

# **CREATING MORE PURPOSE-DRIVEN ORGANIZATIONS: FIGHTING FOR CHANGE**

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## **ABSTRACT**

With the goal of continuing the conversation from the Academy Of Management's 2019 Annual Conference, where the ODC division offered a series of sessions on higher purpose organizations, this paper introduces a brief history of shareholder theory (The Friedman Doctrine), the concept of higher purpose within organizations and the recent decision by the Business Roundtable (BRT) to alter their definition of the purpose of the corporation; one defined by higher purpose and concern for all stakeholders. It also introduces my future contribution to the field through my doctoral dissertation; a critical hermeneutics approach on how the BRT members apply their espoused purpose as they respond to the Coronavirus pandemic in the early months of the global response.

**Keywords:** Purpose - Organization design – Strategy - Stakeholders

Discussions about purpose-driven (higher purpose) organizations as opposed to profit-maximization driven organizations and how they are more effective have occurred for some time. Pascarella and Frohman (1989) made the argument three decades ago and Bartlett & Ghoshal (1994) continued it a few years later. Conversations occurring today in general business periodicals often cite the desire of millennials to work for organizations that provide them more meaning as the driving force in purpose-driven businesses' popularity. A quick Google search for millennials and meaning returns over 10 million results. But, millennials aren't the only ones who crave meaning at work as everyone spends more and more time there (Weeks, 2017).

At the Academy of Management's Annual Conference in August 2019, the ODC division held a five session series on higher purpose; presenting learnings from practitioners, completed research from academicians and books written by both on the effectiveness of higher purpose organizations. Much of this work has been focused on the associated financial outcome or economics of a purpose-driven strategy (Gartenberg, Prat, & Serafeim, 2019; Hendricks, Lavine, Beer, Cameron & Quinn, 2019; Quinn & Thakor, 2019). Additional work on higher purpose includes the work of Sisodia, Henry, and Eckschmidt (2018) who have released a "manual" helping guide organizations on how to transform themselves into Conscious Capitalists – a form of higher purpose organization. Even with these resources there exists little empirical research on this topic.

Also occurring in the Fall of 2019, just after the AOM Conference, the Business Roundtable (BRT), an association of – at the time – 181 CEOs from leading corporations based in the United States signed on to a new “purpose of a corporation” (Corporate Governance, 2019). After decades supporting the belief that shareholder returns were the sole purpose of an organization, the 181 members released a new purpose of the corporation prioritizing all stakeholders: customers, employees, suppliers, communities, and shareholders. It seems this group of leaders heard the chorus of voices asking for business to take a stakeholder approach.

The world has changed since the fall of 2019 when both of these events occurred. It is currently ensconced in the global novel coronavirus pandemic and all countries, all companies, and all peoples are being called to prioritize the greater good rather than focus on profits – especially in western cultures where shareholder maximization has driven most companies for decades. Particularly in the United States. The pandemic has increased the volume on the call for a “new capitalism” that is driven by prioritization of all stakeholders, not just shareholders (Benioff, 2019). With a critical hermeneutics study of the BRT members and their responses during the pandemic, I hope to contribute to the knowledge of how organizations that once stood for profit now stand for stakeholders.

### **How Did We Get Here?**

In literature espousing corporations take on a purpose driven strategy, two things are often discussed as the reasons for our current state of capitalism: Milton Friedman and the Friedman Doctrine (Shareholder Theory), and the teachings in business schools supporting the Doctrine in the United States (Gartenberg et al., 2019; Hollensbe, Wookey, Hickey, George, & Nichols, 2014; Quinn & Thakor, 2019; White, Yakis-Douglas, Halanummi-Cole, & Ventresca, 2017). Both are intertwined.

In September of 1970, Milton Friedman, an economist, wrote a New York Times Magazine opinion piece in response to what he described as “the doctrine of ‘social responsibility’” (Friedman, 1970). Based on his shareholder theory, Friedman argued executives of corporations (public enterprises) had only one responsibility and that responsibility was “to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game...engages in open and free competition without deception or fraud” (Friedman, 2002). He decried any responsibility beyond that as socialism.

The Friedman Doctrine of shareholder theory has been the rallying cry of many if not most corporations for well over 40 years since his book, *Capitalism & Freedom* (1968) and his opinion piece in the New York Times Magazine (1970). This has also been the highly predominant learnings of corporate executives that have attended business schools (Quinn & Thakor, 2018). It’s no surprise that as recent as 2016, even after the global recession in 2008 and the growing divide between the wealthy and the poor, *The Economist* labeled shareholder value as “still the most powerful idea in business” (Analyse this, 2016). But there is another type of capitalism, one driven by a higher purpose than profit maximization.

