

Focus Themes: Purpose

PURPOSE AS THE EXPRESSION OF A STRATEGIC PARADIGM SHIFT



Purpose seems to be turning into the new management buzzword of our times. The number of publications on the topic is exploding. Companies are searching for their purpose and are creating new job titles like “Head of Purpose”. Consulting firms are adapting their range of services. However, purpose is much more than just a fashion trend.

Epoch-defining societal challenges such as climate change, generational shifts, social justice, integration and migration and the transformation of mobility and energy are throwing up new requirements in terms of companies' licence to operate. Society is putting increasing pressure on companies, as they are increasingly expected to accept responsibility and make a contribution towards solving these issues. Governments seem to have lost their ability to steer society in the right direction. More and more focus is being placed on the responsibility corporations have as participants in society. Pure capitalism is becoming a thing of the past. The focus on shareholder value has disappeared. Business has to and will change. There is a reason why the German Zukunftsinstitut (Future Institute) is talking about “Big Business Change” (Zukunftsinstitut: Zukunftsreport 2020), a fundamental transformation in all industrial sectors, products and business models. And the term “purpose” is being used as an expression of this “Big Business Change”.

This new societal discourse is reflected in the CEO Letters of Larry Fink, CEO of the world's largest asset management company Blackrock. Since 2018, he has been calling for a long-term and holistic understanding of the contribution companies make towards society, the environment and the economy. Especially when it comes to climate change, he wants companies to take specific action. “The importance of serving stakeholders and embracing purpose is becoming increasingly central to the way that companies understand their role in society.” * And the American Business Roundtable headed up by Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co, emphasised last year that business should promote human wellbeing. They even talk about an organisation that would bring together almost 200 of the largest American corporations.

* www.blackrock.com/uk/individual/larry-fink-ceo-letter

Environmental, Social and Governance (ESG) ratings have been taken up by analysts. Interest in sustainability and therefore pressure on corporations to find answers is growing exponentially. If the fact that millennials will make up 75 percent of the workforce by 2025 is taken into account, it becomes increasingly clear that it is not only external stakeholders who are involved here – purpose is also becoming a decisive factor in the competition to find and keep talent.

Purpose brings together origins, business model and the societal contribution a company makes

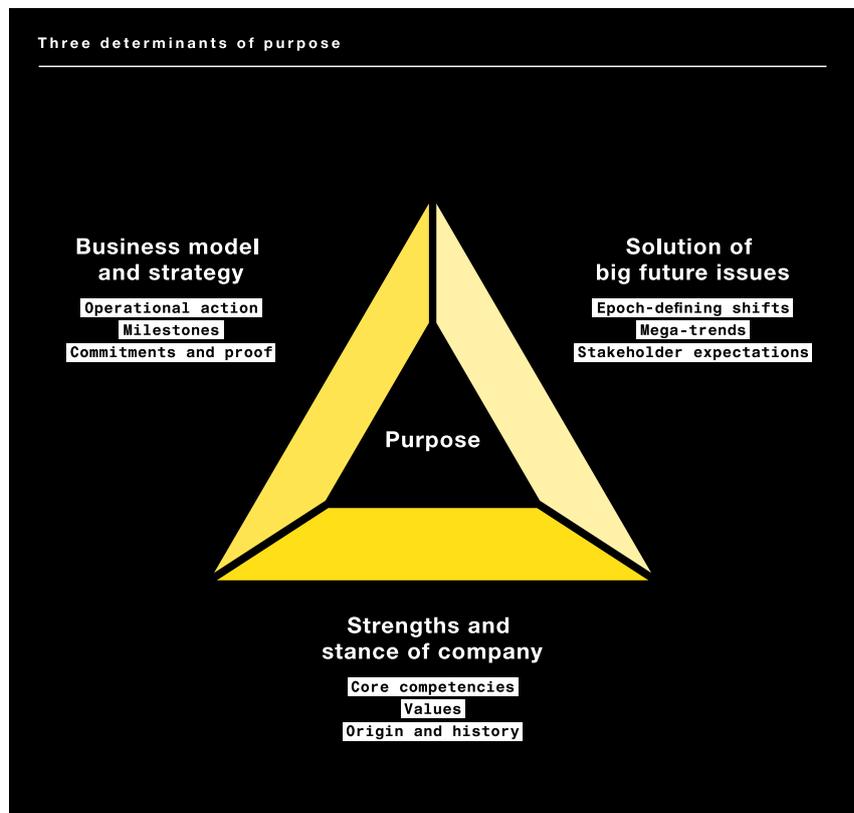
An organisation's purpose reflects its history and strengths and, more than anything else, the character of the company. What is the essence of the company? Why was it founded? What can this company do better than others? This is a process of research that delves deep into the organisation and requires dialogue with management and staff.

