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The purpose premium

Why a purpose-driven strategy is good
for business

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Introduction

Although substantial evidence demonstrates the business value of purpose, many **skeptics still believe there is an inherent trade-off between purpose and profit; values and value.**

We disagree, and there is significant data to back up our position. **An integrated purpose strategy focused on the differentiated role a company serves in society is good business strategy that drives sustainable, long-term value.** In fact, purpose strategy is increasingly a business imperative to manage enterprise risk; build trust with customers, investors, and other stakeholders; and develop new markets. Backed by strategic investment in the core of the business, including in the systems that enable the company to consistently deliver on its purpose, it can also be a source of competitive advantage.

Companies across all industries are beginning to recognize this and are making **strong purpose-driven commitments and strategic shifts** to differentiate themselves in the market. Take MasterCard, which pledged to bring 1 billion people into the digital economy by 2025,¹ or Goldman Sachs, which aims to deploy \$750 billion of sustainable finance by 2030.² We are also seeing companies change

their production (General Motors announcing its Zero Crashes, Zero Emissions, and Zero Congestion plan)³ and talent models (Intel committing to have 40% of technical positions filled by women by 2030).⁴

There is significant evidence that purpose drives business value in several ways. Previously, Deloitte published a report describing six drivers of value,⁵ showing how companies can use these drivers to develop a scorecard to inform strategic decisions⁶ and outlining the steps companies can take to integrate purpose into core business strategy.⁷ We now see evidence of a “purpose premium,” indicating that more purpose-driven companies **outperform their peers.**

This paper provides a summary of the most recent evidence supporting **the strong connection between purpose and business value, as well as an overview of the various methodologies currently used to measure it.** It ends with a **call to action for those seeking to advance purpose** in business, recommending that these stakeholders work to develop and adopt a consistent methodology to rank and analyze companies’ comparative financial performance tied to purpose.



Key findings:

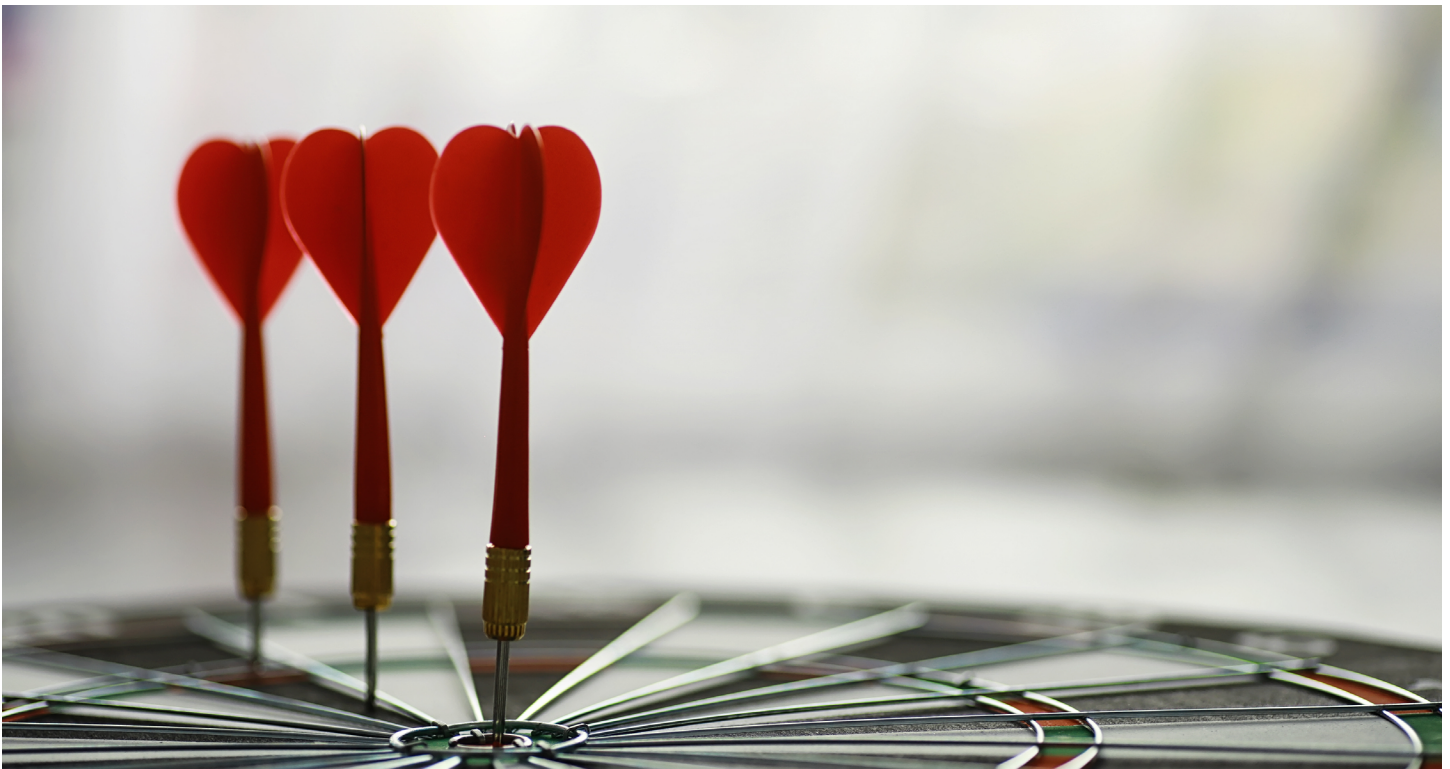
- An integrated purpose strategy focused on the differentiated role a company serves in society is good business strategy that drives sustainable, long-term value
- Our market scan provided evidence of a “purpose premium,” indicating that more purpose-driven companies outperform their peers across six key drivers
- Now more than ever, relevant stakeholders must come together to develop and adopt a consistent methodology to rank and analyze companies’ comparative financial performance tied to purpose

