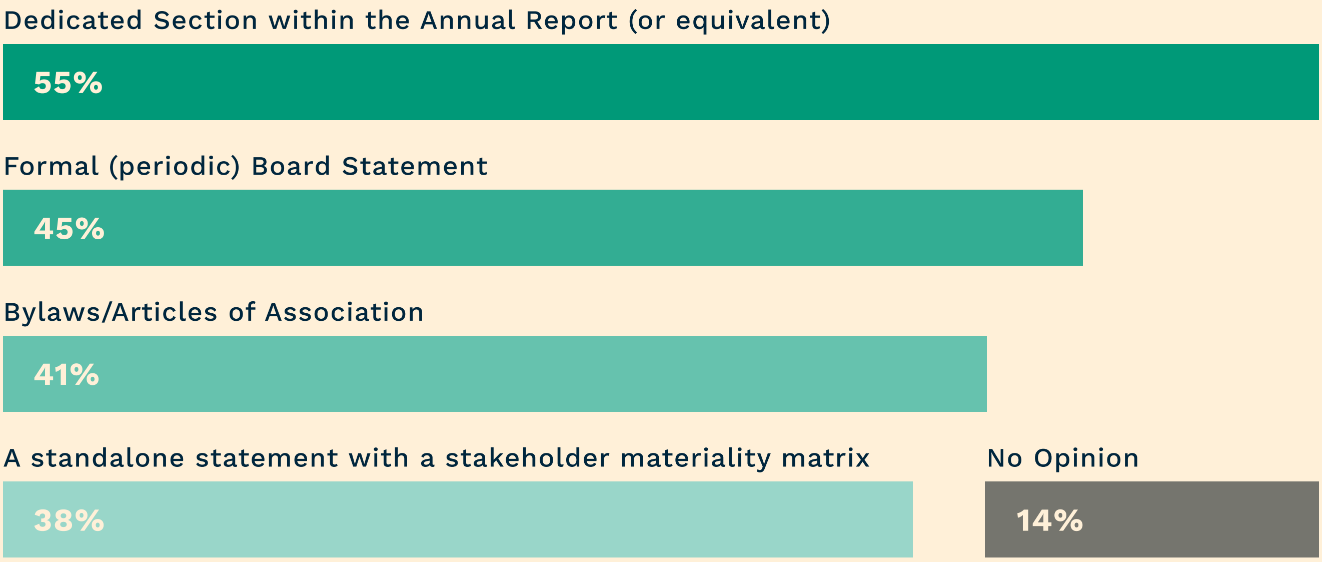
No Opinion

0%

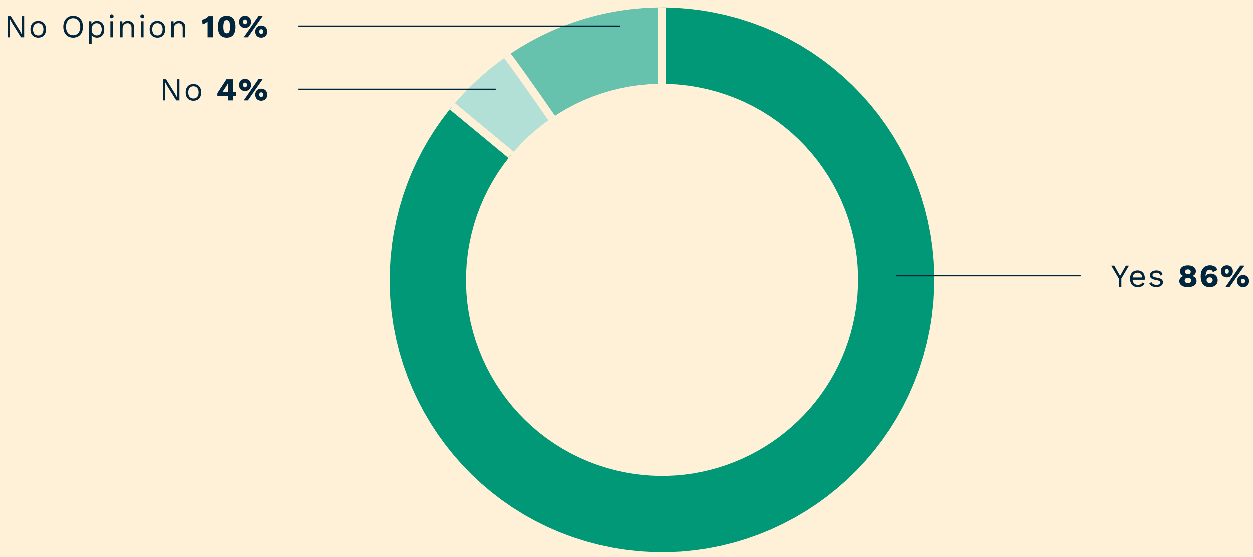
B. Who is responsible for ensuring implementation of the company's ***purpose*** (you can pick more than one)?

