Corporate Purpose and Financial Performance

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

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Introduction

Does purpose influence corporate performance? More than two decades ago, Bartlett and Ghoshal (1994) issued a call for scholars to consider purpose as the essential precursor to effective strategic management. They argued for a shift from the "old doctrine of strategy, structure, and systems" to "a softer, more organic model built on the development of purpose, process, and people." The primary role of top management, in their view, is not to set strategy, but instead to instill a common sense of purpose (Bartlett and Ghoshal 1994). Since then, however, there has been little empirical progress on the role of purpose in strategic management (Hollensbe *et al.,* 2014; Henderson and Van den Steen 2015). This gap persists despite both a five-fold increase in the public conversation about purpose between 1995 and 2016 (Oxford University and Ernst and Young, 2016) and a resurgence of academic interest in incorporating "soft" organizational characteristics into studies of strategic outcomes (e.g., Kaplan and Henderson 2005; Nickerson and Zenger 2008; Argyres 2011; Helfat and Peteraf 2015; Felin, Foss and Ployhart 2015; Blader *et al.,* 2015).

While purpose has received sparse empirical attention, it is related to several questions that have become active areas of research. Corporate social responsibility – the degree to which firms explicitly engage in actions to benefit society, has been shown to be positively related to corporate performance (Eccles, Ioannou and Serafeim 2014, Margolis, Walsh and Elfenbein 2007; Orlitzky, Schmidt and Rynes, 2003) and intermediate outcomes such as employees' willingness to accept lower pay (Burbano, 2016; Bode and Singh, 2016; Frank and Smith, 2014), turnover less often (Carnahan, Kryscynski and Olson 2015; Bode, Singh and Rotan 2015; Flammer and Kacperczyk 2015) and be otherwise more engaged (Flammer and Luo, 2016). Purpose is also related to studies of the meaning of work (Cassar and Meier, 2016) and specifically, how individuals exert more effort when their work has meaning (Ariely Kamenica and Prelec, 2008; Chandler and Kapelner, 2013) or sort into specific occupations, possibly for lower pay (Stern, 2004; Agarwal and Ohyama, 2013). However, while this work suggests that having purpose

behind one's work may influence overall corporate performance, this question is not the primary focus on these studies and remains open.

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

From a theoretical perspective, there are conflicting views regarding how a strong sense of purpose might relate to performance. On the one hand, purpose could have a positive influence by increasing employee effort (Ariely *et al.,* 2008) or customer loyalty (Elfenbein, Fisman and McManus 2012; Elfenbein and McManus 2010), enabling a firm to build superior relational contracts (Gibbons and Henderson, 2012), decentralize decision-making (Bartlett and Ghoshal, 1994), or shield management from short-term pressures (Ton 2014).

On the other hand, a focus on purpose could draw attention away from shareholder returns and ultimately lead to financial underperformance. As Milton Friedman wrote in *Capitalism and Freedom* in 1962, "Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible…If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is?" (pg 133). Given these divergent perspectives, our paper seeks to provide evidence about the nature of the relationship between employee beliefs in a strong corporate purpose and financial performance.

Our evidence comes from a proprietary survey from the Great Place To Work (GPTW) Institute that covers employees across all hierarchical levels within hundreds of organizations that rate their

employers in terms of a wide variety of organizational workplace variables. The primary advantage of this dataset is that it allows us to construct – across a wide range of companies and industries -- a set of measures based on actual employee beliefs about their employer.

Critically, a subset of the survey relates to purpose. We consider questions related to purpose as those that measure job meaning and employee pride ("My work has special meaning: this is not just a job"; "I feel good about the ways we contribute to the community"; "When I look at what we accomplish, I feel a sense of pride"; and "I'm proud to tell others I work here."). This is in line with research that operationalizes purpose as "when the direct outcome of the work fits your identity. You work because you value the work's impact" (Doshi and McGregor 2015).

The dataset also allows us to construct an array of measures on other employee beliefs about their employer (e.g. fairness, management quality) and relate them both to purpose and financial performance. Moreover, we can measure these beliefs, including beliefs about purpose, at various job levels, from executives down to hourly workers, and report how beliefs at different levels relate to performance.

For this study, we focus on publicly listed companies and calculate measures of purpose for 456,666 employees within 429 firms and six years across a broad range of industries. We aggregate employees' responses to these questions, together with their other perceptions, and associate these aggregates to two common measures of firm performance, operating Return on Assets (ROA) and Tobin's Q.

Notably, this first analysis yields a null result: our measures of purpose exhibit no association with firm financial performance, either ROA or Tobin's Q. We find no relationship between the strength of employee beliefs in purpose – either aggregated to a firm level, or by job level – and firm performance.

We then perform a factor analysis on the survey responses to identify whether purpose co-varies with other constructs within the data. From this analysis, we identify two groups of organizations with purpose. The first group, high *Purpose-Camaraderie* organizations, includes organizations that score high on purpose and also on dimensions of workplace camaraderie (e.g. "This is a fun place to work"; "We are

all in this together"; "There is a family or team feeling here"). The second group includes high *Purpose-Clarity* organizations that score high on purpose but also on dimensions of management *clarity* (specifically, the following two questions: "Management makes its expectations clear"; "Management has a clear view of where the organization is going and how to get there").

When we replace our aggregate measure of purpose with the factor measures capturing the two types of purpose organizations, we find that the high *Purpose-Clarity* organizations exhibit superior accounting and stock market performance. Our results hold after controlling for the full set of factors representing the remaining dimensions of employee beliefs, as well as our measure of overall level of employee satisfaction, mitigating concerns that an omitted measure of employee beliefs is driving the association. In nearly all specifications, we also find a significant association even after controlling for the lagged level of the dependent variable, mitigating concerns about reverse causality. We also find a positive association in models with firm fixed effects on a balanced sample of firms over time, suggesting that time-invariant firm-specific unobservable characteristics are also unlikely to explain the results.

Of course, lacking an instrument or a natural experiment, it remains a concern that an omitted variable not part of the GPTW survey could be the source of link association between our main variables of interest. To address this concern and also to explore our mechanism further, we next construct measures of firm-level purpose for employees at five levels of the organization (i.e., executives and senior managers, sales force, middle managers, salaried professionals, and hourly workers). Several additional findings emerge. First, we find systematic differences across levels of employees in their perception of purpose: the more senior the employee, the stronger is the perceived purpose of the organization. This is in line with practitioner claims that diffusing a sense of purpose in lower levels of the organization has not been successful in many firms (Graham *et al.,* 2015; E&Y 2016). Second, and most relevant to our study, it is solely the middle managers and salaried professionals that drive the relation between high *"Purpose-Clarity*" organizations and financial performance. We find no association for senior executives, sales or hourly workers. A reverse causality explanation—that strong performance, either current or anticipated, leads to a high sense of purpose among employees—would plausibly affect the senior

executives and the sales force more strongly than the middle layer within the firm, since the compensation of the first two groups is most directly linked to firm performance. This is not what we find.

Lastly, we calculate stock returns that, by construction, are forward looking and do not suffer from reverse causality and find that a portfolio of high "*Purpose-Clarity*" firms earns significant positive risk-adjusted stock returns in the future, up to 7.6% annually, on par or greater than other studies of returns to intangible firm factors.

II. Corporate Purpose

II.a What Is Corporate Purpose?

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

Purpose, however, need not be explicitly pro-social. Oxford Dictionaries define purpose as "the reason for which something is done or created or for which something exists."[1] Applying this general definition to a firm context, the Purposeful Company Report—written by a consortium of academics studying purpose in businesses—defines the purpose of a company as "its reason for being."[2] Similarly, Henderson and Van den Steen (2015) write that purpose is "a concrete goal or objective for the firm that reaches beyond profit maximization."

Practitioners, including CEOs, consultants and the press, have long articulated this form of purpose. One of the authors of this study, prior to joining academia, worked at a company whose purpose

[1] http://www.oxforddictionaries.com/us/definition/american_english/purpose, accessed 3/15/16.
[2] The Purposeful Company Interim Report, May 2016. http://www.biginnovationcentre.com/media/uploads/pdf/The%20Purposeful%20Company%20Interim%20Report.pdf, accessed 6/26/16.

was "to change the way the world works." Dennis Bakke, the CEO of AES, a global electric utility, alludes to the purpose of AES as "meeting the world's need for safe, clean, reliable and economically priced electricity" (Bakke, 2003, pg. 30). The Brazilian cosmetics firm Natura and the Danish pharmaceutical firm Novo Nordisk, two of the most successful companies in terms of stock price performance in the last decade, have explicitly stated a purpose beyond profit maximization since their founding.[3] Richard Branson, CEO of Virgin Group has said, "It's always been my objective to create businesses with a defined Purpose beyond just making money…our newest investment in OneWeb is also very much a Purpose-driven business, looking to create the world's largest constellation of satellites to bring connectivity and communications to billions."[4] Similarly, Paul Polman, CEO of Unilever, has long supported the importance of purpose in business, "We have committed to help provide good hygiene, safe drinking water and better sanitation for the millions of people around the world…It is about opportunity and aligning our purpose in business with this opportunity."[5] In these examples, purpose is a meaning-rich articulation of the main business of the firm.

