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ARTICLE STRATEGY

Put Purpose at the Core of Your Strategy

It's how successful companies redefine their businesses.

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STRATEGY



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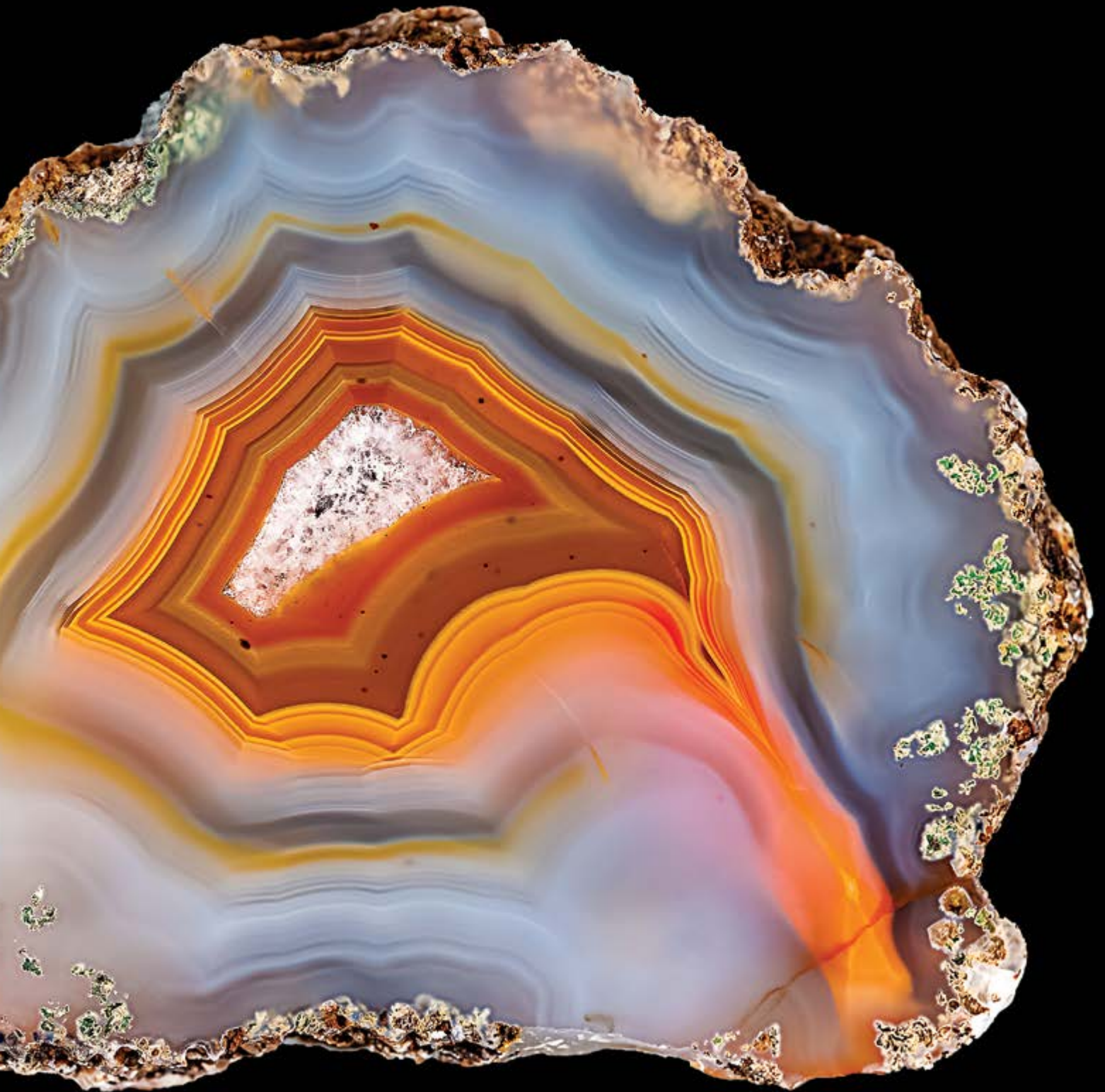
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Put Purpose *at the* CORE of Your Strategy

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Eight years ago we launched a global study of high growth in companies, investigating the importance of three strategies known to drive it: creating new markets, serving broader stakeholder needs, and changing the rules of the game. What we found surprised us. Although each of those approaches did boost growth at the organizations we studied, there was a fourth driver we hadn't considered at all:

purpose.





Many high-growth companies use purpose to generate sustained profitable growth, stay relevant in a rapidly changing world, and deepen ties with their stakeholders.

