Harvard Business Review

Spotlight Article

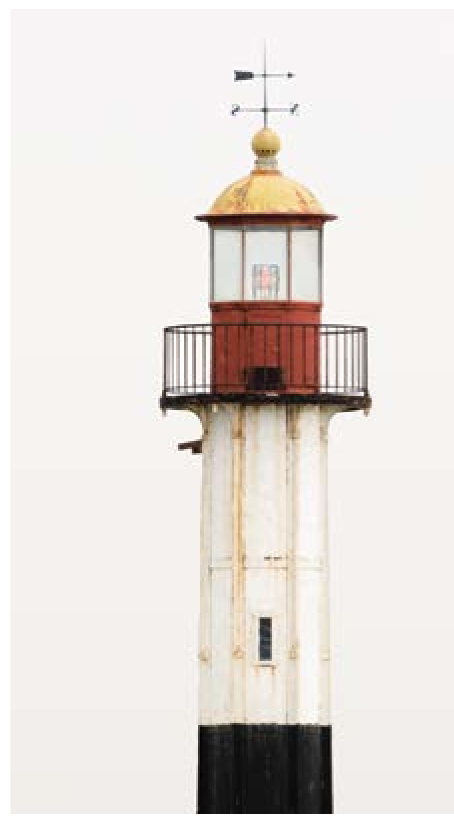
Purpose

The Messy but Essential Pursuit of Purpose

by Ranjay Gulati





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Spotlight

The Messy but Essential Pursuit of Purpose

Win-win solutions are less common than we think.

AS PURPOSE-DRIVEN start-ups go, Gotham Greens is a tremendous success story. The company uses advanced hydroponic farming techniques to grow fresh, high-quality, pesticide-free produce, which it now sells in more than 40 U.S. states. Since its launch, in 2009, it has redeveloped 500,000 square feet of out-of-use city industrial spaces and brownfield sites into modern urban greenhouses—facilities that use 95% less water and 97% less land than conventional farms do. Profitable since its first year, it's been named one of *Business Insider*'s "50 Coolest New Businesses in America." By the close of 2020 the company had attracted $130 million in investment.

Gotham Greens clearly delivers social and environmental benefits, making good on its mission of finding new ways to produce local food, revitalize communities, and innovate for a sustainable future. At the same time, it's creating wealth for its employees and investors. It's an example of what my Harvard Business School colleague Michael Porter and the FSG cofounder Mark Kramer have dubbed "shared value" and what Whole Foods Market's CEO, John Mackey, calls "conscious capitalism."

And yet not even Gotham Greens always realizes its ideals perfectly. If you've bought its produce, you know that the greens come in single-use

Photographs by **VLADIMIR SPASSOV**

Deep purpose organizations are deeply committed to both positive commercial and positive social outcomes. Their leaders adopt a mindset of practical idealism.

plastic packaging, which is terrible for the environment. Why would a company so dedicated to sustainable, low-waste production make such a decision? As its CEO, Viraj Puri, has explained, it was a difficult but well-researched, mindfully made, and necessary trade-off—the kind that even the most noble companies must constantly make to truly deliver long-term value for all stakeholders.

Over the past three years I've conducted in-depth research on how mission-driven organizations—both old and young and spanning a variety of industries and geographies—succeed. No question, the best of them strive to deliver on their purpose while also generating profits at every turn. Indeed, they see purpose in the same light as profit—as a generative force that expands and improves everything about an organization. For example, you might see a manufacturing company shifting to new energy sources that pollute less and reduce costs, or a bank hiring a more diverse workforce, which benefits the community, brings the bank closer to its customer base, and spurs revenue-generating innovation.

However, smart corporate leaders understand that such win-win solutions—those that yield universal short-term benefits—often aren't possible. How can a company move forward when it can't simultaneously achieve purpose and profit? When it's impossible to satisfy different groups of stakeholders in equal measure at the same time?

Many companies revert to a profit-first strategy when the going gets tough. Others, more committed to their mission, might cling to it instead, come hell or high water—or bankruptcy. But if your end goal is to create long-term value and have a meaningful positive impact on the world, neither of those strategies is tenable.

My research, conducted at an array of large public and private companies, points to a better approach. It involves using purpose as a North Star to clarify priorities and inspire action in situations where trade-offs must be made. It requires leaders to lean into such deliberations in consultation with stakeholders; to look beyond short-term, win-win solutions for ones that are good enough for now and promise broader benefits in the future; and finally, to effectively communicate the thinking behind those difficult decisions to garner support.

