



Building strong foundations: Mission clarity

Defining the fundamental purpose

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Going from good to great

We have long argued that **good governance** is a key factor that distinguishes the very successful asset owner funds of the world.

In 2007, Roger Urwin (Willis Towers Watson's Global Head of Investment Content) and Professor Gordon Clark (Oxford University) conducted a landmark study of investment governance*. The study was carried out by examining ten exemplar funds which were selected on the basis of their reputations for strong decision-making accompanied by performance success. The key conclusion of the study was that **strong governance is a critical requirement to allow organisations to achieve above average investment outcomes on a sustainable basis.**

The study identified 12 traits that are shared by the most successfully governed institutions. These are briefly summarised below:

'Core' business traits	'Exceptional' business traits
Mission clarity	Highly competent investment executive
Effective focusing of time	High level Board competencies
Leadership	Supportive compensation
Strong investment beliefs	Competitive positioning
Risk budget framework	Real-time decision making
Fit-for-purpose manager line-up	Learning organisation

* Best-practice investment management: lessons for asset owners from the Oxford-Watson Wyatt project on governance, Gordon L Clark and Roger Urwin, September 2007.

This note is part of our **Building Strong Foundations** series which addresses these 12 factors in turn. Here our focus is on mission clarity: What does having mission clarity involve? Why is it important? What are some of the nuances worth exploring further? And how might organisations go about building and embedding this mission clarity in their funds?



What does having mission clarity involve?

It's no coincidence that mission clarity is the first factor on the best practice list above. Its positioning reflects not only its importance, but also its intuitive place as the foundation of investment governance.

Mission clarity refers to the principle that an organisation has well-understood and well-articulated goals, articulated through a mission statement. Best practice funds exhibit all of the following characteristics:

- The mission is clearly defined and well-specified, including its components
- The components of the mission are prioritised
- The mission statement is complemented by explicit goals that specify 'success' over defined time periods
- The organisation's resources are aligned with the importance of each component of the mission
- The mission is agreed and understood by direct stakeholders



Stakeholder mapping

Stakeholders are parties that have an interest in an organisation, and can affect or be affected by what that organisation does. Some are direct – they include board and staff members, trustees, customers (members in a pension fund context); some are indirect – for example, regulators and business partners. If the organisation's activities have a broader public impact then that broader public are also indirect stakeholders.

Stakeholder mapping involves understanding who an organisation's stakeholders are, their interests, their relative importance, and what they are looking for from the organisation.

Not all stakeholders get a direct say in an organisation's mission, and not all will necessarily agree with it. However, all organisations ultimately rely on some degree of societal 'licence to operate'. Understanding the perspectives of various stakeholders helps organisations to strengthen that licence. Conversely, ignoring those perspectives threatens it.



Why is mission clarity important?

In our view, it is hard to overestimate the importance of mission clarity and creating a shared framework that all stakeholders can align to and buy into. The core benefits of this include:

- Improving transparency in purpose and decision making for the benefit of beneficiaries and stakeholders
- Helping ensure stakeholders are clear on what can be expected
- Helping decision makers to deal with complex issues and to focus on and prioritise the right issues
- Saving time by having prior consensus on core issues; this in turn speeds up decision making
- Helping to integrate the different parts of the governance structure – board, executive and service providers
- Surfacing sensitive issues via the process of creating and reviewing an integrated framework, which encourages constructive thinking and conversation, leading to a better shared understanding
- Providing a focus for the executive and investment team on doing the right things, not just doing things right
- Facilitating effective external branding and communication
- Helping to protect stakeholders and fiduciaries from regulatory, compliance and political risks or interference

Mission, vision and values

Often, a mission statement is closely linked to expressions of vision or aspirations, core values or ethics, and strategic goals. There is clear benefit to having these elements working as a coherent whole, but they often overlap or can be confused, which diminishes their usefulness. Our framework is as follows:

Mission – a clear statement of the organisation's fundamental purpose, mindful of balancing stakeholders and their competing priorities

Vision – the aspirational view of the organisation and what its ambition is

Values – the aspects of behaviours, motivations and preferences that are central to the organisation's success; values are a key part of culture and ways of working

Organisations will often translate these statements into explicit targets that define success over agreed time periods via implementable actions – we would term these 'strategic goals'.

Whether or not a mission statement is best practice will depend on second order definitions of the terms in the mission statement. These terms need to be sufficiently well-defined so that all stakeholders in time can assess whether the mission has been a success or a failure. If the key terms are not defined, the statement can just be a marketing line which has some, but limited, benefit.



Examples of Mission, Vision and Values

California Public Employees' Retirement System (CalPERS)

Mission: Provide responsible and efficient stewardship of the System to deliver promised retirement and health benefits, while promoting wellness and retirement security for members and beneficiaries.

Vision: A respected partner, providing a sustainable retirement system and health care program for those who serve California.

