

A silhouette of a hand holding a glowing sun over a body of water at sunset. The sun is positioned in the palm of the hand, and its light reflects on the water below. The sky is filled with soft, golden clouds.

The state of the debate on purpose in business

EY Beacon Institute



Building a better
working world

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Foreword



The world is changing, and so is business. Although the familiar concerns of profit and loss still dominate the daily agenda, many executives are now looking for a deeper meaning. They want to build a business that exists not only to serve their stakeholders, but also to contribute something valuable to society at large.

Although external and internal circumstances are pushing many companies toward this aspiration, some business leaders are finding an unexpected benefit in this new approach: focusing on the core benefits their companies bring to the world turns out to be a valuable tool for managers, both for strategy and motivation. In this era in which the companies that thrive are, for the most part, those adept at relentless, ongoing transformation, having a strong sense of shared purpose turns out to be a key comparative advantage.

As you will read in this report, more and more business leaders today are discovering that why their organization exists is a key to success in business in the 21st century. Whether they are trying to decide which new products to develop, whom to recruit or where they should look for growth, they find that aligning the organization's strategy, operations and performance metrics to a purpose beyond profit gives them a clear advantage over their competition.

In a way, the paper you are about to read is not only about this trend but a reflection of it – a research project from the EY Beacon Institute that serves our own purpose at EY of “building a better working world.” Our aim in this project has been twofold: first, to educate ourselves about the state of the debate regarding what this trend means for business and society, and second, to share what we learn with the larger corporate community.

This report profited greatly from the time, expertise and passion of many individuals. We would like to thank these leaders for taking time out of their busy schedules and sharing valuable insights in our interviews. We are also grateful to the many members of our Beacon Institute community who have shared their thinking and perspectives in conversations across the globe during our events and roundtable discussions. We are continually inspired by their stories and their commitment to transforming the working world.

Whether you are already executing your own purpose-led transformation or are interested in understanding this important trend, we hope this report will help bring you a little closer to achieving your purpose.

A handwritten signature in black ink that reads "Valerie Keller". The signature is fluid and cursive.

Valerie Keller
Global Leader, EY Beacon Institute
Executive Director, Strategy

Executive summary

Mounting evidence suggests that a growing number of employees, customers, investors and governments care almost as much about a company's motivations as its actions – and executives are taking notice. After decades during which the dominant dogma focused on maximizing shareholder value, many CEOs and their teams are now trying to achieve more. They still do all the things business leaders have always done – serve customers, manage employees and produce results for investors – but a growing number are pursuing these actions in the context of a larger, overarching purpose. They are seeking to create value with and for the many stakeholders their business touches – and the physical environment in which they operate.

In preparing this report, it became evident that, whether they recognize it expressly or not, most companies already have a clear purpose. Though the word may have fallen out of common usage in the business sense for several decades, we found many examples of corporate purpose dating back to the 1940s or well before. Its re-emergence marks perhaps both the impact of new forces and the desire to develop a more agile, yet comprehensive, response to the demands business faces today.

What we mean by purpose

In the absence of a universal definition of purpose in a business context, at Beacon, our working definition of purpose is an aspirational reason for being that is grounded in humanity and inspires a call to action.

However it is worded, the underlying concept is that by acting on this purpose, companies can create more value for their shareholders and society over the long term than by pursuing purely financial goals or a narrowly defined self-interest.

This report's objective and approach

This *State of the Debate* report presents the latest thinking about the importance of purpose in business today. In it, we discuss *why* executives are now looking at purpose as an important strategic tool and *how* a strong purpose can help an organization develop the capabilities and resilience necessary for continuous growth and transformation. However, we also explore the reasons that so many companies can clearly articulate a compelling purpose but have yet to make it an integral part of their strategy, business model, culture or operating model.

This report presents insights from two types of sources: first, a review of more than 150 books, and academic and mainstream business articles on purpose and related topics published since 1995; and second, interviews with leading experts and practitioners who have observed or worked with companies that were transforming their business through purpose.

By acting on their purpose, companies can create more value for their shareholders and society over the long term than by pursuing purely financial goals or a narrowly defined self-interest.

Our findings – five ways purpose enables success

Drawing on this research and insight, we present five aspects of how purpose can bring greater strategic impetus and be a guiding force for corporate transformation and long-term value creation:

- 1 Purpose instills strategic clarity.** In the face of continuous transformation, intense competition and rising expectations, executives describe purpose as a strategic “North Star,” a guiding light for short-term decisions and long-term strategy at every level of an organization. A clearly articulated purpose can move a company forward, not just in what they do but how they do it. It helps leaders think about systems holistically, rather than by silo – a habit that suits today’s flatter, more global, more diverse and more intrapreneurial organizations.
- 2 Purpose channels innovation.** By focusing innovation on a compelling “bigger picture,” purpose encourages everyone, from R&D to customer-facing staff, to think beyond incremental product or service improvement. By offering a long-term perspective, purpose is an antidote to short-termism. It empowers people to look for solutions and innovations that will deliver durable value and returns. At the same time, it sets clear boundaries on the space the company wants to operate in, keeping innovative energy focused on what matters.
- 3 Purpose is a force for and a response to transformation.** Purpose motivates people through meaning, not fear, thus providing a more effective basis for driving successful transformation. It clarifies the desired long-term outcome, allowing people to understand the immediate need for change rather than feeling alienated by change that is “imposed” upon them. At the same time, purpose is also in itself a response to societal pressures on business to transform, to address global challenges and to take a longer-term, more comprehensive approach of growth and value.
- 4 Purpose taps a universal need.** Purpose appeals to something fundamental in human nature. Whatever their motives – either a desire to belong or altruism – most people feel a need to contribute something to a community, to feel they are part of society. Traditionally, corporate culture aims to build a sense of camaraderie against a common competitor. Fitting in with a group is often a key motivator. Purpose takes a different stance, recognizing differences and diversity while uniting people through a desire to contribute to something bigger than benchmarking or performance metrics.
- 5 Purpose builds bridges.** Purpose makes it easier for companies to create alliances. Whether the goal is cross-industry collaboration on carbon reduction or an industry movement for fairer trade, companies can compare their potential for collaboration with a particular group or another business by looking for common ground in their purposes. Internally, too, purpose helps individuals and teams to work across silos in order to pursue a single, compelling aim.

Clear, compelling and a North Star by which to navigate complexity, purpose can bring many advantages. So what’s the catch? Our review suggests that many companies have a hard time embedding purpose in their strategic decision-making and operations.

To activate its purpose, a company must integrate it across the organization, incorporating it into how it develops strategy, measures performance and engages key stakeholders. Though each task on its own is a tremendous effort, businesses may need to do these – and more – to thrive, while meeting the demands and challenges of the 21st century.



Despite its many successes, the corporation itself is in a state of crisis, struggling to get beyond ways of thinking and acting that seem increasingly out of sync with the times.

What is driving the (re-)emergence of purpose?

Over the past 150 years, corporations have helped transform lives all over the world. Through investment, growth and steady innovation, business has helped to double and triple life expectancies, multiply our individual capacities and free billions of people from poverty.

Despite its many successes, however, the corporation itself is in a state of crisis, struggling to get beyond ways of thinking and acting that seem increasingly out of sync with the times. As the management thinkers Otto Scharmer and Katrin Kaufer have written:

*“The world has changed. Walls are crumbling. Tyrants are toppling. The polar caps and glaciers are melting ... But the two things that appear to be deeply frozen and unchanged are our **collective habits of thought** and the **actions** that they produce and reproduce in our world.”¹*

Unfortunately, just at the moment when the world needs more corporate leadership, many CEOs have lost the confidence to stand up and argue why business is vital to economic growth,

1 Otto Scharmer and Katrin Kaufer, *Leading from the Emerging Future: From Ego-System to Eco-System Economies*, 2013.

development and societal stability. Ongoing research through the Harvard Business School revealed that fewer than 20% of managers have a strong sense of their own leadership purpose.² Our own study with Harvard Business Review Analytic Services found that at the organizational level, 48% of executives surveyed thought their purpose was better understood in some areas of the company than others while 13% said it was neither well-understood nor clearly communicated.³

Such uncertainty can easily lead to what Anna Marrs, CEO, Commercial and Private Banking at Standard Chartered Bank, describes as an aspiration-reality gap: in our media-savvy world, the public is quick to spot any distance between what a company is and what it says it is.⁴ Good news may travel fast, but bad news seems to travel even faster.

Six forces in particular are challenging companies' old sense of identity and operating models – forcing them to rethink value and how it is created.

2 Nick Craig and Scott Snook, “From purpose to impact,” *Harvard Business Review*, May 2014.

3 *The Business Case for Purpose – A Harvard Business Review Analytic Services Report*, Harvard Business Review Analytic Services and EY, 2015.

4 Anna Marrs, CEO, Commercial and Private Banking, Standard Chartered Bank, interviewed by EY at the 2015 EY World Entrepreneur Of The Year™ Forum, 5 June 2015.



The trust deficit

The global financial crisis left a legacy of public mistrust in the banking sector, and corporate scandals and misdeeds in other industries since then have only compounded suspicions.⁵ Younger generations are also proving less trusting of business than their predecessors. According to one survey, 83% of millennials (those born between the early 1980s and the early 2000s) agreed with the statement “there is too much power concentrated in the hands of a few big companies” – a much higher percentage when compared with earlier generations. Trust has declined across generations and in many countries, even in those known to traditionally have higher levels of trust in institutions and business. Worryingly, some evidence also suggests that trust in CEOs as individuals is still falling.⁶

This may have consequences: research suggests that a lack of trust slows growth and innovation. More significantly, at the societal level, the trust deficit could have far-reaching implications for business’s license to operate.



