Combining Purpose With Profits

Julian Birkinshaw, Nicolai J. Foss and Siegwart Lindenberg*

2 Exhibits (at the end)

1. About the Research
2. Pursuing Pro-Social Goals in an Operating Unit

*Julian Birkinshaw is a professor of strategy and entrepreneurship at London Business School. Nicolai J. Foss is a professor of strategy and organization at Copenhagen Business School and the Norwegian School of Economics in Bergen, Norway. Siegwart Lindenberg is a professor of cognitive sociology at the University of Groningen and Tilburg University, both in the Netherlands. Comment on this article at http://sloanreview.mit.edu/x/reprint number to be added later, or contact the authors at smrfeedback@mit.edu.

A sense of purpose that transcends making money can motivate employees. But to sustain both a sense of purpose and a solid level of profitability over time, companies need to pay attention to several fundamental organizing principles.
It’s an old idea: If you want to build a company that truly motivates its employees, it has to have a sense of purpose. Purpose, according to Ratan Tata, the recently retired CEO of the Tata Group, is “a spiritual and moral call to action; it is about what a person or company stands for.” When such a purpose exists, it provides employees with a clear sense of direction, helps them prioritize and inspires them to go the extra mile -- which, the argument goes, should ultimately be good for profit.

Purpose, by its nature, transcends making money: It is about people coming together to do something they believe in and allowing profit to follow as a consequence, rather than as an end in itself. But there is a paradox here. It is hard to fulfill a purpose in the absence of money, so purpose-driven organizations either have to rely on donations or benefactors to sustain themselves (as most charities and aid organizations do), or they have to become self-funding through their own profits.

Is it possible for a company to strive for a higher purpose while also delivering solid profits? Some have argued that pursuing goals other than making money means, by definition, spending on things that aren’t profit-maximizing. Others have countered that by investing in worthwhile causes the company is doing something intrinsically valuable that will generate a long-term payoff to all parties.

But, ultimately, this is a well-rehearsed and tired debate, with plenty of evidence available to support both sides of the argument. The important question is not whether there is some tension between purpose and profits; there is. Instead, the question to ask is: How the tension between purpose and profits can best be managed? What structures does a company need to put in place to ensure that its higher-order purpose isn’t squeezed out by short-term profit-seeking? How can executives ensure that employees keep these dual goals in mind on a day-to-day basis? And how can this balance be achieved on a long-term basis? These are the questions we address in this article.
The article is based on research that we have conducted over the last five years looking at the organizational challenges involved in managing two different objectives at the same time. (See “About the Research.”) We have discovered that there are a few fundamental organizing principles that help a company to sustain its sense of purpose over time while still achieving a solid level of profitability. These principles, in turn, are built on a perspective known as goal-framing theory. Goal-framing theory provides a deep understanding of why pursuing what we call “pro-social” goals – which we define as goals that involve working towards common causes that go beyond just making money and staying in business -- creates a stronger motivational basis for working in organizations than pursuing self-interest goals that emphasize financial gain or personal enjoyment.

The article is structured as follows: We provide a brief overview of goal-framing theory, then we describe three companies that have sustained a balance over time between purpose and profits. Based on this combination of theory and evidence, we then describe some practical ways of applying these insights inside your own company.

How Company Goals Influence Employee Behavior

To understand how a company’s goals influence its performance, we need to understand what motivates employees’ behavior on a day-to-day basis. That individuals are motivated to do their own work well is important, but a company with a higher-order purpose is typically asking them to also take a broader view and to influence their joint effort toward common goals. Collaborative effort of this type involves a lot more than just doing a task well; it also takes understanding of and commitment to the common goal and it takes the flexibility to use one’s wits, especially when new situations arise. For this kind of work, employees must be motivated in a special way.

