



SUCCEED OR FAIL ON PURPOSE

RECONNECTING BUSINESS STRATEGY WITH A PURPOSE BEYOND PROFIT

Research has shown that consumers increasingly want organisations to demonstrate a purpose beyond profit. And so after decades during which the dominant dogma focused on maximising shareholder value and short-termism, many CEO's are now trying to achieve more. This article explores the business case for purpose and discusses a methodology for CEO's to activate purpose within their organisation and profit in the process.

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A recent study by The Economist Intelligence Unit (EIU) found that while senior executives recognise the importance of strategy implementation, a majority admit that their companies fall short and reflect a worrying inability to answer the central question: “Are we doing what we said we would be doing?”.

One theme that permeates much of the discussion on business strategy is short-termism – the excessive focus of decision-makers on short-term objectives at the expense of longer term strategies. Indeed, short termism has a long history, emerging empirically in the 1960’s when investors typically expected full payback on an investment within three to five years. In turn cultivating a ritual focus on short-term performance that has sustained to present day.

Today, executives face two major challenges as they rediscover the value of long-term thinking. First, the genuine need for short-term stewardship and achieving performance targets can distract managers from their long-term vision. Second, defining the long term, with most businesses considering it to be less than one year and many others less than one month (2015 Barclays Study).

Against this backdrop today’s business environment is more complex, interconnected and fast-moving than ever before. New technologies can disrupt business models overnight and prove catastrophic for incumbents because there is virtually no time to react. Accenture’s recent ‘Big Bang Disruption’ paper highlights how within 18 months of Google launching its beta app, Google Maps Navigation, the GPS device market lost as much as 85 percent of its market cap.

This fast paced and rapidly evolving environment requires executives to shift from a focus of getting things done to making an impact. Making an impact necessitates clarity of vision, thinking ahead, creativity and invention - that intricate balance between running-the-

PURPOSE DEFINED:

The reason for which something is done or created or for which something exists. A purpose is a motivating, timeless statement that outlives logos, taglines and product growth cycles. It inspires and motivates employees for a shared cause and serves as a foundation for your mission statement and other external brand messages

business and transforming-the-business. Yet lift the lid and look inside many of these enterprises and you will find information overload in the form of emails, meetings, conference calls, reports and research declaring that global employee engagements levels are just 62% (Aon 2015 Global Engagement Report). Executives are losing their sense of purpose. Indeed, a recent Harvard Business Review article revealed that fewer than 20% of managers have a strong sense of their own leadership purpose - hardly surprising an aspiration gap “are we doing what we said we would be doing?” even exists.

The key for executives is to think strategically about the challenge of juggling short and long term goals, to create a purpose centric organisation that will consistently perform at the frontier of their sector.

THE BUSINESS CASE ON PURPOSE

In a survey titled “The Business Case for Purpose”, EY’s Beacon institute declares companies guided by a purpose beyond making money — returned six times more to shareholders than explicitly profit-driven rivals. And although 90 per cent of executives surveyed said their company understood the importance of purpose, less than half thought it ran in a purpose-driven way.

Purpose is defined as the reason for which something is done or created or for which something exists. A purpose is a motivating, timeless statement that outlives logos, taglines and product growth cycles. It inspires and motivates employees for a shared cause and serves as a foundation for your mission statement and other external brand messages. Purpose should impact and be integrated into every aspect of the organisation, from supply chain management to distribution, branding, R&D, vendor management, talent management, CSR and everything else. Companies prioritizing purpose report successfully completing a major initiative in the past three years: expanding geographically, changing business models and/or operations, completing a merger or launching a new product.

Executives at prioritising companies said their corporate purpose includes:

- inspiring innovation and positive change,
- creating value for the customer,
- providing employees with a sense of meaning and fulfilment and
- positively impacting wider society/the community.

Indeed, we have seen what happens in organisations that have no overriding purpose other than profit and meeting the metric—the banks who sold unnecessary payment protection insurance or to customers that didn’t need it, the global auto manufacturers that manipulated emission readings to meet targets.

Research has shown that consumers increasingly want organisations to demonstrate a purpose beyond profit - it’s no longer enough for brands to just deliver a good product and be trustworthy. Consumers want brands to represent something bigger than themselves. According to Edelman’s Brandshare report 87% of consumers around the world say they want a “meaningful relationship” with brands. Yet, Harvard Business Review found that only 23% of consumers feel that they have one.