3. *Corporate Purpose*
How should it be disclosed and implemented?

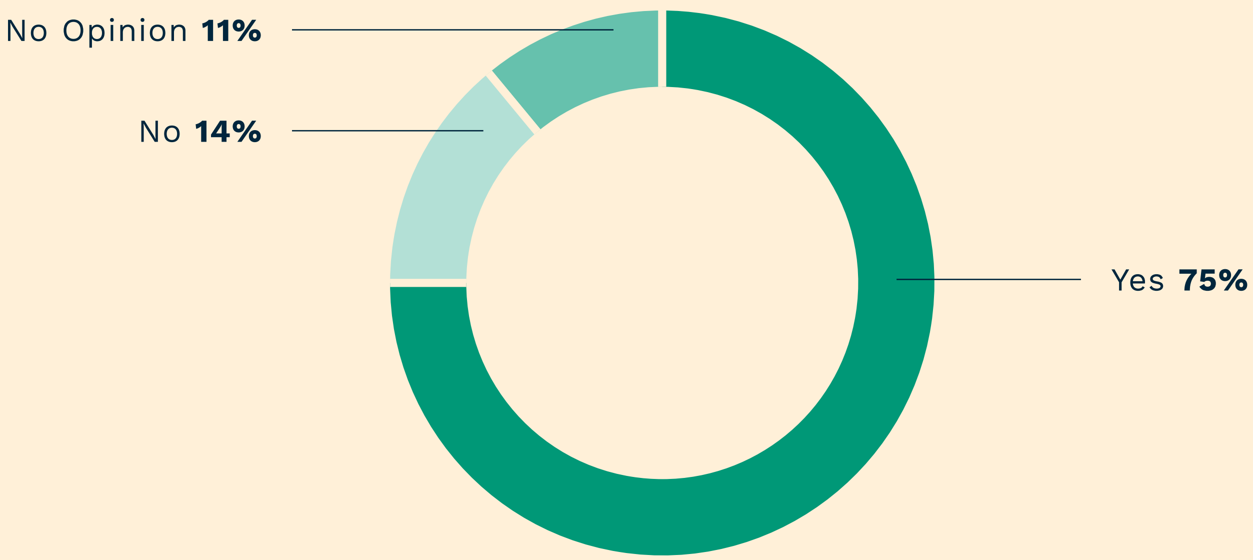
A. How would you expect your portfolio companies ***purpose*** to be formalized (you can pick more than one)?



