



Principles for Purposeful Business

How to deliver the framework for the
Future of the Corporation

An agenda for business in the 2020s and beyond

Foreword



The British Academy's purpose is to deepen understanding of people, societies and cultures, enabling everyone to learn, progress and prosper. Our Fellowship draws on the full range of the human experience – from politics to art, and economics to philosophy. The Future of the Corporation programme could not be a better example of the Academy's work and its ability to draw on such a wide range of ideas.

With this new report, the Academy is setting out the conclusions of our Future of the Corporation research and its extensive deliberations. The programme has made new connections, encouraged debate and developed new insights. By engaging a range of experts, practitioners and leaders from different parts of society and different disciplines, it has been able to bring a comprehensive view of the role of business in society.

The Academy's aim in this is not to make prescriptions or advise business on answers to their specific questions. Rather, by laying out an evidence-base and a set of principles we aim to provide a framework for others to build on. We hope that business leaders and their advisers will use this framework as a starting point to develop new practices, lawmakers as a basis for consultation on legal changes, researchers as a rationale for further research on purposeful business and teachers as a foundation for curricula to provide the new skills needed.

My field, history, continues to provide an invaluable reference point for looking at business. Milton Friedman, who did so much to set the economic agenda for the last 50 years, said in the 1982 edition of his book *Capitalism and Freedom*, 'Only a crisis—actual or perceived—produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around.' In 2019 there is a growing sense of crisis and many now agree that our era needs a new way of doing business. Without ideas and bold thinking, we are doomed to stand still.

In the Future of the Corporation programme, the British Academy has brought together some of the best thinkers on these issues and this report shows the breadth of ideas already out there. I hope we will see the alternatives set out taken up for further debate as we enter the new decade.

A handwritten signature in black ink, appearing to read 'David Cannadine'.

Professor Sir David Cannadine
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President of the British Academy

Introduction



The Future of the Corporation is one of the most important and pressing topics of our time. This report is not just for business leaders, shareholders and policymakers. It is also for people who work for businesses, buy their products, benefit from a pension or feel an impact from business activities. And facing a climate crisis, this report is crucial for the world at large.

This programme is one of the largest and most ambitious ever conducted by the British Academy, the UK's national academy for the humanities and social sciences. It lies at the heart of the future of capitalism, the future of humanity and the future of our planet.

This second report builds on the November 2018 report, “Reforming business for the 21st century”, which set out the case for urgent reform of business to address the social, political and environmental challenges it faces and to take advantage of the remarkable technological and scientific advances in progress.¹ It was based on research papers produced by academics across the humanities and social sciences and from around the world, guided by the advice of prominent business leaders.²

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Launch of *Reforming business for the 21st century* report, November 2018.



¹ British Academy (2019), “Reforming business for the 21st century”

² See Methodology and Acknowledgments for full details of 2018 research papers and Corporate Advisory Group


The first report received considerable attention from academics, business, institutional investors and policymakers. Since its publication the world has moved significantly in the direction of its recommendations to reform business around its purposes, trustworthiness, values and culture.

This report takes over where the first left off. It revisits the case for change and highlights that climate change, the urgency of delivering on the UN Sustainable Development Goals (SDGs), technological developments, the increasing dominance of companies without significant tangible assets, and negative perceptions of business make this agenda particularly urgent. It identifies how change can and should be achieved. It sets out a series of principles to guide lawmakers and business leaders in any jurisdiction towards the policies and practices that can release the potential of business to profitably solve the problems of people and planet, and to prevent business from profiting from harm.

The report addresses all forms of business – public and private companies, small and large – and uses the terms business, company, firm and corporation interchangeably. It draws on research and evidence described in four compendium research reports on: law and regulation, ownership and governance, measurement and performance, and finance and investment.³ The principles proposed will require significant change for some; however, the report highlights the commitments already made by major business leaders and investors, and a range of good practices already in place for bringing about change.

The significance of the proposals stems not only from their comprehensive evidence base, but also from the experience of the people involved in their production. The British Academy is one of the few institutions in the world with the independence and standing to convene a diverse range of informed perspectives to address one of the most important issues of our time. This report has been guided by a Deliberation Group of nine people from a diverse set of backgrounds and experiences (Methodology) and roundtables of more than 100 people from business, academia, institutional investors, government and think tanks. The Future of the Corporation framework has been presented in forums, conferences and policy discussions around the world and was the subject of a public lecture series organised by the British Academy in eight cities across the UK.

The programme has been made possible by the generosity of a range of foundations and corporate partners. We are particularly grateful to our principal sponsors – The Amersi Foundation and the Society for the Advancement of Management Studies, and the many people who have devoted substantial time and effort to organising the programme and commenting on previous drafts of this report.⁴



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³ See acknowledgements for full details of 2019 research papers covering each of these areas of reform

⁴ See acknowledgements for full details of Future of the Corporation sponsors and partners



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Executive Summary

Purpose before profit

- In 2018, **our research made a strong case for change**, starting with a historical view and emphasising the impact of technology; alongside the loss of trust and shortcomings of the current approach to regulating business; and the damaging impact of some practices on people and planet.
- We concluded that **the purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems**. We proposed a framework for 21st century business based on corporate purposes; commitments to trustworthiness; and ethical corporate cultures.
- We set out here that a **corporate purpose** identifies how the company assists people, organisations, societies and nations to address the challenges they face, while at the same time avoiding or minimising problems companies might cause and making them more resilient in the process.
- In 2019, **purposeful business has become more mainstream** with commitments by leading investors and companies, and a campaign by the Financial Times.
- Purposeful businesses will be essential **contributors to solving the global challenges** of the 21st century, best expressed in an integrated way by the UN Sustainable Development Goals.

Principles for purposeful business

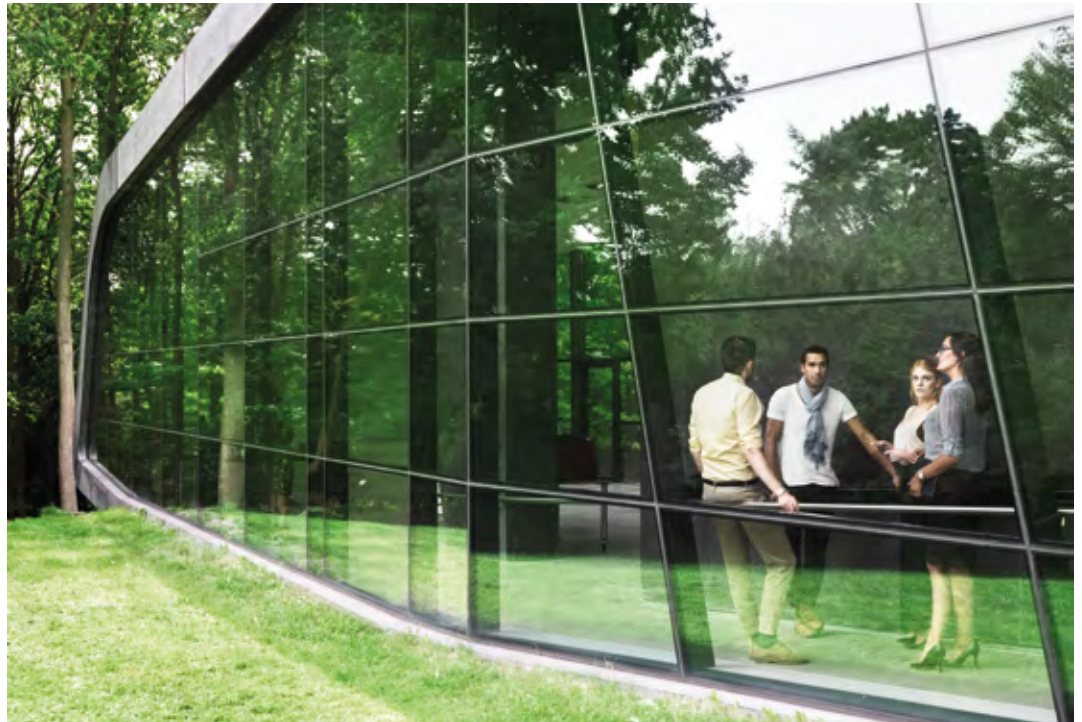
A purposeful business will organise itself on all levels according to its purpose. We propose eight principles for business leaders and policymakers. They do not prescribe specific actions, but set out the features of an operating environment that will enable the delivery of those purposes, while remaining flexible to a diversity of business models, cultures and jurisdictions.

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.

An eco-system of pathways to change

The principles for purposeful business we have proposed are interconnected. Bringing about the change to which they aspire will require engagement from stakeholders and public pressure on governments for **legal reform, leadership** from businesses, investors and governments, **feedback loops**, new **partnerships** between business and stakeholders, and refreshed **skills and knowledge** provision.



Part 1: Purpose before profit

In November 2018, the British Academy published its initial report on the Future of the Corporation. It set out the case for urgent reform of the corporate sector to address the social, political and environmental challenges it faces and to take advantage of technological and scientific advances to further the wellbeing of humanity. The report suggested that a reformulation of our understanding of **corporate purpose** should be pursued, one that is not solely about profit, but about public purposes that relate to the firm's wider contribution to public interests and societal goals.

This new corporate purpose should be the reason for a corporation's existence and its starting point. Profit should then be a product of a corporation's purpose, but not the purpose of the corporation. The ability to deliver on this purpose would be enabled by a renewed commitment to developing **trust** between corporations and the parties involved or impacted, and an embedded **culture** of ethics and values. The report concluded that corporate purposes should profitably solve problems for people and planet, and avoid profiting from creating problems for people and planet.⁵

In this report we take these conclusions to the next stage. Based on the research we have undertaken to date, the deliberations and roundtables we have held with hundreds of stakeholders and the evidence we have collected and synthesised (see Box 1 for details of our methodology), we are now setting out a series of principles (see Part 2) which can be used to guide any business, in any country or jurisdiction, to the realisation of the type of trustworthy, purposeful business with ethical cultures that we set out in our previous report. The principles are not intended to be prescriptive but are articulated in such a way as to be widely applicable, yet concrete in their aims. In Part 3, we discuss how these principles interconnect and can be enacted in multiple ways through diverse pathways. Before that, though, we revisit the case for change, ask why now is the moment for this shift to occur, and examine the idea of corporate purpose in more detail.

