

A vertical sequence of water droplets falling into a pool of water, creating ripples. The droplets are captured in mid-air, with the largest one at the bottom, just above the surface of the water. The background is a gradient of light blue to dark blue.

Management by Missions

Connecting People to Strategy
through Purpose

Pablo Cardona · Carlos Rey

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by Missions and
Corporate Governance



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Preface

The most important requirement for an object to be considered beautiful is that it fulfills the purpose for which it was conceived.

—Antoni Gaudí, architect

The question we are trying to answer in this book is: how to develop a corporate culture of commitment based on a purpose? That might seem a bit vague or even banal. After all, who doesn't want engaged managers and colleagues? There is a wealth of research and literature on how to build engagement in an organization.¹ However, we are not talking about commitment *to* the company, but rather a commitment *within* the company. These are two different things, as we will see throughout the book. For years, we have identified the object of commitment to a company, brand or particular leader. Experience has shown that these commitments are neither deep nor long-lasting.

There is a growing consensus that what really generates commitment is the “organization's purpose”: what does a company exist. Research² and social movements both lead us to the same conclusion: people do not identify with an acronym, but with the meaning of those letters and their

¹P. Cardona, B.S. Lawrence and P.M. Bentler, “The Influence of Social and Work Exchange Relationships on Organizational Citizenship Behaviour,” *Group & Organization Management*, vol. 29, no. 2, 2004, pp. 219–247.

²See, for example, Adam Grant's studies on prosocial motivation.

impact on society. Companies seeking to attract the top talent must show that their organization is a place where workers feel engaged because they understand at a deeper level how and why their work matters. Leading companies have shifted from developing career plans to focusing on the *experience* of the internal customer. The goal is not to *retain* valued talent (with salary increases and promotions within the organizational hierarchy) but to involve that talent in projects that result in a sense of meaning, so that they want to contribute and feel personally committed.

The evolution of society toward greater social awareness demands a change in business management. It's not about introducing a new tool or a symbolic change in leadership style. Nor is it a mere technological change, even though technology is an accelerating factor in these more meaningful changes. The change is in the search for the meaning of work, why the company exists and what it contributes to the society in which it operates. Purpose is what elicits commitment. And a company that seeks an inspired workforce must learn to operate with a clear focus on its purpose.

This book is the product of over 20 years of work, on theoretical and practical research, consulting with dozens of companies, and the entrepreneurship and management of our own companies. It is the synthesis of many experiences and conversations, readings and reflections, which have led us to the conclusion that the business world is evolving in a major way. Among other sources, we have analyzed more than 200 companies from different countries and have contacted more than 10,000 executives and middle managers. Drawing upon our conclusions, we have developed a comprehensive and evolved management proposal based on *purpose*. This proposal, which we call "management by missions" (MBM), has been tested out in many companies and has evolved over the years through the different experiences we have had. In this book, we present these ideas, experiences and proposals in three parts.

The first part is more theoretical. We delve into what a company is presupposed to be and what it is for. Specifically, we discuss the problems and limitations that we observe in the management of companies today.

The second part draws primarily on practical research. We discuss the key aspect of corporate culture: what it is and how to develop a purpose,

what role missions play in its development, what the most sought-after values are, how to define a “healthy” corporate culture and so on.

The third part is predominantly based on consulting work. We review the main tools of MBM and discuss the type of leadership needed to implement the system. These tools and the leadership style we present are a path to a new purpose-based management method.

In writing this book, we are not aiming to provide definitive solutions to the problems of business management. Nor is it our intention to create a user’s manual. This book reflects a continuously evolving approach to a new way of understanding management that seeks to address changes in society toward a greater sense of purpose at work. We hope these ideas inspire many executives to create a culture of high commitment and, consequently, to further promote their purpose for the benefit of society as a whole.

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Acknowledgments

Our special thanks to everyone who has contributed to the revision of this new edition. Foremost, to Phil Sotok who helped tremendously in adapting the manuscript to the US reader and David Oliver for the original translation of our work. Also we express our gratitude to all that read the original manuscript and contributed with their ideas and suggestions: Aigars Germanis, Àlex Montaner, Àlvaro Lleó, Antoni Garijo, Antonio Argandoña, Antonio Hidalgo, Bernardo Figueiredo, Eduard Fitó, Eleunthia Ellinger, Gonzalo Orejas, Guilherme Figueiredo, Ivan Malvasic, Jaume Agustí, John Almandoz, José Antonio Porfirio, Juan de Dios López Uceda, Kay McCarthy, Manuel Jiménez Maña, Mark Byrne, Mayte Márquez, Miquel Bastons, Nuno Martins, Nuno Pitta, Nuria Chinchilla, Phil Sotok and Rudi Loossens.

We would like to thank everyone who has contributed in myriad ways over the last 15 years to the development of management by missions: with their practical experience, consulting, participation in business meetings, workgroups, academic research, case studies, teaching materials and so on. This is not intended to be a complete list. Fifteen years is a long time, and when you make lists, you always run the risk of omission and, in turn, of committing a certain injustice by generically naming individuals who have contributed in very different ways. But these lists are made in a spirit of kindness and inclusion to convey what we would like to reflect here: that MBM is, and will continue to be, the result of many people's contributions.

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xii Acknowledgments

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Serrano, Juan
Shk Qasem, Ahmad
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Silva, Jorge
Simoës, Susana

xiv Acknowledgments

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Note on the Updated and Expanded Edition

In 15 years of working on MBM in companies, we have learned a lot. Some ideas that we presented as propositions in 2008 (“in our opinion ...”) are now validated by both research and practice. Others have not been corroborated, and, above all, many new questions have surfaced. MBM is a living methodology that takes fundamental ideas that are maintained over time and carves out a path for itself as it is refined with each new experience.

What has changed in this edition of the book versus the previous one? What’s new? Each of the three pillars of this book has been thoroughly reviewed and updated. In our theoretical research, we have updated the status of MBM, including more than 40 new studies, both ours and others. In the practical research, we have included new cases and experiences that you can find throughout the book and at the end of each chapter. In terms of the consulting work, we have refined some approaches, adapting them to the current need to achieve organizations with greater agility and adaptability.

Terminology Review

This edition also brings a major change with respect to terminology revision. In our 2008 issue, we discussed the term “mission” with two complementary meanings. The first one referred to the reason for the organization’s existence (usually summarized in an idea or short phrase). The second referred to what companies contribute to their stakeholders (often expressed as commitments to customers, employees, shareholders, suppliers, etc.). This approach to defining mission was common in the literature and practice at that time, and both conceptions of the term “mission” coexisted in a complementary way.¹ Hence, for example, the same term was used to express Google’s mission (“organize the world’s information”) and to describe a company’s commitments to contribute to its main stakeholders.

However, since 2014 in particular, some redefining has taken place in the realms of academia and business, such as the popularization of the term *purpose* to refer to talk about why companies exist. So, you will see that, in this third edition, where we previously used the term *mission* in reference to the “*why*,” we now use *purpose* and that, when referring to the company’s contributions to its different stakeholders, we use the term *missions* (plural). Other terms, like *vision* and *values*, have not been changed, so their definitions are the same as what we used in 2008. We believe updating the terms as such will help clarify some of the terminological ambiguity of the previous edition and, most importantly, will better illustrate, in current terms, the proposals that we put forth at the time.

Table 1 is a list of definitions of the main concepts used in this book.

Finally, we’d like to thank everyone who has contributed during these past 15 years to the development and implementation of MBM. All of the updates we have included in this edition are thanks to their suggestions for improvement to both the content and the explanations given. So much so that we are even hesitant to continue listing ourselves as the *authors* of this edition. Basically, what we have done is collected ideas

¹ See, for example, B.R. Bartkus and M. Glassman, “Do Firms Practice What They Preach? The Relationship Between Mission Statements and Stakeholder Management,” *Journal of Business Ethics*, vol. 83, no. 2, 2008, pp. 207–216.

Table 1 Glossary of terms in the 2021 edition

Term in the 2021 edition	Representation	Definition
Purpose	Why does the company exist?	The synthesis of the ends of a company
Missions	Who do we serve? What commitments do we have to them?	Contributions that characterize the purpose
Values	How do we want to do it?	Criteria that guide decision-making
Vision	Where do we want to get to in the next few years?	Image of the desired future

from each other and expressed them here. This is a book written by dozens of people, who deserve all the merit or gratitude that you feel when you find any of these ideas helpful or resonating with you. But any criticism, you can direct that toward us. It truly helps us grow.

Contents

Part I	Myths and Realities of Business Administration	1
1	Is There a Link Between Corporate Purpose and Performance?	3
	Unity: The Bottom Line of Corporate Culture	5
	Unity and Survival	7
	Unity and Profit	8
	Verification of the Model	10
	Corporate Culture	12
	Dynamics of Cultural Development	14
	Shared Priorities	16
2	Different Ways of Viewing an Organization	21
	Mechanical Perspective	22
	Organic Perspective	24
	Cultural Perspective	27
	The Integrated Organizational Model	30
3	The Limits of Management by Objectives	35
	The Problems with Management by Objectives	37
	Low-Octane Cultures	43
	Beyond Management by Objectives	45

Part II	In Search of Corporate Culture	49
4	What Are Companies For?	51
	Profit: Means or End?	53
	The Danger of Simplification	55
	Balance and Complementarity	56
	Organizational Purpose	58
	Purpose and Sense of Purpose	60
	Coherence	61
	Authenticity	62
	Integrity	63
	Personal Purpose	64
5	Missions: For Whom Does the Company Exist?	69
	Purpose and Missions	71
	Characteristics of Missions: Content, Credibility and Urgency	72
	Content	72
	Credibility	73
	Urgency	73
	The Stakeholder Model	74
	Customers	75
	Shareholders	75
	Employees	76
6	The Values of a Balanced Culture	81
	The Origin of Values	82
	Corporate Values and Real Values of an Organization	83
	Characteristics of Corporate Values	85
	Values and Motivation	86
	Balanced Values	88
	Evolution and Change in Values	90

Part III	Toward a New Management Method	95
7	Deploying Purpose	97
	Shared Missions	98
	Criteria for Defining Shared Missions	101
	Shared Missions in the Organization	103
	Shared Missions in a Corporate Group	103
	The Interdependency Matrix	105
8	Tools for Managing Purpose	111
	New Management Practices?	113
	Strategic Planning: A Question of Congruence	113
	Deployment of Objectives	116
	Missions Scorecard	118
	Competency Development	119
	Performance Appraisal	123
	Management Systems and Leadership	125
9	Missions-Driven Leadership	131
	Types of Leadership	132
	Transactional Leadership	132
	Transformative Leadership	133
	Transcendental Leadership	134
	Purpose and Leadership	135
	Dimensions of Missions-Driven Leadership	136
	Commitment	137
	Cooperation	138
	Change	139
	Battling the Ego	141
	Afterword	147
	Index	151

List of Figures

Fig. 1.1	Company diagnosis funnel (CDF)	9
Fig. 1.2	Culture strength and profitability. (<i>Source</i> : Corporate cultures and performance)	11
Fig. 1.3	Unity and profit	12
Fig. 1.4	Cultures classification	13
Fig. 1.5	Unity and profit: 2008–2016. The unity data are from a company-wide survey given periodically. The profit shown is after taxes	18
Fig. 2.1	Mechanical perspective	23
Fig. 2.2	Organic perspective	26
Fig. 2.3	Cultural perspective	29
Fig. 2.4	Integrated model	31
Fig. 3.1	Performance & system pressure	39
Fig. 4.1	Dimensions of purpose	61
Fig. 6.1	The origin of values	82
Fig. 6.2	Distribution of values by category (in %)	89
Fig. 7.1	Deploying the purpose in missions	99
Fig. 8.1	Strategy formation. (<i>Source</i> : Adapted from <i>Exploring Corporate Strategy: Text & Cases</i> , by G. Johnson, K. Scholes and R. Whittington (<i>Financial Times</i> and Prentice Hall, Harlow [England] and New York, 2009))	115
Fig. 8.2	Deployment of purpose and strategy	117

Fig. 8.3	Competency directory	123
Fig. 8.4	Virtuous cycle of MBM	126
Fig. 9.1	Cycle of commitment	137
Fig. 9.2	Cycle of cooperation	138
Fig. 9.3	Cycle of change	140
Fig. 9.4	The MDL <i>formula</i>	142

List of Tables

Table 3.1	Status of the global workplace (Gallup)	44
Table 4.1	From product/service to purpose	57
Table 7.1	Example of shared missions	104
Table 7.2	Example of an interdependency matrix	107
Table 8.1	Example of a missions scorecard	120
Table 8.2	Performance appraisal	125
Table 9.1	Self-diagnostic test for missions-driven leadership (MDL)	143

Part I

Myths and Realities of Business Administration



1

Is There a Link Between Corporate Purpose and Performance?

Abstract After 50 years of debate on this crucial question, the evidence is increasingly strong in favor of “yes”: companies can achieve better results if they incorporate practices that foster people’s sense of purpose. This relationship seems to be valid for very different types of industries and various business strategies within the cost-differentiation spectrum. However, causality between purpose and performance is not as linear as some literature and consultants seem to indicate. In this chapter, we discuss this relationship under the perspective of unity (the degree of mutual trust and commitment to the company experienced by people who contribute to fulfilling its purpose). Based on this perspective, we provide a framework that distinguishes four types of cultures: bureaucratic, paternalistic, aggressive and competent.

Keywords Purpose • Unity • Culture • Engagement • Management by missions

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After 50 years of debate on this crucial question, the evidence is increasingly strong in favor of “yes.” In the well-known study “Corporate Purpose and Financial Performance,”¹ Gartenberg, Prat and Serafeim demonstrate, with a large data sample from more than 900 companies and half a million employees, that companies can achieve better results if they incorporate practices that foster people’s sense of purpose. This result seems to be valid for very different types of industries and for a wide variety of companies—from manufacturing companies to service organizations—and for various business strategies within the cost-differentiation spectrum.

It is not the only study to demonstrate this. In recent decades, Gallup studies show that when companies engage their employees and customers, they experience a 240% boost in performance compared to companies where neither their employees nor their customers are engaged.² Similar conclusions in Julian Birkinshaw’s studies show the reinforcement between purpose and profit in long-lasting companies, such as HCL Technologies, IKEA, LEGO Group, Novo Nordisk, Roche, Tata Group, Whole Foods Market and W.L. Gore & Associates.³ This evidence leads us to conclude that a company’s performance and long-term survival both depend, to a large extent, on the type and depth of its members’ commitment. This idea is not new, but never before has it been such a differentiator. In the digital age, it is vital to have committed talent to successfully compete in an environment characterized by uncertainty, hyper-competitiveness and constant change. In addition, this talent is increasingly *liquid*: it is not tied to a geography, nor to a job for life. Talent appears and disappears at the blink of an eye, causing a real battle for recruiting and retaining the cream of the crop.

Thus, the impact of managerial decisions on employee engagement is in the spotlight like never before. HR departments are embracing the marketing mindset and metrics to evaluate company reputation (a.k.a. employer branding) and employee experience. Companies as diverse as

¹C. Gartenberg, A. Prat and G. Serafeim, “Corporate Purpose and Financial Performance,” *Organization Science*, vol. 30, no. 1, 2019, pp. 1–18.

²See: <https://news.gallup.com/businessjournal/176063/five-ways-top-performing-companies-engage-customers.aspx>. [Referenced: 11/11/2020]

³J. Birkinshaw, N.J. Foss and S. Lindenberg, “Combining Purpose with Profits,” *MIT Sloan Management Review*, vol. 55, no. 3, 2014, p. 49.

Unilever and IBM are putting all their knowledge of artificial intelligence and digital technology at the service of employees. They realize their own continuity depends on it.

Generational changes are also acting as a catalyst to purpose. Millennials (born in the 1990s) and centennials (a.k.a. Gen Z, in the early twenty-first century), in addition to being digital natives, have emerged with a very different set of values and outlook on work compared to previous generations. One important value, derived from their virtual experience, is flexibility. The new talent avoids rigid hours and working in a fixed office. In their world, there is no point in “going to work,” when they can work perfectly well without “going” anywhere.

In addition to flexibility, new talent aspires to contribute by working for companies with sustainable values. This is well known by companies that focus on employer branding, and they need to adjust their objectives and their messaging to project the company as a socially responsible entity with sustainable values. William Pollard, President of ServiceMaster, expressed this idea in the following terms: “If we focused exclusively on profit, we would be a firm that had failed to nurture its soul.”⁴

Unity: The Bottom Line of Corporate Culture

Every managerial decision inevitably has an external consequence as far as greater or lesser economic benefit, along with an internal consequence as far as strengthening or weakening people’s commitment. In addition, we have seen how employee commitment ultimately influences the company’s profitability. Thus, decisions based on just one variable (such as profit) are lacking, if not dangerous for the company’s operation and survival.

Economic performance has a clear control parameter: profit, which can be measured in many ways (ROI, ROE, profit on sales, etc.). This parameter is quite useful for making decisions and evaluating management performance. For generations, budgets have served managers as a guide to making decisions on all types of investments and expenses. However, the cultural dimension is difficult to assess, precisely because it

⁴ServiceMaster Annual Report, Downers Grove, Illinois, 2. Cited in Pfeffer, op. cit., 1998, p. 298.

lacks a clear measurement parameter. Many managers rightly wonder: is it possible to have a parameter that covers such a complicated and subjective dimension?

At first glance, it may seem like there are too many things that affect people's behaviors in a company. Fortunately, the vast majority of studies on this topic reach the same conclusion: the mutual trust and commitment of employees toward the company constitute the root and essence of the cultural dimension. These two elements are mutually reinforcing; one cannot exist without the other, as they are essentially two sides of the same coin, which we call "unity." Unity begins with those "inside," the members of the organization, and expands "out," creating strong and lasting relationships between the company and its stakeholders.

Unity is necessary for the life of any organism or social organization and is not to be confused with rigidity toward change, or with uniformity. A uniform body is most often a dead body. Living organisms are made up of very diverse members, which interact continuously, providing the various inputs required to achieve a common goal: diversity and interdependence are necessary conditions for true unity, and unity is a condition of life. When an organism loses unity, it starts to decompose. That is why long-lived companies typically have a high degree of unity.

We define unity as the degree of mutual trust and commitment to the company experienced by people who contribute to fulfilling its purpose. This definition applies to any level of the company: division, department or group; it can even include external stakeholders, such as customers, partners or suppliers. Companies with a high degree of unity are known by a variety of names in management literature: "excellent companies,"⁵ "high-trust organizations,"⁶ "citizen corporations,"⁷ "the individualized corporation,"⁸ "conscious companies,"⁹ "purpose-driven organizations"¹⁰

⁵T. Peters and R. Waterman, *In Search of Excellence*, op. cit.

⁶R.B. Shaw, *Trust in the Balance*, Josey-Bass Publishers, San Francisco, 1997.

⁷C. Handy, "The Citizen Corporation," *Harvard Business Review*, vol. 75, no. 5, 1997, pp. 26–27.

⁸S. Ghosal and C.A. Bartlett, *The Individualized Corporation*, Harper Business, New York, 1997.

⁹J. Mackey and R. Sisodia, *Conscious Capitalism: Liberating the Heroic Spirit of Business*, Harvard Business Review Press, Boston, MA, 2014.

¹⁰C. Rey, M. Bastons and P. Sotok, *Purpose-Driven Organizations: Management Ideas for a Better World*, Springer Nature, London, 2019, p. 138.

and so on. With slight variations in emphasis, all these companies have policies that increase their employees' mutual trust and commitment. Thus, unity can be seen as a precise and useful "bottom line" for cultural performance: a simple criterion for us to assess the effectiveness of management decisions in this dimension.

Although there is no standard measure of unity, there are various measures of assessing it. One way is in terms of "organizational commitment."¹¹ *Fortune* magazine uses a measure called "The Great Place to Work Trust Index" to distinguish the top 100 American companies in terms of employees' trust in management, pride in their company and camaraderie. This comes fairly close to what we call "unity."

Unity and Survival

The companies ranked among *Fortune's* 100 Best Companies to Work For have high levels of unity. According to Arie de Geus, that makes them good candidates to survive longer than other companies in the same competitive environment.¹² Companies with high levels of unity are better able to adapt to changes in the environment, because it takes trust to foster individual initiative, knowledge transfer and organizational learning—all the things on which any organizational change depends.

That is confirmed in the studies by Douglas and Truelove on the way companies like Sephora, Four Seasons and Danone North America recovered quickly from the loss of profits during the financial crisis of 2007. The key was to maintain and reinforce people's commitment through credibility and leadership, and build a high degree of unity throughout the organization. How did they do it? Rather than focus solely on profit, their employees collaborated to create a common purpose that superseded individual goals and represented the key element in overcoming the crisis.¹³

¹¹ J.P. Meyer and N.J. Allen, *Commitment in the Workplace: Theory, Research, and Application*, Sage Publications, Thousand Oaks, CA, 1997.

¹² A.D. Geus, *The Living Company: Habits for Survival in a Turbulent Business Environment*, Harvard Business Review Press, Boston, MA, 1997.

¹³ D.A. Ready and E. Truelove, "The Power of Collective Ambition," *Harvard Business Review*, December 2011.

We are seeing the same strategy with the current COVID-19 crisis: companies such as Microsoft, Google and Disney are making great efforts to avoid layoffs and keep their people committed and engaged. Starbucks has extended its mental health benefits to support employees during the crisis.¹⁴ These and many other examples show that companies are not motivated exclusively by economic factors, not even in the long term. Because the long term only exists for companies that survive, and only companies that achieve a certain level of internal unity can survive economic crises.

Unity and Profit

There are at least two types of confusion that may arise when people try to oversimplify the relationship between unity and profit. The first is to naïvely assume that unity and profit are directly linked. Managers who take this approach think that if employees are more engaged, the company is bound to be more profitable. Numerous studies have shown that unity alone is not enough to generate profit.¹⁵ The problem is that this approach can lead to opportunistic strategies, in which unity is simply a means of making a profit in the medium term. These strategies fail because, at critical moments, they give priority to short-term economic priorities and end up reducing the company's unity.

The second type of confusion comes from a false dichotomy between unity and profit; this approach assumes there is an inverse relationship between the two. Managers who adopt this approach think that the cost of increasing employee engagement is higher than its benefits and therefore will reduce profit. This way of thinking is also naïve, just as it would be to think that quality and cost are conflicting measures. It is true that quality has a cost, but so does the lack of quality. And these days, only the companies that manage to increase both cost and quality will survive.

¹⁴ See: <https://www.forbes.com/sites/blakemorgan/2020/03/17/50-ways-companies-are-giving--back-during-the-corona-pandemic/#7ab6ee724723>. [Referenced: 11/9/2020]

¹⁵ J.D. Margolis and H.A. Elfenbein, "Do Well by Doing Good? Don't Count on it," *Harvard Business Review*, January 2008.

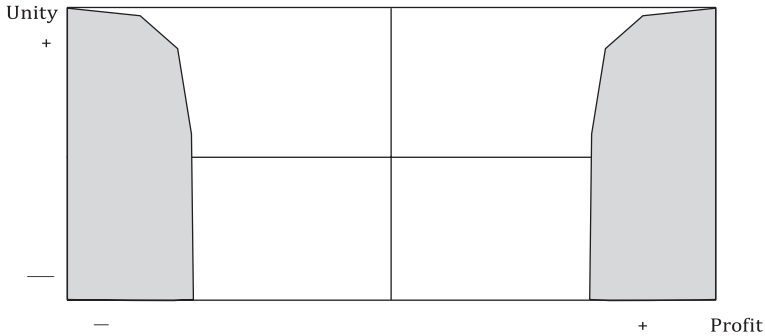


Fig. 1.1 Company diagnosis funnel (CDF)

Similarly, the companies that will survive for years to come are the ones that can improve both unity and profit at the same time.

To avoid oversimplifying, it is better to represent these two dimensions in a two-by-two matrix. Given the way unity, profit and survival are related, the competitive positions available to companies within the matrix are limited. As these constraints are shaped like a funnel, we call this matrix the “company diagnosis funnel” (see Fig. 1.1). In this figure, companies can only survive within the white area, that is, within the funnel. Shaded areas are non-survival areas. The shape of the funnel may vary for different industries and periods, but the basic structure remains the same.

Companies with higher levels of unity may subsist with lower levels of profit, and thus have a better chance of surviving in times of crisis. Companies like Barclays might have found it much more difficult to survive the financial and reputational crisis they suffered in 2008 if they had not had such high unity. To survive the crisis, they focused on three areas: (a) find synergies between purpose and profit; (b) recognizing purpose at the individual level; and (c) overcoming the short-term fear of loss.¹⁶ As it was, they were able to get past the crisis with a high sense of mission instead of being pulled into a situation of escalating layoffs that

¹⁶A. White, B. Yakis-Douglas, H. Helanummi-Cole and M. Ventresca, “Purpose-Led Organization: ‘Saint Antony’ Reflects on the Idea of Organizational Purpose, in Principle and Practice,” *Journal of Management Inquiry*, vol. 26, no. 1, 2017, pp. 101–107.

often devolves into what Jeffrey Pfeffer calls the “downward spiral of performance.”

On the other side of the funnel, companies with higher unity can earn higher profits, since they have lower transaction costs and monitoring costs, more stability with their key talent and greater creative capacity in the face of challenges. As Pfeffer shows, if they can properly align their managerial practices with the strategy, then companies with a higher level of unity can achieve greater profitability.¹⁷

A company may move to any part of the funnel but, within that space, its position will not be static. Instead, it will vary dynamically as the company’s managers make decisions, its people develop new competencies and the competitive environment changes. For example, the top ten companies in the *Fortune* ranking in 2012 included Walmart, General Electric, Ford, General Motors and Hewlett-Packard. Out of all these, Walmart was the only one to crack the top ten in 2019. If a company makes poor decisions, it will lose ground in both dimensions of the funnel (profit and unity). In other words, a company must constantly make the right decisions both economically and culturally to stay in the same place.

Verification of the Model

In the 1990s, two Harvard professors, Kotter and Heskett, conducted a study of the relationship between culture strength and business performance. They took 200 companies from 22 different industries and measured the 2 variables over a 10-year period. The results, using the ROE as an indicator of economic performance, are shown in Fig. 1.2. The bilateral correlation between culture strength and profitability is slightly positive (0.31), but not statistically significant. This study shows that profit and unity are not linearly related.

Nevertheless, the Kotter and Heskett study is not suitable for detecting deeper relationships between the two variables, since the impact of unity on profit is usually seen in the medium term. For this reason, we conducted another empirical study with 220 companies, from which we

¹⁷J. Pfeffer, *The Human Equation: Building Profits by Putting People First*, Harvard Business School Press, Boston, MA, 1998.

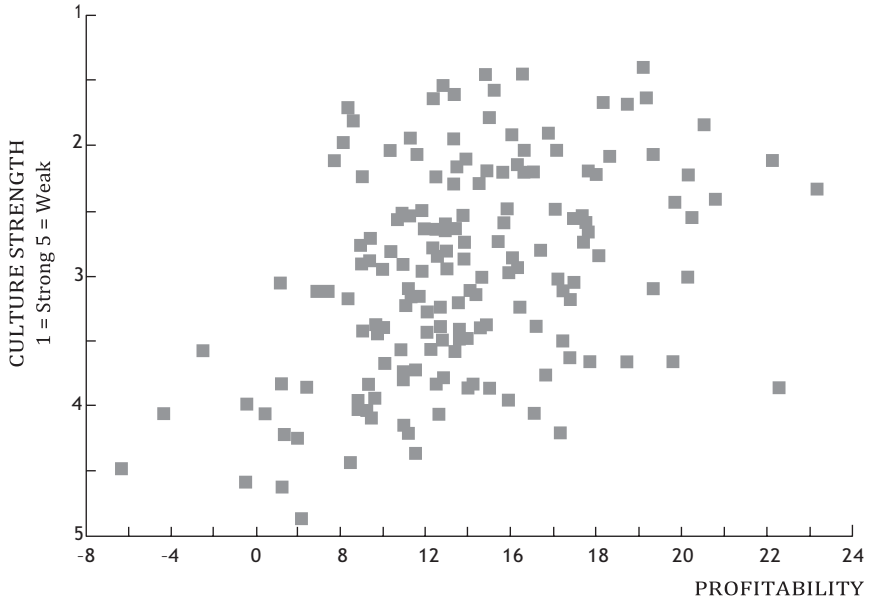


Fig. 1.2 Culture strength and profitability. (Source: Corporate cultures and performance)

chose 76 belonging to the following industries: food, machinery, pharmaceutical, electronics, chemicals and services. In this study, we measured the cultural dimension using unity as our variable.¹⁸ To measure the profit variable in the medium term, we compared the performance of each company (three-year average ROE) with the industry average. This gave us the normalized value on the matrix's profit scale: positive if the

¹⁸The measure of unity was done using the normalized average of five statements, each scored from 1 (strongly disagree) to 7 (strongly agree):

- The company has a corporate purpose that employees know and are enthusiastic about.
- There are important and familiar company objectives in the medium and long term that are not of a financial nature.
- The company's key contributors fully trust the management.
- There is a high degree of cooperation between all staff.
- People are highly committed to the company's mission and objectives.

The measure of unity met the appropriate reliability criteria on a scale of this type, with a Cronbach alpha of 0.84.

