Promises Have a Price

An Analysis of Higher Purpose, Purpose Washing, and Financial Performance Using the Example of Germany's DAX 30

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Abstract

Many businesses communicate their fundamental reasons for existence, namely, their higher purpose. However, research lacks a critical analysis of these claims based on a systematic framework. Moreover, research has focused on the financial benefits of higher purpose, but not on the financial outcomes of inauthentic higher purposes. We address both voids by identifying the elements of higher purpose, defining inauthentic higher purposes and purpose washing, gathering empirical evidence of purpose washing, and showing a negative association between financial performance and purpose washing. With the inductive qualitative content analysis of the annual reports of Germany's DAX 30 companies, we find that purpose washing follows similar communication patterns as greenwashing. Additionally, we identify two new misleading forms of communication within the purpose washing context, which are not used for greenwashing, namely unlawful conduct and shifting responsibility to consumers. We also find that a higher purpose is financially beneficial, while purpose washing is not. The stocks of companies with a purpose perform better than those without one and purpose washers consistently perform the worst over 18-, 10-, and three-year periods.

Keywords: Higher purpose, purpose washing, greenwashing, financial performance, corporate communication

1. Introduction

In times of climate change, a raging pandemic and consumer boycotts because of unethical elements in the value chain, companies and their employees are increasingly concerned with serving humanity and contributing to a greater good. Pure self-interest and a sole focus on short-term financial results contribute to the risk of damaging one's reputation. A higher purpose, on the other hand, provides guiding principles for all business activities as it describes the reason for existence of a business. Emerging literature indicates that a higher purpose can nowadays be viewed as an individual, independent concept (Ellsworth, 2002; Freeman & Ginena, 2015; Mackey & Sisodia, 2014; Sisodia, Sheth & Wolfe, 2014). Many, more recently surfaced business philosophies, from conscious business, economy for the common good, B corporations, as well as businesses that do not carry a specific label embrace the concept of higher purpose (De Bakker, Matten, Spence & Wickert, 2020; Felber & Hagelberg, 2017; Gehman & Grimes, 2016; Mackey & Sisodia, 2014; Murray, 2012; Reiser, 2012; Stahlhofer, Schmidkonz & Kraft, 2018).

From a traditional business perspective, there are several reasons for companies to adopt a purpose-driven ideology. From 2016 to 2018, assets under professional management in impact and responsible investing grew by 38% to €11 billion (U.S. Forum for Sustainable and Responsible Investment, 2018). Companies that credibly pursue a social and/or environmental purpose can tap into available resources in the search for new capital. Companies also try to attract and retain employees by conveying the importance of their work in a broader context through purpose (Robertson & Cooper, 2010). In Germany, almost 10% of all employees perceive their job as socially useless (Dur & Van Lent, 2019). An organizational purpose is one of the main drivers of employee engagement and thus promises to maximize human potential (Shuck & Rose, 2013). Besides increased employee motivation (Bartlett & Ghoshal, 1994; Hurth, Ebert & Prabhu, 2018), higher purpose also promises increased profitability (Henderson & Van den Steen, 2015), improved stock market performance (Gartenberg, Prat, Serafeim, 2016; Sisodia et al., 2014), and better organizational performance (White, Yakis-Douglas, Helanummi-Cole, Ventresca, 2017).

Because of the many touted advantages of a higher purpose, companies could have an incentive to mislead stakeholders to reap the benefits associated with a higher purpose while avoiding the effort of actually being driven by a higher purpose. Businesses could communicate to customers, employees or society that they are purpose-driven while they are not. Alternatively, companies can act opposite to their stated purpose. Both practices can be called purpose washing. Analogous to greenwashing, purpose washing describes the act of deceiving stakeholders. Instead of misleading stakeholders that a company is environmentally conscious, purpose washers mislead stakeholders into believing that a company's actions are driven by a higher purpose, not by short-term financial rewards. Greenwashing and purpose washing are similar in their effect because they describe misleading communication (Gatti, Seele & Rademacher, 2019), and the underlying concepts, corporate social responsibility (CSR) and higher purpose overlap to some extent. CSR is "international private business self-regulation" (Sheehy, 2014, p. 639), whereas higher purpose is the reason of existence for an organization (Sisodia et al., 2014), referring to a purpose beyond financial profits. Thus, purpose washing is lying about the very reason for a company's existence.

