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Findings of the Future of the Corporation 'Purpose Labs'

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Abstract: This article presents the findings of the Future of the Corporation 'Purpose Labs' that took place between September and December 2020. It is a synthesis of the outputs and notes captured by the authors who facilitated the sessions and the proposals referenced are described for context rather than as an evaluation or recommendation. The labs themselves brought together stakeholders of the Future of the Corporation programme – policy and business experts, thought-leaders, and stakeholders interested in the application of corporate purpose to the business ecosystem – alongside several expert partner organisations. They used the *Principles for Purposeful Business* (2019) as a starting point and a range of methods to engage participants in developing insights into current policy and practice, as well as emerging or new ideas and proposals. They were followed by a process of analysis and review, which then fed into the concluding report of the Future of the Corporation programme.

Keywords: Future, corporation, purposeful, business, policy, system, law, governance, measurement, finance.

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Introduction

The British Academy, the UK's national academy for the humanities and social sciences, launched the Future of the Corporation programme in 2017.[1] The programme quickly established itself as one of the leading platforms for debate on the changing role and nature of business in the 21st century. Using the British Academy's convening power to bring together leading practitioners from around the world on business and finance, civil society leaders representing all walks of life, academics from a wide range of disciplines, and of course, policymakers, the programme provided new opportunities for debate across some traditional divides. This article is concerned with its final phase and the development of a final set of proposals; however, the programme has been iterative with each phase and element building on the last, so before proceeding, we have reviewed the first two phases.

The programme started with the broad question, 'What is the role of business in society?' Its first phase of research, a landscape review produced in 2018, highlighted some of the reasons why this question matters now: the global nature of challenges that society faces and the global nature of business itself; the opportunities and challenges presented by new technology; the increasingly intangible nature of companies; and, the perceptions of business in wider society that undermine trust. This 2018 research also demonstrated the importance of corporate purpose as a means to align interests of all stakeholders in the business around a single objective – an answer to the question, 'Why does this company exist?' Finally, this first phase used engagement with academics and practitioners to explore some of the levers of change for business practice and policy, looking at the role of owners and ownership, corporate governance frameworks, regulation, corporate taxation, and investment. The core conclusion of this first phase was that business practice and policy need to focus on trustworthiness, ethical cultures, and above all a sense of purpose. Bringing together the research, a new definition of corporate purpose was set out in our 2018 report, *Reforming Business for the 21st Century*: 'The purpose of the corporation is to produce profitable solutions for the problems of people and planet … not to profit from producing problems for people and planet.'

The second phase of the programme started with this definition and set out to elaborate on its meaning. The process involved four evidence generation and synthesis components: convening of a Deliberation Group; commissioning of evidence syntheses (Palombo 2022; Pitt-Watson & Mann 2022; Stroehle *et al.* 2022); generating new ideas and insights through a series of deliberative roundtables; and a final analysis

[1] The Future of the Corporation programme research is available at https://www.thebritishacademy.ac.uk/programmes/future-of-the-corporation/research

to generate the principles supported by review and consultation with participants in the process. The final output of this was a generalised description of the nature of *purposeful business* through eight general principles that promote it. These are:

1. *corporate law* should place purpose at the heart of the corporation and require directors to state their purposes and demonstrate commitment to them;
2. *regulation* should expect particularly high duties of engagement, loyalty and care on the part of directors of companies to public interests where they perform important public functions;
3. *ownership* should recognise obligations of shareholders and engage them in supporting corporate purposes as well as in their rights to derive financial benefit;
4. *corporate governance* should align managerial interests with companies' purposes and establish accountability to a range of stakeholders through appropriate board structures; they should determine a set of values necessary to deliver purpose, embedded in their company culture;
5. *measurement* should recognise impacts and investment by companies in their workers, societies and natural assets both within and outside the firm;
6. *performance* should be measured against fulfilment of corporate purposes and profits measured net of the costs of achieving them;
7. *corporate financing* should be of a form and duration that allows companies to fund more engaged and long-term investment in their purposes;
8. *corporate investment* should be made in partnership with private, public and not-for-profit organisations that contribute towards the fulfilment of corporate purposes.

By setting out these principles, the programme gives meaning to a notion of purposeful business that is focused on solving the problems of people and planet using financially sustainable and commercially viable models, while not profiting from creating problems. Our 2019 report, *Principles for Purposeful Business*, argued that a purposeful business will organise itself on all levels according to its purpose, but that these principles specifically do not *prescribe* those purposes and do not encourage others to prescribe them. Rather, they describe the features of the operating environment that enables the delivery of those purposes, while remaining flexible to a diversity of business models, cultures and jurisdictions.

The third phase of the programme set out to explore the practical implications of the principles, through contrasting approaches. While the *Principles for Purposeful Business* are not specific to a single country or jurisdiction and draw on insight from around the world, the final phase considered the application of the principles specifically to the UK. The process in this third phase combined a series of high-profile

Purpose Summits involving business leaders, investors, civil society leaders, politicians, regulators and academics in public discussions on policy and practice, with a series of 'Purpose Labs' about which this article is concerned. A third, smaller element explored examples of practice which are available in this issue (Ebert & Hurth 2022).

After the methodology section below, this article is presented in three main sections. The first sets out the initial set of proposals derived from the first round of Purpose Labs sessions convening stakeholders with insight into the themes. This was, in essence, a brainstorming exercise and did not involve filtering or evaluation of the proposals. The second section reflects the output of the second round of labs sessions in which the proposals were discussed with a broader group according to the principles they related to – law & regulation, ownership & governance, measurement & performance, and finance & investment. It summarises some of the context around the discussions and then presents the details of proposals discussed in the Purpose Labs. The third section provides a visual representation of the findings of a survey conducted during the labs to collect views on the feasibility and importance of all the proposals described in the first section. This survey helped to identify areas of consensus around the proposals.

