

1:

Passing the Litmus Test

Why on earth would you settle for creating something mediocre that does little more than make money, when you can create something outstanding that makes a lasting contribution as well?

—JIM COLLINS, *BUILT TO LAST*

When author Jim Collins asked the question quoted above to his readers in the author's note of his best-selling paperback *Built to Last* in 2002, he perhaps unknowingly cut to the heart of the corporate responsibility debate and nailed the one thing that businesspeople need to know about it. The firms featured in his book are unique in a variety of ways. But the single variable that enables them to succeed, as Collins so eloquently noted, is *worthiness*.

The companies featured in *Built to Last* are worthy of lasting. They endure because without them, society would be worse off. These businesses grew invaluable to people because each stands for a purpose that is greater than the products it sells or the money it generates for

shareholders. Each embodies something that is meaningful, substantive, and necessary. Whatever that particular something is, it drives most everything the *Built to Last* companies do and will do over decades, perhaps even centuries to come. For instance, Walt Disney's purpose of "using our imagination to bring happiness to millions" transformed that company from a rinky-dink cartoon maker into an entertainment monolith.¹ Though the world has changed drastically since the company's purpose was first identified, "using our imagination to bring happiness to millions" never tires. It continues to sustain the Walt Disney Company and to inspire it to inspire others. Conversely, lacking its clear sense of purpose, this and other companies that Collins highlights would have difficulty competing in the marketplace. They would, in a real sense, be crippled—utterly drained of creative life force—without it.

The distinction that Collins makes presents a litmus test of sorts which, when applied to the bewildering universe of corporate responsibility, helps to draw a tidy line in the sand. Although many companies claim to be dedicated to a purpose that serves the common good, surprisingly few of those companies actually absorb and reflect that purpose the way Disney has, especially during its formative years.

For instance, consider the juxtaposition between the words and actions of some oil companies that commandingly pose as leaders in the environmental arena. Several of the world's largest oil firms wage multimillion-dollar advertising campaigns designed to promote their support of energy conservation and renewable sources of energy. Meanwhile, in these same companies, business and growth strategies rely primarily on increased oil demand, supply, and control. Theoretically, widespread energy conservation or a widespread shift to alternative sources of energy would mean a diminished need for their most profitable product. Thus, without substantially investing in renewable sources of energy or in technologies that promote energy conservation, such companies leave a gap between their words and their

actions. Not only could they just as easily survive without their decreed purpose, they actually benefit by undermining it. They have no vested interest in their cause, no business incentive to serve their purpose. Therefore, their extravagant language tends not to be enough to convince savvy stakeholders—thus creating backlash—while the money they do spend on “environmental” campaigns generates little in the way of a triple bottom-line return. Such companies fail the litmus test and also miss out on a great opportunity to make substantive environmental progress. While these companies may present a charitable facade to the public, they do not approach this particular aspect of corporate responsibility *authentically*. Chapter 2 of this book is filled with examples of such companies and provides a thorough explanation of why such companies fail the test, where they go wrong, and how they might approach these issues more constructively.

THE LITMUS TEST: IS PURPOSE *INVALUABLE* TO THE COMPANY?

At the opposite end of the spectrum are High-Purpose Companies. High-Purpose Companies are driven by purpose to the extent where purpose becomes a dominant force for corporate performance and development. In such companies, the concept of a higher purpose—of somehow serving society or protecting the environment—is so integral to the fabric of the organization that if you removed that thread, the company would start to unravel. Without their higher purpose, these firms would have difficulty competing in the marketplace, or even surviving.

High-Purpose Companies exist to serve the kinds of fundamental human needs that corporate responsibility advocates take so seriously, such as the need to stop environmental degradation; to end poverty; to promote equality; or to create health, security, happiness, and peace of mind. In contrast with the superficial needs catered to by so many other

companies, the needs serviced by High-Purpose Companies tend to be deeply rooted throughout society. Thus, they are substantial enough to spur innovation and nourish the business over time.

