

# Corporate Purpose and Firm Strategy

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This paper explores the relevance of corporate purpose to strategy research. Corporate purpose can be conceived as a shared understanding of why an organization exists, made real by the beliefs of employees and tangible actions by firm leaders. While it has a long history within organization theory, law, and finance, purpose has received relatively less attention within the field of strategy. This essay argues that incorporating purpose into strategy research is both consistent with the view from practice and can open up the field to new channels by which firms compete and survive. It also outlines potential areas for future research, including links between corporate purpose and strategy at the individual, firm, and industry level.

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Einstein once famously said “Science without religion is lame, religion without science is blind.” (Einstein, 1954). The same can be said of firm strategy and corporate purpose, with strategy providing the logic by which firms compete and purpose providing the impetus. Business leaders have long discussed this duality within their own organizations, and yet within the field of strategy, the idea of purpose and its potential relevance to strategy has received little attention. This paper aims to examine this relevance in more detail, discussing current knowledge and pointing out potential areas for future research.

Corporate purpose can loosely be understood as a shared and often values-laden understanding of why the organization exists (Gartenberg et al, 2019; George et al, 2023a; Durand, 2023).<sup>1</sup> This shared understanding may be pro-social, but it need not be: purpose addresses the question of why the organization’s work matters, why it is significant and worthwhile. This worth may come from addressing social challenges, but it also can arise from pursuing other aims valued by the participants. Common across most treatments of purpose, however, is that it must involve more than lofty rhetoric by leaders or marketing materials (Podolny et al, 2004; Bartlett and Ghoshal, 1994).

The concept of corporate purpose is as old as the corporation itself. Purpose formed the basis of corporate charters beginning in the seventeenth century, delimiting the role and span of activities of these corporate “persons” (Lund and Pollman, 2023; Guenther, 2019). As corporations became more pervasive during the first half of the 20<sup>th</sup> century and the laws concerning corporate personhood developed, the collective understanding of purpose evolved (Mahoney, 2023). Within the United States, Adolph Berle and Merrick Dodd initially considered the topic in a series of essays in the Harvard Law Review (Berle, 1931; Dodd, 1932; Berle, 1932), in which they considered both the legal obligations of managers as well as the role of corporations as social institutions (Fisch, 2005; Bratton and Wachter, 2018). Academic discussions then continued in fields as diverse as management, law, and finance, fostering debates on both the normative and descriptive roles of purpose in corporations.

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<sup>1</sup> George et al (2023a) work provide a detailed review of the current state of research on the topic within management. In this review, they differentiate between “duty-based purpose,” a conception of a firm’s work as having a moral underpinning and “goal-based purpose,” a more prosaic rendering of the goals toward which the firm works.

In recent years, this discussion has increased in conjunction with increased practitioner interest (George *et al.*, 2021). This attention does not appear to be a fad: over the past half century, the economy has fundamentally reconfigured itself to rely increasingly on intangible assets such as innovation, science, and creative goods (see Figure 1, based on Peters and Taylor, 2017). Mayer (2021) speculates that corporations' growing reliance on these human capital-based sources of value may increasingly advantage firms with compelling purposes--more so than the period in which many foundational theories with strategy emerged.

<< Insert Figure 1 here >>

The field of strategy developed in the mid-20<sup>th</sup> century largely in parallel with this discourse (Hoskisson *et al.*, 1999; Ghemawat 1999). The field was shaped by a confluence of distinct intellectual streams, including industrial organization (e.g., Caves, 1980; Porter, 1980), the evolutionary tradition (e.g., Penrose, 1959; Nelson and Winter, 1982), behavioral organizational research (e.g., March and Simon, 1958; Cyert and March, 1963), and the resource and capabilities perspectives (e.g., Teece *s*, 1997). During this period, the field's aim emerged: to explain how firm resources, competitive environments, and human judgement combine to solve problems and achieve strategic advantage (Zenger, 2023). As Porter (1991) describes:

The reason why firms succeed or fail is perhaps the central question in strategy. It has preoccupied the strategy field since its inception four decades ago...It is inextricably bound up in questions such as why firms differ, how they behave, how they choose strategies, and how they are managed.

The construct of purpose remained on the periphery of strategy for much of this period.<sup>2</sup> Strategic management developed theoretical foundations based primarily on cognitive, economic, and evolutionary assumptions (c.f., Mahoney, 2005; Mintzberg *et al.*, 2008). Upon these foundations, individuals and firms were modeled as boundedly and self-servingly rational agents guided by organizational goals that were either defined by the logic of value creation and capture or evolutionary fitness. Based on their actions, some firms survive and thrive, while others do not: the mission of strategy is to understand why.

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<sup>2</sup> One notable exception several decades ago was a series of essays written by Sumatra Ghoshal and coauthors.

Porter's statement above, however, hints at how purpose may relate to strategy. Firms, at their core, are communities of individuals: sometimes these communities rise to extraordinary heights, institutionalizing and transforming industries and societies in the process. At other time, these communities fall into dysfunction and either stagnate or dissolve. These dynamics are only imperfectly characterized by the standard foundations that we use. As Williamson (2000) stated, "we are still very ignorant...there being many instructive lenses for studying complex institutions, pluralism is what holds promise for overcoming ignorance."

This essay proposes that purpose can provide one such lens in this pluralistic exploration, with relevance to those interested in market and non-market strategy alike. It is not the first to do so. *Strategy Science* recently published a special issue on corporate purpose (Zenger, 2023; Ocasio *et al.*, 2023). This issue examined the construct from multiple "outside-in" "inside-out" perspectives (e.g., Almandoz, 2023), with the aim of making sense of the many facets of this complex idea. This paper picks up where this important special issue left off, considering the explicit links between corporate purpose and active areas specific to strategy research.

Why is it reasonable to propose that purpose and strategy are linked? To begin with, CEOs and other business leaders say that they are. To many practitioners, purpose is not simply linked to strategy, but instead is a critical precursor and guide (Durand, 2023). When asked about his historic turnaround of Microsoft, CEO Satya Nadella described how his first focus was reestablishing a shared purpose within the organization and only then engaging in the significant strategic decisions that followed. Ed Catmull, the co-founder of Pixar, attributed its successful merger with Disney—two very different organizations with different cultures—to a strong shared purpose. The *McKinsey Quarterly* has published 48 articles from 2020 to the end of 2022 on purpose. Private conversations with members of large management consulting firms have revealed that these firms have either established or dramatically expanded their purpose related practices over the past five years. Discounting these practitioners risks a Type 3 error of the sort described by Drnevich, Mahoney and Schendel (2020) as creating a theory-practice gap within

the field. Practitioners are open about purpose driving strategy and yet we have limited understanding of how this works.

Beyond practitioners attesting to this relationship, there are theoretical connections between the two ideas. Strategy is fundamentally a social process, involving collective action by people within and across organizations. People in turn are fundamentally meaning-motivated and cooperative animals. Purpose provides the basis for public, and therefore shared, meaning, which in turn has implications for cooperation among an organization's members (Ocasio *et al.*, 2023; George *et al.*, 2023a; Henderson, 2021; Gartenberg and Zenger, 2023). Integrating purpose into strategy research would therefore consider how purpose infuses shared meaning into – and potentially alters -- decision-making, implementation, and outcomes. This reasoning has implications both descriptive (i.e., how does purpose influence strategy?) and normative (i.e., how *should* a corporation's purpose integrate with its strategy?).

Purpose also logically relates to topics within strategy that consider social welfare of firms both as inputs and outcomes. Purpose has been discussed as a device to minimize the negative and maximize the positive externalities of competition (e.g., Edmans, 2021; Mayer, 2018). To truly understand how and under what conditions purpose might play this role, it is important to understand how it drives strategic decisions, including how and when it enables superior strategies and how and when it entails tradeoffs that firms may not otherwise face. Later in this essay, I explore this interrelationship based on what we know so far and contemplate promising areas for future research.

I begin first with a brief glimpse into the practitioner view of how purpose and strategy are related to highlight the practice side of the theory-practice gap in this area. I then move to the academic side of the discussion, providing a brief review of the intellectual roots of research on strategy and research on purpose (necessarily painting both with a very broad brush) to speculate on why these two ideas have evolved separately. I then speculate on how purpose can inform specific topics across the research domain. Where applicable, I highlight potential avenues for further research.

### **Purpose and strategy: the view from practice**

Practitioners have long been interested in the role of purpose within organizations. As early as 1960, David Packard, one of the founders and CEO of Hewlett-Packard, announced to incoming workers

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

As part of this discussion, he delineated purpose from goals and strategy:

Purpose (which should last at least 100 years) should not be confused with specific goals or business strategies (which should change many times in 100 years). Whereas you might achieve a goal or complete a strategy, you cannot fulfill a purpose; it's like a guiding star on the horizon – forever pursued but never reached.

And with these ideas defined separately, he also discussed their (critical, in his view) relationship:

Yet although purpose itself does not change, it does inspire change. The very fact that purpose can never be fully realized means that an organization can never stop stimulating change and progress.”<sup>3</sup>

In other words, in the view of David Packard, purpose drives the adaptation that enables firms to survive and flourish amidst uncertainty. Other CEOs and top leaders appear to share this sentiment. Durand (2023) provides a deeply researched account of how purpose manifests within three boardrooms of different organizations. After interacting with Veolia, a world leader in water and waste management, for a year, he observed that purpose “comprises intentionality and ascribes a firm with a will or mind” (p5). In other words, as Veolia engaged in significant strategic actions, include a large hostile takeover, purpose provided the context within which decisions were made.

