

M'Poyo Strategy
ADVISORY

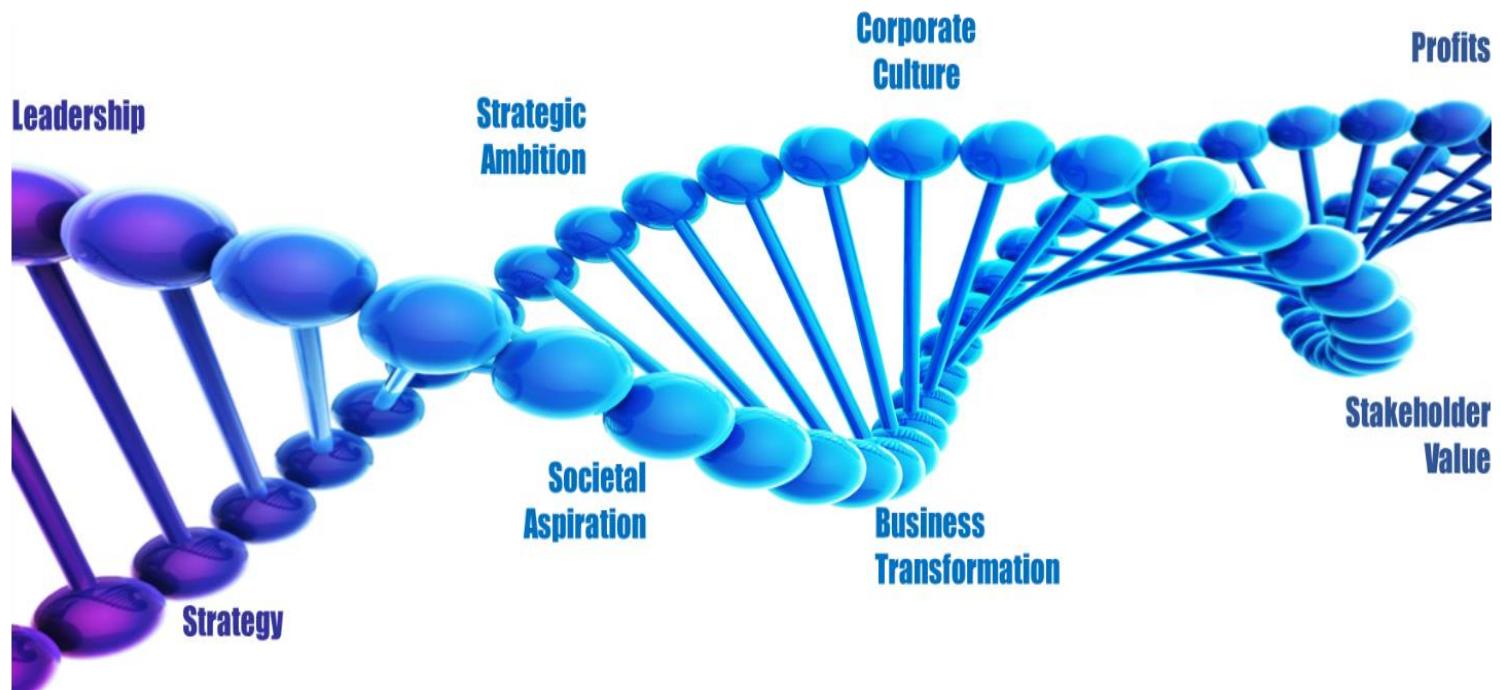


On Strategic Purpose

THE STRATEGIC



OF THE FIRM



Purpose-Driven Profit & Profit-Enabled Purpose

March 29, 2021

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As a matter of fact, the role of business as a corporate citizen positively contributing to global society is nowadays not only widely acknowledged but is seen as a business and society imperative by business leaders and the business community at large. The weight of the argument has become so heavy that one might find it challenging to recall the time when corporations were considered economic agents whose sole purpose was to deliver shareholder value.

