Purpose and Stakeholder Governance Best Practices:

Literature Review and Guidance on the Board's Role in Purpose and Stakeholder Oversight

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Executive Summary

> **"At a time when many are beginning to understand the value that flows from purpose-led organisations, this report should be compulsory reading for any board member or governance professional interested in embedding a company's purpose into strategy and decision making."**
>
> Steve Allen, Group Company Secretary, Rio Tinto

Expectations are growing that businesses serve society by adopting a social purpose and developing strategies to enhance stakeholder – beyond shareholder – value creation. However, there is a dearth of guidance on the role of corporate boards in governing this transition from profit purpose to social purpose and from shareholder value creation to stakeholder (including shareholder) value creation.

This paper addresses this governance gap by summarizing recent (2018 – early 2023) literature on the topic and from it, discerning a governance playbook for boards. The research question that guided the literature review is: **"What is the role of the board in providing oversight of the company's purpose and stakeholder relationships?"** The paper is written for governance professionals including boards and corporate directors seeking to have best practices in both purpose and stakeholder governance.

The literature shows that governance professionals, academics, investors, professional services firms and governance and standards institutions agree the board has an important role to play in endorsing and overseeing the company's purpose, values, and strategy, and satisfying itself that these and the company's culture are aligned.

These are the four main practice areas for effective Board Purpose Governance:

Board Purpose Governance Practices

1 Strategy and Culture

2 Performance Management

3 Monitoring and Reporting

4 Governance Protocols

As with purpose governance, there is agreement the board has an important role to play in providing oversight of a company's stakeholder relations. While stakeholder engagement is management's responsibility, the board of directors has responsibility for engagement oversight.

These are the six main practice areas for Board Stakeholder Governance:

Board Stakeholder Governance Practices

1 Purpose and Strategy

2 Stakeholder Engagement

3 Culture and Decisions

4 Governance Protocols

5 Monitoring and Reporting

6 Board Education

PURPOSE AND STAKEHOLDER GOVERNANCE CASE STUDIES

Check out these four case studies for examples of purpose and stakeholder governance at the following companies, found here.

- BC Lottery Corporation, Canada*
- Maple Leaf Foods Inc., Canada
- Rio Tinto plc, UK
- Unilever plc, UK

**Note: the author is on the board of BC Lottery Corporation*

These governance practices are summarized in two sets of questions (found at Appendix A) directors and boards can ask themselves and management to determine the current state of purpose and stakeholder governance, and flag and address shortcomings. Governance professionals can use them to create a purpose and stakeholder governance roadmap.

There is growing consensus that firms should create stakeholder value in addition to shareholder value and that they should be driven by their purpose. Going forward many boards will need to build their competency and oversight of corporate purpose and stakeholder relations to fulfill their responsibilities. Boards with existing good practices can use these guidelines to identify and correct governance gaps.

The standard for good corporate governance is rising and with that come expectations that boards strengthen their oversight of the company's purpose and stakeholder relations. This report and its guidance help with that ambition and will put organizations on the path to create value not only for the company, but for their stakeholders and society overall.

PURPOSE AND STAKEHOLDER GOVERNANCE PLAYBOOK

Best practices identified in this literature review are summarized in the Purpose and Stakeholder Governance Playbook: Your Guide to Enhancing Your Board's Oversight of Purpose and Stakeholders.

It is designed to be a resource for directors, boards and governance professionals to develop a Purpose and Stakeholder Governance Roadmap to improve their board's oversight of these important and fundamental governance practices.

Introduction

Expectations are growing that businesses serve society by adopting a social purpose and developing strategies to enhance stakeholder – beyond shareholder – value creation. However, there is a dearth of guidance on the role of corporate boards in governing this transition from profit purpose to social purpose and from shareholder value creation to stakeholder (including shareholder) value creation.

This paper attempts to address this governance gap by summarizing the literature on the topic and from it, discerning a governance pathway for boards. The research question that guided this literature review is: **"What is the role of the board in providing oversight of the company's purpose and stakeholder relationships?"** It is written for governance professionals including boards and corporate directors seeking to have best practices in both purpose and stakeholder governance. It is also written for those just interested in one of these two topics as they can easily navigate to that section of the paper.

Recent literature (2018 – early 2023) was scanned for ideas on the board's oversight role, not on the role of management, or the business case, or other important matters. Appendix D includes a list of cited works (43 in all) and checklists for boards and governance professionals to stress test their current approaches and develop plans to address gaps. Boards can be confident that this guidance reflects the latest thinking as of 2022 on the role of the board in these areas.

The standard for good corporate governance is rising and with that come expectations that boards strengthen their oversight of the company's purpose and stakeholder relations. This report and its guidance help with that ambition.

Methodology

The literature scan was conducted from July 2022 – February 2023 and included sources known to the author, such as trade publications, media sources, white papers and research published 2018 – 2023. Forty-three publications were identified related to the topics of purpose and stakeholder governance and the board's oversight role and are listed in Works Cited in the appendix.

The literature review findings were then analyzed to discern critical board roles in providing oversight of the organization's purpose and stakeholder relations. This resulted in a set of best practices, or checklist tool, for boards to evaluate their approach to purpose and stakeholder governance. The checklist tool was modified to reflect findings from four case studies that accompany this research paper (Rio Tinto plc, Maple Leaf Foods Inc., Unilever plc, and BC Lottery Corporation) whose practices were studied in 2022, and further modified with feedback from governance professionals from these firms provided early 2023.

The paper uses these definitions for the purpose of business.

Purpose Definition

SOURCE	DEFINITION
British Academy's Future of the Corporation Programme	The purpose of business is producing profitable solutions from the problems of people and planet, and not profiting from creating problems.
United Way Social Purpose Institute	A Social Purpose Business is a company whose enduring reason for being is to create a better world.
ISO 37000 Governance of Organizations – Guidance	Organizational purpose is the organization's meaningful reason to exist.
PAS 808: Purpose-Driven Organisations: Worldviews, Principles and Behaviours	An organization's reason to exist that is an optimal strategic contribution to the long-term wellbeing of all people and planet.

Purpose is distinguished from vision, which is **where** the company is headed, and mission, which is **what** the company does. The purpose communicates **why** the company exists.

Purpose and social purpose are used interchangeably in this report and generally refer to a business purpose to create a better world in which that is the reason the business exists.

It is important to note that not everyone uses these terms interchangeably. Many of the authors of the cited works use purpose to refer to any type of purpose beyond profits for shareholders. Other authors mean a business whose purpose is to create a better world when they use the term purpose or social purpose. Terminology is a very complex and nuanced matter and outside the bounds of this paper to resolve. However, it is important to recognize there are distinctions. The conclusions drawn from this paper can apply to any type of purpose beyond shareholder profit generation, although it is the author's intent to apply them to the emerging field of corporate social purpose and that is the focus of the paper.

Stakeholder Definition

The paper uses the definition of stakeholder adopted by the International Standards Organization (ISO) 37000 "Governance of Organizations – Guidance", as "a person or organization that can affect, be affected by, or perceive itself to be affected by a decision or activity".

Stakeholders can include employees, customers, suppliers, shareholders, communities, industry sector and others. Many companies include the natural environment and society because they affect or will be affected by the organization's activities, although they are not persons or organizations in the strictest sense. Indeed, the Canada Business Corporations Act includes environment as a factor that boards can consider when acting in the best interests of the corporation (S.122.1). As this report is endeavouring to open up dialogue on broader stakeholder matters beyond shareholders, it does not focus on board engagement with investor shareholders.

In the past Indigenous Peoples in Canada were considered to be a corporate stakeholder. However, it is now recognized that Indigenous Peoples are not stakeholders. They are Aboriginal rights holders whose rights are protected under the Constitution of Canada. As this paper deals with stakeholders and not rights holders, Indigenous Peoples are not included in the analysis. However, many of the recommended practices would equally apply to Indigenous Peoples, though not all.

This paper also does not consider legal concerns regarding the board's stakeholder engagement role. For example, it does not address the implications of overlooking a stakeholder, and whether the company might be subject to a class action lawsuit if it prioritizes one group of stakeholders over another. These are important questions which are beyond the scope of this paper to address.

The results of the scan are divided into three sections:

1 Literature Review on The Role of the Board in Purpose Oversight

2 Literature Review on The Role of the Board in Stakeholder Oversight

3 Findings

The appendix includes:

A Board Purpose and Stakeholder Oversight Responsibilities

B Sample Purpose and Stakeholder Governance Mandates for Board Committees

C Airbnb Case Study of Board Stakeholder Engagement

D Works Cited

Literature Review on The Role of the Board in Purpose Oversight

This section summarizes key points from the literature on the role of the Board in Oversight of Corporate Purpose which are referenced in Appendix D.

The Canada Business Corporations Act determines that when directors exercise their powers and discharge their duties they shall act honestly and in good faith with a view to the best interests of the corporation. According to an article by Chad Ortved, a Corporate and Securities Lawyer at **Lawson Lundell law firm**, "the doctrine of "corporate purpose," offers a coherent way for directors and executives to understand and comply with the Supreme Court's interpretation of the fiduciary duty in Canada. […] Specifically, once the corporation's purpose has been articulated, its best interests are, at least broadly speaking, quite clear: to achieve that purpose".

An influential report was published by Sarah Kaplan, Distinguished Professor at the University of Toronto's Rotman School of Management and Peter Dey who chaired a committee on corporate governance which established foundational guidelines for the governance of Canadian corporations (also known as the "Dey Report,") in 1995. Their report "**360º Governance: Where Are the Directors in A World in Crisis?**" proposes a new set of corporate governance guidelines for Canada. The guidelines say that every board should identify, disclose, and regularly review the purpose of the business of the corporation. They agree with C. Ortved that without knowing why the corporation exists, it is difficult for a board of directors to effectively judge the best interests of the corporation. In addition, they speak to several board roles:

- The purpose statement should be a living document and revisited by the board with some regularity; it should be specific enough to enable accountability.
- The board should be able to identify and articulate the best interests of the corporation in its decisions and should be able to align these interests with the corporation's purpose.
- The board should ensure that management compensation is aligned with achieving the purpose by adopting metrics and targets in compensation plans aligned with the purpose. The achievement of these targets should make up a meaningful component of management's bonus.