Despite strong incentives for companies to engage in purpose washing and increased public controversy about purpose-focused marketing campaigns, the academic literature lacks research on purpose washing. The only academic article using the term purpose washing is of Findlay and Moran (2018). However, their concept shares only the terminology, and not the meaning, of a higher purpose in our paper. They use the term purpose washing in the context of the intention of an investment vehicle, not in the context of a higher purpose as the fundamental reason for a company's existence. In between academic articles and practitioners, Quinn and Thakor (2019) have condensed eight steps to help firms find and live their higher purpose. Additionally, practitioners mostly focus on marketing, branding, and businesses' responses to societal changes (DaSilva, 2018; Leberecht, 2019; Pontefract, 2019; Reimann, 2013; Tate, 2016). The increasing use of the term higher purpose in practice and the lack of a concept in academic literature make it necessary for us to develop the concept of higher purpose and its building blocks first, before turning our attention to purpose washing. The first contribution of this paper, therefore, is to close this gap and derive a definition of purpose washing (research gap 1).

Generally, the mismatch between communication and practices has been a popular topic in research. Bartkus and Glassman (2008) for instance show the misalignment of mission statements and actual stakeholder management. However, no empirical research covers lying, or misleading about a firm's purpose, namely purpose washing. To advance the research on higher purpose, we need to be able to evaluate whether a higher purpose drives a company or whether a company only communicates having a higher purpose. Thus, the second aim of this paper is to inductively gather empirical evidence on instances of purpose washing and the strategies employed to mislead (research gap 2).

In addition to the lack of literature on purpose washing of companies, there is no research that shows a relation between a higher purpose or purpose washing and financial performance specifically for German companies (research gap 3), despite the various described benefits of a higher purpose. Gartenberg et al. (2016) and Sisodia et al. (2014) for example mainly focus on companies in the United States. It is therefore especially interesting to contribute to this aspect with the third aim of this paper, by examining the differences between the stock prices of companies with and without a higher purpose and those of so-called purpose washers in the German market.

This paper aims to fill the three research gaps mentioned above, with the following structure. In the next section, the paper develops the essential aspects of the concept of higher purpose, shows the differences to related concepts, and elaborates on the consequences of a higher purpose for businesses and employees. This section is accompanied by an explanation of the purpose washing construct (to close research gap 1) and sets the theoretical basis for the empirical analysis. The third section explains the methodology used to identify and evaluate higher purpose. The fourth section includes the results of the analysis, interpretation, and a discussion of the data (to close research gaps 2 and 3). The last section presents our conclusions, recommendations, and implications for research and practice.

2. From a Higher Purpose to Purpose Washing and the Performance Consequences of Higher Purpose–Driven Business

2.1 Higher Purpose

A stream in the literature views business as rooted in society and profits as a desirable aspect of business, but not as the end of business activities (e.g., Drucker, 1942; Duska, 1997; Freeman & Ginena, 2015; Hartman, 1996; Mackey & Sisodia, 2014; Schwerin, 2011; Senge, 2000; Solomon, 1992). These scholars argue that a purpose has a conceptual meaning in the context of business and call for a purpose beyond profit, a purpose with a social aspect appealing to the higher desires and needs of humanity. Therefore, this body of literature attaches a conceptual meaning to the term purpose (Singleton, 2014). Mackey and Sisodia (2014) describe higher purpose as an essential aspect of conscious business. In this context, a higher purpose is the "glue that holds the organization together, the amniotic fluid that nourishes the life force of the organization" (Mackey & Sisodia, 2014, p. 46).

