

**NORTH STAR:
PURPOSE-DRIVEN LEADERSHIP
FOR THE 21ST CENTURY**

2017-2018 GLOBAL CEO STUDY

**LEADERS
— ON
PURPOSE**

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A COMMUNITY OF LEADERS RESHAPING LEADERSHIP.



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INTRODUCTION

Today's businesses operate amid a hot house of evolutionary pressures: collapsing industries, distrust of institutions, automation, artificial intelligence, rising inequality, climate change, and resource depletion. Not surprisingly, many leaders and organizations find it difficult to respond to this unprecedented degree of change. However, a small but growing number are exhibiting new leadership reflexes and organizational adaptations to ensure their business impact is conducive to life in the 21st century and beyond¹. These leaders realize that, in an era of accelerating change, organizations need to innovate rapidly². After all, the choices businesses make today have the potential to either vastly improve the lives of future generations – or end them. There is no road map and the stakes have never been higher. So where do we go from here?

Leaders on Purpose is a cross-sector international collaborative dedicated to recognizing, analyzing, and developing innovative leadership strategies related to the Sustainable Development Goals (SDGs). Combining expertise in the fields of business (Unilever), international organizations (World Bank), and academia (Harvard and LSE), we have conducted a comprehensive and in-depth study of purpose-driven leadership. Over the last eighteen months, we have interviewed many of the world's most socially and environmentally conscious CEOs. Our stringent criteria required CEOs to fall within the top quartile of financial metrics for their sector, with a business spanning at least 30 countries and ranking in the top 50% for environmental, social, and governance (ESG) criteria. Based on this, we identified a group of the world's top purpose-driven leaders.

The interviewed CEOs shared many valuable insights, but did not have all the answers. Fortunately, they are asking the right questions: how do we balance the quest for profits with responsible growth? Is it possible to do good and do well? What is the future of business leadership?

We stand at a fork in the road. Over the next few years, both leaders and organizations will face two choices: rapidly evolve toward an equitable and sustainable relationship with our planet's life support systems, or delay and face the dire consequences of business as usual.

It is both unrealistic and unwise to expect business leaders to solve all the world's problems. After all, customers and

employees do not elect the leaders of international corporations. These leaders are hired by stockholders, and are expected to focus on the bottom line. Too often, traditional business leadership involves simple zero sum calculations that pit profits against people³. This is why responsible corporate leaders are uniquely positioned to create impactful change. They cannot do it alone – nor should we expect them to.

This is a global problem, and global problems require global solutions. Thus, in an era of increasing political isolationism, purpose-driven leaders are coming together to draw—often by trial and error—the outlines of a new organizational model. Some key contours are now coming into relief.

Leaders on Purpose is committed to leveraging the convening power of our CEO participants and partner institutions to create an "ecology-of-purpose." This complex system spans multiple continents, industries, and disciplines, inviting a diverse group of stakeholders to unite around a shared commitment to responsible business growth. These are early days; the following study is our first step towards realizing this goal. While this is an important milestone, it is also an opportunity to contemplate the many important steps to come.

Step two involves convening purpose-driven leaders, experts, policy makers and facilitating opportunities for them to collaborate in new and productive ways. This is how we will continue to identify, refine, and develop a set of purpose-driven best practices. Manufacturing, service, and technology industries present different challenges and opportunities in relation to the Sustainable Development Goals. Therefore, rather than seek a single one-size-fits-all framework, we will work side-by-side with business leaders to produce a series of productive context-sensitive strategies for responsible business development.

This will not happen overnight; but as the CEOs we interviewed frequently stressed, there is no time to delay. We must create and iterate – and iterate again. This is why Leaders on Purpose is committed to a regular convening of selected CEOs, experts, and policy makers to keep the conversation alive and evolving as we work together at the vanguard of purpose-driven leadership and organizational design.

¹ Ellsworth, R.R., 2002. *Leading with purpose: The new corporate realities*. San Francisco: Stanford Business Books.

² Lacy, P., Haines, A. and Hayward, R., 2012. *Developing strategies and leaders to succeed in a new era of sustainability: Findings and insights from the United Nations Global Compact-Accenture CEO Study*. *Journal of Management Development*, 31(4), pp.346-357.

³ Friedman, M., 1962a. *The social responsibility of business is to increase its profits*. In: W. C. Zimmerli, M. Holzinger, K. Richter, 2007. *Corporate Ethics and Corporate Governance* pp. 173-178. Available through: SpringerLink. [online] Available at: <http://link.springer.com/chapter/10.1007/978-3-540-70818-6_14>; Kurucz, E., et al., 2008. *The business case for corporate social responsibility*. In: A. Crane, A. McWilliams, D. Matten, J. Moon, & D. Siegel eds. 2008. *The oxford handbook of corporate social responsibility* pp. 83-112. Oxford: Oxford University Press.



SAMPLING CRITERIA FOR CEOs:

01

OPERATIONS IN OVER
30 COUNTRIES

02

FINANCIAL METRICS WITHIN
TOP SECTOR QUARTILE
(HBR ANALYTICS)

03

SUSTAINABILITY METRICS WITHIN
TOP 50% IN ESG RANKINGS

04

CEOs PUBLICLY COMMIT TO
**SUSTAINABILITY
AND/OR PURPOSE**

We employed qualitative research methods to interview CEOs who integrate purpose into their organizations. This allowed us to focus on the details unique to each individual leader⁴. Our goal was to deepen our understanding beyond a mere “how to” approach. We were also interested in learning *why* these CEOs practice purpose-driven leadership, *what* they hope to achieve, *where* they think their businesses are headed and *when* they will arrive at their destination.

⁴Yin, R. K. 2003. *Case study research: Design and methods* (3 ed.). Thousand Oaks: Sage Publications.

KEY FINDINGS

NEW BUSINESS LOGIC

Leaders are transcending business models geared toward generating quick profits at the expense of sustainable development by advancing a new business logic that underpins responsible long-term growth and adaptive business models for constantly changing contexts and times.

GLOBAL CONTEXT AWARENESS

The leaders in our study are paying close attention to broader strategic contexts in order to make sense of unfamiliar, rapid and unpredictable developments.

NORTH STAR PURPOSE

The leaders in our study tend to galvanize their workforce around social and environmental value creation informed by the global context and long-term thinking. We call this shared goal their "North Star." This ideological beacon gives stakeholders something to strive for and allows them to leverage their organizations' core competencies to create positive change.

ORGANIZATIONAL AGILITY

Purposeful businesses are evolving into more fluid organizational structures that have increased agility. The leaders in this study are using the creative tension of being purpose-driven to overcome organizational inertia and activate increased rates of innovation to deliver on their North Star purpose.

PURPOSE ACTIVATION

The leaders we interviewed are creating purpose-driven cultures, aligning, empowering and incentivizing employees under an overarching organizational purpose that is resonant with the values of their employees. This is generating increased levels of employee engagement and creativity.



I. ACTING ON GLOBAL CHALLENGES

BY CHRISTA GYORI,
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WHAT IS THE ROLE OF BUSINESS IN SOCIETY TODAY? FOR A LONG TIME, THE NOTIONS OF SOCIAL RESPONSIBILITY AND PROFIT WERE DECOUPLED⁵. TODAY, WE RECOGNIZE THAT BUSINESS IS A CRITICAL LEVER IN ADDRESSING THE GLOBAL CHALLENGES OF AN INCREASINGLY COMPLEX AND INTERCONNECTED WORLD. THROUGH INVESTMENTS, NEW BUSINESS MODELS, AND INNOVATIVE PRODUCTS AND SERVICES, THE ROLE AND IMPACT OF ORGANIZATIONS IS CONSTANTLY, AND RAPIDLY, CHANGING⁶.

PURPOSE-DRIVEN LEADERSHIP IN A RAPIDLY CHANGING WORLD: THE NEW ROLE OF THE CEO



PABLO ISLA >
CEO INDITEX



**“THE LONG-TERM PERSPECTIVE TO
CREATE SOCIAL AND ENVIRONMENTAL
VALUE IS COMPULSORY TODAY AND IS
KEY TO PRESERVE OUR ENVIRONMENT.
OF COURSE, WE UNDERSTAND THAT
THIS LONG-TERM PERSPECTIVE TO
PRODUCE THE HIGHEST QUALITY
PRODUCTS WHILST MINIMIZING ANY
ENVIRONMENTAL IMPACT REQUIRES
RESEARCH AND DEVELOPMENT AND,
HENCE, BUILDS A COMPETITIVE EDGE.”**

The speed of socio-economic change is accelerating at an exponential rate⁷. In the 1950s, the average time a company spent on the S&P500 was approximately 35 years. By 2027, experts predict this will have fallen to just 12 years. 50% of the companies listed today are expected to fall off the list within 10 years. Disruption is the new norm, and it is redefining the role of the CEO. Grant Reid, the CEO of Mars, highlighted:

“What is key now is that we need to make a bigger difference at a faster pace. How can we use science to help, and how can we make a greater impact?”

The CEOs of the forward-thinking corporations interviewed for this report agree that the risks and opportunities arising every day as a result of increased global complexity need to be met with a new mindset as well as innovative collaborations. The increasingly intricate and demanding role of the CEO requires energy, authenticity, resilience, and a higher level of organizational purpose in order to develop strong organizational cultures and impactful strategies⁸. This means paying attention to broader strategic contexts and engaging with unfamiliar and unpredictable developments in a reflective manner. For business leaders accustomed to focusing chiefly on optimizing profits and productivity, this type of conceptualizing may feel unfamiliar and even unsettling. Pushing CEOs outside their comfort zone requires them to engage in practices beyond short-term gains, focusing instead on long-term value creation.

It is increasingly evident that achieving and sustaining corporate success is linked to a commitment to solving societal problems. Climate change, malnutrition, inequality of income and opportunity, pollution, and the lack of governance and institutional trust are just some of the pressing issues identified by CEOs as critical for their organizations to tackle as they make sense of their changing role in society.

These complex problems can no longer be considered in isolation and are central to the evolving business logic, which is about seeking collaborative, not competitive, advantage. Organizations have begun to tap into their potential to collaborate and guide their stakeholders for the benefit of all. As Pablo Isla, CEO of Inditex, explained, “These challenges are not conceived as ‘external issues’ that could be dealt with through charity or donations, but rather addressed by every part of the company and throughout the whole value chain.”

⁵ Carroll, A.B. et al., 2012. *Corporate responsibility the American experience*, Cambridge: Cambridge University Press.

⁶ Doppelt, B., 2010. *Leading change toward sustainability: A change-management guide for business, government and civil society*, 2nd Edition. Sheffield: Greenleaf.

⁷ Anon. 2016. *Times are exponentially a-changin' - and you haven't seen anything yet, says the x prize's peter diamandis*. *GE Reports*. [online]. Available from: <https://www.ge.com/reports/times-are-exponentially-a-changin-and-you-havent-seen-anything-yet-says-the-x-prizes-peter-diamandis/> [Accessed March 31, 2018].

