



Bonus Episode 3, Discovering Higher Purpose, December 14, 2021

Anjan Thakor: We're not talking about charity. We're not talking about doing foolish things that endanger the financial viability of the organization. We're talking about doing things that make business sense. The higher purpose ends up acting as the arbiter of every business decision that the firm makes. So it's like a lens through which you see all your business decisions. And if you are faced with a business decision that is inconsistent with the purpose, you avoid it.

Kurt Greenbaum: From Olin Business School at Washington University in St. Louis, I'm Kurt Greenbaum, and this is a bonus episode of On Principle. As regular listeners know, On Principle is dedicated to telling stories about the pivotal decisions business leaders make and what we can learn from them.

So while we're working on new episodes for Season 2, today we're taking another deeper dive into an interview from our first season. In this bonus episode, we're digging down into my conversation with a WashU Olin researcher who coauthored a book called *The Economics of Higher Purpose*.

Anjan Thakor: So my name is Anjan Thakor. I'm the John E. Simon Professor of Finance in the Olin School of Business. I'm also director of the PhD program and director of the Wells Fargo Advisors Center for Finance and Accounting Research.

Kurt Greenbaum: We last heard from Anjan in the sixth episode of our first season as he described how he and his research partner, Bob Quinn from the University of Michigan, worked with an Ohio-based food company to supercharge its business. Bob and Anjan worked with the company to identify its higher purpose and align the company's work with that purpose. But what does "higher purpose" mean in the context of a firm? Why does it matter? And how did this research come about in the first place?

We're going to get into those questions, but I needed to understand something else first. See, Anjan is a finance professor. His research typically centers on the asymmetric nature of information in an economic transaction. He looks at how that asymmetry affects contract negotiations, wage negotiations and all sorts of business transactions. That sounds like a long distance from something called higher purpose, but as Anjan described it, he increasingly came to understand that the way people behave in organizations has a lot of influence over a firm's finances and the way he needed to analyze them.

Anjan Thakor: I realized that a lot of the challenges that I was dealing with when I was doing consulting with firms—even if the challenges, even if the problems were

financial—a lot of the challenges had to do with behavior and how people behave within organizations, because that either validated or invalidated the assumptions I was using in my financial analysis. I realized back then many years ago that understanding how people behave within organizations and how they respond to different systems and understanding their incentives to behave in certain ways was absolutely critical to anything. Whether you're doing finance or strategy or leadership development, you have to understand those fundamental principles. So I began to take more of an interest in some of these other issues, just because I wanted to learn.

Kurt Greenbaum: And you and your former colleague at the University of Michigan, Robert Quinn?

Anjan Thakor: Yes.

Kurt Greenbaum: Tell me a little bit about the work you two have been doing together.

Anjan Thakor: Yes. Bob and I started actually working on things when I was at the University of Michigan, so he's one of the people I got involved in working with on—on these executive ed programs. And we had a lot of them. You know, we used to do a lot of executive education when I was there. But then we kind of lost touch, because a few years after I moved to WashU, Bob was called by the Mormon Church to serve on a mission in Australia. And I didn't really know too much about how that worked, but I learned a lot from Bob's experience, and that is, you've got to drop everything you're doing. You've got to go on leave for three years and you go off to Australia.

And then he returned from Australia, and there was an event here at the university where I was being awarded something. So I invited Bob to the event. And I said, "Bob, what did you do these three years?" And he said, "We built an organization of higher purpose from the ground up." And I looked at him, like, "What the heck are you talking about?" Because I had no idea what that meant? Right? And so then he began to explain what he did. And my first reaction was, you know, "None of this makes any sense to me as an economist. This is not how people are supposed to behave in organizations." But then I said, "You know, this is a special kind of work."

Kurt Greenbaum: Well, how are they supposed to behave?

Anjan Thakor: Well, people are supposed to behave in a self-interested, utility-maximizing manner. Right? So you give me a contract and I will—in exchange for that—the contract is, you know, to pay me certain wages and may be performance dependent. But if you say, "Look, if you sell this many widgets, you get this bonus," then I'll focus my energy on selling that many widgets, right? I'm not going to spend my time doing anything else.

So we all respond to incentives in organizations, and the incentives are, you know, primarily financial or promotion or more responsibility—those kinds of incentives that economists like me have studied. And, but this was a completely different ballgame, right? I mean, this is—there is no compensation, there's no promotion, there's nothing. People are doing it for a completely different reason. So I said, "Look, I can see why in a religious setting, right? This was a religious organization; you know, people are inspired by a higher calling. But you know, does this actually translate into organizations that are not religious—profit-maximizing organizations?" And he said, "I don't know." I said, "Well, then—then it's a good research question, right?" So yeah, that's what started the research collaboration with Bob to study higher purpose.

