

## When It Comes to Corporate Purpose, Watch What They Do, Not What They Say



*by John Streur, President & CEO, Calvert Research and Management*

The wide-reaching crises that have unfolded throughout 2020 have revealed shortcomings in our collective ability to address the needs of all individuals in society. However, while the unprecedented nature of the events has been widely recognized, I believe these events, coupled with data analytics and new investor tools, bring about an equally unique opportunity for capitalism to strengthen society that shouldn't be wasted.

The BRT letter publicized a major redefinition of the purpose of the corporation. No longer would churning out profits for shareholders be the sole or primary goal. Instead, the letter explicitly stated a fundamental commitment to deliver value to all stakeholders (customers, employees, suppliers, communities, and shareholders) and to therefore push for an economy that serves all of society.

Only months later, the inevitable tests arrived with a suddenness and ferocity none could have imagined, in the form of the COVID-19 pandemic and the long overdue spotlight on racial injustice in the United States. These events quickly prompted society at large to ponder how companies were delivering on stated stakeholder commitments in the face of real need, giving rise to the [Test of Corporate Purpose \(TCP\) initiative](#).

The resulting [analysis](#) indicates that companies that signed the BRT letter are not perceived to have done a superior job for their stakeholders. At first, this may be hard to fathom – they just signed the letter, accompanied by a global PR campaign, and then had a tremendous opportunity to deliver during the ongoing crises. However, this is not the crux of the analysis. In my opinion, the most significant finding of the analysis is the characteristics of companies that did do superior jobs for their stakeholders. This important finding sheds light on the key question: “How did companies miss this opportunity?”

The companies that performed well for all shareholders (as measured by TVL sentiment scores) during this time of crisis<sup>2</sup> were those that since 2015 consistently exhibited above-average performance on the relevant environmental and social risk management areas that impact all of their stakeholders. These are the companies with a robust history of developing policies, procedures, measurement systems, quality control systems and governance structures to manage their operations to deal with such issues. Managing a large corporation to continuously and consistently evolve in a positive and profitable way is detailed, time-intensive work. Said simply, making bold statements, in and of itself, does not prepare a

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<sup>2</sup> February 21, 2020 – July 17, 2020



company to meet vast new challenges. This is consistent with findings from an MIT Sloan research project on corporate mission and values statements and their impact on employees' opinion of culture. This research "reveals a gap between official values and the cultural reality on the ground in most organizations."<sup>3</sup> Culture is about what a company does and believes in, not merely what it says.

The key goal for corporations today is to be able to deliver for all stakeholders, financial and non-financial, with a fully integrated strategy. As the TCP analysis indicates, this requires robust processes, measurement, management and governance systems. Many tools have recently been developed to help companies progress along this pathway, with notable efforts made by SASB, the Task Force on Climate-related Financial Disclosures (TCFD) and the cutting-edge Impact Weighted Accounts Project. All of these initiatives provide guidance to help corporations transition from the aspirational words of Mission Statements or Statement of Corporate Purpose to operational strategy implementation needed to drive positive social and environmental change along with long term shareholder value.

Corporations certainly know that the world is changing, and that most stakeholders expect corporations to play a vastly expanded role in solving our greatest social and environmental challenges. For most, statements to address this expectation are truly aspirational, and reflect the company they seek to become. The difference between the ones who actually achieve on the aspiration and those that only deliver to one or two stakeholders is found in the hard work of strategy, process, measurement, governance – the successful implementation of culture and purpose. Most of the corporations that signed the BRT letter will probably not achieve on the goals across the board, but those that do will achieve excellence.

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<sup>3</sup> Donald Sull, Stefano Turconi, and Charles Sull, "When It Comes to Culture, Does Your Company Walk the Talk?", MIT Sloan Management Review, July 21, 2020.