

A HARVARD BUSINESS REVIEW ANALYTIC SERVICES REPORT



**Harvard
Business
Review**

THE BUSINESS CASE FOR PURPOSE

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Around the world, the business environment is in a permanent state of disruption. Today more than ever, companies are searching for a new genetic code that will help them continuously evolve—to survive and to thrive.

The EY Beacon Institute was launched in response to this transformation imperative. A community of global executives, entrepreneurs, academics, and thought leaders, the Beacon Institute is advancing the transformation of the working world, redefining what it means to be a successful company in the 21st century.

A tie that binds our community is a shared understanding that there is a new leading edge: Those companies able to harness the power of purpose to drive performance and profitability enjoy a distinct competitive advantage.

Laden with many meanings, the core insight about this notion of “purpose” is that meaning matters—not just in an abstract sense, but in terms of today’s business metrics.

In the interest of advancing the science of purpose, EY Beacon Institute teamed with Harvard Business Review Analytic Services, surveying global business executives about the extent to which purpose is utilized by their organizations—and, importantly, the impact that it has upon their ability to grow, innovate, and transform.

We found a very high level of consensus among these executives that purpose matters, and a widespread belief that it has positive effects on key performance drivers. The survey also demonstrates that companies who clearly articulate their purpose enjoy higher growth rates and higher levels of success in transformation and innovation initiatives.

This did not surprise us. At EY, when we began our purpose-led transformation to “build a better working world,” we experienced firsthand the same benefits and barriers explored here. And we have seen these as well when supporting our clients’ transformation journeys.

Given the strong sentiment that purpose is important and the clear benefits it seems to accrue, it is curious that purpose is utilized by only a minority of companies as a driver of strategy and decision-making. As the survey findings suggest, this is due not only to external issues, such as short-term pressures from investors, but also to internal issues such as insufficient leadership commitment and misaligned performance metrics.

This raises many interesting questions, not the least of which is why and particularly *how* some organizations are better able to strategically integrate and capitalize on purpose than others. We believe that better questions lead to better answers. With our community of global leaders, Beacon will continue to advance research, share stories, and amplify a growing dialogue on how businesses are redefining success to create sustainable value.

We invite you to connect with us at ey.com/beacon—and to join the movement of those on the leading edge of transforming the working world.

A handwritten signature in black ink that reads "Valerie Keller". The signature is fluid and cursive, with a large initial "V".

Valerie Keller
Global Lead, EY Beacon Institute

THE BUSINESS CASE FOR PURPOSE

Businesses face an accelerated pace of change as digitalization, disruptive business, and rapidly changing consumer expectations reshape their world. At the same time, the demands of a new generation of employees for meaning in their work, the declining levels of trust in companies, and a wider debate about the role business can or should play in society are reshaping expectations of organizations.

Over the past few years, a growing number of corporate leaders and experts have spoken out about how a strong shared sense of purpose can help companies meet these new challenges and transform their organizations. In order to understand why, and more importantly, how, companies are employing purpose to guide and lend impetus to their transformations, Harvard Business Review Analytic Services conducted a survey sponsored by the EY Beacon Institute.

The global survey of 474 executives found that although there is near-unanimity in the business community about the value of purpose in driving performance, less than half of the executives surveyed said their company had actually articulated a strong sense of purpose and used it as a way to make decisions and strengthen motivation. Only a few companies appear to have embedded their purpose to a point where they have reaped its full potential. [figure 1](#)

But in those organizations where purpose had become a driver of strategy and decision-making, executives reported a greater ability to deliver revenue growth and drive successful innovation and ongoing transformation.

THE RESULTS

The survey defined organizational purpose as “an aspirational reason for being which inspires and provides a call to action for an organization and its partners and stakeholders and provides benefit to local and global society.”

And although 90 percent of executives surveyed said their company understands the importance of such purpose, only 46 percent said it informs their strategic and operational decision-making. This survey suggests that purpose is a powerful though underutilized tool:

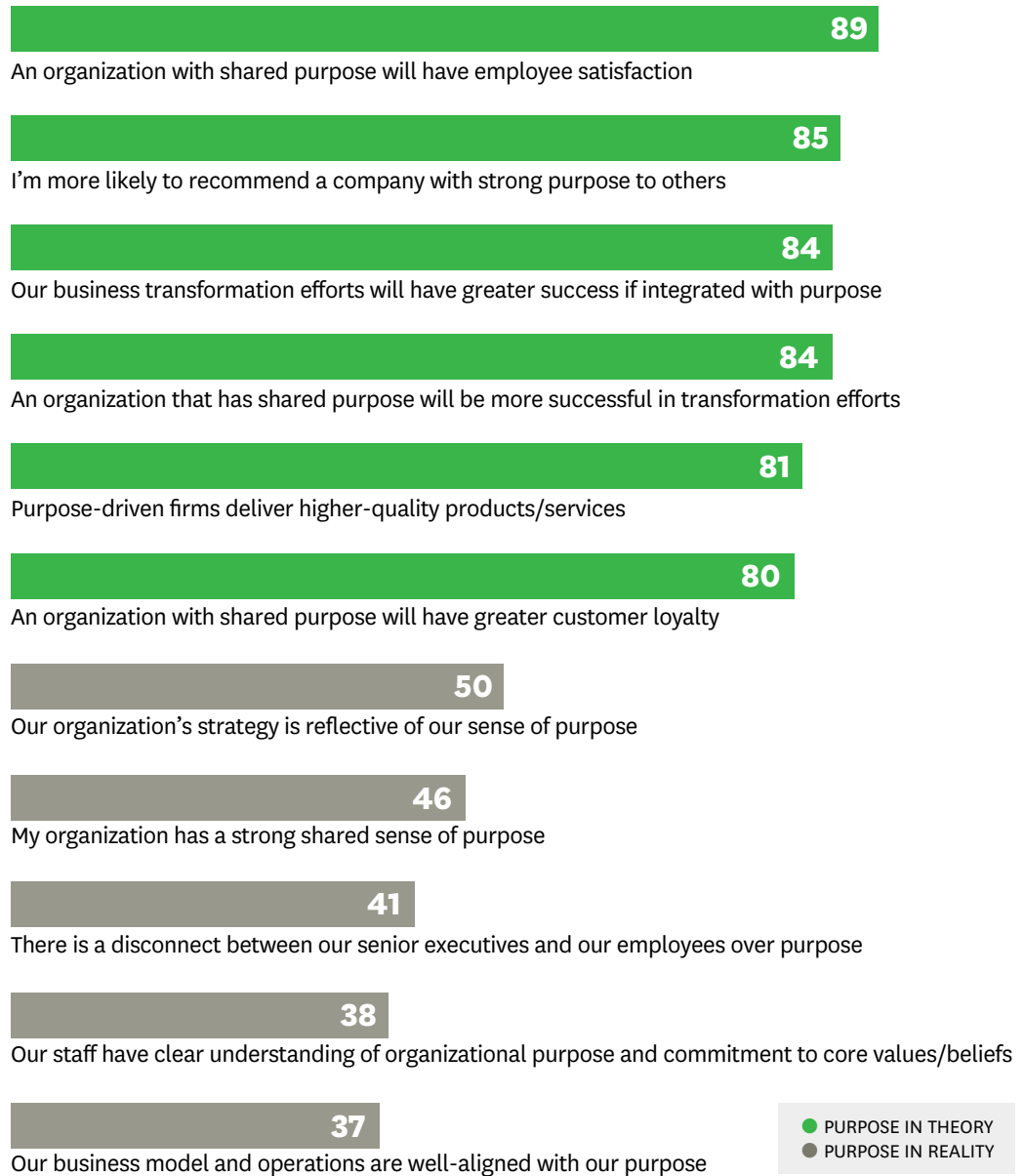
- **Most executives believe purpose matters.** Eighty-nine percent of executives surveyed said a strong sense of collective purpose drives employee satisfaction; 84 percent said it can affect an organization’s ability to transform, and 80 percent said it helps increase customer loyalty.
- **... but only a minority said their company currently runs in a purpose-driven way.** Forty-six percent said their company has a strong sense of purpose while another 44 percent said their company is trying to develop one.

FIGURE 1

ORGANIZATIONAL PURPOSE IN THEORY AND IN REALITY

Percentage of respondents who agreed with each of the following statements.

Top box scores 8-10, where 10 = strongly agree.



BASE: ALL RESPONDENTS. N=474

- **Companies with a strong sense of purpose are able to transform and innovate better.** Those executives who treat purpose as a core driver of strategy and decision-making reported greater ability to drive successful innovation and transformational change and deliver consistent revenue growth: 53 percent of executives who said their company has a strong sense of purpose said their organization is successful with innovation and transformation efforts, compared with 31 percent of those who are trying to articulate a sense of purpose and 19 percent of the companies who have not thought about it at all. [figure 7](#)

Given the high level of consensus around purpose and so many good reported results, why aren't more companies motivating employees, attracting customers, and aligning suppliers with a strong purpose? The survey found the problem may lie at the top: the executives surveyed said that companies need to do a better job embedding their purpose in the organization, particularly in leadership development and training, in employee performance metrics and rewards, and in operations.

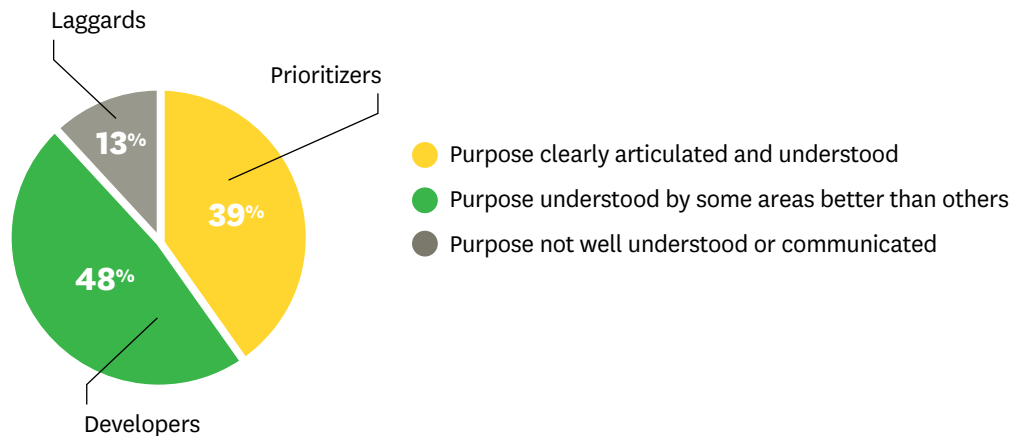
WHY PURPOSE MATTERS

The survey found that most companies in the survey fall into three categories with respect to purpose: *prioritizers*, companies that already have a clearly articulated and understood purpose (39 percent); *developers*, companies that do not yet have a clearly articulated purpose but are working to develop one (48 percent); and *laggards*, companies that have not yet begun to develop or even think about purpose (13 percent). [figure 2](#)

FIGURE 2

MORE THAN ONE-THIRD ARE PRIORITIZERS

Percentage who said the following statement best applies to their organization.