The **Institute for Corporate Directors and TMX Group Limited** convened a "Committee on the Future of Corporate Governance in Canada" which published its report in December 2022. "Charting the Future of Canadian Governance: A Principled Approach to Navigating Rising Expectations for Boards of Directors" listed a number of board purpose oversight responsibilities, including:

- Ensure the corporate strategy is aligned with the company's purpose and approve adjustments to the purpose as circumstances change.
- Annually approve the strategy which is expected to achieve the company's purpose.
- Determine whether the company's performance measurement systems and processes provide clarity on the drivers and outcomes of the company's performance in achieving its purpose.
- Consider the appropriateness and quality of information that management uses to determine whether the company is achieving its purpose.
- Assess whether management considers evolving standards to monitor and report on stakeholder value creation, including the measurement of alignment with the company's purpose.
- Ensure the CEO demonstrates the strategic acumen and agility necessary to achieve the company's purpose.

The **International Corporate Governance Network** (ICGN) maintains a set of Global Governance Principles (GGP) as a standard for well-governed companies, developed in consultation with ICGN members which include investors responsible for assets under management of over $59 trillion. Many ICGN members use the GGP to inform their voting policies and company engagements. They were updated in 2021 and now include the following board roles with respect to the company's purpose:

- Publicly disclose a clear purpose to guide management's approach to strategy, innovation, and risk (new principle adopted in 2021).
- Ensure new board directors have a comprehensive understanding of the company's purpose, business model and strategy, as soon as possible after their appointment.
- Ensure the board is properly constituted to generate effective challenge, discussion, and objective decision-making in alignment with the company's purpose.
- Ensure board director appointments have appropriate refreshment aligned with the company's purpose.
- Instil and demonstrate a culture of high standards of business ethics and integrity aligned with the company's purpose and values at board level and throughout the workforce.
- Ensure remuneration is designed to equitably and effectively align the interests of the CEO, executive officers and workforce with a company's strategy and purpose to help ensure long-term sustainable value preservation and creation. Executive remuneration should be structured in a simple manner that is aligned with the company's purpose and long-term strategy.

In addition, the chair is expected to inspire a shared commitment among directors to the company's purpose and long-term strategy.

In the UK, the **Financial Reporting Council**, which is responsible for setting UK's corporate governance code, issued a new code in 2018 which states that "the board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned". It goes on to specify that corporate reporting should show how the board has set the company's purpose and strategy, and that "where [the board] is not satisfied that policy, practices, or behaviour throughout the business are aligned with the company's purpose, values and strategy, it should seek assurance that management has taken corrective action." The Code requires that executive remuneration should be aligned to the company's purpose and values and be clearly linked to delivery of the company's long-term strategy. It expects that company incentive schemes drive behaviours that are consistent with the company's purpose, values, and strategy.

Governance Professionals of Canada (GPC) has held several panel discussions on Purpose Governance over 2020 – 2022, the findings of which are included in summary reports. Across these reports, the following roles of the board are described:

- Hold board education on purpose.
- Develop and approve the purpose.
- Update company values to reflect the purpose and ensure they are cascaded into the company's performance management system.
- Incorporate purpose into the corporate strategy approved by the board, this establishes goals, metrics, targets, timelines, and accountability for purpose implementation.
- Monitor progress on the purpose through management's quarterly reports.
- Include purpose in regular board discussions and adopt a board purpose decision-lens; set the tone at the top for living the purpose.
- Tie purpose to compensation and measurement.
- Include purpose in the annual board evaluation (e.g., purpose knowledge and effective oversight).
- Include purpose as a factor in director recruitment; directors need a purpose mindset and should be aligned intrinsically to the purpose – candidates could be asked what role they played in a past organization to help deliver on the purpose, and whether they were an active participant in helping bring the purpose to life.
- When updating committee charters use this as an opportunity to include purpose roles; determine which committees have responsibility for purpose, for example, Governance Committee, Audit Committee and Compensation Committee.
- Update the governance manual to include oversight of purpose in the board's roles and responsibilities.
- Include purpose in succession planning and the CEO success profile.
- Embed purpose in risk models, for example companies may have a larger risk appetite if leaning into their purpose.
- Conduct an internal audit to identify potential misalignment between the purpose and decisions and behaviours in marketing, employee relations, decision-making, etc.
- Engage external auditors to audit the company's purpose disclosures.
- Appoint stakeholder and expert advisory boards to bring new ideas and perspectives on how the company can execute on its purpose, helping to identify and address blind spots.

In 2022 GPC collaborated with Watson, a Canadian governance consultancy, to publish the 9th annual **Corporate Governance Best Practices Survey**, which aims to capture the current corporate governance landscape. One hundred Canadian organizations across multiple industries and sectors completed the spring 2022 online survey that included two specific questions pertaining to purpose governance. It found a low-level of board engagement on corporate purpose and mission at 9% of respondents. However, 41% of boards had education on purpose governance in the last year and 13% of organizations had a board committee focused on purpose. Another finding is that 18% of survey respondents indicated that "purpose and business model risk" was a critical risk to the organization. This compares to cyber and people risk at 58% and 53% respectively. One-quarter of respondents indicated that their management performance evaluations include a role executing a corporate purpose, up from 18% in 2021. Purpose is also found in the CEO succession plan with roughly two-thirds (67%) of respondents stating their CEO role profile is aligned to the organization's purpose, strategic direction, stakeholder relationships and values.

The author created a **Purpose Governance Framework** to help boards develop and govern a corporate purpose. The Framework is divided into Part 1: 5 Steps to Developing, Codifying or Refreshing a Social Purpose and Part 2: Steps to Governing your Purpose. These are some of the main points it sets out for boards to follow:

- Hold a board social purpose education session and gain board agreement on the process to develop a purpose.
- Provide input into the development of the purpose and approve the purpose.
- Approve an updated corporate mission, vision, values, and brand promise that reflect the purpose.
- Ensure measures to implement the purpose are included in the corporate strategy and allocate capital and resources to purpose implementation; regularly review progress.
- Include purpose objectives in the CEO's performance goals, incentive compensation, position description and succession planning.
- Adopt a board purpose decision lens to ensure purpose is routinely considered in board decisions.
- Update governance documents to incorporate the board's purpose oversight role (e.g., board and committee charters).
- Include purpose in the board evaluation.
- Publicly report on purpose progress against goals, targets, and metrics.
- Include purpose in the board recruitment and onboarding process.

Corporate Knights published the world's first rating of social purpose companies in 2022, "**The Social Purpose Transition Pathway: Helping Companies Move from 'Say to Do**". It evaluated 34 Canadian companies or global brands that had significant operations in Canada to assess their purpose governance and implementation maturity. In terms of the role of the board, it found that many companies had corporate values that reflected the purpose, many boards disclosed progress on the purpose through annual reports and some had included purpose in the corporate strategy. Not many boards included purpose oversight in their board charters, nor did boards include purpose responsibilities within the CEO's performance description. Some included purpose metrics in incentive compensation and CEO and Executive deliverables. The report recommends that boards close this gap in purpose governance.

The **Enacting Purpose Initiative** which is a multi-institution partnership between the University of Oxford, the University of California Berkeley, BCG BrightHouse, EOS at Federated Hermes and the British Academy, published a framework for Boards, "Enacting Purpose within the Modern Corporation". The framework stipulates that to enact purpose, boards need to answer the following provocations, which are a core responsibility of corporate board directors:

1. What is our purpose?
2. How is this supported by our values and mission?
3. What vision of the future does this connect to?
4. What specific stakeholder benefits follow?
5. How should we govern and reward progress on these during the course of the year?

It spells out these additional board responsibilities once the purpose has been debated and formally agreed. The board should:

- Publish the purpose and ensure its internal governance and external reporting evaluate its activities and the outcomes generated against its purpose.
- Agree on the company's vision which describes the outcome that the organization wants to see from the successful delivery of its purpose.
- Ensure the purpose is connected to its strategy and capital allocation decisions and translates into what everyone in the organization does.
- Confirm that senior management understand how the organization's purpose connects with partner organizations, e.g., suppliers and customers.
- Recognize that purpose is not a competitive but a shared endeavour.
- Build investor relations and communications around the purpose and ensure purpose is at the heart of shareholder relationships.
- Define measures of performance that evaluate the success of the organization in delivering on its purpose. It should build a group-wide performance measurement system that aligns the organisation's incentives and rewards with promotion of purposeful behaviour.
- Non-financial metrics attached to purpose need to be treated with the same importance by board directors as sales or returns numbers. Internally, balanced scorecards and non-financial metrics are increasingly attached to executive appraisal and performance reviews. Explicit purpose metrics should be at the forefront of these reviews, with colleagues being actively appraised on their understanding of, adherence to, and promotion of purpose.

In 2017 the **British Academy** launched Future of the Corporation, a major research and engagement programme examining the purpose of business and its role in society, led by Professor Colin Mayer, Professor of Management at Oxford's Saïd Business School. Its final report in 2021 commented on the role of the board:

"A company board: (a) ensures that the company's values, culture and strategy are aligned with the implementation of its purpose; (b) is accountable to the company's shareholders, workforce and other stakeholders involved in the implementation of its purpose; (c) reports to the company's shareholders and stakeholders on the resourcing, measurement and performance of its activities against its purpose; (d) ensures that the company's incentives and remuneration are based on fulfilment of its purpose; and (e) encourages embedded ownership of purpose throughout its organisation."

Colin Mayer, the founder of Future of the Corporation, wrote a paper on The Governance of Corporate Purpose. In it he argues that the role of the board is to oversee the determination of the corporate purpose, ensure that it is the overarching framework within which strategy is formulated, and establish an internal culture, measurement and incentive system that aligns corporate values and metrics with the delivery of purpose.

The Scotland Government appointed a **Business Purpose Commission** of 25 members from business, academia, civic organizations, and trade unions to develop recommendations for how to position Scotland as a hub for social purpose in business. Reporting out in 2022, the Commission included a section on the role of the Board in driving business purpose as follows:

- Adopt a purpose.
- Ensure your structure and business model will deliver on the purpose.
- Embed purpose in the strategy and own its delivery.
- Keep purpose in mind at all times and use it to guide decisions.
- Create the right culture and exemplify it.
- Track and communicate your progress.
- Be open about mistakes and how you are fixing them.
- Be brave if there is pressure to abandon purpose.
- Share learnings inside and outside your business.
- Celebrate and communicate successes.