The sustainability imperative

As the impact of climate change becomes increasingly apparent, more companies are facing scrutiny about their environmental impact. Amid growing public and regulatory pressure, executives are re-evaluating how they produce, consume and supply goods and services, in order to mitigate risks and make their operations, supply chains, products and services more socially and environmentally sustainable.

5 *Trust and Purpose Survey 2011*, Burson-Marsteller, 2011.

6 *The 2015 Edelman Trust Barometer: annual global study*, Edelman, 2015.

Make it real

One survey found that two-thirds of people believe that a strong corporate purpose is important, and almost 80% would rather pay more for products and services that are produced responsibly.

Consumers are also not interested in being subject to a lot of glossy sales talk about being a good corporate citizen. They want to hear about a company’s values directly from front-line teams (80%), not executives. Many feel that companies have become more dishonest over time (72%) and that companies only communicate with them to sell things (82%).

Source: *Trust and Purpose Survey 2011*, Burson-Marsteller, 2011.



Rising social inequality

The world is getting richer. Between 2008 and 2014 alone – not the easiest years, economically – global per-capita GDP grew from US\$7,781 to US\$10,779, as measured in constant 2014 dollars.⁷ More importantly, the share of the world’s population living on less than US\$1.25 per day in constant 2005 prices has fallen steeply over the past 25 years; this figure went from 36% in 1990 to 14.5% in 2011.⁸ For many parts of the world, however, the overall rise in global wealth has produced little change. On the contrary, inequality is at historic highs: of the world’s population, 1% now controls more than 50% of the planet’s wealth.⁹

Within companies, too, the differences between bottom and top have magnified. Peter Drucker, the late management thinker, once warned that a CEO-to-worker pay ratio of more than 20 to 1 would “increase employee resentment and decrease morale.” In some US organizations, that ratio is now 350 to 1.¹⁰

7 *Global Economic Prospects: Having Fiscal Space and Using It – a World Bank Group flagship report*, page 16, International Bank for Reconstruction and Development/The World Bank, January 2015.

8 *Global Economic Prospects: Having Fiscal Space and Using It – a World Bank Group flagship report*, page 17, International Bank for Reconstruction and Development/The World Bank, January 2015.

9 *Global Wealth Report 2015*, Credit Suisse, October 2015.

10 Gretchen Gavett, “CEOs Get Paid Too Much, According to Pretty Much Everyone in the World,” *Harvard Business Review*, 23 September 2014.





Diminishing brand control

Within this decade, customers have become increasingly quick to use their power as social media users and consumers to push their own political and social agendas. In fact, 89% of consumers have said there is a strong likelihood they would buy from companies that support solutions to particular social issues.¹¹ Companies also face another challenge: social media enables every customer (and employee) to publicize the best or worst about a service or product to the world within minutes. Unfulfilled brand promises are advertised faster than any marketing campaign can manage. Technology has, in effect, made all of us potential newscasters, and as trust in the authority of business and other institutions has waned, people rely on their own friends and networks more.



Conflicting time horizons

Today, the public is demanding more from companies than a commitment to short-term profitability. A growing number believe that companies have a role – an obligation, even – to address long-term global environmental and social challenges. Executives are also trying to consider long-term consequences despite many short-term pressures: one report indicated that 40% of CEOs surveyed said short-term shareholders constitute the greatest threat to corporate values.¹²



The threats and opportunities of digitalization

It took over a decade for mobile broadband to reach two billion people. In just four more years, that number may quadruple to eight billion.¹³ This instantaneous interconnectedness between stakeholders and the increase of powerful, real-time data analysis will create new opportunities for businesses to know and serve customers better – and new ways for customers to spot any gaps between a company's image and its actions in reality.

A global concern

When quality and price are equal, the most important factor influencing brand choice is purpose. Across the globe, the prominence of purpose as a purchase trigger has risen 26% since 2008. In certain regions, that growth is even more pronounced: since 2010, it has climbed in Japan (100%), China (79%), Netherlands (43%), India (43%) and Germany (36%).

Source: *The 2012 goodpurpose® study*, Edelman annual global research, 2012.

Changing how we think about change

Taken together, these forces mean that many employees, customers, investors, communities and other stakeholders are asking profound questions about the structure of society and the role of the corporation in that society. Change is a perpetual feature of life and business, but technology and science are pushing the pace and extent of change unlike ever before.

In the past, when faced with a crisis or disruption, CEOs often rallied their troops by pointing out that they all stood on a burning platform and arguing that survival demanded change. But to meet today's challenges, such threats may be counterproductive. "Fear is a decent way to get people moving because they have to, but you're not going to get the best out of your people if you do that. You're going to get minimal compliance. People lock up: they're afraid, they're trying to keep their heads low," says Michael Kanazawa, a principal in EY's Strategy practice.

A number of business thinkers now believe that the way to lead and motivate in difficult times is not through fear but by inculcating in employees and other stakeholders a higher, clearer sense of their contribution to what the company does, and why and how they do it – in other words, by giving them a sense of purpose.

"There is an increasing awareness that the purpose of a company has to be beyond shareholder value, and that this is not something that will cost your business but something that will enhance your business," according to Michael Beer, Cahners-Rabb Professor of Business Administration, Emeritus, at Harvard Business School, and a director of the Center for Higher Ambition Leadership.¹⁴

¹¹ *The 2012 goodpurpose® study*, Edelman annual global research, 2012.

¹² *2015 Board of Boards: Winning on Purpose Executive Report*, CECP (formerly known as Committee Encouraging Corporate Philanthropy), 2015.

¹³ *Ericsson Mobility Report: On the Pulse of the Networked Society*, Ericsson, June 2014, in *Megatrends 2015: making sense of a world in motion*, EYGM Limited, 2015.

¹⁴ *The Business Case for Purpose – A Harvard Business Review Analytic Services Report*, Harvard Business Review Analytic Services and EY, 2015.





What is purpose?

Purpose might seem like a fashionably recent concept, but it actually has a long history. Corporate purpose in the modern sense has been with us since at least 1947, when Forrest E. Mars, Sr. defined the objective of the Mars candy company as “the manufacture and distribution of food products in such manner as to promote a mutuality of services and benefits among consumers, distributors, competitors, suppliers, governmental bodies, employees and shareholders.”¹⁵

Although there is understandably no universal working definition of purpose in the business sense, one we have used for EY Beacon Institute’s work to date describes a corporate purpose as an aspirational reason for being that is grounded in humanity and inspires a call to action.

The International Institute for Management Development (IMD) echoes these ideas, defining purpose as “a company’s core ‘reason for being.’ The organization’s single underlying objective unifies all stakeholders and embodies its ultimate role in the broader economic, societal and environmental context.”¹⁶ Purpose often means slightly different things to different companies, in the same way that people define their individual purposes in slightly different ways. Nonetheless, the common theme is that business can – and many say should – create value for its full set of stakeholders. The concept of a general purpose fell out of favor in the 1970s and 1980s as the credo of management’s responsibility to maximize shareholder value spread. But during the 1980s, purposeful ideas began to creep back into business conversations. Initially, this

took the form of corporate social responsibility (CSR), with many business leaders drawn to the idea that their company could have a positive impact on society and the environment. In more recent years, the concepts of sustainability, corporate social impact, blended value, shared value and the “triple bottom line” elaborated on this view of business, giving companies new ways to think about how they run their business and build trusted relationships while performing well.

The spectrum of purpose includes the humanistic focus on well-being in the workplace – helping employees thrive and rethinking notions of meaningful work. These themes are being advanced by new insights into behavioral science, brain function and human motivation, and by indices such as the “Good Jobs Score” developed by Massachusetts Institute of Technology professor Zeynep Ton.¹⁷

At the macro level, these conversations fall under the broader banner of “inclusive capitalism” or “conscious capitalism” – concepts that have gathered steam since the 2008 financial crisis.

Depending on your perspective within the spectrum, purpose either encapsulates or is a common thread among all these concepts. It recognizes that companies can not only “do good while doing well” but can truly act to maximize value for everyone – shareholders, employees, customers and society as a whole – over the long term. It challenges traditional and more narrow norms of how “value” is created, for whom, and over what time horizons.

¹⁵ Raz Godelnik, “Life on Mars: Interview with the Company’s Chief Sustainability Officer,” *TriplePundit*, <http://www.triplepundit.com/2012/07/life-mars-interview-andrew-hobday-company-chief-sustainability-officer/>, accessed 20 November 2015.

¹⁶ Daina Mazutis and Aileen Ionescu-Somers, *Keeping it real – How authentic is your corporate purpose?*, International Institute for Management Development and Burson-Marsteller, February 2015.

¹⁷ “Why The Good Jobs Score?,” *The Good Jobs Score*, <http://www.goodjobsscore.com/>, accessed 2 February 2016.



Purpose versus mission, vision and values

A common question is how purpose differs from mission, vision and value statements. We have found that most companies already have a purpose, be it implicit or explicit, which dates from their creation. Some companies consider purpose to be one element of their culture that informs their vision, strategy, values and, ultimately, behaviors. The publisher Pearson, for example, defines its purpose as “the reason we are in business; a shared and passionate reason we exist.” Other organizations, such as Disney, delineate the difference between mission and purpose as the former being what they do and the latter being why they do it. Purpose can be said to inform the mission, vision and values of a company, but it has a wider scope.

As David Packard put it in a speech to Hewlett-Packard’s training group in 1960, “I want to discuss why a company exists in the first place. In other words, why are we here? I think many people assume, wrongly, that a company exists simply to make money.

While this is an important result of a company’s existence, we have to go deeper and find *the real reasons for our being*. 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.”¹⁸

¹⁸ Raz Godelnik, “Life on Mars: Interview with the Company’s Chief Sustainability Officer,” *TriplePundit*, <http://www.triplepundit.com/2012/07/life-mars-interview-andrew-hobday-companys-chief-sustainability-officer/>, accessed 20 November 2015.



