

Power The Purpose Of A Corporation

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Nearly 200 CEOs of America's largest companies signed a new "Statement on the Purpose of a Corporation" issued by the Business Roundtable declaring that the purpose of a corporation goes beyond profits. The statement -- committing to creating value for all stakeholders of a firm -- was a significant first step in moving the business world toward greater quality, integrity, and sustainability. But now those CEOs must translate their aspiration into action.



Now that 181 American CEOs signed a new "Statement on the Purpose of a Corporation" issued by the Business Roundtable, what's next?

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Why Purpose

The Business Roundtable statement was the latest in a growing conversation among business leaders about pursuing purpose beyond profits. Last year Larry Fink, the CEO of BlackRock, issued a letter stating, "Purpose is not the sole pursuit of profits but the animating force for achieving them." And his firm articulated and adopted a new set of

“engagement priorities” including a company’s “approach to board diversity; corporate strategy and capital allocation; compensation that promotes long-termism; environmental risks and opportunities; and human capital management.”

It makes sense to expand the purpose of a corporation from creating shareholder value alone to include a firm’s other stakeholders -- customers, employees, suppliers, and communities -- as well. As corporations operate increasingly as interdependent ecosystems of constituents, a weakness in one area is likely to damage or even destroy an entire business if it operates without a holistic approach. Plus the Harvard Business Review reported that companies with high levels of purpose outperform the market by 5%–7% per year – and they grow faster and have higher profitability.

Now that leading executives have stated their commitment to delivering value for all stakeholders, they must put their purpose into practice.

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Forego Financial Fixation

Trying to operate with a greater purpose doesn’t always make immediate financial sense – it will sometimes cost the corporation short-term revenue, market share, and even profitability. Just ask [Patagonia](#).

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The company has been operating its [Common Threads Initiatives](#) for eight years now. To fulfill its objective -- to encourage everyone to make, buy, and use clothes more sustainably – the company discourages customers from buying its products, offers repair services so its products can be used longer, promotes donations of used products so other customers don’t have to buy new ones, and engages in recycling used products (a costly endeavor).

Moreover the company has a long [history](#) of changing its sourcing and supply chain practices to be more environmentally responsible and absorbing the costs to do so. For example, after Patagonia founder [Yvon Chouinard](#) learned about the devastating effects of chemicals used in growing cotton, he determined that the company would use only 100% organic cotton in its products. Doing so required the company to drop some of its most successful products because there wasn’t enough supply of organic cotton. The company also had to rework its entire cotton supply chain, which resulted in the tripling of cotton costs.

Of course Patagonia has more than recouped any losses it has experienced by pursuing a purpose that elevates environmental stewardship, but along the way, the company’s leaders have had to make difficult decisions and look beyond its financial bottom line.

Go All In

Pursuing purpose beyond profits isn't something that leaders can do on the side. And it can't be a nice-to-have that is abandoned when it becomes difficult. CEOs must be fully committed to the cause.

They have a good example in [Alan Jope](#), [Unilever](#) (NYSE:UN). He isn't simply carrying on the [Unilever Sustainable Living Plan](#) that his predecessor Paul Polman initiated – he's elevated it as a corporate mandate. The plan involves helping people take action to improve their health and well-being; halving the environmental footprint of the making and use of the company's products; and improving the lives of millions of people through human rights advocacy and diversity and inclusion efforts.

Jope is going all in on purpose. Since taking over in January, he has ordered executives to assign a clear, specific mission to each of the company's brands. For example, the purpose of the Dove skin care brand is to improve the self-esteem of girls worldwide. He told [Bloomberg Businessweek](#), "We are committed to all our brands having a purpose..." And "If a brand can't find its purpose," he said, "we may sell it."

His commitment stems from his belief that a stable of purposeful brands will resonate with shoppers and offset declining demand for some Unilever products that don't seem all that different from its competitors. While such a view may seem to position purpose as a convenient means to a shareholder end, it acknowledges the connectedness between all the firms' stakeholders. And it recognizes that shareholders and their expectations on financial performance remain a critical consideration when operating a business.

Engage Middle Managers

The previously mentioned Harvard Business Review article contained an important point about ensuring that purpose statements are backed up by purposeful action. The writers clarify, "The link between purpose and profitability is present only if senior management has been successful in diffusing that sense of purpose further down in the organization, especially in middle management, and in providing strategic clarity throughout the organization on how to achieve that purpose."

The emphasis on middle manager engagement is critical. While it's essential that top leaders talk and walk when it comes to communicating about and operating on-purpose, every person in the company must be on board. Leaders in the middle layers of an organization's hierarchy, like department managers, store managers, and program leaders, wield the most influence on an employee's daily experience and therefore are critical to ensuring organization-wide engagement and alignment with the company's purpose.

[Howard Schultz](#) knew understood this when he returned to [Starbucks](#) (NASDAQ:SBUX) in 2008 to rescue the company from an impending financial crisis. Writing in [Onward: How](#)

Starbucks Fought for Its Life without Losing Its Soul, Schultz described why he decided to channel a large portion of the turnaround effort on the company's middle managers. He wanted to empower store managers with "new skills for managing their teams, treating customers, and running their stores—even for the way they understood and talked about coffee."

So he arranged to assemble 10,000 of the company's middle managers in New Orleans for an immersive, intensive multi-day experience around the purpose and values of the company. It was an expensive, time-consuming affair that shareholders were not happy about. But Schultz credits the event for rallying, aligning, and unifying the entire organization. "When people can see things, feel things, interact with things, that is when their minds actually begin to shift," he explained.

Next Steps

With their signatures, the CEOs who signed The Purpose of a Corporation statement have advanced the conversation about the full range of business stakeholders. Their endorsement, of course, must be framed within the understanding the business is only one of the forces through which positive change in the world happens – and it must be accepted without absolving the numerous ethical and moral transgressions that businesses, even those of the signatories, have made.

The most important caution, though, is that actions speak louder than words. These CEOs must implement their commitment to creating value for all. Notably, the companies described in the examples above – Patagonia, Unilever, and Starbucks – are not among those represented on the Business Roundtable commitment. Who know why they aren't, but their absence demonstrates that declaring a company's purpose is only the first step.

It is now up to business leaders around the world to take the next step. And the next.