

Purpose & Performance

Corporate Purpose Impact 2010

IMD-CSM / BURSON-MARSTELLER

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Burson-Marsteller



Introduction

Once upon a time, many companies believed that the way to manage their imprint on communities and the environment was to sponsor a 'CSR project'. These initiatives were often launched simply to assuage corporate guilt, or to deflect criticism and "prove" a commitment to society.

As public cynicism towards this approach began to grow over the past 15 years, some of these same companies began to think and talk about 'Corporate Responsibility' instead. They started to interact more with their stakeholders, including NGOs – and a few made real commitments to incorporate Corporate Responsibility into their business strategies.

The move from CSR to Corporate Responsibility also meant shifting from simply carrying out activities that could be communicated externally, to incorporating new business principles that would be the drivers of internal action, motivation and recruitment.

One of the results of the global economic and financial turmoil since 2008 is that more companies and business sectors have been forced to look inwards rather than outwards, to examine their *raison d'être* and to understand Corporate Responsibility in greater depth. Gen Y, new ethical consumers and investors, the growing power of NGOs and of course the internet, have all amplified this new trend. As a result, there is a renewed public demand for corporations to act more responsibly in the societies in which they operate.

The answer to this call to action lies within a company's 'Purpose'. Companies that seek to build trust and engage honestly and transparently with their employees, customers, shareholders, regulators, the media and other audiences need to have a well-defined Purpose – and to abide by it in everything they do. Purpose is part of a company's DNA; it is the reason for that company's existence.

A company's Purpose is first and foremost developed and agreed internally, by asking and answering questions such as "who are we?", "what do we stand for?" and "how is this evidenced in our behaviour?" Once a Purpose is clearly and deeply understood, it can then be communicated externally. We call this

principle 'Purpose & Performance', inspired by Pepsi Chairman Indra Nooyi's corporate vision which she called 'Performance with a Purpose'.

While 'Performance' is just about delivering short- and long-term financial results, and building tangible organisational and business value over time, 'Purpose' is a more intangible asset. Purpose is, together with Performance, the standard against which business decisions are validated. Companies with a Purpose look at the imprint they and their products leave on society as a whole, including their employees and customers. A company that embraces Purpose & Performance takes both into consideration when making key business decisions.

Companies that have a Purpose deeply embedded into their overall corporate strategy – and one which is well communicated and understood both internally and externally – will have a significant competitive advantage. The research carried out by IMD to develop the first Purpose Impact Ranking shows that a strong and well communicated Corporate Purpose can impact financial performance by up to 17%.

Perhaps not surprisingly, having been forced by increased global awareness of sustainability issues to show their commitment to the planet as well as to profit, companies in the Energy sector lead the rankings. By contrast, companies in the Banking and Insurance sectors, which before the crisis were less accustomed to this sort of scrutiny just as long as their profits were healthy, find themselves at the bottom of the list.

Corporate Purpose requires companies to be honest about what they are and what they do. Honesty builds trust. Corporate Purpose is therefore a fundamental element in rebuilding the trust between corporations and the people that matter to them. Today, companies that are successful at communicating their Purpose are likely to be high performers – in the future, companies who do not have a Purpose may not survive.