These examples are not outliers. The consulting firm EY conducted a survey of executives and found that 66% were rethinking their purpose given recent disruptions in their environment, and a majority of those were moving toward a “capital P” purpose – an outward-facing purpose with broader social implications, in contrast to a shareholder or a customer-focused “lower case p” purpose.<sup>4</sup> Echoing Packard's speech above, 73% of surveyed executives reported that a well-integrated purpose helps a

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<sup>3</sup> <https://battleinvestmentgroup.com/speech-by-dave-packard-to-hp-managers/>

<sup>4</sup> [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_gl/topics/purpose/purpose-pdfs/ey-how-can-purpose-reveal-a-path-through-uncertainty.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/purpose/purpose-pdfs/ey-how-can-purpose-reveal-a-path-through-uncertainty.pdf)

company navigate disruption. These executives also echoed his perspective that purpose and strategy are intertwined. When asked which aspects of management were most important to integrate with purpose, “strategy development” ranked at the top of the list.

This initiative identified five links between purpose and strategy.<sup>5</sup> Purpose instills strategic clarity, channels innovation, enables transformation, taps a universal need, and enables collaboration and alliances. While the language differs from academic terminology, it is apparent that all five links correspond to active areas of research in our field. This connection between purpose and strategy was echoed in a separate study geared to practitioners by a collaboration of Berkeley Law School, Oxford Saïd Business School, and consulting firm BCG, focused on the role of corporate boards and executives.

This study reports:

When embedded at the most senior levels of decision-making, purpose acts as an organizing principle for boards of directors. It is a key driver informing strategic choices, helping directors make the critical trade-offs and decisions that are required... This is *purpose as strategy* instead of *purpose as culture*. Where purpose informs strategy, it facilitates the choices that need to be made as organisations adapt to a ‘new normal’.

Similarly, Wachtell, Lipton, Rosen and Krantz, a leading U.S. law firm that regularly represents public corporate boards, issued a memorandum to their clients in October, 2020 stating:

It is incumbent upon each company’s board of directors and management team to understand the company’s own *raison d’être*, to have a clear sense of the solutions it proposes for the problems of the world... a clearly expressed statement of purpose can also unify leadership, employees, investors and other stakeholders behind initiatives that are aligned with the company’s role in society.<sup>6</sup>

In short, among corporate leaders and their advisors, there is a widely held view that purpose matters for how the company is led, not simply as a cultural attribute that motivates employees or impresses customers, but also as a guide for setting overall goals and making strategic decisions.

## **The parallel origins of strategic management and corporate purpose**

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<sup>5</sup> The state of the debate on purpose in business, EY Beacon Institute, 2016.

<sup>6</sup> David A Katz and Lauran A McIntosh, Corporate Governance Update: Politics and Purpose in Corporate America, Wachtell, Lipton, Rosen and Katz, October 29, 2020.

While the connection between purpose and strategy may be discussed in practice, it is less examined in academic research. One likely reason for this is the disparate roots of the constructs. Research on corporate purpose and on strategic management, while both tracing their origins nearly a century, emerged from different fields and for different aims. These origins provided intellectual foundations for these two constructs that persist today and drive separate conversations. To understand how to integrate these conversations, therefore, it is first important to understand their parallel emergence. This section presents these two origins to highlight their disparate foundations, while acknowledging that this overview is necessarily abbreviated.<sup>7</sup>

### ***Origins of strategic management***

Strategy emerged in the 1970s and 1980s largely within business schools as capstone business management (Hoskisson et al, 1999; Ghemawat et al, 1999), focusing on process and policy questions. The field subsequently developed roots in various areas. The first of these areas was evolutionary theories of organizations that emphasized internal resources as the source of competitive advantage (Penrose, 1959; Nelson and Winter, 1982). This work led to the emergence of resource-based theories of competitive advantage and capabilities (e.g., Barney, 1991; Wernerfelt, 1984; Teece et al, 1997). The second area was industrial organization and game theory (e.g., Caves and Porter, 1977; Tirole, 1988) that provided the intellectual apparatus for much of competitive strategy, modeling firms as profit maximizers within markets with varying degrees of competitiveness and cooperation (Brandenburger and Nalebuff, 1995; Brandenburger and Stuart, 1996). The third area can be understood as a broad amalgam of agency theory and transaction cost economics (e.g., Jensen and Meckling 1976; Williamson, 1975, 1985). Strategy research in this tradition uses asymmetric information, incomplete contracts, and transaction

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<sup>7</sup> Schendel, Teece, and Rumelt (1994); Ghemawat et al, (1999), Mintzberg et al (2020), and Mahoney (2005), Leiblein and Reuer (2020) Mahoney and McGahan, 2007; Hoskisson et al (1999); Drnevich, Mahoney, and Schendel, 2020) for more comprehensive treatments for the intellectual origins of strategic management and Guenther (2019), Fisch and Solomon (2020), Rock (2021), Podolny et al (2004), and Gartenberg (2022) for the origins of corporate purpose.



costs particularly to explore organizational and corporate strategy (e.g., Cuypers et al, 2021). Lastly, the Carnegie tradition provided a fourth theoretical foundation of bounded rationality, uncertainty, and organizational design (Simon, 1947; March and Simon, 1958; Cyert and March, 1963). This school gave rise to a rich body of work on organizational learning, adaptation and routines (c.f., Gavetti et al, 2007; Tripsas and Gavetti, 2000).<sup>8</sup>

Moreover, the integration of economic and behavioral theories has further enriched research in strategy: humans are boundedly rational animals operating within complex systems that include not only organizations but also the institutions and markets in which they're situated and societies as a whole (for further discussion on this point, see the articles published in *Strategic Management Review* since its launch). Altogether, these areas provide the bases for much of strategy, a field that Mahoney and McGahan (2007) point out has provided a series of insights and accomplishments that are distinctive and extend beyond those discussed within the root fields themselves.

In short, the field emerged in the late 1970s into an established area today rooted in various social science disciplines. The field continues to be concerned with the determinants of sustainable performance differences across firms, with performance in recent years taking a broader view of both firm value as well as social performance.

### *Origins of corporate purpose*

#### **I. Purpose within Organization Theory**

Research on corporate purpose traces its inception to roughly the same period as that of strategy but within different academic circles, in particular, organizational theory and law and finance. Within organization theory, the idea of purpose arose from the earliest studies of companies and the associated role of leaders. As early as 1926, Mary Parker Follett considered the idea of purpose in addressing what

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<sup>8</sup> Of course, this list is not exhaustive. Mintzberg et al (2020) discusses additional schools within strategy including population ecology (Hannan and Freeman 1977) and the power school (Pfeffer and Salancik 2006) that have also made important contributions to strategy research.

she considered “the problem of business administration.” This problem can be framed as the following question: “how can a business be so organized that workers, managers, owners feel a collective responsibility?” (Follett, 1926 (1940): 81). In her view, purpose addresses this challenge in serving as “the invisible leader” of organizations (pg 288):

Loyalty to the invisible leader gives us the strongest possible bond of union, establishes a sympathy which is not a sentimental but a dynamic sympathy...Leaders of the highest type do not conceive their task merely as that of *fulfilling* purpose, but as also that of finding ever larger purposes to fulfil, more fundamental values to be reached. (pg 288).

In these essays, Follett highlighted that the central benefit of business was cooperation at scale, and that the central problem of leadership lay in attaining that cooperation. In her assessment, purpose enabled cooperation through voluntary means, allowing people to pursue work that was significant and valued by them.

This focus on purpose continued to the next generation of scholarship. As Kenneth Andrews wrote in the introduction to the second edition of Barnard’s *Functions of the Executive*:

Barnard’s conviction [was] that purpose is the unifying principle of cooperative systems and that the efficiency of organization...arises most importantly from the sense that the organization’s purpose is proper and important. (1968: xix)

Indeed to that end, Barnard ends his book with the following description of executive leadership:

Executive responsibility, then, is that capacity of leaders by which, reflecting attitudes, ideals, hopes, derived largely from without themselves, they are compelled to bind the wills of men to the accomplishment of purposes beyond their immediate ends, beyond their times (1968: 283).

In other words, Barnard viewed executives as more than technocratic managers, as leaders whose primary job is to infuse the organization with a shared purpose that drives cooperation. Selznick shared this view, writing that two of the four primary responsibilities of leaders lay in establishing and maintaining purpose (Selznick, 1957). These sociologists conceptualized firms as complex *social* systems in which cooperation and adaptation were critical. Across all of this work, purpose – as distinct from culture -- served as an organization’s compass, galvanizing members to cooperate toward common goals.

During the latter half of the twentieth century, purpose research waned as organization theory focused on ecological explanations and phenomena that lent themselves to quantification and statistical analyses (Sorensen, 1998; Podolny *et al.*, 2005). Interest, however, has resurged in recent decades (Ocasio *et al.*, 2023). This resurgence coincides with the increase in practitioner attention, such as discussed in the prior section. It also coincides with a growing body of qualitative and laboratory studies on the power of meaning to attract, inspire, and retain workers (e.g., Grant, 2008, Carton, 2018; Podolny *et al.*, 2004; Wrzesniewski, 2003), as well as efforts to study purpose on an organizational level (Gartenberg *et al.*, 2019; Henderson, 2021; Durand and Huynh, 2022; Cardona and Rey, 2022), and a growing interest in hybridity and the role of corporations in addressing social problems (Besharov and Mitzinneck, 2023; Battilana *et al.*, 2023; George *et al.*, 2023a).