General Electric's higher purpose of "providing imaginative answers to [the] mounting challenges to our ecosystem" or, "ecomagination,"² resulted not just in lip service, but in the creation of a revised corporate vision, which led to the development of environmentally friendly advanced materials, profitable new products, and major infrastructure and operational changes that are still under way. On the product front alone, ecomagination exists in the form of things ranging from energy-saving dishwashers to compact fluorescent lighting and fuel-efficient jet engines. So far, ecomagination products and services have generated \$10 billion in revenue for GE. They are expected to generate \$20 billion in revenue by 2010. Therefore, GE CEO Jeffrey Immelt doesn't regard ecomagination as a philanthropic endeavor any more than his shareholders do. But he is serious about environmentalism. "We're launching ecomagination not because it's trendy or moral, but because it will accelerate our growth and make us more competitive."³ Green, Immelt concluded, is green. The company made the necessary connection. The more ingeniously GE goes about "providing imaginative answers to the mounting challenges to our ecosystem," the more precious it becomes to society and the better it performs overall. If GE were to suddenly abandon ecomagination, its market position, growth, and business strategies would be seriously undermined. The company's purpose and performance are fundamentally intertwined and therefore, while the company is certainly not flawless, GE is highly responsive to changing market conditions and environmental realities. It is authentic in its approach to environmental innovation. GE passes the litmus test.

In evaluating and carrying out corporate responsibility strategies, we are better off overlooking the subjective questions, like, Is company X intrinsically good or bad? Instead, we're better off asking, Has company X passed the point of no return? Companies pass the point of no return

the moment when purpose becomes invaluable to the organization and the company and its contributions, in turn, become invaluable to society. They pass the point of no return when lofty rhetoric about bettering the world turns into actual rewards for *all* stakeholders.

HIGHER PURPOSE = CORPORATE VALUES + DAILY PRACTICE

Many people have asked me to define the difference between values and purpose. My answer is simple. A company's higher purpose is the sum of its values put into action. Unless ideals translate into purpose, they are nothing but nice words on pretty paper. After all, Enron made a big deal of its values. It touted them on its Web site, in its press releases and advertisements, and most especially, in its comprehensive code of ethics manual. But these values were not internalized or operationalized. The company never made them *real*. In its 2000 annual report, Enron claimed that it stood for "open communication, respect" and "integrity,"⁴ even though, at the same time, the company was deceiving analysts, government officials, customers, employees, and shareholders on a daily basis. Deception, as it turns out, was the strategy that Enron used to beat the market and maintain its unusually strong financial performance. If Enron had translated its values into purpose or turned its cunning tagline, "Ask Why," on itself and honestly addressed questions about how exactly it made money, then things might have turned out differently. Whether or not a company has a higher purpose depends entirely on how seriously it takes its values.

Most of you are familiar with your company's core values. But take those values steps further. Ask yourself: Why do we exist? What makes us invaluable to people and *worthy* of lasting? What is our *Ultimate Value Proposition*? A higher purpose is interminable and generative. It determines "who" a company is, what it does, and what it doesn't do

over time. It keeps the company on a steady course, guiding it like a compass through the most brutal of storms. It powers creative sparks that give birth to countless possibilities, opportunities, and permutations. For any company, a higher purpose is a big thing, not a little thing.

BEHIND THE THEORY

Between the completion of my first book, *Cause for Success*, which introduces the concept of High-Purpose Companies, and the undertaking of this book, which explores the phenomena in much more depth, I thought a great deal about why this particular breed of business is so exceptional. High-Purpose Companies are unique, I realize, not just for their traits, but also for the developmental process they undergo—and for the results that the developmental process creates for all stakeholders.

In observing the most distinctive variables that sets these firms apart, and in examining how High-Purpose Companies embody these traits, I realized something. The companies that had the fifth trait *had* to have the first, second, third, and fourth traits as well. What revealed itself wasn't just a list of attributes, because the attributes had a sequence. It was a process, a progression, or continuum. Real High-Purpose Companies advanced or matured on a scale of sorts. And owing to this, there weren't just ten or twenty companies that qualified as good examples of some elite and distant class. There were potentially hundreds, even thousands of companies somewhere in the midst of these developmental stages.

With this idea in hand, I assembled a team of ten sharp MBAs from the McGill University Desautels Faculty of Management to put my theory to the test, refine it further, and determine what, if any, significant implications existed for the corporate responsibility and business communities as a whole. Each member of *The High-Purpose Company* research team contributed 250 hours of research time over two semesters—for a total of 2,500 hours of student analysis on this issue.

