

"An important and timely book on how to lead with purpose."

—PAUL POLMAN, CEO, UNILEVER

THE
PURPOSE
REVOLUTION

HOW LEADERS
CREATE **ENGAGEMENT** AND
COMPETITIVE ADVANTAGE
IN AN AGE OF **SOCIAL GOOD**

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INTRODUCTION

Are You Ready for the Purpose Revolution?

THERE IS A REVOLUTION HAPPENING IN BUSINESS RIGHT NOW, and for you as a leader it is one of the greatest opportunities of our generation. It is a movement that is already well under way. It's global, and those leaders who take it seriously will be able to engage employees and customers, leading to sustainable success for years to come. Those who ignore it will become irrelevant. This book is a guide to thriving in what we call the *purpose revolution*.

The revolution is a shift among employees, customers, and investors who expect businesses to meet their self-oriented needs while being a force for good in society and the environment. In the case of employees, it also constitutes a growing expectation that work becomes a place of fulfillment, where one can make a difference in the world while also finding personal meaning and satisfaction.

This revolution is in part a reaction to a shift that occurred in the 1970s, as companies began putting greater emphasis on shareholder return as the prime directive, with customers, employees, communities, and other stakeholders falling by the wayside. This trend flourished throughout the '80s, '90s, and early 2000s on the assumption that because stockholders "own" the companies in which they invest, they should have the final say and that it's a company's duty to do all that it can to support shareholder value. Today wise companies are realizing that their actions affect many more people, directly and indirectly,

than just their short- or long-term investors. More importantly, these companies are seeing that employees, customers, and investors are expecting something different.

WHAT IS PURPOSE ANYWAY?

The word *purpose* has started showing up with great frequency in corporate circles around the world. For example, in a 2016 report on the global state of purpose, Ernst & Young noted that “public discourse about ‘corporate/organizational purpose’ has increased fivefold since 1994, now trending at an exponential rate that surpasses the rate of public discourse about sustainability.”¹ *Purpose* can be defined for both the individual and the organization. For the individual employee or worker, purpose is the belief that work serves to make a difference in a way that is meaningful to that person. It is the part of work that is not simply about earning a salary or having status but a sense that the work itself has meaning, with an underlying feeling that the job serves society or their personal values in a positive way.

The Japanese have a word for this sense of purpose, *ikigai*, which is one’s “reason for being,” similar to the French phrase *raison d’être*. Everyone, according to the Japanese, has *ikigai*. Finding it requires a deep and often lengthy search of self. Such a search is regarded as very important because it is believed that discovery of one’s *ikigai* brings satisfaction and meaning to life. Examples include work, hobbies, and raising children. One of our executive-coaching clients in Japan tells us that there is a growing reimagining of the meaning of work occurring in that culture. We believe that this emerging desire to find *ikigai* at work is global.

For organizations we define *purpose* as an aspirational reason for being that is about making life better now and in the future for all stakeholders, especially customers, society, and the planet. A *purposeful organization* is one that has built its entire enterprise around this core reason for existence. Though the organization may manufacture products, provide services, and generate profits, its entire

system revolves around this desire to make life better for customers, employees, society, and the environment now and in the future.

Though profits are a prime focus for most companies, almost all profits are the result of fulfilling a purpose that serves customers. Yet many businesses today are disconnected from that sense of purpose, leaving profits as the end goal rather than as a measure of fulfilling the needs of those they serve.

The Purpose Gap

There is little doubt that the emerging employee, customer, and investor is increasingly driven by a desire for purpose, and we demonstrate that with facts in the pages that follow. But in this new world of social good, there is a gap between these emerging expectations and what business is delivering. We call this the *purpose gap*. In business *gap* means opportunity: if people want something and organizations are not delivering it, those organizations that close the gap between expectations and delivery will succeed.

Most companies are currently failing at providing purpose to their employees, customers, and investors, or they are at least suboptimizing its potential. Research shows that almost 70 percent of employees say the company they work for is mostly interested in profits and serving its own needs rather than those of its customers or society. Compare this statistic to the 86 percent of employees who “believe it’s important that their own employer is responsible to society and the environment, with over half (55 percent) feeling it is very important,”² and the 60 percent who want their work to have purpose, and it’s obvious to see that a meaningful gap exists.