Denise Roberson, marketing professor at Pepperdine Graziadio Business School in California and Chief Purpose Officer at the US brand agency TBWA/Chiat/Day, collaborated with Afdhel Aziz, co-founder of Good is the New Cool, to write an article on "**Five Mistakes Boards Make When Thinking About Purpose**" in 2022. They say that boards should recognize that Purpose won't be achieved in five years, but that it's a decades-long sprint to actuate the full business case from the Purpose. Roberson counsels: "Boards and leaders will need to be in a constant state of test and learn with a growth mindset, with quarterly earnings being reframed as steppingstones to long-term growth, or planning scenarios to create stakeholder value." Boards should let go of their historical expectations of their role and instead help their companies reimagine and reconceive their role in society for new value creation. Other recommended governance measures include:

- Have a dedicated board purpose committee with people who have the passion, knowledge, and aptitude for stewarding the topic.
- Ensure the company's purpose shapes and influences the company's strategy, policy, and investments.
- Measure and track the milestones including how purpose helps reduce churn, increase belonging, and attract top talent, protects against reputational risk, enhances business performance and brand value, develops new customer segments, and approaches new pools of capital.
- Ensure employees are strongly aligned with purpose through measurement and nurturing.
- Apply the purpose in board decision-making.

The article sums up saying that boards need to "create a strategy anchored in purpose so they can pivot more easily, broaden scenario planning and co-create to find transformational solutions across the stakeholder ecosystem".

The **World Economic Forum**, in collaboration with Deloitte, EY, KPMG and PwC, included Purpose Governance metrics in their "Measuring Stakeholder Capitalism" report, published in 2020. They call for metrics and disclosures for "Governing Purpose", in which governance drives firms to "establish and pursue a positive and clear purpose, and the extent to which corporate purpose drives strategy". The authors believe it will become increasingly important for companies to demonstrate their commitment to purpose as a measure of good governance and transparency, and as fundamental to long-term value creation. To demonstrate how they are governing purpose, companies are expected to disclose it's stated purpose as the expression of the means by which a business proposes solutions to economic, environmental, and social issues. Corporate purpose should create value for all stakeholders, including shareholders. Purpose-led management is another disclosure metric, in which the company should show how the company's stated purpose is embedded in company strategies, policies and goals.

McKinsey & Company published a paper in 2020 on "The board's role in embedding corporate purpose: Five actions directors can take today". The paper focuses on how board directors can partner with management to create a purpose narrative with clear commitments and targets, fully embedding the purpose in the organization, and monitoring progress. This comprehensive paper sets out the following board roles:

- **Build an authentic purpose narrative with management.** Boards should encourage top executives to take the time to understand all stakeholders' perspectives on the company's strengths, vulnerabilities, and relevant industry trends in developing the purpose.
- **Own purpose in board practices.** Boards should ensure that purpose considerations are regular parts of their discussions and on the board agenda. One of the board committees should include purpose as part of its oversight. Directors should ensure management sets clear and measurable goals, actions, and accountability. As part of its responsibility to challenge and approve the corporate strategy, the board should confirm that the long-term business vision aligns with the company's societal purpose.
- **Reinforce purpose in board decisions.** Boards can use purpose to pressure test decisions and trade-offs in company strategy, investments, risk and performance management, HR and culture, governance, and external reporting. Boards should also be vigilant in monitoring management decisions that could undermine the stated purpose.
- **Drive organizational accountability for purpose through management evaluations and reporting.** As part of its oversight role, the board should establish organizational accountability around purpose. The board can celebrate purpose-linked achievements and encourage management to share inspiring stories with employees and the public.

The **United Way BC Social Purpose Institute** (SPI) which helps businesses define and implement their social purpose held a national conference on the Purpose Economy in 2021. One of the panels discussed the role of the board to accelerate social purpose in business. The conference report, "Propelling Purpose Summit: The Road to the Purposeful Economy", summarizes the panel discussion as: "The mechanisms already exist within the existing corporate governance framework to make a pivot to purpose. Once boards shift the purpose of the organization – they can shift the strategy to support and drive the purpose and recruit the right people to the board to have proper oversight in ensuring the strategy achieves the purpose." The SPI hosts a Social Purpose Assessment Tool on its website, which allows companies to score themselves against 25 practices to assess their purpose maturity and identify gaps and opportunities. One of the practices, under Governance and Leadership, is "Our board, shareholders and / or owners support our purpose and monitor our progress on it. Our board has explicit responsibility for purpose oversight in its Charter or Terms of Reference."

BlackRock, the world's largest investor with USD 10 trillion of assets under management, includes purpose among the list of topics it engages companies on to help improve its long-term returns. They say: "We depend on boards to have a clear understanding of how executive leadership instills the company's strategy and purpose into day-to-day operations. When engaging on long-term corporate strategy, purpose, and financial resilience, we seek to understand a company's strategic framework, the board's process for oversight and review and how the strategy incorporates stakeholders' needs. We are also interested in the board's role in helping executive leadership assess the company's purpose and culture."

The topics BlackRock might cover when engaging with companies include:

- How the board oversees corporate strategy, purpose, and financial resilience.
- Employee and/or stakeholder involvement in shaping corporate strategy, purpose and culture.
- How the board and management assess the compatibility of the company's strategy and purpose, and where there is inconsistency between the two, how this is remedied or addressed.

The **CEO of BlackRock**, Larry Fink, issues annual letters to the CEOs of the companies he invests in. Since 2018 he has included corporate purpose in his letters. This 2018 excerpt speaks to his expectations of boards: "Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate. [...] Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders. [...] Furthermore, the board is essential to helping a company articulate and pursue its purpose, as well as respond to the questions that are increasingly important to its investors, its consumers, and the communities in which it operates."

In 2021 **Morrow Sodali**, a global shareholder services company, published a report of a survey it conducted of 25 percent of global capital markets. It found that 86 percent of investors surveyed expected companies to disclose their corporate purpose. For companies that did not disclose their corporate purpose, 55% strongly agree they would engage with the board on the topic, and 28% somewhat agree. As the report argues "this supports our understanding from discussions with investors that boards are seen as key architects in setting a company's purpose and, as a result, the culture and values under which the company operates". The authors believe that a clearly communicated company purpose is considered by investors to be one of the driving forces behind creating sustainable long-term value.

EOS at Federated Hermes is a stewardship service provider that engages with companies around the world on behalf of global institutional investors, representing assets of CAD 2.2 trillion. The company's aim is "to deliver sustainable wealth creation that enriches investors, benefits society and preserves the environment – for current generations and those to come". They believe that "companies can only create and preserve long-term, good quality returns for investors if they provide goods and services that sustainably solve societal needs, guided by a clear purpose that serves not only shareholders, but also other stakeholders, society and the environment". They published a Statement of Purpose Guidance document in 2019 that describes a campaign they have underway as part of a broader coalition to urge companies to issue a statement of purpose to ensure better, more transparent, and more socially responsible corporate governance. The paper calls on boards to issue a statement that "clearly articulates the company's purpose and how to harmonise commercial success with social accountability and responsibility." Once the statement is published by the board, "its task then is to oversee the fulfillment of the corporation's stated purpose". According to the firm, since 2016 they have been requesting that companies articulate a societal corporate purpose. This is a component of their Corporate Governance Principles sent to several hundred of the largest public companies around the world as part of their efforts to improve best practice corporate governance standards. Their 2022-2024 Engagement Plan continues this theme.

Their 2022 Canadian Corporate Governance Principles, for example, set out their expectations for Canadian-listed companies they engage on behalf of their institutional clients for that year. They include these expectations for company boards regarding purpose oversight:

- The board should adopt a board level statement of business purpose.
- The board should own and publish the company's stakeholder-inclusive purpose.
- The board must consider and disclose capital allocation policy in the context of a company's purpose and long-term strategy.
- The board should ensure that management fulfils the company's long-term purpose.

The British Standards Institute published a guidance document in 2022 that sets out what it means to be a purpose-driven organization: "**PAS 808: Purpose-Driven Organisations: Worldviews, Principles and Behaviours**". The guidance stipulates that board structures, processes, competencies and understanding of duties reflect accountability for the organization to achieve the purpose outcomes. It lays out several roles for both the board and executive managers:

- Provide organizational direction, including all strategy and policy that is consistently and transparently aligned with achieving the purpose.
- Make decisions that consistently prioritize achievement of the purpose.
- Clarify roles, responsibilities, and reporting mechanisms and how they work together to achieve purpose outcomes.
- Devise and implement an oversight system that achieves the purpose.
- Implement risk governance frameworks that define risk for the organization, including the effect of uncertainty (positive or negative) on achieving the purpose.
- Align the organization's tangible and intangible culture with achieving the purpose outcomes.
- Align rewards and incentives to achieve the purpose; directors and executive managers should not be rewarded, financially or otherwise, for creating impacts that are not aligned with achieving the purpose.
- Finance the purpose.
- Assess, measure and report against the purpose.

The **International Standards Organization** (ISO) published a set of global corporate guidelines, ISO 37000, in 2021. The guidelines "Governance of organizations — Guidance" define the governance of organizations as a "human-based system by which an organization is directed, overseen and held accountable for achieving its defined purpose". It defines organizational purpose as an "organization's meaningful reason to exist". These are some of the board roles detailed in the guidelines:

- Define, communicate, and embed the organizational purpose.
- Ensure the purpose is core to its governance practices, deliberations, and decision-making.
- Ensure the organizational values are aligned to and support the organizational purpose.
- Define the organization's value generation objectives and strategy in fulfilment of the organizational purpose.
- Steer the strategy to fulfil the organizational purpose.
- Provide oversight to ensure the purpose and strategic outcomes are achieved and that corrective action is taken as necessary to fulfil the purpose.
- Ensure the organization's reports and disclosures describe the organizational purpose and provide information about the organization's performance in fulfilling the purpose.
- Consider the effect of uncertainty on the organization's purpose and factor this into risk management.
- When evaluating strategic options, ensure that both threats and opportunities are assessed and evaluate the extent to which options support the realization of the organizational purpose.

The **Global Reporting Initiative**, an international organization that provides standards and best practices for sustainability reporting, also includes corporate purpose in its standards. Disclosure 2-12 requires the organization to describe the role of the highest governance body and of senior executives in developing, approving, and updating the organization's purpose, value or mission statements, strategies, policies, and goals related to sustainable development.

Literature Review on The Role of the Board in Stakeholder Oversight

This section summarizes key points from the literature on the role of the Board in Oversight of Stakeholder Relations which are referenced in Appendix D.

