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Head: How Strategic Alignment Reconciles Purpose and Profitability

Deck: Sustainable performance requires a company purpose that is validated in the market.

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Article body:

For many leadership teams and boards, discussions about their corporate purpose are mired in conflict. All too often they position purpose and profit in opposition to each other — and in doing so, sideline purpose as an indispensable driver of strategic alignment and sustainable performance.

A corporation with no avowed purpose but to earn profits for shareholders is a hollow endeavor, with little to encourage the intrinsic motivation critical for employees to perform at their best, and no guiding star for formulating strategy. At the same time, highly idealistic statements of firm purpose that managers and employees perceive as disconnected from their day-to-day work likely function as little more than window-dressing.[1]

At an enterprise level, purpose and profitability are both vital components of a strategic alignment equation that defines a company's raison d'être, how it is striving to fulfil its purpose against the demands of the marketplace, and how it defines and measures success.

While profit is an important measure of a company performing its purpose well, it can never be the purpose itself. An enterprise's purpose is what it exists to do as an organization, and why it matters that it does it well. A well-understood and meaningful purpose should be a unifying force common to all within and without the enterprise. It helps employees intuitively understand why they matter in the larger context.[2] It provides the ultimate definition of strategic success, which should never be confused with how success is measured, including profitability.

Many executives struggle to articulate their company's purpose meaningfully, limiting their potential to create alignment within their enterprise. All other factors being equal, better-aligned businesses tend to perform better than poorly aligned peers.[3] In what follows, I'll outline an approach for how leaders can strategically align purpose and strategy to drive sustainable performance.

The Validating Role of Market Demand

No matter how well articulated, a firm's purpose is only as valuable as the degree to which it is valued externally by others, as evidenced by the demand for the enterprise's offerings in any exchange of value. Otherwise, the enterprise risks becoming self-regarding and unsustainable.

An effective business strategy within an aligned company is one that best supports the fulfilment of the enterprise's purpose in the context of short-, medium-, and long-term market demand.[4] The enterprise's purpose should provide a framework for all product and service choices: what to continue offering to the marketplace (because it supports the fulfilment of the enterprise's purpose and meets external demand), what to stop offering (either because it doesn't align with the purpose or there isn't sufficient demand), and what to start offering (as a new means of fulfilling the enduring enterprise purpose). The outcome of such conversations should be a readily defensible rationale for all enterprise product and service portfolio decisions based on their alignment with the enterprise purpose and external demand.

Consider ABM Industries, a global market leader in the building services sector, employing over 110,000 team members worldwide. Its enterprise purpose is "To care for the environments where people connect and create," which translates into a diversified yet disciplined portfolio of integrated facilities solutions, including engineering, technical and mechanical services, on-site energy generation and management, specialized manufacturing services, as well as more traditional janitorial, ancillary and support services offerings.

To ensure strategic alignment, the perennial strategy question for ABM's leaders is *how* best to care for the environments named in its purpose over the short, medium, and long term. Whether these spaces are in offices, airports, manufacturing plants, universities, warehouses, data centers, or stadiums, each represents a distinct market for ABM's services and each is continually evolving due to new technologies and changing customer preferences.

Purpose and Market Needs Shape Strategic Alignment

To help unpack these issues, consider a simple framework, where purposefulness and external demand form two dimensions for product and service selection. (See, "Where Purpose Meets Market Demand.") Is your business strategy and the products and services you offer to the marketplace guided by your enterprise's purpose or driven by external demand?

Ideally, in a strategically aligned enterprise, it should be both. If you are positioned in the top right quadrant, what the enterprise does matters to others, and it's done well. A strong sense of purpose provides a values-based, pervading logic for why you offer what you do as an enterprise, and it is valued externally by customers, investors, and other stakeholders.

However, if your clear sense of purpose, no matter how noble and well-intentioned, is not translating into an exchange of value with those outside your enterprise in the form of the products and services they consume, you are engaging in wishful thinking. It doesn't matter what you do as an enterprise if no one is buying it — there is limited potential for external impact. Like opportunistic companies, wishful-thinking companies are unsustainable in the long term.

Opportunistic companies are motivated by little but profit. They are highly prone to misalignment as they have no fundamental raison d'être guiding their strategic choices over the long term; rather, they reactively follow the money wherever it takes them. Many once highly successful diversified companies, such as GE, arguably strayed from their core and fell victim to conglomerate discount, the phenomenon in which a whole company is valued at less than the sum of its individual lines of business.

Finally, while some entrepreneurs may launch into the market hoping only to make a quick buck despite little evidence of real demand for their offerings, they don't last long due to their lack of purpose and inability to stimulate demand. They are essentially dead on arrival, and solving their problems is beyond the scope of this article.