We see four main underlying drivers for this evolution. The first driver is a higher state of consciousness on the matter and a willingness to act decisively among business leaders. The second driver is an increasingly higher sense of accountability amongst CEOs for balancing societal benefits and economic performance; far beyond the compliance with the legal obligations and the license to operate. The third driver is what we call “purpose-based reverse recruiting” i.e. the phenomenon whereby prospective employees choose—not to say recruit—firms to work for based on firms’ purpose and the values by which they abide. Likewise, customers today do not only want to consume products and services, but they also want to “consume meaning” from companies with which they share a societal connection beyond the traditional emotional brand connection. By the same token, the investment community, with the rise of sustainable and socially responsible investing, also participates to this heavyweight trend. This directly leads

to the fourth driver i.e. the value creation potential resulting from new, untapped purpose-driven market segments which might provide companies with new fuel for growth.

These driving forces occur in a context of globalization of ethical standards and in a context where Corporate Social Responsibility (CSR) as a Function—with its own distinctive body of CSR initiatives—needs to evolve towards Corporate Societal & Strategic Responsibility (CSSR) by making CSR part of the firms’ strategic DNA and by embedding CSSR in their strategic thinking, decision-making, and execution.

In this context, what purpose should a CEO assign to the company—large or small—he leads? And if we push the question even further, what higher purpose should a company pursue when its net profit is comparable to or higher than the budget—or even the GDP—of some of the nations where it operates? How should corporations position themselves before governments in terms of delivery of social benefits to the population? Should a firm change its purpose in the face of adversity?

More than a sample of questions about enterprises’ responsibility, these questions ask what should be at the core of a renewed perspective on the higher purpose of the firm, a purpose that is both societal and strategic, that requires a specific process to be fully manifested, and that calls for an enriched kind of

leadership for a renewed and enriched legacy to the world at large.

Throughout this article, we will address these elements. We will first set the stage by defining the notion of purpose, its strategic character, and our approach towards its implementation. We will then present the leadership challenges associated with firms' purpose before concluding by highlighting the ultimate legacy of firms' strategic purpose.

DEFINING THE FIRM'S HIGHER PURPOSE

What exactly is Purpose?

A firm's purpose is what the firm stands for, its *raison d'être*, its existential "Why?" as a market-driven organization, an economic agent, and a corporate citizen. Beyond that, it is also a firm's societal aspiration and commitment to contribute to global society positively and distinctively by mobilizing its capabilities and resources to that aim.

Characteristics of the Firm's Higher Purpose

Clarity and Strength of Expression. The firm's higher purpose should be clear and communicated in a way –possibly through different channels– that makes it strong

and compelling for all the firm's stakeholders.

Timelessness and Authenticity. Once it is articulated, a firm's higher purpose becomes part of its personal, corporate identity and it should inscribe itself in the long-term societal trajectory of the firm. In this respect, purpose is intrinsically authentic.

And while a firm's higher purpose may evolve over time according to market conditions and/or society evolution, it should stay relevant and true to the firm's identity, and its businesses.

Inspirational. Corporate higher purpose is nothing less than an invitation to greatness. It should instill an "institutional growth mindset" within the firm —the mindset to grow as an institution— towards the realization of a bigger-than-itself purpose.

Furthermore, corporate purpose provides deeper meaning to behaviors and it strengthens the firm's stakeholders' sense of mission and belonging as purpose has now become an inclusive effort extending beyond the boundaries of the firm.

Now, concretely speaking, how much bigger-than-itself should a corporation's higher purpose be?

Obviously, the pursuit of societal greatness through inspirational purpose is a noble —yet complex— calling and we believe the complexity of that pursuit is a

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two-variable function. On one hand, it depends on the degree of relatedness of a firm's core businesses and capabilities and the purpose itself. On the other hand, it depends on the size of the investment—in time, resources, and money—to meet the firm's objectives. In this context, the ultimate level of complexity consists in pursuing societal aspirations that are different in terms of resource requirements and relatedness with a firm's core capabilities.

The Strategic Purpose Implementation Assessment Matrix

		PURPOSE INITIATIVE DESCRIPTION	
		CORE QUICK WIN	NON-CORE INITIATIVE
SIZE OF INVESTMENT	UNRELATED COMPLEXITY	BUSINESS & SOCIETY SWEET SPOT	UNRELATED COMPLEXITY
	NON-CORE INITIATIVE	CORE QUICK WIN	UNRELATED COMPLEXITY
LOW	LOW	HIGH	BUSINESS & SOCIETY SWEET SPOT
CORE BUSINESS & PURPOSE RELATEDNESS			

Source: The M'Poyo Consulting Group

The matrix aims to assess the relative ease/complexity of implementation of strategic purpose initiatives according to the combined effect of their relatedness with the firm's core business and the required investment in time, resources, and money to successfully implement them.