The **Global Reporting Initiative**, mentioned above, provides a list of common categories of stakeholders including business partners, civil society organizations, consumers, customers, employees, governments, local communities, non-governmental organizations, shareholders and other investors, suppliers, trade unions and vulnerable groups.

As referenced earlier, the **Institute for Corporate Directors and TMX Group Limited** convened a "Committee on the Future of Corporate Governance in Canada" which published its report in December 2022. "Charting the Future of Canadian Governance: A Principled Approach to Navigating Rising Expectations for Boards of Directors" proposes a number of stakeholder oversight principles for boards:

- **Identification:** Determine whether management's investor relations activities take account of the composition and nature of the company's shareholders and ensure the activities focus on the shareholders fundamentally aligned with the company's long-term success. Determine whether management has a robust process to identify other relevant stakeholders and their material interests and engage regularly with them. (Emphasis added)
- **Management reporting:** Expect management to report on the frequency and nature of its engagements with shareholders and stakeholders and determine whether there is alignment between their expectations and actual performance.
- **Compensation:** Determine whether the company's compensation policies align with the way value creation is measured for both shareholders and other relevant stakeholders.
- **Performance measurement:** Determine whether the company's performance measurement systems and processes provide clarity on the drivers and outcomes of the company's performance in meeting the value creation expectations of its stakeholders.
- **CEO competencies:** Determine whether the CEO's competencies and character are suitable for the new world of multiple stakeholders and society's rising expectations of corporate responsibility.
- **Executive performance:** Determine whether the performance of the CEO and other senior leaders is aligned to meet the expectations of its relevant stakeholders.
- **Quality information:** Consider the appropriateness and quality of information that management uses to determine whether the company is achieving optimized outcomes for its stakeholders.
- **Public reporting:** Assess whether management is considering the evolving standards to monitor and report on value creation for all stakeholders.
- **Direct contact:** Continue to meet the obligation in the National Policy on Corporate Governance Guidelines adopted by Canada's provincial securities commissions for companies to "establish a process to permit stakeholders to directly contact the independent directors." This process could include a dedicated email address or some other way to contact the independent chair or lead director. Where appropriate, meetings could be arranged between directors and stakeholders with a mutually agreed-upon agenda, to ensure that the board is aware of any misalignment between stakeholders and management.

According to the Committee on the Future of Corporate Governance in Canada, every board should expect the CEO to:

- Drive a rigorous process to identify and engage with the corporation's shareholders and other key stakeholders.
- Achieve the outcomes relevant to stakeholders and in line with the company's strategy.
- Demonstrate the strategic acumen and agility necessary to create value that meets the expectations of its relevant stakeholders.
- Develop suitable performance measurement and reporting systems that provide high-quality information on the drivers and outcomes that are relevant to all its stakeholders.

The report also spells out a stakeholder oversight role for the board when approving the company's Environmental, Social and Governance (ESG) strategy, including ensuring management assesses whether its ESG outcomes meet stakeholder expectations. It goes on to state that boards need to ensure management creates value for stakeholders when it develops strategy, answering the question "What are we delivering to customers, to employees, to the communities where we operate and to society as a whole that is in line with our purpose and justifies our continued existence?".

The report points out that there is a debate on the nature of stakeholder value creation as set out below (note: chart developed by the author):

APPROACH	MANAGEMENT'S ROLE	BOARD'S ROLE
Zero-sum approach is needed to balance competing interests and make trade-offs	To adjudicate and recommend the transfer of value between stakeholders	To supervise and approve the value transfers between stakeholders
Win-win approach can create improvements that will benefit more than one party and create shared success	To understand the nature of the untapped opportunities and implement measures that benefit multiple stakeholders	To assess progress against the goal of shared stakeholder success

It concludes its discussion of stakeholder consideration in strategy and decision-making with this principle: the board should assess the appropriateness of trade-offs in corporate decisions with a view to satisfying both shareholders and relevant stakeholders to produce shared success.

Chartered Professional Accountants of Canada (CPA Canada) published a Director Briefing on Stakeholder Engagement laying out its views on the role of the board in oversight of stakeholder relations. It states that while stakeholder engagement is the responsibility of management, oversight of such engagement is the board's responsibility. It defines stakeholder engagement as taking active steps to establish constructive relationships with stakeholder groups in a deliberate way that is aligned to the organization's business and strategy.

The briefing starts with the premise that a director's fiduciary duty in Canada is owed to the corporation. In discharging their fiduciary duty to act honestly and in good faith with a view to the best interests of the corporation, directors are permitted to consider the organization's stakeholder interests and required to treat them fairly and equitably when addressing conflicting stakeholder interests.

Given the board's responsibility for overseeing management's stakeholder engagement program the CPA document suggests that the board should assign responsibility for overseeing the organization's stakeholder engagement process to a board committee. The corporate governance committee is likely best positioned for this role and can determine how to educate the other members of the board on stakeholder concerns.

Board members can be educated about stakeholder concerns in many ways including:

- Inviting management to present on the organization's stakeholder relations and engagement activities.
- Inviting subject-matter experts to speak at board meetings to enrich directors' understanding of business-critical stakeholder issues.
- Commissioning third-party reviews of stakeholder relations to gain an independent perspective.
- Satisfying itself that management has appropriately identified stakeholders with the greatest relevance to the business while focusing on those who can make the strongest contribution to its long-term success.
- Reflecting regularly with management on which stakeholder groups are being engaged and assessing whether the methods employed are effective.

The **Kaplan-Dey report** mentioned earlier also opines on the board's stakeholder engagement responsibilities. It cites as its reference, Section 122 (1.1) of the Canada Business Corporations Act that specifically lists shareholders, employees, retirees and pensioners, creditors, consumers, government, and the environment as stakeholders. According to Kaplan-Dey, a stakeholder is any actor or group that is associated with the creation (or destruction) of value by the firm. Stakeholders are central to corporate governance because stakeholders create enterprise risks as well as strategic opportunities for innovation, growth, and transformation. Stakeholder engagement is now an essential element of corporate board competencies. Effective boards will need to be expert in recognizing ways that their companies' interests could have adverse impacts on stakeholders and seek to resolve these tensions in creative and generative ways while also considering stakeholders as sources for innovation and transformation.

Kaplan-Dey say that the board should work with management to identify stakeholders that have a material impact on or could be impacted by the corporation's business over the long term and should review the reporting and disclosure about each stakeholder group. The board should assess the impact on the corporation's stakeholders of all initiatives requiring board approval. The board should also have mechanisms for engaging directly with key groups of stakeholders. For many boards, these functions will best be carried out by a proposed Stakeholder Committee which would function in a manner similar to the audit committee in its responsibility for overseeing the veracity of the reporting on stakeholder impact but would also have larger strategic responsibilities for responding to stakeholder interests.

In making decisions, the board should be able to conclude that the corporation's stakeholders have been fairly treated and that none of the stakeholders' interests have been unfairly disregarded. To reach this conclusion, the board may have to resolve competing interests amongst stakeholders, which should involve a process that fairly considers the interests of all of the stakeholders involved. Finally, the board skills matrix used to assess current and desired board member competencies should be updated to include knowledge about key stakeholder issues.

As mentioned under Purpose Governance, in 2022 GPC collaborated with Watson, a Canadian governance consultancy, to publish the 9th annual **Corporate Governance Best Practices Survey**. It revealed that "stakeholder relationships" is a board topic at 12% of participating organizations and stakeholder and / or rights holder[1] effectiveness is a board education topic at 19% of organizations. Nearly one-quarter of respondents (22%) indicated that their management performance evaluations include a role building effective stakeholder (and/or rights holders) relationships, up from zero in 2021. Two-thirds of respondents indicated that the CEO role profile is aligned to the organization's purpose, strategic direction, stakeholder and /or rights holders and values. Stakeholders are also found in the CEO succession plan with roughly two-thirds (67%) of respondents stating their CEO role profile is aligned to the organization's purpose, strategic direction, stakeholder and / or rights holder relationships and values.

[1] Rights holders refers to relationships with Indigenous peoples.

The **International Corporate Governance Network** (ICGN) mentioned earlier, maintains a set of Global Governance Principles (GGP) developed in consultation with ICGN members which include investors responsible for assets under management of over $59 trillion. Their 2021 guidelines recommend the following board roles with respect to stakeholders:

- Understand the perspectives of relevant stakeholders (including the workforce, customers, suppliers, and civil society more broadly) and disclose how their interests are taken into account to foster positive relations (new principle adopted in 2021).
- Engage with relevant stakeholders when appropriate including suppliers or customers to build awareness of any emerging issues.
- Create a diverse board to ensure effective, equitable and inclusive decision-making taking into consideration the interests of relevant stakeholders.
- Ensure the corporate culture supports positive stakeholder relations and engagement, supported by relevant metrics to identify strengths and weaknesses.
- Ensure there is a process for the identification of relevant stakeholders, establish a stakeholder engagement policy and an external communication mechanism for stakeholders.
- Develop remuneration structures through the use of metrics which take account of shareholder and relevant stakeholder interests.

The **Conference Board** based in the U.S. published a series of five reports on the roles of the board in the era of ESG and Stakeholder Capitalism in 2022. It based its advice on findings from discussions with and polls of a working group of over 240 executives from 137 companies, and additional surveys. It found that boards at over 60 percent of poll respondents didn't have a comprehensive process for evaluating the company's stakeholder relationships but discussed them on an ad hoc basis. A number of governance measures to close this gap were recommended. According to The Conference Board boards should:

- Receive an annual management report on how the company is addressing multiple stakeholders and more frequently have reports on stakeholder views on the company and its approach to relevant social and environmental topics
- Add questions to board self-evaluations on whether it has a good understanding of how to balance various stakeholder interests
- Be knowledgeable about how different stakeholder groups view the company, how the company is affecting stakeholders and how the company is balancing the needs of different stakeholders (the latter should include a discussion of the short- and long-term benefits, risks, and trade-offs in the company's approach)
- Take an inventory of its current approach to stakeholders and consider how to further integrate stakeholder views into its existing areas of responsibility and processes
- Develop a board decision-making framework that incorporates a multistakeholder focus
- Have directors engage directly with their firm's stakeholders to hear firsthand about their attitudes toward the company
- Ensure stakeholder relations are reflected in the board's processes for evaluating senior management's performance
- Bring in outside expertise to keep the board up to date on external views of the company
- Ensure the CEO is meeting with stakeholders and bringing those learnings back to the board
- Consider the company's relationships with every stakeholder group and ensure there's a constructive, two-way dialogue with each of them.