Box 1 Methodology

Over a period of two years from mid-2017 to April 2019, the British Academy convened a large range of business leaders, experts, government officials, leading academics and civil society representatives. They came together in 11 topical briefings involving around 350 people, seven meetings of our 25-strong corporate advisory group, numerous individual meetings and 13 research groups featuring 32 academics from around the world who spent ten months researching the core themes. Our November 2018 report synthesised the case for change and the vision of trustworthy, purposeful businesses with ethical cultures. This provided a starting point for a set of principles, which a Deliberation Group (Methodology p. 38) developed, and the Academy stress-tested with over 150 practitioners in a series of 15 roundtable sessions before being collected together in this report alongside four detailed evidence papers (see Methodology). Finally, this report has been reviewed by Fellows of the British Academy, independent of the process.



Above
The Abbey of Monte Cassino. The Benedictine order adopted Roman Law to structure its governance.

The case for revisiting the contract between business and society

Our 2018 research started by looking to the original conception of a corporation in Roman Law and its subsequent developments: *‘from the piae causae of Ancient Rome to Medieval monasteries and the City of London, corporations have been purveyors of education, civic administration, public works, philanthropy, and spiritual enlightenment for millennia’*.⁶ More recent history shows that it is only over the last sixty years that markets have emerged for corporate control and the idea of profit-maximisation being the sole purpose of business has prevailed.⁷ Today the corporation is one of society’s most influential institutions: the world’s 500 largest companies generated \$32.7 trillion in revenues in 2018, with Walmart alone generating \$514 billion, making it larger in revenue terms than most countries.⁸

6 Davoudi, L., McKenna, C. & Olegario, R. (2018), ‘The Historical Role of the Corporation in Society’, *Journal of the British Academy*, 6(s1), pp. 19
7 Ibid. pp 39-40
8 Fortune (2019), ‘Fortune Global 500’, Available: <https://fortune.com/global500/2019>

Four factors highlight why change is needed now:

- **The global nature of challenges that society faces and the global nature of business itself.** The most urgent challenge is climate change, which has been declared a crisis by governments and companies around the world (see Box 2). Alongside this there are a range of other environmental, social and political challenges, perhaps best summarised in an integrated way by the 17 UN Sustainable Development Goals (see page 14). Meanwhile, globally mobile business means that corporate taxation is unlikely to be a remedy.⁹ These points create systemic risks which make the corporate and financial systems that we rely on vulnerable.
- **The opportunities and challenges presented by new technology.** The rate of change has outpaced regulation and, as time passes, regulators and lawmakers get further behind the latest developments in both technology and business models.¹⁰ New technology also provides challenges and opportunities for the future of work.¹¹
- **The increasingly intangible nature of companies.** Leading companies' assets have altered from 83% tangible (buildings, plant, machinery) to 87% intangible (brands, patents, intellectual property).¹² This has turned on its head the justification for shareholders to dominate companies based on ownership of tangible assets. In turn, this renders the application of traditional economic tools of competition policy and regulation increasingly irrelevant.¹³
- **The perception of business in wider society.** Trust in institutions is essential for social and economic progress.¹⁴ Business has experienced a slight increase in general levels of public trust since the nadir of the 2008 financial crash, and is now widely regarded as more trustworthy than governments and media.¹⁵ However, EY's Global Fraud Survey shows 38% of executives across 55 countries say corruption occurs widely in business.¹⁶ Building greater accountability within business for its impact on people and planet is essential. Action must be taken to address growing concerns around the external impacts of business regarding social inequality, the environment, competition, consumer protection, and privacy in digital markets.¹⁷

These issues cannot be mitigated without companies themselves helping to drive urgent change. And evidence is mounting that companies which actively pursue more sustainable strategies, or have more diverse workforces, are also more profitable and bring about long-term investment opportunities.¹⁸

9 Desai, M. & Dharmapala, D. (2018), 'Revisiting the Uneasy Case for Corporate Taxation in an Uneasy World', *Journal of the British Academy*, 6(s1)
 10 Birkinshaw, J. (2018), 'How is Technological Change Affecting the Nature of the Corporation?', *Journal of the British Academy*, 6(s1)
 11 British Academy and the Royal Society (2018), 'The impact of artificial intelligence on work'
 12 Ocean Tomo LLC (2015), 'Annual Study of Intangible Asset Market Value', Available at: <https://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/>
 13 Birkinshaw, J. (2018), Op. Cit.
 14 Kirby, N., Kirton, A. & Crean, A. (2018), 'Do Corporations have a Duty to be Trustworthy?' *Journal of the British Academy*, 6(s1) p. 79
 15 Edelman (2019), *2019 Edelman Trust Barometer*, Available: <https://www.edelman.com/trust-barometer>
 16 EY (2018), *EY Global Fraud Survey*, Available: <https://fraudsurveys.ey.com/ey-global-fraud-survey-2018/>
 17 OECD (2019), *OECD Business and Finance Outlook 2019: Strengthening Trust in Business*, OECD Publishing, Paris, <https://doi.org/10.1787/af784794-en> and Morgan Stanley (2019) as referenced in <https://www.ft.com/content/7c3dbf1e-e047-11e9-b112-9624ec9edc59>
 18 CDP (2019), *Climate Change Report 2019: Major risk or Rosy Opportunity?*, Available: <https://www.cdp.net/en/reports/downloads/4588>

Box 2 Business and climate change

Climate change risks to business are widely recognised and documented.¹⁹ The World Economic Forum Global Risks Report highlights that environmental risks are seen by business as three of the top five risks by likelihood and four by impact.²⁰ These risks represent a disruptive factor with the potential to undermine business models, as well as create new opportunities, and to create challenges for regulators and for governance mechanisms. The IPCC²¹ highlights that the next decade will be critical in making the adaptations and mitigations needed to prevent escalation of climate change impacts. To respond accordingly, business as usual is no longer possible.



Above

Businesses are prioritising SDGs 13 (climate action), 12 (responsible consumption and production) and 8 (decent work and economic growth)

19 See, for example: Committee on Climate Change (2017), *UK Climate Change Risk Assessment 2017: Evidence Report*, Available: <https://www.theccc.org.uk/wp-content/uploads/2016/07/UK-CCRA-2017-Chapter-6-Business-and-industry.pdf>

20 WEF (2019), *Global Risk Report 2019*, Available: http://www3.weforum.org/docs/WEF_Global_Risks_Report_2019.pdf

21 International Panel on Climate Change (2019)

As one example of this, companies are increasingly giving regard to the UN Sustainable Development Goals (SDGs) as a means of reporting on the external consequences of their actions (see box 3). With recent research by PwC showing that 72% of companies now mention the SDGs in their annual corporate or sustainability report.²² SDGs 13, 12 and 8 (see Figure 1) are the most common priority goals for business, with 61% of businesses identifying Climate Action (SDG 13) as a priority.²³ However, while the number of companies committing to the SDGs is increasing, these statements are not always matched in practice, and we need to see more affirmative action if significant progress is to be achieved.²⁴



Box 3 Operationalising the SDGs

The Future-Fit Business Benchmark (the Benchmark) is a tool that allows companies, investors, and other stakeholders to assess the social and environmental impacts of businesses. It translates the system-level requirements of sustainability into organisation-level objectives, operationalising the SDGs in a business context. Novo Nordisk is the first global company that has completed a self-assessment against the Benchmark, with assessment results independently assessed by Grant Thornton.²⁵

then we need businesses that commit to their corporate purpose and create reciprocal relations of trust and mutual benefits both for the firm and its stakeholders.²⁷ This, in turn, can create more loyal customers, more engaged employees, more reliable suppliers and more supportive shareholders and societies.²⁸ A return to corporate purpose is central to a renewal and revival of business as an institution that plays a positive role in society. And over the course of 2019, there has been growing recognition of this.

The challenges articulated through the SDGs and concerns around trust, globalisation and rapid technological change raise paradigm-shifting questions about the positive force business can play in reimagining the role of people and the redistribution of labour and decision making in our future workplaces.²⁶

If we are to see businesses move towards solving problems and not profiting from producing problems for people or planet,

22 PwC (2018), *SDG Reporting Challenge 2018*. Available: <https://www.pwc.com/gx/en/sustainability/SDG/sdg-reporting-2018.pdf>
 23 World Business Council for Sustainable Development (2019), *Business and the SDGs: A survey of WBCSD members and Global Network partners*, available https://docs.wbcsd.org/2018/07/WBCSD_Business_and_the_SDGs.pdf
 24 Tortoise Intelligence (2019). 'The Responsibility 100 Index', Available: <https://members.tortoisemedia.com/2019/09/23/responsibility-100-day-one/content.html>
 25 Stroehle, J. C., Soonawalla, K., Metzner, M. (2019). "How to Measure Performance in a Purposeful Company? Analysing the Status Quo", *Future of the Corporation Working Paper 3*, pp. 6
 26 British Academy and the Royal Society (2018), "The impact of artificial intelligence on work"
 27 Kirby, N., Kirton, A. & Crean, A. (2018). 'Do Corporations have a Duty to be Trustworthy?' *Journal of the British Academy*, 6(s1)
 28 Hsieh, N., Lange, B., Rodin, D. & Wolf-Bauwens M. L. A. (2018). 'Getting Clear on Corporate Culture', *Journal of the British Academy*, 6(s1)

Growing support for purposeful business

The British Academy is by no means the only voice calling for change. There has been remarkable progress in the last year alone (see Figure 2). The idea of purposeful business is now gaining mainstream interest and support. Investors, business leaders and prominent commentators are competing to explain why business exists, what it is there to do and what it aspires to become – namely the purpose of business. Public demand for sustainable investment opportunities is growing, with a recent UK government survey showing that two thirds of the British public have a desire to invest for positive social and environmental impact alongside financial return.²⁹

However, the case for this way of doing business raises some important questions, not least in regard to what corporate purpose is, how it is articulated and what it means in practice.

