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Why corporate purpose statements often miss their mark

Analysis of nearly 2,000 CEOs' description of their company's purpose reveals that most omit a critical detail: why their company is in business.

by [Christopher Michaelson](#), [Douglas A. Lepisto](#), and [Michael G. Pratt](#)



Photograph by Justin Lambert

In extraordinary times, a statement of purpose can serve as an organization's anchor. A clear reminder of a company's core identity grounds employees, customers, and other stakeholders, who may feel adrift — enabling them to focus on addressing critical problems. Most recently, the coronavirus pandemic has prompted the world to reconsider what work and which organizations are essential to society's function. And unrest over social injustice has led many organizations to reflect on their role in promoting diversity, equity,

and inclusion. These important initiatives will be most effective if they involve a close examination of purpose.

Of course, even in ordinary times, articulating a corporate statement of purpose has long been considered vital to success. It provides a justification for a company's existence, as well as a blueprint for navigating what that company does. The marriage of *why* and *what* has become increasingly important: Cultural attitudes toward business have broadened, from a focus on shareholder value to the need to also contribute to society, and emerging generations of employees often prioritize meaning over money. An effective purpose statement makes this why-what connection clear. But the reality is that many statements fall short: They rely on platitudes, fail to connect with an audience or beneficiary, or lack balance between being abstract or specific.

To better understand these shortcomings, we analyzed nearly 2,000 responses when CEOs were asked to describe the purpose of their organization. These CEOs, who were participating in a survey conducted by a professional services firm, led companies of diverse size and industry representation, headquartered in different regions around the world. Some respondents quoted polished corporate purpose statements, whereas others improvised on the spot; statements of purpose are not limited to what can be found on a company's website. In all cases, we inferred the response was the CEO's most readily available and genuine expression of his or her organization's purpose, which a CEO is charged with representing to multiple stakeholders. Incredibly, we found that 93 percent failed to state why their company is in business. In other words: Most purpose statements lack any meaningful sense of purpose.

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Simply stating something does not necessarily make it so. But a meaningful purpose statement that has ethical, emotional, and rational appeal should be likelier to influence a good purpose in practice than one that does not. Whether leadership is making the case that an organization is essential during the coronavirus pandemic or seeking to attract and motivate employees, articulating its reason for being roots an organization's appeal in something immediately important and enduringly meaningful.

To illustrate this concept, compare the CEO who stated that the purpose of his organization is “to create daylight, fresh air, and a better environment for people’s everyday lives” with the CEO whose purpose is “to produce goods of as high a quality as possible, with as low as possible production costs.” The former (from an environmental services company) provides a reason for the company’s existence, identifies a beneficiary, and alludes to the organization’s unique contribution to the world. The latter statement, though practical, is uninspired.

Failure to answer *why* was just one issue we identified with the sample. We had anticipated that CEOs’ purpose statements would describe *what* their organization does, *who* they do it for, and *how* they do it. The first assumption proved correct overall: 77 percent of CEOs’ purpose statements alluded at least generally to what their organizations do – offering some information about their products and services. But 95 percent of respondents neglected to mention a core problem they endeavor to solve or to reference their organization’s founding histories in a way that could further illuminate the purpose for which their organization exists or why it was founded.

More than half of respondents (51 percent) failed to mention any beneficiaries (the *who*). Organizations with purpose statements that are focused on financial value creation have a clear beneficiary, the shareholder. Consider, for example, the CEO whose stated purpose is “to improve profit, sustainable growth, [and] long-term stability.” However, another CEO’s statement that his organization exists to “improve health and well-being” could potentially create confusion as to whose health and well-being is being prioritized – customers, employees, the general public, or another group. A clear purpose statement can not only clarify but also inspire desired behaviors in the interest of beneficiaries.

Less than one-quarter of the CEOs (23 percent) surveyed explained the *how*. This is significant, because the way in which companies describe “how” is often a representation of corporate ethics. Their description is connected to the way they do business, and may reference values they prioritize, such as integrity and trust, or valuable assets they seek to protect, such as the environment. As one CEO stated, his company’s purpose is “to provide energy services and energy information in a trustworthy, safe and sustainable way.” Sometimes, *how* is integral to the organization’s business model, such as the CEO of an insurance company that aims “to achieve more financial and social inclusion by offering access to insurance for people of all social classes.”

Finally, we had expected that purpose statements would say something meaningful about an organization's identity. For example: Would a company's industry influence who CEOs identified as beneficiaries? Would large companies be free to pursue metrics beyond financial value? Would more comprehensive purpose statements correlate with more confidence in future growth? Would ownership structure influence the relative priority of shareholders? We found that correlations were insignificant on every count, and we were unable to discern any other patterns in the types of purpose statements that CEOs articulated.

Taken together, these findings reveal serious deficiencies in corporate purpose statements. But by following three steps, leaders can instead infuse their statements with strength and meaning.

1. Clearly state the company's reason for being. Purpose is ultimately about *why* – and its connection to *what*, *how*, and *who*. Research on [prosocial motivation](#) suggests that communicating why companies do things (“respecting the environment and protecting natural resources”) is more effective than merely emphasizing what they do (“produce high-quality and low-cost motor parts”) or how they do them (“through innovation”). Moreover, answering *why* should also go [beyond financial performance](#), which is increasingly understood to be a means to business success but not an end in and of itself. For example, one CEO explained her company's purpose is to “discover and bring to market innovative medicines and vaccines to create a healthier world.”

2. Identify the primary beneficiaries of the organization's work. Stakeholder theory – [endorsed in 2019](#) by the Business Roundtable, an association of CEOs of leading U.S. companies – defines the purpose of a business in terms of whom it benefits beyond shareholders. Putting the beneficiaries at the forefront and showing how the organization's work [benefits those beneficiaries](#) is crucial when crafting a purpose statement. One CEO described her company's purpose as being to “provide value-added, personal, competitive financial services with a focus on SMEs [small and medium-sized enterprises] and women.”

3. Ensure the purpose statement is balanced. Research on construal-level theory suggests [the level of specificity or concreteness](#) plays an independent role in impacting the degree to which audiences find statements meaningful. Statements of purpose typically range from overly abstract (“creating a world-class organization”) to overly specific (“to deliver steel structures for the [regional] market”). Those that find the golden mean (“designing buildings and cities to allow society to develop responsibly and economically” or “to provide choice and affordability to meet our customers' evolving energy needs”) between these extremes are likely to be more successful in communicating the company's purpose and [inspiring others to act on it](#).

Developing a powerful purpose statement establishes what is unique and non-replicable about a company and provides competitive advantage. This is especially important today, as company leaders guide their organizations through unprecedented challenges, and will continue to be a defining act moving forward. Of course, stating purpose for the sake of improving performance isn't the point. Even the strongest purpose statements must be bona fide, authentically reflecting organizational pursuits that walk the talk.

Author Profiles:

Christopher Michaelson is the Opus Professor of Principled Leadership and academic director of the Melrose and The Toro Company Center for Principled Leadership in the Opus College of Business at the University of St. Thomas. He also teaches in the business and society program at New York University's Stern School of Business.

Douglas A. Lepisto is associate professor of management and co-director of the Center for Principled Leadership and Business Strategy in the Haworth College of Business at Western Michigan University.

Michael G. Pratt is the O'Connor Family Professor of Management and Organization in the Carroll School of Management at Boston College

Also contributing to this article were Luke Hedden and Jacob Brown.

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