This isn't an easy process. In fact, it can be excruciatingly difficult. But evidence from dozens of companies—including Gotham Greens, the personal-health-care company Livongo, the handmade-goods marketplace Etsy, the HR-technology conglomerate Recruit, the diversified industrials multinational Mahindra Group, and the plant and advanced-materials-engineering company Bühler—shows that it works.

Pursuing Deep Purpose

Before we dig into the messy but critical process of successfully navigating trade-offs, let me describe what I define as a *deep purpose* company.

In my work studying and advising organizations over the past few decades, I've reviewed hundreds of purpose and mission statements and found that the most compelling—and most effective in guiding decision-making—have two basic and interrelated features. First, they delineate an ambitious long-term goal for the organization. Second, they give that goal an idealistic cast, committing to the fulfillment of broader social duties. These statements are meant to assert the commercial and societal problems a business intends to profitably solve for its stakeholders. They succinctly communicate what a company is all about and who it hopes to benefit.

Deep purpose companies thoroughly embed their purpose in their strategy, processes, communications, human resources practices, operational decision-making, and even culture. Sadly, such enterprises are quite limited in number. The vast majority of companies practice what I call *convenient purpose:* They talk about purpose but act on it only in superficial ways.

Some set out high-minded goals and serve society to an extent while continuing to sell products and services that cause serious harm. Depending on your moral perspective, certain companies dealing in fossil fuels, tobacco, alcohol, junk food, and weapons, and even some traditional and social media, fall into this category. Their commitment to social good isn't strong or broad enough to lead them to divest from lucrative but questionable businesses. This is *purpose as a disguise.* At an extreme, companies may even use lofty missions to hide malfeasance. Examples include Theranos, the blood-testing start-up that promised a pathway to personalized health care but is said to have faked the efficacy of its equipment, and Purdue Pharma, which allegedly pumped sales of its breakthrough pain-relief medication OxyContin so dramatically that the result was a devastating opioid epidemic.

Other organizations offer what I call *purpose on the periphery:* They work to do good through corporate social responsibility (CSR) efforts and to do well through their core businesses, but they keep the two separate. While helping society to a degree and certainly rewarding shareholders, they stop short of transforming themselves into entities that promote environmental sustainability, community support, and employee well-being.

Then there are the *purpose as a win-win* companies. They aim for the sweet spot where social and economic value intersect. However, they tend to deliver only when ideal outcomes are possible (which is less often than one might think) and thus typically fail on either profit or purpose measures—more often on the latter. As the journalist and commentator Anand Giridharadas has argued, the "promise of painlessness"—the idea that "what is good for me will be good for you" and that investors and top executives need not sacrifice for the public good—is terribly naive.

Deep purpose organizations are different. As the name indicates, they are deeply committed to both positive social and positive commercial outcomes, framing even the smallest decisions, actions, and processes with their goals and duties in mind. Their leaders adopt a mindset of practical idealism. That means they don't simply accept trade-offs—they immerse themselves in them. They are determined to bring their corporate purpose to life, but they also understand that they must play and win within the constraints of our capitalist system.

Consider the exhibit "Weighing Purpose and Profit in Decision-Making." Every purpose-driven, for-profit company claims to be aiming for the "purpose with profit" box. Deep purpose businesses, with leaders who embrace practical idealism, get there more often than others because they are not only truly committed to purpose with profit but also willing to reside in the "profit first" or the "Good Samaritan" quadrant for a time, provided they see a way to move over or up to the win-win ideal in the future. They may avoid decisions that yield only commercial gain with no prospect of social benefit. But if a choice boosts profit in a way that will one day do widespread good, they may make it and work hard to ensure that it eventually provides multistakeholder benefits. Likewise, if they have a Good Samaritan idea that they believe will become profitable over time, they may take a risk on it and then do everything possible to ensure that it works financially.

These leaders recognize the impossibility of devising perfect solutions that benefit all parties equally all the time. They settle instead on arrangements that may require a short-term or partial sacrifice by some but generate a balance of long-term value for everyone.

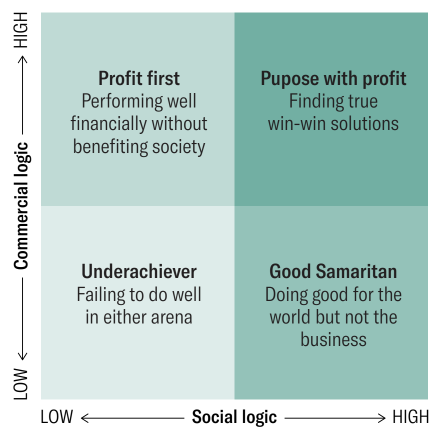
Making Tough Choices

Now let's examine how companies and leaders successfully manage these trade-offs.