Farient Advisors is a leading independent, executive compensation, performance, and corporate governance consultancy. In 2021 one of their partners came out with a briefing on Board Oversight of Stakeholder Strategies. It suggested that as stakeholder prominence becomes commonplace, every company should consider two fundamental questions: (1) what is your company's stakeholder strategy and culture?, and (2) how do you measure and report on your strategic progress? They comment that appropriate board oversight will be essential in answering these questions as well as a powerful catalyst for change. They argue that roles and responsibilities for stakeholder strategy oversight should be clearly defined and delegated.

Focusing Capital on the Long-Term (FCLT) is a non-profit organization whose members are leading companies and investors worldwide that develops actionable research and tools to drive long-term value creation for savers and communities. **FCLT collaborated with the Wharton University of Pennsylvania** to determine if implementing a multi-stakeholder strategy generates a return. If it does, then boards of directors will have a fiduciary responsibility to ensure an effective stakeholder strategy is in place.

Analyzing the annual reports of over 3,000 global companies FCLT found that those with strong stakeholder language generated 4% higher returns, were more likely to invest in R&D, delivered higher sales growth and delivered more stable returns. According to the authors, future-fit, long-term companies need more durable performance to succeed – and that requires attention to a broader group of stakeholders.

The report concludes that using corporate purpose – the reason that a firm exists – as the reference point for deciding which stakeholder expectations matter to the corporation helps put a multi-stakeholder strategy into practice more consistently. Companies will have different stakeholders and varying stakeholder strategies because their purposes are different. Nevertheless, firms that connect their purpose to their key stakeholder responsibilities systematically across their organizations are better able to sustainably deliver long-term value – the goal of any corporation.

The **World Business Council for Sustainable Development** (WBCSD) published a report in 2021 exploring how leading approaches to stakeholder engagement, materiality and risk management can be brought together to support board-level decision-making. According to the WBCSD, directors can no longer focus all their attention on shareholders. They need a sophisticated understanding of a company's underlying business model that includes (1) its sense of purpose; (2) how the company creates value for each stakeholder; (3) how creating value for each stakeholder affects the value created for the others; (4) how the pursuit of purpose and stakeholder value affects important societal issues and how those issues affect purpose and stakeholder value creation; and (5) the company's strategies for those important societal issues.

As others assert, the WBCSD report states that legal opinion suggests effective stakeholder governance is an integral part of directors' fiduciary duties. There is also an expectation that board directors not only understand and engage with their key stakeholders, but that they consider the impacts and dependencies the company has on those stakeholders when making strategic decisions. WBCSD research shows that boards tend to be detached from how the business engages with stakeholders and often their engagement is filtered, one-directional and absent from decision-making. Interviews they conducted with directors reveal two different opinions about the role of the board in stakeholder engagement.

Differing opinions on stakeholder engagement role of board

MANAGEMENT RESPONSIBILITY	BOARD RESPONSIBILITY
The stakeholder engagement process should sit with management and functional teams, and the board should provide challenge, oversight, and direction.	To have a clear and well-informed overview of a business, board members need more direct contact with stakeholders and a presence in the stakeholder engagement process.

Whether or not they are directly involved, boards should ensure that stakeholder engagement supports business decision-making, drives transformation, and strengthens the business model. Boards can have oversight over the network of relationships that are developed to build resilience and drive value creation and long-term growth. As the business model depends on stakeholder relationships, the board needs to understand the importance of these relationships and emphasize them in the decision-making process.

If this is a business priority and the stakeholder groups are material to the business model, the board agenda should allow time for stakeholder discussions. Boards need to ask for information on stakeholder opinions and how this affects company strategy. These are some of the ways boards can gain more insight from stakeholders:

- Reports and presentations from management
- Stakeholder advisory panel
- Advice and presentations from external consultants
- Employee or workforce forum
- Identification of top stakeholders through stakeholder mapping
- Results of stakeholder consultation to understand their expectations and impacts

Future of Stakeholder Relationships

Thought leader research on the future of business in society conducted by the author in 2021 predicts the following trends in stakeholder relationships. These trends are likely to have a further impact on the role of the board in stakeholder oversight in years to come.

- Leaders recognize that stakeholders are key to their success and invest in, and place value in, enduring relationships; they become closer to their stakeholders to understand them better, aided by AI and access to real time information.
- They perceive the symbiotic nature of their relationships and invest in them so that both benefit, going beyond exploiting, or avoiding harmful impacts on, stakeholders; they source innovation from their stakeholder communities, and stakeholder critique becomes a driver of innovation
- Leaders from social purpose companies collaborate with stakeholders where their shared purpose aligns; eventually the lines between organizations become blurred as leaders build the business ecosystem to advance their purpose.
- Relationships with stakeholders will be redefined to be more egalitarian and reciprocal.
- Corporate governance will become more inclusive and collaborative.

Source: Future of Business in Society

The **2018 UK Corporate Governance Code** referenced earlier states that "to succeed in the long-term, directors and the companies they lead need to build and maintain successful relationships with a wide range of stakeholders. These relationships will be successful and enduring if they are based on respect, trust and mutual benefit. Accordingly, a company's culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders". It states that the board should understand the views of the company's key stakeholders and describe in the annual report how their interests have been considered in board discussions and decision-making. Finally, the Code states that the board should keep engagement mechanisms under review so that they remain effective.

The **PAS 808:2022 Purpose-driven organizations – Worldviews, principles and behaviours for delivering sustainability – Guide** provides advice to boards in fostering effective stakeholder relationships. It refers to the ecosystem of stakeholders around a business, including the business itself, as a "value network" and sets out the board's role in Principle 4: "The value network is understood, cared for, integrated with and aligned". It describes the value network as made up of all stakeholders that help the organization to achieve its purpose. The value network extends to others that the organization directly engages with, and further beyond that to those people, organizations and systems that contribute to the value the organization creates or otherwise influences. According to PAS 800, the following five stakeholder groups comprise the value network, playing different roles in enabling the purpose to be achieved:

1. ultimate beneficiary stakeholders: all people and planet over the longer-term, including future generations
2. primary beneficiary stakeholders: those whose wellbeing the purpose primarily serves
3. influential stakeholders: those it is legally bound to and those it chooses to account to
4. enabling stakeholders: those who the organization relies on to achieve the purpose
5. affected stakeholders: those who are affected by the decisions the organization makes, even if their effect on the organization is non-existent, unperceivable, or very limited

According to the PAS, collaborating with the value network is vital for achieving the purpose: "An organization should have chosen a purpose that is sufficiently ambitious and hence should be comfortable with the fact it cannot be solved by the organization alone. Therefore, it should recognize that deep, collaborative, and co-creative relationships with value network stakeholders are central to its success." Given the centrality of stakeholder relationships to purpose achievement and the different types of stakeholders within the value network, these are some of the board roles recommended in the Guide:

- Ensure the board has sufficient knowledge of the value network and the way that it supports, or constrains, purpose achievement.
- Ensure the board has sufficient knowledge of the ways in which the organization could materially have a negative impact on stakeholders in the value network.
- Recognize value network stakeholders for the contribution they make to the organization and its purpose.
- Ensure the wellbeing of value network stakeholders is not reduced to achieve the purpose.
- Formally recognize that the ability to achieve the purpose is reliant on the aligned support of those who form the value network, which is in turn reliant on relevant, deep and trusting relationships.
- Formally recognize that devising solutions to problems on their own often has a higher risk of failure and the probability of achieving the purpose is reduced, compared to solutions achieved through well-designed collaborations.
- Inform decisions about beneficial collaborations with other parties that can complement or enhance purpose achievement. Achieving the purpose will frequently require sharing ideas, strategy and resources with other parties based on their ability to help optimize purpose achievement.

- Assess the potential for alignment of each value network stakeholder and create strategic objectives to align this with optimally achieving the purpose – this should include taking in to account all aspects and levels of the network, e.g., objectives to advocate for change with stakeholders in the legal, political and sector contexts.
- Agree on a strategy to align the value network stakeholders with achieving the purpose.

The **World Economic Forum** report referenced earlier also includes stakeholder engagement as a board governance theme. They comment that as organizations shift to becoming more purpose-led, so too will the definition and understanding of long-term value. "The current shareholder-centric view of performance and value is already evolving into a more holistic understanding of an organization's impacts on a broad range of stakeholders. For this shift to have a real impact, the organization needs to understand how its stakeholders are more affected by its decisions and how this affects the business". They state that stakeholder engagement is important for guiding boards to prioritize long-term value and for holding company boards accountable. Boards need to have oversight over a robust process for identifying and selecting relevant stakeholders and for proactively soliciting their input. This engagement is vital to help frame effective, purpose-led strategy, to strengthen accountability for sustainable value creation and to advance trust in corporations.

The World Economic Forum in its report "Future of the Corporation: Moving from balance sheet to value sheet" lays out board responsibilities for stakeholder engagement. It, too, states that the first step is to identify which stakeholders are material for the company to succeed in its purpose and to identify in its strategy how it will engage with them, including whether this presents risks and/or opportunities for the company. Additional board considerations include:

- Ensure the strategy identifies the company's material stakeholders.
- Look at whether the strategy identifies its ecosystem and the key public, private and other partnerships required to deliver on the strategy.
- Identify if any voices within the stakeholder groups have members who are unheard.
- Once stakeholders are identified and integrated into key aspects of a company's strategy, the board needs to assess whether the governance framework in place is fit for delivering on the strategy.
- The board needs to decide where responsibility lies for ensuring delivery of the stakeholder aspects of the strategy.
- Ensure management provides information on the expected impact of board decisions on relevant stakeholders as well as the impact that stakeholders identified in the strategy have on the company and its operations.
- Consider whether the company has the right values and culture for taking stakeholders into account in decision-making.
- Consider appointing an influential subject-matter expert/external advisory board, comprising scientific experts and civil society representatives.

Colin Mayer, in his report on Governance of Corporate Purpose, argued that boards should have oversight of the measurement and incentive systems "that relate not just to inputs and outputs of the firm in a conventional sense but the outcomes and impacts that they have on those whom the company both affects and depends".

