

FOR CORPORATE PURPOSE TO MATTER, YOU'VE GOT TO MEASURE IT

By Jim Hemerling, Brad White, Jon Swan, Cara Castellana Kreisman, and JB Reed

IT'S NO SURPRISE WHEN a consumer products company or an insurer declares its commitment to corporate purpose. But when the world's largest investment management firm (\$6.3 trillion in assets under management) announces that having a corporate purpose is a precondition for consideration in its portfolio, that's headline-worthy.

BlackRock Chairman and CEO Larry Fink famously noted in his annual letter to CEOs this year that a company must have a purpose beyond profit or it risks being ousted from the firm's investment portfolio. BlackRock's commitment to purpose is indeed heartening. Yet Fink is undoubtedly as much of a pragmatist as he is an idealist, and his words echo what many company leaders already know: organizational purpose is valuable for many reasons, one of which is the economic benefit. Studies show that organizations with a purpose perform better than those without one.

In-depth analysis by BrightHouse and BCG reveals a correlation between purpose and

long-term performance. That correlation exists, however, only if a company's purpose is deeply embedded and not superficial. So how can a company be sure? Some organizations put considerable effort into establishing a corporate purpose and yet are surprised when it doesn't stick.

To help companies determine if their efforts are effective, we have developed a methodology for measuring an organization's purpose. We can also disaggregate a company's purpose score to reveal the many sources of an effective purpose, identify the areas of strength, and find opportunities to better embed it.

Purpose and Performance Are Correlated

First, let's define purpose. Purpose is an organization's "why." It articulates why the company's work matters to the world, and it is the foundation on which the company's mission, vision, values, and culture are built. Purpose lies at the intersection of two fundamental questions: Who are

we—what are our authentic and distinctive strengths? What human need do we fulfill in society?

Purpose is a critical ingredient for successful change initiatives, an essential element for an engaged workforce, an enduring North Star in an era of always-on transformation. Purpose is the imperative of leaders who believe in the triple bottom line and a prime motivator of employees who seek more than a paycheck. In the digital age, purpose helps transcend virtual distances to bring people together, whether to enhance customer or employee interactions or enable collaboration. (See *Purpose with the Power to Transform Your Organization*, BCG Focus, May 2017.)

Authentic, embedded purpose is determined by four characteristics:

- **How well is it articulated?** Have leaders communicated a clear and compelling purpose statement that employees know and understand?
- **Does it inspire?** Does the company purpose resonate with employees and motivate them to take action?
- **How deeply is it integrated?** Does the purpose guide core business decisions and ways of working throughout the organization?
- **How well is it recognized?** Do employees believe that people outside the company recognize its purpose?

To demonstrate the correlation between purpose and performance, we designed a survey with 15 statements that reflect the robustness of purpose. For example: my company's purpose addresses a real need in society; my company lives its purpose with passion; and, if my company were gone tomorrow, the world would lose something meaningful. The respondents were to indicate whether (and to what extent) they agreed or disagreed with each statement.

The survey was administered to employees and managers at 25 large publicly held US

companies in the consumer, technology, and financial services industries.¹ Using participants' responses, we calculated a purpose score for each company using the net top-box method (subtract "strongly disagree" responses from "strongly agree" responses and divide the result by the total number of responses). A score of 30 or above was considered to be high among the companies surveyed; a score below 20 was low. Then we determined the long-term performance of each company, defined as the average ten-year total shareholder return (when this wasn't available, we used the average five-year TSR). (TSR reflects stock price appreciation and dividend returns.)