Postulates

- Considering all purpose initiatives value-creating for society, the emphasis is put on the expected complexity of implementation.
- The 'High-Low' investment scale is relative and company-specific. There is no absolute threshold.

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Consider, for instance, a waste recycling company willing to articulate its higher purpose around the UN Sustainable Development Goals that are directly related to the planet protection and waste management. It is almost by definition that the company's core business and capabilities make this societal aspiration a natural extension of its strategic ambition, whatever that ambition might be. In this case, the relative complexity of realizing the firm's higher purpose would mainly be a function of the size of the investment to fulfill its higher sense of mission. Following the "*Inspirational Purpose Complexity Matrix*" terminology, this higher purpose would be either a *Quick Win* or a *Sweet Spot*.

Should a financial services firm aspire to a similar waste management purpose, the unrelatedness of its core capabilities with

that higher purpose would make it complex or very complex to fulfill (see the "*Inspirational Purpose Complexity Matrix*"). However, should the financial services firm still want to pursue that environmental goal, it would then rather be advised to do it in a way that is tailored to its distinctive strengths and constraints. The size of the investment should then be considered to gain a holistic appraisal of the implementation complexity of such a higher purpose in this case.

Both cases highlight the uniqueness of corporate purpose as the same purpose might have significantly different strategic and operational implications in different firms due to their respective contexts.

Ultimately, the choice of a firm's inspirational, higher purpose is a leadership call. It takes corporate self-awareness and courage from the leadership team to define the most relevant and the most meaningful purpose in the context of the organization.

In its broadest sense, the relevance of the firm's higher purpose relates to its societal character. However, from a business standpoint, it relates to its strategic dimension which, in turn, rightly raises the question of what actually makes a firm's higher purpose strategic.

THE STRATEGIC DIMENSION OF THE FIRM'S HIGHER PURPOSE

By definition, a firm's higher purpose is societal. Nevertheless, from a business perspective, it is fundamentally strategic. More than that, a firm's higher purpose is strategically unique according to the strategic context in which it is articulated, the businesses to which it is attached, and the extent of its strategic alignment throughout the organization.

Strategic Context. Purpose is neither defined and articulated nor manifested in a vacuum. It rests on the two pillars of a

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firm's strategic context. Firstly, it inscribes itself in the context of the firm's strategic vision i.e. its vision on market evolution, the sense of direction the firm has charted for itself, and the type of enterprise it ambitions to become. Secondly, it rests on a firm's mission stating the initiatives a firm intends to do to fulfill its vision. Both jointly serve as the unique strategic foundation for the formalization of the firm's purpose.

Strategic Fit. At corporate level, the definition and articulation of the purpose raise two highly strategic questions. Firstly, it raises the question of the strategic fit of the purpose with the business portfolio of the firm. More specifically, do the firm's businesses effectively support the firm's societal ambition? If not, how should the portfolio composition evolve? Should some businesses be restructured? Should the portfolio be enriched by external growth or strategically divested to fully reflect the company's true north? Or, reversing the question, should the firm's higher purpose be reviewed?

Secondly, it also raises the question of the role of the corporate center in diffusing the purpose throughout the organization, which further raises the underlying question of the policies, procedures and mechanisms to ensure purpose is consistently lived by across geographies, businesses, and functions.

At business level, what makes the firm's higher purpose strategic is the extent of its strategic alignment with the firm's business model. Here also, it raises a set of challenging questions whose answers need to be seen individually and collectively to get a big picture on the strategic fit of the firm's higher purpose at that level.

- From a value proposition perspective, are the delivered products and services as well as the expected types of value added in line with the firm's higher purpose?
- Does client segmentation reflect the firm's higher purpose? Is the way the firm engages with clients aligned with the firm's higher purpose?
- From an infrastructure perspective, is the firm's purpose strongly and consistently embedded in the firm's decision-making and value chain? Are support functions strategically aligned with and do they effectively partner with the businesses to help them manifest the firm's higher purpose.

When it comes to the firm's assets, for example, does the brand positioning reflect the firm's societal positioning?

Do the firm's supply chain partners comply with the firm's societal aspiration?

Be it at corporate or at business level, the notion of strategic fit and the questions raised shed light on the potentially far-

reaching strategic implications of putting purpose at the core of strategic thinking and business definition.