Values: Quality; Respect; Accountability; Integrity; Openness; Balance

New Zealand Superannuation Fund

Mission: Maximise the Fund's return over the long term, without undue risk, so as to reduce future New Zealanders' tax burden.

Vision: A great team building the best portfolio.

Values: Inclusiveness; Innovation; Integrity

RailPen RPMI

Mission: To pay members' pensions securely, affordably and sustainably.

Vision: To be a world-class asset owner.

Values: We take ownership; we are collaborative; we are pioneering

What marks success and failure?

In essence, institutional funds have a mission of building wealth for their stakeholders by generating risk-adjusted excess returns. For a pension fund, this may simply translate into paying pension promises to its members. However, the security with which those pension promises can be met is often an important dimension. The affordability of meeting those payments could also be a factor, as well as the implicit and explicit risk-sharing agreements between the members, sponsor and employees. Further, the impact of the fund's actions and investments on wider society might be considered. A seemingly simple mission can quickly become a multi-dimensional problem, and the process of prioritising the different components of mission is therefore key.

If we translate the scenario to other types of investing institutions (for example, a sovereign fund, endowment, foundation or family office) then often the problem is even harder to resolve. Many of these institutions have a broader scope in terms of their key objectives (creating long-term wealth for future generations, to further research and education, etc.) and hence the potential span of an institution's mission is broader and invokes a more complex stakeholder mapping, not least as a function of the organisational extended time horizon.

Success and failure – questions to consider

Defining success

- How do you define and measure success?
- What timeframe do you measure success over?
- What are the consequences of success?
- Do all of your stakeholders view success in the same way?

Defining failure

- How do you define and measure failure?
- What timeframe do you measure failure over?
- What are the consequences of failure?
- Do all of your stakeholders view failure in the same way?

Is the 'pain' of failure greater than the 'joy' of success? Are you more motivated to avoid failure than you are to seek success?

Defining success and failure relative to a clearly articulated mission has important implications for risk management. If success is achieving the mission, then it follows that the fundamental risk to an organisation is that of 'mission impairment'. Creating a strong and meaningful link from mission clarity into risk management processes is a marker of a thoughtful and coherent approach to investment governance.

Mission impairment

Mission impairment is where assets are insufficient to meet actual or projected liabilities or wealth targets – in other words, the fundamental purpose of the fund can no longer be fulfilled. This stage is reached when the ability of the fund to adapt runs out and risk crystallises¹.

¹ The Wrong Type of Snow. Willis Towers Watson (2012)

Working to achieve mission clarity

We have worked with many clients to establish a strong and effective mission statement that enjoys organisation-wide support. The process is inevitably tailored to different institutional circumstances, but the structure we follow is outlined here:

Facilitating workshops to identify the key issues – exploring the facets of mission, the importance of mission clarity and what comprises a successful mission statement is an important starting point. A workshop (or multiple workshops) is one of the best ways to get a broad range of stakeholders involved and bought-in to the process. Having a collective and coherent conversation (rather than a series of parallel ones) helps manage a constructive and productive process.

Building the organisational picture – a combination of one-to-one conversations and questionnaires can be used to tease out organisation-specific context, stakeholder priorities and the balance of issues. Collating the different perspectives allows us to build up the ‘mosaic’ of the organisation and identify the best way forward.

Stakeholder engagement and socialisation – in order to ensure the necessary support and collective adoption of the mission, it is vital to continue with stakeholder engagement. This is often an iterative process of drafting and fine-tuning, but efforts applied here should have significant benefits down the line.

Embed into the organisation – the mission, as with any other governance tool, is only useful if it is effectively embedded into the organisation and its ongoing activities. Ensuring the mission statement remains a live, well-referenced and front-of-mind document enables the organisation to benefit fully from the process. A simple way to embed the mission is to always ask, when confronted with a potential new activity: ‘how is this activity consistent with our mission?’

Next steps – strategic plans are often used as the next step to set specific targets so that the organisation can translate its mission into implementable action and make clear and measurable progress over time.

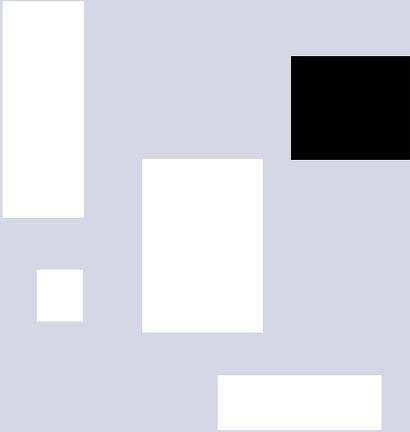
Mission clarity is the first pillar to build strong governance and the other traits identified in the Clark-Urwin study follow from this point. It is important to spend time to define the mission and re-visit it over time to determine whether it is still appropriate, and the activities the organisation is undertaking remain aligned to it.



Further information

To discuss how we can partner with and help your organisation with similar projects, please contact:

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