## **II. Purpose within Law and Finance**

Corporate purpose can also trace its roots to law and finance. Within these fields, the defining question rested primarily on what “the purpose of the corporation” should be rather than on the role of a purpose within any given corporation per se (Rock, 2021). The origins of this idea can be traced to the corporate charters of 17<sup>th</sup> century Europe (Hopt, 2023). These early joint stock companies were considered extensions of the state, and therefore charters were only considered for explicitly public ends. Pollman (2021: 1430), in her discussion of the legal origins of purpose, cites the preamble of the Dutch East India Company (VOC) that included multiple paragraphs justifying the charter on the basis that commerce and trade were critical for “the prosperity of the United Netherlands.”

Once this mercantilist system was superseded by modern incorporation laws and free enterprise of the early 20<sup>th</sup> century, a debate arose regarding the industrial concerns that subsequently emerged. The law governing these “corporate persons” no longer required a public purpose: incorporation was allowed for any lawful activity (Lund and Pollman, 2023). Many of these emergent corporations were large and newly powerful, both economically and politically, and the debate centered on their appropriate role in society. The genesis of this debate is often attributed to an early series of essays published in the Harvard Law Review by Adolph Berle and Merrick Dodd (1931, 1932).

While this debate is often framed as shareholderism versus stakeholderism, the historical context changes the valence relative to today's debate. On the one side, Dodd argued that managers – given the power and centrality of corporations – naturally should assume a broad responsibility towards their community and society at large. On the other side, Berle worried that corporations amounted to a new feudal system with managers as overlords:

“Grown to tremendous proportions, there may be said to have evolved a “corporate system” – as there was once a feudal system – which has...attained a degree of prominence entitling it to be dealt with as a major social institution...Spectacular as its rise has been, every indication seems to be that the system will move forward to proportions which would stagger imagination today...” (Berle and Means, 1932:3).

This system, in his view, would concentrate power in the hands of professional managers. This insight, in its simplest form, provided the foundation of agency theory. However, the greater implication, in Berle's view, lay at the systems level. Excessive concentration of power within firms risked instigating the political instability that he had witnessed firsthand in 1910s-1930s Europe. His worry, therefore, was not excessive shareholder power but instead excessive managerial power without checks and balances, with the potential of overtaking the political institutions of the time.

This debate on the purpose of corporations has persisted since then in various forms. In recent years, one form of this debate focuses on the question “whom does the corporation serve?”, centered on whether and how a corporation can simultaneously fulfill a social purpose while serving shareholders (without becoming corrupted by the process) (c.f., Pollman and Thompson 2021; Strine, 2017; Fisch and Solomon, 2020). This debate pits those who advocate regulatory and political solutions against those who believe that collective action problems can be solved by enlightened shareholders and managers (Bebchuk and Tallarita, 2020; Hart and Zingales, 2017). Another aspect of this discussion has been to examine specific purposes articulated by companies for whether they are credible and consistent with fiduciary obligations (Mayer, 2021; Rajan, Ramella, and Zingales, 2022). This debate, at its core, is intrinsically linked to the discussion of corporate personhood, and the legal apparatus that grants these “persons” rights and longevity beyond the individuals that comprise the organization (Mahoney, 2023).

In short, both the organizational and law and economics origins of corporate purpose speak to overarching aspirations of the corporation, as pertaining either to a specific firm or to the general organizational form itself. In the former category, that purpose is firm-specific and enables the members to collectively engage in a values-infused pursuit within their chosen place of work. In the latter category, purpose applies to a class of organizations and directly questions how this class can contemplate larger aims within the existing institutional framework or whether alternative governance mechanisms are needed. From this combination of organizational theory and law and economics roots has emerged current debates on how purpose relates to stakeholder orientation, comparative governance, and hybrid organizations that are gaining increasing attention today.

### **Relationship between purpose and strategy**

The parallel development of purpose and strategy research provides important context for examining their relationship. While these ideas evolved separately, their integration can enrich our understanding of core strategic concepts by revealing new mechanisms through which firms compete and survive. While strategy explains the basis by which companies compete, purpose provides them a reason for their existence both for their employees and at an overall societal level. Given its central role in defining the organization, therefore, it is reasonable to expect that purpose may shape how firms create and capture value, develop capabilities, learn and adapt, and generate knowledge and innovation.

Purpose operates across different organizational levels - from individual motivation to firm-level coordination to industry-wide effects (Figure 2). Recognizing how purpose influences organizations across these three levels is critical to understanding how purpose can inform fundamental strategic ideas. At the individual level, purpose shapes motivation and discretionary effort through the meaning-making mechanisms identified by organizational theorists like Barnard. At the firm level, it enables coordination, cooperation, and direction by providing what Follett referred to as the "invisible leader" for organizations. And at the societal level, it helps define the corporation's role and responsibilities within the broader

institutional framework, addressing the fundamental questions raised by Berle, Dodd, and subsequent scholars about corporate governance and social impact.

<< Insert Figure 2 here >>

The importance of these multi-level effects has grown in parallel with the economy's shift toward intangible assets, shown earlier in Figure 1, as firms increasingly rely on human capital and discretionary effort. Moreover, as corporations have grown in size and influence, purpose serves both as an internal guide for decision-making and as part of a broader social contract that provides legitimacy and trust—precisely the concerns that motivated Berle's original writings. These dynamics are particularly salient in environments characterized by high uncertainty and significant discretionary action, where formal control systems are less effective.

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In the sections that follow, I examine how purpose enriches our understanding of four foundational areas in strategy: value creation and capture, where purpose influences both the scope of value created and the mechanisms of value capture; organizational capabilities, where purpose shapes both operational and dynamic capabilities; search and learning, where purpose guides exploration and adaptation; and knowledge and innovation, where purpose influences both the direction and effectiveness of creative efforts. Across each area, I consider how purpose's multi-level effects create new channels for competitive advantage while also introducing potential tensions and tradeoffs that firms must navigate.

## *Value Creation and Capture*

### **I. Introduction to Value Creation and Capture**

Value creation in strategy reflects the difference between buyers' willingness to pay (WTP) and suppliers' willingness to sell (WTS), with firms capturing a portion of this value in the form of profits (Brandenburger and Stuart, 1996). As shown in Figure 4, this value creation and capture framework can be represented as a "value stick" with four key positions: WTP at the top, followed by price, cost, and WTS at the bottom. The total length of the stick reflects the overall value created (WTP - WTS), while

the respective segment lengths reflect value capture across buyers (WTP - P), the firm (P - C), and suppliers (C - WTS).

Purpose can affect value creation and capture through several channels, some of which operate directly through stakeholder preferences and others indirectly through improved capabilities and coordination. These channels may also reinforce one another, potentially creating another source of advantage for purpose-driven organizations.

<< Insert Figure 4 here >>

## **II. Purpose and Willingness to Sell**

Purpose can influence employee WTS through its effect in influencing both motivation and coordination across individuals. Almandoz (2023) refers to this as the “inside-out” view of purpose, in which purpose serves as an Aristotelean *telos* (end) that motivates and inspires the individuals within the organization. Within much of strategy research, that idea of a *telos* is absent: theories incorporating individual behavior often rest on assumptions from agency theory (Jensen and Meckling, 1976), Williamson’s “self-interest seeking with guile” (e.g., Williamson, 1993), and Carnegie school models of cognition and bounded rationality. Within these systems, individuals arrive at different conclusions and positions on choices depending on where they sit in the organization, what their interests and specific objectives are, and what information is available. Individuals therefore clash based on differences in cognition, information availability, and self-interest.

As we know from social psychology, these conceptions of human behavior reflect a limited view. Humans are meaning motivated beings with the need for meaning at times outweighing material needs (Cassar and Meier, 2018; Wrzesniewski, 2003). People are also motivated by a need for belonging: people want to be part of communities with shared underlying values (e.g., Akerlof and Kranton, 2000). Purpose can serve both needs: providing a source of meaning at work and building communities in pursuit of shared aim. Purpose that is credible and resonant with members’ values can enlist employees in

a common mission and motivate them to cooperate toward valued objectives, mitigating competing interests and political behavior. In this sense, the motivation and identification that can arise from a compelling purpose can guide cooperation in ways that cognitive and agency-based explanations cannot explain.

These effects may influence value creation and capture directly through wages. Workers may be more committed and exert more effort for a given compensation level in pursuit of purpose (or, equivalently, accept lower wages to work for organizations whose purpose aligns with their values). Burbano (2016) provides experimental evidence on a related idea that workers accept lower wages in exchange for prosocial orientation of the organization. Along these lines, Carnahan et al. (2017) find lower turnover in among lawyers at firms that provided more pro-bono opportunities, particularly following the 9/11 terror attacks that led to these workers to refocus on meaningful work. These employee effects rely on worker and firm heterogeneity: workers must vary in their underlying values, and firms must credibly commit to different purposes. Henderson and van den Steen (2015) explain this mechanism by modeling purpose as a reputation carrier that attracts employees who share the organization's values.

Another channel may operate through reduced coordination costs. Purpose promotes cooperation toward common goals, potentially lowering the need for formal control systems and increasing the overall effectiveness of organizations. Purpose can alter willingness to sell from other suppliers for similar reasons. When partners share aligned purposes, they may cooperate more and be more effective working together than with other parties. For example, suppliers may offer preferential terms or invest in relationship-specific assets when they believe in and trust the mission of their partner organization. This alignment can be particularly valuable in settings involving complex or specialized inputs where formal contracts are necessarily incomplete. This effect may be especially pronounced for suppliers of knowledge-intensive or creative services, where discretionary effort and tacit cooperation can significantly impact the quality of inputs provided.