Higher purpose is conceptually different to CSR, but intertwined elements can be found. CSR is sometimes a result of external pressures or expectations, which does not apply to a higher purpose. Higher purpose comes from within the company's members because of intrinsic motivation. Moreover, it is an all-encompassing concept, guiding how every aspect of business is done and, therefore, guides the business logic. CSR can in some cases also be mandated through laws and regulations, as happened in India or Denmark (Gatti, Seele, Rasemacher, 2019; Gupta & Chakradhar, 2022). If a specific CSR behavior can and, as some CSR scholars (Waagsetin, 2011; Shabana & Ravlin, 2016; Wagne & Seele, 2017) argue, must be mandated then it is not the company's intrinsic motivation per se to engage in specific CSR activities. A company with a higher purpose, however, views actions that help it pursue its purpose as beneficial (Sisodia et al., 2014) and therefore represents an entirely intrinsically motivated standpoint. In line with this argumentation, Hollensbe, Wookey, Hickey, George & Nicholas (2014) define a higher purpose as "an overarching framework to substantiate the need for businesses in society, and to amplify the positive impact they generate in the communities where they operate" (p. 1232). Thus, a higher purpose, has a conceptual meaning, indicating a non-financial reason for the existence of a company. We use this definition for the concept of higher purpose in this paper from here on.

The stream of literature that attaches a conceptual meaning to higher purpose agrees on three fundamental matters. First, business inherently has a human dimension (Davis & Blomstrom, 1975; Drucker, 1942; Duska, 1997; Freeman & Ginena, 2015; Freeman & Reed, 1983; Hartman, 1996; Mackey & Sisodia, 2014; Schwerin, 2011). Second, businesses exist to cater to human needs (Drucker & Maciariello, 2008; Freeman & Ginena, 2015; Mackey & Sisodia, 2014; Senge, 2000; Sisodia et al., 2014; Solomon, 1992). In other words, business is a "human institution in services to humans" (Solomon, 1992, p. 104). Drucker (1954) argues that a purpose cannot lie in the business itself; it must rest in society, since business is an organ of society. Third, the literature rejects the notion that the sole purpose of business is to generate profit (Freeman & Ginena, 2015; Hollensbe et al., 2014; Mackey & Sisodia, 2014; Sisodia et al., 2014). Those following the idea that business exists for profit might confuse higher purpose with motive (Freeman & Ginena, 2015). Motives are "individual psychological forces" (Freeman & Ginena, 2015, p. 12) that motivate individuals to act in a certain way. To sum up, a business has an inherently social dimension because it caters to humans through humans (i.e., the businesses' employees) and humans form society.

The literature does not provide a comprehensive definition with core elements and boundaries for a higher purpose. Rather, higher purpose is explained in different variations and under different circumstances. For the empirical analysis, we follow the consensus in the literature on the core elements of higher purpose and formulate a set of essential elements of a statement of higher purpose in business. These elements are as follows:

(1) The purpose explains why a company exists (Campbell, 1992; Freeman & Ginena, 2015; Mackey & Sisodia, 2014; Margolis & Hansen, 2002).

(2) The purpose transcends profit or is not directly concerned with financial rewards (Campbell, 1992; Drucker, 1954; Ellsworth, 2002; Freeman & Ginena, 2015; Mackey & Sisodia, 2014; Margolis & Hansen, 2002; Sisodia et al., 2014).

(3) The purpose appeals to humans because of its reach beyond narrow self-interest, involving an act of service to others (Campbell, 1992; Drucker, 1954; Ellsworth, 2002; Freeman & Ginena, 2015; Mackey & Sisodia, 2014).

(4) The purpose statement consists of simple, personal words (Bartlett & Ghoshal, 1994; Mackey & Sisodia, 2014; Margolis & Hansen, 2002).

Criterions two and three are different in that two means companies could act in their self-interest while not pursuing financial reward, whereas criterion three is intended to clarify that a company's purpose cannot exclusively be self-serving.