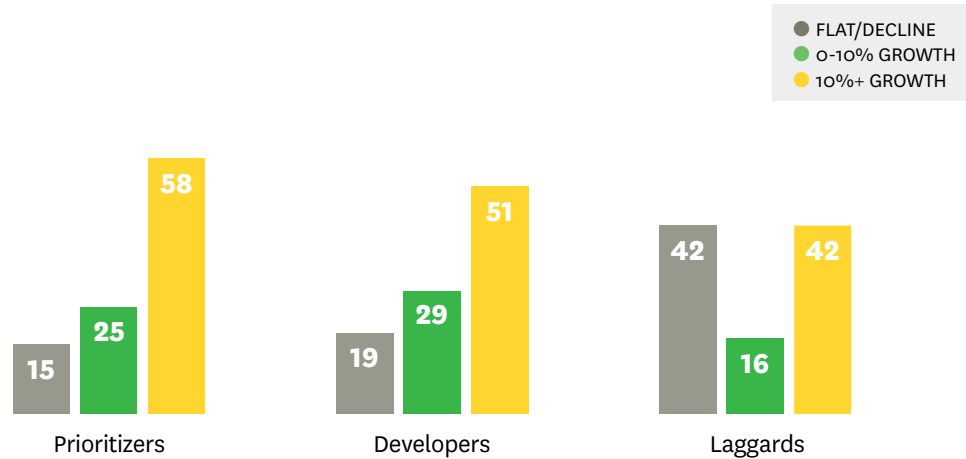


BASE: ALL SAYING ORGANIZATION HAS/IS WORKING ON A STATED OR IMPLIED PURPOSE. N=431

FIGURE 3

PRIORITIZERS HAD AN EDGE ON REVENUE IN THE PAST 3 YEARS

Percentage who indicated how their revenue has changed in the past three years.



BASE: ALL SAYING ORGANIZATION HAS/IS WORKING ON A STATED OR IMPLIED PURPOSE. N=431

WHY PURPOSE BRINGS MEANING

Management thinkers agree that conceptions about corporate meaning are evolving rapidly.

“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,” said Michael Beer, Cahners-Rabb Professor of Business Administration, Emeritus, at Harvard Business School and a director of the Center for Higher Ambition Leadership.

Much of the discussion about purpose suggests that companies perform better if they have a clear sense of purpose. Purpose-driven companies make more money, have more engaged employees and more loyal customers, and are even better at innovation and transformational change. It seems to be easier to win the game when you care about the game.

“The sense of being part of something greater than yourself can lead to high levels of engagement, high levels of creativity, and the willingness to partner across functional and product boundaries within a company, which are hugely powerful,” said Rebecca Henderson, the John and Natty McArthur University Professor at Harvard Business School. “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.”

“Purpose is certainly not just a marketing issue or positioning of your brand image. Purpose should impact every aspect of the firm.” —Raj Sisodia

PRIORITIZERS’ PERFORMANCE ADVANTAGE

Prioritizers reported performing better than either developers or laggards across a number of business activities. A clearly articulated purpose appears to yield many important benefits, but perhaps the easiest to quantify and the most persuasive is that prioritizing companies perform better: 58 percent of prioritizers said they experienced growth of 10 percent or more over the past three years, compared with 51 percent of the developers and 42 percent of the laggards. [figure 3](#)

Purpose—or the lack of shared understanding of purpose—seems to have a direct impact on the bottom line. Forty-two percent of laggards reported flat or declining revenue over the past three years, compared with 19 percent of developers and only 15 percent of prioritizers.

STRATEGIC PURPOSE

A similar pattern emerged around the ability to innovate and transform. More of the self-identified prioritizers said they had successfully completed a major initiative in the past three years, including expanding geographically, changing their business model and/or operations, completing a merger, and launching a new product. New markets were a particular area of strength for prioritizers: 66 percent of that group reported expanding geographically, while 44 percent of developers and 48 percent of laggards reported success in that area.

Only when it came to expanding into additional market segments did the laggards lead the prioritizers, for reasons that are unclear but may merit further study. [figure 4](#)

The prioritizers saw a clear link between a widely understood sense of purpose and the ability to innovate and transform. Forty-nine percent said their organization had made a change in strategy development over the past three years based on purpose, and a third said purpose had propelled shifts in the business model as well as product and service development.