Moreover, an organization's purpose is not a formal announcement, but is a set of common beliefs that are held by and guide the actions of employees. Dennis Bakke, the CEO of AES, highlighted the importance of this soft or implicit aspect by stating that it is only the company's "primary purpose—the real one, which isn't necessarily the one written in official documents or etched in wall plaques—[that] guides its actions and decisions."

We adopt this broader view of corporate purpose, as a common set of beliefs about the meaning of a firm's work beyond quantitative measures of financial performance.

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[3] For Natura see: http://www.managementexchange.com/story/innovation-in-well-being ; for Novo Nordisk see http://www.managementexchange.com/story/how-novo-nordisk's-corporate-dna-drives-innovation. Both companies frequently top the list of sustainability indices provided by rating agencies such as the Dow Jones Sustainability index constructed by Robeco Sustainable Asset Management http://www.sustainability-indices.com/.

[4] How to manifest purpose in business: https://www.virgin.com/richard-branson/how-to-manifest-purpose-in-business

[5] Redefining Business Purpose: Driving Societal and Systems Transformation http://www.huffingtonpost.com/paul-polman/redefining-business-purpo_b_6549956.html

II..b How Does Purpose Influence Performance?

Using this definition in the prior section, how then does purpose influence performance? Two opposing views of purpose have broadly characterized the discussion.

On the one hand, purpose has been considered a means of focusing employees on productive activities.

In this interpretation, it is by focusing on instilling a strong sense of purpose within the firm that financial success is generated. In other words, the pursuit of purpose enables the pursuit of business goals (Thakor and Quinn 2013). Purpose could relate to financial performance because it increases employee effort, customer loyalty and satisfaction, allows a firm to build relational contracts, or to decentralize, or because it shields an organization from short-term pressures.

On the other hand, these perceptions about the benefits of purpose contrast with a long-standing argument that a corporation's sole purpose is to maximize profits and as a result shareholder value (Friedman 1961). According to this view, the purpose of every (public) firm should be profit maximization, as managers are agents of shareholders, and any deviation is evidence of agency problems and impending financial underperformance (Jensen 2002). Consistent with that argument, scholars have some argued for an increase in shareholder rights to reign in managers focused on outside goals (Bebchuk 2013). Following this logic, any focus on corporate purpose that is not explicitly focused on shareholder returns represents, at best, a distraction for employees. Moreover, as Henderson and Van den Steen (2015) highlight, in order for a corporate purpose to be credible, the firm needs sometimes to make non-profit maximizing decisions.

Given these opposing arguments, the ex-ante relation between purpose and performance is unclear.

II.c How Might Purpose Vary Within An Organization?

The literature on purpose has not extensively explored how beliefs about purpose may vary across job levels within an organization, and how those differences affect outcomes of interest. In general, though, a frequent claim is that employees in more senior positions hold stronger beliefs about the purpose of the

organization and the corresponding meaning of their work (Ernst & Young 2016). This is generally ascribed to these employees being better informed about the goals of the organization and also having greater responsibility to influence these goals.

A strong sense of purpose among the senior executive team might affect financial performance through restricting the tendency to exhibit short-termism taking actions that increase short-term earnings and stock prices but destroying long-term value (Ton 2014).

On the other hand, the link between purpose and performance may occur at the mid-level, among managers and professional employees. Wooldridge, Schmid and Floyd (2008), in reviewing 25 years of research, note a broad consensus that this layer influences strategy formation and implementation (Bower 1970, Burgelman, 1983), as well as strategic innovation (Kanter, 1982). Huy (2001) argues that these employees are often closer to the market than their more senior counterparts and have relationships both up and down the formal organization to translate abstract strategic ideas into action. Floyd and Wooldridge (1997) similarly find that middle managers' ability to exert strategic influence is positively related to organizational performance.

Finally, a strong sense of purpose among lower level employees might affect customer loyalty and satisfaction as front line employees may have more direct contact with external stakeholders and hence more opportunity to translate that purpose beyond the firm boundaries.

Given these arguments, exploring the job level at which the relation between purpose and performance manifests, can shed light on the underlying mechanism of the relation between purpose and financial performance.

Data and research design

We construct our sample from GPTW survey data. The Great Places to Work® Institute administers Fortune Magazine's annual "100 Best Companies to Work For" list. Our study makes use of the raw data submitted by companies competing to be included on this list. This data have been previously used by Guiso, Sapienza and Zingales (2015) to understand corporate culture and its association with firm

performance, as well as by Garrett, Hoitash and Prawitt (2014) to measure the relationship between employee trust and accounting quality. Edmans (2011) uses the outcome of the process—whether a company was chosen by the Institute to be included on the annual Fortune list—to assess whether companies included in the Top 100 Best Places to Work exhibit positive abnormal stock returns in the future.

To qualify for this list, companies must have more than 1,000 employees in the US for more than seven years. Approximately 400 public and private companies applied each year during our study period. The application process is lengthy and costly to administer; therefore, these large, established firms are a self-selected group that likely competes heavily for human capital (hence their desire to appear on the Fortune list). As such, these firms are likely leaders in employee-related management practices. We view this sample selection as likely decreasing the power of our test since it is unlikely that we will observe companies that have a low sense of purpose. Moreover, the sample selection may limit the generalizability of our results if, for example, the firms that elect not to apply enact different human capital practices that have different performance implications. We discuss these limitations later in the paper, after we present our results.

Firms must submit two separate filings as part of the application: The Culture Audit Survey© (CAS) and the Trust Index© employee survey (TI). The CAS includes summary information on the company, including number and demographics of employees, geographic footprint of the company and information about compensation practices and corporate benefits. The TI is a randomized survey, stratified by employee job level, that includes 57 questions measuring various employees' beliefs about the workplace, such as management-employee relationship, workplace camaraderie, and pride in and meaning of the work. These responses span five job levels: hourly employees, sales (commission-based)

workers, middle managers and supervisors, salaried professional and technical workers and executives and senior managers. [6]

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

We construct a measure of purpose by aggregating four of the survey questions that relate directly to the concept of purpose. These questions are "My work has special meaning: this is 'not just a job'", "When I look at what we accomplish, I feel a sense of pride;" "I feel good about the ways we contribute to the community," and "I'm proud to tell others I work here." We select those questions as they are the closest to research that operationalizes purpose as "when the direct outcome of the work fits your identity. You work because you value the work's impact" (Doshi and McGregor 2015). We equally-weight the four questions and take their average value to construct the index. In unreported analysis, we find very similar results when we use just one of the four measures iteratively or when we extract a common factor from the four based on factor analysis. Further, the Cronbach's alpha for these four questions is 0.86, indicating substantial relationship between the different questions.[7]

Table 1 shows the summary statistics for our sample. Unsurprisingly, given the application requirements, the sample firms are large, with an average of more than $50 billion in assets and 15,000 employees. Average ROA is 10% with a standard deviation of 10%. Average Tobin's Q is 1.96 with a standard deviation of 1.2. The mean firm has been incorporated for 59 years and has nearly 15,000 full-

[6] While our data agreement precludes us from releasing the full set of questions from the survey, a public description of the survey instrument can be found here: http://www.greatplacetowork.net/our-approach/what-is-a-great-workplace, accessed 6/25/16. Our four questions on purpose fall under the designated "Employee Pride" category.
[7] Moreover, the item-test correlation of the four questions is 0.87, 0.86. 0.85 and 0.79, indicating that these items are highly correlated with each other. As a check, the item-test correlation of our control question "This is a physically safe place to work," is only 0.65.

time employees, consistent with our sample of larger, more established companies. The average score for our purpose measure is 4.3 with a standard deviation of 0.2.

