

Getting clear about “why”

The question
organizational
purpose is
designed to answer



KORN FERRY

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Executive summary

In a world that is evolving faster than ever before, one question is uttered repeatedly... “Why?”

We start to wonder why as children, signaling curiosity and a need to understand the daunting world around us. But the need to know “why” never goes away, even though sometimes we forget to ask. In fact, the desire to make meaning of the world—and to find our purpose within it—is intrinsically human.

The Korn Ferry Institute defines organizational purpose as the reason for the existence of an organization. Conveying the soul of the organization, purpose, as we define it, exists at the intersection of three components: vision, mission, and values. Our research on organizational purpose found that the majority of organizations studied has a mission statement, yet companies are only now beginning to grasp the true concept of purpose. As organizations face mounting pressure to act as good global citizens, many still find it difficult to articulate their purpose clearly and operate successfully while honoring that purpose.

Without a doubt, the recent crises have only magnified the demand and need for organizations to embrace their purpose. In response, the Korn Ferry Institute set out to understand the different kinds of purposes that companies have and the impact of those purposes on business performance and organizational effectiveness.

How an organization lives up to its purpose can influence its success. And what we’ve found is that even *how* companies frame their purpose can affect performance: of the more than 480 published purpose statements we studied, those companies with purposes focused on action and external impact tend to see better business performance and are more effective overall.

However uncomfortable it may be, if we feel strongly about an issue—and if that issue ladders back to our reason for being—then we have an obligation to step forward.

- Ryan Gellert, CEO, Patagonia

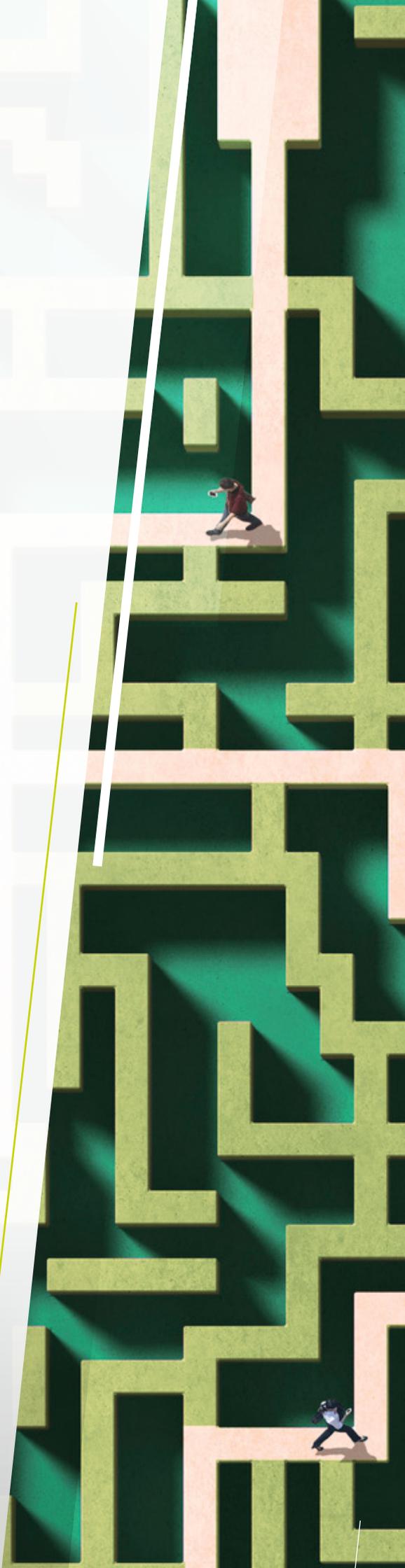


As more companies push purpose into the business agenda, there is an emerging demand for guiding principles and best practices in defining and activating organizational purpose. The activation of purpose is about aligning the organization's purpose with strategy and business practices, building a culture around the organization's purpose, and enhancing employees' personal purposes. Our extensive research uncovers those science-based practices necessary to help companies activate their purpose.

Methodology

To investigate how companies produce meaning for their stakeholders, such as employees, customers, and investors, the Korn Ferry Institute searched publicly available data from organizations in the 2019 Drucker Institute's annual ranking of corporate effectiveness. Of those 640 companies, 484 (78%) had published mission, vision, or purpose statements, either on their websites or in their annual reports. We evaluated the overarching purpose of each company from their published mission, vision, or purpose statements. The purpose data were then subject to the text analysis for underlying themes and patterns.

