

Insight

“Our Purpose: To improve the lives of the 7 billion people on the planet through the power of technology”
Satya Nadella, CEO Microsoft



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Purpose

Direction and clarity for long-term success

1. Introduction

“Purpose (which should last at least 100 years) should not be confused with specific goals or business strategies (which should change many times in 100 years). Whereas you might achieve a goal or complete a strategy, you cannot fulfill a purpose; it’s like a guiding star on the horizon—forever pursued but never reached. Yet although purpose itself does not change, it does inspire change. The very fact that purpose can never be fully realized means that an organization can never stop stimulating change and progress.” David Packard, HP Co-founder

Our previous research has identified that the companies that have thrived over the long term have the following in common:

- A very strong purpose
- A long-term perspective
- A balanced view on who the key stakeholders are
- Leadership that is obsessed with delivering customer value, driving a powerful innovation culture and developing a new generation of leaders
- An ‘always-on’ strategy mindset and process
- A robust culture underpinned by aligned remuneration and measurement systems

Our 2019 Thought Paper titled *Devastating Reputation Failures* identified that companies that are driven by the need to deliver profit to shareholders ‘at any cost’ – often to the detriment of all other stakeholders – are at higher risk of experiencing reputation-damaging events.

This is because decision making is skewed towards delivering results for the benefit of a few (shareholders), rather than ‘the whole’. In other words, they are focusing on profit rather than on Purpose.

Alex Edmans, Professor of Finance at London Business School and Mercers School Memorial Professor of Business at Gresham College, argues that a responsible business is one that creates value for broader society, not just for investors:

“A company’s purpose is its reason for being – the role it plays in the world and the way it contributes to human betterment – in other words, how it aims to create value for society.”²

Edmans proposes that a focus on Purpose need not be an either/or choice between profit or Purpose, instead encouraging companies to ‘grow the pie’, so that benefits are increased for all stakeholders.

Being Purpose-driven should no longer be an aspiration. There is now clear evidence of the benefits of adopting a Purpose-driven model, and strong consumer sentiment demanding that boards now take action to ensure their companies are Purpose-driven.

In this paper, we will discuss the following topics:

- Why boards should focus on Purpose
- What is Purpose?
- What characterizes successful Purpose-driven companies?
- How to adopt a Purpose-driven model
- Examples of successful Purpose-driven companies

¹ Jones, B, What is the difference between an organization’s mission and its common purpose? HBR, Feb 2016

² Edmans, A, Purposeful Business: The Evidence and the Implementation, Gresham College, London, 3 October 2018, p. 4



- What boards can do to promote a Purpose-driven model

At a time of such considerable uncertainty due to COVID-19, Purpose provides a beacon for leadership – enabling direction and clarity for decision making during difficult times.



2. Why boards should focus on Purpose

In August 2019, the Business Roundtable in the USA released a new *Statement on the Purpose of a Corporation*. This stated that the Purpose of an organisation is no longer solely to produce profit for shareholders – instead, the new Purpose of a corporation is to benefit all stakeholders – customers, employees, suppliers, communities and shareholders³.

Purpose is increasingly viewed as a governance-level issue and should be prioritized by boards for the following reasons:

To ensure good governance

“The purpose of corporate governance is not and should not be predominantly to promote shareholder interests; it is to promote the interests of the firm as a whole and, in particular, to assist it with achieving its corporate purposes”⁴

To transform business

- Colin Mayer, the Peter Moores Professor of Management Studies at the Saïd Business School at the University of Oxford, in his book, *Prosperity: Better Business Makes the Greater Good*, suggests that Purpose should be incorporated into corporate law, and argues that by making it a board-level responsibility, it will have the immediate effect of transforming business:⁵

“Corporate law should prioritize purpose. It should require companies to articulate their purposes, incorporate them in their articles of association, and above all, demonstrate how they credibly commit to the delivery of purpose ... This simple act of incorporating corporate purpose in corporate law transforms business at a stroke. ... not only does the incorporation of purpose in company law commit the management, but it also commits all the parties associated with the firm and in turn requires them to establish the basis on which they can credibly establish such commitments.”⁶

To build a strong culture

- The UK Corporate Governance Code of 2018 now makes specific reference to a board’s responsibility to ensure that an organisation’s culture aligns with its Purpose, values, and strategy – and that “directors must act with integrity, lead by example and promote the desired culture.”⁷