Common themes in the debate: translating theory into practice

When we set out to understand how companies can benefit from purpose, we began with a review of experts' and practitioners' thinking in academia and mainstream media over the past 20 years. We found that corporate purpose was rarely mentioned in publications until the early 2000s, when instances slowly became more frequent. In 2013, a crescendo of purpose-related articles began to build: two-thirds of the 150 articles we reviewed appeared between 2013 and 2015.

Purpose is a far more familiar concept now than it was just a few years ago. Our review of the literature suggests that the current discourse is less about whether purpose is a positive tool for transformation, and more about how it can be implemented, with a few companies racing ahead in their thinking and actions.

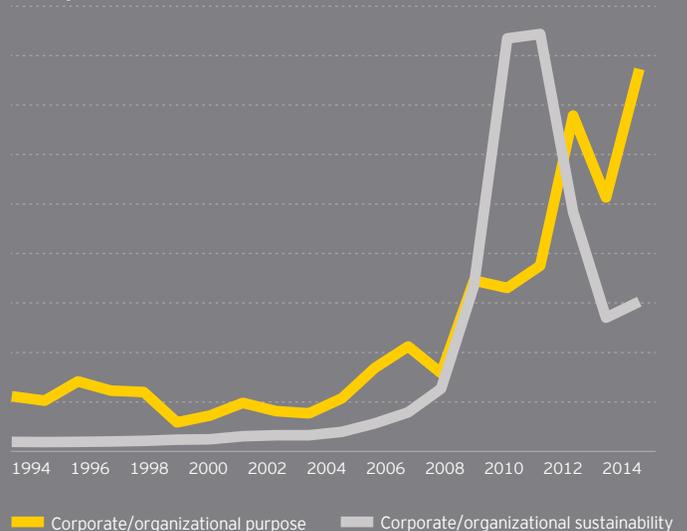
Most of the literature focuses on several recurring themes: the role of leadership in championing purpose, purpose as a tool to cultivate customer and employee engagement, and the measurement of commitment to purpose.

Purpose has re-entered the CEO lexicon

Research that EY Beacon Institute conducted with the Saïd Business School at Oxford University suggests that the dialogue around purpose is growing louder and that more CEOs are speaking about it, in more ways. Purpose is part of a shift toward business becoming a partner in global problem solving, mirroring a shift from value creation for its own sake, through value creation without harm (a CSR approach), to value creation for and with a broader set of stakeholders.

Public discourse about “corporate/organizational purpose” has increased fivefold since 1994, now trending at an exponential rate that surpasses the rate of public discourse about sustainability.

Change in article counts



This graph is based on analysis performed by the University of Oxford's Saïd Business School and EY, using data from Factiva. The graph is based on standardized data because the scale for each of the respective trend lines differed substantially.

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.

Leadership and the CEO as champion

Leadership is one of the most heavily discussed topics in purpose-related literature, with a strong emphasis on the CEO as the purpose champion. Most authors agree that the CEO must define, and almost personify, a company's purpose. In particular, the literature often characterizes purpose as being inextricably linked to the perceived authenticity of the CEO. Success is ascribed partly to this authenticity, along with clarity and consistency of the CEO's communication. Many articles also flag the potential vulnerability of leaders if they are perceived as not living up to their avowed purpose.

However, we also found that this CEO-centric view of activating purpose is not the whole story. Other writers say the rising focus on purpose is in part a response to changing employee expectations and the emergence of flatter organizations. Many articles point to the different priorities and demands of younger workers, whose views are increasingly influential in organizational life. Perhaps this means that purpose is "owned" by the top as much as the bottom of the corporate ladder. If true, that's a good sign: many practitioners and scholars have concluded that purpose can have a real impact only if executives' and employees' understanding and commitment to this core belief are strongly aligned. In the future, it may be interesting to explore how CEOs and younger, more digitally empowered workforces can learn to communicate better, and how that communication might be used to enhance a company's articulation and activation of its purpose.

Definition and activation

A lot has been written on the definition of purpose, much of it at a basic level, explaining how it differs from concepts such as mission or value statements. "Why purpose?" is a frequently asked question in the literature. A large number of articles answer the question by listing the benefits of having a strongly held purpose, but few actually offer advice or examples about how to inculcate one (see "What is purpose?" on page 10).

Customer engagement

A segment of the literature suggests a strong link between purpose and customer engagement. However, we found that many articles are actually a discussion of customer responses to communications and projects related to corporate social responsibility (CSR). Only a few articles truly address the link between purpose and customer engagement, which can include CSR projects but goes beyond them. More often, purpose is cited in passing as part of an aside that "customers now expect companies to do more than just pursue profit." We see a need for more research exploring how customers perceive companies whose purpose is to create both social and financial value, as opposed to companies that pursue a traditional CSR approach to minimize negative effects and attempt to "do good." Another stream of work is now emerging on the relationship between purpose and trust, authenticity and brand value, which is in line with our view of purpose as both a driver of and means to strengthen relationships with customers and other stakeholders.

Employee engagement

Looking at the literature on purpose and employee engagement, we found considerable emphasis on the role organizational purpose can play in giving individuals a greater sense of fulfillment at work – and the link to increased productivity and creativity. One recurring theme is that employee belief in an organization's purpose can be helpful for recruiting and retaining talent. This raises interesting questions for companies activating their purpose: to what degree will this demand a shake-up of an existing workforce to achieve greater employee alignment? How do self-identified "purposeful companies" manage headcount reductions and cost-cutting reorganizations? How do individuals at all levels connect to their organization's overarching purpose? If an organization has a lofty, stated purpose but is perceived as lacking "human" relationships with its employees, would it be judged more harshly than a non-purposeful company would? Again, these are all interesting areas for more research.



Transformation

Purpose transformation tends to be discussed more at a strategic than a tactical level. Much of the literature details how purpose becomes a key filter through which ideas and decisions pass that determines the validity of projects and guides a company toward where it should go next. The idea of purpose as a path to change appears frequently, but relatively few articles consider how companies actually deploy purpose or successfully embed it into their decision-making and operations.

Metrics

Our review suggests that few metrics have been developed to measure both the presence and impact of purpose. A small number of studies have either tried to ascertain the impact of purpose on employee and executive attitudes toward a company's success or assessed public attitudes toward companies that convey purpose versus those that do not. Only a few analysts have tried to examine the performance of companies with a strong sense of

purpose against those without one, or indeed tried to establish which specific aspects of a company's performance are affected when integrating a strong corporate purpose in strategic and operational decisions. As we discuss later in this report, looking for a one-to-one "return on purpose" may be a false trail. Nonetheless, the literature reveals a latent need for more data and empirical evidence to support companies as they integrate purpose and communicate its impact to external stakeholders. Though many organizations are developing and testing new frameworks, these are not yet part of mainstream accounting and financial standards and regulation. The connection between data, evidence and more formal standards by which to recognize and measure new forms of value (and liabilities) is an important area ripe for further research.

Please see the recommended reading list on page 40 for more information about these topics.

Many practitioners and scholars have concluded that purpose can have a real impact only if executives' and employees' understanding and commitment to this core belief are strongly aligned.



Mapping the power of purpose – five ways purpose enables success

For the individual, purpose is deceptively simple. Beyond titles, bonuses and office politics, purpose is your understanding of your role's significance in the world. It's how parents answer their children when asked about their job: "I make sick people well" or "I solve customers' problems" are just a few examples. Corporate purposes are no different, but in a complex organization that employs thousands of people and is continuously growing and innovating, it's easy to lose sight of the underlying point.

But it is precisely the need for companies to harness the energies of individuals, to excite and engage them, to grow and innovate, that makes purpose so valuable. After reviewing the evidence from the literature on purpose, and interviewing business and academic leaders about the value of purpose, we identified five aspects of purpose that make it a potentially transformative power in business.

Five ways purpose enables success (and how to take action)

- 1** Purpose instills strategic clarity
 - ▶ Use your purpose as a guide, a North Star, for daily and long-term decision-making, particularly in times of transformation and rising expectations.
 - ▶ Apply purpose as a guide for how you both do business and define what your business *will* and *will not* do.
 - ▶ Consider purpose a lens to see the whole picture, to manage complexity through a systemic approach, rather than by silos.
- 2** Purpose channels innovation
 - ▶ Let purpose frame how your organization understands the "bigger picture" beyond incremental improvements to products or services.
 - ▶ Use purpose as an antidote to short-termism to open up people's creative horizons.
 - ▶ Let it empower employees to see themselves as problem-solvers and value creators, guided by the boundaries of your purpose.
- 3** Purpose is a force for and a response to transformation
 - ▶ Motivate with purpose, not fear, in challenging times.
 - ▶ Keep purpose at the forefront of transformation; doing so will clarify desired outcomes and help people understand the longer-term context of short-term changes.
 - ▶ Use purpose as a force that will help your company to transform amid external pressures to grow and create value differently.
- 4** Purpose taps a universal need
 - ▶ Use purpose to tap into a basic human need to contribute to a wider group or bigger goal; it's a powerful driver of behavior.
 - ▶ Explore how purpose can unite diverse global teams in new ways, which may help them work toward a common goal.
- 5** Purpose builds bridges
 - ▶ Deploy your purpose as a guide and a force for better collaboration.
 - ▶ Use your purpose to look for common ground – for both the "why" and the "how" alliances could work.
 - ▶ Use purpose internally to help individuals work across silos in the interest of a single, compelling aim.

Invention or revelation?

