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More than a mission statement: How the 5Ps embed purpose to deliver value

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Your company's purpose strengthens resilience and creates value—if it's genuine. A new framework highlights a detailed approach to embedding purpose throughout your organization.

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We've all seen it: companies that have the "it" factor, an enthusiasm and passion that lights up employees, delights customers, and shines for investors. It's not just the company's warmer fleece, or a more delicious ice cream, or even a breakthrough technology. And it's so much more than just a mission statement. It's purpose. Purpose answers the question, "What would the world lose if your company disappeared?" It defines a company's core reason for being and its resulting positive impact on the world. Winning companies are driven by purpose, reach higher for it, and achieve more because of it. Competitors wonder where they can get some of that magic and how they might sprinkle it on.

If that's your expectation—that purpose can be added easily to your mix—get ready to be disappointed. A superficial approach to purpose doesn't work. In fact, it can do considerable harm, opening up your company to accusations of inauthenticity or "purpose-washing," turning off customers or driving them away completely, and disaffecting employees up and down your organization. Poor outcomes follow when purpose is a patch job.

Yet the positive corollary also holds: companies with a genuine, lived purpose radiate authenticity and do well by doing good. Customers, suppliers, partners, and investors recognize the value proposition. Senior leaders allocate capital and resources with purpose in mind. And employees think about purpose all the way, making it a part of their decision making as a matter of course. Building those dynamics doesn't come easily. It requires leaders to embed purpose throughout the organization. As we've described before, purpose must connect with your company's "superpower"—its unique ability to create value. Purpose is not the same as ESG (see sidebar, "Purpose, ESG, and the 5Ps"). Purpose is your company's *raison d'être*.

In this article, we describe a framework that organizations can use to make purpose real, steer clear of potential vulnerabilities or blowback, and help unlock meaningful value. We call this framework the 5Ps.

A framework for purpose: The 5Ps

It's relatively easy to develop a mission statement or kick off a purpose initiative. Most organizations have sought to define their purpose at some point or other, and many think it important to ensure that the company's purpose is embedded in everything it does. But leaders also know that's not easy. Perhaps that's why companies announce purpose changes so often. "We've had so many purpose initiatives," one European group CEO told us, that “at this point, they just wash over me.” A useful analog is transformations; about 70 percent of them fail to reach their stated goals, in large measure because they fail to change—and sometimes fail to even think of changing—the mindsets and behaviors of employees. Purpose should be systemic and rational, but also emotional; it should resonate with members of your organization and inform their decision making. Five major elements are critical:

1. *Portfolio strategy and products:* the products and services your organization provides, and the “where to play” and “how to play” choices you make to best serve your customers
2. *People and culture:* the talent—and the talent management—your firm deploys
3. *Processes and systems:* the operational processes you adapt to meet purpose-related targets; the ways you ensure that behavior up and down your value chain is in line with your purpose
4. *Performance metrics:* the target metrics and incentives you use to measure what you wish to achieve, how your firm is progressing, and the way you create and distribute incentives to make your organization’s purpose tangible
5. *Positions and engagement:* how you align your external positions and affiliations to be consistent with, and consistently deliver on, the purpose your company has defined

These elements are depicted in the exhibit below.

Exhibit

To embed purpose in your company and deliver value, follow the 5Ps.

1 Portfolio strategy and products

- Redefine product portfolio—eg, withdraw some products, introduce new products
- Revise pricing in line with purpose
- Review portfolio and test purposefulness of individual assets against common criteria

2 People and culture

- Align recruiting, people development, and career pathways to enable purpose
- Define purpose KPIs and hold employees accountable/give them incentives to meet targets
- Articulate and role-model desired individual mindsets and behaviors linked to purpose

3 Processes and systems

- Adapt operational processes to meet purpose-related targets
- Ensure supplier behaviors are in line with purpose

4 Performance metrics

- Set performance targets and metrics in line with purpose
- Introduce capital-allocation metrics in line with purpose for decisions (eg, capital expenditures, M&A)

5 Positions and engagements

- Tailor external engagement and communications to purpose
- Revise external positions in line with purpose
- Align affiliations (eg, trade-association membership) with purpose

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These five levers consistently elevate purpose over the long term, but they must be regularly, and rigorously, adjusted over time. Don't kid yourself; there may be uncomfortable decisions to make, and often hard trade-offs as well. In every case, start by understanding the sources of your company's strength, and address the areas in which it is vulnerable. Then, build out your purpose infrastructure in a programmatic way.

