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Putting Purpose into Practice: How Companies Can Deliver

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The Conference Board's Paul Washington and Thomas Singer find that, in the last five years, the number of companies with purpose statements has almost tripled. They stress that choosing a purpose is not to be undertaken lightly. To help businesses avoid the pitfalls of purpose and capitalize on the benefits, the authors offer practical guidance rooted in research.

"America's companies have an important role to play in making the U.S. a more just and equal nation. There's no one blueprint to follow. Rather, each company must leverage its own unique purpose and strengths to make a meaningful contribution."

-Roger Ferguson, President & CEO of TIAA.

Prominent investors and business leaders alike are calling on companies to articulate their purpose. BlackRock CEO Larry Fink has written that “every company needs a framework” that “must begin with a clear embodiment of your company’s purpose in your business model and corporate strategy.” In 2019 the Business Roundtable (BRT) issued its Statement on the Purpose of a Corporation. The impact of these calls for companies to articulate their purpose is now apparent: In 2019, the S&P Global 1200 index included 223 companies that published a purpose statement. Only five years earlier, just eighty companies did so.

But a company’s purpose – why it does what it does – can come in many flavors, from maximizing shareholder value to serving a diversity of stakeholders to explicitly addressing a social or environmental need. Each company must decide what its own purpose is. Yet some may find themselves struggling to define what purpose even means, let alone to choose, articulate, and put a purpose into practice.

We provide guidance on these topics which applies to all companies, and especially to those that hope their purpose will address a societal need. This guidance is based on our organization’s report, *Purpose-Driven Companies: Lessons Learned*, which in turn drew upon extensive interviews with executives at fifteen purpose-driven companies, many of which have been in business for over a century. These companies have integrated purpose into their business by ensuring that their purpose is more than nicely crafted words: it is integral to the company’s culture, strategy, and decision-making.

Above all, choosing a purpose is not to be taken lightly; it must

begin with careful analysis and receive constant attention thereafter.

Choosing Your Purpose

Before embracing a purpose, you need to address some preliminary matters. The choices you make at this stage affect everything that follows.

You cannot define or choose your purpose in isolation. You must first reach consensus on what you mean by purpose. If mission is what a company does, and culture is how a company operates, purpose is why that company exists – why it does what it does. Purpose is the North Star that guides all aspects of a company’s strategy. Purpose should therefore be closely tethered to what your company does and how it does it. A healthcare company probably doesn’t exist to save the environment. A solar energy firm probably won’t end hunger. And while purpose is inherently forward-looking, it should also be true to the company’s heritage and authentically reflect its people and values.

Purpose is the North Star which guides all aspects of a company’s strategy.

Take time to choose your purpose carefully. In order to explain why your company exists, you must consider what it is trying to achieve and for whom. *What* could include anything from creating economic value to addressing an environmental problem. *Whom* might be stockholders, stakeholders, or society at large.

Traditionally, purpose has often been defined quite narrowly: to maximize economic value (what) for stockholders (whom). Nowadays, purpose is more likely

to include creating value for stockholders while considering other stakeholders; or creating value for all stakeholders. A more ambitious purpose can be solving a societal problem (what) for customers, the public, or posterity (whom). All of these choices are valid. But it’s important that you reach clear agreement because even subtle distinctions in language can dramatically affect how a company operates.

Be sure that your board is on board. Given that its purpose will be incorporated into the company’s business model and strategy, it is vital that the board be deeply engaged both in developing the company’s purpose and in tracking strategies to carry out that purpose. According to our research, a change in CEO often brings about a purpose statement. The same change could also lead to a previously stated purpose being abandoned or neglected. The strong support of the board can help to ensure the continuity of a company’s purpose and prevent it from being a mere vanity project. By engaging the board, companies can also prepare for the probability of trade-offs – among projects or among stakeholders – that must be made at the board level.

Articulating Your Purpose

Companies will also need to decide how and where to articulate their purpose.

Be forward-looking and aspirational, but not generic. Purpose statements are, by nature, forward-looking and aspirational. Unfortunately, they can also tend to be vague or generic. Of the 223 purpose statements we reviewed, two-thirds bore little relationship to their company’s business or industry. An example of this type of purpose statement is “creating opportunities to rise.” Effective purpose statements do not exist in a vacuum; they relate

directly to their company's core business. Kingfisher's purpose statement, for example, clearly links to its business: "to make home improvement accessible for everyone." Johnson & Johnson's does the same: "to change the trajectory of health for humanity."

What you say matters more than where you say it. Some companies have explicitly committed themselves to serving a public purpose within their certificates of incorporation. Over 7,500 US companies—mostly new, small firms—are benefit corporations. They are required by law to serve a public purpose. But the research of University of Toronto professor Ellen Berrey reveals that many of those companies show little evidence of acting on their purpose. Meanwhile, a rapidly growing number of traditional public companies have begun to explicitly label themselves as purpose-driven, often through purpose statements included in their annual reports.

