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Introduction

Purpose has been catapulted to the forefront of executive-level conversations and board meetings. Continued consumer interest in companies’ role in protecting the environment and advancing society have been amplified by the COVID-19 pandemic and the outcry for social, gender, and racial equity. Skeptics might say that this is a luxury reserved for companies in a bull market. Critics argue that sidebar efforts are exercises in hypocrisy for most large corporations. We believe that leading with an integrated purpose strategy is good business strategy and can be a core source of competitive advantage. Specifically, companies that truly lead with purpose have demonstrated that purpose can be a core driver of value creation for a company—a future-proofing strategy in a bear market, as well as a way for thriving companies to return some of the value they capture to society.

But how should companies connect purpose with business strategy? How should they ensure that purpose investments drive tangible value for shareholders? How should they measure the impact? How should they communicate purpose-driven efforts in a credible and compelling way to consumers and investors alike?

Every company has a purpose beyond profits, and that purpose differentiates a company from its peers. A company’s purpose is the role it serves in society connected to long-term value, including the differentiated needs it addresses for all its stakeholders. While profit is a strong indication that a company is creating value in the world, it says little about whether that value is created in a way that is socially responsible—that value created for some does not come at the expense of others. However, in recent years, companies have faced pressure from a variety of directions to more effectively manage and mitigate tensions across all stakeholders, including shareholders. The increasing frequency with which companies face public outcry over irresponsible business practices or historical wrongdoing has shown that virtually every company has inherent tensions at the core of the way it conducts business that, if unaddressed, can become an Achilles’ heel. Moreover, in the absence of contingency plans, social and environmental shocks such as today’s crises can have devastating effects on business operations. Business leaders can future-proof their company’s success by adopting strategies to solve the problems of people and planet profitably and not profit from causing such problems.
Purpose strategy is good business strategy

Practiced well, leading with purpose can be a critical element of a sound competitive strategy. Let’s take, for example, the way Unilever has incorporated purpose into its strategy and derives value by adhering to its purpose. Unilever has established that its purpose is “to make sustainable living commonplace.” The company measures the performance of its sustainable living products compared with the rest of its product portfolio and has found that these products are growing 69% faster the other parts of the enterprise and delivering 75% of the company’s growth.¹

On the other hand, inaction or inconsistency of action can be a pitfall. As the COVID-19 crisis hit, companies thanked the brave workers who continued to come to work at essential businesses. However, some suffered backlash for perceived inconsistency between words and actions. In April, employees from several large corporations active in the retail and logistics sectors organized a walk-out, citing, among other grievances, the lack of pay increases for frontline employees despite “record profits.”²

However, leading successfully with purpose is more than adopting a mission statement and making public commitments to do well in the world, as recent high-profile efforts have shown. The experience of the signatories to the Business Roundtable commitment to stakeholder capitalism illustrates these challenges well. To recap, in 2019, 181 CEOs signed onto a Business Roundtable statement that publicly rejected shareholder primacy in favor of stakeholder capitalism.³ However, many of the contributing organizations have wrestled with how to deliver on the idea of stakeholder capitalism and on their commitment to lead with purpose. The nonprofit ”JUST Capital” ranked 134 of the 181 signatories of the Business Roundtable statement on how well they performed across stakeholder groups one year later. Overall, the signatories are “not performing quite as well as the top companies, the JUST 100.”⁴ As a result, some critics have unfortunately written off the CEOs’ commitment as a publicity stunt.⁵

In an increasingly complex and interdependent world, new issues and urgent demands crop up each day. The perceived trade-offs between managing short-term business needs and meeting these demands can seem daunting. Many companies end up with an assortment of tactical social and environmental initiatives that deliver suboptimal social impact and business value. While the experience of purpose-driven trailblazers increasingly proves out the business benefits of social and environmental investments, there are high costs associated with poor execution. Companies can find themselves in a vicious cycle in which suboptimal outcomes reduce appetite to invest, leaving them more susceptible to criticism from stakeholders. How can business leaders make strategic decisions to deliver on their purpose and generate the most value for their companies and their stakeholders?
It starts with a change in mindset. As Peter Drucker famously said, “The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday’s logic.” Yesterday’s logic promoted the false premise that there is an inherent trade-off between business and societal needs. In fact, business has a unique and powerful capacity to integrate social innovation and economic value. Companies that do this well generate new revenue streams, enjoy price premiums, engage strong talent, drive operational efficiency, and gain access to more investors and lower cost of capital. Companies that do nothing compound their risk. As a result, purpose is not simply about competitive advantage; it is a business mandate.