Companies have long been encouraged to build purpose into what they do. But usually it's talked about as an add-on—a way to create shared value, improve employee morale and commitment, give back to the community, and help the environment. But as we worked with the high-growth companies in our study and beyond, we began to recognize that many of them had moved purpose from the periphery of their strategy to its core—where, with committed leadership and financial investment, they had used it to generate sustained profitable growth, stay relevant in a rapidly changing world, and deepen ties with their stakeholders.

Two Critical Roles

In the course of our research, we talked to scores of C-level executives. They worked at 28 companies—in the United States, Europe, and India—that had had an average compound annual growth rate of 30% or more in the previous five years. What we learned from those conversations was that purpose played two important strategic roles: It helped companies *redefine the playing field*, and it allowed them to *reshape the value proposition*. And that, in turn, enabled them to overcome the challenges of slowing growth and declining profitability.

ROLE 1: Redefining the playing field. What's a key difference between low-growth and high-growth companies? The former spend most of their time fighting for market share on one playing field, which naturally restricts their growth potential. And because most aggressive battles take place in industries that are slowing down, gains in market share come

at a high cost, often eroding profits and competitive advantage as offerings become commoditized.

High-growth companies, by contrast, don't feel limited to their current playing field. Instead, they think about whole ecosystems, where connected interests and relationships among multiple stakeholders create more opportunities. But these firms don't approach ecosystems haphazardly. They let purpose be their guide.

Consider the different strategies adopted by the two leading companies in the pet-food industry: Nestlé Purina PetCare, the largest player in North America; and Mars Petcare, the global leader. The companies have defined very similar purposes for themselves—"Better with pets" (Purina) and "A better world for pets" (Mars Petcare)—and both want to develop new products that will help customers improve their pets' health. But Purina has continued to focus on the pet-food playing field and is applying purpose in some inspiring social initiatives, whereas Mars Petcare is using purpose to propel its expansion in the broader field of pet health.

Mars Petcare, which had established a foothold in pet health with the acquisition of Banfield Pet Hospital in 2007, decided to build its presence in that arena by buying two other veterinary services: BluePearl in 2015 and VCA in 2017. Then in 2018 Mars Petcare entered the European veterinary market, buying the Swedish company AniCura, which has operations in seven European countries, and the British company Linnaeus. Those acquisitions helped Mars Petcare become Mars Inc.'s largest and fastest-growing business division.

IDEA IN BRIEF

THE CHALLENGE

Companies pursuing high growth tend to follow three well-known strategies: creating new markets, serving broader stakeholder needs, and changing the rules of the game. But there's another critical growth driver: purpose.

THE INSIGHT

Many companies consider purpose merely an add-on to their strategy, but the most successful companies put it at the core, using it to redefine the playing field and reshape their value propositions.

THE BENEFITS

A purpose-driven strategy helps companies overcome the challenges of slowing growth and declining profits. It also helps with the soft side of management: the people-related aspects of running a business, which so often prove to be the undoing of leaders.



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In moving deeper into this larger ecosystem, Mars Petcare did more than just capitalize on a burgeoning industry. It also shifted its orientation beyond products to services, a radical change for an asset-heavy company that for 75 years had relied on the production and sale of goods. To succeed, the company had to build completely different core competencies and devise a new organizational structure. Many companies in this dangerously open-ended situation might have flailed, but Mars Petcare did not. It was able to pull off a transformation because it ensured that every move it made was aligned with the same core purpose. And it's not done yet: The company is now bringing that sense of purpose to efforts to expand into pet-activity monitoring with “smart” collars.

Another company that has used purpose to redefine the playing field, this time in the industrial sector, is the Finnish oil-refining firm Neste. For more than six decades Neste, founded in 1948, operated a business focused almost entirely on crude oil, but by 2009 it was struggling. The market was glutted, oil prices had dropped sharply, margins were falling, and the EU had passed new carbon-emissions legislation. During the previous two years the company's market value had shrunk by 50%.

Fighting those headwinds, the executive team, led by Neste's new CEO, Matti Lievonon, realized that the company could no longer survive on its traditional playing field. It would have to look for new opportunities in the larger ecosystem. Renewable energy could be a key driver of growth, they realized. Their purpose, they decided, should be to develop sustainable sources of energy that would help reduce emissions, and everything they did would be guided by a simple idea: “Creating responsible choices every day.”

It's common for major oil companies to nod to sustainability in some way, but Lievonon quickly proved that Neste meant business, launching a bold transformation that would become a seven-year journey. Employees, customers, and investors all initially resisted the change, but Lievonon and his team were undaunted. They made major investments in infrastructure, innovated renewable technologies, focused on converting customers to green energy solutions, and, most important, engineered a fundamental change in the company's culture.