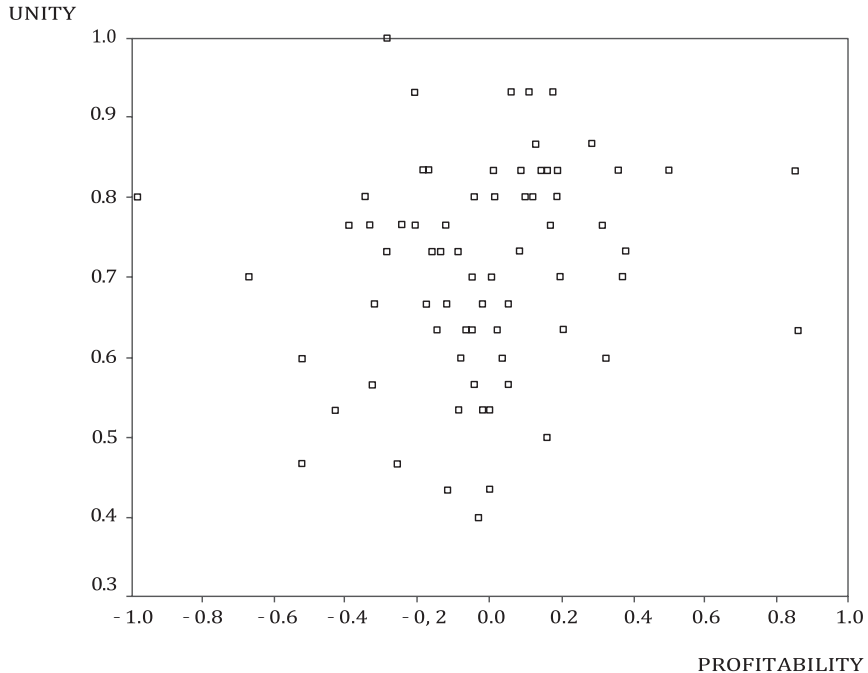


Fig. 1.3 Unity and profit

company's three-year average ROE beat the industry average, negative otherwise. The results of our study are shown in Fig. 1.3.

Again, the bilateral correlation between unity and profitability is slightly positive (0.16), but it is not statistically significant. In turn, the corrections we made in our study allow us to observe the prohibited spaces of the funnel in greater detail: Fig. 1.3 reflects the lower likelihood of companies appearing in the two lower corners, as the model suggests. As unity increases, companies may occupy a larger space within the matrix.

Corporate Culture

As we have been saying, the vast majority of executive-level decisions impact both profitability and unity. As such, it would be ill-advised to make management decisions based on a single variable. In fact, even the

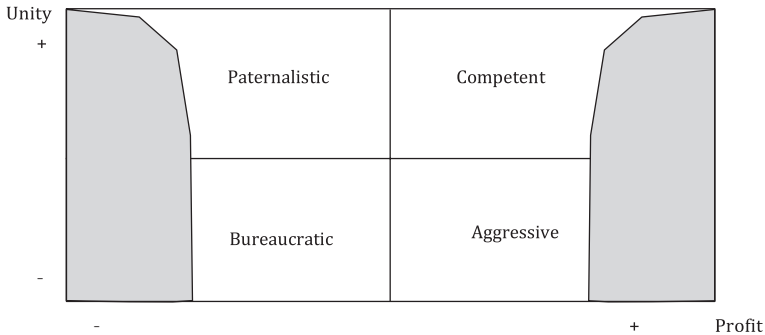


Fig. 1.4 Cultures classification

best strategy alone would be futile without a capable and committed team to implement it. The culture of a given company ultimately comes down to how management decisions are made. We can see four distinct corporate cultures in the funnel in Fig. 1.1: paternalistic, bureaucratic, aggressive and competent. This typology is shown in Fig. 1.4.

The managers of the **paternalistic** companies make decisions that generate high levels of unity, but not profit. The managers of aggressive companies make decisions that produce reasonable financial results but at the cost of unity. The managers of **bureaucratic** companies make decisions that generate neither profit nor unity. And the managers of **competent** companies make decisions that produce high levels of both unity and profitability.

This typology is consistent with Kotter and Heskett's qualitative study of companies situated at the extremes of the matrix. After thoroughly documenting the history and evolution of these companies, and conducting multiple interviews with their managers and employees, they reached the following conclusions:

- Companies with a strong culture and low profitability (paternalistic) were successful in the past. In all cases, poor performance is attributable to the inability to adapt to strong changes in the market or the emergence of new competitors. As the authors define, these companies have a culture defined by past achievements and complacency. Many of those surveyed, when asked what gave their company its strong culture, they said: "We do."

- Companies with a weak culture and high profitability (aggressive) hold a dominant position in their industry, sheltered by strong entry barriers to new competitors or a legal setup that gives them exceptional competitive advantages. In light of their data, the authors conclude that it is indeed possible to achieve good performance with a weak culture, but only in environments *protected* by monopoly or oligopoly conditions.
- Companies with a strong culture and high profitability (competent) have two fundamental characteristics that set them apart from the other companies in the sample. First, they have a culture focused on what the authors identify as key stakeholders: customers, shareholders and employees. Second, across the organization they have boss-subordinate relationships based on distributed leadership.

Dynamics of Cultural Development

As we mentioned before, companies do not remain stagnant in the funnel: unless they do something to prevent it, they lose ground in both dimensions (profit and unity). In other words, just to maintain their position, companies must constantly make the right economic and cultural decisions. This effect would be visually represented in Fig. 1.1 by placing an electric fan in the upper right corner of the matrix. The fan creates a current toward the opposite vertex, that is, toward the quadrant of the bureaucratic enterprise. When a company does not make effort toward the competent zone, it goes into a free fall toward the bureaucratic zone.

Another phenomenon that has become quite common in today's increasingly competitive and global environment is what we might call the "inverted Z" dynamic. We can see it at work in competent companies that become less competitive economically (due to external factors—e.g. technological change, new competition, etc.—or internal ones—e.g. being unable to adapt to change, or being complacent with success). Over time, the company slips into the paternalistic zone, until "steps are taken" to redress the situation. This change can be sudden if the now paternalistic company is acquired by another corporation.

To illustrate, imagine a German company that has gone from competent to paternalistic, only to be bought out by a US multinational. To revitalize the company, they send over a young executive from New York. Experience shows that the company will most likely shift toward the aggressive area of the funnel. That is because at the company headquarters, the only thing they measure is financial performance, and the easiest thing to progress in this dimension is downward (as we saw with the cost-quality relationship, where the easiest way to improve on cost is to lower the quality).

If the company recovers economically, even if that means sacrificing its unity, the manager will be rewarded, maybe even promoted back to headquarters, where executives capable of pulling such turnarounds tend to congregate (further reinforcing that aggressive style of management). The problem is that the company has fallen into a trap: increasing profit at the cost of unity is not a sustainable proposition. Once unity falls below a certain level, the company can start to lose vital talent: executives and employees who do not accept the cultural change and decide to move on. When this happens, some companies may find their financial performance starts to suffer.

Sometimes, companies need to make painful adjustments in times of crisis. They might run into trouble and lose their sense of direction if, for example, they focus solely on financial performance. Without awareness, it's hard to stop that downward spiral. However, if we have a clear road map, with both dimensions, it's easier to know where we are and where we want to take the organization, even though at some point we will have to head toward the aggressive zone. In such cases, once the moment of crisis has passed, we can regain the lost ground. The company then zig-zags "into the wind," toward the competent quadrant.

When decisions are measured by financial performance alone, it is quite difficult in a competitive environment to lead companies into the competent quadrant. As a result, we gradually see more companies flocking to the aggressive quadrant, believing they are doing a great job because they are making money, without thinking about the potential they are leaving on the table by not being truly competent. While at small companies a good executive can direct the organization by simply changing course, at a medium-sized company (and even more so in a large one) the executive needs to rely on adequate systems that also measure and value

the firm's cultural dimension. These systems act as a second fan, this time in the opposite corner (lower left), pushing the organization into the competent quadrant. These systems are what we call "MBM systems."

Shared Priorities

There are many examples to illustrate how executives of enduring companies develop a competent culture combining purpose and profit.¹⁹ For instance, the Tata Group, an Indian industrial conglomerate founded in 1868 by Jamsetji Tata (1839–1904). As stated by Ratan Tata, Jamsetji's great-grandson and former chairman of the company, "Profits are like happiness in that they are a byproduct of other things... companies [...] need sustainability strategies that recognize that you can make money by doing good things rather than the other way around".²⁰ With its purpose being to "improve the quality of life of the communities we serve globally," the Tata Group has diversified its activity in industries such as steel, automobiles, chemicals, IT services and hotels, striving to be one of the top corporations in India.

The ability to maintain a competent culture over time is essential for the company's sustainability and represents its greatest source of wealth generation. For this reason, management by missions (MBM) is based on sharing priorities among the different stakeholders. More and more companies look for executives who truly identify with that purpose and are capable of influencing the organization to gain the genuine commitment of their members. For this very reason, the ability to build unity in the organization is an increasingly valued leadership competence. Just as seeking people's maximum potential represented a shift from the twentieth-century executive, the pursuit of unity (ownership and sense of belonging) represents a sea change in modern management.

¹⁹ J. Almandoz, Y. Lee and A. Ribera, "Unleashing the Power of Purpose: 5 Steps to Transform Your Business," *IESE Insight*, vol. 37, second quarter, 2018, pp. 44–51.

²⁰ J. Birkinshaw, N.J. Foss and S. Lindenberg, "Combining Purpose with Profits," *MIT Sloan Management Review*, vol. 55, no. 3, 2014, p. 49.

Rediscovering a Competent Culture

Jiménez Maña is a business group primarily involved in the distribution of spare automobile parts through a network of franchise locations and corporate-owned stores. Currently, the company has a team of 500 people, with 54 retail outlets and 17 franchises located throughout western Andalucía. During the last decade, the company moved from a competent to an aggressive culture and undertook a big change program to competent culture again.

Manuel Jiménez Maña, the founder's grandson and company CEO, explains: "the company had always been recognized in the market for its great customer relations and highly committed people." Between 1992 and 2007, under Manuel's leadership, the company grew and prospered. However, with that growth, the company was losing its essence. "We had gone from being a small company 'with a soul' to being a large, bureaucratic company," says Manuel.

In 2007, at the onset of the global recession, Manuel was convinced that something had to change, and fast. The diagnosis of his company culture revealed some obvious symptoms: departments working in silos, disconnected from customers, a general lack of communication and constant bottlenecks. After considering different options, they decided to implement management by missions (MBM).

During the initial years of implementation, the company concentrated its efforts on building unity in the organization and rediscovering the company's *soul*. It began by surveying some customers and representative suppliers, and the entire staff. The objective was to find out what the key stakeholders expected of Jiménez Maña and identify the "positives" that had been undermined in the recent growth process. After collecting the data, various workshops were held to analyze the data and reflect on the company's purpose. In Manuel's words, "the company purpose is defined with and for the stakeholders. They are the ones who tell us why and for whom the company exists. You have to be brave, ask questions and listen to understand the situation, even if you don't like what you hear."

After the first three years of MBM, the organization had experienced a substantial increase in overall unity. Profit also increased slightly, albeit still falling short of the company's true potential (see Fig. 1.5). "At the height of the global recession, the most logical thing would have been to focus on cost cutting, but that's not where we were looking. We focused on our people and on restoring the company's purpose by connecting with our stakeholders. Profit would come later. Purpose comes first, then performance—not the other way around."

Manuel's predictions would soon come true. In 2013, profits were 2 1/2 times higher. The growth would continue in the following years, with the company doubling its size and revenues. "I think that's when we realized

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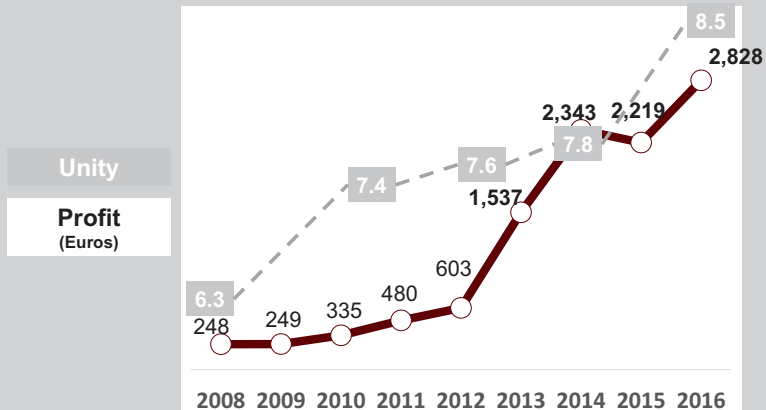


Fig. 1.5 Unity and profit: 2008–2016. The unity data are from a company-wide survey given periodically. The profit shown is after taxes

the power of building unity without giving up profit. But we couldn't let up; we had to keep strengthening the unity we had achieved. We weren't about to repeat past mistakes, where positive results got us off course." The company continued deploying its purpose and missions, doubling down on training and development. After a few years, the Jiménez Maña Corporation became a benchmark for companies, both within its sector and beyond.

With the onset of the COVID-19 crisis, the company held true to its commitment. As Manuel explained, "When facing a pandemic like this one, as a business we're concerned about what we may lose, through the "death or illness" of the company: security, money, dreams, relationships, prestige, status... Honestly, we're afraid of losing something tied to what brings happiness to us and to our loved ones (which, by definition, would hurt us, too). Deep down, happiness is what we're all after. And for us, happiness is closely related to our purpose and the service we provide to our stakeholders".

"Ultimately, this goes right in line with how we contribute to the happiness of our stakeholders. If you keep this in mind at all times, you realize that people always come first and that it is the commitment of those people that drives companies forward. Despite having to close for almost two months due to COVID-19, we've remained united, and the recovery has come remarkably fast. And the market has responded very positively, much better than our competitors. In fact, we have gained a lot of new customers. Once again we have seen how unity and profit mutually reinforce one another. But you have to have clear priorities. Crises make you stronger, but only if you stay true to the belief that commitment to a shared purpose comes first."

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2

Different Ways of Viewing an Organization

Abstract From the industrial revolution to the present, scholars, consultants and experts in different disciplines have tried to answer the fundamental question: What is a business? In this chapter, we structure these historical perspectives in the following groups: Mechanical, Organic and Cultural. The mechanical perspective provides the “rational logic” of planning and supervision. The organic perspective adds creativity and initiative. Finally, the cultural perspective promotes internal unity through a common purpose that harnesses the commitment and engagement of the company’s members. From the combination of the three perspectives, we introduce the “Integrated Organizational Model” as the conceptual foundation of management by missions (MBM).

Keywords Organizational logics • Organization • Management
• Purpose

The sponsors are: DPMC Foundation & Chair in Management by Missions and Corporate Purpose (UIC)

From the industrial revolution to the present, different theories and approaches to management have emerged. Scholars, consultants, managers from the business world and experts in disciplines from psychology to engineering have tried for decades to answer the fundamental question: What is a business? The idea or conceptual model of business has a major influence on the development of any management system. Given this, we need to base our management system proposal on a solid conceptual model.

Over time, theories and social trends have provided different perspectives that shape the understanding of a business in today's management world. These different perspectives (or logics) transcend a specific organization and apply to all companies.¹ Following the approaches of Juan Antonio Pérez López,² which have helped to inform this book, these perspectives can be classified, in chronological order, in the following groups:³

- Mechanical Perspective. Seeing the company as a “machine” that must be managed “scientifically” through what we might call the rationalism of planning and control.
- Organic Perspective. Seeing the company as a “living organism” that has initiative and creativity, and that must be managed based on people's performance and talent.
- Cultural Perspective. Seeing the company as a “social organization” that has ends and values, whose management must create a culture that ensures commitment and unity among its members.

Mechanical Perspective

In the late nineteenth and twentieth centuries, initiatives and theories based on rationalism flourished, giving rise to what is known as “scientific management.” The main contributors were the German sociologist Max

¹M.S. Dijksterhuis, F.A. Van den Bosch and H.W. Volberda, “Where Do New Organizational Forms Come From? Management Logics as a Source of Coevolution,” *Organization Science*, vol. 10, no. 5, 1999, pp. 569–582.

²Juan Antonio Pérez López, *Paradigmas del liderazgo*, Rialp, Madrid, 1991.

³These three perspectives correspond to what Juan Antonio Pérez López called mechanistic, psychosocial and anthropological.

Weber and the American engineer Frederic Taylor. Weber affirmed that bureaucracy was the most efficient form of human organization, while Taylor demonstrated that people’s activity could be studied systematically and broken down into its elementary parts. In Taylor’s view, managing a company consisted basically of planning and supervising activities. “Each worker’s task must be fully planned, and each person must receive written instructions that describe to the minute the details of the work to be performed, as well as the means to use to achieve it.”⁴

During the first half of the twentieth century, Taylor’s ideas spread throughout the world and were introduced to Europe by experts such as Urwick, in the United Kingdom, and Fayol, in France. Fayol, in fact, developed a definition that captures the perspective of his contemporaries: “To manage is to forecast and plan, to organize, to command, to coordinate, and to control.”⁵

Theoretical assumptions gave way to a number of management tools throughout the twentieth century. Some of the most widespread examples that have survived to this day notably include budgeting systems, job descriptions, strategic planning models of the 1970s and the reengineering of processes of the 1990s.

This “rationalistic” viewpoint focuses on the basic elements of what we have called the mechanical perspective (see Fig. 2.1). Those elements are **strategy**, **systems** and **structure** that reinforce and enrich each other. According to this perspective, managing a company consists of (1) developing a good strategy; (2) implementing it appropriately through certain processes (manuals, procedures, policies, rules...) and (3) efficiently using the structure (resources and capacities). A company’s profitability return and financial health, and also its capacity to undertake new strategies in the future, will depend on how successfully these three elements



Fig. 2.1 Mechanical perspective

⁴ F.W. Taylor, *The Principles of Scientific Management*, Harper & Row, New York, 1915.

⁵ H. Fayol, *General and Industrial Management*, Pitman Publishing, London, 1949.

are administered and aligned. For decades, this simple and direct way of understanding the corporation was the basis for management techniques and models.

This perspective corresponds to what we can call the *management by tasks* characterized by the “command and control” type of manager, who manages people through strict tasks and role assignments. This way of managing people has some advantages: it is orderly and well planned, and in certain environments even efficient. However, it has major shortcomings. For one thing, it smothers initiative and creativity, such that people perform well below their capability.

Organic Perspective

In the 1930s, Harvard psychologist Elton Mayo (1880–1949) was researching the influence of certain external factors on worker productivity. The best-known example is the study of lighting conditions in Western Electric’s Hawthorne plant. First, Mayo increased the light intensity in the workplace and observed that productivity increased. Subsequently, he decreased the light intensity and observed that productivity again increased. What was happening?

For a decade, Mayo conducted numerous similar studies with equally disconcerting results. In the end, he put forward a theory—the simple fact of paying attention to workers, and asking them to take part in something they felt was important, greatly influenced their productivity. Mayo’s experiments opened up a new line of psychologically based research and development, in which people were seen as the decisive factor in a companies’ success.

Following a similar approach, one of the most important contributions after the Second World War was Douglas McGregor’s theory X and theory Y.⁶ Each of these two theories gave a very different view of the worker. While theory X states that the worker is lazy and needs constant supervision, theory Y says that the worker is capable of being creative and

⁶D. McGregor, *The Human Side of Enterprise*, McGraw-Hill, New York, 1960.

innovative and will naturally seek responsibility. Through these two theories, McGregor called into question the idea that planning and supervision are the determining factors for a company's success.

In the second half of the twentieth century, under the influence of this idea, human resources began to take on an increasingly influential role and we saw the word "labor" change to "talent." That is because, although some human activity can be planned and controlled (formal activity), most of the work people do depends on initiative and creativity, and requires deeper personal involvement (qualitative activity).

Nowadays, automation and new technology have taken over most of the formal activity. As a result, fewer workers now perform purely repetitive tasks. A growing number of jobs add value through qualitative insight. The more complex the environment and the organization, the greater the need to provide an outlet for members' initiative and creativity while creating an attractive work environment (workplace climate), in which people can realize their full potential.

Based on the experience of successful companies, Pfeffer, in his book *The Human Equation*,⁷ lists seven key people management practices for reaching the people's full potential: job security, selective hiring, decentralized decision-making, contingent compensation, extensive training, reduction of status differences and sharing of financial and performance information. Pfeffer stresses that, for these practices to be effective, they must be consistent with one another and with the company's strategy.

Companies today are making serious efforts to create a pleasant work climate for their people. Successful practices include the following:

- Active participation of all employees. Hilton promotes the notion that all employees are important to the company. This allows new ideas to filter through the organization, making it more adaptable.
- Proximity of the leaders. Facebook executives (including its CEO and co-founder Mark Zuckerberg) work in open spaces alongside other employees to promote a sense of equality.
- Work and fun. Google strives to keep its employees happy and productive. Its offices include a wide range of services, including free

⁷J. Pfeffer, *The Human Equation*, op. cit.

meals, access to the gym, recreational spaces and sleep pods for taking a nap.

- Diversity and inclusion. At Zappos (an online retailer of shoes, clothing and accessories), employees are encouraged to express themselves freely and be authentic through various measures, such as the freedom to decorate their workspace.
- Flexible work schedule. All Netflix employees are asked to be autonomous and manage their own schedule; they are judged not by their hours worked, but by their skills and achievements.
- Hiring policies. At Whole Foods Market, employees must be voted in by their future coworkers to become permanent hires. The main criterion for hiring is “People who know how to treat people.”

This new approach, where business management is people-centric, constitutes what we call the “organic perspective” (see Fig. 2.2). The organic perspective adds three fundamental elements to management: **talent**, **management systems** and people’s specific **contribution** (goals and results). Giving people scope for initiative and creativity creates an organizational context that is richer but also more complex. One of the first such management systems to be introduced was management by objectives (MBO), proposed by Peter Drucker in 1954.⁸ MBO is “a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual’s major areas of responsibility in terms of the results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members.”⁹

Under MBO, each employee works in a context defined by objectives, for which they are responsible and which they accept as challenges. The



Fig. 2.2 Organic perspective

⁸ Peter Drucker, *The Practice of Management*, Harper & Row, New York, 1954, ch. 11: “Management by Objectives and Self-Control.”

⁹ George S. Odiorne, *Management by Objectives*, Pitman Publishing, London, 1965, p. 56.

worker takes a proactive attitude toward achieving the objective. Unlike “management by tasks,” the focus of management is no longer on the tasks but on the results. This encourages managers to concentrate their efforts on the few activities that are capable of producing significant business results.¹⁰

Later, as a complement to MBO, came the philosophy of “empowerment”: a context of autonomy and motivation, encouraging people to use creativity and initiative. Edward E. Lawler, one of the main proponents of this management style, defines empowerment in four dimensions:¹¹ power, information, rewards and knowledge (PIRK). Power consists of ensuring that people have sufficient power and resources to meet their targets. Information consists of giving people the information they need in order to achieve their objectives. Rewards have to do with the benefits and rewards workers may obtain if they accomplish their objectives. Knowledge consists of helping employees to acquire the knowledge and skills to do their job successfully.

Cultural Perspective

In the early 1980s, after a decade marked by the oil crisis, poor business performance and increasing competition worldwide, managers were looking for new ideas and solutions. Among the various currents of management thought prevailing at the time, three books caught the attention of practitioners and scholars: William Ouchi’s *Theory Z*,¹² Pascale and Athos’s *The Art of Japanese Management*¹³ and Peters and Waterman’s *In Search of Excellence*.¹⁴ They all became best-sellers and were very influential, and still are today.

¹⁰ Peter Drucker, *Managing for Results*, Harper & Row, New York, 1964.

¹¹ Edward E. Lawler, *Rewarding Excellence*, Jossey-Bass, San Francisco, 2000.

¹² William Ouchi, *Theory Z: How American Business Can Meet the Japanese Challenge*, Addison-Wesley, 1981.

¹³ Richard T. Pascale and Anthony G. Athos, *The Art of Japanese Management*, Simon and Schuster, New York, 1981.

¹⁴ Thomas J. Peters and Robert H. Waterman, *In Search of Excellence*, Harper & Row, New York, 1982.

These and other books based on studies of the world's most successful companies revealed, among other things, something that left much of the business world perplexed: the key to lasting success does not lie in a particular strategy or efficient use of resources, but in a hitherto largely ignored dimension of management, the cultural dimension. Under this perspective, the company is nurtured by and dwells within a social context where it makes an impact that goes beyond the exchange of goods and services.

Strictly speaking, cultural theories of the corporation were not a late twentieth-century invention. A number of authors had previously written about the importance of corporate culture. The best known of them is Chester I. Barnard, who in the 1930s argued that one of the three primary functions of the executive is to formulate, define and inculcate a shared purpose that gives meaning to the organization.¹⁵ Barnard was not a theorist and cannot even be said to have developed a theory. Rather, he brought to bear his practical experience as president of AT&T, one of the United States' leading companies. A few other companies, such as Hewlett-Packard, Johnson & Johnson, General Electric and IBM, had similar experiences to that described by Barnard. But it was not until the 1980s that the cultural dimension started to attract serious attention in the world of management.

This current of thought is represented by what some refer to as “organizations with purpose,”¹⁶ which entails seeking meaning beyond just profit and shareholder return.¹⁷ Amid the current challenges—growing uncertainty, disruption, greater need for meaningful employment among the younger generations, digitization and so on—purpose has emerged as a key element of success.¹⁸ In a recent statement by Larry Fink, Chairman and CEO of BlackRock, the world's largest investment firm, “a company

¹⁵ Chester I. Barnard, *The Functions of the Executive*, Harvard University Press, Cambridge, MA, 1938.

¹⁶ E. Hollensbe, C. Wookey, L. Hickey, G. George and C.V. Nichols, “Organizations with Purpose,” *Academy of Management Journal*, vol. 57, no. 5, 2014, pp. 1227–1234.

¹⁷ C. Rey, M. Bastons and P. Sotok, *Purpose-Driven Organizations*, op. cit., p. 138.

¹⁸ R.E. Quinn and A.V. Thakor, “Creating a Purpose-Driven Organization: How to get Employees to Bring Their Smarts and Energy to Work,” *Harvard Business Review*, July–August 2018, pp. 78–86.



Fig. 2.3 Cultural perspective

cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders.”¹⁹

This perspective introduces a new way of viewing the company, one we call the cultural perspective (see Fig. 2.3). This perspective comprises three elements, which make up the core of an organization’s purpose and culture: **external missions**, **values** and **internal missions**. In external missions, the organization’s focus is on meeting the needs of stakeholders (customers, consumers, communities). Internal missions, meanwhile, are about the stakeholders who contribute to meeting those needs (employees, suppliers, associates, shareholders). And values, as the synthesis of missions, are related to the fundamental criteria for decision-making.

These three elements are interrelated and so must be aligned in order to form a consistent culture. From the cultural perspective, a company is more than just a machine, or a group of people with initiative and creativity: it is a social institution with its own identity, defined by missions and values that are shared by its members.

The cultural perspective aims to generate what might be termed “ownership” or a sense of belonging. Ownership goes beyond empowerment. In fact, many companies that have launched empowerment programs find that the difficult thing is not giving people more power, but gaining their commitment. To do that, companies must develop a culture that inspires people to identify with a shared undertaking and shared values.

This desire for employee commitment and engagement has led to a proliferation of attempts to develop a philosophy and a set of values that give meaning to business enterprise: basically, why do companies exist? Nowadays, thousands of companies already have a formal purpose and values statement, and the trend is steadily increasing. Meanwhile,

¹⁹ See: <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>. [Referenced: 11/9/2020]

internal communication departments and systems designed to spread the corporate identity throughout the organization have mushroomed.

Various methods of building corporate culture with purpose have emerged in recent years. These methods are based on creating models and symbols that reinforce the desired values. Under this perspective, company reputation is not just an economic issue, or even a necessity for attracting talent. It is an imperative, a reason for being, a responsibility. And naturally, all these efforts are explicitly backed by top management and reinforced by a suitable internal communication campaign.

Companies are increasingly striving to build a meaningful culture. Some of the more successful approaches include the following:

- **Transparency.** “There is a consistent effort to be transparent and have a diverse work culture. People are encouraged to speak up and solve problems,” said a Microsoft employee.²⁰
- **Social awareness.** Volunteering and community engagement are pillars of the employee experience at Salesforce.
- **Reduction of status differences.** Whole Foods Market instituted a salary cap for executives relative to the average pay of full-time members.
- **Cultural projects.** Some companies have set up inter-functional or agile groups to work on specific projects to promote the purpose and values.²¹
- **Values-based awards.** Sony gives out awards for those who embody its values most.

The Integrated Organizational Model

The three perspectives we have described are entirely complementary and necessary for any organization to develop and succeed. A company cannot be explained exclusively by any one of these perspectives; all three are required. The mechanical perspective provides the “rational logic” of planning and supervision that is needed for the company to operate. The

²⁰ See: <https://www.forbes.com/sites/rachelmontanez/2019/12/10/the-best-companies-for-corporate-culture-in-2019/#471913b96dc3>. [Referenced: 11/9/2020]

²¹ R.E. Quinn and A.V. Thakor, “Creating a Purpose-Driven Organization,” art. cit., pp. 78–85.

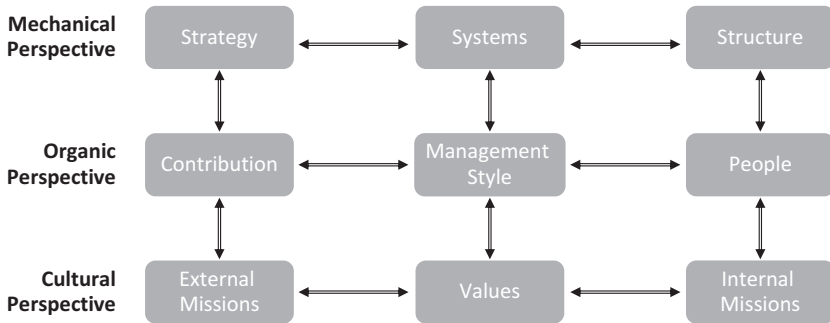


Fig. 2.4 Integrated model

organic perspective adds the creativity and initiative that takes the company beyond the limits of corporate planning. And the cultural perspective promotes internal unity through a common purpose that harnesses the commitment and engagement of the company's members.

Nonetheless, we have found that many companies that today are using the management by objectives as their primary management system integrate the mechanic and organic perspective, but are not successful in the integration of the cultural dimension in their day-to-day management. Efforts aimed at creating purpose (communication, speeches, activities, outdoor activities, awards, posters, etc.) are disengaged from the management system, creating disconnection. This leads to a dichotomy in the organization, like a split-personality disorder in which two identities function separately. This lack of alignment ultimately undermines trust and, therefore, unity.