Purpose strategy articulates and integrates a company’s unique purpose with its core business strategy. Companies have an opportunity to establish consistency of action first, which promotes resilience in the face of social or environmental shocks, and then a differentiated social value proposition. To design an effective purpose strategy, business leaders should follow four steps:

1. **Assess impact**: Define why society should want your business to succeed, understand how your core business produces benefits and real or perceived harms to society, and identify material social and environmental issues.
2. **Act consistently**: Ensure that activities and internal processes are consistent with stated positions and values.
3. **Amplify benefits**: Invest strategically to amplify positive impact and generate business value.
4. **Differentiate impact**: Articulate a differentiated social value proposition and tell a coherent and integrated purpose story that reinforces core business objectives.

As with any good strategy, the key to success is how well a company articulates and implements its purpose to generate long-term value for its business and stakeholders.
Great expectations

Expectations that business should play a leading role in addressing social and environmental challenges are increasing. Despite the significant investments business leaders have made during the COVID-19 pandemic, half of respondents polled through the 2020 Edelman Trust Barometer Spring Update believe that business is “doing poorly, mediocre, or completely failing at putting people before profits.”

Seventy-eight percent of respondents expect business to act to protect employees and the local community. Moreover, almost nine in 10 Americans agree that the current crisis is an opportunity for companies to reset and focus on “doing right by their stakeholders.”

This is not a new trend. In recent years, pressures from consumers, employees, investors, shareholders, and regulators have pushed business leaders to reassess the importance of tackling social and environmental challenges. In fact, our 2019 Global Human Capital Trends survey found that, for the first time ever, CEOs considered social impact as the top success factor for annual performance. The opportunity for positive business returns from social and environmental investments is well-documented.

Companies have derived value related to:
### Products and services

53% of CXOs said they had successfully generated new revenue streams from new socially conscious offerings.\(^{11}\)

### Brand

- 66% of global consumers
- 73% of millennials are willing to pay a price premium for sustainable goods.\(^{12}\)

### Talent

A 2019 survey of 1,000 employees at large US companies found that nearly half of all respondents and three-quarters of millennial workers would take a pay cut to work at an environmentally responsible company. More than 10% of respondents said they would be willing to take as much as a $5,000–10,000 pay cut.\(^{13}\)

### Operations

One study found that companies could achieve an average internal rate of return ranging from 27% to 80% on low-carbon investments alone.\(^{14}\)

### Capital

In 2016, an analysis of sustainability and corporate performance found that

- 90% of 200 studies analyzed concluded that good ESG standards lowered a business's cost of capital;
- 80% show that stock price performance is positively correlated with good sustainability practices.\(^{15}\)

All this suggests that the crux of the matter is not whether to invest in purpose, but rather how to do it in a way that creates lasting impact.
The key to leading with purpose lies in the realization that purpose is more than the sum of a company’s social and environmental investments. In his 2020 letter to CEOs, Larry Fink of BlackRock wrote, “A company cannot achieve long-termprofits without embracing purpose and considering the needs of a broad range of stakeholders.” Integrating purpose into core business strategy is essential to maintaining competitiveness and safeguarding profitability well into the future. However, as social and environmental issues and expectations of business rapidly evolve, business leaders are left wondering how to balance thoughtful consideration of their societal role with the daily requirements of running a business.

There are four key steps business leaders can take to effectively integrate purpose into core business strategy. Steps 1 and 2 establish a strong foundation and increase resilience by helping business leaders focus on the most relevant issues and avoid reputational risks associated with inconsistencies between words and actions. Steps 3 and 4 enable leaders to enhance business value and societal impact by articulating and leaning into their company’s differentiated social value proposition.
Leading with purpose

No company is a neutral actor; each creates some good for society and has some tensions with what is good for society. However, the scope and scale of these impacts vary widely by industry, sector, and business model. **Business leaders must understand the positive and negative impacts of their operations and define why society should want their company to succeed.** Without understanding the tensions they should manage, business leaders risk being defined by their critics. Alternatively, clarity on why society should want their company to succeed will empower business leaders to own the narrative and make decisions strategically.