⁸ Peterson, R.S. et al., 2003. *The impact of chief executive officer personality on top management team dynamics: One mechanism by which leadership affects organizational performance*. *Journal of Applied Psychology*, 88(5), pp.795-808.



THE SEVEN MOST PRESSING
CHALLENGES ACCORDING TO
THE CEOs IN OUR STUDY:

01

CLIMATE CHANGE

02

MALNUTRITION

03

WEALTH DISPARITY

04

MIGRATION

05

SHORT TERMISM

06

DECLINING TRUST
IN INSTITUTIONS

07

EMPLOYMENT AND
TECHNOLOGY



THE ROLE OF THE SUSTAINABLE DEVELOPMENT GOALS



CARLOS BRITO >
CEO, AB INBEV



“THE REASON WHY WE EXIST IS BECAUSE WE ARE ADDING TO THE COMMUNITIES WHERE WE LIVE, AND BECAUSE WE ARE PART OF THE SOLUTION. WE HAVE TO THINK HARD ABOUT HOW WE CAN BE PART OF A SOLUTION, AND HOW CAN WE BE MORE ACTIVE IN ISSUES THAT COMMUNITIES FACE. THEN WE BECOME INDISPENSABLE, AND THAT’S WHAT WILL GUARANTEE THAT WE WILL HAVE A ROLE TO PLAY.”

In 2015, 193 countries committed to making the world more prosperous, resilient and sustainable by adopting the Sustainable Development Goals (SDGs). With this pledge, businesses accepted the responsibility and opportunity to play their part.

The SDGs provide a common language and framework for business, government, and civil society to address the world’s most pressing challenges. They establish a shared understanding that makes sense of the challenges posed by global complexity. In this way, they assist companies in describing how they add value and communicate non-financial requirements and successes. For example, achieving the global goals can create US \$12 trillion in opportunities around just four sectors: agriculture, cities, energy and materials, and health and wellbeing. Furthermore, it can also generate an estimated 380 million jobs⁹.

Forward-thinking CEOs are aware of the opportunities the SDGs present, and 90% of those we spoke with have begun to align their strategies accordingly. According to Lorna Donatone, Sodexo’s CEO for Geographic Regions:

“[It’s about]...improving the quality of life of our employees and those that we serve. In our ‘Better Tomorrow 2025,’ we have nine commitments that we have made to align with the UN SDGs. They absolutely hit innovation and push us to act differently.”

⁹ Business and Sustainable Development Commission, 2017. *Better business better world: The report of the business & sustainable development commission*. London: London. Available at: <http://report.businesscommission.org/report>

However, it is more difficult to assess how many have truly recognized the commercial impacts of adopting the SDGs, the value they can create in different areas of society, and what this means for their business. To fully benefit from the SDGs, businesses must embed them at the heart of their organizations¹⁰. Many of the CEOs interviewed explained that linking the SDGs to their company's core mission was important, and that supporting the national and local SDG goals gave them an opportunity to connect with the community at a deeper level and offered them a license to operate. CEOs have an opportunity to be more proactive by evaluating the impact and role of their organizations in achieving the SDGs, and by implementing the appropriate metrics to measure corresponding success, monitor performance, or report on challenges.

Furthermore, thanks to technological developments, it is now easier to make informed decisions about the trade-offs of various business decisions. As Grant Reid, the CEO of Mars, reflected:

"I wish 5-to-10 years ago, I had some of the measurements on gender and climate that we have now – to help us understand the economics and the impact of our efforts better. The Stengel 50 ROI is much higher than the S&P 500. In hindsight, I would have had different measures, involved science more, talked more to external people when we were setting our original targets."

¹⁰ Busch, C. (2017). *The Impact Organization*. London: London School of Economics.



CORPORATE PURPOSE AS THE NORTH STAR IN A COMPLEX WORLD



LORNA DONATONE >
CEO FOR GEOGRAPHIC
REGIONS, SODEXO



**"COMPANIES WHO CAN DEMONSTRATE
A STRONG PURPOSE ARE MORE
SUCCESSFUL. IT TAKES THE RIGHT
LEADERS – TODAY'S GENERATION
WANTS TRANSPARENT, GENUINE
LEADERSHIP."**

Purpose is not a new management concept¹¹. Almost every organization has a mission statement, and most leaders believe that their organization has a purpose. For many, this purpose is targeted to a specific customer. The leaders we talked with define purpose as something much larger than this. For them, purpose is about contributing to a broader stakeholder group and addressing pressing social or environmental challenges. Their vision of purpose is wider than the parochial focus on a company's ability to create shareholder value, or even its role within a specific community. This view involves a wider understanding of how organizations can contribute to society and collaborate with others to address global challenges. We call this larger vision the organization's "North Star." As John Fallon, the CEO of Pearson, noted, "At the very time when we need to see strong institutions, we have seen an institutional breakdown in formal authority. Companies have to think more about moral authority."



THE NORTH STAR – A HIGHER LEVEL PURPOSE:

*Purpose as a North Star is grounded in global context, linking organizational abilities with global challenges. It answers the question: **why are we here, and why should people care?** It moves beyond the parochial focus of a company's ability to create shareholder value, or even its role within a specific community. This view involves a wider understanding of how organizations can contribute to society and collaborate with others to address global challenges. It often requires a strong leadership mindset.*

¹¹ Gratton, L., 2000. *Living strategy: Putting people at the heart of corporate purpose*. FT Press.



**“AT THE VERY TIME WHEN WE
NEED TO SEE STRONG INSTITUTIONS,
WE HAVE SEEN AN INSTITUTIONAL
BREAKDOWN IN FORMAL AUTHORITY.
COMPANIES HAVE TO THINK MORE
ABOUT MORAL AUTHORITY.”**

JOHN FALLON > CEO, PEARSON



FINDING ORGANIZATIONAL PURPOSE



FOUR KEY STEPS CEOs TAKE TO FIND THEIR “NORTH STAR”:

01

ANCHORING IN THE GLOBAL CONTEXT:
Let partnerships and frameworks such as the SDGs guide them in understanding the global context and their impact.

02

BUILDING ON THE COMPANY'S CORE COMPETENCIES:
Understanding key competencies of their company, allowing for the effective tackling of global challenges and creating positive outcomes.

03

MINDING INTERNAL COLLECTIVE VALUES:
Letting shareholders, boards, customers, and employees participate in the creation of the North Star.

04

MAKING IT LONG TERM:
Work on shifting shareholders mindset to enable and support long-term thinking and commitments.

Identifying a business's North Star is a challenging process. Danone provides an example of this. In 2015, the organization added Lorna Davis to the Executive Committee with the audacious title of “Chief Manifesto Catalyst,” and an equally audacious mandate to “lead the innovative, broad co-creation and company-wide deployment process of ‘Danone 2025.’” This business transformation program was designed for a sustainable, collaborative and community-engaging future.” Over the course of the year, Lorna engaged with Danone's 100,000 employees who worked together in the co-creation of the organization's “Manifesto.” We spoke with Danone CEO Emmanuel Faber about this:

“People today have quite different expectations for brands. They pay more attention to what they eat and drink, how ingredients are sourced, and how food and beverages are produced, marketed and distributed. They are mindful of a brand's environmental and social practices, and they want to know the people behind the brand. Transparency is key. No other time has offered as many opportunities to rethink how we produce food. We want to be a catalyst of this change. ‘Danone, One Planet. One Health’ is our vision that speaks directly to this generation of people around the world who are looking to reclaim sovereignty over what they eat and drink – the food generation. It drives our strategic decisions to deliver the healthier, more sustainably produced food and drink choices that people have come to expect from us.”

Faber reflected on this and arrived at the following conclusion:

“We tend to lead with big visions but not really with a plan. I trust more in a vision that is followed by gradual execution, to start paving the road, rather than in a big plan... simply because of the volatility of other factors that can change things around very fast.”

Anchoring the North Star can involve external and internal context, often both. While many organizations such as Danone or DSM use the Sustainable Development Goals as an orientation, others develop their North Star based on heritage and legacy. For example, Novo Nordisk, has anchored in context based on their Danish heritage. Their CEO, Lars R. Sørensen, explained, “People in the company are mindful and interested in climate change and want to reduce the CO₂ emissions.”

Hence, the organization’s values and purpose are closely aligned with the societal agenda of its country – which among others includes reducing CO₂ emissions. This ensures that the desired behavior resonates with employees and speaks to their personal motivations.

Indeed, successful companies often find or rediscover their higher purpose in the legacy of their organization. John Fallon, CEO of Pearson, told us:

“Pearson has been in business for 180 years. It was in many different industries and different sectors before it came into education. But it has always had a sense of a wider role in society. We’ve often said our profits sustain the company, but they don’t define it. What defines the company is empowering people to make progress in their lives through learning.”

MULTI-TIER ECOSYSTEMS



Redefining purpose for greater impact requires collaboration at multiple levels. Each purpose-driven leader is embedded in an ecosystem of competing and complementary motives and ideologies. This individual complexity affords them empathy with fellow stakeholders, which is necessary because purpose-driven organizations are collaborative ecosystems of internal partnerships based on shared understandings and trust. At the macro level, these partnerships are, in turn, nested within larger ecosystems of external partners linked by looser ties and more broadly defined commonalities.

AIG CEO Brian Duperreault provided one example of this:

"I'm very proud of our involvement in Blue Marble, a consortium of nine companies collaborating to extend socially impactful, commercially viable insurance protection to the underserved. Blue Marble was announced at the World Economic Forum in 2015 and incorporated shortly thereafter. Blue Marble works with partners to develop microinsurance ventures that advance food security, financial inclusion and micro-entrepreneurship. In 2016, Blue Marble launched an agriculture venture in Zimbabwe, which provided smallholder farmers with affordable index-based insurance protection against drought and access to quality agricultural inputs on credit. Since then, Blue Marble has returned to the market with an improved and expanded offering. The intention is to scale the program across Africa. Blue Marble is also designing and implementing ventures in Latin America and Asia."

Finding ways to leverage the unique strengths and build off of shared beliefs can be a source of strength and a catalyst for innovation. This type of multi-tier collaboration allows purpose-driven leaders to simultaneously build trust, solve problems, and foster opportunities across different spheres of influence: personal, internal, and external. Multi-tier partnerships are increasingly important vehicles for mobilizing resources. Knowledge creation, technological innovation, financial success, and progress toward the attainment of the SDGs would be virtually impossible without these complex partnerships. They are also innovation engines that intrinsically motivate stakeholders and increase their commitment.



FEIKE SIJBESMA >
CEO, DSM



"WHEN WE WERE FOUNDED, WE WERE CALLED DUTCH STATE MINES. WE ARE NOT DUTCH ANYMORE. WE ARE NOT OWNED BY THE STATE ANYMORE, AND WE HAVE NO MINES ANYMORE, BUT THE NAME EXISTS STILL. SOME YOUNG PEOPLE IN DSM, SOME YEARS AGO, REPHRASED THIS DSM AS 'DOING SOMETHING MEANINGFUL.' I WOULD HAVE LOVED IT IF IT WAS MY INVENTION, BUT IT WASN'T. IT WAS THE YOUNG PEOPLE OF DSM, AND I EMBRACE IT TOTALLY!"



