

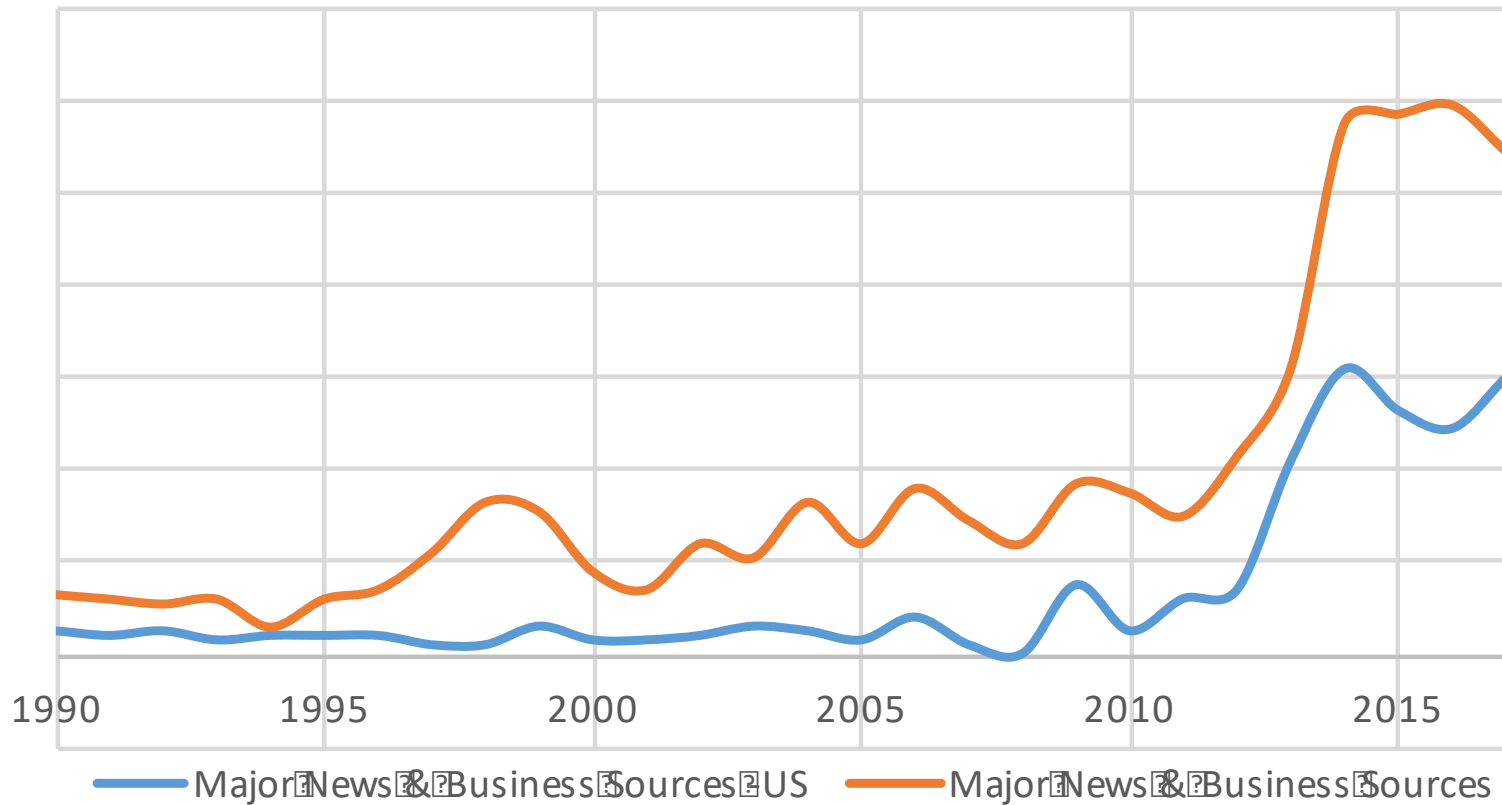
RESEARCH ON CORPORATE PURPOSE

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Purpose increasingly part of conversation

Number of articles about Corporate Purpose



Source: Factiva, Note that 2017 is year-to-date, October 10, 2017

Purpose increasingly part of conversation

Only one problem: managers know this...

Big Business Has a New Scam: The ‘Purpose Paradigm’

Multinational corporations are luring millennial workers with empty promises and self-serving slogans.

By Maria Hengeveld

WeWork’s S1: “We are a community company committed to maximum global impact. Our mission is to elevate the world’s consciousness. We have built a worldwide platform that supports growth, shared experiences and true success.”

Debate about corporate purpose and firms



“Purpose is not the sole pursuit of profits, but the animating force for achieving them. Profits are in no way inconsistent with purpose--in fact, profits and purpose are inextricably linked.”(Fink)



“A new form of managerialism, which seeks to empower corporate leaders and make them less accountable, dressed up in a more appealing clothing.” (Bebchuk)

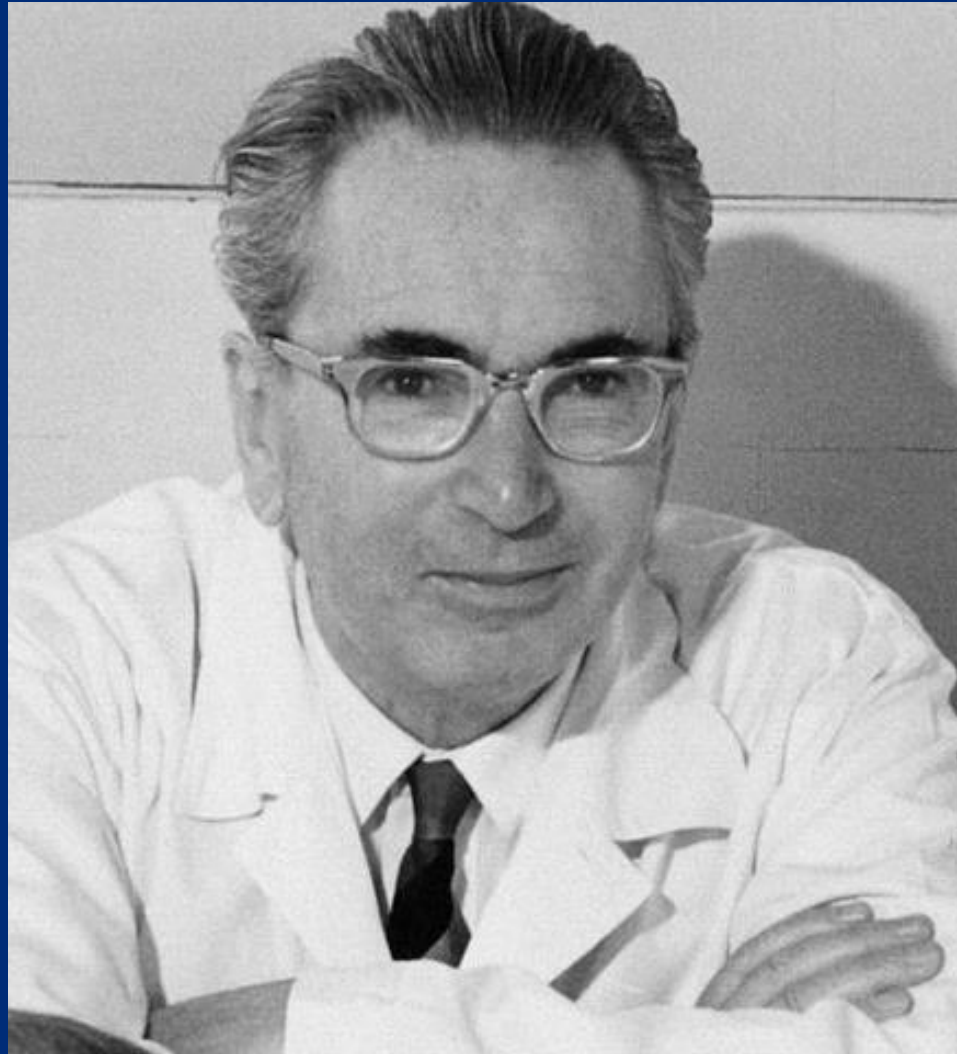
Selznick 1957; Barnard 1938; Follett 1940; Bartlett and Ghoshal 1994; Mayer 2021; Edmans 2020; Henderson 2021; Hollensbe et al, 2014; Gulati, 2022; Gartenberg *et al*, 2019

