GOVERNING PURPOSE IN EUROPEAN COMPANIES

Insights from structured discussions with 21 large European firms

Summer 2025

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PARTICIPATING COMPANIES

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EXECUTIVE SUMMARY

Recent events and debates around the role of firms in economic and social development in the USA and Europe have prompted renewed interest in the question of corporate purpose: why it is important; how it is governed by the board and practised throughout the organisation; and how it relates to similar concepts such as social purpose, sustainability, and diversity and inclusion.

This report is an outcome of a study – initiated in mid-2024, even before the impact of some of those arguments started to be felt – that investigated which frameworks and governance structures relating to corporate purpose are reflected today in the practices of leading European firms. It draws on interviews and group discussions with senior board directors and senior executives in 21 major European companies, representing all sectors and governance types.

KEY TAKEAWAY 1: What corporate purpose can help you do

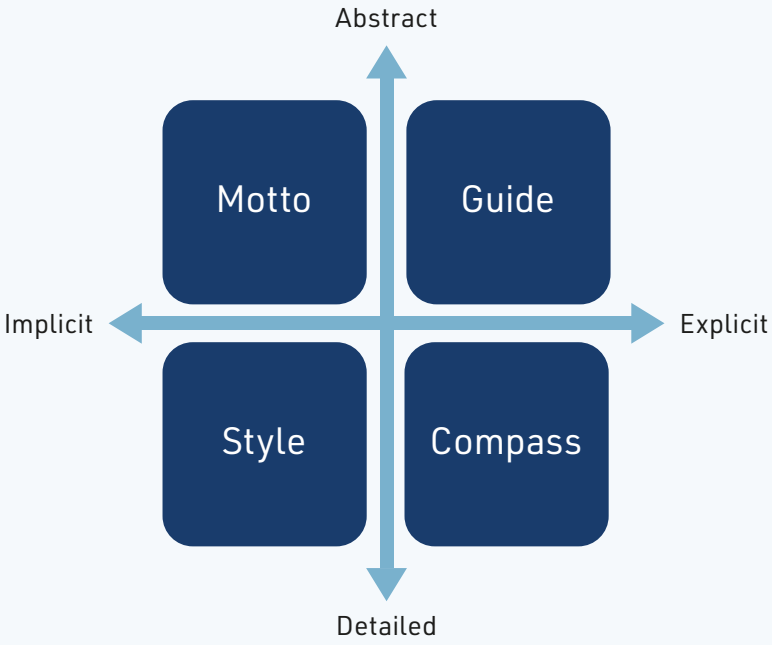
For European companies, with business philosophies rooted in history and refined during the rebuilding of the continent after WWII, corporate purpose is an organising principle and sense-making mechanism, not a social purpose; and it is not synonymous with ESG (environment, social, governance) or DEI (diversity, equity, inclusion), although these principles are integrated into the wider business culture and regulations.

Corporate purpose is a basis for decision-making and for establishing the boundaries of what individual firms stand for. Companies in our study mobilised purpose through one of four major processes: Discovery, Development, Discussion, and Direction.

- ➔ Depending on what your company needs, corporate purpose can help you activate one of four articulation modes: Discover, Develop, Discuss, or Direct, and focus where the board and management should best direct their energies towards its achievement.

KEY TAKEAWAY 2: What mode of corporate purpose orchestration do you use?

Our report identifies four ways in which purpose is orchestrated at board level depending on organisational purpose, culture, sector, and ownership structure.



➔ Identify which orchestration mode corresponds to your current practices and to what your company needs. Table 1 (*below, p21-23*) in the report can help you assess whether the practices you currently have in place correspond to what is expected and help you remedy discrepancies if needed.

KEY TAKEAWAY 3: Have you aligned how corporate purpose is orchestrated at the board level with how it is managed throughout the organisation?

Further discussions with executives about the orchestration modes and corresponding management practices confirm that there is no single 'best practice' for purpose governance: there is only the 'best fit' approach to governance for each individual firm at a particular time and in a particular stage of development. From the executive viewpoint, there are benefits and potential downsides to working with each orchestration mode. Nevertheless, management practices should be developed to align with the board orchestration. Misfit is a source of dysfunction and under performance.

➔ Think about the board and management practices you need to change in order to improve effectiveness of purpose delivery. Table 2 (*below, p30*) in the report can help you assess how aligned your organisation is now, and identify where the fit can be improved.

INTRODUCTION

Enthusiasm for the idea that companies have a purpose beyond profit has been growing since the 2008 financial crisis, accelerated by the experience of the COVID-19 pandemic. Despite the popularity of the concept and considerable academic interest, however, corporate purpose remains the subject of debate, uncertainty, and – in some areas – cynicism, as firms and regulators struggle with perceived tensions between profit, purpose, and environmental commitments. There is no single, accepted 'best practice' model for designing and leading purpose-driven enterprises that can be applied in every market and sector.

However, there are numerous firms that have successfully adopted and implemented a purpose-led approach. They do not all follow the same model – from how they agree what their purpose is to how and where it is applied and measured differs greatly – but our previous research has indicated that there are some commonalities in attitudes and philosophies, especially among European firms. The Enacting Purpose Initiative and the Purpose Center at HEC Paris have therefore joined forces to investigate these commonalities in detail, and identify the principles and frameworks that European firms mobilise to govern and implement corporate purpose.

MOTIVATION FOR THIS REPORT

Recent events and debates around the role of firms in economic and social development in the USA and Europe have reinforced our interest in the question of governing purpose in European firms. We initiated this study in mid-2024, even before the impact of some of those arguments started to be felt, to explore which frameworks and governance structures relating to corporate purpose are reflected today in the practices of leading European firms. What does purpose mean to them? How closely does the board track the evolution of their company purpose as the firm develops (through organic growth, acquisitions, divestitures, etc.) and as a set of practices? How do they evaluate its success? How do top executives and management teams position themselves relative to board demands and turn purpose intent into action?

Over the course of our investigation, interviews and discussions have revealed a set of remarkably similar underlying assumptions and beliefs, often unspoken, about what companies are for, how they should conduct themselves, and the purpose of business overall. They reflect what seems to be a uniquely European conception

of capitalism and the role of purpose within that, as distinct from Anglo-American models. The insights yielded during the research project have allowed us to map practices in different sectors and types of organisation, enabling analysis across a number of dimensions. The profiles and models derived from this are designed to help other companies gain more clarity about their own governance structures and systems, and how they contribute to the implementation of purpose.

