



# The Investor Forum 2021 Annual Webinar

*The Trillion Dollar question: how does purpose help companies and investors create sustainable long-term value?*

## The Investor Forum 2021 Annual Webinar

20 January 2021

The Investor Forum held its fifth Annual Review event on 20th January 2021 bringing together 150 people from across the investment community - Chairs, NEDs, Investors, Advisers, Academics and key influencers.

*“A statement of Purpose compels honesty.” Anne Richards*

*“Purpose can focus minds, money and machinery on society’s big problems and turn them into opportunities.” Helge Lund*

*“The business of business is business.” John Kay*

The focus for discussion this year was Purpose and the Keynote speakers were:

- Helge Lund, Chairman of bp,
- Anne Richards, CEO of Fidelity International,
- Professor John Kay

### Key takeaways

There are many different definitions of purpose but, **in its simplest form, purpose states WHY an organisation exists.**

Since we were established in 2014, we have witnessed the development of an impressive body of academic work on purpose and believe that now is the time to find practical ways to implement those ideas. Our interest is in how the academic work can be put to use - how can purpose help boards to frame long-term strategy, and investors to identify and support the creation of sustainable long-term value.

The focus is on long-term sustainable value as the one goal that unites all stakeholders and the entire investment chain. While it may not be possible to keep all stakeholders equally happy all of the time, the company model is the best that we have to evaluate competing needs, allocate resources and set priorities.

### Watershed moment for Stewardship

2020 was a watershed moment for capital markets. Companies and investors worked together effectively to build resilience, and in large part took considered actions, which in time will hopefully help restore confidence in business. The Covid-19 crisis has given us time to reflect, to get off the treadmill, and to ask ourselves what is important. We should “never waste a good crisis” and seek to embed a clearer sense of purpose to inform business strategy.

### Bridging the gap between business and society

A focus on purpose has the potential to help companies and investors bridge the gap between a narrow view of maximising shareholder value and a more holistic model of stakeholder capitalism. While almost all companies have a purpose statement, only a few have truly embraced purpose to inform their actions. This is a long journey and there are no short-cuts for companies or investors, but numerous examples offer scope for encouragement.

### Purpose must be rooted in economics

Purpose is moving to centre stage, but economics still matter – purpose must be rooted in competitive advantage to be effective. Equally important, clarity of purpose will help companies to retain a focus on “the business of business” and not to stray into areas where business may not have legitimacy.

*Given the enormity of the challenges, “a trillion dollars understates both the challenge and the opportunity.”*

*“Staff, society and shareholders increasingly want the same thing – solving society’s problems and creating value.”*

### **A Chair’s perspective - Helge Lund, Chair Novo Nordisk and bp.**

There is a big job to be done to better communicate what capitalism can do for the broader good, but events in 2020 enabled large companies to show how they can contribute on a broader scale. Indeed the experience of the pandemic – in which companies and the public frequently came together to solve problems – might help to restore some trust in business.

That would be one welcome outcome from an otherwise deeply tragic year for the world. Many of the challenges facing society cannot be solved without unleashing the power of companies – to take risk, allocate resources, innovate, scale up and organise solutions. The response to the pandemic by companies has been inspiring; it has been important for the world, helped build trust and inspired staff who have been proud of how the company stepped up.

Purpose must be embedded in the core business if the objective is to be sustained; if it is only marketing it will disappear quickly. Looking first at Novo Nordisk, the company has a long held and very clear purpose – driving change to defeat diabetes and other serious chronic diseases – which has served the company well. It inspires strong values and places an emphasis on innovation that enables the company to hire and retain the best scientists. While Novo Nordisk’s purpose is long established, it remains important that the company continues to evolve. Recently it chose to remove explicit targets and replace them with four key strategic ambitions each of which include a range of detailed metrics.

Novo Nordisk also benefits from a powerful combination of stable ownership and intense competition – the Foundation provides the security of a long-term owner, while the public listing ensures that the company must compete with, and be compared against, the best in the industry quarter after quarter.

bp, in contrast, has embarked on a major strategic shift. Until relatively recently, bp’s stated goal was simply to maximise shareholder value. With a new Chair and a new CEO, bp saw an opportunity to do something very different – and set out to align its capabilities and the aspirations of its people more closely with the needs of society. Management and the Board engaged extensively with employees, especially younger employees, as well as outside stakeholders, even including some of bp’s harshest critics. These diverse perspectives help bp share its new purpose – reimagining energy for people and our planet.

A focus on purpose – not for charity or ideology, but for good business – can align interests. A renewed purpose might cause turnover in the shareholder base, as not all shareholders will agree, and there will be trade-offs. But, as in bp, purpose will often lead to a new strategy that focuses on long-term decisions rather than short-term outcomes. If bp can execute on its plans, it will likely be a compelling case study in how purpose can drive value, impact and change.

