

The power of purpose for innovation and transformation

Successful companies embed purpose at the heart of their strategy. But how do you identify and articulate a company's purpose? And, having done so, how do you translate it into successful innovation and strategic transformation? This article provides important insight into purpose-led transformation and how it can help build a better working world.



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We're operating in a new business environment: one that is purpose-led. In our Darwinian¹ world, evolving to have a purpose that meets a fundamental human need is key to a corporation's ability to survive – and to thrive.

Given the macro “performance forces” – volatility, velocity and visibility² – a company's success is increasingly defined by its ability to continually innovate, to transform. This is easier said than done. Forty percent of the companies that topped the Fortune 500 in 2000 dropped from the list entirely by 2010. Efforts to transform more often than not fail miserably; EY research shows that more than 80% of change initiatives fail.³

However, from our work with the C-suites of global corporations, we believe *purpose-led transformations* are more successful – and that purpose-led organizations have an improved ability to innovate and solve complex market growth issues.

Here's why ...

The bottom line: purpose drives profits

The evolution of companies to a purpose-led strategy – powered by purpose-led transformation – is the result of several megatrends that impact the organization's license to operate.

The twin forces of globalization and technological transformation combined with the global financial recession, concerns about resource scarcity and the power

of social media have all led to a dramatic shift in expectations of the corporation. As governments' budgets have shrunk, they are increasingly looking to the private sector to step up to what they view as an obligation and an opportunity to get involved in markets to solve long-standing economic, social and environmental issues.

This re-evaluation of the corporation's social contract is widespread. Today, a scant 6% of the global population believes that a company's only purpose is to deliver shareholder profits.⁴ Customers, regulators, employees and investors are demanding more from companies. Successful companies understand that an organization's character – what it believes and how it behaves – has become as important, if not more so, than the products and services it sells.

The twin aspects of transparency and interconnectedness have a powerful impact on the global enterprise brand, motivating greater accountability across the value chain as corporations seek to ensure their brand is not dealt a blow by a scandal from a supplier's working conditions or environmental polluting. But this strategic evolution to purpose is driven by more than avoiding downside risks: the ability for purpose to power growth is now more quantifiable than ever.

Purpose-led brands are more successful in acquiring and retaining customers. This may make intuitive sense, but it is also backed up by behavioral science: people buy things that make them feel good about themselves.⁵ And people do business with those they trust. As Simon Sinek describes in his *New York Times* bestseller *Start with*

why, “People do business with those who believe what they believe. People don't buy what you do. They buy *why* you do it.”⁶

This demand for purposeful brands is actually strongest in the emerging markets, where corporations are relying on rising middle-class consumption to drive growth.⁷ One study found that a huge 87% of global consumers believe business needs to place at least equal weight on social issues as business issues. However, only 7% think it is enough for companies to engage in social issues through philanthropy.⁸ For purpose to effectively magnetize consumers, it needs to be in the corporate DNA, with environmental or social impact woven throughout the fabric of their products and services. Unilever CEO Paul Polman describes the journey he is leading at the company as moving beyond corporate social responsibility (CSR) to make purpose part of the operating model. The focus is on addressing food security, sanitation and deforestation: “Issues that accelerate our business because we provide solutions,” says Polman. “If it's hygiene, then we have a Lifebuoy for hand wash, if it's women's self-esteem, we have Dove, so every brand becomes a cause, a social movement in that sense.”⁹

Given changing expectations, unless corporations have a sense of purpose, i.e., a *why* that is bigger than the *what* of their products and services, customers and employees will go somewhere else to find it. While customers vote with their cash, employees vote with their feet – a critical concern as the global fight ramps up for ever-more mobile talent. Companies who enable their workforce to feel connected to

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a higher purpose are more than three times as likely to retain their employees.¹⁰ These organizations also have a workforce that is more engaged and more productive – they allow their employees to move beyond just “doing work” to “doing their life’s work.” The desire among the Millennial generation to integrate money and meaning, profits and purpose, has been dubbed “pragmatic idealism” – and is something purpose-led, pragmatic companies are paying attention to as Millennials rise to 50% of the global workforce by 2020.¹¹