<< Insert Table 1 about here >>

Figure 1 shows the average purpose measures by job level. Executives and senior managers score the highest, followed by middle managers and salespeople, then salaried professionals. Hourly employees score the lowest. This result is roughly consistent with the degree of responsibility by job level: executives have the most authority and concurrently have the strongest sense of purpose in their work, while hourly employees have the least and the weakest sense of purpose.

<< Insert Figure 1 about here >>

Appendix Table A1 Panel A shows summary statistics by year. Two attributes of the data become apparent from this table. First, survey applications by public firms peak in 2006, with 207 companies applying, and reduce to 125 firms in 2010. We speculate that this trend reflects economic conditions during the period: the GTPW application process is costly and likely fits into discretionary spending that is reduced during downturns. We later discuss how this selection effect may bias our analysis. Second, we can see that these firms are larger than the typical firm in the Compustat universe and consistently better performing, as measured by ROA. Once again, this result reflects the nature of the sample: these are large, well-performing firms that are competing intensely on human capital.

Appendix Table A1 Panel B examines industry composition across 12 industries. The most highly represented industry is Business Equipment with 203 firm-year observations followed by Finance with 155 observations. First, while the industry distribution is broadly representative of the Compustat universe, there are some differences. In particular, Business Equipment and Retail are overrepresented, while Healthcare and Finance are underrepresented. While we cannot definitively state the reasons for these differences, we speculate that businesses will be overrepresented in industries in which the labor force pays special attention to this Fortune list. Second, showing that the statistics in Panel A are not driven by industry compositional effects, we see that firms in the GPTW sample are larger than the typical public firm in their industry and better performing.

Purpose and firm performance

Empirical specification

We estimate the relation between our purpose measure and performance using an OLS model, clustering standard errors at the firm level to account for serial correlation within a firm over time. The model we estimate is:

$$Perf_{it} = a + b_1 \text{ x } Purpose_{it} + b_2 \text{ x } ControlQ + b_3 \text{ x } HQState_i + b_4 \text{ x } Industry_i + b_5 \text{ x } Year_t + \sum Controls_{it} \quad (1)$$

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

Given that our setting does not provide an exogenous shock to purpose that is otherwise unrelated to performance, we are unable to establish causality. As such, we discuss our results using associative, rather than causal, language. To address concerns over reverse causality and omitted variable bias, we implement the following research design choices. First, we include the lagged value of the dependent variable, which controls for past factors that have influenced the performance of the firm and tend to have a persistent impact on a firm's performance (Wooldridge 2002). We next construct a balanced sample and introduce firm fixed effects to account for all time-invariant firm-specific unobservable characteristics.

Third, we perform additional analyses that separate purpose according to the job level of the employees in the organization. This last test allows us to understand which, if any, job level is driving the association between purpose and performance and make inferences about the nature of the bias in our estimates. Last, we calculate stock returns that are forward looking, by construction, and do not suffer from reverse causality. Specifically, we construct portfolios of firms that score high on our purpose measures and investigate whether these portfolios have positive alphas after controlling for the Fama and French (1993) and Carhart (1997) factors. We estimate these regressions using time-series monthly data.

Purpose and firm performance

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

<< Insert Table 2 about here >>

In Appendix Table A2, we decompose our aggregate measure of purpose within each firm and year into purpose by job levels within firm years. We do this further analysis in order to verify that our null finding at the firm level is not masking opposing effects by job level. We replace our firm-year measure of purpose with measures by job level within each firm and year. The results in this table show that none of the job level measures of purpose are related, either positively or negatively, to firm performance, supporting our null finding in Table 2.

Types of High Purpose Firms and Firm Performance

There are several potential explanations for the null association between our measure of purpose and firm performance.[8] In this section, we explore the following possibility: that purpose *alone* is not associated with performance, but purpose is bundled with other beliefs that, together, do matter for performance.

We perform an exploratory factor analysis on the raw survey questions to identify bundles of beliefs that co-vary with our purpose questions. We run the analysis at the employee level using all individual survey responses for all full time employees of all for-profit firms (both public and private).[9] We include 53 of the 57 questions, excluding four questions that we considered to be outcome measures of overall job satisfaction and employee engagement. The factor analysis yields four factors that seem to explain most of the variation.[10]

We then apply a varimax rotation on our factors to orthogonalize, to the extent possible, our factor measures (Kaiser, 1958; Kim and Mueller, 1978). The rotation of the factor axes maximizes the variance of the squared loadings of a factor on all the variables in a factor matrix. As a result, it distinguishes between the original variables by extracted factor. The rotation yields either large or small loadings on each survey question, which allows us to characterize each factor by the set of questions that received high factor loadings. To construct firm-year level measures we average the scores for each factor across all individuals to obtain firm-year measures.

Factor descriptions

We identify four factors that represent bundles of questions for which employees tend to answer in conjunction with each other. Our data agreement with the GPTW Institute precludes us from publishing

[8] For example, our purpose measure may not capture "purpose" in a meaningful way or there may be measurement error arising from the survey administration that we cannot observe.

[9] The survey also includes non-profit organizations and government agencies, both of which we exclude from this analysis, along with part-time employees at for-profit firms.

[10] We use a scree test to determine the number of factors to extract (Velicer and Jackson, 1990; Costello and Osborne, 2005). Applying this test, we observe a clear reduction in the differences between eigenvalues of incremental factors by Factor 5 and therefore keep the first four factors. The difference in eigenvalues between Factors 4 and 5 is 0.111 versus 0.053 between Factors 5 and 6, and these differences thereafter remain stable or diminish only very gradually.

the survey instrument in totality, so in this section, we describe the nature of the questions captured by each factor in as much detail as possible in accord with our data agreement.

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

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

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

Factor 4, which we call *Purpose-Clarity*, includes our four purpose questions together with questions that characterize a workplace where management provides significant clarity around direction, job responsibilities, and tools that can be used to achieve the desired outcomes. The two items with the highest loadings on this factor, aside from the four purpose questions, are "Management has a clear view of where the organization is going and how to get there" and "Management makes its expectations clear."

Factors and Firm Performance

Appendix Table A3 shows a univariate correlation matrix for the four survey factors aggregated up to the firms level, together with our other firm-year survey and financial measures. A couple of interesting observations emerge from these correlations. First, the correlation between the different factors is

moderate and ranges between -0.31 to 0.39, allowing us to include all four factors together in a multivariate regression.[11] Second, our two purpose-related factors, Factor 2 *Purpose-Camaraderie,* and Factor 4, *Purpose-Clarity,* are only modestly correlated with each other (0.16), indicating that they capture conceptually different sets of worker beliefs. Third and related to this prior point, our purpose measure is most highly correlated with Factor 2, *Purpose-Camaraderie,* (0.85), and only moderately correlated with Factor 4, *Purpose-Clarity,* (0.44). This moderate correlation indicates that *Purpose-Clarity* does capture additional beliefs aside from solely a sense of purpose among employees. Lastly, the strength of beliefs in purpose is higher for younger firms, firms with lower leverage and fewer employees, and firms with higher Tobin's Q. This overall pattern is maintained across Factors 1, 2 and 3. In contrast, the correlations for Factor 4 are the opposite: *Purpose-Clarity* is higher for larger, more established firms. One reason for this could be that while smaller and younger firms are more likely to have a strong sense of purpose, it is larger firms that are in greater need to couple a strong sense of purpose with processes that clearly communicate the job expectations and responsibilities of all employees due to their complexity and formalization of interpersonal relations.

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

<< Insert Figure 2 about here >>

In Table 3, we replace purpose with our four survey factors. Column (1) measures the association between our two purpose factors and ROA. As with Figure 2, we see that *Purpose-Camaraderie* has no significant association with ROA, while *Purpose-Clarity* is strongly positive. This association is economically significant: an increase from the bottom to top decile in *Purpose-Clarity* is associated with an increase in ROA of 3.89%. In Column (2), we include the other two factors as controls and the

[11] Note that the factors are less correlated at the individual survey level, the level that we performed the varimax rotation. The aggregation to the firm-year level introduces moderate correlations between the factors.

association between *Purpose-Clarity* and ROA remains significant and similar in magnitude. In Column (3), we also include the lagged ROA as a dependent variable. In this specification, the association disappears, indicating potential reverse causality at this aggregated level.[12] However, in a subsequent analysis we separately estimate the effect of purpose on ROA by job level and find that our result remains economically and statistically significant, even after controlling for lagged ROA.