Larry Fink, writing to CEOs in 2022, shares his view that truly great companies have a clear sense of purpose, consistent values and fundamentally recognize the importance of engaging with and delivering for their key stakeholders. He calls this the foundation of stakeholder capitalism which is driven by mutually beneficial relationships between the company and the employees, customers, suppliers, and communities it relies on to prosper. He says:

> **"In today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders. It is through effective stakeholder capitalism that capital is efficiently allocated, companies achieve durable profitability, and value is created and sustained over the long-term."**

He argues that putting the company's purpose at the foundation of its relationships with its stakeholders is critical to long-term success and states his firm's belief that companies perform better when they are deliberate about their role in society and act in the interests of their employees, customers, communities, and shareholders.

He commented in his letter that there is much to learn about how a company's relationship with stakeholders impacts long-term value and he announced his plans to create a Center for Stakeholder Capitalism, to create a forum for research, dialogue, and debate: "It will help us to further explore the relationships between companies and their stakeholders and between stakeholder engagement and shareholder value. We will bring together leading CEOs, investors, policy experts, and academics to share their experience and deliver their insights."

Recognizing that there are often competing stakeholder interests Fink argues it is more important than ever that the company be guided by its purpose. By staying true to the company's purpose and focusing on the long term, companies will deliver durable returns for shareholders.

The **ISO 37000 Corporate Governance Guidance** also links organizational purpose to stakeholder value creation. It says: "The focus for all organizations should be to fulfil their organizational purpose by generating value over time. To achieve this, organizations need to generate value which represents something of worth to its stakeholders. The ultimate value an organization is trying to generate (articulated in the organizational purpose) can only be achieved through collaboration with stakeholders. Appropriate value needs to be generated for stakeholders so that they are willing, and able, to support the organization in fulfilling its organizational purpose over time. The value stakeholders expect can take different forms and can impact the natural environment and society, as well as the stakeholders themselves. The governing body's function in this value generation includes stewardship – to ensure the organization not only creates but also protects value over time."

The guidelines define stakeholders as a person or organization that can affect, be affected by, or perceive itself to be affected by a decision or activity. While not defined as stakeholders, the natural environment and society should also be considered by the board in its decision-making because they affect or will be affected by the organization's activities.

It sets as a principle that the board should ensure that the organization's stakeholders are appropriately engaged, and their expectations considered. It suggests organizations should have sound, effective and mutually beneficial stakeholder relationships. These are some of the key aspects of practice for boards:

- Ensure that the organization's stakeholders are identified, prioritized, appropriately engaged, consulted and their expectations understood.
- Ensure that relevant stakeholders are engaged in achieving the organizational purpose via the organizational strategy.
- When setting and guiding the organizational strategy ensure that the quality and nature of stakeholder relationships and effectiveness of stakeholder engagement is taken into account, along with the organization's impact on stakeholders.
- Ensure the organizational culture is responsive to relevant stakeholders' views.
- Ensure collaborative relationships with relevant stakeholders are maintained.

Thought leaders in the 2022 ESG Conference hosted by **Governance Professionals of Canada** (GPC) recommended that boards should prompt management to take an industry view in addressing ESG risks and opportunities, such as climate change. Boards should encourage management to report to them on their efforts to drive broader change in industry discussions. They should look to management to take an industry and collective view and lead and participate in broad ESG collaborations. Boards should ensure these conversations are on the board agenda. By collaborating with industry stakeholders, organizations would get a bigger return on their ESG investments and expenditures. Thus, the board's compensation committee should ensure incentives reward industry-wide behaviour. Positive impacts generated by the industry are more significant than the impacts of an individual company working on its own. Boards need to take an industry view themselves and broaden their oversight to include how the company is approaching stakeholder collaboration to address systemic ESG issues.

GPC's 2020 purpose governance report referenced earlier highlights that the growth of purpose-driven companies drives social impact, and as the company grows and prospers its stakeholders and society prosper as well. The report also argued, as others have, for boards to set up stakeholder and expert advisory boards to bring new ideas and perspectives on how the company can execute on its purpose, helping to identify and address blind spots. Such a committee could help ensure that boards have ongoing external insights into the evolving societal landscape.

For an example of one company's approach to board oversight of stakeholder engagement, see Appendix C. Airbnb's board has created a stakeholder committee and is advancing its oversight of the company's stakeholder relationships.

WHAT TO DO WITH YOUR PURPOSE?

This research points to different actions once the purpose is adopted. They include:

- Enact the purpose
- Pursue the purpose
- Fulfill the purpose
- Embed the purpose
- Implement the purpose
- Achieve the purpose
- Execute the purpose
- Deliver the purpose

Other actions in practice include:

- Realize the purpose
- Advance the purpose
- Integrate the purpose
- Align with the purpose
- Further the purpose
- Reflect the purpose

There are many references as well to integrating the purpose: e.g., integrate the purpose in products, in stakeholder relationships, in roles and responsibilities, in decision-making, in culture and behaviour, in brands, in strategy and in internal practices.

Companies that have a purpose are urged to variously use the purpose to define priorities, develop actions to pursue the purpose, measure impact of the purpose, link the strategy to the purpose, align the strategy to the purpose, translate purpose into operations.

This diversity reflects the emergence of purpose in organizational governance.

Findings

The paper's research question is: "What is the role of the board in providing oversight of the company's purpose and stakeholder relationships?". The following is a summary of the key roles and responsibilities for the board identified in the literature review in these two emerging practice areas.

1) The role of the board in purpose oversight

There is evidence that governance professionals, academics, investors, professional services firms and governance and standards institutions agree the board has an important role to play in the establishment of the company's purpose, values, and strategy, and satisfying itself that these and its culture are aligned (UK Financial Reporting Council 2018 and British Academy 2021). There is alignment that boards should know:

- What is our purpose?
- How is this supported by our values and mission?
- What vision of the future does this connect to?
- What specific stakeholder benefits follow? (Enacting Purpose Initiative 2020)

There is a consistent view that boards should approve a strategy that is expected to achieve the company's purpose, consider the nature of the information that management uses to determine whether the company is achieving its purpose, and ensure the CEO demonstrates the strategic acumen and agility necessary to achieve the company's purpose (Institute for Corporate Directors and TMX Group 2022). Boards are expected to have a comprehensive understanding of the company's purpose and business model, and its appointments should be aligned with the company's purpose (ICGN 2021).

They agree that the board should ensure the company's incentives and remuneration are aligned to the company's purpose and that the board should encourage embedded ownership of purpose throughout its organization (British Academy 2021). Boards should make decisions that consistently prioritize achievement of the purpose, and devise and implement an oversight system that achieves the purpose (British Standards Institute 2022).

There is also agreement that boards should ensure the company reports to shareholders and stakeholders on the resourcing, measurement, and performance of its activities against a strategy that advances the company's purpose. This stems from a recognition that the board is accountable to the company's shareholders, workforce and other stakeholders involved in the pursuit of its purpose (British Academy 2021).

It was noted that mechanisms already exist within corporate governance frameworks to enable effective pursuit of the purpose and that in the Canadian context directors would be expected to consider the company's purpose when determining its best interests as part of their fiduciary responsibility.

A number of specific roles and responsibilities were identified in the literature including:

1 Strategy and Culture

2 Performance Management

3 Monitoring and Reporting

4 Governance Protocols

They are listed in Appendix A and phrased as twenty questions for directors to ask.

The purpose agenda for boards is becoming clear as this summary reveals. There is considerable alignment on its main principles.

2) The role of the board in stakeholder relations oversight

As with purpose governance, there is evidence that governance professionals, academics, investors, professional services firms and governance and standards institutions agree the board has an important role to play in providing oversight of a company's relationships with stakeholders.

It is widely recognized that stakeholder engagement is management's responsibility, but that the board of directors has responsibility for engagement oversight. (CPA Canada 2018). Specifically, this engagement oversight pertains to oversight of the company's stakeholder strategy, culture, and measurement and reporting on strategic progress (Farient Advisors). There is a view that effective boards need to be expert in recognizing ways that their companies' interests could have adverse impacts on stakeholders and seek to resolve these tensions in creative and generative ways while also considering stakeholders as sources for innovation and transformation. This suggests that stakeholder engagement will become an essential element of board competencies (Kaplan-Dey 2021).

Boards also need to confirm management has robust processes for identifying relevant stakeholders and their material interests, that management reports to the board on its stakeholder engagements, and that the company's compensation policies and performance measurements build in a stakeholder component. The board should also ensure the CEO has stakeholder competencies, including the strategic acumen and agility to create stakeholder value. (ICD and TMX Group 2022). Not only should the board understand the perspectives of key stakeholders, but it should ensure the corporate culture supports positive stakeholder relations and engagement, supported by metrics to identify strengths and weakness (ICGN 2021).

These relationships are being described as a network or value network of relationships that are developed to build resilience, drive value creation and long-term growth and fulfill the purpose. As the business model depends on stakeholder relationships, the board needs to understand the importance of these relationships and emphasize them in the decision-making process (WBCSD 2021).

There are different views about whether the board should have direct contact with stakeholders. It is agreed that management speaks on behalf of the company, however from time to time the chair or other directors may engage with the company's stakeholders. Typically, this would be coordinated through management.

Using corporate purpose – the reason a firm exists – as the reference point for deciding which stakeholder expectations matter to the corporation puts a multi-stakeholder strategy into practice more consistently and is a widely supported practice. There is a general belief that firms that connect their purpose to their key stakeholder responsibilities systematically across their organizations are better able to sustainably deliver long-term value (FCLT 2022).

A number of specific responsibilities were identified in the literature including:

1. Purpose and Strategy
2. Stakeholder Engagement
3. Culture and Decisions
4. Governance Protocols
5. Monitoring and Reporting
6. Knowledge and Education

They are listed in Appendix A and phrased as thirty questions for directors to ask.

There is growing consensus that firms should create stakeholder value in addition to shareholder value. Going forward more boards will need to build their competency and oversight in this area to fulfill their responsibilities.

Conclusion

The future boardroom has arrived. It is more diverse, more purposeful and more stakeholder centric. However, what is lacking is a robust set of measures boards and those who advise them can follow to steward their organization on this purpose and stakeholder journey. This report set out to bridge this gap in answering the question: “What is the role of the board in providing oversight of the company’s purpose and stakeholder relationships?”.

By embedding purpose and stakeholder oversight into their conventional oversight roles, boards can position their organizations for success in a turbulent world – without adding to their governance burden. Integrating purpose and stakeholder considerations in strategy, culture, performance management, monitoring, reporting, board education, and governance protocols can equip boards and their organizations for the times ahead.