The process wasn't easy. When Lievonon was just three months into his tenure, a leading economic magazine in Finland published an article saying that he should be fired. He soldiered on, however, and by 2015 Neste had established itself as the world's largest producer of renewable fuels derived from waste and residues. A year later its comparable operating profits from renewables would surpass those of its oil-products business. In 2017 the company took yet another step by actively researching and promoting the use of waste feedstock from new sources such as algae oil, microbial oil, and tall oil pitch.

ROLE 2: Reshaping the value proposition. When confronted with eroding margins in a rapidly commodifying world, companies often enhance their value propositions by innovating products, services, or business models. That can bring some quick wins, but it's a transactional approach geared toward prevailing in the current arena. Because a purpose-driven approach facilitates growth in new ecosystems, it allows companies to broaden their mission, create a holistic value proposition, and deliver lifetime benefits to customers.

Companies can make this shift in three main ways: by responding to trends, building on trust, and focusing on pain points.

> **Responding to trends.** In line with its purpose of “contributing to a safer society,” Sweden's Securitas AB, a security company with 370,000 employees, has traditionally offered physical guarding services. But in the early 2010s its CEO at the time, Alf Göransson, saw that globalization, urbanization, and the increasingly networked business landscape were all changing the nature of risk—for people, operations, and business continuity. At the same time, labor was becoming more expensive, and new technologies were becoming cheaper. Given those developments, Göransson decided that Securitas could no longer “simply sell man-hours.” Instead, the company had to explore new ways of using electronics to provide security. This shift, Göransson understood, was not a threat to the existing business but an opportunity to grow—as indeed it has proved to be.

In 2018 the company decided to go a step further and reshape its value proposition from reactive to predictive security, a plan that once again built on the company's core purpose. Under the leadership of Göransson's successor, Magnus Ahlqvist, the firm strengthened its electronic security business by acquiring a number of companies, investing heavily in modernizing and integrating back-office systems, and training its guards in remote surveillance, digital reporting, and efficient response. That allowed Securitas to offer bundled, customized security solutions—encompassing physical guarding, electronic security, and risk management—that provided a much-enhanced level of protection at an optimized cost. By expanding its value



proposition in this way, Securitas has been able to strengthen client relationships and significantly increase its margins for the solutions business. From 2012 to 2018 the company's sales of security solutions and electronic security also increased, from 6% of total revenue to 20%.

> **Building on trust.** When Mahindra Finance, the financial services arm of the Mahindra Group, a \$20 billion Indian conglomerate, wanted to define its value proposition, it looked to its parent company's longtime purpose-driven strategy of improving customers' lives—encapsulated in 2010 by the simple motto “Rise.” It's a word that the company's third-generation leader, Anand Mahindra, expects will

inspire employees to accept no limits, think alternatively, and drive positive change.

In keeping with that strategy, Mahindra Finance decided to target its core offering, vehicle financing, to rural areas, where it could—as Rajeev Dubey, the group head of HR, put it to us—“address the unmet needs of underserved customers in an underpenetrated market.”

That meant that the company had to figure out how to determine the creditworthiness of customers who were mostly poor, illiterate, and unbanked, with no identity documents, no collateral, and cash flows that were often impacted by monsoons. To do that, the company had



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to develop completely new ways to handle loan design, repayment terms, customer approval, branch locations, and disbursement and collection in cash. Not only that, but it had to figure out how to recruit workers who could speak local dialects, assess local situations, and operate under a decentralized model of decision making.

Remarkably, the company managed to do all those things and established a preliminary level of trust with its customers. It then stretched its value proposition to help farmers and other customers obtain insurance for their tractors, lives, and health. In a country where insurance penetration is abysmally low (about 3.5%), this was no small feat, especially since rural residents didn't easily part with any minuscule monthly surplus they had, even if it was to secure their livelihood.

Then Mahindra Finance extended its purpose-driven efforts to housing finance, another arena in which it recognized that it could help its rural customers rise above their circumstances. For most of those people, securing loans for housing was difficult in the extreme. Banks offered loans at an interest rate of about 10% but demanded documentation most rural residents couldn't provide. Moneylenders offered instant financing but charged interest rates of about 40%. Recognizing an opportunity, Mahindra Finance decided to play at the intermediate level, offering customized home loans at rates of about 14%, an option that appealed to its growing base of customers. And when some of those customers developed successful small agribusinesses, they began looking for working-capital loans, equipment loans, project finance, and so on—more unmet needs that Mahindra Finance could address. So it extended its value proposition again, into the small-to-medium-enterprise arena, offering finance and asset-management services.