To align with investor preferences

- In his annual letter to CEOs, Larry Fink, CEO of Blackrock, recently highlighted that shifting investor sentiment has instigated a change in their investment strategies, to prioritise Purpose-driven companies:

“We believe that all investors, along with regulators, insurers, and the public, need a clearer picture of how companies are managing sustainability-related questions. This data should extend beyond climate to questions around how each company serves its full set of stakeholders, such as the diversity of its workforce, the sustainability of its supply chain, or how well it protects its customers’ data. Each company’s prospects for growth are inextricable from its ability to operate sustainably and serve its full set of stakeholders.”⁸

“The importance of serving stakeholders and embracing purpose is becoming increasingly central to the way that companies understand their role in society.”⁹

³ <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>

⁴ Mayer, C, *Prosperity. Better Business Makes the Greater Good*, Oxford University Press, Oxford, 2018, p. 19

⁵ Mayer, C, *Prosperity. Better Business Makes the Greater Good*, Oxford University Press, Oxford, 2018, p. 23

⁶ Mayer, C, *Prosperity. Better Business Makes the Greater Good*, Oxford University Press, Oxford, 2018, p. 23

⁷ Financial Reporting Council – The UK Corporate Governance Code, July 2018. <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.PDF>

⁸ Fink, L, 2020 Letter to CEOs. BlackRock. <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

⁹ Fink, L, 2020 Letter to CEOs. BlackRock. <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>



To maintain or rebuild reputation – building trust

- Our previous papers on reputation have highlighted the impact of corporate scandals on reputation. In recent years we have lost trust in corporations to look after our interests. A Purpose-driven model, by contrast, ensures greater accountability, ethical decision making and increased benefit for all stakeholders
- Both Edmans and Mayer identify Purpose as a conduit for rebuilding trust:

“When every link in the chain, from asset owners through to companies, recognises its responsibility to think and act for the long term, business will start to regain the public’s trust.”¹⁰

“We have lost trust in corporations to look after our interests as customers, employees, communities, and nations. We have lost trust in them to pay people at the bottom of organizations properly in relation to those at the top, to pay their fair share of taxes, to look after the environment, to provide meaningful work, to avoid slave labour, and to employ people in safe and sanitary conditions in their supply chains.”¹¹

To generate greater financial returns

- Research undertaken by BCG’s BrightHouse Consulting of 25 large, public US companies in the consumer, technology, and financial-services sectors found that the companies with the strongest sense of Purpose integrated across their operations showed the highest ten-year TSR¹²
- BrightHouse also report that Purpose-led companies see shareholder returns of 1,681%, compared with the S&P’s 118% over 15 years¹³

To protect against future litigation

- In the future, board directors may be held responsible for not acting in the interests of all stakeholders (particularly concerning the environment)
- Larry Fink highlights the actions that Blackrock is already undertaking around director accountability:

“We believe that when a company is not effectively addressing a material issue, its directors should be held accountable. Last year BlackRock voted against or withheld votes from 4,800 directors at 2,700 different companies. Where we feel companies and boards are not producing effective sustainability disclosures or implementing frameworks for managing these issues, we will hold board members accountable.”¹⁴

“Companies must be deliberate and committed to embracing purpose and serving all stakeholders – your shareholders, customers, employees, and the communities where you operate. In doing so, your company will enjoy greater long-term prosperity, as will investors, workers, and society as a whole.”¹⁵
Larry Fink, Blackrock

¹⁰ Edmans, A, The Stewardship Role of Investors. Gresham College, 6 March 2019, p. 6

¹¹ Mayer, C, Prosperity. Better Business Makes the Greater Good, Oxford University Press, Oxford, 2018, p. 44

¹² Lilly, C & Schear, M, Articulating Purpose for investors that goes beyond financial returns, Think BrightHouse, 2018, <https://www.thinkbrighthouse.com/2018/11/articulating-purpose-for-investors-that-goes-beyond-financial-returns/> referencing, Carlisi, C, Hemerling, J, Kilmann, J, Meese, D, & Shipman, D, Purpose with the power to transform your organization. Boston Consulting Group/BrightHouse, May 2017 <https://www.bcg.com/publications/2017/transformation-behavior-culture-purpose-power-transform-organization.aspx>

¹³ Carlisi, C, Power of Purpose [Infographic], Think BrightHouse, 2014, <https://www.thinkbrighthouse.com/2014/08/infographic-power-of-purpose/>

¹⁴ Fink, L, 2020 Letter to CEOs. BlackRock. <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

¹⁵ Fink, L, 2020 Letter to CEOs. BlackRock. <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>