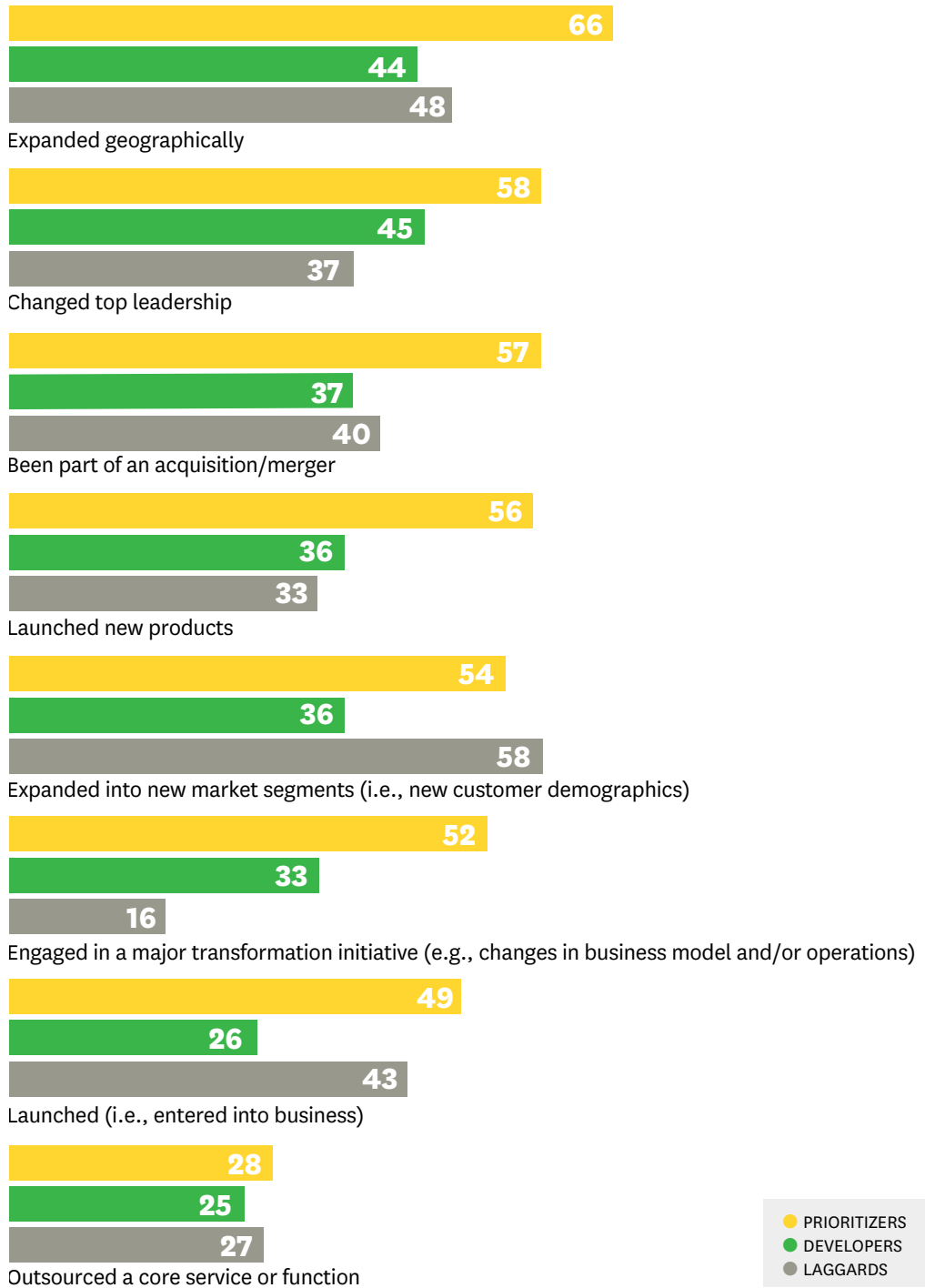
Experts say that purpose streamlines the way decisions are made. “It’s an inside-out strategy rather than outside-in: you don’t just look at where the opportunities are and where you could make a lot of money as a way to decide where you ought to be. You decide where you want to be strategically, based on what you want to do,” said Michael Beer, the Cahners-Rabb Professor of Business Administration, Emeritus, at Harvard Business School and a director of the Center for Higher Ambition Leadership.

Interestingly, developers were more likely to make gains in branding than companies that already had a highly developed sense of purpose. Forty percent of developers said their purpose orientation had helped them drive changes to their brand over the past three years, compared with 32 percent of prioritizers. Purpose also helped the developers with their strategy (44 percent) and their new business development (33 percent). [figure 5](#)

FIGURE 4

SUCCESSFUL INITIATIVES

Percentage who indicated how successful their organization was in undertaking the following initiatives. Top box scores 8-10, where 10 = extremely successful.