Throughout its expansion, Mahindra Finance was guided by its goal of helping rural citizens improve their lives. The company identified and committed itself to value propositions that allowed it to deepen its relationship with its customers, which in turn created additional streams of revenue and profits. Today Mahindra Finance is India's largest rural nonbanking financial company, serving 50% of villages and 6 million customers.

> **Focusing on pain points.** We've already seen how Mars Petcare's health care value proposition led to direct

IS PURPOSE AT THE CORE OF YOUR STRATEGY?

Not unless you answer yes to all five questions below.

	Y	N
1 Does purpose contribute to increasing your company's growth and profitability today?	<input type="radio"/>	<input type="radio"/>
2 Does purpose significantly influence your strategic decisions and investment choices?	<input type="radio"/>	<input type="radio"/>
3 Does purpose shape your core value proposition?	<input type="radio"/>	<input type="radio"/>
4 Does purpose affect how you build and manage your organizational capabilities?	<input type="radio"/>	<input type="radio"/>
5 Is purpose on the agenda of your leadership team every time you meet?	<input type="radio"/>	<input type="radio"/>

connections with pet owners at multiple touchpoints. Having established them, the company looked for other ways to create "a better world for pets." How could it come up with a value proposition that would make pet ownership a seamless, convenient, and attractive experience?

The answer was by investing in technology to help address one of the biggest concerns of pet owners: *preventing* health problems. In 2016 the company acquired Whistle, the San Francisco-based maker of a connected collar for activity monitoring and location tracking—a kind of Fitbit for dogs. Teaming the device up with its Banfield Pet Hospital unit, the company launched the Pet Insight Project, a three-year longitudinal study that aims to enroll 200,000 dogs in the United States. By combining machine learning, data science, and deep veterinary expertise, the project seeks to understand when behavior may signal a change in a pet's health and how owners can partner with their veterinarians on individualized diagnostics and treatments for their pets.

Developing a Purpose

Leaders and companies that have effectively defined corporate purpose typically have done so with one of two approaches: *retrospective* or *prospective*.

The retrospective approach builds on a firm's existing reason for being. It requires that you look back, codify



The focus of the discovery process is internal: Where have we come from? What makes us unique? Where does our DNA open up future opportunities we believe in?

organizational and cultural DNA, and make sense of the firm's past. The focus of the discovery process is internal. Where have we come from? How did we get here? What makes us unique to all stakeholders? Where does our DNA open up future opportunities we believe in? These are the kinds of questions leaders have to ask.

Anand Mahindra very successfully employed this tactic at the Mahindra Group. First he looked back at his 30 years at the company and at the values that had guided him as its leader. Then he delved into the psyche of the organization by conducting internal surveys of managers at all levels. He also did ethnographic research in seven countries to identify themes that resonated with his company's multinational, cross-cultural employee base. The process took three years, but ultimately Mahindra arrived at "Rise," which, he realized, had been fundamental to the company from its inception. "Rise" is not a clever tagline," he has said. "We were already living and operating this way."

The prospective approach, on the other hand, reshapes your reason for being. It requires you to look forward, take stock of the broader ecosystem in which you want to work, and assess your potential for impact in it. The idea is to make sense of the future and then start gearing your organization for it. The focus is external, and leaders have to ask a different set of questions: Where can we go? Which trends affect our business? What new needs, opportunities, and challenges lie ahead? What role can we play that will open up future opportunities for ourselves that we believe in?

The prospective approach can be particularly useful for new CEOs. In 2018, when Magnus Ahlqvist took charge at Securitas, he spearheaded a "purpose workstream" to capture aspirations for the company from the ground up. He asked all his business-unit leaders to run "listening workshops" (with groups of employees from diverse functions, levels, age groups, genders, and backgrounds), which were held over six months. At the end of that period, the findings were collated and analyzed. Among the discoveries: Employees had a vision of transforming the company from a *service provider* to a *trusted adviser*. That shift would require anticipating and responding to security issues instead of relying on the legacy methods of observing and reporting. So employee input helped executives refine the firm's predictive-security strategy.

Implementing a Purpose-Driven Strategy

Our research shows that a compelling purpose clarifies what a company stands for, provides an impetus for action, and is aspirational. But some purpose statements are so generic that they could apply to any company (like Nissan's, "Enriching people's lives"), while others provide only a narrow description of the company's existing businesses (like Well Fargo's, "We want to satisfy our customers' financial needs and help them succeed financially"). Even if organizations do manage to define their purpose well, they often don't properly translate it into action—or do anything at all to fulfill it. In those cases the purpose becomes nothing more than nice-sounding words on a wall.