1. Portfolio strategy and products

Demonstrating purpose in the products and services you offer is a two-step process. First, make sure that your business portfolio aligns with your company's purpose. While most companies will not, of course, be able to start from a clean slate in terms of the industries and sectors in which they compete, almost all can identify ways to reshape their business mix in an active, purposeful way. Second, once you have chosen your portfolio, fill out its businesses with products and services that match your company's purpose, and winnow out those that don't. Fight the tendency to approach purpose with a "this is the hand I've been dealt" resignation. Of course your company's endowment matters, but you have greater freedom than you might expect to choose what your company does and how it can make a positive difference.

Consider bp. The former British Petroleum has been an energy company since its founding, over a century ago, operating in extractive industries around the world. Yet that legacy has not constrained bp from reimagining what an energy company can be. The firm has pivoted sharply, adopting as its purpose "reimagining energy for people and planet"; it has not only exited its petrochemicals businesses but also announced a plan to shrink its legacy oil and gas businesses by 40 percent by 2030, to scale up its low-carbon energy businesses (such as bioenergy, hydrogen, and electric-vehicle charging) significantly, and to put itself on a path to become a net-zero carbon emitter by 2050 or sooner.

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In fact, there is ample precedent for bold, purpose-based portfolio shifts. For example, DSM (Dutch State Mines), a Netherlands-based company, was originally incorporated to mine coal and, over a century, evolved into one of Europe's largest bulk chemicals companies. But, by going deep on purpose and insisting on a "triple bottom line" of people, planet, and profit, DSM showed that it could set a radically different course. From

2001 to 2015, the company not only divested from businesses such as petrochemicals and ammonia but also made more than 25 acquisitions in food, feed, and nutrition, among other business lines, transforming itself into an innovative specialty-chemicals leader.

S&P Global offers another illustration: to meet its purpose of accelerating progress in the world by providing intelligence that is essential for companies, governments, and individuals to make decisions with conviction, it shifted from a wider range of more generalized information and publishing businesses to a focus on research and analytics. Over a decade of change, it remained an information company, but it transformed itself into a different kind of information company—and a manifestly more purposeful one, seeking to meet the information needs of its stakeholders and broader society.

Creating value for all of your stakeholders by having a positive social impact is a bold decision and can require hard choices, such as CVS's decision in 2014 to remove tobacco products from its pharmacies. But, as our research has shown, strategic fortune—measured across industries, and considered in the aggregate—favors the bold. In fact, companies that keep a static portfolio serially underperform.

Few companies have embedded purpose as thoroughly as Patagonia does. The California-based outdoor-equipment and -clothing business has always been purpose driven; it was the first company in its state to become a benefit corporation (a corporate form that enables directors as a matter of law to extend their duty of loyalty beyond shareholders), and is also a certified B Corp. For decades, Patagonia's mission had been "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis." Yet in late 2018, founder Yvon Chouinard made the company's purpose even more bold: "to save our home planet." Purpose gives Patagonia the impetus to expand into multiple new businesses, such as food, in an effort to spur on new advances in regenerative agriculture. The company also creates films and books about environmental activism and launched Patagonia Action Works (PAW), a platform for matching volunteers with activist causes across different communities.

As Patagonia's example suggests, your company's purpose should drive decision making about portfolios and then inform your choices about the products and services you offer within those portfolio businesses. Your decision making will be sharpened further by following the heuristics of superpower ("what is the unique way that our company can create value and drive progress?") and vulnerability ("what choices could we make that would be particularly discordant with our stated purpose?").