One of our first tasks was to identify a list of seventy-five companies from major industries—including retailing and consumer products, food and beverage, energy and utilities, technology, telecommunications, travel, pharmaceuticals, automotive, insurance and financial services—that actively promoted their commitment to ethics and responsibility through advertisements, press releases, annual reports, corporate responsibility (CR) reports, and other corporate-sponsored communications. We reasoned that these companies were good candidates for our study because, while some were controversial and others weren't, *all* had invested significant financial resources and effort into positioning themselves as good corporate citizens.

We then analyzed the CR-related actions of each company on our list. We dug through recent news articles, public records, company-issued reports, and other secondary information to assemble a picture of where each one was with respect to its level of CR authenticity. We also interviewed stakeholders inside and outside the companies—including executives, employees, consumers, shareholders, watchdog groups and NGO (nongovernmental organization) representatives, industry experts, activists, and other relevant parties. During our research, we were careful to look for gaps in conscience. For instance, a company's public claim that it "treats employees as family" coupled with expressed employee discontent and a class action lawsuit for discrimination or unfair treatment signifies the potential for such a gap.

WE DEFINED THE *QUALITY* OF CORPORATE RESPONSIBILITY IN TERMS OF THE TRIPLE BOTTOM-LINE RETURNS PRODUCED.

In each case, our goal was to evaluate the *quality* of corporate responsibility initiatives, or the overall level of CR *effectiveness*. In other words, we sought to examine not only the sorts of CR investments that

THE ORIGINAL SET OF SEVENTY-FIVE COMPANIES*

- ⌈ Wainwright Bank & Trust Co.
- ⌈ Tom's of Maine, Ltd.
- ⌈ Aveda Corp.
- ⌈ Eileen Fisher Inc.
- ⌈ Patagonia, Inc.
- ⌈ Inter IKEA Systems
- ⌈ TerraPass Inc.
- ⌈ S.C. Johnson & Son, Inc.
- ⌈ General Electric Company
- ⌈ Wegmans Food Markets, Inc.
- ⌈ Montréal Alouettes
- ⌈ Toyota Motor Corp.
- ⌈ DuPont
- ⌈ Deere & Co.
- ⌈ JetBlue Airways
- ⌈ Southwest Airlines Co.
- ⇨ Makivik Corp.
- ⇨ Hydro-Québec
- ⇨ BT Group PLC
- ⇨ Henkel Group
- ⇨ Ben & Jerry's (Unilever)
- ⇨ Nike, Inc.
- ⇨ Bank of America, N.A.
- ⇨ McDonald's Corp.
- ⇨ FedEx Corp.
- ⇨ Starbucks Coffee Company
- ⇨ Dell Inc.
- ⇨ Cisco Systems, Inc.
- ⇨ Microsoft Corp.
- ⇨ Target Corp.
- ⇨ HSBC Bank, PLC
- ⇨ Odwalla (The Coca-Cola Company)
- ⇨ Office Depot, Inc.
- ⇨ eBay Inc.
- ⇨ Ford Motor Company
- ⇨ United Parcel Service, Inc.
- ⇨ Procter & Gamble Co.
- ⇨ General Mills, Inc.
- ⇨ The Gillette Company
- ⇨ Anheuser-Busch Companies, Inc.
- ⇨ The Home Depot, Inc.
- ⇨ Wal-Mart Stores, Inc.
- ⇨ Public Service New Mexico
- ⇨ Tyco International, Ltd.
- ⇨ Gap Inc.
- ⇨ Levi Strauss & Co.
- ⇨ JP Morgan Chase & Co.
- ⇨ Medtronic, Inc.
- ⇨ Seiko Epson Corp.
- ⇨ The Walt Disney Company
- ⇨ Fluor Corporation
- ⇨ Polaroid Corporation
- ⇨ AOL Time Warner
- ⇨ Pacific Lumber Company
- ⇨ Abitibi Consolidated
- ⇨ Kimberly-Clark Corp.