STRATEGY OF PURPOSE

And so after decades during which the dominant maxim focused on maximizing shareholder value and short-termism, many CEOs and their teams are now trying to achieve more. P&G has put brand purpose at the heart of the business since its inception 180 year ago. Its brand mission, “touching and improving lives”, is central to everything the company does. Southwest Airlines purpose “To connect People to what's important in their lives through friendly, reliable, and low-cost air travel”, is consistent with its choosing not to charge customers for check-in luggage and demonstrates its commitment to that purpose in its “Bags Fly Free” advertising campaign. McDonald’s mission is to be the “world’s best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile.” The derived purpose behind their mission is to “make people smile.” Google’s defined mission is to “organize the world’s information and make it universally accessible and useful.” The derived purpose behind their mission is to “share information.” These companies connect a clear sense of purpose with their audience and are turning a strategy of purpose into a billion-dollar business proposition, and profiting in the process.

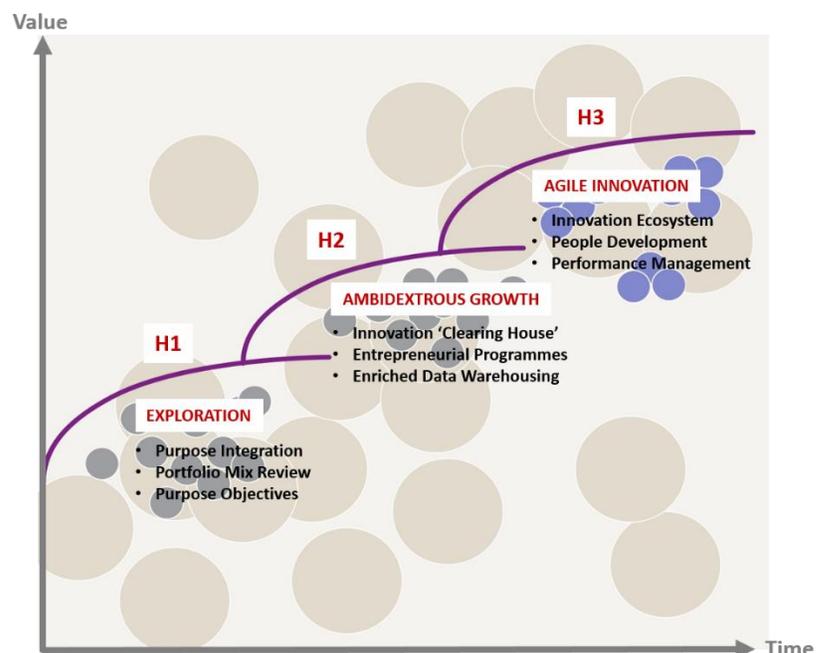
On the question of ‘why purpose’ the research is rich and underscores the benefits companies see when they make purpose a priority. When it comes to ‘how to apply purpose’, traversing the line between running-the-business and transforming-the-business over time, relatively few articles provide clear guidance and tools. To fill the vacuum executives can look to the many conventional strategy and change management frameworks, using purpose as the lens to evaluate company value chains in addressing the question: are we doing what we said we would be doing?

THREE HORIZONS OF PURPOSE

One classic strategic tool that continues to have utility and relevance is McKinsey’s ‘three horizons’ framework. The basic premise of the tool is that as companies mature, they tend to focus on optimizing and day-to-day managing of business and may lose sight of new opportunities for growth.

The framework is adapted and drawn upon here to illustrate how companies can harness the power of purpose both as the antidote to short-termism and as a lens to view the bigger picture in opening up creative horizons.

Three Horizons of Purpose



Adapted from McKinsey Three Horizons

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Horizon 1 – Exploration – is about extending and defending the core business. The focus here is on business model exploitation, operational efficiency and portfolio exploration.