Alphabet, for instance, prioritizes its mission to promote "freedom and focus." It makes sense, therefore, that the Google Play app store no longer offers apps for personal loans that carry excessive annual percentage rates, such as those of predatory payday loans. Toy companies are profitably replacing dolls with unrealistic body images with offerings that are more true to life. Banks and financial institutions meet customer needs by introducing green auto loans, green mortgages, and green insurance; Swedish fintech Doconomy, for example, offers credit cards with built-in CO_2-emissions limits. Purpose-washing? Not when the products and services offered are moored to an organization's authentic, lived mission.

2. People and culture

The second lever for embedding purpose could, just as plausibly, be considered the first: people and culture. Purpose begins with human beings. Your employees, indeed all of your stakeholders, are your sources of strength and a hard check against inauthenticity. That's why employee sentiment is often the single greatest force undermining insincere claims of purposefulness. Think, for example, of digital-native companies that have bold, change-the-world mission statements but nonetheless find themselves tripped up by accusations of “bro cultures,” or businesses called out for marketing aspirational messages while using labor from prison systems. In other cases, companies that have championed inclusivity have subsequently been accused of discriminatory behavior at the front lines.

Purpose can be aligned at critical points with your people and culture. That starts with hiring. Managers can actively screen for individuals who share the values that support the company’s purpose. As a senior leader of one high-performing activewear company told us, “We hire people who reflect the values of the company. We never hire bad people hoping we can change them.” Human-resource decisions grounded in purpose should also be reflected in people development and career pathways; being consistent and genuine will reinforce a virtuous circle throughout your organization. Managers should also articulate and role-model the mindsets and behaviors linked to company purpose and hold employees accountable for meeting targets. As the CEO of one Asian company recently told us, alignment with a company’s purpose can’t just be “management saying some nice words and calling it a day.” But when the company identifies what it wants in a key performance indicator (KPI), good managers “get it done.”

Decision making about your people and culture also includes capturing opportunities as they arise. At a 2019 annual general meeting, a bp employee raised her hand to ask, “When is bp going to give [employees] jobs that are meaningful?” Impressed, senior executive (and now CEO) Bernard Looney promoted her a short time later to the role of “purpose engagement manager,” with the remit to work with employees to further the company’s vision of reimagining energy.

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The quest for meaning is part of the human condition and is embraced, not squelched, by purposeful organizations. Our research shows that employees at purpose-driven companies are four times more engaged at work—a powerful source of competitive advantage. Consider Best Buy. Former CEO Hubert Joly transformed the consumer-electronics retailer to a model in which customer service, powered by the human touch, would be the differentiator. Under his direction, the company moved to invest heavily in employee training; provide employee discounts to encourage its own people to buy, use, and then recommend products to others; and advance Geek Squad, enthusiastic agents who help choose, install, personalize, and support products that Best Buy sells. That reinforced Best Buy's purpose to enrich lives through technology and helped make the business more enjoyable for customers and employees alike.

Indeed, it's hard to overexaggerate the importance of employee commitment. London Business School professor Alex Edmans demonstrated that companies that invested significantly in employee well-being outperformed their peers in stock returns by 2 to 3 percent a year. That makes sense; how enthusiastic, really, should we expect employees to be if they are just punching the clock? Thus, when PayPal CEO Dan Schulman dramatically boosted employee pay in 2019 *and* increased benefits *and* made all employees shareholders in the company, he did so precisely with purpose in mind. Passionate employees radiate enthusiasm to customers and communities alike.

Your people can also be your best barometers of progress. Investigations into the banking industry over recent decades are littered with examples of early-warning signals from employees of poor conduct, the misselling of products, and faulty product design. Many of these signals either fell on deaf ears or were willfully ignored. Ensuring that your people have appropriate mechanisms and tools supported by a "speak up" culture to identify gaps is critical to embedding purpose.