What is purpose?

A company's purpose is the ***differentiated role it serves in society*** connected to long-term value, including the ***differentiated needs it addresses for all its stakeholders*** (shareholders, customers, employees, suppliers, environment, and communities) and the consistency with which it delivers on these needs through management systems, processes, and behaviors.⁸

Purpose is more than a company's CSR initiatives, or social and environmental investments, or a desire to do good in the world; it is more than a PR tactic or traditional cause marketing campaign pursued simply to mitigate risk or protect a company's reputation. Purpose is not separate from business strategy; rather, it is directly tied to economic performance, competitive advantage, and long-term value creation.

The concept of purpose in business is not new. Nonetheless, **the purpose imperative has never been stronger**. Companies are facing unprecedented market forces they cannot ignore, from the ongoing crises and repercussions associated with COVID-19, to the groundswell of activity to advance social justice, to the imperative to address the root causes of climate change, to accelerated expectations from government and investors around environmental, social, and governance (ESG) issues. **This reality requires companies to define their purpose and ensure that their activities and internal processes are consistent with their stated positions and values; otherwise, companies risk getting left behind.**



How does purpose drive value?

In previous research, Deloitte identified six key drivers of corporate value creation when companies integrate purpose into core business strategy: brand and reputation; sales and innovation; capital access; operational efficiency; talent; and risk mitigation.⁹

A company can develop a scorecard based on these drivers of value creation to measure the business value, both qualitative and quantitative, of its purpose-related efforts and set goals to guide strategic choices and resource allocation. Each company's scorecard will vary depending on its industry, business model, and strategic priorities. For instance, a large technology company might emphasize sales and innovation targets tied to initiatives that drive trust through data privacy, content mediation, and ethical application

of technology. Alternatively, a large retailer might emphasize operational efficiency targets tied to initiatives that reduce carbon footprint, waste, and cost throughout its supply chain.