DEFINING CORPORATE PURPOSE

The purpose of a firm, or its *raison d'être*, defines **why** it exists by articulating the 'problem' it aims to solve. It acts as an organising principle, informing and guiding strategic decisions and activities, and helping directors and managers prioritise competing demands. It is a sense-making mechanism that allows people within the organisation to work collectively towards a common goal and to understand strategic decision-making.

Purpose is linked to, but should not be confused with, the organisational mission (**what** the organisation does), values (**how** it operates), and vision (**where** it wants to have impact, its long-term aspiration). While all four of these concepts act together as organising principles for the business, purpose is the overarching construct that ordains the others.

The notion of purpose is often conflated with or confused with the idea of social purpose, leading companies to believe that they should describe themselves as actively pursuing social or environmental causes. This frequently happens when purpose is developed from a brand perspective and tends to obstruct efforts to use it as an organising principle for management.We argue that purpose construction should be taken as normatively neutral, answering the question of why the organisation exists without needing to link it to doing good *per se*. As such, it can transcend, include, or limit itself to the key essential factors of success such as efficiency, quality, or innovativeness.

This facilitates clarity in decision-making, particularly where trade-offs need to be made between competing needs or demands, and acts as a sense-making device for leaders and managers. It also removes the false dichotomy between purpose and profit since purpose cannot be achieved if the firm has insufficient means to survive. Our earlier work has emphasised the need for simplicity to make the purpose easily understood by the entire organisational workforce, wider supply chain, and other stakeholders. Simplicity ensures that the purpose can be a 'golden thread' through the organisation and delivers a 'north star' that not only motivates and inspires people, but also helps clarify the strategic choices that need to be made.

PREVIOUS REPORTS AND FINDINGS

Our previously published SCORE and SCORE^2 models are designed to help firms unleash the value creation potential from purpose-driven strategies by developing purpose as strategy (SCORE) and as culture (SCORE^2).

The SCORE model asks five questions of the board to help them elaborate a meaningful corporate purpose that translates into strategy and improves decision-making. It consists of five verbs:

Simplify – Is our purpose simple enough to be understood and acted upon?

Connect – How does our purpose connect to our mission and to the strategic choices we need to make?

Own – What are we doing to ensure that our purpose is embraced by everyone inside the company and supported by our investors?

Reward – How is our purpose linked to internal reward systems including but not limited to remuneration?

Exemplify – What stories do we use to show our purpose in action?

The SCORE^2 framework recognises the leadership and organisational work involved in aligning people at all levels with the purpose and integrating it with behaviours and day-to-day decisions. It consists of five adjectives and accompanying questions to characterise and shape an organisational culture propitious to purpose-based leadership:

Safe – How comfortable are organisational members with speaking up, asking questions, and disagreeing with each other about purpose and its implementation?

Committed – How are you ensuring that line managers deliver consistent messages and demonstrate commitment to the purpose?

Organised – Does your company have the structure, capabilities, and incentives to implement your purpose-driven strategy?

Realist – Are you realistically defining purpose-related objectives and adequately recognising the hard work involved in enacting purpose?

Embodied – How are you embodying the purpose every day?

THE RESEARCH STUDY

Our study centred on senior board directors and senior executives in 21 major European companies. The companies were selected to ensure representatives of all sectors and governance types.

Structured questionnaires were sent to board representatives at all the companies, containing open-ended questions about the company purpose and how it features in board deliberations.

The questionnaires were followed by three online group discussions with senior board directors, lasting 90 minutes each, and individual interviews where it was not possible for directors to attend the group discussions. The discussions were semi-structured, exploring the answers given in the questionnaires in more depth and allowing participants to share detailed examples and experiences. The discussions were recorded and transcribed for later analysis.

Initial analysis of this first round of data-gathering was developed in an outline report, which formed the basis of a second round of group discussions, this time with senior executives. The discussions took place in person at a focused meeting in Paris on 10 February 2025, followed by some one-to-one and smaller group meetings.

PURPOSE IN EUROPEAN BUSINESSES

Notwithstanding our own work and that of other academics in defining and developing theories of corporate purpose, it remains a contested concept. Perceptions of value and of the role of business in society are highly contextual in terms of both geography and time. They are further complicated by the popularisation of other linked or at least similar-sounding ideas, including ESG (environmental, social, and governance) issues, DEI (diversity, equity, and inclusion), social purpose, stakeholder capitalism, responsible business, and more.

This study, however, has revealed that there seems to be an intuitive shared understanding of what purpose means in European businesses and in the context of a particularly European form of capitalism, which is distinct from the Anglo-American model.Modern European capitalism may be said to have originated in the collective reconstruction of Western European economies and societies after the devastation of the Second World War. With financial aid provided by the USA through the Marshall Plan, the European Recovery Programme was managed by the membership-based Organisation for European Economic Co-operation (OEEC). This enabled many of the technical and structural changes needed to facilitate trade and economic development.

Of arguably greater impact was the sense of mutual responsibility between countries and individual and collective action on the part of governments in partnership with the private sector. In addition, there was an implicit understanding that strengthening mixed economies would improve living standards and social cohesion (which also answered the USA's other objective at the time: to create a buffer against communism).

European companies, therefore, were reborn in an environment of state intervention, where international cooperation, shared development, and social protection and wellbeing were valued as much as free markets.

So while European economies were not altogether immune to the financialisation and unfettered markets of the 1980s onwards, the cultural inheritance of the European Recovery Programme, together with the influence of the EU, has been an enduring, if occasionally disputed, view of business as rooted in society. This perception is reinforced by the prevalence of historic and family businesses in Europe and by widespread practices such as board-level employee representation.

The USA, on the other hand, was founded on a pioneering spirit and tradition of self-reliance and rugged individualism, which translated into both its political and business philosophies. This may account for the differences we have observed in attitudes to purpose in Europe compared with the USA and, to a somewhat lesser extent, the UK. Our study has allowed us to build a picture of what purpose is and is not for those who participate in the governance of European firms.

