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*by Freek Vermeulen*

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At London Business School, we often try to explain the purpose of our existence by showing pictures of our students who are working on environmental issues in rural India or improving sanitation in a township in South Africa. We also always highlight the wonderful [work](#) of our Professor of Economics, Elias Papaioannou, on clearing landmines in Mozambique and the equally wonderful [research](#) by our marketing professor Rajesh Chandy on entrepreneurship in developing countries.

And rightly so. These are admirable projects about issues that have a very direct and positive influence on the world.

However, the reality of things is that most of our students go to work in management consulting, tech, or investment banking — even hedge funds. Much of the research conducted by my colleagues and I concern businesses achieving competitive advantage, operational efficiency, and profitability. It makes our explanation of purpose feel somewhat contrived.

Companies also struggle to explain the greater purpose of their existence. They are told by business magazines, management [surveys](#), and gurus that what motivates employees is a higher sense of purpose in their work. They come up with mission statements that appeal to some higher and lofty goals in society, proclaiming that they seek to “inspire and develop the builders of tomorrow” (Lego), “enable people to make new friends in different cultures” (Airbnb), and “inspire and nurture the human spirit” (Starbucks), rather than make money. Often, however, it seems to leave people feeling somewhat cynical rather than motivated.

In my view, organizations shouldn’t be shy about stating profit as its explicit and ultimate purpose. In fact, in addition to helping us earn a living, profit may be the best way to do good in the world. Economic growth, for example, is an effective way to reduce poverty – likely more so than [aid](#) – because it benefits the lowest [income](#) brackets in a country significantly. Moreover, increases in wages and wealth have been shown to have positive effects on other critical societal problems, such as [crime](#), [malnutrition](#), [infant mortality](#), [mental health](#), and general [feelings of happiness](#). Hence, many of the most important social issues in our world are closely tied to economic wealth.

For an individual firm striving to make more money, beating competitors, and driving them out of business may seem a far cry from doing good in the world. Yet, economic growth is the consequence of exactly that: firms trying to sell stuff and out-compete others. Making money may feel like a very indirect way of doing good, but it is a powerful one nonetheless.

Consider hedge funds, which are often portrayed as the economic vultures of our society that thrive on companies’ demise. The Church of England, for example, [referred to them](#) as “bank robbers” and “asset strippers” (although [they profited](#) from them as well). But, despite our basic aversion to vultures, they play a critical role in the natural ecosystem; so do hedge funds in our economic system. Academic research has shown that activist hedge funds make [firms](#) and even [whole sectors](#) function more efficiently. Yes, they sometimes speed up the demise of under-performing firms, but by doing so, they improve economic life and generate substantial financial wealth in the process.

Hence, businesses need not be ashamed of striving for profit. Of course, there are important caveats. It matters that, while pursuing profit, you don’t harm the natural environment, mistreat employees, and deceive stakeholders — to name a few. In fact, [sustainability](#) and [employee well-being](#) can be sources of competitive advantage.

Should companies simply not care at all about providing their employees with a sense of purpose? That goes too far. They should consider purpose, but probably not in the form of the lofty goals that they so often articulate in their mission statements. Instead, academic research suggests that employees thrive on what Dan Cable and I have referred to as “[local meaning](#)”.

By “local meaning” we mean that people find purpose in observing and understanding the direct implications of their job, in terms of precisely who it influences and how. Studies have shown how reducing customer [anonymity](#) and fostering [interaction](#) with them motivates employees to alter their behaviors and improve performance. Others have [found](#) how systems designed to reveal to people that their efforts are noticed and appreciated inspired them to advance their work and help others to advance theirs. This is what constitutes local meaning: people experience a sense of purpose by understanding who the recipients and beneficiaries are of their work, and receiving feedback that their efforts are valued.

Purpose does not have to come from some artificial appeal to a higher order societal goal – rousing speeches by company leaders about their company’s grand purpose seem to have [no effect](#) at all. Business is a worthy purpose and economic wealth is an excellent way to do good in the world. It is up to business leaders (and schools like mine) to help people grasp the social power of profit.

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