Our recent market scan confirmed and further legitimized the position that a holistic purpose approach can improve business and financial performance (see Appendix for more examples of how companies drive value when they integrate purpose into core business strategy). Moreover, our market scan provided evidence that having a “purpose” is not enough for value maximization. **Corporations must think holistically about all the ways in which purpose can create value, prioritize, and drive the right dimensions across all relevant stakeholder groups.**



An integrated purpose strategy—one that’s focused on the differentiated role a company serves in society—can provide organizations with a “purpose premium,” driving long-term value and creating competitive advantage. Here’s what companies with a clear and consistent purpose can achieve:

BRAND AND REPUTATION

Greater recognition

78% of consumers were **more likely to remember** companies that exhibit a strong purpose¹⁰



Stronger protection

Brands with strong purpose were **6x more likely to be protected** in the face of negative publicity¹¹



SALES AND INNOVATION

Entry into new markets

53% of surveyed CXOs reported **new revenue streams** from socially conscious offerings¹²



Top dollar for goods and services

Sustainability-marketed products, compared with conventionally marketed products, saw a

39.5% price premium¹³



CAPITAL ACCESS AND MARKET VALUATION

Faster growth

High-purpose brands could double their market value

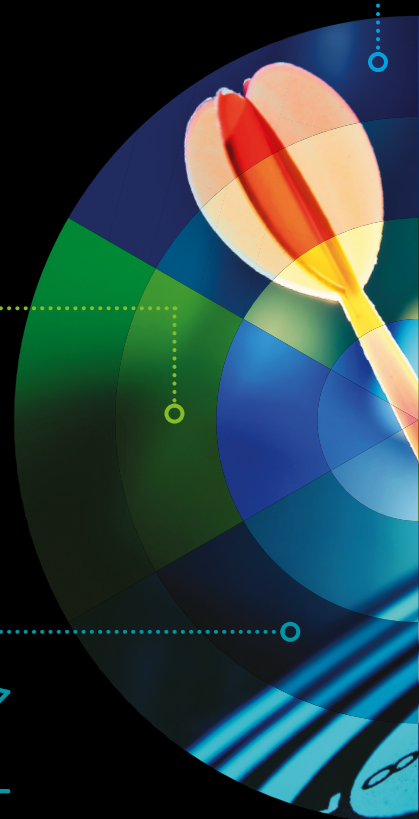
4x faster¹⁴



Higher returns

Companies that met stakeholder expectations achieved a

6.4% higher return on equity¹⁵





Now more than ever, companies are beginning to embrace purpose in a way that delivers long-term value for the company, its shareholders, and society. Explore more evidence on the value a purpose strategy can bring—and what it can mean for your business.

Where should we go next?

Now more than ever, there is momentum across all key stakeholders to embrace purpose and to do so in a way that delivers long-term value both for the company, its shareholders, and society. This paper provides **unequivocal evidence** that when companies integrate purpose with their core business strategy, they can drive value, including value relative to their peers. **The time to act is now.**

Our market study **provides evidence that purpose-driven companies outperform their peers.** However, while we believe there is **already sufficient data for companies to confidently invest** in defining and consistently acting on their purpose, **we also believe a common definition, a shared understanding of the data required** to measure how purpose-driven a company is, and **a standardized methodology** to tie purpose to financial analysis are needed.

A standardized methodology to demonstrate the purpose premium will provide companies with valuable insights to accelerate their efforts toward a differentiated purpose strategy.²² There is an opportunity to combine the best of the current approaches to measure the relative value of purpose-related efforts.

Creating a future that truly enables purpose will require efforts across multiple stakeholder groups: executives, sustainability and ESG leaders, and academics and researchers.



Understanding the purpose premium: Next steps for leaders

CEO	Purpose, sustainability, and ESG corporate CXOs and leaders	Academics and researchers
<ul style="list-style-type: none"> • Strategy: As a core part of company and business unit strategy development and execution, focus on defining the company's purpose, determining the value it delivers for stakeholders and the systems, processes, and incentives required to consistently deliver. • Management data: Mandate an approach, like the corporate purpose scorecard, to develop the business case and manage toward the business results for purpose. • External reporting: Support investment in standards-based ESG reporting to demonstrate commitment that the company is proactively managing societal risk and delivering value. • Talent: Consider creating a C-suite position focused on integrating purpose into strategy and operations. 	<ul style="list-style-type: none"> • C-suite alliances: Harness data sources and approaches from across the C-suite to demonstrate the business case for purpose. • Information from data: Expand access to and use of purpose and sustainability data to inform management decisions and mitigate information blind spots and business vulnerabilities.²³ • Public commitments: Demonstrate how purpose, sustainability, and ESG can deliver on prior commitments to your stakeholders. • External leadership: Look for ways to take external leadership roles to advance standards-based initiatives to advance the measurement of purpose, such as the World Economic Forum ESG for Long-Term Resilience initiative.²⁴ • Beyond the four walls: Push thinking within your company to incorporate systems-level approaches and thinking, including industrywide and value chain collaborations that will be needed to solve the most challenging problems. 	<ul style="list-style-type: none"> • Comparable metrics: A number of gaps exist in creating a standardized purpose premium methodology and metric to compare across and within industries (see Appendix for our research methodology). Help to address and harness expertise and data to help answer these unanswered questions and help accelerate commitments to creating standardized frameworks (e.g., the recent commitment by top sustainability and integrated reporting organizations to develop a comprehensive corporate reporting system).²⁵ • Tools for consumers: Develop easily understood frameworks based on a standardized methodology to help consumers make decisions aligned to their values.²⁶ • Collaboration with Deloitte: Collaborate with Deloitte to accelerate efforts to standardize measurement of the purpose premium. We are actively seeking innovative research alliances.