There are numerous, partly overlapping, views on what drives motivation in companies. However, most have little to say about the links between company goals and individual motivations -- that is, what motivates employees to behave in ways that help – or don’t help -- the company or group to which they belong. A less-well known but highly relevant view that speaks directly to these issues is goal-framing theory.
Goal-framing theory starts from the idea that, at any moment, people have a major area of concern that makes them focus on specific aspects of their work and neglect others. When employees are concerned about feeling good, they will look out for the fun parts of their job, for the one activity in their job that really excites them, and they will neglect things that feel boring or a bit uncertain. This is called a *hedonic* goal. When the major concern is income and/or promotion, an employee will focus on opportunities to earn extra money or make a good impression that helps raise the odds of getting promoted and will neglect other aspects of the job. This is called a *gain* goal. And when the major concern is to realize a common goal, such as getting a product launched on a tight timeline or delivering on a fundraising campaign, employees will attend mainly to that goal, and will downplay concerns for relaxation, making more money or getting a better position. This is called a *pro-social* goal. The essence of a pro-social goal is that it motivates the employee to ask, “What should I do to make *us* succeed?” rather than “What should *I* do to get ahead?” or “What will be the most enjoyable thing to do?”

What factors influence the relative strength of these three types of goals? Obviously, there are innate differences between individuals that play a part, but a much stronger influence is typically the immediate cues employees receive from those around them in their working environment and from their superiors. If all the talk is about the size of the annual bonus, the gain goal will immediately dominate others. But many companies want their employees to help the organization realize common goals, rather than to prioritize personal gain or fun on the job. So the challenge becomes how to make such common goals more salient and meaningful to employees across the company. To a large extent this is a matter of trying to convey the purpose of the company to employees, so they can see how their efforts fit with those of other employees so that the overall purpose can be fulfilled. This works best of all if the purpose is pro-social, because that provides a very direct link from the company goals to a pro-social orientation of the employees.

Unfortunately, and this is a key point, the motivation to pursue pro-social goals is inherently fragile. It takes a great deal of effort to establish and maintain such goals, and they are easily displaced by gain or hedonic goals. There is no simple solution, because the gain and hedonic goals cannot be abandoned entirely. Working toward company goals without being
rewarded and without feeling good is not a stable long-term proposition. So there is a delicate balance needed here, and goal-framing theory provides some valuable insights into how it might be maintained.⁸

As a first guideline, the company’s statements should prioritize pro-social goals ahead of financial goals. For example, if a medical products company is seeking to “put patients first” then this goal should be center-stage in all external and internal communications. Financial goals, in contrast, should be approached in an oblique or indirect way; they should be seen as the natural consequence of achieving the pro-social goals, rather than as an end in themselves. If financial goals are given too much prominence, they will typically displace the pro-social goals.⁹

Second, the fragility of pro-social goals means that they need reinforcing and supporting on a consistent and regular basis, through incentive and reward systems, through informal conversations and discussions, through symbolic management and through formal structures that we call counterweights.¹⁰ For example, individual rewards should be linked to the performance of the group, operating unit or company as a whole, rather than just to individual outcomes. And managers should seek to acknowledge and highlight behaviors that support the pro-social goals of the company by, for example, building them into annual reviews and publicly celebrating and rewarding employees who successfully strive to meet the company’s pro-social goals.¹¹ Without such reinforcement, employees will see a disconnect between the demands of their immediate job and the espoused goals of the company, and the pro-social goals will also end up being displaced in favor of gain or hedonic goals.

**Enduring Pro-Social Management Models**

Goal-framing theory provides a useful new way of looking at the challenges companies face in aligning behavior around goals. In our research, we found many companies with a clear sense of purpose, typically expressed as a set of pro-social goals, such as putting employees first or investing in local communities. But, in the majority of cases, there was no discernible impact on the way employees actually behaved. Sometimes the pro-social goal was just a set of words—in effect, a veneer on top of a gain-driven company.¹²
Sometimes the pro-social goal had been genuine at some point in the company’s history, but over time its meaning had atrophied as other goals became more salient. However, we also found a small number of highly successful companies whose pro-social goals seemed genuine. (See “About the Research” for a list of the 15 companies interviewed). In talking to employees at multiple levels, and in looking at the way they behaved and the things they valued, we could see evidence that the company’s pro-social goals were influencing employee motivation and behavior. We focus on three cases here.

**Handelsbanken.** In the crisis-ridden banking industry, Svenska Handelsbanken AB, established in Stockholm in 1871, stands out as an extraordinarily resilient and successful operation. Handelsbanken was the only bank to steer a course through the Swedish financial crisis in the early 1990s without government help, and it has sailed through the last five years of turbulence with uninterrupted growth in equity per share and with top ratings for customer satisfaction.