The solution requires an integration of the three perspectives (see Fig. 2.4). This integrated model is the conceptual foundation of management by missions (MBM), that aims for a consistent and natural development of the cultural dimension in the company.

In the next chapter, we will analyze in depth the limits of management by objectives. In the following sections, we will discuss how to overcome these limits with a renewed management system.

²²The technological institutes of the Valencian Community are private, nonprofit research organizations that support companies, particularly SMEs, to boost their competitiveness through RDI.

Beyond Business

Since its inception, management by missions (MBM) has evolved naturally in business companies. The integration of missions and values with the other elements of the organization—strategy, systems, structures, management styles and people—provides businesses with a “soul.” Also, MBM has helped a wide variety of nonprofit organizations—such as universities, governmental organizations, associations or foundations—to better integrate their “soul” into the day-to-day management. In these organizations, especially those that operate in a competitive environment, MBM provides a methodology to stay the course and be faithful to their institutional purpose.

We can see this, for example, in the case of AITEX, the Textile Industry Research Association in the Valencian Community of eastern Spain,²² which, since 2008, has subscribed to the MBM methodology. Vicente Blanes, CEO of AITEX, shares his experience:

“At AITEX, missions have really helped us to grow and manage that growth. Twelve years ago, when we started implementation, AITEX had a total of 132 employees and an operating income of €12.2 million. In 2020, we ended up with an operating income of over €30 million, 300 employees in Spain and 30 more abroad, and offices in eight countries. All this growth has happened during a wonderful period of time for us, and management by missions has been really helpful.

“If I had to write a headline for it, I would say that management by missions is about creating a breeding ground and then a system for each person in the organization to bring out the leader within them. This is definitely what moves me; it’s what we do in our own lives. Why are we not able to get every person in the organization to do this when they come to work? To me, the missions are a guiding light. It has really helped us focus on our customers, teamwork, employee growth... and to provide the best, most reliable service and proximity to companies in the textile sector, which are the reason for our existence. It’s helped us to decentralize decision making, create autonomous and independent units that coordinate with each other... And every step of the way, we’re following that guiding light, which is our mission.

“For an organization like ours, this is essential. As a private association, we have a board of directors—our governing body—made up of over 20 CEOs of textile companies. We have multiple business units, multiple research groups, multiple lines of high value-added services, operations in multiple countries... Without clear and shared missions, this would be like an orchestra out of tune: we would not sound good. The missions fuse and harmonize our commitments with our key stakeholder groups; they unite and guide the organization. This is how we achieve our mission for companies in the textile and cosmetic industries (we recently added cosmetics), and for the territory, while still competing in the top tier of technology centers worldwide.

(continued)

(continued)

"I always tell people," adds Vicente, "that a hundred mission-oriented people amount to a hundred and fifty, whereas a hundred people who make an effort but aren't mission-oriented equate to more like sixty or seventy. In this case, energy is wasted, like friction force in physics. The difference is night and day. The key question is: How many leaders do you have in the organization? It should be at least 80% of the people. We believe in and defend the idea of bringing leadership to the entire organization. Management by missions gives us what we call 'the second pathway,' the one that goes from heart to action; it doesn't just add on, it exponentially expands the first pathway (from reason to action), which is how we contribute to the mission with our skills, talents and capabilities."

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3

The Limits of Management by Objectives

Abstract Many companies today experience a critical strategic contradiction. Their corporate purpose and values have evolved into what could be described as a humanistic vision while, at the same time, their management systems, mostly built around management by objectives (MBO), are designed to maximize shareholder value. Everything—customer service, talent development, even their philanthropy—is a means to increase profit. The problem is not about the objectives themselves, but rather their widespread misuse through the MBO system. Judging by the results of four decades of research, MBO has not been able to bring employees’ full potential into play. In this chapter, we analyze the limits of management by objectives and their consequences at organizational and personal levels.

Keywords Goals • Management by objectives • Commitment • Management by missions

The sponsors are: DPMC Foundation & Chair in Management by Missions and Corporate Purpose (UIC)

At present, many companies are full of contradictions. Their corporate purpose and values have evolved into what could be described as a humanistic vision, one where the company is seen as a human institution serving society, “the natural product of certain social needs.”¹ At the same time, their management systems, mostly built around management by objectives (MBO), are designed to maximize shareholder value. Everything else—customer service, talent development, even their philanthropy—is a means to increase profit.² When the cultural dimension is detached from the everyday reality of management, it hurts the company in terms of both reputation and unity.

For centuries, it was not necessary to have talent that was fully committed to the enterprise. Companies just needed to have and retain the necessary manpower, including management, at an adequate motivational level. This objective was achieved by planning for talent needs in the short and medium terms, and offering a system of financial incentives above the market level. But competitive dynamics have increasingly required that employees feel a sense of ownership, so that they behave more like entrepreneurs and less like a salaried worker.

To achieve this level of commitment, a variety of management tools have been proposed to enrich MBO. These include the balanced scorecard, competency management, change management programs, employee experience metrics and so on. Yet, still, something is not quite working. There remains a veiled resistance to change in which financial objectives are ultimately the deciding factor. The results are often disappointing: cultural improvement changes take time to implement and therefore the returns are hard to quantify.

The underlying challenge is to ensure that such management tools do not undermine the financial results and are consistent with the organization’s purpose. And what group of workers would feel enthusiasm or commitment toward a business whose main focus is shareholder profits, unless they themselves are shareholders? In the last century, several forms

¹T.J. Peters and R.H. Waterman, *In Search of Excellence*, op. cit.

²Jaap W. Winter, ‘Dehumanization of the Large Corporation’, working paper, University of Amsterdam, 10 January 2020. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3517492. [Referenced: 11/9/2020]

of employee shareholder were tested, namely cooperatives and stock options. With rare exceptions (which are more about culture than incentive), these forms of engagement have not been very successful.

Because they are deeply rooted in MBO, these new tools do not generate commitment; they just refine the traditional top-down pressure of MBO. This pressure, when perceived as a threat, has a negative and paralyzing effect. People tend to take refuge and defend themselves against the pressures from above by creating buffers (or safe spaces) so they can keep performing at the expected level (i.e., to achieve the established objectives... in yet another refined exercise of fulfillment and self-deception). This deviation between expected and actual behaviors leads us to conclude that the underlying philosophy of MBO does not adequately address the social dynamics we see today.

The Problems with Management by Objectives

As we saw in Chap. 2, MBO was a major step forward from the purely mechanistic vision of the company in the nineteenth century. This management method is designed to produce autonomous behavior that promotes initiative and creativity to the company's benefit. In theory, it should bring out all of the human potential that was rendered useless by management due to "command and control" approach. Despite research has uncovered some limitations of MBO—such as its tendency to distance the company from the market,³ promotion of unethical behavior⁴ and diminished performance in uncertain environments⁵—there is considerable empirical evidence from more than 50 years that generally

³ C. Aranda, J. Arellano and A. Dávila, "Organizational Learning in Target Setting," *Academy of Management Journal*, vol. 60, no. 3, 2017, pp. 1189–1211.

⁴ K. Niven and C. Healy, "Susceptibility to the 'Dark Side' of Goal-Setting: Does Moral Justification Influence the Effect of Goals on Unethical Behaviour?" *Journal of Business Ethics*, vol. 137, no. 1, 2016, pp. 115–127. / M.E. Schweitzer, L. Ordóñez and B. Douma, "Goal Setting as a Motivator of Unethical Behavior," *Academy of Management Journal*, vol. 47, no. 3, 2004, pp. 422–432.

⁵ R. Harms, C.H. Reschke, S. Kraus and M. Fink, "Antecedents of Innovation and Growth: Analysing the Impact of Entrepreneurial Orientation and Goal-Oriented Management," *International Journal of Technology Management*, vol. 52, no. 1–2, 2010, pp. 135–152.

corroborates the effectiveness of having goals at both the individual⁶ and team levels.⁷ Ultimately, as the research consistently showcases, having goals is better than not having goals.⁸

However, when MBO is applied in an organization with low levels of commitment, individuals tend to “game the system” by hiding behind the objectives or sticking to just fulfilling the minimum requirement. A typical example would be a sales rep who is expected to sell 100 units of a given product (say, cars). If they have already hit their target by November, they have two options: take a month’s vacation, or sell more cars. A good rep will carry on selling, but they will see to it that those “extra” sales do not show up until January. Why? Because if they tell their boss that they have sold 115 cars this year, then next year’s target will be 120, and the sales rep doesn’t want to risk having such a high target. Instead, they will go to their boss in January with the target of 100 already met (and with 15 more sales lined up, to be reported once they have negotiated a lower target for next year).

It is not only at the lower levels of the organization that people try to give themselves this sort of “sandbag.” The sales rep’s boss is very likely to have his or her own sandbag and so on upward. The consequence is that no manager three levels up knows what is really happening on the ground (much less a senior executive in a large corporation). Despite this, top management still tries—however hit-or-miss—to get the most out of the people below them, because they, too, are under pressure (and they, too, need to build a sandbag with respect to the shareholders).

In these circumstances, instead of eliciting the greatest possible contribution from all employees, the system flounders in a vicious circle of wrangling over objectives. Employees will try to talk the objectives down, while top management will try to talk them up. Usually, the conflict is resolved by mandate from above and external monitoring. This is a weakness of MBO that was noted as early as the 1950s by Drucker himself:

⁶E.A. Locke and G.P. Latham, “Building a Practically Useful Theory of Goal Setting and Task Motivation: A 35-Year Odyssey,” *American Psychologist*, vol. 57, no. 9, 2002, p. 705.

⁷C. Antoni, “Management by Objectives: An Effective Tool for Teamwork?” *The International Journal of Human Resource Management*, vol. 16, no. 2, 2005, pp. 174–184.

⁸E.A. Locke and G.P. Latham, “Breaking the Rules: A Historical Overview of Goal-Setting Theory,” *Advances in Motivation Science*, vol. 2, 2015, pp. 99–126.

“The new ability to produce measuring information will make possible effective self-control; and if so used, it will lead to a tremendous advance in the effectiveness and performance of management. But if this new ability is abused to impose control on managers from above, the new technology will inflict incalculable harm by demoralizing management and by seriously lowering the effectiveness of managers.”⁹

The problem is not with the objectives themselves, but rather their widespread misuse through the MBO system. For many companies, MBO is in fact an outdated system that cannot be expected to deliver more than incremental improvements on previous years’ results. What’s more, MBO has no answer to the question of employee commitment, as it is based on a dynamic that has no use for commitment. MBO establishes a direct relationship between system pressure and system performance (see Fig. 3.1): to get more profit, I have to use more pressure

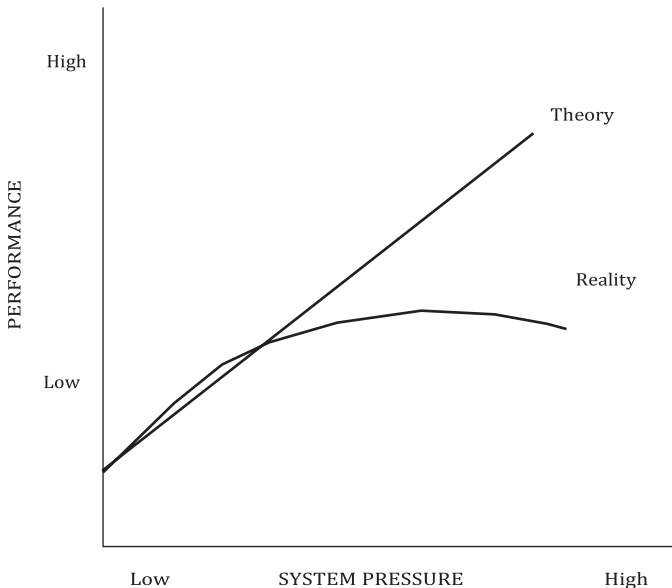


Fig. 3.1 Performance & system pressure

⁹P. Drucker, *The Practice of Management*, op. cit., p. 132.

(which means higher incentives and harsher punishments). In the real world, however, this is true only for a while. Once the pressure reaches a certain level, people “take cover.” And if the pressure is too high, they may even start to boycott the whole system. The most serious problem is that MBO can only increase results by increasing the pressure. And when the system is wound too tight, something may snap.

We can see this play out in the studies by Aranda, Arellano and Dávila, who, for four years, studied the rapid growth of a travel company that went from 244 to 390 agencies. In their comparison, they observed that MBO had a positive effect on the newer agencies (stimulating ambitious goals) but not on the mature agencies. This was because, over time, the agencies tended to decrease their commitment to the market and set targets based solely on the previous year’s results.

Judging by the results we see every day, MBO—even with empowerment—has not brought an employees’ full potential into play. The main reason is that, without intense commitment, giving people more responsibility or power is futile; MBO becomes just another way of controlling someone. In our opinion, although MBO and empowerment represent a major step forward in management, they get results only insofar as employees are committed. As mentioned, the challenge today is not so much empowerment, but ownership: the sense of belonging, and the sense of purpose. Another consequence of MBO is that, given enough time and pressure, it eventually leads to a breakdown in communication within the company. In theory, MBO is intended to enhance communication and understanding up and down the hierarchy and across departments or units. The reality is rather opposite. People are constantly telling us: “I can’t get through to my boss” (obviously not because the phone is out of order); “we work in silos”; “what we need is a bit more teamwork”... The inflexibility of personal and departmental goals ends up creating a lack of cooperation between people and departments. This is because the goals are not geared toward the common good, but rather individual gain. Additionally, more and more research shows that pressure to achieve results ultimately hurts performance. For example, the studies of Heidi K. Gardner on 78 auditing and consulting teams show a

negative relationship between pressure and willingness to cooperate.¹⁰ In a recent study, Michael S. Gary et al. show that there is a negative effect on commitment and performance when the bosses impose the objectives.¹¹

Clearly, the problem is not the objectives themselves, but rather how they are used and, moreover, why they are used. A fundamental limitation of MBO is that it was not built to create a sense of purpose. When there is no awareness of a shared purpose, MBO can slowly break a company apart: up, down and across the organization. On every rung of the hierarchical ladder, MBO creates potential enemies: the boss puts pressure on their subordinates and disbelieves everything they say. Subordinates do what they can to shield themselves and evade pressure at every turn. These subordinates themselves are bosses to other, lower-level employees. And the same dynamic plays out again and again.

Across the organization, MBO also creates potential enemies among those who share interdependencies or processes. Sales, for example, might complain that Production is too inflexible. While Production complains that Planning gets its forecasts wrong. And Planning complains that Sales doesn't feed the data on time. The company is fissured and increasingly unmanageable. Seventy years on, we are still banging our heads against Chester I. Barnard's tautology: "Willingness to cooperate [...] cannot develop without an objective of cooperation."¹²

The limits of MBO have been discussed by various experts, including W.E. Deming, one of the best-known advocates of quality systems:

The idea of merit rating is alluring. The sound of the words captivates the imagination: pay for what you get; get what you pay for; motivate people to do their best, for their own good. The effect is exactly the opposite of what the words promise. Everyone propels himself forward, or tries to, for his own good, on his own life preserver. The organization is the loser.¹³

¹⁰ H.K. Gardner, "Performance Pressure as a Double-Edged Sword: Enhancing Team Motivation but Undermining the Use of Team Knowledge," *Administrative Science Quarterly*, vol. 57, no. 1, May 2012, pp. 1–46.

¹¹ M.S. Gary, M.M. Yang, P.W. Yetton and J.D. Sterman, "Stretch Goals and the Distribution of Organizational Performance," *Organization Science*, vol. 28, no. 3, 2017, pp. 395–410.

¹² Chester I. Barnard, *The Functions of the Executive*, op. cit., p. 86.

¹³ W. Edwards Deming, *Out of the Crisis*, Massachusetts Institute of Technology, Center for Advanced Engineering Study (MIT CAES), Cambridge, MA, 1986, p. 102.

Along with these challenges, brought on by its misuse, we now face another increasingly important limitation: the inability of MBO to adapt to uncertain and changing environments. MBO is structured into the company's budget system, which is usually annual. As the year progresses and circumstances change, the objectives may prove too big or too small, or become meaningless. In these cases, the budget becomes the main inhibitor of innovation: there is no budget for new ideas; although money can be spent on unimportant things, simply because "it's in the budget," and if we don't spend it, they will take it from us next year.

This evidence can be seen, for example, in Harms' studies of German-based tech companies.¹⁴ For four years, the researcher analyzed the evolution of 165 startups subjected to high uncertainty and rapid growth. Surveys conducted with managers and founders, contrasted with financial data, showed that there was no difference in economic results between companies with or without MBO and that, in the case of the former, MBO had a negative effect on their innovation capacity. The recent COVID-19 crisis has clearly highlighted this reality for a great number of companies. For many of them, with double-digit revenue losses in a matter of days and a situation of total uncertainty, MBO quickly ceased to be a valid approach.

These findings are starting to show that the effectiveness of MBO in the twentieth century may not be the same in a new era rife with uncertainty, disruption and constant change, not to mention a growing concern among the younger generations about the meaning of their work and the social impact of business. Recently, some authors have suggested improvements to MBO such as more frequent revision of objectives or greater transparency,¹⁵ but, in our opinion, these solutions are not enough. As we have already highlighted, the challenge is not the objectives themselves, but how they are used (control vs. autonomy), how they adapt to the context of the company (stable vs. uncertain)

¹⁴R. Harms, C.H. Reschke, S. Kraus and M. Fink, "Antecedents of Innovation and Growth," art. cit.

¹⁵D. Sull and C. Sull, "With Goals, FAST Beats SMART," *MIT Sloan Management Review*, vol. 59, no. 4, 2018, pp. 1–11.

and, most importantly, the purpose of the system. Indeed, well-developed objectives can be very useful, and, in most of the cases, they are necessary and compatible with management by missions (MBM). However, as Birkinshaw stated after analyzing companies that have maintained high levels of purpose and profitability over time (e.g., Tata, HCL Technologies, Novo Nordisk and Whole Foods), the objectives systems, alone, cannot generate a sense of purpose; it also needs elements that reinforce and prevent the system from focusing exclusively on financial results.¹⁶

Low-Octane Cultures

So long as the corporate purpose continues to be (or perceived to be) exclusively to maximize shareholder value, companies will not realize people's full potential.¹⁷ Alternatives such as corporate social responsibility may generate a certain sense of pride of belonging that is useful for employer branding, but these are not solutions that inspire genuine commitment to the enterprise. The solution must revolve around a purpose that is consistent, coupled with the values of authenticity and integrity that promote a sense of mission in the workplace. However, that is easier said than done. Many companies have the right pieces of the puzzle but struggle putting them together.

It is one thing to define a specific culture (purpose, values, principles, policies...) but quite another to implement it effectively. This reality can be seen, on a global scale, in various studies. The latest Gallup polls on employee engagement (a critical measure of competent culture), with 6.5 million respondents from 155 countries in every continent,¹⁸ for example, provide a snapshot of the current situation that distinguishes three types of employees:

¹⁶J. Birkinshaw, N.J. Foss and S. Lindenberg, "Combining Purpose with Profits," art. cit.

¹⁷S. Lindenberg and N.J. Foss, "Managing Joint Production Motivation: The Role of Goal Framing and Governance Mechanisms," *Academy of Management Review*, vol. 36, no. 3, 2011, pp. 500–525.

¹⁸See: <https://www.gallup.com/workplace/238079/state-global-workplace-2017.aspx>. [Referenced: 11/9/2020]

Table 3.1 Status of the global workplace (Gallup)

Actively disengaged (%)	Not engaged (%)	Engaged (%)
18	67	15

- *Engaged.* Employees are highly involved in, enthusiastic about and committed to their work and workplace; they drive performance and innovation, move the organization forward.
- *Not engaged.* Employees are psychologically unattached to their work and company and who put time, but not energy or passion, into their work.
- *Actively disengaged.* Those who have miserable work experiences because their needs are not being met.

Of the total sample, only 15% are engaged at work; two-thirds do not feel engaged (67%); and 18% are actively disengaged (Table 3.1).

This reality has also been the focus of our study of more than 200 companies from a range of sizes and sectors. Using surveys and interviews, we have confirmed that, despite the efforts many companies make to develop their own culture, they mostly fall short. These are some of the main cultural issues:

- **Unfamiliarity with the company's purpose.** Although many of the sample companies have some sort of formal statement of principles and priorities, few employees really know them, and even fewer feel that they impact their daily work.
- **Lack of faith in the organization's values.** Very often, the organizational values have no credibility. Employees are either unaware of them or see a discrepancy between what the company "preaches" and what it "practices."
- **Inadequate top-down communication.** Most of the companies surveyed have communication tools (some even have communication departments), and yet communication is seen as inadequate or confusing, especially at lower levels of the organization.
- **Inadequate horizontal communication.** Information does not flow naturally across departments. People regularly complain that departments don't want to share information. This makes life difficult for both sides. Some perceive this as an invisible barrier that makes areas opaque to one another.

- **Lack of cooperation.** Each area is a silo; cooperation takes place only on certain preestablished issues, or when group work makes it inevitable. People do not proactively pursue cooperation. Everyone “does their own thing” and they only take notice of others when they have a problem or are looking for someone to blame.
- **Resistance to change.** Despite living in an increasingly changing environment, employees are reluctant to adapt to changes. This stifles decision-making processes and the ability to respond to market needs.

These findings show that companies have much room for improvement in the cultural realm, and companies in general have a lack of cultural strength (“low-octane cultures”).

Beyond Management by Objectives

We believe to achieve greater culture; companies must establish a new organizational context—one that focuses on a transcendental aim and offers meaning to people’s work through a shared sense of purpose. Such a culture is not going to come from clever slogans or management speeches: to be sure, it will require a renewed management methodology that can, once and for all, surpass the limitations of MBO. It is no longer a matter of exercising tighter control or piling on the pressure; it’s about getting people to feel more committed and motivated, so that they have a sharper sense of urgency and learn to set their sights beyond strictly personal objectives. When people work with a shared sense of purpose, they do not try to build a sandbag for themselves; nor do they content themselves with preestablished objectives. Even more importantly, they work naturally as a team.

This is not an unrealistic scenario, nor is it unattainable in practice. On the contrary, it is the context in which we humans naturally seek to freely realize our full potential. It is the context we find in family, friendship or play. In contexts such as these, people feel united precisely because they share a purpose. They find it perfectly natural to strive for a common goal (transcendent motivation). That is because, maybe without realizing it, their actions are aligned to a purpose, and they understand at a deeper level what it is all for—a goal beyond their own extrinsic needs.

It is sad to see how, in a business context ruled by the tyranny of profit maximization, many of these people become rabidly opportunistic, vengeful, distrustful and calculating. It is sad, not only because of the waste of human potential but even more because of the unhappiness the resulting impoverishment causes in these people. The solution is not to turn companies into amusement parks or put more ping-pong tables in the employee break room. It is about giving value to people's work that goes beyond shareholder earnings and inspires real engagement.

Management by missions does not imply a complete departure from MBO; as many experts claim, the solution is not to eliminate objectives, but to develop a new management approach based on a transcendental purpose.¹⁹ To provide a greater understanding of MBM, the next chapter delves deeper into company purpose and how that purpose should be defined to achieve genuine employee engagement.

"We Were Missing Something..."

Industrial Química del Nalón is an Asturian company in the coal chemical industry belonging to Grupo Orejas, a multi-industry conglomerate. Founded in 1943, shortly after the Spanish Civil War, the company managed to survive over the years to become one of the leading chemical companies in the region, with a broad presence in the international market.

In the early 2000s, seeking to professionalize its management and streamline production processes, the company undertook various change programs based on management by objectives (MBO) and lean manufacturing tools. The changes brought good results from a financial perspective, along with considerable savings and far greater productivity and efficiency. However, within a few years, the management team realized that these improvements were starting to plateau. The new tools were not helping it get over the hurdle of organizational culture, which was highly unionized and made it difficult to establish leadership among the teams.

In 2011, the company turned to management by missions (MBM), hoping that the human dimension—ever present in the principles of the company and its shareholders—would spread throughout the organization and

(continued)

¹⁹S. Lindenberg and N.J. Foss, "Managing Joint Production Motivation," art. cit., pp. 500–525.

(continued)

inspire its workers in everything they were doing. Jaime González-Baizán, the company's CEO from 2007 to 2019, shared his experience:²⁰

"We had to modernize a number of processes. The company had tremendous technological and industrial strengths, but in other areas, it had major weaknesses. We were extremely focused on the technical side, but not so much on the people. A lot of departments were siloed. Those last few years, we used lean manufacturing to launch a series of programs and workshops. We started to implement what we call DOPA,²¹ a way to deploy objectives at different levels so we could connect everyone to the company's objectives. We implement 5S,²² troubleshooting tools, Lean Six Sigma"²³ and autonomous work teams. We did a lot there, as you can see.

"Everything worked, and it brought considerable savings every year, but we still had problems. Honestly, it was hard for us to achieve the objectives, and we couldn't come up with a scorecard that would work for us in practice, because people just didn't see the value in it. What I realized is that knowing the technical part didn't actually generate unity or leadership. We were missing something. And that's when we discovered management by missions.

"Delving deeper into missions has helped us understand our 'reason for being' as a company. It makes it easier for us to sift through opportunities and initiatives... Before that, we analyzed everything that came up. Now we ask ourselves: Does it align with our missions or not? This way, we have a clear vision of why we are here. It has broadened the perspective of departments and their managers. For example, before it was hard to see how Sales had an important role in HR or that Finance had an important role in customer service and relationships. We started to view our work differently. The method of defining objectives has improved substantially, and I think that's a good barometer. It's also noticeable on the scorecard. Now, all departments have their own scorecard; they know where it came from and, most importantly, they know why they need it. This has brought our people, departments and factories closer together. You start looking for a lot more reasons to be together, and I think that's great."

(continued)

²⁰ Jaime González-Baizán passed away in October 2019 at the age of 56. This testimonial is a compilation from the talk he gave at the 4th Meeting of companies of the UIC's Chair of Management by Missions and Corporate Purpose, on November 21, 2013.

²¹ Deployment of objectives and plan of action.

²² The 5S philosophy has its roots in Japan. The name "5S" is the acronym for five Japanese words with the following meanings: *seiri* (sort), *seiton* (store), *seiso* (shine), *seiketsu* (standardize) and *shitsuke* (sustain).

²³ Six Sigma (6 σ) is a process improvement strategy.

(continued)

Using management by missions, the management team launched several leadership and coordination programs between the different areas. New challenges and initiatives were undertaken, both for business development and for diversification into other businesses. In just a few years, after strongly promoting organizational unity and team leadership, the company had become far more efficient in its processes, created solid long-term relationships with its customers and main suppliers and, consequently, achieved excellent financial results.

“At the end of the day,” added Jaime, “missions have to be at the heart of the work and the company itself. Management by missions is not an event; it’s something each person has to bring to their daily work. It’s important to get buy-in from the skeptics and reach everyone. The more you work on management by missions, the more you realize that if people are at the heart of the company, then you have to put a lot more effort on the people side. The challenge is to figure out how we get the workers to focus on the missions and ensure that each team has team-specific missions that reflect how they contribute to the overall company missions.”

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Part II

In Search of Corporate Culture



4

What Are Companies For?

Abstract Management by missions (MBM) starts by asking a fundamental question: What is your company for? It seems reasonable to assume that an organization and its members should have a clear idea of why they exist. In practice, however, that is not always the case. Very often, there is great confusion and conflict of opinion on this point, even within the board of directors or executive committee. In this chapter, we explore this fundamental question first by discussing the role of profit in business (as a mean or an end). Then we propose a specific definition of purpose as *the synthesis of the ends of a company*. We then introduce the three dimensions of an effective purpose: Authenticity, Coherence and Integrity. Finally, we discuss the relationship between personal and corporate purpose.

Keywords Purpose • Profitability • Authenticity • Integrity • Personal purpose

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It seems reasonable to assume that an organization and its members should have a clear idea of why they exist. In practice, however, that is not always the case. Very often, there is great confusion and conflict of opinion on this point, even within the board of directors or executive committee. The basic problem, when the ends¹ are not clear, is that the organization becomes beholden to the utilitarian push to maximize shareholder earnings. In fact, the singular focus on shareholder return is a standard consequence of the lack of leadership toward specific ends. For this reason, companies fall into an opportunistic cycle, one that is subject to the ups and downs of the short term.

Among other problems, such an opportunistic view precludes cooperation. As Barnard said in the 1930s: “Willingness to cooperate [...] cannot develop without an objective of cooperation. Unless there is such an objective it cannot be known or anticipated what specific efforts will be required of individuals, nor in many cases what satisfactions to them can be in prospect.”² And without cooperation, it is exceedingly difficult to get the most out of the organization’s talent.

David Packard, co-founder of Hewlett-Packard, is a good example of how important it is to have a clear “why.” In 1960, 23 years after the company got started, Packard began his speech at the opening of a management development program with these words:

I want to discuss why a company exists in the first place. In other words, why are we here? I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company’s existence, we have to go deeper and find the real reasons for our being. [...]

You can look around and still see people who are interested in money and nothing else, but the underlying drives come largely from a desire to do something else—to make a product—to give a service—generally to do something which is of value. So, with that in mind, let us discuss why the Hewlett-Packard Company exists.³

¹ We use here the term “ends” (something toward which one strives) in plural assuming that companies may exist for different reasons and not necessary for a single or ultimate end.

² Chester I. Barnard, *The Functions of the Executive*, op. cit., p. 86.

³ From a speech given by David Packard on March 8, 1960.

Like Hewlett-Packard, most companies that have made a serious effort to define their missions have started by asking themselves why they exist in the first place. Understanding this is no simple task, especially if the company is owned or controlled by more than one person.

Profit: Means or End?

The first problem we encounter when we try to define a company's ends is understanding where profit fits into the equation. In management literature, and also through the various interviews and conversations with practicing managers, we have been able to identify three perspectives surrounding the idea of profit.