Understanding the purpose premium across industries and within peer groups, as well as across geographies and other contexts, **can help us test the extent to which a well-executed purpose strategy drives overall enterprise value relative to competitors and can benefit all stakeholders in the process.**

Appendix A. Value drivers evidence



Brand and reputation

Brand reputation:

- More than two-thirds (70%) of consumers want to be **“in the know”** when it comes to understanding how the brands they use approach social and environmental issues²⁷
- **66% of survey respondents** are likely to consider a company's purpose when making purchasing decisions²⁸
- Consumers are **more likely (78%) to remember** companies that exhibit a strong purpose²⁹
- Brands with strong purpose are **6x more likely to be protected** in the face of negative publicity³⁰
- 76% of consumers are **more likely to trust** a purpose-driven company, while 72% are more likely to be loyal to it³¹
- 72% of consumers are **willing to forgive** purpose-driven companies that make a misstep, and 70% are willing to defend them³²
- Brands with strong purpose exhibit **greater trust and brand loyalty**, as consumers are 4.1x more likely to trust the company and 4.5x more likely to recommend it to family and friends³³

Brand accountability:

- 80% of surveyed consumers representing all generations agree that companies and brands are **essential to addressing the current challenges** facing humanity³⁴
- 86% of Americans expect CEOs to **publicly speak** out on societal issues³⁵
- 68% of Americans believe CEOs should **step in when the government fails** to fix societal problems³⁶
- 65% of Americans believe that, in addition to the board of directors and stockholders, CEOs should also **hold themselves accountable to the public**³⁷
- **41% of a company's reputation score** is determined by corporate responsibility pillars (governance, workplace, citizenship)³⁸





Sales and innovation

Revenue opportunities:

- Nearly three in four (73%) surveyed CXOs reported transforming their products or services in the past year to create positive societal impact; 53% report having successfully **generated new revenue streams from these socially conscious offerings**³⁹
- On average, the **potential business value of climate-related opportunities (\$2.1 trillion) is almost seven times** the cost of realizing them (\$311 billion). Through potential new sustainable products and services, companies in the financial sector can benefit most (\$1.2 trillion), followed by manufacturing (\$338 billion), services (\$149 billion), fossil fuels (\$141 billion), and the food, beverage, and agriculture industries (\$106 billion)⁴⁰
- Business opportunities from the implementation of the United Nations' SDGs in four key areas (food and agriculture, cities, energy and materials, and health and well-being) could **represent 10% of forecasted global output in 2030**—more than \$12 trillion a year, at a cost of around \$4 trillion a year—and can potentially create almost 380 million jobs by 2030⁴¹

- Sustainability-marketed products represented 54.7% of the CPG market growth from 2015 to 2019, despite accounting for only 16.1% of the CPG market, and **grew 7.1x faster** than conventionally marketed products⁴²

Price premium:

- 56% of Americans **would pay a premium** for sustainable products⁴³
- When consumers perceive a brand having a strong purpose, they are **four times more likely** to purchase from the company⁴⁴
- Compared with conventionally marketed products, sustainability-marketed ones witnessed a **39.5% price premium** in 2018, a 5.3-point increase from 2014⁴⁵
- **88% of Americans** say they would buy products from a purpose-driven company⁴⁶



