

Organization Science

Publication details, including instructions for authors and subscription information:
<http://pubsonline.informs.org>

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To cite this article:

Claudine Gartenberg, Andrea Prat, George Serafeim (2019) Corporate Purpose and Financial Performance. Organization Science

Published online in Articles in Advance 18 Jan 2019

. <https://doi.org/10.1287/orsc.2018.1230>

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Corporate Purpose and Financial Performance

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Received: January 17, 2017

Revised: September 29, 2017; March 7, 2018

Accepted: May 13, 2018

Published Online in Articles in Advance: January 18, 2019

<https://doi.org/10.1287/orsc.2018.1230>

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Abstract. We construct a measure of corporate purpose within a sample of U.S. companies based on approximately 500,000 survey responses of worker perceptions about their employers. We find that this measure of purpose is not related to financial performance. However, high-purpose firms come in two forms: firms characterized by high camaraderie between workers and firms characterized by high clarity from management. We document that firms exhibiting both high purpose and clarity have systematically higher future accounting and stock market performance, even after controlling for current performance, and that this relation is driven by the perceptions of middle management and professional staff rather than senior executives or hourly or commissioned workers. Taken together, these results suggest that firms with midlevel employees with strong beliefs in the purpose of their organization and the clarity in the path toward that purpose experience better performance.

Funding: The authors recognize the generous research grant from Strategy CDA at Columbia Business School to support this research. C. Gartenberg recognizes financial support from NYU Stern School of Business and Wharton School at University of Pennsylvania. A. Prat recognizes financial support from Columbia University. G. Serafeim recognizes financial support from the Division of Research and Faculty Development of the Harvard Business School.

Supplemental Material: The online appendices are available at <https://doi.org/10.1287/orsc.2018.1230>.

Keywords: employment contract • governance and control • strategy and firm performance • strategy implementation • management processes • trust

Introduction

Does purpose influence firm performance? More than two decades ago, Bartlett and Ghoshal (1994) issued a call for scholars to consider purpose as the essential precursor to effective strategic management. They argued for a shift from the “old doctrine of strategy, structure, and systems to a softer, more organic model built on the development of purpose, process, and people” (p. 80). The primary role of top management, in their view, is not to set strategy, but instead to instill a common sense of purpose (Bartlett and Ghoshal 1994).

Since then, however, there has been little empirical progress on the role of purpose in strategic management (Hollensbe et al. 2014, Henderson and Van den Steen 2015). This gap persists despite both a fivefold increase in the public conversation about purpose between 1995 and 2016 (Ernst & Young and Oxford University Saïd Business School 2016) and a resurgence of academic interest in incorporating “soft” organizational characteristics into studies of strategic outcomes (e.g., Kaplan and Henderson 2005, Nickerson and Zenger 2008, Argyres 2011, Agarwal et al. 2012, Blader et al. 2015, Felin et al. 2015, Helfat and Peteraf 2015).

Perhaps one important reason for this limited progress is the lack of measurement technology to evaluate purpose systematically across firms and years. We aim to overcome this measurement challenge and provide evidence on the relation between purpose and firm performance based on the most comprehensive data available to researchers, to our knowledge, on worker perceptions of their employers. Our data are from a proprietary survey of individual employees that spans multiple firms and years. As a result, we do not need to rely on reports from designated company representatives or advertised values on each company’s website that have been shown to be “cheap talk” and not predictive of corporate outcomes (Guiso et al. 2015).

What exactly is corporate purpose? Absent a settled definition within either academic or practitioner literature, we adopt a definition of purpose proposed by Henderson and Van den Steen (2015, p. 327) as “a concrete goal or objective for the firm that reaches beyond profit maximization.” This definition need not be explicitly prosocial in orientation and is broadly in line with related definitions that we later discuss.¹

A crucial aspect of purpose is its inherent intangibility. An organization’s purpose is not a formal

announcement, but instead a set of common beliefs that are held by and guide the actions of employees. Dennis Bakke, the CEO of AES, highlighted the importance of this soft or implicit aspect by stating that it is only the company's "primary purpose—the real one, which isn't necessarily the one written in official documents or etched in wall plaques—[that] guides its actions and decisions." (Bakke 2010, p. 150). This intangible nature renders purpose challenging to explore in a large-scale setting. One of the primary benefits of our study is that our data allows us, at least in part, to address this challenge. Our evidence comes from a proprietary survey from the Great Places To Work Institute (GPTW). This survey includes employees within hundreds of organizations across hierarchical job levels from hourly workers up to executives. In the survey, respondents rate their employers in terms of a wide variety of organizational characteristics, including workplace collegiality, management, and the nature of the job itself. Critically, these responses allow us to circumvent corporate cheap talk and measure actual employee beliefs.

Using this survey, we address the intangibility challenge of corporate purpose by measuring the overall strength of employee beliefs in the degree to which their work is meaningful.² We consider companies with strong purpose to be those in which employees in aggregate have a strong sense of the meaningfulness and collective impact of their work, and firms with weak or no purpose will contain employees without this sense ("My work has special meaning: this is not just a job"; "I feel good about the ways we contribute to the community"; "When I look at what we accomplish, I feel a sense of pride"; and "I'm proud to tell others I work here"). This interpretation is consistent with the literature on the role of leaders as meaning makers (Podolny et al. 2004, Carton et al. 2014, Carton 2017) and creates a bridge between corporate purpose and microorganizational literature on the importance of meaningful work and individuals' perceptions about the significance of their work (Katz and Kahn 1978, Blau and Scott 2003, Pratt and Ashforth 2003, Wrzesniewski 2003, Grant et al. 2007, Grant 2008, Grant and Hofmann 2011, Burbano 2016). This bridge enables empirical progress on corporate purpose by providing methodological foundations on purpose beyond cheap talk at the corporate level.

For this study, we focus on publicly listed companies and calculate measures of purpose from 456,666 employees across 429 firms and six years across a broad range of industries. In our first analysis, we aggregate employees' responses to the four questions listed previously into an overall measure of purposefulness. We then associate this measure to two common firm performance outcomes, operating return on assets (ROA) and Tobin's Q. Notably, this analysis yields a null result: we find no relation between the strength of employee

beliefs in purpose—either aggregated to a firm level or by job level—and our two measures of firm performance.

We then perform an exploratory factor analysis on the survey responses to identify whether purpose covaries with other constructs within the data. From this analysis, we identify two types of organizations with purpose. The first type, high *purpose–camaraderie* organizations, includes organizations that score high on purpose and also on dimensions of workplace camaraderie (e.g., "This is a fun place to work"; "We are all in this together"; "There is a family or team feeling here"). The second type, high *purpose–clarity* organizations, score high on purpose and also on dimensions of management clarity (e.g., "Management makes its expectations clear"; "Management has a clear view of where the organization is going and how to get there"). When we replace our aggregate measure of purpose with these two factors, we find that the high purpose–clarity organizations exhibit superior accounting and stock market performance.

To explore the association between purpose and performance further, we disaggregate our firm-level measures of purpose into measures at each of five hierarchical levels of the organization (i.e., executives and senior managers, sales force, middle managers, salaried professionals, and hourly workers). Several additional findings emerge. First, we find systematic differences across levels of employees in the degree of purpose: the more senior the employee, the stronger is the perceived purpose of the organization. This result is in line with practitioner claims that diffusing a sense of purpose in lower levels of the organization has not been successful in many firms (Graham et al. 2017, Ernst & Young and Oxford University Saïd Business School 2016).

Second, it is solely the middle managers and salaried professionals that drive the relation between high purpose–clarity organizations and financial performance. We find no association for senior executives, sales, or hourly workers. We view this result as especially interesting in the context of literature that argues that middle managers could play an important role in both strategy development and implementation (Huy 2001, Wooldridge et al. 2008, Rouleau and Balogun 2011, Mollick 2012). Further, these results do not support a reverse causality explanation that strong current or anticipated performance drives a high sense of purpose among employees. This alternative would plausibly affect the senior executives and the sales force more than the middle ranks because the compensation of the first two groups is most directly linked to firm performance. This is not what we find.

Finally, we calculate stock returns and find that a portfolio of high purpose–clarity firms earns significant positive risk-adjusted stock returns in the future, up to 7.6% annually. Our analysis, in sum, suggests that high purpose–clarity organizations exhibit higher

financial performance in the future, particularly when these beliefs are held by those in the middle ranks of an organization.

Of course, lacking an instrument or a natural experiment, it remains a concern that an omitted variable not part of the GPTW survey could drive the association between our main variables of interest. To address these omitted variable concerns, we structure our empirical analysis to provide a mosaic of evidence that supports a causal interpretation of our results. Conservatively, however, we continue to use associative rather than causal language. In the discussion section, we consider different mechanisms that could drive the associations we document, focusing on understanding why the combination of purpose and clarity and why the middle ranks give rise to the results.

