

## Oxford strategy & innovation note

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### The four Ps of corporate purpose<sup>1</sup>

#### ON CORPORATE PURPOSE: A VIEW FROM BANKING AND FINANCIAL SERVICES

We are a decade into a renewed focus on organizational purpose as a critical conversation for leaders, to support the core work of transformation and renewal, to accelerate agility, to enrich the work of leading organizations large and small, and for policy across sectors and relevant to emerging industries in the collaborative economy and their counterparts in the 'old' economies. In this context, we participate in a small series of experiments that grapple with the ways in which 'purpose' as in organizational purpose has come onto the agenda for business.

Purpose is not a new management concept, nor is the word itself 'magic' or a panacea for many challenges. But the usages of the word 'purpose' today in many institutional settings, and the 'rightness' of the word to capture a spirit of the times, alerts us to some important debates. We reflect on these in the context of incumbent leaders in banking and financial services.

Recent events across the world, in the 'West' and the global 'South', in parts of the world newly-central for policy and global consideration, underscore both economic turmoil and political change, but also existential turmoil. Institutional leaders increasingly use a language of meaning, values, and narrative to frame both challenges and solutions. There is much renewed interest in words that highlight a point of reference in a turbulent time: North star, guiding light, beacon, truth North, and such.

The financial crisis brought into radical focus the public debate around the role and purpose of banks. The governance and accountability issues are framed: 'Was it greedy bankers setting up totally self-serving bonus-driving instruments or was it reckless consumers borrowing beyond previous grounded reality?' The high profile misselling scandals since 2007, such as payment protection insurance, the settlement costs of which are estimated to stand at more than £15 billion. The later debate from global regulators was in the development of the concept of 'conduct', an obscure term with little agreement about meanings. The word conduct is defined as *'behaving in a particular way, especially in a public place or situation'*. The conduct debate is linked to the purpose debate as in the root and informer of subsequent behaviors. The UK based Financial Conduct Authority (FCA) and other regulators use the term "conduct risk". They appear to imply the risk to customers of banking controls and operations failing. The FCA itself has referred to conduct risk in the context of *"consumer detriment arising from the wrong products ending up in the wrong hands, and the detriment to society of people not being able to get access to the right products"*.

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Marc J. Ventresca and Steve Mostyn prepared this Note to engage senior executives with research into practical insights for action in the Oxford On Purpose initiative. We thank Andrew White and other colleagues for the opportunity to test these ideas with corporate clients, and we appreciate the candid comments of several cohorts of delegates in our executive education portfolio. The research base grows from our studies on the changing conceptions of corporate purpose, including our collaboration with the Beacon Institute at EY Global, led by Valerie Keller. ©2017.

In our work with a large global bank, we have asked senior executives across countries and functions to grapple with the broad meaning of organizational purpose and to focus in on their 20 years of purpose-informed corporate actions. These workshops have given us a much clearer sense of how and why 'purpose' is on the agenda for leaders.

For some bank colleagues, the issue is simple: 'The purpose of the bank is to make money'. This starting point underscores two important further questions: 1) How broadly or narrowly do we construe 'making money' and for whom, along what value chain? This is a question that has engaged industry leaders and analysts for some decades, from early days of the shareholder-primacy models from the 1960s through to contemporary debates about stakeholder capitalism, inclusive banking and 'banking the unbanked'. Then, in banking and other industries, 'how we made money' is changing: 20 years ago how we made is different in form and kind from how some banks and the industry overall make money today. We only need glance at the upsurge in fin tech initiatives generally, and specifically mobile money, blockchain and potential for distributed ledgers, alternative currencies, electronic wallets and the rise of firms from a dozen industries 'doing' what banks used to do, to pose a more provocative question: What will 'making money' in banking look like 20 years hence.

This leads to a second important question that should occupy the attention of leaders: Not 'how do we make money today' but rather 'how will we make money tomorrow or a year or a decade hence?' Will banks exist in any recognizable form in 2040? These are questions that have to do not with the purpose of any individual bank, but rather what are banking functions, how are they organized and governed, and to whose benefit? This is a question about the purpose of the current organizational and governance form of the activities we call 'banking' and the modern corporation. The answers to this question underscore the basic challenges of strategy, innovation, and transformation, and this is where 'purpose' brings additional value to the conversation. In our work at Oxford and in collaboration with the Beacon Institute at EY, we have built on the core strategy questions of 'exploit & explore' to pose a fresh inquiry: what is 'beyond this mountain?' That is, how do global incumbents at the top of an industry recognize and act on the potentially transformative changes in the very nature of the firm and the very form of the industry? We see this not as an exercise in futurology, but rather a pragmatic sense of how incumbent firms explore and assemble next opportunities and – in practice – how they navigate in turbulent times.

We argue that for 'purpose' and related conversations to be relevant and action-oriented, conceptions of purpose need to speak to three kinds of issues: Principles, practices, and provocations. A fourth consideration is that for some now time, these experiments in purpose will be 'not perfect', that is they are early moments, experiments, trials, and efforts to understand what can work. In this discussion we are focussed on 'organisation purpose' rather than the individual experiences of purpose that is much discussed these days.