Kurt Greenbaum: Well, let's sort of skip to the end. What is the conclusion? Like, you and Bob Quinn wrote a book together, *The Economics of Higher Purpose*. What's the elevator pitch? What was the conclusion?

Anjan Thakor: So there are a number of important conclusions, so let me summarize two or three sort of high-level takeaways. One was that it's incredibly important for higher purpose to be authentic and by authentic, we mean that the leader of the organization not only believes in it and is genuine about it, but also has a deep passion for it, right? So it's both passion and fidelity to the truth. And I never understood until I went into this research how elusive that was. I thought it was just a given, right? But it's actually uncommon. And even for firms that—that say that they have a purpose, even for organization leaders who say they have a purpose, finding authentic higher purpose, where the leader feels passionately about the purpose and authentically believes in it—those instances are not, you know, as—as many as you might think, so they're less common than you might think. So that was one takeaway.

The other was that purpose is discovered. It's not invented. And so in most organizations, purpose lies within the DNA of the organization, but it's deep within, and it hasn't come to the surface. And it doesn't—it doesn't act as an arbiter of all the business decisions, so it hasn't made it into the conscious decision-making of the organization. OK?

And then the third one that really surprised me was that in many of these cases, the discovery of that authentic purpose occurred during a deep crisis—in many instances, what was an existential crisis. And that, you know, seemed very counterintuitive to me, because in many instances, the pursuit of this higher purpose required that at least in the short term, the firm had to sacrifice profits or revenue. And so you would think that during an existential crisis, the firm is least able to afford that investment, so to speak, in purpose. Right? And it's a lot easier to do it when you're doing well. And yet for a lot of organizations, the discovery occurred during a time of deep crisis, when it didn't look like they would be able to afford to do it. And so those were some of the key—key takeaways.

Kurt Greenbaum: I don't want to take it for granted that we know what you mean when you say "higher purpose." Can you talk about that?

Anjan Thakor: Yeah, sure. So by "purpose" or "higher purpose," we mean some kind of contribution goal that the organization has that transcends its usual business goals, like shareholder value or profit or revenue maximization. And yet it intersects with them. So all decisions are made at the intersection of business goals and this higher-purpose contribution goal. Right? And I'll give you some examples to illustrate this in just a minute. But because we are focused on the intersection of the two, we're still making—we're still talking about making decisions that make business sense, right? We're not talking about charity. We're not talking about doing foolish things that endanger the financial viability of the organization. We're talking about doing things that make business sense and yet serve this higher contribution goal that the firm has. OK.

Now what do I mean by the intersection of the two? So I'll give you a few examples. You know, there's a company called 4Ocean. OK? Number four, Ocean. And it was started by a couple of surfers who basically went surfing one day somewhere in Asia and came back and found the entire beach littered with plastic waste—like garbage that the tide had brought in. And they were appalled. So they talked to the local authorities and they said, "Yeah, there's no point in cleaning this up, because every time we clean it up and the tide comes back, it just brings more plastic garbage from the ocean."

So these people, you know, they hired some people [to] clean the beach up, but then they said, "We need to find a more permanent solution to this." So they created a company. And the higher purpose of the company is, you know, "Let's end the ocean plastic crisis, one ocean at a time," or something like that. And so their entire business model is basically built around paying local fishermen to go out into the ocean. They go from beach to beach all over the world. And you know how companies pay fishermen to go out and get fish and then buy the fish by the pound? These people buy plastic garbage by the pound. OK? Then they take that as raw material and make products with it, and then they sell those products.

Now obviously, a lot of their customers also believe in this environmental cause, this higher purpose. And so they're willing to pay premium prices. The product's not cheap. They don't give them away. They're not running a charity. They're not an NGO. They're not being supported by any government. They're a self-sustaining, financially viable organization that is cleaning up the oceans. And they've already cleaned millions of tons of plastic garbage from the ocean. So that's one example, right?

Kurt Greenbaum: What I think I'm still struggling a little bit with is—What, what is the difference between this and a mission statement, or a vision statement

Anjan Thakor: Vision is this big, hairy, audacious goal which says, “This is where someday we want to be.” So it creates this inspiring picture or vision of where the organization could be someday. So it’s, you know, it’s like, it answers the question, “Where are we going as an organization?” Right? You know, what does that destination look like? Even though we may never actually get there, but we’re traveling to it, right? So an example would be Microsoft saying that its vision is a computer on every desk everywhere in the world, right? Not to be taken literally, but it does inspire you if you’re in Microsoft: “Oh, yeah, really, that’s—that’s really cool. Every person on the planet will have a computer on their desk with Microsoft in that computer, right? So—so that’s a vision.

