**Finding the Purpose of Your Business**

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If there is just one thing you do for your businesses this year, let it be this: help them live out their purpose. Because businesses with a purpose do better – for both shareholders and society.

Some of you will already know the story of the American pharmaceuticals giant Merck and river blindness. In 1978 a scientist at Merck found that the drug they had developed to treat parasites in livestock, Ivermectin, could also treat river blindness in humans. After years of medical trials, Merck went into production, but the 34 countries affected by the disease could not afford the drug. In 1987, it made the extraordinary decision to give the drug away for free.

This decision led to the longest running drug donation programme in the world. Today Merck's programme reaches 300m people a year. As a result four countries have now eliminated river blindness completely. The programme has cost Merck hundreds of millions of dollars, but not a single shareholder complained. Merck is one of the most successful and admired companies today. Countless employees wrote to Merck to tell them that they joined because of the drug donation programme. Doing the right thing ended up being good for business.

So is this just a nice story? Is it wishful thinking to imagine that businesses focused on creating value for society actually end up more profitable as a by-product? You can always find an anecdote to support whatever you want to support – so I wanted to gather large-scale evidence.

I chose to study employee satisfaction. Employees aren't the only important stakeholder in society, but I focused on them as they're material to nearly every company, and there's also an excellent measure of satisfaction – the list of the 100 Best Companies to Work for In America. It captures not only pay, but also intangible factors such as trust in management and pride in your job. I compared firms in the Best Companies list with similar firms and found that they delivered stock returns that beat their peers by 2.3 – 3.8% over a 28 year period. That's between 89% and 184% compounded. Of course, correlation does not imply causation, so I did further tests to suggest that it's employee satisfaction that leads to better financial performance rather than the opposite.

What about other stakeholders? Three separate studies found similar outperformance for companies with high customer satisfaction, eco-efficiency, and sustainability. Interestingly, that last study investigates the adoption of sustainability policies by 1992, before sustainability became big. Thus, they did so not to comply with a code or for good PR, but because they simply believed that business should be run in a sustainable manner.

So how do you define a company's purpose? You need to know why you exist and who you exist for. The 'why' is how a company contributes to human betterment. You might think purpose is easy to define for a pharmaceuticals company that saves lives. But every company can contribute to human betterment if led correctly. Commuting may seem part of the daily grind, but Network Rail's purpose is that it "connects people – with friends and family, and with jobs, underpinning a thriving economy."

Many books have been written about the importance of 'why', but they 'who' has received less attention. This involves the stakeholders that a company particularly aims to serve – who is first among equals when it faces difficult trade-offs. You can't include everyone or it becomes meaningless and provides no guidance in navigating trade-offs.  Companies that rank highly on material stakeholder performance do beat the market – but those who are indiscriminate about who your stakeholders are don't.

And purpose needs to be lived, not just put into a company mission statement. This is where the accounting profession can play a substantial role, since what gets measured gets done. So companies need your help to expanding reporting from quantitative, financial factors to qualitative, non-financial factors that capture whether a business is actually delivering on its purpose. Without these metrics, executives will prioritise earnings over social value, and external stakeholders can't hold them accountable for purpose.  Reporting is also important to embed purpose internally too. Metrics of what matters – rather than simply what can be quantified – helps leaders know whether their strategy is on track, and allows them to assess employees holistically rather than only on the usual financial key performance indicators.

Defining how your business aims to serve society – and then measuring whether it's doing so – will help ensure that it succeeds not only for shareholders but for stakeholders too.