Figure 2 A timeline of recent developments in support for purposeful business

Nov 2018	British Academy publication, 'Reforming business for the 21st century', ie makes the case for a return to corporate purpose, trustworthiness and ethical cultures.
Jan 2019	Larry Fink, the CEO and Chairman of Blackrock , the largest investment management business in the world, says 'every business needs a purpose [...] Purpose is not the sole pursuit of profits but the animating force for achieving them.'
Aug 2019	The American Business Roundtable – a group of top US CEOs – releases a statement on corporate purpose, signalling a major shift away from shareholder primacy.
Sep 2019	The Financial Times calls for a reset, stating 'The long-term health of free enterprise capitalism will depend on delivering profit with purpose'.
Sep 2019	87 companies, with a combined market cap of \$2.3tn, have joined a UN campaign to keep global warming below 1.5 degrees centigrade.



Source: British Academy,³⁰ Blackrock,³¹ Business Roundtable,³² Financial Times,³³ UNGC³⁴

29 Department for International Development (2019), "Investing in a Better World: Results of UK Survey on Financing the SDGs", Available: <https://www.gov.uk/government/publications/investing-in-a-better-world-results-of-uk-survey-on-financing-the-sdgs>

30 British Academy (2018), "Reforming business for the 21st century"

31 Blackrock (2019), "Larry Fink's 2019 Letter to CEOs", Available: <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

32 Business Roundtable (2019), "Our Commitment", Available: <https://opportunity.businessroundtable.org/ourcommitment/>

33 Financial Times (2019), "Capitalism. Time for a reset.", Available: <https://aboutus.ft.com/en-gb/new-agenda/>

34 "87 major companies lead the way towards a 1.5°C future at UN Climate Action Summit", Available: <https://www.unglobalcompact.org/news/4476-09-21-2019>

What is corporate purpose, how is it articulated and what does it mean in practice?

The purpose of business is to profitably solve the problems of people and planet, and not profit from causing problems.³⁵

A corporate purpose is the expression of the means by which a business can contribute solutions to societal and environmental problems. Corporate purpose should create value for both shareholders and stakeholders.

A properly formulated purpose statement is neither purely descriptive about what a company does nor aspirational in saving the planet or society. Instead, it identifies how companies assist people, organisations, societies and nations to address the challenges they face, while at the same time helping companies to avoid or minimise the problems they might cause. Some examples of corporations that have a publicly stated purpose are provided in Box 4.

Box 4 Illustrations of corporate purposes

Illustration and Innovation

The examples of corporate purposes below are not endorsements of those purposes but are included for illustration. The companies chosen have been referred to elsewhere in the report:

Novo Nordisk drive change to defeat diabetes and other serious chronic diseases.³⁶

Danone North America expecting more from our food.³⁷

Anglian Water to conduct its business and operations for the benefit of members as a whole while delivering long term value for its customers, the region and the communities it serves and seeking positive outcomes for the environment and society.³⁸

means achieving a greater diversity of beneficial outcomes than is possible where profit maximisation alone prevails as illustrated by the example of Handelsbanken (see Box 5).³⁹ Corporate purpose could also enhance the functioning of markets and promote competition in tackling the most challenging issues of our time.⁴⁰ It could encourage a race to the top, not to the bottom in delivering the greatest societal benefits in the most profitable way. It significantly strengthens accountability to all stakeholders impacted by the firm, including but not exclusively to its shareholders as we go on to explore below.

To this end, developing, articulating and adopting a purpose statement at the core of a company's articles of incorporation requires judgements about balancing the interests of different stakeholders. Once adopted, delivering on corporate purpose requires appropriate structures, systems, processes, financing, measurement and incentives both outside and within the boundaries of the corporation itself. This is where the set of principles we describe in Part 2 comes into focus as part of a wider enabling environment for purposeful business.

In practice, placing purpose at the heart of business in its constitution and providing credible commitments to its fulfilment

35 British Academy (2018), 'Reforming business for the 21st century'

36 Novo Nordisk. (2019), 'About Novo Nordisk', Available: <https://www.novonordisk.com/about-novo-nordisk.html>.

37 Danone (2019), 'Our Purpose', Available: <http://www.danonenorthamerica.com/our-purpose/>

38 Anglian Water (2019), *Articles of Association of Anglian Water Services Limited*, Available: <https://www.anglianwater.co.uk/siteassets/household/about-us/aws-articles-of-association.pdf>

39 See for example, Rodríguez Vilá, O. and Bharadwaj, S. (2017), 'Competing on Social Purpose', *Harvard Business Review*, September-October 2017

40 In Akerlof, G. A and Shiller, R. J. (2016), *Phishing for Phools: The Economics of Manipulation and Deception* (Princeton University Press), the authors set out a challenge to the idea that markets deliver well-being.

Box 5 Handelsbanken

Illustration and Innovation

Handelsbanken is a Swedish bank that has been successful in delivering consistently increasing returns for its shareholders and higher levels of customer satisfaction than its rivals. It has done this through a governance structure that delegates decision making down to the individual branches of the bank, to the extent that the mantra of the bank is “the branch is the bank”. It has a strong set of values and culture, a very long-term incentive scheme, and a stable and supportive structure of ownership with profit-sharing with employees.⁴¹

Defining a company’s purpose

Defining corporate purpose necessitates identifying and creating accountability to a firm’s stakeholders. Stakeholders are ‘any group or individual who can affect or is affected by the achievement of the organisation’s objectives’.⁴² The US Business Roundtable gives five sets of stakeholders to which purposeful companies must be accountable: customers, employees, communities, suppliers and shareholders.⁴³ These are also reflected in the 2006 UK Companies Act, which recognises a company’s duty to its employees, suppliers, customers, community and the environment.⁴⁴ Accountability to a company’s internal and external stakeholders, coupled with the influence of their diverse value systems, makes a business more likely to embed and bring about societal goals.⁴⁵ Therefore the process of identifying and articulating a company’s purpose should involve consultations with its stakeholders and ideally companies will compete to develop the best mechanisms for ensuring that involvement.⁴⁶

At significant moments in the lifecycle of a purposeful business – its founding, merger, or sale – it will need to revisit its purpose and reconvene those who set it. Meanwhile, a purposeful business will also ensure that measures are in place to ensure accountability within the business for remaining faithful to its purpose and for ongoing monitoring and reporting of delivery of the purpose. These mechanisms will require new skills and knowledge that enable businesses and their advisers to properly engage their stakeholders. They will also require new governance models.

Defining a purpose is, however, only the first stage of the process of becoming a trustworthy, purposeful company with ethical cultures. The principles laid out in Part 2 below provide a framework for the next steps, which involve re-organising the business around that purpose.

41 Handelsbanken (2019). ‘Welcome to Handelsbanken’, Available: <https://www.handelsbanken.com/en/>

42 Freeman, R. E. (1984), *Strategic Management: A Stakeholder Approach* (Cambridge, Cambridge University Press).

43 Business Roundtable (2019), ‘Our Commitment’, Available: <https://opportunity.businessroundtable.org/ourcommitment/>

44 Legislation.gov.uk (2019), ‘Companies Act 2006: Section 172’, Available: <https://www.legislation.gov.uk/ukpga/2006/46/section/172>

45 Buckley, P. J. (2018), ‘Can Corporations Contribute Directly to Society or only through Regulated Behaviour?’, *Journal of the British Academy*, 6(s1), p. 340

46 This section presents ideas that arose through the Future of the Corporation programme deliberations.

Part 2: Principles for purposeful business

This part describes the terms for organising business around purpose, expressed as a set of principles. The starting point for these principles is the current ‘rules of the game’ – a mixture of legal measures, standard practices and cultural norms.⁴⁷ For consistency and simplicity, the principles are presented as mirroring the eight elements of this setup: law, regulation, ownership, governance, measurement, performance, finance and investment. They are summarised and depicted in Figure 3 opposite, and described in detail in the remainder of this section. The detailed text for each principle sets out the high-level principle, the problem and issue it is intended to address, and what it would mean in practice. Each principle is brought to life by examples of ‘illustration and innovation’, showing how the principle might or is already being implemented.

The principles are interconnected and interdependent. They are designed to be applied to a diverse range of sectors, locations, business models and sizes, highlighting characteristics rather than any prescriptive formula. However, this is a complex ecosystem which faces challenges associated with its global application, with corporations increasingly operating over multiple jurisdictions.⁴⁸ Businesses will need to apply these principles to their own circumstances and governments and lawmakers to their particular jurisdictions, with strong leadership required across major markets and economies.

Making these changes happen will require leadership, legal change, new skills and knowledge, new relationships and a series of feedback loops.⁴⁹ We explore these ‘change pathways’ in Part 3 of this report.

Right

Businesses and societies face connected challenges and opportunities.



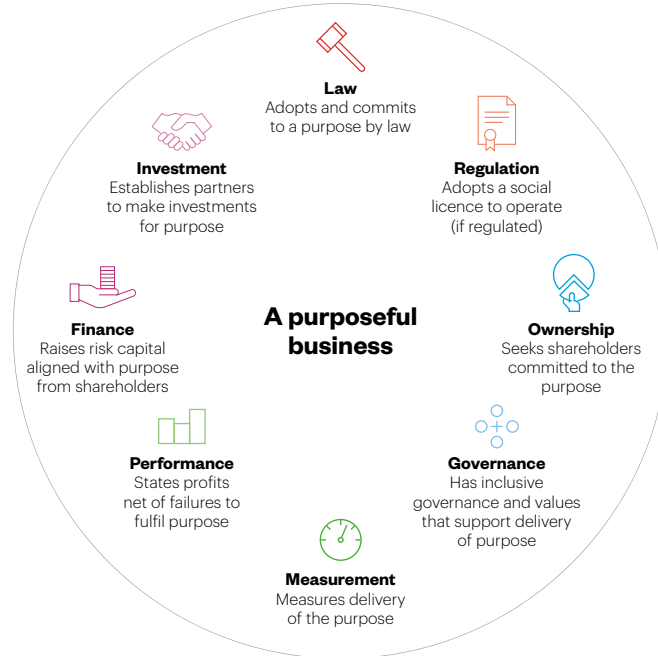
47 Buckley, P. J. (2018), ‘Can Corporations Contribute Directly to Society or only through Regulated Behaviour?’, *Journal of the British Academy*, 6(s1), pp. 361

48 Palombo, D. (2019), ‘The Future of the Corporation: The Avenues for Legal Change’, *Future of the Corporation Working Paper 1*

49 These change pathways are a synthesis of the range of mechanisms highlighted by practitioner roundtables as connecting the principles and providing the means to bring about changes. See methodology box on p. 8 for extent of these roundtables.