PURPOSE IS AN ORGANISING PRINCIPLE

As we state in the introduction, purpose is best understood as an organising principle and sense-making mechanism that informs and guides strategy and decision-making and unites people within the organisation in working collectively towards a common goal.

Our interviewees were clear that, while they thought of business as part of society rather than separate from it, corporate purpose was not to be conflated with social purpose, which they saw as the province of charities and NGOs.

> *We are not an NGO. I respect NGOs but they have a different model. We are for-profit; we are purpose-led. We need to be explicit so that people understand both aspects: the profit that you generate enables you to grow.*

Indeed, they saw risks in allying themselves with an explicitly pro-social agenda that could be subject to political whims. Some regretted having been caught in 'social purpose traps' and making public statements that with hindsight looked like mere virtue-signalling because they were not part of the firm's roots and culture.

> *Business purpose remains consistent, while social purpose varies according to political climate.*

They also observed that while employees may be attracted to companies with a pro-social purpose that aligns with their personal purpose, this can come with excessively high expectations of the company. These highly engaged employees will be the first to resign if they feel that they have been let down by the leadership.

PURPOSE IS NOT ESG OR DEI

Our earlier research suggests that, in the USA, there is a strong link between purpose and ESG practices. Indeed, a prevailing attitude seems to be that purpose is ESG. This is possibly because the Anglo-American style of capitalism is still fundamentally

profits-driven, with ideas linked to purpose, ESG, and DEI managed in separate siloes, and propelled by changeable external forces such as regulation, investor preferences, and public opinion.

> *When you talk to American colleagues, ESG is regulations about E, S or G. Nothing to do with purpose.*

This appears to be different in Europe. All the companies in our study consider their environmental and societal responsibilities to be a matter of course, and sustainability reporting regulations have been absorbed into regular practice.

> *ESG, CSR, DEI, all the regulations to help us navigate the world are not our purpose. We have to comply with them of course. We already had a policy regarding sustainable development, and we were inspired to design KPIs, but this is not our purpose.*

Diversity and inclusion are likely to be part of the company values, linked with the purpose and driven internally:

> *We think in Europe that having good representation in the company from diverse groups and talents is good for the company.*

Plenty of US companies believe the same, of course, but, because of the way DEI has been presented and regulated there, it is likely to feel less like an integral part of how the company operates.

PURPOSE IS NOT IN CONFLICT WITH REGULATION

The two do, however, have a complicated relationship. On one hand, the presence of Europe-wide regulation and reporting requirements frees firms to elaborate their purpose independently of ESG or sustainability issues.

On the other, even the best-intentioned regulation tends to place unwanted bureaucratic and administrative burdens on companies. Is there a hope that a clear adoption of sustainability as part of companies' purpose or values may allow European companies to push back against the imposition of more red tape? If they clearly have principles and activities in place, and demonstrate that they consider sustainability practices to be in their own best interests, it may dissuade states from interfering further.

PURPOSE IS A BOUNDARY-MARKER

Of persistent concern amongst both the board directors and senior executives in our study were rising expectations from employees that companies should 'take a stand' on social and political issues. This may have arisen from the popularisation of ideas about personal purpose and authenticity at work. But it also reflects the changes in relationships between employers and employees that started during the experience of COVID-19. Most countries enforced lockdowns, which influenced many leaders to adopt paternalistic behaviours, and normalised a blurring of boundaries between work and non-work domains which has been hard to reset.

Interviewees said that purpose could make decisions to take a stand easier, where their *raison d'être* was clearly aligned with a particular social or political issue. Equally, a clearly defined purpose establishes the boundaries of how far and on which topics companies are prepared to comment.

> *With purpose, you are creating a world in which you know what the expectations are and you can shut everything else out. It is almost a protection. It allows flexibility, but is a protection against all the other complexities that people want you to get involved in.*

PURPOSE IS DISCREET

The language that our interviewees used when talking about business and purpose was typically restrained and understated. They saw purpose work principally as internally focused, influencing strategy and culture. Although they published purpose statements, they were not all highly publicised. In fact, some interviewees were surprised to discover the impact of their purpose-based work externally.

> *Two years ago, we had a survey among young joiners in our company, and we asked them why they had joined the company, and the most frequent answer was that they like what [we are] doing in Africa. We have a programme to eliminate a particular disease in Africa, which is quite well known, and [we are] the only company which is active in this disease. It was so amazing for us because these were all people who are not working in Africa. They are not connected to this topic in their daily work. They are working in controlling, in sales, wherever. But they said this was the main reason why they joined the company. I found this absolutely amazing.*

ORCHESTRATING PURPOSE: PERSPECTIVES FROM THE BOARD

The role of the board in a purpose-led organisation is best described as that of an orchestrator. While it is the board's responsibility to own, govern, and report on purpose it needs to work with the senior management team to translate purpose intent into practice and embed it in the strategic decision-making and culture in ways that are appropriate to the type of business and the ecosystem in which it operates.

Our board-level respondents were unanimous in stating that they viewed purpose as at the heart of what is expected of the business and how strategy is articulated. However, their descriptions of how they articulate, define, and govern the purpose and related concepts varied considerably.

HOW COMPANIES ARTICULATE PURPOSE

We found four principal ways in which the companies in our study have defined or articulated their purpose. There is no single 'best practice': the choice or emergence of a certain approach depends on the history, existing culture, and governance of the company. However, the process of articulating the purpose can indicate the ways in which the board is likely to use and discuss it.

1. DISCOVERY

Some companies have been operating for many years with an innate sense of purpose, usually supported by a strong culture. In these cases, articulation of the purpose is a process of discovery.

For example, a firm founded in the early years of the twentieth century with an innovative beauty product has been combining beauty and innovation at the heart of the business ever since, 'even without knowing it'. When it formally articulated its purpose in 2009 (100 years after its foundation) it was revealing something that was already there as the spirit and soul of the company.

2. DEVELOPMENT

Some current purpose statements are direct descendants of what we might call the intrinsic or founding purposes of the companies. They have, however, been modified, either in response to a changing external environment or as part of a board initiative.

