CANADIAN PURPOSE ECONOMY PROJECT

Enhancing risk management practices: **A how-to guide for social purpose companies**

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Introduction

Social purpose companies need to update their risk models and policies to address specific risks emanating from their social purpose. This is a short guide for risk managers, chief risk officers and others responsible for Enterprise Risk Management (ERM) at social purpose companies that are enhancing their risk management practices to include their social purpose (purpose) in their overall risk profile.

Definition of a Social Purpose Company

A social purpose company is a business that exists to profitably solve the problems of people and the planet without profiting from creating problems[1]. It is a business whose enduring reason for being is to create a better world[2], and whose reason to exist is to achieve an optimal strategic contribution to the long-term well-being of all people and the planet[3].

Enhancing Risk Management Practices in Social Purpose Companies

Enhancing risk management practices in social purpose companies is the process of identifying and managing the risks that social purpose companies face in pursuing and achieving their purpose.

Conventional risk management involves identifying and managing risks to the company and achieving its corporate strategy. After adopting a social purpose and setting out the reason a company exists, the company needs to also understand the risks to its purpose. The purpose gives direction to the corporate strategy, and the corporate strategy executes on the purpose. Thus, not only are there risks to realizing the strategy, but now there are risks to realizing the purpose and risks of not making progress on the purpose. (Note: the purpose is a statement of why the company exists, the vision is where the company is headed in fulfilment of its purpose and the mission is a description of what the company does to pursue its purpose.)

In addition to risks to the purpose, there are also potential risks arising from the purpose.

Once these purpose risks are understood, mitigating measures can be identified – giving greater confidence that the purpose will be achieved over time and that the associated commercial and societal benefits will be realized.

In addition, during the risk identification phase, a purpose lens should be applied to identify conventional corporate risks and determine risk mitigation strategies.

The process of enhancing risk management practices in social purpose companies differs from environmental, social and governance (ESG) risk management. Unlike ESG risk management, which focuses on environmental, social and governance factors affecting financial and operational performance, purpose risk management specifically targets risks that could impede the company's core purpose.

Risks of not having a social purpose

While not the focus of this guide, there are also risks of not having a social purpose. Companies that have not updated their purpose, vision and values to show how they are contributing to society face another set of risks than those set out in this paper.

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[1] The British Academy: Future of the Corporation | The British Academy
[2] Canadian Purpose Economy Project: About Us – The Canadian Purpose Economy Project
[3] The British Standards Institute: PAS 808:2022 Purpose-driven organizations for Delivering Sustainability | BSI (bsigroup.com)

Five Steps to Enhancing Risk Management Practices in Social Purpose Companies

Below are five steps that may be taken to manage material social purpose risks and opportunities. These steps have been adapted from conventional risk management approaches. They should be incorporated into the company's ERM program.

1. Risk Identification

Conduct external scans to identify significant factors, trends and events that could impair the progress of the purpose or that could arise from pursuing the purpose.

Include a thorough review of regulatory compliance and upcoming legislative changes as part of the external scan process. Staying abreast of the regulatory environment is vital for anticipating risks related to compliance and ensuring that purpose risk management strategies are both proactive and resilient.

Consult internal and external stakeholders to identify material risks or opportunities that could affect the achievement of the purpose or that could be created as a result of pursuing the purpose.

Ensure stakeholder diversity and inclusion in the consultation process. Engaging a broad range of stakeholders from various backgrounds and perspectives enriches the risk identification process and contributes to more inclusive and effective purpose risk management. This could include stakeholders uniquely relevant to purpose organizations, such as those the company is collaborating with or mobilizing on its purpose, beneficiaries of the company's purpose impact, and third parties that might regulate the company or impact its reputation.

Utilize data analytics tools to gain deeper insights into risks and opportunities related to the company's purpose, enabling more informed decision-making.

Engage with stakeholders through digital platforms to facilitate broader and more inclusive conversations about the company's purpose and associated risks.

2. Risk Assessment

Rate the impact and likelihood of the purpose risks and opportunities, and rate the perceived effectiveness of existing controls to mitigate the risk.

Prioritize those with the greatest likelihood and/or impact, or those with the least effective risk controls.

When setting the organization's risk appetite and tolerances, determine the level of risk the organization is willing to take on to advance its purpose.

3. Risk Controls/Risk Treatment and Optimization

Identify measures to mitigate the top purpose risks and optimize the top purpose opportunities.

Include mitigation (or optimization in case of opportunities) measures in corporate strategy.

Explore innovative solutions to address identified risks, such as developing new business models or products that align with the purpose while mitigating relevant risks.

Ensure the corporate crisis management plan addresses potential threats to achieving the purpose. The plan should outline specific actions, communication strategies and backup measures to safeguard the organization's commitment to its purpose in times of crisis.

4. Risk Monitoring

Establish and monitor Key Risk Indicators (KRIs) and any opportunities relating to achieving the purpose or arising from the pursuit of the purpose.

Communicate risk assessment results to internal audit and risk management teams to ensure proactive oversight and strategic alignment with the organization's purpose.