What does a purposeful business look like?

Figure 3 The features of purposeful business anticipated by the Principles which we set out in this Part



In practice, each of these principles implies that companies will:



Law. Be required by law to adopt and specify the purposes they are committed to achieving.



Regulation. Where they are regulated, be required to adopt social licences to operate as their purposes require and maintain that licence through engagement.



Ownership. Identify shareholders supportive of their purposes who, through holding significant blocks of shares for extended periods of time, offer the stability of ownership required to fulfil their purposes.



Governance. Establish board governance arrangements (board composition, training, diversity, committees) that promote the successful adoption and implementation of their purposes. They will determine a set of values consistent with their purposes and ensure that these are embedded in their company culture. They may create appropriate and inclusive forms of accountability to relevant stakeholder groups (councils, forums and supervisory boards) in the delivery of their purposes.



Measurement. Sign up to a standardised set of metrics that assess the extent to which companies adhere to common minimum standards of conduct in relation to people and planet. In addition, companies will determine the metrics that are most relevant to their specific corporate purposes and adopt key performance indicators to evaluate and reward employees against them.



Performance. Restate their profits to make provisions for the costs of remedying failures to fulfil their purposes and avoiding negative impacts on their workers, societies and natural assets both within and outside the firm.



Finance. Provide, through their shareholders, the financial risk capital required by the nature, scale and duration of corporate investments.



Investment. Establish partnerships with relevant organisations and demonstrate their commitments to them by making the investments required to support these partnerships.

Principle 1: Corporate law

Corporate law should place purpose at the heart of the corporation and require directors to state their purposes and demonstrate commitment to them.

At present in many countries, corporate law is formulated in terms of shareholder interests. UK company law illustrates how. Sub-section (1) of s.172 of the UK Companies Act, 2006, states that:

‘a director of a company must act in the way that he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the likely consequences of any decision in the long-term’ [and the interests of other stakeholders – employees, suppliers, customers, the community, and the environment].⁵⁰

In effect, given that ‘members’ are almost entirely shareholders, directors should therefore take account of the interests of shareholders, and only consider other stakeholders if that furthers the interests of shareholders. The Act therefore enshrines what is sometimes termed “enlightened shareholder value”. The problem this creates is that it does not permit directors to further interests of stakeholders at the expense of shareholders and it does not provide protection to companies that promote purposes beyond shareholder value.⁵¹

The proposed principle would require a reformulation of corporate law to capture the two sides to corporate purpose we have laid out. Namely, the positive benefit of producing profitable solutions to the problems of people and planet, and the avoidance of harm in not profiting from producing problems for people or planet. Corporate law is evolving around the world (see Box 6) and a possible formulation building on these developments could be: ‘directors of companies must establish their company purposes, act in a way they consider most likely to promote the fulfilment of their purposes, and have regard to the consequences of any decision on the interests of shareholders and stakeholders in the firm’.⁵³

Indeed, this is precisely what sub-section (2) of s.172 of the UK Companies Act permits when it states that ‘where or to the extent that the purposes of the company consist of or include purposes other than the benefit of its members, subsection (1) has effect as if the reference to promoting the success of the company for the benefit of its members were to achieving those purposes.’⁵⁴ The provision therefore already exists within UK company

Box 6 Laws that enable purposeful business

Illustration and Innovation

There are a range of emerging forms of law that enable purposeful business.

Delaware in the USA is one of 36 states to offer a ‘public benefit corporation’ form.⁵² Examples of such corporations include Danone North America, a major food and beverage business, and Patagonia, a clothing company. In France in 2019, a new corporate law allowed boards to state a ‘raison d’être’ other than profit.

Several recent laws also place more specific obligations around avoidance of harm through supply chains in particular. In the UK, for example, the Bribery Act and the Modern Slavery Act, in California, the Transparency in Supply Chains Act, and in France, the “Loi sur le devoir de vigilance” (due diligence law).

50 Legislation.gov.uk (2019), ‘Companies Act 2006: Section 172 (1)’, Available: <https://www.legislation.gov.uk/ukpga/2006/46/section/172>
 51 Palombo, D. (2019), ‘The Future of the Corporation: The Avenues for Legal Change’, *Future of the Corporation Working Paper 1*, pp. 7
 52 Benefit Corporation (2019), ‘State by State Status of Legislation’, Available: <https://benefitcorp.net/policymakers/state-by-state-status>
 53 For a full discussion of how such a change might be presented and some implications, using the UK Companies Act as an illustration, see Palombo, D. (2019), *Op. Cit.*, pp. 9-11
 54 Legislation.gov.uk (2019), ‘Companies Act 2006: Section 172 (2)’, Available: <https://www.legislation.gov.uk/ukpga/2006/46/section/172>

law for companies to put purpose at their heart, but it is very rarely used because the notes to the Act make clear that it should apply in exceptional circumstances in what are described as 'altruistic' companies. In other jurisdictions, the option to incorporate around a purpose is also implied as exceptional. But far from being exceptions, our evidence suggests that purposeful companies should be regarded as the norm.

Principle 2: Regulation

Regulation should expect particularly high duties of engagement, loyalty and care to public interests on the part of directors of companies which perform important public functions.

Currently, regulation is limited to setting the 'rules of the game'. In general, there should not be an attempt to prescribe corporate purposes, provided companies do not profit from doing harm to others. Diversity of purposes is a source of innovation and ingenuity. However, where companies perform public functions that create a dependency of a segment of society on them by virtue of their product, market or function then there is a particularly strong obligation on firms to fulfil their roles.⁵⁵ This is most clearly associated with regulated firms – utilities, banks, auditing firms, and public service providers – and regulators of these firms should oversee their statements and implementation of purpose (see Box 7).

Box 7 Anglian Water

Illustration and Innovation

Anglian Water, a UK regulated utility company, has changed its Articles of Association to set its purpose in terms of benefit for shareholders, long-term value for its customers, region and communities and positive outcomes for the environment and society. In addition, it stipulates its Directors' duties as promoting the purpose of the company and carrying out operations in accordance with its statement of responsible business principles. This puts a legal requirement on its board of directors to take account of the impact of the company's decisions on society and the environment, as well as their financial implications.⁵⁶

This complements the role of regulation in prescribing and enforcing 'rules of the game' in regulated sectors, and the universal obligations that apply to all firms to abide by commercial, employment, environmental, human rights, and investor protection laws. Its significance stems from the importance of aligning the interests and fiduciary responsibilities of directors of such companies with their public functions.⁵⁷ By incorporating public in corporate purposes, corporations mirror what are termed 'public benefit corporations' in the US in which directors have duties to uphold their public as well as commercial objectives.⁵⁸ Again therefore, there is a

well-established precedent for the adoption of such corporate forms.

One of the central issues this raises is the criteria by which to identify companies and sectors whose purposes will need to be prescribed in this way. Technological innovations in the past, such as electrification and telecoms, led to new business models which then

55 Hsieh, N., Meyer, M., Rodin, D. & van't Klooster, J. (2018), 'The Social Purpose of Corporations: A Literature Review and Research Agenda', *Journal of the British Academy*, 6(s1)

56 Anglian Water (2019), *Articles of Association of Anglian Water Services Limited*, Available: <https://www.anglianwater.co.uk/siteassets/household/about-us/aws-articles-of-association.pdf>

57 Palombo, D. (2019), Op. Cit.

58 Delaware General Corporation Law, § 362 Public benefit corporation defined

created public concern and ultimately led to regulatory interventions.⁵⁹ Today, public concerns around technological change, combined with issues about the climate and the wider environment, present huge challenges to regulators. As a result, this principle may apply to firms that are not currently seen as utilities but nevertheless serve important public functions.

Principle 3: Ownership

Ownership should recognise the obligations of shareholders and engage them in supporting corporate purposes as well as in their rights to derive financial benefit.

Ownership is currently conceived as being about the rights of shareholders over the assets of a firm. Shareholders provide permanent risk capital for firms and, as residual claimants on their earnings, derive control rights over their assets. But increasingly companies are dependent on and impact workers, societies and natural assets – which they do not own – in their supply chains, localities and environments as well as within their legal boundaries.⁶⁰

This turns the traditional property right view of the firm on its head and suggests that ownership does not relate to the assets of a firm but to its purposes. Hence with the rights of ownership come obligations and responsibilities to respect the interests of others affected by its purposes (see Box 8).

Purpose comprises two components: problem solving and profit creation. While firms may utilise little external finance in comparison to the other assets they employ, they may nevertheless accumulate large amounts of financial capital in the form of ongoing streams of financial profit. Ownership of this financial capital provides strong incentives for its creation. However, it derives from the problem-solving nature of the firm and should not be earned at the expense of other parties. This means that alongside the rights of shareholders to streams of income are obligations to define and support the purposes of businesses.⁶¹

Box 8 Examples of foundation ownership

Illustration and Innovation

Industrial foundations in Denmark and Germany account for some of the largest businesses in the world.⁶² Companies like Novo Nordisk, Carlsberg, Bosch and Bertelsmann are owned by foundations which oversee the determination and implementation of their purposes and values. The foundations do not manage the company, they have their own boards of directors that are accountable to the foundations. Other examples elsewhere include Tata Group in India and Hershey in the US. Employee ownership, typically via a trust is a similar model, with examples in the UK including Arup Group, Richer Sounds and John Lewis, where workforce voice is integral to its governance. All of these forms are linked by the idea of stewardship and trusteeship.⁶³ While they illustrate different ownership forms, this is no guarantee that the business applies the other principles.

59 For a detailed review of the history of technological disruptions and associated regulatory responses, Hamdani, A., Kandel, E., Hashai, N. & Yafeh, Y. (2018), 'Technological Progress and the Future of the Corporation', *Journal of the British Academy*, 6(s1), pp 235-236

60 Kustin, B., Chan, J. and Johnston-Louis, M. (2019), "The Future of Corporate Ownership and Governance", *Future of the Corporation Working Paper 2*, pp. 2

61 Mayer, C. (2020), "Ownership, Agency and Trusteeship", *Oxford Review of Economic Policy*, forthcoming

62 Thomsen, S. (2018), 'Foundation Ownership and Firm Performance: A Review of the International Evidence', in Ciaran Driver and Grahame Thompson (eds) *Corporate Governance in Contention*, Chapter 4, Oxford: Oxford University Press.

