

### Harnessing The Power Of Purpose

#### IDEA IN BRIEF

##### THE PROBLEM

Despite its sudden elevation in corporate life, “purpose” remains a confusing concept. Finding the right one involves identifying an authentic and motivating basis for alignment among key stakeholder groups.

##### WHY IT EXISTS

Purpose is used in three distinct senses: competence, as in “the function that our product serves”; culture, as in “the intent with which we run our business”; and cause, as in “the social good we aspire to.”

##### THE SOLUTION

Not all companies can save the world. Only a minority should put forward a cause-based purpose. For the rest, a functionally useful business or a strong culture can provide the basis for a meaningful and motivating why.

Leaders instinctively understand the value of corporate purpose. They know that, when it is well articulated, a company’s purpose statement—or the best proxy for it, such as a mission or vision statement—serves as a north star. It is a reminder of what matters most and provides clarity to employees, managers, and leaders about how to focus amid the cacophony of daily, competing demands. **Yet leaders across industries and markets struggle to communicate a meaningful purpose that builds employees’ conviction about why their work matters. Worse still, purpose statements often fail to articulate the outcomes that will enable companies to win in today’s market.**

Such disconnects tend to be baked into the creation process. **That’s because when they craft a purpose statement, leaders often sidestep critical questions:** *Does it address a clear customer need or problem to be solved? Is the organisation uniquely qualified to deliver on the promise embedded in that statement? And is the stated purpose directly connected to what the organisation does to earn its revenues?* Failure to answer these questions creates confusion and can distract both employees and customers from the core of what fuels the business. Over time, strategic and operational drift can set in, chipping away at cohesion, motivation, and alignment across an organisation—and potentially undermining performance.

Whether they are setting bold aspirations to stay relevant to their customers, undertaking large-scale transformations that involve significant business model changes, or launching far-reaching **ESG (environmental, social, and governance) initiatives**, organisations rely on an engaged workforce to carry such initiatives forward. For those companies that succeed in motivating their employees to innovate and deliver real value every day, purpose is a critical source of energy. **Here are five ways that every leader can harness its power.**

#### 1. **Make creating your Purpose a Strategic Exercise:**

Simply put, strategy starts with purpose. Leaders need to take responsibility for crystallising their company’s purpose, doing so with the conviction that purpose has great power to motivate and clarify decision-making. **A well-articulated purpose can drive the transformation companies will need to make to stay relevant and should guide investment decisions that provide the funding for differentiation.** Leaders also need to ensure that their employees are able to proclaim with pride the value of the products, services, and solutions they bring to their customers and why that matters to the world, both today and in the future.

But none of these objectives is likely to be achieved if, leaders delegate the crafting of the company’s purpose statement to a public relations or human resources teams. Although these teams may offer important perspectives, placing purpose in their hands **raises the risk of creating the great purpose gap** - the difference between what sounds good and what the organisation *really* does. Too often, these teams simply benchmark to peers and create statements that build on the theme of “we are here to change the world,” using vague language such as “empowering people,” “building community,” “enriching lives,” “pursuing a passion for...,” and “unlocking the power of...”

## 2. **Focus on How you Earn Money:**

Many company leaders point to a variety of ESG-related goals when discussing purpose. For example, they talk about investments or metrics in areas such as diversity, equity, and inclusion; sustainable packaging; or employee well-being to demonstrate how they pursue “purposeful” activities. While acknowledging organisations that have found the true intersection between these initiatives and their impact on customers and profitability, such companies are relatively few in number. And most of them have yet to prove their longevity in the marketplace.

It’s not surprising that leaders gravitate toward lofty statements that might generate good feelings about their organisation. But in the end, all for-profit companies need to have a reason why customers will agree to give them money. It is leaders’ responsibility not just to talk about a variety of new ESG-related initiatives, **but also to reexamine their customer-value proposition in light of the question “Why do we exist?”** There is a danger in simply adding ESG language because it feels like the right thing to do, or because it might attract employees.

**Leaders need to do the hard work of unpacking how their organisation creates impact. They can do this by making a meaningful connection between their obligations to customers and investors and the greater well-being of society—**and to communicate that connection to their employees. **Consider the CEO of a small consumer-air-filter supplier who had the insight to explain to her employees that their products “make homes healthier for families.” That’s powerful!**

## 3. **Identify your Special Power and Build your Purpose around it:**

When answering fundamental questions such as “*What critical role do we play for our customers*” and “*What would happen if we disappeared?*” many leaders struggle to find a foothold, particularly when their organisations may not have a meaningful advantage.

The dilemma is understandable. Organisations that have followed many different definitions of value creation and revenue generation over time, often come to resemble a collection of profit-generating activities without a cohesive core. Inevitably, companies tend to become less differentiated as they scale up, seeking to reach new markets, access new sources of capital, attract talent, and gain cost efficiencies. They provide products and services that customers would likely be able to procure from several competitors. For organisations that have grown largely undifferentiated, the struggle to accept this situation and solve it - to identify and double down on a meaningful source of competitive advantage—can feel daunting.

**Nearly all organisations have some “special power”—unique capabilities that are often unrecognised and can form the basis of a frank discussion about how to scale or transform.** In fact, most have a high-performing business unit, brand, or group. Invariably, differentiation lies behind that success. Identifying that special power is critical to the long-term performance of the company. **Leaders then need to articulate that reason for existence, invest in it, and galvanise their employees around it.**

## 4. **In Multi-Divisional Organisations, make sure Purpose goes across all Business Divisions:**

Once leaders have clearly identified what role their company can play in the lives of customers and in society, it’s important for them to take a cold-eyed look at their current portfolio. They may find that some businesses don’t line up as well as others. **While purpose may not have to span every part of a company’s revenue, it is important that what employees do every day, doesn’t work at cross purposes to the company’s stated purpose.**

**Leaders need to start by ensuring purpose is incredibly clear** at the business or market level for each of their business lines; they need to work with each divisions leader to clearly articulate how their area makes its money and why that matters. Then corporate leaders need to assess and articulate how (and if) the corporate centre adds value across these businesses’ many different purposeful activities. This could include deploying scaling capabilities that the business divisions on their own can’t afford (like innovation centres or supply chain components) or providing access to capital and talent.