3. Processes and systems

The third lever, processes and systems, addresses a core "how" of your business model: the operational initiatives, incentives, and governance mechanisms your firm relies upon to create value and to realize its purpose. It takes robust systems to keep (or start) the purpose engine humming. Some elements, of course, will be industry and business dependent. For example, food companies can identify and source healthier ingredients from their farmers, and more environmentally friendly materials from their packaging suppliers. But, regardless of sector, most companies can embed best practices, from cafeteria composting to paid leave for community service.

Your processes and systems initiatives should do the same, with considered planning for the present and future. Take, for example, Microsoft's approach to carbon emissions. The company already worked to be carbon neutral (a goal it achieved in 2012), and has since aimed even higher: by 2025, Microsoft expects to consume only renewable energy at its data centers, buildings, and campuses; and the company plans to completely electrify its global campus operations vehicle fleet by 2030—the year the company has announced it will be carbon negative. While some organizations track carbon to create nominal (though meaningful) "carbon-adjusted" financial reporting, Microsoft already *assesses* an internal carbon fee on its business divisions. Funds from the assessment are used to invest in further carbon-reduction efforts within the firm, and to contribute to environmental causes worldwide.

Indeed, when embedding purpose in your company's processes and systems, it's vital to look beyond the firm's four walls. Walmart's Project Gigaton, for example, embraces its entire supply chain: the program aims to help suppliers eliminate one gigaton of greenhouse gases by 2030. As part of the initiative, Walmart identified six categories in which suppliers should reduce emissions: energy, waste, packaging, forests, agriculture, and product use and design. It then built a platform to help suppliers chart their emissions reductions. Suppliers come up with their own emissions-reductions goals, which must be "SMART"—specific, measurable, achievable, relevant, and time limited. They are also required to report their progress annually, and top achievers receive recognition on Walmart's sustainability hub website. Hundreds of suppliers currently take part, and Walmart expects even more to join.

As BHP's CEO, Mike Henry, recently shared, embedding purpose throughout the supply chain is proving to be a source of resilience, even in the face of COVID-19. From the start of the pandemic, BHP moved to support its small, local, and indigenous suppliers by reducing payment terms from 30 days or more down to seven days. The company understood that these suppliers would be vulnerable, and sought to play a role in supporting them. That resonates. "When [suppliers] have seen that we're there for them in their time of need, they'll be there for us in our time of need," Henry explained. "And that's what we've seen. They've invested greater effort to ensure that they can continue to support BHP and keep the commitments they've made to us."

4. Performance metrics

Purpose can and should be measured rigorously. In practice, this means identifying the key performance indicators that tie to your company's purpose, tracking them over time, and incenting your organization to meet purpose targets. What gets measured gets managed, as Peter Drucker famously observed. The converse is perhaps even more apt: what you seek to manage should be measured, and on a consistent basis. Too often, companies mistake, and then conflate, ESG benchmarks with purpose metrics. Standards from third-party organizations such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), while important, should never become the ESG reporting "tail" that wags the purposeful company's dog. Purpose should come from within and guide the unique metrics you measure and track. If your company starts with ESG reporting and then "backs into" a purpose, it's getting purpose backward.

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Since purpose expresses what your company is and aspires to be, purpose metrics should inform not only day-to-day operations but also allocation decisions such as capital expenditures and M&A, as well as company-wide transformation initiatives. A number of energy companies, for example, now tie executive compensation to emissions. One leading retail bank, to take another case, found itself prominently featured in a national scandal in which several financial institutions in the country had committed different regulatory breaches. The harsh negative publicity prompted hard thinking about the bank's fundamental purpose and its relationships both with broader society and individual customers, and about how to identify, measure, and improve its purpose-based performance. Part of that purpose focused on improving customer outcomes. One way the bank oriented toward a more purposeful outcome was to redesign incentives. The bank's previous incentive structure included volume-based targets. Although financially not significant, reducing the weight of volume-based targets in performance evaluations was regarded by the bank as critical to its purpose shift, if only for symbolic reasons. But, remarkably, after reducing the weight of volume-based targets, the bank proceeded to financially outperform its peers. Quality of purpose, and the broad activities and behaviors that underpin its purpose, proved to be more influential than quantity. The bank now takes a more balanced approach to the measurement of, and reward for, the performance of frontline staff and managers. It incorporates a broader set of metrics related to customer outcomes, including, for example, the number and extent of interactions with customers to better understand their needs.