### **III. Purpose and Willingness to Pay**



Purpose can affect customer WTP through both values alignment and product quality. When customers value the purpose espoused by an organization, they may be willing to pay a premium for its products. This premium can reflect both the customer's direct appreciation of the organization's mission and the reputational benefits they derive from associating with purpose-driven brands. For instance, consumers may pay more for products from companies with strong environmental or social commitments, both because they value these commitments and because consumption serves as a visible signal of their own values.

The effect of purpose on WTP extends beyond simple values alignment to influence the fundamental nature of products and services offered. On the product side, Rindova and Martins (2023) propose one mechanism: purpose enables "moral imagination," helping employees develop novel solutions to customer problems. When employees deeply understand and believe in an organization's purpose, they may identify and solve customer needs in ways that competitors miss or cannot replicate. When employees throughout the value chain are aligned with and motivated by purpose, they may invest more discretionary effort in product development, quality control, and customer service. This enhanced attention to quality may be especially valuable in markets where product attributes are difficult to verify or where trust and reputation play important roles in customer choice.

Henderson (2021) discusses a related idea of how purpose can enable breakthrough innovation by providing clear direction for search and experimentation. This guidance can lead to products that are intrinsically differentiated because they emerge from a distinctive organizational process and worldview, rather than just technical specifications.

In summary, purpose shapes value creation and capture through multiple, potentially reinforcing, mechanisms, as illustrated in Figure 4. It can simultaneously lower WTS through employee and supplier effects while raising WTP through innovation and brand value. The sustainability of these effects depends on credible commitment mechanisms and strategic positioning.

*Future research directions*

The research agenda emerging from this analysis spans both sides of the value stick. On the willingness to sell side, several important questions arise regarding employees. First, when does purpose serve as a substitute versus complement to monetary compensation? While some studies suggest workers accept lower wages to work for purpose-driven organizations (Burbano, 2016; Henderson and van Den Steen, 2015), the substitution effect may also erode if workers view purpose as an instrumental tool rather than authentic organizational commitment.

These dynamics also raise questions about purpose and wage inequality: do purpose-driven organizations exhibit different internal wage structures, such as executives also having to accept lower wages for purpose to induce higher effort within the organization. Further, how do these patterns evolve as purpose becomes more prevalent in competition for talent?

Questions also emerge for suppliers and partners about the nature of purpose-driven cooperation. How do relationships based on shared purpose differ from purely transactional ones in terms of governance, adaptation, and value creation? Purpose may enable forms of cooperation that contracts alone cannot sustain, particularly for complex, long-term relationships requiring mutual adjustment.

On the willingness to pay side, several questions arise about purpose and competition. How do purpose-driven price premiums evolve as more firms adopt purpose-driven strategies? Early movers may capture value through differentiation, but how does competition influence these premiums over time? This raises deeper questions about authenticity: how do customers evaluate and value organizational purpose when it aligns with profitability versus when it requires tradeoffs? The answer may depend on whether customers view purpose as a credible commitment or strategic positioning. These dynamics connect to fundamental questions in strategy about differentiation, positioning, and sustainable advantage. If purpose enables unique forms of differentiation - through innovation, stakeholder relationships, or organizational capabilities - it may create more durable sources of advantage than traditional positioning strategies. Understanding these mechanisms requires examining how purpose shapes both value creation and capture across different competitive contexts.

## ***Operational and Dynamic Capabilities***

### **I. Introduction to Capabilities**

Capabilities—collections of routines and meta-routines that enable firms to deploy resources effectively—form a central pillar of strategic management research (Teece et al., 1997; Winter, 2003).

These capabilities span operational routines driving day-to-day activities to dynamic capabilities enabling adaptation over time (Helfat and Martin, 2015). Recent work suggests capabilities arise from formal structures and incentives, as well as social processes that formal organization enables (Argyres et al., 2012). Purpose has the potential to enrich our understanding of this capability development within firms by illuminating how shared meaning shapes organizational routines and their evolution. In this section, I consider how purpose can shape these capabilities through three primary channels: motivation, cooperation, and guidance (Figure 5).

<< Insert Figure 5 here >>

### **II. Purpose and Operational Capabilities**

Routines—regular, predictable patterns of activity—provide the building blocks of operational capabilities (Nelson and Winter, 1982; Feldman and Pentland, 2003). Purpose may shape routine development through both adoption and adaptation processes. At the adoption stage, when practices align with organizational purpose, employees may more readily embrace and implement them because purpose helps employees understand why particular practices matter for the organization's mission. This understanding can reduce resistance to new routines and enhance their effectiveness through more mindful implementation.

Purpose also influences how organizations adapt routines through experience. Levinthal and Rerup (2021) describe how mindful application of routines depends on shared understanding of their purpose. This shared understanding enables what Feldman (2000) discusses as "effortful accomplishments"—the ongoing work of maintaining and improving routines. When employees

understand and believe in the organization's purpose, they are more likely to engage in this effortful refinement, identifying opportunities to improve routines in ways that better serve the organization's mission.

Moreover, purpose can enhance the transfer and replication of routines across organizational units. When employees share a common understanding of why routines exist and how they connect to broader organizational aims, they can more effectively adapt these routines to local contexts while maintaining their essential elements. This capability for "mindful translation" rather than mere replication becomes particularly valuable as organizations grow and operate across diverse contexts.

The relationship between purpose and operational capabilities may be especially important in settings requiring high levels of discretionary effort or careful judgment. In these contexts, purpose provides a shared framework for decision-making that formal rules and procedures alone cannot fully specify. This guidance becomes particularly valuable when organizations face novel situations or must balance competing priorities in their day-to-day operations.

### **III. Purpose and Dynamic Capabilities**

Dynamic capabilities encompass the capacity of an organization to integrate, build, and reconfigure internal and external resources to address rapidly changing environments. Teece (2007) has described this idea as the ability of firms to sense and seize opportunities, and reconfigure the business as needed. Helfat and Peteraf (2015) extended this reasoning to the level of individual cognition. Purpose can play a crucial role in shaping these capabilities by providing both direction and coherence to organizational adaptation processes.

#### **A. Sensing**

Purpose may shape the ability to sense opportunities through three interrelated mechanisms: attention direction, information flow configuration, and signal interpretation. First, purpose can act to focus and situate attention (Ocasio, 1997), directing where organizations look for opportunities. This focused

attention proves particularly valuable in complex environments where firms must filter numerous potential opportunities. Rather than attempting to monitor everything, purpose-driven organizations can concentrate on signals relevant to their mission. Second, purpose can shape how organizations build and maintain networks for detecting opportunities. Organizations with clear purposes may attract and retain relationships with external stakeholders who share their values and objectives. These purpose-aligned networks can serve as valuable sensing mechanisms, providing early access to relevant opportunities and deeper insight into emerging trends. Third, purpose may enable distinctive frames to interpret information and shape the cognitive representations by which firms evaluate opportunities (Tripsas and Gavetti, 2000). These purpose-based frameworks may prove especially valuable under uncertainty where traditional evaluation metrics may not apply. They can help organizations make sense of ambiguous signals and identify opportunities that others might miss or misinterpret.

These mechanisms may also complement each other, with purpose-directed attention creating opportunities identified through purpose-sustained external networks, which purpose-influenced cognitive frames then evaluate. This integrated sensing system may be particularly valuable in rapidly evolving environments where traditional market signals provide insufficient guidance.

## **B. Seizing**

Seizing involves mobilizing resources to capture opportunities (Teece, 2007). Purpose can shape seizing capabilities for several reasons. It can provide evaluation criteria beyond immediate financial returns, particularly valuable for investments requiring long time horizons or uncertain outcomes. Gartenberg and Serafeim (2022) support this mechanism, finding stronger purpose in firms with dedicated, long-term owners who can sustain such investments. Purpose can also enable comparison across seemingly incommensurable opportunities, helping organizations assess trade-offs between different types of investments or strategic options that might otherwise be difficult to compare directly.<sup>a</sup>

## **C. Reconfiguring**

Reconfiguring enables organizational renewal and adaptation (Teece, 2007). Purpose influences reconfiguration through two primary mechanisms that help organizations balance stability and change. First, purpose provides continuity during strategic change by maintaining organizational identity even as specific activities evolve. Henderson (2021) documents this process in architectural innovation, where purpose guides established firms through fundamental transformations while preserving coherence. Purpose serves as an anchor point, helping organizations maintain their essential character even as they undergo significant strategic shifts. Second, purpose enables concurrent stability and adaptation—what Helfat and Winter (2011) call "dual-purpose capabilities"—by anchoring core values while supporting strategic flexibility. This duality allows organizations to undertake bold strategic moves without losing their organizational essence. Purpose provides a stable foundation for change, helping members understand how new initiatives connect to enduring organizational values. Together, these mechanisms allow organizations to undertake significant strategic shifts while maintaining the coordination and commitment needed for effective execution. Purpose thus serves as both a catalyst and guide for organizational transformation, enabling what might otherwise appear to be contradictory demands for stability and change.

#### **IV. Synthesis**

In summary, the relationship between purpose, and capabilities – both operational and dynamic – is a promising area for future study. Through influencing motivation and cooperation and guiding collective action, purpose influences both capability microfoundations and their organizational manifestation. These effects appear particularly strong for capabilities requiring discretionary effort and cooperation.