Jeremy Galbraith
CEO, Burson-Marsteller Europe, Middle East & Africa

1. What do companies mean by Corporate Purpose?

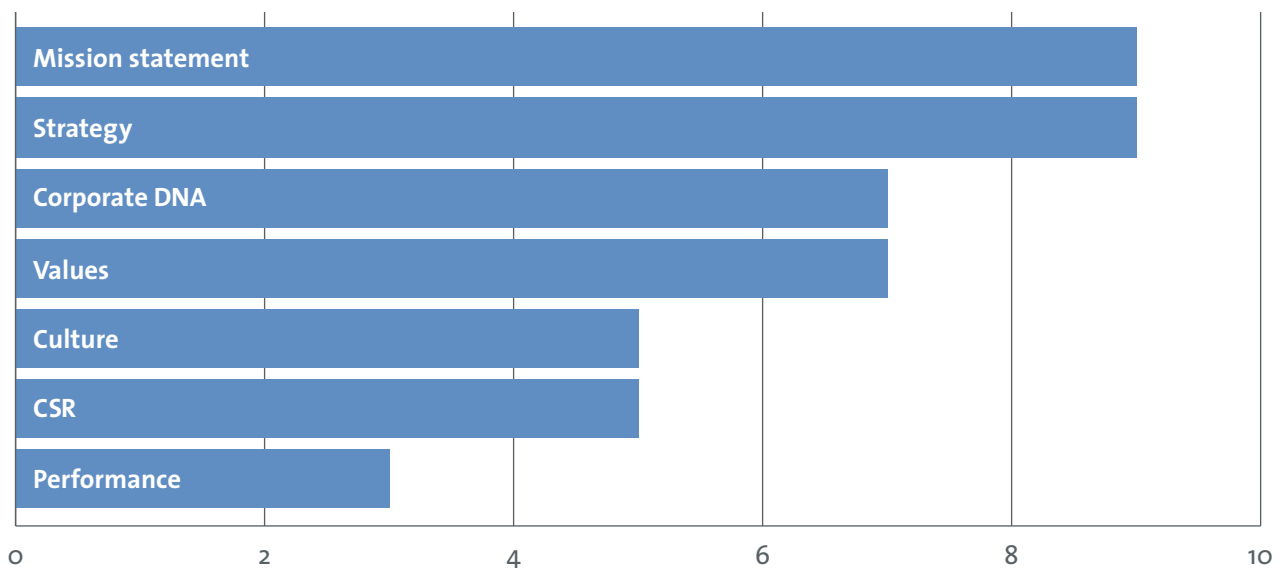
Different companies invest the term “Corporate Purpose” with different meaning.

The corporate reputation study we carried out in 2008*, which concluded that companies that deliver on Purpose & Performance are viewed as role models and are more trusted, was originally inspired by Indra Nooyi’s corporate vision which she called Performance with a Purpose.

“Performance with a Purpose is based on the belief that companies can – and must – achieve business and financial success while also leaving a lasting and positive imprint on society.” *Indra Nooyi, Chairman of PepsiCo*

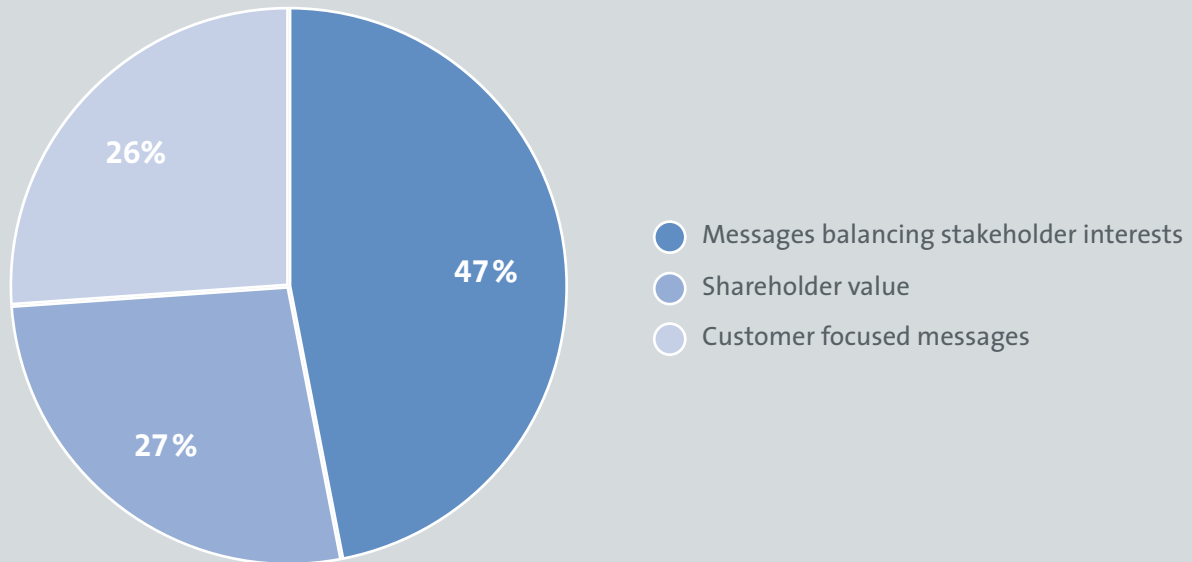
For the companies in this year’s Purpose Impact Ranking, mission statement and strategy were the most often quoted definitions of Corporate Purpose.