Capital access and market valuation

ESG and sustainable asset growth:

- By 2025, US ESG-mandated assets have the potential to grow at **3x the speed** of non-ESG-mandated assets, to represent 50% of all professionally managed investments⁴⁷
- ESG assets are expected to **double** in the next five years among investors with \$25T in assets⁴⁸
- From 2018 to 2020, total US-domiciled sustainably managed assets (both institutional and retail) **increased from \$12 trillion to \$17.1 trillion, representing a growth of 42%**. This latest figure accounts for **33% of the \$51.4 trillion in total US assets now under professional management**⁴⁹
- From January through November 2020, global investments in sustainable assets by mutual fund and ETF investors were equal to **\$288 billion, a 96% increase over 2019**⁵⁰
- 65% of institutional investors believe that ESG will become a **standard** practice within the next five years⁵¹

- Almost eight in 10 asset managers surveyed globally (78%) **incorporate qualitative or quantitative ESG factor assessments** into their investment processes (representing a 5% increase compared with 2019)⁵²
- The percentage of global retail and institutional investors that apply ESG principles to at least 25% of their portfolios **increased from 48% in 2017 to 75% in 2019**⁵³

Market value:

- Out of 1,000 corporate studies published between 2015 and 2020, 58% showed a **positive relationship** between ESG and financial performance⁵⁴
- In industries such as chemicals, apparel, and construction materials, there is a significant correlation between **negative environmental impacts and lower stock market valuations**⁵⁵
- 82% of investors agree (35% "strongly agree") that ESG integration **will lead to equity outperformance** over the next three years, and 70% agree (17% strongly agree) in fixed income⁵⁶



Operational efficiency

- Among companies with product sustainability programs, nearly two-thirds (64%) achieved **lower logistics and supply chain costs**⁵⁷
- 88% of research shows that well-established ESG practices result in **better operational performance**⁵⁸
- The annual economic loss of plastic packaging represents **\$80–120 billion, or 95%** of its material value⁵⁹
- There is **more than \$10 billion of value in reuse** in at least 20% of plastic packaging⁶⁰
- A 10% increase in the connection of employees with the mission or purpose of their organization is associated with a **12.7% reduction in safety incidents, an 8.1% decrease in turnover, and a 4.4% increase in profitability**⁶¹



Talent

Employee productivity:

- 59% of survey respondents younger than 30 who work for companies with more than 1,000 employees feel **more motivated and loyal to employers** that are socially and environmentally responsible⁶²

Attraction and retention:

- A 2019 survey of 1,000 employees at large US companies found that nearly half of all respondents and three-quarters of millennial workers would **take a pay cut** to work at an environmentally responsible company, with more than 10% saying they would be willing to take as much as a \$5,000–10,000 cut⁶³

- Nine out of 10 people would **earn less money** to engage in more meaningful work⁶⁴

Employee preference:

- According to a recent study, **78%** of respondents indicated that they would prefer to work for a purpose-driven company⁶⁵



Risk mitigation

Environmental risk:

- Out of 1,694 companies that had a positive EBITDA in 2018, 252 (15%) of them would be **unprofitable** if accounting for the environmental damage they caused, while 543 (32%) of them would have their **EBITDA reduced** by 25% or more⁶⁶
- More than 200 of the biggest global companies report almost **\$1 trillion in climate risk**, much of which is likely to come into effect within the next five years⁶⁷
- A 2020 HBS study found that the median **environmental impact** as a percentage of an organization's sales and operating income is close to **2% and 20%, respectively**, with the values exceeding 10% and 100% in 11 of 67 industries evaluated⁶⁸

Customer sentiment:

- A negative trust-related event eroded companies' **market cap by 20% to 56%**, representing a combined loss in value of \$70 billion⁶⁹
- 30% of enterprise value is at risk from **consumer backlash or regulatory pushback**⁷⁰
- 88% of consumers say they would **boycott a brand** due to irresponsible business practices⁷¹
- Seven out of 10 consumers across generations are **more likely to boycott** companies that are seen as "irresponsible"⁷²
- Greater CSR is associated **with lower probabilities of being sued**⁷³

Appendix B. Research methodology

Our market study **provides evidence that purpose-driven companies outperform their peers**. However, while we believe there is **already sufficient data for companies to confidently invest** in defining and consistently acting on their purpose, **we also believe a common definition, a shared understanding of the data required** to measure how purpose-driven a company is, and **a standardized methodology** to tie purpose to financial analysis are needed.