Integrating purpose into core business strategy allows business leaders to focus on the social and environmental issues that most affect business performance, known as material issues. Traditionally, CSR departments on the periphery of the core business have managed such issues. However, integrating management of material issues into core business processes can promote investments that produce mutually reinforcing returns for a company and its stakeholders. **Companies that target material social and environmental issues outperform the market, with alpha of 3% to 6% annually, and outperform peers that focus on nonmaterial issues.**

Take Microsoft, for example. The company could apply its advanced computing capabilities to a wide range of issues. However, it has chosen to focus on promoting environmental sustainability, combating cybercrime, and supporting nonprofits. Microsoft has woven environmental sustainability into its core business by reimagining its operations and providing critical tools to companies advancing sustainability. In the area of cybersecurity, Microsoft's Digital Crimes Unit works with law enforcement and industry to disrupt cybercriminals and put people back in control of their devices and data, helping countless consumers. Finally, Microsoft provides low-cost or free services to nonprofits. These programs are integrated with Microsoft's overall strategy, leveraging core capabilities to increase brand reputation and generate revenue while promoting social good.

Companies that embrace purpose open themselves to scrutiny, as evidenced by the response to the Business Roundtable statement. Companies can incur significant reputational and financial costs when inconsistencies between words (e.g., company values and commitments) and actions come to light. As a result, consistency of action is an imperative for purpose-driven companies and effective enterprise risk management. Business leaders should articulate their values, assess their core business processes (from talent management to procurement and product development) against those values, and adjust if discrepancies arise. Furthermore, they can stand up robust processes to sense, evaluate, and manage tensions over time. **Without consistency of action, business leaders seeking to position their company around purpose will eventually experience a backlash.**

Take Apple, for example. Its impact on the environment primarily stems from the manufacturing of its technology products. To reduce the negative impacts of this production, Apple has committed to creating a fully closed-loop supply chain, which means that all Apple products would eventually be made from 100% recycled and renewable materials. Since announcing this commitment, the Mac mini® computer, MacBook Air® computer, iPad® device, and one design of the Apple Watch® device are made from 100% recycled aluminum alloy. In addition, Apple adopted a Supplier Code of Conduct and began the Supplier Clean Energy Program, which works with its suppliers to further reduce their environmental impact. As a result, 70 suppliers have committed to 100% renewable electricity for the production of Apple products, of which 2.7 gigawatts are operational today. Furthermore, in 2017, a report by Greenpeace on the environmental impact of big tech companies found Apple to be the second most sustainable. Apple's work with suppliers demonstrates how the company identified a material issue, addressed it centrally, and then ensured consistency throughout its operations.
STEP 3  Amplify benefits

With a strong foundation for responsible and consistent business management in place, leaders can focus on where to lean in to drive greater value for their company and stakeholders. **Business leaders should consider which material social and environmental issues they have the capabilities to affect meaningfully and where they are expected to lead.** An energy company, for example, might be expected to take a leading position on economic empowerment, whereas a consumer products company might lean into advancing human rights along the supply chain. Like any strategic choice-making, business leaders can evaluate and rank options based on the projected impact on the business and on stakeholders. They can then select focus areas and investments based on alignment with core business strategy. For example, leaders in the telecommunications sector might choose to invest to address the digital divide while engaging potential future customers.

These focus areas will not necessarily differentiate a company from peers, since companies with similar business models operating in the same industry may identify common material issues. However, stakeholders will have high standards for a company on those issues. To remain competitive, business leaders should commit to being among the leaders in their focus areas, which requires tracking leading standards across peers over time. After all, a focus on environmental sustainability was differentiating 20 years ago, but today it is table stakes. Moreover, companies will need to integrate leading standards across all core business operations to avoid inconsistencies referenced above.

Procter & Gamble (P&G) acknowledges new consumer expectations of “how brands are doing good” and knows that a deliberate and distinctive purpose strategy is required to compete among a crowd of mission-driven brands. As the world’s largest advertiser, P&G has focused on amplifying its positive impact by influencing the ecosystem in which it operates and using its “voices in advertising as a force for good.” P&G’s Transparency 2.0 initiative is focused on creating a clean media supply chain, rooted in the belief that “it’s no longer okay to have horrific content on any platform.” The initiative calls for standards around viewability, audience verification, antifraud, and brand safety and leverages P&G’s position in the market to influence media suppliers and companies to meet such standards.

