

Purpose & Performance

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Defining “Purpose”

- A clear and widely shared goal or direction
 - *We will maximize profits by moving from products to services*
- A commitment to a goal beyond profit maximization
 - *Let's have fun bringing this seriously cool product to market*
 - *Let's create great jobs and delight our customers*
- A moral commitment to a pro-social goal beyond profit maximization
 - *The statement of a company's moral response to its broadly defined responsibilities, not an amoral plan for exploiting commercial opportunity. (Bartlett and Ghoshal, 1994)*

Pro-Social Purpose is Fashionable:

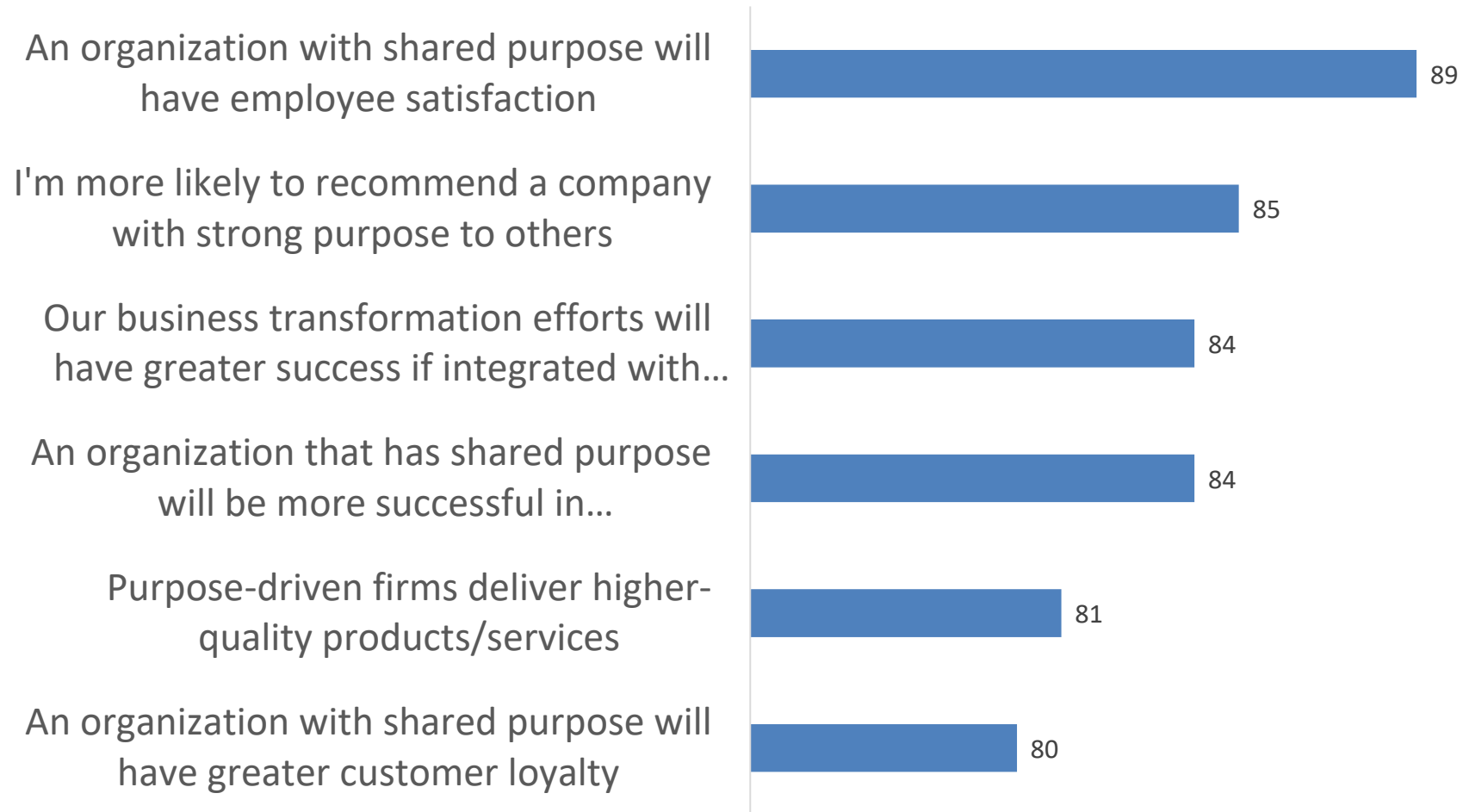
The graphic consists of several layered elements. At the top left is a stylized tree with a brown trunk and branches, and leaves in shades of green, red, and orange. Below the tree is a solid blue square. To the right of the blue square is the text "blueprint for better business" in a bold, black, sans-serif font. Below these elements is a large black rectangular area containing the word "purpose" in a very large, white, lowercase, sans-serif font. Surrounding the word "purpose" are various smaller words in different colors and sizes, including "always", "clarity", "chosen", "meaning", "vision", "path", "make", "live", "inspired", "follow", "found", "power", "perfect", "towards", "Every", "great", "life's now", "mission", and "account".

blueprint for better business

purpose

always clarity chosen meaning vision path make live inspired follow found power perfect towards Every great life's now mission account

Executives Say it Matters:



Source: Ernst & Young and Harvard Business Review Analytic Services
"The Business Case for Purpose", 2015

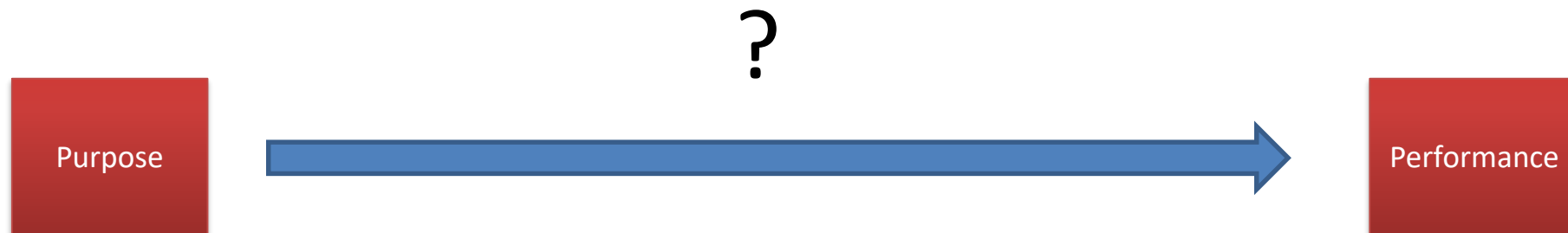
But even in self reported data, purpose is not widespread



Source: Ernst & Young and Harvard Business Review Analytic Services
"The Business Case for Purpose", 2015

What is the relationship between Purpose and Performance?