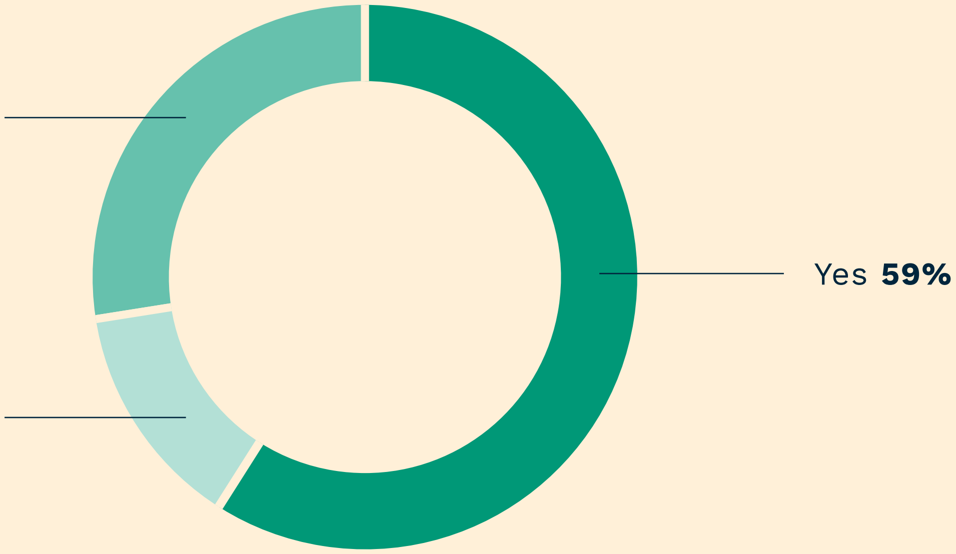
B. Would you expect to see written statements regarding the fulfilment of the company's ***purpose*** by the entity responsible for setting it?