Reflect on your enterprise: what is its purpose? What do you exist to do? Why is it important to execute this well? How well have you articulated it? How well do your market offerings align with your purpose, and how in demand are they? Are you strategically aligned, indulging in wishful thinking, or being opportunistic? If you are not strategically aligned, how can you strengthen your purpose, better align your strategy, or do both, if necessary?

Strengthening Your Sense of Purpose

The first step in strengthening the enterprise purpose is to initiate a leadership conversation that asks five fundamental questions:

1. What do we exist to do as an enterprise?
2. Who do we do it for?
3. Why does it matter that we do it well?
4. How do we define success?
5. How do we measure success?

Resist the temptation to outsource creative thinking to an external agency; instead, rely on internal talent, including the C-suite and one to two levels below. This approach ensures that all senior operational and functional leaders engage in the process.

Whenever I facilitate such leadership conversations, I strive to ensure they are disciplined and structured to avoid getting bogged down in the weeds — too many discussions about purpose become exercises in wordsmithing. What truly matters is critically reviewing the fundamental meaning and principles that underpin the company's reason for being. This requires maintaining a fifty-thousand-foot perspective, and in practice, the thin atmosphere of such abstract discussions can be challenging for results-oriented operational leaders. However, when conducted effectively, the outcome of this process is leadership consensus on the company's enduring purpose and identity; a purpose statement should reflect that consensus in an easy-to-understand and memorable format.

The British Army recently rearticulated its core purpose to bring clarity and focus to its societal impact and provide the logic for rethinking its organizational strategy. With a storied history spanning hundreds of years, the army has recently had to pivot from two decades of fighting an asymmetric war on terrorism to the new realities of rising global tensions and a war on European soil between near-peer adversaries (those with equal or similar military capabilities).

The rearticulated purpose of the British Army is, "To protect the United Kingdom by being ready to fight and win wars on land." Its brevity and simplicity make it easy for everyone to remember, including — and perhaps most importantly — those serving on the frontlines. In a few words, it addresses the five foundational questions above and lays the groundwork for strategizing by describing the army's role (i.e., *protecting* the United Kingdom) and domain (i.e., *land* as opposed to air, sea, or cyber), elevating *readiness* as the overriding strategic priority.[5]

It also defines what success looks like (i.e., *winning*), whether viewed from the highest political chamber of the land, army headquarters, or the battlefield. As with any organization, the challenge for army leaders in the conversation that ensues is to choose from multiple different options the strategy that best accomplishes the purpose in the current and future operating context.

Aligning Your Strategy to Your Purpose

Formulating an effective, aligned business strategy is impossible without a strong and shared sense of purpose. Equally, as already noted, without an aligned business strategy, a strong sense of purpose is merely an exercise in wishful thinking. The second critical strategic alignment conversation focuses on translating the purpose into practice — in other words, choosing how to fulfill the enduring enterprise purpose in a changing external environment.

While they are vital, strategic plans, scenarios, budgets, scorecards, KPIs (key performance indicators), OKRs (objectives and key results), and so on, are merely expressions of an enterprise's business strategy; they are not the strategy itself. A strategy is a series of key choices that support fulfilling the enterprise's purpose in the context of competitive threats and known or nascent market opportunities. These choices manifest as basic strategy principles and assumptions that inform downstream technical planning, prioritization, and, ultimately, the new operational reality if implemented well.

Strategic alignment does not occur naturally or by accident. It is a matter of choice. For each strategic decision area below, work through these simple but powerful questions with your team, keeping in mind both the current operating context and a five- to ten-year future horizon. Your answers determine how well your enterprise can perform its purpose and the scale of its potential for a positive impact on the customers and markets you deem important:

What: Which products, services, and activities should you offer to the marketplace to fulfill your enterprise purpose? These choices are at the heart of your value proposition, whether as a single line of business or a diverse portfolio. If your enterprise purpose is what you exist to do as a firm, then your products and services are how you go about doing it in the context of changing customer demand. What, ideally, should you continue, start, or stop offering using the criteria of (a) alignment to purpose and (b) what customers are willing to pay for?

Who: To whom ideally should you offer your chosen products and services to fulfill your enterprise purpose? Does your purpose require you to appeal to the mass market, or are you targeting a specific segment, such as eco-conscious consumers? Your choices determine whom you primarily seek to engage with in an exchange of value and the subsequent nature of that relationship. For instance, are you a business-to-consumer enterprise like McDonald's, engaged primarily in a short-term transactional relationship with customers? Or are you a business-to-business firm like McKinsey, perhaps partnering in a longer-term, more in-depth relationship with clients? Both are transactions but differ markedly in their potential impact and the scale at which they can be performed.