THE HIGH-PURPOSE COMPANY 30

⇒ CVS Corp.	⇓ MCI (Verizon
⇒ Bovis Lend Lease Ltd.	Communications, Inc.)
⇒ Mattel, Inc.	⇓ Merck & Co., Inc.
⇒ American Airlines (AMR Corp.)	⇓ GlaxoSmithKline, PLC
⇒ De Beers Group	⇓ Altria Group, Inc.
⇓ Bed, Bath & Beyond Inc.	⇓ Chevron Corporation
⇓ Cingular Wireless, LLC	⇓ Allstate Insurance Co.
⇓ Goodyear Tire & Rubber Co.	⇓ McKesson Corporation
⇓ U.S. Bancorp	⇓ Exxon Mobil Corp.
	⇓ Monsanto Company
	⇓ Halliburton Company

*Company rankings are based on our in-depth assessment.

Symbol key:

- ⇑ Passed the litmus test
- ⇒ Poised to pass the litmus test
- ⇓ Failed the litmus test

companies made, but how well those investments appeared to work in generating business, social, and environmental returns. Thus, we looked into the degree to which each company was approaching CR strategically. Where were the company's CR dollars going? Were the CR programs reactive or proactive in nature? Did they leverage the company's core strengths? Did they address prevalent and relevant societal and environmental needs? Had they won the full support of senior leadership? Did they target areas of strategic weakness or, better yet, optimize the potential for future growth? Did they generate social, environmental, and financial returns that could be measured and reported, and were the returns substantial enough to warrant continual reinvestment? What impressions did key stakeholders have about the company's approach? Next, we applied our high-purpose litmus test to

each of our seventy-five companies to determine, in our view, which ones passed, which were on the road to passing, and which ones failed. Again, the key question asked was: Is purpose invaluable to the organization, and, therefore, is the organization invaluable to society?

We found that through a combination of primary and secondary analysis and back-and-forth debate, we were able to develop a real sense of how close each company was to passing the point of no return—that is, to reaching the stage where higher purpose becomes priceless and too precious to let go of. A fair portion of the companies on our original list, fourteen to be exact, appeared to be nowhere near this point. The group’s general consensus was that many of these companies preached about their values, but didn’t translate them into action or daily practice as well as they could have. In addition, their CR investments, which collectively amounted to *hundreds of millions of dollars* annually, generated relatively weak triple bottom-line returns and, we calculated, even increased business risks and created financial liabilities amounting to *billions of dollars more* in a few cases. For these reasons, such companies either fell off our scale or ended up in chapter 2.

We then turned our attentions to the remaining sixty-one companies, which either appeared to be on the right track or passed the litmus test. We analyzed these companies further by conducting additional personal interviews and by more closely examining the data that was publicly available regarding their activities. From this second round of analysis, we were able to revise the phases in the High-Purpose Progression and map each company along our continuum. We were also able to better examine the correlation between each company’s higher purpose and its overall corporate health, and make some surprising conclusions that hold significance for every company invested in CR.

Here, then, is a summary of our progression and a preview of what’s to come in the rest of this book (see illustration page 33). Think of the progression as a spiral series of cognitive and behavioral skills that need be mastered should companies wish to become high-purpose

organizations. What's presented here is a change sequence of little corrective steps followed by big creative leaps, and divided into three broad stages: *realization*, *integration*, and *transformation*. Although different companies take different paths, there are normally no shortcuts. Each stage relies on the fulfillment of the previous stage, as learning from the former stage must generally be incorporated into the next in order for a company to advance up the spiral.

At stage one, companies develop a new level of awareness and adopt a higher mind-set. As a result, they begin to evaluate their business performance in new ways and integrate social and environmental insights into their business decision-making. At stage two, companies incorporate advanced strategic techniques. They become committed to making social and environmental progress and grow more adept at connecting their corporate responsibility and business strategies. As a result, such companies often start to experience significant business benefits, such as lower operating costs, improved efficiency, positive publicity, and higher levels of stakeholder loyalty. At stage three, companies center themselves around their higher purpose and become reliant on it. Their higher purpose informs most everything they do—from the way they engineer and manufacture their products to the way they treat their people and the planet. At this level, organizations pass the litmus test and transform into High-Purpose Companies. High-Purpose Companies experience major business benefits associated with the fulfillment of purpose, including a measurable surge in innovation, growth, and profit—in addition to lower operating costs, improved efficiency, positive publicity, unswerving stakeholder relationships, and overall corporate well-being.