Our work makes several contributions. First, to the best of our knowledge, there is no study that systematically constructs a firm-level measure of purposefulness, based on actual employee beliefs, to study this phenomenon across a cross-section of firms and over multiple years. This is what we do in this study. By constructing this firm-level measure of purposefulness based on aggregate employee beliefs across a large sample setting, this study provides a bridge from research on meaningful work to firm-level research on corporate purpose. Although individual-level studies of meaningful work have documented relationships between individual perceptions of meaningful work and job satisfaction using single organizational settings (Hackman and Oldham 1976, Fried and Ferris 1987, Grant 2008, Bunderson and Thompson 2009), it is not clear that these results will necessarily translate to superior organizational performance. We provide positive evidence in this study.

Second, uncovering the level of the organization that drives this association provides a deeper understanding of how purpose might affect firm-level performance. Our evidence suggests that the middle ranks of an organization are the critical layer through which strong sense of purpose is associated with better performance. This finding not only contributes to research on corporate purpose but also to work on the role and importance of middle managers (Floyd and Wooldridge 1997, Huy 2001, Mollick 2012).

Finally, we contribute to research on strategic management by providing preliminary evidence in support of Bartlett and Ghoshal's (1994) admonishment to elevate the importance of corporate purpose in studies of firm performance differences as well as the more recent practitioner dialog on purpose (e.g., Ernst & Young and Oxford University Saïd Business School 2016). Our evidence suggests that a strong sense of corporate purpose is indeed associated with better firm performance but only if that sense is held within the middle ranks of an organization and only if accompanied with clear direction and resources from management.

Corporate Purpose What Is Corporate Purpose?

Practitioners, including CEOs, consultants, and the press, have long articulated purpose within their organizations. Dennis Bakke, the CEO of AES, a global electric utility, alludes to the purpose of AES as “meeting the world’s need for safe, clean, reliable and economically priced electricity” (Bakke 2010, p. 30). The Brazilian cosmetics firm Natura and the Danish pharmaceutical firm Novo Nordisk, two of the most successful companies in terms of stock price performance in the last decade, have explicitly stated a purpose beyond profit maximization since their founding.³ Richard Branson, CEO of Virgin Group has said, “It’s always been my objective to create businesses with a defined Purpose beyond just making money. . . our newest investment in OneWeb is also very much a Purpose-driven business, looking to create the world’s largest constellation of satellites to bring connectivity and communications to billions.”⁴ Similarly, Paul Polman, CEO of Unilever, has long supported the importance of purpose in business: “We have committed to help provide good hygiene, safe drinking water and better sanitation for the millions of people around the world. . . It is about opportunity and aligning our purpose in business with this opportunity.”⁵ In these examples, purpose is a meaning-rich articulation of the main business of the firm.

In academic literature, various definitions of purpose have been offered over time. One set of definitions explicitly focuses on a social objective for the firm. For example, Bartlett and Ghoshal (1994, p. 88) define purpose as “the statement of a company’s moral response to its broadly defined responsibilities, not an amoral plan for exploiting commercial opportunity.” Thakor and Quinn (2013, p. 2) similarly define it as “something that is perceived as producing a social benefit over and above the tangible pecuniary payoff that is shared by the principal and the agent.”

Purpose, however, need not be explicitly prosocial. Oxford Dictionaries define purpose as “the reason for which something is done or created or for which something exists.”⁶ Applying this general definition to a firm context, the Purposeful Company Report—written by a consortium of academics studying purpose in businesses—defines the purpose of a company as “its reason for being.”⁷ Similarly, Henderson and Van den Steen (2015, p. 327) write that purpose is “a concrete goal or objective for the firm that reaches beyond profit maximization.” We adopt this broader view of corporate purpose as a set of beliefs about the meaning of a firm’s work beyond quantitative measures of financial performance.⁸

Finally, it is plausible that a strong sense of purpose is derived by profit maximization or that strong financial results can influence employee beliefs, creating

a strong sense of purpose. We note that the first argument, although theoretically possible, is inconsistent with the spirit of agency theory in which exactly the opposite is assumed to be the behavior of an individual (Jensen and Meckling 1976). Incentive schemes are needed to align incentives exactly because agents are not motivated to make other people rich, but they could be very motivated to make other people rich if they have the incentives to do so. Our research design seeks to address the argument both by analyzing differential effects across job levels and empirically by mitigating the possibility of reverse causality.

How Might Purpose Influence Performance?

A strong sense of purpose could positively impact performance through various mechanisms. First, it might increase employee effort and productivity by increasing the meaning of work at the employee level. A rich literature on individual motivation has shown that employees who perceive their work as more meaningful exhibit higher job performance, organizational citizenship behavior, and organizational commitment and identification (Liden et al. 2000, Pratt and Ashforth 2003, Michaelson et al. 2014). To the extent that these perceptions are stronger in high-purpose firms and if those characteristics ultimately influence firm performance, then purpose will be related to performance at the firm level.

Other literature suggests that purpose affects performance via external stakeholder channels by affecting customer loyalty and satisfaction (Du et al. 2007a, b; Hainmueller and Hiscox 2015) or mitigating investor short-termism (e.g., Levitt 2000, Connelly et al. 2010, Brochet et al. 2015).

On the other hand, these perceptions about the benefits of purpose contrast with a long-standing argument that a corporation's sole purpose is to maximize profits (Friedman 1961). According to this view, the purpose of every (public) firm should be profit maximization, and any deviation is evidence of agency problems and impending financial underperformance (Brammer and Millington 2008, Jensen 2010, Cheng et al. 2013). Following this logic, a focus on corporate purpose that is not explicitly centered on shareholder returns represents, at best, a distraction for employees. Moreover, as Henderson and Van den Steen (2015) highlight, for a corporate purpose to be credible, the firm needs to make, at times, non-profit maximizing decisions. An example of such an action is CVS corporation stopping the sale of cigarettes, a multibillion-dollar business, to commit to its purpose related to promoting health among its customers. If the firm cannot recover the costs of those decisions from other benefits, then, over time, the firm will underperform its competitors.

Given these opposing arguments, the *ex ante* relation between purpose and performance is unclear, and we do not formulate a directional prediction.

Where Might Purpose Matter Most Within an Organization?

Because purpose is enacted via the set of beliefs held by employees, a natural question is which employees drive the link, if any, between purpose and performance. Research on purpose has not extensively explored how beliefs about purpose may vary across job levels within an organization and how those differences might relate to performance. In general, though, a frequent claim is that employees in more senior positions hold stronger beliefs about the purpose of the organization and the corresponding meaning of their work (Harvard Business Review 2015, Ernst & Young and Oxford University Saïd Business School 2016).⁹ This is generally ascribed to these employees being better informed about the goals of the organization and also having greater responsibility to influence these goals. A strong sense of purpose among the senior executive team might affect financial performance through restricting the tendency to exhibit short-termism, taking actions that increase short-term earnings and stock prices but destroying long-term value (Ton 2014). On the other hand, to the extent that purpose reflects executives' private benefits or distractions (Friedman 1961), it would likely be most strongly manifested at this senior level.

Alternately, the link between purpose and performance may occur at the midlevel among managers and professional employees. Wooldridge et al. (2008), in reviewing 25 years of research, note a broad consensus that this layer influences strategy formation and implementation (Bower 1970, Burgelman 1983) as well as strategic innovation (Kanter 1982). Huy (2001) argues that these employees are often closer to the market than their more senior counterparts and have relationships both up and down the formal organization to translate abstract strategic ideas into action. Floyd and Wooldridge (1997) similarly find that middle managers' ability to exert strategic influence is positively related to organizational performance. Similarly, Mollick (2012) finds that middle managers have a large effect in explaining cross-firm performance. A strong sense of purpose might lead middle management to implement the firm's strategy more effectively or to communicate information more effectively informing strategy especially in the context of incomplete contracting that gives rise to the need for strong relational contracts (Gibbons and Henderson 2012).

Finally, a strong sense of purpose among lower-level employees might positively affect performance by increasing customer loyalty and satisfaction because frontline employees may have more direct contact with external stakeholders and, hence, more opportunity to translate that purpose beyond the firm boundaries. Alternately, if a strong sense of purpose reflects a diversion of resources and employee attention away from profit-oriented activities, then the relationship between

purpose among both midlevel and frontline employees and performance may be negative.

In sum, exploring the job level at which the association between purpose and performance manifests can shed light on the mechanisms underlying the association.

Data and Research Design

We construct our sample from GPTW survey data. The Great Places to Work Institute administers *Fortune* magazine's annual "100 Best Companies to Work For" list. Our study makes use of the raw data submitted by companies competing to be included on this list. These data have been previously used by Guiso et al. (2015) to understand corporate culture and its association with firm performance as well as by Garrett et al. (2014) to measure the relationship between employee trust and accounting quality. Edmans (2011) used the outcome of the process—whether a company was chosen by the institute to be included on the annual *Fortune* list—to assess whether companies included in the Top 100 Best Places to Work exhibit positive abnormal stock returns in the future.