Methodology

Over recent years there has been a proliferation of practices and initiatives, both in the UK and globally, aimed at bringing evidence closer to policymaking, at 'opening up' policymaking to input from a more diverse range of sources and voices, and at introducing collaborative, creative and generative methods into policymaking practice. 'Policy Lab' is a term often associated with this trend, although in practice a broad range of activities and entities are gathered under its banner: from workshops and events, to teams or organisations, or even a physical space. At the British Academy, we use the term Policy Lab to mean an iterative process engaging academics, experts and practitioners in small groups to generate new thinking and insight into the application of policy principles arising from SHAPE research. In this section we set out the approach and methods we used in delivering the Future of the Corporation 'Purpose Labs', which combined research and insight into the nature of the challenge, multiple and diverse perspectives and voices, and design-based methods for creative collaboration and generating practical policy proposals.

Round 1

The first five Purpose Labs were held in September and October 2020 in partnership with several organisations helping to develop best practice on key elements of the purposeful business framework. They brought together around six to eight practitioners and experts, including the Financial Reporting Council (FRC),[2] the Cambridge Institute for Sustainability Leadership,[3] environmental think tank Sustainability First[4] and law firm Bates Wells.[5] Each lab session, organised virtually due to the pandemic rules, was organised around a central question/s, designed to identify and develop practical suggestions around each theme:

- How do you report on purpose? How do you make meaningful reporting for purpose-based companies?
- How can governance be aligned with delivering purpose-driven organisations? What does 'good' look like and how do we ensure we get there?
- What can regulators do to create the best environment for companies to deliver on purpose (understood as social, environmental and economic outcomes)?
- How should 'purpose' be enshrined in law? If Section 172 is going to change to reflect a requirement for directors to promote 'purpose', how should it change?
- How can we mainstream the climate agenda so it is taken into consideration in all investment/ financial decisions?

For each session, a bespoke agenda was designed, incorporating a mix of discussion and co-design activities. A write up of the key insights and proposals was produced for each workshop, circulated to the group of facilitators, and a final synthesis workshop brought this core group together to assess what had emerged. Taken together, the first round of workshops produced a long list of 43 practical proposals, reproduced below in Section 1.

Round 2

In November 2020, three identical (in terms of format) sessions were held, in order to further explore, add detail to, as well as critically analyse and evaluate the 43 proposals. To do this, an activity template was devised which took small groups of participants through answering a series of questions, in relation to each proposal (Figure 1). The 43 proposals were divided up over the three workshops, in which participants were

[2] https://www.frc.org.uk/
[3] https://www.cisl.cam.ac.uk/
[4] https://www.sustainabilityfirst.org.uk/
[5] https://bateswells.co.uk/

Instructions: read me first

- Nominate someone to act as scribe and someone to chair/ lead the group through the questions
- There are 4 brainstorming activities
- Read the proposal in the black box and then discuss the questions in the pink boxes, following the numbering
- Write answers and comments in the white boxes.
- Spend about 5 minutes on each box - try to move fairly quickly: perfection is not the goal!

The basic proposal 01

A major review into the mandate and powers of economic and business regulators with particular attention to purpose, participation and accountability, and a principles-based approach.

1. Framing/ situating the proposal

- What kind of proposal is this - policy or practice? Where should the emphasis fall?
- Is this an end point or a stepping stone? If an end point, do we need to define intermediate steps?
- Are there any critical interdependencies with other changes?

It is principally a policy proposal.

It also concerns the mandates and practices of regulators.

However, a prior concept of what purpose looks like in a practical context when applied by business is needed.

As a review, it is a stepping stone and an intermediate step. It might apply to a number of regulators.

Arguably, all economic and business regulators are already thinking about wider stakeholders and no review is therefore needed and no review would be additive.

It may therefore boil down to what concept of purpose is informing any such review and whether it is needed. There may be deficiencies in the current system of regulation .

2. Getting practical

- How could this be taken forward? What would it look like in reality?
- Who are the key responsible actors? What should they do?
- Who else is implicated and what should they do?
- What resources or inputs are required?
- What would a rough project timeline look like?

- A request to Government to undertake a broad-based review of business and economic regulators mandates.

- The key actors would be regulators and other stakeholders interested in their activities.
- Corporates, directors of corporates, consumers, and a very wide group of stakeholders
- It would involve official time and associated research costs.
- There would be a need to compare different regulators mandates and spotting gaps.
- 6-12 months for a review and report. A few years for any legislation.

3. Moving forward

- How could you test (and improve) this proposal in a low-risk way?
- Where would you start? What would you do first/ tomorrow?

- It might be possible to conduct some initial research independently of a Government backed review.
- It might be possible to scope such a review and the kinds of issues it would present, such as disclosure, governance, product design and other considerations within individual markets.
- It might be possible to look at areas of market failure – examining the outcomes in certain markets, where these are deficient – and reverse engineering how it might be possible to address these issues in the underlying economic and business
- It would be possible to survey and interview regulators about their own mandates to understand where they might feel bound or limited.

4. Ambition and impact

- What does success look like in the short, medium and long term? What is the ideal end point?
- How will we know if it's working?
- Why should time and resource be spent on this?

- Looking at the regulatory system as a whole might be a way of seeking to reduce the negative externalities created across the economy. At the moment, different regulators would have a different view on the relevance and responsibility for negative externalities.

Figure 1. Example of activity template from Round 2.

divided into groups of around five to critically assess two proposals in depth. They were asked to address questions about the actors responsible for the proposal, whether it relied on any interdependencies, what a timeline would look like and what the next steps would be.

Using a survey tool, we then asked participants to rank all of the proposals on a scale of 1 (low) – 5 (high) in terms of their feasibility and their importance / urgency. This helped us to create a rough overview of how the proposals could be prioritised. Using the survey scores we mapped the proposals across a 2×2 matrix of urgency vs feasibility (see Section 3 below).