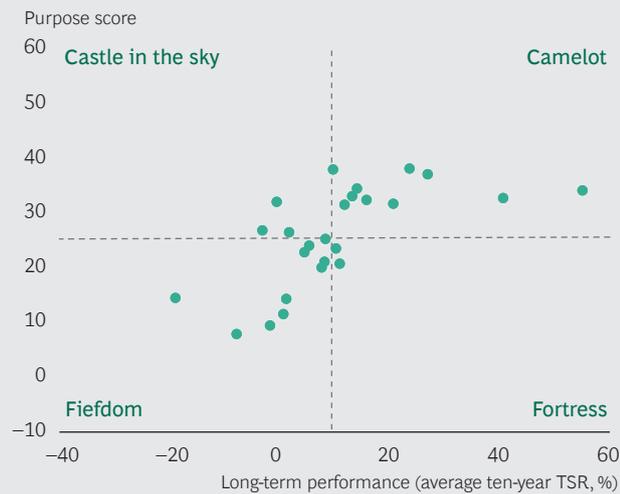
Next, we analyzed the relationship between purpose and TSR, and clear patterns emerged. (See Exhibit 1.) Many organizations with a high purpose score also had high TSR; we called these the Camelot companies.² Organizations with a low purpose score also had low to middling performance. Those companies fell into one of two groups, which we called fiefdoms (to indicate their primarily transactional relationship with employees) and fortresses (to reflect that they are strong but lack an explicit interest in society). Organizations with a high purpose score and low performance we called castle-in-the-sky companies. There weren't many of these companies, which demonstrates that without embedding purpose, long-term performance is unsustainable. Almost every company with a purpose score over 30 has a ten-year TSR above the S&P 500 median.

The correlation between purpose and performance is clear and demonstrable. But that's not all the purpose score tells us. We found that a company may have a relatively high overall score but fall short in one of the four critical characteristics. And that has implications for the stickiness of purpose as well as for long-term performance.

Uncovering the Purpose Gaps

When we disaggregate purpose scores, we often find surprising disparities among the scores for individual characteristics. Across

EXHIBIT 1 | The Camelot Matrix Reflects the Purpose-Performance Payoff



Sources: BrightHouse; BCG analysis.

Note: To measure the purpose of 25 large publicly held US companies in the consumer, technology, and financial services industries, we surveyed employees and managers in each company. We calculated the purpose scores using the net top-box method (subtract “strongly disagree” responses from “strongly agree” responses and divide the result by the total number of responses).

the board, companies’ scores for articulation are invariably higher than those for any of the other three characteristics—which is logical. It is easier to articulate a purpose than to integrate it, for example. But consider two consumer-oriented companies with high overall purpose scores: a chain restaurant and a specialty clothing manufacturer. After breaking down their overall scores, we find markedly different purpose profiles. (See Exhibit 2.)

The first company, the chain restaurant, has a spiky profile: Employees and managers gave the company high marks for articulation, but not for inspiration. The company also scored high for integration but low for recognition.

Research on this company corroborates these results. Although the company’s purpose is clearly articulated—to be a place where people want to gather—it isn’t compelling enough to inspire action throughout the company’s hundreds of restaurants. Moreover, despite the fact that the company provides generous benefits, many employees do not feel appreciated for their work. These gaps explain the relatively low inspiration score. Yet the company’s purpose is well integrated into decision making, business strategy, and ways of working.

Clearly, the company needs to address the inconsistent application of its purpose.

To boost its inspiration score, the company could develop reward and recognition programs that tie to its purpose (such as a system that awards points for behaviors that support a gathering-place atmosphere) or hold regular offsite events to create shared experiences (and thus the sense of an internal gathering place) for the team. The company could also improve the employee evaluation tool to clarify which skills and behaviors support its purpose.

In contrast, the specialty clothing manufacturer has more consistent scores across all four purpose characteristics. Clearly, this company is driven by its purpose: deepening humans’ connection to nature. Its well-articulated vision, mission, and value statements are known throughout the workforce, and the founder’s story serves as a rallying cry. At the corporate level, employees are energized and challenged; at the retail level, although their experiences vary, employees consistently report a fun and energized work environment, positive interactions with coworkers, and enthusiasm for the company’s products. Employees see that leaders’ strategic decisions—their selection of outdoor gear manufacturers,

EXHIBIT 2 | A High Overall Score Can Mask Gaps Among the Characteristics of Purpose



Source: BrightHouse-BCG 2016 survey.

wildland advocacy efforts, and community projects (such as sponsoring outings for disadvantaged kids)—are consistent with the company’s purpose.

Case in Point: Apple

As we’ve noted, a purpose is easier to articulate than it is to integrate. It is also a journey, not a destination. To appreciate what focusing on purpose can reveal about this journey, let’s take a close look at Apple, a company that is remarkable for being purpose-driven and—with a market cap surpassing \$1 trillion—for delivering long-term performance. We recently surveyed a new group of Apple employees, and again, Apple proved to be a leader in purpose—overall and in each of the four characteristics.

