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**Article**

## Purpose: A Foundational Theory for an Up-and-Coming Topic

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## Purpose-Driven Marketing



# Purpose: A Foundational Theory for an Up-and-Coming Topic

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Purpose is undisputedly high on the agenda of marketers and executives alike. However, the current body of knowledge cannot explain what actually constitutes the concept of purpose, leading to misinterpretations in practice. The theory presented here closes this gap and provides a foundational contribution to explaining this contemporary concept.

**Dominik Brendel**

**T**he American Association of Advertisers (ANA) selected *Brand Purpose* as “marketing word of the year 2018” (Mandese, 2018, para. 1). The US-based industry association Business Roundtable shook up the business news in 2019 by declaring its decades-standing maxim of shareholder value outdated. They suggested to turn towards a more inclusive concept surrounding the idea of purpose and overall stakeholder orientation (Business Roundtable, 2019). The 2020 World Economic Forum (WEF) declared a new manifest around *purpose* as ultimate ground and centre for an overall new form of capitalism as such (Schwab, 2019).

Yet, in theory and practice alike, there is at least some ambiguity and uncertainty about what actually constitutes the concept of *purpose* to the firm, and, consequently, the brand. The accepted definition is limited to the description of *purpose* as an element within the strategic framework of the firm, beyond profit maximization (Gartenberg, Prat, & Serafeim, 2018; Henderson & Van den Steen, 2015). However, this somewhat vague definition cannot explain the concept’s increasing significance in theory and practice, nor does it help to explain how managers might apply such a concept to their businesses.

In order to close this gap, the author conducted an empirical study among over 40 corporations and brands, such as Patagonia, Danone, Unilever and Whole Foods, which claim to operate in a *purpose*-driven manner. The data was collected from managers of those corporations through semi-structured interviews. Applying a classic grounded theory (CGT) research paradigm, the data were encoded, analysed and the findings interpreted by CGT’s coding strategy.

The study’s findings provide a substantive theory about the concept of

*purpose* that is theoretically abstract, yet grounded in practice-based data, that localises *purpose* in the overall normative framework of the firm and explains how it relates to brand strategy. This theory sheds further light on the managers’ motivation to implement such *purpose*. The latter is especially relevant, as the doctrine of shareholder orientation versus *purpose* might establish a conflicting strategic directive for the firm and its management. The theory is then embedded in corporate identity theory and normative strategy. The findings also explain the relations between the various concepts of the corporate normative framework, including mission, vision and values, brand theory and *purpose*. Finally, the theory differentiates *purpose* from the concept of corporate social responsibility (CSR).

### **In Search of Meaning: A Quest for the Roots of Purpose in Business**

Since Milton Friedman’s (1970) well-known argument against CSR as being out of scope for the corporation the maxim of shareholder orientation has become broadly accepted as the ultimate management doctrine for decades and, consequently, the main driver of managers’ decision making. In combination with utilitarian ethics and political deregulation, the concept of the economic man evolved as the underlying principle of corporate leadership, arguing that the decisions of humans, i.e. customers, employees and shareholders, are based on rational decision-making processes aimed at their own prosperity and welfare. The economic man would seek out what is best for himself and, consequently, all humans will be better off (Collier, 2019). Wrongly so, but anyway, this argumentation is often traced back to the foundations of the

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economic system of free market capitalism, more precisely, to the work of Adam Smith. Yet, it was actually Smith who first argued that the rationalism of the economic man cannot explain human behaviour sufficiently and that human actions are generally based on two principles in life, welfare and belonging (Smith, 2010a, 2010b). Smith stated that in case of doubt, humans would seek esteem over financial advantage, and esteem is the prerequisite for belonging, provided by society and community to each individual (Smith, 2010a). Thus, capitalism, as the systemic foundation in which corporations operate, would need to address both the welfare and the prosperity of each individual and also express esteem towards the individuals to create a sense of belonging to the society (Friedman, Friedman, & Edris, 2017).

In their seminal article, Porter and Kramer (2011) adopted this foundational thought and argued that for market capitalism, as a system, to survive, its flaws must be transformed from within. They argue that two major forces of neo-liberalism have induced problematic market mechanisms which may lead to the rejection of the system as a whole by its main contributors, the people. The first issue is corporations' externalisation of costs, e.g., of environmental harm or low wages, which then need to be systemically offset by society through transfer payments, while profits are internalized and ultimately transferred to shareholders via dividend payments. Secondly, the maxim of shareholder value is misleading the corporation's management to focus on short-term financial gains, deprioritizing or even neglecting long-termism in strategic development and investment decisions. This short-termism may lead to an acceleration of the first issue (cost externalisation and profit

internalisation). Thus, they conclude, the profit of the corporation should be seen in a broader sense, not limited to purely monetary results. Rather, the value created by the firm within a functioning, free-market, capitalist system should contribute to society at large, beyond delivering shareholder return.