The first sees profit maximization as the company's sole purpose. Ever since Adam Smith, there have been those who declare that a company must confine itself exclusively to making a profit.⁴ Anything else a company does, they say, can only be understood as a means of making said profit. The best-known advocate of this view is Milton Friedman, who in the early 1960s stated:

There is one and only one social responsibility of business: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.⁵

This concept has been present throughout the business world for decades, promoted especially by capital markets that see companies as assets that are bought and sold.⁶ The issue is still discussed and debated today in political, academic and business circles.

⁴H.T. Koplín, "The Profit Maximization Assumption," *Oxford Economic Papers*, vol. 15, no. 2, 1963, pp. 130–139.

⁵M. Friedman, *Capitalism and Freedom*, University of Chicago Press, 1962.

⁶Jaap W. Winter, "Dehumanisation of the Large Corporation," working paper, doc. cit. Available at: <https://ssrn.com/abstract=3517492> and <https://doi.org/10.2139/ssrn.3517492>. [Referenced: 11/9/2020]

The second viewpoint argues that profit is only one of the many ends of a company. This line of thinking contends that companies should contribute beyond profit: in the form of service to individuals, groups or society as a whole. In all it does, a company satisfies one or more needs of its various stakeholders: customers, employees, shareholders, suppliers and members of the community in which it operates. Some contributions may seem more noble or enriching than others. However, it is not our intent in this book to make a moral judgment as to whether certain activities are better than others. The point we wish to make is that, for many companies, the contribution they make to their various stakeholders is an end in itself, on a par with making a profit. In fact, that is the interpretation we have found repeated most often in corporate mission statements.⁷

Lastly, the third perspective sees profit not as an end in itself, but as a means to other ends. “Profit is a necessary condition for existence and a means to more important ends, but for many visionary companies it is not an end in itself. Profit is as oxygen, food, water or blood are to the body; they are not the most fundamental things in life, but without them there can be no life.”⁸

How an enterprise thinks of profit is not a theoretical exercise; for it has a direct impact on the priorities and decisions made and it can affect the entire business. Take, for example, a company that declares profit to be its sole purpose. It will likely view suppliers, employees and customers as a means to achieve it instead of viewing them as collaborators toward a shared outcome. What type of company will employees, suppliers and customers prefer? We can even ask ourselves: What type of company would our shareholders prefer? Because seeing profit as a means instead of an end can ultimately lead to higher profitability. This attitude is exemplified by the company Hallmark: “We believe that financial results are indispensable, not as an end in themselves, but as a means to fulfill our mission” (Hallmark Cards Inc., *Beliefs & Values*).⁹

⁷ See, for example, B.R. Bartkus and M. Glassman, “Do Firms Practice What They Preach?” art. cit., pp. 207–216.

⁸ J.C. Collins and J.I. Porras, *Build to Last*, Century, 1996, p. 55.

⁹ P. Murphy, *Eighty Exemplary Ethics Statements*, University of Notre Dame Press, Notre Dame, IN, 1998.

The Danger of Simplification

Certainly, profit may be an end for many companies. But is it the only one? The answer must be given by the managers, because the ends are decided by those in command of the ship. A single end, such as profit, simplifies decision-making. Reality becomes linear, one-dimensional: you go forward or backward, you win or you lose. However, not all realities are linear. One simple example: we live in a three-dimensional reality (not counting the time dimension). Reducing our reality to two dimensions, like on screens, is fine for simulations or video games, but it does not quite capture the richness of our real experience.

Our business reality has changed remarkably already this century. In the twentieth century, when it was enough to have a “workforce” (the cheaper the better), customers were limited to a geographical area and reputation was not a key issue, we could simplify reality by just focusing on economic efficiency. But in today’s world, many of these variables have become critical and cannot be safely ignored. Oversimplifying the company’s ends may become an outright attack on the beliefs of many of the people who work for it, undermining their motivation and commitment.¹⁰

When profit is the sole end, everything else becomes a means. Imagine, for example, the case of a private hospital. Doctors would challenge us if we suggested that the reason their hospital exists is to “make money.” If we are talking about a private hospital, the inaccuracy of our assumption is plain to see. In other cases, however, where the business activity does not have such a clear social dimension, the error may not be so obvious.

A singular focus on profit is not the only type of oversimplification. Statements such as “we exist to serve our customers” or “the company’s true purpose is its people” can lead to the same mistake. Customers or people may be a company’s end, but can they be the only one? It is important to think ahead and be careful when making such claims, as such “catchphrases” often lead to inconsistencies and do nothing more than create confusion and skepticism.

¹⁰B.L. Parmar, A. Keevil and A.C. Wicks, “People and Profits: The Impact of Corporate Objectives on Employees’ Need Satisfaction at Work,” *Journal of Business Ethics*, vol. 154, no. 1, 2019, p. 13.

To avoid oversimplification, we need to overcome our natural inclination to see the ends of the company as a dilemma: either one thing or the other. The key insight is precisely that this is not an either/or choice, but a quest for balance and complementarity. Understanding that, we overcome the tyranny of “A or B” and start to think in terms of “A and B.”¹¹ We then stop talking about a single end and talk instead about several ends: profit, people, customers, shareholders... Henry Morgan, the author of Ben & Jerry’s mission statement (a company known worldwide for its sense of mission), said in an interview: “Most missions that focus on just one aspect are unhelpful. That is why, for Ben & Jerry’s, I wrote three missions: the product mission, the economic mission and the social mission.”¹²

Balance and Complementarity

Accepting that the company has multiple ends leads to a new problem: how to find the right balance and complementarity between different ends. In principle, one might assume that all a company’s ends should be given equal importance. But the answer is usually not that simple. Finding the right balance in each case is an important part of defining the company’s purpose.

One of the best-known developments that defend this perspective is Michael Porter’s theory of creating shared value, whereby the company shares a duality of economic and social ends.¹³ This philosophy, which proposes a way to “reinvent capitalism,” has been embraced by numerous corporations such as Google, Intel, IBM, General Electric, Nestlé, Coca-Cola, Johnson & Johnson and Unilever. According to this philosophy, companies must seek initiatives that simultaneously create economic value and progress in the communities where they operate. This approach

¹¹J.C. Collins and J.I. Porras, *Build to Last*, Century, 1996, p. 55.

¹²P. Jones and L. Kahaner, *Say It and Live It: 50 Corporate Mission Statements That Hit the Mark*, Currency Doubleday, 1995.

¹³M.E. Porter and M.R. Kramer, “The Big Idea: Creating Shared Value. How to Reinvent Capitalism—And Unleash a Wave of Innovation and Growth,” *Harvard Business Review*, 89, no. 1–2, 2011.

is also related to the Sustainable Development Goals (SDG), through which companies try to solve social problems related to water, environmental impact, education, health and so on.¹⁴

The quest for balance also requires managing the tensions generated by the compatibility of diverse ends. This is the case of a water supply company whose objective is to profitably sell water, while at the same time encouraging reduced consumption. These two objectives are in conflict, but they are not incompatible. Battilana's research on how to manage conflicts in dual-purpose settings shows that the key is to build a commitment to creating both economic and social values into their core activities.¹⁵ Is it easy? Not at all. Is it impossible? Definitely not. There are plenty of successful companies to prove it.

We may wonder how these companies are able to combine such diverse ends. There is no simple answer, no one way of doing it. Instead, Battilana offers some recommendations, such as prioritizing and monitoring objectives in the two dimensions, hiring employees who are committed to both goals and practicing leadership that combines economic and social values.

Ultimately, every company must find its own way of combining the different ends that come into play when decisions are made. It would be much easier if the company had just one decision criterion: profit, for example. But such simplicity, besides impoverishing the decision process, would also diminish the company's purpose and, with it, people's commitment to the enterprise. This approach can be seen in the transition of many companies that have shifted from offering a certain product or service to embracing a broader purpose (see examples in Table 4.1).

Table 4.1 From product/service to purpose

Company	Traditional positioning	New positioning
Nestlé	Food and beverage	Nutrition
Nike	Footwear and sportswear	Well-being
IBM	Computers	Information

¹⁴ See: <https://www.un.org/sustainabledevelopment/es/>. [Referenced: 11/9/2020]

¹⁵ J. Battilana, A.C. Pache, M. Sengul and M. Kimsey, "The Dual-Purpose Playbook," *Harvard Business Review*, March–April 2019.

The theory of creating shared value between an economic goal and a social goal is not the only way to enrich the one-dimensional view of profit maximization. As we saw before, Ben & Jerry's developed a purpose with, in their case, three distinct supporting missions: product, economic and social.

Organizational Purpose

As we have seen, one of management's toughest challenges is finding the right balance and complementarity among the company's various ends. From now on, we shall use the word purpose to refer to a company's multiple ends. Specifically, we define purpose as the *synthesis of the ends of a company, its ultimate reason for existence*. We do so in order to emphasize the fact that an organization's ends are not separate and disjointed but a cohesive whole. An organization's purpose, therefore, is not the sum of various unrelated ends, but a rich and complex whole encompassing a variety of ends which support and reinforce one another in many different ways.

The formulation of the purpose is usually done through short phrases or concepts that reflect the essence of the company's goals. To "relieve pain," "boost well-being," "give meaning to work," "improve life," "inspire happiness" and so on. Purpose recognizes the interdependence of business and society.¹⁶ For example, Disney's purpose is to "use our imaginations to bring happiness to millions"; 3M's purpose is "advancing every company, enhancing every home, improving every life"; and Google's is to "organize the world's information and make it universally accessible and useful."

In recent years, several studies have shown the positive effects of creating a purpose in different settings, both internal and external. These are some of the notable impacts:¹⁷

¹⁶E. Hollensbe, C. Wookey, L. Hickey, G. George and C.V. Nichols, "Organizations with Purpose," art. cit., pp. 1227–1234.

¹⁷Summary prepared by A. Lleó, "The Power of Purpose," unpublished paper, 2020.

- *Commitment to the company.* Purpose is positively correlated with engagement and job satisfaction (Allan et al., 2019).¹⁸
- *Attraction, motivation and retention of young talent.* “Sixty percent of millennials (35% of the workforce) believes that a company’s main objective should be improving society rather than generating profits” (Deloitte, 2018).¹⁹
- *Change and innovation.* “Eighty-four percent of managers said businesses with shared purpose would be more successful in transformation efforts” (HBR, 2015).²⁰
- *Flexibility, agility and resilience in VUCA environments.*²¹ 73% of business leaders said that, “having a well-integrated purpose will help their company navigate disruption” (EY-Beacon Institute, 2017).²²
- *Profitability.* “Organizations with a strong sense of purpose are more than twice as likely to have above-average performance for shareholders” (BCG, 2020).²³
- *Relations with customers and other stakeholders.* “Organizations with a purpose build greater customer loyalty by 52%” (EY-Beacon Institute, 2017).²⁴
- *Reputation and legitimacy.* “Purpose drives 13% of a company’s overall reputation. 88 percent of companies with a strong reputation have strong purpose scores” (Porter Novelli/Cone Purpose Premium Index, 2018).²⁵

Considering this, we can conclude that purpose is not just another tool in the organization, like the communication plan; it is a reality that affects the very heart of the company. As Barnard said, purpose is the objective

¹⁸ B.A. Allan, C. Batz-Barbarich, H.M. Sterling and L. Tay, “Outcomes of Meaningful Work: A Meta-Analysis,” *Journal of Management Studies*, vol. 56, no. 3, 2019, pp. 500–528.

¹⁹ See <https://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html>. [Referenced: 11/9/2020]

²⁰ See <https://hbr.org/resources/pdfs/comm/ey/19392HBRReportEY.pdf>. [Referenced: 11/9/2020]

²¹ VUCA: volatility, uncertainty, complexity and ambiguity.

²² See [https://www.ey.com/Publication/vwLUAssets/ey-the-state-of-the-debate-on-purpose-in-business/\\$FILE/ey-the-state-of-the-debate-on-purpose-in-business.pdf](https://www.ey.com/Publication/vwLUAssets/ey-the-state-of-the-debate-on-purpose-in-business/$FILE/ey-the-state-of-the-debate-on-purpose-in-business.pdf). [Referenced: 11/9/2020]

²³ See <https://www.bcg.com/featured-insights/how-to/purpose-driven-business>. [Referenced: 11/9/2020]

²⁴ See https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/purpose/ey-the-state-of-the-debate-on-purpose-in-business.pdf. [Referenced: 11/9/2020]

²⁵ See <https://www.conecomm.com/research-blog/purpose-premium>. [Referenced: 11/9/2020]

of cooperation that makes the organization possible. Some authors even argue that a company without a purpose is not a company: at most, we would be talking simply about a business.²⁶ And not every employee in a company is truly a member of that organization (even if they formally belong to it through an employment relationship). For a person to be truly—not just formally—a member of an organization, it takes more than just a contract. An employee is only a member if they share a common purpose with the rest of the organization, regardless of the personal motives that led them to join the company.

Purpose and Sense of Purpose

The results that we summarized in the previous section may surprise those who believe that purpose is just a fad or a marketing gimmick. In a way, they are right, especially in some cases. In most of the companies that we have studied, particularly those we labeled as competent, we find that purpose is an element of high added value. However, we have also found that, for other companies, purpose has been nothing more than window dressing: a time of reflection, followed by somewhat vigorous communication that produces some hope for change, but has not yet fully taken hold. This reality leads us to conclude that there is a big difference between defining a purpose and creating a true sense of purpose in the company.

So, how do you build a true sense of purpose in your company? It's not easy, because a sense of purpose in the company only exists when people embrace the purpose as their own and act accordingly. The company purpose is not just for top management. Logically, managers should be the first to have a shared purpose and exhibit exemplary behavior. But, at the end of the day, the strength of a company's purpose will depend on how well it is implemented across the organization, regardless of people's managerial level, role or tenure with the company.

There are three essential conditions for successfully implementing purpose: people must know the purpose, accept it and practice it. With that,

²⁶N. Chinchilla and J.A. Pérez López, "Business or Enterprise? Different Approaches for the Management of People in Organizations," IESE, technical note FHN-216, 1990.

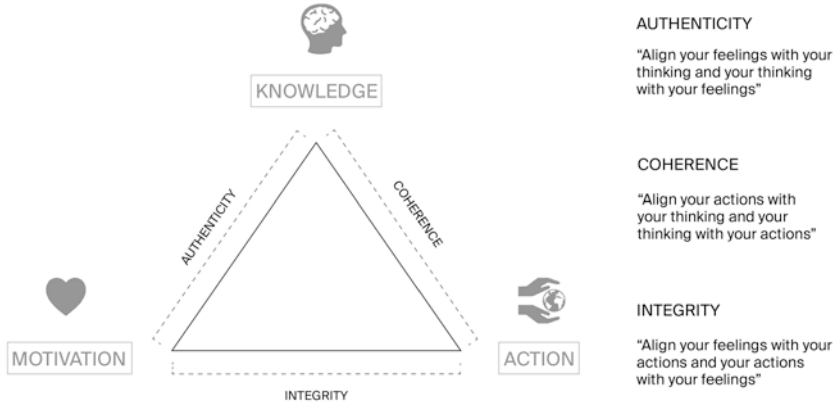


Fig. 4.1 Dimensions of purpose

we can define three dimensions of purpose:²⁷ knowledge (your formal statement); motivation (the internalization of purpose as something felt and wanted by people); and action (the practical fulfillment of purpose in daily operations). The interaction between these dimensions creates the conditions that differentiate the mere purpose statement from the true sense of purpose: coherence, authenticity and integrity.²⁸

These three characteristics multiply and reinforce one another; so, if one of them falters, the sense of purpose diminishes. This is supported by the recent studies of Lleó et al. on a sample of companies that practice management by missions.²⁹ These ideas are illustrated in Fig. 4.1.

Coherence

Purpose is far more than a catchphrase or idea. The coherence of the purpose is related to action, to the organization’s daily operations, and is a vital condition for generating a sense of purpose. It’s essentially to “align

²⁷ C. Rey and M. Bastons, “Three Dimensions of Purpose: Knowledge, Motivation, and Action, in *Purpose-Driven Organizations*, op. cit., pp. 29–41.

²⁸ C. Rey and M. Bastons, “Three Dimensions of Effective Mission Implementation,” *Long Range Planning*, vol. 51, no. 4, 2018. pp. 580–585.

²⁹ Á. Lleó, M. Bastons, C. Rey and F. Ruiz-Pérez, “Purpose Implementation: Conceptualization and Measurement,” working paper, June 2020. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3630416. [Referenced: 11/9/2020]

your actions with your thinking and your thinking with your actions.”³⁰ It’s about being aware of the reason why you do things and having that guide your actions and inspire your daily endeavors. Or in the broader sense, raise awareness and understanding about the purpose, then keep the promise and stay on track.³¹ The coherence of the purpose comes from both the internal structure of the statement and the different policies created to make it tangible. Ambiguous purpose statements undermine the coherence of the purpose and often lead to inconsistent decisions across the organization. Likewise, policies misaligned with the purpose can bring about operational incongruencies. For example, an incentive system that only considers financial results may motivate employees in ways that are counter to the organization’s communicated purpose. This incoherence is one of the biggest sources of distrust and kills the sense of purpose in the organization.

Authenticity

For purpose to be authentic, it has to come from within and reflect the feelings and motivations of the people who work for the company. It’s to “align your feelings with your thinking and your thinking with your feelings.”

The authenticity of purpose lies within people and their personal commitment. Given that, a company’s purpose must resonate with the personal purpose of the people who work there. Alex Gorsky, CEO of Johnson & Johnson, explains how the company seeks authenticity in its purpose: “We’re focusing a lot of our attention on helping our employees find and activate their own purpose and connect it with our purpose. We’ve seen that cultivating and developing a deep sense of purpose leads to employees who are more engaged, both personally and professionally. And the data show that focusing on purpose actually leads to many improved outcomes—physically, mentally and emotionally.”³²

³⁰ Our thanks to John Almandoz for his suggestions in developing the definitions of coherence, authenticity and integrity.

³¹ N. Craig, *Leading from Purpose: Clarity and the Confidence to Act When It Matters Most*, Nicholas Brealey Publishing, London, 2018.

³² See <https://www.jnj.com/latest-news/johnson-johnson-ceo-alex-gorsky-reflects-on-the-power-of-the-companys-credo>. [Referenced: 11/9/2020]

Purpose cannot be invented at the top of the company and then imposed downward. Authenticity is not born out of communication campaigns or marketing activities. Purpose must be discovered within the organization, because it is already alive and well among its members.³³ Authentic leadership³⁴ is not about the boss imposing their personal vision, or even linked to hierarchical power at all. The new leadership is a shared leadership, since the purpose is also shared, and everyone—regardless of their position in the hierarchy—is committed to fulfilling it.³⁵

Integrity

When purpose is integrated in both the daily operations and organizational culture, it becomes a shared motivation. Integrity is to “Align your feelings with your actions and your actions with your feelings.”

Purpose is felt and carried out throughout the organization as something natural.³⁶ Integrating purpose into the culture and values of its members is a way to create unity, both internally and externally. The purpose becomes a habit, a spontaneous way of life within the company and of interacting with stakeholders. This habit, which we call integrity, is the foundation of trust between stakeholders, and it builds reputation.

As with any habit, the relationship between motivation and action is bidirectional. Learning occurs through action. And not only operational learning (how to do something you didn’t previously know how to do), but most importantly affective learning (how to value, thanks to experience, what was not previously valued).³⁷ For example, many companies offer volunteer programs to raise employee awareness about particular needs in the community where they live (such as orphaned children, the elderly, etc.).

³³ R.E. Quinn and A.V. Thakor, “Creating a Purpose-Driven Organization,” art. cit., pp. 78–85.

³⁴ B. George, *True North: Discover Your Authentic Leadership*, Jossey-Bass, San Francisco, 2007.

³⁵ P. Cardona, C. Rey and N. Craig, “Purpose-Driven Leadership,” in *Purpose-Driven Organizations*, op. cit., pp. 57–71.

³⁶ F. Marimón, M. Mas-Machuca and C. Rey, “Assessing the Internalization of the Mission,” *Industrial Management & Data Systems*, vol. 116, no. 1, 2016, pp. 170–187.

³⁷ Pablo Cardona and Pilar García-Lombardía, *Cómo desarrollar las competencias de liderazgo*, EUNSA, Barrañán, Navarra, 2005.

In summary, developing a sense of purpose in the company is an undertaking that requires much more than a statement on the website or a few end-of-year sermons. Many companies would like to reap the benefits of an organization with a sense of purpose. But they remain anchored in management methods that focus on the coordination of objectives and activities and forget to develop a true sense of purpose among their members. Basically, they go to great lengths to tell each person what they have to do and even how to do it, yet rarely provide the means to help employees understand the purpose of their work.

Personal Purpose

As one might imagine, personal purpose—an individual's reason for existence in this world³⁸—is a bit different from the organizational purpose that we are referring to here. Now, the two concepts are closely related: as we saw in the previous section, personal purpose is a key element in developing the organization's purpose.³⁹ We could say that the company purpose is fulfilled through the purpose of each of its members. This scenario was brilliantly captured by Lorenzo Servitje, president of the Mexican multinational Bimbo, the world's largest baking company, with over 100,000 employees worldwide. This is how he explained to his collaborators the relationship between individual and company purpose: "The company has a soul made by the souls of each of its workers."

While this book is not about personal purpose—at least not directly—we would like to offer three considerations about the differences and relationships between personal and corporate purpose:

1. *Corporate purpose is not personal purpose.* Although for some founders or managers the purpose in their life may be closely aligned with that of the company they run, these are two distinct concepts. In fact, one could easily think that someone's personal purpose surely will consist of different aspects than their company's purpose. In this regard, each

³⁸ A. Hurst, *The Purpose Economy: How Your Desire for Impact, Personal Growth and Community is Changing the World*, Elevate Publishing, Boise, ID, 2016.

³⁹ C. Rey, J.S. Velasco and J. Almandoz, "The New Logic of Purpose Within the Organization," in *Purpose-Driven Organizations*, op. cit., pp. 3–15.

person is unique and, therefore, has a particular purpose, a specific reason for being in the world that encompasses various facets of their life: family, professional, social and so on.

2. *Corporate purpose does not override personal purpose.* Just because someone shares the corporate purpose doesn't mean they can't fulfill their own personal purpose at work. Managers and employees may occasionally lose sight of that and act as if there truly is no purpose in life beyond the corporate purpose. This is something that companies need to understand clearly since, especially with millennials and younger generations entering the workplace, combining work with personal purpose is more and more the expectation. People want to fulfill their personal purpose at work in order to live their professional and personal life more fully.⁴⁰ Companies must understand this reality and create the appropriate contexts for people to reflect their own purpose through their work.
3. *Corporate and personal purposes can be complementary.* Sharing the corporate purpose is an invitation for each member of the organization to make it part of their purpose in life. It is a two-way relationship in which the company and individual mutually appreciate one another's purposes.⁴¹ In other words, the two do not have to be mutually exclusive.⁴² The purpose of an organization can complement and create synergy with an individual's purpose by giving them a greater sense of contribution and fulfillment through their daily work.⁴³ This connection happens to be source of the authenticity that we just mentioned. In fact, increasingly more companies from diverse sectors—such as Unilever, Medtronic and Telefónica—are developing programs for their employees to discover and explore their personal purpose.⁴⁴

⁴⁰G.B. Grant, "Exploring the Possibility of Peak Individualism, Humanity's Existential Crisis, and an Emerging Age of Purpose," *Frontiers in Psychology*, vol. 8, 2017, p. 1478.

⁴¹C. Rey and I. Malbašić, "Harmonization of Personal and Organizational Purpose," in *Purpose-Driven Organizations*, op. cit., pp. 17–27.

⁴²L. Ramarajan and E. Reid, "Shattering the Myth of Separate Worlds: Negotiating Nonwork Identities at Work," *Academy of Management Review*, vol. 38, no. 4, 2013, pp. 621–644.

⁴³B.B. Caza, S. Moss and H. Vough, "From Synchronizing to Harmonizing: The Process of Authenticating Multiple Work Identities," *Administrative Science Quarterly*, vol. 63, no. 4, 2017, pp. 703–745.

⁴⁴C. Rey, J.S. Velasco and J. Almandoz, "The New Logic of Purpose Within the Organization," in *Purpose-Driven Organizations*, op. cit., pp. 3–15.

To sum up these considerations, we could say that the personal purpose of each member of the company should not be discounted or ignored as if it had nothing to do with the company. Doing so would be regressing back a century, when employees were treated as human resources. Modern companies need to treat employees as people, all of whom have their own purpose in life. As such, they should do their best to support (or at least not impede) each person's quest to fulfill their personal purpose and help them connect their personal purpose with the corporate purpose.

When corporate and personal purposes are compatible, it becomes much easier to recruit and retain talent, and people are more likely to be engaged and identified with the organization's purpose. In the next chapter, we will delve into how one complements the other. To do this, we will focus on the *for whom*, that is, the impact of the purpose on people's life.

"Value Life"

Vygon Spain is the Spanish subsidiary of the French multinational Vygon, based in Écouen (north of Paris). The Vygon Group is present in 120 countries and provides medical supplies (catheters, probes, ventilation equipment) to hospitals, private clinics and emergency units. In 2014, Vygon Spain started implementing management by missions. Florent Amion, its director since 2004, tells us about his experience:

"I took over the management of Vygon Spain when I was 30. I worked really hard, with all the energy of a newcomer. Then came the crisis in 2008 and, later on, a personal crisis. Nearing the age of 40, everything seemed scary to me. I had spent 'my whole life' at the same company. All of these unfounded doubts kept tormenting me: What would happen to me if Vygon were bought out? What would become of my career? And deeper fears, like: Is it going to be like this for the rest of my career? Is there nothing more to it than buying and selling?

"I started to investigate and I found coaching, positive psychology, neuroscience... And then a friend introduced me to the book *Management by Missions*. I read it three times in a row; it was a real eye-opener.

"In traditional, objectives-based organizations, each department defends its territory and its logic (the finance department defends its profitability objectives, sales defends its volume objectives, etc.), which creates silos and conflicts. Management by missions creates unity, alignment and integration of the teams because it is based on the principle of transcendent motivation, in which each individual asks: What am I doing as a human being in my company to change the world? The purpose of the Vygon Group—whose

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brand motto is 'Value life'—meshed nicely with this idea of what we wanted to contribute to the world. But we had to convey this idea to all of our employees. Build real unity through specific actions.

"So we started with the company purpose to make it as accessible as possible to people. We began in January 2014. We made the decision knowing there was no going back. I thought it would take us six months, seeing how much our culture intersected with this management method. But it ended up taking us three and a half years. We've invested a lot. We did individual training, group sessions, developed new management tools, coaching, meditation... The hardest part was the leadership deployment. We didn't realize what a demanding change that requires. For managers in particular, moving from a traditional leadership style to a transcendental leadership style was not easy. You don't realize that you have to add projects and tasks to your to-do list that don't involve the P&L.

"Implementing our purpose gave way to countless initiatives, such as creating an optimistic building, where employees co-created the entire office décor, over a hundred work-life balance measures, and many leadership development initiatives. We also decided in 2015 to create some awards to improve the management of hospitals, which we call optimistic hospital, to honor the heroes who take care of us when we need it most. This is now the sixth edition and the fourth time that the Queen of Spain is president of the Committee of Honor.

"Professionally, I have completely transformed my role. As a leader-coach, I help people find solutions. I used to be the one who knew it all; now I don't know anything," he says with a smile. "I trust that others will get to the heart of things... Sometimes it's strange. If you don't have great confidence in yourself, in others and in your purpose, it's going to be tough. What interests me is not power; it's having authority. What's more interesting to me is taking a step back, getting away from the action to pick your head up and look further ahead. It's very liberating.

"Being at the service of others is the loveliest gift you can give yourself. It gives me great inner peace. And when you meet people who are having the same experience, you tell yourself that anything's possible, and you can dream of things you would never have even thought of before. During these years, I have achieved three key transformations. First, constantly learning to transform myself personally; second, to transform my organization in such a way that it inspires other companies; and third, to transform the organizational culture in hospitals around the world to reduce patient suffering. Now I'm at a good point in my life where I feel that my personal purpose is aligned 100% with my work.

"Pursuing this purpose gives me a lot of satisfaction. Much more than I can get from improving Vygon's annual profit results... which, incidentally, keeps happening year after year as a 'magical' consequence of this process. To some

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degree, sales figures and everything else are just an excuse to keep working to make things around you different. In an industry that has seen minor ups and downs since 2014, our organization has had an average annual growth of 5%, and I am convinced that purpose has had a lot to do with this.

“We’ve also seen this during the COVID-19 pandemic. In our organization, we’ve launched many initiatives to support health workers, and, through social media, we’ve been able to stay in contact with our clients ‘as if nothing had happened.’ We’ve also maintained unity among our people, getting them quickly adapted to the online world. Thanks to the work-life balance measures that we’d implemented a few years back, confinement wasn’t a major shock for us. Although we definitely miss physical contact between colleagues, because virtual just isn’t the same. To help offset all the isolation, we organize dinners or lunches by department, respecting the regulations in force at all times. We use the auditorium mode in Microsoft Teams so we can all see each other at the same time. But that’s just further proof that we need each other.”

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5

Missions: For Whom Does the Company Exist?

Abstract The unbundling of the corporate purpose in specific missions is a central question for management by missions (MBM). Missions, understood as the contributions that characterize the purpose, have been present in management life for close to half a century and today are one of the main management tools used by companies around the world. In this chapter, we discuss the relationship between purpose and missions. More specifically, we show how management by missions nurtures the development of purpose in three fundamental dimensions: content, credibility and sense of urgency.

