Review of Emerging Academic and Practitioner Literature on Corporate Purpose

Literature Scan

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The Michael Lee-Chin Family Institute for Corporate Citizenship at the Rotman School of Management, University of Toronto, helps current and future business leaders integrate sustainability into business strategy and practices.

Research conducted by Lee-Chin Institute staff.
Overview and Caveats
This document is meant to provide an overview of an emerging academic and practitioner literature on “corporate purpose”. This document includes:

- Definitions
- Related models, theories, and frameworks
- Motivation for and evidence of benefits, and
- Opportunities for further inquiry.

A variety of sources have been consulted. To date there are relatively few articles from peer-reviewed scholarly management journals. Therefore, we have included other sources including journals from related disciplines, working papers, monographs and books by academic authors, and research-oriented publications by some practitioners.

Suggestions of other sources that might be included in future versions of this document are welcome.

Introduction
In brief, the academic conversation about corporate purpose is still early in its development, especially when compared to the sometimes-enthusiastic practitioner literature. Definitional and conceptual work is most prominent and relates to a broader discussion of the role of business in society. Sources provide a range of anecdotal examples but there is still limited research testing the causal/correlative relationship of corporate purpose to corporate success in economic, social, and environmental terms. Future research opportunities exist across all these topics, but most of all in the contribution of purpose to success.

Definitions
“Corporate purpose” definitions vary widely, but there are a few common factors, including:

1) Purpose describes a key objective of the corporation or firm
2) Purpose in this context usually transcends or goes beyond internal economic goals like profit or growth but outlines the firm’s commitment to making a tangible impact on the world in social or environmental terms
3) Purpose provides a basis for making strategic and tactical choices about actions by the firm and evaluating its success.
4) Purpose sometimes has a moral and normative aspect (suggesting that companies must have a broader objective or be less likely to succeed).
Here are some examples of definitions, starting with academic sources and then following with those from commentators and practitioners:

From “Why do firms have "purpose"? the firm's role as a carrier of identity and reputation”:

- We define “purpose” as a concrete goal or objective for the firm that reaches beyond profit maximization” (Henderson & Steen, 2015).

From “Organisational purpose: the construct and its antecedents and consequences”:

- “[We define] organizational purpose as: an organization’s meaningful and enduring reason to exist that aligns with long-term financial performance, provides a clear context for daily decision making, and unifies and motivates relevant stakeholders... there are five fundamental characteristics that underpin this definition:
  1) a transcendent, meaningful reason why an organization exists;
  2) a core attribute of the organizational identity;
  3) an alignment with long-term financial performance;
  4) a clear context that guides daily decision making, and;
  5) a unifying and motivating force for relevant stakeholders” (Hurth, Ebert, & Prabhu, 2018).

- “Some authors stated that there is no precise and accepted definition of purpose and its metrics. Bartlett and Ghoshal described purpose as the statement of a company’s moral response to its broadly defined responsibilities. Damon and colleagues proposed a definition of purpose as “a generalized intention to accomplish something that is at once meaningful and leads to productive engagement with the world” (Hurth, Ebert, & Prabhu, 2018).

- Thakor and Quinn similarly defined it as “something that is perceived as producing a social benefit over and above the tangible pecuniary payoff that is shared by the principal and the agent”. Purpose has been also defined as a “concrete goal or objective for the firm that reaches beyond profit maximization” or as “the meaning of a firm’s work beyond quantitative measures of financial performance”. More recently, Hsieh et al. defined corporate purpose as the overarching management objectives of a corporation that go beyond narrow financial metrics and stated that a corporation that is exclusively managed to maximize profits does not have a corporate purpose in our usage of the term” (Hurth, Ebert, & Prabhu, 2018).