Furthermore in a large study of CEOs, the majority said they thought that activating purpose would drive higher employee satisfaction (89 percent), the company’s ability to transform (84 percent), and the ability to increase customer loyalty (80 percent). Yet only about 45 percent said they were doing well at embedding purpose in their companies.³ They struggle to communicate how the jobs they provide offer purpose and meaning beyond monetary or transactional value.

Job seekers looking for purpose are not given clear connections to how their work contributes to something more substantial or how it has a positive impact on others. Business leaders are expected to play a central role in connecting work to purpose, but it has been shown that less than one-third help their direct reports connect their own purpose to the work of the company.⁴

This gap represents a major opportunity. The fact that talent wants purpose—but most employees perceive companies as primarily being interested in their own welfare rather than that of the customer or society—means that those organizations that find a way to truly connect to purpose will gain a meaningful advantage. Whether you're a CEO, a midlevel manager, an HR recruiter, or a small-business owner, understanding and building a purpose-focused team will lead to higher long-term performance throughout your organization.

Purpose and the War for Talent

As we interviewed leaders while writing this book, they repeatedly told us that when they visit college campuses the reputation of their organization for doing good is a major driver for top talent. Andrew Harding, chief executive of the Chartered Institute of Management Accountants, commented on the changing expectations of the new workforce: “Now conversations with undergraduates are ‘I want to work in a real business, I want to see the value of that business and I want to be able to feel I am part of delivering that value.’ This is a very, very fundamental mind-set shift that plays alongside your organizational purpose and agenda.”⁵

The purpose-centered employee is transforming the rules about why we work and the role of business in our lives and society. Thirty-seven percent of the global workforce is now purpose oriented, and the number is growing.⁶ This transformation—happening from the inside out—is based on personal values and is driving three big shifts in the workplace.

One shift is from working for money to *having a job with purpose*, a reorientation to one's relationship to the job, moving away from

work as merely a means to make a living toward its being an expression of personal values. Purpose and meaning are the main themes. The second shift is an expectation that the workplace will enrich the lives of its employees, providing opportunities for people to contribute beyond the job itself—*an opportunity to make a difference at work*, either inside or outside the company. Enrichment, growth, and contribution are paramount. The third shift is a redefinition of the role of business in society: *the company needs to make the world a better place*. Together these transformations are shaping new relationships among employees, companies, and society.

Offering purpose in a job is no longer a nice-to-have benefit to lure top talent but now the required ante to play in the high-stakes game of talent acquisition. Drew Bonfiglio, cofounder and managing partner of Emzingo, a development leadership company that works with young talent, has firsthand experience with the new purpose-driven employee. He told us: “You have to make purpose intrinsic to the company culture.”

Jean Bennington Sweeney, chief sustainability officer at 3M, echoed the same sentiment about its workforce: “Our employees want a job with purpose; they need to see a purpose bigger than themselves when they come into work.”

The job of leaders in the age of social good is to *activate purpose*, meaning they help bring out the latent good intentions and aspirations of employees to make a difference in the lives of others, society, and the environment and then translate those objectives into viable strategies and actions across the organization. But they don't stop there. In addition to embedding purpose throughout the organization, they must also find consistent ways to focus customers and investors on the company's authentic story of doing good.

Your Customers Want Purpose

Though employees have been the fastest to embrace the purpose revolution, customers are quickly coming around. The situation for customers is more complicated than for employees because who you

work for is a binary choice, whereas consumers may use hundreds of products and services during a given year. Customers' reasons for buying products from specific companies are complex, including product effectiveness, style, social status, cost, value, and speed. Whether the product is also good for the world or provides a sense of purpose is one of numerous factors considered.

That said, 60 percent of customers today report making socially conscious buying decisions; 83 percent of customers rate that buying from a green company is important to them.⁷ A 2015 report showed that "66 percent of global consumers say they're willing to pay more for sustainable brands."⁸ Heath Shackleford, founder and kick-starter of Good.Must.Grow., noted that "consumers are aligning their purchasing habits with their passion and purpose and more aggressively supporting socially responsible businesses."