3. What is Purpose?

“Purpose is not an initiative; it is a way of business. It must be core to the decisions, conversations, and behaviours across all levels to be authentic and deliver the wealth of advantages it promises. Now, more than ever, companies must cultivate the power of purpose if they are to succeed in a world where the opportunities—and responsibilities—of business have never been greater.”¹⁶ PWC

Purpose, as it applies to a company or organisation, is characterized by the following:

- **Purpose is a company’s ‘reason for being’** – the role it plays in the world and the way it contributes to human betterment – in other words, how it aims to create value for society¹⁷
- **Purpose consists of two dimensions:**
 - ‘Who’ a company exists for – the stakeholders that a company aims to prioritise, and
 - ‘Why’ it exists – how it aims to serve those stakeholders¹⁸
- **Purpose guides decisions** – Having a clear Purpose provides the foundation stone for decision making. All potential decisions, trade-offs, strategic directions and ethical issues faced by an organisation can be guided by having a strong Purpose
- **Purpose connects with the ‘heart’** – The difference between a vision (or mission) and Purpose is emotion. Vision or mission statements are logical. They aim for the head. Purpose is emotional. It aims for the heart. Where vision or mission articulate strategies, Purpose defines the essence of an organization – why it exists, who it exists for, and how it makes the world a better place¹⁹

Purpose is not ‘new’

While Purpose seems to be gaining prominence now, it is by no means a new concept. Colin Mayer argues that corporations have existed for some 2000 years, and before the widespread adoption of Friedman Economics during the 1960s and ’70s, corporations were indeed multi-purposed and publicly oriented.

Friedman’s *Shareholder Theory* holds that a firm’s primary responsibility is to its shareholders:

“This approach views shareholders as the economic engine of the organization and the only group to which the firm is socially responsible. As such, the goal of the firm is to maximize returns to shareholders.”²⁰

Hence, Mayer views the current movement as a ‘return to’ a system that existed for many hundreds of years:

“Where corporate evolution went wrong... It is only over the last fifty of its 2000-year existence that we have witnessed the retreat of the multi-purposed, publicly oriented corporation into a single-focused, self-interested entity.”²¹ Colin Mayer

¹⁶ Schuyler, S. & Brennan, A, Putting Purpose to Work, PWC, 2016. p. 13 <https://www.pwc.com/us/en/purpose-workplace-study.html>

¹⁷ Edmans, A, Purposeful Business: The Evidence and the Implementation, Gresham College, London, 3 October 2018, p. 4

¹⁸ Edmans, A, Purposeful Business: The Evidence and the Implementation, Gresham College, London, 3 October 2018, p. 4

¹⁹ Millbower, L, What Does Your Organization Create? March 2018 <https://www.td.org/newsletters/atd-links/what-does-your-organization-create>

²⁰ https://en.wikipedia.org/wiki/Friedman_doctrine

²¹ Mayer, C, Prosperity. Better Business Makes the Greater Good, Oxford University Press, Oxford, 2018, p. 15



4. What characterizes successful Purpose-driven companies?

“Purpose-driven companies make more money, have more engaged employees and more loyal customers, and are even better at innovation and transformational change. It seems to be easier to win the game when you care about the game.”²² EY/HBR Business Case for Purpose

Research has found that successful Purpose-driven companies share the following:²³

- Strong and enabling governance
- Purposeful stakeholder engagement
- Long-term decision-making horizons
- Credible measurement and transparency

In addition to the above, EY Beacon Institute teamed with Harvard Business Review Analytic Services, surveying global business executives about Purpose, and found that Purpose-driven organisations:

Are more profitable

- As mentioned previously, BCG’s BrightHouse Consulting found that Purpose-inspired firms deliver 14 times the financial returns as compared to the S&P 500 over 15 years²⁴
- A study undertaken by Gartenberg, Prat & Serafeim at the Wharton School found that firms exhibiting a high Purpose and high clarity experience higher financial performance²⁵

“Purposeful brands consistently outperform other brands; they are both faster growing and more profitable.” Alan Jope, CEO, Unilever²⁶

Have increased employee engagement

- PWC’s 2016 survey of Purpose in the workplace found that Purpose increases employee loyalty. Namely, millennials are 5.3 times more likely to stay when they have a strong connection to their employer’s Purpose, and non-millennials are 2.3 times more likely to stay when they have a strong connection to their employer’s Purpose.²⁷
- 89% of senior executives surveyed by HBR & EY’s Beacon Institute said that a strong sense of collective Purpose drives employee satisfaction²⁸
- Firms with employees that maintain strong beliefs in the meaning of their work experience better performance.²⁹