Three broad patterns are suggested by this analysis. First, purpose may shape capabilities most strongly when formal mechanisms are most insufficient—in situations requiring discretionary effort, tacit knowledge, or complex coordination. Second, purpose shapes both capability content and development processes, influencing what capabilities firms build and how they build them. Third, purpose creates reinforcing cycles between individual and collective levels, potentially enabling sustained advantage.

These patterns suggest purpose plays a distinct role in capability development, one complementary to but separate from formal organizational mechanisms.

### *Future research questions*

The relationship between purpose and capabilities raises several questions for future work. First, can purpose serve as a microfoundation of capabilities, similar to formal structure and incentives? Research has established that formal organization enables capability development by promoting knowledge creation and cooperation (Argyres et al., 2012), while relational contracts sustain these activities through repeated interaction (Gibbons and Henderson, 2012a). Purpose may play a complementary role by fostering discretionary effort and long-term commitment that formal mechanisms struggle to achieve. Rindova and Martins (2023) suggest one mechanism: purpose shapes employees' understanding of what they "should" and "ought" to do, potentially guiding capability development in ways that formal structure alone cannot.

This foundation raises deeper questions about purpose and capability development. A key question is how purpose interacts with formal organizational mechanisms - whether it complements or substitutes for different practices has important implications for organizational design. Similarly important is purpose's role in capability persistence and transfer: if purpose shapes capability development through shared understanding and commitment, this may affect how capabilities survive leadership changes or spread across organizational units.

Purpose may also distinctly influence each component of dynamic capabilities. For sensing, purpose could direct attention and frame opportunity evaluation. In seizing, purpose might enable resource allocation and coordination during capability deployment. During reconfiguration, purpose could maintain organizational coherence through significant transformation. Yet purpose might also hinder capability development if strong purpose creates rigidities or blind spots that impede adaptation to environmental change. Understanding these mechanisms would advance both capability theory and

purpose research while providing practical guidance for organizations seeking to develop purpose-driven capabilities.

### ***Goals, Search and Learning***

Purpose may play a more complex role than simply constraining or enabling search, potentially shaping the cycle of how organizations explore, learn, and create. At the most fundamental level, purpose can direct search, motivate learning, and guide innovation.

#### **I. Goals**

Strategic decisions are often highly complex, involving the specification of goals, selection of activities and management of uncertainty. They often involve important tradeoffs, such as the choice of strategic position and activities (Porter, 1996; Siggelkow, 2002), exploration versus exploitation (March, 1991), specialization and coordination (Rivkin and Siggelkow, 2003), autonomy and coordination (Puranam *et al.*, 2006), and allocation of scarce time, attention, and resources (Peteraf, 1993; Ocasio, 1997; Noda and Bower, 1996). Strategic decisions can also be characterized by superadditivity. Leiblein, Reuer and Zenger (2018) characterize decisions as strategic if they involve interdependence across contemporaneous decisions, decisions of other actors, and across time. Van den Steen (2017) describes strategy as “the smallest set of choices top optimally guide (or force) other choices.”

In common across all these approaches is the absence of a prescriptive approach to making a given choice. In other words, the problem of which goals to pursue, how to resolve tradeoffs, and how to navigate complex interdependencies cannot be solved by calculative processes alone. There are often indeterminate solutions, uncertain mapping from actions to outcomes, and competing principles that collectively complexify strategic decision-making: it is often impossible to map strategies to precise outcomes and there are often multiple viable directions to take.

Purpose can help resolve these challenges. First, it can narrow the set of desirable goals for a firm to establish. This aligns with both theory-based and problem-solving views of strategy (Felin and Zenger,



2017; Rumelt, 2012; Zenger and Nickerson, 2004). Purpose can help firms identify which problems are most worth solving and which theories of value creation are most promising, thereby focusing organizational attention and resources on a narrower set of strategic possibilities.

Second, purpose can help break ties among options, particularly when there are competing principles at play. For example, imagine a technology company faced with the following options: pursue either a strategy that pushes the technological frontier while targeting a high-end market or a strategy that is less technologically innovative but serves historically disadvantaged populations. Assuming both options appear equally valuable and achievable for the firm, how can it select a direction? In this case, purpose can serve as tiebreaker. The hypothetical strategies entail competing principles: pursuing new-to-the-world innovations versus helping underserved populations. Depending on whether the purpose has more of a knowledge-seeking or service orientation, it can break the tie and direct the organization accordingly. In other words, purpose can help define what a firm "should" or "ought to" be doing (Rindova and Martins, 2023).

Third, purpose can aid in decision-making when the link between goals and value is uncertain. There are often decisions in which the long run value is unclear and for which value cannot serve as a basis either for characterizing the decision or selecting the best choice. Purpose may aid in this challenge by framing decisions in the context of fulfilling purpose and providing a basis for making the choice even under extreme uncertainty.

## **II. Search and Learning**

Strategy scholars have long conceptualized strategy as an adaptive search process (e.g., Levinthal, 1997; Rivkin and Siggelkow, 2003). Organizational purpose can significantly influence both the direction and effectiveness of this search process in several key ways.

First, purpose can shape search heuristics and evaluation criteria. As Baumann, Schmidt, and Stieglitz (2019) identify in their review, strategic search encompasses multiple dimensions: learning modes, problem decomposition, cognitive representations, temporal dynamics, distributed search, and

competitive search. Purpose can enhance offline evaluation processes (Gavetti and Levinthal, 2000), enabling organizations to better imagine and assess potential actions that align with their fundamental aims. In particular, purpose may facilitate what Gavetti and Rivkin (2007) term "cognitive leadership" - the ability to guide exploration into unknown domains while maintaining organizational coherence.

Second, purpose can influence both the direction of search and the processing of information. Building on Ocasio's (1997) attention-based view, purpose directs organizational attention to specific domains and opportunities. This directing function may be particularly relevant for absorptive capacity (Cohen and Levinthal, 1990), as a clear purpose can enhance an organization's ability to recognize and assimilate purpose-aligned external information. This relationship between purpose and innovation is supported by Gartenberg's (2023) finding that purpose and profits are positively correlated in innovation-intensive industries.

Third, purpose can influence the ideation process. Through what Rindova and Martin (2023) term "moral imagination," purpose may enhance employees' ability to envision what "should" or "ought to" be, thereby fostering novel ideas. Kimsey et al. (2023) provide a detailed case study of this dynamic, documenting one company's purpose-driven product development efforts, including both successes and challenges.

Lastly, purpose can interface with organizational learning processes. Argote et al. (2021) highlight how purpose can create an environment conducive to knowledge development and sharing. In their study of the early American auto industry, Pillai, Goldfarb and Kirsch (2020) demonstrate how experimentation enables learning and survival during periods of high uncertainty. Their finding that some companies experiment more effectively than others raises an intriguing possibility: shared purpose may enhance both the quality and effectiveness of organizational experimentation.

### **III. Synthesis**

In summary, purpose—by providing a collective understanding of the organization's reason for existing—can serve as a guide for setting organizational goals, making strategic decisions, and searching

in uncertain and complex contexts. In these circumstances, it can be difficult to decide direction on profit calculations alone.

### *Future research directions*

The relationship between purpose and organizational search raises several important theoretical and empirical questions. How does purpose shapes the fundamental tension between local and distant search, particularly when purpose and immediate performance metrics conflict?

Important questions also arise around potential downsides and constraints. Strong purpose might create cognitive traps or blindspots that impede effective search and learning. Research could examine how organizations balance purpose-driven search with market demands and competitive pressures. This raises governance questions about mechanisms that help purpose-driven organizations maintain effective search while avoiding excessive focus or rigidity.

The effectiveness of purpose-driven search likely varies across contexts. Research could investigate how different types of uncertainty - technological versus market, for instance - moderate the relationship between purpose and search outcomes. Industry conditions and organizational characteristics may also influence the relative effectiveness of purpose-driven versus traditional search approaches. These questions connect directly to broader strategy research on organizational learning, dynamic capabilities, and competitive advantage. Understanding how purpose shapes search and learning processes could enrich theories of how organizations develop and maintain capabilities in dynamic environments. Progress likely requires multiple methods, from detailed case studies examining search processes to larger-scale empirical work identifying patterns in purpose-driven innovation and adaptation. This research agenda could both advance theory and provide practical guidance for organizations seeking to leverage purpose in their strategic search and learning processes.

### ***Knowledge and Innovation***

Innovation research has shown that motivating skilled work is challenging (Gambardella *et al.*, 2015). Incentive systems, such as pay-for-performance, can have complex effects on innovative outcomes (Ederer and Manso, 2013). Manso (2011) further contends that the tolerance of early failures and rewarding of long-term success are vital for promoting innovation. This presents a challenge: high-powered incentive systems (e.g., pay-for-performance and threat of termination for underperformance), while effective for motivation in many contexts, might inadvertently discourage risk-taking, exploration, and creativity, key elements of the innovation process. As Rothschild (2000:197, quoted in Freeland and Zuckerman, 2018) notes, "creativity cannot be coerced."

Purpose may help overcome this inherent challenge, which I now discuss in the context of knowledge generation and innovation.

## **I. Knowledge**

Purpose can influence knowledge generation through individual motivation for knowledge development and collective knowledge sharing. The first mechanism operates through individual-level discretionary effort in knowledge creation. While formal incentives can encourage specific knowledge development activities, much of the critical knowledge work within organizations—exploring new ideas, documenting insights, seeking out learning opportunities—remains discretionary. Purpose provides both direction and motivation for this discretionary investment. As Gibbons and Henderson (2012a) argue, generating tacit knowledge often depends on relational contracts that formal mechanisms cannot fully specify. Purpose can shape these contracts by providing both credibility that the organization is committed to a particular direction and clarity in forming a shared understanding of why particular knowledge investments matter.

