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ORGANIZATIONAL CULTURE

Why Are We Here?

If you want employees who are more engaged and productive, give them a purpose—one concretely tied to your customers and your strategy.

OVER THE PAST DECADE, "purpose" has become a management watchword. Since 2010 it has appeared in the titles of more than 400 new business and leadership books and thousands of articles. And no wonder: Many people—not just Millennials—want to work for organizations whose missions and business philosophies resonate with them intellectually and emotionally.

Yet many enterprises struggle to define, much less live, their purpose. Read a typical purpose statement and you may find generic goals such as "being the company of choice" and "maximizing shareholder value." Statements like those miss the heart of what drives a successful business. They don't speak to what the firm actually does or who its customers are. Other statements include high-minded but vague aspirations—for example, "inspiring people to put their best selves forward every day" and "spreading the power of optimism." These, too, fail to answer the questions *What is your reason for existing? What value are you giving your customers?* and *Why is your firm uniquely capable of providing it?*

A truly powerful purpose statement is one that achieves two objectives: clearly articulating strategic goals and motivating your workforce. These objectives are important individually and synergistically. When your employees understand and embrace your organization's purpose, they're inspired to do work that not only is good—and sometimes great—but also delivers on your stated aims.

Indeed, it's hard to imagine how your employees can perform if they don't understand your company's purpose. How can they come to work every day ready to further the business if they don't know what your organization is trying to accomplish and how their jobs support those goals? Yet in a recent survey of more than 540 employees worldwide conducted by PwC's strategy consulting business, Strategy&, only 28% of respondents reported feeling fully connected to their company's purpose. Just 39% said they could clearly see the value they create, a mere 22% agreed that their jobs allow them to fully leverage their strengths, and only 34% thought they strongly contribute to their company's success. More than half weren't even "somewhat" motivated, passionate, or excited about their jobs.

All this adds up to a crisis of purpose: Workers feel lost. And over time, a lack of direction saps motivation; people begin backing away from the challenges required to achieve the firm's articulated goals.

The good news is that purpose holds great potential to inspire. In the survey just cited, employees considered it to be more than twice as important, on average, as traditional motivators such as compensation and career advancement. At companies that have clearly defined and communicated

IDEA IN BRIEF

THE PROBLEM
Many employees feel disconnected from their organization's purpose. In a recent survey, just 39% said they could clearly see the value they create. More than half weren't even "somewhat" motivated, passionate, or excited about their jobs.

THE SOLUTION
Organizations need a clearly articulated purpose statement that answers these questions: What is your reason for existing? What value are you giving your customers? Why is your firm uniquely capable of providing it?

HOW TO IMPLEMENT IT
Companies must attract the right people, in the right roles; break down silos to facilitate cross-functional collaboration; invest behind the firm's purpose; and make sure leaders personify that purpose through their words and actions.

A great purpose statement is of limited use—and might be counterproductive—if your organization cannot execute on it.

how they create value, 63% of employees say they're motivated, versus 31% at other companies; 65% say they're passionate about their work, versus 32% at other companies. And these purpose-driven organizations reap substantial benefits: More than 90% of them deliver growth and profits at or above the industry average, according to Strategy& research and analyses.

To ensure that your firm's purpose can create strategic clarity and motivate employees, you must ask this fundamental question: Does it speak to your unique value? From there, you'll need to ensure that your structure, systems, and resourcing equip your employees to bring it to life.

In our work as consultants, educators, advisers, and board members, we've encountered numerous companies wrestling with how to effectively articulate their purpose. In many cases either their efforts are disconnected from the two key objectives or they target just one—they seek to motivate employees *or* translate strategy for external audiences. We often ask senior leaders: Can employees three, four, and five layers away from the C-suite say what your company does that adds unique value? Can they explain how that relates to what they do? Some of the most successful private-equity investors we know pursue those questions in the hallways and on the shop floor as part of their due diligence when considering whether to buy a firm. As they've found, and as we've observed ourselves, the lack of clarity can be striking.

In what follows, we explore the elements of a well-articulated purpose and the actions needed to deliver on it.

Your Purpose Is Your Promise to Customers

In an ideal world, every organization would create, communicate, and live a purpose firmly grounded in its customers. Businesses are born and survive past start-up because they uniquely meet some set of customer needs. They succeed and grow when their purpose remains fresh and when they connect it to their employees' work.