Conduct comprehensive purpose risk assessments at least biannually and after any significant changes in the external environment or internal operations and strategy.

5. Risk Reporting

Report internally to the board and management and externally to stakeholders on the status of the significant risks or opportunities relating to achieving the purpose or arising from the pursuit of the purpose.

Instructions

Rate each of the following risks according to:
1. The impact on achieving the purpose, 1 = minor impact and 5 = severe impact.
2. The likelihood of the risk occurring in the next 36 months, 1 = remote 5% possibility and 5 = 95% or greater likelihood.
3. The perceived effectiveness of existing controls, 1 = ineffective and 5 = fully effective.

Purpose-Related Risks

The following chart suggests some potential risk management factors and mitigation strategies to consider when enhancing risk management in social purpose companies.

Risk	Mitigation Strategies
Risks to achieving the purpose	
1. Stakeholders may not believe the company is committed to its purpose.	Conduct an internal or third-party purpose audit to identify and address gaps; include purpose disclosures in annual reporting; include purpose in stakeholder relationships, decisions and communications. Beyond audits and disclosures, actively involve stakeholders in the development and periodic review of purpose strategies to create a sense of ownership and trust. This participatory approach can deepen their belief in the company's commitment. Include stakeholders in a review/monitoring of purpose risk management plans to boost trust.
2. Stakeholders may not wish to collaborate on the purpose to help achieve it or may not have the skills and resources to collaborate.	Communicate how the purpose creates value for stakeholders and society; build strong stakeholder relationships; provide support to key stakeholders to enable their participation. Design a formal stakeholder engagement program to engage stakeholders in purpose collaborations.

3. Stakeholders may not have been correctly identified for participation in the development of the purpose and its desired impact, or in purpose risk monitoring.	Conduct a stakeholder mapping exercise to identify primary and secondary stakeholders relevant to the company and its purpose. Include stakeholders that the company seeks to create value for, stakeholders that the company will collaborate with or mobilize on its purpose, and stakeholders that can affect, be affected by or perceive itself to be affected by the company's decisions and activities. Prioritize and engage those most relevant to the purpose.
4. Staff may not understand the purpose or know how to execute on it.	Conduct staff education and training and share social purpose tools and resources, e.g., The Social Purpose Professional. In the onboarding program, include training on the company's social purpose and its implementation. Update training programs to reflect changes in the company's purpose objectives and strategic direction.
5. Purpose may not be fully embedded in the organization.	Conduct staff education and training; integrate purpose into performance management; conduct social purpose assessments and address gaps in products, services and operations; integrate social purpose into executive performance objectives. Embed purpose into the employee experience. Adopt a purpose performance management system with targets and metrics for integration. Incorporate purpose into the company's values and create a purpose decision lens. Establish a dedicated purpose officer or department responsible for overseeing the integration of the social purpose across all company operations and strategies.
6. The company may not have the internal skills or competencies to deliver on the purpose.	Identify competency gaps, e.g., how to demonstrate purpose leadership and how to collaborate with stakeholders to advance the purpose, etc., and address them through leadership development and competency models.
7. The company may not know how to effectively implement the purpose.	Study best practice companies (e.g., www.purposeeconomy.ca) and learn from and network with social purpose leaders; ask professional associations to develop social purpose training; create communities of practice with other social purpose organizations. Implement pilot projects to test new purpose-driven strategies on a small scale before full implementation. Use the insights gained to refine approaches and ensure scalability.

8. The company's strategic goals may not be aligned with its purpose or may not be the most effective for achieving the purpose.	Update the corporate strategy to include social purpose goals, targets and metrics. Conduct periodic reviews of the social purpose goals to ensure they are on track and relevant, meaningful and impactful.
9. The company may not know how to measure and monitor the purpose.	Consult stakeholders and engage experts to develop purpose measurement approaches. Implement advanced analytics and data visualization tools to track and display progress on purpose metrics dynamically, facilitating real-time adjustments and decision-making.
10. The board of directors may not know how to govern the purpose.	Educate the board on purpose governance and its role in ensuring that it receives the optimal attention and resources.
11. The board of directors may not have appropriate expertise, including expertise in purpose governance and in the purpose subject matter.	Educate the board on purpose governance and include purpose in the board's skills matrix, and in the recruitment, nomination and onboarding process for new directors. Include a focus on both purpose expertise and expertise in the purpose subject matter.
12. The products or services may not be aligned with or deliver on the purpose.	Conduct a social purpose portfolio review to identify products that are purpose driving, purpose aligned, purpose neutral or purpose contra. Transition purpose neutral and contra products. Engage in social purpose innovation, pilots and prototypes to develop a purpose product suite. Establish a continuous feedback loop with customers and frontline employees to gain insights into how products and services are supporting the social purpose. Use this feedback to make iterative improvements and ensure that new product developments are closely aligned with the social purpose. Additionally, introduce a certification or labelling system that clearly identifies products as purpose aligned for consumers.