ZHANG RUIMIN >
CEO, HAIER



"I THINK TRADITIONALLY [SOME] BIG CORPORATIONS TENDED TO USE A CERTAIN AMOUNT OF THEIR PROFITS TO REDUCE THE ENVIRONMENTAL POLLUTION AND/OR THEY MIGHT TRY TO MINIMIZE OR REDUCE THEIR OWN POLLUTION FOOTPRINT OR IMPACT BY REDUCING ENERGY, FOR EXAMPLE. THOSE ARE NOT PERMANENT SOLUTIONS TO THE PROBLEMS BECAUSE ON THE ONE HAND, MY MANUFACTURER ENGAGES IN PRODUCTION, WHICH CAN POLLUTE THE WORLD, BUT ON THE OTHER HAND MY COMPANY SPENDS MONEY TO HELP THE ENVIRONMENTAL PROBLEM. WE'RE DOING THINGS DIFFERENTLY. WHAT WE DO IS TRYING TO ACHIEVE A VALUE SHARING, WHICH MEANS WE ARE CONNECTED TO THE COMMUNITY, WORK WITH THE COMMUNITY... TO ACHIEVE THE SHARING OF THE BENEFITS... TO BRING TOGETHER EVERYONE'S BENEFITS IN A WAY THAT CAN BENEFIT SOCIETY."



EXAMPLE OF HOW COMPANIES DEVELOP LOCAL PARTNERSHIPS TO MOBILIZE RESOURCES FOR THE LONG TERM:

"Some years ago we formed the first College of Engineering for Women in India. It was a local, non-profit agency established because two people felt strongly that, despite prevailing cultural norms, women in India could have meaningful careers. What's more, those careers could be in engineering. That College of Engineering now produces literally hundreds of graduates per year. I spoke at the first graduation of Mechanical Engineering for Women, and it was an emotional and remarkable experience to see all the parents there and celebrate these women graduating. They're changing society. That's really great." Tom Linebarger, CEO Cummins.



II. PURPOSE ACTIVATION

BY DR. CHRISTIAN BUSCH,
CHRISTA GYORI,
LEITH SHARP

ONCE AN ORGANIZATION GOES THROUGH THE INTENSIVE PROCESS OF IDENTIFYING THEIR NORTH STAR, THE REAL WORK BEGINS OF MAKING THE MISSION ACTIONABLE.



KEY BARRIERS PREVENTING CEOs FROM ADOPTING SUSTAINABILITY STRATEGIES ACCORDING TO THE CEOs INTERVIEWED IN OUR STUDY:

01

SHORT-TERM PRESSURES:

Many CEOs are constrained by short-term market fluctuations and shareholder expectations.

02

LIMITED BANDWIDTH:

CEOs often need to focus on solving immediate crises and tend to seek advice from a narrow network of influencers, thus potentially lacking the ability to envision the potential synergies between sustainable development goals and their business.

03

COMPLEXITY WITH MEASUREMENTS:

Often, the relationship between long-term investments into sustainability and the costs and benefits associated with these investments is not clear. More effective measurement and deliverables need to be established.

MILESTONES: BALANCING LONG-TERM THINKING WITH ADAPTIVE STRATEGY



DENIS MACHUEL >
CEO, SODEXO



“OUR CORPORATE BOARD IS ULTIMATELY RESPONSIBLE FOR GOVERNANCE OF OUR ORGANIZATIONAL PURPOSE AND ITS PROGRESS. [...] CORPORATE RESPONSIBILITY MUST BE AN INTEGRAL PART OF THE ORGANIZATIONS STRATEGY AND NEEDS TO BE EMBEDDED INTO ALL BUSINESS ACTIVITIES AND DIMENSIONS, WITH AN EFFECTIVE GOVERNANCE STRUCTURE.”

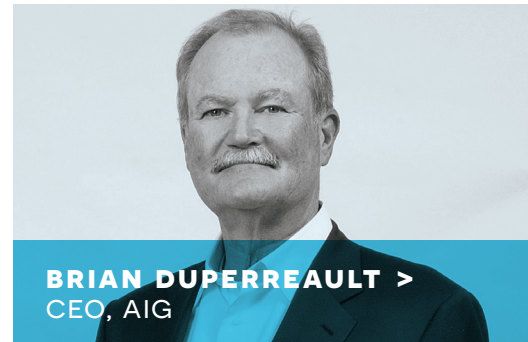
One of the findings that emerged from our research is that transforming purpose into a “living state” requires two complementary ingredients: **long-term perspective** and **adaptive strategy**. The former relates to thinking ahead to ensure that actions taken today have a positive impact in the future. However, this is not enough – given that technology companies such as Google or Alibaba might disrupt any market at any given time, staying adaptive is crucial for companies across sectors. In the words of Haier’s CEO Zhang Ruimin: “We need to disrupt ourselves before we get disrupted.”

In other words, successful 21st century leaders need to be both visionary and adaptive. This suggests a new business understanding: an adaptive mindset working in dialogue with long-term orientation at the highest level, within corporate strategy.

While the North Star serves as a long-term aspirational goal, its achievement is tied to short-term markers of developmental progress, or “milestones.” Focusing on these allows stakeholders to respond to rapid changes, social contexts, and technological developments. Milestones also provide the benefits of immediate deadlines, trackable progress, and measurable results.

IKEA’s CEO Peter Agnelfjäll explained: “It starts with a vision. It continues with a plan to grow and develop IKEA towards 2020. We want to do it in a way that is people-and-planet-positive... That’s the way we work it through from A to Z.”

Our study found that successful companies define their milestones based on a rigorous context-assessment: *What do people in this region care about? What is the political and economic landscape? What are the specific problems related to our core competencies?* Truly effective milestones reflect the interplay between the organization’s resources at hand, including capital, people, and technology, and the larger social context in which these have an impact.



“A CULTURE OF COLLABORATION AND INTEGRITY IS TRULY IMPORTANT. WE ARE MOVING AHEAD TOWARD A MORE DECENTRALIZED STRUCTURE, NOT MOVING BACK TO A SILOED STRUCTURE – AND THAT’S AN IMPORTANT DISTINCTION. WE WANT TO BE AGGRESSIVE BUT COLLEGIAL, NOT COMPETING AGAINST OURSELVES, BUT PULLING TOGETHER TO SOLVE PROBLEMS LIKE NO OTHER INSURER CAN. AT NO TIME WAS THIS MORE EVIDENT THAN DURING ALL OF THE NATURAL DISASTERS LAST YEAR.”

The CEOs we interviewed had a clear understanding of how to integrate their international business units with their overall organizational higher purpose and the broader societal context. For example, the German conglomerate Siemens identified the need to rebuild the energy infrastructure in Egypt, which resonated with the company's strengths. This, in turn, produced a highly lucrative business opportunity, a win-win business model, so to speak. Siemens decided not only to help with generating sustainable power locally, but also with distributing it; setting up training centers for over 600 young Egyptians to develop a youth-powered community that can run the sustainable power plants locally. In other words, this project had three components: Profits, Planet, and People.

These components required certain actions and ways of leadership thinking, as highlighted by CEO Joe Kaeser: “We are aware of cultural elements that are not exactly going the German way, and we don’t want to bring that culture to Africa.”

Thus, purpose-driven CEOs understand the context in which they operate and align their milestones, resources, and capabilities to it in a long term perspective. This enables the development of a true win-win business model, demonstrating that profits and purpose are not mutually exclusive. There have been numerous recent studies that have demonstrated that purpose and profit need not be a trade-off¹². Our study builds upon these by examining how CEOs integrate their organizational activities and contributions with their purpose. There were many cases in which companies leveraged their core competencies to align purpose with a societal challenge for a mutually beneficial outcome. As Tom Linebarger highlighted: “I have to approach this not as a philanthropic adventure but very much a part of our core business with real results and real profitability down the line.”



CEO MINDSET FOR WIN-WIN BUSINESS MODELS

The CEOs in our study showed a high level of context awareness. The leaders we interviewed are accustomed to assessing the respective local and global context and driving opportunities for win-win business models.

¹² Eccles, 2014. *The impact of corporate sustainability on organizational processes and performance*. Management Science, 60(11), pp.2835–2857.



AJAY BANGA >
CEO, MASTERCARD



“THE GOAL THAT I PUT OUT THERE – OF 500 MILLION PEOPLE AND 40 MILLION SMALL MERCHANTS WILL GET INTO THE SYSTEM – I HAD NO IDEA HOW I’D GET TO 500 MILLION PEOPLE. MOST PEOPLE IN MY COMPANY THOUGHT I WAS CRAZY. EVEN I THOUGHT I WAS CRAZY. IT’S AMAZING HOW ONCE YOU PUT THE TARGET OUT THERE AND YOU LET ENOUGH CREATIVE PEOPLE AT IT [WHAT IS POSSIBLE]. TO DATE, WE’VE REACHED MORE THAN 300 MILLION INDIVIDUALS.”

This often goes beyond the organization itself and applies to the broader stakeholder ecosystem. For example, Peter Agnefjäll, CEO of IKEA, explained that his company’s purpose has been “to stimulate the customer to live a more sustainable life, by taking active choices ourselves.” Hence, IKEA decided to completely switch to the more cost and energy-efficient LED lamps, thereby reducing CO₂ emissions, as well as prices for the end-consumer. At the time LED bulbs were priced at a premium, but the company’s scale enabled it to reduce the cost of the plastics and other components of the bulbs and drive down prices on the more sustainable product¹³. This kind of directed portfolio management is an example of how an organization’s embedded purpose drives decision-making. This decision was based on the latest insights, the context of the era, and grounded in IKEA’s North Star purpose.

Peter Agnefjäll further commented on the process:

“By taking active choices ourselves we help the customer to live a more sustainable life. We decided to discontinue all of our traditional incandescent bulbs and instead replace them with the most efficient sustainable light source, which is LEDs, which consumes about 85% less energy and thereby also creates 85% less CO₂ emissions. Thereby we could transform the value chain of this, gathering volumes behind the latest technology. We could drive a very ambitious cost-out agenda, which enabled us to take down the price to the consumer. Because we used the latest technology with significantly less CO₂ emissions, it also means that we are actually creating an enormous change in CO₂ emissions around the world. Last year, we sold 79 million LED bulbs, and if each and every one of them are replacing a traditional incandescent bulb, they would save the total energy consumption of 650,000 households a year, as one example.”

Since IKEA encourages its customers to use their consumer power to demand more sustainable products, this approach is particularly powerful for sustaining a win-win business model. In other words, it acts as a reinforcing-mechanism by creating customer demand aligned with purpose.



CREATING PURPOSE-DRIVEN CUSTOMER DEMAND:

Smart companies find ways to align their purpose-driven vision and stakeholders’ needs both upstream and downstream.