Jensen and Meckling 1976; Bebchuk and Tallarita, 2020; Westphal and Park, 2020; Westphal, 2022; King and Pucker, 2021;

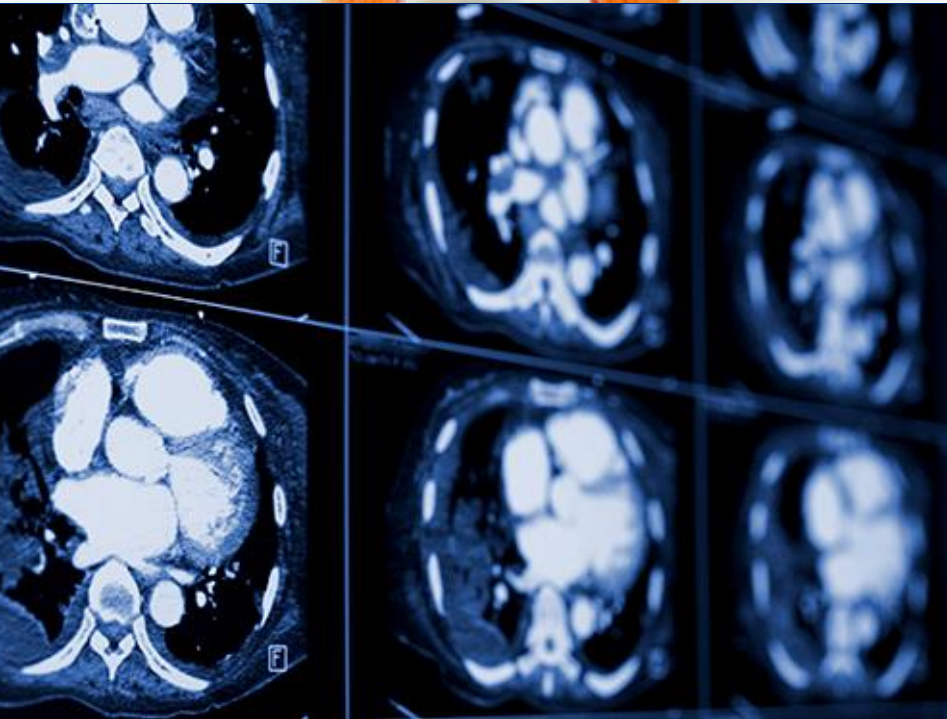
Corporate purpose v Purpose of the corporation

- Corporate Purpose: Meaning of a firm's work beyond quantitative measures of financial performance
 - What CEOs generally mean when they say “corporate purpose”
- Some definitional boundaries
 - Corporate Purpose \neq Objective of the Corporation
 - \neq ESG or CSR
 - \neq Stakeholder orientation
 - \propto ? Total social surplus
- Our research has implications for these other topics as well

Purpose enables shared *meaning*



Victor Frankl, "Man's Search for Meaning" 1946



Ariely, Kamenica, and Prelec (2008); Stern (2004); Grant (2008)

Corporate Purpose

So meaning matters ... what is the large-scale evidence on purpose?

Research program: empirical corporate purpose

One likely reason for limited progress is three inherent challenges:

- Definition
- Measurement
- Correlation v causality

Research program: empirical corporate purpose

- Set of empirical studies:

Corporate purpose and financial performance (w/ A. Prat and G. Serafeim), *Org Sci*, 2019

Corporate purpose in public and private firms, (w/ G. Serafeim), *Man Sci*, 2022

Corporate purpose and acquisitions, (w/ S. Yiu), *Strat Sci*, 2023

Contingent relationship between purpose and profits, *Strat Sci*, 2023

How (not to) measure corporate purpose?

Corporate purpose statements

“Our purpose is to **build trust in society and solve important problems.**”

“To **empower every person and every organization on the planet to achieve more.**”

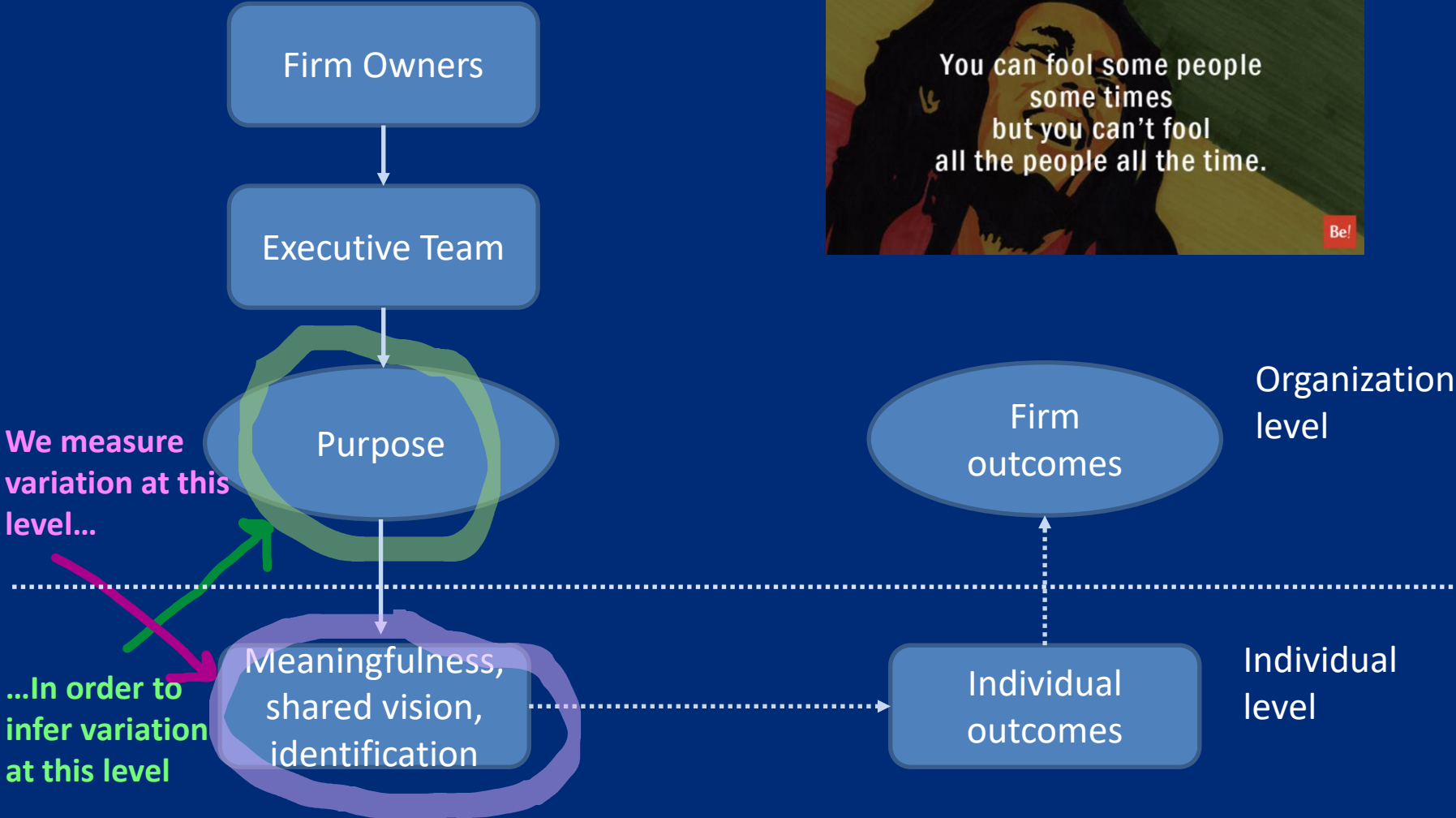
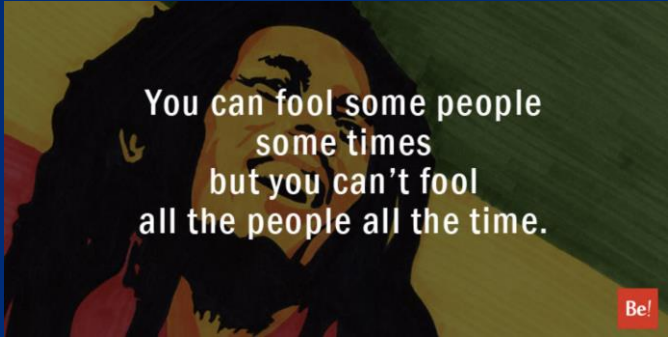
CEO language