“People who find meaning in their work don’t hoard their energy and dedication. They give them freely, defying conventional economic assumptions about self-interest. They grow rather than stagnate. They do more—and they do it better.”³⁰

²² The Business Case for Purpose, A Harvard Business Review Analytic Services Report, EY Beacon Institute, Harvard Business School Publishing, 2015, p. 4

²³ Ioannou, I, Four Principles – translating purpose into practice, London Business School, November 2016. <https://www.london.edu/think/li-four-principles-translating-purpose-into-practice>

²⁴ Carlisi, C, Power of Purpose [Infographic], Think BrightHouse, 2014. <https://www.thinkbrighthouse.com/2014/08/infographic-power-of-purpose/>

²⁵ Cable, D, & Vermeulen, F, 3 Steps Closer to a Purposeful Organisation, London Business School, December 2018 <https://www.london.edu/think/3-steps-closer-to-a-purposeful-organisation>, referencing, Gartenberg, C. Prat, A. & Serafeim, G, Corporate Purpose and Financial Performance, Organization Science 30, no. 1 (January–February 2019): 1–18.

²⁶ Gupta, A (Lead Author), The Decade to Deliver: A call to business action, UN Global Compact-Accenture Strategy CEO Study on Sustainability 2019, p.22 https://www.accenture.com/_acnmedia/pdf-109/accnture-ungc-ceo-study.pdf

²⁷ Schuyler, S. & Brennan, A, Putting Purpose to Work, PWC, 2016. p. 11 <https://www.pwc.com/us/en/purpose-workplace-study.html>

²⁸ Cable, D, & Vermeulen, F, 3 Steps Closer to a Purposeful Organisation, London Business School, December 2018 <https://www.london.edu/think/3-steps-closer-to-a-purposeful-organisation>

²⁹ Gartenberg, C. Prat, A. & Serafeim, G, Corporate Purpose and Financial Performance, Organization Science 30, no. 1 (January–February 2019): 1–18.

³⁰ Quinn, R.E. Thakor, A.V, Creating a Purpose-Driven Organization, Harvard Business Review, July-August 2018



Have more loyal customers

- The 2018 Edelman Earned Brand study found that nearly two-thirds of consumers now choose, switch to or boycott a brand based on its stand on societal issues, compared with 51% in 2017³¹
- 80% of respondents in a global survey of senior executives by EY/HBR agreed that Purpose helps increase customer loyalty³²

Are better at innovation

- Recent research has found that a broader stakeholder orientation leads to more and better innovation, because Purpose-driven companies offer a more secure work environment that promotes experimentation and tolerates failure³³
- 89% of executives believe that a clear Purpose is a good guide/inspiration to future innovation of products and services³⁴

Are more successful at transformational change

- The EY/HBR survey of global business executives found that companies that clearly articulate their Purpose enjoy higher growth rates and higher levels of success in transformation and innovation initiatives³⁵
- 84% of executives believe an organisation that has shared Purpose will be more successful in transformation efforts³⁶

Have absolute clarity around decision making and direction

- Purpose streamlines decision making, as it provides the foundation to which all decisions can be referred, regardless of external conditions:

“When your organization has a strong purpose based on doing good, that is the north star that helps to guide all decision making. It ensures that the big picture around the human, environmental, ethical, financial, and political are considered in making decisions. When this is in place, it reduces the risk around all of the other areas.”³⁷

“A purposeful company will still focus on long-term performance even when times are difficult. The best companies stick to their purpose rather than be distracted by short-term demands.”³⁸

³¹ Edelman, 2018 Earned Brand Study, 2018, p. 2

³² Cable, D. & Vermeulen, F., 3 Steps Closer to a Purposeful Organisation, London Business School, December 2018 <https://www.london.edu/think/3-steps-closer-to-a-purposeful-organisation>

³³ Ioannou, I., Four Principles – translating purpose into practice, London Business School, November 2016 <https://www.london.edu/think/li-four-principles-translating-purpose-into-practice>

³⁴ The Business Case for Purpose, A Harvard Business Review Analytic Services Report, EY Beacon Institute, Harvard Business School Publishing, 2015, p. 2 [https://www.ey.com/Publication/vwLUAssets/ey-the-business-case-for-purpose/\\$FILE/ey-the-business-case-for-purpose.pdf](https://www.ey.com/Publication/vwLUAssets/ey-the-business-case-for-purpose/$FILE/ey-the-business-case-for-purpose.pdf)

