Ignore Hardliners, Activists, and Cynics...The Payback on Purpose Is Real

By Dev Patnaik

The idea of corporate purpose is now under sustained attack by business traditionalists, activists, and cynics. It's never been more important to have a convincing case for change. This article provides a solid argument for leaders to continue on the purpose-driven path, showing that there's greater risk in ignoring purpose.

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Two of America's most iconic companies have reached inflection points that say everything about the pressures facing businesses today.

At Starbucks, Laxman Narasimhan is taking the reins as CEO after a six-month transition time. Not by doing standard executive onboarding, but by getting trained as a barista. Apart from getting "really good at coffee," Narasimhan said he gained a deep understanding of the company's culture at a time when it's facing staff discontent and a drive for unionization.

Meanwhile, Disney is confronting a renewed attempt by activist investor Nelson Peltz to gain board seats in a battle for the company's soul. After a challenging period in which its stock price slumped and it became embroiled in a culture war, Peltz essentially wants Disney to get back to the business of business.

Both Starbucks and Disney are microcosms of a larger moment in American business right now. Having spent several years embracing the idea of a larger purpose beyond just shareholder return, many companies have been met with consumer boycotts, employee revolts and media fiascos. Leaders are wondering if they need to just get back to business as usual.

If you're like me and you believe that companies can have a greater impact on the world, you should be paying attention right now. The idea of being purpose-driven is on the bubble.

The Three-Pronged Assault on Purpose

The idea of corporate purpose is now coming under sustained attack from three sides.

In one camp, you have business traditionalists like Peltz. Every time a company stumbles into a controversy, the traditionalists argue that purpose is a distraction from the fundamentals of market performance. They ignore the possibility that being purpose-driven might actually *improve* business performance.

At the other extreme are those (usually progressive) activists within employee or consumer groups who demand that a company wade into every issue in the way that they personally agree with. This drags companies into the kind of culture war battles and consumer boycotts that hit Bud Light and Target this year, opening companies up to accusations of being too "woke."

Then you have the cynics. This includes the consultants and branding agencies who see the idea of purpose as an excuse to come up with snappy taglines and trendy campaigns that have little to do with a company's true identity. It also includes the investment funds who slap a vague ESG label on their latest offering, despite a lack of any proof of improved performance. It seems like there's a new study every few weeks showing that returns on ESG funds, for example, have disappointed.

The Case for Purpose—Proof of Financial Return

But here's the good news… being purpose-driven actually does pay.

My colleagues at Jump Associates have found that, when done right, purpose-driven companies command outsized returns. (We're sharing our analysis and findings in a report next week highlighted by the Harvard Business Review.)

Between 2000 and 2019, the market value of 15 purpose-driven companies (including firms like Novo Nordisk, lululemon, Chipotle, Whole Foods Market, and Alphabet) achieved a compound annual growth rate of 13.6%. During that same 20-year period, the S&P 500 yielded only 5.9%. That means that if you invested $150,000 in the S&P 500 in 2000, you'd come away with $475,614. If you invested $10,000 in each of the fifteen purpose-driven companies, you'd have $1,935,719.

But even more interesting than the 5x return over the S&P is that 12 of the 15 purpose-driven firms outperformed their closest competitors by margins ranging from 3.3 to 14.5 percentage points. Over time, purpose-driven companies build a huge competitive advantage.

Until now, multiple studies have failed to show this causal link.

Why? Because they lack a convincing, objective metric for what defines purpose-driven. They've defined it based on imprecise factors such as brand loyalty or narrow attributes like Environmental, Social and Governance compliance. ESG is a good thing. But it's increasingly table stakes.

Drawing upon two decades of research and experience working with purpose-driven companies, we've learned that these organizations have an authentic and clear reason for existing.

These companies have worked to align their whole organization behind a unifying idea. They look different from other companies in five important ways: They have an activated purpose, an aligned culture, stakeholder centricity, next-level leadership, and a future focus. These five factors make up The Purpose-Driven Scorecard used to analyze the companies in our study. (Read more about how we defined the factors here.)

A Playbook for Growth

The five factors get to the heart of what it means to be purpose-driven. It's not about jumping on trending causes or trying to "save the planet." It's about identifying your company's reason for existing and then encoding policies and practices that bring that purpose to life. It has to be a true reflection of the company's DNA—what motivates its people to come to work every day.

In Starbucks' case, it has been. The company achieved 72 out of a possible 100 on our purpose scorecard, performing particularly well on stakeholder centricity thanks to things like its best-in-class supplier programs. It delivered an annual return of 19.3% over the 20 years, compared to the combined 12.3% achieved by competitors Yum! Brands and Dunkin'.

Despite its disappointing performance in the last few years, Disney shareholders have benefited from investing in a purpose-driven company. The company scored 66 on our purpose-driven index, scoring particularly high on aligned culture. Over the 20 years, Disney returned an annual 9.7% to shareholders, compared to a combined 5.4% by peers Paramount and Vivendi.

But employee dissatisfaction with senior management has brought Starbucks to a cultural crisis point. And Peltz is threatening to throw out Disney's purpose-driven playbook. Whether Narasimhan or Peltz wins out will make all the difference for those of us who believe in a purpose-driven approach. Now, we know it will make all the difference for the future of their businesses, too.

These results should be a breath of fresh air in every C-suite as pressure mounts on leaders to abandon purpose and return to business as usual. We all know the fundamental shift underway in customer and employee expectations. Many business leaders have started talking about "Purpose and Performance." They're only half right. The truth is that purpose IS performance.

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