



EYE ON THE NORTH STAR

Boards must tie all that they do back to the company's purpose.

By Kris Turner



Purpose is the driving force of any thriving organization. It mobilizes employees, clarifies long-term goals, enables transformational change and buttresses a sustainable and flexible organizational culture. According to EY's 2017 survey, *How Can Purpose Reveal a Path Through Disruption?*, 75 percent of global executives at **purposeful** companies said a human-centered, socially engaged conception of **purpose** that seeks to create value for a broad set of stakeholders drives short- and long-term value. The fact that change is accelerating in today's business landscape makes **purpose** even more imperative. Sixty-six percent of leaders said their company is taking steps to profoundly rethink their **purpose** as a result of the

current disruptive environment, according to the EY study.

Despite this, many board directors seem to be behind the curve. Only 50 percent of boards in European countries are clear or very clear on the connection among **purpose**, culture and long-term strategy, and have spent time ensuring they are well-aligned. That's according to *Board Leadership in Corporate Culture: European Report 2017*, produced by Board Agenda and Mazars in association with INSEAD.

It is a major misstep to tolerate misalignment. Boards ultimately are accountable for the organization's long-term vision and financial performance—both of which are undeniably stronger when tied to **purpose**. Board directors therefore must place **purpose** at the center of all they do.

PHOTO BY JONATAN PIE/UNSPLASH



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—Wolfgang M. Neumann, nonexecutive director, Rezidor Hotel Group

“Good boards keep the **purpose** of a company very much in focus,” says Wolfgang M. Neumann, nonexecutive director of the Rezidor Hotel Group and former Rezidor president and CEO, Brussels, Belgium. “Successful companies have the ‘why’ at the core of their strategy. It’s the board who signs off on the **purpose** and is the guardian of it.”

THE STEWARDS OF PURPOSE

Brazilian beauty brand Natura illustrates the power of a **purpose-driven** board.

The company aims to build a better world through a commitment to transparency, sustainability and well-being. That **purpose** is the driving force behind the company’s effort to become the first publicly traded B Corporation, its decision to source natural products from the Amazon and its use of

local trade to incentivize communities to protect the rain forest.

It also is the North Star for any major decisions being made by the company’s board of directors—such as the company’s purchase last year of cosmetics chain The Body Shop.

When The Body Shop opened more than 40 years ago, it set out to prove that businesses could be a force for good. The company built a global brand with an activist reputation by leading the charge for ethically sourced ingredients in the cosmetic industry and taking up causes such as banning animal testing in Europe. But as these standards became commonplace across the industry, The Body Shop lost its **purpose-driven** competitive edge. It stopped evolving. After beauty-giant L’Oreal purchased the company more than a decade ago, sales suffered and



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L'Oréal began looking for a buyer.

In October 2017, Natura's board of directors approved the purchase of The Body Shop for €1 billion. "On the first evaluation, we were a little skeptical," Natura co-founder and co-chairman of the board Guilherme Leal told Ethical Corporation. "Would we be able to manage a network of 3,000 stores?" But ultimately Natura could not resist the opportunity to drive its expansion into a global, multichannel brand by acquiring an organization so aligned to its **purpose**.

The feeling was mutual. The purchase would allow The Body Shop to return to its activist roots, says Christopher Davis, the company's international director of corporate responsibility and campaigns.

Natura's board members "are talking about shared **purpose**; they're talking about a shared vision and shared culture. The depth of the change we are going to experience here [with Natura] seems so right and so close to The Body Shop's DNA."

The acquisition brought under one corporate roof three brands committed to

sustainable and ethical business practices: Natura, The Body Shop and Aesop, an Australia-based skin care brand that Natura purchased in 2012. All three businesses aim to develop vegetable-based products, reject animal testing, use traceable and sustainably sourced ingredients and promote fair trade with suppliers.

To ensure these brands stay on track—in terms of both **purpose** and profit—Natura’s board has shaken up its management structure, adding an executive chairman of the board to its ranks. This person will be responsible for supporting the board’s implementation of Natura’s global vision and strategy while supervising the three brands.

MEASURING PURPOSE

A **purpose** cannot exist in a bubble, just floating above a company’s day-to-day operations. To ensure **purpose** permeates the organization’s actions, boards should evaluate its impact every year in annual reviews, Mr. Neumann says.

At seasoning company McCormick & Co. Inc., the board of directors embedded **purpose-led** performance as one of the five principles—along with passion to innovate and commitment to people—that make up the company’s strategic road map. McCormick’s **purpose** is to deliver industry-leading financial performance while “doing what’s right, with responsibility to the long-term vitality of people, communities and the planet we share.” To ensure that McCormick is delivering on that principle, the company published the *2017 Purpose-Led Performance Report*. It charts McCormick’s progress against specific goals such as diversifying the supply chain, reducing its packaging carbon footprint and increasing the number of employees who participate in voluntary health and well-being programs globally.

If the results of a **purpose** performance review are lacking, “boards have to ask why

it’s happening,” Mr. Neumann says. “Either the **purpose** is wrong, in which case you need to look in the mirror and redefine it, or management is not doing a great job in managing the company in line with the **purpose**. It can only be one of two things.”

That is a lesson Mr. Neumann learned well as CEO of Rezidor Hotel Group. At the time, the business’s stated **purpose** did not fully resonate throughout the organization—it was clear to management and the board but not to the company’s global workforce. That is a death knell, he says: If a **purpose** is not widely understood by employees, a company will not perform at its optimum level.

At Rezidor, Mr. Neumann and his management team engaged people at all levels of the organization in redefining the **purpose**. “The important thing from my experience is to involve people in this process,” he says. “When you have the opportunity to define the **purpose** and the identity of an organization, it is very important to make sure it’s not a top-down process so that everybody is on board.”

Mr. Neumann’s team then took the new **purpose** to the board for feedback and approval. “Boards and management teams should closely collaborate—utilize the experience and knowledge board members have,” he says.

Ultimately, the company changed its **purpose** to “every moment matters” and communicated that message across its workforce via a detailed communications campaign.

“Leadership has to spend a lot of time on communication to ensure that the key messages are well understood and resonate within the organization,” he says. “From my experience, it’s important to over-communicate so everybody fully understands and lives the **purpose**.” **IQ**



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