One company was established in 1962 as a state-owned company to 'provide electricity at sustainable cost to support the development of the country'. Today it is a public company operating in 28 countries and with a focus on renewable energy. Its business has evolved in line with social and economic changes, and it describes its purpose now as: 'to build the future through sustainable power'.

3. DISCUSSION

Articulating purpose can be a whole-organisation, or at least a multi-level exercise, based on conversations, surveys, and other means of gathering and synthesising opinions.

An example from our cases saw purpose elaboration involving not only the board but 20,000 employees through a large survey. It has since been implemented in every single site and location across the world. Another firm took the same approach, and since then monthly polls track how a random sample of employees relate to and implement it.

In some companies the purpose articulation is even more firmly driven by employees. At several firms in our sample, the purpose articulation itself 'was not something that the board did top down: it was very much bottom-up'. These firms involved all their different businesses in a bottom-up process to define the purposes that were eventually proposed by the management teams for final board validation.

4. DIRECTION

The fourth approach to articulating purpose is for it to be agreed and formulated at the highest level and communicated to the rest of the organisation. For example, at a few firms, the board and chief executive together set the purpose, strategic direction, and risk appetite. The impetus for the articulation of the purpose came from the chief executive officer. It was agreed at a senior level, discussed and accepted by the board, and then shared with the rest of the organisation.

HOW COMPANIES DEFINE THE PURPOSE FOCUS

The specific focus of the purpose statements depends on the nature of the business and the type of governance (family firm, listed firm, state-related company, etc.). But how they are expressed can be plotted on a scale that we have termed 'technical–human'.

Understanding where a purpose is situated on this scale can indicate where the board and management should best direct their energies towards the achievement of the purpose.

The purpose statements at the technical end of the scale tend to refer to sustainability, scientific innovation, and similar. Companies with this type of purpose aim to solve a problem via a technical product or service. The decisions that contribute to delivering these purposes are typically high-level, concerned with strategy, policy, and design. Day-to-day decisions made at lower levels in the organisation tend not to impinge on overall purpose delivery. Organisational values, however, remain important guides to behaviour and decisions for all organisational members.

When a purpose has a technical element, it is possible to connect it to concrete characteristics of the products. For example, a tyre-manufacturing company assesses the effectiveness of the decarbonisation inherent in its 'all-sustainable approach' through analysing evidence about fleet management, product quality for new segments (such as electric cars), product safety, usage of recycled components, and innovations around GHG emissions and water consumption.

Where a purpose is human-orientated, typically found in consumer and service businesses, it is more likely that frontline staff are actively and directly involved in purpose delivery. In these cases, the purpose itself, together with values, is ingrained operationally and linked strongly to behaviours.

A hospitality company in our sample adopted a highly participative approach to implementation, in which all functions contributed to translating the four 'pillars' of the purpose into eight commitments. This aimed to ensure that the purpose was fully understood, integrated throughout the organisation, and embedded in operations.

Both the method of purpose articulation and the purpose focus can indicate and, to a certain extent, explain how the board approaches the responsibility of purpose orchestration.

HOW BOARDS GOVERN PURPOSE

A key area of investigation into purpose governance was exploring how board directors talk about the purpose amongst themselves in board meetings, and how they view their role in engaging the rest of the organisation.

We plotted their responses on a 2×2 matrix with two axes: implicit–explicit, describing the way that boards refer to purpose, and abstract–detailed, expressing their

relationship with the rest of the organisation: how they engage with management and employees and the evidence they require that the purpose is being implemented. The result is four distinct ways in which boards orchestrate purpose.

As with purpose articulation, no one approach is better than any other. What matters is 'fit' with the culture of the firm, the focus of the purpose, and how the management team aligns with it in their everyday practices.

FIRST DIMENSION: IMPLICIT–EXPLICIT

We asked directors about the role of purpose in board discussions, including how often it was cited, whether it had its own, separate agenda point, and the circumstances in which purpose was seen to be relevant.

Responses were on a spectrum that we labelled 'implicit–explicit'. 'Implicit' describes board cultures in which the purpose is so well known and understood that it does not have to be verbalised. When purpose discussions are 'explicit', board members will actively refer to the purpose during their deliberations and in some cases add it to the agenda as a separate discussion.

When purpose is implicit:

> *It is simply part of who we are and guides the decision making, both in the board and also in the company.*
>
> *We do not discuss or debate the purpose statement as such, but the company's mission and values permeate many board discussions.*

Companies that described their purpose articulation as a process of Discovery or Development were more likely to depict purpose as implicit in their board discussions. These companies often had historic roots and many were family firms, with the purpose reflecting the founder's initial vision and having been handed down through generations as part of the company's culture and identity.

In firms where purpose is explicitly part of board discussions, interviewees described regular discussions and debate about the purpose, reviews of Key Performance Indicators (KPIs) relating to the purpose, and specific discussions in committees, including the Audit Committee and, frequently, the Remuneration Committee. We found that, in contrast to the boards where purpose was implicit, these boards were deliberate about why and how purpose should be discussed explicitly.

In one firm with a simple purpose statement that encompasses three (complementary) business services, the board launched a process of purpose elaboration, transforming

the short statement into a longer text (about 500 words). The aim was to be as explicit as possible about how the firm's usefulness coincides with all its stakeholders' interests.

An interviewee from an industrial manufacturing company said that when products are 'mundane' it is important that boards make purpose concrete and explicit for employees. Board members at this company insisted that they should use verbs to express purpose in action, such as seize the future, embrace inclusion, strive for simplicity, be dependable: all of which resonate with the firm's values. This elaboration was developed during dedicated sessions in board meetings.

Overall firm governance also influences whether the board is likely to treat the purpose as implicit or explicit. Firms in our study with two-tier governance structures explained that the lack of overlap in responsibilities of the two boards makes explicit conversations essential. Typically, it is the role of the supervisory board to ensure that the purpose suits the firm's culture and helps it sustain its strategy for the long run. Then, as a healthcare-focused company in our study explained, the managing board defines strategic targets. The supervisory board challenges these targets and monitors progress, ensuring a balance between the different stakeholders' interests.

Some purpose statements are phrased more like missions, incorporating a target, especially those which aim to contribute to progress towards Net Zero or to the United Nations Sustainable Development Goals. Boards of companies with this type of purpose are more likely to discuss it explicitly in their conversations because it is inextricable from strategies to make progress towards those goals.