## Academy of Management Conference 2019

In August 2019, exactly one week before the Business Roundtable announced their new purpose of the corporation, the Organization Development and Change (ODC) division of the Academy of Management offered a 5 part series on higher purpose in business. These sessions presented learnings from practitioners, completed research from academicians and books written by both on the effectiveness of higher purpose organizations. The focus of much of this work has been on the associated financial outcomes or economics of a purpose-driven strategy (Gartenberg et al., 2019; Hendricks et al., 2019; Quinn & Thakor, 2019). As Gartenberg et al. (2019) point out as a driver for their research into a measurement tool “to evaluate purpose systematically across firms and years” (p. 1), there are very few peer reviewed empirical studies on organizations with a higher purpose.

The state of peer reviewed empirical research notwithstanding, there have been a lot of articles, particularly in the Harvard Business Journal, and books written on this topic. Many of the panelists from the AOM sessions have their own book(s) detailing the work they've done with higher purpose organizations. Some examples include *Higher Ambition: How Great Leaders Create Economic and Social Value* by Michael Beer, Russell Eisenstate, Nathaniel Foote, Tobias Fredberg, and Flemming Norrgren; *High Commitment, High Performance: How to Build a Resilient Organization for Sustained Advantage* from Michael Beer, and *The Economics of Higher Purpose* by Anjan Thakor and Robert Quinn which was released just after the AOM sessions.

Contributions in this area have also been made by one of the cofounders of the Conscious Capitalist movement, Raj Sisodia, through multiple books arguing for organizations with a higher purpose like *Conscious Capitalism: Liberating the Heroic Spirit of Business*, a book he wrote with John P. Mackey. He has also written *Firms of Endearment: How World Class Companies Profit from Passion and Purpose*. As recently as 2018, Sisodia et al. released another book outlining tools they argue will help profit centered firms transform into conscious capitalists with a focus on higher purpose and stakeholder orientation rather than profit maximization.

The books listed are included only to highlight that, while the books are backed up with experiences from the authors' consulting careers, there still remains very few peer reviewed studies on higher purpose. As the novel coronavirus pandemic continues around the globe, corporations are going to have to make very hard choices. From an organization development perspective, the change of the BRT purpose alongside the choices made during the global pandemic as these organizations fight to survive provides a unique opportunity to study how organizations that were historically profit focused shift and adapt their decision making based on their values and support all of their stakeholders.

My hope is that much like my own dissertation research this pandemic will drive more peer reviewed empirical research into higher purpose based organizations that utilize stakeholder theory, the decision processes they use, and the decisions they make in support of all stakeholders in addition to the economic returns of these organizations.

## Higher Purpose Defined

While economic returns of a higher purpose organization are important, these organizations do prioritize all stakeholders including shareholders, “a higher purpose is not about economic exchanges” (Quinn & Thakor, 2019). In support of my findings in reviewing the literature on higher purpose, in the Brandpie CEO Purpose Report (2019), they introduce higher purpose in this way: “Love it or hate it ‘purpose’ is currently one of the most talked about business concepts, with books appearing every day and industry leaders promoting its importance. Yet virtually no-one can agree on what it is and why it is useful in business” (p. 3).

A brief introduction of the different definitions of higher purpose organizations is in order. Some argue purpose is simply a focus on creating value for all stakeholders, including shareholders. Others argue purpose is a pro-societal value stance the organization takes on for all stakeholders. The difference in the two is whether a pro-social value stance exists to drive the decisions of the organization at all times.

Larry Fink, the CEO of Blackrock defines purpose as “a company’s fundamental reason for being – what it does every day to create value for its stakeholders. Purpose is not the sole pursuit of profits but the animating force for achieving them” (CEO Purpose Report, 2019, p. 9). Similarly, Henderson & Van Den Steen (2015) define purpose “as a concrete goal or objective for the firm that reaches beyond profit maximization.” (p. 327). Neither of these definitions carry a pro-societal bend.