Some scholars have attempted to differentiate higher purpose from adjacent concepts, such as CSR or concepts that use elements of higher purpose (see argumentation above). Nevertheless, no conceptual boundaries of purpose to the term's mission, values, goals, or objectives have been established (Singleton, 2014). Sustainability preserves non-human resources to secure humans' well-being, whereas an organizational purpose motivates people to serve other people to ensure their well-being (Hurth et al., 2018). In some cases, companies view CSR as an add-on to an existing business, not as a challenge to the core business logic (Schneider, 2020; Waddock, 2018). A higher purpose, however, is the starting point for all actions of a firm. A stakeholder orientation and higher purpose view businesses as part of a complex system. However, in contrast to a stakeholder orientation, higher purpose differentiates an organization from others by providing a clear direction and by uniting employees to serve the long-term well-being of the articulated societal beneficiary (Hurth et al., 2018).

Apart from concepts across organizations, there are perceived hierarchies of concepts within organizations. Practices and strategies follow an organization's purpose and can change without altering its purpose (Margolis & Hansen, 2002). Mackey and Sisodia (2014) and Hurth et al. (2018) note that crafting a purpose must precede the creation of a vision, mission, or strategy. Margolis and Hansen (2002) describe the company's mission as the application of the company's purpose to a customer segment. Similar, Mackey and Sisodia (2014) refer to the mission as the strategy necessary to fulfil a firm's purpose. A notable difference between mission and strategy is that the intent of a purpose statement does not matter for reaping the benefits associated with it (Mackey & Sisodia, 2014). Finally, there is a consensus in the literature (Campbell, 1992; Hurth et al., 2018; Margolis & Hansen, 2002) that an organization's core values describe how it pursues its purpose. These core values can be externally oriented, for instance, excellent customer service and safety (Margolis & Hansen, 2002), or internally oriented, such as hard work and thrift (Campbell, 1992).

Thus, attempts to differentiate between related concepts, such as stakeholder orientation, have resulted in the highlighting of differences, rather than in comprehensive comparisons of higher purpose and related concepts. With the developed understanding of what a higher purpose is and how it differs from similar concepts, it is possible to take a closer look at the construct purpose washing in the next section.

2.2 Definition of Purpose Washing

Purpose washing is neither extensively explored nor well defined in academia and among practitioners. Findlay and Moran's (2018) article comes closest to an attempt to define and study purpose washing. They use the term purpose washing in the context of impact investing, to evaluate the extent to which individual impact investment funds are genuinely driven by making an impact. However, the authors do not consider purpose washing a phenomenon among businesses. Additionally, a variety of practitioners and journalists address purpose washing (e.g., DaSilva, 2018; Leberecht, 2019; Pontefract, 2019; Reimann, 2013; Tate, 2016). The understanding of purpose washing differs among practitioners, but all agree that purpose washing is concerned with the inauthentic communication of a company's purpose, analogous to the inauthentic communication used for greenwashing. Given the etymological similarities between greenwashing and purpose washing and the rich body of literature on greenwashing (e.g., Bowen & Aragon-Correa, 2014; Chen & Chang, 2013; Gallicano, 2011; Lyon & Maxwell, 2011; Lyon & Montgomery, 2015; Seele & Gatti, 2017, Siano, Vollera, Conte & Amabile, 2017), it is beneficial to use greenwashing to derive a definition of purpose washing.

The consensus in the scientific literature (Chen & Chang, 2013; Gallicano, 2011; Lyon & Maxwell, 2011; Lyon & Montgomery, 2015; Seele & Gatti, 2017; Siano et al., 2017) and popular opinion (Greenpeace, n.d.; TerraChoice, 2009) is that greenwashing is an organization's misleading communication about all or part of its environmental performance. Attempts to define greenwashing and its scope precisely have led to less consensus, rather than more (e.g., Stephenson, Doukas & Shaw, 2012, Chen & Chang, 2013; Lyon & Maxwell, 2011; Lyon & Montgomery, 2015 Siano et al., 2017), but scholars have nevertheless attempted to define a set of elements that represent greenwashing, which seems also suitable in the context of the derivation of purpose washing. Differences include whether greenwashing is always deliberate, as well as the actors (governments, non-governmental organizations, and corporations) and scope (organizational level, product level, or project level). The definition by

Lyon and Montgomery (2015) reflects these important aspects and is therefore employed to derive the definition of purpose washing: "[Greenwashing is] any communication that misleads people into adopting overly positive beliefs about an organization's environmental performance, practices, or products" (p. 226).