The emerging global customer wants what we call *and*. They want the product to meet their self-oriented needs at a fair value *and* they want to purchase "without guilt," leveraging a better world through their buying habits. Yet there are barriers to acting on those desires. According to a 2015 global survey of human aspirations by GlobeScan and BBMG, more than half of global customers say it matters to them whether the companies they buy from are socially responsible and green, yet customers say they are routinely confused about whether the brands they buy are "good."⁹

In other words, there is a similar purpose gap for customers who increasingly want to "buy with purpose" but feel they don't have the information they need to choose wisely. Given that confusion it should come as little surprise that consumers also say they wouldn't care if 70 to 75 percent of the brands in the world disappeared—a sign that customers believe that most brands are not acting responsibly or sustainably.¹⁰ Consumers want to buy from companies they believe in. Those companies that can tell an authentic story of purpose are winning customers, but few companies are doing this.

The purpose-centered customer is highly connected, living in a world of mobile and social media where information moves at

the speed of light, creating a “new world of peer-to-peer commerce where *People Rule*.”¹¹ Customers around the globe have instant access to information about a company and the power to express, in that moment, their brand experience to a receptive worldwide audience.

The 2015 global survey identified an emerging group that it has named “Aspirationals” as the largest and most significant consumer group in the world.¹² This group differs from “Advocates,” who are focused most on buying fewer things and living as green a lifestyle as possible. According to the report, Aspirationals matter because they are the first to unite materialism, sustainability values, and cultural influence, making them an essential audience to build markets, influence cultural norms, and shape behavior change at scale. This group likes to buy, but they want to buy with purpose. Most Aspirationals—70 percent—said that companies should be accountable for “ensuring their products and operations do not harm the environment.”

An international study by UK-based Unilever reveals that one-third of consumers (33 percent) are now choosing to buy from brands they believe are doing social or environmental good.¹³ The study suggests that an estimated €966 billion opportunity exists for brands that make their sustainability credentials clear.

The study asked 20,000 adults from five countries how their sustainability concerns affect their choices in stores and at home. Crucially, it then mapped their claims against real purchasing decisions, giving a more accurate picture than ever before of what people are actually buying—and why. More than one in five (21 percent) of the people surveyed said they would actively choose brands if they made their sustainability credentials clearer on their packaging and in their marketing.

The scale of this opportunity is further borne out by Unilever’s own financial performance. Of its hundreds of brands, those such as Dove, Hellmann’s, and Ben & Jerry’s that have integrated sustainability into both their purpose and their products delivered nearly half the

company's global growth in 2015. Collectively, they are also growing 30 percent faster than the rest of the business.

The study also suggests that the trend for purpose-led purchasing is greater among consumers in emerging economies than in developed markets. While 53 percent of shoppers in the United Kingdom and 78 percent in the United States say that they feel better when they buy products that are sustainably produced, that number rises to 88 percent in India and 85 percent in both Brazil and Turkey.

So, while it is fair to say that employees *are in*, we might say customers *want in*; that is, the trend toward customers' wanting to leverage good with their purchases is growing—and fast—all around the globe. Those businesses that can make it easy for people to “choose good” will have a true advantage. The final group you need to consider, however, is the investor.

Investors: Do They Really Care about Purpose?

While employees are showing that they care about purpose with the choices they make and customers are showing that they want to buy with purpose, it is important to ask if investors are really interested in doing good. Early signs suggest that investors are starting to get serious about purpose, such as impact investing, where people make choices to invest in businesses that have social impact as a major focus of their reason for existence. For example, in 2007 approximately 11 percent of US-managed assets (\$2.71 trillion) were invested in socially responsible investing (SRI) products—an 18 percent increase from the previous decade.¹⁴ The US SIF Foundation reported that in just three years, from 2012 to 2015, assets in sustainable and responsible mutual funds grew from \$60.1 billion to \$85.4 billion.¹⁵

In a 2015 survey of investors and executives across 113 countries, MIT Sloan in partnership with the Boston Consulting Group reported that 73 percent of investors said that sustainability performance mattered more than it did three years earlier.¹⁶ Major pension funds have also increasingly started using their weight to push companies to address problems such as climate change. Risk mitigation issues

around environment and society are also becoming a major focus of large investors. Yet research shows that while most investors want to leverage good with their investment choices, making a solid return on those investments is still the critical driver.