Today, four approaches are commonly used to rank and compare the relative performance of more and less “purpose-driven” companies:

- 01. Perception:** Comparison based on survey data indicating stakeholder (e.g., employee or consumer) perception of the extent to which a company is purpose-driven;
- 02. Internal scorecard:** Rankings based on survey and ESG data that leverage a proprietary set of criteria to evaluate and rank companies;
- 03. Material ESG data:** Rankings based on ESG performance across categories that are most material to the specific company and defined by widely accepted standards like Sustainability Accounting Standards Board (SASB),⁷⁴ the Global Reporting Initiative (GRI),⁷⁵ and the Task force on Climate-Related Financial Disclosures (TCFD);⁷⁶ and
- 04. Hybrid metrics:** Comparison across peer companies based on specific combinations of linked social and financial metrics.

Moreover, all four approaches provide evidence that more purpose-driven companies **outperform their peers**. For instance:

- Companies with high-purpose brands had a nearly 20-percentage-point premium in annualized total shareholder returns compared to those with low-purpose brands. If this premium persists, this would imply that high-purpose brands could double their market value 4x faster than their low-purpose brand counterparts⁷⁷

- In 2019, the return of shares from Barron's 100 Most Sustainable Companies **was 34.3%, compared with the S&P 500 Index's 31.5%**⁷⁸
- According to an HBR paper, purpose-driven companies **achieved 5% to 7% higher returns than the market**⁷⁹
- Companies that scored in the top quintile in meeting stakeholder expectations achieved a return on equity **6.4 percentage points higher** than companies in the bottom 25%⁸⁰

However, none of these approaches fully encapsulate the four key components of a purpose-driven company identified in our [research](#):

- Focuses on the **most material** and relevant issues to the core business
- Actively manages and consistently delivers against **societal tensions** and potential downside **risk**
- Leans into **positive impact** generated by core business activities to generate business and social value
- Articulates a **differentiated** social value proposition linked to core business strategy

As a result, a **consistent methodology** to rank and analyze companies' comparative financial performance tied to purpose is needed to effectively **compare strategic investments** across industries and within peer groups, as well as across geographies and other contexts, to drive corporate value.

Summary of research findings: Four approaches to measure purpose

	Description	Data used	Advantages	Limitations	Examples
1	Perception	Employee or consumer survey data	<ul style="list-style-type: none"> Helps identify the extent to which purpose is embedded within a company according to one stakeholder group (employees or consumers) and the financial and operational benefits that can accrue (e.g., higher performance among employees that have strong beliefs in the meaning of their work experience) 	<ul style="list-style-type: none"> Potentially biased data Does not integrate other stakeholders' perceptions Does not indicate why, how, or extent to which company is purpose-driven 	HBS: "Corporate Purpose and Financial Performance" CEO Investor Forum at CECF: "The Return on Purpose: Before and During a Crisis"
2	Internal scorecard	Survey data and publicly available ESG data	<ul style="list-style-type: none"> Creates single score to measure "purpose" (or some equivalent), enabling easy comparison across companies Rankings often focus on the most material and relevant issues to the core business and identified stakeholder groups A few methodologies incorporate "degree of innovation" and "corporate integration"⁸¹ to help articulate the extent of a company's differentiated social value proposition linked to core business strategy 	<ul style="list-style-type: none"> Most rankings do not identify key value drivers Many rankings are industry-agnostic Lack of consistency in rankings 	JUST Capital List of the 100 Most Just Companies Fortunate Change The World's List Barron's "100 Most Sustainable Companies" Corporate Knights
3	Material ESG data	Publicly available ESG data	<ul style="list-style-type: none"> Many well-known data providers and ranking organizations; high degree of data available Shift in attention toward ESG issues that are most material to each industry (that is, toward issues that could have a greater impact on bottom line and respective stakeholder groups) 	<ul style="list-style-type: none"> ESG data is often aggregated, with equal weight given to each indicator regardless of industry, making it difficult to identify industry nuances and mechanisms by which a company achieved its ESG score Varying definitions of materiality Lack of consistency in ESG rankings Convergence of ESG factors in an industry over time 	SASB (and its Materiality Map) The Global Reporting Initiative
4	Hybrid metrics	Publicly available ESG data	<ul style="list-style-type: none"> Provides insight into how a company bolsters, sustains, and diminishes value across stakeholder groups and all forms of capital Hybrid metrics integrate social and environmental impact with common financial performance metrics, enabling easier peer comparison 	<ul style="list-style-type: none"> Does not indicate why, how, or extent to which company is purpose-driven Relatively new efforts that require additional support for scale and standardization 	Integrated Reporting Hybrid Metrics HBS Impact-weight Accounts Initiative (IWA) SAP cause-and-effect chains Center for Sustainable Business Return on Sustainability Investment (ROSI) Methodology