Other definitions do take a pro-societal aspect including Bartlett and Ghoshal (1994, p. 88) who define purpose as “the statement of a company’s moral response to its broadly defined responsibilities, not an amoral plan for exploiting commercial opportunity.” One sees this as well in Quinn and Thakor’s (2013) definition that higher purpose is “something that is perceived as producing a social benefit over and above the tangible pecuniary payoff that is shared by the principal and the agent.” In Michael Porter and Mark Kramer’s *Harvard Business Review* article, “Creating shared value,” (2011) they define “shared value” as the creation of “economic value in a way that *also* creates value for society by addressing its needs and challenges. Business must reconnect company success with social progress” (p. 4). Porter and Kramer explicitly argue that the concept of shared value is “not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success” (p. 4). This is not the old shareholder value vision of economic success but one that is shared with all stakeholders.

As Gartenberg et al. (2019) point out and the various definitions above illustrate, there is no “settled definition within either academic or practitioner literature (p. 1). For purposes of my research, outlined at the end of this paper, I am utilizing the definition of higher purpose from Quinn and Thakor (Gartenberg et al., 2019, p. 3): “something that is perceived as producing a social benefit over and above the tangible pecuniary payoff that is shared by principal and agent.” They go on to describe this in their book (2019) as “a prosocial goal that is defined not in terms of economic output but in terms of the contribution the organization makes to society” (p. 3).

I have decided on this definition because the BRT themselves call out “each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country” (Corporate purpose, 2019). Based on the verbiage they used, it is appropriate to use the pro-societal definition to remain aligned.

## **Drivers of Success**

Proponents of higher purpose argue that organizations are more successful when managed through the lens of purpose (Hollensbe et al., 2014; Quinn & Thakor, 2019; Malnight et al., 2019). There are a number of drivers to this success but one of the most fascinating, especially in today's environment, is that “purpose appears to offer the potential to make organizations more agile and entrepreneurial and more empowering, challenging, and meaningful for employees—the most significant resource in most organizations” (Hurth, 2017, p. 4). Meaning generates motivation by allowing employees, and also customers, and suppliers to feel good about choosing to work for or with an organization because of the contribution of the organization through purpose. The organization is making a difference in the world which causes their stakeholders to be more committed and engaged in the success of the organization. (Johnson, 2019; Malnight et al., 2019; Mourkogiannis, 2008; White et al., 2017).

Arguments have also been made that purpose breeds employee voice. Employees feel free to speak up when decisions are not made in support of the purpose and the organizational values (Hollensbe et al., 2014). Purpose helps with recruitment & retention of employees (Mourkogiannis, 2008) as it's easier to “retain employees who identify with their [the organization's] values and become more deeply committed to the organization that embodies them” (Barlett & Ghoshal, 1994).

Organizations with higher purpose understand that their success depends on the interdependence of all stakeholders. Organizations do not exist in a bubble and rely on the resources of the surrounding community. Through their commitment to a higher purpose they build trust with their employees, their customers, their suppliers and their surrounding communities. This trust increases the likelihood that all of those stakeholder groups will support the business. (Hollensbe et al., 2014; Hurth, 2017).

The benefits of increased performance from having a higher purpose are only born out when that organization is true to its purpose, when it's “at the very core of their identity and how they are contributing to society” (Johnson, 2019, p. 959). When it's an authentic purpose – part of the DNA of the organization. The purpose then becomes the North star for that organization by which all organizational decisions are made. (White et al., 2017; Malnight et al., 2019) When the actions of an organization do not match their espoused purpose and values it has the opposite effect on stakeholders and hinders the organization's performance. (Schaninger, Simpson, Zhang, & Zhu, 2020). “Research suggests that people only truly believe that their company has a purpose and clear values when they see management making a decision that sacrifices short-term profitability for the sake of adhering to those values” (Kramer, 2020, p. 3).

## **Critical Hermeneutics Research: The Business Roundtable**

I'm currently undertaking research on the BRT, a membership organization comprised of the Chief Executive Officers of some of the largest organizations in the United States. The BRT describes itself as:

Business Roundtable promotes a thriving U.S. economy and expanded opportunities for all Americans through sound public policies.

Business Roundtable exclusively represents chief executive officers (CEOs) of America's leading companies. These CEO members lead companies with more than 15 million employees and more than \$7 trillion in annual revenues. As major employers in every state, Business Roundtable CEOs take seriously the responsibility of creating quality jobs with good wages. These leaders join with communities, workers and policymakers to build a better future for the nation and its people.

For more than 45 years, the membership of Business Roundtable has applied CEO expertise to the major issues facing the nation. Through research and advocacy, Business Roundtable advocates policies to spur job creation, improve U.S. competitiveness and strengthen the economy.