As we reviewed the literature and listened to experts and practitioners, it became evident that purpose is not invented. Purpose is not the product of a brand agency brainstorm or a board's philanthropic impulse. It is far more like a revelation, a rediscovery of what the business set out to do originally. Whether recognized expressly or not, most healthy companies have a deep-seated sense of their role in the marketplace and in society – a reason for being that goes beyond revenue for the company or a paycheck for the employee. As Sir Richard Branson, the founder of Virgin Group, has put it:

"I think anybody who sets up a business sets it up with a purpose. I think just being in business itself, you're almost definitely creating something to make a difference to other people's lives. Otherwise, you won't have a successful business."¹⁹

Back to the future

Many of the people who contributed views to this report, and many of the CEOs who spoke at EY Beacon community events, referred to "knowing" their purpose, which they saw as a cherished part of their company's heritage. A purpose may be a legacy, but it can also continue to evolve over time. It is less about which products or services your company offers, and more about why and how it does

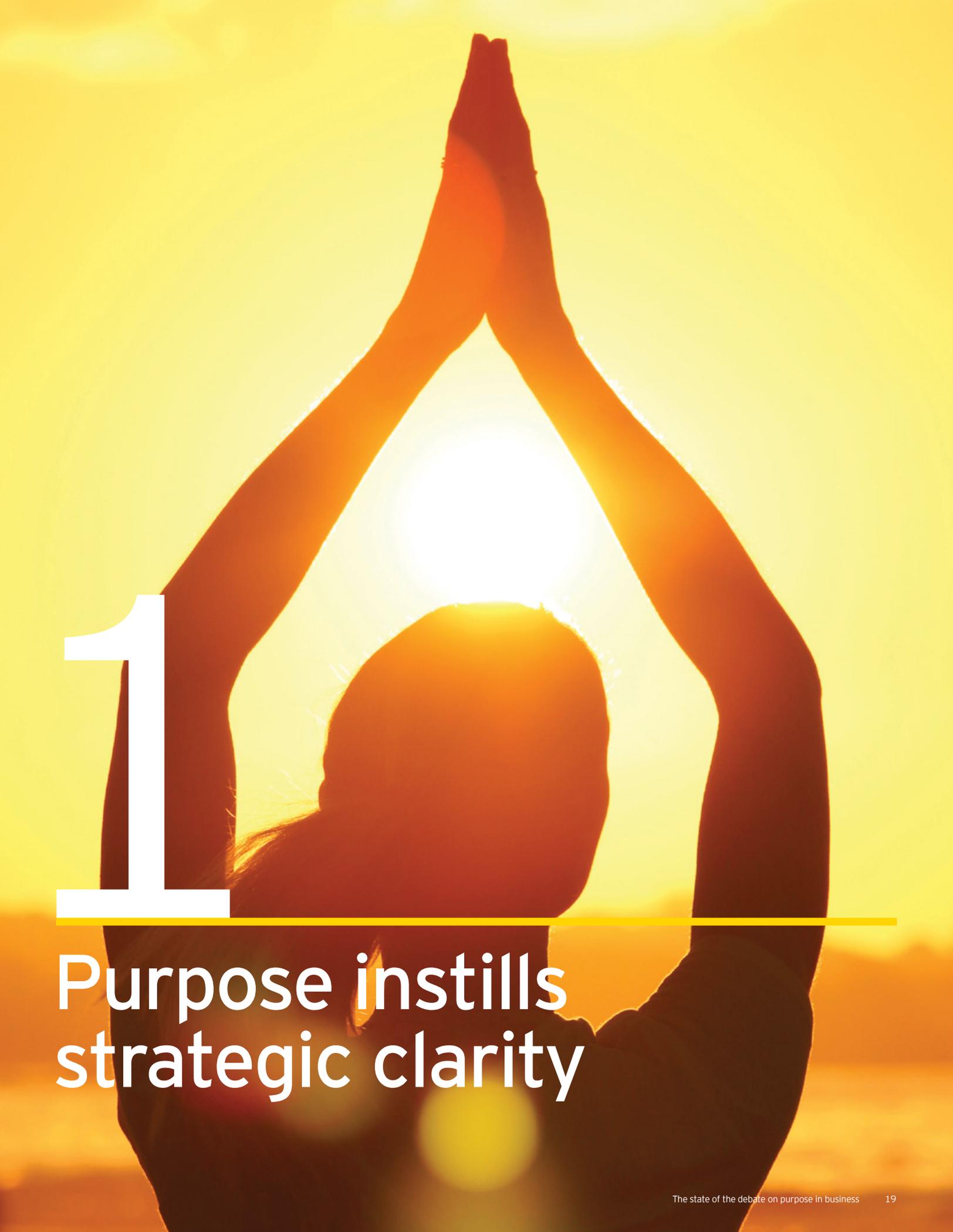
¹⁹ Sir Richard Branson, Virgin Group Founder, "Purpose transformation" keynote address, *Purpose Power: Driving Innovation and Growth*, EY-sponsored event, 22 January 2015.

so. Nokia, a 150-year-old company that was founded long before the advent of telecommunications and has been through many transformations, is one case in point. As Risto Siilasmaa, Chairman of Nokia, said:

"When you share a purpose, you have faith in what the company is trying to do. A widely shared faith becomes exponentially more powerful. And what the Nokia employees had faith in is that we can transform once again because Nokia has been in tissue paper, pulp, electrical cable, marine cable, rubber boots, car tires, TVs, PCs, mobile phones, maps, telecommunication infrastructure and at multiple points in history, we have faced a rock wall and been under danger of becoming extinct, and we have always survived to excel at something new. Going forward, our purpose is really built around our vision of the programmable world and making technology serve humankind, and this is a very strong driver for Nokia employees today."²⁰

The common theme is that as much as your articulation is important, ultimately it is how you manifest your purpose – through your strategic decisions and day-to-day operations – that makes it real. The following is what our research told us about how that enables success.

²⁰ Risto Siilasmaa, Chairman, Nokia Corporation, "Purpose Power: Driving Innovation and Growth" panel discussion, EY World Entrepreneur Of The Year, June 2015.



1

Purpose instills
strategic clarity

A surprising number of leaders we spoke to for this report referred to their corporate purpose as their “North Star,” a guiding light for short-term decisions and long-term strategy at every level of the organization.

Purpose encourages the leader to focus on the future rather than on near-term results. A purpose-driven CEO also thinks about systems holistically, rather than by silo – a habit that suits the flatter, more global, diverse and intrapreneurial organizations of today.

Johnson Controls, a 130-year-old company, is in the midst of the largest transformation in its history; the company has decided to spin off its successful automotive business. According to Kim Metcalf-Kupres, Chief Marketing Officer, purpose has been a key driver behind this:

“Well, the heart of our motivation and inspiration is really to find and stick to what Johnson Controls is good at. The purpose behind our company has really been captured in a vision that we’ve used for many years about creating a more comfortable, safe and sustainable world. Our strategies have evolved with that vision in mind. And as we look for the next century and the megatrends that are driving the world, we think the things that we bring to the world are very relevant. As we look at the makeup of the company and the implications for us as an organization, that’s challenged us in this age of activism to really understand what fits in our core and what does not.”²¹

Being true to your purpose implies making choices about which areas of your business align with this ultimate aim and which do not. It may mean not entering certain markets, or service or product lines, or even divesting certain brands or divisions. “Purpose helps leaders make brave decisions,” says Amy Bernstein, Editor of the

²¹ Kim Metcalf-Kupres, Chief Marketing Officer, Johnson Controls Inc., interviewed by Valerie Keller, EY, and Marc Ventresca, Saïd Business School and Wolfson College, University of Oxford, World Economic Forum Annual Meeting, January 2016.

Harvard Business Review (HBR). For her, *HBR*’s stated purpose has been a very helpful guide for her decision-making since her first day at the magazine:

“When I walked through the door at Harvard Business Review, I noticed the mission of the company painted on the wall of their conference room: ‘To improve the practice of management in a changing world.’ And I thought, you know, that is a really good purpose, and it helps me understand where the true north is for this company. It helps me make decisions, and I sit in a position where I have to make a lot of decisions every day.”