From Purpose-driven Organizations: Management Ideas for a Better World:

- “At the organizational level, purpose is generally associated with concepts such as mission, vision, or ultimate aspirations. However, purpose is commonly considered as the basic idea—the essence—that underlies and sustains the meaning of these concepts. More specifically, purpose can be considered as the foundation of the mission... Purpose is usually defined in short sentences or ideas that express the positive impact and legacy a company aims to leave on this world. (Rey, Bastons, & Sotok, 2019).
• Purpose is inspiring, helping companies go beyond their self-imposed limitations and strive for the seemingly impossible. For example, the purpose of Disney is “to use our imagination to bring happiness to millions.” 3M hopes to “improve every company, every home, every life.” Google is “to organize the world’s information and make it universally accessible and useful.” Purpose can also be found by looking at areas where people feel excluded, or where their potential to contribute has been disregarded or overlooked by society. This is the case, for example of La Fageda, a Catalan yogurt manufacturer where almost all its workers have a mental disability. Their purpose is to “make work meaningful” (Rey, Bastons, & Sotok, 2019).

From “The Business Case for Purpose: Friedman, Fink, and the Battle for the Soul of Business”

• “Purpose-driven business envisions business as a force for good, a force with the power to change the world around it and to deliver tangible improvement to human life and the environment. It doesn’t just deliver a rational or emotional benefit to an individual customer or consumer; it also contributes to the collective good. It delivers profit, as it delivers value to all of a company’s stakeholders – not just shareholders.” (Williams, 2019).

From the World Economic Forum “It’s Time to Redefine the Purpose of Business. Here’s a Roadmap”:

• “Let me be clear about what corporate purpose should be – ‘to produce profitable solutions to the problems of people and planet, and not to profit from producing problems for people or planet.’ It is about producing solutions, doing so profitably not just philanthropically, and measuring fair – not fake – profits.” (Meyer, 2020).

From Conference Board of Canada “The Social Purpose”:

• “Social purpose companies are profit-driven businesses whose core purpose is to contribute positively to society. They use their products, supply chains, people, capital, influence, relationships, real estate, and scale to accelerate positive impacts. As a positive force for change in everything they do, they become multipliers for responsible business practices and sustainable development in society. By identifying, catalyzing, and building new social purpose markets, they create significant social benefits, grow their business, and increase their capacity to further their social purpose aims.” (Conference Board of Canada, 2017).
Models

There are relatively few models describing corporate purpose. For instance, the scholar Shankar Basu, who wrote extensively about “purpose” developed a model based on the work of Peter Drucker:

“In his classic book Management: Tasks, Responsibilities and Practices Peter Drucker provides insight to the primary tasks and responsibilities of top management in a business enterprise. Drucker outlines the three primary tasks of management as: Defining the specific purpose and mission of the institution; making work productive and the worker achieve; and, managing social impacts and social responsibilities... Three factors have major influence on corporate purpose: the needs of the firm’s strategic stakeholders, the contextual environment in which the firm operates, and the cultural beliefs and values of the organization” (Basu, 1999).

Another model was proposed by Jimenez et al:

“A critical review of the literature shows that the notion of Corporate Purpose is a highly heterogeneous concept and can be distinguished by three dimensions: the regulatory-oriented approach; the business-oriented approach; and the organizational identity-oriented approach. All three views agree that Corporate Purpose is not an end state, rather it is a journey—a starting point—that aligns with five elements
‘Values’ or the principles in which purpose operates;
‘Vision’ an idea of how the future looks like;
‘Objectives’ or corporate key goals;
‘Strategies’ the various initiatives to achieve the objectives;
“KPIs” the metrics required to measure progress” (Jimenez, Franco, & Smith, 2021).

Image from (Jimenez, Franco, & Smith, 2021)

Related Theories and Frameworks
The discussion about corporate purpose clearly falls into a broader conversation about the role of business in society and the interplay of major theories and frameworks:

From “A Review of Corporate Purpose: An Approach to Actioning the Sustainable Development Goals (SDGs)”:

- “Three strands of the literature inform a goal-based perspective on corporate purpose. These literatures on corporate mission, vision, and strategic intent do not explicitly consider wider societal concerns and thus more closely align with Friedman’s (1970) perspective that ‘the social responsibility of business is to increase its profits’” (Jimenez, Franco, & Smith, 2021).