Nonetheless, these approaches individually have shown the relative value of purpose-related activities across industries and/or companies and **create a strong foundation from which to collectively build a standard approach to testing and proving the “purpose premium.”** Evaluating these methodologies, including an analysis of their strengths and weaknesses, can help the community of practice interested in enabling companies to pursue corporate purpose.

Several key themes emerge:

The value of incorporating both survey data and ESG data.

JUST Capital, an organization that has ranked companies on the Russell 1000 Index since 2015, provides one example. JUST polls a representative sample across five stakeholder groups of the American public to identify the issues that matter most to them, using qualitative focus groups and quantitative surveys. Through a combination of indicators and adjoining data points, JUST Capital ranks corporations based on a weighted average of scores across the five stakeholder groups. That said, high stakeholder scores do not necessarily indicate competitive advantage or strong integration of purpose with business strategy. For instance, does strong environmental performance indicate that a company is investing in areas that are strategically aligned with its business? Or in areas where it can drive meaningful (and differentiated) impact? **A better understanding of how a company’s purpose “rank” relates to its strategic and differentiated decisions can help improve these ranking methodologies.**

Limitations still exist with ESG data, but it is often the best we have. SASB and its signature Materiality Map help to eliminate industry-agnostic limitations and provide guidance into potential areas for strategic purpose-driven investments. However, there are differing definitions of materiality. SASB, for instance, defines materiality as “sustainability factors most likely to materially impact the financial condition or operating performance of companies in a given industry.”⁸² The GRI considers materiality from a slightly different lens: “(1) the significance of the organization’s economic, environmental, and social impacts ... and (2) their substantive influence on the assessments and decisions of stakeholders.”⁸³

In addition, purpose strategy does not require that a company treat all material ESG issues equally; business leaders should consider which material social and environmental issues they have the capabilities to affect meaningfully and where they are expected to lead. In fact, because many SASB operational factors are material and generic across an industry, industries often see improvements in these particular factors, leading to an industrywide convergence with no clear understanding of whether a company is taking a differentiated position on a material issue relative to its peers. **A more consistent definition of materiality and clearer articulation of how it relates to the concept of purpose and competitive advantage can help accelerate materiality analysis.** In fact, such efforts are already underway; leading standard-setters, including CDP, the Climate Disclosure Standards Board (CDSB), GRI, the International Integrated Reporting Council (IIRC), and SASB, have come together to commit to creating a corporate reporting system.⁸⁴

Hybrid metrics offer an avenue for companies to link purpose, strategic investments, and comparative advantage. Harvard Business School’s Impact-Weighted Accounts Initiative (IWAI) is one of the leaders in this domain. Take the hybrid metric of the ratio of EBITDA to carbon intensity. When comparing company peers, one could see which company is most efficiently shifting to renewable energy. Such a metric would provide insight into the differentiated competitive advantage accruing to one company over the other;⁸⁵ however, hybrid metrics are more effective at gauging the relative value of a particular initiative, as opposed to the relative value of a purpose portfolio in one company compared with its peers. Hybrid metrics are still relatively nascent; however, they open a potential avenue to showcase comparative advantages of purpose-driven initiatives. **The use of hybrid metrics to evaluate the purpose portfolio of a company, not just purpose initiatives, can help companies adjust their strategies accordingly to drive financial and purpose-driven value at a comparative advantage to their peers.**

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