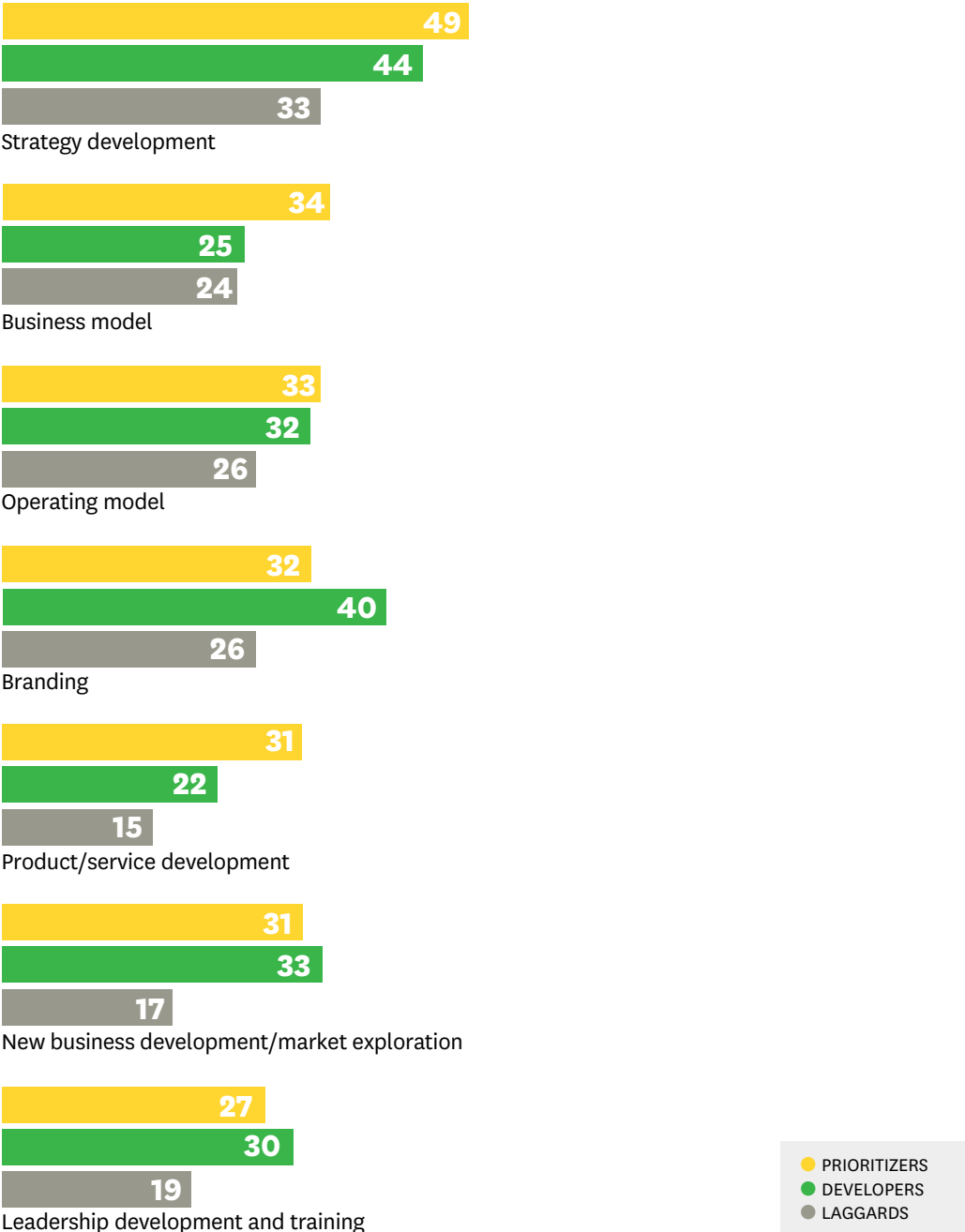


BASE: ALL SAYING ORGANIZATION HAS/IS WORKING ON A STATED OR IMPLIED PURPOSE. N=431

FIGURE 5

WHERE HAS PURPOSE DRIVEN CHANGE?

Percentage of organizations that have made a change to any of the following business practices or operations based on their purpose in the past three years.



BASE: ALL SAYING ORGANIZATION HAS/IS WORKING ON A STATED OR IMPLIED PURPOSE. N=431

Yet the power of purpose will not be realized through a branding exercise. “Every decision should be looked at in terms of purpose. Some decisions may be purpose neutral. But purpose is certainly not just a marketing issue or positioning of your brand image. Purpose should impact every aspect of the firm,” said Raj Sisodia, author of *Conscious Capitalism* and FW Olin Distinguished Professor of Global Business and Whole Foods Market Research Scholar in Conscious Capitalism at Babson College.

THE FOCUS OF PURPOSE

Executives at prioritizers’ companies said their corporate purpose includes inspiring innovation and positive change, providing employees with a sense of meaning and fulfillment, creating value for the customer, and making a positive impact on their community.

This reflects the growing understanding among scholars that business leaders everywhere are revising the social contract with society. “Corporate leaders today have the challenge of envisioning how to renew the corporate-society contract in the twenty-first century, such that firms contribute in distinct, relevant ways to societal well-being,” said Marc Ventresca, associate professor of strategy and innovation, University of Oxford’s Saïd Business School.

The revisitation of the relationship of business and society does not signal an abandonment of commitments to creating shareholder value, however. Greater than 60 percent of respondents in all three categories indicated that generating financial returns for shareholders is an important element of their organization’s purpose. [figure 6](#)

Prioritizers are also more likely to focus on transformation: 62 percent of prioritizers described their businesses as focused on innovation and continuous transformation, compared with 46 percent of developers and only 26 percent of laggards. Not only are prioritizers good at talking about transformation and innovation, but many are also good at doing it: 53 percent of prioritizers said their organization was successful with innovation and transformation efforts, versus only 31 percent of the developers and 19 percent of the laggards. [figure 7](#)

WHAT CAN PURPOSE ACHIEVE—AND WHY DON’T MORE COMPANIES USE IT?

Almost all survey respondents understood that purpose could be a powerful lever in business: 89 percent of all respondents said companies with a shared sense of purpose would have greater employee satisfaction, and 84 percent said businesses with shared purpose would be more successful in transformation efforts.

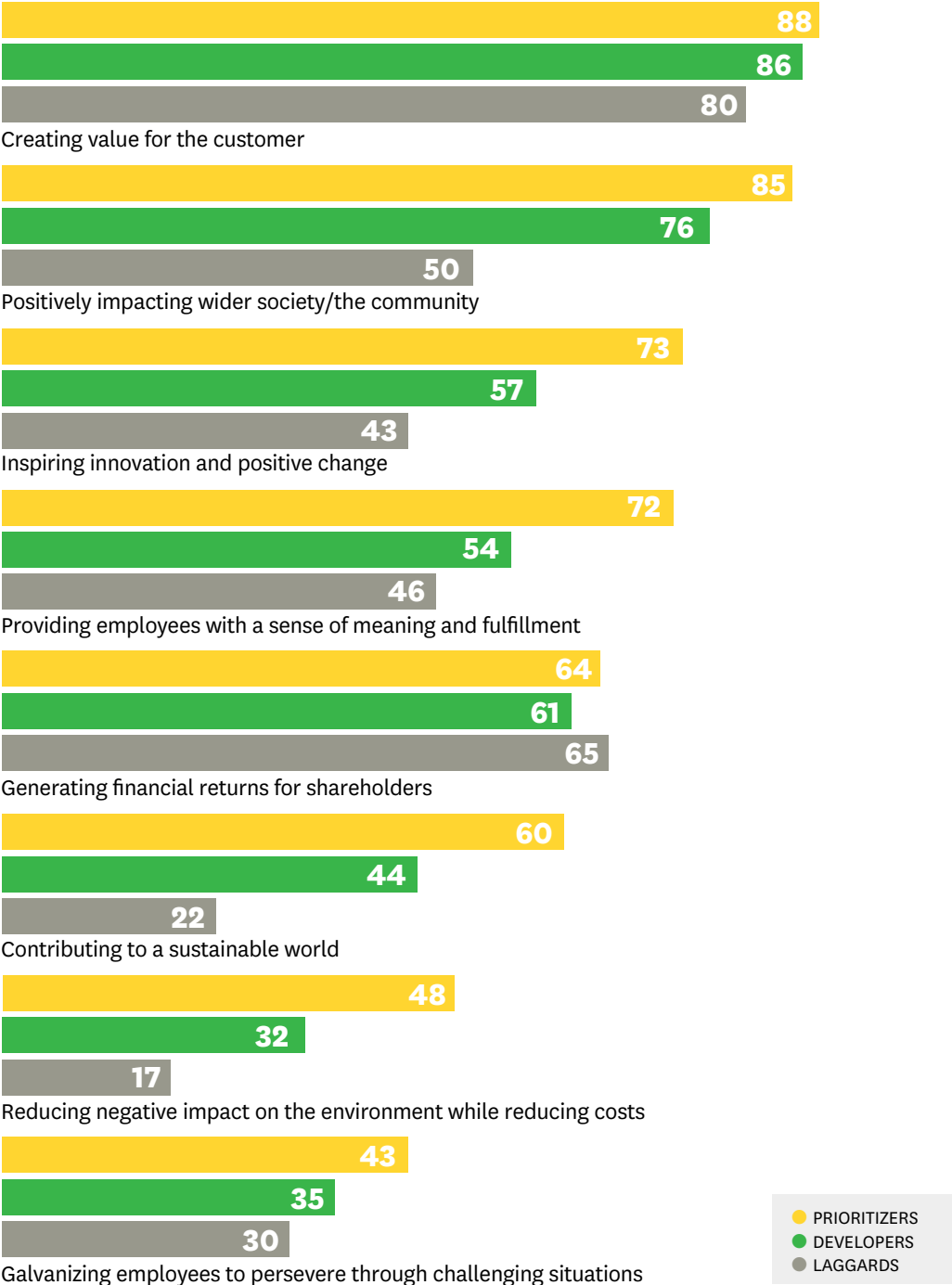
However, a majority of companies have yet to embed throughout their organizations a shared sense of purpose that would allow them to see these benefits. Respondents cited a number of barriers including short-term shareholder pressure, systems and infrastructure that are not aligned with long-term purpose, and the lack of performance targets and incentives aligned with purpose.