The second mechanism works through collective knowledge sharing, in which purpose can reduce barriers to knowledge flow across organizational units. Purpose can help coordinate knowledge integration by providing common ground for communication and establishing shared priorities (Kogut and Zander, 1992; 1996). This mechanism may be particularly important in complex organizations where different units must combine specialized knowledge. As Argyres and Silverman (2004) show in their

study of R&D organizations, successful knowledge integration often requires more than formal structures—it needs coordinating mechanisms that align different perspectives and priorities. Supporting these arguments, Gartenberg (2023) finds that purpose correlates most strongly with performance in sectors where discretionary knowledge development is critical.

## **II. Innovation**

Purpose shapes innovation through three primary mechanisms: innovation direction, resource allocation, and stakeholder alignment. These mechanisms affect both what organizations choose to innovate and how they pursue these innovations. As mentioned in prior sections, purpose may provide “moral imagination” (Rindova and Martins, 2023)—the ability to envision novel solutions aligned with organizational values.

Purpose may also enable innovation ecosystems, networks of partners required for successful innovation (Adner and Kapoor, 2010). This coordination appears particularly important for complex innovation: Jacobides et al. (2018) show how shared purpose enables ecosystem development around novel technologies. Purpose may also shape how organizations evaluate innovation success, particularly for projects where traditional metrics may not apply. This mechanism builds on Obloj and Sengul's (2020) work on multiple objectives: purpose provides frameworks for assessing progress beyond immediate financial returns. These mechanisms reinforce each other: purpose-guided design enables effective measurement, while purpose-based adaptation improves both design and measurement over time. This creates potential for what Helfat and Winter (2011) call “innovation capabilities”—systematic processes for generating and capturing value from new ideas.

## **III. Synthesis**

Knowledge and innovation are related processes shaped by purpose through complementary mechanisms. At the individual level, purpose motivates discretionary knowledge development while simultaneously directing innovative effort. At the collective level, purpose enables knowledge integration across organizational units while coordinating innovation activities and ecosystem relationships. These

mechanisms reinforce each other: effective knowledge sharing enables more purposeful innovation, while purpose-driven innovation creates new opportunities for knowledge development.

### *Future research areas*

The relationship between purpose, knowledge, and innovation raises important questions across multiple levels of analysis. At the individual level, we know little about how purpose can shape both knowledge development and innovative activity. This includes understanding how purpose-driven knowledge creativity and innovation differ qualitatively from market-driven equivalents in terms of content, risk-taking, or social impact.

At the organizational level, we know little about the governance structures that enable sustained purpose-driven knowledge development and innovation and whether they make different tradeoffs than other firms in terms of risk, failure, experimentation, and problems to take up.

At the ecosystem level, questions arise about how purpose shapes knowledge flows and innovation networks across organizational boundaries. Building on Argyres and Silverman (2004) and Jacobides et al. (2018), research could examine whether shared purpose enables more effective knowledge sharing and ecosystem coordination. Studies could investigate whether purpose-driven organizations form different types of knowledge-sharing partnerships or approach ecosystem leadership differently from traditional firms.

Understanding these relationships has implications beyond knowledge and innovation management. As organizations increasingly pursue purpose-driven strategies, understanding how purpose shapes both knowledge development and innovation becomes critical for theories of capability development, competitive advantage, and value creation.

### ***Theory of the Firm and Organizational Design***

Traditional approaches to organizational design are based on transaction costs (Williamson, 1975) and information processing (March and Simon, 1958) as key determinants of boundaries and structure.

Purpose can expand these foundations in its potential to reshape both the benefits and costs of organization. As Leiblein, Reuer and Zenger (2018) note, organizational choices are inherently strategic precisely because they involve complex interactions across decisions, time, and actors. Purpose can help navigate these interdependencies by providing a basis for cooperation and managing tradeoffs. In this section, I consider several organizational channels through which purpose might operate (see Figure 6)

<< Insert Figure 6 here >>

## **I. Internal Organization**

Purpose can shape internal structure through hierarchy and coordination systems. In providing a guide for discretionary action, purpose may enable greater decentralization (Ghoshal) and scaling of large organizations (Ghoshal *et al*, 1995). Purpose may also shape the structure of units and how specialization is handled inside organizations. Podolny and Hansen (2020), in their description of Apple's highly centralized and innovation-oriented structure, described on how Apple's leadership relied on a strong shared purpose to enable coordination at scale.

Organizations implement both formal and informal control systems that purpose can influence. Purpose can shape how organizations evaluate and reward contributions, particularly for complex or team-based work. Purpose can also shape how organizations distribute decision-making authority across levels and units. This may be particularly important in contexts where direct monitoring is difficult. These mechanisms may also complement each other, whereby purpose-based authority enables more effective measurement systems in more decentralized organizations.

## **II. Firm Boundaries**

While traditional transaction cost theory emphasizes asset specificity and opportunism, purpose introduces additional considerations by affecting the costs and benefits of internal organization. Gartenberg and Zenger (2023) suggest that participants evaluate internalization choices according to

alignment of those activities with the espoused purpose of the organization: if activities appear to clash with the organization's purpose, integration can impose social costs on the organization on top of any efficiency benefits of the transaction.

Knowledge integration provides another potential mechanism by which purpose may influence boundaries. Knowledge-based production, activities requiring complex coordination of specialized expertise (Nickerson and Zenger, 2004), may be facilitated by a coordinating purpose.

Relatedly, purpose can decrease coordination costs within an organization (Gulati and Singh, 1998).

Purpose may also shape horizontal scope through changing the nature of relatedness across business units. Purpose is closely related to organizational identity (Besharov and Khurana, 2015), which can influence the perceived coherence across diverse activities. Gartenberg and Yiu (2023) discuss the challenges of doing so while simultaneously sustaining a strong sense of purpose.

### **III. Synthesis**

Purpose shapes both internal organization and firm boundaries through related mechanisms. Internally, purpose enables coordination and control, particularly over discretionary action. This allows organizations to maintain coherence while implementing more decentralized structures. At the boundary level, purpose influences both vertical and horizontal scope decisions by affecting the social and coordination costs of integration. These mechanisms interact - strong internal purpose alignment can facilitate boundary decisions, while purpose-aligned boundaries reinforce internal coordination systems.

#### *Future Research Directions.*

How does purpose shape hierarchy and control governance systems? Do purpose-driven organizations implement different formal practices around monitoring, measurement and incentives? Future work should explore when purpose serves as a complement versus substitute to traditional control mechanisms, building on work showing formal practices' importance for productivity (Scur et al., 2021) and social spillovers (Gubler et al., 2016).



Future work should also examine purpose's role in boundary decisions, both vertical integration choices and horizontal scope through related acquisitions and diversification. This includes understanding how organizations evaluate potential targets or new markets through purpose alignment lenses.

Progress on these questions requires examining both successful and unsuccessful attempts at purpose-driven organizing. Research methods could include comparative case studies of purpose-driven versus traditional organizational forms, as well as large-sample analyses of how purpose correlates with different organizational design choices and outcomes

## **Stakeholder Strategy**

### **I. Purpose and Stakeholder Management**

The relationship between purpose and stakeholders extends beyond traditional theories of the firm into broader questions of value creation and organizational legitimacy. Recent work in the *Strategy Science* special issue (Zenger, 2023; Ocasio et al., 2023) highlights how purpose shapes fundamental aspects of stakeholder relationships. McGahan (2023) shows how purpose informs core questions in stakeholder theory: which stakeholders merit organizational attention and how should value be distributed among them? She speculates purpose provides a coordinating mechanism to accomplish mutual stakeholder goals, as well as adjudicating conflicting claims among stakeholder groups. Henisz (2023) conceives of firms as nexuses of relational contracts with external stakeholder groups. In this conceptualization, purpose can provide a mechanism for sustaining these informal commitments and thereby promote cooperation among these disparate groups to achieve common aims. Kaplan (2023) also considers the stakeholder implications of purpose; however, provides a cautionary note that echoes the Berle-Dodd debates that purpose can be a mask for managerial power absent enforcement mechanisms. Each of these authors, along with other essays in this special issue, provide promising avenues for future research. Gartenberg (2022) also provides a discussion on unanswered questions at the purpose-sustainability intersection, which closely relates to stakeholder strategy.

## **II. External Coordination and Signaling**

Purpose serves as a coordination mechanism across organizational boundaries. Henderson and van den Steen (2015) argue that purpose acts as a reputation carrier among external stakeholders. Purpose can signal organizational intent (Durand and Gouvard, 2022) and legitimize organizational goals (Durand and Huynh, 2022) to diverse audiences including customers, suppliers, communities, and investors. This signaling role enables purpose to sustain cooperation among stakeholder groups by providing credible commitments around organizational priorities and values. The effect appears strongest precisely where traditional market mechanisms struggle - in contexts requiring sustained collaboration toward uncertain outcomes.

## **III. Ecosystem Leadership and Development**

Purpose plays a distinct role in enabling ecosystem development and coordination. As organizations increasingly compete through ecosystem-based strategies (Adner and Kapoor, 2010), purpose provides frameworks for aligning diverse participants including complementors, customers, and innovation partners. This alignment proves especially valuable for complex innovations requiring sustained collaboration. Adner (2017) highlights how ecosystem success depends on aligning participants' activities and positions - purpose can provide the shared understanding needed to maintain this alignment over time.