SECOND DIMENSION: ABSTRACT-DETAILED

The different ways in which boards view their role in engaging the rest of the organisation and activating the purpose can be plotted along the scale abstract–detailed.

Boards taking an abstract approach focus on designing frameworks and tools at a high level, which then filter down through the organisation into employee action. They see a clear link between purpose and strategy, with strategy as the means of delivering the purpose.

> *The board itself, let's say the CEO, defines the purpose, and perhaps endorses it. But they do not move further, so they do not go into strategy, they do not go into the everyday side, so they stop a little bit earlier. They look after the risk compliance and then leave the top managers to bring the purpose and principles into action.*

This abstract approach particularly suits conglomerates and other complex organisations that can sometimes embrace multiple purposes and different cultures under a group umbrella.

Detailed orchestration will often also include the agreement of KPIs that are reported numerically. As chairs of the board of three companies expressed (citing just one here):

> *The business plan is essential because it is the means to translate the principles and the purpose into facts, activities, goals, KPIs, remuneration. Budget numbers reflect the factual application of the purpose and the development of the long-term projects that support them. So with the budget every year we translate the business plan and the purpose into facts.*

With this approach, boards aim to identify specific behaviours that are consistent with the purpose, and – importantly – engage regularly with people in the business at all levels to understand in detail how the purpose is reflected and enacted below the top tiers of management and sometimes as far as the front line. For example, one board is highly involved in a range of activities and regular employee engagements through which the purpose is 'brought to life'.

> *This year the board met our sustainability navigators. They've engaged with our customer care teams and listened in on customer calls. They visited different locations to see how our safety culture is embedded. But they got a real, real strong sense coming through from our people in terms of what the challenges are around delivering our purpose. So it's bringing everybody on that journey with us.*

Many firms in our study that embraced detailed orchestration had also created frameworks for strong employee engagement and involvement in the business. A sportswear company refers to its employees as 'teammates', who (among other benefits) have the opportunity to become employee shareholders. These teammates will give their opinions on decisions that may or may not align with the purpose and the associated values. In their words, the 'guardians of purpose are the teammates, not the board members'.

Firms that articulated purpose through a process of discussion often continue this whole organisation process into detailed orchestration by the board, especially where the purpose is human-focused and culture is central to enacting it.

MAPPING CORPORATE PURPOSE ORCHESTRATION AT THE BOARD LEVEL

Creating a two-by-two matrix from these two scales generates four different ways in which purpose is orchestrated at the board level.

Figure 1: The Purpose Governance Matrix

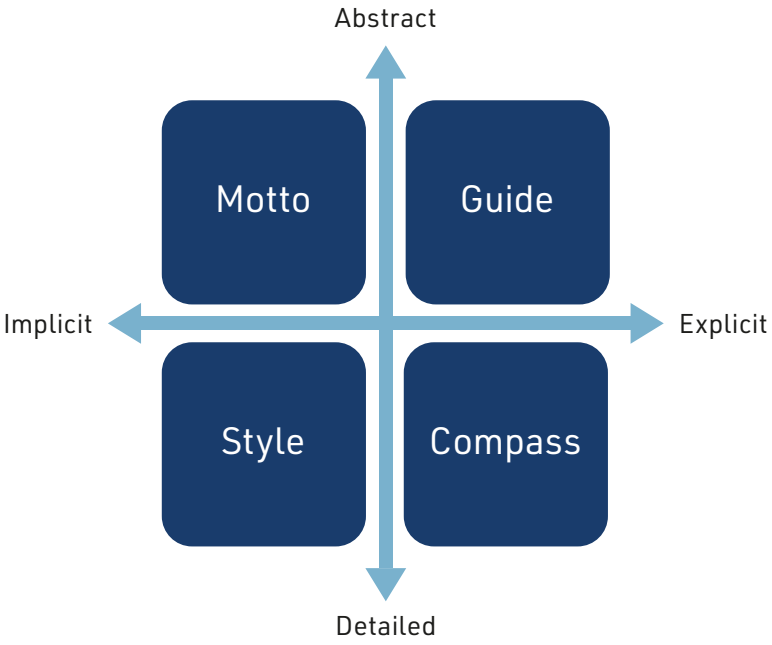


Table 1. Purpose orchestration by boards – examples of observed practices

Motto	The purpose is understood as a high-level indication of the philosophy and distinctiveness of the company, governed in an abstract way and underpinned by implicit understandings. **Practices:** • Clear division of responsibilities in governance structures with little overlap • Regular, formal, but not necessarily frequent reporting to the board • Direct and structured internal communication with an emphasis on action • High level of autonomy in business units and individuals • Carefully designed frameworks and HR processes that require minimal intervention once established

Guide

The purpose is explicitly the impetus for the overall but abstract direction of the company, mostly for top executives and managers, governed with relatively informal expectations, rules, and measures.

Practices:

- The board delegates decision-making but regularly consults the management with an emphasis on 'why' decisions are being made
- Frequent, explicit purpose conversations between board and senior management replace most formal reporting mechanisms
- Clear objective-setting for employees with a reliance on excellent line-manager communication at all levels, explaining why what they are doing matters and how it is connected to the purpose
- Frequent presence of KPIs for objectives, values, or behaviours associated with purpose discussed in existing board committees

Style

The purpose is integrated into the organisational culture and conceived of as an unconscious driver of decisions. These implicit understandings can be materialised into precise and detailed measures and KPIs mostly associated with the culture and expected behaviours.

Practices:

- Constant communication in all directions with many mechanisms in place to elicit employee feedback, such as frequent surveys
- Focus on culture and employee engagement with storytelling as a key management skill that explains the purpose, solidifies norms, and encourages stronger connections
- In addition to financial and other required reporting, KPIs can be developed based on behaviours linked with organisational values (implicitly or explicitly derived from the purpose): most notably, value maps, leadership assessments, and expected behaviours taken into account for promotions and nominations

Compass

The purpose is explicitly at the source of decision-making throughout the organisation and is described through a set of detailed guidelines, with clearly identifiable outcomes, and concrete measures of achievement.