To qualify for this list, companies must have had more than 1,000 employees in the United States for more than seven years. Approximately 400 public and private companies applied each year during our study period. The application process is lengthy and costly to administer; therefore, these large, established firms are a self-selected group that likely competes heavily for human capital (hence, their desire to appear on the *Fortune* list). As such, these firms are likely leaders in employee-related management practices. We view this sample selection as likely decreasing the power of our test because companies are less likely to have a low sense of purpose or poor performance relative to the universe of firms. One concern is that sample selection may limit the generalizability of our results if, for example, the firms that elect not to apply enact different human capital practices that have different performance implications. In that sense, our results should be considered most applicable to human capital-intensive, high-performing firms and with some caution for firms beyond that definition.

Firms must submit two separate filings as part of the application: The Culture Audit Survey (CAS) and the Trust Index employee survey (TI). The CAS includes summary information on the company, including number and demographics of employees, geographic footprint of the company, and information about compensation practices and corporate benefits. The TI is a randomized survey, stratified by employee job level, which includes 57 questions measuring various employees' beliefs about the workplace, including the management–employee relationship, workplace camaraderie, and pride in and meaning of the work. The responses are captured on a Likert-like scale ranging from one to five, on which one corresponds to "almost always untrue" and five corresponds to "almost always true."

These responses span five job levels: hourly employees, sales (commission-based) workers, middle managers and supervisors, salaried professional and technical workers, and executives and senior managers.¹⁰

Under our agreement with the institute, we have access to all applications—both successful and unsuccessful—from 2006 to 2011. For our study, we focus on publicly traded companies, which provides us with 429 firms and 917 firm-year observations. We use summary information from the CAS and TI survey data, which we aggregate up to the firm-year level. Altogether, the 917 firm-year observations comprise 456,666 survey responses from full-time employees with a median level of 498 responses per firm.

Purpose Measure

We consider firms with strong corporate purpose to be those at which employees hold strong beliefs on the meaning and impact of their work. To construct a measure of corporate purpose, we aggregate the four survey questions that relate directly to the concept of meaning and impact. These questions are "My work has special meaning: this is 'not just a job'"; "When I look at what we accomplish, I feel a sense of pride"; "I feel good about the ways we contribute to the community"; and "I'm proud to tell others I work here." Within the survey, these questions most closely reflect research on meaningful work that emphasizes the importance of individuals' perceptions about the significance of their work (Pratt and Ashforth 2003, Grant 2008) and how it positively influences other people (Katz and Kahn 1978, Blau and Scott 2003, Wrzesniewski 2003, Grant et al. 2007, Grant and Hofmann 2011). We average (equal weight) the four questions to construct the index.¹¹ We then aggregate up to the firm-year level by averaging all full-time employee survey responses provided by the firm in a given year.

Summary Statistics

Table 1 shows the summary statistics for our sample. Unsurprisingly, given the application requirements, the sample firms are large with an average of more than \$50 billion in assets and 15,000 employees. Figure 1 shows the average purpose measures by job level. Executives and senior managers score the highest, followed by middle managers and salespeople, then salaried professionals. Hourly employees score the lowest. This result is roughly consistent with the degree of responsibility by job level: executives have the most authority and concurrently have the strongest sense of purpose in their work, and hourly employees have the least and the weakest sense of purpose.

Table A1, panel A (provided in Online Appendix A) shows summary statistics by year. Survey applications by public firms peak in 2006 with 207 companies applying and reduce to 125 firms in 2010. We speculate that this

Table 1. Summary Statistics

Variable	Mean	Standard deviation	Minimum	Maximum
Financial information				
<i>Leverage ratio</i>	0.62	0.31	0.09	4.07
<i>Total assets</i>	50,996	193,772	30	3,221,972
<i>Return on assets</i>	0.10	0.10	-0.52	0.58
<i>Tobin's Q</i>	1.96	1.22	0.74	8.40
Survey information				
<i>Number of responses</i>	498	3,026	43	56,747
<i>Purpose index</i>	4.31	0.19	3.40	4.79
<i>Firm age</i>	59	46	2	228
<i>Full time employees</i>	14,915	24,000	584	285,609
"This is a physically safe place to work"	4.66	0.19	3.66	4.96

Notes. The table presents summary statistics for key variables. *Leverage ratio* is total debt over total assets. *Firm age* is the number of years since incorporation. *Return on assets* is EBIT over average total assets. *Tobin's Q* is total assets plus market value of equity minus book value of equity at calendar year end over total assets.

trend reflects economic conditions during the period: the GTPW application process is costly and likely fits into discretionary spending that is reduced during downturns.

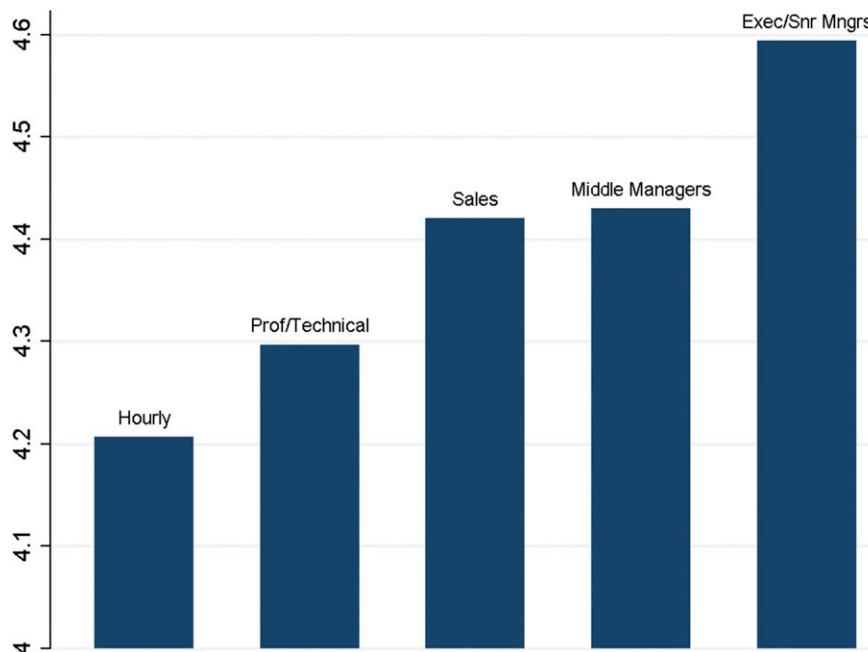
Table A1, panel B, in Online Appendix A examines industry composition across 12 industries. The most highly represented industry is business equipment with 203 firm-year observations followed by finance with 155 observations. The industry distribution is broadly representative of the Compustat universe although there are some differences. In particular, business equipment and retail are overrepresented, and healthcare and finance are underrepresented. Although we cannot definitively state the reasons for these

differences, we speculate that businesses are over-represented in industries in which the labor force pays special attention to this *Fortune* list. This panel also provides evidence that the statistics in Table 1 are not driven by industry compositional effects: we see that firms in the GTPW sample are larger and better performing than the typical public firm even in their industry.

Purpose and Firm Performance

Empirical Specification

We estimate the relation between our purpose measure and performance using an ordinary least squares (OLS) model, clustering standard errors at the firm

Figure 1. (Color online) Purpose by Job Level

level to account for serial correlation within a firm over time. The model we estimate is

$$\begin{aligned} Performance_{it} = & \alpha + \beta_1 \times Purpose_{it} + \beta_2 \times ControlQ_{it} \\ & + \beta_3 \times HQState_{it} + \beta_4 \times Industry_{it} \\ & + \beta_5 \times Year_t + \beta_6 \times Controls_{it} + \varepsilon_{it}, \end{aligned} \quad (1)$$

where *Performance* is operating ROA, measured as earnings before interest and taxes (EBIT) over average total assets, or log of Tobin's Q for firm *i* in year *t*. Tobin's Q is the ratio of market value of assets to book value of assets, with which market value of assets is equal to market value of equity and total assets minus book value of equity. We use the log value to reduce the high skewness of the raw measure. *Purpose* represents our measure of purpose. *ControlQ* is included to account for the "halo" effect: the overall happiness of the employee that may drive high scores to all questions. For this measure, we follow the approach taken by Guiso et al. (2015) and include the employee's answer to a TI survey question that is conceptually distinct from *Purpose* but will still be influenced by overall happiness: "This is a physically safe place to work." *HQState*, *Industry*, and *Year* represent the state of corporate headquarters, industry, and year fixed effects. *Controls* include the natural logarithm of total assets, firm age, and employees.

Identification

Given that our setting does not provide an exogenous shock to purpose that is otherwise unrelated to performance, we are unable to establish causality. To address concerns over reverse causality and omitted variable bias, we implement the following research design choices. First, we include the lagged value of the dependent variable, which controls for past factors that have influenced the performance of the firm and tend to have a persistent impact on a firm's performance (Wooldridge 2002). We next construct a balanced sample and introduce firm fixed effects to account for all time-invariant, firm-specific unobservable characteristics. Third, we perform additional analyses that separate purpose according to the job level of the employees in the organization. This last test allows us to understand which, if any, job level is driving the association between purpose and performance and make inferences about the nature of the bias in our estimates. Fourth, we calculate stock returns that are forward looking, by construction, and do not suffer from reverse causality. Finally, we explicitly consider alternatives in the discussion section and why they are less plausible than a direct, causal interpretation of our data. Although these steps collectively provide a high threshold for an omitted variable interpretation of our results, we conservatively discuss our results using associative language.