If a purpose is only credible
– only “authentic” – if the firm sometimes (routinely?)
sacrifices profit in its support, can it ever be more profitable
than a more conventionally organized firm?



A surprising fact

- “Within 4-digit SIC [Standard Industrial Classification] industries in the U.S. manufacturing sector, the average difference in logged total factor productivity between an industry’s 90th and 10th percentile plants is 0.651 ...
- The plant at the 90th percentile of the productivity distribution makes almost twice as much output *with the same measured inputs* as the 10th percentile plant.”

Syverson (2004)

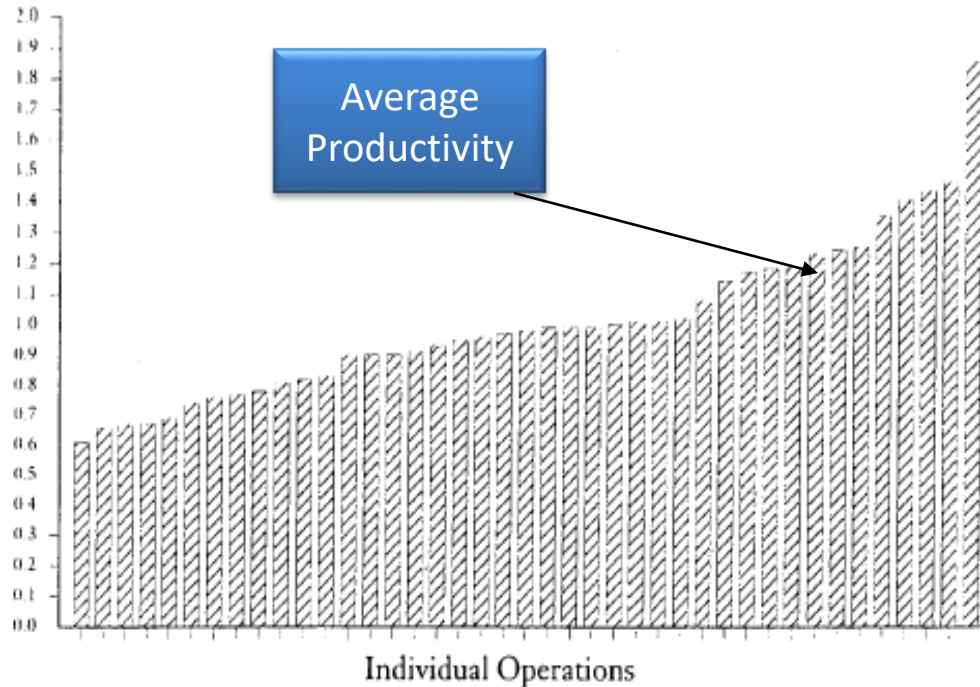
Is it High Performance Work Practices?

- Dense communication, local problem solving
 - Teamwork
 - Communication
 - Information sharing
 - TQM/Process control
- Skills Development
 - Skills training
 - Selective recruiting
 - Flexible job assignments
- High Powered Incentives
 - Incentive pay
 - Employment security
 - Merit-based promotions
 - Reduced Status distinctions
 - Performance review

Kitchens as a Case in Point

Bresnahan & Chew, 1990

Figure 5-1 Multifactor Productivity Index



Multifactor productivity index computed as standardized output (meals & set-ups) divided by standardized inputs (labor & capital costs). The average plant has productivity equal to 1.

All 40 sites were located in the US, employed low-skilled labor, utilized the same technology, served similar customers & produced similar products:

The most productive plant was 3 times as productive as least productive plant

After using regression analysis to adjust for local labor markets, size of local market, unionization, age of equipment, product quality, and local monopoly:

Performance differences were still on the order of 2:1

HPW practices are correlated with productivity, profitability & sales growth

Nicholas Bloom, Raffaella Sadun, John Van Reenen et al...

International Data on Measuring Management Practices,
American Economic Review P&P May 2016.

Do private equity firms have better management practices?
American Economic Review P&P May 2015.