(Business Roundtable, 2020)

It would be no surprise if many of the leaders of the Business Roundtable grew up with these same beliefs in shareholder theory and the Friedman Doctrine as they climbed the corporate ladder and attended business schools in their preparation to lead the largest corporations in the world. After all, the stand of the Business Roundtable since 1977 has been in line with Friedman; the purpose of the corporation is to maximize shareholder value (Winston, 2019). For this reason, it was surprising when they announced in August of 2019 that all 181 members of the Roundtable had signed a new purpose of the corporation; one that put stakeholders at the core of a corporation's purpose. In the months between August of 2019 and February 2020 an additional 7 members joined the Business Roundtable and signed their names to the new purpose of the corporation. This is not to say that each of the CEOs hadn't taken a different stand within their own organizations.

For example, Salesforce is an organization known for its decision making process concerned for all stakeholders. Marc Benioff, it's co-founder, CEO, and Chairman of the Board has always focused the organization's purpose on all stakeholders since its inception in 1999. On January 22, 2015, Benioff, using Twitter as his message delivery mechanism, tweeted "The business of business is not business. The business of business is improving the state of the world. Stakeholder=New shareholders #wef15 " while attending the World Economic Forum (Benioff, 2015). Just months after signing the Business Roundtable purpose statement he was a guest on CNBC's Squawk On The Street and while pointing out the release from the Business Roundtable said:

"CEOs must embrace a wider perspective that also includes the well-being of 'stakeholders' — such as employees, public schools, people who are homeless and communities writ

large. 'This is how to make a great company,' said the co-CEO and chairman of Salesforce. 'This is how to have a company that customers want to do business with, that attracts employees, that develops partnerships, that integrates local communities, that saves the planet.'" (Benioff, 2019)

## **The Study**

The study, currently underway, investigates the 174 Business Roundtable members who signed on to the original new Purpose of the Corporation in August 2019 and remained a member when I began gathering my data in May 2020. The current historic global environment is a herculean test to an organization's convictions in their higher purpose and values and will be reflected in how these corporations respond in the early months of the Coronavirus pandemic to care for all of their stakeholders. It will take leadership with a longer view than a short term shareholder orientation to withstand pressure they may come under from shareholders. I am investigating whether their actions support their espoused values and purpose and how they communicate that to the public. I'll also be looking at other demographic variables and how they may play a role in their responses. For example, leadership gender, organization size, years in business, type of corporation, etc.

The pandemic is an in process event that will have lasting effects on every aspect of our world moving forward. The Coronavirus Pandemic has exposed fault lines in our society between the haves and the have nots. How capitalist organizations make decisions and treat their stakeholders based on their espoused higher purpose and underlying values will have long lasting affects for all stakeholders and our new world order. As leaders in business, the lessons learned from their responses also act as examples for other businesses moving forward.

## **Methodology**

This is a critical hermeneutics study of 174 members of the BRT. The approach will follow that of Phillips & Brown (1993) based on Ricoeur's prior work. As Phillips & Brown describe (1993) the three step process includes 1. Social-historical analysis, 2. formal analysis and 3. interpretation-reinterpretation which brings steps 1 and 2 together. "Those applying the critical hermeneutic methodology ask how the communication process in and around a particular organization functions, for whose benefit it operates, and who is allowed to participate" (p. 1555).

I am in process of collecting data (texts) from publicly available sources including: each corporations' Twitter account, web site, press releases, and articles written about each organization. I'm also gathering demographic information from each organization (total revenue in last fiscal year, number of full time employees, type of organization (public/private), CEO tenure, and industry).

## **Future Research**

This study, my Ph.D. dissertation, is the beginning of a future longitudinal study of both the BRT's commitment to a higher purpose for corporations and an effort to learn how organizations transform from profit maximizers to higher purpose organizations that value all stakeholders. Questions to research include what worked? What didn't work? How were decisions made? How integral was leadership to the transformation? To that end, future research will include surveys and interviews of people that work/worked in the BRT organizations.

## **CONCLUSION**

Research has shown that organizations “had used it [purpose] to generate sustained profitable growth, stay relevant in a rapidly changing world, and deepen ties with their stakeholders” (Malnight et al., 2019, p. 5). The current environment begs for organizations of all shapes and sizes to lead with purpose and make decisions based on their values and commitment to all stakeholders – not just for the economic impact – but also for larger societal gains. The betterment, and perhaps, survival of our globe depend on it.

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