CATÓLICA-LISBON
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BUSINESS & LEADERSHIP

PURPOSE DRIVEN BUSINESS

Latest fad or the ultimate sustainable competitive advantage?

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This research note was developed by the Center for Responsible Business & Leadership (CRB), a unit of Católica Lisbon School of Business and Economics. The Center is a strategic initiative in Católica Lisbon's ambition to be a catalyst for IMPACT creation, through knowledge development and innovation, in order to place responsible business at the core of corporate strategy.

Responsible Business (RB) is becoming an essential part of corporate strategies and the CRB aspires to develop critical knowledge among students and executives to face the sustainability trends as opportunities. Our aim is to contribute to CATÓLICA-LISBON mission to be a top business school and create a position of intellectual leadership, while finding the right answers for the world's toughest challenges.

We believe that corporations able to act as a Responsible Business, integrating all its dimensions into their strategies and culture, will be the leading companies of the future.

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I. Introduction

The concept of Purpose and its inclusion in the strategy and culture of companies has been gaining a lot of attention. Although the initial spike of interest in the theme of purpose was after 2008, as a direct response to the great recession, we have witnessed a major growth in the concept over the last five years. It is common these days to find articles arguing that purpose driven companies are making a difference in their communities and maybe even the world. There are also studies that show that purpose-driven companies perform well in the market and that patterns of consumer behaviour are becoming more sustainable, rewarding purpose-driven companies and products.

Despite this increasing interest in the concept of Purpose from scholars and business professionals, several definitions for Purpose are proposed and the concept lacks clarity. This Research Note aims to contribute to a stronger conceptualization and implementation of Purpose. It offers a comprehensive definition of what Purpose is, based on a set of five principles: 1) reason for existence, 2) decision-making guide, 3) unifying factor, 4) sustainable competitive advantage, 5) ecosystem approach. We also review the existing evidence on the value creation potential of adopting a purpose-driven strategy and propose a process framework to enable purpose-centric organizations.

To make the concept of purpose powerful, it is fundamental to make it real. We hope this RN proves to be a valuable resource for executives looking to better understand the concept of purpose and aiming to apply it at the core of their business strategy and organizational practice.

II. What is Purpose?

Cambridge dictionary refers to purpose as "why you do something or why something exists" (Cambridge dictionary, 2020). In the words of Viktor Frankl, an important thinker of the XX century, the meaning of life lies in finding a purpose and taking responsibility for ourselves and other human beings. It relies on having a clear "why" that allows individuals to face any challenge on their lives (Frankl, 1984).

The buzz around the theme of "Purpose" is increasing everywhere, particularly in the business world, where we hear more and more that companies aim to develop a Purpose-driven strategy. However, the understanding about this "new" concept in business discourse is still not clear, neither for academics nor executives.

The concept of Purpose has been recently referred to as a "North Star" (Leaders on Purpose, 2018; EY Beacon Institute, 2016). A fixed point that a company can always rely on and the ultimate reason for its existence (the "raison d'être"). One that guides the company path, not only in times of prosperity, but also in times of uncertainty and change.

Purpose can be seen as the aspirational goal that gives meaning to the company's operations, while profits are the lubricant that allows it to keep growing, creating more value to all stakeholders involved. Purpose beyond profits allows the company to generate value and to accomplish its mission. The opposite will never bring long term success. As Handy (2002) mentions: "The purpose of a business (…) is not to make a profit. It is to make a profit so that the business can do something more or better. That *something* becomes the real justification for the business existence".

As discussed in the next section, there has been an historical shift from the dominant shareholder value maximization logic to a stakeholder management approach. However, an issue with the stakeholder management approach that is so in fashion these days is that different stakeholders have different interests and this creates in organizations a political arena prone to conflicting views. Purpose is a concept capable of aligning all stakeholders on a common ground and a shared ambition that they can strive for. One that allows them to leverage their organizations to their full potential in order to fulfil their mission and contribute to sustained value creation. In the words of Larry Fink, Chairman & CEO BlackRock, "without a sense of purpose, no company either public or private, can achieve its full potential" (Fink, 2018).

In the aftermath of a COVID-19 pandemic causing the biggest global economic crisis in a century, the concept of Purpose emerges more important than ever. It promises to drive companies and society to a new form of capitalism, where they can prosper together and create value for all.

An historical perspective

Purpose was not a popular concept until recent times, and this may be related to the dominant understanding about the role of business in society (Handy, 2002; Hollensbe et al., 2014). During the last 50 years, the shareholder value maximization logic (Friedman, 1970) dominated the western business world. It was accepted and practiced that the responsibility of companies was to increase profits and shareholder value. In a period when capital was in short supply and needed to be allocated efficiently, it brought us an age of growth and aggregate prosperity. However, it also accentuated a situation of social inequality and environmental collapse that is risking the stability of liberal democracies and the sustainability of life on Earth. As companies and societies came to understand, especially since the great recession of 2008-2010, the focus on "profit only" is destroying long-term value. Maximizing short-term profits is very costly when it does not account for externalities. Aligning the prosperity of society and the success of companies is more important than ever.

In fact, if we do a quick retrospective on Business History, we see that Purpose used to be at the core of the company's existence before the fast industrialization era of the last century. The word *company* comes from the Latin, "com + panis", meaning "the ones with whom we share the bread". The term is also associated with the old French word "compagnie", meaning "body of soldiers", the ones that fight together for the same purpose. This origin of the word "company" calls attention to the contrast between the current concept of "company" and the societal role that companies can ambition to perform.

Before the 20th century developments in financial capitalism, companies still had a reminiscence of this original legacy, when the owners were also the corporate managers and many large companies remained under family influence and close to its communities. Often, the corporation was many times the social provider for its community and the one taking care of its employees.

However, throughout the 20th century, as globalization became more prominent, corporations began losing this connection to local markets. Corporations began raising private external capital and trade it in stock markets. The dominance of the local-family-owned business gave way to a new form of company - the publicly-traded corporation. This brought the emergence of the investor-owned corporation and a new governance model with the separation of ownership (shareholders) and control (by hired managers) (Salter, 2019).