Why have the laggards had a harder time than the rest at finding and embedding their purpose? One key difference between the prioritizers and laggards stood out in the survey: communication. The laggards reported poor communication from top leadership as the most significant challenge in activating purpose in their organization. [figure 8](#)

FIGURE 6

KEY PURPOSE ELEMENTS

Percentage who said the following are important elements of their organization’s purpose.

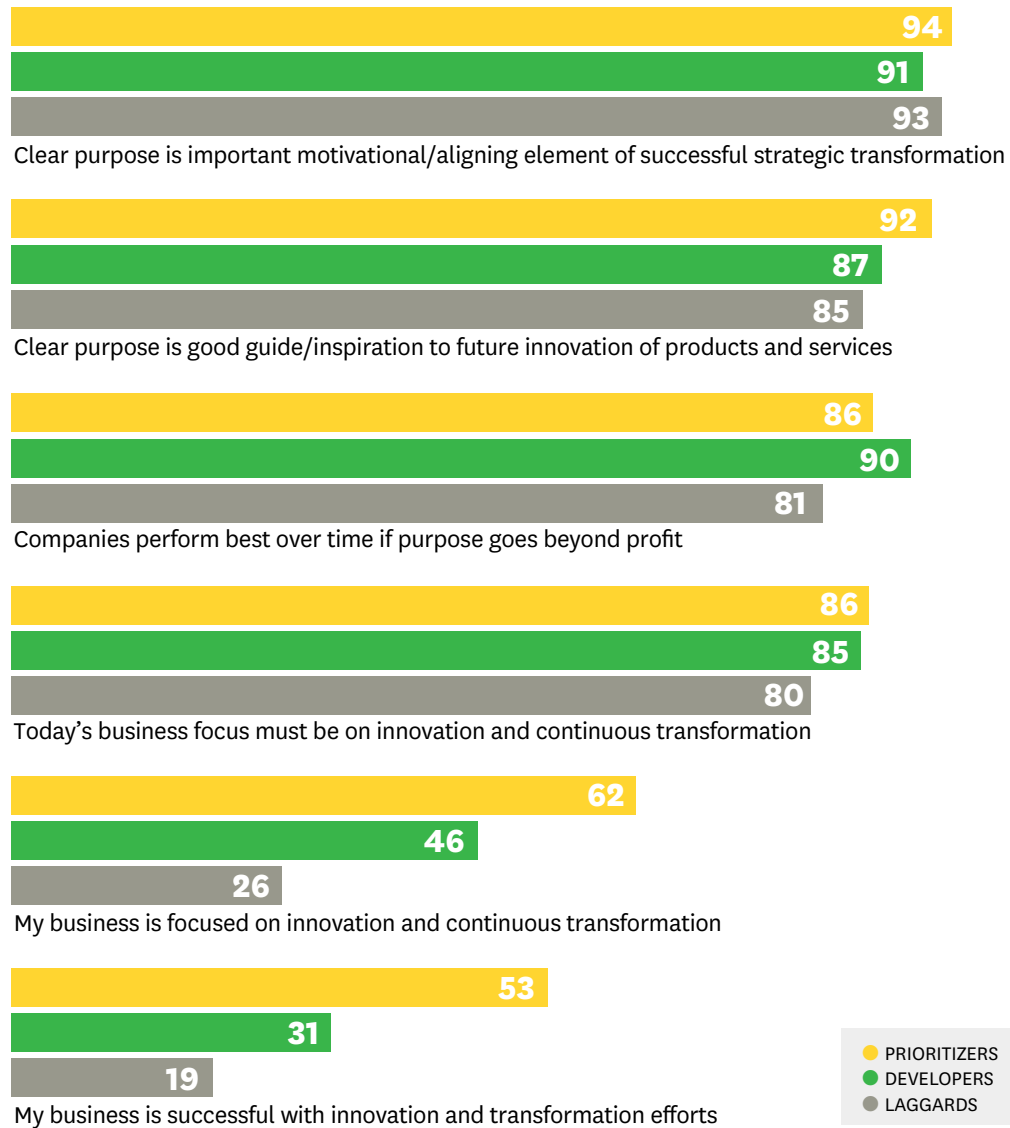


BASE: ALL SAYING ORGANIZATION HAS/IS WORKING ON A STATED OR IMPLIED PURPOSE. N=431

FIGURE 7

PURPOSE AND BUSINESS PERFORMANCE

Percentage who rated the extent to which they agree with each of the following statements. Top box scores 8-10, where 10 = strongly agree.