63 For more on this and further examples, see Purpose Foundation (2018), "Steward-Ownership: Rethinking ownership in the 21st century", Available: <https://purpose-economy.org>

Principle 4: Corporate governance

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.

Corporate governance is traditionally viewed in the context of solving the agency problem of aligning the interests of management with those of shareholders. However, there has been growing recognition that this is not the appropriate formulation of corporate governance, illustrated by the changes to the UK corporate governance code.

In July 2018, the Financial Reporting Council in the UK issued a revised corporate governance code which put corporate purpose at the heart of the code and emphasised the need for corporate governance to align managerial interests with the delivery of corporate purposes. Principles B and C of the code state that: *'the board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture'*, and *'the board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them.'*⁶⁴

Box 9 Establishing accountability mechanisms

Illustration and Innovation

The UK Corporate Governance code referenced in the text is a leading example of linking purpose and governance. However, the code is limited in scope when it comes to extending accountability to stakeholders and sits alongside UK Company Law which remains focused on (enlightened) shareholder interests. In terms of establishing accountability mechanisms, Danish industrial foundations provide examples of effective engagement with employees which results in better employee relations.⁶⁵ The two-tier board structure that is common in Germany is another model. It splits responsibility for daily management from the strategic decision-making of the supervisory board, which comprises both shareholder interests and worker representatives.⁶⁶

These principles provide a clear statement of what corporate governance should achieve – an alignment of company strategy and culture with its purpose and values, led from the top and embedded throughout the organisation. This should be appropriately resourced, and performance should be measured against the company's purposes.

At present, the accountability of the board for good governance is primarily to its shareholders. However, boards of directors can be accountable not just to shareholders and shareholder meetings but also to the other stakeholders affected by the firm, as found, for example, in the two-tier board system of Austria and Germany (see Box 9).⁶⁷ Critical to the success of this and other forms of governance is the provision of information on the performance of firms in relation to their purposes.

64 Financial Reporting Council, (2018), UK Corporate Governance Code

65 Børsting, CW & Thomsen, S (2017), 'Foundation Ownership, Reputation, and Labour', Oxford Review of Economic Policy, vol. 33, no. 2, pp. 317-338

66 TUC (2016). ALL ABOARD: Making worker representation on company boards a reality. Available: https://www.tuc.org.uk/sites/default/files/All_Aboard_2016_0.pdf

67 Kustin, B., Chan, J. and Johnston-Louis, M. (2019), Op. Cit.



Principle 5: Measurement

Measurement should recognise investment by companies in their workers, societies and natural assets both within and outside the firm.

At present corporate measurement systems and in particular corporate accounts relate predominantly to financial and material assets. In contrast, companies are increasingly dependent on and affect other parties, which are external to the firm. There is therefore a growing mismatch between what companies manage and what they measure. This is undermining the quality of information that management, investors, regulators, policymakers and stakeholders have available to them and leading to a misallocation of resources between what is conventionally measured and what is needed.⁶⁸

The last few years have witnessed a proliferation of providers of information on the non-financial performance of firms. There is considerable confusion, inconsistency and cost associated with the variety of information being produced. This reflects a lack of clarity about precise questions the information provided is supposed to answer.⁶⁹ There is a need for greater consensus, data assurance and standardisation of available information (see Box 10).

In addition, the board of a company should determine the firm-specific metrics against which fulfilment of purposes beyond minimum legal and regulatory standards can be evaluated. These metrics should translate into key performance indicators that drive behaviour in different parts of a business, and employees should be evaluated, rewarded and promoted against the fulfilment of them.⁷¹

Box 10 Emerging measurement standards

Illustration and Innovation

Although it seems fragmented, the landscape for what organisations need to measure and disclose is increasingly marked out by a handful of leading initiatives, many of which have come together under the Impact Management Project as a structured network. These address four types of standards:⁷⁰

- Conceptual frameworks for measurement, such as those recommended by GRI, SASB and Social Value International, all of which are now working with the OECD on a framework that includes measurement and disclosure of both ESG risks and positive impacts;
- Metrics, such as those defined by GRI, CDP, SASB, IRIS+ and HIPS0 as well as science-based targets to contextualise whether performance on those metrics is 'good enough';
- Valuation techniques to estimate the relative values of performance on different metrics so that choices between different social and environmental impacts are made explicit; and
- Integrated reporting, such as the guidance provided by the IIRC

68 Mayer, C. (2018), *Prosperity: Better Business Makes the Greater Good*, Oxford: Oxford University Press, Ch. 6.

69 Stroehle, J. C., Soonawalla, K., Metzner, M. (2019), "How to Measure Performance in a Purposeful Company? Analysing the Status Quo", Future of the Corporation Working Paper 3, pp. 6

70 In the box, several acronyms are used: GRI (Global Reporting Initiative), SASB (Sustainability Accounting Standards Board), OECD (Organisation for Economic Co-operation and Development), ESG (Environmental, social, governance), CDP (formerly the Carbon Disclosure Project), IRIS (Impacting Rating Investing System), HIPS0 (Harmonized Indicators for Private Sector Operations) and IIRC (International Integrated Reporting Council)

71 This section reflects significant practitioner feedback on the latest developments in measurement and metrics through Future of the Corporation roundtables.



Principle 6: Performance

Performance should be measured against fulfilment of corporate purposes and profits measured net of the costs of achieving them.

Corporate performance is currently measured in relation to profits, net of the depreciation and maintenance costs of physical assets. It should be measured against achievement of both corporate purposes and financial performance. Expenditures on workers, societies

Box 11 Accounting for impact

Illustration and Innovation

There are a number of initiatives, such as 'Integrated Profit and Loss' and 'Impact Weighted Financial Accounts' that seek to adjust companies' profit and loss statements to reflect the impact that they have on other parties - the environment, employees and society at large.⁷²

They attempt to convert impact into a common monetary unit that can be incorporated in adjusted profit statements. Alternatively, instead of trying to attach a value to impact, profit can be adjusted for the cost of achieving or mitigating non-monetary impacts, for example in relation to biodiversity or climate change.

companies that fail to deliver on their corporate purposes, and in particular profit from producing problems for people or planet, should make provisions for expenditures needed to rectify these problems.

and natural assets which contribute to the delivery of corporate purposes should be recognised as investments that may yield benefits over extended periods of time.⁷³ Those parties and assets lie outside as well as within the legal boundaries of firms in their supply chains, communities and environment. Companies should ensure that investments in these aspects are sufficient to fulfil their corporate purposes.

Profit and loss statements should recognise expenditures on workers, societies and natural assets to deliver corporate purposes as investments and expense them over their relevant lives in an analogous fashion to physical assets (see Box 11). Likewise,

72 Serafeim, G., Zochowski, T. R. and Downing, J. (2019), *Impact weighted financial accounts: The Missing Piece for an Impact Economy*, Harvard Business School

73 For example, see Gordon, J. (2018), Op. Cit., for a particular discussion of the use of insurances to invest in lifetime advanced training and retraining for employees.

Principle 7: Corporate financing

Corporate financing should be of a form and duration that allows companies to fund more engaged and long-term investment in their purposes.

Traditionally, corporate financing has been concerned with the interests of investors alone. Stock market listed companies in the UK and US are dominated by dispersed passive shareholders who do not provide the active engagement with companies that is associated with larger share blocks in other countries around the world. In particular, universal shareholders who hold the global portfolio of shares through index funds have risen to the fore. To the extent that there are engaged investors, they take the form of short-term hedge fund activists who hold blocks of shares in companies for an average of between two to four years.

What is for the most part missing in the UK and US are long-term, engaged holders of blocks of shares who act as true owners of corporate purposes (although see Box 12 for counter-examples). Since one cannot have a relationship with the anonymous, the absence of identifiable holders of blocks of shares undermines the provision of long-term relationship forms of equity finance. The result is not only insufficient governance and stewardship by investors but also a deficiency of committed owners of corporate purposes.

At present, the corporate tax system discriminates in favour of debt over equity by allowing costs of servicing debt but not equity to be deductible from companies' taxable profits. Furthermore, investor protection rules relating to minority shareholders discourage holdings of significant concentrated blocks of shares. Both these policies discourage forms of funding that are increasingly needed by business. Instead, corporate taxation and investor protection should not discriminate between different sources of finance or forms in which businesses choose to structure their ownership and governance. To the extent that taxation and regulation do influence finance, they should do so in a direction of encouraging the provision of long-term equity finance in the delivery of corporate purposes.

Box 12 Impact investing

Illustration and Innovation

Impact investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. The Global Impact Investor Network estimates the current size of the global impact investing market to be \$502 billion.⁷⁴

Examples of investment management firms that operate according to principles of long-term investment include Bailie Gifford and Hermes Investment Management.⁷⁵

Meanwhile, institutional investors like Norges Bank Investment Management, which manages the Norwegian oil fund, aim to promote long-term value creation while actively voting and engaging with companies.⁷⁶

74 Mudaliar, A. and Dithrich, H. (2019), *Sizing the Impact Investing Market*, Global Impact Investor Network, Available: <https://thegiin.org/research/publication/impinv-market-size>

75 <https://www.bailliegifford.com/en/uk/about-us/> and <https://www.hermes-investment.com/us/responsible-investing/>. Note: Hermes Investment Management are a funder of the Future of the Corporation programme.

76 Norges Bank Investment Management (2019), 'Ownership', Available: <https://www.nbim.no/en/the-fund/responsible-investment/ownership/>

Below

Deputy chief of the World Bank for Africa, Obiageli Ezekwesili, visits a test cocoa plantation in Tanokro on September 6, 2008

© Kambou Sia / Stringer / AFP / Getty Images



Principle 8: Corporate investment

Corporate investment should be made in partnership with private, public and not-for-profit organisations that contribute towards the fulfilment of corporate purposes.

The current norm is to allocate corporate investment to maximise shareholder value. However, not only is corporate investment intangible in nature, it is increasingly external to the legal boundaries of the firm. To internalise the benefits from such investments, companies need to build close relations with partner organisations which confer reciprocal benefits through undertaking corresponding and complementary investments of their own.