- “Recent perspectives are more aligned with a duty-based conception of purpose and explicitly link purpose in the for-profit firm to wider societal responsibilities of the firm. These emerging perspectives anchor corporate purpose with values and are often intimately connected to social service and environmental stewardship... Corporate Purpose is in alignment with stakeholder capitalism, as an alternative view of capitalism. Stakeholder capitalism’s objective is to distance itself from traditional underlined values
such as self-interest, market competition, and open markets to switch into a capitalism ‘based on freedom, rights, and the creation by consent of positive obligations.’ Therefore, the Corporate Purpose notion shares similar values with stakeholder theory” (Jimenez, Franco, & Smith, 2021).

From “Purpose in the For-Profit Firm: A Review and Framework for Management Research”:

- “Purpose in the for-profit firm captures the essence of an organization’s existence by explaining what value it seeks to create for its stakeholders. In doing so, purpose provides a clear definition of the firm’s intent, creates the ability for stakeholders to identify with, and be inspired by, the firm’s mission, vision, and values, and establishes actionable pathways and an aspirational outcome for the firm’s actions” (George, Haas, McGahan, Schillebeeckx, & Tracey, 2021).

From “Organisational purpose: the construct and its antecedents and consequences”:

- “The contemporary purpose movement we observe in practice suggests a shift in thought regarding what a company’s role in society should be and the role of marketing in the firm. Academics and practitioners in the shareholder value tradition have long argued that an organization’s chief purpose is to maximize financial returns. This perspective represents the dominant view of why a firm exists. Although marketing was spawned from this perspective, the traditional marketing concept long ago reconceptualised the organization’s ‘purpose’ as being “to create a customer”) and “to create and maintain meaningful and beneficial customer relationships”. These two views of ultimate value focus (shareholder and customer) are recognized as sitting uncomfortably alongside each other, vying for pole position” (Hurth, Ebert, & Prabhu, 2018).

From the World Economic Forum “It’s Time to Redefine the Purpose of Business. Here’s a Roadmap”:

- “Corporate purpose is rapidly becoming a global phenomenon – only no one really understands what it means. Milton Friedman’s notion that a firm’s purpose is “just making money” is becoming discredited, but no succinct alternative has replaced it... So, let me be clear about what corporate purpose should be – “to produce profitable solutions to the problems of people and planet, and not to profit from producing problems for people or planet”. It is about producing solutions, doing so profitably not just philanthropically, and measuring fair – not fake – profits. We are used to business focusing on one interest group in society: shareholders. That simply cannot be right, fair or efficient. Instead, business should be structured around the question why it exists, what it is there to do, and what it aspires to become – namely its purpose – and everything should follow from that, including business practice, policy and education. For this reason, implementing these principles will be transformational” (Meyer, 2020).
Corporate purpose can also be related to other terms describing firm objectives, including vision, mission and other factors. A partial synthesis by one set of scholars is as follows:

**Managerial Constructs That Inform Scholarly Understanding of Purpose in Firms**

<table>
<thead>
<tr>
<th>Perspectives</th>
<th>Meaning</th>
<th>Theoretical Lenses</th>
<th>Representative Publications</th>
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<tr>
<td>Mission statement</td>
<td>A mission statement “defines the fundamental, unique purpose that sets a business apart from other firms of its type and identifies the scope of the business’s operations in product and market terms ... it specifies the fundamental reason why an organization exists ... it should create an organization identity larger than the limits placed on the firm by any individual” (Pearce &amp; David, 1987: 109).</td>
<td>Institutional theories Stakeholder theories</td>
<td>Alegre, Berbegal-Mirabent, Guerrero, &amp; Mas-Machuca, 2018; David, 1989; Desmidt, Prinzie, &amp; Decramer, 2011; Khalifa, 2012</td>
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<td>Vision</td>
<td>A vision represents the firm’s future purpose, providing a mental picture of the aspirational existence that an organization is working toward. A vision needs to be imaginable, desirable, feasible, focused, flexible, and communicable and often encompasses core ideology.</td>
<td>Individual/Behavioral Goal-setting Strategic positioning</td>
<td>Horwath &amp; Drucker, 2005; Khalifa, 2012; Kotter, 1995</td>
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<td>Strategic intent</td>
<td>“Strategic intent” as a means to challenge and rethink the prevalent model of strategy. It captures the essence of winning, is stable over time, and sets a target worthy of personal effort and commitment (Hamel &amp; Prahalad, 1989: 64).</td>
<td>Strategy planning, formulation, and implementation</td>
<td>Hamel &amp; Prahalad, 1989; Lovas &amp; Ghoshal, 2000; Mantere &amp; Stiilince, 2007</td>
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<td>Values</td>
<td>Values are the ideals, beliefs, and principles that guide the actions. Exemplary values are dignity (e.g., human capital), solidarity (e.g., bottom-of-the-pyramid business models), plurality (e.g., team diversity), subsidiarity (e.g., organization design), and reciprocity (e.g., interorganizational relationships).</td>
<td>Theories of ethics, values, and morality</td>
<td>Hollensbe, Wooley, Hickey, George, &amp; Nichols, 2014; Mcel, 2009; Mcel &amp; Fontrodona, 2017</td>
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<td>Service</td>
<td>A company’s moral response to its broadly interpreted responsibilities. Purpose is no amoral plan for exploiting commercial opportunities but encompasses the production of social benefits above and beyond pecuniary rewards.</td>
<td>Social entrepreneurship Sustainable entrepreneurship Conservation of resources Motivational theory of stress response Social learning theory, inclusive growth</td>
<td>Bartlett &amp; Ghoshal, 1994; George, McGahan, &amp; Prabhu, 2012; Shahrir &amp; Shepherd, 2019; Williams &amp; Shepherd, 2016</td>
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<td>Stewardship</td>
<td>“Framing stewardship as part of accomplishing business purpose would enable stakeholders to see how, through their commitment to the business’s purpose, they can personally make a positive contribution to society” (Hollensbe et al., 2014: 1232).</td>
<td>Grand challenges Inclusive growth Resource conservation Stewardship</td>
<td>Doh, Tashman, &amp; Bonischke, 2019; George, Howard-Grenville, Ioshi, &amp; Tibany, 2016; George &amp; Schillebeeckx, 2018; George, Schillebeeckx, &amp; Liak, 2015</td>
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From (George, Haas, McGahan, Schillebeeckx, & Tracey, 2021)

**Motivations & Evidence**

Corporate leaders are now experiencing more and more businesses, governments – and even academics – advocating for purpose and strongly related views of stakeholder capitalism around the world. There is also an expanding discussion of benefits and some early evidence to guide their thinking about purpose.

**Motivations Related to Corporate Purpose**

In his 2018 letter to investors, Blackrock CEO Laurence Fink stated:
“Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders. It will succumb to short-term pressures to distribute earnings, and, in the process, sacrifice investments in employee development, innovation, and capital expenditures that are necessary for long-term growth. It will remain exposed to activist campaigns that articulate a clearer goal, even if that goal serves only the shortest and narrowest of objectives. And ultimately, that company will provide subpar returns to the investors who depend on it to finance their retirement, home purchases, or higher education” (Fink, 2018).

The UK Institute of Directors recently published a Manifesto on Corporate Governance that recommended “The Government should seek to encourage companies to adopt clearly defined ‘business purpose’ clauses, either in their constitutional framework or elsewhere in their annual report (The Institute of Directors, 2019).”

The British Academy (2020) similarly produced a range of recommendations to regulators and business leaders called the “Principles for Purposeful Business” (2020). These recommendation state:

“A purposeful business will organise itself on all levels according to its purpose. We propose eight principles for business leaders and policymakers. They do not prescribe specific actions, but set out the features of an operating environment that will enable the delivery of those purposes, while remaining flexible to a diversity of business models, cultures and jurisdictions.