In adapting the model for purpose three tightly integrated building blocks are introduced:

- **Purpose Integration** – At the core of every strong brand is a higher purpose that explains why the company exists beyond profits and instils strategic clarity - start by assessing your purpose story against the entire company value chain and mapping its importance against relevant touchpoints including brand messaging, sales, marketing, supply chain, customer service etc., to see how well the company delivers on its purpose. This process will identify disconnects between ‘what we say we do’ (purpose) and ‘what we do’ (internal and external client experience). It can also highlight opportunities for process innovations, such as a more refined customer transaction path, sustainability initiatives and resource management improvements.
- **Portfolio Review** – By focusing innovation across the three horizons, purpose encourages companies to look for products, solutions and innovations that will deliver durable value and returns. Being true to your purpose implies making choices about which areas of your portfolio mix and business align with this ultimate aim and which do not. It may result in decisions to discontinue, divest or develop certain aspects of the portfolio and business. Here leaders need to also ask: Do we have the right mix of skills and expertise to manage a portfolio of innovations allied to our purpose?
- **Purpose Objectives** – after completing the initial value chain and portfolio analysis, the next step is to translate this information into objectives that can be distilled across the company (and stakeholders), and be integrated into the business strategy, brand messaging and campaigns. Here leaders need to ask ‘how do we measure our results, or success?’.

Horizon 2 – Ambidextrous Growth - to successfully exploit the present while simultaneously exploring future opportunities. The focus here is on enterprise wide innovation, support structures for entrepreneurial employees and allied with enriched data mining tools to drive innovation.

In adapting the model for purpose three tightly integrated building blocks are introduced:

- **Innovation ‘Clearing House’** – to promote and nurture employee entrepreneurialism companies need to help employees learn how to generate ideas that are ‘on purpose’ and allied to the business strategy. The provision of a ‘clearing house’, or structured filtering system, facilitates the swift validation, clearing and culling of ideas. Systems can be augmented with supports in areas of mentoring, R&D, funding and commercialisation.
- **Entrepreneurial Programmes** – with many studies indicating that companies need to look no further than their own employees for innovative ideas - companies need to consider a managed process for idea generation and to build a culture of experimentation that is on purpose. Such programmes may allow a percentage of employee time to work on pet projects, have established timelines and metrics for idea generation, incorporate incentives for risk taking – all augmented with a tolerance for failure if an idea doesn’t work out.

- **Enriched Data Warehousing** – with millions of records being stored by companies in structured, unstructured (emails, documents, images) and streaming formats – companies need to embark on enriched data warehousing solutions with simulation capabilities to manage these large data volumes, providing users with fast access to important information to help them gain insight and drive innovation in line with purpose objectives.

Horizon 3 – Agile Innovation - companies that place innovation at the heart of their purpose, learn from experience, failure and pivot quickly to correct course. The focus here is on collaborative innovation that involves outside partners, investing in people capability and performance management approaches that are forward looking and accelerate business performance.

In adapting the model three tightly integrated building blocks are introduced:

- **Innovation Ecosystem** – the need for an ambitious and collaborative approach to bring in and develop ideas from outside the organization – companies need to establish network ecosystems with suppliers, partners, investors et al to accelerate success in developing and implementing new ideas. This provides companies with a much larger pool of knowledge, the ability to fill capability gaps and partnerships that can be extremely valuable in innovation generation while reducing resource and capital investment.
- **People Development** – the need to engage and motivate employees with an entrepreneurial edge to ensure the company is not drained of its most promising employees who leave to pursue their ideas – companies must continually invest in bespoke employee development plans, to provide modern technology tools that enable employees to perform any function at any time, from anywhere and to have generous rewards and recognition for successful innovation.
- **Performance Management** – to abandon conventional annual reviews that were based on prior year results and linked to high levels of attrition – companies need to embark on modern performance management systems that are based on clear goals aligned to organisational objectives and to shift from an annual review to continual discussions and real-time feedback.

In summary, putting purpose at the heart of business strategy allows companies to make a meaningful impact and profit in the process. In a world of increasingly rapid change, new thinking – purpose – is required to address a long-standing preoccupation of short-termism to seize longer term opportunities. Companies need to ask: Why do we exist beyond making money for shareholders? Why should people connect with our brand? Why should people choose to buy from us? Why should they work for us?

Only authentic and compelling answers to these kinds of questions provide the means to achieve long-term success. The trouble is few organizations understand how to apply purpose, at least in any consistent manner. This article explored one methodology into just how that can be done, to move purpose from the realms of marketing puffery to being an embedded feature of the way the organization is run.

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