³⁵ The Business Case for Purpose, A Harvard Business Review Analytic Services Report, EY Beacon Institute, Harvard Business School Publishing, 2015 [https://www.ey.com/Publication/vwLUAssets/ey-the-business-case-for-purpose/\\$FILE/ey-the-business-case-for-purpose.pdf](https://www.ey.com/Publication/vwLUAssets/ey-the-business-case-for-purpose/$FILE/ey-the-business-case-for-purpose.pdf)

³⁶ The Business Case for Purpose, A Harvard Business Review Analytic Services Report, EY Beacon Institute, Harvard Business School Publishing, 2015, p. 16 [https://www.ey.com/Publication/vwLUAssets/ey-the-business-case-for-purpose/\\$FILE/ey-the-business-case-for-purpose.pdf](https://www.ey.com/Publication/vwLUAssets/ey-the-business-case-for-purpose/$FILE/ey-the-business-case-for-purpose.pdf)

³⁷ Reputation Institute, 2020 Global Trends in Reputation, Reputation Institute, 2020, p. 4

[https://ri.reputationinstitute.com/hubfs/Clients%20\(beginning%202020\)/2020 Global Trends in Reputation.pdf.pdf?hsCtaTracking=86ab59b4-bd9b-43b7-882e-c6b91402909c%7C23be41fb-af0-4161-98fe-b419f9bacf16](https://ri.reputationinstitute.com/hubfs/Clients%20(beginning%202020)/2020%20Global%20Trends%20in%20Reputation.pdf.pdf?hsCtaTracking=86ab59b4-bd9b-43b7-882e-c6b91402909c%7C23be41fb-af0-4161-98fe-b419f9bacf16)

³⁸ <https://www.london.edu/news/most-millennials-will-only-work-for-purpose-driven-firms-1431>



5. How to adopt a Purpose-driven model

Our forthcoming Thought Paper, titled *Purpose: Adopting a Purpose-driven model*, will provide an in-depth explanation on how to adopt a Purpose-driven model; however, it's useful to share a brief outline of some of the latest research in the area.

Adopting a Purpose-driven model involves several steps and requires the following:

- Defining the Purpose – ‘who’ the company exists for, and, ‘why’ it exists
- Ongoing consultation with, and engagement of, all stakeholders
- Authentic communication from leaders
- Role modelling of behaviours to build the desired culture
- Measurement and reward systems that align with Purpose

Recent research published by McKinsey identified that a fully embedded Purpose should be evident across nine different elements of the organisation’s DNA, including:³⁹

Ways of working

- Talent: Align recruiting, people development, and pathways to enable the Purpose
- Culture: Articulate and role-model desired individual mindsets and behaviours linked to Purpose
- Performance management: Define societal KPIs and hold employees accountable / incentivize employees on meeting targets

Core business activities

- Supply chain: Ensure supplier behaviours are in line with Purpose
- Operations: Adapt critical operational processes to meet Purpose-related targets
- External engagement: Tailor external engagement and communications to a new Purpose

Corporate strategy

- Product: Redefine product portfolio (as necessary) – for example, withdraw some products, introduce new products
- Capital allocation: Introduce capital allocation metrics in line with Purpose for decisions on, for example, Capex, M&A
- Portfolio: Review portfolio and test purposefulness of individual assets against common criteria

“A corporate purpose is a commitment from the company to its stakeholders; its legitimacy derives from how the company embeds it and is seen to ‘live’ it. To that end, purpose should guide everything else and be evident in all a company does. A fully embedded purpose should show up across all elements of the organization’s DNA.”⁴⁰

³⁹ Dhingra, N, Nuttal, R & Stone, M, Embedding purpose: fewer slogans, more action, McKinsey Quarterly, August 2019
<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-strategy-and-corporate-finance-blog/embedding-purpose-fewer-slogans-more-action?cid=other-eml-alt-mjg-mck&hlkid=e885cfa20aa8478a971cb2222fd812ec&hctky=1365543&hdpid=bcead734-3b71-4b80-a417-2157ba0f96f7>

⁴⁰ *ibid.* Dhingra, N, Nuttal, R & Stone, M, (2019)



6. Examples of successful Purpose-driven companies

A list of some well-known Purpose-driven companies follows:

Apple: *Our purpose is to make tools for the mind that advance humankind*⁴¹

Best Buy: *Our purpose is to enrich lives through technology*⁴²

Blackmores: *Our purpose is to lead the wellness revolution*⁴³

CBA: *Our purpose is to improve the financial wellbeing of our customers and communities*⁴⁴

Chobani: *Our purpose is to make universal wellness happen sooner*⁴⁵

Cochlear Limited: *Our purpose is to make Professor Clark's innovative multi-channel cochlear implant commercially available all over the world*⁴⁶

CSL: *Our purpose is to save and protect lives*⁴⁷

Facebook: *Our purpose is to develop the social infrastructure to give people the power to build a global community that works for all of us*⁴⁸

Intel: *Our purpose is to create world-changing technology that enriches the lives of every person on earth*⁴⁹

John Lewis Partnership PLC: *Our Purpose is the happiness of all our members (Partners), through their worthwhile, satisfying employment in a successful business*⁵⁰

Microsoft: *Our purpose is to improve the lives of the 7 billion people on the planet through the power of technology*⁵¹

Nike: *Our purpose is to unite the world through sport to create a healthy planet, active communities, and an equal playing field for all*⁵²

PwC: *Our purpose is to build trust in society and solve important problems. It defines the difference we seek to make in the world—it's why we do what we do*⁵³

Telstra: *Our purpose is to build a connected future so everyone can thrive*⁵⁴

Unilever: *Our purpose is to make sustainable living commonplace*⁵⁵

Worley: *Our purpose is to help our customers meet the world's changing energy, chemicals and resources needs*⁵⁶

*“For Best Buy, this journey started by saying out loud: ‘The purpose of this company is not to make money.’ It is imperative to make money, but it is not the purpose. Our purpose is to enrich lives through technology.” Corie Barry, CEO, Best Buy*⁵⁷

⁴¹ <https://www.bcg.com/publications/2018/corporate-purpose-to-matter-measure-it.aspx>

⁴² <https://corporate.bestbuy.com/a-recap-of-best-buys-2019-investor-update/>

⁴³ 2019 Annual Report <https://www.blackmores.com.au/about-us/investor-centre/annual-and-half-year-reports>

⁴⁴ <https://www.commbank.com.au/about-us/shareholders/corporate-profile/corporate-governance.html>

⁴⁵ <https://www.chobani.com/impact/the-chobani-way/>

⁴⁶ <https://www.cochlear.com/intl/about/company-information/history-of-innovation/about-graeme-clark>

⁴⁷ <https://www.csl.com/-/media/csl/documents/annual-report-docs/csl-ltd-annual-report-2019-full.pdf?la=en-us&hash=AC57DA1C6E85B66162B25238509C47596E1CA401>

⁴⁸ <https://www.facebook.com/notes/mark-zuckerberg/building-global-community/10154544292806634>

⁴⁹ <https://www.intel.com.au/content/www/au/en/support/articles/000015119/programs.html>

⁵⁰ <https://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/Juniper/ARA2020/JLP-2020-Annual-Report-and-Accounts.pdf>

⁵¹ <https://www.microsoft.com/investor/reports/ar19/download-center/>

⁵² <https://purpose.nike.com/>

⁵³ <https://www.pwc.com/us/en/about-us/purpose-and-values.html#:~:text=%20PwC%27s%20purpose%20%201%20Act%20with%20integrity%2C%20help%20us%20deliver%20the%20highest%20quality...%20More%20>

⁵⁴ <https://www.telstra.com.au/aboutus/our-company/present/purpose-values>

⁵⁵ <https://www.unilever.com/about/who-we-are/about-Unilever/>

⁵⁶ [https://quoteapi.com/resources/d616aea9991fd6d0/announcements/wor.aspx/2A1166838/WOR Annual Report to Shareholders.pdf](https://quoteapi.com/resources/d616aea9991fd6d0/announcements/wor.aspx/2A1166838/WOR%20Annual%20Report%20to%20Shareholders.pdf)

⁵⁷ <https://fortune.com/2020/07/01/paypal-mckinsey-purpose-in-crisis-ceo-daily/>



7. What boards can do to promote a Purpose-driven model

“A leader’s most important job is to connect the people to their purpose.”⁵⁸

Adopting a Purpose-driven model requires the participation and engagement of all stakeholders. However, it is the responsibility of boards to ‘lead the charge’ in bringing Purpose to the forefront.