Columns (4)-(6) repeat this analysis using logged Tobin's Q as the performance variable. We continue to find no association between *Purpose-Camaraderie* and Tobin's Q and a strong, positive association with *Purpose-Clarity*. In this case, the association remains when we include lagged Tobin's Q as a control (Column 6). Although it is attenuated in this specification, the association is still strong: an increase from the bottom to top decile in *Purpose-Clarity* is associated with an increase of 0.115 in Tobin's Q.

<< Insert Table 3 about here >>

Our full sample is a highly unbalanced panel: we observe two thirds of our firms only once or twice. This imbalance renders a fixed effects analysis challenging, particularly since participation in the survey is voluntary and likely related to firm performance. To explore within-firm effects, therefore, we next restrict our analysis to firms that have appeared for all 6 years in our panel, which yields a balanced subsample of 29 firms and 170 observations. We rerun our analysis of Table 3 on that restricted subsample. First, in an unreported analysis, we replicate Table 3 on that subsample using OLS and show that the point estimates and significance of this subsample is similar to the full sample. We next include firm fixed effects. Table 4 shows the results: the coefficient on *Purpose-Clarity* is consistently positive and statistically significant, even with lagged performance variables. This analysis provides support that our results are not driven by unobservable time-invariant firm characteristics.

[12] An alternative explanation is that the financial benefits of purpose can be communicated and captured in stock prices faster than they flow in accounting performance. Given that most of the financial accounting transactions that are recorded are backward looking, it seems plausible to expect that the financial benefits of purpose will be detected in longer leads of ROA if one controls for lagged ROA.

<< Insert Table 4 about here >>

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

Analysis by Job Level

For the next analysis, we separate *Purpose-Clarity* by job level and investigate which job level is driving the association with firm performance. Appendix Table A5 shows the correlations between the job level measures of *Purpose-Clarity* with each other and the other survey measures. A few notable insights are apparent from this table. First, the strongest correlation between job levels occurs between middle managers and professional-technical worker beliefs (0.61), while executives and senior managers are only moderately correlated with the other job levels. Second, the other purpose factor, *Purpose-Camaraderie,* remains weakly correlated with these job-level *Purpose-Clarity* measures, and the strongest correlation is with hourly workers (0.17) and the weakest with middle managers (0.02) and negatively with executives (-0.13). This weak correlation is consistent with these two factors capturing fundamentally different work orientations, with *Purpose-Camaraderie* workplaces putting significant weight on an atmosphere of strong interpersonal camaraderie and *Purpose-Clarity* workplaces focusing on job effectiveness.

Table 5 repeats the analysis of Table 3, replacing the aggregate measure of *Purpose-Clarity* with the measures by job level. We find that two job levels drive the positive association with firm performance: middle managers and professional/technical employees. Two observations emerge from this analysis. First, not finding any results for senior executives or salespeople suggests that reverse causality is unlikely to explain our result, since these employees are the most infirmed about future firm prospects. Second, as we explore in the discussion section, this result provides evidence of the importance of strong,

credible beliefs held by mid-level employees, particularly in the meaning of their job and clarity in how to succeed.

<< Insert Table 5 about here >>

Future Stock Returns

Table 6 shows estimates from calendar time portfolios of an investment strategy that buys the stocks of firms scored each year at the top quintile of *Purpose-Clarity* and holds the portfolio for one year at which point it is updated with the new ranking of firms. The portfolios are formed on the 1st of January. Our objective, rather than to show that this is an implementable trading strategy (since investors do not have access to this information), is to understand whether the *Purpose-Clarity* measure can predict future stock returns. This finding would mitigate concerns about reverse causality, as well as provide some sense of the economic magnitude of the phenomenon.

Each month the returns of each firm in the portfolio are equal-weighted and aggregated thereby constructing a portfolio return. The time-series of 72 monthly stock returns is then regressed on risk premiums for the market, size, value, and momentum factors (Fama and French 1993; Carhart 1997). Column (1) uses the overall Purpose-Clarity measure. Columns (2) and (3) use the Purpose-Clarity measure for middle managers and professional stuff respectively. Across all specification we find a positive and significant alpha (i.e. abnormal stock return).

The annualized abnormal returns are estimated at 6.9%, 7.6% and 5.9% across columns (1), (2) and (3) respectively. These are economically meaningful estimates. By way of comparison Edmans (2011) finds that the Fortune Best Companies Top 100 list that is derived from the overall GPTW data earns a 4% annualized stock return. It is also of the same magnitude of other studies of intangible drivers of firm success, such as 4.6% for high R&D capital (Lev and Sougiannis, 1996), 6.1% for firms in the top quintile of R&D flows (Chan *et al*., 2000) and 8.5% for firms with strong governance (Gompers, Ishii, and Metrick, 2003). Therefore, our results in Table 6 suggest that instilling mid-level employees with a

sense of purpose and clarity from management is strongly associated with firm performance, on par with investing in R&D capabilities or implementing good corporate governance.

<< Insert Table 6 about here >>

Discussion of Mechanisms

Our analysis suggests that high *Purpose-Clarity* organizations exhibit higher financial performance in the future, and particularly when these beliefs are held in the middle ranks of the organization. There are multiple reasons that could give rise to these patterns. While our tests cannot fully discriminate between them, we now discuss how these alternatives are more or less compatible with the different analyses presented in this paper. Specifically, we focus in this section on explanations of the following fact pattern: 1) the combination of purpose and clarity is associated with performance, rather than purpose alone, and 2) only beliefs within the middle ranks of organizations drive the association.[13]

Our explanations fall into two categories: i) those that relate to employees and implementation and ii) those that focus on constituencies other than employees.

Employees and implementation

One class of explanations focuses on how the combination of purpose and clarity among mid-level employees enables firms to implement its corporate purpose effectively. Most companies produce internal and external statements of their purpose and vision; however, as Guiso, Sapienza and Zingales (2015) find, these statements are cheap talk and unrelated to performance. Reflecting this implementation problem, one survey found that, while 89% of senior executives believed that organizations with shared purpose have higher employee loyalty, only 37% believed that their own business model and operations were aligned with their company's purpose (E&Y 2016). Furthermore, the translation of purpose is least effective to employees that appear to matter most. A number of studies have shown that the high-ability

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

workers are those that are most interested in meaningful work (Bode *et al.,* 2015, Burbano, 2016). However, executives report that the hardest areas to integrate purpose are those that focus on high-skill labor: talent management, performance incentives and leadership development (E&Y 2016).

Given this challenge in implementation, we now consider a four candidate explanations for why the combination of a high sense of purpose and management clarity together solves the implementation problem.

Relational contracts and trust

One mechanism through which *Purpose-Clarity* could be associated with higher firm financial performance is that this factor allows the firm to build and sustain relational contracts that in turn enable the firm to achieve superior financial performance. Relational contracts arise because of the inability to write complete employment contracts in the workplace (Gibbons and Henderson, 2012). There is growing evidence that these relational contracts do influence employee behavior. In one recent example, Blader *et al.,* (2015) find evidence that changes in the relational contract between the firm and workers is associated with changes in worker productivity. Helper and Henderson (2014) ascribe the decline of General Motors partly to their inability to develop effective relational contracts.

A necessary condition for parties to enter into the contract is their belief that the other party will "cooperate," rather than "defect" (Kreps, 1990). In this construction, purpose can then be considered as a mechanism through which all parties assign a high probability of cooperation in the future. This is in line with a "team-production" theory in corporate law where the need for different stakeholders to make firm-specific investments in the absence of complete contracts that reward these investments gives rise to the need for a corporate purpose that goes beyond shareholder value maximization (Blair and Stout 1999; Stout 2012).

However, our findings show that purpose alone is not sufficient. The purpose-clarity combination is consistent with the argument by Gibbons and Henderson (2012) that emphasizes the role of clarity in building and sustaining relational contracts. They emphasize that inability to clearly communicate expectations and roles in a workplace ex ante makes it less likely for different parties to enter into

relational contracts. Using this logic, our findings are consistent with the following underlying mechanism: clarity enables the translation of purpose from an abstract idea to specific actions that employees have confidence will be recognized (and rewarded) by their superiors. In that sense, the combination of purpose and clarity together enables the formation of a relational contract between senior management, middle management and lower level employees that solves the implementation problem and, as a result, influences performance.

Moreover, our finding that mid-level employees drive the association between purpose and clarity and financial performance further supports this interpretation. Given the role of these employees in executing the strategy within the firm (Wooldridge *et al*. 2008; Huy 2001), they are situated in a position to enforce and honor relational contracts inside the organization.