C. Would you expect the company to come up with KPIs to measure its progress on fulfilling its ***purpose?***

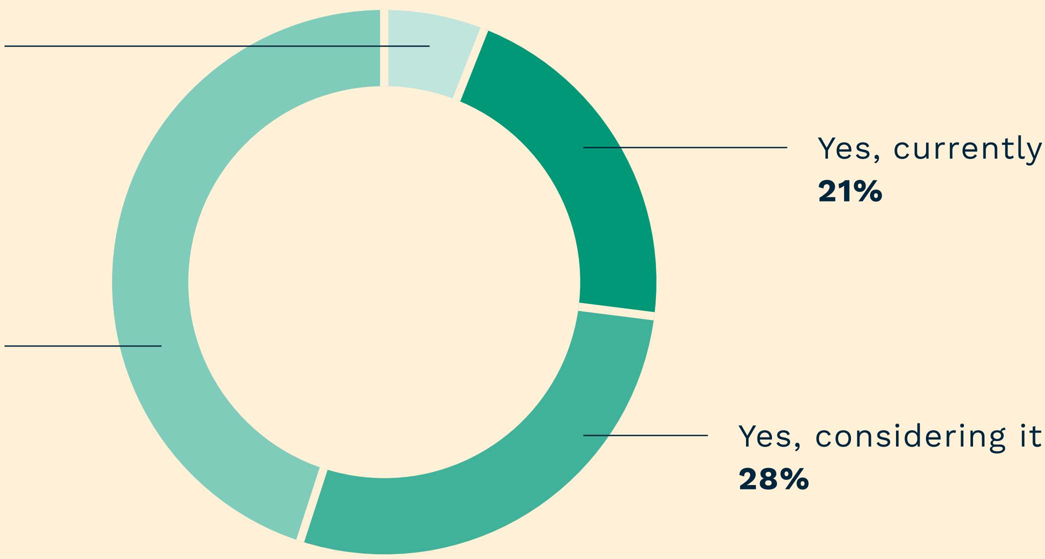


D. Would you expect such KPIs to be included in executive pay programs?

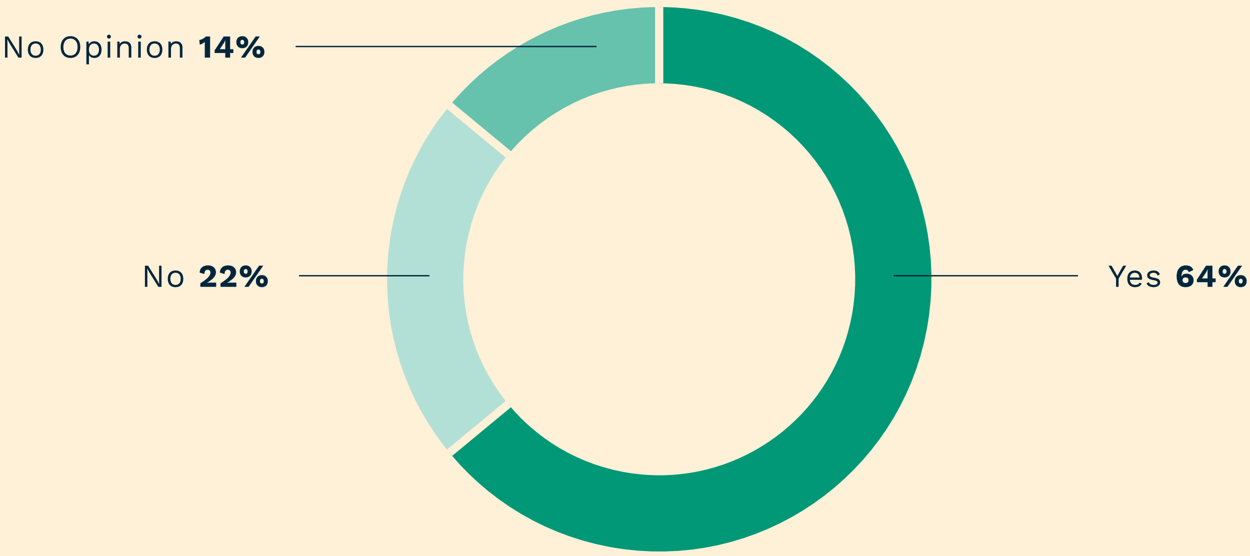


4. *Corporate Purpose*
How are investors approaching it?

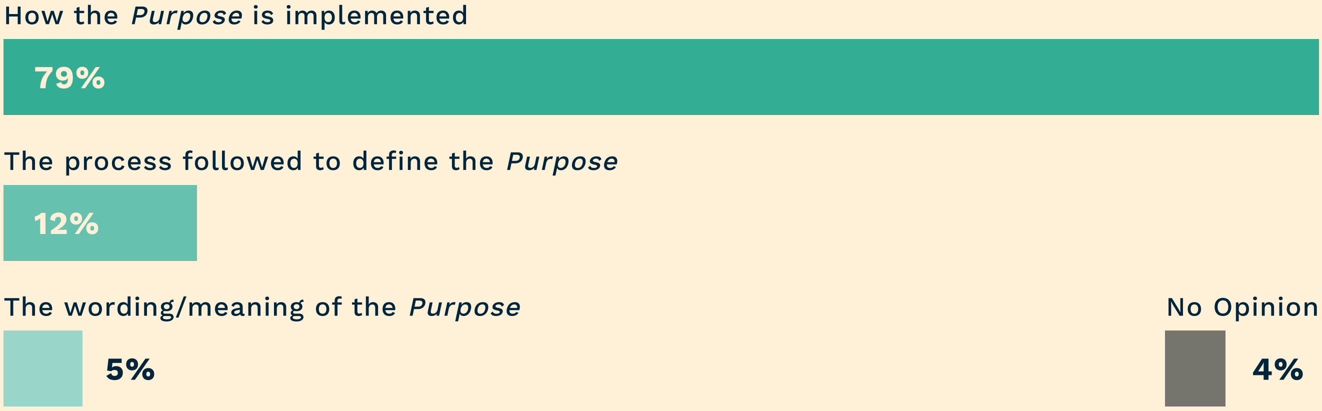
A. Have you incorporated your evaluation of a company's ***purpose*** into your evaluation of ESG risks and opportunities?



