



OXFORD RETHINKING PERFORMANCE INITIATIVE

BACKGROUND

In light of growing concern about systemic challenges, such as climate change and income inequality, recent years have seen notable growth of interest in the purpose of the corporation. The specific definition of purpose as being “to solve problems of people and planet profitably, and not to profit from causing problems¹” brings clarity to the concept and links it directly to questions of management and measurement. It relates it to the boundaries of the firm, the resources needed to manage a firm’s activities, and the impact the firm has on other parties. Purpose is then the starting point for a company’s values (*how* the organization behaves), its mission (*what* the organization does) and vision (*where* its long-term aspirations lie)².

At the same time as corporate purpose has advanced in significance, there has been considerable progress in non-financial measurement and reporting. Recent announcements of collaborations of key non-governmental standard-setters³, proposals from the European Commission⁴, and growing involvement of existing accounting standard-setting bodies, in particular IFRS, are paving the way for standardization of non-financial reporting. Corporate initiatives, such as the Value Balancing Alliance, and academic projects, such as the Harvard Business School Impact-Weighted Accounts Initiative, are adding to this momentum with important methodological advances in the area of impact measurement and valuation.

PURPOSE

What is missing is a framework that links these two developments. Too often measurement is devoid of purpose and purpose is not operationalized, let alone measured.

To address this missing link, the Oxford Initiative on Rethinking Performance (ORP), a collaboration led by Oxford University’s Saïd Business School including key corporate and investor members⁵, seeks to develop a generally accepted framework for the measurement and operationalization of corporate purpose, enabling sustainable and long-term focussed business behaviour to thrive for the benefit of the economy, investors, planet and society.

¹ British Academy Future of the Corporation Programme, Principles for Purposeful Business, November 2019, <https://www.thebritishacademy.ac.uk/news/british-academy-proposes-principles-agepurposeful-business>

² Enacting Purpose Initiative, Enacting Purpose Within the Modern Corporation – A Framework for Boards of Directors, August 2020, Oxford University, <http://www.enactingpurpose.org/assets/enacting-purpose-initiative---eu-report-august-2020.pdf>

³ Impact Management Project, Statement of intent to work together towards comprehensive corporate reporting, September 2020, <https://impactmanagementproject.com/structured-network/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/>

⁴ Most notably the Directive 2014/95/EU Non-Financial Reporting Directive and the EU Taxonomy Regulation (EU) 2020/852 for Sustainable Finance.

⁵ The membership is evolving, current members are listed under <https://www.sbs.ox.ac.uk/research/centres-and-initiatives/oxford-initiative-rethinking-performance>

MISSION

It is not enough to merely change metrics. It is the system requiring these metrics which needs fundamental redesign. By drawing on recent advancements in thinking on corporate purpose and measurement and reporting, ORP seeks to *integrate and complement* existing and developing frameworks to enable companies to operationalize and measure corporate purpose. This attention to purpose will permit a more focussed response to quickly evolving regulatory and stakeholder expectations and allow investors to track a more meaningful implementation of corporate priorities.

ORP will address this from the point of view of management, accounting and reporting:

- **MANAGEMENT:**

How should corporate purpose be embedded in the management of organizations and aligned with corporate practices throughout them? We will develop a framework to operationalize corporate purpose at the level of divisions, business units, projects, and people within organizations. By building internal and external awareness about purpose and its implementation, we aim to increase the capacity of business to adequately respond to systemic challenges and foster a resilient, long-term strategy.

We will establish the basis on which the implementation of purpose in companies is reflected in measurement and practices at these levels. What are relevant measures and tools, and how are they derived and applied in performance evaluation and reflected in incentive arrangements? How do these then lead to processes that enable behavioural and cultural changes at all levels? And, finally, how are expenditures costed and recorded in management accounts and performance evaluated in financial and non-financial terms?

- **ACCOUNTING**

In performing this analysis, we will work with members of the consortium to observe, evaluate and advise on methods of translating corporate purpose into social and environmental impact measurement and financial performance assessment. We will develop systems of management accounting that correctly account for the cost of maintenance of assets on which companies depend for the delivery of their purposes and the investments that they make in their human, social and natural as well as material assets. We will thereby derive appropriate measures of operating profit for informing decision making. This will contribute to the creation of a purpose governance and tracking system that ties top-down views on purpose to bottom-up measures, allowing for effective operationalization of purpose.

- **REPORTING & STEWARDSHIP**

The information that is available within the organization provides the basis for aggregate assessments of the overall performance of the company in relation to its corporate purpose and the derived materiality, both in financial and non-financial terms. This relates to the emerging standards around which companies are increasingly expected to report regarding their impacts as well as their financial performance. The development of an ORP framework aims to provide a link between corporate purpose, management practices, corporate reporting and stewardship practice in order to enable a clear view on how investor-company relations can benefit from internal views on non-financial as well as financial impact. This link has been missing to date, and would lend clarity, authenticity and credibility to statements about the responsibility and sustainability of companies' activities and offer a new toolkit to investors in their assessment of corporate performance through a lens of corporate purpose.

VALUES AND VISION

PRACTICAL RELEVANCE: The work of ORP seeks to create practical solutions for business and investors that contribute to the formulation, implementation and measurement of appropriate definitions of corporate purpose.

ENGAGEMENT: The ORP seeks as high a level of interaction and engagement with and between members as possible to achieve mutually beneficial learning.

INTEGRITY: The research will adhere to the highest ethical standards as set out in Oxford University's Academic Integrity in Research Code of Practice by its Central University Research Ethics Committee (CUREC)⁶.

CONFIDENTIALITY: Strict codes of confidentiality will apply at all times.

- a) discussion and presentations held at member meetings are strictly under Chatham House Rule⁷;
- b) documents and materials shared with ORP team members will be held in confidence, unless explicitly agreed otherwise;
- c) learnings and insights from research will only be attributed to the company under explicit consent and will otherwise be fully anonymized (see also CUREC).

OUTREACH: Where it is possible to do so, the work of the initiative will be accompanied by outreach to other parties to ensure that:

- a) knowledge and opinions of stakeholders beyond members are incorporated;
- b) outputs from the initiative are publicly discussed and peer reviewed to the highest standards; and
- c) the initiative establishes itself as the most comprehensive source of ideas and thinking on purpose, implementation and measurement.

⁶ University of Oxford Research Ethics and Integrity Guidelines, <https://hr.admin.ox.ac.uk/academic-integrity-in-research> and <https://www.socsci.ox.ac.uk/ethics-and-integrity>.

⁷ See <https://www.chathamhouse.org/about-us/chatham-house-rule> for clarification