We conduct three tests to formally examine this mechanism. We expect the relation between *Purpose-Clarity* and financial performance to be stronger for firms with longer serving CEOs, longer tenured employees, and firms that have experienced layoffs. Firms with longer-serving CEOs and employees with longer tenure are more likely to have developed relational contracts and to base their actions on those contracts. Firms that have implemented layoffs are more likely to have threatened the existing relational contracts making the presence of *Purpose-Clarity* a more significant instrument of keeping those contracts credible. Of course this does not mean that the relation between *Purpose-Clarity* and financial performance does not hold for the other types of firms. But we do expect that if relational contracts are, at least partly, an explanation for why we observe this relation, our results will be more statistically significant within these firms.

Our results in Appendix Table A6 are consistent with the above predictions. We find that both ROA and Tobin's Q exhibit positive and significant coefficients with *Purpose-Clarity* for firms in the top quartile of CEO tenure (i.e., long-serving CEOs), firms in the top quartile of employee tenure (i.e., long-tenured employees), and firms that have experienced layoffs. For firms in the bottom quartile of CEO tenure (i.e., short-serving CEOs), firms in the bottom quartile of employee tenure (i.e., short-tenured employees), and firms that have not experienced layoffs, the estimated coefficients on *Purpose-Clarity*

are positive but not significant, with the exception for firms that have short serving CEOs or no layoffs when the dependent variable is Tobin's Q.

These results provide evidence in support of relational contracts or employee trust underlying, at least in part, the association between *Purpose-Clarity* and performance.

Complementarities in management practices

Another means by which *Purpose-Clarity* may be associated with higher performance is that this combination signifies that a coherent bundle of management practices has been implemented within the organization to instill purpose. As Milgrom and Roberts (1995) and Porter and Siggelkow (2008) point out, management practices combine in non-simple ways that can influence their outcomes. Implementation of mutually inconsistent practices, even if each one in turn appears promising, can lead to negative outcomes.

Blader, Gartenberg and Prat (2016) provide one example of this proposition: they find that instilling a team-oriented culture among workers negatively interacts with publicly disclosing worker performance. Relatedly, Keller and Price (2011) find that different "archtypes" of firms are associated with different practice bundles, and that firms that take a generalized approach to adopting practices underperform those that adopt specific bundles that match their overall orientation.

In our study, it could be that, a strong sense of clarity, together with purpose, reflects a state in which management has implemented a set of management practices are consistent with, rather than undermining of, the purpose of the firm. As such, employees not only believe that the organization has a strong purpose but also that it is operationally committed to its implementation.

Decentralization

Decentralized organizations have been shown to perform better under certain conditions (Aghion *et al.,* 2014). In decentralized organizations, mid-level employees have more autonomy, which is generally associated with higher perceptions of empowerment. One possibility is that high empowerment in turn leads to higher levels of perceived purpose. In this case, combining decentralization with clear direction from management (clarity) could lead to better and more efficient decision-making and, as a result, to

higher financial performance. Decentralization would be especially important for middle managers under this explanation as our results suggest.

We attempt to test this explanation by constructing a proxy for decentralization, adapting the approach of Guadalupe and Wulf (2010) for our context. We measure the span of senior control as the ratio of the number of middle managers to senior managers and executives. Using their logic, the larger this ratio, the more middle managers report to senior managers, which effectively decentralizes power down to the middle manager layer. However, in an untabulated analysis, we do not find association between this proxy and our *Purpose-Clarity* measure, nor are our results diminished when including this decentralization proxy in our analyses.

Employee engagement

Past research has documented that when employees feel a sense of meaning in their work, their performance increases (see Cassar and Meier (2016) for a recent review). For example, in mission-driven organizations, pro-socially motivated employees are likely to achieve high performance in the workplace (Grant and Sumanth 2009). Relatedly, pro-social motivation predicts higher worker performance in settings with clear public good goals, such as government work (Perry and Hondeghem 2008), firefighting (Grant 2008b), and nursing (Riggio and Taylor 2000).

In our sample, however, of large publically listed firms where the pursuit of profitability is the dominant institutional logic, we find no association between financial performance and purpose as perceived by front-line employees where we would expect pro-social motivation to be an important factor of engagement. Similarly, it is not clear under this explanation why clarity is an important factor, absent appealing to other mechanisms, such as incomplete and relational contracting.

Other constituencies

Our second category of explanations focuses on constituencies that are not the general employees of the firm. Here, we consider three of these (non-exclusive) explanations: i) short-termism of outside investors, ii) customer loyalty and iii) CEO style.

Short-termism

In this explanation, purpose is a mechanism to mitigate short-term pressures on business and as a result reduce managerial myopia. Senior policymakers have argued that many corporations exhibit short-termism, a tendency to take actions that maximize reported short-term earnings and stock prices at the expense of long-term corporate performance (e.g., Levitt 2000; Donaldson 2005).[14] Prior studies have documented the sources of short-termism, such as capital market pressures and managerial monetary incentives (Brochet, Loumioti and Serafeim, 2015), as well as the negative effects of short-termism on strategic orientation (Connelly *et al.,* 2010) and future shareholder value (e.g., Bushee, 1998; Bhojraj *et al.,* 2009). Corporate purpose could mitigate such short-term pressures by signaling to investors the type of the organization and as a result creating a more long-term oriented investor base or by aligning incentives inside the organization.

We view short-termism as unlikely to explain our results. If short-termism were the mechanism, one would expect that the relation between purpose and performance be driven by senior executives, who are the actors that make the myopic decisions criticized in the literature (e.g. cutting research and development and other long-term investments). However, we find that senior executives' beliefs about purpose are not related to financial performance.

Customer loyalty and satisfaction

A separate literature has proposed that purpose leads to higher customer satisfaction and loyalty when customers themselves care about the firm's purpose (Du, Bhattacharya, and Sen 2007a). This would be

[14] We mostly use the term "short-termism" but also occasionally refer to it as "myopia," another commonly used word to describe excessive focus on the short term in the corporate world and capital markets.

especially true if the firm's purpose is pro-social (Du, Bhattacharya, and Sen 2007b; Nielsen 2014; Hainmueller and Hiscox 2012).

However, in unreported analyses, we find that our results do not differ significantly across consumer-oriented and business-oriented companies. Given that the customer loyalty and satisfaction effect should be stronger in consumer segments of the economy, we consider this evidence that this mechanism is unlikely to explain the relation between purpose and performance. Moreover, it is not clear why workplace clarity is an important factor in this mechanism, nor the mid-level employee result.

Unobservable CEO style

A number of papers document that a number of CEO characteristics are correlated with firm performance (Bertrand and Schoar 2003; Bennedsen *et al*., 2007, Kaplan *et al*., 2012; Bandiera *et al*., 2016). Our data does not allow us to measure dimensions of CEO behavior that are unobservable to the researcher. If these characteristics influence both perceived purpose and financial performance then they could be correlated omitted variables in our research design. For example, Bandiera *et al*. (2016) show that especially in poorer countries CEOs of a coordinative type versus a micro-manager type are associated with better performance. If coordinative-type CEOs are able to build an organization of strong purpose then CEO type is a correlated omitted variable. For this alternative to be true, these CEOs would also have to instill beliefs about management clarity within mid-level employees. We note that the opposite could be true too: purpose allowing a CEO to be of a coordinative type therefore purpose driving the relation between coordinative type and performance. Of course almost all papers suffer from such unobservable correlated omitted variables and the best we can do it to caution the reader for their presence in interpreting the results.

Our analysis above suggests that the mosaic of evidence presented in this paper is compatible with relational contracts being a mechanism for the association between *Purpose-Clarity* and financial performance. While we cannot completely rule out all other mechanisms, our analysis suggests that firms

with employees that have a strong sense of purpose, especially among middle management, and clarity in their organizational processes are able to sustain higher levels of trust and relational contracts that allow them to achieve superior performance.

VI. Conclusion

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

Our study leaves many questions unanswered and opens up significant opportunities for future research. First, why is purpose/clarity such an important driver of performance for middle managers and professional staff? Second, how is purpose/clarity built and diffused inside an organization? Third, how does purpose/clarity assist in building relational contracts, decentralization, or employee engagement and productivity? Shedding light on the mechanisms would be an important step forward.