“Not all profit is equal. Profits involving a social purpose represent a higher form of capitalism, one that creates a positive cycle of company and community prosperity.”

Porter & Kramer, 2011, p. 67

According to Porter and Kramer, this concept of *purpose* should be embedded at the centre of corporate normative strategy and will lead the organisation to act more sustainably, in terms of long-term value creation, as a responsible active member of society. Thus, the firm would enhance the common good

while equally enhancing individual prosperity (Gartenberg et al., 2018). Thus, the strategic corporate *purpose* should “(...) address the interest of all stakeholders: investors, employees, customers, governments, NGOs, and society at large” (Eccles & Serafeim, 2013, p. 52).

### **A Contemporary Theory of Purpose**

Building on the concept of *purpose* in the body of theory as explored above, The findings presented hereafter start with the explanation of the underlying motivation of the managers to apply such a concept from the firm's perspective. They lead to an integrated theoretical model, which may serve as a basis for further research, but may also be directly applied to business practice.

#### **Motivational Factors of Managers and Entrepreneurs: Activism**

The underlying motivation leading executives to build *purpose*-driven businesses may be explained by the mechanism of activism due to a higher-order *purpose*.

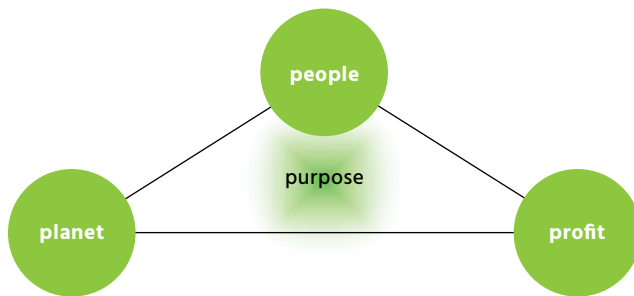
Activism, as a generative mechanism, encompasses the activities of the corporate managers who not only take a

### **Management Summary**

Purpose is high on today's agendas. Yet there is significant confusion about the underlying elements and what the concept actually means and how purpose relates to other concepts of normative strategy. This article provides original insights, based on an empirical study with leading brands and organisations, about the theory behind the idea of purpose in relation to business and brand strategy. It concludes with a framework which managers can directly apply to their businesses and scholars can use as a foundation for further research about the concept and its significance in practice.



**Fig. 1: People, Planet and Profit, the Constitutional Elements of Purpose**



Source: Own Illustration.

stance towards societal challenges, but are active change agents via their business activities. The managers use their business processes and their influence on their overall value chain to proactively create positive impact on predefined challenges. This is an important differentiation, as in practice (as the findings show) the concept of CSR is perceived as a passive element, while activism due to a higher-order *purpose* is a call for concrete action. Thus, the motivation of entrepreneurs and corporate leaders who claim to steer *purpose*-driven businesses perceive CSR as important but as a passive, mainly reporting and stewardship mechanisms (Mackey, 2011). They rely on a different concept to provide positive change in the face of societal challenges: *purpose*.

#### A Definition of *Purpose* in Business

The research findings further allow to define the constitutional elements of the concept of *purpose*; these are interlinked and interwoven into a strategic triangle (figure 1). All elements are equally important and form the constitutional foundation of the business model. *Pur-*

*pose* at the core of the triangle leads the managers to seek a balance between the needs and demands of all stakeholders needs. This means that profit is proactively pursued, but in balance with a contribution to society (people) and the environment (planet) at large. Thus, the business model is not limited to financial profit, but intends to provide profit for society at large and the environment as well (see figure 1). The theory thus adapts the concept of people, planet and profit pursued by the B Corp initiative (Giddens, 2018) and proposes a model that provides a fundamental definition of the constituting elements of *purpose*.

As one manager participating in the study framed it: “What we refer to as *purpose* can only be at the intersection of people, planet and profit [...], it could not be any other way. We would not be able to ignore our employees’ needs regarding family time and at the same time communicate to our customers that our brand cares deeply about their parenthood. Or how would a large [environmental] footprint fit our leading brand that claims to care for the generations to come? It wouldn’t. And yes, [...], we need to make a profit, to invest in the future and also to ensure access to capital for future investments. But again, it’s the balance which everybody buys into. [...] But most important, it [*purpose*] is activating. It is at the centre of our daily activities and actions.”