¹³ Vaughan, 2016. *IKEA to sell only energy-saving LED lightbulbs*. [online]. Available from: <https://www.theguardian.com/environment/2015/aug/10/ikea-ditches-conventional-lightbulbs-for-energy-saving-led-lighting> [Accessed March 12, 2018].



CORNERSTONES: CODIFYING AND MANIFESTING DESIRED BEHAVIOR

To bring purpose to life, many of the CEOs in our study have codified a set of principles, values, and expectations that we refer to as “cornerstones.” These key shared beliefs guide the behaviors and actions of people within their organization. As Cummins’ CEO, Tom Linebarger, states:

“I would recommend to anybody who is developing a set of Mission/Vision/Values, to follow that up with a set of leadership behaviours and expectations. Things like that are about what you want it to feel like to work at your company. It’s really important to help people understand how you expect them to act.”

Guiding principles need to be derived from a clear and coherent strategy. They can then be promoted through behavior modeling and collective consent. We found that successful purpose-driven companies integrate these values into their every-day decision making procedures, thereby communicating and enacting them across the organization. For instance, as part of its manifesto journey discussed previously, Danone abolished its sustainability office to highlight that responsible business is a matter for everyone across the organization, not only those in that office.

At Mars, a set of “Five Principles” helps to guide the organization. Mars’ CEO Grant Reid told us:

“It starts with the fact that this is in the very fabric of Mars... The ‘Five Principles’ is something we talk about every day. Every meeting we’re in, somebody will talk about, ‘Hey, what’s the decision we’re making, and how do the five principles guide that?’ We actually test that with our Associates every year through a survey. We ask them; ‘Do you feel you’re using the Five Principles?’ ‘Do you feel like Mars is working towards those?’ ‘Is your manager a leader using the principles?’ That gives us a very good gauge through our almost hundred thousand associates to get a feel and vibe of how The Five Principles are working.”

Most of the CEOs we interviewed spoke of a set of guiding principle or cornerstones that help to align purpose and productivity. They believe this helps to generate value beyond the bottom line.

However, as the old adage goes, we only value what we measure, and (impact) measurement is becoming a major area of interest for CEOs.

MEASURE WHAT YOU VALUE: THE IMPORTANCE OF IMPACT MEASUREMENT

Social and environmental impact often involves overcoming the short-termism that frequently prevails in business. Our findings demonstrate that many CEOs are under pressure to deliver on short-term goals, as this is what the financial markets reward (for now). Nevertheless, our study suggests that this can be overcome by setting ambitious, yet clear and measurable long-term goals which are met by thinking in terms of solutions, rather than rote protocols. This unites a purpose-driven organization and ensures that long-term objectives are prioritized over “short-term wins.”

Indeed, the CEOs we interviewed all have long-term visions that they leverage to counter the constraints of short-termism. They do so by attempting to measure, and then communicate, the benefits of practicing what they preach. This clear and constant measurement enables the North Star to be translated into deliverables, manifesting itself across the organization. At some companies we spoke with, this starts with management systems and governance: a 3-tier incentive scheme integrates financial, social, and environmental measures.

However, measurement must be complemented by transparency¹⁴. The CEOs we spoke to use data to track, measure, and communicate progress related to the long-term goals and thus celebrate organizational achievements. As companies increasingly go digital, data analytics becomes easier to gather and analyze, and is therefore an even more important aspect of an organization's internal and external communication strategies¹⁵. This kind of transparency helps to foster accountability and motivates employees at all levels to truly commit to publicly stated goals.

¹⁴ Kolk, A., 2008. *Sustainability, accountability and corporate governance: Exploring multinationals' reporting practices*. *Business Strategy and the Environment*, 17(1), 1-15.

¹⁵ Westerman, G., Bonnet, D., & McAfee, A., 2014. *Leading digital: Turning technology into business transformation*. Harvard Business Press.



**“OUR 200,000 COLLEAGUES ARE THE
COMPANY. WE OWN WHAT WE DO.
IT’S NOT JUST A JOB. MEASURING
PROGRESS IS PART OF OUR CULTURE.
[AND] IT’S ABOUT METRICS,
ORGANIZING DATA AND USING
DASHBOARDS. WHEN YOU DO THIS,
THE INSIGHTS BECOME VERY CLEAR.”**

According to the CEOs we interviewed, transparency creates a level of internal and external pressure to commit to set objectives. In turn, committing to these goals creates trust amongst internal stakeholders. Accountability is not just hierarchical, but also lateral – that is, “peer-to-peer.” This type of collective ethos can be fostered by sharing goals publicly, or through the use of an internal dashboard that is only visible to employees. This type of engagement can be further inspired by a highly ambitious goal. For example, Mastercard CEO Ajay Banga recalled how his company’s initial goal seemed “crazy.” As he put it:

“The goal that I put out there – of 500 million people and 40 million small merchants will get into the system – I had no idea how I’d get to 500 million people. Most people in my company thought I was crazy. Even I thought I was crazy. It’s amazing how once you put the target out there and you let enough creative people at it [what is possible]. To date, we’ve reached more than 300 million individuals.”

In other words, highly ambitious goals combined with the right mindset and employee engagement can help organizations achieve purpose-driven and long-term objectives.



CREATING AND MAINTAINING A PURPOSE-DRIVEN CULTURE



"YOU CAN, OF COURSE, GIVE PEOPLE A PAY RISE WHEN THEY ARE BEING A GOOD AMBASSADOR OF THE CULTURE AND VALUES. MAYBE MOST IMPORTANT IS THAT YOU ALSO PROMOTE BASED ON VALUES. YOU MAKE SURE THAT THE BEST AMBASSADORS ACTUALLY ARE THE ONES THAT ARE GETTING BIGGER AND BIGGER ASSIGNMENTS AS THE COMPANY IS GROWING."

The CEOs in our study consider the creation and maintenance of a purpose-driven culture a key strategic task. Many of the CEOs agree with Peter Drucker's saying: "culture eats strategy."

The real question is: how can leaders develop a culture that supports and activates the overall organizational North Star? Our study identified a number of ways in which purpose-driven leaders create and maintain a strong culture.

IDENTIFYING VALUE AMBASSADORS AND REWARDING VALUES-BASED BEHAVIORS.

As discussed in the example of Danone, in which the organization brought on a Chief Manifesto Officer, our findings indicate that identifying, communicating and reinforcing values-based behaviors support a purpose-driven culture. This can be done by codifying expectations. However, it does not stop there. Our findings indicate that setting the right incentives ensures consistency among set expectations and real-life actions. Indeed, many organizations in our study incentivize purpose-driven behaviors across their organizations. For example, some identified key employees as "values ambassadors" – people who consistently prove their understanding of set expectations, and reward them accordingly.

As IKEA's Peter Agnefjäll explained, "You can, of course, give people a pay rise when they are being a good ambassador of the Ikea culture and values. Maybe, finally, most important is that you also promote based on values. You make sure that the best ambassadors actually are the ones that are getting bigger and bigger assignments as the company is growing."

This type of incentivizing can be done via positive performance reviews, pay raises, promotions, exciting assignments, or the celebration of exemplary work. Some of the companies in our study, for example, reward employees at their annual conferences for their accomplishments and purpose-driven behaviors. Most notably, executives who followed this approach highlighted that employees are rewarded not only on *what* value they create but *how* they create it. Thus, process is celebrated along with productivity.

TOWARD AN OWNERSHIP CULTURE: ENGAGING AND ENERGIZING EMPLOYEES.

Our study also revealed that appealing to entrepreneurial behavior is a powerful way of integrating the North Star within an organizational culture. Companies such as Inditex, Haier, and Siemens implemented and formalized an ownership culture. As Pablo Isla, the CEO of Inditex explained, “Most of the departments look at their work as if they were operating a spin-off company whose client is Inditex... And there is always this element of conceiving the company as if it was a small company or a start-up, always as if it was the first day.”

Some of the companies we examined value their creative and intellectual contributions by making their employees owners either in monetary terms, such as equity programs, or in terms of “idea ownership.” The CEO of Siemens, Joe Kaeser, provided an example of how this approach works:

“To prepare our workforce so that it, not only acts as if that was our own company, but also that you’re capable of acting like this was our own company. So that’s the story. That’s how we did it...we call it ‘ownership culture’. It’s got five elements. The first one is leadership. The second one team orientation. The third one is, ‘how do we behave as a company and as a team’. This is also about respecting diversity and opinions and experience and things like that. And the fourth element is core values: innovative, responsible, excellence. That’s what they strive for....We also believe that our people are supposed to be owners of the company. So we started an equity program, which is the fifth element of the ownership culture. We want a culture of owners and the mantra of everyone in our company is: Just act as if that was your own company. So no matter what you do, always act as if that was your company.”



JOHN FALLON >
CEO, PEARSON



“TRUST [IS A] BIG, BIG THING FOR ME AS WE WORK IN [A] MUCH MORE FAIL FAST AND FIX [ENVIRONMENT] – MUCH MORE AN ORGANIZATION WHERE PEOPLE COME TOGETHER ALMOST ON-THE-FLY AND IN SMALL GROUPS TO WORK ON A SPECIFIC PROBLEM, DISBAND, REFORM, GO AGAIN, THIS IDEA, ONE OF TRUST AND ALSO THE IMPORTANCE OF, THIS FACT: I CAN GIVE YOU CLARITY. I CANNOT GIVE YOU CERTAINTY.”

Our findings suggest that the successful implementation of an ownership culture requires three key elements. First, a culture that accepts failure and celebrates success. Second, a culture that shares learning and knowledge in order to prevent avoidable mistakes, reserving “failure” for novel endeavors. Third, a culture that provides psychological safety. If these elements are all in place, an ownership culture can bring prosperity to the firm and its employees through commercial projects and job enrichment.

The CEOs who have implemented this approach say that it resonates with the changing mindset amongst employees, particularly younger people, who believe that a job is about more than just income; it is also a source of meaning and individual purpose. This resonates with our previous research on *Impact Organizations* – organizations that strategically integrate social and financial impact¹⁶.

Thus, an organization can create a strong culture by aligning and empowering motivated employees under an overarching organizational purpose that resonates with them individually. This starts with hiring people whose individual purpose relates to organizational purpose. It also applies throughout advancement, reward, and partnerships, e.g., promotion decisions, supplier decisions, etc.

While an ownership culture empowers and motivates driven employees, our findings suggest that key parameters must be in place to ensure success. These include providing the required skills to employees and fostering the appropriate mind-set to run a business. Thus, the tendency to take unreasonably high risk is mitigated, since the differentiation between working for the company and working for oneself is significantly diminished.

Executing this may not be easy, but our study indicates that it is certainly possible. Corporations as diverse as Haier, Siemens, and Inditex all experiment with ownership cultures. Even companies that were traditionally seen as risk averse are exploring this new paradigm.

¹⁶ Busch, C. 2012. *The Impact Organization*. London: London School of Economics.

ONGOING COMMUNICATION: SHARING TANGIBLE STORIES



How can a purpose-driven culture be nurtured over time? At Mastercard, CEO Ajay Banga constantly encourages employees to reimagine the company's purpose. In his words: "It's not to get more cards into the market, but to move to a world beyond cash, and that's now embedded in everything we do and say."