One of the challenges that many companies face in distilling their purpose for their employees is the variety of "statements" that they issue (see the sidebar "The Statement Debate"). In our view, the fewer statements the better. Leaders need to clearly communicate why the company exists (what value it creates and for whom) in a manner that is easy for employees to find, understand, and reference at work.

In evaluating whether your firm has effectively articulated its reason for being, you will want to consider the following questions:

- Is our stated purpose *relevant* to a set of customers or users with the potential to buy our products or services? Is it clear whose lives or businesses we are improving in some way, large or small?
- Is our purpose *unique?* What hole would be left in the marketplace if we disappeared?
- Are we the *rightful owner* of our purpose? Do we have or can we build the capabilities to excel at it? Can we fulfill it more effectively and efficiently than our competitors?

Let's examine how some companies have addressed those questions in purpose statements that fuel their success.

IKEA, the world's largest furniture manufacturer and retailer, has a clear message about the value it offers. It promises "to create a better everyday life for the many people"—as distinct from the affluent few—by "offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them." The company makes good on that promise by developing keen insights into the ways customers live, translating those insights into products, designing attractive furniture that ships and sells in flat boxes, and using a highly efficient, scalable manufacturing and supply chain.

IKEA's purpose has long been evident: Founder Ingvar Kamprad got into the home-furnishings business expressly to serve people of limited means whose only way to acquire furniture was to make or inherit it. He stayed true to that aim even when early competitors, upset about IKEA's low prices, organized a suppliers' boycott of the company. Rather than charge his customers more, Kamprad added the necessary capabilities, bringing design in-house and turning to new sources—Eastern European countries—for manufacturing.

Henry Schein, a global provider of products and services for medical and dental practitioners, has a similarly well-defined purpose: "to provide innovative, integrated health care products and services, and to be trusted advisors and consultants to our customers—enabling them to deliver the best quality patient care and enhance their practice management efficiency and profitability." To that end, the company

focuses on building "relationships deeply rooted in trust and reliability." It made an explicit choice to go beyond selling products and offer solutions to customers, thereby carving out a valuable and unique position. This meant not only matching competitors' abilities to provide and service large equipment but adding practice-management software and digital technologies that help clients improve their operations. Additionally, the firm trains its salespeople in educating and advising practitioners on equipment financing, marketing and communications tools, regulatory compliance, and other matters.

Lego, the world's largest toy company, doesn't just sell toys; it strives for "the development of children's creativity through play and learning." To fulfill that promise, it designs compelling sets of blocks that can be assembled in myriad ways. Just as critically, it fosters online and in-person communities of enthusiasts of all ages, in order to inspire ongoing engagement, learning, creativity, and innovation. It does this through initiatives such as the Ambassador Network, a communication and support platform for adult fans; Lego Ideas, a website that lets users submit ideas for new Lego sets; galleries featuring users' creations; and Lego Life, a social media network for kids. Over the past 20 years the number of known Lego user groups has blossomed from 11 to 328, with active members totaling in the hundreds of thousands. These users have uploaded photos, drawings, and instructions for more than 450,000 of their own Lego creations. All this fan activity represents a vast library of ideas available free to anyone, and it's an invaluable component in Lego's fulfillment of its purpose.

Building an Organization That Delivers on Your Purpose

Clearly articulating your purpose is only the beginning, of course. A great purpose statement is of limited use—and might be counterproductive—if your organization cannot execute on it. Employees who see a powerful purpose statement but face organizational roadblocks will be unable to achieve the priorities you've laid out. When that happens, your purpose statement will only generate frustration and cynicism and decrease motivation among your workforce. And your customers will ultimately take notice.

To ensure execution of your purpose, you must:

Be a magnet for the right talent. You will need the right people, in the right roles, to achieve your organizational goals and competitive distinctiveness. Current models of talent development often aspire to build greatness everywhere. Frankly, that's unrealistic. Companies need to make choices in the war for talent. No organization can afford to hire top people across the board—and even if one could, it would struggle to attract and retain individuals whose skills do not align with the company's purpose and who will therefore not be motivated by the environment and the available career options.