Following these Round 2 sessions, a synthesis of the discussions and the outputs of the completed activity templates was produced. This formed the basis for the conclusion of the process which entailed a series of iterative dialogues with stakeholders in the Future of the Corporation programme to assemble and refine the proposals to be included in programme's final report, which was published as *Policy & Practice for Purposeful Business* in September 2021.

Section 1: initial proposals

The first round of the Purpose Labs, as described above (Round 1), took the 2019 *Principles for Purposeful Business* as an input and asked how those principles could be applied in practice. The principles are universal in nature and so need interpretation based on the legal and regulatory environment, the business culture, political economy, and other relevant context. The exercise produced a rich set of inputs that reflected the varied make-up of the participants in these discussions. These inputs were then the basis for the second round of discussions.

Readers should be aware that the list does not represent a consensus view or the view of the British Academy and we do not describe or evaluate the proposals here. They are included to illustrate the starting points for the discussions synthesised in Section 2 and as a reference for the 2×2 grid reproduced in Section 3, where the numbering below matches the labelling on the chart.

1. A major review into the mandate and powers of economic and business regulators with particular attention to purpose, participation and accountability, and a principles-based approach.
2. A major review of business taxes and other government support to correct for any possibility of 'profiting from creating problems' and encourage purposeful business.
3. Announcement of reform of Section 172 of 2006 Companies Act, initiating a major consultation process.
4. BEIS (the UK Government's Department for Business, Energy and Industrial Strategy) to produce optional guidance and model articles of association for purpose driven companies.
5. Changes made to the explanatory guidance to s172(2), some guidance from BEIS developed to encourage people to use the existing legislation in a new way to embed purpose.
6. Setting the mandate of ARGA to give life to the purpose agenda with powers to hold companies to account for bad behaviour.
7. Give new regulatory oversight powers to Companies House to investigate and act upon breaches of new corporate governance requirements to give them teeth.
8. Public procurement and government behaviour need to set an example. The UK government has set ambitious climate targets, yet this is not reflected in their own purchasing practices.
9. Government should consider policies to enable blockholdings (holding of significant proportions of company shares).
10. All boards must set the framework that enables a company and its stakeholders to enact its purpose.

11. All board members should be motivated to serve all their stakeholders, including the environment. Boards committed to a corporate purpose will be able to use this as a framework for making decisions.
12. There needs to be clear relationships between boards and management teams with empathy and understanding all the way down the chain.
13. The relationship between boards and employees should be strengthened through encouraging greater representation both by employees at board, and through board members interacting more with management and the wider workforce.
14. All boards should establish a moral and ethical framework connected to purpose that is operative within the organisation.
15. Enable senior executives by creating the right decision-making frameworks. There is a need for integrated frameworks for decision-making so that ESG (Environmental, Social and Governance) related key performance indicators aren't in conflict with all the other targets.
16. Business leaders should build an understanding of the challenges around a stakeholder approach and seeking out new data, knowledge and skills to support change.
17. When it comes to investing, we need to think at system level not just portfolio, and move from ESG to impact.
18. Any proposals for widespread reform need to be based on evidence and so more analysis of the performance of purpose led companies like B Corps (companies committing to the 'B Corp' standard on purposeful business) are needed, so that everyone can have confidence that a more purpose-led economy as a whole will work.
19. Employee ownership should be championed as a method of achieving high levels of engagement, responsibility and commitment to social purpose.
20. Fiduciary duties for employees: should there be a provision in the Companies Act that codifies the fiduciary duties of employees to include promoting the purpose of the company?
21. Should employee representation on boards be mandated? Though there is no legal obstacle to it at present, it very rarely happens.
22. Development of model articles for a specific legal form for profit-with-purpose business, so that businesses have the option to incorporate or convert to this form. Model articles could set out how the shareholders have agreed to mandate the directors to balance and integrate other stakeholder interests more deeply.
23. Require firms to adopt 'positive purposes' into Articles, as described in s172(2).
24. General requirement for boards to 'integrate' ESG factors into strategy (moving beyond the requirement to 'have regard to' stakeholder interests).

25. There is a need for an external enforcement of corporate governance because s172 is very rarely subject to litigation and there needs to be external monitoring of compliance with any new enhanced corporate governance requirements.
26. Financial reporting alone is no longer sufficient. One integrated report should be produced with purpose directly linked to business outcomes as well as non-financial impacts, which can be used to engage and inform all of a company's stakeholders and not just shareholders.
27. Over time, it will be necessary to move to a single impact reporting standard. An interim requirement on boards of firms above a certain size to choose and adopt a comprehensive impact reporting and assessment system (e.g. GRI, SASB, B Impact Assessment) perhaps ratified by the shareholders, which sits alongside current accounting and reporting requirements.
28. There is a need to develop accurate measures for externalised impacts and costs, which might be quite varied depending on the sector. We need to expand the range of non-financial indicators and develop ways of sharing performance on more qualitative social factors (the 'S' in ESG).
29. Supporting development of international disclosure standards to yield decision-useful, comparable and aggregable data, and coalescence around measurement methodologies and assumptions used for forward looking metrics, for example Impact Management Project, ISO standards, IFRS.
30. Other stakeholder voices are important in the reporting process. The workforce has an important role to play in terms of critiquing or supporting claims around purpose, but there is a need for a collective mechanism for staff to input in a way that doesn't put individuals at risk.
31. Financial institutions could be mandated to publish their plans for climate alignment, focusing on supporting the overall transition to a green economy – moving away from regulation on disclosure of risk to regulation of impact.
32. Regulators should move towards a tiered set of standards that involve the regulator setting out a strategic vision for the sector, which aligns with the government's strategic policy statement for the sector, with outcomes that companies should ultimately be able to deliver.
33. A new regulatory model should be focused on outcomes or principles-based regulation (rather than prescriptive or rules-based), where the regulator would determine a set of required outcomes but leave space for companies to innovate. Principles need to be developed in discussion between key stakeholders (policy, regulatory, company and wider civil society groups).
34. Price reviews in monopolies would need to be more clearly aligned with a longer-term strategy – i.e. a broader 'price path'. Companies need to feel that they are empowered and have the space for those conversations with stakeholders

about how to put purpose into practice, beyond short-term economic constructs and models.