Purpose and Firm Performance

Table 3 shows our estimates of the association between *Purpose* and *Performance*. In column (1), we use ROA as our firm performance variable. This specification includes our full set of controls and year and industry fixed effects. We add *ControlQ* in column (2) to control for overall satisfaction at the firm, and we add a one-year lagged dependent variable in column (3) to control for reverse causality. In none of these specifications is *Purpose* positively related to ROA. In fact, in columns (2) and (3), the point estimate is negative and statistically significant in column (3). Columns (4)–(6) repeat these analyses with log of Tobin's Q as our measure of firm performance. From this table, we see no clear association between *Purpose* and *Performance*.

In Table A2 in Online Appendix A, we disaggregate *Purpose* by job levels within firm years. We do this additional analysis to verify that our null finding at the firm level is not masking opposing effects by job level. The results in this table show that none of the job level measures of purpose are related, either positively or negatively, to firm performance, supporting our null finding in Table 2.

Types of High-Purpose Firms and Firm Performance

There are several potential explanations for the null association between *Purpose* and *Performance*.¹² In this section, we explore the following possibility: that purpose *alone* is not associated with performance, but purpose when bundled with other beliefs is associated with performance.

We perform an exploratory factor analysis on the raw survey questions to identify bundles of beliefs that covary with our purpose questions. We run the analysis at the employee level using all individual survey responses for all full-time employees of all for-profit firms (both public and private). We include 53 of the 57 questions, excluding four questions that we consider to be outcome measures of overall job satisfaction. The factor analysis yields four factors that explain most of the variation.¹³ To construct firm-year level measures, we average the scores for each factor across all individuals within each firm in given year.¹⁴

Factor Descriptions

The four factors represent bundles of questions within which employees tend to provide common responses. The combinations of these questions are best understood as an index of responses that combine additively: firms that score high on a given factor represent workplaces where employees answer the set of questions with large factor loadings together. Our data agreement with GPTW precludes us from publishing the survey instrument in totality, so in this section, we describe the

Table 2. Purpose and Firm Performance

Dependent variable	Return on assets			log(Tobin's Q)		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Purpose</i>	0.0073 (0.0239)	-0.0284 (0.0291)	-0.0215** (0.0103)	0.3214** (0.1376)	0.1707 (0.1736)	0.0408 (0.0613)
"This is a physically safe place to work"		0.0775** (0.0332)	0.0115 (0.0127)		0.3280* (0.1856)	0.0221 (0.0608)
Lagged return on assets			0.8308*** (0.0340)			
Lagged log(Tobin's Q)						0.8345*** (0.0228)
Constant	0.1973 (0.1332)	0.0219 (0.1447)	-0.0090 (0.0536)	0.2399 (0.7427)	-0.5055 (0.7862)	-0.2737 (0.3188)
Year FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y
Controls	Y	Y	Y	Y	Y	Y
Observations	917	917	917	917	917	917
Adjusted R ²	0.217	0.227	0.744	0.319	0.324	0.799

Notes. OLS regressions. *Purpose* is the equally weighted average of four questions related to purpose from the GPTW Institute survey. "This is a physically safe place to work" is a question from the GPTW Institute survey. *Return on assets* is EBIT over average total assets. *Tobin's Q* is total assets plus market value of equity minus book value of equity at calendar year end over total assets. Standard errors are clustered at the firm level and robust to heteroskedasticity.

***, **, *Statistical significance at the 1%, 5%, and 10% level, respectively, based on two-tailed tests.

nature of the questions captured by each factor in as much detail as possible.

Factor 1, which we call *Management*, is dominated by questions on employee perceptions of management quality and management's relationship with the company's employees (the survey leaves open whether "management" refers to an employee's direct supervisors or to firm-level management). These questions focus on whether the employee believes management is approachable, honest, apolitical, and capable. The two questions with the highest loadings on this factor are "Management's actions match its words" and "I can ask management any reasonable question and get a straight answer."

Factor 2, which we call *Purpose-camaraderie*, includes our four purpose questions, listed in the introduction section, together with questions on the degree of camaraderie between employees in the workplace. The two items with the highest loadings on this factor question (1) whether employees have fun at work and (2) whether they believe that there is a familial atmosphere among employees at work. The other questions included in this factor similarly focus on workplace collegiality.

Factor 3, which we call *Nondiscrimination*, focuses on whether employees believe that there is workplace discrimination based on standard protected employee classes and sexual orientation. The highest loadings are on questions such as "People here are treated fairly regardless of their sexual orientation."

Factor 4, which we call *Purpose-clarity*, includes our four purpose questions together with questions that characterize a workplace where management provides

significant clarity around direction, job responsibilities, and tools that can be used to achieve the desired outcomes. The two items with the highest loadings on this factor, aside from the four purpose questions, are "Management has a clear view of where the organization is going and how to get there" and "Management makes its expectations clear." A third question, "I am given the resources and equipment to do my job," also loads highly in this factor. Online Appendix B discusses a series of tests that we conducted to validate that these factors are, in fact, meaningful measures.

Factors and Firm Performance

Table A3 in Online Appendix A shows summary statistics and a univariate correlation matrix for the four survey factors aggregated up to the firm level together with our other firm-year survey and financial measures. Several interesting observations emerge from these correlations. First, the correlation between the different factors is moderate and ranges between -0.31 and 0.39, allowing us to include all four factors together in a multivariate regression. Second, our two purpose-related factors, factor 2, *Purpose-camaraderie*, and factor 4, *Purpose-clarity*, are only modestly correlated with each other (0.16), indicating that they capture conceptually different sets of worker beliefs. Third and related to this prior point, our purpose measure is most highly correlated with factor 2, *Purpose-camaraderie*, (0.85) and only moderately correlated with factor 4, *Purpose-clarity*, (0.44). This moderate correlation indicates that *Purpose-clarity* does capture additional beliefs aside from solely a sense of purpose among employees.

Figure 2. Purpose and Survey Factors and Firm Performance

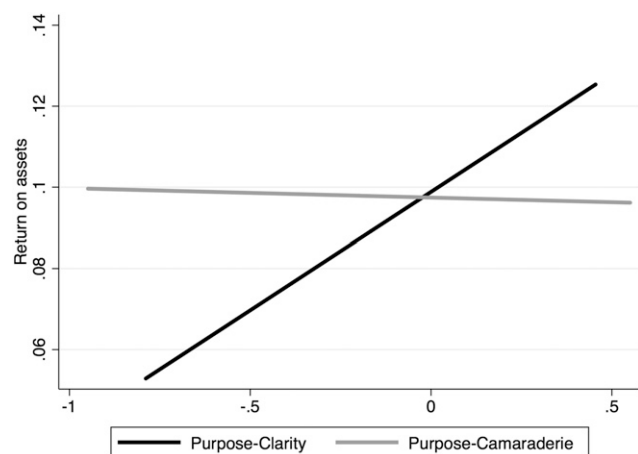


Figure 2 shows the raw fit between the two purpose factors and ROA. The association between *Purpose-camaraderie* and ROA is zero to negative, and the association between *Purpose-clarity* and ROA is strongly positive. Although this association in the raw data is useful, it does not account for multiple confounding factors. We now turn, therefore, to multivariate models.

In Table 3, we replace *Purpose* with our four survey factors. Given that ex ante we do not have strong priors about which purpose factor—*Purpose-clarity* or *Purpose-camaraderie*—will be associated with performance, we adjust the statistical significant thresholds to account for our multiple hypothesis analysis as in Benjamini et al. (2006) (hereafter, BKY).¹⁵ We compare our estimated *p*-value to these thresholds and adjust the asterisks to take into account the lower *p*-values required for multiple hypothesis testing. Table A6 in Online Appendix A provides a summary of the *p*-values and BKY-adjusted *p*-value thresholds for the relevant analyses in this study (Tables 3–5). This table also provides Wald test statistics for differences between the estimated coefficients of purpose factors within these same tables.

Column (1) measures the association between our two purpose factors and ROA. As with Figure 2, we see that *Purpose-camaraderie* has no significant association with ROA, and *Purpose-clarity* is strongly positive. This association is economically significant: an increase from the bottom to top decile in *Purpose-clarity* is associated with an increase in ROA of 3.8%. In column (2), we include the other two factors as controls and the association between *Purpose-clarity* and ROA remains significant and similar in magnitude. In column (3), we also include the lagged ROA as a dependent variable. In this specification, the association disappears, indicating potential reverse causality at this aggregated level. However, in a subsequent analysis, we separately estimate the effect of *Purpose-clarity* on ROA by job level

and find that our result remains economically and statistically significant even after controlling for lagged ROA.