These partnerships are particularly important in relation to large-scale, long-term investments in infrastructure programmes. Private capital markets are frequently unable to fund such programmes on their own because of their associated political risks. They are therefore undertaken either by the public sector or in conjunction with the public sector. To date, public-private partnerships, privatisations and private finance initiatives have been fraught with problems and failures.⁷⁷ These reflect the inherent conflict that arises between the public sector interested in public benefit and the corporate sector interested in profit. Both parties are therefore exposed to exploitation by the other, in particular in relation to long-term programmes. Resolution of this conflict requires private organisations to adopt the public interest in their corporate purposes, analogous to its inclusion in regulated entities, as discussed in Principle 2.

Aside from the issues in partnership between the public and private sectors, partnerships for investment through large supply chains present additional challenges and opportunities (see Box 13). Perceptions of corruption in business frequently arise from issues in supply chains. Initiatives such as the Mars ‘Economics of Mutuality’ approach or innovative ownership models like that of Divine Chocolate (owned by a co-operative of cocoa farmers),⁷⁸ or the Supplier Sustainability Assessment developed by Philips⁷⁹ to identify issues and provide corrective support, all illustrate different approaches to partnership between businesses or between business and non-governmental organisations that help to enable both the business and its suppliers to deliver their purposes.

Box 13 Mutuality and partnership

Illustration and Innovation

Mars Inc. employs a concept that they describe as ‘the Economics of Mutuality’ of partnering with other organisations to address issues in their supply chains around the world. This involves mapping their ecosystems, establishing ‘pain points’ in them, identifying partner organisations, such as other companies, non-governmental organisations, local and national governments, to work with them in addressing these pain points, determining metrics around human, social and natural factors to measure an intervention, and establishing an appropriate accounting framework to evaluate its financial performance.⁸⁰

Working in the other direction, the UK Social Value Act (2012), requires public authorities ‘to have regard to economic, social and environmental well-being in connection with public services contracts; and for connected purposes’.⁸¹

77 Offer, A. (2018), ‘Patient and Impatient Capital: Time Horizons as Market Boundaries’, *Oxford Economic and Social History Working Papers* 165, University of Oxford

78 Divine Chocolate (2019). ‘Our Story’. Available: <https://www.divinechocolate.com/divine-story>

79 Philips (2019). ‘We hold our suppliers to the highest standards’. Available: <https://www.philips.com/a-w/about/company/suppliers/supplier-sustainability/our-programs/supplier-sustainability-assessment.html>

80 Roche, B. and Jakub, J (2017), *Completing Capitalism: Heal Business to Heal the World*, Berrett-Koehler

81 Legislation.gov.uk (2012), ‘Public Services (Social Value) Act 2012: Chapter 3’. Available: <https://www.legislation.gov.uk/ukpga/2012/3/enacted>

Part 3: How to get there?

An eco-system of pathways to change

Purpose has moved centre stage into the boardrooms of companies around the world.⁸² The first part of this report revisited the case for reorganising business around corporate purpose. The second part presented a set of principles that represents a comprehensive framework for an enabling environment for operating and overseeing purposeful businesses. The next point to consider is how this framework will be adopted.

The Future of the Corporation programme has considered this question alongside deliberations around the framework and set of principles itself. We have concluded that while the principles which underpin the framework should remain fixed in their intent and ambitions, the mechanisms and means by which they are adopted should be flexible and dynamic. There is an ecosystem of pathways in our global economy, and making trustworthy, purposeful businesses with ethical cultures the norm will require simultaneous change on multiple fronts.⁸³ This part of the report aims to illustrate and explore these dynamic pathways. It draws on the extensive consultation and engagement that the Future of the Corporation review has conducted over the course of two years, but in particular during the 15 roundtables held in the lead-up to producing this report.

The principles for purposeful business we have proposed are interconnected (see Figure 4). Through our deliberations, five ‘pathways’ have been consistently referenced as mechanisms or tools for bringing about change, all of which are themselves supported by public and stakeholder engagement:

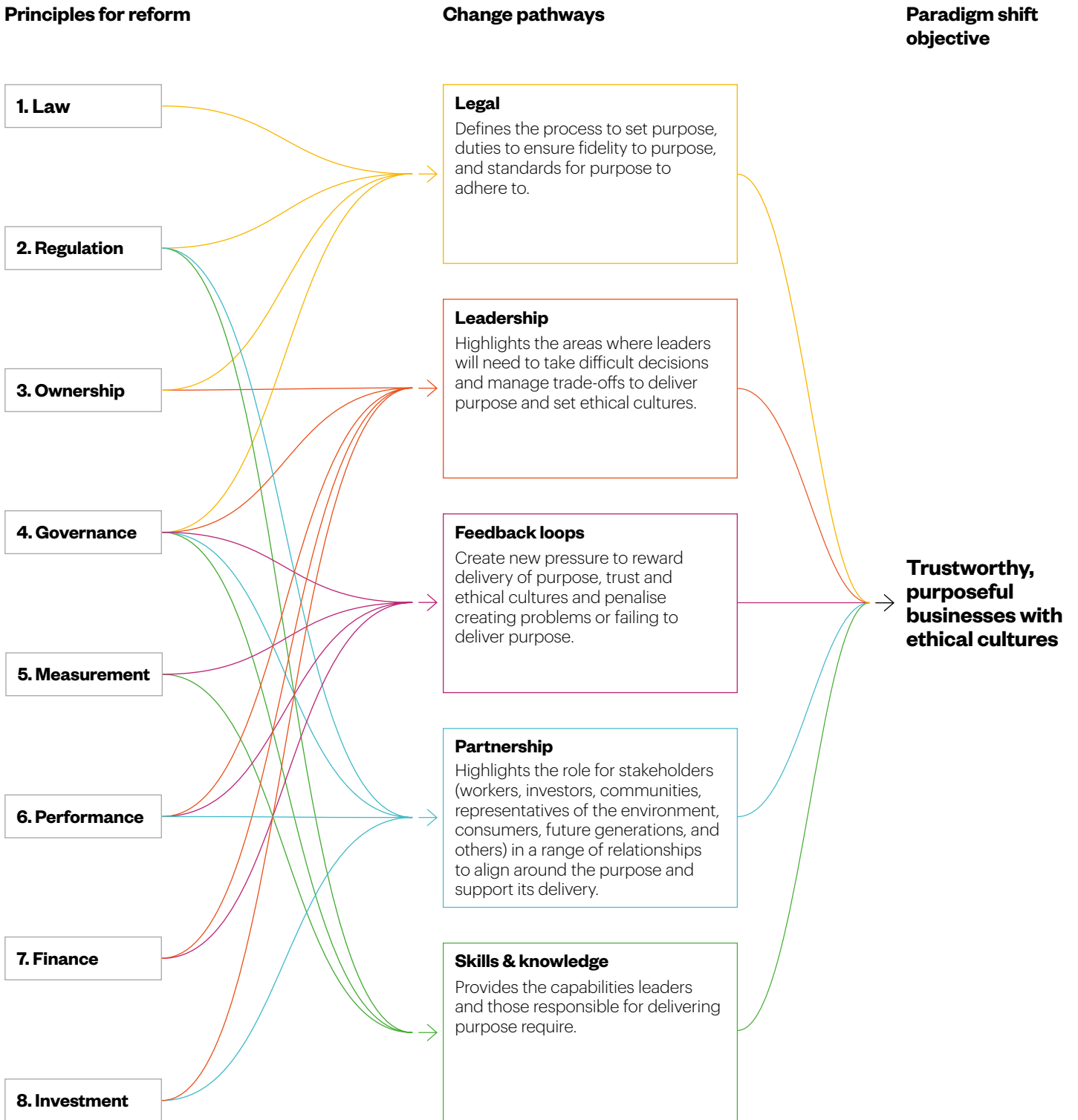
- governments delivering **legal changes**;
- **leadership** from businesses and investors;
- optimisation of **feedback loops** for informing decisions and oversight;
- forging new **partnerships** to align purposes amongst and between business and the stakeholder communities they serve; and,
- supporting people to develop new **skills and knowledge** for change.

The following diagram highlights the relationships between the principles and these pathways. We examine them in turn in this section.

⁸² See Part 1, p. 11

⁸³ Crean, A., Gold, N., Vines, D. & Williamson, A. (2018), ‘Restoring Trust in Financial Services: Governance, Norms and Behaviour’, *Journal of the British Academy*, 6(s1) and Hsieh, N., Lange, B., Rodin, D. & Wolf-Bauwens M. L. A. (2018), ‘Getting Clear on Corporate Culture’, *Journal of the British Academy*, 6(s1)

Figure 4 Connecting the principles through five pathways to change to the paradigm-shift objective. This illustration aims to highlight the relationships between the principles.



Legal: Using the law to set a direction and a framework

Legal reforms (see Figure 5) led by government are by no means the only pathway, and the role of the law in instigating change or codifying practice has been a matter of significant debate.⁸⁴ However, the corporation is a legal concept, and it is the law that ultimately determines the nature of the system, both through the ways in which companies adhere to legal rules and seek to exploit accountability gaps.⁸⁵ The role of purposeful corporations is to transform our individual interests into collective achievements of common purposes and for this to happen they need to be granted the legal authority and licence to do so.