35. Regulators could set targets for institutional investors for the rate at which they decarbonise their portfolios alongside financial returns.
36. There is a need for professionalization of directorship and director's training. At present many directors, particularly at smaller firms, have little grasp of their existing duties and require more developed support mechanisms.
37. Professional training or qualifications for asset managers and financial advisors on purposeful investment
38. There is a need for greater expertise on boards with regard to stakeholders beyond shareholders and directors need to take into account a broader base of information in decision-making. Develop toolkits for understanding who are your stakeholders and how to engage them.
39. Citizen Assemblies and other deliberative stakeholder engagement mechanisms can be a useful tool in allowing people to hear and understand the trade-offs that companies face and can be a channel to provide meaningful input and help develop a more consensual approach. How can they be mainstreamed as an engagement tool?
40. Develop toolkits and responses to challenging 'trade-off' issues which counter 'zero-sum' narratives and help people find better solutions to difficult decisions.
41. Developing frameworks for assessing performance which are broad enough to capture different contributions to purpose – financial incentives may not be appropriate.
42. Integration of *Principles for Purposeful Business* into business teaching at universities.
43. Educating and mobilising of consumers to demand green financial products. For example, we need green options for where pensions are invested.

Section 2: proposals by principle

The proposals generated in the first round of labs sessions were then organised by the conveners around the eight *Principles for Purposeful Business* and presented in the second round of labs sessions. In these sessions, they were considered as a whole as well as in regard to the principle they relate to and some proposals were presented under multiple principles. Below, we explore in more depth those proposals which had the most interest from participants organising them around the *Principles for Purposeful Business*. We introduce some context and details of how the proposal might be applied based on the discussions and we note whether there was any existing practice or policy to build on.

A. Law and regulation

The proposals in this section refer to two *Principles for Purposeful Business*.

- **Corporate law** should place purpose at the heart of the corporation and require directors to state their purposes and demonstrate commitment to them.
- **Regulation** should expect particularly high duties of engagement, loyalty and care on the part of directors of companies to public interests where they perform important public functions.

The Purpose Labs discussions focused primarily on corporate law in terms of the laws governing the way business operates and regulation as the regulations applying to business and the regulators themselves. Here we reflect the discussions and key points made around each proposal.

Proposal: BEIS (the UK Government's Department for Business Energy and Industrial Strategy) should publish optional guidance and model articles for a specific legal form for profit-with-purpose business

Publicising official but optional model articles for profit-with-purpose business, such as B Corps, would give businesses the option to incorporate or convert to this form. It would also help to ensure that alternative forms of purpose are seen as official, legitimate and safe. Detailed case studies should be developed to raise awareness of the benefits and performance of purpose driven businesses and to encourage a race to the top.

The argument made for this in the labs was that model articles could set out how shareholders have agreed to mandate the directors to balance and integrate other stakeholder interests more deeply.

Proposal: The explanatory guidance to s172(2) of the 2006 Companies Act, should be updated to encourage businesses to use the existing legislation to embed purpose

The traditional view, brought out in the labs, is that this sub-section is designed for use by charities and not by commercial organisations, who by default comply only with s172(1). The guidance should be used to encourage businesses, in the short term, to use this existing piece of legislation to embed purpose and to serve their wider stakeholders.

The FRC (Financial Reporting Council) has produced detailed guidance on embedding and reporting on purpose. The s172(2) explanatory guidance would benefit directors by offering shorter key requirements. It could usefully require companies to give practical examples of how they are fulfilling their purpose through core business activities rather than separate CSR style exercises.

As participants explained, implementing this legal mechanism at a company level would require buy-in from senior stakeholders including directors and shareholders. This approach would also impact company reporting, in that it would necessitate accountability to all the firm's stakeholders (see Measurement and Performance below).

Proposal: Reform Section 172 of 2006 Companies Act, requiring firms to adopt 'positive purposes' into Articles

The discussion explored the problem with the current arrangements. While the success of the company continues to be interpreted purely in financial terms, meaningful consideration of stakeholder interests will remain secondary to the duty of directors to benefit a company's members. Considering this from another angle, the law currently does not *prohibit* the prioritisation of returns to shareholders, even when they come at a cost to the company's wider stakeholders. For both reasons, an amendment and strengthening of the language of the Companies Act will be necessary to make the duty of a director to promote the purpose of the company, and operate the company in a manner that benefits its members, wider society, and the environment. Possible wording for such an amendment is demonstrated in The Better Business Act Coalition's proposed amendments to Section 172 of The Companies Act 2006.[6]

Beyond this argument, participants also made the case that Section 172(1) sets the standard and default approach for companies in the UK economy and therefore needs changing to reflect a move to focus on purpose. But any change should be made in a way that facilitates companies having options where appropriate and is not unduly prescriptive. A company must benefit wider society and the environment in a manner commensurate with its size and the nature of its operations.

Such a change would require a major consultation and analysis would be needed of how companies articulate purpose currently, building on that currently being conducted by the FRC's analysis of reporting against the Corporate Governance Code. Companies would need to be given adequate time to adapt, and to formulate and implement their purposes.

This proposal, as discussed, would entail legislation that eventually required all companies to articulate their purpose in their articles of association and to report on how it benefits wider society and the environment, the harms it creates or costs it imposes on wider society and the environment and, separately, the actions it is taking to reduce or eliminate those harms and costs. Requirements would need to be consistent across ownership types but adjusted for company scale.