#### Purpose and the Normative Framework of the Firm

This concept of *purpose* is adjunct to established elements in normative strategy frameworks, i.e. corporate vision, mission and values & principles. However, there are ambiguities and misinterpretations regarding the role of each concept. The study presented here explored the various elements and their components,

#### Main Propositions

1. Corporate purpose is the fourth element in the normative strategy framework of the firm, next to vision, mission, values & principles.
2. Brand purpose results from the transference of corporate purpose to the brand identity.
3. The concept of purpose in business is not identical with corporate social responsibility, but a paradigm to use business as a force for the common good.
4. The management’s personal belief system (purpose) translates into corporate activism.
5. The generative mechanism of corporate activism seeks to pro-actively and positively impact societal challenges through the business operations.

coming to the conclusion that *purpose* is a fourth, additional element in the normative strategy of the firm.

Vision is about providing a clear image of the future state the organisation tries to achieve, while the mission defines the strategic choices made by the organisation to achieve their vision. Values and principles accompany those choices and guide and steer ethical norms, behaviour and collaboration among all internal and external stakeholders. *Purpose* adds to this and provides, as the fourth element, the *raison d'être* for the organisation. This “reason for being” is not limited to taking a stance against something, but, as explored above, is profoundly based on the intended improvement the company wants to make, by impacting positively on people, planet and profit alike. These elements are summarised in figure 2.

Importantly, *purpose* is fundamentally related to the entrepreneurs’ and manager’s activism; it describes the intended change and positive impact they want to make by doing business. Thus, Patagonia claims to have one of the most efficient value chains and procurement processes of the textile and sports gear industry, according to their motto: “We’re in business to save our home planet”. They argue that this statement is a strong obligation to on-goingly review and adapt their value

chains and find new solutions where others in the industry have failed. This also leads to an increased profit potential, as it enables the organisation’s managers to make more efficient sourcing and procurement decisions than their competitors (Rogers, 2018).

### The *Purpose*-Driven Brand

The research findings also provide new clarity in the controversial discussion among scholars and practitioners regarding the definition of *purpose* in relation to brands and brand strategy.

First, to be *purpose*-driven, a brand necessarily requires an underlying *purpose*-driven business model. This relation between brand and business model seems obvious, but at least in practice it isn’t. Rather, this relationship is often neglected, leading to the term woke-washing; what green-washing is to CSR, woke-washing is to *purpose* (Watson, 2019). Thus, the constitution of the *purpose*-driven brand is dependent on the foundational constitution of the *purpose*-driven business model which, as explained above, aims at positively and equally impacting people, planet and profit. This also explains why *purpose* cannot be sufficiently explained as taking a stance or providing meaning; rather, *purpose* has to be hard-wired into an all-encompassing,

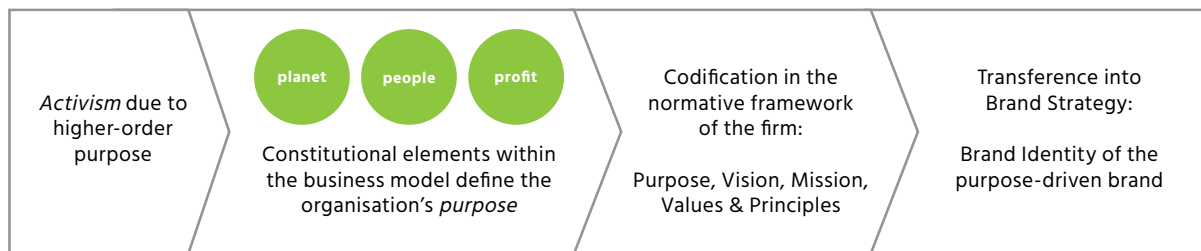
### Lessons Learned

1. Purpose is not some lofty concept or philosophically laden stance. Purpose is hardwired into business modelling and management. It encapsulates a corporation’s activism.
2. Running a purpose-driven organisation is an obligation with certain limitations; it is not for everybody, but for those who seek to change society pro-actively, it can become foundational.
3. It is essential to first define the firm’s normative framework with all four elements – vision, mission, values & principles, purpose. These elements are not interchangeable, as each element fulfils a necessary and specific role in the framework.
4. Purpose as part of the brand strategy must be grounded in an overall corporate purpose, which is centred at the core of the business model. Otherwise it becomes woke-washing and will backfire.