Appendix A

Board Purpose and Stakeholder Oversight

Corporate governance continues to evolve driven by high-performing boards, new standards, and evolving stakeholder expectations. Purpose and Stakeholder Governance are two board mandates undergoing changes. Leading boards ensure they have best practices in these areas to position their organizations for future success. The following two charts set out the main responsibilities for boards in their oversight of organizational purpose and stakeholder relationships. They are informed by a 2022 literature review of these topics, interviews of practitioners with expertise in the purpose and stakeholder roles of the board, and a scan of governance practices at Maple Leaf Foods, Unilever, Rio Tinto, and BC Lottery Corporation.

Boards and management can use these questions to determine the current state of purpose and stakeholder governance and flag and address shortcomings. Governance professionals can use them to create a purpose and stakeholder governance roadmap.

"These are definitely the right questions. Boards will find it useful to consider them."

Sarah Kaplan, co-author, "360º Governance: Where Are The Directors In A World In Crisis?"

"These purpose and stakeholder governance guidelines are a valuable framework for boards and their advisors to help their organizations become purpose-led and future-fit."

Gary Wade, CEO, Unilever Canada

"I was attracted to work at Maple Leaf Foods because of the strong commitment to purpose. Our purpose is grounded in our vision, mission, and values, and is brought to life through our people and how we make decisions. Being a purpose driving organization is dynamic and having a resource like this to turn to for reference and best practices, is a valuable tool for boards and management teams."

Suzanne Hathaway, Senior Vice President, General Counsel, Communications and Corporate Secretary, Maple Leaf Foods

"As an experienced governance practitioner, I am all about the "how" of corporate governance. These purpose and stakeholder governance guidelines provide a practical roadmap for boards and their advisors to meet current and evolving regulatory requirements, while also enhancing their organization's resilience and capacity to adapt to the rapid pace of change in the macroenvironment."

Christine Carter, Corporate Secretary and Director of Governance, BC Lottery Corporation

Board Purpose Oversight Responsibilities

These are the four main oversight responsibilities for boards in stewarding successful execution of the company's purpose. They are framed as questions directors could ask the board or management.

Directors can use this as a resource to frame their engagement on this topic. Boards and governance professionals can use these questions as a checklist of best practices to identify strengths and gaps in purpose oversight. This information can be used to create a Purpose Governance Roadmap.

1 Strategy and Culture

- Is the purpose central to the company's governance? Is the purpose still relevant or does it need to be updated?
- Are the purpose and vision the overarching framework within which strategy is formulated, does the company's vision describe the outcome that the organization wants to see from the successful realization of its purpose and does the corporate strategy have clear and measurable goals, actions, and accountability for pursuit of the purpose?
- Do the corporate mission, values, and brand promise reflect the purpose and does the organizational culture reinforce the purpose?
- Do the corporate structure and business model help fulfill the purpose?
- Are capital and resources appropriately allocated to purpose realization as set out in the strategy, and does the company's Enterprise Risk Management program consider risks to or from the company's purpose distinct from the strategy?

2 Performance Management

- Do the CEO's performance goals and objectives, incentive compensation, and role profile appropriately reflect the CEO's role in helping fulfill the purpose?
- Does the CEO demonstrate the strategic acumen and agility necessary to realize the company's purpose?
- Is executive remuneration at least in part dependent on achievement of the company's purpose-related goals?
- Are executives evaluated on their understanding of, adherence to, and promotion of purpose?
- Is purpose competency included as a key criterion in succession planning and leadership development?

3 Monitoring and Reporting

- Is progress on the purpose monitored through regular reports to the board? Do we, as board members, demonstrate vigilance in monitoring management decisions that could undermine the purpose?
- Have risk management and internal audit been engaged in assessing internal purpose alignment; where the board is not satisfied that policy, practices, or behaviours are aligned with the company's purpose, is an assurance process in place to confirm that corrective action has been taken?
- Is a system in place to identify new ideas on how the company can realize its purpose, as well as identify and address blind spots, such as an external stakeholder and expert advisory panel or employee idea box?
- Does the company disclose its purpose and report publicly on how the purpose is embedded within strategy, risk, performance and culture and does the board review public disclosures on progress against the purpose as set out in the corporate strategy, including goals, targets, plans and metrics?
- Has external assurance been undertaken to validate that the purpose has been effectively embedded and that its purpose disclosures are accurate?

4 Governance Protocols

- Do governance documents set out the board's purpose oversight role, e.g., within board and committee charters; has responsibility for purpose oversight been delegated to a board committee with members who have the passion, knowledge, and aptitude for stewarding the topic?
- Is purpose included in the board evaluation, e.g., does the board have a clear understanding of how executive leadership instils the purpose in day-to-day operations?
- Is purpose competency included as a factor in the board recruitment and onboarding process?
- Is purpose included in regular board discussions and does the board set the purpose "tone at the top"?
- Has the board adopted a purpose decision lens, e.g., inclusion in the board memo template, to ensure purpose is considered in board decisions; is purpose used to test decisions and trade-offs in strategy, investments, risk and performance management, HR, and culture, etc.?

Creating a Purpose-Driven Culture

To steward a purpose-driven culture, boards ensure the company's purpose is reflected in the CEO's position description and performance objectives and corporate values.

Here are examples of companies with these practices. They are taken from "The Social Purpose Transition Pathway: Helping Companies Move from Say to Do" published by Corporate Knights, a Canadian media and research company. It rated 34 Canadian companies on their social purpose governance and implementation and profiled a number of their best practices.

VALUES **Best practice companies ensure at least one or more of their corporate values have an explicit tie to the purpose because they are seeking to embed their purpose in their culture.**

Examples: BMO and Coast Capital Savings

These companies have corporate values that explicitly link to their stated social purpose "to boldly grow the good in business and life" in the case of BMO and "to build better futures together" in the case of Coast Capital Savings.

BMO

BMO has four corporate values, including integrity, empathy, diversity, and responsibility. Their responsibility value, "Responsibility: Make tomorrow better" has a direct tie to their social purpose.

Coast Capital Savings

All three of Coast Capital's corporate values connect to their social purpose:

"We Build Connection: We believe in connecting with people and partners on a deeper level to rise to our full potential. We nurture our relationships, connecting with kindness and humility. We empower people to be who they are and ask what actions we can take to be more inclusive. Moments of celebration matter here as we drive forward as one team toward our purpose.

We Act with Courage: We know doing the right thing isn't always easy, but we make it happen. We understand that the success of Coast, our members and our communities are connected and have the drive and spirit to overcome any hurdle in pursuit of our purpose. We value authenticity, regularly challenge assumptions, including our own. Here, obstacles are opportunities to rise to our best.

We Re-Imagine: We believe in curiosity and asking "what if" to imagine a better future for everyone. In a rapidly changing world, people need better, bolder solutions to overcome today's financial and social challenges. We embrace diversity to drive smarter decision and make the complex simple. We see the status quo as standing still and we're compelled by our purpose to move, turning ideas into real impact."

CEO ROLE **Best practice companies disclose their purpose performance against purpose goals, targets and metrics in their main disclosures, enabling stakeholders to assess their progress.**

Examples: BC Lottery Corporation (BCLC) and HSBC

BCLC and HSBC make specific reference to the CEO's role in purpose execution, creating clear purpose responsibilities for the CEO "to generate win-wins for the greater good" in the case of BCLC and "opening up a world of opportunity" in the case of HSBC.

BCLC

> "Reporting to the BCLC Board of Directors, the President and Chief Executive Officer (CEO) leads the Executive team, executes the corporate strategy, supports BCLC's operations, enacts our social purpose, and implements decisions of the Board of Directors."

HSBC

> "The Group Chief Executive is responsible for directing the Group's resources towards the fulfilment of HSBC's purpose and strategy in adherence to all relevant laws, regulations and standards."

CEO PERFORMANCE OBJECTIVES **Best practice companies include clear purpose deliverables within the CEO's annual performance objectives, against which they are evaluated on an annual basis. This is a main route by which a board can ensure that the CEO is implementing priority purpose goals.**

Example: Co-operators

In 2021, the CEO goals that support Co-operators' social purpose were: "(1) realigning our organization's investments and operations to a net-zero world which reduces society's systemic risk from climate change, and (2) expansion of sustainable and impact investing opportunities, which will enable the transition to a society that is financially secure in the long-term." Co-operators' purpose is "to strengthen the financial security of Canadians and their communities."

Board Stakeholder Oversight Responsibilities

There are six main oversight responsibilities for boards to ensure effective stakeholder relationships and foster stakeholder value creation. They are framed as questions directors could ask the board or management.

Directors can use this as a resource to frame their engagement on this topic. Boards and governance professionals can use these questions as a checklist of best practices to identify strengths and gaps in stakeholder oversight. This information can be used to create a Stakeholder Governance Roadmap.

1 Purpose and Strategy

- Has the company identified its ecosystem (or network) of stakeholders and partnerships necessary to fulfill its purpose, and incorporated related actions in its corporate strategy?
- Have key stakeholders been consulted and engaged in determining the company's strategic priorities and in providing input into the company's purpose and vision?
- How does the corporate strategy create value for stakeholders and how is this measured?
- What are the positive and negative impacts of the corporate strategy on stakeholders and how are they addressed? Are there key issues and areas where stakeholders are not in agreement or in conflict with each other or with the company? Have the stakeholders agreed to a fair and open process to resolve these issues?
- Do the CEO and Executive performance objectives include stakeholder goals?

2 Stakeholder Engagement

- Does the company have a board-approved stakeholder policy and has management set an appropriate stakeholder strategy including goals, targets, plans, metrics, process, and program?
- Does the stakeholder strategy support business-decision-making, drive innovation and transformation (both inside and outside of the organization) and strengthen the business model?
- What is the process for identifying and prioritizing stakeholders and for proactively soliciting their input? Are there voices within stakeholder groups that are unheard? Are there effective engagement mechanisms in place to raise those voices?
- What is the quality and nature of key stakeholder relationships and how might they uniquely contribute to the achievement of the corporation's stakeholder goals?
- Does the company have sound, appropriate, co-creative and mutually beneficial stakeholder relationships and is the company seeking to mobilize its stakeholders around its purpose?