Where: Where ideally should you offer your chosen products and services to fulfill your enterprise purpose? Markets can be defined in many ways but typically focus on geography or industry. For example, the choice of which geographical markets to compete in for market share may be local, national, regional, or international.[6] The British Army's primary constituency is national (i.e., the United Kingdom), but its operations may be international in the pursuit of its purpose. Like the choice of customer segment, related market choices

profoundly shape the potential scale of enterprise impact in line with purpose-related aspirations.

How: To fulfill your enterprise purpose, how can you best respond to customers' preferences? What are they demanding of the products and services they consume? Is it affordability? One-stop-shop bundling? Personalization? Each requires a different organizational capability to be implemented effectively, and superiority should always be the goal in a competitive environment.[7] The risk of not being distinctively good is that your products and services may become commoditized over time and trapped in a price race to the bottom of the market with equally undifferentiated competitors. If you can't supply what customers want in the way they want it (whether they know it or not), your potential for impact will be limited, and your enterprise purpose will go unfulfilled.

There are no right or wrong answers to the questions listed above — each is an informed gamble. They are also interrelated; addressing one without the others will not provide coherent strategic direction to staff or the market. Answers should be homegrown, not imported; companies should not seek to emulate the choices of others based on the reasoning, "Well, if it worked for them, it will work for us." Doing so can only result in vanilla outcomes at best. Instead, the enterprise purpose provides the ultimate motive for prioritizing options and making discriminating choices that suit each company's unique circumstances. Equally, the process described above is not a one-time deal; your answers to these questions will likely need to change frequently, as often as necessary, to keep up with the evolving external business environment. The result should be a purpose-aligned strategy responsive to external opportunities and threats and clear in its intent.

For example, a strong sense of social purpose has driven the Development Bank of Japan (DBJ) since its founding immediately after the Second World War to facilitate Japan's reconstruction by financing nationally significant economic and social projects. Today, however, as a wholly owned subsidiary of the Japanese Ministry of Finance, DBJ must also be profitable. Historically, DBJ has fulfilled its purpose of "Designing the future through financial expertise" (roughly translated) through structured loans to key industries where private sector financial institutions might not venture. Its strategy for development activity is highly diverse, encompassing aviation, utilities, transportation, agriculture, energy, tourism, and more.

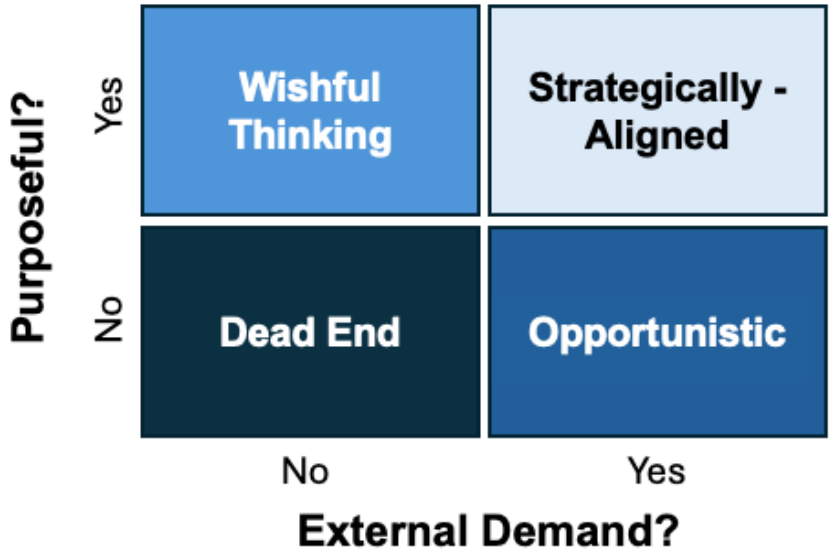
Following the 2008 global financial crisis, DBJ diversified its offerings to include investment management, asset management, and financial advisory services. It also expanded its market, establishing offices in London, New York, Singapore, and Beijing. To address the nation's most significant long-term economic and social development programs through highly targeted and complex investments — capabilities that make it distinctive and differentiated — DBJ is constantly aligning and realigning its strategy, but always to serve its enduring enterprise purpose in the context of external demand/need.

Fit for Purpose

A lack of clarity regarding their purpose often drives companies toward opportunism as they attempt to meet performance demands in any way possible. Conversely, insufficient market awareness or customer feedback can easily lead to unrealistic product and service strategies. In a strategically aligned company, the enterprise purpose — the definition of success — and profit — a measure of that success — should naturally complement each other in a closely aligned value chain that offers guidance and clarity to all.

(end)

Figure title: Where Purpose Meets Market Demand
Caption: When the firm executes on a clear enterprise purpose that is relevant to external demands, performance follows: what the company seeks to do well, matters to others.



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