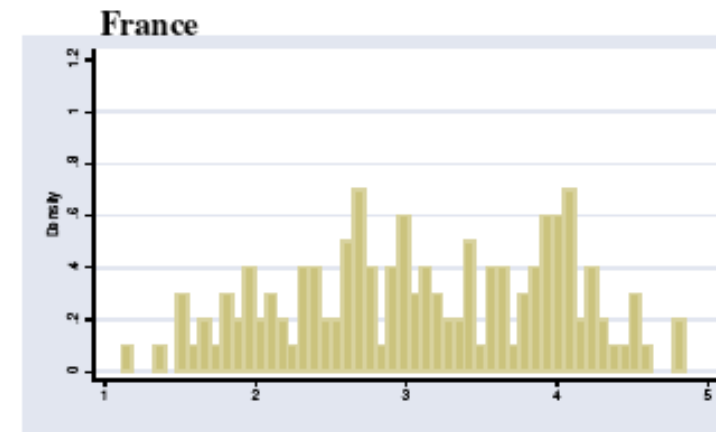
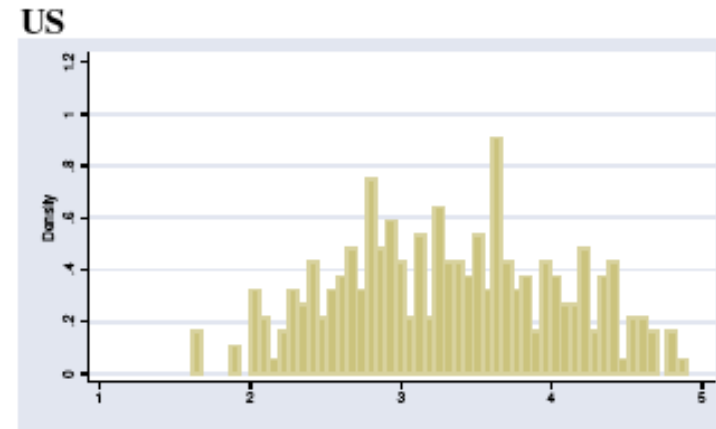
Does Management Matter in Schools?
Economic Journal, 2015

The Organization of Firms Across Countries
Quarterly Journal of Economics, 2012

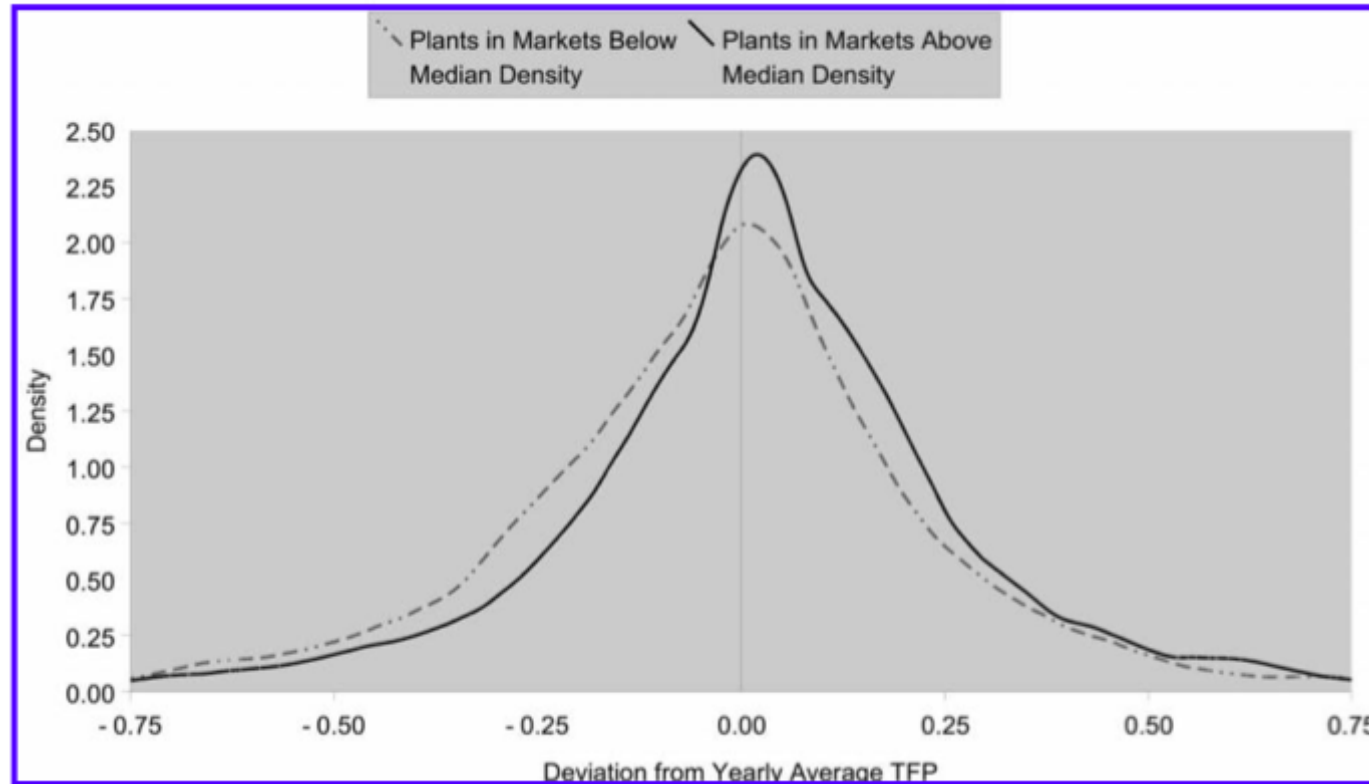
Americans Do IT Better: US Multinationals and the
Productivity Miracle," *American Economic Review* 2012

Modern Management: Good for the Environment or
Just Hot Air?" *Economic Journal* 2010

Measuring and explaining management practices
across firms and countries, *QJE*, 2007