Columns (4)–(6) repeat this analysis using logged Tobin’s Q as the performance variable.¹⁶ We continue to find no association between *Purpose-camaraderie* and Tobin’s Q and a strong, positive association with *Purpose-clarity*. In this case, the association remains when we include lagged Tobin’s Q as a control (column (6)).¹⁷ Although it is attenuated in this specification, the association is still strong: an increase from the bottom to top decile in *Purpose-clarity* is associated with an increase of 0.115 in Tobin’s Q, roughly equivalent to a 0.7% increase in enterprise value growth rate.

Our full sample is a highly unbalanced panel: we observe two thirds of our firms only once or twice. This imbalance renders a fixed-effects analysis challenging, particularly because participation in the survey is voluntary and likely related to firm performance. To explore within-firm effects, therefore, we next restrict our analysis to firms that have appeared for all six years in our panel, which yields a balanced subsample of 29 firms and 170 observations. We rerun our analysis of Table 3 on that restricted subsample. First, in an unreported analysis, we replicate Table 3 on that subsample using OLS and show that the point estimates and significance of this subsample are similar to the full sample. We next include firm fixed effects. Table 4 shows the results: the coefficient on *Purpose-clarity* is consistently positive and statistically significant even with lagged performance variables. The economic effect with firm fixed effects is about a 1% increase in ROA for a (within) bottom to top decile change in *Purpose-clarity*. The equivalent effect on Tobin’s Q is an increase of 0.06 or a 0.35% increase in enterprise value annual growth rate. This analysis provides support that our results are not driven by unobservable time-invariant firm characteristics.¹⁸

Analysis by Job Level

For the next analysis, we separate *Purpose-clarity* by job level to isolate which job level is driving the association with firm performance. Table A5 in Online Appendix A shows the correlations between the job level measures of *Purpose-clarity* with each other and the other survey measures. A few notable insights are apparent from this table. First, the strongest correlation between job levels occurs between middle managers and professional-technical worker beliefs (0.61), and executives and senior managers are only moderately correlated with the other job levels. Second, the other purpose factor, *Purpose-camaraderie*, remains weakly correlated with these job-level *Purpose-clarity* measures, and the strongest correlation is with hourly workers (0.17) and the weakest with middle managers (0.02) and negatively

Table 3. Survey Factors and Firm Performance

Dependent variable	Return on assets			log(Tobin's Q)		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Factor 4 (Purpose–clarity)</i>	0.0861*** (0.0282)	0.0805** (0.0332)	–0.0109 (0.0150)	0.5488*** (0.1449)	0.6334*** (0.1705)	0.1638** (0.0717)
<i>Factor 3 (Nondiscrimination)</i>		–0.0408 (0.0389)	–0.0168 (0.0177)		0.1765 (0.2106)	0.0463 (0.0710)
<i>Factor 2 (Purpose–camaraderie)</i>	–0.0339 (0.0251)	–0.0309 (0.0261)	–0.0100 (0.0093)	0.0908 (0.1393)	0.1106 (0.1442)	–0.0154 (0.0493)
<i>Factor 1 (Management)</i>		–0.0201 (0.0267)	–0.0087 (0.0100)		–0.0658 (0.1330)	–0.0004 (0.0710)
<i>“This is a physically safe place to work”</i>	0.0612** (0.0310)	0.0964** (0.0421)	0.0190 (0.0169)	0.3059* (0.1683)	0.2200 (0.2320)	0.0130 (0.0764)
<i>Lagged return on assets</i>			0.8317*** (0.0354)			
<i>Lagged log(Tobin's Q)</i>						0.8271*** (0.0239)
Constant	–0.0277 (0.1528)	–0.1924 (0.1879)	–0.1523* (0.0798)	0.6259 (0.8196)	1.0594 (1.0619)	0.0681 (0.4141)
Year FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y
Controls	Y	Y	Y	Y	Y	Y
Observations	917	917	917	917	917	917
Adjusted R ²	0.245	0.246	0.743	0.345	0.345	0.799

Notes. OLS regressions. Factors 1–4 are the outcomes of the factor analysis across 53 questions in the GPTW data. *Leverage ratio* is total debt over total assets. *Firm age* is the number of years since incorporation. “*This is a physically safe place to work*” is a question from the GPTW Institute survey. *Return on assets* is EBIT over average total assets. *Tobin's Q* is total assets plus market value of equity minus book value of equity at calendar year end over total assets. Standard errors are clustered at the firm level and robust to heteroskedasticity.

***, **, *Statistical significance at the 1%, 5%, and 10% level, respectively, based on two-tailed tests after correcting for multiple-hypothesis test bias via Benjamini et al. (2006) (BKY). See Table A6 in Online Appendix A for the *p*-values, amended BKY significance thresholds, and Wald test statistics for equality between the purpose measures.

with executives (–0.13). This weak correlation is consistent with these two factors capturing fundamentally different work orientations with purpose–camaraderie workplaces putting significant weight on an atmosphere of strong interpersonal camaraderie and purpose–clarity workplaces focusing on job effectiveness.

Table 5 repeats the analysis of Table 3, replacing the aggregate measure of *Purpose–clarity* with the measures by job level. We find that two job levels drive the positive association with firm performance: middle managers and professional–technical employees.¹⁹ Two observations emerge from this analysis. First, our null results for senior executives or salespeople suggests that reverse causality is unlikely to explain our result because these employees are the most informed about future firm prospects. Second, as we explore in the discussion section, this result provides evidence of the importance of strong, credible beliefs held by midlevel employees, particularly in the meaning of their job and clarity in how to succeed.

Future Stock Returns

Our results so far suggest that contemporaneous measure of firm performance is related to a contemporaneous

measure of employee beliefs about purpose–clarity. In this section, we conduct forward-looking tests of portfolio returns to understand whether purpose–clarity has a predictive ability about the firm's future financial performance. Our objective, rather than to show that this is an implementable trading strategy (because investors do not have access to this information), is to understand whether the *Purpose–clarity* measure can predict future stock returns. This finding would mitigate concerns about reverse causality as well as provide some sense of the economic magnitude of the phenomenon.²⁰

Table 6 shows estimates from calendar time portfolios of an investment strategy that buys the stocks of firms scored each year at the top quintile of *Purpose–clarity* and holds the portfolio for one year at which point it is updated with the new ranking of firms. The portfolios are formed on the first of January. Each month, the returns of each firm in the portfolio are equal-weighted to construct a portfolio return. We then regress the 72 monthly stock returns on risk premiums for the market, size, value, and momentum factors (Fama and French 1993, Carhart 1997). Column (1) uses the firm-level *Purpose–clarity* measure to construct the portfolios.

Table 4. Survey Factors and Firm Performance, Balanced Panel, and Firm Fixed Effects

Dependent variable	Return on assets			log(Tobin's Q)		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Factor 4 (Purpose–clarity)</i>	0.0988** (0.0404)	0.1103** (0.0522)	0.1239** (0.0541)	0.5573*** (0.1986)	0.6194*** (0.1981)	0.6000*** (0.2074)
<i>Factor 3 (Nondiscrimination)</i>		0.0630 (0.0913)	0.0819 (0.0935)		0.0853 (0.2469)	0.0464 (0.2521)
<i>Factor 2 (Purpose–camaraderie)</i>	0.0126 (0.0291)	0.0152 (0.0333)	0.0079 (0.0317)	−0.1892 (0.1699)	−0.1405 (0.1728)	−0.1618 (0.1728)
<i>Factor 1 (Management)</i>		0.0157 (0.0467)	0.0112 (0.0483)		−0.1024 (0.1612)	−0.1177 (0.1558)
<i>“This is a physically safe place to work”</i>	−0.0843 (0.1101)	−0.1500 (0.1623)	−0.1620 (0.1651)	−0.3048 (0.3219)	−0.3351 (0.3805)	−0.3245 (0.3841)
<i>Lagged return on assets</i>			0.1491** (0.0663)			
<i>Lagged log(Tobin's Q)</i>						0.1124 (0.1039)
Constant	0.5804 (0.6274)	0.8759 (0.8411)	0.9520 (0.8634)	4.0939* (2.3677)	4.3899* (2.5320)	4.0352* (2.3954)
Year FE	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
Controls	Y	Y	Y	Y	Y	Y
Observations	170	170	170	170	170	170
Adjusted R ²	0.069	0.064	0.083	0.209	0.232	0.240

Notes. Fixed effects regressions. Sample includes firms that appear in all six years of the survey in our sample. Factors 1–4 are the outcomes of the factor analysis across 53 questions in the GPTW data. “This is a physically safe place to work” is a question from the GPTW Institute survey. *Return on assets* is EBIT over average total assets. *Tobin's Q* is total assets plus market value of equity minus book value of equity at calendar year end over total assets. Standard errors are clustered at the firm level and robust to heteroskedasticity.

***, **, *Statistical significance at the 1%, 5%, and 10% level, respectively, based on two-tailed tests after correcting for multiple-hypothesis test bias via Benjamini et al. (2006) (BKY). See Table A6 in Online Appendix A for the *p*-values, amended BKY significance thresholds, and Wald test statistics for equality between the purpose measures.

