

Purpose Due Diligence for Investors

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INTRODUCTION

We are interested in the purpose of the companies in which we invest. This due diligence guide sets out eleven questions that can help us assess a company's purpose and whether its governance and implementation will help the firm realize the benefits of being a purpose-led company.

WHY THIS IS IMPORTANT

Purpose can be a determining factor in companies' long-term performance. Establishing and aligning strategy and purpose to effectively drive a company's long-term performance is the responsibility of the board of directors. We engage on purpose to understand how boards are aligning their business decision making with the company's purpose¹.

To aid our understanding, we appreciate when companies set out their purpose and provide milestones against which we can measure performance through clear and comprehensive disclosure. We also look for the board to have a clearly defined role in advising on and overseeing executive leadership's support of the company's purpose.

Companies with a well-defined purpose – the reason a company exists and the role they play in society and across their value chain – are more likely to have a strong sense of direction that will better position them to compete, navigate short-term challenges, and achieve long-term growth.

We have observed that companies that effectively embed a purpose into their strategy and operations have been better able to maintain investor confidence, attract and retain a high caliber workforce and build stronger customer loyalty. We believe that these are factors important to building financial and business resilience, attracting long-term capital, and delivering durable profitability.

We engage on purpose to understand how boards are aligning their business decision-making with the company's purpose and adjusting strategy and/or capital allocation plans as necessary.

We are interested in the board's role in helping executive leadership communicate the company's purpose. We depend on boards to have a clear understanding of how executive leadership integrates the company's strategy and purpose into day-to-day operations.

DUE DILIGENCE QUESTIONS

1. Purpose:
 - a. What is the purpose of your firm (i.e., the reason your firm exists)?
 - b. Is the purpose of your firm a social purpose (i.e., to profitably solve the problems of people and planet without profiting from creating problems²; to create a better world³; to make an optimal strategic contribution to the long-term wellbeing of all people and planet⁴)?
2. Approval: Has your purpose been approved by the most senior governing body? (e.g., board of directors)
3. Oversight: Does the most senior governing body (e.g., board of directors) monitor progress on the purpose, and is purpose oversight included in their terms of reference?
4. Disclosure: Does your firm disclose and report on your purpose and progress toward it?

¹ This section on why this is important is taken from BlackRock's approach to engagement on corporate purpose: <https://www.blackrock.com/corporate/insights/investment-stewardship>.

² <https://www.thebritishacademy.ac.uk/programmes/future-of-the-corporation/#:~:text=Professor%20Colin%20Mayer%2C%20the%20Academic,not%20profiting%20from%20creating%20problems.>

³ <https://purposeeconomy.ca/about-us/>

⁴ <https://www.bsigroup.com/en-GB/standards/pas-808/>

5. Strategy: Does the corporate strategy have clear and measurable goals, targets, metrics, and accountability for pursuit of the purpose?
6. Capital Allocation: Are capital and resources allocated to optimize purpose realization?
7. Risks: Has the firm identified the risks to achieving the purpose and are mitigation strategies in place to address them?
8. CEO Role Profile: Does the CEO's position description include reference to the CEO's responsibility for enacting the company's purpose?
9. Performance Objectives: Do the annual CEO and executive performance objectives include purpose deliverables?
10. Incentive Plans: Do the executive's short and long-term incentive plans reward and recognize achievement of the purpose?
11. Values: Do your corporate values have an explicit tie to the purpose (i.e., do one or more of the company values have a clear link to the purpose)?

RESPONSES WE ARE LOOKING FOR

Purpose: What is the purpose of your firm (i.e., the reason your firm exists)?

Customer/Product Purpose Example: Dollarama: Our purpose is "to provide Canadians from all walks of life with the best quality and value, as well as proximity and convenient access to affordable, everyday items". [Source](#)

Social Purpose: Is the purpose of your firm a social purpose?

Social Purpose Example: Maple Leaf Foods: Our purpose "is to Raise the Good in Food." [Source page 16](#)

Approval: Has your purpose been approved by the most senior governing body? (e.g., board of directors)

Example: Maple Leaf Foods board adopted the company's purpose in 2017. [Reference page 19](#)

Oversight: Does the most senior governing body (e.g., board of directors) monitor progress on the purpose, and is purpose oversight included in their terms of reference?

Example: Rio Tinto's Board Charter approved by the board in December 2021 stipulates that "The board is collectively responsible for pursuing [the company's] purpose and the Group's long-term strategy, and reviews annual and longer-term plans for Rio Tinto based on proposals made by the Chief Executive for achieving this purpose and strategy. "It goes on to say that the board "seeks to promote and sustain a culture and set of values that will enable Rio Tinto to fulfil its purpose and achieve its long-term strategic objectives". [Source page 3](#)

The board has established a "Schedule of Matters Reserved for the Board". The purpose elements of this state that the board has responsibility for: "The overall management and leadership of the companies [Rio Tinto plc and Rio Tinto Ltd.] and establishing the Group's values, purpose, and strategy" and "Assessing and monitoring the Group's culture and ensuring that it is aligned with the Group's values, purpose, and strategy". [Source page 1](#)

Disclosure: Does your firm disclose and report on your purpose and progress toward it?