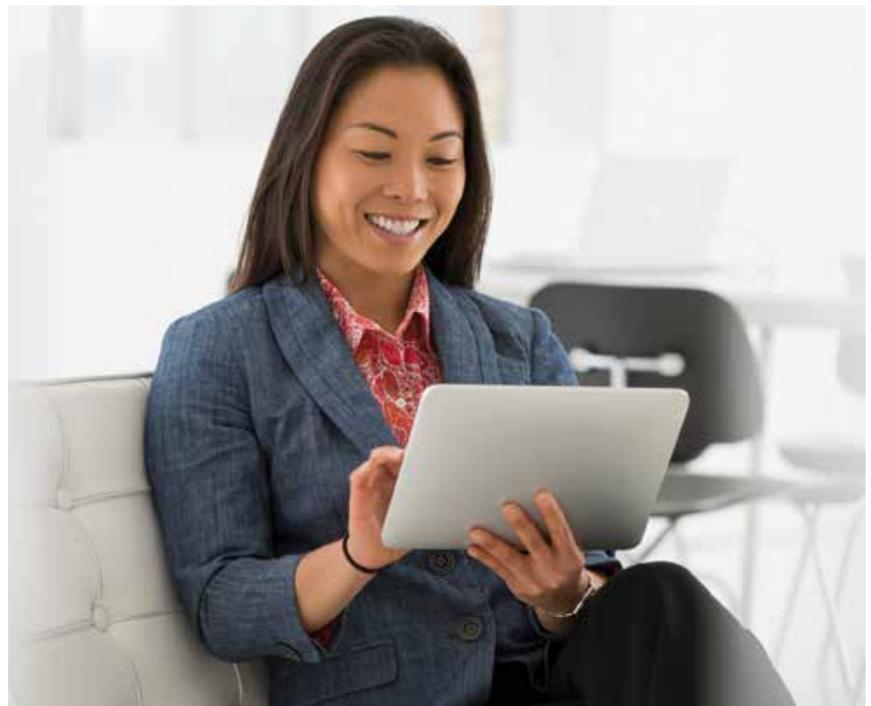
Purpose-led transformation: leveraging the burning ambition

The business imperative is clear: purpose can help reduce risks and provide a competitive opportunity for growth and improved financial performance, attracting and retaining customers and employees. But acting on this is easier said than done. Purpose that is simply a brand promise relegated to public relations (PR) or CSR is impotent: a company can

have a compelling *why* but not leverage it into the *how*. Knowing this, successful companies embed purpose at the heart of their strategy. As companies pivot to be purpose-led companies, they undergo an *identity shift* that drives a *capability shift*. Their purpose becomes a decision lens for where to play and how to win – and subsequently a driver of innovation and enterprise transformation.

DuPont is an excellent case study. CEO Ellen Kullman and her leadership team have identified three megatrends

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that provide a strategic framework for investment. As the world's population grows to over seven billion, three issues dominate: how to feed everyone, how to create enough energy to meet demand and how to protect the environment.¹² With the addressing of these issues as their compass, DuPont is transforming from a 200-year-old legacy chemical company to a global science company whose stated purpose to investors is "to find sustainable, innovative, market-driven solutions to solve some of the world's biggest challenges, making lives better, safer and healthier for people everywhere."¹³ This aspiration to feed, protect and power the world is not an altruistic exercise: DuPont is strategically targeting scientific solutions to increase agricultural productivity, reduce dependence on fossil fuels and protect lives as their profitable path to "high growth and high value."^{14, 15} Their holistic approach has included "denominator strategies," such as reducing waste and fossil fuel usage, and "numerator strategies," inventions supporting biofuels, photovoltaics and other forms of renewable energy, or hurricane-resistant building materials that help save lives.¹⁶ In addition to helping strategically define and refine the businesses portfolio, DuPont's powerful purpose can provide impetus for business model innovations that leverage capabilities across the private sector, governments and NGOs – and for the organization's transformation.¹⁷