One way to encourage on-going communication is through the *use of message carriers, or "multipliers" across an organization*¹⁷. These are people who are formally or informally influential within the business and therefore meaningfully impart messages. While many organizations focus on the formal hierarchy when identifying these carriers, a more effective approach often involves identifying those that are informally powerful – the people that employees go to for advice, for example. Ways to identify these include mapping the company's informal networks by, for example, asking employees, "whom do you go to when you need advice?"

Secondly, our study revealed that one powerful way of maintaining a purpose-enacting and purpose-embracing culture involves *telling stories that resonate emotionally*. Sharing and evoking emotions can be done through words, visuals, and, most importantly, encouraging employees to experience for themselves the impact of their actions. Overall, letting employees experience how their organizational actions can positively impact someone else's life is a powerful way of strengthening purpose-driven culture.

Ajay Banga, CEO of Mastercard, told one such story. Banga's 2013 trip to South Africa changed his perspective on the importance of financial inclusion. The trip involved partnering with the African Security Agency to organize the payment of social security to citizens. Over the course of that trip, he met with Hilda Nkantini at the Elias Motsoaledi settlement in Soweto, outside Johannesburg. Nkantini, who is one of nearly six million South Africans who receive their social grant payments securely and conveniently by using the Debit Mastercard, shared the impact the program had made in her life. Banga explained:

"I came back from that trip saying, 'We're on to something. If I can bring her voice into my company, I'll excite my people.' We did. We made enormous effort to bring the voice of 1,000 Hildas into our company by making our people go participate in [things], by bringing those voices into internal communications. People like Seth, and his team, and his partners have done a yeoman's work on getting this message into the company."



"EVERY MEETING WE'RE IN, SOMEBODY WILL TALK ABOUT HOW THE DECISION WE'RE MAKING ALIGNS WITH OR CAN BE GUIDED BY THE FIVE PRINCIPLES. WE ACTUALLY ASSESS OUR ENGAGEMENT WITH THE PRINCIPLES WITH OUR ASSOCIATES EVERY YEAR THROUGH A SURVEY.[...] IT'S REALLY OUR ASSOCIATES WHO REFLECT THESE PRINCIPLES IN THEIR ACTIONS EVERY DAY. DOES THE FAMILY NEED TO PERSONIFY THE FIVE PRINCIPLES? DO I NEED TO DO IT? DO SENIOR MANAGEMENT NEED TO BRING THEM TO LIFE? ABSOLUTELY. AT MARS, ALL ASSOCIATES ARE STRIVING TO BRING THESE PRINCIPLES TO LIFE EVERY DAY."

¹⁷ Wiseman, L., McKeown, G., & Covey, S. R. 2017. *Multipliers: How the best leaders make everyone smarter*. HarperAudio.



EXAMPLE ON HOW COMPANIES CELEBRATE THEIR VALUES:

"We have many dates around the year in order to celebrate some of [our] values. For example, we have Global Beer Responsible Day. Of course, every day should focus on responsible drinking, but having a specific day every year helps to remind our colleagues, our customers and our consumers about our commitment to this issue. On Global Beer Responsible Day, up to 60,000 of our colleagues in all 50 countries where we operate talk to our consumers, our customers and our suppliers about the legal drinking age, about binge drinking, about how to identify somebody who is under the influence [of alcohol], and about the best practices in dealing with it. We try to get our colleagues to go to the streets to bring this message. We try to have those dates in order to celebrate that we are part of the community."

Carlos Brito, CEO AB InBev.

This powerful personal experience transformed how Banga viewed his company's social mission.

"We started talking about our mission, and our vision, and our values openly all over the company...Every possible route that we could use to push the message out into the company in the simplest form of speaking, as many times as needed without getting tired of it. Getting that vision out there – that is what happened. It took years of work, but it caught fire by that. I think when people participated in a couple of activities and saw the power of their innovation reaching and transforming people's lives, it changes everything."

Thirdly, purpose-driven leaders recognize the importance of *encouraging trust and psychological safety amongst employees*, or co-owners. Some companies organize project funerals to celebrate the learning acquired from failed projects. Feike Sijbesma of DSM explained,

"We developed a coating for picture frames, and the preventing that the light that is reflected. You can put it on the picture frames on the glass, and you still see it as there was no glass in the picture frame. It's totally transparent, because not any of the light is reflecting. It's beautiful. It cost six times more than normal picture frames, but it is beautiful. So there is no market for it (except glass for musea), but it's an excellent project. We have never saw anything of it only to but it's really an excellent product, but no market. A well-sold strategy but no sales. As a process, we hold a funeral for the project. When we buried the product and the project, during the funeral, one of the guys said, 'What is this? What are we actually doing?' The project owner said, 'Well, we have a special technology that almost all the light is being pushed through the glass.' And he explained there's no market for it, because much too expensive, et cetera. The person said, 'How much yield do you get on solar panels with this?' I mean you transmit more light through the glass, so I guess solar panels has high yields. So I don't know how much more light you push through, and I don't know how expensive the product is, but you can calculate how much more electricity you get out of your solar panel and how much the coating cost.' We never thought about this. It was not the purpose of the project either. And we started testing it, and it was very effective. We went to solar panels, and they implemented it, because they can just calculate. Well, now we have a new business unit on solar."

This type of collective rite actually enhances trust, increases psychological safety, and fosters serendipity and innovation¹⁸.

¹⁸ Busch, C. 2019. *Preparing for the unexpected: How organizations curate serendipity*. London: London School of Economics.



COMMUNICATION – FIVE TECHNIQUES THAT CEOs IN OUR STUDY USED TO MANIFEST PURPOSE:

01

TRANSLATE:

Reduce complexity of “purpose”, break it down into everyday language and actions, for example via concrete case studies.

02

EMOTIONALIZE:

Let affected people from inside and outside the organization speak, share their experiences in visual, oral, and written form.

03

STORYTELLING:

Start with the story of authentic experiences including all facets of what actually happened, then deduce the learnings.

04

SPREAD THE WORD:

Let value ambassadors endorse purpose throughout the organization.

05

DEDICATE TIME:

Talk personally with people, integrate particular rituals or events that allow to manifest purpose and related values.



III. ORGANIZATIONAL AGILITY

BY LEITH SHARP,
CHRISTA GYORI,
DR. CHRISTIAN BUSCH



THE EMERGENCE OF THE AGILITY IMPERATIVE

In addition to integrating the North Star into organizational culture and strategy, the CEOs we interviewed find ways to tie this higher purpose to organizational processes and structures. They do this because it allows their businesses to fluidly adapt to rapidly changing times without losing sight of their shared ethos. As Grant Reid, the CEO of Mars, pointed out, a core challenge is: “How can we make a bigger difference faster... [that is,] to be more agile.”

Our study found an important relationship between purpose and agility. The CEOs said that this is especially evident when they focus on how to improve the flow of new ideas within organizations from inception to scale. Instead of plotting a single unwavering path to the North Star, they have found ways to navigate with flexibility, making constant course corrections along the way¹⁹. Many of them discussed the challenge of striking the proper balance between productivity and invention. They expressed the need to maintain standards, consistently delivering high quality products and services in order to protect their market share. At the same time, they discussed the challenge of effectively managing creative development so they can maintain, and hopefully increase, competitive advantages. This means finding time for ideation, prototyping and testing. Ultimately, valuing this sort of trial-and-error experimentation, allows employees to

move faster and more responsively through the life cycle of new projects and initiatives. It activates a dynamic balance of traditional hierarchical processes designed for scaling, accountability, and execution with adaptive non-hierarchical processes designed for fostering engagement, collaboration and creativity. The CEOs we spoke to all reject the notion that top-down and bottom-up forces are diametrically opposed. Instead, they consider these two modalities complementary, forming a dynamic interplay that affords rapid innovation and drives positive change. As DSM’s Feike Sijbesma noted:

“At certain moments, on certain things, you need a decision, and not all things work organically and come to consensus or lead to good ideas. Sometimes you need command and control and a decision, otherwise you come nowhere... [but] go in the total command control where you have no freedom and no organic development, and you also get frustrated. You can’t express ideas. You won’t be motivated, engaged. I think... people understand the value of both.”

In short, the CEOs in our study are translating purpose into business impact by striking a balance between adaptive and hierarchical operating networks. They are engaged in reflecting on these experiences and using them to change the story of change.

¹⁹ Sharp, L. 2018. *Idea flow mapping*. Boston: Harvard University. (accessible via: <https://eosl.chge.hsph.harvard.edu/idea-flow-mapping>)



THE STORY OF CHANGE IS CHANGING

The CEOs we spoke with expressed the view that when it comes to leading change at any scale, our original plans are much more linear and logical than the actual experience of change. In addition, the CEOs expressed that the story we then tell about our change-journey is often expressed as a linear narrative unconsciously eliding the unexpected twists and turns that were involved.

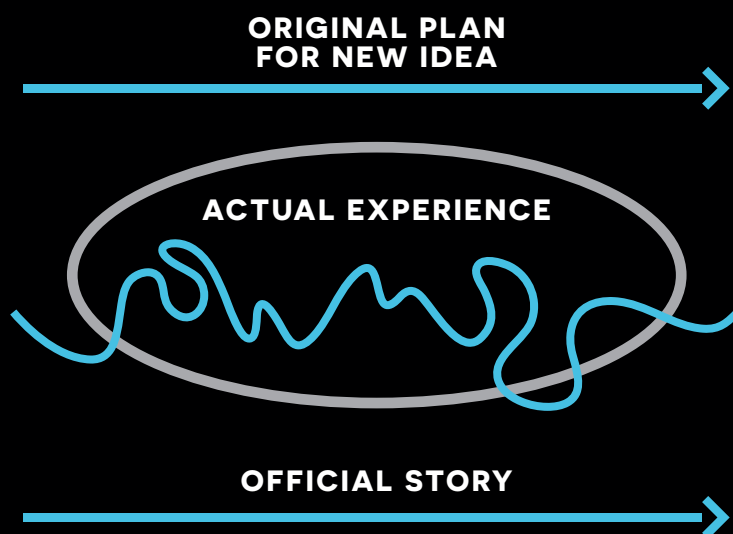
“The squiggle makes all the sense about what the real journey is compared to the so-called official journey. If somebody were to write out our pathway on doing this, you’d get a very official answer. The real answer is you stumble through it. We found our way through it over time.”
Ajay Banga, CEO Mastercard.

Many CEOs shared the view that better alignment between the original plan, the actual experience and the official story can increase trust, engagement, and overall organizational health. As John Fallon, CEO of Pearson states:

“[The] experience is actually what we would like to be doing much more of, and be doing it much more explicitly and deliberately... trying to get the original plan and the official story more aligned with actual experience is potentially a very liberating and empowering thing to do. Hard, though, but it’s the right approach.”

Lorna Donatone of Sodexo highlights the opportunity ahead for designing business plans to reflect actual experiences. “We had a great plan,” she explains, “but we also knew it probably wasn’t going to go the way we thought it would go. It hasn’t. In hindsight, I think I would have made the original plan more squiggly...”