By stubbornly fixing on purpose as a North Star. According to Puri at

Weighing Purpose and Profit in Decision-Making

Leaders may be motivated by social factors (the environment, communities, employees, suppliers, customers) or commercial factors (primarily shareholder interests and, sometimes indirectly, customers, employees, and suppliers) in their decision-making. Decisions that fall into the top right quadrant drive both, even if some trade-offs come into play. Those in the lower left quadrant do little good for anyone. The upper left and lower right quadrants represent choices that benefit either shareholders or society but not both.



Gotham Greens, a commitment to environmental stewardship (in tandem with corporate growth) permeates the company's "entire DNA." That means it's the starting point for any decision-making, whether executives are framing long-term strategy or addressing small-scale tactical questions.

Take the packaging dilemma. After researching various eco-friendly options, Puri's team first chose highly attractive, compostable fiber containers. Affordable and good for the environment, they seemed like an exciting win-win. But as workers began harvesting and packaging lettuce, the company encountered a problem: The greens lasted only a few days before wilting, compared with two weeks or longer in plastic.

From there the company could have gone the Good Samaritan route, sticking with the compostable fiber and in due time possibly going out of business as retailers and consumers rejected the less-than-crisp greens. Or it could have quickly opted for profit and switched to plastic without a second thought. Instead, guided by its mission, it embarked on several more months of research.

One alternative was to leave the produce unpackaged, with supermarkets selling to consumers in loose bins. But shoppers had been gravitating away from such purchases, perceiving packaged greens to be cleaner, of higher quality, and safer to eat. Retail buyers said they might still order from Gotham Greens, but not nearly as much as they'd planned to. That was no recipe for an enterprise to succeed in its larger vision of reinventing agriculture.

Next Puri and his team researched various types of plastic, again with sustainability as their primary focus. Recyclable and recycled plastic intrigued them, but it would be too costly. Compostable plastic seemed most promising, but the team soon concluded that it wasn't as "green" as it seemed, because suppliers used subsidized, genetically modified corn to manufacture it, and only consumers who lived near the right municipal facilities could compost it. Most of it would wind up in landfills or, worse, mixed in with recyclables when it didn't qualify.

In the end Gotham Greens decided on #1 PET plastic, the most universally accepted at recycling facilities. Ten years later it's still using the same boxes. But it also has a dedicated group of employees who stay abreast of new technologies and search for more-sustainable options. Purpose in this instance was not only the starting point for decision-making but also a constant source of clarity that helped leaders sharpen their evolving understanding of a difficult trade-off and make informed and deliberate choices to navigate it.

Livongo is another organization that has used purpose as its North Star in making difficult decisions. Glen Tullman founded the company in 2014 with a simple but revolutionary mission: to help people with chronic conditions such as diabetes, which requires regular blood-glucose monitoring, stay healthy without constant visits to hospitals or doctors' offices. This was a personal cause for Tullman, a serial health care entrepreneur: A decade earlier his son Sam, then age eight, had been diagnosed with Type 1 diabetes.

Livongo—short for "Live Life on the Go"—equips users ("members" in its parlance) with devices that provide immediate health metrics after glucose test strips are inserted and then upload the data to the cloud, allowing consistent tracking, interpretation, recommendations, and even alerts when data looks off. With their mission of making members' lives easier always at the forefront, Tullman and his team made some unconventional trade-offs early on.

These included giving away glucose test strips as a way of getting people to use them more often; hiring a virtual care team to provide real-time advice in emergency situations; and keeping individuals on the platform even if they left the employers that initially enabled their subscription to the service. All represented big investments for a small start-up—Good Samaritan decisions at the time—but Livongo knew that a long-term payoff would come in the form of customer retention and value creation for investors. Within two years of its launch, the company had 53,000 active members across more than 200 clients, 100 employees with soaring engagement rates, and close to $40 million in revenue. Following its IPO, in July 2019, Livongo was valued at $3.4 billion. Last year, before its merger with Teladoc, the company was valued at $18.5 billion.