To measure the impact of purpose we reviewed past financial performance of the 484 organizations and the organizations performance on the Drucker Institute Organization Effectiveness Index. The Drucker Institute rates an organization's effectiveness based on five dimensions: Customer Satisfaction, Employee Engagement, Innovation, Corporate Social Responsibility, and Financial Strength. Our analysis reveals that business results and organizational effectiveness are associated with different types of purpose.



How you frame purpose matters

Our analysis revealed that organizational purposes differ in focus and tone. We identified two types of overarching purposes: outward-oriented and inward-oriented. Organizations with outward-oriented purposes tend to emphasize impact, prioritizing effect on the customer and broader world. Companies with inward-oriented purposes highlight performance and business ambition, with no reference to customer impact. In addition, these purposes can be either focused on action (“doing”) or focused on identity (“being”). These two dimensions form four quadrants

to categorize the most common expressions of organizational purpose. Our research also found that organizational purpose is highly aligned to Korn Ferry’s personal purpose framework at the mission level. This suggests that a person’s individual purpose has the potential to overlap with an organization’s purpose.

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Figure 1

Alignment of personal mission and organizational mission



Table 1

Taxonomy of organizational purpose

	INWARDLY ORIENTED	OUTWARDLY ORIENTED
DOING	<p>TRANSFORM to disrupt the industry to dominate the market <i>Example:</i> "Transform the world of food."</p> <p>ADVANCE to enhance and improve the product or service <i>Example:</i> "Discover, develop and deliver innovative medicines."</p> <p>PROFIT to generate financial returns, to deliver shareholder value. <i>Example:</i> "Provide superior returns to our shareholders."</p>	<p>PROMOTE to create or promote a condition that benefits the world or the larger community <i>Example:</i> "Create a world where everyone is free to work together effortlessly."</p> <p>PARTNER to help, educate, facilitate, or empower customers <i>Example:</i> "Equip engineers and scientists with systems that accelerate productivity, innovation and discovery."</p> <p>IMPACT to serve and generate a positive impact on customers <i>Example:</i> "Inspire the dream of a better life through authenticity and timeless style."</p>
BEING	<p>BE THE BEST to benchmark and outperform the competitors <i>Example:</i> "Be the dominant supplier of auto parts."</p>	<p>BE TRUSTED to be trusted by customers and considered a force for good. <i>Example:</i> "To make this a company of which our customers, employees, shareholders and communities can be proud."</p>

The power of organizational purpose

Like the spinal cord connects the brain with the rest of the body, an organizational purpose connects employees, customers, and services to each other.

Purpose acts as the organization's backbone, providing both structure and support, as well as enough flexibility so that a company can pivot around obstacles to reach their goals.

Korn Ferry's research on organizational transformation supported our findings on organizational purpose and also found that the most transformative companies have clear, concise, and outward-focused purpose statements. In both studies, we found that positive business performance and organizational effectiveness were more likely when a company's purpose states exactly what the company hopes to accomplish beyond financial gains. When an organization can rally around an outward-facing purpose, a shared identity is created, fostering a culture of connectedness and meaning.

Indeed, our analysis of organizational purposes suggests purposes that transcend self-interest can enhance a company's reputation among their stakeholders, attracting external interest and investment. Concrete, actionable, and outward-focused purposes, our research shows, can also invigorate and inspire a company's workforce, unleashing a wealth of internal resources. When employees see how their job contributes to organizational goals, they are better able to connect their day-to-day work to the company's higher purpose. And when employees connect to the broader purpose, they become more committed to and engaged with their work, boosting both performance and productivity.



Purpose affects the bottom line

“It is not by focusing on the shareholder. It is by focusing in on the stakeholders and on the noble cause. Those companies are winning.”

- Board Director, drug wholesale firm

Shareholder values and stakeholder values are not mutually exclusive—they are interconnected. If employees are unfulfilled, they will not serve customers well.

Purpose inspires internal motivation and elevates external reputation. A 2019 study published by the National Bureau of Economic Research showed that workers who knew they were pursuing outward-oriented purposes worked 24% faster and had 43% less downtime, without any impact on the quality of their work. When people have a stronger sense of purpose, they tend to be more committed to their organization and more engaged with their work, and therefore are better and more productive employees, our research found.