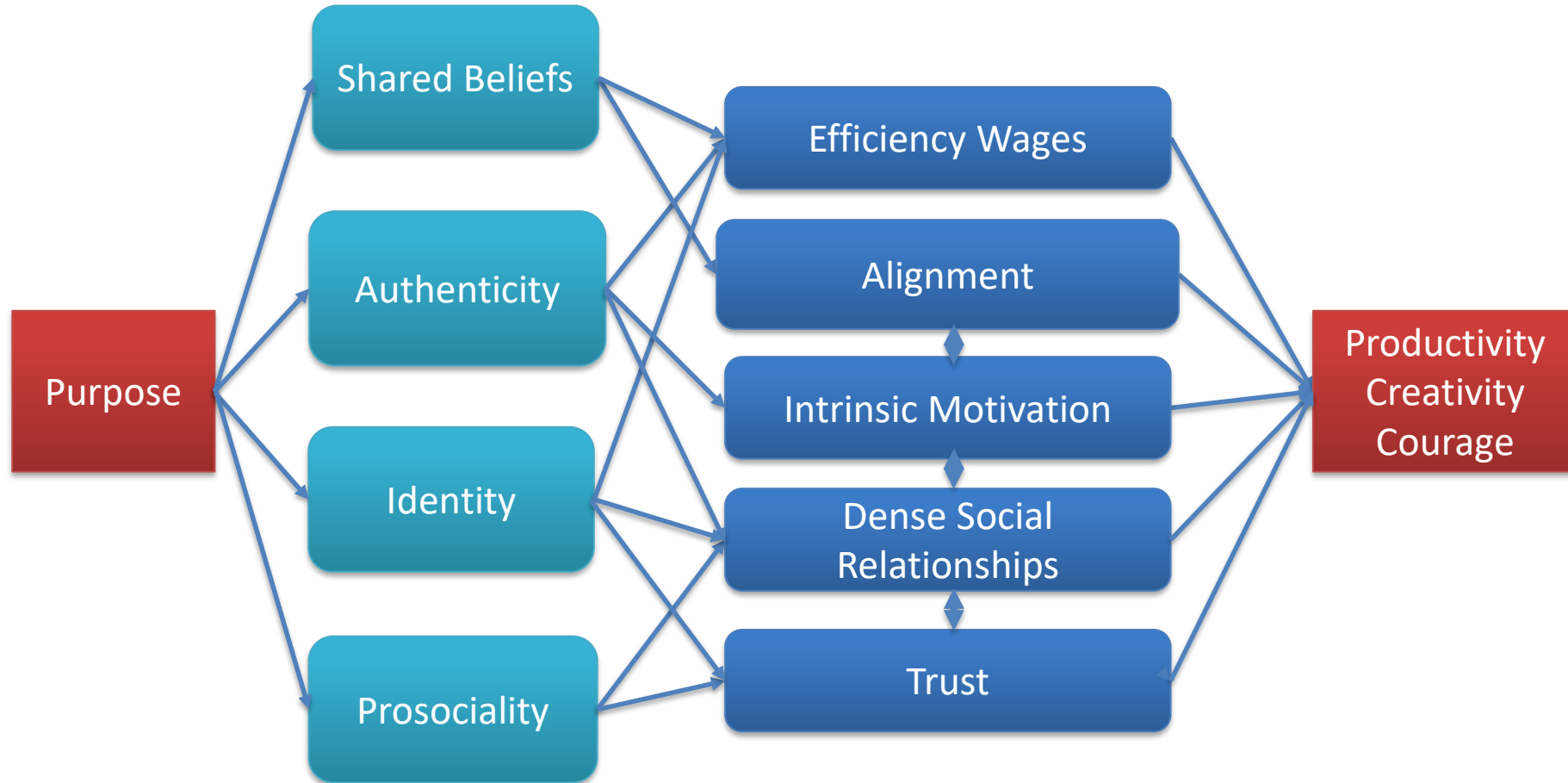
It's Not About Competition



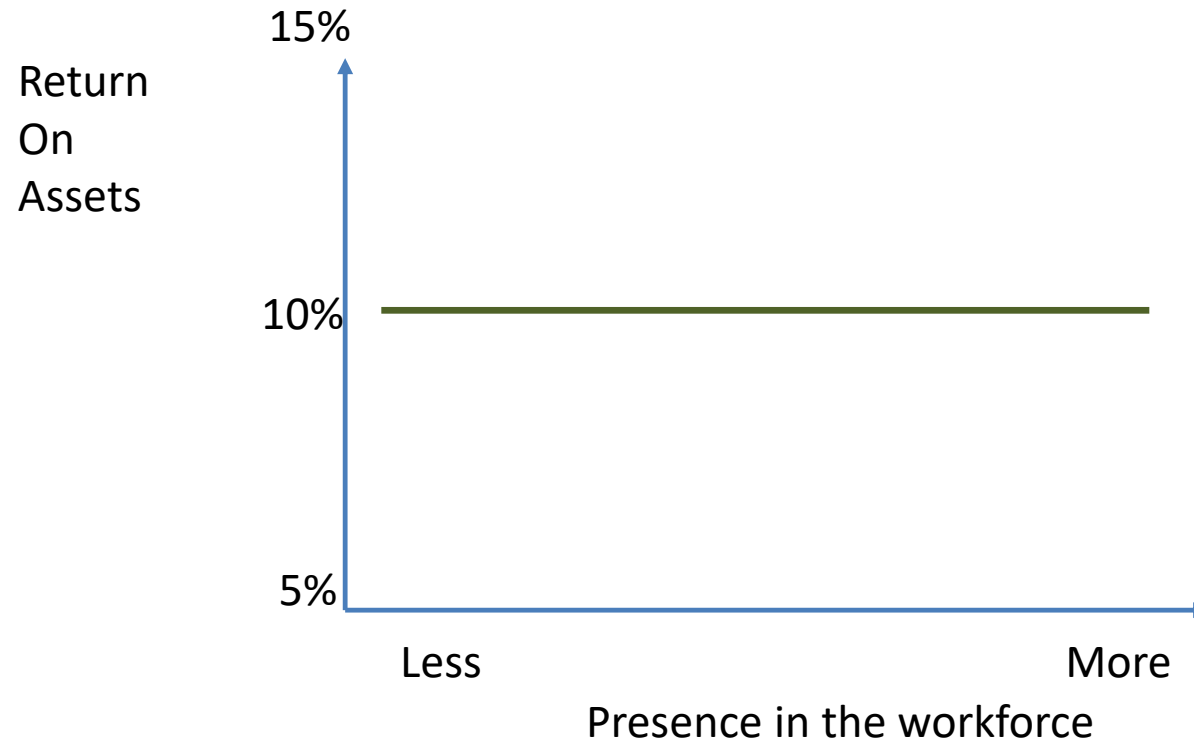
Census data on 5,200 US ready-mix concrete producers
in 1982, 1987, 1992

Syverson 2004

Could it be Purpose?