Practices:

- The purpose is invoked in all decision-making at every level. At the board level, several committees integrate metrics associated with purpose: most notably, nomination and remuneration committee, strategy committee, audit and risk committee, and sustainability committee (when they exist)
- Reports, behavioural KPIs, and surveys are enhanced by deep engagement by the board and senior management. Some enforce purpose-based dashboards using precise quantitative metrics corresponding to the company's commitment (without excluding the use of more qualitative surveys)
- Occasional involvement of board members in hosting Q&A-style meetings, and asking front-line staff about their jobs and challenges
- Consistent reinforcement of the purpose and values in all employee communications, using multiple channels
- Employees can be given the freedom to volunteer or pursue their own purpose-related activities

PRACTISING PURPOSE: PERSPECTIVES FROM TOP MANAGEMENT TEAMS

If the board is seen as the orchestrator of purpose, management is the conductor: the point of connection with the board, responsible for interpreting and translating the purpose and bringing organisational members together in harmony to enact it.

We investigated the experiences and insights of top executives during a focused, in-person meeting with 11 senior executives from participating firms on 10 February 2025 in Paris. This was followed by direct calls with participants who were unable to attend. We invited them to comment on the matrix (Figure 1) and discuss the benefits and shortcomings of the different quadrants from their perspectives.

MOTTO

From the perspective of the executives in our study, the **Motto** approach (implicit in board discussions, abstract approach to orchestration) can suit the managers of large, international companies and in regulated industries, where there is already a high degree of complexity and many different reporting demands. Purpose work is then almost entirely delegated to the management.

They argued that where there are regulatory reporting requirements 'a lot of what you have to do is prescribed'. An additional level of reporting to the board on purpose would place a substantial extra burden on the organisation. There are also potential challenges posed by diverse cultures and languages in large international organisations. The purpose statement can be understood slightly differently in different contexts, and local managers are better placed to communicate it more concretely in the appropriate language and with awareness of local norms.

In Motto cases, many managers find it more effective not to talk explicitly about the purpose themselves, but to use storytelling to convey purpose-related messages discreetly and to focus simply on the specifics of delivery. One CEO conceded:

> *Too complicated a framing means nothing on the field.*

Another remarked on all the operational freedom they benefited from with this approach:

> *[It] allows the board to set expectations without getting caught in the operational details.*

One interviewee described how, with this governing approach, executives are only required to report formally on purpose once a year during preparation of the Annual Report.

> *It is a moment for the firm to take stock of what has happened over the past 12 months and communicate it through the purpose. For the rest of the year, it just happens.*

However, the reason it 'just happens' is largely because people management processes including recruitment, progression, and compensation have been devised and implemented with the purpose and values 'baked in', though not explicitly.

> *They don't have the purpose embedded in them – but the decision-making does. The board can see and understand that.*

Benefits of this approach are seen to be agility and the ability to change the narrative as executives see fit. There is room for innovation as teams are not tied to detailed reporting.

However, executives discussing this quadrant underlined potential tensions involved with governing purpose as a motto. In the Motto approach, the communication of firm values and the socialisation of employees within a purpose-based culture gives a great deal of discretion to the managers, which does not guarantee a cohesive set of values and practices throughout the organisation. Some of our participants considered this highly problematic, others less so.

Furthermore, the light touch associated with the Motto-style purpose 'comes with a curse', because it allows managers and employees to interpret the purpose and values for themselves. It leaves open the possibility that they may conflate the organisational purpose with a social purpose and expect managers and the board to respond to a wide variety of issues unrelated to the business. Having said that, the senior managers discussing this quadrant were keen that employees should come to work with the expectation that they should think for themselves. They felt (correctly or not) that the more detailed orchestration from the board linked with the Style and Compass quadrants could lead to a culture of staff just 'doing what they're told'.

GUIDE

The **Guide** approach combines explicit discussion and communication of the purpose with only a very high-level demonstration and reporting required by the board.

Unlike the Motto approach, where most purpose work is delegated, boards who take the Guide approach work more closely with the management, providing not only overall approval but guidance through recurring or even constant discussions and explicitly testing decisions against the purpose and values. In the Guide approach, management unmistakeably develops strategy with the purpose in mind.

This approach appears to serve well companies with long histories and strong cultures, especially where there is deep-seated employee involvement. Purpose as a Guide brings participation and a common understanding of what the firm and employees aim to achieve. Two top executives hence commented that for their companies, where the board used this approach of purpose:

> *In a sense, purpose is everywhere. It is simple and quite obvious for us.*
>
> *Purpose is very present, but not demonstrated, because you simply do it. We don't have to report on it.*

The 'very present' nature of the purpose as Guide is created by plenty of purpose talk, not just at the board level but cascaded throughout the organisation to become the 'backbone of the company'. Purpose talk replaces the need for extensive reporting to the board or active engagement by the board below the level of the senior management team.

> *People need to have it explained, how does the purpose relate to me? It is the job of the manager, helping middle managers explain to lower workers what this means, why it's important, behaviours.*

As with the Motto approach, interviewees saw the abstract involvement of the board as an opportunity for the innovation parts of the business to create and play. The purpose is understood, because there is so much talk about it; but because there are fewer tangible outcomes demanded, there is room for more unstructured activity. There might be more innovation and more unexpected outcomes.

A disbenefit to the Guide approach is that it relies strongly on the culture of the firm in the sense that 'this is what we always do because this is how it has always been done' according to the words of one of our participants. Sometimes this sense of what the company is can replace the purpose in the minds of organisational members, which

can lead to operational and strategic drift when decisions, while sound and made in good faith, do not closely align with the purpose.

Another risk of the Guide approach to governing purpose (also present in the Motto approach) lies in the difficulty in maintaining its course intact when the firm is in (economic) trouble. Since there are no detailed and precise roadmaps or dashboards to review and analyse the dimensions representing purpose in concrete actions, more immediate and financial rationales can prevail – sowing the seeds of future dilemmas at the operational, business, and board levels.

COMPASS

The **Compass** quadrant combines explicit board conversations about purpose with requirements for detailed reporting and authentic engagement throughout the organisation.

Interviewees discussing this quadrant associated it with an extraordinary level of depth in reporting to the board – but also with high expectations from employees of the board's own conduct.