- Corporate law should place purpose at the heart of the corporation and require directors to state their purposes and demonstrate commitment to them,
- Regulation should expect particularly high duties of engagement, loyalty and care on the part of directors of companies to public interests where they perform important public functions,
- Ownership should recognise obligations of shareholders and engage them in supporting corporate purposes as well as in their rights to derive financial benefit,
- Corporate governance should align managerial interests with companies’ purposes and establish accountability to a range of stakeholders through appropriate board structures. They should determine a set of values necessary to deliver purpose, embedded in their company culture,
- Measurement should recognise impacts and investment by companies in their workers, societies and natural assets both within and outside the firm,
- Performance should be measured against fulfilment of corporate purposes and profits measured net of the costs of achieving them,
- Corporate financing should be of a form and duration that allows companies to fund more engaged and long-term investment in their purposes, and;
- Corporate investment should be made in partnership with private, public and not-for-profit organisations that contribute towards the fulfilment of corporate purposes” (The British Academy, 2019).
In 2019, the US-based Business Roundtable announced a new Statement on the Purpose of a Corporation:

“Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity. We believe the free-market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all.

Businesses play a vital role in the economy by creating jobs, fostering innovation and providing essential goods and services. Businesses make and sell consumer products; manufacture equipment and vehicles; support the national defense; grow and produce food; provide healthcare; generate and deliver energy; and offer financial, communications and other services that underpin economic growth.

While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:

- Delivering value to our customers. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.
- Investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.
- Dealing fairly and ethically with our suppliers. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.
• Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.
• Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders” (Business Roundtable, 2019).

The World Economic Forum published The Davos Manifesto 2020, articulating a range of evolving trends and assumptions relating to purpose. In their view, companies should reflect:

1. “Recognition that environmental, social and corporate governance policies (ESG) represent material risks and opportunities directly impacting financial performance;
2. Reassessment of the shareholder primacy doctrine and the narrow view of corporations as nothing more than profit machines;
3. Adoption of “sustainability” as both a strategic goal for companies, an antidote to short-termism and a path to strengthen public trust in business and the capital markets;
4. Acknowledgement that companies must serve the interests of their “stakeholders” as well as their shareholders;
5. Reassertion of the principle that corporations must be accountable for the human, social and public policy implications of their activities, with an urgent focus on climate change;
6. Understanding that a corporation’s “culture” is reflective of its integrity, its internal well-being, its sustainability and its reputation.
7. Acceptance of expanded board accountability for ESG issues, sustainability, purpose and culture and working with the CEO to integrate these factors into business strategy;
8. Emergence of the integrated reporting movement [www.integratedreporting.org] with its program of integrated thinking and integrated management as the basis for corporate reporting” (Wilcox & Sodali, 2020).

Similarly, boards of directors are being encouraged to lead the way to develop their company’s statement of purpose. In Canada, for example, Dey and Kaplan recently wrote:

“Every board should identify, disclose and regularly review the purpose of the business of the corporation. Put simply, why does the corporation exist? There are two aspects to purpose. The first is that the corporation was brought into existence and exists to meet human wants or needs by producing a product or service to be used by customers of the corporation. It is through fulfillment of this purpose that value is created. The second is that these efforts to produce value may impact the corporation’s stakeholders positively or negatively. The corporation exists because its stakeholders support the business of the corporation by contributing to the operation of the corporation’s business, by consuming the corporation’s products or services and by granting the corporation a social license to operate its business” (Kaplan & Dey, 2021).

“The support of stakeholders can only be expected if the corporation understands and addresses the impact of its efforts on them. Without knowing why the corporation exists, it is difficult for a board of directors to judge effectively the best interests of the corporation. The statement of purpose should be a living document rooted in the fundamental value proposition of the
corporation. It should be specific enough to enable accountability and be revisited with some regularity so as to assure it still provides that most useful and most powerful guiding light for the board and the company’s management” (Kaplan & Dey, 2021).

Some researchers have also tried to connect the idea of corporate purpose to the UN’s Sustainable Development Goals (SDGs):

“Corporate Purpose is a company’s fundamental reason for being that goes beyond profits. It describes why a company exists and the impact it wants to make. Corporate Purpose conciliates profit with the needs of the planet and people, allowing businesses to be the most powerful vehicle to create social change. It defines why a company exists and the impact it can make. Corporate Purpose is not the company’s vision and mission. Instead, it represents an organizational transformation that helps to transcend the flaws of capitalism, supports corporations in transitioning to sustainable economies, and the operationalization of the SDGs in the private sector” (Jimenez, Franco, & Smith, 2021).