Continental Europe was slower to adopt this mostly Anglo-Saxonic trends. For example, in Portugal in the middle of the 20th century, the CUF corporate group exemplified the earlier approach in terms of the attention to the well-being of its employees (including providing services such as education, health care, and child care). As another example, uuntil today, the Delta Cafés group continues to practice a very close approach to employees and communities as it always has done as a family group. This is still common across Europe.

By the 2nd half of the 20th Century however, the debate about the company's purpose became more intense. Managers needed to know what the criteria would be to measure their success as leaders of their organizations. In 1955, Peter Drucker contributed to this line of thought defining the company purpose in a customer-centric way as: "to create a customer, while making sufficient profit to cover the risk of business activity and avoid losses" (Drucker, 1955).

Later, during the 70's and 80's the narrowing of the concept of good management brought "profit" to centre stage as the main criteria to measure corporate success. Since shareholders owned their corporations, it seemed to make sense that managers and employees' duty was to make the companies strive for the shareholder interest. This logic was presented during the

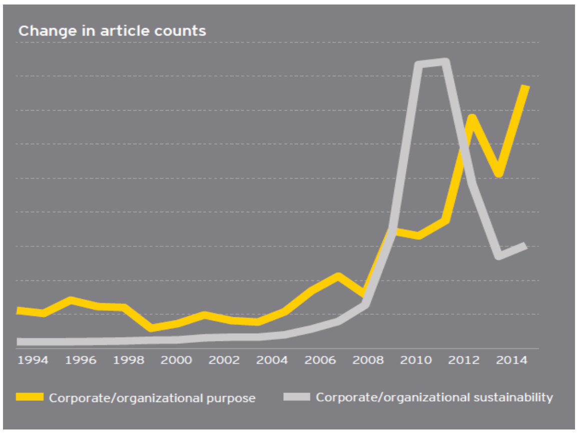
70's by an approach called "agency theory" (Ross, 1973), where shareholder value maximization was highlighted as "the only legitimate expression of corporate purpose and the most effective tool for managing the agency relationship between shareholders and managers" (Jensen and Meckling, 1976).

This golden age of shareholder maximization theory was made popular by Milton Friedman in his famous *New York Times* 1970's article (Friedman, 1970) and his argument that *"there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."* This view remained until recently at the centre of the corporate management practice.

In the 80's the concept of Corporate Social Responsibility began raising again the issue of companies' responsibility to their communities. Still, this movement was seen mostly as a philanthropic appendix of the company's core business, implemented essentially through the creation of corporate foundations to explicitly pursue social goals. In the beginning of the 90's Bartlett and Ghoshal (1994) issued a call for scholars to consider purpose as the essential precursor to effective strategic management. They defined purpose as "the statement of a company's moral response to its broadly defined responsibilities, not an amoral plan for exploiting commercial opportunity". They argued that the primary role of top management (…) is not to set strategy, but instead to instil a common sense of purpose" (Gartenberg et al, 2016).

However, the interest on the topic of purpose had almost no increase in the 90s in academic and business circles. According to Gartenberg et al. (2016) this is related to the difficulty of measuring purpose systematically, in contrast to what can be achieved with profit measurement. In fact, data on the evolution of the reference to the word "purpose" shows that corporate purpose was barely mentioned in academic articles and media until 2008, as seen in Figure 1.

Figure 1- Evolution of the concept of purpose in academia an mainstream media over the past 20 years



Source: EY Beacon Institute; Source: "Standardized article count on corporate purpose and sustainability" An analysis
of how and why top leaders of global organizations leverage purpose to transform, December 2015, EY, 2015.

However, a new tendency began in 2008. It came as a consequence of the great recession which decreased the general trust of society on businesses and on the dominant approach of profit maximisation. The failures in financial markets became more evident, as well as the costs imposed on the environment by certain business practices. Since then, the general belief that the role of business in society needed to be redefined brought the theme of purpose to the spotlight. Purpose has been recognized as a "key element for creating meaningful organisations in a competitive environment that is strongly marked by inconsistency and uncertainty" (Moore, 2020; Dewettinck and Defever, 2020). It was also around the 2008 financial crisis that notions of "inclusive capitalism", "conscious capitalism" and "stakeholder capitalism" started receiving more attention (EY Beacon Institute, 2016), including in financial circles. This interest culminated with the recent statement from the Business Roundtable on the need for corporate leaders to concentrate on the "Purpose of a Corporation", which expressed a "fundamental commitment to all of our stakeholders," not just shareholders (Business Roundtable, 2019).

Data shows that, in 2013, Purpose-related references began growing rapidly (EY Beacon Institute, 2016), reaching a record year in 2020 according to the analysis referred by Dewettinck and Defever (2020). This evolution is part of the trend recognising that businesses are not only a crucial partner in addressing the world's most urgent challenges, but they are one of the first to benefit from this shift to a value creation approach with a broader set of stakeholders. CEOs are actually among the first to recognise that a strategy that contributes to society stakeholders, rather than to a profit-only approach, will generate more sustained value for their companies in the long run (Leaders on Purpose, 2019). However a true Purpose-driven agenda needs to go beyond stakeholder management. As Hollensbe et al. (2014) refer, this new focus on Purpose may require companies to look for their roots. In fact, with "a world of sharply rising inequality, and still too often driven by seemingly insatiable desires for more, we urgently need to reframe how we collectively understand the purpose of business—the reason for which it is created and exists". The focus on purpose comes from the interdependence between business and society, and the consciousness that one cannot flourish without the other. In fact, business will only thrive in healthy and wealthy societies.

Purpose today

Nowadays there are different definitions of Purpose, but all of them point in a similar direction. Gartenberg et al. (2016) and Zu (2019) refer to Purpose as the "reason for being". EY Beacon Institute (2016) as an "aspirational reason for being that is grounded in humanity and inspires a call to action". Henderson and Van den Steen (2015) refer to it as "a concrete goal or objective for the firm that reaches beyond profit maximization." Thakor and Quinn (2013) define it as "something that is perceived as producing a social benefit over and above the tangible pecuniary payoff that is shared by the principal and the agent."

Gartenberg et al (2016) refer that an organization's purpose is not a formal announcement, but instead a set of common beliefs that are held by and guide the actions of employees. In fact, purpose can be said to inform the mission (what a company does), being itself the "why" the company does what it does (EY Beacon Institute, 2016). Mazutis and Ionescu-Somers (2015) refers to purpose as "an aspirational reason for being which inspires and provides a call to action for an organization and its partners and stakeholders and provides benefit to local and global society." Leaders on Purpose (2019) refer to Purpose as "the ambition to create value by contributing to the welfare of society", being transformative for both the organization and the world.