But Purpose Alone is Not Enough!



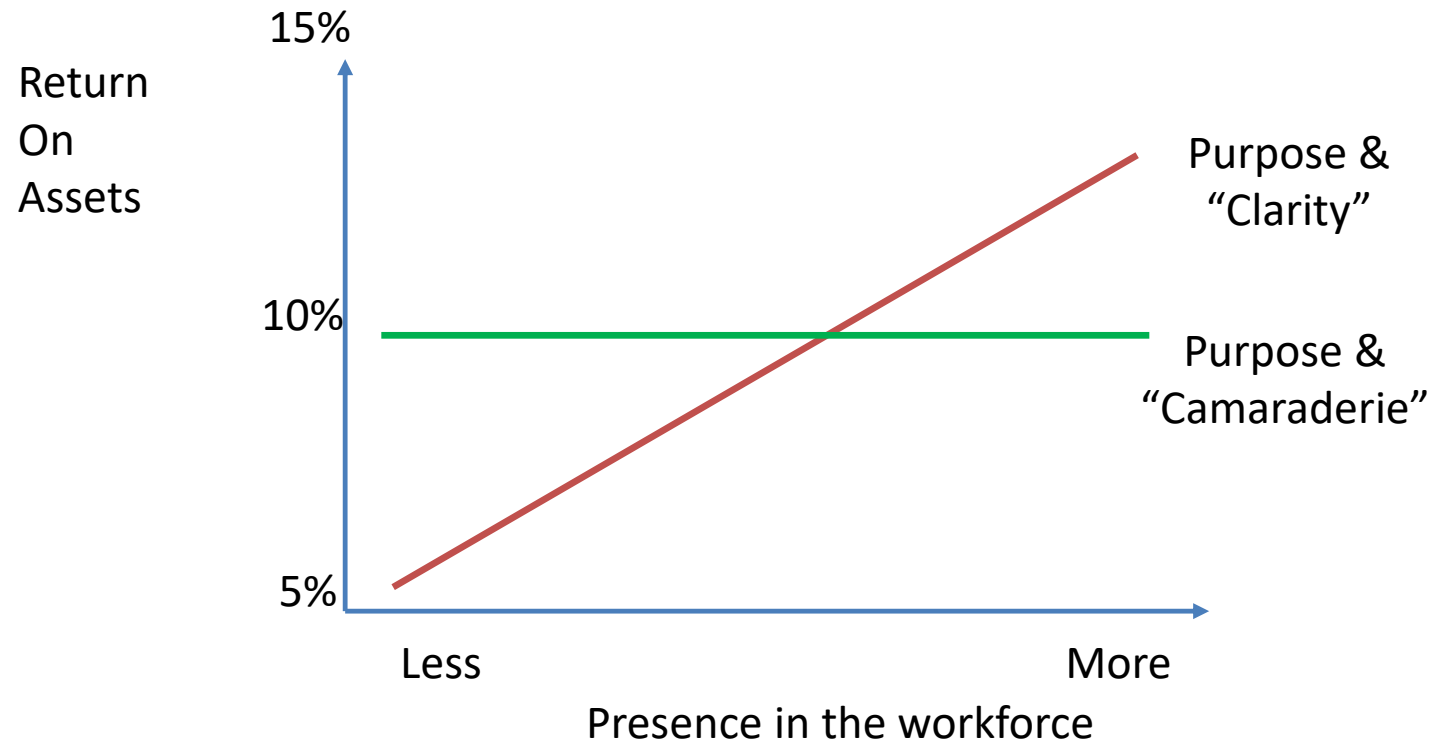
Which would you rather have:

- Purpose &
High camaraderie between employees

Or

- Purpose &
High clarity from management

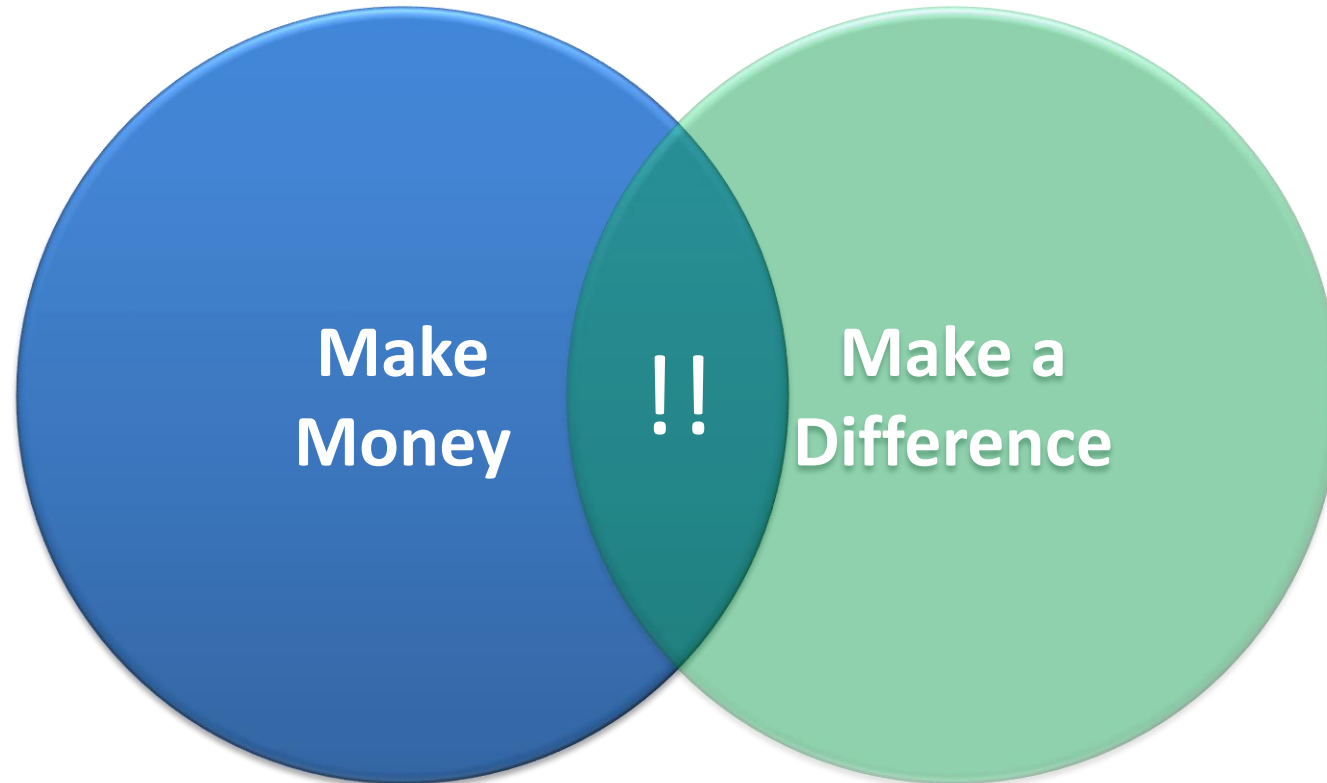
Purpose & Strategic Clarity Drives Performance