Public filings

“We are a community company committed to maximum global impact. Our mission is to elevate the world’s consciousness. We have built a worldwide platform that supports growth, shared experiences and true success.”

How we measure purpose: employees' aggregate beliefs as an informative signal



Paper 1: What is link between purpose and performance?



<http://pubsonline.informs.org/journal/orsc/>

ORGANIZATION SCIENCE

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Corporate Purpose and Financial Performance

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Abstract. We construct a measure of corporate purpose within a sample of U.S. companies based on approximately 500,000 survey responses of worker perceptions about their employers. We find that this measure of purpose is not related to financial performance. However, high-purpose firms come in two forms: firms characterized by high camaraderie between workers and firms characterized by high clarity from management. We document that firms exhibiting both high purpose and clarity have systematically higher future accounting and stock market performance, even after controlling for current performance, and that this relation is driven by the perceptions of middle management and professional staff rather than senior executives or hourly or commissioned workers. Taken together, these results suggest that firms with midlevel employees with strong beliefs in the purpose of their organization and the clarity in the path toward that purpose experience better performance.

Funding: The authors recognize the generous research grant from Strategy CDA at Columbia Business School to support this research. C. Gartenberg recognizes financial support from NYU Stern School of Business and Wharton School at University of Pennsylvania. A. Prat recognizes financial support from Columbia University. G. Serafeim recognizes financial support from the Division of Research and Faculty Development of the Harvard Business School.

Supplemental Material: The online appendices are available at <https://doi.org/10.1287/orsc.2018.1230>.

Purpose falls down the ranks

Using data from a sample of ~500,000 employees from ~500 companies



Gartenberg, Prat, and Serafeim, Corporate Purpose and Financial Performance, *Organization Science* 2019

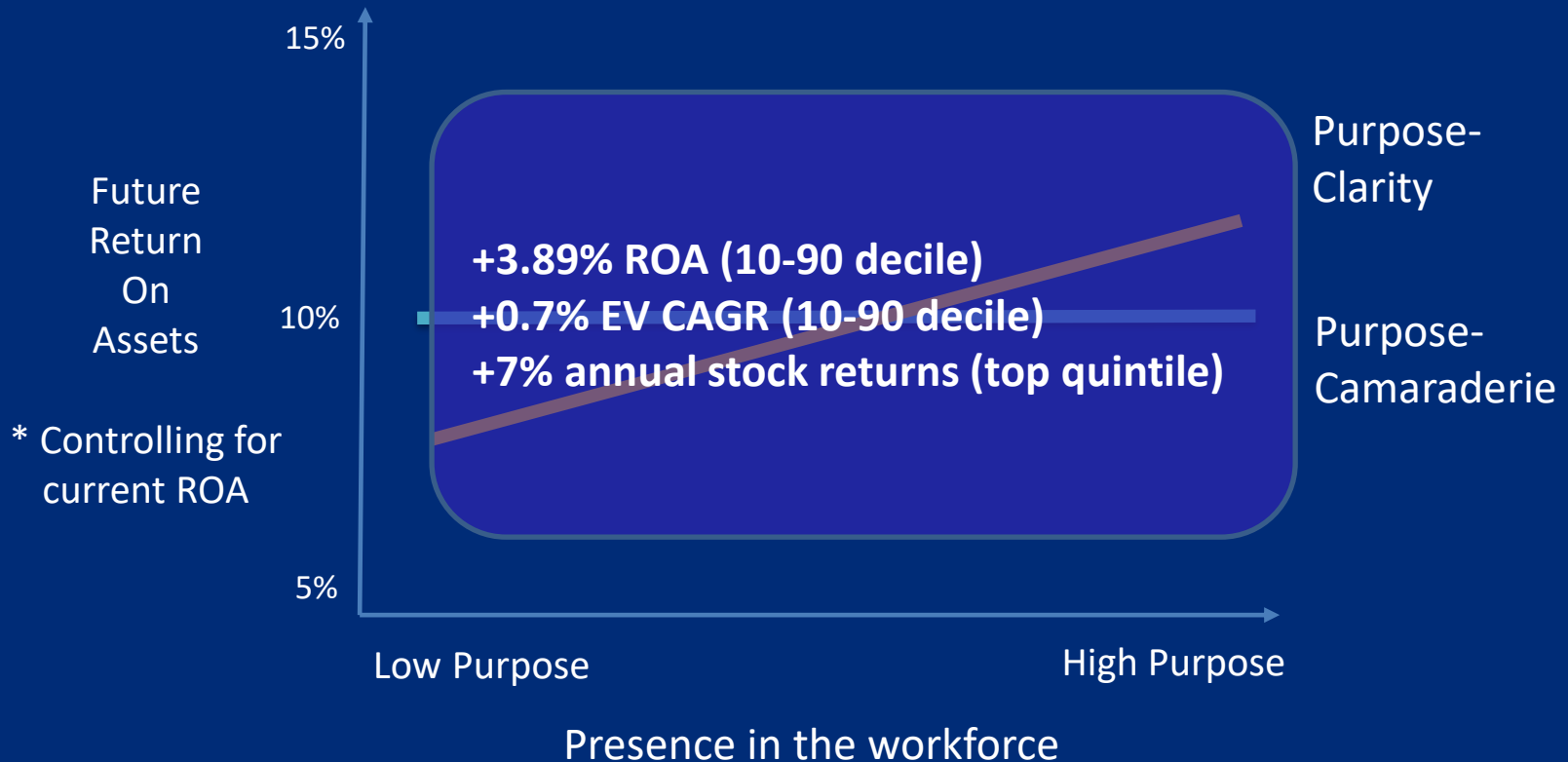
High purpose organizations come in two flavors