### **Where Purpose Affects Your Organization**

Purpose can have an impact on four business agendas. To determine what that is, ask yourself these questions.

#### **DEMAND GENERATION**

How can purpose increase consumers’ preference for our products and services?

#### **EMPLOYEE ENGAGEMENT**

How can purpose strengthen the connection that employees feel to the work and to one another?

#### **GOVERNANCE & SUSTAINABILITY**

How can purpose help reinforce our reputation as a good corporate citizen and a strong ESG performer?

#### **STRATEGY & BUSINESS VALUATION**

How can purpose enhance our opportunities for profitable growth and reduce business risk?

Organisations have two imperatives. First, they need to make sure that their businesses can independently develop meaningful purposes that makes sense for their customers and that are related to their strengths. Secondly, they need to ensure that keeping these businesses together still makes sense, and that the organisation's overall purpose enables all of these businesses to succeed. This will sometimes mean making tough decisions to divest or sell businesses that can better enable their purpose by standing on their own or by becoming part of another organisation.

**5. Boards need to do more to hold Leaders accountable about Purpose:**

Discussions in the boardroom tend to focus on capital allocation, margin improvement, executive compensation, and, when cash is flush, compensating shareholders through dividends. In contrast, **deeper, more nuanced discussions about the value a company brings to its customers don't tend to rank sufficiently high on the board agenda.**

Perhaps ironically, the ESG movement isn't helping. Although the imperative to do better on ESG issues can be a great opportunity to engage in the big questions of purpose, it too frequently shifts the focus to ESG metrics and reporting, and to one-off investments that may not be genuinely connected to the real business of the organisation.

Some boards understand that they have a unique role in the longitudinal success of the organisation and facilitating the right discussions. But taking control of the board agenda to ask management hard questions about purpose can be difficult, and those questions may feel too unwieldy and time-consuming to incorporate into a meeting.

**Given the magnitude of the challenges they face, leaders need to rethink their approach to purpose. Rather than relying on platitudes to move the needle, they need to be boldly honest about how their organisation will shape its customers' future -and how employees can make that future a reality.**



By following three steps, leaders can instead infuse their statements with strength and meaning:

**1. Clearly state the Company's reason for being**

**Purpose is ultimately about why — and its connection to what, how and who.** Research suggests that communicating why companies do things (*“respecting the environment and protecting natural resources”*) is more effective than merely emphasising what they do (*“produce high-quality and low-cost motor parts”*) or how they do them (*“through innovation”*). Moreover, answering why should go beyond financial performance, which is increasingly understood to be a means to business success, but not an end in and of itself. **For example, one CEO explained her company's purpose is to “discover and bring to market innovative medicines and vaccines to create a healthier world.”**

**2. Identify the primary beneficiaries of the Organisation's work**

Stakeholder theory defines the purpose of a business in terms of whom it benefits beyond shareholders. Putting the beneficiaries at the forefront and showing how the organisation's work benefits those beneficiaries is crucial when crafting a purpose statement. **One CEO described her company's purpose as being to “provide value-added, personal, competitive financial services with a focus on SMEs [small and medium-sized enterprises] and women.”**

### 3. Ensure the Purpose Statement Is balanced

Research suggests being very clear and specific about purpose plays an important role in impacting the degree to which audiences find statements meaningful. Statements of purpose typically range from overly abstract (“*creating a world-class organisation*”) to overly specific (“*to deliver steel structures for the [regional] market*”). **Those that find the golden mean** (“*designing buildings and cities to allow society to develop responsibly and economically*” or “*to provide choice and affordability to meet our customers’ evolving energy needs*”) **between these extremes are likely to be more successful in communicating the company’s purpose and inspiring others to act on it.**

## The Three Senses of Purpose

Despite its elevation in corporate life, purpose remains a confusing subject of sharply polarized debate. A primary reason is that it can be understood in three distinct ways.




Developing a powerful purpose statement establishes what is unique and non-replicable about a company and provides competitive advantage. This is especially important today, as company leaders guide their organisations through unprecedented challenges, and will continue to be a defining act moving forward. Of course, stating purpose for the sake of improving performance isn’t the point. Even the strongest purpose statements must be bona fide, authentically reflecting organisational pursuits that walk the talk.

A Connection to Purpose helps us fulfill the top three levels of Maslow’s hierarchy of needs



## Examples of Business Purpose Statements

**Purpose**

 **Examples**

<b>Patagonia</b> “Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis”	<b>TED Talks</b> “Spread ideas”	<b>LinkedIn</b> “Create economic opportunity for every member of the global workforce”
--	------------------------------------	---

### Additional Resource

For a copy of the paper “**When Strategy Meets Purpose**” from the November 2022 edition of Strategic Finance, click [HERE](#)

#### Disclaimer:

*Business Plus is distributed monthly by CBSW Tax & Business Advisors to provide information of general interest to our clients. The content of this newsletter does not constitute specific advice. Readers are encouraged to consult their CBSW advisor for advice on any specific business matters.*

Providing you  
professional  
direction



***Our liability may be limited by a scheme approved under Professional Standards Legislation.***