Meaning of Corporate Purpose



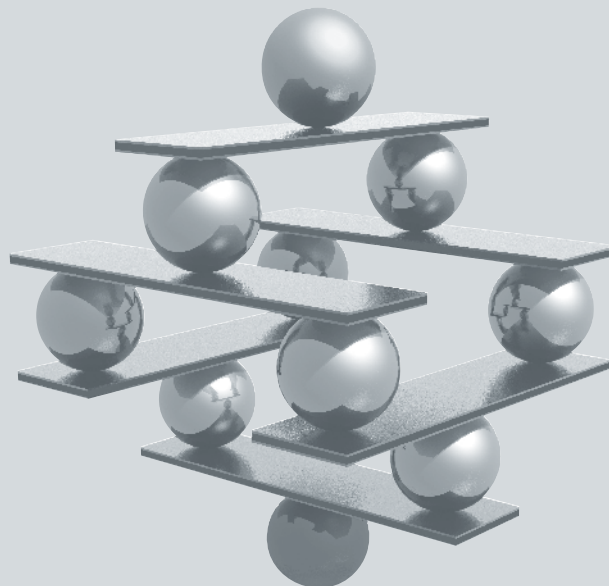
* In 2008 Burson-Marsteller conducted a proprietary survey on the theme of Purpose & Performance in cooperation with Penn, Schoen & Berland in 11 European countries amongst 200 leading corporate executives and opinion-makers (CEOs, presidents, government officials, financial analysts, academics, NGOs, journalists, and communications heads/managers). The research evidenced that 40% of a company’s reputation is determined by its Purpose and 60% by its Performance. Striking a balance between substance and responsibility in a world where corporations are expected to deliver on profit and ethics is imperative. However, there is an in-built tension between the two objectives, and management must find a way to strike the right balance.

Content of communication with external audiences



The largest share of company communication efforts around Purpose is dedicated to balancing the interests of stakeholders through communicating on issues such as: environmental performance; social responsibility; ability to create and sustain employment; ethics and transparency; openness to engagement and dialogue; compliance to regulation and quality of workplace.

Interestingly, none of the companies in this survey expressed shareholder value as their Purpose – yet many dedicate a significant share of their communication efforts to content related to financial results / shareholder value. Customer-focused messages account for about a quarter of communication with external audiences.



2. IMD Purpose Impact Ranking 2010

The IMD Purpose Impact Ranking 2010 includes 213 European companies in 10 industries. The following criteria were used to compose the sample.

Presence among the top 25 companies in sales in base-year 2009 in 10 industries

- Banking
- Food & Beverage
- Energy
- Insurance
- Technology & Communications
- Pharmaceutical & Healthcare
- Transportation Equipment
- Transportation Services
- Retail & Wholesale
- Heavy Manufacturing

Sales in base-year 2009 greater than € 5 billion

Available and updated data on financial performance (from 2005 to 2009)

The IMD Purpose Impact Ranking was created by aggregating existing renowned rankings into two key dimensions of Purpose identified during preliminary qualitative research, specifically:

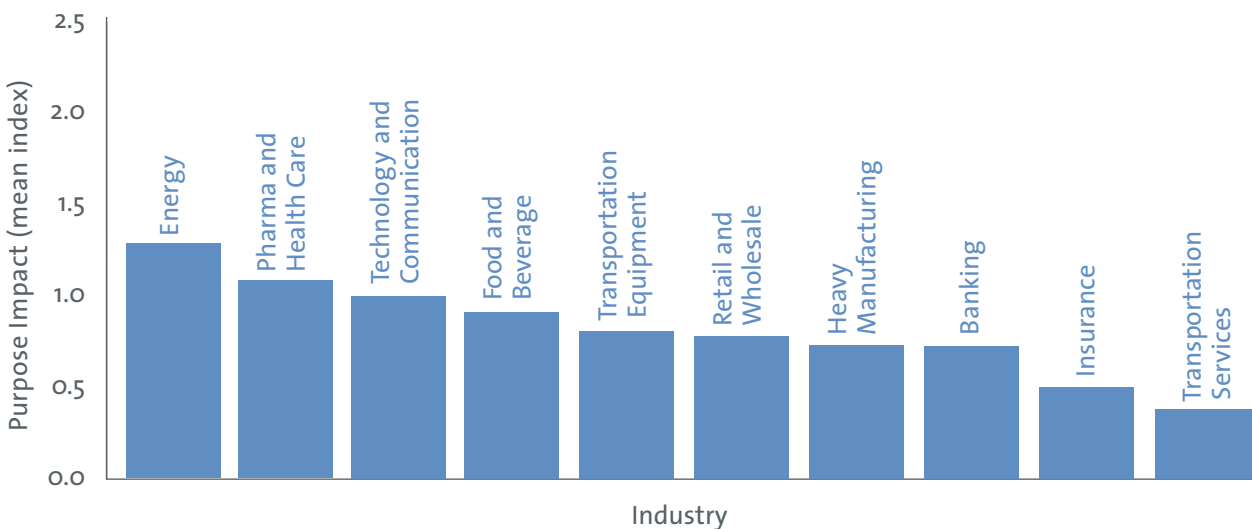
Company Reputation – Fortune’s World’s Most Admired Companies and Reputation Institute World’s Most Reputable Companies