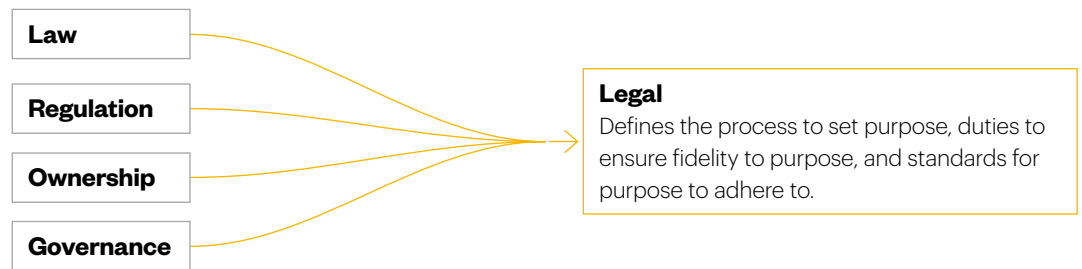


Figure 5: Principles relating to legal reform

Company law gives direction and sets the overall framing of corporate purpose (Principle 1). A range of regulations highlight the standards for setting purpose that law can impose with a given threshold (Principle 2). New duties around setting, remaining faithful to and changing purpose require engagement of investors (Principle 3) and effective engagement and inclusion of other stakeholders in governance (Principle 4). There are difficulties with using the law as a pathway by itself: the shifting nature of political contexts which can help or hinder such changes, the impact of being a ‘first-mover’, and the volume of detailed work required to bring about significant legal change. However, several principles lend themselves to the use of the law, and commitments to legal change can also play a role in signalling to business the direction of travel, before changes are actually codified.⁸⁶

Leadership: Business and investor leaders stepping up

Legal reforms by themselves will not be sufficient. Leadership (see Figure 6) – businesses and investors acting of their own accord – provides scope for rapid progress. There are two sides to this – leadership by setting values and ethical cultures, and leadership by instigation of changes to the eco-system. Existing legislation is permissive in allowing companies to adopt the corporate forms that are most suited to their activities, and much progress can and should be made without enacting new legislation.⁸⁷

84 This reflects the discussions and debates from the Future of the Corporation roundtables held in 2019, see Methodologies for further details.
 85 Palombo, D. (2019), “The Future of the Corporation: The Avenues for Legal Change”, *Future of the Corporation Working Paper 1*, p. 3
 86 Despite the challenges, Future of the Corporation roundtables in 2019 broadly concurred with the need for the use of legal mechanisms
 87 In Future of the Corporation roundtables and discussions, the role of Leadership has been repeatedly highlighted, this pathway reflects those findings.

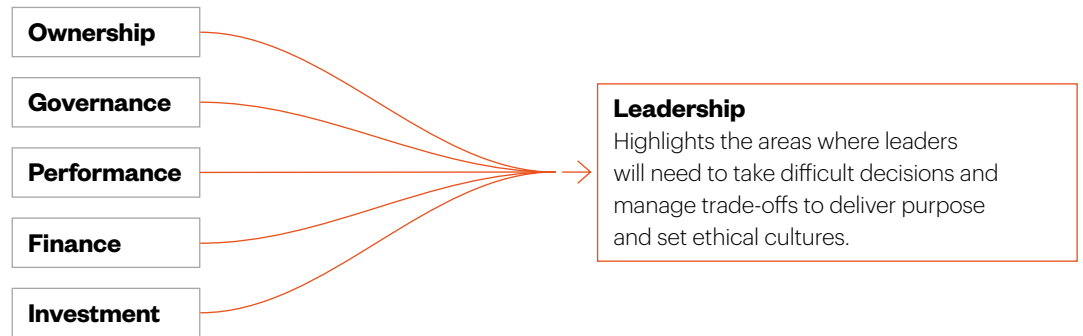


Figure 6: Principles relating to leadership

'Enlightened shareholder capitalism' aligns long-term value creation with the interests of stakeholders (Principle 3) and establishes appropriate governance arrangements (Principle 4), which together could shift the laser-sharp focus of corporate boards on shareholder value to a broader corporate purpose.⁸⁸ Even with legal changes, leadership will still be required, involving judgements about balancing the interests of different stakeholders, and new structures, systems, processes, financing, measurement and incentives (Principles 6, 7 and 8). All of these changes will only be successful if business leaders also set positive examples to embed the values and ethical cultures needed and if investors and governments are supportive. Some investors are already playing a leading role in supporting this enlightened leadership. There has been a rapid rise in the popularity of impact investing, for example, in part spurred by the increasing desire of investors to contribute to targets set by the UN Sustainable Development Goals.⁸⁹

A common argument is that shareholders and investors must be willing to accept lower financial returns for greater societal and environmental impact. However, there are competitive advantages too. If the company's purpose furthers the interests of its customers, workforce, suppliers and communities, this may result in greater returns for shareholders. But leadership alone is not enough as it does not offer protection to enlightened business leaders who promote prosperity beyond enlightened self-interest from those that do not, and other pathways will be still be required.

Feedback loops: identifying and responding to impacts

Feedback loops (see Figure 7) complement the other pathways by providing mechanisms for businesses to identify and respond to impacts, harms and new opportunities, and for those affected to judge the purpose and whether it has been delivered. The conventional belief in competition and regulation has not been adequate on its own, and plurality and competition in purpose are promoted by diversity of ownership and governance arrangements.⁹⁰

88 Queen, P.E. (2015), 'Enlightened Shareholder Maximization: Is This Strategy Achievable?' *Journal of Business Ethics* 127 (3): 683-94
 89 Global Impact Investing Network (2019), "2019 Annual Impact Investor Survey", Available: https://thegiin.org/assets/GIIN_2019%20Annual%20Impact%20Investor%20Survey_webfile.pdf

90 Kustin, B., Chan, J. and Johnston-Louis, M. (2019), "The Future of Corporate Ownership and Governance", *Future of the Corporation Working Paper 2*

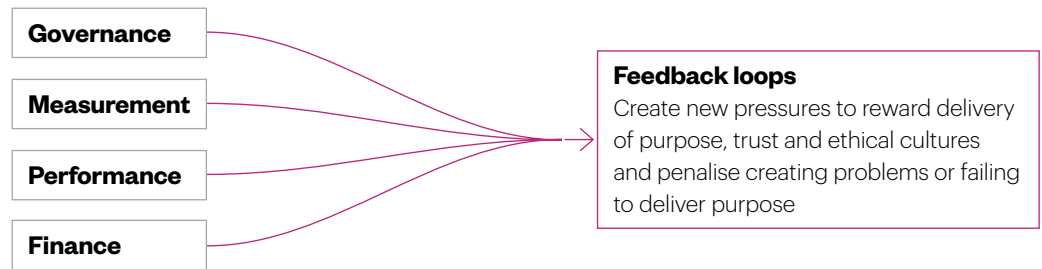


Figure 7: Principles relating to feedback loops

Measuring and disclosing impact (Principle 5) and adjusting performance metrics to account for delivery of purpose and any negative impact on people and planet (Principle 6) provide the basis for decisions around purpose (see Box 14). Purposeful finance relies on these data inputs to enable the provision of long-term risk capital aligned to the corporate purpose (Principle 7). Stakeholders who understand and experience the impacts being measured – for example organisational culture or environmental damage – are critical. Those stakeholders engaged in governance need to participate fully in the identification of information and data that enable the company to understand its impact and performance and to contribute meaningfully by using that information to make decisions (Principle 4). Meanwhile this pathway would also support markets for the formulation and implementation of corporate purposes similar to those that currently prevail in regard to shareholder value. This in turn would provide a vehicle for further leadership.⁹¹

Box 14 New feedback loops

Businesses have designed extensive systems of measurement around finance and financial performance, on the back of which economies have established an efficient market for corporate control to maximise financial value. It is the combination of financial measurement and financially-based markets for corporate control that intensified the laser-sharp focus on shareholder value that exists today. This was built on trends in accounting standards from the 1930s and in markets for corporate control from the 1960s. Using similar feedback loops, based on measurement of stakeholder and shareholder interests (Principles 5 and 6), boards can promote competition.⁹²

Partnerships: aligning interests around purposes

Partnerships (see Figure 8) are a pathway for aligning stakeholders in a range of relationships around corporate purpose and its delivery. Regulation and public procurement can be used to align corporate and public purposes of regulated sectors, public service providers and infrastructure companies (Principles 2 and 8). Investor protection regulation and taxation should be used to encourage the provision of long-term equity risk capital (Principle 7). The principles (in particular Principle 4) significantly strengthen accountability to those impacted by the firm, including but not exclusively to its shareholders.

91 Continued emphasis on the role that measurement plays in stimulating change was made during Future of the Corporation roundtables and discussions.
 92 Davoudi, L., McKenna, C. & Olegario, R. (2018), 'The Historical Role of the Corporation in Society', *Journal of the British Academy*, 6(s1), p. 2

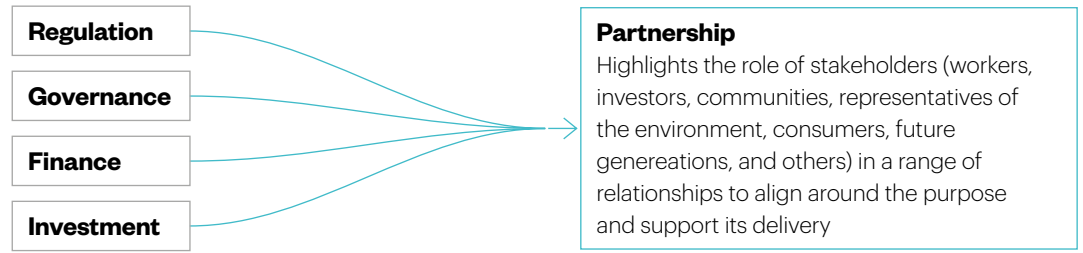


Figure 8: Principles relating to partnership

The impact of firms extends well beyond their shareholders to other parties affected by their purposes, most notably current and future generations of employees, customers, suppliers, communities and the environment. The problem to date has been a lack of engagement by shareholders in acting beyond their direct financial interests. Fiduciary duties do not mandate a responsibility to other stakeholders as long as activities augment or protect shareholder investments and interests. The range of relationships required to engage multiple stakeholders and secure adequate investment in people, communities and natural assets will mean greater reliance on partnerships.

People: building skills and knowledge for change

Each of the pathways rely on people to make changes and adapt. New and more diverse skills and knowledge (see Figure 9), methods of engagement (Principle 4), forms of business, leadership, measurement techniques (Principle 5), participation by investors (Principles 7 and 8), laws and regulations (Principles 1 and 2), and frameworks for success (Principle 6) will be required.