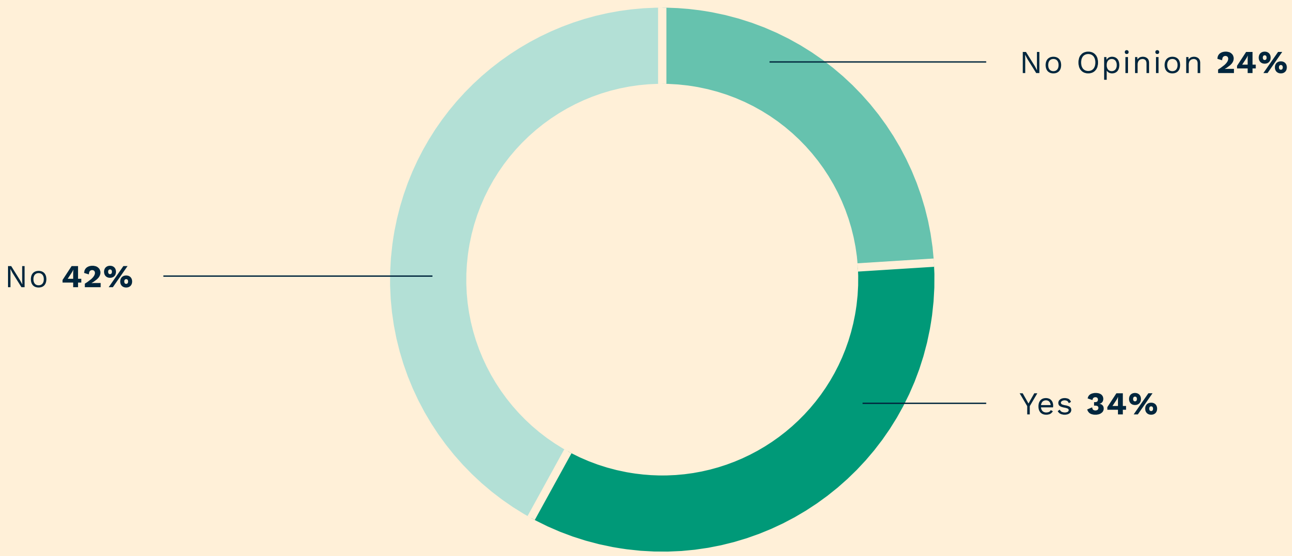
B. If yes, are you engaging with companies on their ***purpose?***



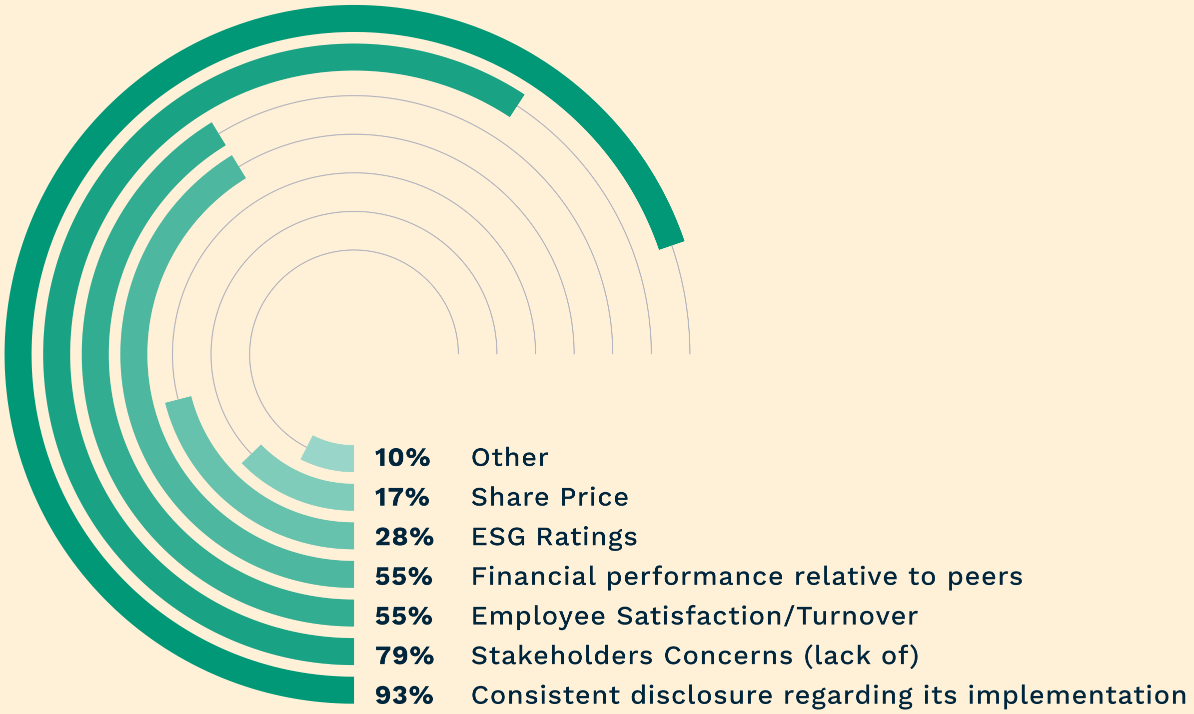
C. Which is more important for you?