How has Handelsbanken been so consistently successful? Its pro-social goal is not very original: It is simply to be customer-focused. As the company website declares: “Since the early 1970s, Handelsbanken’s organization has been strongly decentralized and operations are always based on the customer's requirements. This means that all business decisions regarding individual customers’ relationships with the Bank are taken close to the customer.”

But rather than just talk about customer-focus, Handelsbanken has built a management model that supports its goals. First, the bank’s structure is highly decentralized. Managers of individual branches have much more discretion regarding loans and employee salaries than is customary in the industry. This reduces the cost of information transfer and supports rapid responsiveness to changing market conditions. The company was also a pioneer of the “beyond budgeting” movement: It has moved away from setting budgets on a top-down basis, and instead it expects branch managers to set their own targets.13
There is no emphasis on maximizing returns or shareholder returns; instead, the goals are simply to track a moving target by always having higher customer satisfaction and profitability than a weighted average of the competition. These goals are then linked to a combined profit-sharing and employee stock ownership scheme called Oktogonen. Profits are shared equally across the organization (rather than on an individual basis) and when the bank’s after-tax return on equity is higher than the industry average, shares are issued to all employees. This model has been employed since the 1970s, so that today employees own more than 40% of the total equity, and many long-term employees have become millionaires. The equal profit-sharing scheme is an excellent example of how financial rewards can strengthen a pro-social goal rather than displace it.

**Tata Group.** One of India’s biggest conglomerates, Tata Group, had revenues of more than $90 billion in 2012, spread over such sectors as IT services, steel, cars, chemicals and hotels. The group was founded in 1868 by Jamsetji Tata and it has always been strongly influenced by the Tata family. A holding company, Tata Sons, holds 66% of the equity capital in family-founded trusts. Below that sit various Tata operating companies, some wholly-owned by Tata Sons, others public companies where Tata Sons has a minority stake.

Tata’s pro-social goal is “to improve the quality of life for the communities we serve.” As stated on the corporate website, “the community is not just another stakeholder in business, but is in fact the very purpose of its existence.” As with Handelsbanken, this is not a highly original statement of purpose, but it is backed up with supporting mechanisms that ensure it is taken seriously.

The charitable trusts that own 66% of Tata Sons spend their profits on charitable causes, for example, in clean water delivery, literacy and healthcare. The Tata operating companies are then expected to put significant investments into the local communities they serve. For 2009, the total social expenditure across the group was estimated at $159 million.
The Tata Group also wields influence over the operating companies in a number of informal ways. Group functions provide training and education and quality management services, and Tata Sons’ executives sit on the boards of the operating companies. The Tata Group is also highly visible in its commitment to community development, for example, in its launch of the Nano car and the low-cost Swach water purifier.

**HCL Technologies.** HCL was a second-tier player in the highly competitive IT services sector when Vineet Nayar became CEO in 2005. Nayar decided to differentiate HCL through the quality of its management—by putting his employees first and by enabling them to create value in their relationships with customers. He embarked on a major transformation program, first of all pushing everyone to accept that the company was underperforming and needed to change, and then putting in place a series of specific initiatives that were all designed to help employees service their clients better. For example, he pushed all managers to place the results of their 360-degree appraisals online (to make them more accountable to their employees), and he created a “service ticket” scheme, so that if an employee wasn’t happy about something he could open a ticket to get the attention of the relevant manager. Nayar tracked the number of tickets opened, and the speed with which they were closed, as an indicator of employee well-being.

As these initiatives began to take hold, Nayar captured his philosophy with the slogan “employees first, customers second” which he announced—with some trepidation—at the annual global customer meeting. Further initiatives were added, such as the employee passion indicator count (EPIC) survey, which was used to identify the key “passions” of employees and to steer them towards jobs where these could be put to use.