THE ORIGINAL PLAN, ACTUAL EXPERIENCE AND OFFICIAL STORY OF CHANGE



²⁰ “Disconnect between the Official Story and the Actual Story of How New Things Get Done” by Leith Sharp and adapted for use by Leaders on Purpose is licensed for open sharing and adapting under Creative Commons CC BY-SA 4.0

BUILDING BLOCKS FOR AGILITY: ADAPTIVE AND HIERARCHICAL NETWORKS

Adaptive networks link people together in non-hierarchical, fluid and responsive ways to stimulate new flow patterns for information, energy and resources. They provide responsiveness to context and emergent system properties; sensing, connecting, and adapting.

Hierarchical networks link people together in controlled and procedural ways to prioritize and direct the flow of information, energy, and resources throughout the organization. They provide efficiency and scale in execution and routines of accountability²².

These two modalities each have unique advantages and disadvantages, but the CEOs we spoke to identified a general push towards more adaptive networks. They discussed how this activation could foster innovation and help them to address global challenges.

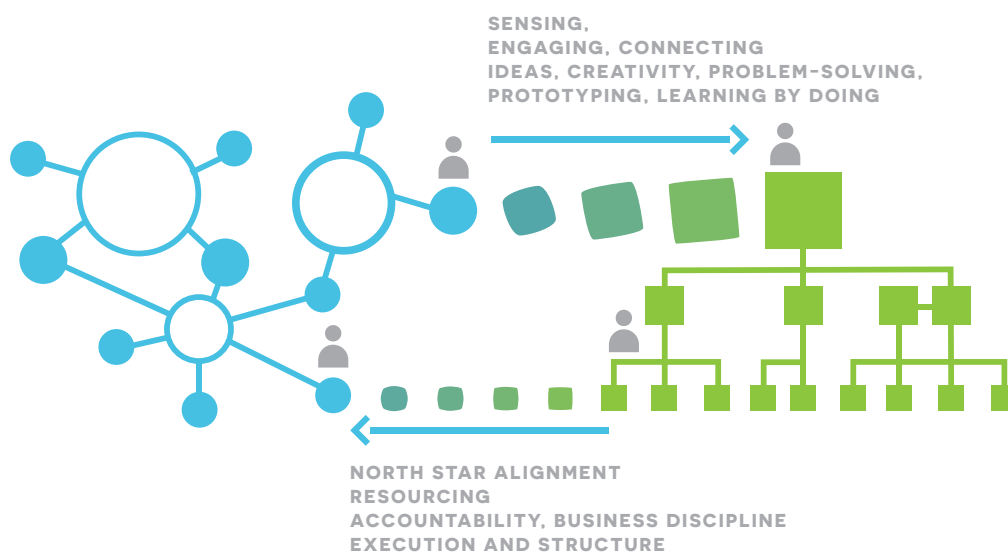


TOM LINEBARGER >
CEO, CUMMINS



"WE USE LEADERSHIP TO BE THE CONNECTOR. LEADERSHIP MATTERS TO OUR SUCCESS MORE THAN JUST EXECUTION OF THE TASK."

LEADING SYNERGY AND FLOW ACROSS ADAPTIVE AND HIERARCHICAL NETWORKS



²¹ "Leading the Synergy Across the Adaptive and Hierarchical Network" by Leith Sharp and adapted by Leaders on Purpose is licensed for open sharing and adapting under Creative Commons CC BY-SA 4.0

²² Sharp, L. 2018. *Idea flow mapping*. Boston: Harvard University. (accessible via: <https://eosl.chge.hsph.harvard.edu/idea-flow-mapping>)

A portrait of John Fallon, CEO of Pearson, against a light blue background. He is a middle-aged man with short, light-colored hair, wearing a dark blue collared shirt. The image is partially obscured by a teal banner at the bottom.

JOHN FALLON >
CEO, PEARSON



“THERE ARE SOME PARTS OF OUR BUSINESS WHERE YOU STILL NEED DIRECTIVE LEADERSHIP WHEN DEALING WITH HIGH STAKES SITUATIONS, AND YOU’VE GOT TO MAKE SURE THOSE ARE ABSOLUTELY NAILED DOWN. BUT THEN YOU’VE GOT PARTS OF A COMPANY WHERE CONSTANT ITERATING IS MUCH MORE IMPORTANT.”

HIERARCHICAL NETWORK DRIVERS

The CEOs in our study continue to utilize the strengths of their hierarchical networks to deliver efficiency, accountability, and optimal performance around known tasks. As Lars R. Sørensen of Novo Nordisk succinctly put it, “We don’t want the accounting department to be creative; we want the accounting department to do accounting.”

Some CEOs noted the need to bolster the role of the hierarchical network in providing the discipline and accountability necessary to ensure that their cultures of purpose are delivering on real outcomes. As John Fallon, CEO of Pearson, pointed out, “A company with such a strong sense of purpose needs to be diligent in the implementation.”

CEOs also noted the need to direct hierarchical network activation at the right time to efficiently align and execute growth that has emerged from adaptive networks. As IKEA’s CEO Peter Agnefjäll reflected, “Three years ago, we had 19 different IT systems with information about the customer. Then when the customer was calling into one of our call centers, it was more or less impossible for our coworkers to serve the customers in a good way. That was due to ways of working. It was originating from this more adaptive operating system. What we have experienced is that we need both to be successful.”



A LIMITATION OF THE HIERARCHICAL NETWORK – INDIVIDUAL ENGAGEMENT

“The motivation, purpose, engagement to have fun, to love a certain business, those kinds of things you cannot enforce top-down... the whole purposing aligns the two [organizational systems] and makes the organization more creative; passionate so to say.” Feike Sijbesma, CEO DSM.



THE POWER OF ADAPTIVE NETWORK ACTIVATION ON THE ORGANIZATIONAL LEVEL – FUTURE FITNESS:

“Adaptive organizations in my view are the minimum requirements to deal with a future which is full of paradigm shifts, which means that incumbents go away... that future is uncertain. It’s pretty fast in the way it changes so we’ve got to create an adaptive mindset. And this adaptability is actually the right element to foster change actively.” Joe Kaeser, CEO Siemens.

ADAPTIVE NETWORK DRIVERS

Across the board, the adaptive network leadership role of CEOs appears to be expanding. All of the CEOs we spoke to have been finding ways to increase adaptive network activation within their organizations and across their wider stakeholder ecosystems. To them, activating adaptive networks is a crucial strategy for winning the hearts and minds of their employees and stakeholders in order to generate improved performance.

Some of the CEOs we interviewed are using their adaptive networks to address and overcome shortcomings of their hierarchical networks. In the case of the Chinese white goods company Haier, hierarchical networks are increasingly substituted by adaptive networks because, “an idea or a particular event has to go through all the layers and go through approvals on the way, and it can happen that an idea can go back and forth through these layers. That obviously wastes a lot of time.” Zhang Ruimin, CEO Haier.

Our findings show that many CEOs are activating adaptive networks to increase employee engagement in day-to-day problem solving. The adaptive network links employees to shared purpose and offers a collaborative, trust based context. As John Fallon, CEO of Pearson’s states:

“We work in a much more fail fast and fix organization where people come together almost on-the-fly and in small groups to work on a specific problem, disband, reform, and go again. This idea is one of trust and also the importance of giving clarity, even when you cannot give certainty.”

As Joe Kaeser, the CEO of Siemens, put it: “Innovation today is about ‘I want a problem to be solved, not a process to adhere to.’” This imperative is why many of the CEOs in this study are increasing the activation of adaptive network in their organization.



JOE KAESER >
CEO, SIEMENS



**“INNOVATION TODAY IS ABOUT,
‘I WANT A PROBLEM TO BE SOLVED,
NOT A PROCESS TO ADHERE TO.’”**

CURATING ADAPTIVE AND HIERARCHICAL NETWORK SYNERGY

Many of the CEOs in our study believe that their organization is now in a state of 'perpetual reinvention'. As John Fallon, CEO of Pearson reflected, "Whenever I do a town hall meeting anywhere in the world... there will be a question that will come, and it will be a variety of John, are we finished changing yet? The only honest answer to the question is no, we're not, and we never will be because of those big changes... globalization, technology, climate... and the only way is to be in a state of perpetual reinvention."

The CEOs in our study are responding to this challenge by striving to improve dynamic equilibrium between their hierarchical and adaptive networks in order to increase agility. How are they doing this? Our study identified several related practices of these purpose-driven leaders.

LEADING FROM THE MIDDLE

Many CEOs in our study engaged in what could be called "leading from the middle" to balance these two structures, a necessity best summarized by WPP's CEO, Sir Martin Sorrell: "Each of these operating networks have a different set of strengths and a different role to play. They don't automatically play well together. You have to be flexible and you probably have to compromise."

Finding optimal levels of synergy between these two dynamics is not easy. As Tom Linebarger of Cummins acknowledged, the balance is often uncomfortable and difficult to achieve:

"Sometimes, you're just in the wrong state. Like when something belongs in the execute state, but people are still debating it philosophically when they really just need to be getting on with it. A good example is, we put in shared services, where we have all the payables and paychecks in one organization. That took us ten years to do. It was philosophically argued for a decade. It's way better. It's way cheaper. We just argued it forever because people were still riffing on, 'maybe it needs to be different here'. Other times, it was the right thing to do to have more debates. I think we are bouncing between them. We are playing from the middle. It is uncomfortable, especially if you're wired one way or the other."

When it comes to strategically deploying the different networks, time and timing play a major role. A number of CEOs shared stories of leading day-to-day innovation efforts that initially tapped into the creativity of their adaptive networks to generate ideas, engagement, and rapid prototyping, before transitioning to hierarchical networks to execute and scale up the proven new ideas.

Other CEOs we spoke to shared stories of navigating significant market disruptions and organization-wide restructuring by initially tapping the top-down power and speed of their hierarchical network to ensure a rapid, disciplined organization-wide response. This was followed by a transition to their adaptive networks to invigorate engagement, creativity and innovation to sustain the new direction.



EXAMPLE OF HOW A COMPANY BALANCES ADAPTIVE AND HIERARCHICAL NETWORKS:

"You need to have an [iteration] between two of these systems and need to have a little bit of both in an organization in order to be successful long term. Obviously at IKEA, we are more adaptive, as I said, but there are areas where we obviously need to be more controlling to operate in a good way."
Peter Agnefjäll, CEO IKEA.

POSITIONING PURPOSE AS THE ALIGNING FORCE

Our study reveals that each organization needs to achieve its own dynamic equilibrium of adaptive and hierarchical networks, and that the North Star – the higher level organizational purpose – is one of the most important mechanisms for enabling alignment. As Ajay Banga, CEO of Mastercard highlighted, “You can plug the two jigsaws together if you have a sense of... shared purpose.”