Columns (2) and (3) use *Purpose–clarity* for middle managers and professionals, respectively.

Across all specification, we find a positive and significant alpha (i.e., abnormal stock return). The annualized abnormal returns are 6.9%, 7.6%, and 5.9% across columns (1), (2), and (3), respectively. These returns are economically meaningful. By way of comparison, Edmans (2011) finds that the *Fortune* Best Companies Top 100 list that is based on the overall GPTW data earns a 4% annualized abnormal return. As such, our results in Table 6 suggest that instilling midlevel employees with a sense of purpose and clarity from management is associated with substantial future stock returns.

Data and Factor Validation

Our results establish a robust association between the *Purpose–clarity* factor and firm performance. In interpreting these results, one issue is the “black box” nature of the factor analysis and whether our purpose factors truly capture underlying employee beliefs in purpose combined alternately with clarity or camaraderie. In this section, we conduct three additional analyses to address this issue. The goal of these analyses is to understand

whether our two purpose factors behave in predictable ways in line with how the factors are defined.

In our first analysis, we examine the relation between our two purpose factors and employee turnover. Each year, we classify firms into quartiles based on the level of total turnover or voluntary turnover. We expect that both *Purpose–clarity* and *Purpose–camaraderie* will be negatively correlated with employee turnover. Table A7 in Online Appendix A shows the two panels with this analysis. The first panel shows factor levels across total turnover, and the second panel shows factor levels across voluntary turnover. Across total turnover quartiles, we see a large decrease in our *Purpose–clarity* factor (factor 4) for the higher quartile of turnover. The decrease is even more pronounced and monotonic when we consider voluntary employee turnover. In contrast, our *Purpose–camaraderie* factor exhibits a different behavior: it declines more sharply and monotonically across total turnover but less so for voluntary turnover. It seems that involuntary turnover (firings and layoffs) damage the strength in purpose–camaraderie but much less so the strength in purpose–clarity, which seems to be reflective more of voluntary turnover (employees voluntarily leave when

Table 5. Survey Factors by Job Level and Firm Performance

Dependent variable	Return on assets			log(Tobin's Q)		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Factor 4 (Purpose–clarity) sales</i>	–0.0157 (0.0093)	–0.0161 (0.0091)	–0.0086 (0.0050)	–0.0034 (0.0408)	–0.0007 (0.0415)	0.0131 (0.0207)
<i>Factor 4 (Purpose–clarity) hourly employees</i>	–0.0177 (0.0231)	–0.0227 (0.0229)	–0.0275** (0.0127)	0.0111 (0.1220)	0.0354 (0.1253)	0.0754 (0.0547)
<i>Factor 4 (Purpose–clarity) middle managers</i>	0.0491** (0.0215)	0.0455* (0.0219)	0.0122 (0.0105)	0.3661*** (0.1170)	0.3859*** (0.1162)	0.1272* (0.0591)
<i>Factor 4 (Purpose–clarity) professionals</i>	0.0656*** (0.0184)	0.0624*** (0.0189)	0.0250** (0.0106)	0.2246** (0.0958)	0.2413** (0.0972)	0.0401 (0.0466)
<i>Factor 4 (Purpose–clarity) executives</i>	0.0151 (0.0119)	0.0154 (0.0119)	–0.0039 (0.0072)	0.0022 (0.0548)	0.0002 (0.0552)	–0.0310 (0.0317)
<i>Factor 3 (Nondiscrimination)</i>		–0.0416 (0.0362)	–0.0128 (0.0169)		0.1818 (0.1849)	0.0756 (0.0675)
<i>Factor 2 (Purpose–camaraderie)</i>	–0.0126 (0.0239)	–0.0134 (0.0245)	–0.0105 (0.0096)	0.2177 (0.1324)	0.2258* (0.1353)	0.0020 (0.0534)
<i>Factor 1 (Management)</i>		–0.0032 (0.0253)	–0.0077 (0.0108)		–0.0246 (0.1158)	–0.0127 (0.0451)
<i>“This is a physically safe place to work”</i>	0.0361 (0.0326)	0.0642 (0.0407)	0.0184 (0.0195)	0.1089 (0.1858)	–0.0028 (0.2317)	–0.0358 (0.0914)
<i>Lagged return on assets</i>			0.8147*** (0.0351)			
<i>Lagged log(Tobin's Q)</i>						0.8193*** (0.0240)
Constant	0.1082 (0.1692)	–0.0276 (0.1919)	–0.1317 (0.0900)	1.5433 (0.9665)	2.0977* (1.1164)	0.3177 (0.4844)
Year FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y
Controls	Y	Y	Y	Y	Y	Y
Observations	917	917	917	917	917	917
Adjusted R ²	0.290	0.290	0.747	0.378	0.377	0.800

Notes. OLS regressions. Factors 1–4 are the outcomes of the factor analysis across 53 questions in the GPTW data. *Leverage ratio* is total debt over total assets. *Firm age* is the number of years since incorporation. “*This is a physically safe place to work*” is a question from the GPTW Institute survey. *Return on assets* is EBIT over average total assets. *Tobin's Q* is total assets plus market value of equity minus book value of equity at calendar year end over total assets. Standard errors are clustered at the firm level and robust to heteroskedasticity.

***, **, *Statistical significance at the 1%, 5%, and 10% level, respectively, based on two-tailed tests after correcting for multiple-hypothesis test bias via Benjamini et al. (2006) (BKY). See Table A6 in Online Appendix A for the *p*-values, amended BKY significance thresholds, and Wald test statistics for equality between the purpose measures.

purpose–clarity is low and stay when it is high). These relationships between voluntary and involuntary turnover and our two purpose factors are exactly as we would expect for these two constructs.

Second, we calculate the average score for *Purpose–clarity* and *Purpose–camaraderie* for different sectors. First, as one might expect, Figure A1 in Online Appendix A shows that *Purpose–clarity* and *Purpose–camaraderie* are highest within healthcare. Given the intrinsic societal value of healthcare, it gives us comfort to see this result. The second corroborating piece of evidence is that finance scores in the middle of the distribution for *Purpose–clarity* but at the bottom for *Purpose–camaraderie*. As one might expect, finance firms are not workplaces characterized by a strong sense of camaraderie among employees.

The third analysis considers changes in our scores of *Purpose–clarity* and *Purpose–camaraderie* during the 2008 financial crisis. We might expect a sharp decrease in these measures during the crisis for finance firms as the industry was in the spotlight for unethical behavior as well as strategic uncertainty. Accordingly, Figure A3 in Online Appendix A shows *Purpose–clarity* declining the most between 2006 and 2009 for financial firms. Interestingly, although *Purpose–camaraderie* does not decline for financial firms, it remains stable, and for all other sectors, it increases during this period. This shows that, overall, a stronger sense of camaraderie in the economy was developed as hardship was hitting many sectors, but such was not the case within finance firms that were at the center of the crisis. One caveat to

Table 6. Purpose and Future Stock Returns

Portfolio definition	High <i>Purpose–clarity</i> (1)	High <i>Purpose–clarity</i> : middle managers (2)	High <i>Purpose–clarity</i> : prof/tech (3)
Alpha	0.0056* (0.0029)	0.0061** (0.0029)	0.0048* (0.0026)
Market	0.8756*** (0.1478)	0.8406*** (0.1448)	0.8288*** (0.1273)
SMB	0.4492*** (0.1476)	0.4543*** (0.1447)	0.5007*** (0.1237)
HML	0.1657 (0.1324)	0.1405 (0.1378)	0.1787* (0.1016)
UMD	−0.3267*** (0.1074)	−0.3444*** (0.1058)	−0.3135*** (0.0902)
Observations	72	72	72
Adjusted R^2	0.854	0.851	0.876

Notes. Table shows estimates from calendar time portfolios of an investment strategy that buys the stocks of firms scored each year that are above median of *Purpose–clarity* and holds the portfolio for one year at which point it is updated with the new ranking of firms. The portfolios are formed on the first of January. Each month, the returns of each firm in the portfolio are equally weighted and aggregated, thereby constructing a portfolio return. The time series of 72 monthly stock returns is then regressed on risk premiums for the market, size (SMB), value (HML), and momentum (UMD) factors (Fama and French 1993, Carhart 1997). Column (1) uses the overall *Purpose–clarity* measure. Columns (2) and (3) use the *Purpose–clarity* measure for middle managers and professional staff, respectively.

***, **, *Statistical significance at the 1%, 5%, and 10% level, respectively, based on two-tailed tests.

this third test is that these results may also reflect the financial strain that these firms experienced during this time. However, in conjunction with the other two tests, they are supportive of our two purpose factors capturing the relevant employee beliefs.

Discussion

Our analysis suggests that high purpose–clarity organizations exhibit higher financial performance in the future, particularly when these beliefs are held by midlevel employees. These results lead to the following questions: why the combination of purpose and clarity, and why the middle ranks?²¹ Although the statistical power of a large-sample analysis across multiple industries and years is the primary advantage of our study relative to field studies of specific organizations, the distance from precise mechanisms is an unavoidable challenge with this approach. Consequently, we speculate on several plausible mechanisms and discuss which ones are most consistent with our results. We caution, however, that we cannot observe these mechanisms directly.