Keywords Missions • Purpose • Stakeholder theory • Content • Credibility • Sense of urgency • Management by missions

Missions (or mission statements) have been used in the business world for decades. In 1943, R.W. Johnson wrote the Johnson & Johnson (J&J) credo, which lives on today. Forty years later, Jim Burke, the company's

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CEO, said he spent about 40% of his time promoting these principles among members of the organization. This credo, which reflects the company's commitment to serve its customers, employees, managers, members of its community and shareholders, is still valid. The latest version, updated in 2018 by current J&J CEO Alex Gorsky, reflects the company's commitment to maintaining what it considers the key to business success: "Our credo has been a guiding light for our entire organization for the past 75 years. Through periods of immense change, it clearly conveyed a set of values that influenced not only what we needed to achieve, but also the actions we needed to take to reach those achievements."¹

Tom Watson, son of the founder of IBM, did something similar in 1962, when he wrote the company's *Basic Beliefs*. When Louis V. Gerstner took over as CEO in the 1990s, these principles—respect for the individual, customer service and excellence—still exerted a powerful influence on the company's culture. Gerstner himself went to great lengths to update Watson's *Basic Beliefs* and adapt them to the company's new situation and environment: "Perhaps the most important legacy of his leadership can be summed up in just three words: IBM means service."²

Gradually, over the second half of the twentieth century, the idea of the corporate missions—generally understood as a company's commitments to its stakeholders (customers, suppliers, shareholders, etc.)³—took root in companies, especially in North America and parts of Europe. A study carried out by Bain & Co. and The Planning Forum in 1994 shows how important the missions had become by the mid-1990s. In interviews with more than 500 managers, the researchers analyzed 25 different management tools, including performance-related pay, workplace climate surveys, total quality, reengineering, customer satisfaction surveys and so on. Based on its findings, the study highlighted corporate missions as the most highly valued management tool, being used by 90% of companies.⁴

¹ See <https://www.jnj.com/latest-news/johnson-johnson-ceo-alex-gorsky-reflects-on-the-power-of-the-companys-credo>. [Referenced: 11/9/2020]

² See https://www.ibm.com/ibm/history/exhibits/vintage/vintage_4506VV2063.html. [Referenced: 11/9/2020]

³ B.R. Bartkus and M. Glassman, "Do Firms Practice What They Preach?" art. cit., pp. 207–216.

⁴ P. Jones and L. Kahaner, *Say it & Live it: The 50 Corporate Mission Statements That Hit the Mark*, Doubleday, New York, 1995.

Today, the vast majority of Fortune 500 companies, and practically all those ranking among the 100 Best Companies to Work For, have some kind of mission statement for their stakeholders. In summary, missions have been a fact of management life for close to half a century and today is one of the main management tools used by companies around the world.

Purpose and Missions

Since its inception, the word “mission” has had different interpretations and emphases in academic circles and in business.⁵ Sometimes, there has been confusion between the mission and other things such as vision, strategic objectives, corporate philosophy, corporate principles and so on. These days, the most common confusion is probably related to the terms “mission” and “purpose,” which many view as the same thing. Indeed, there are quite a few companies and gurus of management that use these two words interchangeably, or use the word “mission” in reference to purpose.

This is the case of Microsoft, for example, which has stated: “Our mission is to empower every person and every organization on the planet to achieve more.”⁶ Or that of Alibaba: “Our mission is to make it easy to do business anywhere.” In reality, these statements correspond to what we defined earlier as purpose: what companies are for. While the purpose reflects what the company brings to the world, the missions reflect who the beneficiaries of that purpose are and how the company wants to impact their lives. Specifically, we can define missions as *contributions that characterize the purpose of a person, group or organization*.

Some supposed corporate “missions” do not fit that description. For example, missions described in positional terms: to be number one in a particular industry, or the industry benchmark or best in class, or one of the top 20 in a particular ranking and so on. These may be more or less

⁵I. Alegre, J. Berbegal-Mirabent, A. Guerrero and M. Mas-Machuca, “The Real Mission of the Mission Statement: A Systematic Review of the Literature,” *Journal of Management and Organization*, vol. 24, no. 4, 2018, pp. 456–473.

⁶See <https://www.microsoft.com/en-us/about>. [Referenced: 11/9/2020]

realistic objectives that may help a company fulfill its missions, but they are not the missions as such. The missions are the contribution that can give meaning to such goals: Why do we want to be number one in this industry? Why do we want to be in the top 20 in the rankings?

Missions are contributions; and a contribution is primarily a service, a specific way of solving real problems affecting individuals, groups or society as a whole. But not just any contribution is a mission. Missions are the contributions that characterize the purpose, that is, it gives a particular company, department, team or worker a reason for existence. For example, donating 1% of the company's profits to charity may be an important contribution; but it is very unlikely to be the company's defining contribution (though it may still be a valuable contribution that is consistent with the company's values and therefore worth maintaining).

Characteristics of Missions: Content, Credibility and Urgency

Creating a sense of purpose in the company requires more than simply writing missions down on a piece of paper (or posting them on a website). The mission statement alone has no impact on people and thus no impact on the company either. As J&J CEO Alex Gorsky recalled, missions are only helpful if they have an influence on the objectives to be achieved, and on the actions needed to achieve them. To better understand the real impact of missions on a company, we can focus on the three essential conditions of all missions: content, credibility and urgency. These three characteristics reinforce one another in building a sense of purpose, so if any one of them fails, the sense of purpose will suffer.

Content

The content of the missions is the scope of the contribution pursued by that missions. The missions' content may vary in breadth, depth and richness. Missions with broad, deep and rich content are more likely to motivate than narrow, superficial or poor content. For example, if the

company's missions are to maximize profit for shareholders and nothing else, employees are unlikely to identify with them (unless they happen also to be shareholders). Thus, with missions containing low-level content, the sense of purpose dwindles (and may even disappear completely). That is one reason why most companies give their missions more content, so that it expresses their commitment to the various stakeholders (employees, customers, shareholders, local community, etc.).

Credibility

High-content missions can serve no useful purpose without credibility. In fact, that is the problem with many companies: they lack credibility. Credibility is a question of engagement, starting with the engagement of managers and continuing with the impact of that engagement on management systems. Credibility is hurt if, on the one hand, you have deeply rooted missions and values, but, on the other hand, you have a management system that evaluates and rewards people based on increasingly aggressive financial objectives, which sometimes even run counter to the missions. This inconsistency cannot be resolved (and is more likely to be exacerbated) by internal propaganda or Christmas speeches by the general manager about the importance of the missions. Missions are what the company and its managers do, not what they would like to do or what people think is more “politically correct.” When we define a mission, we must make sure that we’re not talking about something totally unrelated to the company’s current situation. To gain credibility, leaders must be the first to set an example of engagement, and management systems must be truly aligned with those missions.

Urgency

If there is no urgency to achieve something, it is because there is no real sense of purpose. A team or organization that does not have urgent and demanding goals has succumbed to paternalism, understood as a disease of unity. Competent companies are never content with what they have

achieved to date; their sense of purpose always demands more. Good leaders are demanding, and very good leaders are very demanding. But they are also realists. A manager who sets unattainable goals is not a good leader, but a despot, which is typical of mediocre talent. Making “realistic demands” requires a balance based on a thorough knowledge of the market, people’s abilities and available technology.

Urgency is not the same as stress. In fact, they are entirely different. Urgency is a priority system designed for high performance. Take, for example, a hospital emergency system. Urgency leads to action, intense effort, focused decisions. Stress, by contrast, is caused by irrational external pressure which the subject cannot control. As such, stress leads to paralysis, incapacity for sustained effort and dispersion. A bad leader amplifies stress: when they get pressure from their bosses, instead of transforming it into urgency by establishing priorities with a sense of purpose, they produce an even greater level of stress in their subordinates, giving orders that diminish their creativity and motivation. Unlike stress, urgency comes from within, when something is doing or needs to be done; always out of personal conviction. A good leader is one who knows how to instill in his or her subordinates a healthy sense of urgency in service of the purpose.

The Stakeholder Model

As we mentioned in the previous section, in order to have a positive impact, missions need to have content, and a breadth of vision about the company’s fundamental contributions. A contribution focused exclusively on profit maximization only benefits shareholders (few of whom work in the company and interact directly with customers). Moreover, profit maximization can have an undesired side effect: the minimization of all the other variables. In other words, in this model, customers and employees are simply means to the end: shareholder profit. This vision eventually takes its toll and negatively impacts both employees and customers.

To avoid this situation, companies have looked for models that enhance the content of their missions. The stakeholder model is one of the most

widely used today.⁷ With this model, companies define the contributions that characterize their purpose through the impact they have on their key stakeholders: customers, shareholders, employees and so on. Next, we will review the stakeholders most called upon in corporate missions.

Customers

Of the 1300 company missions we have analyzed, few fail to mention the customer in one way or another. Nowadays, it is difficult to conceive of a content-rich statement of principles that does not include the company's contribution to customers as a key ingredient. The company's contribution to its customers may be expressed in various ways. Companies in vastly different industries may describe it in similar terms, while others in the same industry, even in the same business, may see it very differently.

Shareholders

Traditionally, companies' contribution to shareholders has been taken to consist of two things: payment of dividends and increases in the company's value. These two things are what today is known as value creation. Briefly, value creation consists of providing remuneration, in the form of dividends or capital gains, above the cost of capital. Many companies' mission statements use terms such as fair remuneration, return, profit, value or value creation. These concepts start to depart from a mere commitment to profit maximization.

Moreover, value creation is not necessarily companies' only contribution to their shareholders. Management transparency and good corporate governance are examples of missions that go beyond the purely financial dimension. Such things may be particularly important in the case of family businesses or cooperatives, in addition to financial results, which are of particular importance to shareholders.

⁷R.E. Freeman and D.L. Reed, "Stockholders and Stakeholders: A New Perspective on Corporate Governance," *California Management Review*, vol. 25, no. 3, 1983, pp. 88–106.

Employees

There is a growing belief that companies have an obligation toward those who allow them to exist: employees. Richard Branson, the enormously successful entrepreneur who founded Virgin Records, Virgin Atlantic Airways and many other companies, has stated in numerous speeches that employees come first, customers second and shareholders third.⁸ Authors such as Pfeffer have demonstrated, with numbers and real-world examples, that the best strategy for any company is to “put people first.”⁹ This motto is preached by many companies that have made contribution to people one of the main pillars of their missions.

These three stakeholders—customers, shareholders and employees—are what many authors describe as key stakeholders or “primary constituencies.”¹⁰ They are the base on which most company missions around the world are founded. Besides the primary constituencies, many missions mention other stakeholders, such as suppliers, the environment, competitors, society at large, the public authorities, political associations and so on.

In August 2019, 181 CEOs from American companies signed the “Corporate Purpose Statement,” including Tim Cook (Apple), Jeff Bezos (Amazon), Ramón Laguarta (PepsiCo) and Mary Barra (General Motors). This statement describes the commitment to five stakeholders.

While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to our stakeholders. We commit to:

⁸J. Pfeffer, *The Human Equation: Building Profits by Putting People First*, Harvard Business School Press, Boston, MA, 1998.

⁹Ibid.

¹⁰J.P. Kotter and J.L. Heskett, *Corporate Culture and Performance*, Simon and Schuster, New York, 2008.

- Delivering value to our **customers**. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.
- Investing in our **employees**. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.
- Dealing fairly and ethically with our **suppliers**. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.
- Supporting the **communities** in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.
- Generating long-term value for **shareholders**, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.

Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.

In our opinion, materializing the purpose through missions geared toward the different stakeholders is a practice that will continue to increase in organizations. The rationale is that the commitment to stakeholders enhances the content of the missions. However, content is not the only key to impactful missions. It also needs credibility and urgency. In today's ever-changing environment, agility is vital. And agility requires a sense of urgency when undertaking missions that are not only stated but also assimilated and embodied by the entire organization.

This raises some questions, such as How can we get managers and employees to be truly committed to the missions? How are companies changing their management systems to drive their missions with a real sense of urgency? These are questions we will address in the third part of this book. But first, we will look at the characteristics that define the values of a balanced culture.

Purpose and Missions That Make a Difference

Purpose and missions work in unison to mutually reinforce one another. In fact, it is increasingly common to see purpose and missions presented together. Some companies see this practice as a way of giving more content to brand positioning or slogans, developing their purpose to better reflect the essence of the organization. This is the case of The Coca-Cola Company, for example, in the recent update (version 2.0) of its principles by CEO James Quincey, whose December 2019 letter to employees explained:

Since we first talked about the concept of Beverages for Life in 2017, we've collectively created more momentum and belief in our business and across our system. The concept helped galvanize our actions. It has guided our continued evolution as a total beverage company. That was version 1.0. And as a good number of people have noted, Beverages for Life had a fuzzy connection to the company's existing mission and vision, and it left the company's purpose unclear. Our objective now is to lay out a version 2.0—and to give context to each piece and their connections. Ultimately, it needs to be explainable in simple terms, but also understood at a depth of detail.

With this objective in mind, The Coca-Cola Company has restored the purpose of the company launched back in 1886—"Refresh the world and make a difference." And its statement includes not only the purpose but also its commitments to key stakeholders:¹¹

- Invest in **employees'** personal growth and talent for today and the future. We'll create a vibrant culture and leaders who help bring out the best in each person. Empower our people, provide access to equal opportunities and become more inclusive. We'll continue our global focus on women and ethnicity in locally relevant ways. Our programs range from societal efforts to those inside the company. We will be as diverse as the consumers we serve, and we'll be a more inclusive business.
- Create value for **customers** big and small. We'll bring brands and programs that become key parts of our customers' growth agendas, delivered with best-in class execution. We'll engage them in joint efforts for a more sustainable future.

(continued)

¹¹ See <https://www.coca-colacompany.com/content/dam/journey/us/en/our-company/purpose-and-vision/james-quincey-letter-to-employees-coca-cola-company-purpose-dec-2019.pdf>. [Referenced: 11/9/2020]

(continued)

- Support local **communities** to achieve more, including in times of need. We'll continue our decades-long legacy of supporting local communities, through our business and through The Coca-Cola Foundation.
- Deliver returns to **shareowners**. Our investors range from major institutions to millions of individuals. They invest their money in The Coca-Cola Company because they want it to grow. They believe in our vision for our future and want us to succeed. We're committed to giving them a return on their investment.

PepsiCo, its rival, has a similar statement of principles. It has divided its purpose statement, "creating more smiles with every sip and every bite," into five categories. This is what Indra K. Nooyi, the company's CEO from 2006 to 2018, calls *performance with purpose*:¹²

- **Consumers**: Creating joyful moments through our delicious and nourishing products and unique brand experiences.
- **Customers**: Being the best possible partner, driving game-changing innovation and delivering a level of growth unmatched in our industry.
- **Associates and Communities**: Creating meaningful opportunities to work, gain new skills and build successful careers, and a diverse and inclusive workplace.
- **Planet**: Conserving nature's precious resources and fostering a more sustainable planet for our children and grandchildren.
- **Shareholders**: Delivering sustainable top-tier total shareholder return (TSR) and embracing best-in-class corporate governance.

When looking at the purpose of these two competing companies, we can see that the purpose is a commitment that characterizes the company's identity, but is not necessarily determined by the product or service provided. These two companies offer parallel products, yet they have decided to contribute to society in very different ways. Choosing different purposes will produce divergent strategies, ultimately leading to specific actions, experiences and innovations.

¹²See <https://www.pepsico.com/about/mission-and-vision>.

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6

The Values of a Balanced Culture

Abstract Organizational values, as the criteria that guide decision-making, play a central role in the implementation of management by missions (MBM). Most social organizations today develop a set of values. These sets of values are normally treated as fixed and even as untouchable. However, over time, some values change and evolve both in the organizational environment and within the organizations themselves. Some values may fall into the background, while others should come to the forefront. As a result, leaders need to adapt to these changes and create corporate cultures that best align with their corporate purpose over time. In this chapter, we propose a framework to help organizations create balanced sets of values in four categories: business, relational, development and contribution values.

Keywords Values • Motivation • Balanced values • Personal values • Organizational values • Culture • Management by missions

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Purpose and values are complementary, but not identical. Two companies committed to similar purposes may develop very different cultures, depending on the values they actually live by. For instance, if a company's purpose is to satisfy customers' needs and it defines its values as profitability and integrity, it will develop a different culture than another company with the same purpose, but values focused on innovation and diversity. For starters, the two companies will likely define very different missions, and this will lead each company to focus on one field or another.

Purpose, missions and values actively interact to produce the company culture. If purpose and missions are the ends that guide action, values are the criteria that guide the decision as to the most appropriate course in any given situation. Values tell us how we must fulfill our purpose. A purpose can be fulfilled in many different ways. The only requirement is that the values effectively serve the purpose.

The Origin of Values

Based on Edgar Schein's classic model of culture,¹ we can say that values are formed through interpreting reality. As shown in Fig. 6.1, any such interpretation is based on two things: beliefs and behaviors.

First, values are based on beliefs, that is, the models we have about the importance of certain behaviors. What I think is important is a value for me. For instance, the belief that "working together in a coordinated way

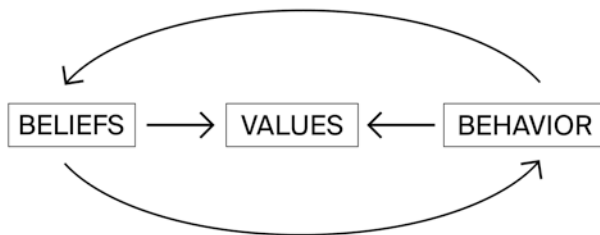


Fig. 6.1 The origin of values

¹ E.H. Schein, "Organizational Culture," *American Psychologist*, vol. 45, no. 2, 1990, p. 109.

and sharing information is good for employees and good for the company as a whole” may make “teamwork” a value. As beliefs evolve and change, so do values.

Secondly, perceptions exert a powerful influence on values. For example, if we work for a company in which innovation is a habitual behavior, we are very likely to accept innovation as a value. Similarly, what we see is a value for people around us may become a value for us too. That is apparent in trends such as total quality or the growing concern for the environment. For example, if we perceive that quality is valued by most members of an organization, we will not be surprised to find quality present as a value in our own activities, too. Of course, the same reasoning also applies in reverse.

Ultimately, we can say that beliefs influence perceptions, and vice versa. For example, if a manager believes that one of their subordinates is incompetent, that will naturally affect the manager’s perceptions. They will tend to focus more on what the subordinate does wrong than on what he or she does right. In fact, focusing exclusively on the subordinate’s mistakes will reinforce the manager’s belief that the subordinate is indeed incompetent.

Thanks to this effect, whereby perceptions and beliefs reinforce one another, people’s values tend to be stable. This explanation of the origin of values may help us understand other aspects of the cultural dynamic in organizations, such as why there is a natural resistance to change.

Corporate Values and Real Values of an Organization

In most organizations, especially in highly successful ones, there are certain values that have internalized themselves within people over the years. To some extent, those values make up the organization’s culture. By values, we mean specific criteria or ways of interpreting reality which, over time, become a “way of being and doing things.” By rule, no one value defines a culture, nor does it require ten: three or four are enough. Take Ericsson for example, they describe their core values as follows: “Professionalism, respect and perseverance are the foundations of the

Ericsson culture, guiding us in our daily work, both in how we relate to people and how we conduct our business.”²

However, we must ask ourselves how realistic and how appropriate such statements are to the company’s objectives. Many companies’ actual values are quite unlike the ones cited in their public announcements. Thus, when we talk about a company’s values, we must distinguish between the corporate values (those promoted on the company website) and the actual values by which they live and operate. The actual values are those that are deeply rooted in members’ beliefs. They must also be reinforced by the way the company does business day to day. The members of the organization experience them intuitively, almost unconsciously, as part of their culture.

Given that values are based on people’s beliefs and perceptions, there is no such thing as values in the abstract. Strictly speaking, values are always values for somebody. In that sense, values are different from other aspects of the company, such as strategy. The members of a company may more or less agree with the strategy, and the strategy may be relatively popular; but once the strategy has been decided and agreed, it is valid for the whole company.

The same cannot be said of values. Values cannot be defined “from outside” the world of people in an organization. An organization’s values will only be effective if they are accepted as values by the organization’s members. Thus, if we want to define the values of an organization, we must first understand the underlying values: the perceptions and beliefs of the organization’s members. And, from there, the company can consider new values to achieve, which must be reflected in people’s actions and habits.

This reflection on real values is quite clear in the Cadbury company’s statement of values: “Cadbury Schweppes’ concern for the values will not be judged by this statement, but by our actions. [...] Pride in what we do is important to every one of us in the business and encourages us to give of our best; it is the hallmark of a successful company. Let us earn that pride by the way we put the beliefs set out here into action.”³

² P. Murphy, *Eighty Exemplary Ethics Statements*, op. cit.

³ P. Murphy, *Eighty Exemplary Ethics Statements*, op. cit.

Characteristics of Corporate Values

Corporate values ought to be deliberately designed and used as a strategic tool. They are the values that the organization has deemed strategic and seeks to develop through training, priorities in decision-making and talent evaluation processes. While it may not always be possible to fully develop corporate values, they serve as a guideline for creating positive motivation and rigor within the company. To achieve this, values should have the following characteristics:

1. *They must serve the company's purpose.* Corporate values should be consistent with the purpose, that is, they must serve the purpose. Consequently, if the purpose changes for any reason, the values will also have to be reconsidered.
2. *They must be values shared by all members of the company.* It is pointless to define a set of values that apply for only a small minority. For example, if one corporate value is innovation, it would not be congruent if only a select few managers were allowed to be creative and create innovation in the company.
3. *They must be integrated into the company's culture and management systems.* For instance, management must set an example of how to embody the corporate values. It would be inconsistent for a manager to achieve excellent results using values that go against corporate values.

Any and all social organizations (which all companies are) ultimately develop a set of values. A company cannot exist without values. When an oblivious manager says their company doesn't have or need values, they are admitting that they don't know the real values of their company. In other words, that manager may have a defined strategy and control many processes, but is disregarding a key aspect: "how we do things around here" has a profound impact on actions and, therefore, on the results.

Running an organization without sticking to a set of values is like trying to sail without factoring in the ocean current: the boat will gradually go off course and we'll be wondering why. A strong ocean current can either be a big help or be a big hindrance. A good captain knows that, but

is powerless to change where the current is headed. Unlike the sailing metaphor, a good leader is in fact capable of steering the values in service of the purpose.

Values and Motivation

The word *motivation* is derived from the term *motor*, as in *driving force*. It is the energy source that propels us to perform different actions. When that driving force stops, people become unmotivated and impartial to action. The relationship between values and motivation is substantial: both lead to action. The difference is that, while values are a criterion for action (to determine the right action), motivation is the energy required to carry out that action. On certain occasions (and constantly in daily life), people end up doing things they believe are not right (or doing what they believe is right, but without motivation): in these cases, our values pull in one direction, but our motivation pulls us in another.

When values and motivation are aligned, this is known as a flow state. The concept of flow was developed by Mihály Csíkszentmihályi⁴ in the 1990s, and has become popular in the twenty-first century. Flow is a state of immersion in an activity that creates a sense of achievement and inner balance, along with a partial loss of awareness of the passage of time. The flow is not a state of relaxation; it is one of action with a challenge attached to it. Nonetheless, an activity can even be less tiring when performed in a state of flow than when it is done out of obligation. The state of flow has been associated with positive psychology (which focuses on positive virtues or habits) and also with happiness.

There has been considerable research and literature on motivation, specifically motivation in the company. Back in the 1950s, Peter Drucker⁵ talked about the different types of motivation that are tied to the meaning a person gives to their work. As an example, he shared the allegory of the three stonecutters. When asked what they were doing, the first replied:

⁴ See, for example, Csíkszentmihályi's books: *Finding Flow: The Psychology of Engagement in Everyday Life*, Basic Books, New York, 1998; *The Psychology of Optimal Experience*, Harper & Row, New York, 1990; and *Flow and the Foundations of Positive Psychology*, Springer, New York, 2014.

⁵ P. Drucker, *The Practice of Management*, op. cit.

“I’m earning a living.” The second one continued working, and said: “I am doing the best job of stonecutting in the entire county.” The third stopped for a moment and, after looking up, said: “I’m building a cathedral.” If we were to look only at the task that these three people performed, we might think they would have the same motivation. However, motivation is not based on the task itself, but rather the reasons why the task is being performed. In fact, there is a big difference (at least on a motivational level) between “stonecutting” and “building a cathedral.”

Following Drucker’s example, and borrowing terminology from Juan Antonio Pérez López,⁶ we can say that everyone has the potential to be moved by the three types of motives: extrinsic motivation (for what someone receives “in exchange” for their work), intrinsic motivation (the pleasure or learning they get from doing their job) and transcendent motivation (what others get out of their work). It is easy enough to find people who have not developed this potential in a balanced way. And yet, even these people secretly want to know what they are working for, and are pleased when they find that their work is of some good to someone.

In fact, that is the essence of the sense of mission. It is up to the leader to foster and continually draw attention to the transcendental meaning of the work each person does.⁷ It is what Grant calls prosocial motivation, which we refer to here as transcendent motivation. Whereas in the twentieth century companies discovered the importance and power of intrinsic motivation at work (creativity, autonomy, empowerment, etc.), in the twenty-first century more and more companies are discovering the power of transcendent motivation.

According to Professor Simons of Harvard Business School, “We all have a deep-seated need to contribute—to devote time and energy to worthwhile endeavors. But companies often make it difficult for employees to understand the larger purpose of their efforts or to see how they can add value in a way that can make a difference. Individuals want to understand

⁶J.A. Pérez López, *Fundamentos de la dirección de empresas*, Rialp, Madrid, 1991.

⁷See, for example, the articles by A.M. Grant: “Employees without a Cause: The Motivational Effects of Prosocial Impact in Public Service,” *International Public Management Journal*, vol. 11, no. 1, 2008, pp. 48.

“Giving Time, Time After Time: Work Design and Sustained Employee Participation in Corporate Volunteering,” *Academy of Management Review*, vol. 37, no. 4, 2012, pp. 589–615. “Leading with Meaning: Beneficiary Contact, Prosocial Impact, and the Performance Effects of Transformational Leadership,” *Academy of Management Journal*, vol. 55, no. 2, 2012, pp. 458–476.

the organization's purpose and how they can contribute, but senior managers must unleash this potential."⁸ And one of the means they have to unleash this motivation potential is through the use of corporate values.

Balanced Values

Every organization will develop a particular set of values, depending on factors such as its history, the industry in which it operates, the philosophy of its founders or managers and so on. But the impact of corporate values is only felt in terms of how they motivate people in the company. That's why it is important for corporate values to be aligned with the various motives described above. So, to find out whether there is any common pattern in the values of different companies, we analyzed 48 companies of different nationalities and obtained a total of 266 values. Based on our results, we classified the values as follows:

- Business values: values relating to the company's business and profit-making activity. Examples include perseverance, efficiency, professionalism, results orientation and so on. These values are aligned with extrinsic motives.
- Relational values: values that foster quality in interpersonal relations. They include communication, teamwork, respect for people and so on. These values focus on relationships in the company, which can lead to all three motivations.
- Development values: values aimed at differentiating and continuously improving the company. Examples include innovation, creativity, learning, continuous improvement and so on. These values are aligned with intrinsic motives.
- Contribution values: values aimed at doing more for stakeholders than strictly required by the business relationship. These values are aligned with transcendental (or prosocial) motives.

Figure 6.2 shows how the values held by the companies in our sample are distributed among these four categories.

⁸R. Simons, "Control in an Age of Empowerment," *Harvard Business Review*, vol. 73, no. 2, 1995, pp. 80–88.

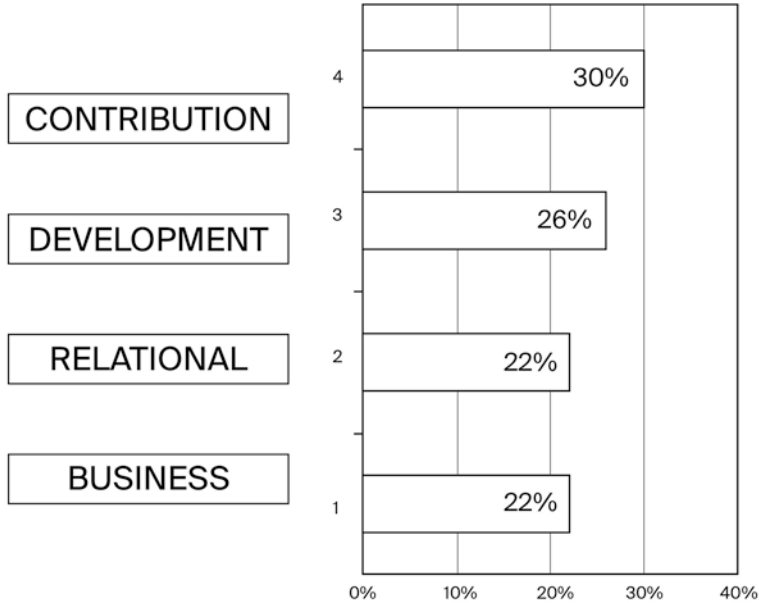


Fig. 6.2 Distribution of values by category (in %)

These findings have subsequently been validated by other researchers who analyzed these four categories based on a sample of 94 companies from the Fortune 100 index,⁹ 35 companies in the Fortune Global 500 index from China and the United States¹⁰ and a longitudinal analysis from 2014 to 2018 of a sample of 62 companies among *Fortune's* 100 Best Companies to Work For index, covering a wide range of industries, such as distribution, construction, insurance, food, health, IT and professional services.¹¹

The results of these studies lead us to believe that in what we might call a healthy corporate culture, all four categories are necessary. Interviews

⁹I. Malbašić, C. Rey and V. Potočan, "Balanced Organizational Values: From Theory to Practice," *Journal of Business Ethics*, vol. 130, no. 2, 2015, pp. 437–446.

¹⁰P. Cardona, I. Malbašić and C. Rey, "Institutions, Paradoxes, and Compensation Logics: Evidence from Corporate Values of the Largest Chinese and US Companies," *Asia Pacific Business Review*, vol. 24, no. 5, 2018, pp. 602–619.

¹¹P.G. Dominick, D. Iordanoglou, G. Prastacos and R.R. Reilly, "Espoused Values of the Fortune 100 Best Companies to Work For: Essential Themes and Implementation Practices," *Journal of Business Ethics*, pp. 1–20.

with a large number of managers confirm this principle of balance: a culturally healthy company must cultivate and develop values in all four cultural categories. Seriously neglecting any one dimension may generate a dysfunctional culture.

