A company creates value among a broad group of stakeholders, including debt and equity investors, employees, customers, and suppliers, all while managing its broader obligations in society. How to balance sometimes conflicting needs of different stakeholders is a current hot topic among business leaders. Achieving this balance will require management, the board, and investors to work together to determine a company’s purpose and how to measure success.

Defining and communicating purpose has long been a focus of some institutional investors, but recently, an association of America’s leading CEOs got on board. The Business Roundtable (BRT) reignited considerable public discussion by overturning its 30-year stance that corporations exist primarily for the benefit of shareholders. The BRT pledged support for an expanded view of value that considers the interests of all stakeholders. In other words, the purpose of a corporation should be to invest in employees, protect the environment, deal fairly and ethically with suppliers, and support their communities, in addition to generating long-term value for shareholders.

Although many embrace a more expansive approach—a movement known as “stakeholder capitalism”—others continue to believe in shareholder primacy. Regardless of where you stand, one thing is certain: there are heightened expectations on each company to define its purpose, balance the needs of all of its stakeholders, and decide how it will measure and communicate success.

What “purpose-led” information is meaningful and measurable? As companies expand stakeholder reporting, the information should be on brand, consistent, commonly understood, and rigorous enough to support accountability. Undefined or misaligned measures may divert attention and challenge a reputation for credibility. Independent assurance would also provide confidence and trust in the information reported.

How should companies balance?

- Community
- Customers
- Employees
- Shareholders
- Suppliers
- Others
Getting started
As a company considers its purpose, management’s role will be to define what is important and the best way to measure progress and success. This should include development of company-specific policies that facilitate transparency and accountability. The board should understand how the company clearly defines and communicates its purpose, including how it will consistently measure the value it delivers to stakeholders.

While company size and industry will inform your approach, these steps can get you started:

1. **Take stock of your stakeholders:** Identify each stakeholder group, including employees, and determine which aspects of your business are most important to each.

2. **Lead with purpose:** Now that you know what is important to stakeholders, define your purpose, set related goals, and lead accordingly. Differing aspirations among stakeholders may make it difficult to gain acceptance on a set of measures. Be intentional with achievable goals.

3. **Develop and report purpose-led metrics:** Develop consistent and controlled policies for quantifying and reporting purpose-led metrics.
   - Align metrics reported externally with those used by management in running the business.
   - Organize metrics in a systematic way. Consider the use of technology to make the information interactive and engaging.
   - Offer comparison figures to demonstrate consistency.
   - Determine the appropriate format and how frequently to report.
   - Implement controls over the preparation and reporting of purpose-led metrics with the same rigor as controls over traditional financial reporting.
   - Provide context - the most relevant metrics consider the entity’s industry and markets.

4. **Live the purpose:** Incentivize employees through their participation in setting the company’s goals and by connecting aspects of compensation to achieving them.

5. **Re-evaluate:** Changes in the social, economic, or political environments can lead to changes in stakeholder views. Periodically assess whether the purpose-led metrics continue to resonate with stakeholders.

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Imagine if you had regular financial statements for a company’s impact on the environment, for its labor standards, audited by external sources—and not being truthful had the same penalties.

- Neil Malhotra, a professor at Stanford’s Graduate School of Business, Director of the school’s Center for Social Innovation

Ensuring reliability and consistency

Financial statement reporting is a relatively mature discipline, with established standards and audit requirements. As such, users of financial statements are accustomed to a level of reliability, consistency, and comparability.

As companies refine their purpose beyond building shareholder value, reporting purpose-led information will differentiate a company and start to provide additional credibility and substance. But is reporting enough on its own? Assurance on a company’s efforts may be necessary to gain common understanding and acceptance of the information provided, and therefore, reliance on it.

Key questions to consider include:

• Will consumers of the purpose-led information be confident in its accuracy without independent assurance?
• Is there reliable information available to support the company’s assertions?
• Does the company have a consistent policy on measurement and presentation of the measures with adequate governance?
• Has management implemented appropriate processes and controls to support the reliability of the information reported?
• Is there an accepted format for communication of the information?

Independent assurance is available now to help establish a common understanding of new value measures and spur wider adoption and acceptance of their use.

In addition, in the longer term, a formal reporting framework could replace ad hoc disclosures and enable greater comparability from one company to another and one industry to another. A framework would drive a measure of diligence, rigor, and consistency in how purpose-led information is captured, measured, and reported.

What level of assurance makes sense?

Management should consider both the expectations of stakeholders and the nature of its own reporting to determine the appropriate level of assurance. Existing standards can cover a wide variety of subject matters, and offer three different types of reporting: examination, review, or agreed-upon procedures. There are key differences in the scope of procedures performed and the level of assurance provided. For example, an examination provides the highest level of assurance, similar to a financial statement audit. Conversely, an agreed-upon procedures report is issued by an independent third party on procedures determined by management and the report users.
Questions and answers

1. For those who believe in shareholder primacy, does purpose-led reporting still matter?
Yes. The two are not mutually exclusive. Supporters of shareholder primacy focus on shareholder return; however, even in this context, factors such as employee satisfaction matter because satisfied employees generate shareholder value.

There are a variety of risk factors that affect shareholder value. They include poor management of resources, lack of employee engagement, inadequate cybersecurity controls, and threats to brand loyalty, as well as other environmental, social, and governance considerations. These types of risks, and the company’s performance against them, are not captured by traditional financial reporting. Purpose-led metrics aid investors focused on return with better visibility into all components of a company’s value proposition.

2. How can the board provide oversight over purpose-led reporting?
A company’s board of directors plays a critical role in defining its purpose. Key tenets of board oversight have a natural overlap with management’s responsibilities regarding the execution of a defined purpose: establishing the tone at the top; ensuring that internal controls are in place and operating effectively; and promoting accurate, high quality, and timely disclosure of material information to the public. In this paradigm, the board is well-positioned to provide oversight over management’s purpose-led reporting.

3. A framework will take time - what should I do now?
Purpose-led reporting can begin in the near term without further action from standard setters or regulators. A company could start by developing its own structured policy for reporting, focused on the factors and measurements important to its stakeholders. Measurements could range from same store sales to reliance on natural resources, employee turnover to information about the supply chain. While purpose-led reporting will typically include some amount of judgment, a robust policy would enhance the quality and consistency of judgments and enable independent assurance.

In summary

A company that balances the needs of all stakeholders can drive shareholder value while playing a broader role in society. Managements, boards, and their investors should engage in the debate as to what is important for each company. Further, an important next step will be to define how success will be measured and reported. Purpose-led information beyond the financial statements will support transparency and accountability to a broad stakeholder group. Usefulness of this information can be enhanced by subjecting company-specific policies and measurements to independent assurance, and later, a common regulatory framework.

To have a deeper discussion about purpose-led reporting and how we can help, please contact:

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Consumers and employees alike are demanding that businesses and brands do more for society. People now more than ever want companies to do the right thing and be transparent and accountable for their business practices.

Tim Ryan, PwC US Chairman and Senior Partner