Example: Maple Leaf Foods 2022 Integrated Annual Report pages 23 – 25. [Source](#)

Strategy: Does the corporate strategy have clear and measurable goals, targets, metrics, and accountability for pursuit of the purpose?

Example: Maple Leaf Foods strategy at a glance is on page 17, its targets and metrics are on page 23 – 25. [Source](#)

Capital Allocation: Are capital and resources allocated to optimize purpose realization?

Example: Maple Leaf Foods 2022 capital expenditures included construction of a plant protein facility and raised without antibiotics hog farms as reported in its 2022 Report to Shareholders. [Source](#)

Risks: Has the firm identified the risks to achieving the purpose and are mitigation strategies in place to address them?

Example: Unilever's purpose to make sustainable living commonplace is reflected in its risk appetite, which sets out that its "actions on issues such as plastic and climate change must reflect their urgency, and not be constrained by the uncertainty of potential impacts". One of its principal risks is brand preference, including that customer preferences and behaviours are changing more rapidly than ever before: "we see a growing trend for consumers preferring brands which both meet their functional needs and have an explicit social or environmental purpose". Its mitigation strategy is that brand teams are driving social purpose into their brand's proposition and communication. [Source pages 67 – 68](#)

CEO Role Profile: Does the CEO's position description include reference to the CEO's responsibility for enacting the purpose?

Example: HSBC's Group Chief Executive's Role profile includes "the GCEO is responsible for directing the Group's purpose and strategy in adherence to all relevant laws, regulations and standards." [Source page 1](#)

Performance Objectives: Do the annual CEO and executive performance objectives include purpose deliverables?

Example: TBD

Incentive Plans: Do the executive's short and long-term incentive plans reward and recognize achievement of the purpose?

Example: For 2019 – 2022 Unilever's executives were incentivized to achieve the sustainability goals of the corporate strategy to advance its purpose to make sustainable living commonplace. The Unilever Compass sustainability target is the company's integrated sustainability and business strategy and includes 38 sustainability KPIs under three Compass priority areas. These are some of the achievements the board compensation committee took into account in granting awards [Source page 117](#):

- 1) To improve the health of the planet aligned to Home Care's Clean Future strategy, the company signed two major contracts with suppliers to develop alternatives to surfactants, the most greenhouse gas-intensive class of ingredients*
- 2) To Improve people's health, confidence and well-being the company reached 686 million people through programs offered by Lifebuoy, Dove and others; plant-based products reported growth*

Values: Do your corporate values have an explicit tie to the purpose (i.e., do one or more of the company values have a clear link to the purpose)?

Example: BMO's purpose is to Boldly Grow the Good in business and life. It has four values, one of which is "Responsibility: Make tomorrow better". [Source](#)

PURPOSE GOVERNANCE AND IMPLEMENTATION RESOURCES

These resources provide additional detail regarding the Investor Purpose Due Diligence criteria.

Corporate Knights Social Purpose Rating: <https://www.corporateknights.com/wp-content/uploads/2022/04/The-Social-Purpose-Transition-Pathway-March-2022-Full-Report.pdf>

- Corporate Knights rating of 34 Canadian companies on their social purpose

[Disclosing with Purpose: Guidance for Preparers and Users of Purpose Disclosures](#)

- Commissioned by the Canadian Purpose Economy Project

[Purpose Governance Guidelines for Boards](#)

- Prepared by Canadian Purpose Economy Project

Social Purpose Integration Scorecard: <https://socialpurpose.ca/sp-assessment/>

- Provides an overview of 25 metrics to measure social purpose integration
- Prepared by the United Way BC Social Purpose Institute

Social Purpose Practices Kit:

<https://uwbc.canto.com/direct/document/omt33c92k96n95lfehbo0q0h52/nxCo8FwMTHokgsYOs2BHBtxKeY/original?content-type=application%2Fpdf&name=UW+Social+Purpose+Practices+Kit+2022+3.1.pdf>

- 40 examples of social purpose implementation
- Prepared by the United Way BC Social Purpose Institute

SOCIAL PURPOSE BUSINESS CASE

This report summarizes some of the business benefits social purpose companies realize from adopting and pursuing a social purpose.

The Business Case for Social Purpose: https://purposeeconomy.ca/wp-content/uploads/2023/09/CPEP_Social-Purpose-Business-Case.pdf

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