Six years later, HCL had recorded an industry-leading compound annual growth rate of 24%. In our discussions with HCL employees, it was clear that many (though admittedly not all) had bought into Nayar’s “employees first” model, and saw the company as a highly attractive employer. Turnover rates were lower than in competitor companies, and the highest ratings on the EPIC survey were around collaboration and client service.
Making Pro-Social Goals Pay

So what are the insights from these three brief case studies? The basic premise is that what motivates employees consistently to realize company goals also makes economic sense. The companies discussed are in very different industries, and the length of time they have been pursuing their pro-social goals varies enormously. But nonetheless there are some underlying principles here, and from goal-framing theory more generally, that can be applied in many other settings.

**Pro-social goals don’t have to be elaborate or novel.** The first point is that there are only a limited number of pro-social goals that a company can meaningfully target. For Handelsbanken, it is all about the customer, for Tata it is about the communities in which they operate, and for HCL Technologies the pro-social goal is employee well-being. Other common pro-social goals involve a focus on employee safety (mining company Rio Tinto) or on the natural environment (consumer products company Seventh Generation). There is no evidence that companies have thrived because they dreamt up a highly unique pro-social goal that nobody else had thought of. Rather, the evidence suggests the successful companies are the ones that were able to translate pedestrian-sounding pro-social goals into consistent and committed action.

**Pro-social goals need supporting systems if they are to stick.** We know that people take cues from those around them, but people are fickle and easily confused, and the gain and hedonic goals can quickly drive out pro-social goals. So a key insight is that these three companies have built a wealth of supporting systems to help them operationalize their pro-social goals at different levels, and thereby make them stick. At Handelsbanken, the supporting systems are relatively formal: the highly decentralized branch structure, the removal of budgets and the equal profit sharing system. At Tata, the supporting systems are more informal and are reinforced through the visible initiatives and pronouncements of the top executives. At HCL Technologies, it is a combination of the CEO’s personal promotion of the “employees first” agenda, plus a set of innovative practices designed to reinforce it. And in the first two organizations, in particular, there has been consistency in these systems over many years, which further reinforces their value. Such consistency matters because it signals that management is sincere.
Support systems are needed to reinforce goals. One important form of supporting system is to incorporate tangible manifestations of the company’s pro-social goals into the day-to-day work of employees. For example, IBM sends future managers to work with NGOs on development projects in Nigeria, Ghana, Tanzania and the Philippines to put substance behind its Corporate Citizen’s Core program.  

We have also seen health-care companies bring patients into their offices to talk about how the company’s products have helped them. The world leader in insulin production, Novo Nordisk, requires that all new employees spend a day with a diabetes patient. For employees working on the front lines of their company, such systems are unnecessary, but many back-office employees lose touch with what their company’s raison d’etre is, so this is a good way of making it visible.

Another important supporting system is to find ways of measuring progress on pro-social goals and to report them publicly. For companies who see customer focus as their goal, the Net Promoter Score has become a popular measure; for those who seek to put their employees first, engagement scores are often used; and for those who focus on safety, lost time injuries are typically a preferred metric. Unfortunately, there aren’t yet established measures for community or environmental pro-social goals, though some companies are experimenting with them; one example is The Guardian newspaper’s annual sustainability report. But regardless of the measure used, what matters is that the information is shared in a transparent and consistent way with the relevant stakeholders. HCL’s initiative to share feedback on how well managers are doing for all employees to see is a good example.

Pro-social goals need a “counterweight” to endure. Goal-framing theory shows how easy it is for pro-social goals to be driven out by gain or hedonic goals, so even with the types of supporting systems described above it is quite common to see executives bowing to short-term financial pressures. Thus, a key factor in creating enduring pro-social goals is a “counterweight,” by which we mean any institutional mechanism that exists to enforce a continued focus on a nonfinancial goal. In Handelsbanken, the Oktogonen profit-sharing system is the counterweight. In Tata group, it is the family-endowed trusts. At U.K. retailer John Lewis, the counterweight is the employee council, which represents the employees as ultimate owners of the company. At The Guardian newspaper, the counterweight is the editor, who is appointed by the ultimate owner of the newspaper (the Scott Trust) and is free
to exercise editorial control over content, regardless of the company’s commercial priorities. The counterweight holds the power of the executive office in check and ensures that the long-term interests of the organization are not sacrificed for short-term benefits. The key is that the counterweight has real influence; it must hold the leader to account.