The investor role in the purpose revolution has two elements adding to its force, potentially making it ultimately even more powerful than consumers or employees. One element is the data: business performance numbers increasingly show that companies that are run sustainably *outperform* nonsustainable companies. Second, investors are realizing that there is more inherent risk in nonsustainable companies compared with those with sustainable practices. In short, sustainably run companies are a better investment than nonsustainable companies. Together the combined energy underlying the investor role—social and moral values, better performance, and lower risk—is powering a push toward purpose.

Socially and environmentally minded investors are now having an impact on business practices as well. It has been reported that the number of shareholder proposals filed on environmental and social issues has increased by 50 percent in the past 10 years.¹⁷ In another study George Serafeim and Calvert Research and Management found that more than 80 percent of the withdrawal agreements negotiated with companies on environmental issues from 2008 to 2010 had been fully or substantially implemented.¹⁸

A number of SRI firms and public pension funds filed shareholder proposals regarding the environmental impact of fracking with Chevron, ExxonMobil, EQT Corporation, EOG Resources, Pioneer Natural Resources, and Occidental Petroleum Corporation. And they got results. For example, ExxonMobil agreed to initiate reporting on risk management across 26 categories; EQT agreed to measure and disclose methane leakage and report progress on reducing risks to ground and surface water; Pioneer Natural Resources agreed to environmental, social, and governance (ESG) oversight of its board charter and increased disclosures on water sourcing, recycling, and air emissions management; and Occidental Petroleum agreed to report

on its recycling, water consumption, waste management, and toxic chemical reduction progress.¹⁹

Employees are already in, customers want in, and investors are thinking about coming in. The investor component of the revolution may clearly be lagging the other two, but there is a good chance that once it gains momentum investors will join employees and customers to become an awesome force that will hit businesses at all levels. As one mutual fund manager told an audience at a large Sustainable Brands conference in San Diego in 2016, “When investors get religion on this issue—and they will—companies are going to be scrambling to catch up.”

REVOLUTIONS CREATE WINNERS AND LOSERS

Human history has always been shaped by revolutions. Whether the agricultural revolution, the Enlightenment, the industrial revolution, violent revolutions that swept in democracy in places like France and the United States, or the revolutions in China and Russia that birthed socialism and communism, human progress is often punctuated by major shifts. Our business and social lives are equally shaped by revolutions, in both popular thought and technology. Looking back only 50 years, it's hard to believe how drastically the most integral aspects of our lives have changed, whether considering food, entertainment, communications, social interaction, or commerce.

When revolutions occur, there are almost always winners and losers. Consider one of the greatest business revolutions of the past 50 years: the quality revolution. In the 1960s management thinkers W. Edwards Deming and Joseph Juran espoused ideas about how to manage quality by looking at processes rather than people and by creating a corporate culture that put improvement at the center of the enterprise. Their ideas got little traction in the United State and Europe but found a more receptive audience in Japan.

By the time 1970 rolled around, the quality revolution had taken hold, and Japanese products were both relatively inexpensive and the highest-quality manufactured goods in the world. Products once considered “cheap” were now at the top of *Consumer Reports* assessments of reliability and quality. By 1975 everyone knew that the best cars in the world were manufactured in Japan, and companies such as Toyota and Honda were making the lion’s share of the auto profits. North American auto manufacturers were the losers in that revolution, though ultimately it was a big win for consumers. The failure to quickly respond to that revolution nearly put the largest automakers in the world out of business.

Revolutions are funny things because we often don’t know how important they are until we’ve been left behind by them. Imagine the first humans who settled down to grow crops instead of continuing to live as hunters and gatherers. It’s unlikely that anyone at that time foresaw the radical change that was occurring and how it would affect human society: a decrease in infant mortality rates, exponential population growth, increased levels of organized violence, the birth of new primitive technologies, the promulgation of written language and communication, and in general a new way of life, from top to bottom.