Purpose may be particularly valuable for ecosystem leadership. Kapoor (2018) emphasizes how successful ecosystem orchestration requires balancing value creation for participants with value capture by the focal firm. Purpose can help resolve these tensions by providing frameworks that extend beyond immediate financial returns. As Jacobides et al. (2018) show, shared purpose enables forms of coordination that traditional market mechanisms struggle to achieve, particularly when ecosystem success requires sustained investment under uncertainty.

The role of purpose in ecosystem development connects directly to its function in knowledge integration and innovation discussed earlier. Purpose not only helps align participant activities but may enable the knowledge sharing and joint problem-solving critical for ecosystem innovation. This suggests purpose could be especially important for ecosystems pursuing novel technologies or addressing complex social challenges.

### *Future Research Directions*

The relationship between purpose and stakeholder strategy raises fundamental questions about organizational governance and value creation. Building on McGahan's (2023) framework, research could examine how purpose-based stakeholder prioritization differs from traditional approaches, particularly when stakeholder claims conflict. This connects directly to questions raised earlier about purpose's role in strategic decision-making under uncertainty. Understanding the governance mechanisms enabling effective purpose-driven stakeholder management becomes critical as organizations face increasing pressure for both financial and social performance.

Purpose's role in ecosystem development presents another rich area for investigation. While Adner and Kapoor (2010) highlight the challenges of ecosystem coordination, research could examine how shared purpose enables sustained collaboration under uncertainty. Studies could investigate how ecosystem leaders use purpose to balance participant value creation with organizational value capture. The relationship between purpose-driven ecosystem leadership and innovation outcomes presents another promising avenue, particularly for ecosystems addressing complex technological or social challenges.

The relationship between purpose and broader social impact deserves deeper examination. Building on discussions of purpose and sustainability (Gartenberg, 2022), research could investigate how purpose enables organizations to balance social and economic value creation. This connects to fundamental questions about the role of corporations in society that have animated purpose discussions since Berle and Dodd. Progress requires examining both successful and unsuccessful attempts at purpose-driven stakeholder management across different institutional contexts.

These questions gain urgency as organizations increasingly adopt purpose-driven strategies. Understanding how purpose shapes stakeholder relationships could advance both theory and practice while informing broader debates about corporate governance and social responsibility. This research agenda connects directly to earlier discussions of capabilities, innovation, and organizational design - purpose may enable forms of stakeholder coordination that traditional governance mechanisms struggle to achieve.

## **Conclusion**

Academic research on corporate purpose has developed largely outside the field of strategy. There are, however, reasons to incorporate the idea into strategy research. Practitioners often discuss how purpose serves to enable, guide, and constrain strategy. Yet we have little academic research on how this might work. Moreover, strategy may serve to incarnate purpose by rendering it clear, tangible and credible to employees and other stakeholders. We can speculate on how these channels work, but more research is needed. Purpose may serve as a recruitment, retention, and motivating device for key employees. It can also serve to guide both capability development and innovation direction within firms. Purpose might also influence corporate decisions including scope, acquisition activity, alliance formation, and other boundary choices. Purpose might influence both how owners select firms as well as the alignment between owners and managers as well as among stakeholders more generally. We would benefit from more research in all these areas

My aim in this essay is to sketch the landscape of these different intersections between strategic topics and purpose to inspire further work in this area. My own view is that purpose should no longer be considered as an idea outside strategic management, but instead can inform various levels various topics of interest within strategy. As purpose has become more relevant among practitioners and within law, economics, and leadership, it can also enrich our discussion of how firms compete and thrive.

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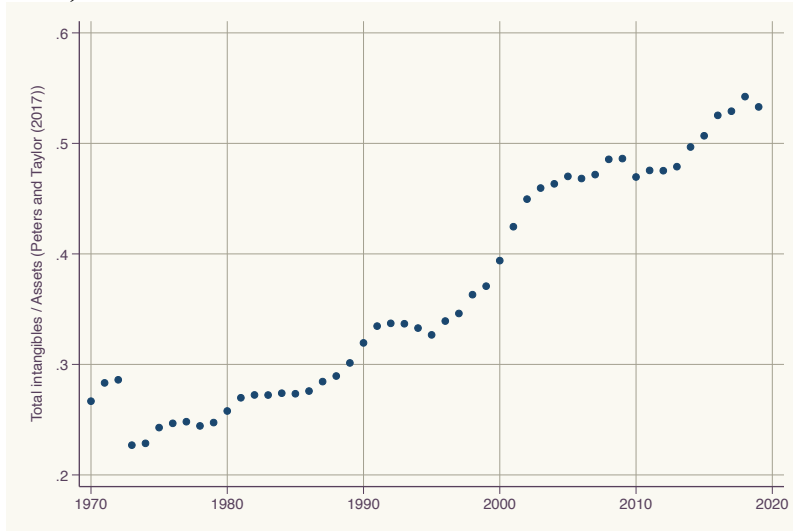


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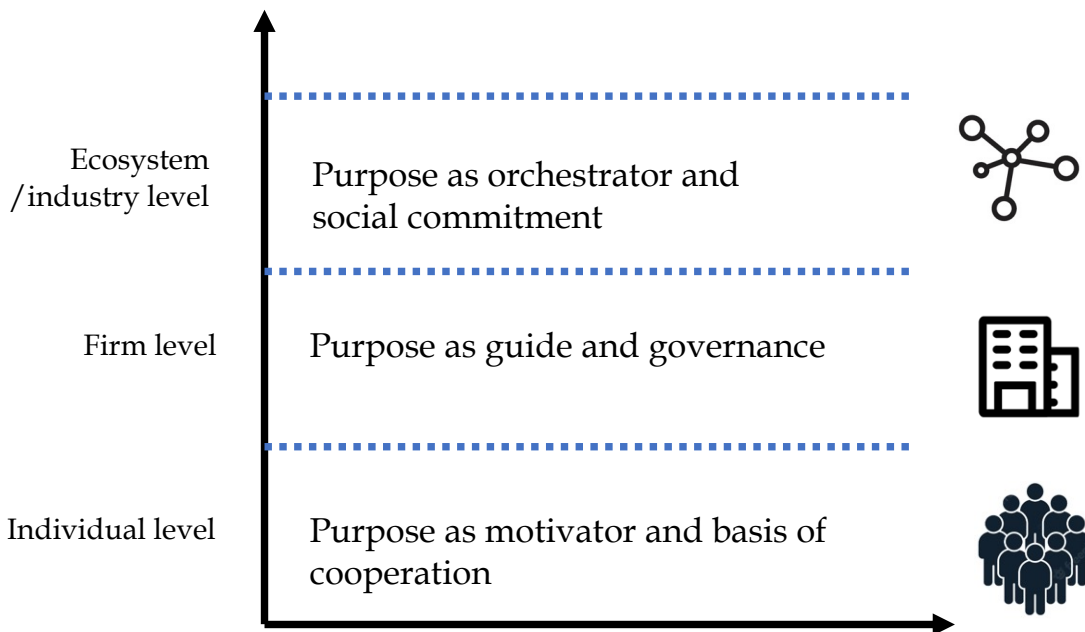
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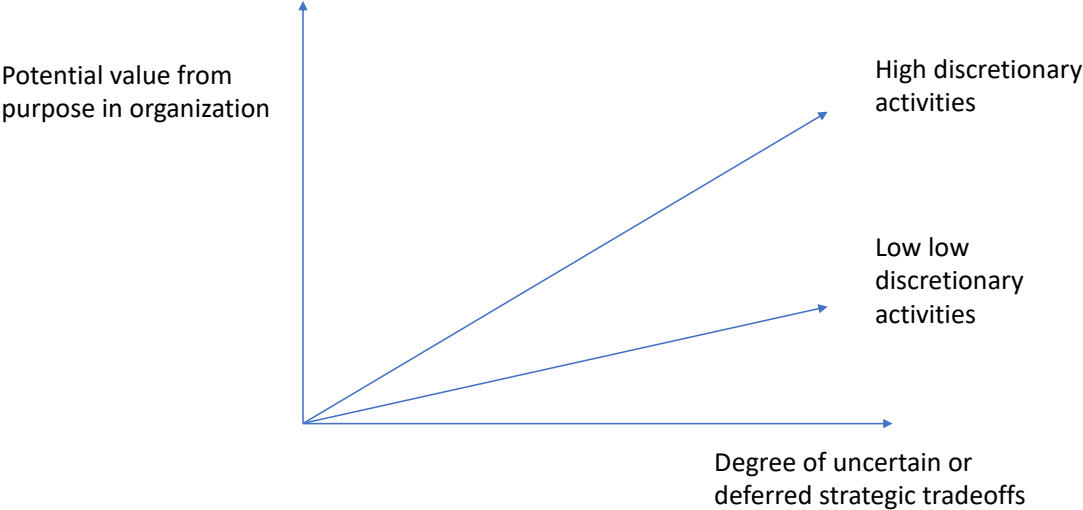
**Figure 1: Relative value of intangibles increasing over past 50 years (Peters and Taylor, 2017)**