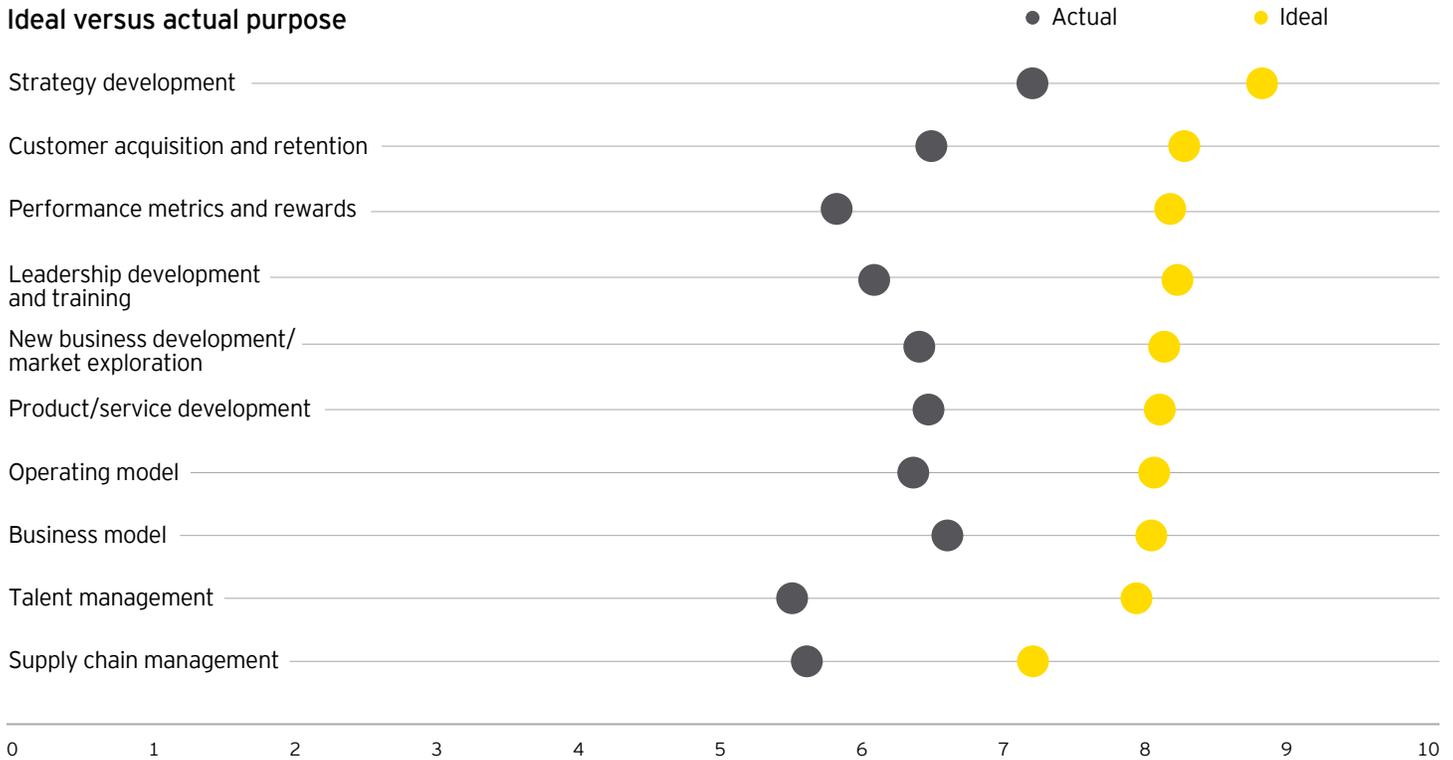
Measuring success

Setting a goal and achieving it are different things. Early research from Harvard Business Review Analytic Services and the EY Beacon Institute suggests that, for most companies, there is a significant gap between the belief that purpose should be integrated into an organization and their ability to actually do so. This holds true for a variety of functions and activities (see “Ideal versus actual purpose” chart on page 21). Across a number of industries, the biggest gaps in ideal versus actual purpose are in leadership development and training, performance metrics and rewards, and talent management.

Which metrics would signal successful integration? The outcomes of purpose-led strategies, decisions and actions can, for the most part, be measured by the usual business metrics: revenue growth, market share, retention rates, customer satisfaction and brand reputation. However, a number of authorities on the subject, including experts at the Organisation for Economic Co-operation and Development, and Dr. Timo Meynhardt, Managing Director of the Center for Leadership and Values in Society at the University of St. Gallen and Chair for Business Psychology and Leadership, HHL Leipzig Graduate School of Management (through the Public Value Scorecard), are working on ways to capture nonfinancial metrics and redefine how organizations create value.²²

²² Dr. Timo Meynhardt, Dr. Peter Gomez and Markus T. Schweizer, “The Public Value Scorecard: what makes an organization valuable to society?” *Performance*, February 2014, <http://performance.ey.com/wp-content/uploads/downloads/2014/02/EY-Performance-Organization-valuable-to-society1.pdf>, accessed 20 November 2015.

Ideal versus actual purpose



The "ideal" data points are based on the question "How important is it for an organization's purpose to be integrated into each of the following areas?" scale of 1 (not at all important) to 10 (extremely important). The data as plotted represents the mean rating.

The "actual" data points are based on the question "To what extent is your organization's purpose actually integrated into each of the following functions and activities?" scale of 1 (not at all important) to 10 (extremely important). The data as plotted represents the mean rating.

Survey data collected in November 2014, *The Business Case for Purpose – A Harvard Business Review Analytic Services Report*, Harvard Business Review Analytic Services and EY, 2015.

A clearer focus on the future

A need for strategic clarity has always been essential to success. What has shifted is the time frame. From changing demographics to the accelerating pace of connectivity, the megatrends transforming today's business and society are moving at very different speeds and placing seemingly contradictory pressures on CEOs. On one hand, leaders must be ready to manage rapid disruption and the short-term expectations of markets. On the other, they need to rethink models and build the capabilities necessary to seize longer-term opportunities. At the same time, companies have to respond to louder calls for business to show itself as willing and able to address global challenges. Food security, access to energy and global public health are just some of the areas for which the public and governments are asking business to do more. In addition to providing the necessary clarity, purpose also informs a longer-term perspective, connecting the reason a company exists with the ways it can grow and enrich society both now and in the future.

Case study: A driver of long-term decisions

Some business minds think that the best innovation of 2014 was not a product at all but the bold move by Tesla to open its patent portfolio to the world.

"It was a courageous move to share their [intellectual property] in the name of making the world a better place," said Chris Hammond, Director of Insight and Innovation at Kaleidoscope, an innovation and product design firm. "To me, Chief Product Architect Elon Musk embodies our philosophy of purpose-driven innovation."

Tesla shared its portfolio in the spirit of the open-source movement to advance electric vehicle technology.

Source: Margee Moore, "The 10 Best Innovations of 2014 Driven by Purpose (Some May Surprise You)," *Kaleidoscope website*, 7 January 2015, <http://kaleidoscope.com/top-10-best-innovations-2014-driven-purpose-may-surprise/>, accessed 7 September 2015.



2

Purpose channels innovation

By focusing innovative energies on a compelling “bigger picture,” purpose encourages everyone from R&D to customer-facing staff to think beyond incremental product or service improvement. By offering a long-term perspective, purpose is an antidote to short-termism, empowering people to look for solutions that deliver durable value and returns. At the same time, it defines the space the company wants to operate in – and where it does not want to venture – which keeps innovation focused on delivering on the organization’s purpose. Employees may find this liberating because it encourages everyone to find better solutions, regardless of their role in the organization. As *HBR*’s Bernstein puts it, purpose “liberates me because it helps me make smart decisions.”

Assuming that performance metrics are aligned, purpose can also encourage employees to be more creative to achieve that overarching goal. This is often a win-win situation: as LRN, a consultancy that focuses on culture and ethics, has noted in its “Freedom Index,” companies that build freedom into relationships with their stakeholders (e.g., freedom from superfluous rules and freedom to pursue a values-based mission) tend to perform better.²³

Innovation: asking the right questions

On a very pragmatic level, purpose-driven innovation can help keep the company focused on the customer’s needs rather than on the optimization of a particular product.

Companies that ask purpose-driven questions may also find some very exciting answers:

- ▶ Nestlé’s Masala-ae-Magic, for example, is a popular spice brand in India that now includes the important micronutrients iron, iodine and vitamin A, a direct consequence of Nestlé’s pursuit of its health-related purpose.
- ▶ ICICI Bank, in its quest to serve India’s financial needs, is tapping into a huge new market with simple yet innovative solutions to reach hundreds of millions of “unbanked” Indians.
- ▶ At Unilever, purpose has led to the development of new green products, such as a less water-intensive detergent. “[I]f everyone who uses our products switches to this, we will save 500 million liters of water; that’s a month’s worth of water for a whole continent,” Harish Manwani, COO of Unilever, told an audience at a TED conference talk.²⁴

Case study: Staying ahead through purpose

By focusing on ends rather than means, a clearly defined purpose can help a company stay ahead. For example, many pharmaceutical companies no longer only bring to market new drugs they have developed, nor do they even confine their activities to the sale of medicines. Health and health care are evolving rapidly because of scientific advances and technology, as well as shifts in demographics and attitudes about health. Many in the pharmaceutical industry are responding to this through the lens of a greater purpose. In the pursuit of new health solutions, they no longer finance only their own laboratories but also collaborate with or acquire smaller companies with promising research expertise in nontraditional drug development. Gene therapies, telemedicine, medical devices and nutrition are all part of the “pharma” industry today, as it takes a longer-term, more comprehensive view of health.

Case study: Innovation without an expiration date

Unilever’s sales of Dove brand products have grown over the last decade from less than US\$2.5 billion to more than US\$4 billion. About 15 years ago, Unilever embarked on a journey led by Dove’s purpose: to make every woman in the world feel comfortable with her appearance, to boost her self-esteem. That is a purpose that encourages innovation beyond soap and moisturizers. As Jim Stengel, former Global Marketing Officer of Procter & Gamble, and Founder of the Jim Stengel Company, put it, “You can innovate against that purpose indefinitely. I don’t know when it will ever be out of date.”

Source: Jim Stengel, “A Soapbox For Purpose,” *Forbes*, May 2015.

²³ “The Return on Freedom: New Research From LRN,” PR Newswire, 22 January 2014.

²⁴ Harish Manwani, “Profit’s not always the point,” TED conference talk, October 2013, *TED website*, https://www.ted.com/talks/harish_manwani_profit_s_not_always_the_point/, accessed 18 October 2015.

Meynhardt of St. Gallen says purpose seems to release energy and foster greater cohesion or alignment. “It might simply help to join mental forces and lead to a reduction of inefficiencies due to misunderstandings or to a lack of a higher goal,” he speculates.

The numbers seem to bear out his view: 62% of executives at companies that have a strong purpose say their business is focused on innovation and continuous transformation, compared with 46% of those whose organization is developing a sense of purpose and 26% for which the company's purpose is unclear. Prioritizing purpose seems to lead to greater success with innovation and transformation efforts: 53% of executives at purposeful companies say their organization is successful, compared with 31% of leaders whose companies are developing a sense of purpose and 19% of executives who say a sense of purpose is entirely lacking at their organization.²⁵

It's not difficult to understand why purpose is conducive to innovation and transformation. “When people feel they are in a safe environment, and they feel excited and passionate, they're going to be more creative and they're going to be more innovative, and they're going to work really hard,” explains Bob Patton, EY Americas Vice Chair of Advisory Services.