Within this 1-2-3 (*realization*, *integration*, and *transformation*) sequence are a number of key concepts, shown below.

See the Bigger Picture: The environment, society, and business don't exist in isolation. Rather, they are three parts of an interconnected system. Business is joined to the environment because nature's

resources provide the raw materials that drive commerce. Thus, the faster companies plow through nature's already depleted resources, the more they undermine their long-term viability. Society sustains companies as well. When the communities that companies rely on are failing or struggling, then companies themselves can become unstable and insecure. Companies that "see the bigger picture" put these overarching connections together and understand that it makes no business sense to voluntarily damage critical support systems just to yield unsustainable, short-term returns. The full-blown realization of the bigger picture sets a context for future CR-related activities. It is a mandatory first step for any firm that approaches CR authentically.

Face the Truth: Lots of companies lie to the public and to themselves. Rather than acknowledge their shortcomings or mistakes, they hide behind rehearsed press statements and legalese. Although it is no doubt easier to avoid direct confrontation when controversy strikes or when an industry is under fire, it's also less conducive to a company's future health. Evidence shows that stakeholders tend to be far more forgiving of the companies that say, "We're sorry," than the ones that don't. In addition, a crisis can serve as crucial turning point. By taking a cold, hard look in the mirror and accepting, not shirking, responsibility, companies are able to more constructively resolve serious issues, strengthen their vulnerabilities, access breakthroughs, and improve overall. The act of facing the truth is a rite of passage that allows companies to better target their CR-related initiatives in the areas that need the most attention and advance to the next level.

Set Intent . . . Then Purpose: Companies don't reach their highest goals by accident. Instead, they get there consciously and by moving beyond ordinary procedures and limited thinking. Once a company faces the problems it contributes to and the pressing issues that affect its stakeholders, it can dig deeper to determine what potential it has and how—if at all—it wants to use that potential to develop solutions that reverse the tides and make a positive contribution to society. Not every company

can or should be a High-Purpose Company, but the path to becoming one requires the establishment of the right kind of intentions. What ideal results does the company wish to create in the world? And using its greatest strengths, how can it effectively do so? At this phase, companies often signal their desires and ambitions to take a revised business course through bold public announcements. Internally, they begin to define their higher purpose and then experiment with it. Novel ideas trickle up or down throughout the company, and the ones that serve both shareholder and societal interests stick, while the ones that don't fade away or are refined. The key for companies moving beyond this phase in the progression is to let such emergent corporate-responsibility strategy transform into deliberate strategy, thus leading into a full-blown cycle of change and potentially to the company's most meaningful accomplishments over the rest of its lifespan.

Transcend and Include: Companies that successfully reach this stage in the progression officially pass the litmus test because a critical mass of their growth-enabling products, services, technologies, and management policies are responsively designed to fulfill a higher purpose. Keeping shareholder expectations squarely in mind and without scrapping their existing systems all at once, High-Purpose Companies engineer novel and profitable solutions that meet deep societal needs. In doing so, they enter into a continual cycle of self-improvement, where the better their solutions work, the higher the triple bottom-line returns produced, and as a result, more money is invested back into purposeful solutions. Companies at this stage lock into a pattern of good growth. High-Purpose Companies frequently stumble upon breakthroughs or creative leaps that hurl them toward their goals and also cause category disruption. Such breakthroughs are like wormholes moving a company from point A to point G. Although not every company at this stage makes dramatic creative leaps, all begin to live by new rules and experience improved corporate health on multiple, measurable levels.

Anchor: At this stage, companies “become” their higher purpose. Stakeholders inside and outside of the organization perceive the higher purpose and the corporate identity as indistinguishable. The higher purpose grows to be like an anchor in that it holds the company’s place, and like the eye of a hurricane in that everything the company does revolves around it and is energized by it. Without the anchor or the eye, the company might drift off course, become weakened, or perhaps even fall apart. Anchored High-Purpose Companies are self-governing organizations. They do not often worry about regulatory standards because they far exceed them, just as they do not pander to public interest groups, public opinion, or the press because they remain true to their core. They have no need for extraneous rules, policies, or rigid corporate hierarchies because their ethics are autonomous, while purpose is completely ingrained throughout their culture. Such firms set their own superior pace. These are among the healthiest, most significant, and *worthy* companies around.