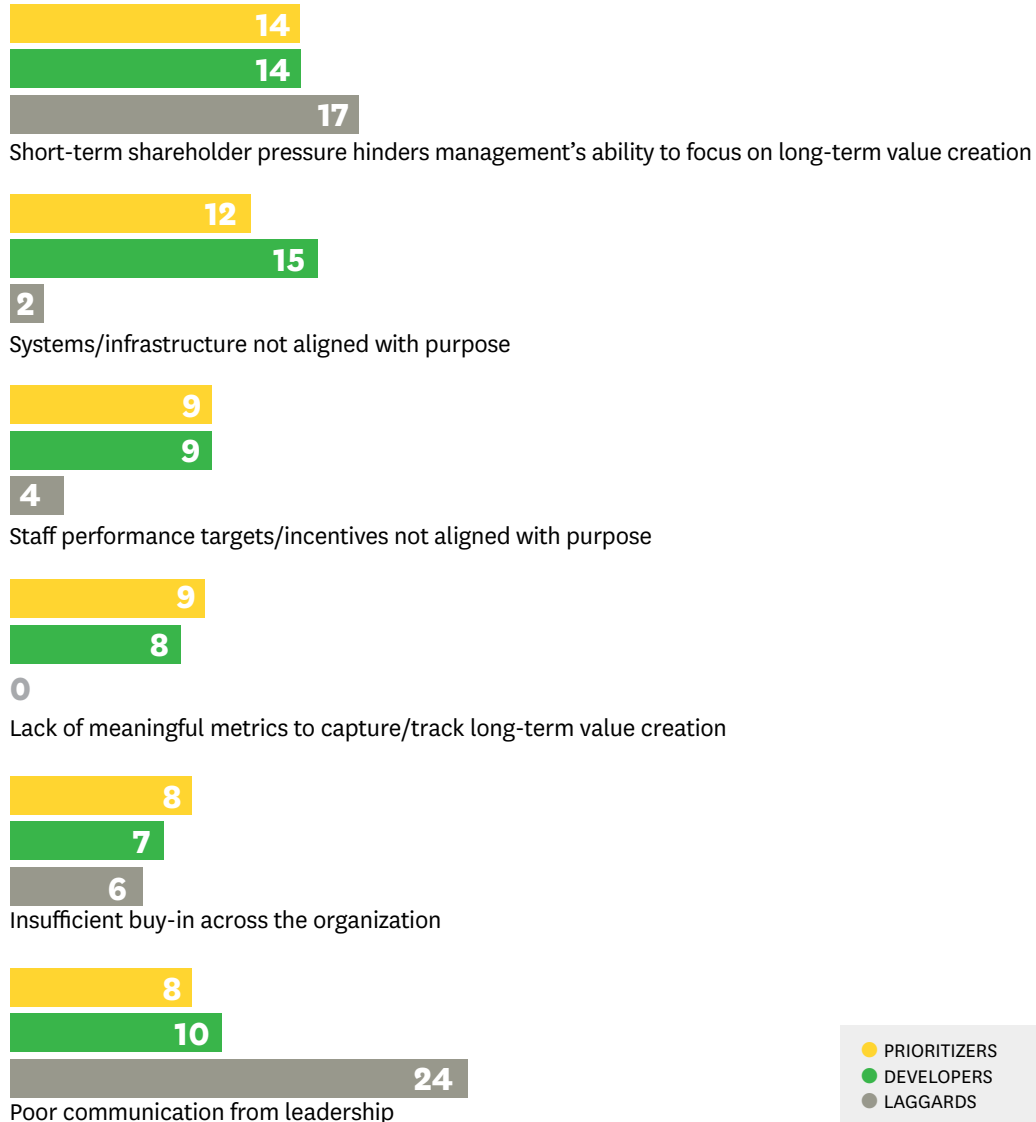


BASE: ALL SAYING ORGANIZATION HAS/IS WORKING ON A STATED OR IMPLIED PURPOSE. N=431

FIGURE 8

SINGLE BIGGEST PURPOSE-DRIVEN BARRIER

Percentage who rated the following as the most significant barrier.



BASE: ALL SAYING ORGANIZATION HAS/IS WORKING ON A STATED OR IMPLIED PURPOSE. N=431

FIGURE 9

WHERE TO FOCUS EFFORT FOR PURPOSE INTEGRATION

How important is it for an organization's purpose to be integrated into each of the following areas? To what extent is your organization's purpose actually integrated into each of the following functions and activities?



When asked what was required to better integrate purpose in their organization, many executives replied that companies needed to offer better leadership development and training, along with performance metrics. [figure 9](#)

“You can’t just adopt it ... It has to be driven, operationally and in depth, by the CEO and the top leadership team. That takes a lot of skill and understanding to do well, which is why so few companies really can pull it off,” Michael Beer said.