Nonetheless, making purpose a strategic asset requires more than defining its strategic nature. It does require to put processes in place that will help embed it in the daily operations of the firm which raises the question of its materialization.

MATERIALIZING THE FIRM'S STRATEGIC PURPOSE

Resting on the strategic fit of the firm's higher purpose with the firm's business, our five-phase approach is aimed at making the firm's strategic purpose a daily strategic, operational, and organizational reality.

Definition. This phase is two-fold. It starts with gaining clarity on the firm's DNA, its corporate identity and its underlying corporate culture. Subsequently, the leadership team can strategically choose its societal aspirations based on its vision on the society at large, on its understanding of the firm's stakeholders' needs and on the maturity level of its core capabilities. It is worth mentioning that, considering the wide spectrum of environmental, social, and governance challenges to choose from, defining the firm's higher, strategic purpose is an intrinsically multidisciplinary exercise.

Articulation. This is the "*Purpose Communication Strategy Phase*" where the leadership team defines the storytelling, the communication channels and formats to rely upon according to the internal and external target audiences to ensure consistency across all messages.

Fitness Test. This phase aims to test whether the firm is actually "*fit for purpose*" on three critical dimensions i.e. people, organization, and operations. Indeed. Firstly, one must assess the level of readiness of the firm's leadership and middle management beyond the leadership team that steered the *Definition and Articulation* Phases. Secondly, assessing the firm's operational readiness raises the question of the process efficiency and effectiveness supporting the realization of the firm's strategic purpose. Similarly, assessing the firm's organizational readiness aims to highlight whether the organization design is optimal to support the materialization of the firm's purpose, yet flexible enough to adapt over time to cope with the evolution of purpose.

The Strategic Purpose Value Chain



Source: The M'Poyo Consulting Group Analysis

Purpose-Driven Transformation. This phase consists in identifying, formalizing, and leading the transformation initiatives required to successfully address the shortcomings highlighted in the *Fitness Test* Phase.

Monitoring & Reinvention. This phase consists in defining the relevant set of purpose-related performance indicators, monitoring the execution of purpose-related initiatives and measuring their results against the identified indicators in a *“Purpose Performance Report”* in the same way financial or operational performance is monitored and reported. Beyond the performance monitoring itself, this phase aims to highlight and recommend a performance improvement course of action —from incremental improvement to disruptive reinvention— whenever it is relevant.

Altogether, the quintessential definition of the firm's strategic purpose, the process to materialize it, and the requirements to meet to see “purpose at work” throughout the organization collectively point to the convergence between the strategic and

societal natures of purpose. Nevertheless, one might rightly ask how to implement something as inherently intangible as a strategic purpose.

Our answer to that question is plain and simple: through corporate culture.

CORPORATE CULTURE AS ENABLER OF THE IMPLEMENTATION OF THE FIRM'S STRATEGIC PURPOSE

Before analyzing how culture can act as a powerful enabler of strategic purpose, it is worth stating our definition.

We define corporate culture as a body of shared values, norms, beliefs, and assumptions on the firm itself and on the world at large that influences thoughts, decisions, and actions within the organization.

Implementing an intangible asset through another intangible asset and hoping to make it tangible throughout the firm might seem counterintuitive at first.

Nevertheless, if we consider higher purpose the firm's ultimate, overarching core value and the most engaging expression of its corporate identity, then making purpose a day-to-day strategic reality through corporate culture tools does make sense. More importantly, strategic purpose and corporate culture are mutually reinforcing and serve each other well.

While corporate culture does affect various dimensions of the organization, we believe performance standards, accountability, and change to be the most decisive cultural success factors of implementation of the firm's strategic purpose.

Change Leadership Culture. We see a leadership culture embracing change rather than a culture resisting it of utmost importance in the light of the purpose-driven transformation a firm might need to go through to meet –or exceed– the objectives implied by the firm's strategic purpose.

This cultural dimension directly addresses the *Articulation*, *Fitness Test*, and *Purpose-Driven Transformation* Phases of the materialization of the strategic purpose (see above).

High-Performance Culture. We see a strong, high-performance, result-oriented culture as a key enabler to steer purpose-driven performance and to ensure the firm's strategic purpose objectives are met.

Comprehensive Accountability Culture. Similarly, we see a culture holding people accountable not only for quantifiable results but also for a behavior exemplifying the firm's strategic purpose as an excellent tool to materialize the firm's strategic purpose.