A company's purpose also requires an examination of its business model. How does the company earn its money? What do its actual business activities look like? How do business operations have to change in order to give real benefit to society? What steps need to be taken to give credibility to the corporate purpose? This requires uncompromising clarity with regard to the business model and intensive dialogue with Supervisory Boards, Executive Boards and management.

And purpose also takes a look at the wider world. Why does the company exist? Why is it necessary? What benefit does it bring? Purpose describes the impact organisations have on clients, society, the environment, employees, suppliers and shareholders. It also examines the negative consequences the company's business operations can have on the environment and society. Wanting to be part of the solution also means asking how the company is part of the problem and to address this openly. The purpose can therefore only be defined from an external perspective, from considering global megatrends and challenges of the future as well as from the expectations coming from all stakeholders. In light of the fundamental changes in society, government and the environment, companies are faced with substantially new and extensive requirements. To define a purpose means to engage with these expectations and foster an honest dialogue with all relevant stakeholders.

Purpose is more than a vision or a sustainability strategy

To understand and develop purpose as it has been described here is a massively different task than the processes of target future picture, mission and vision in the past. It is perfectly possible to define a vision and a mission solely from the perspective of the company, its strategy and its financial targets. External target groups, such as the customers, may then play a role as addressees. However, they do not decisively co-define and co-determine the process as is the case with "purpose". Their expectations are only relevant in terms of the particular products and services offered by the company, not however with regard to the contribution the company makes towards solving societal, political and environmental issues.



Purpose is also a very different concept from the Corporate Responsibility strategies of the past, which aimed to do good more or less in parallel with business operations and to give something back to society. The age of classical sustainability communications is over. Sustainability is fundamental to corporate strategy. Purpose targets the core of what the company does and redefines it against the backdrop of making a very real contribution towards solving society's problems. Thus, it is essential that purpose not be a matter of paying lip service to it or using it as a mere marketing statement. There is a demand for proof of concrete results, above and beyond marketing and communications. A company's purpose is its declaration of commitment and at the same time its offer to cooperate with government and society.

Purpose defines the new mandate for companies to change

If the fundamental challenges and accompanying expectations are taken seriously, the purpose almost always triggers a mandate for change in the company: Business models have to be reviewed and redefined, structures and processes changed and realigned, the mindset of the company adjusted. The purpose changes the business strategy.

At the same time, a credible purpose drives change within the company. It motivates managers and staff and provides a framework and context for why the necessary modifications have to be made. It is easier to explain decisions and greater commitment to driving change can be generated. Or, looking at it through the other end of the telescope: A purpose is needed whenever the company needs to develop.

However, a new purpose can only develop the power to effect change if it is communicated effectively to stakeholders. This can only happen in a new dialogue between the internal and external corporate public relations, between corporate management and staff, between society, government and the capital market. To achieve this, new mechanisms and methods are required. One-to-one dialogue with critical stakeholders that ends in an agreement is insufficient in the face of the epoch-defining pressure to change and underestimates the new powerful voice of society. Management of conflict is becoming the core task of corporations.

Conclusion

The absolute and sincere desire on the part of a company and its Executive Board to provide benefit to society is essential, while at the same time there can be no fear of making changes to the business model. This benefit must be not only communicated but also expressly proven. This requires continuous and sustainable engagement and dialogue with all stakeholders. Stance and strategy are very closely interwoven. Taken seriously, purpose is a strategic paradigm shift, not lip-service. The discourse around this will mark the 2020s and shape a "Big Business Change" in all corporations.

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Deekeling Arndt Advisors in Communications GmbH Düsseldorf - Frankfurt - Berlin
A Schanzenstraße 56 - 40549 Düsseldorf T +49 211 51332-0 M mail@deekeling-arndt.com W www.deekeling-arndt.com