Using data from a sample of ~500,000 employees from ~500 companies



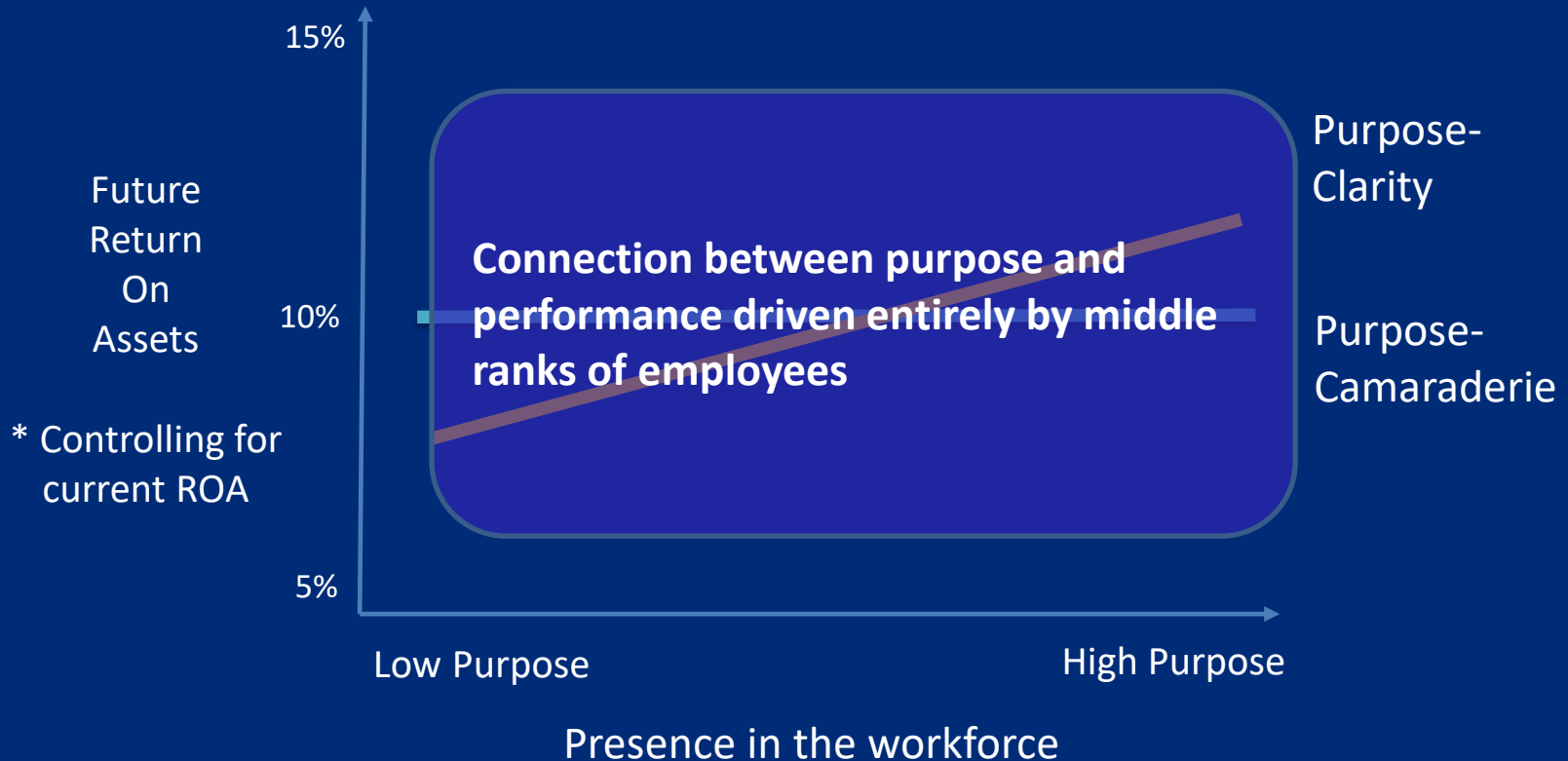
Gartenberg, Prat, and Serafeim, Corporate Purpose and Financial Performance, *Organization Science* 2019

And only high purpose-clarity organizations outperform



Gartenberg, Prat, and Serafeim, Corporate Purpose and Financial Performance, *Organization Science* 2019

And only high purpose-clarity organizations outperform



Gartenberg, Prat, and Serafeim, Corporate Purpose and Financial Performance, *Organization Science* 2019

Paper 1: Core findings

No connection between proclaimed purpose and performance

Is connection between purpose and performance but

- 1. Must be believed by employees within organization**
- 2. Must be accompanied by “Clarity”**
- 3. Must be felt particularly by middle ranks of organization**
- 4. Appears link is at least partially causal**

Paper 2: What is link between purpose and ownership?


Corporate Purpose in Public and Private Firms

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Abstract. Analyzing data from approximately 1.5 million employees across 1,108 established public and private U.S. companies, we find that the strength of employee beliefs related to purpose is weaker in public companies. Among public companies, those beliefs are stronger for firms with more committed owners. These patterns are most pronounced within the salaried middle and hourly ranks rather than senior executives. Differences across firms can be attributed, in part, to differences in leadership and incentive characteristics. Our findings are consistent with higher owner commitment and the corresponding policies that arise alongside this higher commitment, enabling a stronger sense of purpose inside organizations.