The Purpose Playbook (2020) emphasizes the financial value creation, describing Purpose as "a company's reason for being that simultaneously helps solve a societal problem and creates significant financial value for the company". For the authors purpose must be integrated into strategy, operations, and people-related efforts, and should also create measurable value for the company and society.

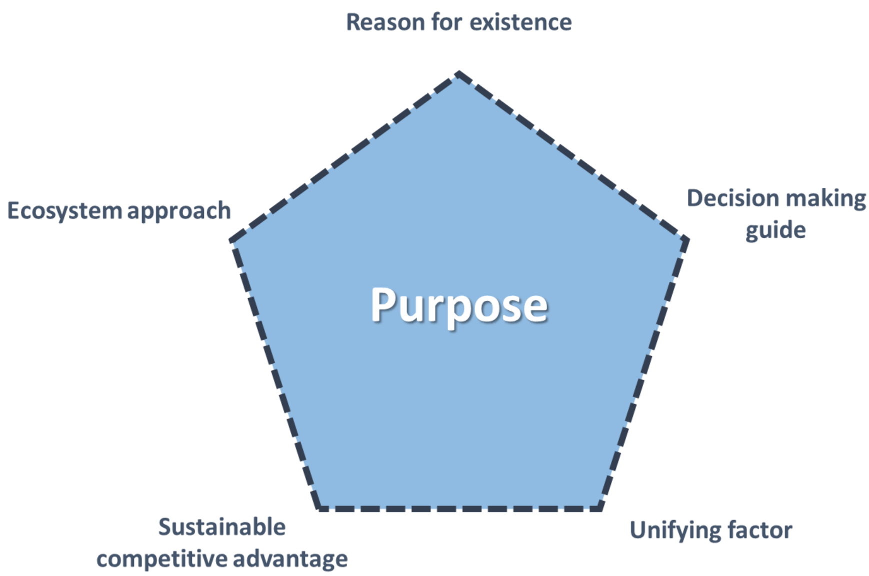
They bring attention to the need of Purpose to be significant, authentic, profitable and serious. Meaning it should contribute to an unmet social or environmental challenge, be reflected on the company culture, be profitable and make company leaders accountable in order to reflect purpose on their performance goals and remuneration (Purpose Playbook, 2020).

The wide reference to "purpose" in recent years of business research is showing an open road ahead for business practice. In fact, the power of purpose is spotlighting a new way of managing companies, more intertwined with communities and stakeholders, able to open new streams of profitability and to bring to each company a distinct source of competitive advantage.

As businesses are shifting from being "providers of services and products towards providing solutions for the world, stakeholders will be the ones thriving on making their organizations forces for the welfare of society, by doing the right thing" (Leaders on Purpose, 2019).

In this context and based on a careful review of the available corporate and academic literatures, we propose a definition of Purpose. One that emphasizes the main crucial features of Corporate Purpose based on a set on five main principles:

Figure 2: The components of Purpose



Source: The Authors

Purpose is the "reason for being" of a company, one that is able to unify all stakeholders around the same systemic aspiration and, by consequence, be a guiding light for decision making, that is able to bring to the company a sustainable competitive advantage.

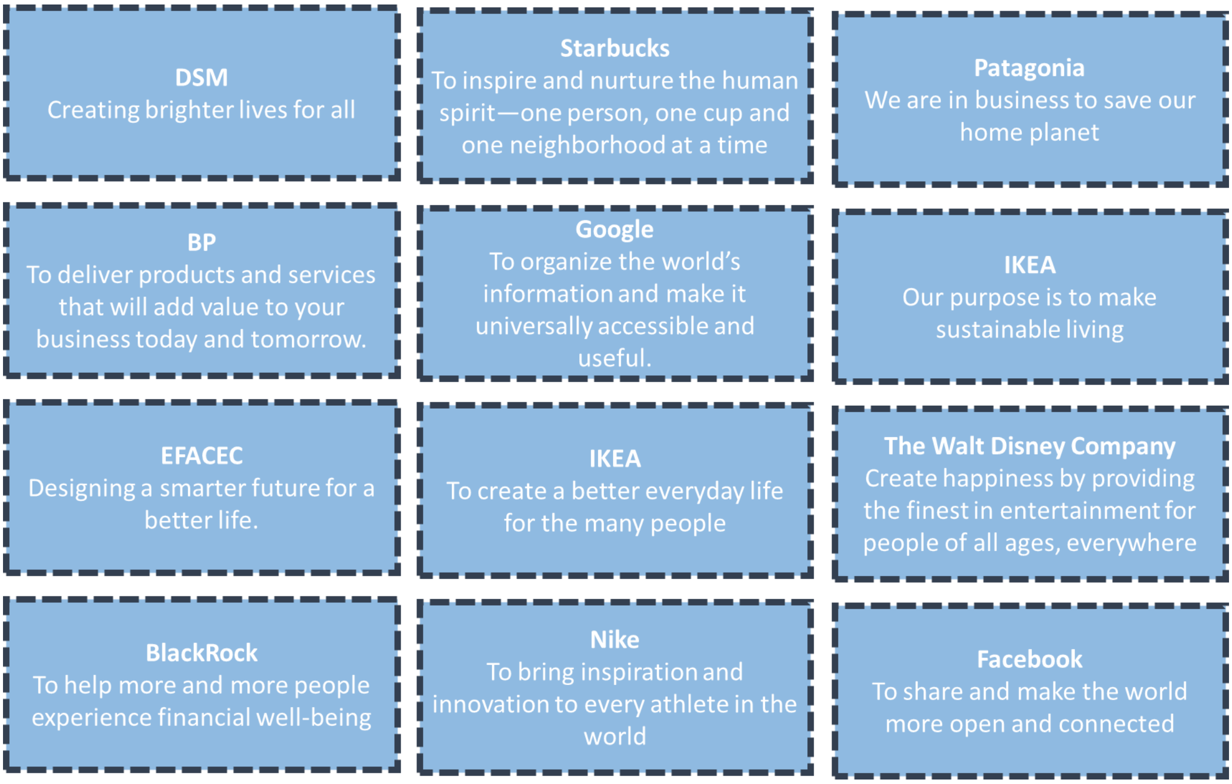
The following table describes these five components of Corporate Purpose:

Reason for existence	Decision making guide	Unifying factor	Sustainable Competitive advantage	Ecosystem Approach
An aspirational reason for being, that can be found on the company's roots, on the reason why it was created by its founders and why they are in business. The reason for existence points out on the unique contribution to society the company aims to accomplish.	Purpose works like a guiding "north star" that helps leaders to make better and coherent decisions. It is the horizon that the company tries always to pursue but can never reach. It inspires change and direction.	The company's purpose is the shared and passionate reason why it exists, able to mobilize and unify all stakeholders. Its existence provides the necessary guidance to act, despite of the so-often conflicting stakeholders' agendas. Purpose becomes the "harbour" where stakeholders meet.	Purpose ignites the potential to create a shared value for all stakeholders with a vision that goes beyond profit, is focused on the long run and is prone to achieve more than only financial goals. By doing so, it will position the Company with a unique, sustainable, hard-to-copy competitive advantage in the long term.	Purpose is also embedded on a view of the ecosystem that goes beyond the company and even beyond the direct value chain of the stakeholders, being inspired by societal trends and needs. This approach allows the company to understand the key issues and the spillovers at the level of the ecosystem that are connected with its operations, both negative and positive ones.

As we will further refer to in this research note, the concept of Purpose, as analysed by Victor Frankl (1984), can be approached on an individual level. According to Kashdan and McKnight (2009), Purpose (on an individual level) is defined as a central goal disposition of an individual to self-organize life and a reflection of one's personal identity. For this, purpose provides a solid baseline that allows an individual to be more resilient to life challenges, stress and strain. It increases the chances of one's survival with assurance that there is a greater mission in the background (something deeply studied in Frankl's studies as well). Acknowledging there is a long-term mission that directs life and has the ability to increase one's well-being, life satisfaction, and serenity (Wilson and Murrell, 2004; Wong and Fry, 1998). This has a profound implication in the role of individuals as agents of sustainable consumption (the theme of a future research note) as well as the role of individual as engaged and committed employees or members of an organization centred on Purpose.

In figure 3 we can find some examples of companies with a stated purpose-driven orientation. As Victor Hugo once stated, "nothing else in the world...not all the armies...is so powerful as an idea whose time has come". And the time for the idea of Purpose has arrived.

Figure 3: Purpose statements examples



Source: Framework adapted from Dewettinck and Defever (2020)

The current COVID-19 crisis has actually been a powerful accelerator for the next phase of business transformation, and it promises to bring a more socially centred form of capitalism. Moments of crisis are undeniable moments for disruption and the opening of new opportunities. As crises and disruptions always bring winners and losers, if "people engaged with purpose-driven businesses don't implement and promote what they believe in, someone else will" (Moore, 2020). While it is still not clear how the role of business in society will evolve in coming years, we know it involves a moral and social choice (Hollensbe at al., 2014).

The future ahead is unpredictable, so it is up to us to begin imagining and building a better future with companies that are indispensable actors in the construction of this society we envision. Purpose seems to be the catalyst for this potentially better future.

III. Evidence about the Value of a Purpose Agenda

Given the increasing prominence of purpose in the business context, its inclusion in the strategy and culture of companies has been gaining momentum. We have identified several examples of the rationale for and validation of a purpose-driven agenda:

a) **BlackRock's CEO Letters**

Larry Fink, the founder and chief executive of BlackRock[1] the largest fund manager in the world, has the habit of addressing a yearly letter to all the CEOs of their invested companies around the globe, highlighting key issues for them to address. In 2018, his message drove the concept of Purpose into the strategic agenda of most Corporations around the globe. Highlighting one of the statements at the time: "Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate" (BlackRock, 2018).

Afterwards, the 2019 letter had the enormous merit of following a consistent path, deepening and confirming the concept that "profits and purpose are inextricably linked". ''Companies that fulfil their purpose and responsibilities to stakeholders reap rewards over the long-term. Companies that ignore them stumble and fail" (BlackRock, 2019).

In the 2020's letter, the key message was that BlackRock will make investment decisions with environmental sustainability as a core goal and would begin to exit investments that "present a high sustainability-related risk,". The letter also emphasises the link to the previous letters on Purpose. "A company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders" (BlackRock, 2020)

b) **Business Roundtable 2019 Statement**

Late August of 2019, a group of 181 key American CEOs (from all sectors and including companies like Apple, Accenture, Amazon, AON, Bp, Coca-cola, Walmart, Blackrock, Procter & Gamble) issued a statement via the Business Roundtable organisation, redefining the role of business in society and specifically what their purpose should be. Breaking with decades of shareholder maximization mantra, they argue that "Company purpose" should consider all the relevant stakeholders. Corporations must "invest in their employees, protect the environment, support communities, deal fairly and ethically with their suppliers, create value to customers" (Business Roundtable, 2019). In plain words, the message these CEO's are conveying to society is that, whenever they take decisions, the interest of shareholders should only be one aspect to be considered, thus, phasing out shareholder's primacy.

The statement reinforced the notion that "The purpose of a business, in other words, is not to make a profit, full stop. It is to make a profit so that the business can do something more or better. That "something" becomes the real justification for the business", their purpose (Handy, 2002).

Since its publication and despite of its noble ambition, this statement has been criticised for its lack of ambition, actionable measures and the need to "walk the talk", like this Winston (2019) comments: "So, by all means, let's hold these companies to their words — as employees, customers, community members, and shareholders. Let's demand that they truly

[1] American global investment management corporation and world's largest asset manager, with near $7 trillion of assets.

embrace longer-term thinking and fight for policies that enable a thriving world. Otherwise, it's just empty rhetoric."

In addition, recently, a study conducted during the current pandemic "COVID-19 and Inequality: a Test of Corporate Purpose" (KKS Advisors, 2020) finds limited follow-through on corporate commitments to purpose. The report calls on companies to translate their purpose commitments into action by, among other things, developing and publishing an implementation plan that includes metrics and measurable targets; conducting an audit of the workforce that includes diversity characteristics and total compensation and benefits, and developing a remediation plan to address any inequities; as well as developing a capital allocation and executive compensation plans for the long-term benefit of key stakeholders.