“The notion of Corporate Purpose involves the mechanisms by which corporations can contribute to society, and more specifically to the SDGs” (Jimenez, Franco, & Smith, 2021).
Evidence of the Benefits of Corporate Purpose

This subsection provides a quick overview of academic and practitioner evidence of the benefits of corporate purpose.

Academic Evidence

The academic literature still has relatively little evidence about the positive or negative effects of adopting a corporate purpose across a range of companies. There is limited data about companies relating to purpose and so this aspect of firm behaviour and its effects remains largely descriptive or qualitative in nature.

Bartlett and Ghoshal’s study focused on the idea of “purpose” found (based on their experiences with a small set of companies) that the successful ones had the following elements in common:

- “First, they place less emphasis on following a clear strategic plan than on building a rich, engaging corporate purpose.
- Next, they focus less on formal structural design and more on effective management processes.
- Finally, they are less concerned with controlling employees’ behavior than with developing their capabilities and broadening their perspectives.
- In sum, they have moved beyond the old doctrine of strategy, structure, and systems to a softer, more organic model built on the development of purpose, process, and people. In this article, we examine the first element of the changing role of top management: shaping organizational purpose” (Bartlett & Ghoshal, 1994).

Other studies explore the positive effects on employees, which seems to be a topic which has more easily accessible data:

- “Knowledge of the purpose means that the purpose has been successfully communicated and is “known” by employees to the extent that they can articulate it in their own words. Different authors have associated purpose with terms such as the “why” of the organization or the organization’s raison d’être. The clearer the purpose, the clearer the guiding “north” will be. Internalization of the purpose refers to the extent the purpose moves and motivates employees” (Lleo, Bastons, Rey, & Ruiz-Perez, 2021).
- Some authors define purpose internalization as a meaning-generating cause capable of motivating. Others maintain that purpose motivates to the extent that it integrates and shares employee values. Shared values are what drive employees to identify with the purpose and get excited about developing it (Lleo, Bastons, Rey, & Ruiz-Perez, 2021).

Other authors make use of different frameworks (such as Self-Determination Theory) to explain purpose:

- “Self-determination theory offers a perspective on the underlying mechanism that may explain how environmental aspects, such as a corporate purpose, may lead to higher levels of intrinsic motivation and well-being. At the core of SDT lies the assumption that human beings are active social agents that take in life experiences in social contexts and integrate these with their sense of self, thus making meaning and developing a more unified sense of
self-identity...An appealing corporate purpose serving a broader interest in the pursuit of a greater good may thus support individuals to identify with that purpose and integrate it with their sense of self, which then nourishes high-quality motivation. Moreover, notwithstanding the paucity of studies, motivation and engagement are sought-after qualities in organizations. They are essential to attract and retain talented workers (Delaney and Royal, 2017) and younger generations” (van Tuin, WB, Van den Broeck, & van Rhenen, 2020).

- Organizations need engaged workers...work engagement constitutes a key to competitive advantage. Engagement also issues in the debate on the future of work, which is driven by rapid technological advancements such as artificial intelligence and big data...and a growing interest in soft skills...Still, work engagement remains a concern considering its current low levels. The future of work debate occurs amidst growing political and economic complexities, fears over increasing inequalities, and unequal distribution of opportunities for learning and growth” (van Tuin, WB, Van den Broeck, & van Rhenen, 2020).