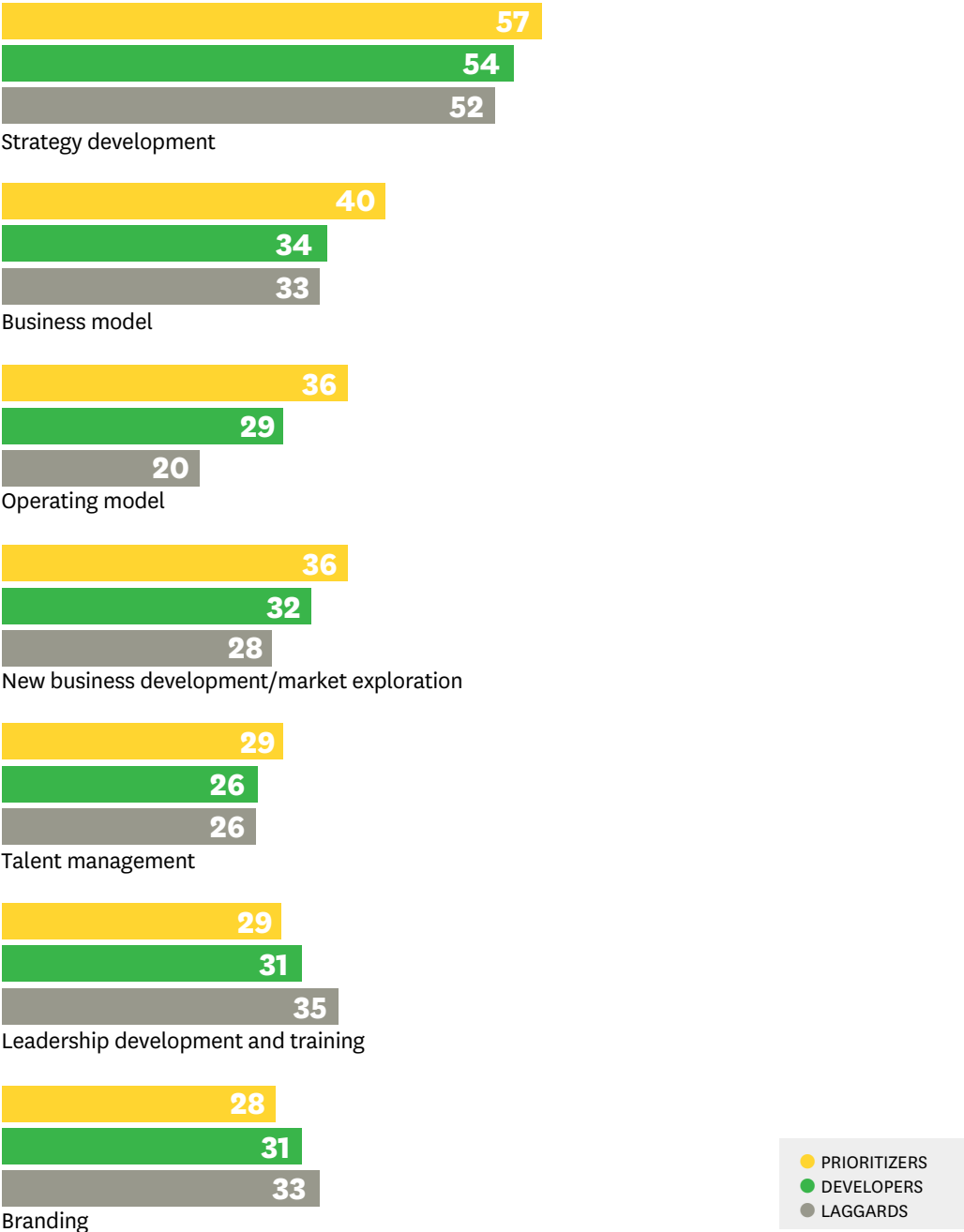
It is essential that companies develop the kind of leaders who can communicate and align the whole organization around purpose. Said Beer, “It’s easy to state a purpose and state a set of values. It’s much harder to enact them in the organization because it requires you to continually search for consistency across many disciplines and many activities.”

Ensuring that performance metrics and incentives are aligned with purpose is also critical, as it makes the tie between purpose and performance explicit for each employee. “Businesses are just beginning to understand how to integrate and measure performance tied to purpose,” according to Marc Ventresca.

FIGURE 10

TOP FUTURE PRIORITIES FOR PURPOSE LEVERAGING

Percentage who indicated which of the following are priorities for leveraging their organization’s purpose over the next 18 months. Check all that apply.



BASE: ALL SAYING ORGANIZATION HAS/IS WORKING ON A STATED OR IMPLIED PURPOSE. N=431

84%

of executives believe an organization that has shared purpose will be more successful in transformation efforts.

“Purpose is connected to transformation, and such fundamental changes may require alternative measures of performance and the capabilities to achieve it,” Ventresca said. “For purposeful transformation, we have to think afresh and reimagine how corporations engage broader societal changes.”

In any case, several change management experts suggest that employees may be the most important audience for messages around purpose. “It is more important that the purpose resonates with the employees than with the customers. If it doesn’t happen there, then the customers will [catch on] very quickly. And it has to matter to the supplier, and eventually to the community,” Sisodia said.

THE PATH AHEAD

This research underscores the challenges companies face and the benefits companies see when they make purpose a priority. The survey results suggest that prioritizers’ firms have grown and transformed more vigorously than their peers’. Executives at purpose-prioritizing companies believe that their customers are more loyal and their employees more engaged. They see themselves as market leaders with a brighter future than their competitors. And they indicate that they are reaping major rewards for their efforts. They also indicate that they will continue working to embed purpose across their organizations. [figure 10](#)

“Organizations do better when everyone is rowing in the same direction,” one senior manager in North America told us. “A well-integrated, shared purpose casts that direction. Without the shared purpose, organizations tend to run in circles, never making forward progress but always rehashing the same discussions.”

PARTICIPANT PROFILE

Harvard Business Review Analytic Services received a total of 474 survey responses drawn primarily from the Harvard Business Review Advisory Council and the *Harvard Business Review* e-newsletter subscriber base.

SIZE OF ORGANIZATION

Thirty-seven percent of respondents are in companies with 10,000 or more employees, with a further 31 percent in companies of 1,000 to 10,000. The remaining 32 percent of respondents are in organizations with 100-999 employees.

SENIORITY

Twenty percent of respondents are executive management or board members. Thirty-seven percent are senior management, with 28 percent in middle management and 15 percent coming from other grades.

INDUSTRY SECTORS

Manufacturing provides 16 percent of respondents, while 13 percent work in financial services and 10 percent in the technology sector. Other sectors each represented no more than 9 percent of the respondent base.

REGION

Forty-two percent of respondents are from North America, with 28 percent from Europe/Middle East/Africa, 23 percent from Asia/Pacific, and 7 percent from Latin America.

NOTES

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