**Fig. 2: The Normative Framework of the Organisation**

Element	Objective	Role in normative framework
Purpose	Defines the contribution the organisation is making to society at large, environment and its stakeholders overall	Explains <i>why</i> the organisation exists
Vision	Defines the intended future conditions the organisation wants to see in the world	Explains <i>where</i> the organisation is headed
Mission	Develops the strategic choices made by the organisation to fulfil its purpose and achieve its vision	Explains <i>what</i> needs to be done
Values & Principles	Describes behaviours and ethical norms the organisation plays by (beyond legal obligations)	Explains <i>how</i> the organisation and its members act

Source: Own Illustration.

**Fig. 3: The Process of Constituting the Purpose-Driven Brand**

Source: Own Illustration.

stakeholder-oriented management paradigm. And it is this paradigm which ultimately allows truly *purpose*-driven brands to appeal to all stakeholders of the firm, especially their customers.

Therefore, the *purpose*-driven brand is nothing more, but also nothing less, than the usual transference of a business model into a brand identity and its positioning through the marketing-mix. But in the case of a *purpose*-driven brand the underlying business model must be serving an inclusive stakeholder model (as explained above) characterised by activism due to higher-order *purpose*.

### Theory of *Purpose* in Business and Brand Management

To summarise, the process of delivering a *purpose*-driven brand is based on the condition of defining the *purpose* of the business model. This *purpose*, overall, is positioned next to the vision, mission, values and principles of the organisation and resides within an integrative, normative, strategic framework of the firm which guides the organisation's actions and activities. These activities are related back to the management's, or the entrepreneur's, quest for proactive change and a positive impact on societal challenges at large. This motivation can be referred to as activism

due to higher-order *purpose*. Importantly, this proposition is a necessity for the *purpose*-driven brand, as otherwise any brand execution through the marketing mix would be flawed and might create harm to the brand and, consequently, the business itself.

### **Purpose, Brands and Customers: An Inclusive Paradigm for the Future of Business**

With the concept of *purpose* established, its implications for brand management can now be further elaborated.

As discussed earlier, esteem as a prerequisite of belonging is a significant element in (voluntary) relationships of people. As we know, people also form significant relationships with brands, even in forms comparable to those they form with people (Aaker & Fournier, 1995; Fournier, 1991, 1998). Today, the need for relating with consumer brands may even be enhanced; in many secular societies, esteem is not delivered through institutions any more. Rather, people increasingly seek meaning and sense-making in the relations they form with brands – and through the brand's *purpose* (Meynhardt, 2020). Therefore, *purpose* is not just a noble concept that the firm purports, it is also significant in forming lasting, enhanced brand–consumer rela-

tionships. There is increasing evidence that brands which convey a clear *purpose* are favoured in consumer's consumption and decision making processes (e.g. Keller, 2015; Marx & Garrido, 2019). Research also indicates increased repurchase rates for *purpose*-driven brands as compared to non-*purpose*-driven brands (e.g. Barton, Ishikawa, Quiring, & Theofilou, 2018; Hochman & Maynor, 2012). These effects are increasingly becoming clear to practitioners, and corporate giants such as Unilever therefore keep pushing their brand positionings to a more inclusive management paradigm where brands become institutionalised, metaphysical objects which represent a new approach to business management and the underlying business model (Unilever, 2019; Weed, 2017).


*Purpose* has sometimes been short-sightedly described as a meaning-based element in branding and therefore has been neglected by managers as just another cost factor without lasting contribution to the business. However, this perspective falls short of an encompassing definition of what *purpose* actually is. *Purpose*, when solidly based on an all-stakeholder-oriented business model, i.e. a business model whose contribution is not limited to delivering profit to its shareholders, is fundamental for building and managing brands; more



precisely, the brands' relations with their customers. People are indeed searching for meaning, but they do not limit their efforts to searching, they also want to relate with brands in a more profound and meaningful way.

In conclusion, *purpose* is indeed a noble form of business and brand management, yet its constitution is not limited to meaning and sense-making. Rather, *purpose*-driven brands hard-

wire the founder's or the management's activism into the business model in order to drive positive change among all stakeholders, explicitly including the environment and society at large. In contrast to CSR, *purpose* is foundationally dependent on this generative mechanism of practical activism. The brands that represent such businesses may be categorised as *purpose*-driven brands. Yet this categorisation is founda-

tionally dependent on the underlying business model and must be coherently managed within the framework of the business activities and initiatives of the firm. Only then will the concept of *purpose* be enduring, and companies that apply such an idealistic approach to an inclusive management paradigm may be rewarded with higher returns, through profound and lasting brand-consumer relationships. 

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