The same is true of business revolutions. When Japanese cars were considered “cheap imports” in North America, no one suspected that the quality revolution would put companies like General Motors (GM) and Chrysler against the ropes. Remember the video store Blockbuster? It passed on an opportunity to purchase Netflix in part because its leaders didn’t understand, or were unwilling to believe, the level of disruption that was about to take place in accessing and watching movies at home. Business revolutions spell death for some companies, but they also provide a climate in which other companies grow and thrive.

Human beings also have a strong tendency to underestimate rates of change. Most of the time, we get the general direction correct but we aren’t ready for how rapidly a trend takes off once the trajectory is set.

Take the adoption of cell phones. In 1980 AT&T commissioned a study to estimate cell phone usage by the year 2000, concluding that there would be 900,000 cell phone users by that time.²⁰ By 2000 there were 109 million cell phone connections—120 times greater than estimated. Today there are 7.6 billion mobile subscriptions globally, with the number of subscriptions exceeding the population in some countries.²¹

Green energy provides another example of our tendency to underestimate adoption curves. In 2000 it was estimated that by 2010 worldwide electricity generated by wind would be 30 gigawatts. Come 2014, that figure was exceeded by 120 times. We see comparable trends and predictions in solar energy, as well. In 2012 the US Energy Information Administration reported that solar was projected to reach 24 gigawatts of capacity by 2035. During the first three months of 2017, the Federal Energy Regulatory Commission stated that utility-scale solar was already at 25.84 gigawatts, which doesn't even include small-scale systems such as rooftop solar.²²

Similar stories can be told, from predictions of the growth of the automobile after the release of Ford's Model T to how many personal computers would be in use today. The commonality among all of these predictive misses is that we typically think of change as linear when it tends to be geometric. As Malcolm Gladwell profoundly showed in his book *The Tipping Point: How Little Things Can Make a Big Difference*, social phenomena start slowly at first, but when they reach the point of acceleration they take off. It is somewhat like a rocket ship slowly lifting off its launch platform but soon accelerating at rapid speed.

Purpose Can Make You Relevant in an Age of Disruption

Among the biggest changes in business over the past 15 years are both the rate of disruption as well as the commoditization of almost everything. Almost any business model can be disrupted and quite quickly. Think of what ride sharing has done to the taxi business and what “robo advisers” may soon do to financial planners. Alongside the potential for disruption is a relentless focus on price, where customers often desert brands in favor of less expensive alternatives. All of this

raises the question: *Where does customer and employee loyalty come from when disruption is the norm and almost everything becomes a commodity?*

We think that connecting people to your purpose may potentially be one of the few sustainable competitive advantages available to businesses. As we show in this book, when customers connect to your purpose they are more loyal, even when your competitors cut prices; employees will stay and work hard, even when you face disruption; and your existing customers, as well as employees, will be enthusiastic ambassadors for your brand.

CLOSING THE PURPOSE GAP: LEADING IN AN AGE OF SOCIAL GOOD

Most leaders sense that purpose and social good are becoming critical drivers of business success, yet most companies are failing at purpose. Their efforts to close the gap posed by the emerging values and desires of the global population are simply insufficient. The purpose gap may be a threat to some companies, but it is a tremendous opportunity for others. Those companies and leaders who truly bridge the divide will become the purpose icons of our generation, in much the same way that Honda, Nordstrom, Southwest Airlines, and FedEx became the icons of the service quality revolution. Addressing the gap between what talent and customers want and how most companies are currently perceived will prove to be the most imperative business challenge of the twenty-first century.

Sustainable Brands is the leading community of interest on this issue. For more than 10 years, the company has been conducting conferences around the world, focused on how companies can prosper by creating brands with purpose. The company's founder and CEO, KoAnn Vikoren Skrzyniarz, told us that the window is going to close for companies that want to truly differentiate just by focusing on purpose: "There will always be opportunities for companies to go deeper; but if you want to differentiate just by having a purpose, it

will soon be too late. Once having purpose is the lowest common denominator, you'll have to work a good deal harder."

The real question is whether your company will close the gap or be swallowed up by it. Will you personally be a leader who fosters a highly engaged, purpose-driven team? The chapters that follow provide an in-depth guide to thriving in the age of social good. Some readers may find that their companies' practices have already positioned their organizations well, but likely many more will find that they are woefully behind the purpose curve. Fear not; we're here to help you navigate this new world. Let's begin!