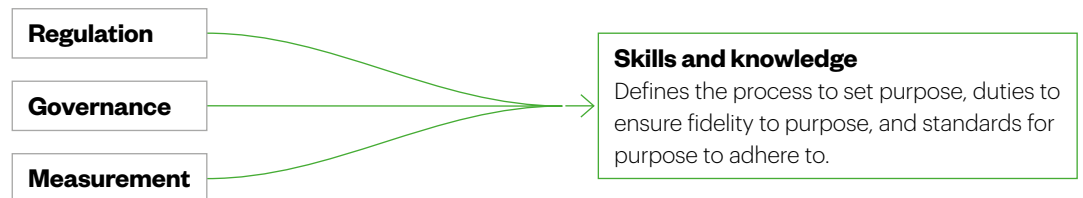


Figure 9: Principles relating to skills and knowledge

The changes people make through applying new skills will be central to embedding the ethical cultures and values that trustworthy, purposeful business needs. Culture is an elusive concept so there will be considerable demand for complementary advice, education and training that enable people to acquire new capacities to deliver purpose.⁹³ There are also roles for regulators and policymakers in creating a supportive environment for new capacities and ethical cultures. This also presents considerable opportunities for further research and developing new curricula and courses on creating trustworthy, purposeful business with ethical cultures.

⁹³ Future of the Corporation roundtables and discussions emphasised the importance of this pathway, which also fits with debates around how business is taught. For further examination of the concept of corporate culture, see Hsieh, N., Lange, B., Rodin, D. & Wolf-Bauwens M. L. A. (2018), 'Getting Clear on Corporate Culture', *Journal of the British Academy*, 6(s1)



Conclusions

The principles set out here reflect the need for companies to have a clear purpose, to be trustworthy in upholding it, and to have the values and culture to support it. They involve the ownership, governance, measurement, performance, finance and investment to commit to and deliver it. The law should enable it and regulation require it where necessary.

Companies are committing to purposeful business. Aspirational business leaders are already setting out to achieve it. Workers seek to contribute to it and investors to resource it. But the system of laws, education and practices we have built up over time prevents us from realising it in full. Rectifying the problem and creating an enabling environment for trustworthy, purposeful business based on ethical cultures is a systems design issue to which the principles set out here offer a framework for reform.

However, we are under no illusions that these principles represent an end to the debate on how purposeful business can become the norm. Our agenda for 2020s business starts with these conclusions, but the pathways to change will require those with the most influence to act swiftly, to pioneer and lead the innovations we need. In particular, our findings suggest that governments should take a lead on legal reform that sets a clear direction towards purposeful business, while business leaders and investors forge ahead in applying these principles as far as possible.

The British Academy is committed to supporting these steps through further evidence gathering and providing a common space for debate and dialogue on the best solutions. In 2020, the Future of the Corporation programme will convene a series of 'purpose summits' to examine the role that purposeful business can play in solving the problems of people and planet. We hope you will join us in this endeavour.

Methodology

This set of proposals was developed and extensively reviewed over the period from February to November 2019. The process involved four evidence generation and synthesis components: convening of a Deliberation Group; commissioning of evidence syntheses; generating new ideas and insight through a series of deliberative roundtables; and a final analysis to generate the principles and proposals. The final analysis was also consulted on by reconvening of those who attended the earlier roundtables and further iterations were then made in response to feedback. Each part of the process is described in turn below.

2019 Working papers

These pieces of research sought to draw together evidence to underpin the findings of the Future of the Corporation programme in 2019. The findings were published as working papers, (available at <https://www.thebritishacademy.ac.uk/programmes/future-of-the-corporation/working-papers>).

Palombo, D. (2019), "The Future of the Corporation: The Avenues for Legal Change"

Kustin, B., Chan, J., Johnston-Louis, M. (2019), "The Future of Corporate Ownership and Governance"

Stroehle, J. C., Soonawalla, K., Metzner, M. (2019), "How to Measure Performance in a Purposeful Company? Analysing the Status Quo"

Mann, H., Pitt-Watson, D. (2019), "The Purpose of Finance"

Deliberation Group

The deliberation group was formed for the purpose of examining evidence, illustrations and innovations to support the synthesis of findings presented in this report. Members acted in an individual and advisory capacity and were not representatives of any institution. The views presented in this report are not necessarily those of any individual member.

Vimla Appadoo	Young Digital Leader 2018
Professor John Armour FBA	Professor of Law and Finance, Oxford University
Clara Barby	Partner, Bridges Fund Management
Sharon Darcy	Director, Sustainability First
Luke Fletcher	Partner, Bates Wells Braithwaite
Professor Colin Mayer FBA (Chair)	Academic Lead of the Future of the Corporation Programme, Professor of Management Studies at the Saïd Business School
Dr Molly Morgan Jones	Director of Policy, The British Academy
Peter Norris	Chairman, Virgin Group
Professor Jill Rubery FBA	Professor of Comparative Employment Systems, Director at Association Manchester Business School

Roundtables

15 roundtables were held between June and October 2019 on the topics shown in the table below. Collectively, the roundtables brought together around 200 people in small groups to debate the proposals and give input in terms of evidence, examples and experience. Representatives at each roundtable were from a range of academic, business, policy and civil society backgrounds. Invitations were issued from the Academy on the basis of our existing network, suggestions from our contacts and those attending with the aim of including a wide variety of voices.

Law and Regulation (2)	Ownership and Governance (2)	Measurement and Performance (2)	Finance and Investment (4)
Purpose and Human Rights (1)	Follow-up roundtables (2)	Edinburgh (1)	New York (1)

2018 Research papers

13 research papers were produced in 2018 and published in the *Journal of the British Academy*. They have informed both the first and second Future of the Corporation reports.

Paper 1	Davoudi, L., McKenna, C. & Olegario, R. (2018), 'The Historical Role of the Corporation in Society', <i>Journal of the British Academy</i> , 6(s1)
Paper 2	Hsieh, N., Meyer, M., Rodin, D. & van't Klooster, J. (2018), 'The Social Purpose of Corporations: A Literature Review and Research Agenda', <i>Journal of the British Academy</i> , 6(s1)
Paper 3	Kirby, N., Kirton, A. & Crean, A. (2018), 'Do Corporations have a Duty to be Trustworthy?' <i>Journal of the British Academy</i> , 6(s1)
Paper 4	Crean, A., Gold, N., Vines, D. & Williamson, A. (2018), 'Restoring Trust in Financial Services: Governance, Norms and Behaviour', <i>Journal of the British Academy</i> , 6(s1)
Paper 5	Hsieh, N., Lange, B., Rodin, D. & Wolf-Bauwens M. L. A. (2018), 'Getting Clear on Corporate Culture', <i>Journal of the British Academy</i> , 6(s1)
Paper 6	Gordon, J. (2018), 'Is Corporate Governance a First Order Cause of the Current Malaise?', <i>Journal of the British Academy</i> , 6(s1)
Paper 7	Belenzon, S., Hamdani, A., Kandel, E., Hashai, N. & Yafeh, Y. (2018), 'Technological Progress and the Future of the Corporation', <i>Journal of the British Academy</i> , 6(s1)
Paper 8	Birkinshaw, J. (2018), 'How is Technological Change Affecting the Nature of the Corporation?', <i>Journal of the British Academy</i> , 6(s1)
Paper 9	Desai, M. & Dharmapala, D. (2018), 'Revisiting the Uneasy Case for Corporate Taxation in an Uneasy World', <i>Journal of the British Academy</i> , 6(s1)
Paper 10	Armour, J., Enriques, L., Ezrachi, A. & Vella, J. (2018), 'Regulation and Law: The Role of Corporate, Competition and Tax Law', <i>Journal of the British Academy</i> , 6(s1)
Paper 11	Offer, A. (2018) 'Patient and Impatient Capital: Time Horizons as Market Boundaries', <i>Working paper</i>
Paper 12	Villalonga, B. (2018), 'The Impact of Ownership on Building Sustainable and Responsible Business', <i>Journal of the British Academy</i> , 6(s1)
Paper 13	Buckley, P. J. (2018), 'Can Corporations Contribute Directly to Society or only through Regulated Behaviour?', <i>Journal of the British Academy</i> , 6(s1)

Acknowledgements

Staff

Staff from across the British Academy have contributed to the Future of the Corporation programme and the production of this report, in particular

Lilian Barratt	Senior Policy Adviser
Dr Molly Morgan Jones	Director of Policy
Henry Richards	Project Manager, Future of the Corporation
Tara Vernhes	Policy Events Officer

Academic Lead

Professor Colin Mayer CBE FBA has made a huge contribution to the programme and the research. Without his leadership and support, the programme would not have been possible.

Advisory Groups

The conclusions of this report have been guided by the advice and insights of the Steering Group and Corporate Advisory Group. Members acted in an individual, not representative capacity and the views expressed in this report are not necessarily those of each member.

Steering Group members

Mohamed Amersi	Chairman, The Amersi Foundation; Trustee, Prince's Trust International; and Member of the Global Leadership Council, Saïd Business School, University of Oxford
Professor Marco Becht	Executive Director, European Corporate Governance Institute
The Hon Mr Justice William Blair	Judge in Charge of the Commercial Court, Courts and Tribunals Judiciary
Sir Victor Blank	Vice-President, Jewish Leadership Council
Luke Fletcher	Partner, Bates Wells
Lucy Parker	Partner, Brunswick Group
Paula Woodman	Head of Global Social Enterprise, British Council
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Harlan Zimmerman	Senior Partner, Cevian Capital London

Refer here for any clarifications:

www.thebritishacademy.ac.uk/programmes/future-of-the-corporation/advisory-group

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The British Academy was established by Royal Charter in 1902. Its purpose is to deepen understanding of people, societies and cultures, enabling everyone to learn, progress and prosper. The Academy inspires, supports and promotes outstanding achievement and global advances in the humanities and social sciences. We are a fellowship of over 1000 of the most outstanding academics and an international community of leading experts focused on people, culture and societies. We are the voice for the humanities and social sciences. We use insights from the past and the present to help shape the future, by influencing policy and affecting change in the UK and overseas.

This report is a synthesis of research and engagement activities conducted by the Academy under its Future of the Corporation programme, part of its policy work. The views and conclusions expressed here are not necessarily endorsed by individual Fellows but are commended as contributing to public debate.

Becoming involved in the Future of the Corporation programme

We are keen to collaborate with diverse groups in understanding the implications of the ideas and proposals raised in this report. This may include meetings and events, further research, and generating public interest in the issues discussed. There are four ways to become involved:

- Add your details to our mailing list: www.thebritishacademy.ac.uk/fotc
- Read our research and reports: www.thebritishacademy.ac.uk/programmes/future-of-the-corporation
- Follow us on social media (see back cover) and continue the debate (#futureofthecorporation)
- Write to the team on fotc@thebritishacademy.ac.uk

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