It should also be noted that very few companies that signed the Business Roundtable statement submitted it to their governing boards for approval, a fact cited as evidence that the pledge is an exercise in public relations (Bebchuk and Tallarita, 2020).

c) The superiority of Purpose Clarity organisations

In a study conducted in 2016 (Gartenberg et al., 2016), a distinction is made between, on one side, "high purpose-camaraderie organizations", which they describe as companies that score high on purpose and also on dimensions of workplace camaraderie (e.g. "This is a fun place to work"; "We are all in this together"; "There is a family or team feeling here"); and on the other, "high Purpose-Clarity organizations" that score high on dimensions of management clarity (e.g. "Management makes its expectations clear"; "Management has a clear view of where the organization is going and how to get there"). They concluded that: "When we replaced our initial measure of purpose with these measures capturing the two types of purpose organizations (Purpose-camaraderie vs Purpose-Clarity), we found that only the high Purpose-Clarity organizations exhibit superior accounting and stock market performance" (Gartenberg et al., 2016). These results seem to point to the value of purpose as a guiding light for corporate strategy, as opposed to the creation of cohesive and fun corporate cultures.

d) Research on Meaningful Work

There is an increasing amount of research that concludes that people do prefer to work for purpose driven companies. Some conclusions of a recent study are (Achor et al., 2018):

- "More than 9 out of 10 employees, we found, are willing to trade a percentage of their lifetime earnings for greater meaning at work. Across age and salary groups, workers want meaningful work badly enough that they're willing to pay for it"
- "On average, our pool of American workers said they'd be willing to forego 23% of their entire future lifetime earnings in order to have a job that was always meaningful".
- "Based on established job satisfaction-to-productivity ratios, we estimate that highly meaningful work will generate an additional $9,078 per worker, per year".
- "Additional organizational value comes in the form of retained talent. We learned that employees who find work highly meaningful are 69% less likely to plan on quitting their jobs within the next 6 months and have job tenures that are 7.4 months longer on average than employees who find work lacking in meaning. Translating that into bottom line results, we estimate that enterprise companies save an average of $6.43 million in

annual turnover-related costs for every 10,000 workers, when all employees feel their work is highly meaningful".

e) **Research on Talent attraction from the younger generations**

Companies with a strong sense of purpose are shown to perform well financially as well as having a high level of employee satisfaction. Almost 9 in 10 employees surveyed in Deloitte's Millennial Survey believe that "the success of a business should be measured in terms of more than just its financial performance" (Deloitte, 2016). With organisations of all sizes competing in the war for talent, standing for something bigger is a must-have in order to attract the best employees. The same study indicates that 60% of Millennials want to join companies with a "purpose" that is embedded in the business.

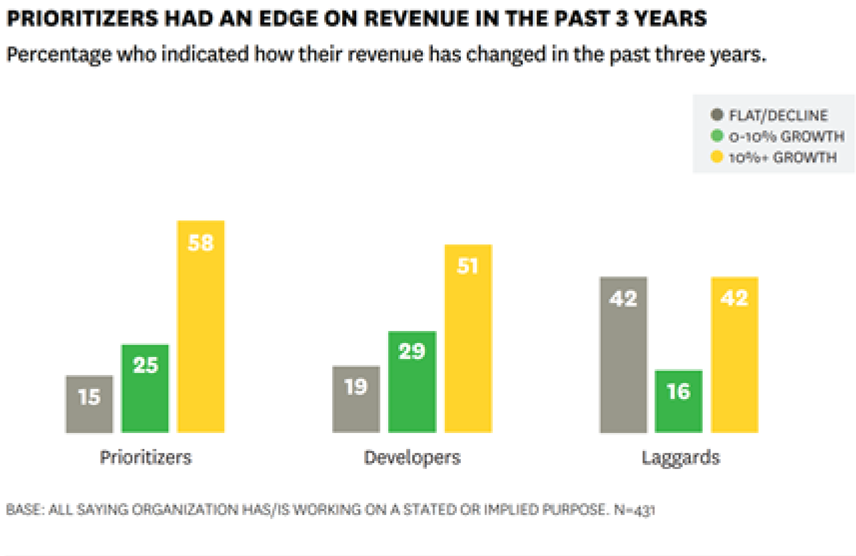
Also, 83% of over 1,400 US employees surveyed by PwC named purpose among their top priorities for offering meaning in daily work, and many feel a shared sense of purpose contributes heavily to employee satisfaction (PWC, 2016).

Companies that understand the increasing emphasis of purpose in today's professional landscape improve their ability to attract such employees and also their ability to retain them for longer periods of time.' (Reid Hoffman Executive Chairman and co-founder, LinkedIn)

f) **HBR Business Case for Purpose (Harvard Business Review, 2015)**

In this study, companies have been segmented in three categories: 'the prioritizers' (companies that already have a clearly articulated and understood purpose), 'the developers' (companies that do not yet have a clearly articulated purpose, but are working to develop one) and 'the laggards' (companies that have not yet begun to develop or even think about purpose). As shown in the graph, prioritizers have been consistently outperforming the other two categories.

Figure 11 – Prioritizers had an edge on revenue in the past 3 years



Source: Harvard Business Review (2015)

Also, when it comes to innovation, a key value driver for performance, the difference is obvious: when asked to validate the statement "My business is successful with innovation and transformation efforts" positive answers were: Prioritizers (53%), Developers (31%) and

Laggards (19%). The same for "My business is focused in innovation and continuous transformation: Prioritizers (62%), Developers (46%) and Laggards (26%).

g) Global Trends in Reputation

In the 2020 report issued by the Reputation Institute, CEOs have signalled that Higher Purpose is the most important Reputation Issue for their companies (Reptrak, 2020).

Figure 12 – The trends reputation – most important for 2020

Source: 2020 Global Trends in Reputation Report (Reptrak, 2020)

h) Davos Manifesto 2020

The Davos Manifesto issued in January this year reinforced the message that the notion of Purpose is well established in the Corporate agenda and needs to be treated as a key strategic lever. One of the most relevant paragraphs states: "The purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities, and society at large. The best way to understand and harmonize the divergent interests of all stakeholders is through a shared commitment to policies and decisions that strengthen the long-term prosperity of a company" (WEF, 2020).

i) Meaningful Brands report

This report highlights the fact that Purposeful businesses outperform the stock market by 133% and that the 25 top brands in Havas Media's Meaningful Brand Index deliver an annual share return of nearly 12% (Meaningful Brands, 2015). Companies with a purpose beyond profit enjoy four potential advantages in the face of change and uncertainty.