Paramount to creating and maintaining the optimal network *flow* is clear alignment around the organizational purpose and goals driven by the CEO. The CEO of Cummins, Tom Linebarger, noted, “I think one of the challenges for an organization is when you have so many connected pieces. To the extent that you’re no longer aligned on what the objectives are, you’re really going to struggle.”

Engaging employees around specific problems or ideas can also effectively anchor adaptive and hierarchical network flow. Ajay Banga, CEO of Mastercard highlighted, “The biggest problem is inertia in a company. Inertia of the board, inertia in the company, inertia in the investors, if you’re going to change this thing and go after this idea, you’ve got to fight that inertia to excite people about the simplicity and the power of the idea.”

This expands on the role of the purposeful CEO. Responsible business growth remains essential, but these leaders also

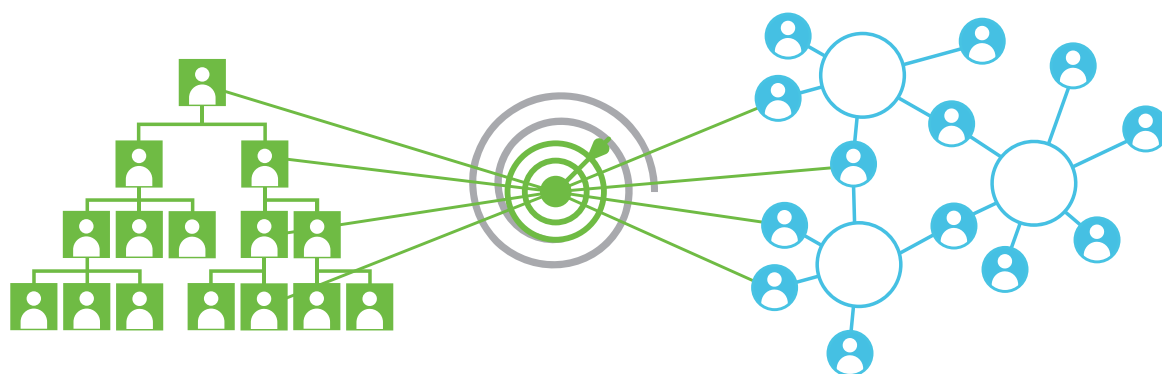
need to foster constant innovation. This involves identifying an organizational design that balances emergence and execution, while maintaining a purposeful culture and strategy. As DSM’s CEO Feike Sijbesma explained, “The motivation, purpose, engagement to have fun, to love a certain business, those kinds of things you cannot enforce top-down... the whole purposing aligns the two [organizational networks] and makes the organization more creative; passionate so to say.”

This approach to leadership resonates with a visual prompt used for our study, showing two “operating networks” aligned by purpose²⁴.

The CEOs in our study stressed that employees and consumers now increasingly expect corporate executives to promote changes that can positively impact society. When these purposeful leaders get it right, they are rewarded with increased levels of employee engagement and improved sales. As Denis Machuel, the CEO of Sodexo, stated: “For the last two bi-annual global Employee Engagement surveys, Social and Environmental Responsibility as well as Diversity and Inclusion were top-rated drivers of engagement.”

CEOs in our study saw the emergence of unexpected levels of creativity and problem-solving capabilities when they utilized the creative tension that purpose generated in employees.

PURPOSE ALIGNS NETWORK FLOW WHICH INCREASES AGILITY



²³ “Purpose Enables Increased Network Synergy Which Delivers Agility” by Leith Sharp and adapted by Leaders on Purpose is licensed for open sharing and adapting under Creative Commons CC BY-SA 4.0

²⁴ Sharp, L. 2018. *Idea flow mapping*. Boston: Harvard University. (accessible via: <https://eesl.chge.hsph.harvard.edu/idea-flow-mapping>)



**“TRADITIONAL BUSINESSES ARE
CLOSED SYSTEMS... OUR MODEL IS
TO INCENTIVIZE EVERY INDIVIDUAL
MEMBER OF OUR BUSINESS TO BE
CONNECTED DIRECTLY TO THE USER.”**

STRUCTURAL IMPROVEMENTS

Many CEOs in our study have been leading the implementation of deep structural changes that are designed to improve both network balance and network flow. Something almost all these structural upheavals have in common is a shift toward a flattening of the hierarchical network along with an increase in resourcing the adaptive network. Sodexo's transition to a matrix organization, Pearson's massive pivot in response to the contraction in the textbook market, Siemens launch of Next 47, and Haier's extraordinary transformation to a networked micro-enterprise all share these characteristics.

Over five years, Siemens invested a billion euros to launch Next 47, a global venture firm for accelerating new ideas from its employees and others. This was part of an effort to shift to an ownership culture in which employees are shareholders of their company and have a permanent place to take their ideas for incubation. As Joe Kaeser, CEO of Siemens, explained, “Adaptive organizations in my view are the minimum requirements to deal with a future which is full of paradigm shifts. We've got to create an adaptive mindset. And this adaptability is actually the right element to foster change actively.”

Zhang Ruimin, CEO of Haier, transformed his organization into a networked micro-enterprise. He explained the rationale for this move:

“Traditional businesses are closed systems... our model is to incentivize every individual member of our business to be connected directly to the user – We simply customize our producing... and can produce stuff exactly matching the user, so we don't have any waste. The previous orders or instructions from the boss may not be actually correct because those big bosses naturally don't know the activities of the users, especially in this new era, where you have digitalized demands, which can be fluid, unpredictable, and changing all the time.”

This trend can be observed across industries. As AIG's CEO Brian Duperreault told us:

“A culture of collaboration and integrity is truly important. We are moving ahead toward a more decentralized structure, not moving back to a siloed structure – and that's an important distinction. We want to be aggressive but collegial, not competing against ourselves, but pulling together to solve problems like no other insurer can. At no time was this more evident than during all of the natural disasters last year. In Houston, Puerto Rico, Mexico, California, and other places, our employees were often heroic in their response to customers and communities, but also in how they were there for each other.”

LEARNING BY DOING, PILOTING, AND PROTOTYPING

Many of the CEOs in our study are encouraging the incubation and rapid prototyping of new ideas. Risk avoidance and the pursuit of perfection, the domain of hierarchical networks, are giving way to de-risking and rapid learning cycles, the domain of adaptive networks. As Grant Reid, CEO of Mars stated, “[It] will mean that there’ll be more failures, but we can’t give up progress waiting for perfection.”

By increasing the synergy across their hierarchical and adaptive networks, CEOs are driving rapid learning and scaling cycles that can keep their company in tune with markets on the move. By way of example, John Fallon explained that his learning company, Pearson, used to: “work in three-year edition cycles on some of our textbooks. We would shine the product until it was absolutely perfect. We’ve shifted into a world where you’re getting something out quickly because what actually is most important is the feedback from the customer and the insight of what you learned. Then you go again.”

In order to empower employees to keep up with rapidly evolving markets, many CEOs in this study are heavily investing in piloting and prototyping across their organization as a primary de-risking strategy. DSM for example, has a considerable budget reserved for risky initiatives focused around business purpose with potential high returns for the company. As Feike Sijbesma of DSM noted, “At this moment, we spend around 25% in more risky areas.”

Some CEOs in this study noted that underinvesting in piloting and prototyping creates increased risk for their business on multiple fronts. Beyond reducing the pace of learning and innovation, it can also lead to disengagement and lost trust amongst employees that are being asked to solve new problems and meet new challenges without access to funding for the piloting, learning and de-risking that is necessary. Ajay Banga, CEO of Mastercard explained that, “Internal trust also is seen when you put money in the budget... Organizations respond to money in their budgets. If you give them money at the year’s end to do things, they realize you’re serious. If you tell them, ‘You’ve got to fund that yourself,’ that doesn’t work very well.”



LARS R. SØRENSEN >
CEO, NOVO NORDISK



**“IF I WERE TO TALK ABOUT THE
EVOLUTION OF OUR PROJECTS, ON
SOCIAL RESPONSIBILITY, AND
ENVIRONMENT, THEY HAVE CLEARLY
FOLLOWED THIS LINE WHERE IT
STARTS IN THE ADAPTIVE
[NETWORK]. LATER ON YOU BUILD
CREDIBILITY, AND THEN YOU
INTERNALIZE AND INCORPORATE
IT AS I SAID BY ITERATING AND
DE-RISKING THE IDEAS. THEN, ALL OF
A SUDDEN, IT GETS ADOPTED, AND,
IN THE WHOLE COMMAND AND
CONTROL OPERATING SYSTEM, IT
BECOMES INSTITUTIONALIZED IN THE
COMPANY AS PART OF A CONTRACT.”**



EMMANUEL FABER >
CEO, DANONE



**“ONE OF THE BIGGEST RISKS TO
BEING A LEADER OF A GLOBAL
COMPANY IS TO HAVE A BLIND SPOT...
I’M ALWAYS MAKING SURE THAT
I DON’T LIMIT MY VISION OF THE
WORLD TO THE WALLS OF MY OFFICE.
THEREFORE, I FIND IT CRUCIAL TO
DELEGATE A SERIES OF STRATEGIC
MANAGEMENT AND EXECUTION
RESPONSIBILITIES TO A TEAM OF
REGIONAL BUSINESS LEADERS,
WHO INFLUENCE THE COMPANY’S
BUSINESS AGENDA WITH A LOCAL
LEADERSHIP PERSPECTIVE.”**

SENSING AND SHORTENED FEEDBACK LOOPS

With heightened speed, CEOs are working to increase the sensing capabilities of their companies to better interpret the ever-changing context in which they operate. They want a more effective information flow from the boundary of their organization into the core. As Emmanuel Faber, CEO of Danone, reflects, “One of the biggest risks to being a leader of a global company is to have a blind spot... I’m always making sure that I don’t limit my vision of the world to the walls of my office. Therefore, I find it crucial to delegate a series of strategic management and execution responsibilities to a team of regional business leaders, who influence the company’s business agenda with a local leadership perspective.”

Our data indicates new ways to ensure that organizations can interpret where the market is shifting to and respond at the right pace. As explained by Carlos Brito, CEO of AB InBev:

“We have had many instances here in our company where a consumer has told us what to do. Sometimes we’ll have a portfolio of brands in the market and all of a sudden here is one brand that starts to grow faster than the other brands. That’s the consumer telling us... You have to listen. You have to listen to your people, to your customer, your consumers because they know their business and their needs better.”

By designing effective sensing networks and shortening feedback loops between the customer and the company, CEOs are opening the way for increased mutualism. At Mars, economic mutualism is a core value of the firm. One example of how this phenomenon has manifested itself concerns the 1990s, when the Russian economy collapsed. While many of their peer companies withdrew, Mars went in closer to investigate the local economic dynamics to explore the alignment between new business opportunities and their business model. It discovered that by shortening the feedback loop with local kiosks and outlets, it could custom-size the supply, provide small product batches, and return in faster iterations to replenish smaller supplies. Grant Reid, the CEO of Mars explains:

“Because they didn’t have a lot of money, we would sell maybe a small box of Snickers in the morning with six or eight bars. They would turn around and sell them in the shop. We’d go back two days later, get the cash for that, and give them more. We really tried to work very closely with the distributors to keep them, and us, in business during the crisis. And, it worked, one of the small kiosk distributors we worked with back then is now one of the biggest distributors in Russia and he still talks about how... 17 years ago, we were there to help him, and he hasn’t forgotten that.”

