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PURPOSE

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What is a company for in the future?

The combined consequences of the long-term disruptions of the Western financial crisis of 2009, and more recently the Covid-19 pandemic, have forced all organisations to consider why they are here, whether they can exist in future, and if so, what their long-term purpose is.

The simplistic idea proposed 50 years ago by Milton Friedman, and widely accepted internationally by businesses, governments, and even many not-for-profits, was that companies were independent entities whose main purpose must be on maximising profits for “the owners,” specifically by creating “shareholder value,” without regard to their social and environmental contexts and impacts. This was heavily underpinned by the concept that striving for monopoly was always good.

This belief has been eroded greatly by the growing public realisation that all companies exist only with the consent of mutually supporting community ecosystems, for example, customers, suppliers, local communities, funders, and governments at local, national, and international levels. Companies can no longer be seen by their boards as divorced from their

social, environmental, economic, and political environments. Their focus is primarily to ensure the long-term survival of their business through their entrepreneurship. But they can no longer prioritise profit maximisation at the expense of other members of their ecosystems. Boards will increasingly need to balance all of these in their decision-taking. The previous notion that businesses must always strive to become a monopoly is dying.

Consequently, new board mindsets are needed to best use this new context of increasingly mutually supportive players, and their consequent and ever more explicit rights and duties as cooperating parties. It is from such board acceptance that their future business purpose needs to be evolved. The practical and intellectual challenge for future directors was summed up neatly by F. Scott Fitzgerald:¹

The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function.

This applies to all of our organisations, whether small or large businesses, not-for-profits, mutual or state-owned enterprises. In my work across five continents, I see a growing acceptance of a basic structure for effective corporate governance regardless of the national legal system or political ideology. The legal basis is growing from common law, which, as it is persuasive of the 54 countries of the Commonwealth, the USA, and is seen to be growing in China out of Hong Kong, is becoming the exemplar for the world.

Back to basics

Creating a company is a very human and emotionally powerful activity, not a purely impersonal financial or legal one. The word "company" originally signified the human coming together to break bread and give companionship. Humans realised that cooperation by combining diverse skills, attitudes, and knowledge would allow them to create more goods and services than any individual ever could. The resulting "commonwealth," social, environmental, and financial, flowed to the benefit initially of all members of a small, founding group. However, as these groups became larger and

1 F. Scott Fitzgerald "The Crack-Up" 1936, February, *Esquire*.

the surpluses bigger, the distribution of such wealth became distorted. The necessity to balance equality of inputs and outputs “fairly,” and so govern the creation and distribution of environmental, social, and financial wealth, was eroded over the centuries and so clarity of purpose was skewed.

This distortion was reinforced by the received wisdom about the creation and “natural” distribution of power in our organisations. Industrialisation reinforced this distortion with its mechanical hierarchies and generated the creation of “them and us” binary thinking and behaviours. This has led to many of the public’s criticisms of current businesses and their underlying profit-fixated purpose. Key amongst these criticisms is the public’s feeling of deliberate exclusion from the development of the policies and strategies of most businesses, and the consequent lack of concern of the company’s impact on local environment and communities. We have lost the common wealth idea; however, one of the few recent positive developments has been to give humanity a golden opportunity and the time to reconsider the future purpose of all of their enterprises, and to debate the willingness for all parties to commit to this. We can begin to see the movement from a divisive “either/or” mindset to a more creative “both/and” – one far beyond the current thinking of many boards and politicians. This book is a major step in this direction.

Future purpose

I am privileged in working on five continents and can observe the evolution of major international trends that are shaping fast future business’ purpose regardless of whether they are in the private, public, or not-for-profit sectors. I identify two for particular consideration here. First, the growth of the concept of a business needing a publicly agreed, fixed term “licence to operate” in a specific geographic area. Previously, the willingness of a major international business simply to invest in a factory, mine, or IT processing plant was usually sufficient to allow the investor a form of local *droit de seigneur*. They could do what they wanted, led by a distant headquarters with often locally unhelpful policies and purpose. They assumed that the local workers, suppliers, and tax officials should just be grateful that the company had graced them with their continuing presence. They rarely were, even though the locals needed the employment.