What are the few capabilities at which your organization must excel to fulfill its purpose? Those will involve highly specific skills and should drive decisions about which jobs require top talent. Don't fall into the trap of hoping that functional generalists will bring expertise in the areas that

The Statement Debate

Within companies, people may disagree about the differences between purpose statements, mission statements, vision statements, and the like. If you examine corporate websites, you'll find little uniformity regarding which of the various terms are used, and how. The multiplicity of constructs only adds to the challenge of writing a strong purpose statement. We've seen too many discussions about purpose devolve into semantic arguments or result in a proliferation of disparate messages. Rather than endlessly debate labels or the need for different types of statements, you should provide your employees, customers, and investors with clarity on three things:

1 **Why does your organization exist?** This is the place to start, and it boils down to a simple issue: Whose needs are you here to meet, and how are you uniquely equipped to do that? For firms, that means asking "What value do we bring to customers that motivates them to pay us?" For nonprofits, the question is "What social value do we provide that entitles us to receive donations or tax dollars or both?"

2 **How does your organization do business, and what principles guide its decisions?** It's important to consider all your core stakeholders, whether or not they are identified in your purpose statement. These might include the local community in which you operate, state regulators, and suppliers, to name just a few. Given these stakeholders, what values should guide your employees? What type of work environment, customer experiences, and other interactions do you seek to create as you do business each day, and how do you help your employees understand the ways those connect to and further your purpose?

3 **Where does your company aspire to be in X years?** As you work hard today, what are you striving to create in the long term? To keep growing in scale and impact, strong leaders help their firms articulate and aim for something more. In our experience, the best firms are very specific about future performance goals, the time frame for achieving them, and the metrics with which they will be judged.

are critical for your purpose. Also take into account the key technologies you use; your people must mesh with your information and operating systems. And remember that less-vital roles, and roles for which your firm doesn't need year-round support, may be better filled by high-quality outside contractors than by in-house personnel.

Consider Apple, which grew to prominence by distinguishing itself through pathbreaking, user-friendly design. To achieve that, former CEO Steve Jobs elevated the entire design team, bringing in superior talent to help shape a wide array of products and services, including its electronic devices, software user interfaces, and the retail store experience. Apple even created a seat at the management table for a chief design officer—quite unusual for a technology company. In doing so, it underscored for all employees the value and interconnectedness of the design team's activities. The company was able to attract and retain not only world-class product designers but also top designers from fashion and retail because Jobs understood and signaled the vital role design played in carrying out Apple's purpose.

Connect with intention across boundaries. Once you have the right people with the right skills, you should configure your organization to allow them to accomplish everything your purpose demands. Nearly every important initiative, whether it's revenue growth, cost reduction, or new-product innovation, requires insights and actions from across the organization. So you need to break down your silos, be they functional, geographic, or customer-based.

The most popular "human technology" for gathering an organization's best thinking and expertise on a complex topic is the cross-functional team. But most organizations' experience with such teams has been checkered at best. Too often the teams get inadequate time and involvement from their members or fail to receive the financial resources and senior-management attention needed to excel.

To avoid those pitfalls, you can go in one of two ways. You can improve the mechanisms that help cross-functional teams work effectively. That means freeing members from some duties in their "home" departments and assigning a team's work product to a senior executive whose performance metrics are designed to ensure its success. Or you can change your organizational structure, assembling people with diverse functional skills into permanent cross-functional units. For example, innovation teams often include individuals from research, engineering, marketing, and finance.

Here, too, IKEA is a case in point. In many companies, products are designed by people who have no direct responsibility for managing expenses. Once created, the designs go to the supply chain team or the finance team or both for cost estimates, and a marketing or sales team then determines pricing. The process generally involves many iterative rounds to revisit design assumptions. Things work differently at IKEA: Employees from design, finance, manufacturing, and the broader supply chain work together to create products that are optimized for cost from the beginning. For example, designers continually work on packaging to shave down materials, maximize the pieces that can fit in a container, and keep packages to a manageable weight and size for customers to carry home. This cross-functional integration gives the firm advanced design capabilities at a highly competitive cost—key factors in differentiating the company and enabling it to achieve its purpose.

Invest behind your purpose. Nothing is more demotivating for employees than working on something that has been identified as critical but is not receiving adequate time, attention, or funding. In areas that matter most to your purpose, your goal should not be to achieve functional excellence or even to meet external marketplace benchmarks on items such as staffing and market spend, but to invest more than your competitors so that you can deliver the value you promise. You can be thrifty elsewhere.