Overall. Apple is among the most purposeful companies we surveyed, and it was firmly in Camelot territory. One of the company’s cofounders, the visionary Steve Jobs, articulated a simple and bold purpose for the company: to make tools for the mind that advance humankind. Employees feel that their day-to-day work is meaningful and clearly see signs of the company’s commitment to its purpose in operational decision making. In addition,

they reported being buoyed by the knowledge that the public holds the company in high regard.

In contrast to Jobs’s ambitions for the company, the pace of innovation at Apple over the past several years has slowed; the iPhone continues to account for a disproportionately large chunk of the company’s revenues (62% in the first quarter of 2018). Apple’s announcement in December 2017 that Jony Ive, the company’s legendary chief design officer, will resume managerial control over design suggests that Apple wants to rediscover its purpose as a revolutionary toolmaker.

Articulation. Apple’s historically clear and compelling purpose statement was reflected in its articulation score. In 2016, CEO Tim Cook revised his earlier, rather workaday, purpose statement to something closer in spirit to his predecessor’s: “At Apple, we believe technology should lift humanity and enrich people’s lives in all the ways people want to experience it.”³

Inspiration. Apple’s high score in inspiration highlights a purpose so strong that it makes people clamor to work at the company. (Inspiration thus also bolsters the company’s recognition.)

The first-day memo that welcomes new employees captures the company's well-articulated purpose:

There's work and there's your life's work.

The kind of work that has your fingerprints all over it. The kind of work that you'd never compromise on. That you'd sacrifice a weekend for. You can do that kind of work at Apple. People don't come here to play it safe. They come here to swim in the deep end.

They want their work to add up to something.

Something big. Something that couldn't happen anywhere else.

Welcome to Apple.

Integration. Purpose remains a driving force in Apple's strategy and operational decision making, even if innovation has slowed. Although the company is arguably growing less innovative, it has demonstrated its commitment to creating tools that enrich people's lives. Apple continues to set the standard for product design, with competitors emulating the groundbreaking look, feel, and functionality of the iPhone. It has also made innovations to its device operating systems, introduced thinner, faster processing chips, and patented augmented reality technology. (The iPhone 8 was the first smartphone designed for augmented reality.)

Apple has also made waves with a series of high-profile hires. The company brought on former Yves Saint Laurent CEO Paul Deneve in 2013 to focus on special projects (specifically, leading the development of the Apple Watch), and former Burberry CEO Angela Ahrendts joined Apple in 2014 to integrate the company's physical and online stores, extending Apple's tradition of creating a seamless customer experience.

Recognition. Among the tech companies we surveyed, Apple enjoyed one of the highest recognition scores. Employees are well aware of the public's love for the company—its iconic marketing, social consciousness, and continued growth. (Apple's compound annual growth rate from 2004 through 2015 was more than 35%, although it has since plateaued.) In 2018, Forbes ranked the Apple brand as the world's most valuable for the eighth straight year. Apple has long been committed to privacy and security (as reflected in its encryption and data-storage features), and Cook recently reiterated his longstanding support for privacy amid the growing public concerns over the misuse of personal data.

WHEN COMPANIES CLEARLY articulate a purpose that inspires employees, and when they integrate it enterprise-wide so that it's visible internally and externally, the purpose can work its magic. But as we've shown, embedding a purpose in a deep and enduring way is not a one-and-done endeavor. Companies shouldn't assume their purpose is working without looking beneath the surface to understand how it is realized across the business. When they do, they can almost always identify opportunities for improvement—opportunities that help extend and enhance the purpose's impact on long-term business performance. Camelot is within reach, even if purpose is an ongoing journey.

NOTES

1. We surveyed only US companies to control for cultural differences. We chose consumer, technology, and financial services companies because third-party studies found that purpose was likely to be most widespread in the respective industries.
2. The Camelot matrix was cocreated by Joey Reiman, the founding chairman and CEO of BrightHouse, a BCG company, and Andrea Hershatter, senior associate dean at Emory University's Goizueta Business School.
3. Cadence Bambenek, "Tim Cook's Mission of Making Tech to 'Lift Humanity' Fills an Important Void Left by Steve Jobs," *BusinessInsider.com*, June 13, 2016.

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