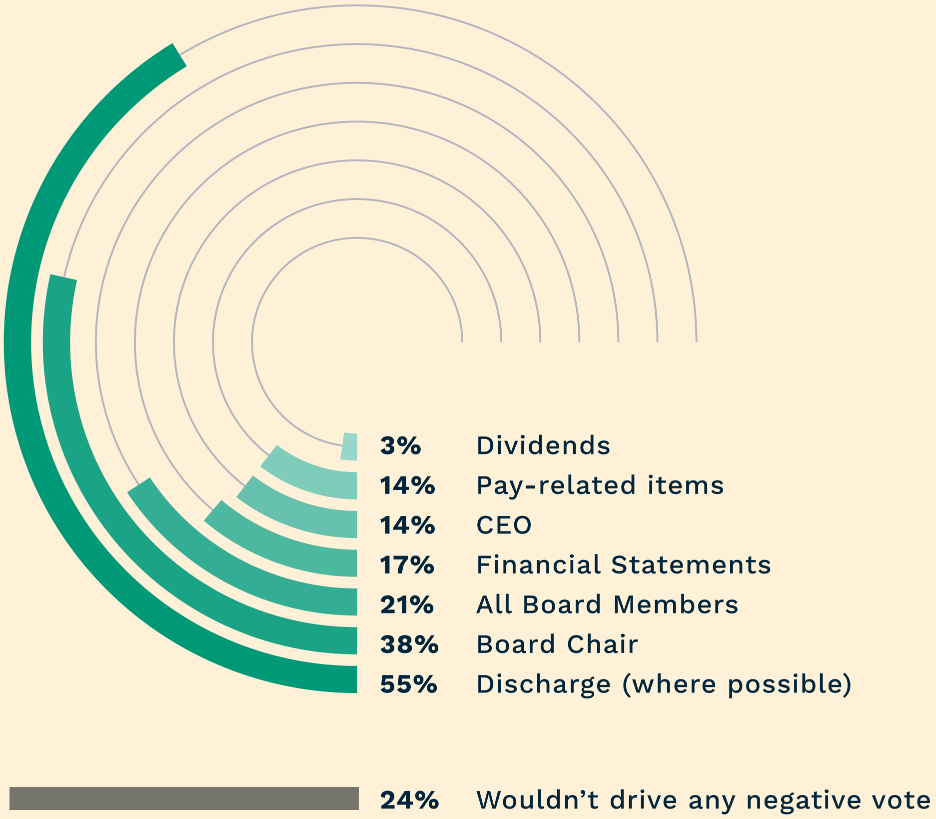
D. As a shareholder, would you want to have a say/vote on a company's ***purpose?***



E. As an investor, what would you evaluate to determine whether a company's *purpose* is effective (you can pick more than one)?



F. If you are not satisfied with the company's ***purpose*** or its implementation, which items would you consider voting against (you can pick more than one)?