13. Customers may not value the purpose or be engaged in it.	Use storytelling to inform customers of the company's purpose and engage them in measures to help the company achieve its purpose in ways that create value for the customer. Create a customer experience where they believe they are making a difference by doing business with the company and are given opportunities to engage in it.
14. The company may not know the purpose of its suppliers or business partners, or if it has investments, it may not know the purpose of the companies it invests in.	Ask suppliers, business partners and, where relevant, investee companies to share their purpose statement and encourage those who don't have a purpose to adopt one. This may have the added benefit of identifying more partners to collaborate with on shared purpose objectives.
15. The company may not realize the financial benefits of the purpose.	Take a long-term outlook and develop measures to track purpose-driven financial performance in these areas: - Employee engagement and productivity, recruitment, retention and advocacy - Customer attraction, engagement, loyalty and brand advocacy - Value of earned media - Revenues from social purpose products - Supplier loyalty and innovation - Social licence to operate and grow - Partner attraction and innovation - Capital attraction - Government and regulator support Beyond tracking, actively communicate these benefits through comprehensive reports and presentations to stakeholders to demonstrate the tangible value of the social purpose. Implement predictive analytics to forecast the long-term financial impacts of various social purpose strategies, enabling better strategic decisions based on anticipated return on investment (ROI).
16. The company may have purpose-dependent risks unique to its purpose.	Identify operational or reputational risks emanating from the purpose, where the company would be expected to have best practices. Having best operational practices related to the purpose could be an opportunity.

17. The company may not be prepared to sustain its purpose during a leadership transition.	Build purpose competencies and values alignment into succession planning and incorporate purpose responsibilities into CEO and executive profiles and into the executive recruitment process. Include purpose competencies in the leadership development program.
18. A merger or acquisition may not be aligned with or may be contrary to the purpose.	Ensure purpose considerations are included in the due diligence process for mergers and acquisitions (M&A). After a merger or acquisition, prioritize cultural alignment on the purpose. Look for M&A partners that understand the value of the purpose and can help advance it.
Risks from pursuing the purpose	
19. The purpose may prevent the company from exploiting market opportunities not purpose aligned.	Introduce purpose into unaligned market opportunities to increase their viability as a partner or sector. Seek out purpose-aligned market opportunities as an alternative. Invest in growing new purpose markets that may not exist.
20. Stakeholders may have higher expectations of the company that are challenging to meet.	Create a stakeholder advisory group to provide insights on stakeholder purpose expectations. Engage stakeholders in purpose execution. Be transparent, honest and humble in purpose disclosures and communications.

Purpose as a Risk Mitigation Strategy

Purpose can also help address other corporate risks. Here are some examples.

Corporate Risk	Mitigation
1. Talent shortage	Feature social purpose in recruitment. Include social purpose in the employee value proposition and the employee experience.
2. Inability to adapt to changing customer expectations	Include social purpose in the customer value proposition and the customer experience. Periodically review the social purpose to ensure it remains relevant, meaningful and impactful.
3. Change management resistance	Ensure employees understand and value the purpose and the company's commitment to it to enable change management processes within the company, as having a compelling and employee-supported purpose can foster employee buy-in.
4. Low employee engagement	Include social purpose in the employee value proposition and the employee experience. Publicize purpose-related "good news" stories on the employee intranet to inspire and engage employees.

Risk Management Policies

Many companies have ERM policies or frameworks to define the scope of work and roles and responsibilities of their risk management program. Social purpose companies adapt these risk management policies in various ways. They:

- Communicate that certain risks should be taken in pursuit of the company's purpose in addition to its business objectives.
- Define risk management to include risks to the purpose in addition to the risks to strategic objectives.
- Reference that comprehensive risk assessments are required for all significant business decisions that might materially impact the company's purpose, and that escalation is required if risks have the potential to affect the company's purpose.
- Specify that the aim of the risk management program is to help the company advance its purpose in addition to helping the company achieve its strategic priorities.
- Include in the scope of risk management activities a role to support the company in identifying risks and opportunities emanating from the company's purpose.
- Stipulate that the risk management program is responsible for supporting the board and its committees in identifying risks that may affect the company's purpose.
- Set out the purpose risk responsibilities across the organization.
- Ensure that third parties reviewing the effectiveness of the enterprise risk management program have expertise in working with social purpose companies.

Summary

This How-to Guide details the enhancement of risk management practices for application by social purpose companies. It emphasizes the integration of social purpose objectives within traditional risk management to address unique challenges and opportunities. This approach ensures that social purpose companies can effectively mitigate risks while achieving their goals, contributing to long-term performance and impact.

Resources

Social purpose strategy: Bring your corporate purpose to life, Canadian Purpose Economy Project, September 2024

Purpose Governance Guidelines for Boards, Canadian Purpose Economy Project, April 2024

How Risk and Internal Audit Operate in Social Purpose Companies, Deloitte, March 2023

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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. This paper is one in a series of reports exploring the roles of key actors to advance social purpose in business including accountants, boards, investors, associations, business schools and others. Subscribe to our updates at www.purposeeconomy.ca and sign our Call to Purpose to help us advance social purpose in business.