By leaning into trade-offs. Deep purpose companies and their leaders resist the urge to dodge tough decisions. Instead they are willing to linger in a space of discomfort, ambiguity, and contradiction. That's why Gotham Greens spent months investigating the best kind of packaging and ultimately settled for an imperfect solution while continuing to look for a better one.

As Sarah Kaplan of the Rotman School has remarked, companies don't get ahead by "declaring the problems irresolvable." They must learn to "persevere until they reconcile those tensions." Doing that should involve intense consultation with stakeholders to gain insight into their perspectives, the implications various decisions might have for them, and which moves

Practical idealism means refusing to sacrifice real albeit incomplete progress in the name of perfection and being brave enough to take action that might cause short-term pain.

they regard as deal breakers. Consider how Puri's team talked to retail buyers, engaged materials and recycling experts, and involved its own employees throughout its decision-making process.

Etsy, the online arts-and-crafts marketplace, has leaned into even higher-stakes trade-offs in recent years. Founded in 2005 by the craftsman Rob Kalin and three others, the company has always been defined by its purpose of giving "makers" a venue and tools for marketing their wares and creating their own small businesses. By 2012, under a new CEO, Chad Dickerson, Etsy had adopted a more ambitious mission—"to reimagine commerce in ways that build a more fulfilling and lasting world"—and become a certified B Corporation, a designation given to companies that meet strict environmental, social, and governance standards. By 2015, the year it went public, it was facilitating $2 billion in sales for some 1.4 million sellers each year and attracting top talent thanks to its social purpose and generous workplace policies. What Etsy wasn't delivering was profit: It had lost money since 2012, and within nine months of that IPO, investors had lost patience. The stock plunged 75%, Dickerson was fired, and in 2017 a new CEO, Josh Silverman, was appointed.

Silverman understood the assignment: His job was to rethink how Etsy could better operate to everyone's benefit, rebalancing among stakeholders and injecting more accountability into both its commercial and its social efforts. As he and his team worked to diagnose the problems, they realized that the company had been prioritizing employee and broader societal concerns (key requirements of B Corp certification) over sellers and shareholders, which was a big threat to its long-term health.

Over the next few months Etsy made some major changes: It laid off 160 employees (on top of the 80 it had let go before Silverman's arrival), which amounted to about a quarter of its workforce; shut down projects that were staff favorites; disbanded its existing sustainability group; and announced that it would let its B Corp certification lapse. The blowback was harsh. One disgruntled former employee described those moves as "a cautionary tale of capitalism."

And yet, as Silverman described it to me, he was playing the long game, keeping Etsy's purpose and all its stakeholders in mind. Within a few years the company was able to hire again, and its impact initiatives (refined to focus on three key areas: empowering people, environmental responsibility, and diversity) began to bear fruit. Silverman estimates that the trade-offs the company made in 2017 have allowed it to become five times as productive, as measured by the number of weekly software releases its engineers churn out to improve the selling and buying experience on the site.

Gross sales climbed in each of the past three years, and Etsy has been profitable since 2017. In 2020, thanks to a surge in pandemic sales, its sellers numbered more than 4 million, and they generated more than $1.7 billion in revenue and $349 million in net income for the company. It currently employs about 1,400 people, a few hundred more than it did before the layoffs. And social impact in its key areas is also impressive: Etsy has contributed about $6 billion to the maker economy; it is the first major online shopping destination to offset 100% of emissions from shipping; and it has doubled the number of underrepresented minorities on its staff and has a majority female workforce. As it has done all this, its stock price has shot up.

By looking beyond short-term win-wins to accept good-enough-for-now solutions that will lead to broader long-term benefits. Practical idealism means refusing to sacrifice real albeit incomplete progress in the name of perfection and being brave enough to take future-focused action that might cause short-term pain for some. Without question, that happened at Etsy. Livongo's decisions weren't immediately beneficial to investors. Gotham Greens' use of plastic has a negative impact on the environment.

Remember, though, that even imperfect decisions must be made thoughtfully, with an eye to achieving your social objectives *and* profit someday soon. When a business idea or a course of action would primarily create social value, recognize that you might want to take the leap before commercial value seems entirely attainable, but continue to aggressively explore options and give yourself a timeline. When potential plans would primarily drive commercial value, investigate ways they might help you deliver social impact as well, and if those projections are positive, continue. (If they're not, disengage.) In a legacy business you can try to graft purpose onto your existing products, services, and initiatives—for instance, by making your operations more sustainable and socially responsible or your products safer or healthier. Or you can take a portfolio approach, supplementing your efforts with others that better serve all stakeholders while also taking the steps and making the investments needed to shift your business from purpose on the periphery to deep purpose as soon as possible.