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Figure 1: Purpose by Job Level

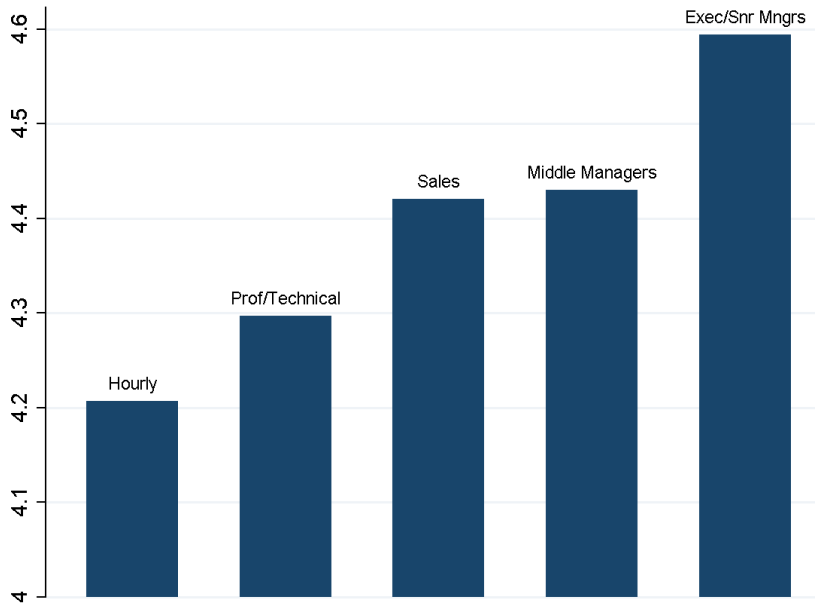


Figure 2: Purpose and Survey Factors and Firm Performance

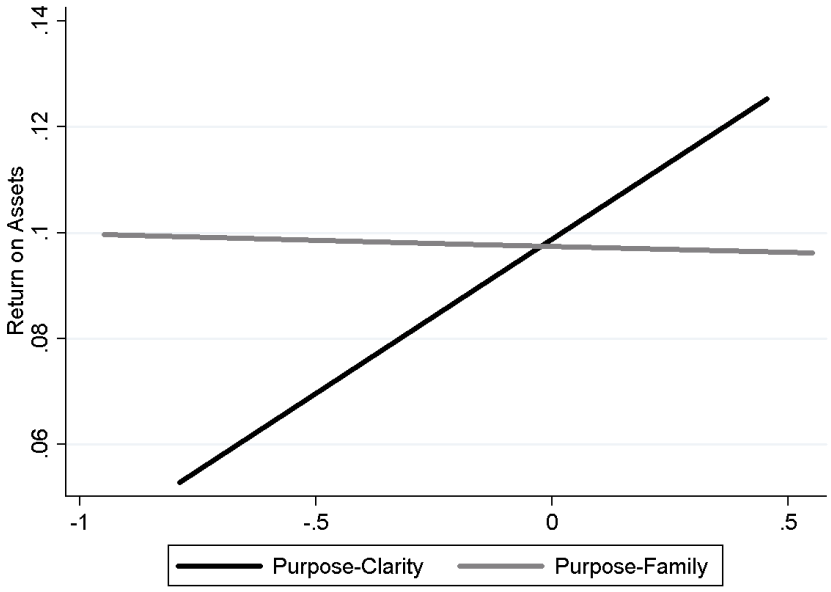


Table 1: Summary Statistics

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

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

Table 2: Purpose and Firm Performance

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

OLS regressions. Purpose is the equally-weighted average of four questions related to purpose from the GPTW Institute survey. *This is a physically safe place to work* is a question from the GPTW Institute survey. Return on Assets is EBIT over average total assets. Tobin's Q is total assets plus market value of equity minus book value of equity at calendar year end over total assets. Standard errors are clustered at the firm-level and robust to heteroskedasticity. ***, **, * signify statistical significant at the 1, 5, and 10% level respectively based on two-tailed tests.

Table 3: Survey Factors and Firm Performance

Dependent variable	Return on Assets			Log(Tobin's Q)		
	(1)	(2)	(3)	(4)	(5)	(6)
Purpose-Clarity (Factor 4)	0.0869***	0.0810**	-0.0108	0.5125***	0.5866***	0.1596**
	(0.0281)	(0.0331)	(0.0150)	(0.1444)	(0.1700)	(0.0723)
Fairness (Factor 3)		-0.0407	-0.0168		0.1443	0.0412
		(0.0391)	(0.0177)		(0.2068)	(0.0714)
Purpose-Camaraderie (Factor 2)	-0.0343	-0.0316	-0.0102	0.1192	0.1376	-0.0083
	(0.0251)	(0.0260)	(0.0093)	(0.1354)	(0.1406)	(0.0499)
*Managemen*t (Factor 1)		-0.0191	-0.0084		-0.0654	-0.0015
		(0.0265)	(0.0100)		(0.1311)	(0.0457)
This is a physically safe place to work	0.0655**	0.1005**	0.0202	0.3439**	0.2793	0.0250
	(0.0310)	(0.0427)	(0.0166)	(0.1631)	(0.2268)	(0.0756)
Lagged Return on Assets			0.8320***			
			(0.0352)			
Lagged Log(Tobin's Q)						0.8178***
						(0.0247)
Constant	-0.0059	-0.1673	-0.1449*	0.4527	0.7908	0.0129
	(0.1540)	(0.1858)	(0.0801)	(0.7872)	(1.0123)	(0.4104)
Year FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y
Controls	Y	Y	Y	Y	Y	Y
Observations	917	917	913	917	917	917
Adjusted R-squared	0.245	0.246	0.743	0.377	0.377	0.801

OLS regressions. Factors 1-4 are the outcomes of the factor analysis across 53 questions in the GPTW data. Leverage ratio is total debt over total assets. Firm age is the number of years since incorporation. *This is a physically safe place to work* is a question from the GPTW Institute survey. Return on Assets is EBIT over average total assets. Tobin's Q is total assets plus market value of equity minus book value of equity at calendar year end over total assets. Standard errors are clustered at the firm-level and robust to heteroskedasticity. ***, **, * signify statistical significant at the 1, 5, and 10% level respectively based on two-tailed tests.

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

Dependent variable	Return on Assets			Log(Tobin's Q)		
	(1)	(2)	(3)	(4)	(5)	(6)
Purpose-Clarity (Factor 4)	0.0980**	0.1113**	0.1248**	0.5712***	0.6336***	0.6102***
	(0.0404)	(0.0524)	(0.0541)	(0.2000)	(0.2021)	(0.2110)
Fairness (Factor 3)		0.0684	0.0877		0.1095	0.0597
		(0.0875)	(0.0892)		(0.2547)	(0.2581)
Purpose-Camaraderie (Factor 2)	0.0099	0.0139	0.0065	-0.1988	-0.1507	-0.1700
	(0.0295)	(0.0341)	(0.0327)	(0.1684)	(0.1723)	(0.1718)
*Managemen*t (Factor 1)		0.0153	0.0105		-0.0891	-0.1053
		(0.0478)	(0.0495)		(0.1668)	(0.1599)
This is a physically safe place to work	-0.0932	-0.1624	-0.1749	-0.3237	-0.3814	-0.3490
	(0.1126)	(0.1614)	(0.1639)	(0.3159)	(0.3808)	(0.3854)
Lagged Return on Assets			0.1481**			
			(0.0667)			
Lagged Log(Tobin's Q)						0.1149
						(0.1044)
Constant	0.5788	0.8964	0.9711	4.6873*	4.9560*	4.6129*
	(0.6249)	(0.8347)	(0.8576)	(2.3412)	(2.5088)	(2.3880)
Year FE	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
Controls	Y	Y	Y	Y	Y	Y
Observations	170	170	170	170	170	170
Adjusted R-squared	0.072	0.067	0.086	0.240	0.233	0.241

Fixed effects regressions. Sample includes firms that appear in all 6 years of the survey in our sample. Factors 1-4 are the outcomes of the factor analysis across 53 questions in the GPTW data. *This is a physically safe place to work* is a question from the GPTW Institute survey. Return on Assets is EBIT over average total assets. Tobin's Q is total assets plus market value of equity minus book value of equity at calendar year end over total assets. Standard errors are clustered at the firm-level and robust to heteroskedasticity. ***, **, * signify statistical significant at the 1, 5, and 10% level respectively based on two-tailed tests.