• First, their purpose and values become a source of energy and commitment in workplace relationships enabling them to attract and retain talent and engage and develop their own people better.

• Secondly, a clear purpose which people can naturally identify as a keel, gives stability and resilience. Strong values provide a clear basis for building trust.

• Thirdly, the benefits in terms of trust yield a reputational return, enhancing brands and accumulating external trust and goodwill. The licence to operate is enhanced.

• Fourth, because of the first three benefits there is a more compelling case to take to those investors who are interested in long-term performance. This in turn provides a basis for building greater investor confidence which is in turn a further source of stability" (Tomorrow's company, 2018)

In a nutshell, the concept of "profitability with responsibility" is becoming mainstream and underpins the emergence of Purpose as a key value driver. Purpose needs to be addressed strategically so that it can become a source of competitive advantage – sustainable, distinctive and hard to copy.

j) Consistency of corporate behaviour

It is interesting to analyse and compare the common features in studies of long-lived companies from different continents, all including the issue of Purpose (Tomorrow's company, 2019):

- In Japan 20,000 companies are over 100 years old; 600 are over 300 years old; 30 are over 500 years old; and five are over 1,000 years old. Their common features are a) leadership driven by clear values, higher purpose beyond bottom line, continuous innovation, b) putting people first: education for employees; customer oriented; trust with consumers, business partners, employees and shareholders, and c) frugality and efficient use of natural resources: culture and legacy inspiring generations thereafter.
- In Europe, the key features are a) conservatism in financing, b) sensitivity to the environment around them, c) a sense of cohesion and identity among employees about 'what this company stood for' or 'what this company was about' and d) tolerance at the margin – full use of decentralised structures and delegated authorities.
- In the US, 18 visionary companies – widely admired by their peers and having a long track record of making significant impact –outperformed comparison companies by six times and the stock market by 15 times over 50 years. Their characteristics: a) purpose beyond profit, b) relatively fixed 'core ideology' (beliefs and values), and c) clear vision and sense of direction.

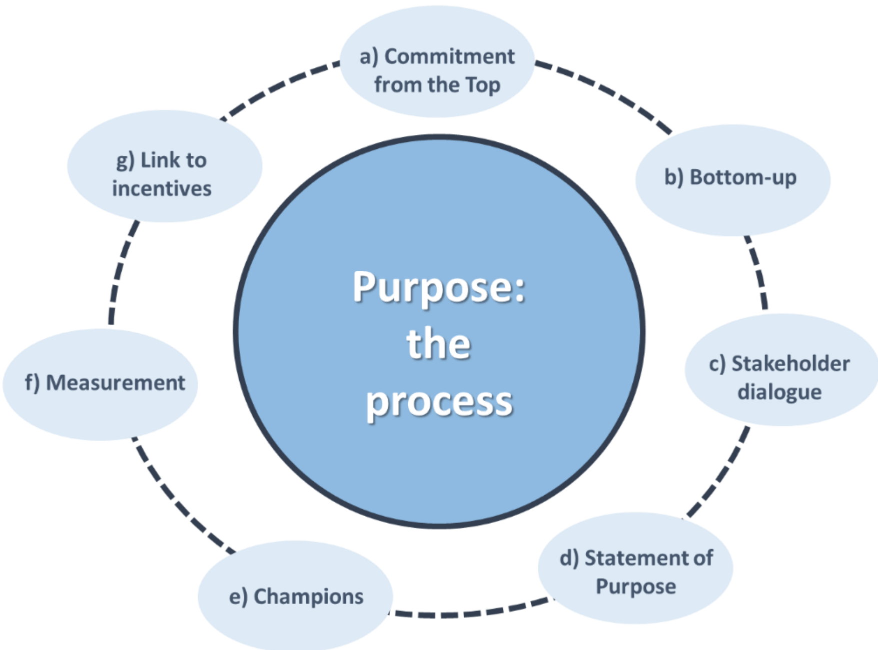
Overall, and as previously referred in the proposed definition of Purpose, being the ultimate reason for the company's existence, purpose is an ambition far beyond profit that unifies all company's stakeholders as no other objective before. It is a guiding lighthouse on the definition of any business strategy, which guarantees that managers know exactly where they go and why they should choose one strategy over another. For its fully operationalisation, purpose should be made clear through a purpose statement, and be set with consistent and coherent actions, that are able to get into "the hearts and minds" of key stakeholders (specially employees). Which leads us to a key question: How to build a purpose driven organisation?

IV. How to build a purpose driven organisation?

Building a Purpose-driven organisation that encompasses the corporate internal system (strategy, operations and people) needs a clear process. Processes are the recurrent procedures that companies employ to get work done. They include operating procedures, such as logistics or production, and managerial ones, such as decision-making and resource allocation. Establishing formal processes increases efficiency, enables a company to scale up its operations, and facilitates coordination among different parts of an organization. In the case of implementing a Purposeful organisation, processes are even more important in the sense that it implies a cultural change and the clear engagement of several different stakeholders.

A purpose-driven transformation may start out as the CEO's passion, but it will not survive unless it is embedded in the organizational DNA. That requires several kinds of reinforcement, through communication, resource allocation, goal setting, and recognition and rewards.

Figure 13: Purpose – The implementation process



Source: The Authors

Follows some of the key process steps for a successful implementation of Purpose driven organisation:

a) Commitment from the top

As in any relevant project that needs to be embedded in an organisation, it starts with commitment from the leaders of the organisation. Donald Sull studied effective and ineffective managers and he came to an interesting conclusion: "Despite differences in their personal attributes, successful managers all excel in the making, honouring, and remaking of commitments. Managerial commitments take many forms, from capital investments to hiring decisions to public statements, but each commitment exerts both immediate and enduring influence on a company. Over time and in combination, a leader's commitments shape a business's identity, define its strengths and weaknesses, establish its opportunities and limitations, and set its direction" (Sull, 2003).