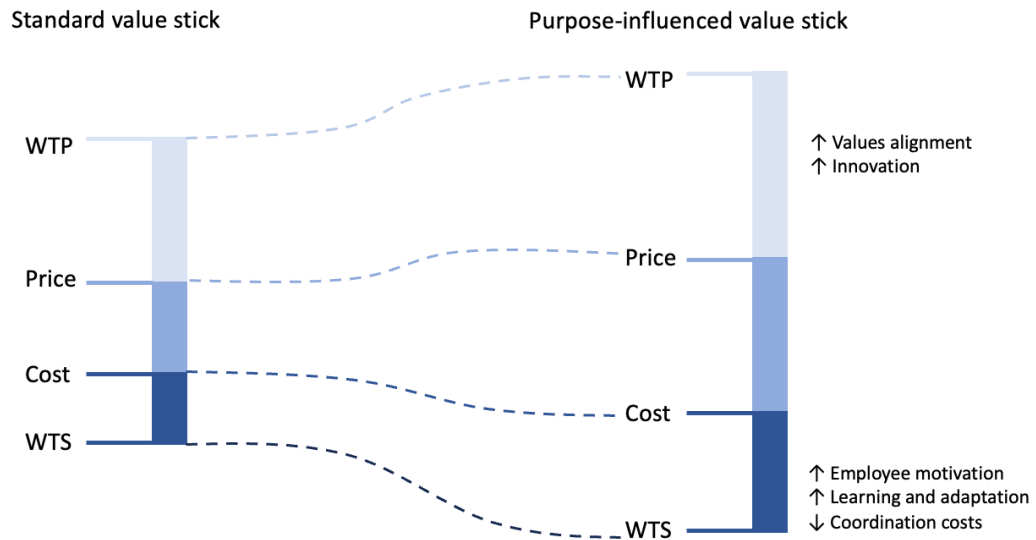
**Figure 2:**



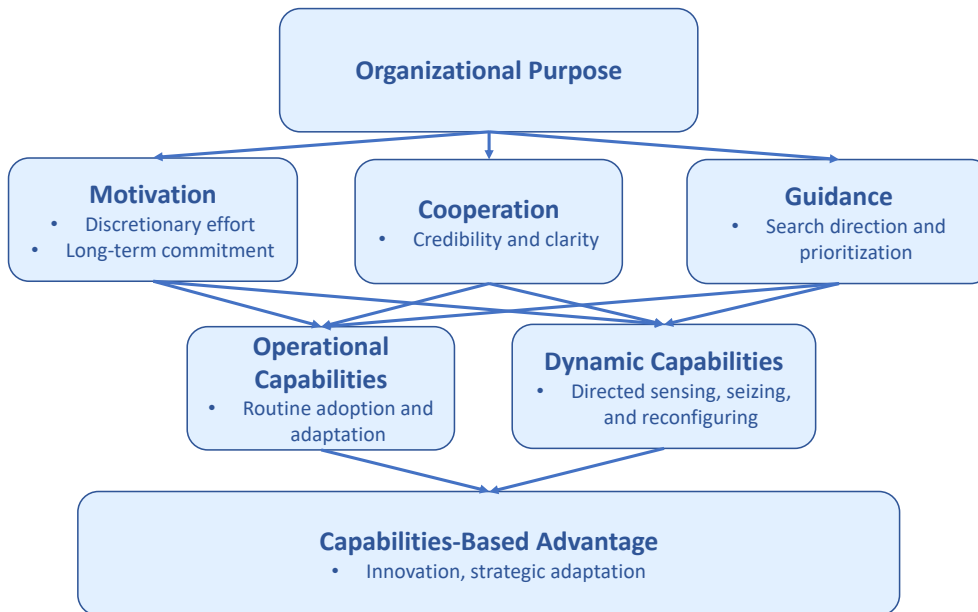
**Figure 3: Potential Value of Purpose to Organizations**



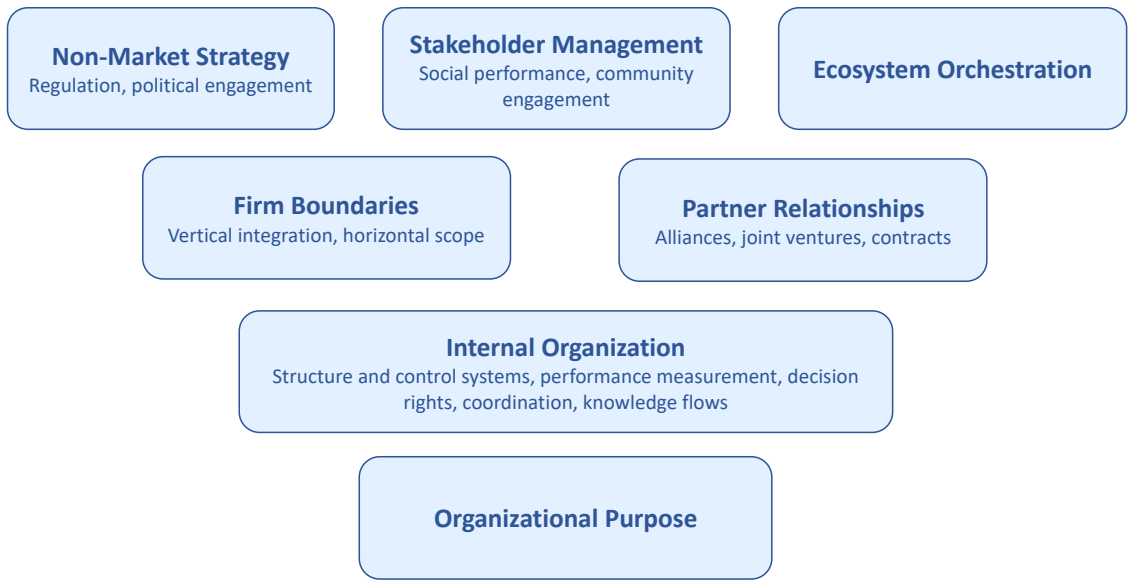
**Figure 4: Purpose and Value Creation and Capture**



**Figure 5: Purpose and Capabilities**



**Figure 6: Purpose, Organizational, and External Stakeholders**



**Table 1: Research questions within strategy related to corporate purpose**

Strategy area	Mechanism: Purpose as....	Representative strategy papers	Related purpose papers	Potential research questions
Value Creation and Capture	Value creation enabler through stakeholder preferences; Coordination mechanism for value creation activities; Trust builder for stakeholder relationships	Brandenburger and Stuart (1996);	Henderson and van den Steen (2015); Burbano (2016); Carnahan et al (2017)   Gartenberg and Serafeim (2022); Rindova and Martins (2023); Henderson (2021)	<ul style="list-style-type: none"> <li>- How does purpose influence WTP vs WTS tradeoffs?</li> <li>- When does purpose serve as substitute vs complement to monetary compensation?</li> <li>- How do purpose-driven price premiums evolve with competition?</li> <li>- How do customers evaluate purpose when it aligns with vs conflicts with profitability?</li> </ul>
Routine and Dynamic Capabilities	Microfoundation for capability development; Coordination mechanism for complex routines; Guide for organizational adaptation	Teece (2007); Argyres et al (2012); Helfat and Martin (2015); Feldman and Pentland (2003)	Henderson (2021); Rindova and Martins (2023); Gartenberg (2023); Mayer (2021); Rindova and Martins (2023); Edmans (2021)	<ul style="list-style-type: none"> <li>- Can purpose serve as a microfoundation of capabilities?</li> <li>- How does purpose interact with formal organizational mechanisms?</li> <li>- How does purpose influence capability persistence and transfer?</li> <li>- How does purpose shape sensing, seizing, and reconfiguring processes?</li> </ul>
Goals, Search and Learning	Strategic goal setter; Search direction guide; Learning process facilitator	March (1991); Levinthal and Rerup (2021); Cohen and Levinthal (1990); Madsen and Desai (2010)	Henderson (2021); Rindova and Martins (2023); Kimsey et al (2023)	<ul style="list-style-type: none"> <li>- How does purpose shape the balance between exploration and exploitation?</li> <li>- How does purpose influence search heuristics and learning mechanisms?</li> <li>- What role does purpose play in organizational memory and knowledge transfer?</li> <li>- How do organizations balance purpose-driven search with market demands?</li> </ul>
Knowledge and Innovation	Knowledge development motivator; Innovation direction setter; Ecosystem coordination enabler	Gambardella et al (2015); Ederer and Manso (2013); Adner and Kapoor (2010); Jacobides et al (2018)	Aguilera (2023); Podolny <i>et al.</i> (2004); Gartenberg (2023); Cardona and Rey (2006); Henderson (2021); Rindova and Martins (2023);	<ul style="list-style-type: none"> <li>- How does purpose shape knowledge development vs traditional incentives?</li> <li>- How do firms maintain innovation while preserving purpose authenticity?</li> <li>- How does purpose influence innovation measurement and evaluation?</li> <li>- What role does purpose play in ecosystem innovation?</li> </ul>
Stakeholder strategy	Stakeholder priority coordinator; Value distribution guide; Ecosystem orchestration enabler	Barney (2018); Bettinazzi and Zollo (2017); DesJardine <i>et al</i> (2021); Amis <i>et al.</i> (2020); Henisz <i>et al.</i> (2014); Dorobantu and Odziemkowska (2017); Nardi <i>et al.</i> (2022); Adner and Kapoor (2010); Henisz (2023); McGahan (2023); Jacobides et al (2018)	George <i>et al.</i> (2023a,b); McGahan (2023); Henisz (2023); Gartenberg (2022); Battilana <i>et al.</i> (2022); Durand and Huynh (2021); Kaplan (2023); Mahoney (2023); Lund and Pollman (2023); Durand and Gouvard (2022); Durand and Huynh (2022)	<ul style="list-style-type: none"> <li>- How does purpose influence stakeholder prioritization?</li> <li>- How does shared purpose enable ecosystem coordination?</li> <li>- How do purpose-driven organizations balance stakeholder claims</li> <li>- ? What governance mechanisms enable purpose-driven stakeholder management?</li> </ul>