Just as acquiring the right talent involves difficult choices, budgeting for purpose means making hard decisions about allocations. If you aren't investing disproportionately in the capabilities your purpose requires, your purpose statement is what economists call "cheap talk."

CEMEX, the Mexico-based cement and concrete company, set a goal of becoming its customers' core partner on building projects from start to finish, providing support and advice on everything from selecting optimal sites to procuring permits to managing large construction jobs. To that end, it has invested heavily in its sales force, whose members are charged with developing strong relationships with senior officials at municipal clients. The company also began hiring a new kind of executive, recruiting individuals who meet with community leaders and, throughout the construction process, share their input with others in the organization, enabling it to prepare highly differentiated solutions for customers. To afford those investments, CEMEX doubled down on operational efficiency and instituted a companywide program to reduce expenses—for example, by using alternative energy sources such as municipal waste.

Make sure your leaders model your purpose. Strong leaders personify their organization's purpose every day

through their words and actions, whether that involves communicating priorities to the workforce or visibly spending time with employees and customers.

Take Danaher, a global science and technology innovator. To fulfill its commitment to developing technologies that solve customers' most complex challenges, it relies on the Danaher Business System, which drives continuous improvement across product and company boundaries. The top 20 Danaher executives routinely get together to discuss useful tools and techniques, learning everything they can from one another. Former CEO Larry Culp instituted a biannual *kaizen* activity in which he and each of his direct reports would spend a week working at a struggling plant. All senior executives regularly offer instruction on the tools in which they are certified, often in parts of the company that don't report directly to them; having leaders spend time facilitating teams outside their own group sends a powerful message.

Your workforce will closely attend to whether leaders follow through on the tough decisions required to bring your purpose to life. Will they shed a business that is not in line with the company's reason for existing, as Philips did with the 2013 divestment of its consumer electronics division, and as Novartis recently did in spinning off Alcon eye care?

In a 2014 interview in which he discussed Lego's troubles some years earlier, then-CEO Jørgen Vig Knudstorp acknowledged that the toy company had "lost its way in terms of understanding its own self-identity." He described how he made it go back to basics, starting with "that fundamental question: why do you exist?" and moving to "only doing the things where we had unique advantage." To restore its position in the industry, the company embarked on a significant turnaround program, which included divesting or discontinuing products that were not in sync with its core purpose. For example, it sold four theme parks and its video-game development division.

RETHINKING PURPOSE CAN be immeasurably beneficial for the synergistic goals of strategic clarity and employee motivation. A company's board has an increasingly important role to play in holding management accountable for that effort. In fact, with CEO tenure averaging only about five years, boards have not only more longitudinal power but, some would argue, a fiduciary responsibility to attend to a company's purpose and its ability to live it. Board members should be asking the management team tough questions, which might include:

- If we were to put our purpose statement alongside a competitor's, could our employees identify which one was ours?
- If we polled employees, how many could say what our purpose is?
- Do our employees have the resources required to deliver on our promises to customers?

Although those questions are quite intuitive, we know from experience that many senior executives are not adequately addressing them—either because they don't fully appreciate the importance of purpose in strategic planning, because they are too focused on short-term financial performance, or because addressing these questions shines a light on fundamental corporate vulnerabilities. Boards, therefore, must play a pivotal role in keeping management attuned to their organization's raison d'être.

In "The Error at the Heart of Corporate Leadership" (HBR, May–June 2017), Joseph Bower and Lynn Paine wrote, "A company's health—not its shareholders' wealth—should be the primary concern of those who manage corporations." We would suggest that your company's long-term health rests on a firm understanding of who your customers are and how you provide unique value to them. Defining, communicating, and fulfilling that purpose is the job of an organization's leaders—and worthy of board oversight, as the Business Roundtable's new "Statement on the Purpose of a Corporation" makes clear.

As much as you may try to motivate employees with slogans or extrinsic rewards, you won't achieve excellence if your people don't know why they are coming to work every day *at your firm*. The clearer you can be about what value your company creates and for whom, the greater your ability to inspire your workers. And the more you align the right talent, operating model, and financial resources to support your purpose, the better able employees will be to deliver on it.

Purpose is the key to motivation—and motivated employees are the key to realizing your purpose. Get this symbiotic relationship right, and your organization will thrive.

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