Reimagining capitalism:
Can purpose change the world?



The Shared Value Opportunity



- Reducing risks
- Reducing costs
- Driving differentiation
- Building entirely new Businesses
- Increasing employee engagement
- Shaping regulation
- Raising rival's costs

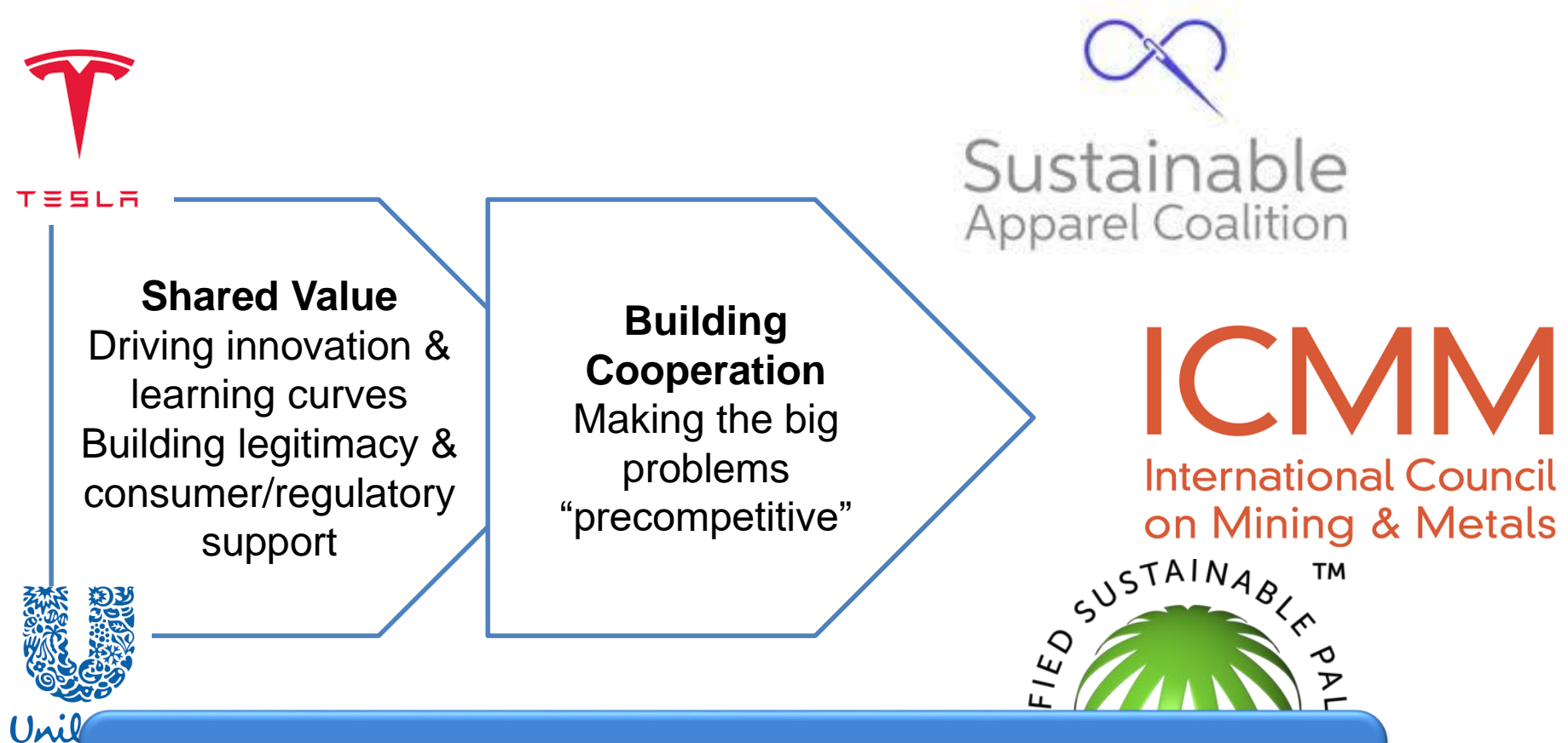
Individual firms can make a significant difference

Shared Value

- Legitimize action
- Demonstrate the business case
- Drive down learning curves
- Change consumer tastes
- Isolate badly behaving firms
- Lay the foundations for smart regulation