To build a purposeful company, implementation starts with clear, concise direction from top management and in such a way that the middle and lower layers within the firm will fully buy in. This internal "full commitment" will then develop the necessary energy to attract and involve other external stakeholders (customers, suppliers, local communities).

b) *Bottom-Up*

This is the part of the process where the question "How are we going to involve our people and our stakeholders in developing it" needs to be addressed. Having the commitment from the top is not enough. Internally the process needs to be built with a bottom-up approach where all relevant members of the organisation, at all levels, need to be involved. Their buy-in from the beginning is critical - "I am committed because I was part of its definition". This is especially true at middle management level and it is of paramount importance to turn managers into purpose-driven leaders.

Purpose, values and relationships have always been at the heart of business success. Today they matter more than ever, especially when it refers to a key stakeholder: employees. Even if people feel insecure about their jobs, they will suffer less stress in companies which treat them as ends, not means. They will find more fulfilment in companies whose purpose resonate with their values. And, even if they no longer expect long careers with the company, they will feel more confidence if they know that while they work there, their skills and capabilities are growing and the work they are doing is making a difference.

The focus of the discovery process is internal. Where have we come from? How did we get here? What makes us unique to all stakeholders? Where does our DNA open up future opportunities we believe in? These are the kind of questions that leaders have to ask. Anand Mahindra very successfully employed this tactic at the Mahindra Group. First, he looked back at his 30 years at the company and at the values that had guided him as its leader. Then he delved into the psyche of the organization by conducting internal surveys of managers at all levels. He also did ethnographic research in seven countries to identify themes that resonated with his company's multinational, cross-cultural employee base. The process took three years, but ultimately Mahindra arrived at "Rise," which, he realized, had been fundamental to the company from its inception. "'Rise' is not a clever tagline," he has said. "We were already living and operating this way." (Malnight et al., 2019)

At the end of the day, there are questions that the organisation (meaning "all leaders at all levels") need to constantly go back to: Have we communicated our Purpose and are we living by it? Or are they just words? Do I/We refer to them in making decisions? Do we have a culture of challenge that allows people to say, "You are not walking the talk"?

"We also found that middle managers and professional workers seem to be the key players in driving this relationship, not hourly workers and not top executives. This last finding underscores the absolute importance of fostering an effective middle manager layer within firms: managers who buy into the vision of the company and can make daily decisions that guide the firm in the right direction" (Gartenberg et al., 2016).

The same applies to other stakeholders such as customers. Most leaders think of purpose as a "purpose *for*", but what is needed is a purpose *with*. As companies formulate their purpose, they should not go for what they think it should be. They should look to: Who you already are. How you already connect with your customers. What your fans already say about you. Remember, this is not something you are going to do to them, or for them, but with them (Bonchek, 2013).

c) *Stakeholders dialogue*

To have clear channels of communication with all stakeholders is a crucial part of the process. This is a pivotal part of the process since it is the moment for the Company to understand the "ecosystem" that surrounds it. It is the opportunity to ensure that this is an exercise that understands and incorporates in the strategy all the different stakeholders' agenda and the trends that are developing in society. The key words that emerge at this stage are: consistency and transparency. The following questions will provide the necessary assurance:

- Employees: the best way to follow an efficient communication process is a face to face "cascading exercise", in which each level of management commits to communicate it to their teams. Has it been done in a coordinate manner (in terms of timing and content)?
- Customers: how easy is it for our customers or clients to tell us what they are thinking?
- Suppliers and business partners: do we actively seek business partners who share our values and assess how far they do so?
- Shareholders and financial partners: do we actively seek shareholders who support our purpose and values and seek a mandate from them to pursue it?
- Annual Report and communications with investors: are we being consistent in communicating what we stand for, or are there different messages for different audiences?
- Our community and wider society: tomorrow's as well as today's? Whose trust do we have? Whose trust do we lack? How might we earn more of that trust in a connected, confusing world?
- Do we have a clear statement of purpose? Does it have the potential to attract talented people from diverse backgrounds?
- Do we have an Employee Satisfaction Survey? How does Purpose figure there? What sort of actions do we take with the results?

A key goal of this stakeholder engagement process is not to try to address the specific issues or interests of each specific stakeholder, but rather try to assess what are the common issues and causes around which all can be aligned.

d) *Statement of Purpose*

Purpose will only become real when a company's board of directors is able to issue a "Statement of Purpose". The reason this statement needs to come from the board is that it is the body with ultimate responsibility for the corporation and to whom it owes its fiduciary duty. The Statement is a simple one-page document that can be published separately or in a company report, such as the annual report. This is not an onerous exercise, just a question of will and true commitment (Eccles, 2019)

A good communication and implementation plan starts with a clear Purpose Statement - that is the core of what needs to be communicated and the bone of any forward stakeholder dialogue. The question then becomes: What makes a meaningful purpose statement? We strongly believe that it will need to bring to life the five features of Purpose we outlined: (i) explain the reason for existence, (ii) provide a powerful guide for decision making, (iii) brings the unifying factor (iv) be clear on the sustainable competitive advantage being created and (v) has a clear vision on the ecosystem.

According to the Purpose Playbook, issued by the Shared Value Initiative and FSG, a Purpose Statement consists of:

"Be significant: Have a purpose that makes a meaningful contribution to an unmet social or environmental need such as those articulated by the United Nations Sustainable Development Goals (SDGs).

Be authentic: Recognizing the need for authenticity and then turn the authentic message into a constant message is crucial. A purpose needs to be reflected in the company's culture, have roots in its history, and be seen across the company's operations. A company with an authentic purpose should not have any "purpose-negative" strategies that contradict its stated purpose.

Be profitable: When a purpose leads to meaningful profit, companies have clear incentives to deeply understand the drivers of social and environmental problems, make big investments in solving them, partner with other organizations, and maximize the scale of their effort.

Be serious: Purpose-led companies hold senior leaders accountable for achieving their purpose and reflect it in performance goals and ideally remuneration" (Purpose Playbook, 2020).

We tend to see these four elements as the values and behaviours that lead to our proposed five features.

d) Champions

Another important part of the process is about finding the right "champions" to spread the message. It is about unleashing the positive energizers (credible, different generations, different levels, different functions). This should be a group that really represents "every corner" of the organization, meets regularly, and provides constant feedback to the management on "how things are going". It is especially important that these people feel comfortable voicing inconsistencies where they see them, putting at risk the credibility of the ambition if unattended.