²⁵ *The Business Case for Purpose – A Harvard Business Review Analytic Services Report*, Harvard Business Review Analytic Services and EY, 2015.

Case study: Products imagined differently

Method was founded on a simple purpose: to be a catalyst in making homes cleaner in a more sustainable way. The founders drew on their desire to clean their grimy student apartment using safer, more environmentally friendly products. This drove them to create safe-to-handle products, chicly packaged using recycled materials, and produced in a LEED-certified (Leadership in Energy and Environmental Design) factory in the South Side of Chicago, complete with a hydroponic roof garden capable of growing 500 tons of fresh produce a year. Method is now sold in Target stores around the US and has been the fastest-growing company in its category for the past four years.



3

**Purpose is a force for –
and response to –
transformation**

Over the past two decades, leaders often drove transformation through dramatic appeals, such as likening their stagnant business to a platform burning beneath their feet. But, as the little boy who cried wolf discovered, frequently repeated (but unwarranted) threats tend to lose their impact.

Purpose motivates people through meaning, not fear, thus providing a more effective basis for driving successful transformation. As discussed above, it clarifies the desired long-term outcome, allowing people to understand the immediate need for change, rather than feeling alienated by change imposed upon them. Purpose is also in itself a response to the demands on business to transform, address global challenges and take a longer-term, more comprehensive perspective of growth and value.

Appealing to purpose helps leaders make a more positive case for transformation, a motive that can keep driving change even after a short-term crisis has passed. Beda Bolzenius, a vice president at Johnson Controls, says that having purpose as a constant can help reassure people that the change will be worth it. “You need a pretty convincing story, and if that convincing story is not based on what you’d call a purpose, a final target, I think the message will fail,” Bolzenius says.²⁶

A purpose based on shared values can also help employees put their heart into the change – another important advantage in a purpose-led business. “Once they’re past a certain financial threshold, many people are as motivated by intrinsic meaning and the sense that they are contributing to something worthwhile as much as they are by financial returns or status,” says Rebecca Henderson, the John and Natty McArthur University Professor at Harvard Business School.²⁷

However purpose is first articulated, the evidence suggests that it seems to have a useful transformative effect: a recent EY Beacon Institute study with Harvard Business Review Analytic Services found that at companies where executives made purpose a priority, leaders were three times as likely to say they were successful in their transformations than executives at companies that were not conscious of their purpose (52% versus 16%).

²⁶ Beda Bolzenius, Vice President of Johnson Controls, interviewed by Valerie Keller, EY, and Marc Ventresca, Saïd Business School and Wolfson College, University of Oxford, World Economic Forum Annual Meeting, January 2015.

²⁷ *The Business Case for Purpose – A Harvard Business Review Analytic Services Report*, Harvard Business Review Analytic Services and EY, 2015.

Case study: A voyage of transformation

In 2010, John Borghetti became the CEO of Virgin Australia and launched the three-year Game Change program of transformation at the airline. The goal was to rapidly take market share in the corporate travel sector by transforming the product and the experience, making Virgin’s distinctive customer service more attractive to business customers who had previously chosen competing airlines. Very quickly, customers were won over by this transformation – based on the purpose of changing the game for aviation, and creating greater choice, something that people living in as vast a country as Australia feel passionate about.

“All of our people and the market knew what we were doing. They knew that if we entered a monopoly route ... prices would drop. So people felt that we were doing something that had great purpose, and they knew what their role was in delivering our strategy,” says Geraldine Chin Moody, Group Executive, People, Culture and Sustainability, Virgin Australia.

Source: Geraldine Chin Moody, Group Executive, People, Culture and Sustainability, Virgin Australia, interviewed by Valerie Keller, EY, and Marc Ventresca, Saïd Business School and Wolfson College, University of Oxford, World Economic Forum Meeting, September 2014.

Case study: Repositioning with purpose

The health insurance market is competitive and evolving quickly. Tal Hisham Nazer, CEO of Bupa Arabia, now Saudi Arabia’s largest health care insurer, realized his company’s purpose was less about insurance than it was about health care: “Bupa Arabia is the greatest health care company in the Arab world. When it touches you, whether you are an employee, a customer or a community member, you live a healthier, happier, longer life. We have written history.”

The result: Bupa Arabia grew from 50,000 customers in 2013 to 750,000 in 2014. As Nazer put it, “If you said, ‘I want to reach 10 billion SAR [Saudi Arabian Riyal] in revenue or a billion in profit,’ only certain people would relate to it, but not your call center agent or the doctor. But if you tell them we want to make a difference in the lives of customers, that resonates. You can’t expect to reach a big goal if you are going after it with your current way of thinking. We had to literally change how we thought – and follow through with it.”

Source: Jessica Dineen, “The Secret to Breakthrough Performance? Define Your Company Purpose,” *Forbes BrandVoice*, 12 January 2015.





4

Purpose taps a universal need

One key advantage of giving stakeholders access to a sense of a higher purpose is that it appeals to something fundamental in human nature. Whatever their motives, whether a desire to belong or altruism, most people feel a need to contribute something to their community, to feel they are part of it and the wider society.

The challenge for companies is how to channel that need. How do you connect an individual's yearning to do more than just collect a paycheck with an organization's needs to rethink its own role and to deliver more growth, more sustainably?

Traditional corporate culture-building exercises usually engender a sense of camaraderie against a common competitor. The teamwork rhetoric tends to be borrowed from sports or the military; the company's workforce is likened to an army or a tribe intent on defending itself and "beating" the competition. Purpose takes a different stance. The question answered by purpose is less *"How do we win?"* than *"What are we working toward – and why?"*

"What's new is that this purpose is more society-related; it's more directed to public value and thereby to the common good. The purpose is not for a company to beat its competitors, the purpose is rather to contribute to some larger goal of humankind," says St. Gallen's and Leipzig's Meynhardt.

Motivating a more diverse workforce

Purpose is also more supple and subtle in the way it integrates into employees' lives. The thrust is not about fitting in culturally but rather getting an important job done – a key distinction given the fact that demographics and mobility are making workplaces increasingly diverse, whether by gender, age, ethnicity or professional background. A strong, clearly articulated purpose creates a common understanding of what a company is trying to do, without the often too-narrow "values" or "corporate culture" overtones. It offers an opportunity for a shared goal that can bridge apparent differences without imposing a false uniformity across a broad range of social norms.

It should be noted that purpose is not the exclusive property of any one demographic. Our research suggests that the younger generations now joining the workforce may just articulate their personal goals better, broadcasting them through the power of the digital social networks with which they have grown up. However, extended life-spans, career paths that aren't defined as clearly and greater pressures in the workplace are also probably leading more employees of all ages to question the value of their work. Whether you are 20 or 60, and facing change and uncertainty, a strong corporate purpose can offer a more compelling reason than just a paycheck to devote long hours and energy to a company.

Generational differences aside, the fact that employees are more educated, better informed and more connected than ever may be intensifying their concern. Today, the consequences of any company's activities, good or bad, for communities, the environment, or for health and well-being, can be seen by all. This makes employees feel accountable for their company's actions, even if they are not directly involved. Equally, people's relationships with work and employers are changing. Jobs are no longer for life, careers change and few positions are really "9-to-5" anymore. As a result, for employees today, working comes at a higher opportunity cost, and they want to believe they are doing more than just contributing to their company's bottom line when they are at work.



Although a strong purpose does not “eliminate” all of the differences within a company’s workforce, it does add clarity by breaking down silos and making it easier to manage change holistically. “Their goals start to change, because it unifies R&D and engineering and marketing and sales and everyone around the difference they are trying to make,” explains Jim Stengel, former Global Marketing Officer at Procter & Gamble, and Founder of The Jim Stengel Company.

Providing a common motivation makes it easier for disparate groups to work together. This transforms weaknesses – different communication styles or attitudes to hierarchies – into strengths by spurring more dialogue and directing it toward a shared purpose.

Purpose also makes management’s task much easier. “If you align the individual’s purpose and their passions to the organization’s purpose and its passions, think about how liberating that is. If you don’t have to manage every minute of that employee’s time, you don’t have to be concerned with measuring every action that employee takes,” says EY’s Patton.

Perhaps for these reasons, executives at purpose-driven companies insist that this pursuit of a larger goal is also entirely within the company’s self-interest.

“If you want to win in this tough world, you need to have the best people. And if you want to have the best people, you need to have a value proposition that is attractive to them. And a purpose that people can relate to is by far the best proposition that you can have,” says Helena Norrman, Senior Vice President, Chief Marketing and Communications Officer and Head of Group Function Marketing and Communications, Ericsson.²⁸

Success depends on meeting expectations

However, seller beware: by raising stakeholder expectations, a strategy for implementing purpose also raises the risk of disillusionment. Authenticity and trust are interrelated. A loudly articulated purpose that does not move beyond rhetoric will induce doubt, skepticism and, ultimately, a loss of trust, which can take a long time to restore. “The moment leadership makes a decision that I, as an employee, don’t understand, that somehow strikes a wrong note with me, and leadership can’t explain it in a way that makes sense, then you’re going to lose my engagement,” says *HBR*’s Bernstein.

A universal need, if not (yet) universally articulated

Purpose may be perceived very differently by family-owned businesses and by publicly held companies; younger organizations, as opposed to older firms; and in companies headquartered in a fast-growing economy versus those that emerged during a mature economy.