[6] https://betterbusinessact.org/wp-content/uploads/2021/04/The-Better-Business-Act-2021.pdf and https://betterbusinessact.org/about-the-act/

Proposal: A new regulatory model should be focused on outcomes or principles-based regulation where the regulator determines a set of required outcomes but leaves space for companies to innovate

This would allow flexibility for companies and markets going through dynamic and complex change. It would enable a broader set of positive outcomes than the current model, which tends to be focused on short-term economic efficiency and price rather than wider public interests.

Participants highlighted that looking at the regulatory system as a whole is crucial to reducing the negative externalities created across the economy. The discussion highlighted that agreement would be needed on what the desired outcomes are across different sectors and how they would be implemented through a combination of voluntary standards and mandated outcomes on social and environmental issues.

A regulatory system focused on purpose, would also have a focus on balancing the needs of current and future societal interests, with regulators (and companies) taking a long-term view to protect future generations and address other externalities. Companies need to feel that they are empowered and have the space for conversations with stakeholders about how to put purpose into practice, beyond short-term economic constructs and models. Price reviews in monopolies would need to be more clearly aligned with a longer-term strategy – i.e. a broader 'price path'.

Regulators would need to support companies to engage stakeholders in driving innovation and better outcomes for people and planet. However, participants noted that the principles-based model is reliant on regulators' capacity to have strong relationships with firms based on trust and shared social goals.

Proposal: Regulators should move towards a tiered set of standards that involve the regulator setting out a strategic vision for the sector, which aligns with the government's strategic policy statement for the sector, with outcomes that companies should ultimately be able to deliver.

The discussions highlighted that regulation needs to take a stratified approach for companies at different stages and scales, and according to their performance. A strategy of 'earned autonomy' could be adopted for the best performers, but regulators must still retain the authority to intervene when there is a risk of real harm being done to current and future public value.

For new entrants or poor performers, a two-pronged approach was discussed:

- firstly, ensuring compliance with a minimum set of standards; the regulator would provide clear expectations which are future-focused, providing clarity about what that minimum level will look like over coming years;

- a long-term conversation about strategy that moves the cultural focus beyond short- to medium-term compliance to what the behaviours of a sector-leading company may look like.

For more ambitious or larger firms, there could be stretch objectives, which also provide an idea of what is expected as companies grow. Participants described how this would act as more of a supervisory relationship – particularly relevant for areas where regulators want to stretch company performance. This approach relies on strong relationships between regulators and firms, and particularly developed relationships are needed for large and monopoly companies.

It was noted that regulators may need new skill sets and insights to be able to operate in a more dynamic and participatory environment and to effectively develop a more stratified approach.

Proposal: Regulation should move towards a more democratic and participatory approach, with regulators acting as a conduit for, and enabler of, greater engagement between companies and their stakeholders

This proposal would entail companies embracing new processes of stakeholder engagement while the role of the regulator would be to support and provide guidance in doing so. The discussion highlighted that companies should not only be held to account by stakeholders, but also listen to and learn from them.

Citizen Assemblies and other deliberative stakeholder engagement mechanisms were put forward as useful tools in allowing people to hear and understand the trade-offs that companies face and can be a channel to provide meaningful input and help develop a more consensual approach. This approach allows stakeholders to understand that there are sometimes inherent conflicts in the way that companies (in particular utilities) have to operate. It would ensure that trade-offs and implications are more fully disclosed and debated.

The discussion made it clear that participatory processes only work well if they are fully invested in. It is important that companies close the feedback loop to show that they have listened and how they have come to a decision. If regulators do not pay due regard to company stakeholder engagement processes, and the recommendations flowing from these, they would need to clearly explain the reasons for their decisions. If a trade-off falls harshly on a community, the company in question should acknowledge this and show what it has done to take the issue into account in future or provide a remedy.

B. Ownership and governance

The proposals in this section refer to two of the *Principles for Purposeful Business*.

- **Ownership** should recognise obligations of shareholders and engage them in supporting corporate purposes as well as in their rights to derive financial benefit.
- **Corporate governance** should align managerial interests with companies' purposes and establish accountability to a range of stakeholders through appropriate board structures. They should determine a set of values necessary to deliver purpose, embedded in their company culture.

The Purpose Labs discussions focused more on the corporate governance principle where more concrete proposals were made in the first round discussions. Corporate governance is also an area with significant interest and debate in business and policy circles. Here we reflect the discussions and key points made around each proposal.

Proposal: Champion and expand employee ownership as a method of achieving high levels of engagement, responsibility and commitment to social purpose

Participants briefly discussed this proposal and the need for a more systematic review of existing evidence pertaining to the benefits of employee ownership.

Proposal: Boards should set a framework that enables a company and its stakeholders to enact its purpose through its values, culture and strategy

Future of the Corporation outputs have highlighted that purpose should drive both company culture and strategy. Once purpose is established, the board needs to clearly prioritise decisions in relation to purpose in order to operationalise it. The Enacting Purpose Initiative's 'SCORE' framework outlines clear mechanisms for boards to articulate and implement purpose within their organisations.[7]

The lab session explored the idea that boards may establish a moral and ethical framework connected to purpose that is operative within the organisation. The values of an organisation must be modelled by the board and management team. Participants described storytelling techniques that can be used successfully to communicate values and purpose, for example, after a large merger or acquisition. Managers throughout the company would be involved in this process and purpose narratives can also be built into induction processes. Purpose needs to be integrated into all levels of an organisation with mechanisms in place for employees to feed back up to the board. A range of structures may be needed to support corporate purpose implementation

[7] Enacting Purpose Initiative (2020).

throughout the organisation including codes, compliance regimes and whistle-blower protections.