Indeed, Adam Smith warned us in 1776 that, although the creation of the modern joint stock company was a brilliant intellectual breakthrough that dramatically opened up world commerce, it gave these new joint stock companies four worrying and unregulated strengths – unlimited life, unlimited licence, unlimited size, and so unlimited powers. The growing international public criticism of most companies has been about the increasing need to regulate all four of these unlimited powers.

Some smaller countries have governments that are questioning these unlimited powers and demanding that, if you operate within their domain, you agree a time-limited Licence to Operate. They want specified performance criteria in terms of, for example, physical asset usage, employment creation, development of the local community, sustainability, and local taxation. It is this sort of "both/and" thinking that is now also permeating the West in a bottom-up process driven by a disenchanted public questioning the very purpose of their organisations.

What can a board do?

The initial purpose of an organisation is defined when a group of humans come together to offer others through trade a combination of unique goods, services, and information. They will have an integrating vision of what their offering will be, and have strong emotional ownership, rather than just property ownership, of their new business. They are heavily customer (and profit) focused. What is often not appreciated at this early stage is their need to simultaneously identify and build mutual trust with the other players in their eco-system – suppliers, regulators, public services, and communities. Such trust and consequent loyalty within this ecosystem is built by the consistent delivery of quality product, fair prices, and timely service. This is as true of not-for-profits and state-owned enterprises as any business.

From this founding purpose, the reason that we exist, flows a vision of the company's future role and meaning in the medium and long term; the organisation's strategy as to how most effectively to deploy broadly its scarce resources to achieve its purpose; its operational mission as to how efficiently to use on a daily basis those resources; the development of a set of values that bond and develop and assess performance levels for every individual whether board member or part-time security guard. Over time, this creates a deep culture for an organisation that can range from a

positive “pride in everything we do” through to the negativity of “what we do when no one is looking.” Without a positive culture, an organisation becomes purpose-less.

For a board to agree merely that it should be seen as “a good corporate citizen” defined by a corporate social responsibility statement, was never a sufficient purpose because the statement was too waffly. The necessary metrics were not developed. However, there is more hope now of achieving a more integrated purpose caused by the convergence of two trends. First, the international move away from equity share-based funding, and its often short-term mindset; and towards more medium- and long-term funding seen recently through the exploration of performance bonds. This process is evolving quickly into the development of performance metrics for environmental and social impact bonds, including financial bonuses for overperformance. Second, such performance bonds are beginning to combine with new board mindsets based around medium- and long-term ESG impacts (environment, social, and governance consequences of board decisions). However, the current rush into ESG funding is dangerous. It tends to avoid the entrepreneurial base of our businesses. So, I suggest that such future funding will not be ESG but “EES+G” – funding based on entrepreneurship, environmental, and social impact overseen by effective corporate governance. This seems to be a very attractive concept for many businesses, especially in the “developing world.”

In future, boards will have to rise above merely basic financial performance metrics to embrace the new EES+G community-based demands. To balance these new demands, they will need to invest time for personal director and board development. This means agreeing internationally entry-level minimum knowledge, attitudes, and skills to become a recognised director. This sets them on the track to become a “learning board” where their entrepreneurial decision-making ensures that their rate of learning will be equal to, or more than, this increased rate of environmental change. They will have to develop new rapid feedback systems so that their operational performance balances social and environmental impacts to ensure that it regularly reviews its commitment to its new purpose.

The angry public, the stressed physical environment, local communities, and future generations demand this.

Questions to ask

- Does your board have a rigorous process for determining its purpose?
- If so, does its thinking stretch beyond financial performance and into social and environmental impacts? Is its rate of learning up to the rate of change in its external environment?
- Does it have the governance systems to track and develop the board and executives both leading into an uncertain future, and yet ensuring prudent control of the present?
- Does it budget time and money to develop individual directors and the board as a whole to ensure the continual delivery of its purpose?