Transformations of this magnitude are inherently fraught with challenges, requiring the whole gamut of structures, processes, technologies and people to



change. The most difficult of those is the people – mindsets and behaviors are the most resistant to change, and the well-known adage, attributed to Peter Drucker, "culture eats strategy for lunch" often applies. To address this, most change initiatives seek to create a sense of crisis or urgency. But there is a need to balance the burning platform with a burning ambition: creating a compelling "run to" vision that is magnetic and can help break through fears and inertia. Cost-reduction programs, operating model changes and process redesigns have a different resonance and garner less resistance when they are steps on a journey to a destination worthy of all the blood, sweat and tears.

Engaging the organization in an ambitious purpose can also drive innovations in products and services – and innovations in business models. For Unilever, for example, focusing on solving a challenge, such as climate change, and altering the perspective from products to purpose provides the opportunity for outside-in thinking and re-architecting of

ecosystems. Unilever is leveraging digital innovation via an online platform that crowdsources the technical solutions it needs to achieve its ambition of doubling the size of its business while reducing its environmental impact.¹⁸ Turning those ideas into applicable solutions often drives business model innovation – and, in many cases, involves leveraging cross-sector partnerships. To successfully launch Pureit, Unilever's water purification system that creates a low cost way to provide potable water, involved partnerships with India's National Institute of Design and National Environmental Engineering Research Institute, Tata Group's Tata Elxsi engineering subsidiary – and EY.¹⁹

Purpose provides a compass that allows organizations to be more agile. In a world of hyper-connectivity and stressed resources, how do we radically innovate? What are the opportunities for disruptive technologies and business models to provide solutions for livable cities, to solve the challenges at the food-water-energy nexus or to provide health care for aging societies? Focusing on



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the *why* instead of the *what* of perpetuating a product or service allows the creative space for innovations to emerge. It also allows for an easier evolution to a new reality, a connective tissue around which a corporation can create and sustain a culture that leverages the collective genius of their people.

To see this elsewhere in the market, all we need to do is look in the mirror: EY is undergoing a purpose-led transformation right now. At EY, we are committed to our purpose of “building a better working world” – a world with increased trust and confidence in business, sustainable growth, development of talent in all its forms and greater collaboration. As EY CEO Mark Weinberger articulated during a World Economic Forum panel in Davos in January 2014:

“You have to be a purpose-driven company. At EY, we have 175,000 people and we’re growing – and we talk about our purpose of a ‘better working world’ when recruiting. People want to do well and do good. They want

to understand how they’re making a difference in the world. Things change all the time, but your organization’s purpose transcends any individual product or service.”²⁰

Living the new reality

The global challenges of our times demand more from all of us – and provide unique opportunities. Consumers today want more because they are more than mere consumers; they are citizens, looking to corporations to provide ways for them to create social and environmental value. Employees today want more too. “Human resources” are more than resources from which value is extracted – they are stakeholders in value creation or destruction, and their performance is inspired and their creativity unleashed when their labor is in the service of something greater. So smart businesses are changing in the direction of *being more*: the transformations most likely to succeed will be those with a goal for something more than cost-efficiency to improve the bottom line or growth for the sake of next quarter’s earnings.

The key is to translate aspiration into strategic transformation – to run the business in a new way and to connect with the entire ecosystem of suppliers, regulators, customers and employees to execute on the new ambition. Our Strategy people bring together EY teams to transform clients in three ways: **helping business innovate, solving complex industry and market growth issues, and delivering strategy through execution to unlock tangible value.** We help our

clients with purpose-led transformations because we know purpose helps to enable innovation, solve market growth issues and translate strategy into execution. EY’s own transformation uniquely positions us to help companies realize their new brand promise – to help with the *how* of the *why*. And when we help clients with their purpose-led strategic transformations, we live our own purpose of building a better working world. ■

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