Both the high-performance and comprehensive accountability cultural dimensions directly relate to the *Monitoring & Reinvention* Phase of the materialization of the strategic purpose (see above).

Process Culture. Processes are the backbone of operations, and thus of implementation. Nonetheless, according to the firm's corporate culture, processes will either foster or hinder the implementation of the firm's strategic purpose.

Considering the universal character and omnipresence of the decision-making process throughout any organization, this process seems a natural candidate to illustrate our argument.

If we think of a corporate culture marked by decision-making effectiveness with a strong empowerment of people, a clear delegation of authority, relatively fast decision-making, and avoidance of the risk of analysis paralysis, processes will positively impact the implementation of the firm's strategic purpose. But should any of these criteria be affected in a way leading to lower decision-making effectiveness, this might then adversely

impact the implementation of the firm's higher purpose.

THE LEADERSHIP CHALLENGES OF FULFILLING THE FIRM'S STRATEGIC PURPOSE

The confirmed establishment of the purpose-driven firm has officialized the CEO's appointment as *Societal Corporate Strategist* or *Purpose-Driven Strategist*. This CEO mandate extension comes with the challenging requirement of a bifocal reading grid and a dual course of action to successfully manage the tensions between a firm's societal aspirations and strategic ambitions.

Tension #1: The Scope of the Firm vs. The Scope of Society

With blurring boundaries between industries, a spectrum of market interactions spanning from ruthless competition to expectedly smooth alliance, modular business architectures operating in reconfigured value chains in a global and increasingly more digital world, managing the scope of the firm has never been more challenging.

So, in this context, how does the CEO define and subsequently implement a strategic purpose that simultaneously stays relevant over time to the constantly evolving scope of the firm and to the society at large?

The remarkable feature of this tension is that it puts in equation the balance CEOs must maintain between the firm's business imperatives and its —self-chosen—societal obligations. As such, this tension confirms the wider role of business as a society constituent.

Tension #2: The Timeframe of Business Results vs. The Time Horizon of Society Contribution

In politics, we have heard countless times that the difference between politicians and statesmen was that the former thought about the next elections while the latter thought about the next generations.

We believe the same might be said today about the strictly business-focused CEO and the purpose-driven CEO, considering the potentially large difference in time of realization between business results and wider contribution to society. Hence, in this context, how should CEOs either balance and/or prioritize one over the other?

Time horizon of society contribution. Fulfilling a societal aspiration —be it an environmental, a social or a governance one—and meeting its associated objectives represent a very long-term commitment.

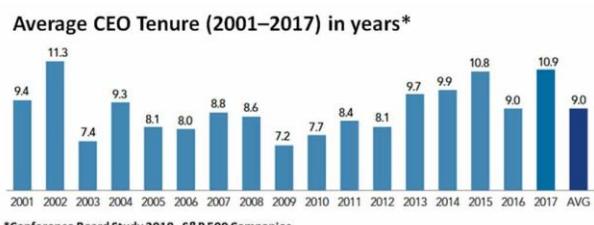
Timeframe of business results. These results are shorter-term than those of society contribution... but, in our view, they should come first. Not because they

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are symbolically more important than the firm's longer-term contribution to society but because they actually provide fuel for it. Nevertheless, balancing both time horizons of results might sometimes represent a big tension to manage for the CEO.

Indeed, how should a CEO decide whether to prioritize the intermediate result towards the achievement of the firm's contribution to a sustainable development goal or the achievement of a 3-year growth strategy objective?

Additionally, this issue raises the underlying question of CEOs' tenure or, more broadly speaking, the long-term stability of leadership teams. The longer the CEO's tenure, the better for balancing the firm's long-term societal and strategic priorities.



*Conference Board Study 2018 - S&P 500 Companies
CEOWorld Magazine, R. Andrade, CEO Tenures are Under Pressure These Days. Want to Know Why? December 10, 2019.

The Harvard Business Review's *2019 World Best-Performing CEOs* list reports a 7.2-year average tenure for the S&P 500 CEOs, and a 15-year average tenure for the top 100 CEOs. The CEOWorld Magazine states a 9-year average tenure for S&P 500 CEOs in the 2001–2017 period. Those tenures seem compatible with the time horizon of purpose-driven performance.