*“A statement of purpose compels honesty.”*

*“Where the workforce believes in purpose, employees are more likely to be engaged and so are more productive.”*

*“Sustainable returns are the best defence against not surviving.”*

*“It should also be noted that progress is not made in straight lines – change is not linear.”*

Business needs to engage in solving society’s biggest problems – of which climate change is clearly one. As we meet this and other challenges, the Chair’s responsibility is not to define a company’s purpose, but rather to put in place a process that arrives at a purpose – a purpose that can deliver value both for society and for shareholders.

#### **An Investor’s perspective - Anne Richards, CEO Fidelity International**

2020 saw a critical step-up in the importance of purpose. It is becoming more evident that “a statement of purpose compels honesty” in how a company executes its strategy.

The underlying purpose of any capitalist business is to provide goods or services that are valuable to society, and does not harm it, but there is often an unwillingness to be honest about the costs that a company might be putting on society. Profit is a consequence of doing business well, the outcome is that a need is met and profit is forthcoming, and as such it should be more sustainable.

One of the issues that has become apparent through the crisis is how closely culture is aligned with purpose. The move to a virtual world quickly exposed bad culture and therefore gave a competitive advantage to those practicing good purpose. Good culture helps foster goodwill, which companies are able to draw on in a crisis to support the underlying business.

**How does purpose impact employees?** Ultimately there is a need to make the connection that a business is unlikely to have happy customers without happy staff. “Where the workforce believes in purpose, employees are more likely to be engaged and so are more productive.”

**How are board discussions anchored on purpose?** There is a need to have conversations like ‘great idea, but not congruent with purpose’. Consideration needs to be given to how often purpose changes the decision-making process of the board to ensure that strategy is more aligned. Further, there is a need to understand clearly the potential negative impacts that the business can have on society, including through the supply chain. Too few boards really address the negative impacts of their own businesses.

**Timescales are important.** Conversations around the boardroom table rarely focus on whether a business will survive for the long term, and there is a tendency to avoid difficult conversations about fundamentally challenging issues. The resilience of business is key and, whilst factors such as M&A have had some bearing, business underperformance and failure has led to less than 30 of original FTSE100 companies from 1984 still existing – survival is not a given.

*Given the enormity of the challenges, “a trillion dollars understates both the challenge and the opportunity.”*

*“Purpose should be constructed around an analysis and understanding of the competitive advantage and capabilities of a company.”*

**How can investors engage with companies?** It is hard to get under the bonnet of glossy reporting and can be challenging to differentiate between good marketing and those companies meeting purpose objectives. Companies need to be honest and also recognise not all investors will agree with the case for stakeholder capitalism, for example when you get an activist arguing for short-term change.

**What conversations do investors need to generate better insights?**

- How much of your board discussion is anchored around your purpose?
- How often has your purpose changed a business decision?
- Can you articulate the negative impact that your business has on society?
- How do your staff really think about the company? Are you really attracting the best talent?

The gap that opened up between a narrow shareholder view of capitalism, often focused on short-term financial issues, and the wider stakeholder view, with a focus on broader outcomes, created the potential for poor decision-making that didn't focus on long-term value.

Looking more broadly, there is value in comparing different models – a suggestion was made to compare the B-Corp model (such as Danone) approach with traditional listed models. There is also value in reflecting on why the number of listed companies is declining as robust public markets are important for capitalism - the question is how to make them more attractive without diminishing protections.

#### **An Economist's perspective - John Kay**

The emphasis on purpose is very helpful, marking an end to the 50-year mantra of maximising shareholder value. That said, there are pitfalls which need to be avoided:

- Purpose statements must not be vacuous statements
- Purpose statements must not be too general

The purpose of business is to do business well, not to save the world. Businesses should take care not to stray into areas where business might not have legitimacy.

Purpose should be constructed around an analysis and understanding of the competitive advantage and capabilities of a company:

- If a business achieves its purpose, conversations must be had about whether its capabilities can be used effectively elsewhere

If a company changes its purpose, the question must be whether the capabilities the business has are relevant to other activities.

*“Too many companies substituted what appeared to be a slogan or marketing line for their purpose.”*

*“Purpose provides a touchstone for all stakeholders and a guide to how you might expect a company to behave.”*

*“Increased confidence can lead to enhanced trust and in turn to higher and more sustainable multiples for those companies who earn and renew their reputation year in year out.”*

## **The Investor Forum’s perspective – Andy Griffiths**

It is encouraging that a strong body of academic work on purpose has emerged. Our interest now is to see how that body of work can be put to use, to help companies to deliver sustainable long-term value.

While most FTSE100 companies have a purpose statement, it was disappointing that the FRC reported in January 2020 “that too many companies substituted what appeared to be a slogan or marketing line for their purpose”.

The company model is the best model that we have for evaluating competing needs, allocating resources and shifting priorities, but this requires that investors and stakeholders have confidence in the boards and executives of companies to make good choices that can create sustainable returns.