Boards can support the adoption of a Purpose-driven model by understanding their responsibility for the following:

Act as an ambassador and role model for Purpose

- Connect with the Purpose – including understanding how it applies to your role, as well as to your personal Purpose – to reflect this in conversation and behaviour meaningfully
- Communicate the Purpose to all stakeholders, in a way that enables them to connect with it
- ‘Walking the talk’ – role-model behaviours that are conducive with building a strong culture
- Authentic commitment to delivering the Purpose, ‘warts and all’:
 - This involves being willing to have difficult conversations, to make difficult decisions and to behave ethically at all times, to deliver on the company’s Purpose:

“To be authentic, you must be unrelenting in elevating and stimulating debate about uncomfortable truths and tensions you may be tempted to sweep under the rug.”⁵⁹
- Lead with empathy to stimulate change – a survey carried out by McKinsey found that Purpose-driven empathy is indispensable for driving meaningful change and that three capabilities are vital for building Purpose through cognitive empathy:
 - The ability to develop a broad future vision that extends beyond the problem at hand
 - To inspire and build trust with others by finding common ground, and
 - To lead by example⁶⁰

Shift focus from short-term to long-term growth and wealth creation

“Ultimately, purpose is the engine of long-term profitability.”⁶¹
Larry Fink, CEO Blackrock

- One study shows that long-term incentives improve not only profitability, but also innovation and the value delivered to suppliers, customers, society, and particularly employees⁶²
- Research on high-sustainability companies found that they adopt long-term horizons, they communicate with analysts using more balanced language – talking about the short term as well as the long term. They also discuss both financial and non-financial issues. As a result, they can attract more long-term investors⁶³

Recruitment and succession planning of executives and directors

- Prioritizing candidates who show an ability to articulate both the financial and human value of the business

⁵⁸ Quinn, R.E. Thakor, A.V, Creating a Purpose-Driven Organization, Harvard Business Review, July-August 2018

⁵⁹Gast, A, Illanes, P, Probst, N, Schaninger, B, & Simpson, B, Purpose: Shifting from why to how, McKinsey Quarterly, April 2020.

⁶⁰ Balchandani, A, Beltrami, M, Kim, D, Berg, A, Hedrich, S, Roelkens, F, Amed, I, Baggio, A, Gardner, N, Budinich, V, Raine, F, Cherny, A, Figueroa, J, & Webb, A, Answering society’s call: A new leadership imperative, McKinsey Quarterly, November 2019

⁶¹ https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter?cid=ppc:CEOLetter:PMS:US:NA&gclid=EAlalQobChMI0Y6z8uCD5wIVDSsMCh1EOwCpEAYASAAEgKW5PD_BwE&gclidsrc=aw.ds

⁶² Edmans, A, Executive Pay: What’s Right, What’s Wrong, and What’s Fixable. Gresham College, 12 December 2018, p. 5

⁶³ Ioannou, I, Four Principles – translating purpose into practice, London Business School, November 2016 <https://www.london.edu/think/li-four-principles-translating-purpose-into-practice>



- Understanding and communicating the ‘why’ with prospective hires – changing the way that executives and directors talk about the company with potential hires, by focusing not just on what the company does, but why you do it (your Purpose)⁶⁴

Establish broader measurement and reporting structures

- Establish measurement and reporting structures that go beyond financial capital to include Human, Intellectual, Natural, Social and Material capital – and ensure that the balance sheet reflects the company’s net worth in relation to all of these⁶⁵
- Define metrics, both quantitative and qualitative, of the extent to which a company is fulfilling its Purpose, and report them so that investors can hold the company accountable⁶⁶
- Evaluate managers and employees on the above metrics, rather than the financial ‘key performance indicators’ traditionally focused on⁶⁷

Reform remuneration and reward to ensure all stakeholders benefit

- Link CEO remuneration to long-run value creation, for example, the equity that must be held for the long-term, even post their departure from the role⁶⁸
- Link CEO incentives with targets that ‘grow the pie,’ bringing benefits to the broader society⁶⁹
- Reform executive pay away from complicated, formula-driven bonuses to long-term shares⁷⁰
- Give long-term shares to both directors and employees⁷¹

Accountability

- Ensure that directors and executives are directly accountable for fulfilling the stated Purpose of the organisation
- Commit as a board to uphold the Purpose of the organisation
- This involves understanding the Purpose and using it as a guiding light when making difficult decisions at board level:

“Purpose must be the highest principle against which strategic decisions are evaluated, especially with regards to which activities the business pursues and doesn’t pursue based on alignment with purpose... The answers should be found within your company’s purpose. Without purpose as the bedrock of an organization, all efforts to build purpose constructs upon it will prove futile. When leaders practice purposeful business decision-making and leadership, all else can follow.”⁷²