There are a range of tools and KPIs that companies can use, but, because purpose is bespoke, off-the-shelf solutions almost never have the same impact as those that are carefully tailored. Moreover, measuring and activating should not be limited to monetary incentives. Companies can encourage community outreach by celebrating offices and employees who contribute measurably to the organization's mission. Businesses can also use behavioral economics to "nudge" for positive behavior, such as energy saving or waste reduction. We've found, too, that simply *showing* employees and other stakeholders how the organization is progressing along metrics such as diversity or sustainability—information that can be presented clearly in standardized reports—reinforces purpose and builds momentum for more.

It's a fair critique to say that purpose can feel orthogonal, particularly at the start of a purpose-focused initiative, because, in a prior way of doing things, it may indeed have been orthogonal. But as employees and other stakeholders are presented purpose-based metrics on a routine basis—numbers of employees from underrepresented groups, for example, or contracts with minority suppliers or customers—purpose will feel more comfortable. It becomes standard procedure.

5. Positions and communications

What's true within your organization should be consistent beyond it: purpose should be embedded into how your organization conveys information to and engages with the public. It's within this "P" that charges of "purpose washing" are most likely to arise—and understandably so. Artificial expressions of purpose ring false, and stakeholders recognize inauthenticity. The Edelman Trust Barometer, for example, found that two-thirds of respondents agreed that "[a] good reputation may get me to try a product, but unless I come to trust the company behind the product, I will soon stop buying it."[1] More than half of respondents also believe that every brand has a responsibility to get involved in at least one social issue that does not directly affect its business.[2]

The growing ascendance of the belief-based consumer is a powerful opportunity for many companies to step up much more visibly on the "S" element of ESG and strengthen their social license to operate. One way to do so is to consider the trade associations your firm supports—or perhaps no longer should. Both Royal Dutch Shell and bp, for example, undertook extensive reviews of those receiving their support and ultimately withdrew from a number of trade associations because they were deemed inconsistent with the company's purpose. Another action is to step up your philanthropy and corporate giving, making those efforts of a piece with your business model. Doing so in an authentic way, linked to your company's superpower and demonstrable to those around you, can strengthen your organization's ties with its community and burnish its social license. General Mills, for instance, aligns its 150-year old philanthropic foundation to share food expertise by partnering with employees in the communities in which they live and work. As well, Philippines-based conglomerate Ayala Group spearheads "Project Ugnayan," a private-sector partnership working with hundreds of local companies to help feed millions of people in the Greater Manila area.

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When purpose is hardwired, your company's positions, communications, and external engagement become logical extensions of your business model; purpose eliminates the gap between walk and talk. Consider Takeda, headquartered in Japan, and one of the world's largest pharmaceutical companies. The organization strives, as CEO Christophe Weber explained, to "put [its] employees and patients first." When COVID-19 hit, it was among the first pharmaceutical companies in many countries to pull its field force and put a hold on marketing calls. “For us,” Weber related, “that was an easy decision.” Or Microsoft, which has a strong commitment “to empower every person and every organization on the planet to achieve more.” The company announced that it would be closing all of its brick-and-mortar stores and focusing its retail operations on digital storefronts. That hard decision was a while in the making, and was finalized during the economic downturn brought about by COVID-19. Remarkably, however, Microsoft decided that the store workers will now continue serving customers from corporate facilities and remotely, providing digital sales, training, and support.

Purpose is a source of competitive advantage, but it must be genuine and infused in your organization’s business model. The 5Ps provide a framework to help companies embed purpose in a systematic, holistic way. It helps organizations unlock sources of value, identify points of vulnerability, and do well by doing good.

1. *Edelman Trust Barometer Special Report: In brands we trust?*, Edelman, June 18, 2019, edelman.com.
2. *Edelman Trust Barometer Special Report: In brands we trust?*, Edelman, June 18, 2019, edelman.com.

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