By moving the degree of purposefulness of your workforce from “moderately purpose-driven” to “very purpose-driven” can translate into a 12%-16% increase in EBITDA.

By linking, increasing compatibility, finding overlap, or creating alignment, organizational

purpose can be a catalyst for increased degree of personal purposefulness.

Companies with activated organizational purpose that also encourage employees to activate their own personal purpose will attract and retain great talent. When filled with purpose, employees show renewable energy and motivation, and perform better on the job, thus achieving beyond what is expected. Feeling purposeful at work relates positively to work engagement, Korn Ferry research reveals.

Employees driven by personal purpose that aligns to an organization’s purpose provide quality service to customers, and this increased service level often translates to better financial results. In addition to improved productivity, our study found companies with outwardly-oriented purposes saw an average 3-year compound annual growth rate (CAGR) of 8.83%, whereas organizations with inwardly-oriented purposes reported an average 6.36% CAGR.



Purpose statements in the real world

“ Organize the world’s information and make it universally accessible and useful.”

-Google

“ Transforming the health of the community, one person at a time.”

-Centene

“ Creating happiness through magical experiences.”

-Disney

Focus on legacy, not reputation

Organizations shouldn't underestimate the power of tone when defining their purpose.

When an organizational purpose is focused on action or “doing,” our research shows, companies see better financial results: they grow roughly 54% faster than those organizations with purposes focused on identity or “being.”

If purpose tells what the business is about, values specify how business is done, and sometimes, values and purpose do not always align. In fact, our analysis only found a moderate level of alignment between purpose and values. This could be for several reasons, such as companies developing purpose statements and values at different times and by different groups of people. In any case, most companies do not explain why they have certain values nor do they explain the relationship between their purposes and values.

Aligning purpose and values can provide incredible clarity to employees and customers. When aligned, employees do not need to choose between upholding their organization's values or enacting the organization's purpose, because the two complement each other.

Enacting an organizational purpose and upholding and defending certain values can be uncomfortable and may require companies to sacrifice the speed of growth. Values like trust, integrity, corporate social responsibility (CSR), and safety may not accelerate financial growth, but they are correlated to increased EBITDA and gross profit. What's more, staying true to purpose and values is worth the commitment and will be profitable over the long haul.

We found outwardly-oriented purposes to be most common overall: of the 484 companies we studied, about two-thirds (66%) had purpose statements that fell under this type. This popularity falls in line with other research that suggests for a company to boost performance, its leaders should define its purpose as an objective beyond profit maximation. Indeed, according to our research on organizational purpose, companies with outward-focused purposes place higher on the Drucker Institute's Overall Organizational Effectiveness ranking.

Additionally, we found that companies with outwardly-oriented purposes not only receive higher rankings on all five of the Drucker Institute's dimensions, but also show the largest positive gaps for Customer Satisfaction and Employee Engagement. This shows that having a clearly defined, outward purpose, with a focus on action, inspires employee behavior and increases stakeholder support from customers, investors, and surrounding communities.

But having a clear purpose statement is only the first step. Employees, customers, and shareholders want organizations to honor their purpose through words and actions. Purpose needs to grow out of the business itself, thus becoming the lens through which strategy, leadership, culture, and talent are developed. Purpose is not something you graft onto a business—it is a core way of understanding the business deeply.

In other words, companies will need to go well beyond “values on a website.” They will need to make real, substantial moves in service of their purpose.



PPG Industries Inc.'s “why”

PPG Industries Inc. has “protect and beautify the world” as its mission.

“Protect” and “beautify” illustrate its core business: industrial coating.

To achieve this mission, PPG Industries Inc. wants to “operate safely” and “minimize the impact on the environment.”

These two values not only specify how the company does its business, but they also align with its mission: to protect and beautify.

Activating your organizational purpose

“It can’t just be words ... It has got to be real and meaningful.”

- CEO, multinational food products company

Being purpose-driven is not necessarily about social responsibility, philanthropy, or even sustainability, but instead, a new way of thinking about generating value and creating impact.

An organizational purpose explains how the company makes a unique contribution to society. It should sit squarely in the center of everything a business does.

The best, most effective organizational purpose statements:

- benefit customers or the larger world, not just your company,
- are unique and relevant to your business,
- are succinct and memorable,
- are both concrete and inspiring, and
- are supported and aligned with core values.