STEP 4  Differentiate impact

Purpose must be authentic and must be in service to long-term value, both to the business and to society. Without the understanding, consistency, and strategic choice-making described in steps 1–3, purpose cannot be effectively articulated or activated. Building upon that foundation, business leaders can determine the differentiated role their company is uniquely positioned to play in society. A **differentiated social value proposition stems from the clear alignment of a company’s business strategy with its ability to create meaningful impact.** This is where purpose strategy meets core business strategy and stands in sharp contrast to sidebar CSR activities, by making core business issues and capabilities the primary driver of impact. When a company invests its superpowers to deliver on this differentiated and integrated purpose, and commits to standout performance, accretive purposes and social innovation follow. In fact, emerging data suggests that effective profit-driven social impact strategies can deliver superior shareholder returns. Additionally, JUST Capital research reflects that top performing companies in their ranking experience higher return on equity than their peers, higher net and operating margins, and a meaningful valuation premium. Purpose is the compass that enables companies to focus ESG performance and outperform the market.

PayPal’s mission is “to create a world where everyone has access to the tools, resources, and opportunities they need to improve their financial health and participate in the global economy.” PayPal has built a strong foundation in line with steps 1–3 above by committing to annual materiality assessments, managing ESG opportunities and risks consistently with company values and the Sustainable Development Goals, and amplifying its impact in four primary focus areas. PayPal delivers on its mission and has a differentiated social value proposition by leveraging its core capabilities and track record in social innovation to improve financial health, for instance, by providing more than $14.5B of funding to small and medium-sized businesses since 2013, fostering partnerships with innovative impact-focused non-profit and for-profit organizations (e.g., VillageCapital and Kiva), and investing in new financial solutions via PayPal Ventures. This integrated approach has won PayPal a spot in the top 10 in JUST Capital’s 2020 rankings of publicly traded companies, based on its performance on issues that “matter most in defining just business behavior today,” landing the No. 1 spot within its industry. Its sustained commitment to purpose continues to pay off: Consumers ranked PayPal among the top five most trusted brands in America in 2020, and its stock has significantly outperformed that of its industry peers this year.
Conclusion

In the past, companies have managed relationships with a broad set of stakeholders through corporate citizenship or sustainability departments on the periphery of core business operations. As companies embrace the essential role their stakeholders play in business success, they require a new approach. Purpose strategy enables business leaders to effectively manage social and environmental impacts through the core business and generate value.

However, thoughtful alignment of purpose to enterprise and business strategy and strong implementation are critical to successfully leading with purpose. Decisions made through the strategic choice-making process must be cascaded throughout the entire organization. Purpose should be activated through talent management, financial and ESG reporting, supply chain, brand marketing, and all other channels. While philanthropic and traditional corporate citizenship activities (e.g., volunteerism) will continue to be important, they will no longer be the drivers of a company’s impact. Instead, those efforts should be well-aligned to the priorities articulated in the purpose strategy in order to amplify overall impact. As a result, ownership of a company’s purpose should start with the CEO or chief strategy officer, who are uniquely positioned to balance stakeholder outcomes. Components will then be overseen and implemented by executives across the C-suite. Every executive has a role to play and can benefit from effective implementation of purpose strategy—measured both in terms of the returns generated for the company and the legacy of impact left behind.

Business leaders must integrate purpose metrics and indicators into their management systems and hold themselves accountable. Effective measurement and reporting can ensure that purpose is truly integrated into core operations and achieves tangible business results. Measurement should be ongoing and includes setting quantitative and qualitative impact goals, aligning KPIs, leveraging existing tools and systems to collect data (e.g., talent surveys), monitoring progress, and refining the approach. As leaders learn from experience, they can iterate on and refine their purpose strategies to generate the most value for their business and their stakeholders.

In short, good purpose strategy is great business strategy. A company’s purpose strategy and core business strategy should be one and the same. Rather than a set of tactical social and environmental initiatives, purpose is a coherent articulation of the company’s role in society and an acknowledgment of the issues most material to the business and its stakeholders. As a result, purpose is unique and authentic to each company. Purpose-driven strategy can help your company achieve its greatest returns at the intersection of long-term value to the business and impact on society.
Endnotes


21. “Leading with purpose” is an independent publication and has not been authorized, sponsored, or otherwise approved by Apple Inc.


30. Ibid.


35. Ibid.


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The text content is already in a readable format, and no further action is required.