In our research, we found companies with clearly dysfunctional cultures. Although they had defined and promoted a set of “key values,” those values never really caught on in the organization. In most of these companies, the real culture was centered almost exclusively on business values. Because of this imbalance, values such as teamwork, innovation and customer service came last and were seen as empty words rather than a fact of daily life in the company. For many companies today, when facing major disruptions and uncertainties, it is crucial to cultivate a healthy culture that can handle a shifting environment, and this requires embracing values that truly motivate employees.

Evolution and Change in Values

Over time, some values change and evolve. Some fall into the background, while others come to the fore. People may be affected by a new strategic focus, in the way a manager behaves, or changes in the company’s environment. It should be expected that current values may be called into question or new ones brought to prominence by a change of beliefs or perceptions.

At one stage, a company may set its sights on geographical expansion. At some later stage, it may prefer to reorganize or consolidate. In such cases, the same value may be reinterpreted, so as to acquire a new meaning. In the 1970s, quality was a value associated with products. Today, it is seen as something that concerns all of a company’s processes and activities.

However, changes in values must not prevent a company from maintaining certain “key values” over time. For many companies, values are one of their main advantages against competitors.¹² It can be relatively easy to copy a product, strategy, technological innovation or production method; but developing a desired set of values in a company can take years.

¹²N. Epley and A. Kumar, “How to Design an Ethical Organization,” *Harvard Business Review*, vol. 97, no. 3, 2019, pp. 144–150.

Values are one of the key success factors in business; yet they can also be a cause of failure. Not having certain values, or acquiring the wrong values—the kind that blocks a company’s strategic development, for example—can be an overwhelming competitive disadvantage in the short to medium term. It is not uncommon for companies to find themselves outclassed by their rivals precisely because they lack the human capital to implement certain strategies.

On one occasion, the European vice president of an electronics company described the scope of this problem. Although he knew the strategies for success in his industry, he had found it impossible to implement them in his company. In his opinion, the problem boiled down to the fact that people did not want to excel: “We owe the great achievements of our past to our desire to excel. But that value has not remained alive in our people. We have grown used to things running themselves, and whenever we need bold changes, we feel incapable of carrying them out.”

That’s why it is important to always be mindful of changes and use corporate values as a strategic tool to address those changes. Along with considering competitive changes in the business (changes in the structure of the market or competitors, economic conditions, customers’ needs, technology, etc.), it is vital to remain aware of social changes. As we have been saying since the beginning of this book, companies are more than just businesses: they are organizations *of* people and *for* people, embedded in one or more communities with a variety of changing interests.

Each generation enters the job market with its own set of values. For a few years now, we’ve heard a lot of talk about millennials and, more recently, centennials. Before that, it was all about Generation X, Y, Z. And in a few years, there will be a new generation that is different from the previous ones, with its specific values. Companies are increasingly sensitive to these changes when it comes to attracting and retaining talent. Tools like employer branding will be more successful if they are tied to corporate values that fit the times.

Companies are also experiencing increasing pressure to be sustainable and socially responsible. As a result, future leaders will need to adapt to these changes in society and create corporate cultures that better align with the values of the time. Balanced corporate cultures mean, precisely, cultures that are in sync with the broader culture of society.

Transforming Agriculture

The company Semillas Fitó was founded in 1880, selling seedlings and seeds in the areas of San Martí de Provençals and Maresme near Barcelona. In the 1940s, it specialized in seeds, and within a few years was already selling throughout Spain.

From day one, Semillas Fitó's purpose was to provide farmers with the highest-quality seed to modernize and increase the profitability of their farms. For the company, this idea of being close to the farmer and improving the profitability of their crops was always in the company's DNA. In the words of Antonio and Jaume Fitó, directors of the fourth generation of the family: "Offering the best varieties enabled Spanish farms to increase their profitability." This purpose was gaining ambition when seeing that, through research, the company could also create new products, differentiate itself from its competitors and add more value.

After a few attempts with decent results, the company developed several successful launches, such as the "Category" Santa Claus melon, which allowed harvesting almost two months earlier than normal, and the "Cristal" eggplant, which enabled many farmers to export a product of unprecedented quality throughout Europe. The development of new varieties fueled international expansion and, in the 1990s, the company became a multinational with subsidiaries in several countries of the European Union, Turkey and Jordan.

In March 2011, a few years after the fifth generation took over the management, led by Xavier, Eduard and Laia Fitó, the company opted for management by missions to boost its growing international expansion. Their missions focused on four key stakeholders: customers, shareholders, people and the community. Eduard shares his experience:

"With the missions, along with the idea of proximity and customer profitability, we added other key aspects, such as developing people, cultivating an environment of freedom, teamwork and contributing knowledge to society. We were seeking to expand our purpose, look further afield and strengthen the foundations of our culture. We also defined a set of corporate values—professionalism, innovation, discretion, long-term vision—that captured the 'Fitó way' and guided the development of the missions."

The missions and values went hand in hand with the development of Semillas Fitó in several countries in Europe, Africa and the Americas, where the operating model was replicated by not only sellers but also researchers. By establishing strong values and a clear vision, the end result was an extraordinarily decentralized company. "Despite being a relatively small company, compared to the large corporations in our industry, we managed to attract fantastic talent and top-notch professionals. Talent was brought in from much larger competitors and talented leaders were retained despite job offers from other organizations."

(continued)

(continued)

In 2012, Fitó did an analysis of the organization's values to assess the evolution of the company culture. The data revealed that while the culture had managed to permeate into the business and development aspects, there were still notable shortcomings in the relational and contribution aspects (see Fig. 6.3). According to Eduard: "The results really reflected the culture of what Fitó had always been, but we wanted to go further. In upper management, we knew Fitó could be a key player in terms of contributing to society, so we had to reinforce the human and social dimension of the company." With this objective in mind, the company launched several initiatives to strengthen its missions and purpose, targeting the aspects of human relations and social contribution.

"The focus on service gradually broadened our view," said Eduard, "and we started to delve deeper into the purpose of our existence. What do we bring to the world? What legacy do we want to leave?"

"So, through everyone's participation, we solidified a lot of aspects that are now reflected in the United Nations Sustainable Development Goals. Challenges like contributing to food security and sustainable agriculture, ending hunger, achieving decent work for all, reducing inequalities and ensuring responsible production and consumption are increasingly resonating with the people who work in this company. These ideas add weight to what we could say is the underlying purpose of our company: to transform agriculture.

"In 2019 we reevaluated the company culture and were pleased to see that our efforts had paid off (see Fig. 6.4). The values of business and development, the backbone of our company from day one, remained strong. At the same time, we made great strides with the values involving human relationships and our contribution to solving the world's problems. This is something that is not only recognized by our employees and customers, but has also been felt in the way we are perceived by the seed industry on a global scale. Case in point, we were recently asked to preside over the International Seed Federation (the preeminent association representing our industry globally), in 2018. Traditionally, this office was reserved for business leaders of prominent, exemplary companies (generally from countries with more economic and political weight than Spain), and for us this appointment brought great satisfaction.

"If we compare ourselves with the big multinationals, our contribution to transforming agriculture may seem small. But we don't see it that way. And the market acknowledges that. We believe purpose is everyone's business and that everyone should do their part. A drop in the bucket? Perhaps. But we're convinced that, without that drop, the ocean would not be the same."

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Part III

**Toward a New Management
Method**



7

Deploying Purpose

Abstract The main challenge of management by missions (MBM) is to bring the purpose to life for employees at all levels, so that it becomes more than just a generic statement. In this chapter, we introduce the concept of “shared missions,” which distribute the company’s missions at all levels of the company. Through the shared missions, the corporate purpose is deployed throughout the company’s various areas, teams and, eventually, each individual.

Keywords Purpose • Missions • Shared missions • Individual missions • Interdependency matrix • Management by missions

As we have seen, communicating corporate purpose can be done via a general statement that reflects the essence of an organization’s aims and reason for existence. The statement is unspecific by definition and not directly applicable to any particular context. There is nothing wrong with

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that. What would be wrong is to imagine that a purpose, so defined, is sufficient to guide decision-making throughout the organization. In fact, strictly speaking, a company's purpose has no particular meaning for the organization's members. What does have a meaning, though, is how each person contributes to the fulfillment of that purpose. For that, we need to clarify what "contributing to the fulfillment of the purpose" means for each role and job.

Also, as we move down the organizational chart, people may identify increasingly less with the company's purpose. The main reason, in most cases, is that oftentimes companies' efforts in communicating purpose to their members consist of repeating a particular catchphrase or set of generic statements. Based on our experience and research, this is simply not enough to make an impact on employees.¹ Despite the amount of management effort and time devoted to communication, the purpose tends to be met with detachment and skepticism.

The challenge is to bring the purpose to life for employees at all levels, so that it becomes more than just generic statements. Because a company's purpose is fulfilled through the combined efforts of all its members, this relationship needs to be spelled out at the individual level. The best way to do this is to make sure everyone in the organization knows how they actively contribute. Thus, we believe that the purpose should be systematically deployed to the company's various departments, teams and, eventually, to each individual.

To help bring purpose into the everyday practice of a company's discrete jobs and functions, we have created the idea of "shared missions" which deploy a company's purpose and missions at all levels of the company.

Shared Missions

Shared missions are the contribution commitments at each level of an organization that is aimed at fulfilling a company's purpose. Just as the corporate missions reflect the purpose in terms of the company's

¹ F. Marimón, M. Mas-Machuca and C. Rey, "Assessing the Internalization of the Mission," art. cit.



Fig. 7.1 Deploying the purpose in missions

commitments to its stakeholders, shared missions show how each unit, team and individual across the organization contributes to the fulfillment of those same commitments. Similarly, like an overarching mission, each shared mission must have content, credibility and urgency.

In other words, it must *share* in the higher-level missions (hence the term “shared missions”). Sharing means participating, taking responsibility for something that is part of a whole. For example, a team member’s missions will be aimed at accomplishing the team missions, and a team’s missions will focus on the corporate missions, which in turn support the purpose of the organization. In this way, by deploying company, team and personal missions, everybody shares, one way or another, in the corporate purpose (see Fig. 7.1).

We can see here that individual missions (or personal missions) complement their team’s missions, and team missions complement the company’s missions. These missions would not be complete if the achievement at the lower level—individual and team—did not imply the fulfillment of the company’s missions and, ultimately, the organization’s purpose.

In practice, defining shared missions at the individual or team level (e.g., areas, projects, departments) requires a process of analysis and reflection. In most cases, we have found that existing organizational

information—job descriptions, organization charts, process designs—fail to answer this question. These tools are usually developed around *what* we do, but do not encompass the ingredients of the shared missions: *why* do we do it?

In companies organized by departments, for example, missions can be structured by operational function (production, logistics, sales ...) or by support function (i.e., finance, administration, human resources). The shared missions of an area or department, in both the operational and support functions, focus on clarifying what each area or department will contribute to fulfilling the company's missions. This exercise will vary depending on a company's purpose and specific missions. Generally speaking, it should cover issues such as its contribution to customers, employees, shareholders, suppliers or even its contribution to society (especially in organizations with a strong social purpose and missions).

To some extent, the shared missions may change the way members of an area or department view their identity and their contribution to the company as a whole. For example, very often shared missions make it clear to employees that customer service is a matter for the whole company, not just certain areas or departments. The same goes for employee development: shared missions bring home the fact that employee development is not the exclusive responsibility of any one area or function, but is shared by all areas and levels of the company.

At the same time, in management by missions (MBM), there is no such thing as an "anonymous" missions, in the sense of missions without an owner. Every mission *belongs* to someone. For example, the company's missions are also the CEO's missions; a department's shared missions belong to the department head. Consequently, many companies that have adopted management by missions have scrapped the terms *employee* and *collaborator* in favor of *contributor*. By referring to employees and other stakeholders (e.g., shareholders, partners) as contributors, they are acknowledging that everyone shares a common purpose. In addition to their specific missions, each manager has a managerial mission: to support the development of their contributors. Every manager must be able to fulfill both their specific missions and their managerial missions.

As a structured, joint exercise, defining shared missions is the first step in changing culture toward an MBM mindset. Each area or department is no longer concerned exclusively with the “what” or the “how.” Its focus is broadened and deepened to encompass the “why” and the “what for.” This brings the company’s purpose to life within the scope of the different functions, teams and individuals.

Criteria for Defining Shared Missions

To be properly defined, shared missions must satisfy general criteria of content, credibility and urgency, as well as three specific criteria:

1. *Criterion of inclusion.* Inclusion means that each shared mission must contribute to the accomplishment of the next higher-level missions and, ultimately, one of the corporate missions. If this criterion is not met, there is a risk that particular teams or individuals may establish missions that diverge from the company’s purpose. To define shared missions, we must take a higher-level mission as our reference point, and ask ourselves: How does my area or department help to achieve the higher-level missions?

- For example, if we want to derive a definition of the shared missions directly from the corporate missions, and these missions are oriented toward customer satisfaction, employee development and a fair shareholder return, then each area will have to ask itself: How does our area contribute to customer satisfaction? How does it contribute to employee development? How does it contribute to providing a fair shareholder return?

Like the company’s purpose and missions, shared missions should not be defined in positional terms; nor should they merely list activities or responsibilities. In defining a shared mission, the aim is to determine exactly how an activity contributes, how it adds value. For example, an internal audit department may put a lot of effort into gathering data and drafting reports; but that is not its shared mission. The question we must ask is: How do those reports help to achieve a higher-level mission?

2. *Criterion of complementarity.* Complementarity ensures that there is a horizontal or process logic among the various shared missions. It is important to ensure that the shared missions adopted by the different areas or functions do not compete with one another. On the contrary, the shared missions at any given level should be complementary in every respect. Taking customer service as an example, a common mission in most companies, management must see to it that each area defines its contribution to their customers in a way that is complementary to the way other areas define theirs. The same applies to other mission contributions, such as the contribution to shareholders, employees or suppliers.

In practice, the complementarity criterion means that shared missions tend to be defined from a process perspective. This way, each area is seen as a value-added generating unit, rather than merely as a performer of certain functions.

3. *Criterion of consistency.* Consistency ensures that shared missions are deployed throughout the company in a coordinated way. This can vary from company to company, but generally involves engaging the key stakeholders, preparing and periodically reviewing each mission and consistently communicating them once approved.

When it comes to approving missions, one way to ensure consistency among missions is to deploy them from the top down, starting with the corporate missions and cascading them to teams and individuals. That said, as agile organization and self-management models start taking shape in companies, other forms of deployment can also be quite effective. For example, at Morning Star, a California tomato processor, each of its 400 or so employees is guided by missions that are approved, not by bosses but by coworkers.² In doing this, the company reinforces its philosophy of autonomous teams where there are no higher- or lower-order missions, only missions connected in a network through the company's missions. Whichever method is used, missions must never be an imposition or an exercise carried out by external consultants. Missions are personal and, as such, they must be created in an environment of openness and trust, so that they inspire true commitment among those responsible for the

²G. Hamel, "First, Let's Fire All the Managers," *Harvard Business Review*, vol. 89, no. 12, 2011, pp. 48–60.

missions. In this regard, for the past few years, we have been using what we call the “WISE” framework, advocating for missions to be wide, inspirational, service-oriented and evaluable.³

Shared Missions in the Organization

In order to implement shared missions, companies need to organize their departments and functions according to how they add value in the fulfillment of the corporate purpose. The difficult thing, though, is to design a truly efficient organization. Shared missions that are not grounded in the company’s internal processes may be fruitless and impracticable when it comes to implementation.

These challenges may be met using techniques and tools familiar to those acquainted with process reengineering, such as process maps or value analysis.⁴ However, there is a crucial difference between many reengineering practices and shared missions. Shared missions do not aim exclusively for economic efficiency, but for the development of purpose and stakeholder relationships. That is why implementing shared missions may entail a certain amount of organizational change, especially where functions or activities are duplicated, add no value or are uncoupled from the logic of the processes that enable the company to fulfill its purpose.

Table 7.1 below shows a generic chart in which the company’s purpose and missions are deployed through the sales, production and finance departments.

Shared Missions in a Corporate Group

Shared missions can also help solve the problems of identity resulting from mergers and acquisitions, which have been so common in recent

³ C. Rey, N. Chinchilla and N. Pitta, “Objectives Are SMART, Missions Are WISE: Employees with Purpose,” IESE Insight, no. 33, 2017, pp. 45–51.

⁴ M. Hammer and J. Champy, *Reengineering the Corporation: A Manifest for Business Revolution*, Harper Business, New York, 1993.

Table 7.1 Example of shared missions

Purpose: "Working together for the common good of all"				
Company missions	Shared missions			
	Sales Production Admin. & Finance Other departments			
<i>Customers</i>	<p>1. Serve our customers</p> <p>1. Exceed customers' expectations and needs</p> <p>2. Ensure product margins</p> <p>3. Translate customers' needs into proposals to improve products and processes</p>	<p>1. Satisfy customers' needs through quality and service</p> <p>2. Guarantee cost competitiveness</p> <p>3. Implement improvements in products and processes</p> <p>4. Foster employee motivation and recognition</p> <p>5. Use resources rationally, respecting the environment</p>	<p>1. Optimize the financing of customer relations</p> <p>2. Monitor and analyze return on investment</p> <p>3. Provide the information needed to accomplish the company's missions</p> <p>4. Foster employee autonomy and ongoing learning</p> <p>5. Comply with the law and ethical principles</p>	<p>1. ...</p> <p>2. ...</p> <p>3. ...</p> <p>4. ...</p> <p>5. ...</p>
<i>Shareholders</i>	<p>2. Give shareholders a return on their capital</p>			
<i>Company</i>	<p>3. Drive continuous improvement of our company</p>			
<i>People</i>	<p>4. Promote staff well-being</p>			
<i>Community</i>	<p>5. Make a difference</p>			

decades. Subsidiaries very often find it difficult to formulate and specify their missions because they lack cohesive management or the necessary autonomy. This is the complaint voiced by the HR director of an insurance company that was taken over by an Italian multinational: “Before, we had a clear corporate purpose. We knew who we were and what we were here for. Now, we have largely lost our identity. We lack a clear, shared purpose. I’d even venture to suggest this is the main reason for the drop in productivity we’ve seen in recent years.” Several top managers of subsidiaries have asked us whether, in our opinion, a subsidiary has its own shared missions. We say, yes, it does, in every case. Subsidiaries must try to build and assert an identity of their own, consistent with their history and environment. Based on that identity, they must define their shared missions, that is, how they help to fulfill the purpose of the group or holding company to which they belong.

An example of this is Abertis, a world leader in transport and communications infrastructure. In order to give the needed cohesion and unity to the group, the company uses a purpose chart to deploy the group’s missions to the various business units (Motorways, Airports, Logistics, Car Parks, etc.). Thus, each business unit has its own shared missions, which is linked to the corporate missions and purpose through inclusion, complementarity and consistency.

As globalization becomes the dominant economic model, the way a company deploys its purpose to its subsidiaries or business units becomes increasingly complex and dependent on how the decision centers are organized. This makes it particularly important that the board and top management of large multinationals give subsidiary managers guidance on how to adapt the group missions to the particular environment and circumstances of their country, region or industry.

The Interdependency Matrix

One of the most undeniable facts about an organization is that its people, activities and departments are all interdependent. No doubt, how well each person does his or her job depends to a large extent on how well other people do theirs. Several prominent management thinkers of the

1980s pointed out one of the errors of traditional management systems: “In MBO, as practiced, the company’s objective is parceled out to the various components or divisions. The usual assumption in practice is that if every component or division accomplishes its share, the whole company will accomplish the objective. This assumption is not in general valid: the components are most always interdependent.”⁵ The same applies to the process of deploying purpose and shared missions. It is not enough merely to define how each area contributes to the completion of the company’s purpose (direct contribution). We must also identify how the different areas must cooperate with one another in order to achieve the overall purpose (indirect contribution). This is what defines the interdependency relationships between areas, teams or individuals.

The complete set of interdependent relationships forms the interdependency matrix. The interdependency matrix shows the internal customer-supplier relationships within a company. It is generally not difficult to identify the interdependent relationships between areas, teams or people. In practice, we need to ask ourselves: What contributions do I need from other areas in order to accomplish my shared missions? And we need to ask the other areas: What contributions do others need from me in order to accomplish their shared missions? Normally, company members are well aware of these relationships. However, designing an efficient interdependency matrix requires a solid understanding of the company’s internal processes and a purpose-guided approach that takes all aspects of the company into account. In Table 7.2, we give a simple example of interdependent relationships existing in a multinational company.

In all the companies we have consulted, constructing the interdependency matrix has been the key factor to sustainably improving cooperation between areas. In part, this is because shared missions give “cooperation” a new purpose by orienting it toward the higher end. Building the interdependency matrix is not just a technical exercise; it actually helps clarify the reasons behind the need to cooperate, inviting

⁵W. Edwards Deming, *The New Economics for Industry, Government, Education*, Massachusetts Institute of Technology (MIT), Center for Advanced Engineering Study (CAES), Cambridge, MA, 1993. Another thorough reference on the subject of interdependent relationships can be found in Richard T. Pascale and Anthony G. Athos, *The Art of Japanese Management*, op. cit., ch. 5.

Table 7.2 Example of an interdependency matrix

WHO	WHAT THEY NEED	FROM WHOM	IMPACT ON MISSIONS	SUPPORT COMMITMENTS	STATUS
SALES	Ad hoc agreement on the criteria and timetable for industrialization following the priorities and adjusting to the calendar of projects approved by consensus	PRODUCTION	Impact on customer satisfaction and profitability	Standardization committee at least quarterly	In progress
MARKETING	Optimization of management systems and price communication	INFORMATION SYSTEMS	Impact on the customer relationship	Meetings and monitoring report monthly on the specific activity, with special emphasis on compliance of quality SLA and timeline.	OK
PRODUCTION	Active collaboration in generating, implementing and managing innovation and development initiatives	SALES	Impact on customer missions and employee development	1. Joint validation of key projects 2. Active participation in launches	In progress
INFORMATION SYSTEMS	Greater participation in governing and management bodies (more present in committees and delegate meetings)	LOGISTICS	Direct impact on profitability and teamwork	1. Set KPIs on service levels 2. Possibility of systems participation in operational meetings (as required)	In progress

people to do so out of a sense of purpose. For example, we have found that after implementing the interdependency matrix, many departments rethink the ways they cooperate with other areas and as a result, set new targets for “internal service.”

The benefits of the interdependency matrix, in terms of enhanced cooperation, have far exceeded our initial expectations. We have taken this to some extent as proof that cooperating out of a sense of purpose is

much better than cooperating for other reasons (such as for purely financial rewards or other compensation). For our part, we have concluded that the lack of cooperation that drags so many organizations down is not a question of aptitude but of motives (or reasons) to cooperate. Thus, the interdependency matrix, linked to shared missions, offers a new perspective that can motivate people to cooperate in a structured and systematic way. This new form of cooperation is one of the main benefits of MBM.

Pioneers in Management by Missions

Huf Portuguesa is a subsidiary of the German multinational HUF International, a manufacturer of security systems for the automotive industry. In 2002, in conjunction with fellow subsidiary Huf España, it defined missions for Huf Ibérica—joining both companies under a common purpose—to strengthen the sense of mission and improve the interdependent relationships between them. Jon San Cristobal Velasco, manager of Huf Portuguesa, shares his experience:⁶

“We like to say we’re a ‘democratic’ company,” says Jon. “We ask our people lots of questions about many things and we put a lot of resources into internal communication. Communication is a passion for us. Because our management system is to convince. And we put a lot of effort into convincing our people. We don’t like the word command; we like the word convince. So, in 1998, we developed a purpose statement. To us, the purpose wasn’t stuck in a drawer. To us, the purpose was present in so many practices and, most importantly, it was in the hearts of our people. Because we weren’t just working for the shareholder. We were working for our people, for customers and society at large.

“In 2002, we started to deploy the company’s missions into departmental missions. The idea spread and eventually all the departments followed suit. Given the company’s missions, people were asking themselves: What is the department’s contribution to the company’s missions? What is the added value? Why do you exist? Why does this department exist? So we went to work on a cascade deployment. Based on the corporate missions, we defined the company objectives, and then we used shared missions to define the department objectives, as well as the individual objectives that we use for the performance evaluation. By doing it this way, company objectives fuel the corporate missions, just as departmental and individual objectives fuel the departmental missions, which serves as inspiration for defining those objectives. And it works!”

(continued)

(continued)

In just a few months, the shared missions were deployed throughout the company, strengthening unity and interdependent relationships between the different areas and departments. As a result of this practice, the term “management by missions” came to be, and members of the company started using it naturally to refer to the new way of managing that was created in an environment of shared missions.

“Developing the departmental missions,” adds Jon, “is one of our most satisfying achievements. We are so lucky to be able to do this... Not to mention how greatly it benefits customers, shareholders, people and society. And in terms of unity. In the surveys sent out to our entire staff, the mean score for unity is 8.4 out of 10; trust is an 8.8; and commitment to the missions, 8.6.”

Since 2002, Huf Portuguesa has consistently been among the country's leaders in the Best Workplaces ranking (developed by Great Place to Work). Despite being hit by multiple crises—from the financial crisis of 2008 to the automotive crisis of 2010, and now COVID-19—year after year the company has achieved excellent return on assets and capital, standing out as one of the most profitable in the group at a global level as well as being its European leader.

Today, Huf Portuguesa, a pioneer in management by missions, remains for many a source of inspiration and a benchmark model of good business management.

⁶Case study based on the talk by Jon San Cristobal Velasco at the 3rd Meeting of companies of the International University of Catalonia's Chair of Management by Missions and Corporate Purpose, on September 12, 2013.

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8

Tools for Managing Purpose

Abstract In order to successfully implement management by missions (MBM), it is necessary to redesign “traditional” management tools—typically grounded in an MBO philosophy—so that they are oriented toward the corporate purpose. In this chapter, we discuss how to do this on five basic management areas: strategic planning, deployment of objectives, missions’ scorecard, talent development and performance appraisal.

Keywords Management systems • Strategic planning • Objectives • Scorecard • Talent development • Performance appraisal

In the previous chapter, we proposed our model for deploying purpose throughout a company’s various functions and levels. However, purpose deployment should not be seen as a simple add-on to existing management systems. If it were, the result would most likely be inconsistent, and the purpose would have no real impact on daily activities.

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Therefore, the next step, once the purpose chart has been implemented, is to redesign the company's management systems, so that they are oriented toward the corporate purpose. As we saw earlier in this book, existing management systems are quite inadequate for putting a company's purpose into effect which in turn undermines the performance of individual employees and of the company as a whole.

To remedy such shortcomings, we need new management tools that link business interests to people's interests, and provide the means to motivate people based on a company's purpose, missions and values. Under this new management system, people will see work not just as "a way to earn a living," but also as a way to contribute to society and discover personal fulfillment.

In recent decades, many management experts have acknowledged the need to redesign "traditional" management tools.¹ If the ultimate end of any management system is to fulfill the company's purpose, then shouldn't every part of the whole must be oriented toward that purpose? Indeed, one of the greatest experts in management systems, W. Edwards Deming, reminds us that every system must have a clear and definite purpose: "without a purpose, there is no system."²

We see companies using a wide array of management tools. Examples include the selection process, orientation manuals, training plans, internal and external communication policies, career plans, ethics codes, flexibility and social responsibility policies, corporate governance and so on. Since it would be overwhelming to explain how each of them can and should be aligned with the purpose, we will instead focus on how to integrate purpose into five basic areas that drive performance:

- strategic planning
- deployment of objectives
- missions' scorecard
- competency development
- performance appraisal

¹ See, for example, J. Birkinshaw, N.J. Foss and S. Lindenberg, "Combining Purpose with Profits," art. cit.; and S. Lindenberg and N.J. Foss, "Managing Joint Production Motivation," art. cit., pp. 500–525.

² W. Edwards Deming, *The New Economics*, op. cit.

New Management Practices?

Anyone with a passing interest in management will know that these five practices are not new. They are all thoroughly documented, and backed by decades of experience by consultants and practitioners. Ours is an evolutionary proposal: to take these practices a step further by reorienting them to promote missions- and values-focused approach to business so that there can be a concrete connection made to the company's purpose. In other words, we are not trying to introduce new management tools, but to use the ones we already have as a vehicle for deploying the purpose throughout the organization. MBM is intended as a natural development from traditional management methodologies, not a radical new departure.

By reorienting management systems toward the corporate purpose, we also aim to overcome two of the most significant limitations of many management systems today. The first is the tendency to concentrate on tangible measures of success (e.g., productivity, profit, asset utilization), while neglecting intangibles (e.g., customer satisfaction, employee motivation). The second is the excessive focus on individual performance and individual rewards, rather than overall organizational performance.

Strategic Planning: A Question of Congruence

Strategic planning is one of the most important management practice a company has to perform. More or less structured, formal or creative, a strategy outlines the company's main challenges and lays down the rules for achieving them. In a purpose-driven management system, however, purpose and strategy are not two separate entities. They must be closely aligned and complement one another in a cause-effect relationship. If purpose and strategy are not aligned, organizational members are likely to conflict with one another. Usually, the root of the problem is that the company's purpose has not been properly worked out at the strategic level.

For example, a pharmaceutical company might have a purpose such as "preserving and enhancing life" or "alleviating pain and curing disease"; and yet describe their strategy as "doubling revenues by 2030." What

does “preserving and enhancing life” have to do with “doubling revenues by 2030”? Everything and nothing. A deeply purpose-driven CEO will quickly point out the connection: by doubling revenues and gaining more customers, the company fulfills its purpose more effectively and more completely, reaching more people whose lives need preserving and enhancing. But is that what the production manager, head of sales, or workers on the packaging line understand when they hear the message?

