

## Having a clear purpose drives performance

**A corporate purpose beyond profit maximization is associated with better firm performance *under certain conditions*, according to recent research by Wharton professor Claudine Gartenberg.**



December 1, 2020

Does corporate purpose influence firm performance? More than two decades ago, the scholars Christopher A. Bartlett and Sumantra Ghoshal argued that purpose, not strategy, structure or systems, was the essential precursor to effective management. Since then, the public discourse on purpose has gone up substantially. And while there's a growing body of research on related topics — from CSR to ESG — when it comes to corporate purpose itself,

apart from theoretical discussions and case studies, there is very little empirical progress. Here, [Claudine Gartenberg](#), assistant professor of management at the Wharton School, discusses why that is, and shares her findings from one of the largest studies done on the topic.

### **Why is studying purpose so hard?**

Because it's such an intangible idea. It can mean so many different things to different people. This gives rise to a lot of twaddle, where companies just say whatever they want, to position themselves under this catch-all banner of purpose. With so much cheap talk out there, it makes it hard for us academics to study this stuff.

### **So how do you define it?**

We define it as: "A set of beliefs about the meaning of a firm's work beyond quantitative measures of financial performance."

### **There's no mention of CSR in that.**

Our definition focuses on the strength of the beliefs that a person may hold, not the specific content of one's "reason for being" (the dictionary definition of purpose). So, we deliberately don't get into social responsibility or terms like "prosocial" because, like I said before, those terms mean different things to different people.

However, we did consider whether a strong focus on profit maximization could qualify as a legitimate corporate purpose and we concluded that would not be consistent with the generally understood interpretation of purpose as "a concrete goal that reaches beyond profit maximization" (in the words of Harvard's Rebecca Henderson). So we do specify that in our definition.

That idea even percolates into economics. In the words of Keynes, "If human nature felt no satisfaction (profit apart) in constructing a factory, a railway, a mine or a farm, there might not be much investment merely as a result of cold calculation." In other words, we have to feel some meaning — profit apart — in what we are doing to truly feel motivated in our endeavors.

### **What else is in your definition?**

The word "meaning" is important. As the social scientist and Holocaust survivor Viktor Frankl

noted in his writings, we are motivated not so much by money or material objects as by a fundamental need for meaning in our lives, which may come from family, religion, our vocation or something else that acts as the modal force of who we are as individuals. Now, taking that insight and expanding it to companies in the shared sense, the notion of purpose becomes: How do we share this sense of meaning? What is the endeavor that we're doing together?

### **What other problems did you encounter?**

Besides being hard to define, purpose is hard to measure. We chose to measure purpose in terms of the meaning that employees derive from their job, as evidenced by statements such as, "My work has special meaning: this is not just a job," "When I look at what we accomplish, I feel a sense of pride" and "I'm proud to tell others I work here." So, in companies where employees, on average, express a strong sense of meaning and impact from their work, we would say those are companies that have been successful in implementing purpose credibly.

### **Tell us more about the large study you did with Columbia's Andrea Prat and Harvard's George Serafeim.**

We gathered data on almost half a million employees from 500 companies. Using the measure I just described, we found that high purpose organizations come in two flavors: those with high purpose-camaraderie ("I find meaning in my work but also a sense of family") and those with high purpose-clarity ("I find meaning in my work but also I believe that management has a clear view of where the organization is going and I have a clear view of what I need to do to get there").

### **And how does that affect firm performance?**

Purpose alone has zero relation to performance, nor does purpose-camaraderie. However, purpose-clarity is highly predictive of financial performance, corresponding to about a +4% ROA, about +0.7% annual return on enterprise value and about +7% annual stock returns. Those are robust results that are even more surprising when you consider that this better financial performance is correlated to a purpose unconnected with profit maximization.

The other noteworthy aspect is that this better performance is driven almost entirely by the middle ranks of employees.

### **Why them?**

What's interesting is that people often treat middle managers as the dispensable layer of the organization. This may be a contracting issue. Those at the very top are incentivized with high compensation tied to stock options. Those at the very bottom have simpler tasks that are spelled out in legally enforceable hourly contracts. Not so for those in the middle, who are responsible for implementing the strategy, managing up, laterally and down to make it happen, and they do it all in the absence of extrinsic rewards and incentives, like for those at the top, and without it being specified in formal contracts, like for those at the bottom. They work for meaning, without an obvious contracting relationship. So, having high purpose-clarity among this cohort makes them more valuable than you think, especially if you realize they are driving firm performance.

## **MORE INFO**

"[Corporate Purpose and Financial Performance](#)" by Claudine Gartenberg, Andrea Prat and George Serafeim is published in *Organization Science* 30, no. 1 (2019).

Claudine Gartenberg presented this study as part of the virtual conference "[Can Purpose Deliver Better Corporate Governance?](#)" organized by the [IESE Center for Corporate Governance](#) and the European Corporate Governance Institute (ECGI), with support from the Social Trends Institute and the Strategic Management Society's Annual Conference. The sessions from the [conference on purpose and social governance](#) are available online (12 videos).

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*This article forms part of the magazine [IESE Business School Insight 157](#).*

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