



Corporate purpose and ethical leadership

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WHAT is corporate purpose?

Corporate purpose is the reason a business exists beyond making a profit.

In essence, a business exist to serve the needs and wants of society.

Purpose beyond profit

WHAT does purposeful business look like in practice?

“The purpose of business should be to **produce profitable solutions** to the problems of people and planet, and **not to profit from producing problems** for people and planet.”

– Prof Colin Mayer CBE, University of Oxford

WHY should business be purposeful?



Responsibility and the right thing to do



Social license to operate – Stakeholder expectations of business are increasing



Makes good business sense

HOW to embed purpose through corporate governance and laws & regulations

Formalising a company's a corporate purpose



- Define corporate purpose in the Memorandum of Incorporation (in addition to the object of the company)

WHAT does purposeful business look like in practice?



A clearly articulated and well-understood purpose...



...embedded across the business including strategy & operations, communications, stakeholder engagement and culture

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- Define corporate purpose in the Memorandum of Incorporation (in addition to the object of the company)

Clarify the **duties of directors** in relation to the corporate purpose



- Clarify the meaning of “best interest of the company” and “public interest”
 - Consider S172 of UK Companies Act

HOW to embed purpose through corporate governance and laws & regulations

Companies Act

Section 76 – standard of director conduct

Enlightened shareholder approach

A person, acting in the capacity of director, must exercise his powers and perform his functions:

- in good faith and for a proper purpose
- in *the best interest of the company* and
- with the degree of care, skill and diligence that may reasonably be expected of a person carrying out the same functions and having the general knowledge, skill and experience of that director

Section 7 - Purposes of Act

The purposes of this Act are to—

(d) reaffirm the concept of the company *as a means of achieving economic and social benefits;*

HOW to embed purpose through corporate governance and laws & regulations

Section 172 of Companies Act UK

Section 172 – Duty to promote the success of the company

A director of a company must act in the way 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 factors (a) to (f).

HAVE
REGARD TO

Section 172 matters

- a. The likely consequences of any decision in the long term,
- b. The interests of the company's employees,
- c. The need to foster the company's business relationships with suppliers, customers and others,
- d. The impact of the company's operations on the community and the environment,
- e. The desirability of the company maintaining a reputation for high standards of business conduct, and
- f. The need to act fairly as between members of the company.

HOW to embed purpose through corporate governance and laws & regulations

Stakeholder inclusivity

An approach in which the governing body takes into account the legitimate and reasonable needs, interests and expectations of **all material stakeholders** in the execution of its duties in the best interests of the organisation over time.

By following this approach, instead of prioritising the interests of the providers of financial capital, the governing body gives parity to all sources of value creation, including, among others, social and relationship capital as embodied by stakeholders. Consequently, this is an inclusive, stakeholder-centric approach which stands in contrast with a shareholder-centric approach.

Who are the material stakeholders?

“Those groups or individuals that can reasonably be expected to be significantly affected by an organization’s business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organization to create value over time.” *

*The International Integrated Reporting Council, *The International <IR> Framework* (13 December 2013), p 33 available at <http://integratedreporting.org/resource/international-ir-framework/>

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Leveraging **governance structures** to promote corporate purpose



- Enhancing the function and responsibilities of the Social & Ethics Committee
- Considering the composition of the Board in relation to stakeholder priorities

Promote a more holistic **reporting** of company activities to better reflect the impact of business on society and the planet



- Clear accountability and transparency requirements of reporting both financial and non-financial (ESG) impacts
- **Mandatory disclosure of the company's impact on the public interest (e.g. through a Public Interest Statement, S&E report, etc)**
- Consistent reporting framework with common metrics and consistent reporting of sustainable value creation

Linking corporate purpose to **ethical leadership**

Corporate governance, for the purposes of King IV, is defined as the **exercise of ethical and effective leadership**

Ethical leadership is exemplified by integrity, competence, responsibility, accountability, fairness and transparency. *It involves the anticipation and prevention, or otherwise amelioration, of the negative consequences of the organisation's activities and outputs on the economy, society and the environment and the capitals that it used and affects.*

Effective leadership is results-driven. It is about achieving strategic objectives and positive outcomes. Effective leadership includes, but goes beyond, an internal focus on effective and efficient execution.



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