There is usually an intense focus on behaviours: purpose and values are translated into expected or desirable behaviours, and they in turn are translated into KPIs.

> *We have very explicit behaviours that are requested from everybody. These behaviours are also in our interview guides … and in our performance review, it is not only about the 'what' but also about the 'how'.*

In most organisations, board directors rely on reports from executives about employee engagement, and only get what the executives want to show them. When the purpose is viewed as a Compass, the usual reports, staff surveys, and KPIs measuring behaviours are not enough. Multiple committees refer to purpose to deal with their tasks: Strategy, Remuneration and Nomination, Risk and Audit committees regularly mobilise purpose to reflect on and justify their decisions. Moreover, executives expected board members to witness how the purpose is 'lived' in the field by visiting plants and offices, listening to how people talk about themselves and their jobs. Employee representatives on the board are also a useful means of direct communication with the board and management.

In this configuration, management and board members should hold each other accountable, with management helping the board 'walk the talk' (for example, asking the board to simplify their expectations to management to make purpose concrete and operational) and the board asking for evidence:

> *I would expect the board to say, show me, demonstrate that people are not leaving because you are not living up to the purpose.*

If the purpose in any way mentions improving lives or helping people, in particular, this has to be reflected in the way that people are treated within the organisation. Managers were clear that both they and the board directors were observed and held to high standards: 'If you put the expectations about humanity very high, people are expecting that!'. An upside of this approach is that measurement of progress in achieving purpose is accessible to both management and board. More than Motto, Guide, and Style, this approach seems to provide evidence that through business scalability, the corporate purpose becomes a reality, which is a strong and durable source of employees' pride and engagement.

A concern about this very detailed, whole-organisation approach to enacting purpose is that the number of metrics can become unwieldy. One company governing purpose with this approach communicates the purpose, six values, and six behaviours, which can become confusing, especially for new recruits. Another company has a purpose, three values, and four leadership behaviours, with the leadership behaviours accounting for 25% of targets driving remuneration.

Another difficulty stressed by our executive panel rests on the risk of creating too high expectations for employees in particular. It may happen that for competitive reasons, a divestment is required, or an acquisition is necessary that may not fully align with the demands of purpose as a Compass. This can generate misunderstanding within the firm (and also with other stakeholders), some disillusionment, or resentment.

A last cautionary noted expressed by executives referred to the specific leadership competencies that managers must harness in firms governed according to Compass. Indeed, the probability of tensions, dilemmas and paradoxes is heightened by the very nature of this approach, both explicit and detailed in its measurements. As a result, leaders must handle these tensions and paradoxes in a subtle and efficient manner so as not to drive their teams and organisations into a rut.

STYLE

The **Style** quadrant describes companies in which the purpose is implicit in board discussions, yet where they are deeply involved in assessing the outcomes and impact of implementing the purpose.

This quadrant is suitable for companies that know why they exist without needing to reassert it constantly, while their board request from management regular and detailed reporting and demonstration of chosen KPIs aligned with their purpose. In our sample, research-based and professional-style organisations tended to adopt the style approach: there is no need to state why scientists or professionals are employed, but the outcomes of their work are important. Other types of companies in this quadrant might be state-owned or state-controlled: again, they know why they exist, but there is a strong requirement to demonstrate their progress and value.

The combination of occasional implicit purpose references but detailed demonstration at the board level means that the purpose is embedded in the managerial and deep organisational culture. Organisational members 'absorb the purpose' because it is behind the shared beliefs and behaviours that are encouraged and rewarded, and implied by the metrics that they report on.

> *Obviously we have financial targets but we try as a company to measure other things to see how we are progressing with our strategy.*

This reliance on culture also suits a devolved or project structure where diverse teams form and disband, and new team members are expected to know how to behave. It creates a sense of shared identity and positive staff engagement as employees are demonstrating the impact that they have. Style creates a high-trust environment as employees are receiving broad guidelines but they are not being micromanaged.

This quadrant is possibly the most employee-focused and most demanding of management. All leaders need to have a deep understanding of the purpose in order to translate it appropriately throughout the organisation and to different groups of employees – in most cases, all the way to the front line. Storytelling is an important skill, and communication is engaging and conversational rather than broadcasting.

The downsides include a risk of confusion, as so much is dependent on individual interpretation. The implicit nature of purpose discussions also limits agility. A focus on demonstrating outcomes can become a focus on execution, with embedded routines and processes that are hard to change. With no clear communication of purpose, it can feel as if there is no reason to change.

Table 2. Pros and cons of purpose orchestration types as seen by management

Motto	Guide
Pros: Agility and flexibility Space for innovation Can be translated for relevance to local languages and cultures *Cons:* Potential lack of cohesion as managers and staff define the purpose and values for themselves	*Pros:* Provides a common understanding and improved coordination Allows for innovation and creativity Positive culture with engaged employees *Cons:* Strong culture can overtake purpose as the guiding force In a crisis, strategic decision-making can become disconnected from purpose, sowing the seed of future dilemmas
Style	**Compass**
Pros: Reinforces existing strong product or professional cultures High-trust environment Positive employee engagement *Cons:* Risk of confusion as meaning left to individual interpretation Lack of agility as detailed reporting can lead to a focus on execution	*Pros:* Board as much as management is held accountable for purpose achievement High levels of employee engagement with the purpose and the company High standards of behaviour and purpose effectiveness *Cons:* Measurement and reporting can become unwieldy When high expectations are not met, misunderstandings and disillusion within the firm can set in

HOW THE PURPOSE GOVERNANCE MATRIX CAN BE USEFUL

ACHIEVING THE RIGHT FIT

The first and main benefit of our report is that it confirms that there is no single 'best practice' for purpose governance: there is only the 'best fit' approach to governance for each individual firm at a particular time and in a particular stage of development.

Reflecting on the two dimensions at the heart of the matrix can help organisations identify their own current approach to purpose governance and management, and whether it is a good 'fit' for their organisation's culture, sector, and ownership structure, and for the type of purpose that they have identified and articulated. Thinking about the leadership and management practices discussed in the report may point to ways in which they can adopt new practices or start to change their approach to purpose governance to improve effectiveness of purpose delivery.