Services

SHAREHOLDER ENGAGEMENT | SPECIAL SITUATIONS | ESG INTELLIGENCE

Contact

It is always a good time to speak with SquareWell.
For more information, please e-mail **enquiries@squarewell-partners.com**
or visit us at **www.squarewell-partners.com**

Key Takeaways

SquareWell Partners summarized below the key takeaways based on the investors' responses:

1. *Corporate Purpose* - Is it relevant?

- Investors expect companies to have defined their ***purpose*** as it is viewed necessary to set a long-term business strategy that creates value and strengthens corporate culture.
- Nearly half of the participating investors suggested that they expect the company's ***purpose*** to be in line with the UN Sustainable Development Goals.
- The ***purpose*** does not need to be reviewed annually but aligned with the company's strategic review.

2. *Corporate Purpose* - Who sets it and who is accountable?

- Investors overwhelmingly believe that the board of directors is responsible for defining the company's ***purpose***, but the responsibility for its implementation is shared together with the management team.

3. *Corporate Purpose* - How should it be disclosed and implemented?

- To investors, how the ***purpose*** is implemented is considered to be more important than how it is worded.
- Companies should come up with Key Performance Indicators (KPIs) to measure its progress on fulfilling its ***purpose***, which could be included in executive pay programs.
- Most investors suggest that the company's ***purpose*** has a dedicated section within their annual report (or equivalent document) closely followed by a formal statement from the board of directors addressing the company's ***purpose***.
- Investors will look to see if there is consistent disclosure regarding the implementation of the ***purpose***, stakeholder concerns, employee turnover, etc. to evaluate whether the company's ***purpose*** is effective.

4. *Corporate Purpose* - How are investors approaching it?

- Less than a quarter of the participating investors have incorporated the evaluation of a company's ***purpose*** into their evaluation of Environmental, Social, and Governance (ESG) risks and opportunities, but more investors are considering incorporating it.
- Only one-third of participating investors expect to have a vote on a company's ***purpose*** but almost two-thirds are engaging with companies on the topic.
- Whilst a quarter of the participating investors suggested that they will not oppose any agenda items if they are not satisfied with a company's ***purpose***, investors will most likely target the election of board members (including the board chair), discharge (where possible), etc.

Concluding Thoughts

Institutional investors and society have increasingly high expectations of companies as to corporate purpose and executing against the purpose. A long-term oriented, well-functioning and responsible private sector remains the core engine for economic growth, national competitiveness, innovation and sustained employment, backed by smart, proactive public policy and effective public sector initiatives. In resisting short-termist pressures, central issues for concern and focus within corporate boardrooms and among policymakers and investors now include questions about the basic purpose of corporations, defining and measuring corporate success and balancing and appropriately prioritizing a wider range of stakeholder interests (including employees, customers, suppliers, communities, and the economy and society as a whole) beyond the investor. How we collectively address the COVID-19 pandemic and "build back better" in the pandemic's next stages and beyond have only sharpened the importance of these issues and revealed the stakes involved.

Many now advocate for a vision for corporate purpose that delivers on broader corporate responsibilities and achieves stronger and sustained profitability and impact for the benefit of all constituencies—including a renewed embrace of a reinvigorated capitalism. This survey of investors representing over $22 trillion in assets demonstrates that there is more alignment than disagreement regarding the importance of corporate purpose. Indeed, the results underscore that when creating value most investors expect boards and management teams to put corporate culture and stakeholder considerations at the core of a company's mission and objectives. The survey's results also show that how companies define and articulate their purpose, organize the business of the board and management to achieve and monitor implementation of the purpose and engage with investors to win their support and partnership in delivering on purpose will increasingly impact how a company and its leadership are assessed and valued.

Investors have turned their eye – and allocations – toward corporate purpose. They are looking for a comprehensive approach and appreciate that corporate purpose is inclusive of investor priorities. Accordingly, this rapidly evolving area merits continued focus, attention and leadership by boards, management teams, investors and all constituencies.

Sabastian V. Niles
Partner
Wachtell, Lipton, Rosen & Katz
svniles@wlrk.com