The language of Mandarin reportedly does not have a direct translation for the word “purpose” in the sense of a compelling reason for being (in a corporate context). But examples of purposeful companies are not confined to Anglo-Saxon markets or advanced economies. Through the literature we reviewed and the experts we spoke with, and in EY Beacon Institute’s own community, we see many examples of purpose-driven companies operating across the world and engaging with communities in both advanced and emerging markets. Chinese technology company Huawei (“a better connected world”) and Indian conglomerate Tata Group (“committed to improving the quality of life of the communities we serve”) are just a couple of the many purpose-driven organizations that exist in very different regions and industries.

In the end, purpose is not a one-size-fits-all concept. “It’s important to understand where purpose resonates and where it doesn’t,” says Uschi Schreiber, Chair, Global Accounts Committee and Vice Chair, Global Markets at EY. “You can’t assume that across all cultures, across all societies, across all histories, across all markets, it applies in the same way. The sentiment that engages you in purpose may depend on where you are in the world.”

Clearly, purpose alone will not be a sufficient motivator in economies where jobs are hard to find or incomes are so low that daily life is a struggle. But it would be a mistake to suppose that purpose is a privilege limited to companies in higher-income economies. Ultimately, we find it difficult to believe that healthy, forward-looking companies anywhere lack some variation of such a deeply human drive.

²⁸ Helena Norrman, Senior Vice President, Chief Marketing and Communications Officer and Head of Group Function Marketing and Communications, Ericsson, interviewed by Valerie Keller, EY, and Marc Ventresca, Saïd Business School and Wolfson College, University of Oxford, World Economic Forum Annual Meeting, January 2016.



5

Purpose builds bridges

Purpose makes it easier for companies to create alliances. Whether the goal is cross-industry collaboration on carbon reduction or an industry movement for fairer trade, companies can compare their potential for collaboration with a particular group or company by looking for some common ground in their purposes.

Even in the context of a commercial collaboration, such as a joint venture or M&A, an articulated purpose may also be a useful signal for cultural congruence to potential partners. One executive described purpose to us as “a guiding force that tells everybody how to interact with you and what’s important to you, so that you’re driving your company forward much more strategically. From an external lens, you’re telling people how to collaborate with you and what’s important.”

“We found that we have more suppliers that want to work with us now because it energizes their employees and business models as well,” says Paul Polman, CEO of Unilever. “Our innovations are actually stronger because you’re really focused on solving some real problems that are there in society.”²⁹

²⁹ Paul Polman, panel discussion remarks, *Purpose Power: Driving Innovation and Growth*, EY-sponsored event, 22 January 2016.

Douglas A. Ready, Senior Lecturer at the MIT Sloan School of Management, and Founder and President of the International Consortium for Executive Development and Research (ICEDR), is optimistic that purpose can help advance dialogues between parties in a way that helps them think beyond conventional solutions. “I think finding a purpose can help to really stimulate innovative approaches to both internal ways of working and external ways of dealing with the stakeholders that the corporation interfaces with,” Ready says.

Some, too, hope that purpose will also facilitate collective action to tackle some of our toughest issues. As we have discussed earlier in this report, the forces reshaping the way the world communicates, consumes and creates wealth are also triggering greater demands of governments and business alike. The necessary responses will require investment, ingenuity and time frames beyond the capacity of most industries and even many sovereign states. While competition will undoubtedly remain an important driver of progress, collaboration may be an essential ingredient for developing an environment of sustainable growth and value creation.

“When looking at the interconnectivity of the economy and the complexity of issues across the world, you realize that governments can no longer address these challenges alone,” says EY’s Schreiber. “In this context, purpose could play a unifying role in that it connects all parts of the societal ecosystem,” she adds. “Companies with a clearly expressed external purpose might directly contribute to generating a new level of joined-up action from business, governments, NGOs [nongovernmental organizations] and entrepreneurs.”

For purpose to be effective as a way of successfully managing and steering transformation, it will need to be integrated into the way the organization makes its decisions, designs its business processes and measures the outcomes of its purpose-led strategy.



Serving a purpose

Purpose is harder than it looks

As stated at the beginning of this report, corporate purposes are not different than those of individuals, although in an organization of thousands of people, it can be harder to find common ground in an increasingly vast global web of stakeholders.

Yet while interest in purpose appears to be rising, it may also be nearing an inflection point. Right now, the conditions to pursue purpose-led strategies appear particularly favorable. Numerous external and internal forces are converging, transforming business and society. A critical mass of purpose-led companies will be necessary to convince skeptics that purpose has the potential to create a lasting legacy rather than just become another passing fad. Our research indicates that practitioners at companies with a strong sense of purpose and at companies with a weak sense of purpose share the same feeling that purpose is an important way of creating new value. What differentiates them is how well they integrate and act upon that purpose.

Integration is the key

Perhaps the biggest challenge ahead lies in achieving a deeper understanding of how to make purpose a day-to-day aspect of company life. Many purpose supporters narrow the discussion to the importance of good communication to engage customers and employees. Only a very small number take a more concrete, comprehensive look at how to activate purpose strategically by overcoming the barriers to successful integration of purpose into strategy and decision-making processes.

For purpose to be effective as a way of successfully managing and steering transformation, it will need to be integrated into the way the organization makes its decisions, designs its business processes and measures the outcomes of its purpose-led strategy. If purpose is left as an isolated initiative championed by a single department, it will have only minimal effectiveness. In the end, purpose is only as useful as the action we take to activate it.

Activation can mean some tough choices – in the short term

Integrating purpose into strategic decision-making means just that: thinking about and acting upon critical strategies for divestment, investment, product development, new market entry or exits from markets, all through the prism of your purpose.

At times, it means making tough trade-offs between short-term gains and long-term growth. A recent case saw a well-known US drugstore chain decide to forgo profitable sales of tobacco products because that activity conflicted with its purpose as a company focused on health.³⁰ The fashion house Stella McCartney does not use leather or fur because of its pro-animal rights stance. The brand offers only fake versions of both, an unusual choice in that industry but one that did not prevent sales growth or its acquisition by Kering, which continues to support that strategy.

While in his role as Chief Marketing Officer of P&G, Jim Stengel led the team that transformed Pampers, the disposable diaper brand, from a poorly motivated division working solely to meet technical product targets such as absorption, to a division focused on the purpose of improving parents' lives. The new understanding of Pampers' purpose boosted morale and gave the division a far broader scope for innovation and success.

Taking this larger view can also help the CEO identify new partners and fresh opportunities. "If companies embark on this purpose journey, they will reach out to find others who share a common purpose and collaborate with them in a different way," Stengel told us.

However, it's not enough for the purpose to be clear within the executive suite. To fully reap the rewards of purpose, it needs to be integrated into the company's entire strategic planning process and actions, and through its decision-making and operations (see "Does integration matter?" on page 37).

³⁰ Hiroko Tabuchi, "How CVS Quit Smoking and Grew Into a Health Care Giant," *The New York Times*, 15 July 2015.

Putting purpose to work

Our initial findings about the importance of not just knowing and articulating but actually integrating purpose as the foundation for strategy, decision-making and operations are echoed in conversations with our community members and with experts. A number of factors are emerging as critical to successful integration (for example, performance metrics, short-termism versus long-termism, and the engagement of internal stakeholders).

Performance metrics

While there is little appetite for developing an entirely new set of metrics, business leaders, academics, governments and communities agree that there need to be new ways to quantify value beyond purely financial or economic performance. For instance, companies need metrics and reporting mechanisms that capture their impact on society and the environment to accurately assess the effectiveness and relevance of their purpose. The demand for new metrics is driving industry, national and multinational efforts focused on new forms of value creation, from measuring well-being and happiness to lowering risks and costs through better natural resource management. While this movement underscores the importance of quantifying business' nonfinancial value, it will take time to reach a consensus and move these measures and reporting mechanisms into the mainstream.

Short-termism versus long-termism

Purpose helps make companies and their leaders more forward-looking. By keeping the focus on what the company is striving for, a strong purpose can stop a culture from becoming overly focused on the next quarterly financial report rather than upon long-term impact. True transformation takes time and can mean slower short-term financial growth, higher costs or even absorption of some losses. Companies will need to educate their stakeholders, especially investors, on why a purpose-led strategy is stronger over the long term.

Moving the business world from the current short-term mindset to a longer time horizon will require more than conversations with Wall Street. Business schools are already beginning to offer courses on shared value, social impact investment and other new approaches to value, but for the concept of purpose to really take hold, companies will need to reinforce this same message through ongoing education and employee performance incentives related to purpose outcomes. Redefining the value system will introduce a new language, as yet unfamiliar to most business people, and it will need to be instilled early and consistently to become the new normal.

Engagement of internal stakeholders

The discussion about purpose needs to start from the initial interview. Recruiters should look for people who believe in the company's purpose and would like to contribute to its fulfillment. At the same time, care should be taken to make sure that employees not only see a value in the larger goal, but feel personally aligned with it as well. This needs to start at the very top of the organization. "I think that one of our challenges in organizations today is that maybe we have too many managers and not enough leaders," says EY's Patton. "We need leaders who inspire and leaders who align. Purpose, I think, is a critical component of inspiration and alignment – it's inspiring the people and it's aligning their personal purposes to the organization's purpose."

Truly integrating purpose into strategic, daily decisions and actions is a critical part of attracting, motivating and retaining key staff. Any dissonance between rhetoric and reality will discourage, demotivate and eventually deter individuals, and this could damage a company's reputation over time. This link among purpose, authenticity and trust is important to emphasize, if a company is to improve, not just safeguard, its performance and standing in the eyes of shareholders and society alike.

Does integration matter?

Although awareness of purpose helps corporate performance, it's only a first step. An EY-sponsored survey of global executives by Harvard Business Review Analytic Services indicates that stakeholder awareness of an organization's purpose positively impacts corporate performance. But data from this survey further suggests that "awareness" is just the first step along the path to fulfilling the potential that purpose can bring.