When the goal of the strategy is to fulfill the purpose, both elements reinforce and complement each other. When this happens, the resulting organizational congruence benefits the entire company. When a company knows its purpose, the various strategies it pursues over time are more likely to be robust and consistent with one another. When the purpose is unclear or nonexistent, the company is at the mercy of opportunistic market forces. Purpose concentrates the company’s efforts and keeps it focused in times of crisis. Purpose also helps to make the right decisions when times are good.

At the same time, purpose always demands more from strategy: it demands tangible results. If a strategy does not yield results, the purpose will force a change, possibly a radical change. In other words, change does not come about at the whim of some senior executive, eager to prove their worth (and sometimes crippling the company in the process). To the extent that it is genuinely necessary, change is dictated by the purpose. On the strength of his experience at Medtronic, CEO William George insisted that “employees can adapt to major strategic shifts as long as the company’s mission and values remain constant. [...] In fact, employees are remarkably resilient as long as they are fully confident that their leaders will do the right thing.”³ Strategy changes, purpose abides.

To understand the relationship between purpose and strategy, we need to distinguish between three basic theories of strategy formation⁴ (see Fig. 8.1).

³W.W. George, “Medtronic’s Chairman William George on How Mission-Driven Companies Create Long-Term Shareholder Value,” *Academy of Management Perspectives*, vol. 15, no. 4, 2001, pp. 39–47.

⁴G. Johnson, K. Scholes and R. Whittington, *Exploring Corporate Strategy: Text & Cases*, Financial Times and Prentice Hall, Harlow, UK and New York, 2009.

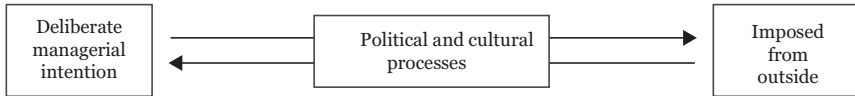


Fig. 8.1 Strategy formation. (Source: Adapted from *Exploring Corporate Strategy: Text & Cases*, by G. Johnson, K. Scholes and R. Whittington (*Financial Times* and Prentice Hall, Harlow [England] and New York, 2009))

- The first sees strategy as a result of deliberate managerial intention. According to this theory, strategy reflects the manager's choice among a range of ends and the means to achieve them.
- The second theory sees strategy as the outcome of political and cultural processes. Here, strategy emerges from negotiation and bargaining among internal or external stakeholders, with managers acting as “mediators seeking consensus.”
- The third view is that strategy is imposed from outside the organization. This theory holds that managers have very little power to determine strategy, which is shaped mainly by market circumstances and outside agencies.

Generally speaking, strategic decisions cannot be satisfactorily explained by any one of these theories, but only by a combination of all three. Therefore, to formulate a strategy that is aligned with the company's purpose, managers must aim for a balance between their missions and the various pressures coming from their stakeholder.

The strategy time horizon varies widely from company to company. Some companies have detailed strategic plans over a horizon of three, five or even ten years. In today's volatile environment, however, such long-term plans are becoming increasingly questionable. For this reason, some organizations have abandoned long-term planning in favor of other, more dynamic and agile alternatives that allow for constant revision and updating.

To make strategic planning more agile and dynamic, in recent years we have been using a model we call SIA (Systemic, Institutional & Analytic), which focuses on strategic integration of analytical (market, trends, etc.), institutional (purpose, missions, values, etc.) and systemic (business models) logics. This planning tool, which we have explained in greater

detail in another publication,⁵ graphically represents the integration of missions and values with the business model and strategic control indicators. This model enables a dynamic integration of purpose and strategy, allowing them to be adjusted and reinforced over time.⁶

Deployment of Objectives

In the MBM philosophy, purpose and objectives are interdependent: a purpose without objectives is dead, and an objective without a purpose is blind. As in management by objectives (MBO), objectives are a key component of the MBM system, but with one clear proviso: they are meaningful only if they serve the corporate purpose. It could be argued that objectives are already implicitly focused on the purpose in a managers' mind. However, the focusing needs to be done explicitly, so as to enrich the entire goal-setting process and give it a purpose orientation.

A senior bank executive acknowledged as much: although the bank's purpose placed great emphasis on customer service and employee development, the management team's objectives were almost exclusively economic and financial. How can people identify with a richer, broader purpose if their objectives are exclusively financial? Once it was accepted that objectives should genuinely serve the purpose, it became clear that the economic and financial objectives needed to be complemented with new objectives, especially in customer service and employee development.

When the objectives serve the purpose, the purpose itself will demand that the objectives be met. And objectives may change significantly, or even completely, without there being any change in the purpose. On the other hand, some objectives may stay the same for several periods if the purpose is best served that way. Basically, each person must decide in each period what objectives he or she must set for himself or herself in order to most effectively fulfill the purpose.

⁵C. Rey and J.E. Ricart, "Why Purpose Needs Strategy (and Vice Versa)," in *Purpose-Driven Organizations*, op. cit., pp. 43–56.

⁶C. Rey and J.E. Ricart, "The Practice of Strategy," *The European Business Review*, July–August 2015, pp. 38–42. J.E. Ricart and C. Rey, "Strategising for the Future," *The European Business Review*, March 2017, pp. 7–11.

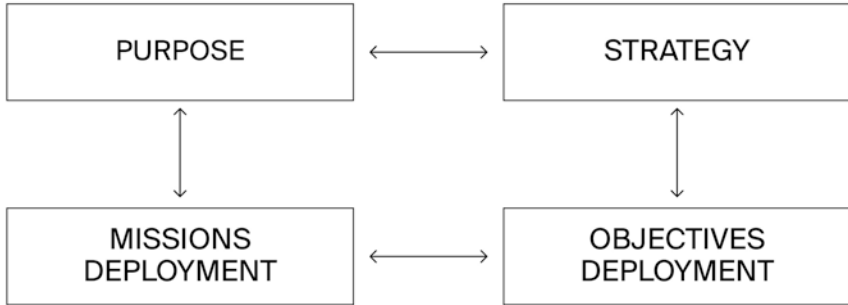


Fig. 8.2 Deployment of purpose and strategy

In MBM, the deployment of objectives is linked to the deployment of missions. As Fig. 8.2 shows, purpose is deployed in missions, while strategy is deployed in objectives. Purpose and strategy should be deployed in parallel, so that they are linked (as in the figure), just as the missions are linked to the objectives. Then, the congruence between purpose and strategy is reproduced throughout the organization, and the objectives are imbued with a strong “sense of purpose.”

Here, each individual would be responsible for setting his or her own objectives. In hierarchical organizations, the objectives they choose might be guided—and ultimately approved—by a higher-level manager. But with other organizational models, such as autonomous teams or agile organizations, they might use methods for approving objectives in teams or other, more participatory approaches. In either case, there is a balance between top-down and bottom-up deployment of objectives. A manager may—and sometimes must—impose objectives on their subordinates. But they must also appeal to each person’s sense of responsibility and willingness to take the initiative in setting his or her own goals.

In MBM, the aim is not to achieve more ambitious objectives each year, but to fulfill the purpose more completely. Upping objectives by, say, 2% or 5% will not be enough unless it serves to infuse the purpose with a real sense of urgency. It may turn out to be necessary to raise objectives 50%, or lower them 20%. It is the purpose that gives meaning to the objectives, not the other way around.

Missions Scorecard

Purpose deployment would not be complete without the means to measure progress. Many managers, and management literature in general, would agree that measuring progress with indicators and ratios is essential for the day-to-day control of operations: “You can’t manage what you can’t measure.” To define indicators for management by missions, we used the scorecard method, which we had been using before we started the project. And we have found that the existing methods, in particular Kaplan and Norton’s balanced scorecard, are indeed a good starting point. However, there are certain important differences in outcome and procedure which we believe are worth briefly commenting on.

Scorecards came into use in the 1930s. They were based on ratios and indicators that recorded a company’s principal management variables. In the 1990s, Kaplan and Norton conducted an excellent critique of such scorecards. They pointed out that most of the indicators used by companies are essentially economic or financial and short term. By contrast, the “balanced scorecard” (BSC) includes other indicators, based on a representation of cause-effect relationships which the authors called a “strategic map.” Besides the financial perspective, the strategic map also encompasses the customer perspective, the process perspective, and the learning and growth perspective.

However, whenever we’ve tried to design scorecards centered around purpose, we have found that the BSC does not always have an adequate tool. This is because the BSC uses the same preestablished perspectives for all companies, whereas a purpose may include different perspectives. For this reason, we regard the BSC as an intermediate solution.

Moreover, in the BSC approach, customer service, employee motivation and community contribution are not ends in themselves, but means to improve a company’s financial performance. With reference to quality enhancements or reduced customer response times, for example, Kaplan and Norton suggest that such improvements “benefit the company only when they are translated into improved sales and market share, reduced operating expenses, or higher asset turnover.”⁷ However, in the MBM

⁷R.S. Kaplan and D.P. Norton, *The Balanced Scorecard*, Harvard Business School Press, Boston, MA, 1996.

approach, missions are important in themselves, as they are implementing the company purpose. This difference in approach ends up having multiple repercussions when put into practice.

But these repercussions disappear when the scorecard is derived directly from the corporate purpose and becomes, in essence, a “missions scorecard.” Such a scorecard is the result of translating purpose into missions that contain specific, measurable performance goals as well as indicators for each one of the missions. The scorecard thus derives directly from the corporate purpose and is not necessarily limited to financial indicators or preestablished perspectives.

The purpose scorecard usually includes many of the indicators we use regularly in day-to-day management (for instance, that appear in a traditional BSC). In some cases, however, a company may have to exercise their creativity and develop new indicators, especially for mission statements addressing intangibles such as customer service, employee satisfaction or impact on society. Table 8.1, which ties back to the example of the shared missions in the previous chapter, below shows the scorecard designed around the purpose and missions of a company with clearly defined success indicators.

Competency Development

In 1988, Boeing published and distributed among its employees a document that listed, in the form of clear and specific behaviors, the desired competencies that every Boeing manager was expected to develop. This list, based on a system known as “Corporate Direction,” similar to the missions and values, bore the title “Desired Characteristics of Managers.”

Five years later, Boeing chairman Frank Shrontz received a letter from employees saying that while the list of behaviors seemed reasonable, it bore little relation to the way people actually behaved in the company. As a corrective measure, Shrontz first scrubbed the word “desired” from the document title. He then established a management tool whereby each manager would send a questionnaire to his or her superiors, peers and subordinates, asking them to assess their manager’s performance in

Table 8.1 Example of a missions scorecard

Purpose: "Working together for the common good of all"				
Shared missions				
Company missions		Sales	Production	Other Depts.
Missions	Indicators	Sales missions	Indicators	Production missions
<i>Customers</i>	1. Serve our customers	1. Exceed expectations and needs	• Net promoter score (NPS)	1. Meet customers' needs through quality and service
	• Volume of revenue		• Sales margin	• % Perfect order fulfillment
	• Customer satisfaction survey		• Profitability ratios by product	
<i>Shareholders</i>	2. Give shareholders a return on their capital	2. Ensure product margins	• No. of improvement initiatives	• Productivity ratios
	• Earnings before taxes		• No. of improvement initiatives	• Quality costs
	• Liquidity ratio			
<i>Company</i>	3. Drive continuous improvement of our company	3. Translate customers' needs into proposals to improve products and processes	• No. of improvement initiatives	• No. of improvement initiatives
	• % of revenue from new products		• No. of improvement initiatives	

<i>People</i>	4. Promote employee well-being	<ul style="list-style-type: none"> • Climate survey • No. hours of training per employee 	4. Create a climate of professional development, trust and recognition	<ul style="list-style-type: none"> • Climate survey • No. hours of training per employee 	4. Foster employee motivation and recognition	4. ...
<i>Community</i>	5. Make a difference	<ul style="list-style-type: none"> • Indicators of environmental impact • No. of social initiatives 	5. Participate actively in social activities	<ul style="list-style-type: none"> • % of participation in social activities 	5. Use resources rationally, respecting the environment	5. ...
						<ul style="list-style-type: none"> • Climate survey • No. hours of training per employee • Recycling and energy consumption ratios • % of waste reduction

relation to the competencies and behaviors listed in “Characteristics of Managers.” This made Boeing a pioneer in the use of competency systems.

Competency management is aimed at enriching and complementing traditional MBO. While MBO focuses on goal setting (“what to do”), competency management looks at the means to achieve those goals (“how to do it”). Competency systems are designed to help companies evolve toward “a new system combining objectives and competencies”⁸ (the “what” and the “how”), where competencies are “observable behaviors that contribute to success in a task or function.”

In practice, most competency systems have three components:

1. *A competency directory.* This is a fairly concise document in which the company defines the competencies (usually totaling between 7 and 10) that it considers crucial to the success of its business. The directory also describes the observable behaviors resulting from each competency.
2. *A measurement and assessment method.* In line with the notion that “you can’t manage what you don’t measure,” competency systems establish various ways of measuring and assessing organizational members’ progress in acquiring certain competencies. Common measurement tools range from simple self-assessment to external assessment involving a person’s boss (90° feedback), subordinates (180° feedback), or peers (360° feedback). In some instances, customers can also provide feedback.
3. *A development plan.* The purpose of the development plan is to reinforce a person’s strengths and address any deficiencies or areas for improvement. Development plans may be implemented at the individual, group or even company level. Three of the most important development tools are training courses, on-the-job training and coaching.

Such tools are inadequate and ineffective, however, unless people genuinely want to improve. Many competency systems fail precisely because the people who are supposed to acquire certain competencies (especially bosses) don’t see why they should. Therefore, the first step in any competency management system is to get people to accept the need to acquire

⁸ P. Cardona and P. Garcia-Lombardy, *How to Develop Leadership Competencies*, op. cit.

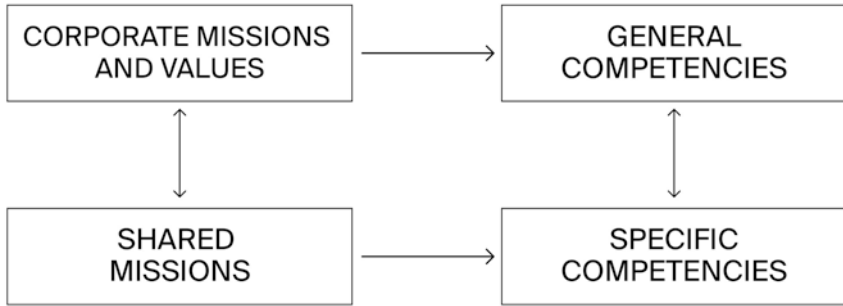


Fig. 8.3 Competency directory

certain competencies. The aim is to encompass the “what,” the “how,” the “why” and the “why.”

In MBM, competency systems derive from the company’s missions and values (see Fig. 8.3). Based on the missions and values, a company can define a set of generic competencies that will be applicable to the entire enterprise. In addition, it can develop specific skills through shared missions and adapt them to the particularities of the different teams or people.

MBM also gives managers a new responsibility in the form of what we earlier termed the managerial mission: to contribute to the development of subordinates. This means that coaching is one of the basic functions of any manager. A manager must see to it that their subordinates “realize their potential and develop their professional capabilities.”⁹

Performance Appraisal

There is a direct relationship between the way a company is managed and the way employee performance is evaluated. Specifically, we can distinguish three different appraisal methods, depending on a company’s management system and leadership styles.

First, recall that in management by tasks, we find the “command and control” type of manager, who manages people through strict role

⁹C. Woodruffe, *Assessment Centers: Identifying and Developing Competences*, Institute Personnel Management, London, 1993.

assignments. This type of manager is unlikely to produce a good performance appraisal; instead, he or she will merely correct mistakes when subordinates fail to carry out their job exactly as required. This way of managing people tends to foster a reactive attitude in subordinates, because they are afraid of making mistakes and so do the bare minimum. As a result, employees' potential and motivation are wasted.

In a more advanced system such as MBO, managers are encouraged to delegate, and subordinates are encouraged to assume responsibility. Each employee works in a context defined by certain objectives, which are their assumed responsibility; they accept them as a challenge and pursue them proactively. In MBO, performance appraisal is not just about a manager correcting mistakes. Instead, performance measurement is centered on the degree to which mutually agreed objectives are achieved. Although MBO has proven effective, it still has limitations when it comes to developing an employees' full potential. Because employees' efforts and energy are focused entirely on achieving the agreed objectives, they tend to lose sight of the big picture or the needs of the whole.

MBM overcomes this limitation through what we call "integral evaluation," which is centered on employees' contribution and development. MBM combines goal achievement with other qualitative or intangible factors, such as personal behavior and competency development making it easier to assess the way in which each employee contributes to the fulfillment of the company's purpose.

To do that, we use a system of integral evaluation where intangible factors carry as much weight as tangible or quantitative measures. Take the case of a sales manager, for example, integral evaluation does not merely count the contribution to sales; it also measures other outcomes that are important to the accomplishment of the missions, such as collaboration with other departments, customer satisfaction or the development of particular leadership skills.

Integral evaluation under MBM is an effective way to develop each person's potential to its fullest, while also serving the company's purpose. The focus on results remains, but there is also a broader perspective, one that takes the long view and the organization's values into account as well. However, for integral evaluation to work, a company must link

Table 8.2 Performance appraisal

Management system	What is evaluated	Expected performance
Management by tasks	Mistakes	Minimal for fear of mistakes
Management by objectives	Actual results	Fulfillment of agreed objectives
Management by missions	Contribution and development	Full realization of potential

performance evaluation to all success factors, both quantitative and qualitative, and not manage behavior through financial incentives alone.

Some authors further recommend that qualitative factors be assessed separately from quantitative factors and at a different time of year, so as to avoid any association between the two. In fact, there are companies that do monthly or even weekly evaluations on performance in areas related to the shared missions, purpose or even personal development. Meanwhile, they proceed with their traditional assessment of economic objectives separately, either annually or semi-annually. Whatever practice a company adopts, evaluation must not be seen as a form of wage negotiation, but as an exercise designed to help fulfill the purpose and develop competencies.

In Table 8.2, we summarize the different philosophies on performance appraisal.

Management Systems and Leadership

Leadership and management systems need one another to bring about lasting cultural change (see Fig. 8.4). In MBM, the leader is a catalyst and facilitator of change who uses a variety of management systems to build unity around a set of shared missions and corporate purpose.

Just as you need a good car and driver to win in Formula 1 racing, in MBM you need the right systems (purpose-driven) and the right leader to navigate them. The most important act of a leader is to generate a multi-layer of leadership so that the company purpose does not just sit at

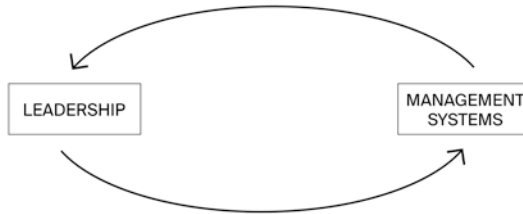


Fig. 8.4 Virtuous cycle of MBM

the upper levels, but rather embeds itself into each level of the organization.

This style of leader, which we would call missions-driven leadership (MDL), is required along with the proper use of the management systems outlined in the MBM methodology. In the next chapter, we will go into more detail on the type of leadership required for successful MBM implementation.

Restoring Commitment

In April 2004, at Shell's offices in Portugal, when it was finally confirmed that the company was going to be sold, its employees were overcome with anguish and fear. They could not believe that Shell, the oldest oil company in Portugal, had decided to sell its assets after 92 years in the country. Just one year prior, the latest work environment survey had been launched and the item with the highest level of agreement, representing 98% of the workforce in Portugal, was: "I am proud to belong to Shell."

Repsol, the buyer, was a Spanish company that had been in Portugal for just ten years trying to break into the market. Despite being a benchmark company in the oil industry in Spain and some Latin American countries, it was relatively unknown in Portugal. In addition, Repsol had a bad image, due to the spread of false reports saying the gas and fuel they sold were of poorer quality. When the Repsol representatives informed the employees of the acquisition, nearly all the Shell personnel got up from their seats and walked out of the hotel conference room where they had gathered.

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The ensuing years were marred by confusion and resistance to change. The constant overhauls of the strategy during that period did anything but provide clear objectives or vision. After years of downsizing and other reorganization efforts, the company's staff was at a loss. A work environment survey showed that Repsol Portugal employees still did not see a clear direction. As a result of these data and the progressive deterioration in the financial performance of the different business lines, the company held a series of work sessions to carefully analyze the internal situation. In conclusion, three out of four participants agreed that the main problems were lack of trust, poor communication, low degree of collaboration between different departments and lack of leadership. The Repsol Portugal management team realized the need to move things in a new direction.

Faced with this challenge, the management team started working on a new change initiative based on management by missions. The aim was to earn people's commitment from the ground up, by creating a sense of mission. The first step of this new initiative was a reflection exercise to debate and specifically identify Repsol Portugal's reason for existence. As a starting point, they took the key stakeholders of the Repsol Group—customers, shareholders, people and society at large—and, based on those groups, the missions of Repsol Portugal were established.

To the management team's surprise, there were many points of convergence during the discussion. Directors, regardless of their background, found that, at least when discussing the essence of the business, opinions were remarkably consistent. With that, the executive committee established a shared commitment that, symbolically, all attendees signed.

For the first activity in the deployment process, each of the department directors met with their team to develop missions for their area. In the end, shared missions were defined in all nine divisions of the company. The preparation of these exercises was supervised by an external expert, but in each case, it was established that the area manager would be the one leading the process. This way of proceeding and communicating turned out to be particularly effective, as this ensured that the missions had credibility and the support of all the managers.

After the process was completed, they built a large mural and invited employees to sign it, symbolically showing their commitment to the missions. In all, 280 signatures were collected, representing 90% of the workforce, and the mural—10 m wide by 2.5 m tall—was placed in the cafeteria, so the employees could see it anytime.

Once the shared missions had been defined, the next step was to bring them to life through the different management tools and practices that already existed at different levels of the company. The objectives were tied to the missions; interdisciplinary projects linked to the missions were estab-

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lished, which were then added to the agendas of the different team meetings; projects were launched to improve cooperation and interdependence between areas (support commitments); a “missions scorecard” was designed to measure progress and evolution of the missions; and special projects were developed for the different areas of the missions, such as customer service, employee satisfaction, increased profitability and social work, among others.

All of these efforts were backed by “enveloping” communication, which used the missions as a basic framework to channel the company’s different communications and interactions. For example, the company magazine was completely updated using the missions’ design, colors and graphics. When talking about any news, event or occurrence, it was related, in both graphic and written form, to some aspect of the missions. The same was done with the intranet, corporate videos, employee communications, results presentations and so on. And so, instead of being communicated to a select few, the missions became the logical, graphic and symbolic basis of all company communications.

At the same time, to support the managers’ efforts, they were offered a voluntary program of personalized coaching. This program, which was embraced by all directors, was designed to guide the main promoters of the project and support them in the development of missions-driven leadership. The leaders voluntarily undertook the change and, thus, increased their moral strength and set an example to promote it among their collaborators.

During the following years, it began to show results. For example, more cooperation, better goal alignment, increased sense of belonging, greater recognition and an improved work environment. After the first year, one of the most symbolic and enthusiastic displays of the progress being made in the company came during the December meeting, which employees traditionally attended for the annual results review. When the presentations ended, the entire audience unexpectedly gave a rousing standing ovation.

Over the next two years, these positive results were bolstered by an increase in operating profit of more than 150%. The Repsol Group once again launched a company-wide climate survey, which had a 94% response rate among Repsol Portugal employees. Reacting to statements such as: “I identify with Repsol’s plans for the future” and “I am proud to be part of Repsol,” Repsol Portugal received responses that were 87% and 90% favorable, respectively. In just a few years, Repsol Portugal’s business unit became one of the divisions with the highest level of commitment and identification in the entire company.

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9

Missions-Driven Leadership

Abstract In this chapter, we present the leadership style required by management by missions (MBM). We first make a brief review of the different types of leadership that have been proposed in the past: transactional, transformational and transcendental leadership. And then, we propose the key competencies of missions-driven leadership (MDL) structured in four areas: commitment with purpose and missions, developing a culture of cooperation through a sense of purpose, ability to implement the changes required by the organization's purpose and the struggle for control the personal ego.

Keywords Leadership • Transformational leadership • Transcendental leadership • Purpose • Missions • Management by missions

The meaning of the term “leadership” has evolved significantly since the early twentieth century. Leadership literature and practice have gradually moved beyond the personality-centric leadership perspective to include the person or teams being led. During the last decades, leadership has

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come to be defined as a “relationship of influence” in which both leaders and followers play an important role.¹ This perspective focuses on the relationship a leader builds with his or her followers. Various modern leadership models belong within this relational approach. The best known of them is transformational leadership. However, the limitations of this leadership model are now becoming more apparent.

In uncertain and volatile times, leadership becomes an increasing challenge. The business playbook, in which companies are supposed to focus solely on maximizing profits, is no longer accepted. Society expects business leaders to create profitable companies but in ways that also enrich society, by attending to the environmental and humanitarian dimensions of their activity. Leaders who confront this challenge will be limited if employees are tied to the organization only by traditional monetary incentives. But when they build companies with a deep sense of purpose, their employees become catalysts of progress, ensuring their organization thrives, even though the most challenging times.

In this chapter, we introduce a new type of leadership for the new times. In order to more fully understand the characteristics of this new leadership, we will make a brief review of the different types of leadership that have flourished in the past.

Types of Leadership

We can distinguish three types of leadership, according to the nature of the influence a leader exerts on his or her followers:² transactional, transformational and transcendental.

Transactional Leadership

Transactional leadership is built on a relationship of economic influence. A transactional leader relies on rewards and punishments to motivate

¹J.C. Rost, *Leadership for the Twenty-First Century*, Praeger, New York, 1991.

²P. Cardona, “Transcendental Leadership,” *Leadership & Organization Development Journal*, vol. 21, no. 4, 2000, pp. 201–207.

their subordinates. In fact, their ability to influence people depends on their ability to give or withhold incentives. To do that, they lay down clear rules and set carefully designed objectives. Their management style tends to be “command and control,” with an emphasis on control and robust use of formal power. They pay close attention to the short term and use processes and resources efficiently.

A transactional leader is, therefore, a good manager who seeks continuous improvement through standardization, organization and repetition of tried and tested processes. Good transactional leaders tend to be good negotiators: they are authoritarian, even aggressive, in getting maximum benefit out of the relationship of economic influence they have created. And yet that benefit is suboptimal from the point of view of other, higher-value-added relationships, because even in the best of cases it includes only the employee behaviors that are part of the formal job requirements.

Transformative Leadership

Transformational leadership is based on a relationship of professional influence. In a professional relationship, the subordinate is interested not only in compensation and benefits but also in the job as such: the challenge it offers, what they expect to learn from it and its overall appeal. The influence exerted by a transformational leader goes deeper than that of a transactional leader, as a transformational leader is able to influence people not only through rewards and punishments but also through an attractive job in which subordinates will learn and commit to tasks. A transformational leader is usually nonconformist, visionary and charismatic. They are an excellent communicator. Compelling and persuasive, they have great faith in themselves and their vision, and pursue the changes they have decided upon with great determination and energy.

The transformational leader is not necessarily opposed to the transactional leader: they are an enriched transactional leader. “Transformational leadership is an extension of transactional leadership.”³ This is the type of

³ B.M. Bass and B.J. Avolio (eds.), *Improving Organizational Effectiveness Through Transformational Leadership*, Sage Publications, Thousand Oaks, CA, 1994.

leadership advocated by authors such as Warren G. Bennis:⁴ “[Leaders] know what they want, why they want it and how to communicate what they want to others, in order to gain their cooperation and support.” Transformational leaders get people to identify with them and their vision, and then empower them to pursue their objectives independently. There is a clear distinction between the leader and their followers: there is only one leader, everyone else is a follower. We could say that the transformational leader retains leadership at the top of the pyramid: the leader is the guarantor of the corporate vision and the driver of organizational change. This makes it difficult to develop new leaders within the organization.

Transformational leadership can be especially problematic when the leader’s personal vision becomes an end in itself or, worse still, an exercise in self-aggrandizement. The literature is full of examples of leaders who carried people with them for their own personal glory. This is what is often referred to as “narcissistic leadership.”⁵ The danger of the narcissistic leader is that they can be manipulative in their efforts to persuade people to do what they want. To deal with this dark side of the transformational leader, Bernard Bass draws a distinction between authentic transformational leadership and pseudo-transformational leadership.⁶ Authentic transformational leaders have ethical principles as well as charisma, whereas pseudo-transformational leaders succumb to narcissistic temptation. However, this is a somewhat flimsy distinction. Basically, it shows that another category is needed in order to distinguish authentic from pseudo-transformational leadership.

Transcendental Leadership

What makes transcendental leadership unique and powerful is that it is built on a relationship of personal influence. The influence exerted by a transcendental leader is even deeper than that of a transformational

⁴W.G. Bennis and R. Townsend, *On Becoming a Leader*, Addison-Wesley, Reading, MA, 1989.

⁵M. Maccoby, “Narcissistic Leaders: The Incredible Pros, the Inevitable Cons,” *Harvard Business Review*, vol. 82, no. 1, January 2004, pp. 92–101.

⁶B.M. Bass and P. Steidlmeier, “Ethics, Character, and Authentic Transformational Leadership Behavior,” *The Leadership Quarterly*, vol. 10, no. 2, 1999, pp. 181–217.

leader, because a transcendental leader is able to influence people not only by giving out rewards and punishments or interesting professional challenges, but also by appealing to their awareness of how other people need them to do their job well, out of a sense of purpose. The transcendental leader is strongly committed to social and environmental challenges and makes their subordinates realize how their work contributes to its progress. They walk the talk, which enhances their credibility among their subordinates. Lastly, they radiate a powerful sense of urgency and encourage their subordinates to accept leadership responsibility, so that they set for themselves demanding and ambitious goals in service of the corporate purpose.