3 Culture and Decisions

- Does the corporate culture support positive stakeholder relations and engagement, and ensure stakeholders are considered in decision-making?
- Does the CEO have the competencies, character, strategic acumen, and agility to create value that meets the expectations of relevant stakeholders? Is the ability to engage stakeholders effectively a key factor in the CEO succession plan and included in the CEO's role profile?
- Is progress on the stakeholder strategy (i.e., goals, targets, plans and metrics) a factor in the incentive program?
- Do board and management consider the impacts and dependencies the company has on stakeholders when making strategic decisions and are stakeholders a factor in risk models?
- Does the board have sufficient information to ensure that the corporation's stakeholders have been fairly treated and that none of the stakeholders' interests have been unfairly disregarded?

4 Governance Protocols

- Does the board charter include a responsibility to consider the interests of, and ensure the company is creating value for, stakeholders?
- Is there a committee with responsibility for overseeing the organization's stakeholder policy, strategy and engagement processes?
- Does the board skills matrix, used to assess current and desired board member competencies, include knowledge of key stakeholder issues, and does the board's self-assessment evaluate the board's stakeholder knowledge and understanding?
- Does the board have a process in place to receive unfiltered information from stakeholders? Is there a dedicated email address or some other way to contact the board? Does the board have access to external insights into the evolving societal landscape from an expert advisory panel?
- Are effective mechanisms in place for directors to engage directly with key groups of stakeholders?

5 Monitoring and Reporting

- Is progress on the stakeholder strategy, (i.e., goals, targets, plans, and metrics) monitored through regular reports to the board and does management have systems and processes in place to manage and report on stakeholder value creation?
- Does the annual report describe how stakeholder interests were considered in corporate decision-making, and include progress on the stakeholder strategy?
- Does the board review stakeholder-related disclosures?
- Does the board commission third-party reviews of stakeholder relations to gain an independent perspective?
- Are stakeholders recognized for the contribution they make to the company and its purpose?

6 Knowledge and Education

- Does the board understand how the company creates value for each key stakeholder in furtherance of its purpose and does it have sufficient knowledge of stakeholders to inform its decisions?
- Does the board understand how stakeholders support or constrain fulfillment of the purpose?
- Does the board understand the ways in which the organization could materially have a negative impact on stakeholders and how those negative impacts are being addressed?
- Does the board receive education on best practices in stakeholder engagement and on stakeholder concerns and have opportunities to gain more insight from stakeholders?
- Do subject-matter experts and stakeholder groups attend any board meetings to enrich directors' understanding of business-critical stakeholder issues?

Appendix B

Sample Purpose and Stakeholder Governance Mandates for Board Committees

The following is sample text companies can use and tailor when amending the terms of reference of their board committees to reflect either purpose or stakeholder governance roles.

Governance Committee

Purpose:

Responsible for ensuring purpose is authentically embedded across the company's operations and relationships.

Stakeholder relations:

Responsible for providing oversight of the company's approach to its stakeholder relationships and stakeholder value creation and evaluating the board's knowledge and consideration of stakeholder interests.

Risk Committee

Purpose:

Responsible for ensuring the company's risk management framework incorporates purpose into its decision-making processes and clearly articulates the company's risk appetite and tolerance limits regarding purpose.

Stakeholder relations:

Responsible for ensuring that the company's risk management framework considers the risks and opportunities of the company's stakeholder relations.

Audit Committee

Purpose:

Responsible for ensuring the company has a robust and effective assurance program in place that provides valuable and relevant information to support the execution of the company's purpose.

Responsible for ensuring the company's purpose disclosures are accurate.

Stakeholder relations:

Responsible for receiving independent assurance that the company is in compliance with the stakeholder policy, goals and targets in effect.

Responsible for ensuring the company's stakeholder disclosures are accurate.

People Committee

Purpose:

Responsible for ensuring that the CEO's role profile includes purpose responsibilities and competencies.

Responsible for ensuring that the company has appropriately incorporated purpose into its people strategy, policies, and processes.

Stakeholder relations:

Responsible for ensuring that the CEO's role profile includes stakeholder responsibilities and competencies.

Responsible for ensuring that the company has the culture and competencies to meet its stakeholder responsibilities and that stakeholder objectives are built into executive performance expectations.

Appendix C

Airbnb Case Study of Board Stakeholder Engagement

This is a unique example of how one well-known company is approaching board stakeholder engagement.

Airbnb is designed with our five stakeholders in mind: guests, Hosts, the communities that we operate in, employees, and shareholders. We are committed to managing our business with the goal of considering the interests of our stakeholders for the long-term benefit of the company, as set out in our corporate charter. Our Board of Directors' Corporate Governance Guidelines set out the Board's responsibility to consider the interests of our stakeholders and to ensure that our business is conducted for the long-term benefit of the company. Our Board's Stakeholder Committee meets regularly, and works with Airbnb executive leadership, to assist the Board with its consideration and monitoring of the interests of our stakeholders.

RESPONSIBILITY TO OUR STAKEHOLDERS

Airbnb has always existed as a balance between our five stakeholders—our Hosts, our guests, the communities in which we operate, our employees, and our shareholders. In 2018, we set out to institutionalize our responsibility by defining a series of principles to serve each of our stakeholders and measuring our progress for serving each of them. We believe that in the long run, and when approached with creativity, we can design a win-win for all of our stakeholders. Our responsibility to our stakeholders will continue to guide how we operate because their collective success is key for our business to thrive.

These are the ideas at the core of Airbnb:

- Our community is based on connection and belonging.
- Our creativity allows us to imagine new possibilities for people.
- Our responsibility is to all of our stakeholders.

In 2018 we publicly declared something we had felt for a long time—that we aspire for Airbnb to be among the first of the true 21st-century companies, one that benefits all our stakeholders over the long term. We believe that building an enduringly successful business goes hand-in-hand with making a positive contribution to society. Increasingly, that is what citizens, consumers, employees, communities, and policy-makers desire—even demand. Serving all stakeholders is the best way to build a highly valuable business and it's the right thing to do for society.

We see the making of a company that serves all stakeholders as a design challenge. Every design challenge has a brief. These are the core elements of our brief and the roadmap for our work:

1 Identify our stakeholders.

2 Establish principles and metrics for serving our stakeholders.

3 Update our corporate governance and compensation.

4 Report on our progress.

5 Share our success.

Our stakeholders and stakeholder principles include:

Guests

- We prioritize the safety of our community.
- We make guests feel like they belong.
- We enable the creation of billions of personal connections.

Hosts

- We treat our hosts as partners.
- We enable the creation of millions of entrepreneurs.

Communities

- We strengthen the communities we serve.
- We diversify the types of communities guests visit.
- We set a new standard for sustainable travel.

Shareholders

- We will build a highly valuable business.
- We will make long-term strategic decisions.

Employees

- We champion diversity and belonging.
- We live our Core Values every day.
- We enable long-term growth and career opportunities.

These principles inspire behaviors that lead to thinking not just about near-term actions but longer-term horizons. They encourage us to think about all our stakeholders and instill accountability. And they summon our creativity.

UPDATE OUR CORPORATE GOVERNANCE AND COMPENSATION

We will be establishing an official Stakeholder Committee on Airbnb's Board of Directors. This Committee will be responsible for advising our Board regarding our multi-stakeholder approach and the impact of our company on our stakeholders, the steps to institutionalize this approach into our company's governance, and the application of our corporate governance principles to shape the future of our company.

We are linking our adherence to our principles to goal setting and employee compensation. Specifically, our principles and metrics are integrated into the company goal-setting process and are a central component of our company bonus program for all employees. Several metrics will be considered when we award bonuses to our Employees, including but not limited to progress on our stakeholder principles, such as our progress on guest safety.

Airbnb's list of Director Responsibilities includes a provision that directors consider the interests of the company's stockholders and other stakeholders, including hosts, guests, communities, and employees. The guidelines specify that as a general matter, the Company's policy is that management speaks on behalf of the Company. However, it is expected that the Stakeholder Committee, and the Independent Directors, including the Chair of the Board may from time to time meet or otherwise communicate with the Company's stakeholders and external constituents. It is expected that those meetings or communications will be coordinated through management.

The Charter of the Stakeholder Committee includes:

- Engaging with Company management regarding the Company's key stakeholders, as identified in the Stakeholder Principles;
- Reviewing the Company's progress with respect to the Stakeholder Principles, including periodic review of the Company's performance against the Stakeholder Metrics;
- Advising Company management and the Board, as requested, regarding initiatives or matters pertaining to key stakeholders;
- Reviewing the Stakeholder Principles and recommending to the Board any changes thereto that the Committee deems appropriate;
- Reviewing the Stakeholder Metrics and providing guidance to Company management regarding any changes thereto that the Committee deems appropriate;
- Engaging with key stakeholders from time to time, as determined appropriate by the Committee, and in consultation with management.

REPORT ON OUR PROGRESS

We intend to share what we're doing so we can assess our progress, adjust our course, and help others do the same. To do that, we will host a Stakeholder Day where we report on our progress, share new company updates, and offer programming designed for all of our stakeholders.

SHARE OUR SUCCESS

We clearly see that the benefits of Airbnb should be shared with all our stakeholders. One step toward achieving this goal is the creation of a new program that will offer $100 million to local initiatives around the world over the next 10 years.

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Appendix D

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About the Author

Coro Strandberg is the President of Strandberg Consulting and the Chair of the Canadian Purpose Economy Project. She is a nationally recognized leader in corporate sustainability, social purpose and ESG (environment, social and governance) and social purpose governance. Coro is a sought-after speaker and advisor to boards and executive teams on these topics. She is a faculty member for Director's College and Governance Professionals of Canada where she trains Directors and Governance Professionals on ESG, Sustainability and Purpose Governance. She has over 20 years of corporate governance experience and is currently on the board of British Columbia Lottery Corporation. Coro publishes her research and thought leadership on her website at www.corostrandberg.com

About the Canadian Purpose Economy Project

The Canadian Purpose Economy Project exists to accelerate the transition to the purpose economy. It engages national ecosystem actors to create an enabling environment for social purpose businesses to start, transition, thrive and grow. It convenes, connects, curates, and collaborates to drive the social purpose business movement in Canada toward an economy where social purpose business is the norm, attracting capital, talent, and partners. In this economy businesses unlock all their assets, influence, reach and scale in collaboration with others to help Canada address its societal challenges and realize a flourishing future. Register for updates here www.purposeeconomy.ca

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