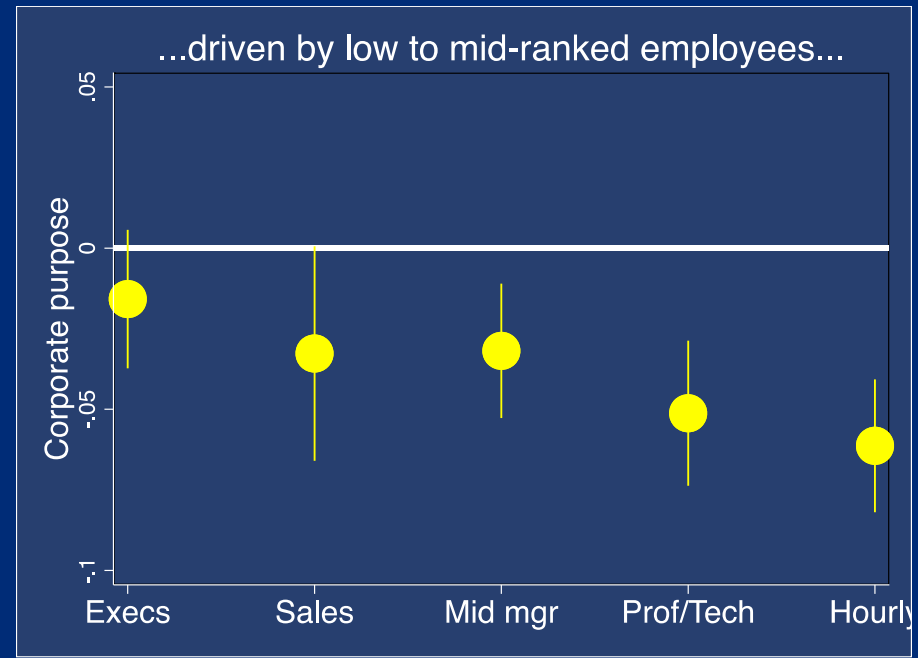
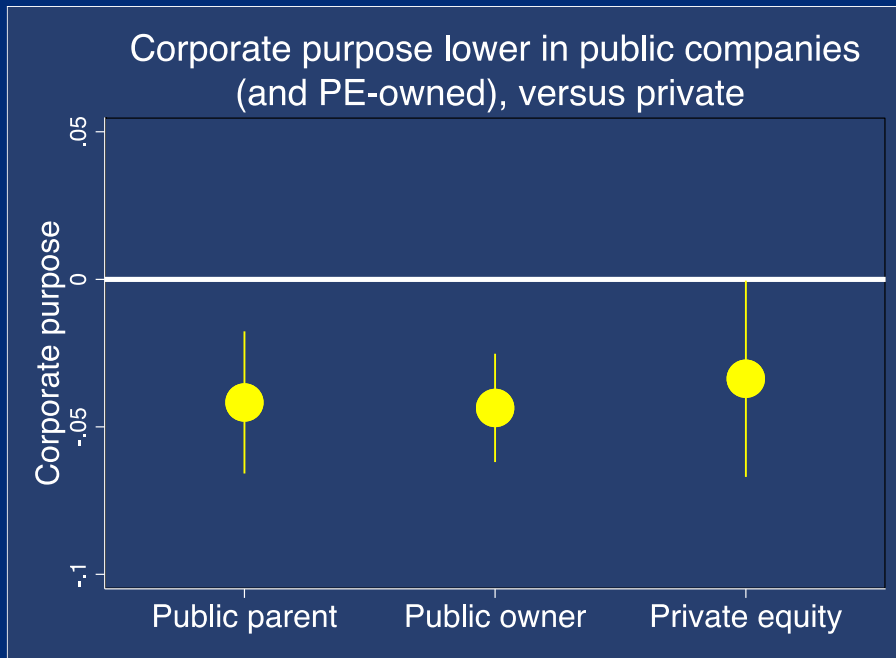
History: Accepted by David Simchi-Levi, organizations.

Funding: C. Gartenberg recognizes financial support from the Wharton School at University of Pennsylvania. G. Serafeim recognizes financial support from the Division of Research and Faculty Development of the Harvard Business School.

Supplemental Material: The data files and online appendix are available at <https://doi.org/10.1287/mnsc.2022.4618>.

Purpose lower in public, PE-owned firms

1,509,797 employees across 1,108 companies, 11 years

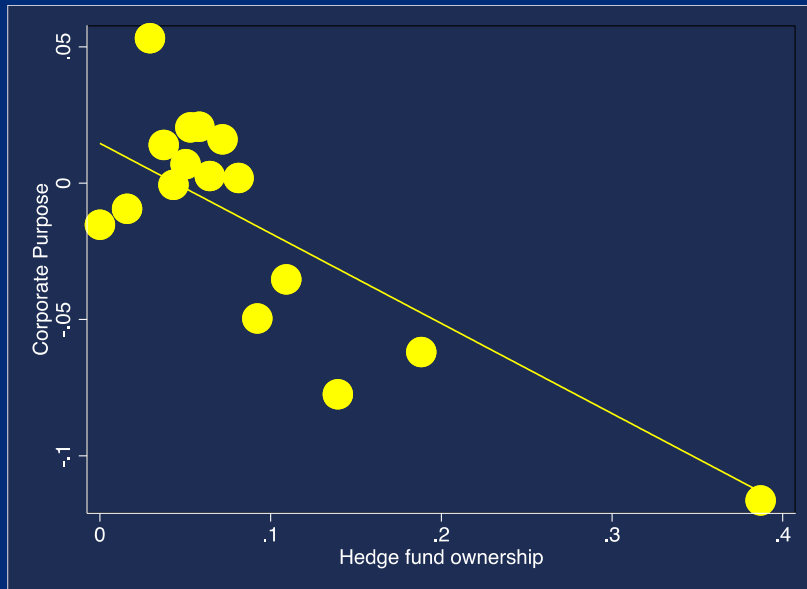


Gartenberg and Serafeim, Corporate Purpose in Public and Private Firms, *Management Science*, 2022

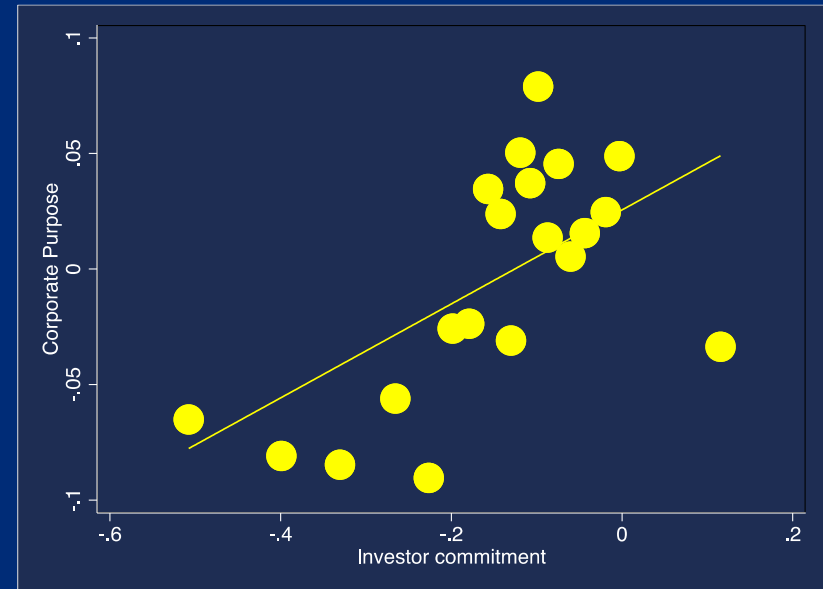
Within public firms, lower purpose driven by more activist, less committed shareholders

1,509,797 employees across 1,108 companies, 11 years

Corporate purpose is lower for firms with high hedge fund ownership



Corporate purpose is higher for firms with more long term investors

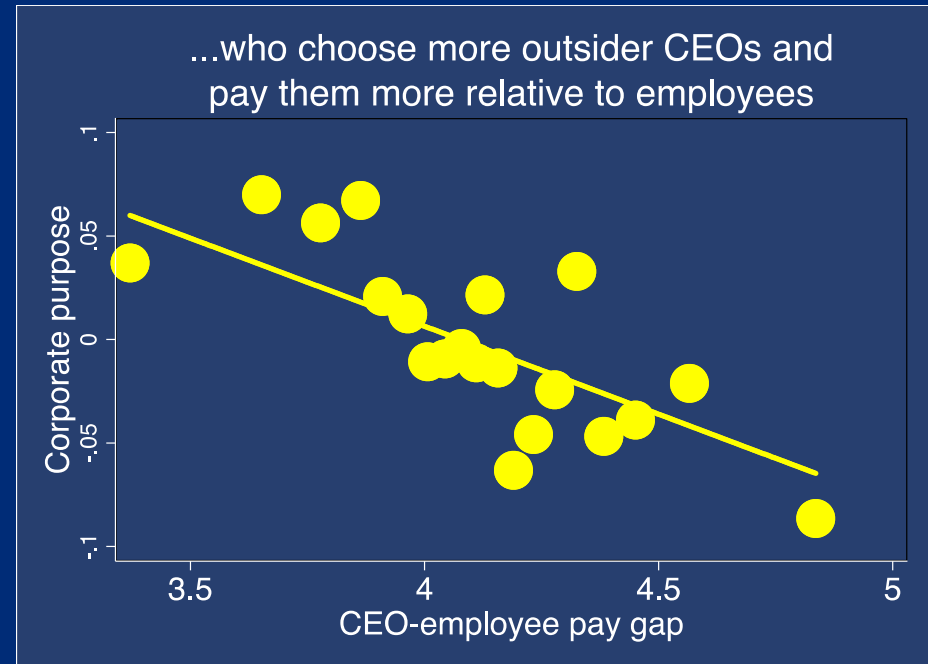


Purpose lower in public, PE-owned firms

1,509,797 employees across 1,108 companies, 11 years

Companies with less committed shareholders, make different corporate choices:

- More **outsider CEOs**
- More **M&A**
- **Different compensation structures** (metrics and differentials)



Treatment or sorting? Appears in part **treatment**

Paper 2: Core findings

Purpose is lower in public firms, in firms with active, less committed shareholders

- Driven by **lower ranked** employees
- Appears to be (in part) **treatment effect**

CEO characteristics account for ~30% result

- Outsiders; High pay gap

Management decisions account for ~10% result

- Recent acquisitions (but not layoffs or divestitures)
- Compensation and benefits

Paper 3: Purpose AND profits: forever and always?

The Contingent Relationship Between Purpose and Profits

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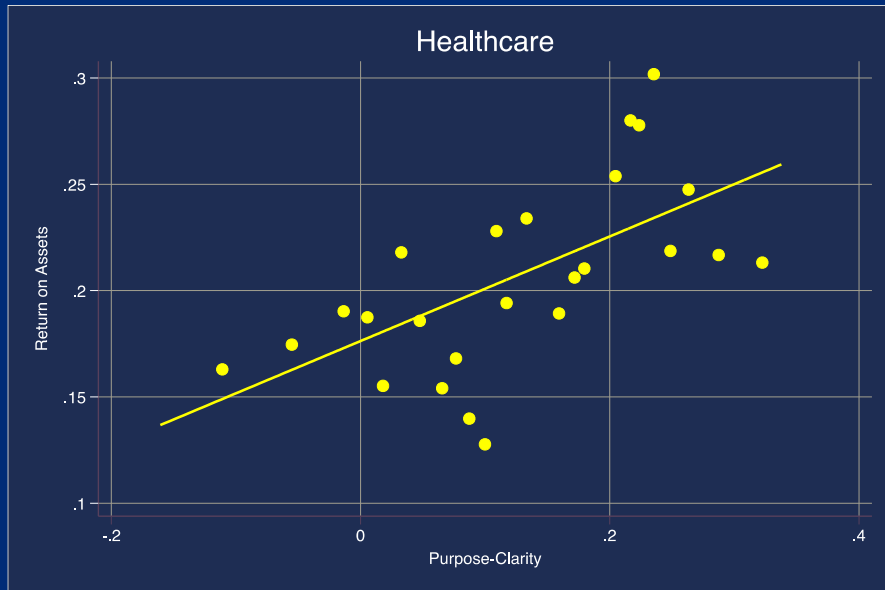
Abstract. When do for-profit corporations pursue both purpose and profits and when do they prioritize one over the other? This study explores this question, measuring the strength of purpose based on the perceptions of nearly 1 million employees across 635 U.S. public companies within 14 industry categories. Two main findings emerge. First, the relationship between purpose and profits varies widely across companies and industries. Second, companies with higher levels of innovation intensity, intangible capital, or long-term investors tend to pursue both purpose and profits, whereas companies with lower levels of these factors tend to prioritize one over the other. This evidence suggests that purpose and profits are compatible in settings that rely on innovation and long temporal horizons for value creation and opposed in settings that do not.

History: This paper has been accepted for the *Strategy Science* Special Issue on Corporate Purpose.

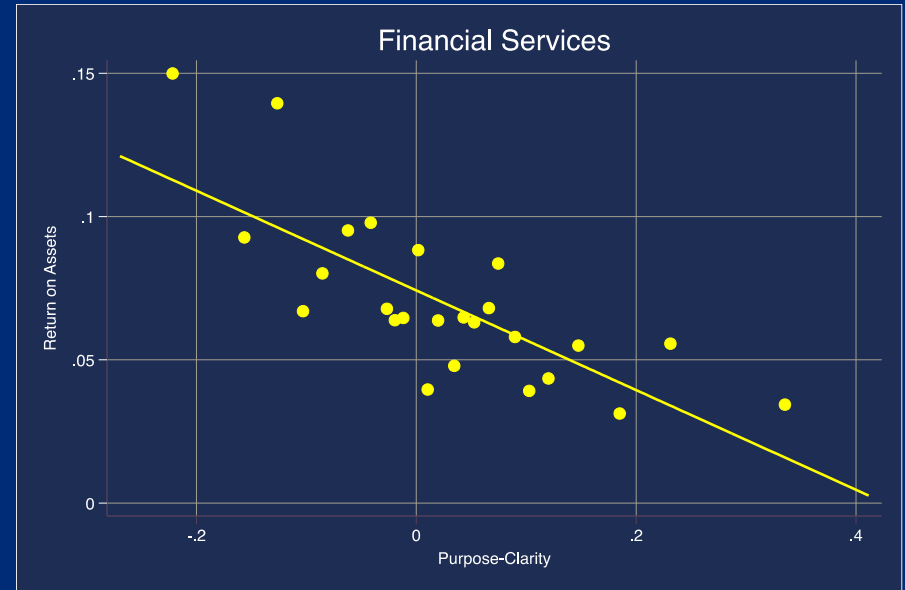
Funding: C. Gartenberg acknowledges financial support from the Govil Family and the Wharton School.