The transcendental leader does not hoard leadership at the top; they do their best to ensure that leadership permeates the entire organization. They are a leader who makes leaders. They do this by inspiring a sense of purpose in their subordinates, each at their particular level of responsibility. The resulting sense of ownership goes deeper than the empowerment championed by transformational leaders. A transcendental leader sees their work as a service to their subordinates. Essentially, the transcendental leader is at the service of the purpose. As a leader of leaders, they expect their subordinates to take on more responsibility and prefer to share success, rather than taking all the credit themselves. The transcendental leader could be said to be both more ambitious and more humble than the transformational leader.⁷

Purpose and Leadership

In practice, we see a history of leaders who give example to transcendental leadership: leaders who make other leaders. Many of them are widely studied and admired and are held up as models. We have already mentioned David Packard of Hewlett-Packard, R.W.W. Johnson of Johnson & Johnson and Tom Watson of IBM. Mostly, they are people with

⁷J. Collins comes to the same conclusions in “Level 5 Leadership: The Triumph of Humility and Fierce Resolve,” *Harvard Business Review*, January 2001.

exceptional, extraordinary qualities who surround themselves with a team of leaders. They have deeply rooted personal principles and values that enable them to achieve what so many companies wish for nowadays: employees who are committed to a shared endeavor.

Perhaps the reader now wonders: Is this leadership for exceptional people only? And what about the rest of us—managers, supervisors, team leaders?

In our consulting work with organizations of different sizes and in different industries, we have found that transcendental leadership is possible and attainable at all levels, provided the context is right. This is where MBM comes into the picture, as it generates a particular form of transcendental leadership—one with a purpose-driven mindset—that aims to turn people into leaders who will take ownership of the company's purpose in their own area of influence. Unlike transformational leadership, this form of leadership can be extended to all levels of the organization.

Leading “by missions,” it is not a matter of leading departments, or divisions, or even people. Every manager, at every level, leads through purpose: that is what makes them a leader, not necessarily whether they have exceptional qualities or a special charisma. Missions-driven leadership (MDL) is directly related to a purpose and values that transcend the leader as a person. That is why in this chapter we shall use the term “leader” to refer to any person—CEO, director or middle manager—who contributes to a purpose through their commitment to their specific missions. Thus, the missions-driven leader is the one who accomplished the purpose by leading through its various missions toward the purpose.

Dimensions of Missions-Driven Leadership

In MBM, as we have explained, management tools are the driver, while the leader is the facilitator of cultural change in the company. In other words, cultural change does not come about automatically just because a company uses certain tools. It is a learning process in which managers and subordinates gradually acquire new knowledge, attitudes and

behaviors, until everyone embraces the organizational purpose.⁸ In implementing MBM in a variety of companies, we have developed and tested a model for how a manager can become a missions-driven leader. This model is structured in three basic dimensions: commitment, cooperation and change.

Commitment

Missions-driven leadership (MDL) begins with developing commitment. One of the main effects MBM has on an organization is to enrich the employer-employee relationship. In the basic employment relationship—be it extrinsic (work for money) or intrinsic (satisfaction of the challenge)—MBM adds a transcendent layer where employees know they have a part in the purpose being fulfilled. Following the steps shown in Fig. 9.1, people begin to willfully accept a purpose commitment, in addition to their interest in the job itself or the pay and benefits.

Let's take a look at the steps involved in the cycle of commitment:

1. *Personal commitment.* First, a leader must genuinely serve in word and action the company purpose and missions. This is the first condition and first factor facilitating the entire process of change.
2. *Conveying commitment.* Next, a leader should convey a personal commitment to other members in the organization to ensure that they also commit to the purpose. For that to happen, they must organize their communication around the purpose and missions whenever the occasion arises in their day-to-day endeavors.



Fig. 9.1 Cycle of commitment

⁸R.E. Quinn and A.V. Thakor, "Creating a Purpose-Driven Organization," art. cit., pp. 78–85.

3. *Acting consistently.* A leader must promote the purpose and missions with a sense of urgency by aiming to achieving ambitious goals in all areas of the missions. For example, if the missions include commitments to customers, shareholders and employees, the leader must treat all three stakeholder groups with an equally high sense of commitment.

The three behaviors we have described—personal commitment, conveying commitment and creating a sense of urgency—are not occasional or temporary efforts. A leader must practice them resolutely and constantly. If the leader does not persevere, few colleagues will be likely to follow their example, and all the initial effort to secure commitment and create a sense of urgency will be wasted. Perseverance is not just about maintaining commitment; it also means continually renewing and reinforcing commitment at the personal level, which brings us back to the start of the cycle.

Cooperation

The second dimension of MDL involves developing a culture of cooperation through a sense of purpose: a form of teamwork that goes beyond the mere coordination of functions or simply cooperating for a matter of economic efficiency. Cooperating out of a sense of purpose means understanding how other colleagues contribute to carrying out the company's missions—their shared missions—and also supporting them so that they can do their jobs effectively. In fact, cooperation out of a sense of purpose occurs naturally when there is a true commitment to a shared purpose and missions. The way managers exhibit this particular form of cooperation is described in the process illustrated in Fig. 9.2.

Let's look at the steps in the cycle of cooperation:



Fig. 9.2 Cycle of cooperation

1. *Define support commitments.* First, the leader must clearly know what others need from them to fulfill the company purpose and missions, through agreements between the parties, establish support commitments. In this way, the missions-driven leader makes cooperative commitments, not as a favor or an annoyance, but out of a true sense of purpose, and, in turn, fosters this attitude among their team members.
2. *Follow up cooperation proactively.* Once the initial commitment is established, the leader must adjust the support commitments to fit current circumstances, and must actively correct any imbalances. In fact, cooperating out of a sense of purpose is not about hitting some numeric targets, but rather ensuring that the cooperation is truly effective and having a real impact on the company's missions.
3. *Evaluate the service.* Periodically, the leader should look to evaluate subordinates in their area and other areas to measure progress on their contribution to other areas apart from their own. The purpose of evaluation is to diagnose faults that had not been detected or prioritized before, not to pass judgment or point fingers.

These three steps—support commitments, proactive follow-up and service evaluation—are extremely useful for both regular planning and specific conflict resolution. In fact, creating a true culture of cooperation out of a sense of purpose requires constantly reinforcing the practice of the three steps outlined.

Change

The third dimension of MDL is the leader's ability to implement the changes required by the organization's purpose and missions. To do this, the leader must constantly look "outward," and understand how the conditions of their environment and the expectations and needs of the missions' stakeholders (customers, shareholders, employees, etc.). In today's VUCA (volatile, uncertain, complex and ambiguous) environment, constant change is already a condition for survival. A car buyer today has rather different expectations from just three years ago, and expectations will be quite different three to five years from now as well. The same



Fig. 9.3 Cycle of change

applies to the needs and expectations of a company's employees, where aspects such as professional development and work/life balance are increasingly more important in a world that is getting used to working remotely. A purpose may remain "untouched" for decades, but the way to fulfill that purpose with excellence will be constantly changing. The leader must promote a constant balance between what is already known (exploitation) and creative rethinking (exploration).⁹ The change process follows the steps described in Fig. 9.3.

Let's take a look at the steps in this change process:

1. *Identify needs for change.* The missions-driven leader does not cling to his or her thinking—as purpose is driving the change. Instead, they are constantly looking for new ways to adapt to changing environments and better fulfill the company's purpose and missions.
2. *Personal change.* Once the new path has been chosen, the leader is the first to walk it. In this learning path, the leader must have the courage to explore new paths, overcoming any uncertainty this may entail. Besides courage, they must also practice the humility that any learning process requires: know how to listen, accept help, try new methods, try again—without being discouraged—if they fail the first time and so on.
3. *Promote change in employees.* Once the personal change is underway, even though it is a long process that has barely begun, the leader has the necessary authority to try to change their subordinates. The leader must be a coach to their team: somebody close with whom team members can discuss the problems and needs they face in promoting purpose-driven change.

⁹James G. March, "Exploration and Exploitation in Organizational Learning," *Organization Science*, vol. 2, no. 1, 1991, pp. 71–87.

In these three cycles—commitment, cooperation and change—we have tried to condense our experience of how MDL develops throughout the organization. Now, as we have said before, to successfully implement MDL, one must use the purpose management tools correctly. These tools promote and reinforce each of the processes described, by facilitating and guiding their development. In this way, management systems and leadership mutually reinforce each other by creating a consistent binomial that promotes a sense of purpose throughout the company.

Battling the Ego

Along with the exercise of the three dimensions described above—commitment, cooperation and change—there is also a personal battle involving the leader that significantly impacts the effectiveness of MDL. It is the struggle for control of their personal ego, something that everyone who holds a leadership position in an organization must constantly engage in.¹⁰ This preoccupation with mitigating the harmful effects of the ego is something we have observed to be among the main concerns of many managers. Some organizations try to tame employee egos through policies like equal status, eliminating external distinctions between levels and so on. This is because, as we have seen before,¹¹ many managers realize that the leader's uncontrolled ego can result in numerous limitations. For example, a leader with an unchecked ego often perceives their subordinates' leadership as a threat, and often unconsciously, these managers end up stifling the leadership development of their own employees.

Perseverance in the personal battle against the ego, which can manifest itself in different ways throughout the manager's life, is a constant in the practice of what we have defined as missions-driven leadership (MDL). It is about the struggle to transcend one's own "I," to focus on the purpose, putting it above personal opinions and ambitions. It is also about fostering the leadership of subordinates, without worrying that this could

¹⁰ Regarding the importance of ego control (or the exercise of humility) in the managerial role, the recent study (2001) by J. Collins, "Level 5 Leadership," art. cit.

¹¹ M. Maccoby, "Narcissistic Leaders: The Incredible Pros, the Inevitable Cons," art. cit.

$$\text{MDL} = \frac{\text{Commitment} \times \text{Cooperation} \times \text{Change}}{\text{Ego}}$$

Fig. 9.4 The MDL *formula*

mean a loss of power or authority. In fact, the impact of boosting employee leadership is quite the opposite: it reinforces one's own personal leadership and strengthens the consistency of the entire team.

The impact of the ego on the effectiveness of MDL is so important that we can illustrate it by using the *formula* shown in Fig. 9.4.

This formula reflects a multiplicative relationship between the three dimensions of the numerator—commitment, cooperation and change. In other words, if either of them is zero, the total leadership is zero. For MDL to be effective, all three dimensions must make at least some contribution. Moreover, this formula reflects the observation that leadership decreases in proportion to the leader's ego.

The leadership model we just presented is not a theoretical model developed in an office; it is the result of our observations from having implemented MBM in different companies and at different levels. As we mentioned above, MBM requires a certain kind of leadership—transcendental leadership—to actually produce a cultural change. But, at the same time, the very implementation of MBM helps to create this leadership, or at least greatly facilitates it. In other words, it is the natural result of a good MBM implementation.

In short, missions-driven leadership (MDL) is still an exercise in personal fulfillment, the fruit of many victories and also many defeats taken with sportsmanship and a spirit of learning. In Table 9.1, we present an MDL self-diagnosis that could help leaders reflect on whether or not they are moving in the right direction and how they are doing with it. MDL is certainly not something that is achieved once and lasts forever: leadership is a path that must be traveled. To achieve effective missions-driven leadership, you must constantly reinforce the process and never lower your guard, while promoting leadership in employees so that it *transcends* throughout the entire organization. As such, we suggest supporting the implementation of management by missions with a serious and sustained program of leadership training and mentoring.

Table 9.1 Self-diagnostic test for missions-driven leadership (MDL)

1. I am personally invested in the company's missions.
2. I attach importance to all areas (stakeholders) of the missions.
3. I view my leadership as a service to my subordinates.
4. I know what others need from me and how I can help them.
5. I promote cooperation with the missions of other areas.
6. I request feedback from my colleagues and subordinates on how I help them achieve their missions.
7. I know the needs for change required by the company's missions.
8. I promote the development of skills among my subordinates.
9. I try to avoid the spotlight and help others shine.
10. I promote altruistic actions and activities, leading by example.

Developing the Local Ecosystem

Alpha Omega is a company headquartered in Nazareth (Israel) with offices in several countries. It predominantly focuses on the development, production and sale of high-tech medical supplies for treating neurological disorders such as Parkinson's, essential tremor and epilepsy. Husband and wife duo Imad and Reem Younis, founders of the company and members of the Israeli Arab community, use management by missions to fuel their purpose of "improving people's lives," while developing the local ecosystem of Nazareth and its surroundings, transcending local conflicts and seeking harmony between Arabs and Jews.

"I met Imad at Technion more than 30 years ago," says Reem,¹² "when he was studying electrical engineering. It was Imad's dream to be a part of the high-tech business scene that was starting in Israel during the 1970s and 1980s. But, when he started looking for a job, he saw how hard it was for an Arab engineer to get hired, because most high-tech jobs were dominated by the military, and Arab engineers had no access to those positions. So we said to ourselves: 'If they won't hire us, we'll just start our own company.' And that's what happened. In 1993, we went into business in Nazareth by selling one of our used cars and four gold coins that Imad's father gave us. That was the start of our company.

(continued)

¹²Testimonial compiled from the talk by Imad and Reem Younis at the 6th Symposium of the Chair of Management by Missions and Corporate Purpose, "Management by Missions Across Cultures," held on November 28, 2018.

(continued)

"Today," Reem continues, "inequality and discrimination still exist, even if it is not officially recognized. Due to these inequalities and the lack of resources and opportunities, our community is trapped in a vicious circle that keeps its development far behind that of its neighboring countries, with higher levels of poverty and fewer possibilities of education and employment. Imad and I decided it was our responsibility as company owners to help break that vicious circle, and we did so through management by missions. At Alpha Omega, to fulfill our purpose of improving the quality of life for people with neurological diseases and, at the same time, to develop our local ecosystem, we target these four areas:

- To our **customers**, who are mostly from outside of Israel, we promise to exceed their expectations. We will not only meet their expectations, we will exceed them; this is very difficult to do, but this is our promise.
- In turn, we want **sustainability for the company**, because in order to impact the ecosystem in Nazareth we need a sustainable project.
- Looking within the company, in order to change the ecosystem, we need to promote leadership and entrepreneurship among our **employees**. We want to give them tools so that, the day they're ready to fulfill a dream, they can start their own companies in their towns and cities and impact the local ecosystem.
- And, finally, we focus on the **community**, promoting diversity and inspiring new generations; only in this way can we change the community and give back to the land in which we grow together."

At Alpha Omega, for more than ten years, these missions have been at the heart of a common commitment in which Arabs and Jews cooperate together for a shared purpose: to improve people's lives. With this philosophy, pioneering in the country, the company makes great efforts to attract talent from both cultures and maintain an inclusive work environment.

"It's not an easy task, but the benefits for both society and the company are innumerable," says Imad. As a result, Alpha Omega has become a source of inspiration and model for other companies in the country. It is also an example that illustrates the three dimensions of missions-driven leadership: shared commitment, cooperation beyond differences and change—rooted in a sense of purpose—in mindsets and confrontational attitudes that have lingered in the country for decades.

"Many ask us what we do in our company to embrace diversity," Imad continues, "to have a Zionist sitting next to a patriotic Arab and achieve the same goal. How can you do that? It is practically mission impossible. And

(continued)

(continued)

here we have the solution: It's management by missions. I'll give an example that happened last week on Israel's Independence Day. A day earlier, there is a one-minute siren in homage to the Israeli Jewish soldiers who died during the 1948 Arab-Israeli War (or Israel's War of Independence). We Arabs call Israel's Independence Day *Nakba*, which means disaster, because it was the day of catastrophe. And on that day, we also want to embrace diversity. How do we do that? It's clearly a challenge. But with our missions, the strong missions that we have, we can connect all the different people and make everyone respect their own vision: people can stand or sit, whichever they please, just respecting each other in a way that everyone is accepted. This experience has been a major change for me as well. Because, in management by missions, the hardest part is reaching the person, their habits and their character. Management by missions, at the end of the day, touches a person's soul. And that is the hardest thing to do; not only with the employees, but also with me. I need to change."

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Afterword

One of the major challenges of business management is creating a culture that fosters people's commitment to a shared purpose. In recent years, achieving this sense of shared purpose has evolved from a mere competitive advantage to a necessary condition for survival. Businesses of all sizes and industries are increasingly aware of how limited an organization is when its people have a low level of commitment. A company with disengaged workers is an unhealthy company, and for this disease, it will suffer the consequences in the short, medium and long terms.

Over the past decades, the quest to cure this disease has led to the proliferation of remedies that promise companies big changes, quickly and easily. These measures, with a veneer of efficiency and professionalism, have very little impact on the workers' day-to-day lives. And, after a while, the symptoms reappear (often more acutely than before). It has given people the sense that every so often they have to subscribe to the latest fad in management. But by the third fad—if not sooner—people become a bit cynical toward organizational development programs in general.

The root of the problem is that such attempts do not substantially alter the management system, which continues to be strongly focused on discrete economic objectives. This results in significant hurdles when it comes to building shared commitment. Eventually, it ends in noncooperation, up and down the command chain and across the organization.

We have found that many companies diagnose this problem as “bad internal communication” or a “lack of teamwork.” Having worked with companies on these issues for several years, we have concluded that, although the symptoms must be addressed, the treatment will not be effective unless it goes to the root of the problem. Effective treatment, thus, requires a far-reaching change in two fundamental respects: (1) the company’s management systems, and (2) the leadership style of its executives and middle managers. The change in these two dimensions must be coordinated, and based on a shared initiative that has the necessary content, credibility and sense of urgency.

That is the change we aim to bring about through management by missions (MBM). It is not a quick or easy solution, much less a panacea that will take effect without the need for ongoing commitment and effort by top management. Turning a deeply disaffected workforce into a cohesive organization that is committed to a purpose requires a revolution in every area of the company. It is a transformation that involves breaking with practices and paradigms that are deeply embedded in many companies’ culture and management systems, and ingrained in their managers’ style of leadership. And it is unlikely to be achieved through internal communication programs, however creative they might be.

In this book, we have merely outlined the main concepts of MBM (starting with the more theoretical premises and ending with some basic tools). But we have only skimmed the surface. In fact, we have written very little about how to implement MBM and make it stick.

For example, aspects such as change management techniques, designing a communication plan, managing deadlines, the methodology for carrying out process maps and analyzing the value chain, developing leadership competencies, deploying objectives and tactics to solve common problems that an implementation project entails... these are all outside the scope we chose for this book.

And there are other, more fundamental issues for which we still have no definitive answer. For example, what will happen when more and more companies have a fully committed workforce? From what we have seen to date, these companies excel in areas such as customer service, recruitment and retention of high-caliber employees, innovation and swift strategy implementation. This high level of commitment generates what is known as best practice, which changes the rules of the game in the market. However, this effect is gradual and is only just beginning. It will probably be decades before we can judge the impact on the economy as a whole.

How purpose-driven companies will affect markets and society is another interesting question. Aspects such as growth in corporate social responsibility (CSR) and the support of sustainable development goals (SDGs) are some of the first results we can see today. But in a paradigm change of this kind, that may be just the tip of the iceberg. After all, CSR is largely a consequence of corporate decisions heavily influenced by considerations of image and marketing. The real change will take place when the demand for social responsibility toward stakeholders comes not only from top management but also from all the company's employees.

As we said earlier, getting employees fully on board is still a major challenge for most companies. The time is ripe, and the new era of the “worker in search of meaning” favors change. True leaders are those who build organizations of people who are genuinely committed to a purpose. To do that, they must have determination and the courage to overcome some of the paradigms embodied in management systems inherited from the past. They are the ones who will decide the rules of the game with respect to many of the most important economic and social issues of coming decades.

Index¹

A

Abertis (organization), 105
Activity, formal/qualitative, 25
Aggressive companies, 13, 14
Art of Japanese
 Management, The, 27
Athos, A., 27
Authenticity, 43, 61–63, 65

B

Bain & Co. (organization), 70
Balance/complementarity,
 56–58, 102
Balanced scorecard (BSC), 118
Balanced values, 88–90
Barnard, C.I., 28, 52
Bass, B.M., 134
Behavior in organizations, 6

Belonging, 29
Ben & Jerry's (organization), 56
Bennis, W.G., 134
Boeing (organization), 119
Branson, R. (Virgin), 76
Bureaucracy, 23
Bureaucratic companies, 13
Burke, J. (J&J), 69
Business values, 94

C

Cadbury Schweppes
 (organization), 84
Change, 139–141
 cycle of, 140
 resistance to, 83
 in subordinates, 140
Climate for employees, 25

¹Note: Page numbers followed by 'n' refer to notes.

- Command-and-control, 24, 123
 Commitment, v, vi, vii, xvi, 4–7, 16,
 18, 21, 22, 29, 31, 32, 36–41,
 43, 55, 57, 59, 62, 70, 73,
 75–79, 98, 99, 102, 109,
 126–128, 131, 136–139, 141,
 142, 144, 149–151
 conveying, 137
 cycle of, 137
 employee, 16, 39, 137
 organizational, 6
 personal, 137
 Communication, 30, 40, 44
 Companies, *see* Organizations
 Company Diagnosis Funnel
 (CDF), 9–12
 Competency directory, 122, 123
 Competency management, 122–123
 Competency systems,
 components, 122
 Complementarity, 56–57, 102
 Content, xvi, 45, 72–75, 77, 78, 99,
 101, 150
 Contribution values, 88
 Cooperation, 45, 52, 107, 138–139
 cycle of, 138
 Corporate cultures, building, 30
 Corporate Direction (Boeing), 119
 Corporate social responsibility
 (CSR), 151
 Credibility, 7, 44, 69, 72–74, 77, 99,
 101, 127, 135, 150
 Cultural
 change, 125–129
 development, 14–16
 dimension, 16, 28
 perspective of organizations,
 22, 27–30
 strength, 45
 theories, 28
 Cultures, v, vi, vii, 5, 10–14, 16,
 17, 22, 28–30, 37, 43–46,
 63, 67, 70, 76–78, 81–94,
 101, 131, 138, 139, 144,
 149, 150
 classification, 13
 corporate, 5, 12–14, 28,
 30, 89
 dysfunctional, 90
 low-octane, 43–45
 strength and business
 performance, 10
 Customers, 75
 internal, 75, 106
 Customer-supplier
 relationships, 106
- D**
- Decision making,
 decentralized, 25, 32
 de Geus, A., 7
 Deming, W.E., 41, 112
 Development
 cultural, 14–16
 plans, 122
 values, 94
 Drucker, P., 26, 38, 86, 87
- E**
- Employees, 76–80
 Empowerment, 27
 4 dimensions of (PIRK), 31
 Engagement, v, 4, 8, 21, 29–31, 37,
 43, 46, 59, 73, 77

F

- Fayol, H., 23
- Formal activity, 25
- Fortune* (magazine), 7
 - 100 best companies to work for, 7, 71
- Friedman, M., 53

G

- George, W. (Medtronic), 114
- Gerstner, L.V. (IBM), 70
- Globalization, 105
- Goals, vi, 6, 7, 26, 38, 40, 46, 57, 58, 72–74, 114, 117, 119, 122, 124, 128, 135, 138, 144
- Great Place to Work Trust Index, 7

H

- Hallmark Cards Inc. (organization), 54
- Hawthorne effect, 24
- Heskett, J.L., 10, 13–14
- Hewlett-Packard (HP) (organization), 10, 28, 52, 53, 135
- Hiring policies, 26
- Human capital, 91
- Human Equation, The*, 35
- Humanistic vision, 36
- Human resources, 25

I

- IBM (organization), 70
- Indicators for mission statements, 119

- Individual missions, 99
- Influence, 133
- Information, 27
- In Search of Excellence*, 27
- Integrity, 43, 61, 63–64, 82
- Interdependency matrix, 105–110
- Internal customers/suppliers, 106
- Internal service, 107
- ‘Inverted z’ dynamic, 14

J

- J&J (organization) ‘Credo,’ 69
- Johnson, R.W. (J & J), 69, 135

K

- Kaplan, R., 118
- Key stakeholders, 76
- Key values, 90
- Knowledge, 27
- Kotter, J.P., 10, 13–14

L

- Lawler, E., 27
- Leaders
 - mission-driven, 136, 137, 139, 140
- Leadership, vi, vii, 7, 14, 16, 17, 33, 46–48, 52, 57, 63, 67, 70, 123–129, 131–145, 150
 - mission-driven (MDL), 136–137
 - narcissistic, 134
 - transactional, 132–133
 - transcendental, 134–135
 - transformational, 133–134
- Low-octane cultures, 43–45

M

- Management, vi, vii, 5–7, 11–13, 15, 16, 21–28, 30–32, 36–40, 45, 46, 48, 52, 53, 58, 60, 64, 66, 67, 70, 71, 75, 85, 92, 93, 98, 102, 105, 109, 111–113, 116, 118, 119, 122, 123, 127, 133, 136, 141, 149–151
- Management by missions (MBM), ix, xi, vi, vii, xvi, 16, 17, 21, 31–33, 43, 46–48, 61, 66, 92, 100, 101, 108–109, 113, 116–118, 123–127, 136, 137, 142–145, 150
- Management by objectives (MBO), 26, 27, 31, 35–48, 106, 116, 122, 124
- Management by tasks, 123–124
- Management practices
people, seven key, 25
- Management systems, 22, 26, 31, 35, 36, 73, 77, 85, 106, 108, 111–113, 122, 123, 125–129, 141, 150, 151
and leadership, 125–126
limitations of, 113
new, 112
redesigning, 111
- Management tools
new, 112
- Managerial mission, 100, 123
- Matrix, interdependency, 105–108
- Mayo, E., 24
- McGregor, D., 24
- Measurement/assessment tools/
methods, 122
- Measuring progress, 118
- Mechanical perspective, of company, 22–24, 30
- Medtronic (organization), 114
- Mission, 70–72, 100
accomplishing/implementing, 99
credibility, 73
defining, 99
essential criteria of, 101–103
managerial/personal, 100, 123
shared, 98–101
urgency, 73–74
and values, 82
- Mission-driven leadership
(MDL), 135–137
- Monitoring, 38
- Morgan, H. (Ben & Jerry's), 56
- Motivation, 27, 46, 55, 59, 61–63, 67, 74, 85–88, 113, 118, 124
- Motivation, types of, 87

N

Norton, D., 118

O

- Objectives, 5, 11, 17, 26, 27, 31, 36–39, 41–43, 45–47, 52, 57, 59, 64, 66, 71–73, 78, 84, 93, 106, 108, 112, 116–117, 122, 124, 125, 127, 133, 134, 150
- Objectives employee, 38–40
- Organic perspective, of company, 22, 24–27, 31
- Organizational congruence, 114
- Organizational values, 44
- Organizations, v, xi, vi, xvi, 4, 6, 7, 14–17, 21–33, 36, 38, 41, 44,

- 47, 52, 58–71, 73, 77, 78,
83–85, 88, 90–93, 97–100,
102, 103, 105, 108, 113, 115,
117, 124, 126, 132–137, 139,
141, 142, 149–151
integral model of, 30–33
long established, 6
mechanical perspective of,
22–24, 30
organic perspective, 22, 24–27
purpose of, 58–60
types of, 150
Ouchi, W., 31
Ownership, 29
- P**
Packard, D. (Hewlett-
Packard), 52, 135
Pascale, R.T., 27
Paternalistic companies, 13
Performance, 5, 7, 10, 39
assessment, 123–125
appraisal, 112, 123–125
Personal purpose, 62, 64–68
Peters, T., 27
Pfeffer, J., 10, 25, 76
Planning Forum, The, 70
Pollard, W. (ServiceMaster), 5
Porter, M., 56, 59
Power, 27
Pressure, on people, 40
Priorities, shared, 16–19
Process maps, 103
Profitability, 5, 10–14, 23, 43, 54,
59, 66, 82, 92, 128
Profits
increasing, 53
role of, 53–54
and unity, 8–10
Purpose, v, xvi, 3–19, 28, 35, 53,
71–72, 82, 111–129, 132,
135–136, 149
- Q**
Qualitative activity, 25
Qualitative factors, performance
measurement, 125
- R**
Rationalism, 22
Rational logic, 30
Relational values, 88
Return on equity (ROE), 10, 11
Rewards, executive/worker, 27
- S**
Scientific management, 22
Scorecard, 36, 47, 48, 112, 118–119
Scorecard method, 118
Sense of urgency, 45, 74, 77, 117,
135, 138, 150
ServiceMaster (organization), 5
Shared missions, 32, 98–106, 108,
109, 119, 123, 125, 127
Shareholders, 75
Shrontz, F. (Boeing), 119
'Silos,' 45
Simons, R., 87
Social responsibility, corporate, 43
Stakeholder model, 74–75
Stakeholders, satisfying, 54
Strategic decisions, 115

Strategic map, 118
 Strategic planning, 23, 112–116
 Strategy, 8, 113, 115
 formation, 114
 Stress, 74
 Subsidiaries, 105
 Suppliers, internal, 106
 System pressure/performance, 39

T

Talent development, 36
 Taylor, F.W., 22, 23
 Team working, 45
 Theory X/Theory Y, 24
Theory Z, 27
 3M (organization), 58
 Tools and techniques,
 management, 103
 Transactional leadership, 132–133
 Transcendental leadership, 67,
 134–136, 142
 meaning of work, 87
 Transformational leadership,
 132–134, 136
 Trust, 7

U

Unity, 5–11, 11n18, 12–18, 22, 31,
 36, 47, 48, 63, 66–68, 73,
 105, 109, 125
 generating, 47
 as a measure, 11n18

 and profit, 8–10, 12
 and survival, 7–8
 Urgency, creating a sense of, 138

V

Value analysis, 103
 Values, vii, xvi, 5, 11, 15, 22, 25, 29,
 30, 32, 36, 43, 44, 46, 47, 52,
 54, 56–58, 60, 63, 70, 72, 73,
 75, 77, 78, 81–94, 101–103,
 108, 112–116, 119, 123, 124,
 136, 150
 balanced, 88
 and beliefs, 82–83
 changing/evolving, 90–91
 distribution by category, 89
 key, 90
 and mission, 82
 organizational, 44
 origins of, 82, 83
 patterns in organizations, 88, 89
 and perceptions, 83
 statements, 29
 as success/failure factors, 91
 underlying, 84
 Vision, humanistic, 36

W

Waterman, R., 27
 Watson, T. (IBM), 135
 Weber, M., 22
 Work-place climate, 25