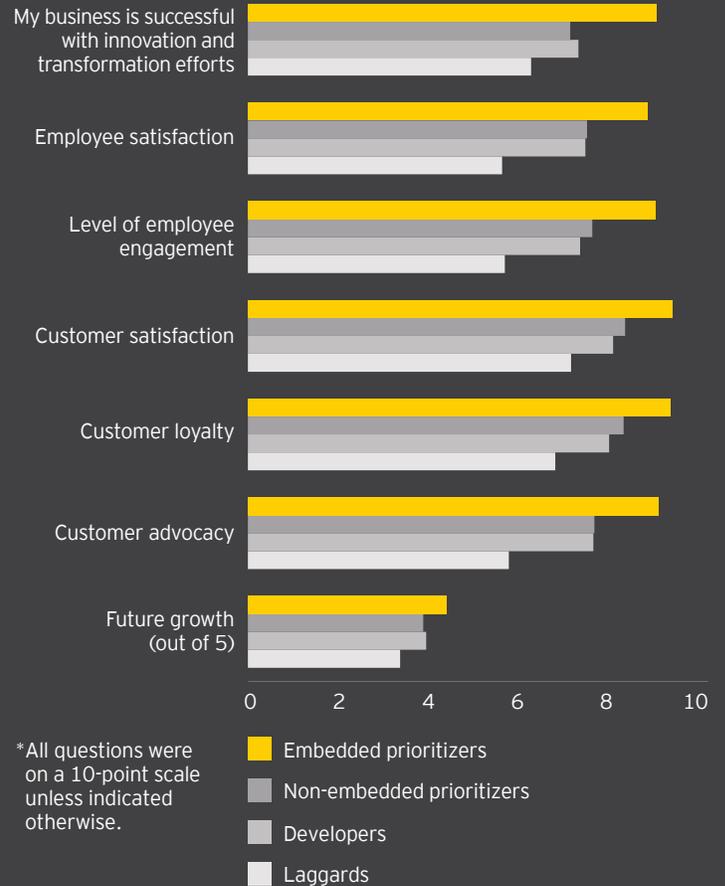
The analysis classified most respondents into three bands: "prioritizers," who believe their company has made articulation of purpose a priority; "developers," who consider it a capacity their company is still developing; and "laggards," whose organization has yet to articulate a purpose. The data shows that prioritizers are associated with better performance across a wide range of business indicators, including employee and customer engagement, success with innovation and future revenue growth.

However, further analysis of the survey results reveals an important implementation gap between clearly knowing and articulating a purpose and acting on it. Looking at the responses to the question about how well their organization's purpose is integrated into its goals and operations, we found that 76% of prioritizers rate their level of integration at least 8 out of 10. This stands in stark contrast with the ratings given by developers (32%) and laggards (6%). These initial findings support our premise that the more an organization has actually integrated its purpose into its strategy and operations, the more benefit it is likely to gain across a range of performance factors.

Integration makes a difference

As the chart at the right shows, the subset of prioritizers who highly rank their companies' purpose integration ("Embedded prioritizers") outperforms those prioritizers who have a clear and well-articulated purpose but have not addressed the implementation gap ("Non-embedded prioritizers"). Embedded prioritizers pull ahead on expected revenue growth rates, success with innovation, customer satisfaction and level of employee engagement.

The relatively small survey sample (N=431) means we must be cautious about how much we can read into these results, but EY Beacon is continuing to research this important purpose-performance link.



X-axis: Q3.1 = purpose well-articulated and communicated

Q5.3 = score between 8 and 10 on question about whether an organization's purpose was integrated into its goals and operations. Data from survey conducted by Harvard Business Review Analytic Services (November 2014).

Note that the "Non-embedded prioritizers" had a low sample size (N = 40), so caution is due before drawing conclusions about this group.

Source: Survey data collected in November 2014, *The Business Case for Purpose – A Harvard Business Review Analytic Services Report*, Harvard Business Review Analytic Services and EY, 2015.

A license to operate in the 21st century

This report set out to explore why purpose is re-emerging. We looked at how it can be both a force and a guide for executives managing the kind of multifaceted transformation that is now becoming increasingly common. Much remains to be learned about how to implement purpose to deliver results and convince customers, employees and shareholders of its authenticity and value. As we have discussed, bringing ever more diverse, distant and often highly disaggregated groups of people together around a corporate purpose is not a quick win, and the rewards are not easily measured in a quarterly report. But many examples of large and small companies, household names and lower-profile ones are integrating their purpose successfully and committing to it publicly. If they can overcome the management challenges involved, others should be able to learn from them and do the same.

As we looked at the inner workings of purpose-led companies, what also emerged from this study is that this path is becoming less and less optional. A strong purpose is increasingly important to a variety of stakeholders. Society's awareness and expectations of business have never been higher. As we discussed in the opening section, the megatrends and forces affecting society and business today are unprecedented in their scope and pace. Communities and companies, industries and economies are inextricably linked by the same opportunities and risks.

Purpose may be a company's best source of resilience in the face of this complexity. Purpose can serve as a filter: helping companies to spot potential risks, stay focused on the long term and resist pressures to react to trends or fads.

Business has long had the distinct abilities to organize people, harness resources and new technologies, innovate, and create value. But the growth models the world has relied upon in the past are looking less and less fit to meet our collective needs in the century ahead. A planet with nearly nine billion people by 2050 will need to manage more with less: more food with less fertile land and water; more advanced health care for more people, but at lower costs; and more access to energy solutions, housing and better infrastructure, with fewer resources and less pollution.

These challenges call for cooperation and partnerships between the public and private sectors, across countries and industries. Business has the huge potential to innovate and find solutions that create new value and growth, just as it has so many times before. Corporate purpose may be the key to making this happen. By sparking a rethink of how companies can grow and share value, a sense of purpose may not only help improve performance in the short term, but give companies a more durable and essential license to operate for the exciting, if uncertain, decades to come.



EY Beacon Institute: our purpose-led research agenda

Purpose and value creation for the 21st century

- ▶ How can corporations use purpose to drive inclusive, sustainable growth, and what are primary barriers to doing so?
- ▶ How can companies unlock the value of purpose through better metrics and performance management frameworks that redefine value?
- ▶ How can purpose play a role in cross-sector and cross-industry collaboration to address global challenges?

Purpose-led performance

- ▶ What role does purpose play in innovation?
- ▶ How does purpose impact companies' M&A strategies and integrations?
- ▶ How is purpose driving transformation in industries such as financial services, health care and consumer products?

Purpose integration

- ▶ Which skills, frameworks and performance measures do successful purpose-led companies need and use?
- ▶ What are the characteristics of purpose-led companies, and what is the relative importance of these to stakeholders?
- ▶ How can companies avoid risks and improve resiliency through purpose integration?

Recommended reading

Leadership and the CEO as champion

[“Capitalism for the Long Term”](#) (Dominic Barton, *Harvard Business Review*, March 2011)

[“How Authentic is your Corporate Purpose?”](#) (Daina Mazutis and Aileen Ionescu-Somers, Burson-Marsteller, February 2015)

[“Why The Best CEOs Consider Purpose Before Profit”](#) (Natalie Burg, *Forbes*, 25 March 2015)

[“Business leaders urged to find a purpose in life”](#) (Roger Trapp, *Forbes*, 29 March 2015)

[A sense of purpose](#) (Nick Huber, *Performance*, EYGM Limited, 2014)

[“From Purpose to Impact”](#) (Nick Craig and Scott A. Snook, *Harvard Business Review*, May 2014)

Definition and activation

[“10 Ways Today’s Purpose-Driven Brands Can Bring Their Core Values To Life”](#) (Jessica Blotter, *Fast Company*, 2013)

[Transforming business through the science of purpose](#) (EY Beacon Institute and the University of Oxford Saïd Business School, January 2015)

Customer engagement

[Trust & Purpose Survey 2011](#) (Burson-Marsteller, 2011)

[“Paul Polman: The power is in the hands of the consumers”](#) (Jo Confino, *The Guardian*, 21 November 2011)

Employee engagement

[“Purpose Will Save Your Business, Your Life & Your World”](#) (Nick Seneca Jankel, *The Huffington Post*, 9 March 2015)

[“Mapping A New Marketplace On-Purpose”](#) (Therese Rowley, *The Huffington Post*, 12 May 2015)

[“Reinventing organizations”](#) (Frederic Laloux, *Reinventing organizations: A Guide to Creating Organizations Inspired by the Next Stage of Human Consciousness*, Nelson Parker, 2014)

[“The Complete Guide To The 5 Types Of Organizational Structures For The Future Of Work”](#) (Jacob Morgan, *Forbes*, 22 July 2015)

[2015 Workforce Purpose Index](#) (Imperative, 2015)

Transformation

[The Business Case for Purpose](#) (Harvard Business Review Analytic Services report, Harvard Business School Publishing, 2015)

[“The journey to transform an enterprise”](#) (IBM website)

[“The Power of Collective Ambition”](#) (Douglas A. Ready and Emily Truelove, *Harvard Business Review*, December 2011)

[“Innovating for Shared Value”](#) (Marc Pfitzer, Valerie Bockstette and Mike Stamp, *Harvard Business Review*, September 2013)

[“Power of purpose: innovation and transformation”](#) (Cheryl J. Grise and Valerie Keller, *Performance*, EY, August 2014)

[“Unpacking Corporate Purpose”](#) (The Aspen Institute Business & Society Program, May 2014)

Metrics

[The Business Case for Purpose](#) (Harvard Business Review Analytic Services report, Harvard Business School Publishing, 2015)

[Keeping it real – How authentic is your corporate purpose?](#) (Burson-Marsteller, 2015)

[“Meaningful Brands Survey”](#) (Meaningful Brands website, 2015)

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