An organizational purpose guides the business and its leaders toward their goals and anchors them in unstable times. Purpose-driven decisions can help organizations bring clarity and focus during a time when everyone may feel a bit disoriented. And when an organization’s purpose is clear, active, and guides strategic priorities, as well as company practices, that’s where the real magic happens.

To turn on the purpose engine to power organizational success, here are four recommendations to optimize your company’s purpose.



IKEA's "why"

"We're optimists, constantly looking for new and better ways to do things, from how to design a rocking chair that fits into a flat-pack, to creating LED light bulbs that are affordable to everyone. Our vision is to create a better everyday life for the many people—for customers, but also for our co-workers and the people who work at our suppliers."

IKEA founder Ingvar Kamprad wanted to create furniture that the average person could afford and assemble. Kamprad's honored IKEA's purpose even when competitors started a suppliers' boycott because of IKEA's low prices. To stay customer focused and stay true to IKEA's organizational purpose, Kamprad moved to in-house designs and sourcing production outside of Sweden. The boycott ended.

IKEA is still successful.

1

Do well while doing good.

The need to integrate purpose and strategy is being felt at the top of the house. In fact, CEOs interviewed for Korn Ferry's [CEO for the Future](#) study that they are no longer viewing purpose and profit as competing priorities, but rather as integrated and interrelated.

Purpose is central to leadership—to the extent that some experts even describe leaders as “chief meaning makers.” With an increasingly public role, a CEO’s ability to connect their personal purpose *and* activate their organization’s purpose has become more important than ever before. Korn Ferry’s research on transformational leaders found that the CEOs at the world’s most transformational organization were vocal about and took hard stands on societal issues.

- **Talk** to stakeholders to understand what is most important to *them* and explore what is most important to *you*.
- **Verbalize** your organizational purpose and make it part of your company’s brand, reference it often, and show how you live it.
- **Use** purpose as decision criteria for priorities and investments. If something does not align to or support your organizational purpose—reconsider.

2

Build a culture around purpose.

There's little doubt amongst transformative leaders that success in the new economy hinges on culture. According to Korn Ferry's research on culture transformation, 72% of the 7500 senior executives we surveyed agree that culture is extremely important to organizational performance.

Our research on organizational purpose did not find high alignment between purpose and values, which can be confusing to employees and customers, as well as potentially negatively impact culture. However, when an organization builds into its culture values that support purpose, there are positive business outcomes. Verbalizing values appears to be an essential part of how companies process and internalize change and can assist with activating purpose.

Leading an organization that enacts its purpose and values is not an easy task—talking a lot about values but not living up to them can affect culture. Ideally, corporate values and culture should closely align with corporate purpose.

Aligning an organization's culture and values to its purpose can drive better performance.

- **Take a deep look** at your organization's culture, purpose, and values. Do they all align?
- **Respect** and **seek** diverse perspectives on how the company operates and what is truly valued by the general population.
- **Determine** what your company values, ensure that they align to your purpose, and live those values vehemently.



Amazon's "why"

Amazon's purpose is to be earth's most customer centric company. Its website states, "Our mission is to continually raise the bar of the customer experience by using the internet and technology to help consumers find, discover and buy anything, and empower businesses and content creators to maximize their success."

Amazon founder Jeff Bezos aim to protect the trust of its customers at all costs, even if protecting this trust affects growth.

3

Live and breathe your purpose.

By 2025, millennials will account for 75% of the workforce. Recent research found that millennials seek out possibilities across all aspects of their lives to have a positive impact on society and question norms that might pose barriers to implementing their ideas for social impact.

Further supporting what millennials find compelling in an organization, another study revealed that 75% of millennials would take a pay cut to work for a socially responsible company, while 83% would be more loyal to a company that helps them contribute to social and environmental issues. Korn Ferry's findings on the relationship between organizational commitment and employee turnover show that when the degree of purposefulness of your workforce moves from "moderately purpose-driven" to "very purpose-driven" this correlates to a nearly 10% drop in workforce attrition. In other words, activated, outwardly-focused organizational purpose will continue to be critical to attracting and retaining the millennial workforce. When employees have a purpose, they're more engaged. When leaders have a purpose, they can be more engaging.

When organizational purpose is activated, it will be noticed by the people inside and outside of your organization.