Others focus on firm-level activities:

- “While the economics literature suggests some potential explanations for the embrace of purpose, none seems to account for four closely related observations - derived from our own observations and the management literature – that seem critical:
  - First, firm purpose appears to be almost invariably directed towards a prosocial goal, i.e., it offers some benefit to society.
  - Second, employees usually care deeply about the firm’s purpose: they know it and are often passionate about it.
  - Third, this seems to hold true even for employees like accountants whose work is far removed from the activities that actually fulfill the purpose, and even when the firm’s actions may seem to be somewhat modest. This seems surprising: while a hospital nurse may derive motivation and satisfaction from the intrinsic value of her work with patients, it seems. unlikely that the hospital’s accountant will derive the same type of satisfaction from doing the accounting.
  - Fourth, firms try to show that the social engagement is ‘authentic’ in the sense that it is not done simply to make money. Motivation seems to count as much as action” (Henderson & Steen, 2015).

- “We propose that a firm’s purpose can create value – beyond its social impact – by developing or strengthening employees’ identity and reputation. We define ‘purpose’ as a concrete goal or objective for the firm that reaches beyond profit maximization; a person’s “reputation” as others’ beliefs about that person, i.e., about her type; and a person’s “identity” as her own beliefs about herself and her type” (Henderson & Steen, 2015).
  - We hypothesize that firms can become effective “carriers” of identity and reputation since both firm membership and firm actions are very visible, and thus particularly salient sources for these types of inferences...” (Henderson & Steen, 2015)
• High purpose–camaraderie organizations, includes organizations that score high on purpose and also on dimensions of workplace camaraderie (e.g., “This is a fun place to work”; “We are all in this together”; “There is a family or team feeling here”). The second type, high purpose–clarity organizations, score high on purpose and also on dimensions of management clarity (e.g., “Management makes its expectations clear”; “Management has a clear view of where the organization is going and how to get there”) (Gartenberg, Prat, & Serafeim, 2019).

• When we replace our aggregate measure of purpose with these two factors, we find that the high purpose–clarity organizations exhibit superior accounting and stock market performance... A study found that so-called “high-purpose” firms come in two forms: firms characterized by high camaraderie between workers and firms characterized by high clarity from management. Interestingly, “firms exhibiting both high purpose and clarity have systematically higher future accounting and stock market performance, even after controlling for current performance, and that this relation is driven by the perceptions of middle management and professional staff rather than senior executives or hourly or commissioned workers.” (Gartenberg, Prat, & Serafeim, 2019).

Practitioner Evidence

There is a longer tradition of examples and some early quantitative studies from practitioner sources.

Anecdotes about Unilever, Patagonia and other stalwarts of the “sustainable company” world describe their many successes, but these remain idiosyncratic and lack comparators of other companies with a strong purpose orientation – and those without such an orientation – to draw verifiable conclusions.

However, a recent McKinsey study suggests that “companies with a strong social purpose also have more engaged and ‘advocating’ employees.”

Images from (McKinsey & Company, 2020)
Opportunities for further inquiry

Academic consideration of corporate purpose is still relatively early in its development.

Definitions of corporate purpose remain contested and there are few models, so further work on both of these topics are merited.

There seems to be little doubt about the relationship of corporate purpose to Stakeholder Theory, but more work articulating this connection and how it can help companies and their leaders to succeed would be helpful.

Do purpose-driven firm outperform other firms? There is still limited quantitative research on the financial results or other effects achieved by purpose-driven companies (and compared with those who are not), presumably due to the lack of data. Most research of this kind so far seems to focus on more readily available data (such employee surveys) so perhaps this is the place to start, expanding to perception studies by customers and other key stakeholders while broader data about purpose-driven companies and their market performance is gathered.

Coordination with market-based data providers (such as various ESG services or corporate sustainability ranking and ratings) could be explored too.

As the definition sharpens and corporate purpose comes increasingly into focus, board and executive leaders could also use guidance and examples about how to develop and implement a statement of purpose. Understanding and tracking the business model transformations pursued by purpose-driven companies could shed light on the transition pathways. Differentiated research between how large corporations and small and medium-sized enterprises adopt and implement their purpose might also be revealing. This would help to lead/guide strategy, financial decisions, and how to optimize other key relationships (for example, with employees, investors or regulators).

Finally, research into the purposeful (and ancillary) social and environmental impacts of purpose-driven firms may be merited, especially in the context of increased attention to climate-related goals and social impacts.
Works Cited