In addition, the discussion highlighted that boards should empower senior executives by creating integrated frameworks for decision-making so that a company's purpose is clearly reflected in its key performance indicators and not in conflict with financial targets. Project decision-making frameworks could also include external impacts in addition to core value impacts.

Proposal: There is also a need for more developed frameworks for assessing employee performance through different contributions to corporate purpose that do not solely depend on financial incentives

The brief discussion on this proposal picked up on the current problems with financial reward schemes that are a product of a system that values profit maximisation above contributions to other purpose-related goals. Instead, participants noted that companies could identify other non-financial motivators and examine criteria for promotion and how they can be linked more strongly to purpose.

Proposal: Board members should be motivated and equipped with the guidance to identify, engage and serve all their stakeholders

Boards, with the support of shareholders, need to determine who the company's key stakeholders are and the parameters, priorities and procedures for resolving frictions between their interests. Labs discussions highlighted the need for greater expertise on boards with regard to stakeholders beyond shareholders and for directors to take into account a broader base of information in decision-making.

Alternative corporate forms, such as the French *enterprise à mission*, social enterprise and B Corps have accountability to all their stakeholders enshrined in their models. Publicising case studies with details around the process of identifying and engaging stakeholders could help to counter perceived challenges. In addition, international standard setting bodies such as the ISO are working towards the publication of governance standards to help companies define their stakeholders and achieve their purpose over the long term.[8]

Once stakeholder groups are identified, the discussions highlighted the importance of boards building relationships and collaboratively agreeing specific deliverables. The needs of different stakeholders can be represented at board level in a number of ways. One method for this could be non-executive directors with responsibilities for different stakeholder groups. Another mechanism is board committees with specific

[8] International Standards Organisation (ISO) (2021)

duties. However, participants note that this carries a risk of taking decision making power away from the board as a whole, for example with sustainability committees. The AGM might be used as a forum to engage the company's stakeholders.

The relationship between boards and employees needs to be continuously strengthened. Effective employee engagement can inform better decisions, align behaviours and share responsibility. Participants highlighted employees in particular as needing to be empowered to challenge decisions being made at board level. As a critical stakeholder group, the employee perspective needs to be reflected and incorporated into managerial discussions and help define company direction.

Ensuring specific board representation for environmental issues can be challenging. Some companies do this by having environmental NGOs join some board discussions, others have advisory committees. Citizens assemblies and other deliberative stakeholder engagement mechanisms can be a useful tool for collecting and understanding the views of wider society. They can allow people to hear and understand the trade-offs that companies face and can be a channel to provide meaningful input.

New research and guidance is needed to develop toolkits and responses to challenging trade-off issues which help management find better solutions to difficult decisions, guided primarily by the company's purpose. In addition, the labs discussed the need for professionalisation of directorship. New training and more developed guidance around necessary skillsets for boards are crucial as directors' roles continue to change with transformational risks around the environment, technology and health.

C. Measurement and performance

The proposals in this section refer to two of the *Principles for Purposeful Business*.

- **Measurement** should recognise impacts and investment by companies in their workers, societies and natural assets both within and outside the firm.
- **Performance** should be measured against fulfilment of corporate purposes and profits measured net of the costs of achieving them.

The Purpose Labs discussions on these principles also extended to reporting which relates closely to questions of measurement and performance. It also considered both the standards and the methodologies that might be used to collect data. Here we reflect the discussions and key points made around each proposal.

Proposal: Integrated reporting should directly link purpose to financial, as well as social, environmental and other external impacts, with the full spectrum of a company's stakeholders involved in the process

Company reporting needs to be structured around the company's purpose, linking it to the business plan, strategy and key performance indicators, as set out in the Financial Reporting Council's strategic report requirement. Participants highlighted that purpose needs to be defined and articulated as a long-term constant and the reason a company exists.

The Enacting Purpose Initiative proposes a three-stage framework for measuring impact and performance against purpose. The first stage is to set out corporate motives, as expressed through stated purpose, mission, vision and values. The second step is to identify the business metrics that are required to enact purpose, including inputs, outputs, outcomes and impacts. The third is the comprehensive monetisation of these metrics through new methodologies like *enterprise cost-based accounting* or *societal valuation-based approaches*.

Labs discussions noted that financial reporting could enable consideration of how the board has allocated capital to deliver on its purpose through investment by companies in their workers, societies and natural assets both within and outside the firm. Non-financial reporting metrics for externalised impacts and costs are being developed by a plethora of national and international organisations, and global standards will be necessary to encourage companies to compete on performance against these indicators. Participants discussed a particular need to expand the range of non-financial indicators and develop ways of sharing performance on more qualitative social factors relating to employees and wider communities affected by firms.

Proposal: Over time, it will be necessary to move to an agreed set of international disclosure standards, as proposed by the IFRS Foundation, with flexibility based on metrics most relevant to the industry a company operates in

Standards can help people identify what is important, drive good behaviour, embed practices and norms in the business, and counteract 'green-washing' by helping stakeholders outside the company understand and make judgments. However, discussions emphasised the risk that over-standardisation would turn reporting into a 'box-ticking' exercise, with less emphasis on the individual company. There is great variation between companies in terms of the salient risks and opportunities (e.g. extractors need to think about land rights, apparel companies about workers' rights). Therefore, standardisation needs to be balanced with a recognition of company individuality.

There is a need for a clear methodology for impact reporting which is consistent, allows comparison between companies, is practical and that auditors can audit against. One suggestion was for an interim requirement on boards of firms above a certain size to choose and adopt a comprehensive impact reporting and assessment system such as *GRI*, *SASB*, *B Impact Assessment*, ratified by the shareholders, which sits alongside current accounting and reporting requirements. More details on measurement systems can be found in Stroehle *et al.* (2022).