A mission statement is like a level objective, right? So, you know, it’s like, you know, “What is it that we, you know, that we’re driven to achieve as an organization?” So for example, DTE Energy, which is a utility in Detroit that we studied in our research and our *Harvard Business Review* article and in the book, states its mission as “To be the best-operated energy company in North America.” Right? So that’s a mission, and everybody knows that’s our mission, and we’re going to be the best-operated energy company in North America.

None of these—neither vision nor mission—tell us the *why* of our existence, the *raison d’être*. Why do we exist as an organization? Or if you’re an individual, why do you exist as an individual? You know, you were put on this planet for a purpose. If you’re an organization, the organization was created for a purpose. What would the world—you know, [a] simple way to think about it, Kurt, is “What would the world miss if we were not around tomorrow?” And you know, the answer is they would miss our contribution.

Kurt Greenbaum: Now, if you recall from earlier in this conversation Anjan was very clear that higher purpose has to be authentic. It must be discovered, not invented. I asked Anjan more about that. Why can’t business leaders get themselves some higher purpose and expect a spike in their revenues?

Anjan Thakor: What research has shown—and this is sort of a paradox, maybe—but what research has shown is that if the purpose is authentic, and its credibility has been tested by these sorts of decisions that the firm had to make, then it actually has phenomenally positive economic effects. OK, the paradox is, though, that if you adopt a purpose because you just want to increase profits or get people to work harder or be more creative, it doesn’t work. And it doesn’t work because people in the organization can see through the lack of authenticity. Because they’re on the ground where decisions are being made on a day-to-day basis, so they can tell whether or not the stated purpose is being authentically embraced, or it’s just a PR gimmick. And if it’s a PR gimmick, it either has no effect or actually may even have the opposite effect, because it makes people cynical, saying, “OK, you know, one more, you know, one more of these banners or slogans, you know, who cares?” And so that’s why authenticity is so important.

Kurt Greenbaum: Up to this point, we've talked a lot about the "higher purpose" part of Anjan's book title. Remember, the book is called *The Economics of Higher Purpose*. I wanted to hear more about the economics. What does higher purpose have to do with a firm's financial performance?

Anjan Thakor: Like I said, we have this theoretical model that actually predicts certain relationships. And so it says, for example, that if an organization has authentic higher purpose, people will be willing to work just as hard for lower wages. OK? All will work harder for the same wages. OK, so you know, that's what we call a testable prediction. You can take that to the data and see if it's true. It says that economic output improves, so it makes predictions of that nature. So there is also empirical work that's been done by others. So we're obviously not the only people working in this area, and there are other researchers who have empirically tested the impact of higher purpose on organizations and tried to quantify the magnitude of the effect.

And, you know, without getting into the details of each paper, basically the findings are that if you have a higher purpose that is authentic and communicated with clarity to the organization—the communication piece is really important; you must, must have both—then, in fact, it has an enormously positive impact on profits, on revenues, on growth, on employee satisfaction, turnover, as well as forward-looking measures of performance, like Tobin's Q, stock prices. So there's a very interesting study that was published in 2019 that basically documented this on a large sample basis. There have been other—what I call field studies done with smaller samples that have found very similar results. I think what we have to remember is that each of us as an individual was put on this planet for a reason. Each of us has a purpose. We all hunger for purpose, right?

Bob Quinn had a video on personal higher purpose that he put out on the internet, that within a month had 15 million hits. And I asked him, you know, "How come there was so much interest?" And he said, "I think it means that everybody hungers for—for purpose." He was getting emails from countries he had never heard of. There are 200 countries in the world, so I'm sure there are countries that we haven't heard of. But I mean, people were just soaking it in, you know, because they all want a sense of purpose in their lives. It makes your life more meaningful. And I think the same is true for organizations. If organizations have a sense of purpose that they can convey to their employees, I think it makes work more meaningful, more enjoyable. And it also, I think, inspires those employees to think about their own purpose in life.

Kurt Greenbaum: And that's all for our third bonus episode of On Principle. Many thanks to Anjan Thakor for giving us an expansive look at higher purpose and his research. We have links on our website with more about what Anjan and Bob Quinn had to say on the subject. That includes links to Olin blog posts, their book and the *Harvard Business Review* article the pair wrote together. Find all that in the bonus episode section of our website at onprinciplepodcast.com. You can also find the original podcast episode featuring Anjan and our story about Lancaster Colony

Foods. If you missed it, please visit our website to find that episode and the other seven episodes from Season 1 of On Principle.

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