Alignment works in an oblique not linear way. In most companies, there is an implicit belief that all activities should be aligned in a linear and logical way, from a clear endpoint back to the starting point. The language used—from cascading goals to key performance indicators—is all designed to reinforce this notion of alignment. But goal-framing theory suggests that the most successful companies are balancing multiple objectives (pro-social goals, gain goals, hedonic goals) that are not entirely compatible with one another, which makes a simple linear approach very hard to sustain.

So an important mental leap to make here is the notion that long-term profits are often best achieved obliquely, or indirectly. As Ratan Tata, former CEO of the Tata Group has observed, “Profits are like happiness in that they are a byproduct of other things. Companies need sustainability strategies that recognize you can make money by doing good things rather than the other way around.” In the best-selling business book, Built to Last, Jim Collins and Jerry Porras argued that their “visionary” companies with pro-social goals had better long-term profitability than their benchmark competitors, which typically opted for narrower financial goals.

What does this mean in practical terms? If you want your employees to align around a pro-social goal, you have to eschew narrow linear thinking, and instead provide more scope for them to choose their own oblique pathway. This means emphasizing the pro-social part of the story on a consistent basis—the intention being that by encouraging individuals to do “good” their collective effort leads, seemingly as a side-effect, to better financial results. For example, while Carlsberg has pursued ambitious profitability and growth ambitions, it is owned by a number of philanthropic foundations, primarily the Carlsberg Foundation, that have shaped Danish cultural life for more than 100 years. This subtle linking of low-brow beer and high-brow culture is very much part of the identity of the company. This logic of “pro-sociality first, profitability second” needs to find its way deeply into the collective psyche of the firm.
Pro-social initiatives can be implemented at all levels. Who is responsible for pursuing a pro-social agenda? If you head up a division or business unit, it is clearly your job to define what your pro-social goals are and to put in place the supporting structures and systems described here. But what if you are lower in the corporate hierarchy? It is tempting to think this is “someone else’s problem,” but actually there is no reason why you cannot follow your own version of the same process. We have seen quite a few mid-level managers make a real difference, and often quite quickly, using the principles outlined here. (See “Pursuing Pro-Social Goals in an Operating Unit.”)

Corporate Purpose and Profitability

In a famous article in *Time* magazine, Robert Ajemian reported George H. W. Bush's exasperated reaction to friendly suggestions that he invest time in carefully thinking about his prospective presidency: “Oh, the vision thing!” Many CEOs react in much the same way: They know they are supposed to have a corporate vision or purpose, but they secretly think that wordy statements about the purpose of their business are just empty rhetoric. And it doesn’t take long for employees and other observers of the company to figure this out.

The purpose of this article is to help you to understand why and how a corporate purpose matters and to show how it can be realized without sacrificing profitability—and indeed may result in higher profitability. Goal-framing theory shows that a company’s goals make a difference only when they work on the beliefs of employees, and that the most valuable goals are those that support collaborative work—what we have called pro-social goals. However, these goals compete with other goals for individual mindshare and are easily driven out by gain and hedonic goals. As a result, corporate executives have to work doubly hard to affirm pro-social goals and to develop systems and structures that reinforce them. And, most fundamentally, establishing pro-social goals requires developing a tolerance for obliquity -- that is, the paradoxical notion that if we follow pro-social goals we aren’t actually getting rid of gain goals. Instead, we are realizing them more effectively.
Exhibit 1: About the Research

This paper draws on a five-year program of research we conducted to understand how companies put in place innovative ways of managing conflicting strategic imperatives, or “dualities,” such as purpose versus profitability, alignment versus adaptability, global versus local, and exploitation versus exploration. This research was conducted under the auspices of the Management Lab at London Business School and the department of strategic management and globalization at Copenhagen Business School. We conducted more than 80 in-person interviews with executives from 15 companies, listed below. Some of these case studies were written up in academic publications and books, while others were used as teaching materials. In addition, we conducted experimental and theoretical research into goal-framing, the main psychological theory behind the ideas in the article. (See the endnotes for references to this work).