Keywords: corporate purpose • corporate governance • social performance

Purpose and profits are complements in some industries, substitutes in others

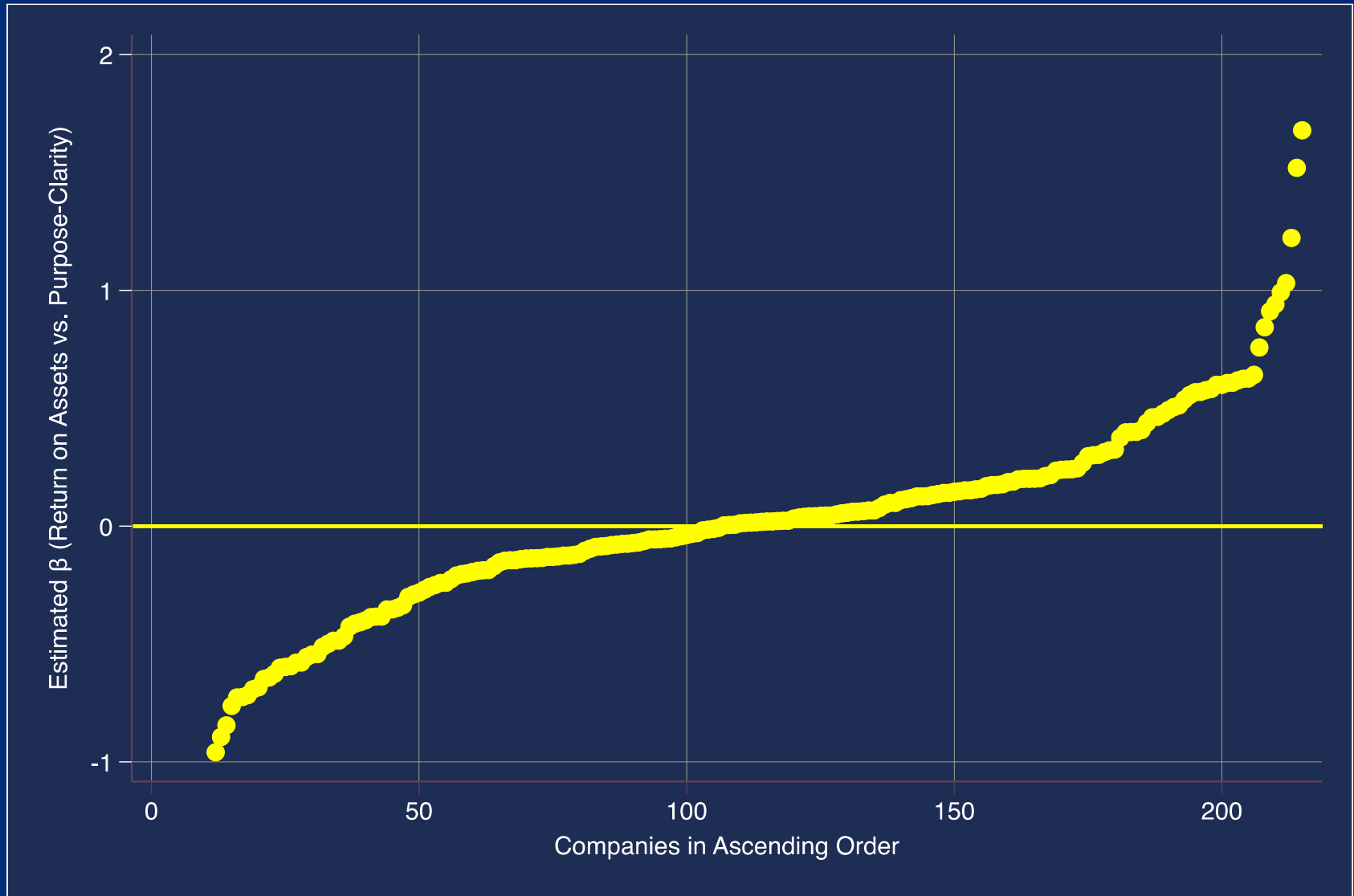


Within **healthcare**, purpose and profits appear to be **complements**

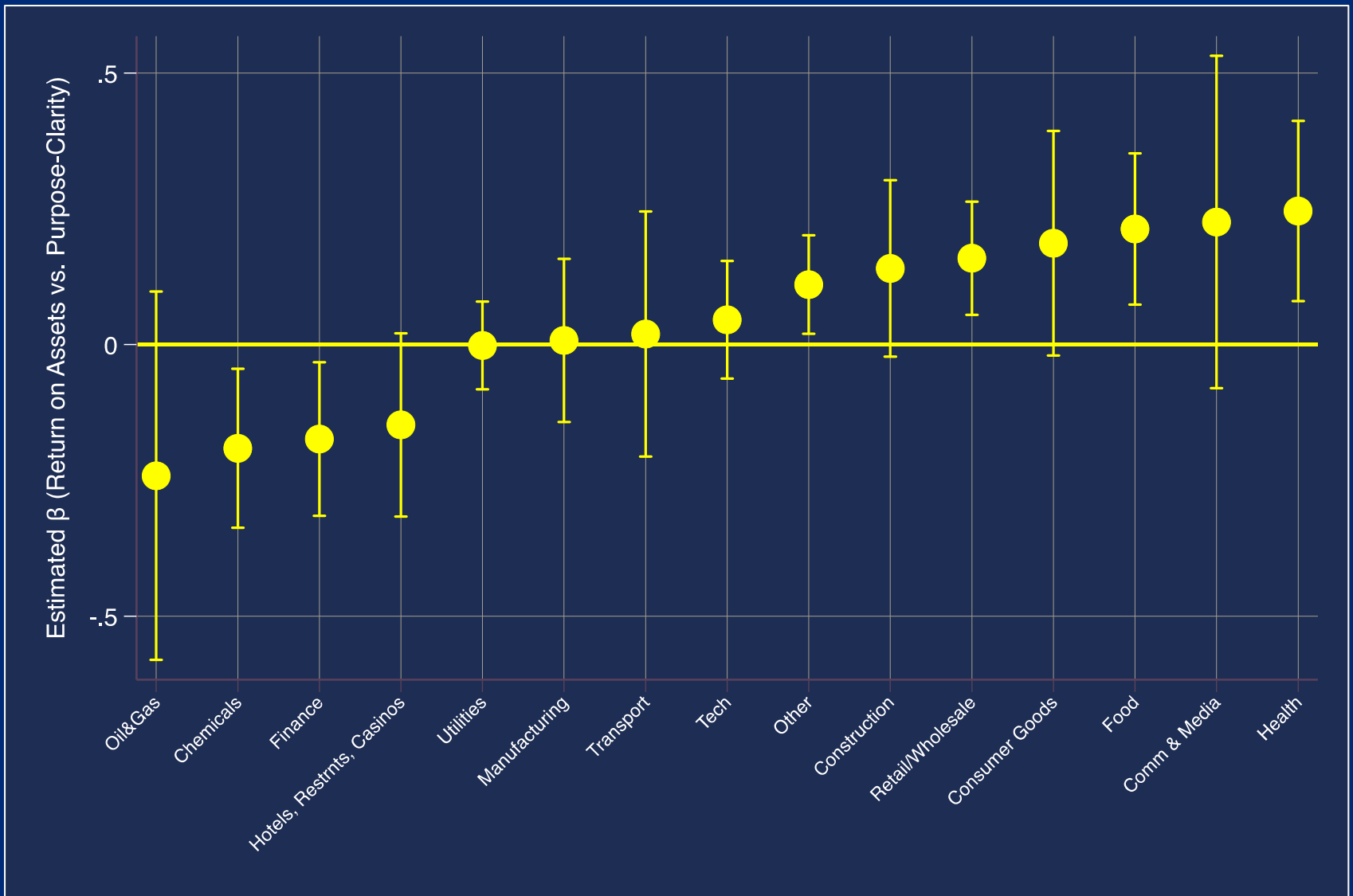


Within **financial services**, purpose and profits appear to be **substitutes**

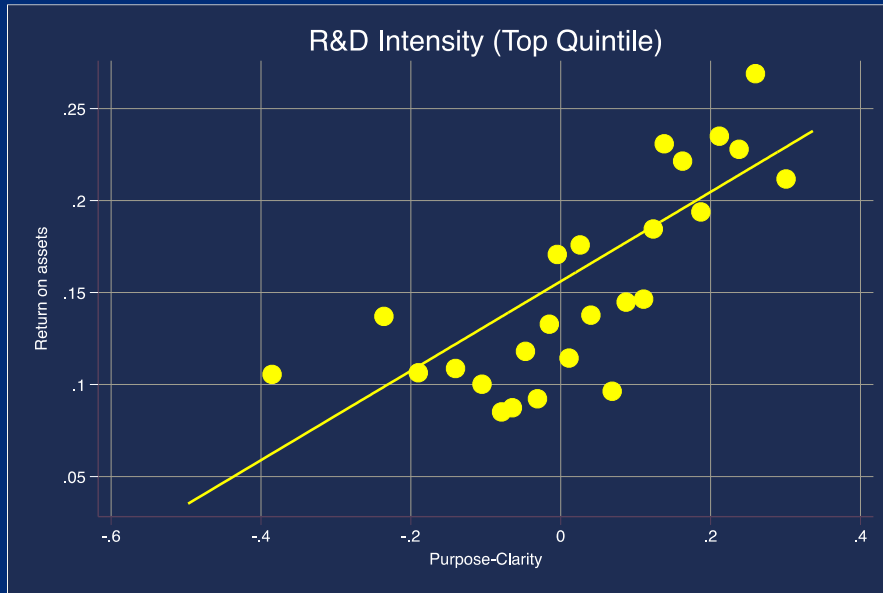
Purpose and profits are complements for ~55% of companies in sample, substitutes for the rest