Our research found that the number of companies with purpose statements has almost tripled in the last five years, while the number of companies that identify as purpose-driven has grown more than tenfold. Our interviews with purpose-driven companies – including Unilever, Vodafone, and Western Union – reveal two key reasons for these increases: the broadening expectations stakeholders have of business and the increasing calls for businesses to focus on more than the bottom line. Still, wherever a company expresses its purpose, it should ensure that it is authentic.

Putting Purpose into Practice

Before adopting a purpose statement, it is vital that you consider what putting it into practice will mean. A company can do far more harm by failing to fulfill its purpose

statement than by never adopting one at all.

Purpose must inform the micro-decisions which employees make at all levels.

Be prepared to embed purpose in your organization. Adopting a purpose requires strong commitment and sufficient resources to develop and implement that purpose. You will need to incorporate the purpose into a company's governance, strategy, budgeting, risk assessment, and compensation. The CEO, along with their direct reports, must reinforce and champion the company's purpose continuously. At TE Connectivity, the CEO makes a point of sharing a purpose story at every global town hall, whether by describing how a medical invention has saved lives or how work with farm equipment suppliers is making fields more productive. Vivek Bapat, SAP's senior vice president of purpose and brand experience, emphasizes that to be authentic, purpose must become part of the micro-decisions which employees make at all levels.

Have a plan for when profitable opportunities are inconsistent with purpose. Much of the discussion about purpose-driven companies centers on the benefits, which include employee engagement and retention, improved decision-making in a crisis, and even, in the long run, higher shareholder returns.

But having a purpose can also mean foregoing potentially profitable opportunities. In many ways, this is nothing new: companies decide to forego opportunities for a variety of reasons including lack of resources, lack of strategic fit, and so forth. Purpose-driven companies should develop playbooks and

decision-making frameworks to help them deal with situations in which an otherwise attractive opportunity is contrary to their purpose. 3M is developing internal tools which will make the company more transparent about how such decisions are made and help it to make them earlier. By preparing for such scenarios, companies can quickly turn their focus to identifying attractive alternatives which are consistent with the firm's purpose.

Finally, create a clear plan for how your company's purpose will be governed and executed. Some, like Western Union or the Dutch multinational DSM, will choose to create a dedicated position to oversee the company's strategy for implementing its purpose. But this is not the only model. Indeed, DSM expects to eventually phase out the company's dedicated purpose-related roles as its purpose becomes fully embedded. At TE Connectivity the chief marketing officer, the chief human resources officer, and the general counsel are primarily responsible for rolling out purpose initiatives and ensuring that purpose is alive and well within the company. The leaders of each company should determine what governance approach works best for them and is most likely to embed purpose firmly in the culture and strategy of the organization.

Selecting, articulating, and implementing purpose requires hard work.

We expect ever more companies to adopt purpose statements or identify themselves as purpose-driven. Investors' attention to this topic remains high. Moreover, major inflection points of the past, such as significant mergers or major changes in strategy, have also driven companies like Ecolab, Truist, DSM and

more to reconsider their purpose and their broader role in society. The crises of 2020 have created a much larger inflection point, but having a purpose is not a panacea. Purpose helps to guide decisions, but it does not resolve every thorny problem. Furthermore, selecting, articulating, and implementing purpose requires hard work. A purpose statement should extend beyond nicely crafted words to authentically represent the company's business and values. And, as our research shows, to put purpose into practice a company needs both board and broad support, a plan for dealing with conflicts, and a clear governance structure. Having a clear corporate purpose may well reward your efforts, but only if it's done well.

Author Bios

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Endnotes

1. Larry Fink's 2019 Letter to CEOs.
2. "Statement on the Purpose of a Corporation," Business Roundtable, August 19, 2019.
3. Our analysis of companies in the S&P Global 1200 index finds that purpose statements have become more widespread since the beginning of the decade. In 2011, 27 companies published a purpose statement in their annual reports (including sustainability reports). By 2015, this figure had grown to 80 companies, and by 2019, there were 223 companies with purpose statements. Of these 223 companies, 46 self-identify in their annual reports as "purpose driven," up from four companies in 2015.
4. Thomas Singer, Purpose-Driven Companies: Lessons Learned, The Conference Board, October 2020.
5. Ellen Berrey, Organizational Characteristics of U.S. Benefit Corporations, The Conference Board, April 2020.
6. "What can we learn from 15 purpose-driven companies?," The Conference Board Sustainability Watch webcast, September 17, 2020.
7. For examples of research on these benefits see: Claudine Gartenberg and George Serafeim, "Top CEOs Have Realized Companies Need a Purpose Beyond Profit," Harvard Business Review, August 20, 2019; John P. Kotter and James L. Heskett, Corporate Culture and Performance (Free Press, 2011); Global Leadership Forecast 2018, Development Dimensions International, The Conference Board, and EYGM, January 2018; Putting Purpose to Work: A Study of Purpose in the Workplace, PwC, June 2016.