In reality, over the past few decades, society’s trust in business to make good decisions has been significantly eroded. Many companies and investors have taken short cuts in seeking to maximise shareholder value which have been to the detriment of other stakeholders and have not proven to be good proxies to create and sustain value.

A focus on purpose provides an opportunity to establish an effective link between the drivers of value, reputation and share price. A clear purpose is much more than a marketing statement, it offers an effective underpin for any assessment long-term value creation which can connect the investment chain.

Done well, purpose provides a touchstone for all stakeholders and a guide to how you might expect a company to behave – whether you are an employee, a customer, a citizen, a regulator or a shareholder.

## **Conclusions**

There is an opportunity to use purpose to inform a more comprehensive understanding of value creation and sustainability which can increase stakeholder confidence in business. Increased confidence can lead to enhanced trust and in turn to higher and more sustainable multiples for those companies who earn and renew their reputation year in year out.

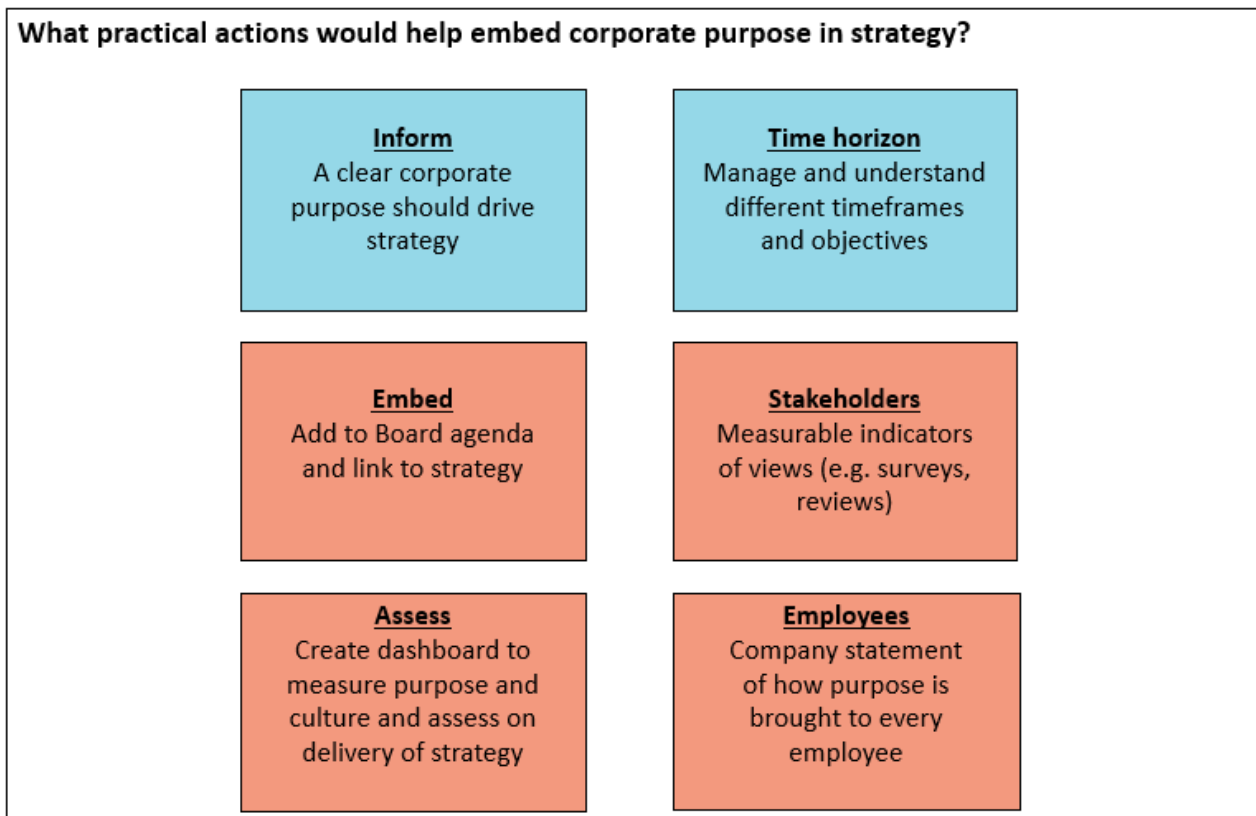
If companies can effectively articulate their purpose and investors assess their investments with an eye to that purpose, then the focus should shift to an evaluation of the material issues which impact sustainable long-term value.

The Investor Forum will continue to focus on how it can support and encourage this type of dialogue, which will in turn help it deliver on its own purpose - to position stewardship at the heart of investment decision making.

**APPENDIX**

As part of our Annual Review event, we engaged with all the participants in series of breakout rooms to reflect on how purpose could have a greater impact on the decision-making of companies. The diagrams below summarise the feedback, grouped in four areas (highlighted in blue) with a number of supporting and under-pinning factors (highlighted in orange).

**Practical actions that would help embed purpose in strategy:**



**How investors and stakeholders can create a meaningful dialogue on purpose with companies:**