Table 5: Survey Factors by Job Level and Firm Performance

Dependent variable	Return on Assets			Log(Tobin's Q)		
	(1)	(2)	(3)	(4)	(5)	(6)
Purpose-Clarity (Factor 4) -- Sales	-0.0138	-0.0133	-0.0079	0.0042	0.0103	0.0140
	(0.0091)	(0.0090)	(0.0049)	(0.0410)	(0.0411)	(0.0206)
Purpose-Clarity (Factor 4) -- Hourly Employees	-0.0156	-0.0187	-0.0255**	-0.0017	0.0285	0.0670
	(0.0236)	(0.0234)	(0.0128)	(0.1280)	(0.1303)	(0.0543)
Purpose-Clarity (Factor 4) -- Middle Managers	0.0454**	0.0466**	0.0118	0.3480***	0.3832***	0.1200**
	(0.0215)	(0.0217)	(0.0103)	(0.1164)	(0.1131)	(0.0582)
Purpose-Clarity (Factor 4) -- Professionals	0.0659***	0.0658***	0.0255**	0.2347**	0.2627***	0.0390
	(0.0187)	(0.0196)	(0.0102)	(0.0990)	(0.1006)	(0.0460)
Purpose-Clarity (Factor 4) -- Executives	0.0154	0.0150	-0.0044	0.0094	0.0054	-0.0274
	(0.0118)	(0.0119)	(0.0071)	(0.0547)	(0.0551)	(0.0318)
Fairness (Factor 3)		-0.0340	-0.0110		0.2036	0.0755
		(0.0364)	(0.0173)		(0.2011)	(0.0715)
Purpose-Camaraderie (Factor 2)	-0.0337	-0.0299	-0.0132	0.1020	0.1306	-0.0088
	(0.0250)	(0.0260)	(0.0097)	(0.1397)	(0.1450)	(0.0507)
Management (Factor 1)		-0.0239	-0.0128		-0.0910	-0.0126
		(0.0257)	(0.0101)		(0.1287)	(0.0455)
This is a physically safe place to work	0.0743**	0.1075***	0.0247	0.3283**	0.2385	-0.0037
	(0.0310)	(0.0411)	(0.0175)	(0.1655)	(0.2291)	(0.0771)
Lagged Return on Assets			0.8225***			
			(0.0350)			
Lagged Log(Tobin's Q)						0.8232***
						(0.0242)
Constant	-0.0171	-0.1666	-0.1501*	0.5642	1.0351	0.1411
	(0.1559)	(0.1803)	(0.0857)	(0.8125)	(1.0280)	(0.4233)
Year FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y
Controls	Y	Y	Y	Y	Y	Y
Observations	917	917	917	917	917	917
Adjusted R-squared	0.266	0.267	0.747	0.355	0.356	0.800

OLS regressions. Factors 1-4 are the outcomes of the factor analysis across 53 questions in the GPTW data. Leverage ratio is total debt over total assets. Firm age is the number of years since incorporation. *This is a physically safe place to work* is a question from the GPTW Institute survey. Return on Assets is EBIT over average total assets. Tobin's Q is total assets plus market value of equity minus book value of equity at calendar year end over total assets. Standard errors are clustered at the firm-level and robust to heteroskedasticity. ***, **, * signify statistical significant at the 1, 5, and 10% level respectively based on two-tailed tests.

Table 6: Purpose and Future Stock Returns

Portfolio definition:	High Purpose-Clarity (1)	High Purpose-Clarity: Middle Managers (2)	High Purpose-Clarity: Prof/Tech (3)
Alpha	0.0056*	0.0061**	0.0048*
	(0.0029)	(0.0029)	(0.0026)
Market	0.8756****	0.8406***	0.8288***
	(0.1478)	(0.1448)	(0.1273)
SMB	0.4492***	0.4543***	0.5007***
	(0.1476)	(0.1447)	(0.1237)
HML	0.1657	0.1405	0.1787*
	(0.1324)	(0.1378)	(0.1016)
UMD	-0.3267***	-0.3444***	-0.3135***
	(0.1074)	(0.1058)	(0.0902)
Observations	72	72	72
Adjusted R-squared	0.854	0.851	0.876

Table shows estimates from calendar time portfolios of an investment strategy that buys the stocks c scored each year at the top quintile of Purpose-Clarity and holds the portfolio for one year at which is updated with the new ranking of firms. The portfolios are formed on the 1st of January. Each mo returns of each firm in the portfolio are equal-weighted and aggregated thereby constructing a p return. The time-series of 72 monthly stock returns is then regressed on risk premiums for the mark (SMB), value (HML), and momentum (UMD) factors (Fama and French 1993; Carhart 1997). Colu uses the overall Purpose-Clarity measure. Columns (2) and (3) use the Purpose-Clarity measure for managers and professional stuff respectively. ***, **, * signify statistical significant at the 1, 5, a level respectively based on two-tailed tests.

APPENDIX TABLES

Table A1: Summary Statistics by Year and Industry

Panel A: By year

Year	N	Assets (mean)	Compustat Assets (mean)	ROA (med)	Compustat ROA (med)
2006	207	43,579	8,889	0.0967	0.0367
2007	169	54,385	10,754	0.0965	0.0320
2008	166	45,734	10,591	0.0826	0.0244
2009	148	76,354	10,745	0.0890	0.0192
2010	125	39,357	11,751	0.1017	0.0300
2011	128	55469	12722	0.0962	0.0297

Panel B: By Industry

Industry	N	% in GPTW	% in Compustat	Assets (mean)	Compustat Assets (mean)	ROA (med)	Compustat ROA (med)
Consumer non-durables	68	7%	3%	13,504	4,240	0.1278	0.0800
Consumer durables	15	2%	2%	4,550	10,843	0.1024	0.0430
Manufacturi	49	5%	7%	8,448	3,326	0.1101	0.0698
Energy	39	4%	6%	49,639	6,827	0.0639	0.0109
Chemicals	19	2%	2%	23,704	4,413	0.1478	0.0687
Business equipment	203	22%	14%	17,807	1,751	0.1075	0.0244
Telecommunications	19	2%	3%	65,671	13,842	0.0903	0.0639
Utilities	41	4%	3%	22,963	11,850	0.0676	0.0588
Retail	135	14%	6%	6,300	2,644	0.1083	0.0768
Health	26	3%	9%	18,975	1,678	0.1551	-0.1908
Finance	155	16%	32%	228,116	39,305	0.0260	0.0194
Other	174	18%	16%	7,231	2,651	0.0786	-0.0118

Panel A shows the frequency distribution of the sample observations across years. Panel B shows the frequency distribution of the sample observations across the 12 Fama-French industries.

Table A2: Purpose by Job Level and Firm Performance

Dependent variable	Return on Assets			Log(Tobin's Q)		
	(1)	(2)	(3)	(4)	(5)	(6)
Purpose - Sales force	0.0021	-0.0003	-0.0016	0.0337	0.0227	0.0151
	(0.0097)	(0.0095)	(0.0055)	(0.0451)	(0.0446)	(0.0221)
Purpose - Middle Managers	0.0232	0.0178	0.0013	0.1793	0.1537	0.0365
	(0.0237)	(0.0230)	(0.0101)	(0.1170)	(0.1148)	(0.0601)
Purpose - Execs / Snr Managers	-0.0036	-0.0034	-0.0029	-0.0270	-0.0253	-0.0234
	(0.0101)	(0.0100)	(0.0057)	(0.0523)	(0.0528)	(0.0294)
Purpose - Prof / Technicals	0.0231	0.0189	0.0020	0.1471	0.1364	-0.0087
	(0.0176)	(0.0174)	(0.0079)	(0.0970)	(0.0956)	(0.0453)
Purpose - Hourly workers	-0.0266	-0.0442**	-0.0129	0.0265	-0.0537	0.0625
	(0.0199)	(0.0213)	(0.0092)	(0.1023)	(0.1086)	(0.0543)
This is a physically safe place to work		0.0745**	0.0069		0.3451**	-0.0072
		(0.0311)	(0.0119)		(0.1667)	(0.0587)
Lagged Return on Assets			0.8291***			
			(0.0343)			
Lagged Log(Tobin's Q)						0.8348***
						(0.0233)
Constant	0.1605	-0.0490	-0.0252	0.1500	-0.8258	-0.2603
	(0.1320)	(0.1465)	(0.0590)	(0.7314)	(0.8144)	(0.3502)
Year FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y
Controls	Y	Y	Y	Y	Y	Y
Observations	917	917	917	917	917	917
Adjusted R-squared	0.219	0.229	0.743	0.320	0.326	0.799

OLS regressions. Purpose is the equally-weighted average of four questions related to purpose from the GPTW Institute survey. It is calculated separately for each job level. *This is a physically safe place to work* is a question from the GPTW Institute survey. Return on Assets is EBIT over average total assets. Tobin's Q is total assets plus market value of equity minus book value of equity at calendar year end over total assets. Standard errors are clustered at the firm-level and robust to heteroskedasticity. ***, **, * signify statistical significant at the 1, 5, and 10% level respectively based on two-tailed tests.