EXPANDING CONSCIOUS COMPETENCE

Our study found that while CEOs are deeply engaged in leading and linking both adaptive and hierarchical networks to increase organizational agility, their organization may not share an explicit, conscious and widely understood language regarding the two networks. As Tom Linebarger, CEO of Cummins stated:

"I'd be interested to figure out how to maybe even turn it into conscious competence so we could refine it and improve it. I can think of some failures where maybe we didn't do a good enough job of saying where we were."

While most people are capable of working in both types of networks and are able to move from one to another when effectively engaged to do so, many people have more experience in working in one network more than the other. When this is not made explicit and additional training is not provided to balance their network capabilities, frustrations, misunderstandings and 'friction' can be experienced across the organization. This creates a leadership burden for CEOs who must be constantly sensing and addressing these sources of friction.

Our findings suggest that advancing a shared literacy of adaptive and hierarchical networks will increase employee engagement in the day-to-day work of activating the right network at the right time to move purpose-driven ideas through their life cycle, from inception to scale, with increased agility. As Emmanuel Faber, CEO of Danone highlighted, "Developing the self-awareness and empowerment of people is fundamental for an organization. The more you train people to use their inner ability to reveal their power and skills, the more it is beneficial for the organization and the more stable the organization becomes."

As companies engage and empower employees to have an explicit and shared understanding of adaptive and hierarchical networks, change processes become easier to co-design, communicate and continuously improve. Furthermore, shared network literacy and transparency can alleviate change fatigue, orient and empower people at all levels of management to understand their own dynamic adaptive and hierarchical roles in contributing to agile purpose-driven change.

Context and timing each play a major role in when to use the different networks. Having employees that are able to self-regulate or self-balance their transitions between adaptive or hierarchical network tasks and contributions will reduce the leadership burden on CEOs to be constantly orchestrating the right network activation at all times and scales. As Emmanuel Faber, CEO of Danone noted, "The need to orchestrate then becomes less substantial, as the orchestration will happen naturally." This can help to increase organizational agility at all scales. Indeed, our findings suggest that new levels of purpose-driven leadership will be enacted by CEOs that are supported by agile, self-regulating organizations of empowered employees working in a fluid state of adaptive and hierarchical network flow.



6 LEADERSHIP PRACTICES CEOs IN OUR STUDY ARE ENGAGED IN TO INCREASE AGILITY

01

LEAD FROM THE MIDDLE:

Lead the right balance and synergy between adaptive and hierarchical networks.

02

ALIGN WITH PURPOSE:

Anchor and steer adaptive and hierarchical network flow by aligning around purpose.

03

IMPROVE STRUCTURES:

Upgrade organizational structures to hardwire the right network balance for your company.

04

RESOURCE PROTOTYPING:

Resource employees to learn by doing, using pilot and prototyping to de-risk new ideas.

05

IMPROVE SENSING PROCESSES:

Expand sensing systems and shorten feedback loops to move information more effectively.

06

EXPAND CONSCIOUS COMPETENCE:

Create shared understanding and literacy concerning adaptive and hierarchical network roles.

CONCLUSION: A NEW LEADERSHIP PARADIGM



Throughout our study, the CEOs discussed the daily operations and described the process of anchoring purpose as a North Star into their organizations and then acting upon it. In doing so, they weave an understanding of purpose into the fabric of their work culture. They also develop a leadership mindset at the forefront of a new understanding about the role of organizations and business in relation to what the world needs business to achieve.

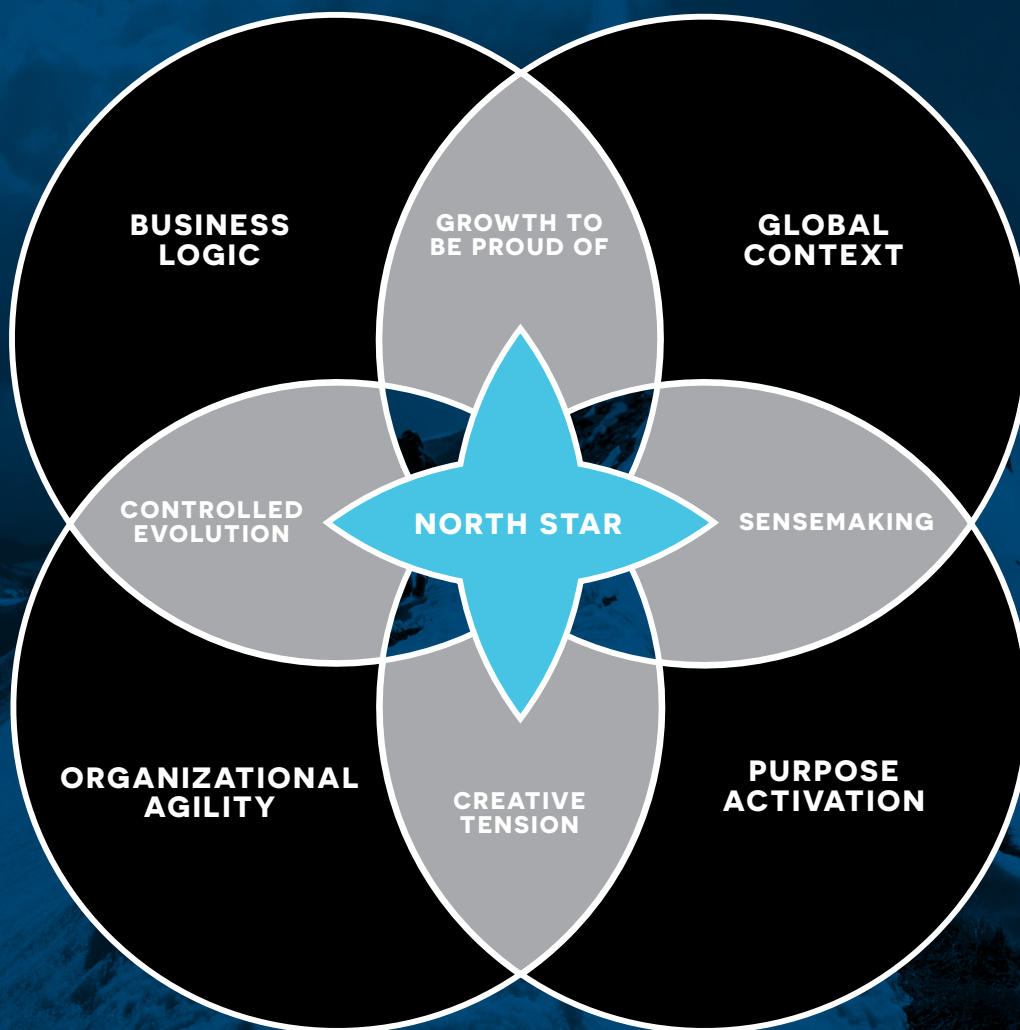
Throughout this series of interviews, we have learned that purpose-driven CEOs are developing innovative ways to achieve impact by simultaneously serving their businesses and the world. Due to the complexity of this endeavor, no single organization can address all of the social and environmental challenges that lie ahead. Nonetheless, their shared best practices can help fellow leaders and organizations address valuable opportunities for responsible business development.

The CEOs we spoke to all strive to integrate purpose into their organizations and to shape alignment with the North Star in their various business activities. As this is a global challenge, they are required to move beyond traditional roles of organizations and to focus on more than merely generating profits. To maintain both legitimacy and prosperity, purpose has been deeply embedded in their business models.

Organizational agility is one key factor for facilitating adaption and driving innovation. The CEOs we spoke to also lead from the middle, balancing organizational structures to tap synergy and enhance adaption to its full potential. They counter short-termism with long-termism to foster sustained growth generation. These purpose-driven CEOs also promote a new understanding of business in their organizations. These businesses still depend on deliveries, but legitimize these economic imperatives by devoting resources to socially and environmentally conscious activities.

Above all, we learned that being a purpose-driven leader requires a new set of leadership skills. As Lars R. Sørensen from Novo Nordisk put it, "Most of the people in the organization, at least most at the managerial level, are preoccupied with more short-term performance-based initiatives. It's very easy to forget the longer term commitment if it's not being repeatedly focused on by top management."

These areas represent a starting point for understanding and assessing purpose-driven business leaders and organizations. They also present a set of evolving best practices focused on integrating business savvy with social and environmental concerns.



The North Star map above summarizes many of our findings. We have discovered that in response to extraordinary evolutionary pressures, North Star leaders are changing the nature of leadership in the 21st century by engaging in the following leadership practices:

- ◆ Global context awareness and sensemaking
- ◆ Anchoring a North Star purpose for their businesses to act on global challenges
- ◆ Activating purpose and empowering employees
- ◆ Increasing organizational agility and unleashing adaptive and hierarchical network flow
- ◆ Leading a controlled evolution toward a long term business logic

The Leaders on Purpose community is dedicated to convening in support of this leadership evolution, highlighting best practices related to each specific business challenge and celebrating leaders at the vanguard of this important work.

METHODOLOGY

We interviewed a sample of CEOs representing a diverse cross section of today's most impactful industries. This compelled us to avoid making sweeping claims. We wanted to honor the unique characteristics of each leader and organization while simultaneously identifying common patterns that emerge from their experiences.

Leveraging our shared expertise, we were in a unique position to enlist the involvement of several top Fortune 500 CEOs. Our international team conducted the interviews both in person and via Skype. Each interview was between one hour and ninety minutes long. While some follow up questions were asked, each CEO responded to the same primary set of questions and visual prompts from the same four Leaders on Purpose researchers. This enabled comparability across interviewees.

To meet the highest standards in generating explanatory insights, we selected the purpose-driven CEOs included in this study based on four key secondary research criteria:

- 1.** Organizations have operations in over 30 countries, to ensure global reach.
- 2.** Organizations are in the top quartile of their sector for financial metrics. Using HBR analytics, we calculated three metrics for each CEO:
 - The country-adjusted total shareholder return (including dividends reinvested), which offsets any increase in return that's attributable merely to an improvement in the local stock market
 - The industry-adjusted total shareholder return (including dividends reinvested), which offsets any increase that results from rising fortunes in the overall industry
 - The change in market capitalization (adjusted for dividends, share issues, and share repurchases), measured in inflation-adjusted U.S. dollars
- 3.** Organizations are in the top 50% in ESG rankings. We used CSRHub, Sustainalytics and/or Corporate Knights data to determine the ESG rankings.
- 4.** Credible CEO rhetoric. We researched the CEOs' statements to the press, letters to shareholders and attributed quotes to understand how they frame sustainability and purpose in their communications. We only interviewed CEOs who publicly articulate their purpose-driven aims.

To guarantee the objectivity and validity of our insights, we engaged in an iterative style of coding and categorizing responses to questions into first-order and second-order concepts.

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