STRIKING THE RIGHT BALANCE

A common response when confronted by a matrix such as Figure 1 (The Purpose Governance Matrix) is to imagine that it represents a progression framework, with a positioning in the top right corner of the matrix as the ultimate goal.

This is not what the Purpose Governance Matrix represents. Not only is there no one segment that is preferable to another, but boards and executives may wish to be careful about situating themselves at the extremes of either scale.

Believing that purpose is always implicit in board discussions could lead to complacency and purpose drift. Establishing periodic explicit discussions of the purpose can ensure that all members of the board remain aligned with it.

Too much explicit discussion, however, risks prioritising words over action and, at worst, becomes empty talk. It may also suggest that work needs to be done on the board's own culture.

Too abstract an approach and there is no real connection with the rest of the organisation. Employees and departments could appear to comply with the purpose frameworks but in fact could simply be paying lip-service.

On the other hand, journeying too far along the detailed route risks the board's becoming enmeshed operationally, thus undermining overall governance, and the executive team operating a box-ticking and reporting culture, emptying purpose from its genuineness and efficacy.

If a firm were to be situated at extreme ends of both axes it may distort the governance and effectiveness of purpose altogether. A Motto becomes an empty phrase; purpose as a Guide taken to extremes leads to tunnel vision; Style becomes unfocused; and Compass becomes bureaucratic and micro-managed.

DECIDING A CHANGE IN GOVERNING PURPOSE

Not only can firms identify their current approach to purpose governance, but they can also assess whether different circumstances or a change in the external environment might lead to a change in approach in the future. Our interviewees suggested specific circumstances in which it can be useful intentionally to move their discussions or activities to a different point on either scale, and thus to a different quadrant, either temporarily or permanently.

BOARDS CHOOSE TO BE MORE EXPLICIT

When making decisions about rare but significant events, such as pulling out of certain areas, firms' representatives may opt to render purpose more explicit. After the Ukraine invasion, some companies' boards had discussed selling their activities in Russia and to whom. They used the company's purpose as a guide to examine the acquirer's policies regarding, for example, employees' wellbeing.

Mergers and acquisitions are also occasions on which purpose is explicitly referenced, even in boards which would normally rely on implicit awareness. This is particularly important when analysing acquisitions that may not be traditional targets for the company (e.g. tech start-ups rather than established networks).

When making tough decisions, especially where there may be trade-offs, explicit purpose provides a legitimate justification. One board member described invoking the purpose when deciding to invest in decarbonising technology:

> *'So even though it has a cost and that makes it harder to compete with whoever we are competing against, it's the right thing to do.'*

When recruiting new board members, experience is usually the first consideration; but all our interviewees emphasised the greater importance of sharing values and understanding the firm's purpose.

BOARDS CHOOSE TO BE MORE IMPLICIT

Boards can tone down explicit messaging when they seek to embed the purpose more deeply into the culture. 'Role-modelling', showing that board members themselves 'live' the purpose, can be a powerful way of engaging employees that is often more effective than explicitly 'telling' them about the purpose.

> *The purpose statement is quite high-level, and we have, of course communicated it. We have been running campaigns and build it into special events and so on. But what really touches people and where we get the most positive response is when senior management appears to have used the purpose themselves as a rationale for a concrete decision. That's something where we receive a lot of positive reactions from our employees.*

BOARDS CHOOSE TO BE MORE DETAILED

A difference between what a company says and what it does – or what individual organisational members do – can damage its reputation and relationships both externally and internally. A high-level, abstract approach to orchestration delegates decision-making about purpose implementation, but can allow space for inconsistencies to creep in. Faced with concerns or evidence of inconsistencies which threaten to destroy value, boards may choose to take a more active role in orchestrating purpose enactment and demand specific evidence.

BOARDS CHOOSE TO BE MORE ABSTRACT

Boards can choose to be more abstract when they wish to encourage agility and innovation, especially by reducing hierarchies, eliminating bureaucracy, streamlining structures and accelerating decision-making processes.

In addition, acquisitions present significant cultural challenges, even when the companies are theoretically well aligned. A more abstract approach to purpose governance from the board gives the acquired company space to find common ground with its new parent and to make sense of the purpose in the context of its own culture.

CONCLUSION

The discussions with board members and senior executives that formed the backbone of this study have revealed a strong and shared sense of business as a positive force in the economy and for society in general.

Their willingness to speak with extraordinary honesty, and to collaborate with us – and each other – in this exploration of purpose governance reflects the principles and ideals that have been central to the redevelopment of European capitalism at least since 1945, with a rejuvenated emphasis over the last two decades.

With many institutions and assumptions now under threat, European companies' continuing commitment to implementing purpose is ever more important. Is there an alternative capitalism that would host a multidimensional purpose at the core of every European corporation, or is Europe condemned to embrace other existing models, losing its economic and political distinctiveness?

We hope that the frameworks and tools outlined in this report contribute not only to the growing and useful literature around corporate purpose, but also to the strategic and practical thinking of policymakers, boards, and top executives endeavouring to turn purpose intent into practice in favour of Europe competitiveness.

FURTHER READING

REPORTS

'Enacting Purpose Within the Modern Corporation', EPI Series Report #1

'Directors and Investors: Building on Common Ground to Advance Sustainable Capitalism', EPI Series Report #2

'The Foundation of Values and Value in the 21st Century', EPI Series Report #3, in conjunction with the Blavatnik School of Government, University of Oxford; Fraunhofer IMW; Global Solutions; the New Institute; and the Oxford Internet Institute, University of Oxford

PAPERS

'How Leaders Can Create a Purpose-Driven Culture', Rodolphe Durand and Ioannis Ioannou, *Harvard Business Review*, 2023

'A European Corporate Governance Model: Integrating Corporate Purpose into Practice for a Better Society', Governance Center for Firms' Sustainability and EPI Series Research Paper on SSRN, 2023

'From the Boardroom: Making Purpose Research Relevant for Practice', Rodolphe Durand, *Strategy Science*, 2023; 8(2):149-158

'Measuring Purpose – An Integrated Framework', EPI Series Research Paper on SSRN, 2021

'Corporate purpose research: Streams and promises', Rodolphe Durand and Chang-Wa Huynh, *Journal of Management Scientific Reports*, 2024

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