## PRINCIPLES

In the first instance, purpose is certainly about principles. These are core questions: What is the purpose of this firm? What do we stand for? What legacy of meaning and history informs who we are today as a firm and how we approach tomorrow? This is the usage of 'purpose' to connect to the broader question of meaning: Among leaders, this is the work of the shaman, that work requires leaders to be able to answer tough questions about 'why' we do what we do and to be able to reconcile contradictory certitudes that are both organizationally-necessary and that could stymie or paralyze others who seek too much simplicity or consistency.

This first point about purpose principles captures much current wisdom about corporate commitments to social responsibility, to sustainability, to inclusive organization, and to the value

of diversity across a wide value chain. These are the insights of the last 40 years of corporate theory and management practice. These are the heartland of commitments to build durable organizations, learning organizations, and firms and other agencies that are stakeholder-attentive as well as shareholder-committed. The purpose principles recognize the critical role of 'meaning' to validate why people show up to work, and why customers have confidence in the products and services of firms, why broader publics have 'trust' in the firms and its activities.

## PRACTICES

In the second instance, purpose today necessarily informs organizational and managerial practices: How to align across diverse elements and units and activities of any one firm and across whole industries? How to make work meaningful? How to honor tradition and prior success, while carving out space for innovation and going forward? At its base, the focus on practices reminds us that words have to be action-able and indeed, practiced. This second point builds out on a long legacy of management thinking, today richly informed by the turn to American pragmatism – that steps back from theory and ideal to focus on implementation and simple routines that make it possible for big and small organizations to sustain the diverse work of many and different staff in the face of complex stakeholder contexts.

For this reason, practice focuses not only meeting objectives and metrics, but also re-imaging what are relevant and correct metrics to reinforce and sustain the activity that the purpose principles of the firm set out. We know that this needs to be iterative, where purpose-informed principles get built into new conceptions of performance and the measurement systems and metrics that materialize these, then the provisional outcomes registered in such metrics in turn inform the focus of purpose principles. This takes the oft-stated aphorism 'what gets measured, gets done' and enriches that with the reminder that what gets measured can too often be driven by what is currently measurable, proxies that end up supplanting the original intent with proximate measures that are available. One key part of this process is that challenge to what is currently measurable, taking time to develop, refine, and implement measurement concepts and systems that in fact track and drive desired actions.

## PROVOCATION

For the third point, purpose conversations today will necessarily want to have a provocative focus, to challenge incumbent firms and leaders and their successors to revisit some principles and especially to revisit practices. It is in this way that the new conversations around purpose depart from more familiar conceptions of mission and culture, or from strategy. For many, 'purpose' quickly become a conversation of 'who are we and what do we stand for?' More proximately for many, purpose is about 'why do I come to work today?' These are important and valuable questions that require thoughtful answers. But today, purpose has to address a different question: How does purpose engage and instruct not only 'us' but how does it also inspire, reassure, and offer plausible guarantees to wider stakeholders. In this way, purpose as provocation is not only codifying what we do today. It also necessarily includes what we ought and must for tomorrow and after that resets the current unsustainable equilibrium of modern day global commerce.

This is where purpose as provocation also veers into another important conversation today: What is the purpose of the corporation *as a form of organized activity*? This references not only this corporation or that agency, but really poses a more basic question: In the early 21<sup>st</sup> century, after all the well-documented changes in the context of modern enterprise and business, what is the role of a legacy 19<sup>th</sup> century agency? There in we find the 'provocation' element of purpose: To

rethink and to re-imagine the corporate as an actor in a wider and changed societal context, facing challenges distinct from those that birthed the corporation and even those in the 20<sup>th</sup> century when it reached its modern forms. This conversation of purpose is one taking place in many corporate and multi-lateral venues across the world today. It is the stuff of academics, policy-makers and corporate leaders. It is also the question that is de facto present in forward-looking conceptions of corporate sustainability, responsibility, and stewardship.

For the purpose conversations with our bankers, the provocation takes three forms: The first we discussed above, building on that aphorism 'the purpose of banking is to make money'. The second is embodied in the work of our research collaborators at EY Beacon, who argue that 'purpose' definitions necessarily will include stretch ambition about external-facing, tomorrow-oriented, and humane components. It is in the EY purpose 'building a better working world' that we see the shift from standard language of mission statements, brand statements, and culture codes. The language is abstract and general, ambitious beyond the remit of the firm, and focused on 'better'. The third provocation is a conversation especially among [elites] across sectors, industries, and policy venues and it is the basic rethink on the purpose of the modern corporation, rather than the practices of any one firm or agency.

#### NOT PERFECT

We offer this coda, a fourth 'P', based on many conversations. Like all innovations, the 'purpose journey' is not easy, obvious, or without many obstacles. Again, like many innovations, the early days of 'purpose' will be marked by many stretch goals not reached, initiatives with unintended consequences, and incomplete implementations. The 'not Perfect' is simply a reminder that purpose is in process, to all of our benefit.

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