Table A3: Univariate Correlations

Variable	1	2	3	4	5	6	7	8	9	10	11	12
1 Purpose	1											
2 *This is a physically safe place to work*	0.54*	1										
3 *Management* (Factor 1)	0.66*	0.43*	1									
4 *Purpose-Camaraderie* (Factor 2)	0.85*	0.39*	0.38*	1								
5 *Fairness* (Factor 3)	0.29*	0.70*	0.26*	0.19*	1							
6 *Purpose-Clarity* (Factor 4)	0.44*	0.11*	0.17*	0.16*	-0.31*	1						
7 Leverage	-0.16*	-0.18*	-0.04	-0.18*	-0.22*	0.01	1					
8 Log Assets	0.04	0.14*	-0.04	-0.14*	-0.11*	0.44*	0.14*	1				
9 Log age of firm	-0.15*	-0.20*	-0.15*	-0.19*	-0.27*	0.15*	0.22*	0.25*	1			
10 Log full time employees	-0.22*	-0.25*	-0.16*	-0.32*	-0.27*	0.18*	0.10*	0.56*	0.25*	1		
11 Return on assets	0.01	0.04	-0.04	0.01	0.00	0.11*	-0.09*	-0.13*	0.02	0.08*	1	
12 Log Tobin's Q	0.16*	0.20*	0.06	0.19*	0.19*	0.06	-0.13*	-0.26*	-0.14*	-0.14*	0.70*	1

The table presents univariate Pearson correlations. Purpose is the equally-weighted average of four questions related to purpose from the GPTW Institute survey. *This is a physically safe place to work* is a question from the GPTW Institute survey. Factors 1-4 are the outcomes of the factor analysis across 53 questions in the GPTW data. Leverage ratio is total debt over total assets. Firm age is the number of years since incorporation. Return on Assets is EBIT over average total assets. Tobin's Q is the market value of assets over the book value of assets. * represents statistical significance at the 5% level.

Table A4: Clarity and Firm Performance, Balanced Panel and Firm Fixed Effects

Dependent variable	Return on Assets			Log(Tobin's Q)		
	(1)	(2)	(3)	(4)	(5)	(6)
Clarity	0.0410	0.0625	0.0577	-0.0534	-0.0069	-0.0236
	(0.0309)	(0.0453)	(0.0469)	(0.1641)	(0.1825)	(0.1690)
This is a physically safe place to work		-0.1043	-0.1013		-0.2157	-0.2376
		(0.1285)	(0.1314)		(0.3518)	(0.3429)
Lagged Return on Assets			0.1277**			
			(0.0621)			
Lagged Log(Tobin's Q)						0.1246

						(0.1112)
Constant	-0.0302	0.3847	0.4115	3.6024**	4.4577*	4.4353*
	(0.3108)	(0.5760)	(0.5927)	(1.7528)	(2.3740)	(2.3073)
Year FE	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
Controls	Y	Y	Y	Y	Y	Y
Observations	170	170	170	170	170	170
Adjusted R-squared	0.067	0.069	0.078	0.206	0.203	0.213

Fixed effects regressions. Sample includes firms that appear in all 6 years of the survey in our sample. Purpose is the equally-weighted average of four questions related to purpose from the GPTW Institute survey. *This is a physically safe place to work* is a question from the GPTW Institute survey. Return on Assets is EBIT over average total assets. Tobin's Q is total assets plus market value of equity minus book value of equity at calendar year end over total assets. Standard errors are clustered at the firm-level and robust to heteroskedasticity. ***, **, * signify statistical significant at the 1, 5, and 10% level respectively based on two-tailed tests.

Table A5: Survey Factors by Job Level Correlations

Variable	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1 *Purpose-Clarity* (Factor 4) -- Sales	1									
2 *Purpose-Clarity* (Factor 4) -- Hourly	0.22*	1								
3 *Purpose-Clarity* (Factor 4) -- Middle Mgr	0.24*	0.56*	1							
4 *Purpose-Clarity* (Factor 4) -- Prof/Tech	0.23*	0.49*	0.61*	1						
5 *Purpose-Clarity* (Factor 4) -- Exec/Snr Mgr	0.21*	0.32*	0.47*	0.40*	1					
6 *Fairness* (Factor 3)	-0.04	-0.22*	-0.28*	-0.30*	-0.15*	1				
7 *Purpose-Camaraderie* (Factor 2)	0.04	0.17*	0.02	0.10*	-0.13*	0.19*	1			
8 *Management* (Factor 1)	0.09*	0.14*	0.11*	0.12*	-0.05	0.26*	0.38*	1		
9 Purpose	0.16*	0.37*	0.27*	0.30*	0.05	0.29*	0.85*	0.66*	1	
10 *This is a physically safe place to work*	0.13*	0.16*	0.05	0.02	0.02	0.70*	0.39*	0.43*	0.54*	1

The table presents univariate Pearson correlations. Purpose is the equally-weighted average of four questions related to purpose from the GPTW Institute survey. *This is a physically safe place to work* is a question from the GPTW Institute survey. Factors 1-4 are the outcomes of the factor analysis across 53 questions in the GPTW data. Factor 4 is calculated separately by job level. Leverage ratio is total debt over total assets. Firm age is the number of years since incorporation. Return on Assets is EBIT over average total assets. Tobin's Q is the market value of assets over the book value of assets. * represents statistical significance at the 5% level.

Table A6: Purpose and Relational Contracts

Panel A: Segment by Number of Years Since CEO Started in Role

	Top Quartile		Bot Quartile	
Dependent variable	ROA	Q	ROA	Q
	(1)	(2)	(3)	(4)
Factor 4 (*Purpose-Clarity*)	0.1249**	1.0722***	0.0862	0.6244*
	(0.0524)	(0.2780)	(0.0736)	(0.3626)
Factor 3 (*Fairness*)	-0.0452	1.0001**	-0.1427	-0.3353
	(0.0749)	(0.3952)	(0.1000)	(0.5544)
Factor 2 (*Purpose-Camaraderie*)	0.0307	0.3753	-0.0292	0.0927
	(0.0461)	(0.2998)	(0.0466)	(0.2417)
Factor 1 (*Management*)	-0.0509	-0.4943**	-0.0061	-0.0265
	(0.0479)	(0.2457)	(0.0545)	(0.3149)
Observations	195	195	189	189
Adjusted R-squared	0.358	0.394	0.186	0.394

Panel B: Segment by Average Tenure of Employees

	Top Quartile		Bot Quartile	
Dependent variable	ROA	Q	ROA	Q
	(5)	(6)	(7)	(8)
Factor 4 (*Purpose-Clarity*)	0.1122**	0.7221***	0.0563	0.3903
	(0.0463)	(0.2323)	(0.0660)	(0.3903)
Factor 3 (*Fairness*)	-0.0005	0.0796	-0.1454*	0.1394
	(0.0438)	(0.2817)	(0.0860)	(0.5356)
Factor 2 (*Purpose-Camaraderie*)	0.0480	0.4628***	-0.0612	-0.0915
	(0.0340)	(0.1560)	(0.0569)	(0.3451)
Factor 1 (*Management*)	-0.0737**	-0.3917**	0.0506	0.3538
	(0.0362)	(0.1688)	(0.0529)	(0.3395)
Observations	262	262	225	225
Adjusted R-squared	0.483	0.562	0.409	0.297

Panel C: Segment by Whether Company had Layoffs in Past Year

	Layoffs		No Layoffs	
Dependent variable	ROA	Q	ROA	Q
	(9)	(10)	(11)	(12)
Factor 4 (*Purpose-Clarity*)	0.1357**	1.0465***	0.0689	0.5884**
	(0.0637)	(0.2752)	(0.0429)	(0.2286)
Factor 3 (*Fairness*)	-0.0013	0.4758	-0.0330	0.1130
	(0.0707)	(0.3683)	(0.0569)	(0.2764)
Factor 2 (*Purpose-Camaraderie*)	0.0130	0.3702*	-0.0620*	-0.0431
	(0.0366)	(0.1946)	(0.0341)	(0.1827)
Factor 1 (*Management*)	-0.0162	-0.1474	-0.0075	-0.1583
	(0.0424)	(0.2415)	(0.0321)	(0.1743)
Observations	215	215	519	519
Adjusted R-squared	0.278	0.424	0.256	0.349