At Recruit, the Japan-based company that owns job-focused websites such as Indeed and Glassdoor along with staffing, recruitment, and HR technology businesses around the world, management would "never, ever" fund a project that delivered only financial returns, its former CHRO Shogo Ikeuchi told me, because that would violate one of its three core principles: "Prioritize social value." (The others are "Wow the world" and "Bet on passion.") At the same time, he insisted, the company wouldn't support projects that serve society but lack commercial potential. "Always, always we have borne in mind the balance between social value and economics," he said.

As of 2020 Recruit has for eight years funded one of its Japan-based ventures, Study Sapuri, an online learning platform for students that is designed to address the country's educational inequities, in the hope of making it profitable. But this is not passive patience. Executives are constantly having "heated debate, discussion on how we can grow this business…how can we possibly generate more revenue?" Ikeuchi explained.

A similar story comes from Mahindra Group's farming equipment business, which decided to make its farming-as-a-service (FaaS) technology available free. That ate into profits but was a way to quickly and efficiently serve the broader company's mission—to "innovatively use all our resources to drive positive change in the lives of our stakeholders and communities across the world" (or, in the company's shorthand, just "Rise"). Cash-poor farmers got immediate access to state-of-the-art tech that would increase their productivity and boost their income potential. The eventual financial benefits were also in sight, however: Free FaaS helped the company gain market share and strengthened its business.

By effectively communicating the rationale. When making trade-offs, it's critical to explain the logic behind your decisions so that stakeholders understand how they connect to and support purpose. Being explicit builds trust and cohesion by giving meaning to the sacrifices some stakeholders are making and reinforcing a mutual commitment to shared long-term benefits.

Leaders at Etsy were quite explicit with employees and customers in explaining why the 2017 restructuring was necessary to put the company back on a sound financial footing and deliver on its promise to create the best maker marketplace in the world. Silverman and others speak openly about the sometimes imperfect decisions they came to. Livongo, Recruit, and Mahindra never hid their purpose-driven choices from shareholders (which were venture capitalists for Livongo and public market investors for the other two); instead executives outlined exactly why they were making those choices and how they would ultimately lead to better returns.

Bühler, a fifth-generation family-owned business that specializes in high-end milling, grinding, sorting, and die-casting machines and process engineering and services expertise, is constantly working to justify its pursuit of strict sustainability standards to its customers and its private owners. Some customers buy in, but others are more skeptical, worrying that the company is sacrificing performance for social goals. A few even feel that its reps and executives have become overly moralistic, "lecturing" them about how to run their businesses. As an employee at one large client told me, "No one is going to say, 'Oh, great, it's a perfectly sustainable company, so I'll just spend more" with it than would be necessary with a competitor.

As a result, Bühler needs to be extremely careful when courting new business, its former HR chief Dipak Mane told me. At the start of a bidding process, its reps tend to focus on "hard" dimensions such as quality, longevity, and price. But once they've progressed to later rounds, they transition to a greater emphasis on purpose, which they believe distinguishes the company from competitors whose product or service specs are otherwise equivalent. The chance to be a part of "saving the world" helps customers justify their choice of Bühler. The company's CEO, Stefan Scheiber, summed it up well: "What's the value? If I cannot answer that, then it's not good."

Acting with Intention in an Imperfect World

To drive performance and inspire stakeholders, leaders must abandon the

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notion that win-win solutions are the only ones that count. Of course, you should avoid underachiever decisions at all costs. And you shouldn't content yourself with just doing good or just racking up profit—you must constantly challenge yourself to do both. But recognize that you won't get it perfectly right for everyone all the time and that sometimes the best way to arrive at broad long-term benefits is to patiently negotiate short-term sacrifices.

Ultimately, the purity of your intention is what counts, along with the ferocity with which you pursue and manifest it. Stakeholders know that you can't perfectly align their interests every time. But their commitment to the company and its purpose deepens when you consistently make a valiant and thoughtful effort. You can make purpose meaningful in your organization by approaching every choice determined to serve all stakeholders to the greatest extent possible but mindful that trade-offs are sometimes absolutely necessary.

When deep purpose leaders bend idealism's arc to accommodate the practicalities of commerce, and vice versa, they ultimately generate more widely shared value. They also show us all what we can accomplish if we don't push our ideals to the extreme but instead seek to realize them in measured, practical, and sustainable ways.

HBR Reprint S22022

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