



PUT PURPOSE AT THE CORE OF STRATEGY

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Competition for new growth and opportunity is fierce and relentless. In this fight, business leaders are often left puzzled as to why their strategies, the result of arduous planning and painstaking research, struggle to beat expectations and differentiate their company in the marketplace.

Most corporate strategy today suffers from three faults. It is too internally focused – we are obsessed with how we operate on a day-to-day basis. It is incremental – let's take last year's results and see if we can improve on that by 2-3% next year. And, finally, it is reactive – when we see a problem or an opportunity, we react with knee-jerk initiatives. It is easy to see why this approach leads to unfulfilled visions, sluggish performance and uninspired teams.

How can companies become more focused on the outside world and its opportunities? How can we take big leaps rather than small steps? How do we become proactive and ready to lead our industries?

Our research has found that the answer is - Purpose.

Putting purpose at the core of corporate strategy is a critical driver of growth, profitability and organizational relevance. To achieve this, purpose must play two distinct roles to: (1) redefine the playing field – beyond traditional boundaries to grow and transform the ecosystem, and (2) redesign the value proposition – beyond transactions to foster deep and wide customer relationships that endure.

Redefining the playing field enables companies to avoid market share battles and pursue growth with the logic, “we grow by growing the ecosystem.”

Consider the case of US-based Mars Petcare. Its purpose of creating “A Better World for Pets” provided impetus for it to extend its ecosystem from pet food to pet health and pet care. It invested in systematic acquisitions of several veterinary hospital chains in the US to become the largest American veterinary operator. Significant synergies soon emerged between the food and pet health businesses. The company now seeks to grow by enabling wider pet ownership, making it a seamless, convenient and fun experience. All these moves have contributed to Mars Petcare becoming Mars Inc.'s largest as well as fastest-growing business segment.

Reshaping the value proposition – the second role of purpose – requires building compelling relationships, which complements the strategy of growing the ecosystem. Purpose driven organizations re-evaluate their value proposition and keep evolving it to remain relevant as customers' expectations change in line with industry trends or as different explicit and implicit needs emerge.

India's Mahindra Finance, which provides vehicle finance for tractors and utility vehicles to rural customers, leveraged its purpose of “RISE” to repeatedly broaden its value proposition. It mapped customers' pain points across their lifetime and launched new value propositions such as insurance broking services (for vehicles, life and health), housing finance, SME finance and asset management. Notwithstanding the many challenges of serving the rural market, the company not only strengthened its customer relationships but also secured new revenue streams and profits, to become India's largest rural non-banking financial company catering to over 50 percent of the market and 6 million customers.

Our take on the role of purpose counters the typical perspective of most organizations and managers, i.e. purpose is peripheral to strategy used only to drive corporate social

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responsibility, philanthropy and sustainability initiatives or purpose is just one component of the total strategy where it is used to create shared value and inclusive growth.

We argue that the role of purpose must shift from the periphery to the core of strategy. Articulating a compelling purpose and following it through with leadership commitment and financial investment, can be used to shape a sustainable profitable growth strategy. Beyond that, purpose becomes an exceptionally powerful tool that brings three specific benefits – it unifies the organization, motivates stakeholders and creates wide ranging impact.

You must ask why does your company exist? What is its impact on society? Why should people want to work for you? In today's world, the answers to these questions cannot just be money. Companies must recognize they have a bigger role to play, and that they can transform the world around them.

Read more about IMD's research into unlocking corporate purpose published in the latest HBR edition [here](#).

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