Why the Combination of Purpose and Clarity?

When considering how the combination of purpose and clarity influences performance, we return to individual-level mechanisms and, therefore, appeal to research on meaning upon which our measures are based. Our measure of purpose–clarity is aligned with a construct of “meaningful work,” work that is “purposeful and significant” (Pratt and Ashforth 2003, p. 311), in ways that our measures of purpose or clarity alone are not. The literature has focused both on “meaningfulness at work” and “meaningfulness in working” as two important components of meaning. Research on meaningfulness-at-work practices has demonstrated the importance of

visionary leadership whereby leaders articulate a clear, inspiring vision linking it to shared values and meaning (Kirkpatrick and Locke 1996, Podolny et al. 2004, Piccolo and Colquitt 2006, Carton et al. 2014, Carton 2017). A crucial aspect of this concept is the emphasis on “a mission focused on goals and values beyond simple profit” (Pratt and Ashforth 2003, p. 318). Research on meaningfulness-in-working practices has focused on the importance of job design and path–goal leadership with which organizations empower employees to achieve their goals (House 1997). Meaningfulness in working occurs when “employees are given the opportunities and resources to actually perform their work,” and when leadership plays a role by “clarifying links between effort and performance and by removing obstacles to performance” (Pratt and Ashforth 2003, p. 320; citing House 1997).

Our *Purpose–clarity* factor maps closely with these two constructs coexisting within firms. For example, our highest loaded purpose questions in constructing the factor, “My work has special meaning; this is ‘not just a job’”; “When I look at what we accomplish, I feel a sense of pride”; and “I feel good about the ways we contribute to the community,” directly relate to meaningfulness-at-work practices. Similarly, our two key clarity measures, “Management has a clear view of where the organization is going and how to get there” and “Management makes its expectations clear,” and a third high-loading question in this factor, “I am given the resources and equipment to do my job,” relate closely to meaningfulness-in-working practices. As such, a reasonable interpretation of *Purpose–clarity* is that high scores correspond to firms in which both

meaningfulness-at-work and meaningfulness-in-work beliefs are strongly held by employees.

Why the Middle Ranks of the Organization?

The association between *Purpose–clarity* and firm performance is driven by midlevel employees with no indication that such an association operates at the senior management or lower employee levels. We view this result as especially interesting in the context of frequent arguments about the obsolete nature of middle management as a layer in the organization.²²

One reason for this result could be that midlevel employees have a unique contracting issue whereby their most valuable job responsibilities are hard to quantify and specify in formal legal contracts (Baker et al. 1994). This stands in contrast to both senior managers and lower-level employees. In the case of senior managers, it is customary to tie compensation to organization-level performance through stock options and earnings-per-share targets, therefore aligning incentives between shareholders and managers (Murphy 1999). In the case of lower-level employees, the simpler nature of the tasks undertaken repeatedly, relative to those of managers and professionals, yield more readily available quantitative metrics of the actions taken, leading, for some employees, to hourly compensation contracts. For the middle ranks, responsibilities such as the faithful implementation of strategy, its communication to lower-level employees, and the communication of the information and ideas upward are challenging to specify in a formal contract. In such cases, when actions cannot be readily observed and quantified, firms rely on relational contracts rather than on formal legally enforceable contracts (Gibbons and Henderson 2012).

This contracting issue might be particularly costly to firms. Middle managers play an important role in both strategy development and implementation (Huy 2001, Wooldridge et al. 2008). From a top-down perspective, middle managers and professional workers are responsible for implementing the strategy of the organization, designed by senior management, influencing decision making and behaviors among lower-level employees. From a bottom-up perspective, they gather insights and information from lower-level employees that they filter and communicate to senior management as an input into strategy development. As Rouleau and Balogun (2011, p. 954) describe, middle managers “are a special case since they lack the formal role authority held by their seniors to act strategically. They need to influence upwards as well as laterally and downwards.”

As such, firms at which middle managers and professional workers perceive their work as meaningful (both in the “purpose” sense that their tasks are significant and in the “clarity” sense that they have the means to achieve them) may be particularly able to

overcome the contracting issue within the middle ranks and realize the associated performance benefits.

Alternative Explanations

There are several alternative explanations for some or all of the results in the paper. We consider some of these alternatives in this section. The first class of alternatives suggests that purpose–clarity is a proxy for other organizational characteristics. For example, high-incentive workplaces could manifest as high purpose–clarity workplaces because of the financial incentives provided to the employees. Although possible, we first note that prior studies have not found a clear relation between compensation and meaningful work. Although one might expect a positive relation, several studies suggest the opposite (Bunderson and Thompson 2009, Henderson and Van den Steen 2015), including studies in which workers give up high compensation in return for meaning (Stern, 2004, Agarwal and Ohyama 2013, Burbano 2016) or compensation crowds out inherent meaning (Gneezy et al. 2011).

Given this lack of consensus, we make the following observations from our own analyses. First, this alternative is not supported by the fact that our results are driven by midlevel employees. Under this alternative, our expectation would be to find this relation primarily with salespeople or senior management, of which both groups generally have the higher-powered incentives. Further, we find no correlation between purpose–clarity and compensation. Finally, *Purpose–clarity* does not change with external compensation shocks as we would expect. We examine purpose–clarity within nonfinancial firms for salespeople during the financial crisis. If purpose–clarity is driven by financial incentives, then purpose–clarity should decline sharply during this period as incentives for salespeople are directly tied to sales. Instead, we find no change. In short, we find little empirical evidence that incentive compensation is driving our results.

There is a related alternative, independent of incentive pay. One could make the argument that we need not appeal to a definition of purpose as beyond profit maximization, but instead that purpose may comprise a singular focus on profit maximization itself. In this case, employees may feel a strong sense of purpose when their effort contributes to those firm profits even without a financial incentive. We note that, although possible, this argumentation is inconsistent with the spirit of agency theory in which exactly the opposite behavior is assumed of an individual (Jensen and Meckling 1976). Incentive schemes are needed to align incentives because agents are not motivated on their own to make other people rich. Further, the questions in our factor concerning meaning and community impact do not comport with this view nor do the patterns we discuss in the factor-validation section

regarding higher values of *Purpose–clarity* in healthcare and absence of a drop in magnitude during the financial crisis. Therefore, although we cannot definitively rule out this possibility and although some individuals in our sample may, in fact, be motivated solely by achieving the highest possible profits for a firm (without receiving a commensurate financial reward), we believe this interpretation is unlikely to be driving our overall results.

Another alternative relates to the literature on the role of management practices in determining firm performance (e.g., Bloom and van Reenen 2007). This research shows performance differences across firms as a function of management practices, such as setting ambitious and clearly communicated targets, tying pay to performance, and hiring and promoting people based on performance considerations. In contrast to our study that considers employee beliefs and, as a result, “soft” organizational characteristics, these management practices are “hard” in the sense of being policies that are objectively adopted or not by an organization. In this alternative, our measure of purpose–clarity is correlated with the (unmeasured) degree to which management practices are adopted within the organization.

This is a plausible alternative that we cannot definitively rule out given the low degree of overlap between firms within our data set and firms with management practice information.²³ However, it is not clear how purpose–clarity and management practices might be related or their causal direction.²⁴ Moreover, we note that the two are unlikely to be fully interchangeable. If our association were driven mainly by these hard practices, then our management factor, which comprises questions on performance review, goal setting, and similar questions, would plausibly be the factor most highly correlated with performance. Across our specifications, this factor is neither statistically nor economically significant.²⁵

A second class of alternatives concerns the stakeholder group through which purpose operates. For example, separate literature has focused on customers (e.g., Du et al. 2007a). However, in unreported analyses, we find that our results do not differ significantly across consumer-oriented and business-oriented companies. Moreover, it is not clear why workplace clarity or mid-level employees are important factors in this mechanism.

Other literature focuses on the investor community and capital market pressures on managers (e.g., Bushee 1998, Connelly et al. 2010, Brochet et al. 2015). Corporate purpose could mitigate such short-term pressures by signaling to investors the type of organization and, as a result, attracting a more long term–oriented investor base. However, if short-termism were the mechanism, one would expect that the relation between purpose and performance be driven by senior executives, the actors criticized as myopic in the literature, which is not what we find.

There is also a question whether survey response bias is driving our results. In this case, employees view a successful application to the “Great Places to Work” list as enhancing their own human capital value and, hence, inflate their survey response to achieve this result. To explain our results, this bias would need to be higher for firms with better performance, only among middle management, and only along the dimension of purpose–clarity. Given that firms are not judged on purpose–clarity but on the full survey score as well as these other requirements, we believe this bias is unlikely to be driving our results.