Governance

- Ensure that board structure reflects a focus on all stakeholders:

“All of board composition, chairmanship, leadership, remuneration, auditing, and reporting should be focused on what the company exists to do and the relations that it needs to form with all of its stakeholders, including shareholders but not excluding others.”⁷³

- Create board committees dedicated to particular stakeholders, for example, a human capital committee, an innovation committee, both of which in turn would encourage ‘pie-growing’ behaviours⁷⁴

⁶⁴ Schuyler, S. & Brennan, A, Putting Purpose to Work, PWC, 2016, p.10 <https://www.pwc.com/us/en/purpose-workplace-study.html>

⁶⁵ Mayer, C, Prosperity. Better Business Makes the Greater Good, Oxford University Press, Oxford, 2018, p. 42

⁶⁶ Edmans, A, Purposeful Business: The Evidence and the Implementation. Gresham College, 3 October 2018, p. 4

⁶⁷ Edmans, A, Purposeful Business: The Evidence and the Implementation. Gresham College, 3 October 2018, p. 5

⁶⁸ Edmans, A, Executive Pay: What’s Right, What’s Wrong, and What’s Fixable. Gresham College, 12 December 2018, p. 6

⁶⁹ Edmans, A, Executive Pay: What’s Right, What’s Wrong, and What’s Fixable. Gresham College, 12 December 2018, p. 6

⁷⁰ Edmans, A, Reforming Corporate Governance. Gresham College, 23 January 2019, p. 4

⁷¹ Edmans, A, Reforming Corporate Governance. Gresham College, 23 January 2019, p. 4

⁷² Schuyler, S. & Brennan, A, Putting Purpose to Work, PWC, 2016, p.10 <https://www.pwc.com/us/en/purpose-workplace-study.html>

⁷³ Mayer, C, Prosperity. Better Business Makes the Greater Good, Oxford University Press, Oxford, 2018, p. 19

⁷⁴ Edmans, A, Reforming Corporate Governance. Gresham College, 23 January 2019, p. 5



- Give investors a “say-on-purpose” vote. Alex Edmans suggests that a “say-on-purpose” vote can be split into two - a “policy vote” to ensure that investors have bought into company’s Purpose, and an “implementation vote,” which would encourage investors to track the relevant metrics and hold the company accountable for delivering on its stated Purpose⁷⁵

⁷⁵ Edmans, A, Reforming Corporate Governance. Gresham College, 23 January 2019, p. 4



8. Conclusion

Purpose is a critical issue that boards should prioritise, because it provides the foundation stone around which the business can operate:

- Having a strong Purpose brings clarity around strategic direction, decision making and a long-term focus for success
- Communicating a strong Purpose unites stakeholders – employees, suppliers, customers, and shareholders – by helping them connect their personal Purpose with that of the organisation

The argument for adopting a Purpose-driven model is clear. Purpose-driven organisations:

- Are more profitable
- Have increased employee engagement
- Have more loyal customers
- Are better at innovation
- Are more successful at transformational change, and
- Have absolute clarity around decision making and direction

COVID-19 has brought an unprecedented level of uncertainty, both to the operations of organisations and to the lives of each individual stakeholder. Right now, we are seeking leaders who can steer a steady course through the tumultuous times, and bring their people with them by creating clarity amidst the chaos.

Boards can play a pivotal role by driving a focus on Purpose within their organisation through the following measures:

- Acting as a role model for culture
- Shifting focus from short-term to long-term growth and profit
- Establishing broader measurement and reporting structures
- Reforming remuneration and reward to ensure all stakeholders benefit
- Ensuring accountability and governance structures reflect the needs of all stakeholders
- Ensuring that recruitment and succession planning practices are geared towards Purpose and thereby create stability, hope, and inspiration amongst all stakeholders.

“Your objective is to embed purpose into every fibre of your organisation’s being: from decision-making to marketing. From the large and impactful statements to the small, almost unnoticed symbols. The extent to which you embrace purpose will determine the degree to which it seeps into your culture and becomes your new way of organisational life.”⁷⁶
Nicholas Barnett, CEO, Insync

⁷⁶ Barnett, N, Why you need employees’ input to decide your purpose, HRM Online, September 2017 <https://www.hrmonline.com.au/section/strategic-hr/need-employees-input-decide-purpose/>



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