The companies whose executives we interviewed for this research were: Handelsbanken, HCL Technologies, IKEA, Irdeto, John Lewis Partnership, Lego Group, NRMA, Novo Nordisk, Roche, Rio Tinto, Seventh Generation, Tata Group, The Guardian, Whole Foods and W.L. Gore and Associates.
Exhibit 2: Pursuing Pro-Social Goals in an Operating Unit

Managers can apply goal-framing theory within their own operating units. Consider the case of Jesper Ek, a mid-level manager at Roche, the Swiss pharmaceutical company. Ek was asked by his boss in 2012 to take charge of an underperforming 20-person diabetes team in Sweden that had seen sales drop year-by-year since 2006. When he took on the assignment, the employee engagement score for the team was 22% and, even more disturbing, the disengagement was as high as 66%. “I realized that employees had lost their sense of purpose,” he recalled.

For the first three months, Ek focused solely on understanding the team – and team members’ fears, motivations and concerns. “I had one-on-one meetings with everyone, typically two hours each, and lots of team meetings.” By June, he felt he had the measure of his team, and he switched from an internal to an external focus. He held a workshop to discuss the group’s collective goals, and they agreed on a common purpose: “To enable for people with diabetes to live their lives as unrestricted as possible.”

This pro-social purpose created real clarity for the team, enabling them to push two particular offerings that linked to solutions for the common purpose (an integrated mobile meter and a pump system with remote control that enabled unrestricted life with diabetes), and reduced their attention to the other 15 products in their portfolio. This focus made it possible for the team to gain access to clinics they had previously struggled to get into and when there, for them to have more effective and purposeful meetings. Just a year later, the engagement score had risen to 75%, and the disengagement was down to 0%, and only two of the original 20 people has left. There were market share gains of more than 3%, an impressive 250% growth with the integrated meter, and growth both in total sales and in operating profit.

“My approach,” Ek observed, “was to not think about profitability at all for the first six months. By getting my team on board, we were able to come up with a purpose that provided clarity and got everyone motivated. It helped that I had a supportive boss who gave me a clear mandate to do what I felt was necessary and then got out of the way—but it turned out that the turnaround was sufficiently quick that he didn’t have to cut me much slack.”

Despite facing many competitors with very similar products, Ek’s focus on vision and purpose helped to differentiate the business’ positioning in the marketplace. As he noted, in reference to Simon Sinek, another advocate of pro-social goal setting: “People don’t buy what you do; people buy why you do it.”
References


2. We acknowledge other studies have provided useful advice to social enterprises, particularly around the notion of shared value, such as M. Pfitzer, V. Bockstette and M. Stamp, “Innovating for Shared Value,” Harvard Business Review 91, no. 9 (September 2013): 100-107. This study starts from a theoretical perspective on human motivation, and as a result it offers somewhat different, though complementary, recommendations about how organizations of all types—not just social enterprises—can balance competing objectives.


5. Strictly speaking, goal-framing theory talks about normative goals that underlie employees’ motivation for joint production, rather than pro-social goals. These are goals held by individuals. However, company goals with a normative orientation are often called “pro-social.” To simplify the terminology here, we use the term pro-social for both levels: pro-social goals of companies activate pro-social (“normative”) goals in employees.

6. In a game where people would be individually better off (in terms of money) not to cooperate, the experimenters saw a much higher percentage of participants cooperate when it was called “community game” compared to when it was called “Wall Street game.” Labeling the game with “community” or “Wall Street” expressed at the same time the purpose of the game, what kind of behavior is expected and how other participants are likely to behave. See V. Liberman, S.M. Samuels and L. Ross, “The Name of the Game: Predictive Power of Reputations Versus Situational Labels in Determining Prisoner's Dilemma Game Moves,” Personality and Social Psychology Bulletin 30, no. 9 (September 2004): 1175-1185.


8. See Lindenberg and Foss, “Managing Motivation for Joint Production.”


10. See Lindenberg and Foss, “Managing Motivation for Joint Production.”


There is plenty of evidence that traditional budgeting processes are flawed. See, for example, M.C. Jensen, “Paying People to Lie: The Truth about the Budgeting Process,” European Financial Management 9, no. 3 (2003): 379-406.

The Tata Group case study is based on data collected through interviews with company executives as well as on A. Graham, “Too Good to Fail,” Strategy & Business 58 (February 23, 2010).

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