However, companies may, for numerous reasons, be left with CEOs with much shorter tenures, which might jeopardize the balance between firms' strategic and societal ambitions, and therefore increase this tension.

Tension #3: Internal Leadership vs. External Followership

The involvement of stakeholders beyond the boundaries of the firm —e.g. supply chain partners, strategic alliances partners, customers, or investors—in the successful implementation of the firm's strategic purpose leaves CEOs with a two-fold challenge.

The first challenge is foremost a leadership challenge i.e. the need for aligned external followership which may ultimately lead to a tension with the internal leadership of the firm.

Indeed, the CEO —in his *Purpose-Driven Strategist* capacity— and the leadership team are responsible for the purpose-driven strategy and its associated strategic purpose. And while empowering internal resources to achieve the firm's societal ambition is a natural leadership call, the firm's leadership team may not have the same levers of power and influence to rally resources from external partners to their societal agenda, regardless of the terms and conditions of their cooperation. Hence, the potential tension between the firm's internal leadership ambition and external stakeholders' willingness to follow another firm's higher purpose.

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The subsequent challenge is operational. In a context where the value chain is spread over various companies, how can one ensure that the value chain is optimally designed and structured to deliver on the firm's strategic and societal promises?

Tension #4: C-Suite & Board Alignment Prerequisite

Successfully addressing this *Internal Leadership/ External Followership* tension requires a strong internal strategic alignment between the C-Suite and the Board of Directors. Indeed, board members act as co-creators of the firm's strategy by overseeing it and by providing constructive criticism and advice to the executive leadership team responsible for crafting and executing the firm's strategy. Consequently, alignment of thought and spirit around the strategic purpose of the firm between both corporate governance bodies is paramount.

Furthermore, this highlights a two-fold deeper, implicit requirement in terms of board composition, quality, and leadership dynamics. Indeed, first, helping articulate the strategic purpose requires a diversity of skills, knowledge, and experience among board members allowing the Board to exert its strategic oversight mandate on societal issues. Second, it also requires effective leadership team dynamics —both among board members and with senior executives— that facilitate decision-

making and establish firmly and harmoniously a firm's strategic purpose.

THE LEGACY OF THE FIRM'S STRATEGIC PURPOSE

Ultimately, we see the process that leads a firm from defining to implementing to eventually owning its strategic purpose as an inner transformational growth journey towards the ultimate best version of itself in terms of business performance and society contribution, i.e. its *"Dual True Self"* in the eyes of the world of business and society.

Being the ultimate best version of itself, as a firm, seems to be the pinnacle of corporate achievement and the hallmark of strategic excellence. But, at the end of the day, one might be tempted to ask for what purpose? Or, in other words:

What is the ultimate higher purpose of firms' strategic purpose?

We see the answer to this quintessential question coming down to one word: legacy.

Indeed, first and foremost, the strategic purpose helps shape the firm's legacy by formalizing the firm's strategic objectives, societal aspirations, and the sense of direction to fulfill them.

At microeconomic level, from a corporate citizenship perspective, the firm's legacy is nothing less than the distinctive form of

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contribution to society the firm has committed to in its strategic purpose. From a business perspective, we see the firm's leadership team's legacy as building an organization able to compete successfully today and tomorrow through the achievement of the firms' business objectives. Hence, the firm's economic performance should provide the necessary resources to support the fulfillment of the firm's societal aspirations.

At macroeconomic level, we believe firms' legacy should be looked at globally as the aggregation of all the firms' distinctive positive contributions to global, societal issues —regardless of the firms' respective investments to solve those issues.

Consequently, the magnitude of impact of the firm's strategic purpose goes far beyond the boundaries of the firm. At its core, strategic purpose is the cornerstone around which corporations articulate their contribution to improve the state of the world, i.e. the ultimate purpose of the firm.

Altogether, such a legacy is a noble calling for business leadership and for shared, inclusive ownership.

Indeed, it calls for the involvement of all layers of leadership not only within but also across corporations and industries. It also calls for the involvement for all layers of leadership at “stakeholders-organizations” that partner with the

business community to help improve the state of the world.

Eventually, the legacy of the firm's strategic purpose calls for a global leadership inspired, guided, and led by purpose. That legacy calls for a Purpose-Driven Business Leadership.

To see how we can help you to put your strategic purpose to work, contact us at: contact@mpoyostrategy.com

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