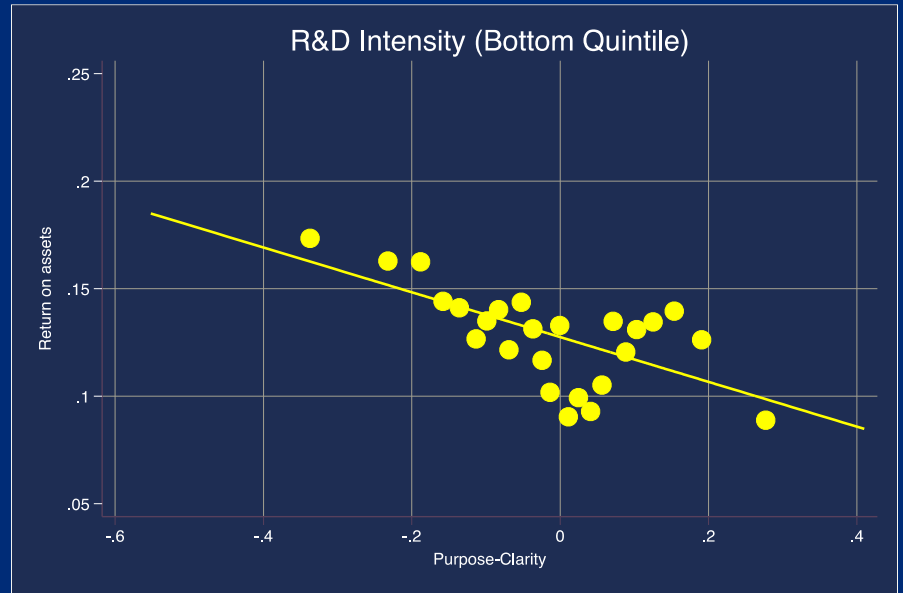
Purpose and profits are complements in some industries, substitutes in others



Purpose and profits are complements for firms with high innovation intensity, substitutes for firms with low intensity

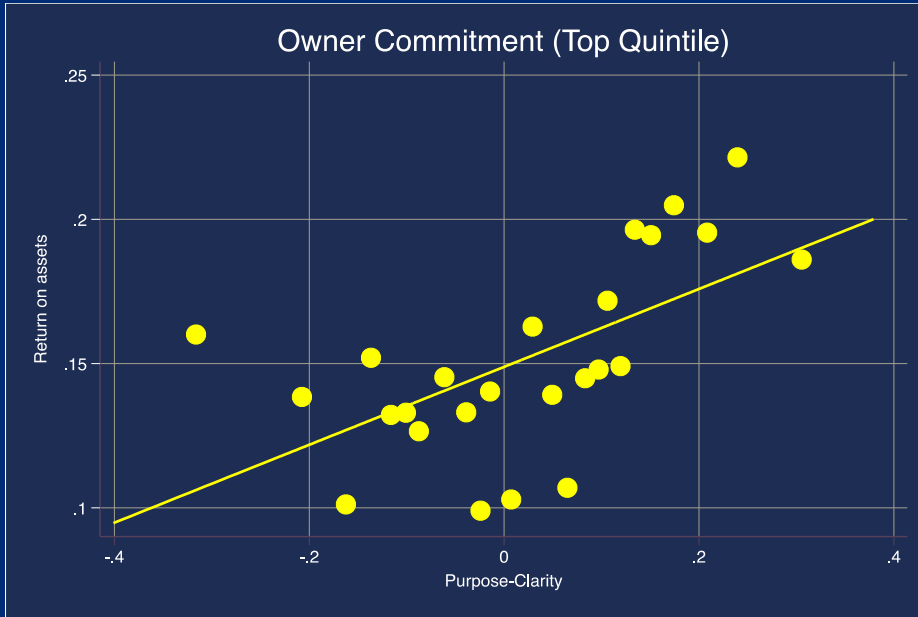


For firms with **high R&D/sales**, purpose and profits appear to be **complements**

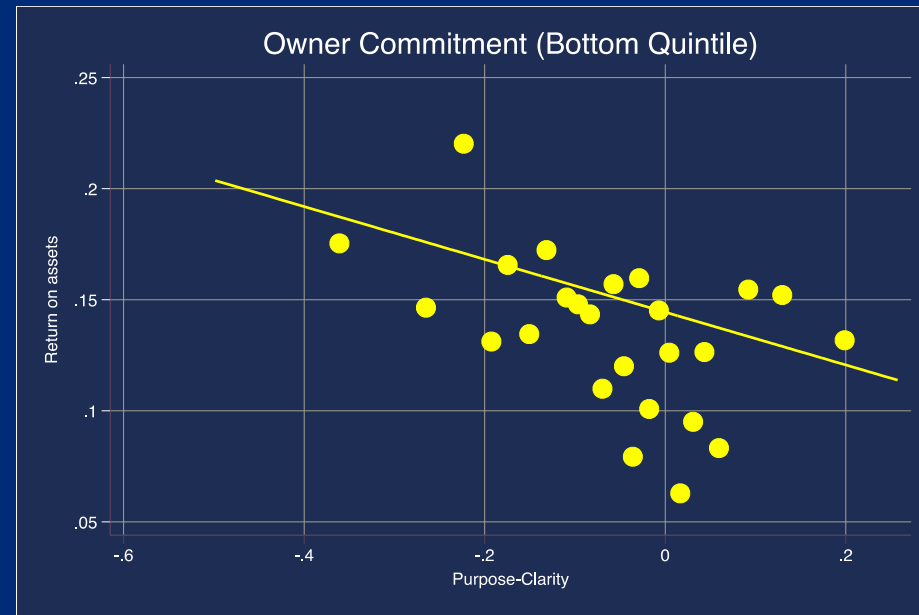


For firms with **low R&D/sales**, purpose and profits appear to be **substitutes**

Purpose and profits are complements for firms with committed owners, substitutes for firms with transient ones



For firms with **most committed owners**, purpose and profits appear to be **complements**



For firms with **least committed owners**, purpose and profits appear to be **substitutes**

Paper 3: Core findings

Purpose and profits appear to – on average – be complements (Gartenberg et al 2019)

However, the general statement of “purpose *and* profits” is true in some, but not all, settings

- Even with same operationalization of purpose

Appears to depend on context and bundled together with:

- Owner commitment
- Innovation intensity

In closing

1. Corporations can pursue both purpose and profits...BUT:

Requires clarity + purpose
Beliefs must be held by middle ranks of organization

2. Ownership and governance matter:

Weaker in firms with active external owners
Appears in part a treatment effect, not just matching

3. Purpose AND profits is not universal

Tradeoffs do exist, particularly in industries with low intangibles and with short term owners

Thank you

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