It is not enough to have a clear Purpose statement. What brings it to life is the definition and implementation of actions that are aligned and consistent with that statement. Otherwise, Purpose becomes just a "powerpoint exercise". The actions need to be aligned with the statement and coherently involve all relevant areas: from strategy to operations, to people. Strategy refers to finding the distinctive opportunities that the Purpose provides, setting goals and defining resources; operations should be designed around the respect for environment and social elements that Purpose brings; and, regarding people, processes need to be established to attract, retain and develop talent through meaningful work and a reason for being beyond profits.

The group of Champions will be the one making sure that all these are in place and thoroughly followed. They will need to incessantly refer back to the question "How effectively are we embedding our Purpose into all our systems and processes?"

e) Measurement

"What does not get measured, does not get done" is a golden rule of management, and even more important when it comes to measuring the implementation of a significant number of variables which are not quantitative. What is success? How will it be measured? – questions that need to be addressed since the very beginning. This is a crucial moment where the balance between financial and "less-financial" indicators need to find the right balance, and where the trade-offs short term vs long term need to be agreed. How to reconcile the need to make a profit and deliver returns to owners and shareholders with the ambition to do something more significant? This is the moment of truth, where it needs to become crystal clear that for the organisation it is not enough to compete in the marketplace – but the goal is to help change the world for something better and more sustainable.

PepsiCo Performance with Purpose metrics provide a good example. Just citing some of its metrics: *Added Sugar:* At least 2/3 of our global beverage portfolio volume will have 100 Calories or fewer from added sugars per 12-oz. serving; *On Water:* Replenish 100% of the water we consume in manufacturing operations located in high-water-risk areas, and ensure that such replenishment takes place in the same watershed where the extraction has occurred; *On Sustainability:* Sustainably source 100% of our palm oil by 2020; *On Prosperity*: Benefit at least 12.5 million women and girls around the world in communities near where we work; *On Human Rights:* Extend the principles of our Global Code of Conduct to all franchisees and joint venture partners (Pepsico, 2017)

At the end of the day, it is critical to ensure that those metrics are coherent and aligned with the defined Purpose ambitions.

f) Link to incentives

The next question is: "Do our systems of recognition and reward promote the behaviours that we say we want to see?". The way companies incentivise action – meaning how they reward, recognise and reinforce the right behaviours, and thereby celebrate and further embed their purpose and values is key. As an example, having a clear Purpose, long term oriented, and staying with a remuneration policy based on annual variable pay (in many organisations can easily represent more than 25% of the annual salary) is a typical disconnect that should not happen. In the last decade, in most organisations, a key compensation concern was to align "pay with performance" meaning financial performance. The most recognised exception refers to several companies also linking pay with Safety objectives (example: accidents in the work environment will imply reduction of the variable pay, in some cases going up to 15%).

Recent years have seen an increasing number of companies integrating sustainability metrics into performance assessment and compensation, for C-level executives, for the next tier of senior management, and for the whole body of employees. Many use a balanced scorecard as the basis for performance assessment and compensation. *Natura*, for example, bases their incentive system on the company's 5-year strategic plan, which includes sustainability KPIs (Natura, 2020). The sustainability team works with each department in the company to select the most relevant sustainability KPI for their own unit.

This is then included in their own planning which is linked to senior managers' annual bonuses through a balanced scorecard of measures.

Another good example is *Siemens* who has focused on integrating corporate responsibility metrics into performance evaluation, since this is a major priority for the company. Senior managers are rewarded for going beyond basic legal compliance to actively promoting a culture of anti-corruption and integrity (Siemens, 2020).

Below we exemplify a company (Danone) that over the years has been living and embedding the concept of purpose in operations:

The example of Danone

The example of Danone (consistent for the last 50 years) shows the best of what a Purpose can represent – "bringing health through food". That has always become noticeably clear with the CEOs messages along the years:

"The responsibility of a company does not stop at the factory gate or the office door. The jobs a business creates are central to the lives of employees, and the energy and raw materials we consume change the shape of our planet.… Growth should no longer be an end in itself, but rather a tool used to serve the quality of life without ever being detrimental to it."

Antoine Riboud, Chairman (1972)

"Our mission is bringing health through food to as many people as possible."

Franck Riboud, Chairman (2007)

"At Danone, we believe each time we eat and drink, we can vote for the world we want to live in. That's the heart of the Alimentation Revolution, a movement which calls for the adoption of healthier and more sustainable ways of designing, producing and marketing food. We see our commitment to a radical transformation of our activities to be more local, environmentally-friendly, inclusive and transparent as a fundamental requirement to achieve our objective of profitable, strong, sustainable growth"

Emmanuel Faber, Chairman (2017)

Finally, a word on the importance of partnerships for the implementation of a purpose-driven agenda. The challenges we are facing are too "big" for any one Company to solve. A Purposeful-driven company, by nature, will focus on objectives that go much further than profit, which means trying to deal with environmental and social challenges that we are globally facing. In this context, partnerships need to be formed, which brings an extra dimension to the challenges of a successful implementation.

A recent research from Leaders on Purpose explored some of the best practices of successful partnerships, as well as some essential enabling factors that support productive long-term collaborations. It points to five attributes that, together, produce alignment and lead to successful partnerships: 1. Partner-Fit Organization, 2. Shared Purpose, 3. Value Alignment, 4. Operational Alignment and 5. Robust Communication" (Leaders on Purpose, 2019).

Shared Purpose (and in the context of this Research Note, also Value alignment) is critical for any partnership to thrive – an added reason for companies that want to make a difference to be truly clear in their statement of purpose and in their actions.

This research note on Purpose advocates for an organisation to be truly authentic to its (i) reason for existence providing a clear (ii) guide for decision making, and an (iii) unifying factor that creates a (iv) sustainable competitive advantage (v) reinforced by the understanding of the ecosystem where it operates. This approach allows business leaders to move beyond the illusionary comfort of shareholder value maximization and to navigate the political tensions of stakeholder management, being able to identify the path to value creation that will sustain the organization's future.

Building an organisation with these features – a Purpose-driven Business – becomes the necessary call to action to deliver on the promise of a better world. Its importance has now passed the point of no return, but success will only be achieved through a solid process supporting the development and implementation of a purpose driven strategy.

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