- **Stay true** to your organization's purpose—a consistent direction will often pay off over time. Your organizations actions must be aligned to the organizations purpose.
- **Understand** what your stakeholders value and find important to help define your organization's purpose.
- **Promote, communicate, and act** out your purpose to help attract the talent that will help you attain your goals.

4

Harness innovation through personal purpose.

Activating purpose within an organization spurs great innovation. When purpose penetrates every aspect of organizational life, it creates synergy, enhancing intrinsic motivation and resilience. A good organizational purpose is not exclusive; it is the common denominator that connects diverse perspectives and supports personal fulfillment.

Korn Ferry research on personal purpose found that when people have a clear purpose, they are better positioned to manage complexity, tolerate ambiguity, and given today's crises, cope with stress and rise above challenging times. Our research on intrinsic motivation also found that the more people were aligned to a personal purpose, the higher the innovation score was for the country in which they worked. Personal purpose helps employees find meaning in their lives and work. When personal and organizational purpose overlap, and action is tied to meaning, innovation is often the result.

Organizational purpose can be incredibly powerful when overlapping at both the individual and team level. Findings from a study conducted by the Korn Ferry Institute, in partnership with École des Hautes Études Commerciales (HEC Paris), revealed that, among the more than 1500 firms surveyed, purposeful leadership has had a positive effect on corporation and organizational support for innovation.

This suggests alignment between organizational, leadership, team, and individual purposes could be a tremendous advantage, as it can build trust within teams, and create a sense of empowerment and autonomy--both of which are required to work effectively in modern organizations with flat, distributed, and networked structures.

By aligning organizational and personal purpose, companies can better harness employee innovation.

- **Support** personal purpose by encouraging personal development and providing platforms for safe expression that allow employees to discover how their own purpose can align with and support an organization's purpose.
- **Encourage** teams to cocreate purpose for projects they are working on that align to the organization's purpose. When a company's purpose is activated, employees are more likely to rally around the shared purpose to ensure all outcomes get the organization one step closer to realizing its goals.
- Diligently **remind** employees what they are working towards and how their work supports the organization's purpose and values.



Microsoft's "why"

Microsoft's purpose is to empower every person and every organization on the planet to achieve more. Microsoft has successfully aligned their purpose, values, and culture.

Microsoft's "learn-it-all" culture aligns to its purpose and values. The company specifically calls out diversity and inclusion as an area of focus which aligns to its purpose of empowering every person to achieve more.

Our research shows the companies that called out the values of diversity and inclusion had gender diversity among leaders and scored higher on Drucker Institute's ranking of corporate effectiveness than those that did not. These companies also outpace other organizations on net income, gross profit, earnings before interest, taxes, depreciation, and amortization, among other key metrics.



The case for organizational purpose

Purpose is a continuous journey that reflects the organization's true motivation and driver for doing its business.

However, a purpose is nothing if it is not defined and realized. When activated, an organization's purpose can open doors for opportunity and demonstrate true impact in the form of financial performance, engaged employees, and satisfied customers.

After all, how and to what extent a company lives its purpose will make a significant difference. In a purpose-driven organization, purpose intersects strategy and operation and is the arbiter of every decision. And in these organizations, purpose becomes the center of culture, the inception of leadership, the anchor of organizational transformation, and the filter of employee sense-making.

Defining a compelling purpose may be one of the most important decisions organizations and leaders are making today.

As our research shows, a clear and outward looking purpose that aligns with an organization's values not only increases employee retention and spark customer loyalty, but it also improves business performance. To truly see the impact, a company should view every decision through the lens of its purpose, and make sure that each and every action it takes both realizes and lives up to that purpose.

A meaningful purpose is within reach of every company—big or small.

Simple, clear purpose and principles give rise to complex and intelligent behavior. Complex rules and regulations give rise to simple and stupid behavior.

*- Dee Hock,
former CEO of
VISA International*



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About Korn Ferry

Korn Ferry is a global organizational consulting firm. We work with our clients to design optimal organization structures, roles, and responsibilities. We help them hire the right people and advise them on how to reward and motivate their workforce while developing professionals as they navigate and advance their careers. Our 7,000 experts in more than 50 countries deliver on five core areas: Organization Strategy, Assessment and Succession, Talent Acquisition, Leadership Development, and Total Rewards.

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