Public recognition of leadership in CSR, sustainability, accountability and ethics – Global ESG 100, Risk Metrics Group, Dow Jones Sustainability Index, AccountAbility Ranking and EthicalQuote by Covalence

The Purpose Impact Ranking 2010 shows Energy, Pharmaceutical & Healthcare, Technology & Communication and Food & Beverage sectors scoring higher than the overall mean, while Banking, Insurance and Transportation score well below the overall mean. Notably, the sectors that scored below had a significant number of companies that did not feature in any of the trust and reputation rankings used in the study.

The leading European companies in the IMD Purpose Impact Index are Philips, Nokia, L’Oreal and BASF. These companies scored a maximum value in the index.

Purpose Impact across Industries



3. Corporate Purpose builds trust with stakeholders

Communicating on Corporate Purpose is one of the key strategic tools for managers seeking to build trust and reputation with stakeholders.

It can be used as:

- 1) A pre-emptive, defensive tool to strengthen reputation risk management
- 2) As a competitive differentiator within an industry
- 3) As a strategic long term asset to build competitive advantage.

Corporate Purpose may start as an add-on or a “must-have” (a defensive tool) but morph into a central part of the company’s overall strategy over time. Nestlé is an example of a company that uses Corporate Purpose communication as a key aspect of reputation risk management. Nestlé used to communicate only on performance related issues, until its reputation started to come under attack. As the head of corporate communications explains:

“Nestlé’s previous policy was **not** to actively communicate on certain topics. This led to other people telling Nestlé’s story while Nestlé itself remained silent. This also led to misinformation in the public domain. We understood that letting key stakeholders know about our Corporate Purpose strengthens trust they have in Nestlé. We are now telling Nestlé’s story ourselves.”

The IMD research shows that BASF, Unilever, Allianz, Danone, Vodafone, Nestlé and Shell are recognised by their peers as examples of companies that have successfully differentiated themselves from other players in their industry through effective communication on Corporate Purpose.

Allianz and Unilever have taken initiatives to drive their industries toward action on long-term issues – climate change and sustainable fishing / sustainable agriculture respectively – based on Purpose-related motives. These initiatives have reinforced their ability to strategically differentiate themselves from their competitors and supported trust building with stakeholders.

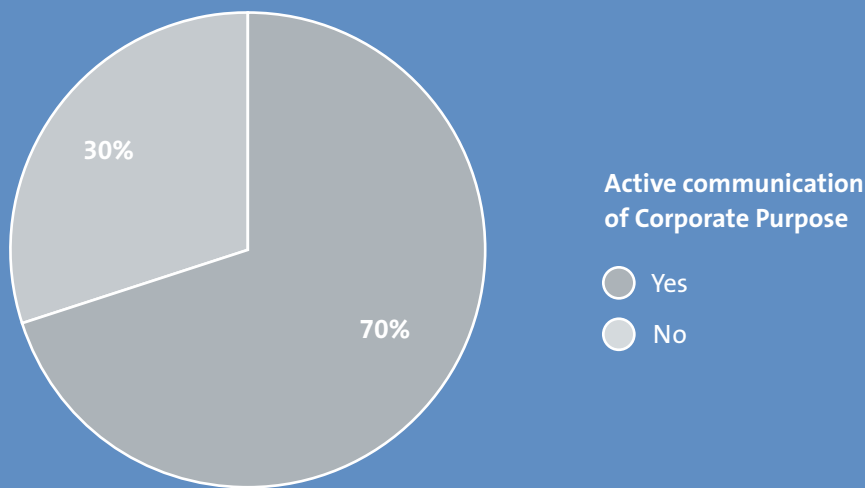
With competition from the likes of the Apple iPhone and Research in Motion’s BlackBerry, developing and communicating on Corporate Purpose has become essential as a strategic competitive differentiator for Nokia.

Honesty, transparency and openness are key to building trust, as is “walking the talk”. If stakeholders perceive that communication around Corporate Purpose is no more than window-dressing they are likely to react cynically. For this reason communicating on Corporate Purpose is not straight-forward and will be received with mistrust and scepticism if stakeholders do not feel there is genuine commitment behind it.