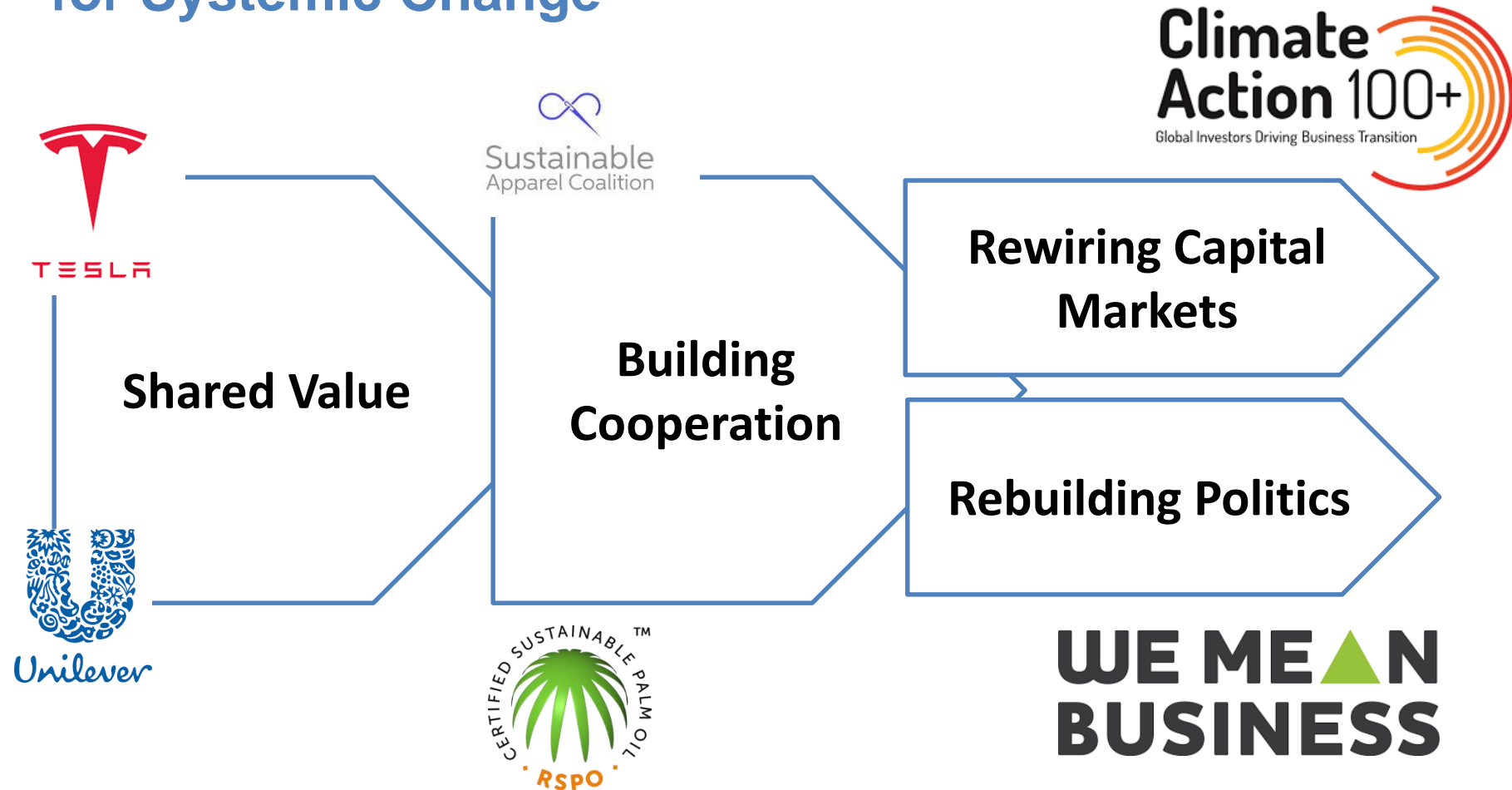
But for some problems it's difficult to build a business case