NATURE’S INFLUENCE

I had just unveiled my initial concept of the progression to the research team at McGill University, when a skeptical student named Stephanie asked: “How do you know you’re right? I mean, are these necessarily the right steps in the right order?” It’s a great question, and I was glad she posed it, because immediately the team started to debate about change, the way it unfolds, and whether a specific order or organizing structure was evident within the best business cases we could recall. Over the course of the next year, debates like this would immeasurably improve both my own train of thought and the insights revealed in the following pages.

Stephanie’s question was helpful for another reason. It got me thinking about the quality of this book. So many business books are filled with prescriptive formulas that authors claim lead to success.

And although some of them may, the truth is that I can't stand strict formulas. I rarely stick with structured programs, and I generally dislike following the rules.

This is not a step-by-step program. This book contains no sure-fire recipe that the business world needs to follow. Though the High-Purpose Progression might be original in its application to business, the fundamental sequence it is based on surely is not. As Paul Hawken and others insist, true corporate responsibility involves systemic change. And systemic change—or evolution—tends to follow a particular pattern, no matter where it unfolds.

In the process of writing this book, I was greatly influenced by the works of brilliant theorists that I admire, and if you closely observe my spiral model, you will see traces of Dr. Abraham Maslow's hierarchy of needs, Jim Collins's *Good to Great* flywheel, Don Beck's Spiral Dynamics map, and Ken Wilber's fulcrum model. Also, if you step back and examine all of these models as a set, you will notice that they have a lot in common. That's because each model more or less stems from the universal change sequence found in nature.

According to nature, or Charles Darwin's process of natural selection, healthy species confront new conditions, alter aspects of themselves to ensure their survival, and eventually evolve into new and improved species. Similarly, in Maslow's self-needs hierarchy, psychologically healthy people endeavor to determine their worth, take repeated actions based on their sense of worth, and finally become their worth. In Collins's flywheel model of *Good to Great* companies, people or leaders see things anew by confronting the brutal facts and committing to being "the best in the world," then gradually behave in congruent ways, thus budding into enduring great companies. In philosopher Wilber's fulcrum model, developing humans and cultures identify with higher levels of awareness, disidentify or separate themselves from lower levels, and ultimately integrate with the new, higher levels. Even religions like Buddhism embody this 1-2-3 sequence, where

spiritually healthy beings resolve to see past their negative habits (karma), enter a cycle of birth and rebirth (samsara), and end up enlightened (nirvana).

HOW THE HIGH-PURPOSE PROGRESSION'S 1-2-3 SEQUENCE LINES UP

Basic Level	High-Purpose Progression	Science (Darwin)	Psychology (Maslow)	Business (Collins)	Philosophy (Wilber)	Religion (Buddhism)
1	Realization	New condition	Self-esteem	Disciplined thought	Identification	Karma
2	Integration	Adap-tation	Self-exploration	Disciplined action	Differentiation	Samsara
3	Transformation	Evolution	Self-actualization	Great company	Inclusion	Nirvana

In general, most dynamic and healthy systems follow this common sequence, and business is no exception. The High-Purpose Progression reflects an age-old cycle of change that relates to corporate responsibility, but that is not limited to it. So, to answer Stephanie’s question: How do I really know that this is a valid concept that can stand the test of time? It already has.

You will need to decide for yourself whether any of the ideas or conclusions presented in this book apply to your business and if evolution is necessary or possible in your organization. I encourage you to wrestle with each notion presented, pose new questions, debate with your colleagues, reject or ignore the concepts that don’t seem right for you, and embrace the ones that do.

The ultimate goal of this book is not to turn corporate responsibility into some trite, formulaic process. Quite the contrary—it is meant to help end the confusion and carelessness that undercuts progress and

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optimal corporate performance by putting things in perspective and presenting you with a challenge that's worth taking. So by all means, be an active participant in this intellectual journey.

But before getting started, you might find it helpful to take heed of the potential pitfalls and cautionary tales that, my research team and I concluded, help demonstrate what *not* to do. New market conditions render some widely used corporate responsibility tactics ineffective and even counterproductive. This is what the next chapter is all about.