Leaders need to think hard about how to make purpose central to their strategy. The two best tactics for doing that are to *transform the leadership agenda* and to *disseminate purpose throughout the organization*.

Consider Mars Petcare again. In 2015 its president, Poul Weihrauch, significantly altered the composition and focus of the leadership team. Its new collective agenda, he declared, would go beyond the performance of individual businesses; it would include generating "multiplier effects" among the businesses (such as between pet food and pet health) and increasing their contributions to creating a better world for pets.

In keeping with that principle, Weihrauch had the company adopt an "outside-in" approach to meeting stakeholder needs. As part of this effort, in 2018 Mars Petcare launched two new programs to support start-ups innovating in pet care: Leap Venture Studio, a business accelerator formed in partnership with Michelson Found Animals and R/GA; and Companion Fund, a \$100 million venture-capital fund in partnership with Digitalis Ventures. In announcing these initiatives the company declared that its ambition was "to become a partner of choice for everyone willing to change the rules of the game in pet care."

Revising a leadership agenda and restructuring an organization are arguably easier at a privately held company like Mars Petcare than at a publicly held one. But Finland's Neste is public, with a major stake held by the government, and it has managed to do both things very effectively.



Neste faced an uphill battle when it decided to move into renewables. The company had to build new capabilities while confronting strong opposition from many employees who didn't buy into the change in direction. About 10% of them left during the first year of the strategy's implementation. Painful as it was, it proved to be a positive development, since the company could not have forged ahead with people who didn't believe in its new purpose.

And forge ahead it did. Neste put in place a new top management team, mobilized its 1,500 R&D engineers, innovated patented renewable technology, and invested €2 billion in building new refineries.

The shift also raised a big question for Neste. How could it change its organizational mindset from *volume* to *value* selling—which entailed convincing customers that its clean fuels would be better for them in the long run? That shift meant going beyond wholesalers to work directly with the distributors and even the distributors' customers. The new leadership team realized that a much higher level of collaboration among business segments and functions was imperative. Winning deals was no longer the sole responsibility of the sales department. The expertise of the whole organization—product knowledge, marketing, finance, taxation—would be required to understand the specific needs of customers like airlines and bus fleets. So Neste engineered a major reorganization and created a matrix structure, in the process rotating about 25% of senior managers and about 50% of upper professionals into new positions. Targets and incentive plans became cross-functional, designed to build capabilities both within and across businesses. And at every step, purpose helped everybody in the company understand the “why” (the business environment's increasing emphasis on sustainability), the “what” (value-creation programs offering renewable solutions to customers, which in turn generated higher margins for Neste), and the “how” (changing from a sales organization to a key-account management model with dedicated people responsible for strategic customers).

The process worked. Neste is now a leader in the renewables industry, and the world is starting to pay attention. In 2015, for example, Google and UPS began partnering with the company to reduce their carbon emissions, as did several cities in California, among them San Francisco and Oakland. In 2018, *Forbes* ranked Neste second on its Global 100 list of the world's most-sustainable companies.

Benefits on the Soft Side

Purpose can also help with the soft side of management—the people-related aspects of running a business, which so often prove to be the undoing of leaders. By putting purpose at the core of strategy, firms can realize three specific benefits:




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more-unified organizations, more-motivated stakeholders, and a broader positive impact on society.

Unifying the organization. When companies pursue dramatic change and move into larger ecosystems, as both Mars Petcare and Securitas have done, it's unsettling for employees. Why does a pet-food company need to develop a platform to support technology start-ups? Why does an on-site guarding company want to provide electronic security services that could, over time, make the physical presence of guards redundant? Purpose helps employees understand the whys and get on board with the new direction.

Motivating stakeholders. According to the Edelman trust barometer, distrust of government, businesses, the media, and NGOs is now pervasive. At the same time, more than ever, employees, especially Millennials, want to work for organizations that can be trusted to contribute to a higher cause. And when customers, suppliers, and other stakeholders see that a company has a strong higher purpose, they are more likely to trust it and more motivated to interact with it.

Broadening impact. Strategy involves exploring some fundamental questions. Why are we in this business? What value can we bring? What role does my unit play within the bigger portfolio? Purpose creates a basis for answering those questions and defining how each unit will contribute to the organization and to society as a whole. This focus on collective objectives, in turn, opens up many more opportunities to improve growth and profitability today and in the future.

THE APPROACH TO purpose that we're recommending cannot be a one-off effort. Leaders need to constantly assess how purpose can guide strategy, and they need to be willing to adjust or redefine this relationship as conditions change. That demands a new kind of sustained focus, but the advantages it can confer are legion.  **HBR Reprint R1905D**

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