NOVO NORDISK: “To fulfil a Corporate Purpose it needs to be credible and relevant to the target audience. It must be unique, durable and specific... It’s important to build trust. Novo Nordisk’s Corporate Purpose plays an essential part in building long-term relationships with our stakeholders by committing the company to the cause of defeating diabetes.”

4. Corporate Purpose communications is growing as companies are increasingly aware of their social role

The majority of companies in the Corporate Purpose Impact study actively communicates on Corporate Purpose and has dedicated increased efforts to it over the past 5 years.



There is a change in behaviour among European companies towards actively communicating, internally and externally, on Corporate Purpose as they become more aware of the social role they play. This goes beyond articulating and publishing a Purpose statement. “Communicating effectively on Corporate Purpose means gravitating naturally back to it whenever engaging in dialogue with internal and external stakeholders.”

Head of communication of an energy company

Philips, for example has changed its Corporate Purpose as part of a fundamental re-shaping of their business.

“We want to communicate that we are a company focused on people, bringing meaningful innovations to people in the domain of health and well-being via our brand promise which conveys a sense of simplicity.” *Philips Corporate Communications*

Philips also accepts that the nature of communications has changed with the advent of the internet, social media and a much more genuinely two-way dialogue with stakeholders – including consumers and employees. Managing corporate communica-

tion has become a complex business and communicating on Corporate Purpose is an essential element of that.

“With a new strategy, communicating Corporate Purpose became even more essential to aligning employees and stakeholder perceptions to the company’s overall objectives. The nature of communication has also changed. With consumers you traditionally communicate by using monologues. In the past, we told consumers and other stakeholders what we were about, what we were doing and our Purpose in doing it. Nowadays, when communicating with the professional (and the consumer) we deal with, we have to enter a dialogue. There is a trend to moving the consumer ‘monologue’ towards more of a dialogue. However, the target is still part of a mass market, making a dialogue far more difficult to have.”

Philips Corporate Communications

5. A strong and well communicated Corporate Purpose impacts financial performance

The Corporate Purpose Impact Study demonstrates the significant impact on a company's overall performance of having and communicating on Corporate Purpose. Corporate Purpose can explain up to **17%** of the variation in economy-wide financial performance of leading European companies – a staggering figure with huge implications for corporate strategy and communications in the future.*

Communicating on Corporate Purpose is also a competitive differentiator, impacting the relative financial performance within an industry. Corporate Purpose explains up to **8%** of the variation of the financial performance of leading European companies within the same industry.

So, while a high impact Corporate Purpose enhances financial performance, company size does not. Corporate Purpose communication is more important than company size in terms of its effect on financial performance.

- A well-executed Corporate Purpose communication enhances the financial performance of leading European companies
- A well-executed Corporate Purpose communication is more important than company size in terms of its effect on financial performance
- Corporate Purpose enhances not only economy-wide financial performance of leading European companies but also relative financial performance within industries

Nokia is an example of a company that over the past 5 years has developed and communicated a strong Corporate Purpose which is reflected in its financial performance. Communicating on corporate purpose has become an essential tool to build trust in Nokia's market place, including among analysts and investors.

“The nature of the industry has considerable impact on the way our Corporate Purpose is written and used. Changes in the market and in the technology

have brought many questions about our Corporate Purpose. We need to make people believe in our Corporate Purpose and we need to have success in fulfilling it.” *Nokia*

Key steps:

Agreeing and communicating Corporate Purpose

1. What is our “reason for being”? – developing your Corporate Purpose
2. Agreeing and communicating Purpose internally – and ensuring it is received and understood
3. Integrating Purpose with the broader corporate strategy
4. Identifying external stakeholders
5. Communicating Purpose externally to stakeholders – and ensuring it is received and understood

* IMD's regression analysis on industry standardised return on investments (RoIC) over a five year period (2005–2009) confirms the financial benefit of a well communicated Corporate Purpose.

The Corporate Purpose Impact study provides conclusive evidence for the hypothesis that there is a crucial link between a strong reputation and superior financial returns. Using a Purpose-Performance model developed by Roberts and Dowling (2002) the study takes the Purpose Impact Index as a starting point and uses regression analysis to assess the impact on financial performance, measured as Return on Invested Capital (RoIC), over a period of 5 years (2005–2009). Company size was used as the control variable. The analysis was carried out using two alternative scenarios – one that tested the effect of Purpose impact on economy-wide returns, and one that measured the effect in relation to the average performance within an industry.





To find out more about the Purpose Impact Ranking 2010
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