A final alternative explanation is reverse causality, in which strong financial performance fosters purpose within firms. Although we control for current levels of performance and report forward-looking stock returns, if expectations of superior future performance influence employee beliefs about firm purpose, then our results could be explained by reverse causality. Although this alternative is unobservable to us and thereby challenging to rule out definitively, we believe it is unlikely to explain our results. Reverse causality would be more likely to manifest at the executive and senior management level, which has superior information about the firm’s future performance, or at the salesforce level, which might have superior information about changes in demand for the firm’s products and services. In contrast, our results are driven by middle-level employees, who are unlikely to have superior information about the firm’s future performance or position relative to the aforementioned groups.

Given this discussion, it appears unlikely that incentive compensation, pure profit orientation, other stakeholder groups, survey bias, or reverse causality are driving our results. Combining this discussion with our earlier analyses with lagged performance variables and firm fixed effects, and of future stock returns, the totality of our evidence makes a causal interpretation that purpose–clarity beliefs held by midlevel employees lead to improved firm performance plausible.

Conclusion

We view our paper as a first attempt to provide empirical evidence on the value relevance of corporate purpose. We find that an overall measure of purpose is not related to financial performance. However, we uncover that high-purpose firms come in different types. Our data reveal two types: high-camaraderie and high-clarity workplaces. We find that the latter exhibits superior future performance. This result cannot be explained by time-invariant, firm-specific characteristics or by observable time-varying, firm-specific characteristics. Moreover, it is unlikely to be caused simply by reverse causality as our measure is able to predict future stock returns. Interestingly, we find that the significant association between purpose–clarity and financial

performance is driven by the middle ranks of the organization.

Our study leaves many questions unanswered and opens up significant opportunities for future research. What are the determinants of high purpose–clarity, and do those differ across job levels? How is purpose–clarity built and diffused inside an organization? How is purpose–clarity related to building relational contracts, enabling decentralization, or increasing employee engagement and productivity? Shedding light on the mechanisms would be an important step to continue to address Bartlett and Ghoshal’s (1994) call for placing studies of purpose at the center of strategy research.

Acknowledgments

The authors are grateful to Steve Blader, Adam Cobb, Alex Edmans, Maria Guadalupe, Erik Helzer, Rebecca Henderson, Joe Magee, Elizabeth Morrison, Lamar Pierce, Shiva Rajgopal, John van Reenen, Nancy Rothbard, and participants at Johns Hopkins Carey School of Business, Oxford University, NBER Organizational Economics winter meeting, the NYU Stern Strategy Brownbag series, the Organizations with Purpose Conference at London Business School, the Ghoshal Conference at London Business School, Academy of Management, the Economics of Social Sector Organizations at University of Chicago, and the Israel Strategy Conference for many helpful comments.

Endnotes

¹ In our discussion section, we also consider the possibility of whether purpose may arise solely from a focus on profit maximization or be a consequence of strong financial results. Although both are possible, we conclude that the mosaic of the results presented are not generally consistent with these interpretations.

² Note that we use the terms “purpose” and “meaning” throughout this study. “Purpose” as a construct generally refers to the content of beliefs. In this study, however, we are interested in the strength of the beliefs, or purposefulness, independent of the actual content of the beliefs themselves. Similarly, when we refer to “meaning” within the workplace, we generally are interested in meaningfulness, or the strength, rather than the content, of meaning. For readability, we generally shorten “purposefulness” and “meaningfulness” to “purpose” and “meaning” in our exposition, but the reader should understand those terms as purposefulness and meaningfulness or the strength of purpose and meaning, respectively.

³ For Natura, see <http://www.managementexchange.com/story/innovation-in-well-being>. For Novo Nordisk, see <http://www.managementexchange.com/story/how-novo-nordisk-s-corporate-dna-drives-innovation>. Both companies frequently top the list of sustainability indices provided by rating agencies such as the Dow Jones sustainability index constructed by Robeco Sustainable Asset Management, <http://www.sustainability-indices.com/>, accessed February 20, 2018.

⁴ How to manifest purpose in business: <https://www.virgin.com/richard-branson/how-to-manifest-purpose-in-business>, accessed February 20, 2018.

⁵ Redefining Business Purpose: Driving Societal and Systems Transformation: http://www.huffingtonpost.com/paul-polman/redefining-business-purpo_b_6549956.html, accessed February 20, 2018.

⁶ http://www.oxforddictionaries.com/us/definition/american_english/purpose, accessed March 15, 2016.

⁷ The Purposeful Company Interim Report, May 2016: <http://www.biginnovationcentre.com/media/uploads/pdf/The%20Purposeful%20Company%20Interim%20Report.pdf>, accessed June 26, 2016.

⁸ Although purpose need not be prosocial, corporate social responsibility (CSR) and corporate purpose may influence each other. The CSR literature operationalizes the concept as the set of formal organizational processes (e.g., investments in clean energy, employee safety policies, extended maternal leave, etc.) and outcomes of those processes (e.g., lower carbon profile, fewer accidents, etc.). Our concept of purpose, operationalized as the beliefs that employees hold about the workplace, could be related to CSR because these formal policies and outcomes could increase the sense of purpose in organizations, or a strong sense of purpose could make a firm adopt those processes and obtain those outcomes. Our measure of purpose exhibits a weak correlation with the measure of CSR widely used in the literature from the KLD data set. Moreover, including a control for CSR activities leaves all our results unchanged.

⁹ “The Business Case for Purpose,” Harvard Business School Analytics Report, 2015, <https://hbr.org/resources/pdfs/comm/ey/19392HBRReportEY.pdf>, accessed September 22, 2017.

¹⁰ Although our data agreement precludes us from releasing the full set of questions from the survey, a public description of the survey instrument can be found here: <http://www.greatplacetowork.net/our-approach/what-is-a-great-workplace>, accessed June 25, 2016. Our four questions on purpose fall under the designated “Employee Pride” category.

¹¹ In an unreported analysis, we find very similar results when we use just one of the four measures iteratively or when we extract a common factor from the four based on factor analysis. Further, the Cronbach’s alpha for these four questions is 0.86, indicating substantial relationship between the different questions. Moreover, the item–test correlation of the four questions is 0.87, 0.86, 0.85, and 0.79, indicating that these items are highly correlated with each other. As a check, the item–test correlation of our control question, “This is a physically safe place to work,” is only 0.65.

¹² For example, our purpose measure may not capture “purpose” in a meaningful way; we may lack sufficient power, or there may be measurement error arising from the survey administration that we cannot observe.

¹³ We use a scree test to determine the number of factors to extract (Velicer and Jackson 1990, Costello and Osborne 2009). We then apply a varimax rotation on our factors to orthogonalize our factor measures (Kaiser 1958).

¹⁴ In unreported tests, we also included the standard deviation of all factors and find that all results documented in the paper are unaffected and that the standard deviation measures are not consistently associated with performance.

¹⁵ The Benjamini et al. (2006) correction builds upon earlier work by Bonferroni and others. The Bonferroni correction—as the earliest correction, dating from 1936—is generally considered to make overly conservative assumptions, which the newer models are intended to correct.

¹⁶ In an untabulated analysis, we are able to replicate all analyses without log transforming Tobin’s Q.

¹⁷ Also, as we report in Table A6 in Online Appendix A, Wald tests show that the coefficient estimates of purpose–clarity are consistently larger than those of purpose–camaraderie across the specifications.

¹⁸ Table A4 in Online Appendix A tests the relation between a composite index of the four questions that relate to clarity to better understand if the results documented herein are driven by clarity rather than by purpose. We use a similar specification as in Table 4, in which we include firm fixed effects. We find no association between clarity and financial performance, suggesting that clarity alone is not driving the association.

¹⁹In an untabulated analysis, we also test for whether our results could be driven by higher numbers of respondents (and, hence, greater statistical power) at the middle layers and find no evidence for this alternative.

²⁰The concerns around reverse causality could still be present if employee beliefs about their workplace are more favorable as a result of expected changes in future financial performance. Although possible, we would expect this mechanism to be stronger for senior management and for salespeople, who have more visibility on future performance changes or changes in demand for products and services. However, our results are driven by middle management.

²¹Perhaps equally interesting are the null results in our study: specifically, the lack of association between performance and purpose alone, purpose and camaraderie and our two other factors: management quality and nondiscrimination. However, for space reasons, we limit our discussion to explanation of our positive results.

²²For example, <https://www.forbes.com/sites/davidkwilliams/2012/07/10/the-end-of-middle-managers-and-why-theyll-never-be-missed/>, accessed February 22, 2018.

²³The overlap between our firms and World Management Survey or MOPS (census) data sets is negligible.

²⁴It could be that the beliefs in our study drive the adoption of the hard management practices or, alternately, that the beliefs are a manifestation of the hard management practices. If the latter is the case, then our results should be interpreted with caution because of the threat of omitted variable bias. Conversely, if the former is the case, then our results suggest a caveat to the studies of management practices, that underlying “soft” factors are an important omitted factor, a conclusion corroborated by Blader et al. (2017).

²⁵A potential explanation for this finding is that the sample that we examine is very different from the one that Bloom and van Reenen (2007) examine. We concentrate on much larger firms and size is well documented to be associated with more of these hard management practices. Therefore, a lower variation in hard management practices among firms might lead to smaller performance differentials.

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