Proposal: Reporting should be relevant to and reflective of the interests and concerns of a company's stakeholders

The Enacting Purpose Initiative in its Measuring Purpose – an Integrated Framework paper specifies four main audiences for reporting on purpose, though other groups such as employees, customers and civil society may also be relevant:

> The first is the executives of companies who formulate strategies, allocate resources, and incentivize people in their organizations on the back of measures of performance. The second is middle management who make investment decisions, implement projects and deliver performance within their organizations. The third is institutional investors who make portfolio allocations, monitor investments and steward the companies in which they invest. The fourth is policy makers who seek to align corporate behaviour with public interest and promote public investments, frequently in partnership with the private sector. A system of measurement must serve the needs of at least these four parties if business and economies are to operate effectively.[9]

Labs participants spoke about the important role the workforce has to play in terms of critiquing or supporting claims around purpose, but there is a need for a collective mechanism for staff to input in a way that does not put individuals at risk. Many workplaces have recognised trade unions, which constitute an important and established conduit for collective engagement and more could be done to involve them in the reporting process, which could include employee satisfaction and turnover rates. Discussions highlighted the importance of supporting unions in sectors where they are less well-established as a verified worker voice with the authority to speak confidently to management.

Changes taking place to practice were discussed, driven by the new Corporate Governance Code requirements which has seen many companies begin to report on employee engagement in their Section 172 reports. However, only a fraction are currently reporting on the long-term impacts on stakeholders.

[9] Barby *et al.* (2021: 1).

D. Finance and investment

The proposals in this section refer to two of the *Principles for Purposeful Business*.

- **Corporate financing** should be of a form and duration that allows companies to fund more engaged and long-term investment in their purposes.
- **Corporate investment** should be made in partnership with private, public and not-for-profit organisations that contribute towards the fulfilment of corporate purposes.

The Purpose Labs discussions on these principles considered the type of funding available to purposeful businesses as well as some of the legal and regulatory measures that affect that and the relationship between public and private sector funding. Here we reflect the discussions and key points made around each proposal.

Proposal: Institutional investors should be accountable to interests of their beneficiaries and for the system level impacts of their portfolios

Like the Corporate Governance Code, the UK Stewardship Code is voluntary and not reflected in the law, which currently limits the discretion of trustees in broadening their duty from maximising returns to members to take account of social and environmental factors. Although pension trustees have to publish a stewardship policy as part of their Statement of Investment Principles, commitment to stewardship varies greatly and labs discussions considered how new legal requirements could be introduced as part of a fiduciary investors' duty.

ShareAction's proposal for a Responsible Investment Bill[10] seeks to address this issue. It stipulates that fiduciary investors, particularly pension fund trustees, must act for the benefit of the beneficiaries as a whole. It stresses fairness between the beneficiaries, including as between present and future beneficiaries. It proposes that they have regard (amongst other matters) to:

(a) the likely consequences of any investment activities in the long term;
(b) the impact of any investment activities on the financial system, the economy, communities and the environment;
(c) environmental, social and governance considerations (including, but not limited to, climate change) which the fiduciary investor considers financially material; and
(d) the views of beneficiaries.

This legal proposal embeds double materiality – that is the notion that companies report both on matters of financial and non-financial materiality. It requires investors

[10] ShareAction (2020).

to factor in the risks of social and environmental issues on the value of their investments in addition to the impact their investment decisions have on society and the environment, through measurement and disclosure standards. Transparent, accessible and reliable data are key for beneficiaries to understand how institutional investors are performing against social and environmental measures. The ShareAction bill also states that fiduciary investors have a duty to base their stewardship and investment decisions on the views of their beneficiaries and to communicate how they have done so.

In addition, the Investor Forum and the Pensions and Lifetime Savings Association have developed a framework for institutional investors to deliver effective stewardship and engagement through setting expectations of asset managers and in monitoring and appraising the activities of managers, in order to deliver the best results for beneficiaries and wider stakeholders.[11]

Proposal: Regulators could set targets for institutional investors for the rate at which they decarbonise their portfolios and mandate them to publish plans for climate alignment

Labs discussions on this proposal highlighted the need for further examination of how financial regulation can focus on supporting the overall transition to a sustainable economy – moving away from regulation on disclosure of risk to regulation of impact.

Proposal: New professional training for asset managers and financial advisors on how to factor environmental and social factors into their investment decisions

Participants highlighted the problem that many financial advisors and asset managers lack competence and confidence which it comes to social and environmental impacts and many investment institutions prefer to stick with familiar approaches. Managers need to be equipped with new skills and tools and be motivated to take in a broader base of information when making decisions.

An example of an institutional investor seeking to broaden its skillset can be found in the joint initiative between AllianceBernstein and Columbia University's Earth Institute, which began in 2019.[12] This saw the asset manager send its investment staff, chief executive and board of directors, to the university to learn about how climate risks should be factored into their investment decisions.

[11] See Pensions and Lifetime Savings Association & The Investor Forum (2020).

[12] See https://www.alliancebernstein.com/corporate/en/corporate-responsibility/environmental-stewardship/columbia-partnership.html

Despite this example, participants made clear the need for a more uniform and mainstream approach, which may ultimately require compulsory professional qualifications and reforms to university curricula.

Proposal: Public procurement should encourage and give advantage to purpose-driven companies

The scale of Government spending each year on buying goods and services from external suppliers was noted in the labs. This highlights the potential for government to play a role as a *customer* with substantial power to influence the behaviour of companies bidding for public contracts.[13] Participants also spoke about efforts to strengthen the Social Value Act so that companies are scored with a 10 per cent weighting on the value they provide to society, alongside value for money.