Shared value can lay the foundation for cooperation by industry & by region

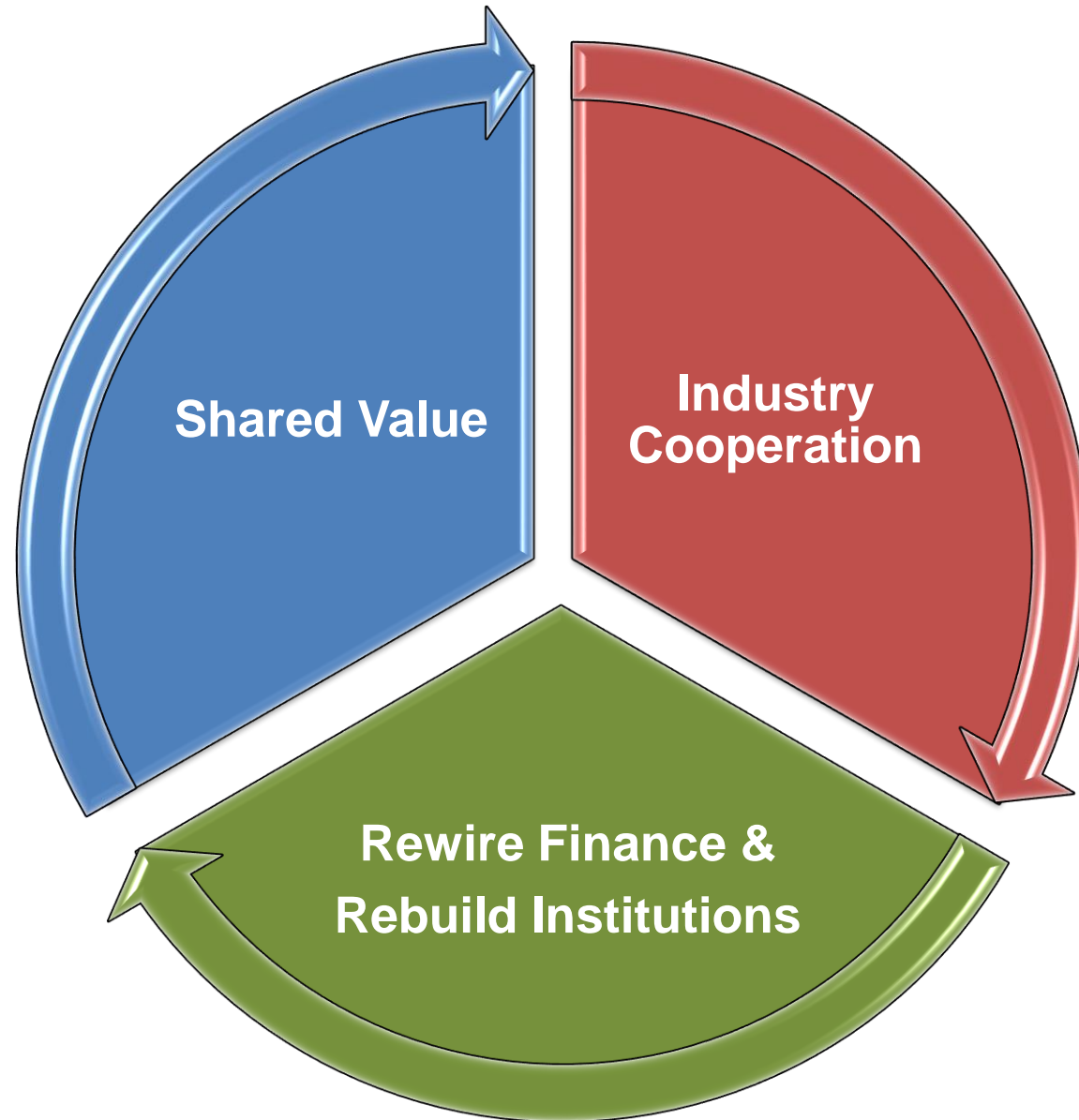


But in some cases it's very difficult to sustain cooperation

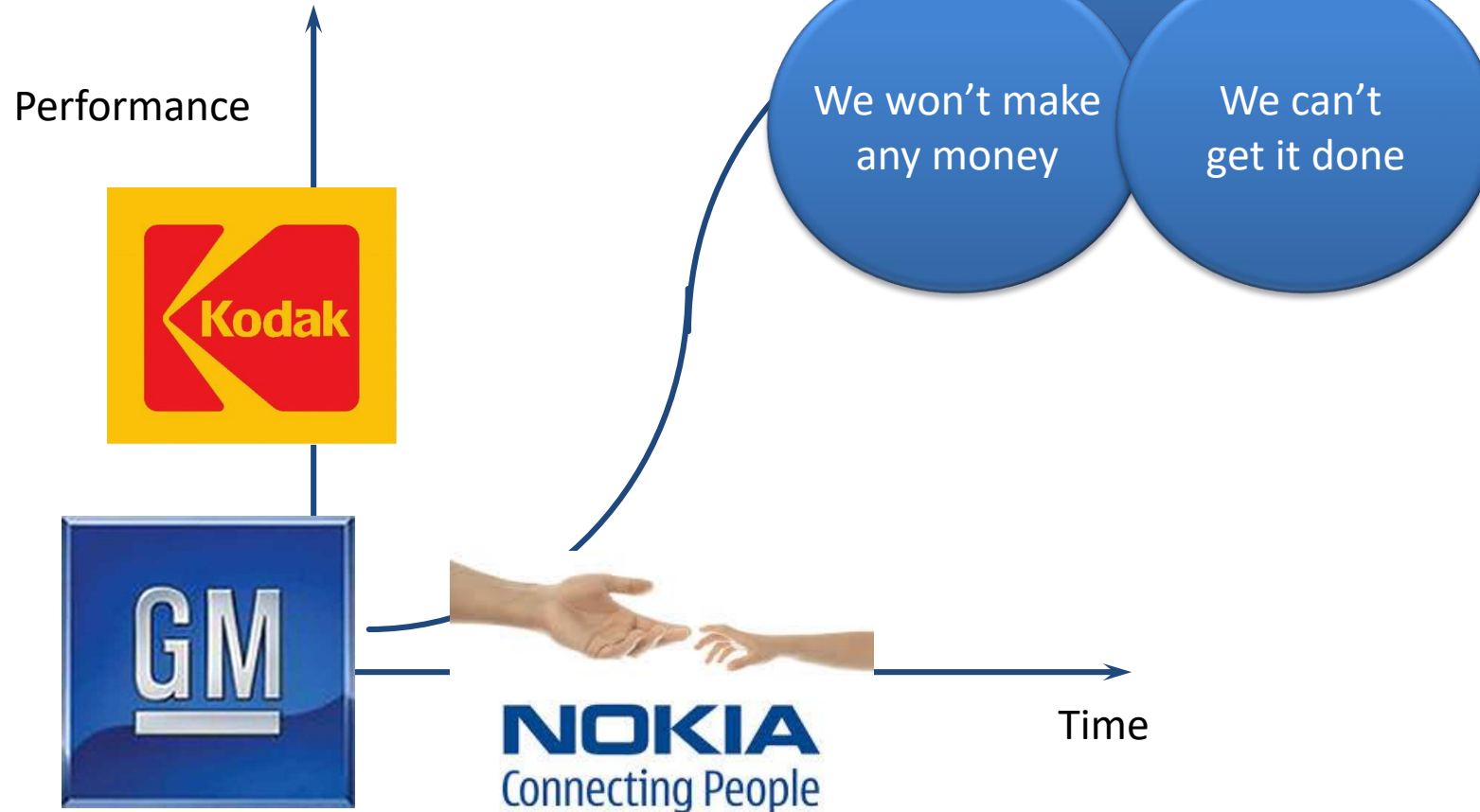
Cooperation can create the case for Systemic Change



Together these steps could build a reinforcing circle



But Change is Hard



Purpose is the Key



Purpose as the Fuel for Change