Another initiative discussed was the British Standards Institute's BS 95009 standard on public sector procurement aims to reduce barriers for smaller and more innovative businesses in winning public contracts and helps ensure that contracts are awarded to companies that provide products or services in the best way, without compromising ethics, quality or value for money.[14]

Section 3: overview of feasibility and urgency

Towards the end of each Purpose Lab session, participants were invited to read a sub-set of the proposals and give a score in a survey on two factors: the feasibility and urgency of the proposal. The intention was to provide a secondary point of reference to accompany the discussions and facilitate the analysis following the Labs of how suitable each proposal was. It was not a vote, but rather a rapid evaluation and the conclusions were taken alongside the discussions and context during the analysis and synthesis process. Participants were also invited to feedback on the emerging analysis which was presented in a session convened after the draft analysis was ready. In the grid shown in Figure 2, the numbers each refer to a proposal that is listed in Section 1 of this article (the full text of each proposal cannot be placed in the grid for space reasons). The position of the label horizontally illustrates the average urgency score given by participants from low to high, left to right. The position of the label vertically illustrates the average feasibility score given by participants from low to high, bottom to top. This presentation was not intended to be taken in isolation or treated as a full

[13] Ong & Goyder (2019).

[14] See https://www.bsigroup.com/en-GB/standards/bs-95009-procurement-in-the-public-sector/

evaluation, only as one input into the analysis; as such the position of each label can only be seen as an approximation of the average score given.

It is not surprising that proposals tended to be either seen as feasible *and* urgent or less feasible *and* less urgent as urgency and feasibility are not fully separable. It is also not the case that those proposals seen as less urgent are necessarily less important, so this exercise did not provide a tool to eliminate proposals entirely. However, the importance of sequencing the proposals and identifying priorities which could be quickly applied, versus more complex ideas that might take longer was valuable.

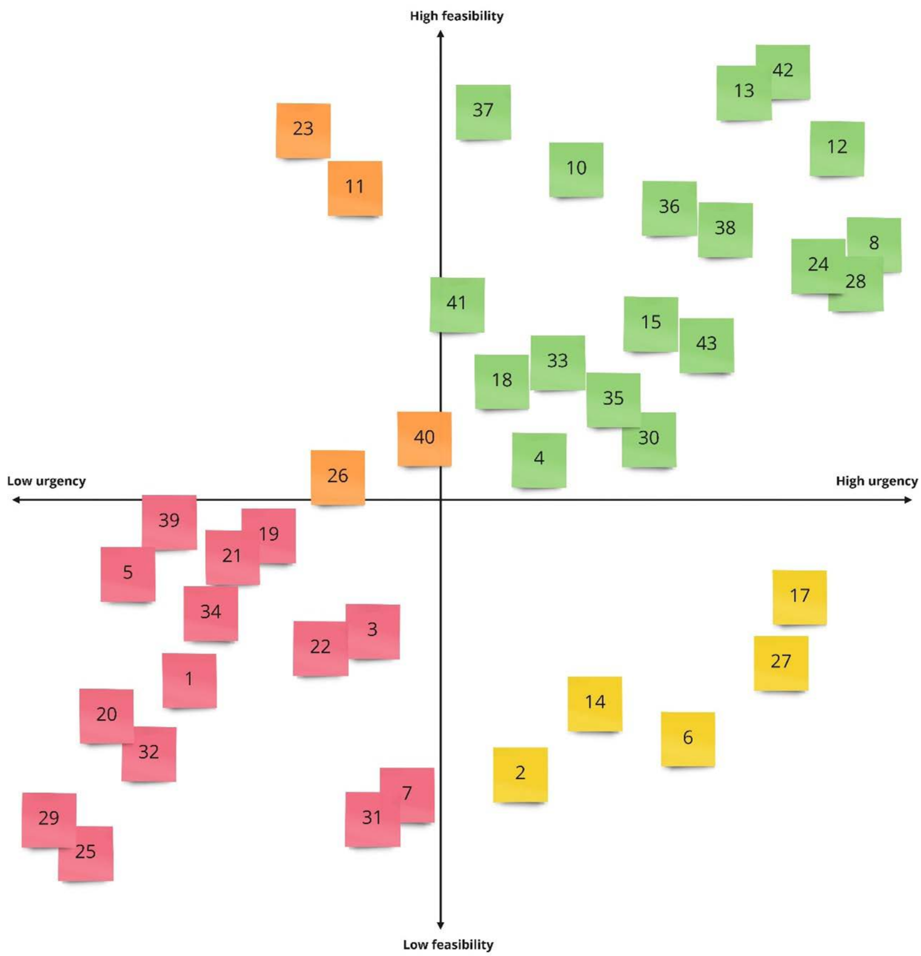

Figure 2. Purpose Labs participants' feedback on the feasibility and urgency of the proposals (numbered as in the list in Section 1 of this article). The horizontal position of the label approximately illustrates the average urgency score given by participants from low to high, left to right. The vertical position of the label approximately illustrates the average feasibility score given by participants from low to high, bottom to top.

Conclusion

The Future of the Corporation programme produced 17 academic papers involving more than 40 researchers, it engaged over 200 experts in 29 deliberative, evidence-generating roundtables and 100 stakeholders in the eight Purpose Labs described by this article. The thousands who have attended events, asked questions and voted with their feet have helped create the momentum needed for this programme to progress, while a small group of leaders have contributed extensive insight and knowledge throughout to guide the programme to its conclusions. It has been a deliberative, inclusive and stakeholder-driven exercise and this article describes the labs in detail in order to provide those interested in the programme the means of understanding some of the processes used and inputs considered.

The findings of the Purpose Labs described in this paper fed into the development of the proposals that made up the final report of the programme, *Policy & Practice for Purposeful Business*. The importance of acting on these proposals becomes clear with each passing year and as the recent COP26 talks have demonstrated, there is a growing need for clear thinking, based on evidence from a range of academic disciplines and practitioners, that reshapes our institutions to meet the needs and challenges of the 21st century.

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