In line with this argumentation, purpose washing can be defined as follows: Purpose washing is any communication, including organizational activity and/or output of activity, that misleads people into adopting overly positive beliefs about an organization's higher purpose, evident in organizational performance, practices, products, or services. This leaves room for two possible forms of purpose washing: saying but not doing and saying differently than doing.

As Findlay and Moran (2018) note, the identification of intentions is subjective. Therefore, we do not make assumptions about the intentionality, motivation, intention, or benefit organizations expect from purpose washing. Purpose-driven companies embed their purpose in their practices and processes (Margolis & Hansen, 2002). Action and non-action are also a form of communication. Therefore, any misleading communication or any action contrary to a company's purpose would be purpose washing. This means that purpose washing can also occur without a company specifically communicating certain actions as purpose driven. Therefore, the issuance of a statement of higher purpose is communication that conveys that an organization is driven by a higher purpose. Purpose washing cannot occur after a company has abandoned its higher purpose.

2.3 Performance Consequences of Higher Purpose-Driven Businesses

The reported outcomes in the literature range from (believed) improvements in general business results to increased profitability, and superior stock market performance. In this paper, we focus on the relationship between financial performance and higher purpose.

One of the most common beliefs among practitioners and scholars is the relation between financial performance and purpose. Anthony Jenkins, for instance, former chief executive officer of Barclays, believes that a purpose drives financial performance (White et al., 2017). Scholars also argue that a company that follows, among other aspects, a higher purpose will exhibit superior long-term financial performance (Mackey & Sisodia, 2014; Sisodia et al., 2014). This belief does not imply that companies with a higher purpose will always be successful. Instead, it shows how purpose-driven companies would ideally guide their decisions, as opposed to companies without a higher purpose that are guided by, for example, the goal of increasing their share price.

In-depth interviews with 11 executives of large corporations and three consultants by Hurth et al. (2018) reveal that all interviewees believe that a higher purpose increases employee motivation, attraction, and retention. Hurth et al. (2018) argue that a sense of purpose can increase employees' psychological well-being and productivity, since employees with a strong sense of purpose can work longer on tedious tasks. Empirical research by Gartenberg et al. (2016) also confirms that a sense of higher purpose has positive effects on employee retention and turnover. The analysis by Gartenberg et al. (2016) of survey data from the Great Place To Work Institute indicates that a high sense of purpose combined with a strong feeling of community among colleagues is positively associated with reduced employee turnover.

The research on the consequences of business driven by a higher purpose centers on financial performance or variables that have an influence on financial performance. These variables are employee motivation and engagement, perceived business legitimacy, and clear communication by the management.

In line with this, Henderson and Van den Steen (2015) developed the first formal theoretical model on higher purpose. Their model incorporates four aspects that are, they argue, central to a higher purpose. First, a company's purpose is to benefit society. Second, firms make great efforts to show that their purpose is authentic, that they do not merely want to make a profit. Third, a company's employees seem to be very passionate about its purpose. Fourth, even employees in supporting functions, such as accounting, derive the same type of satisfaction from their work as employees directly engaged in fulfilling the corporate purpose. The authors then attempt to explain how purpose can impact financial performance, using a string of variables. The result of the model is that a higher purpose can improve financial performance by increasing employees' perceived identity and reputation. Consequently, employees accept lower wages and show more effort at work. This employee behavior results in higher profitability compared to companies without a purpose.

Another channel of increased financial performance is increased business legitimacy through a higher purpose. Companies that society views as beneficial can seem more legitimate than other companies. Hurth et al. (2018) find that companies have a strong incentive to adopt a purpose to defend or improve their legitimacy. Increased legitimacy, in turn, has been empirically proven to lead to better business performance, compared to a company's state of reduced perceived legitimacy (Deephouse, 1999).

The positive effects of purpose on financial performance have also been empirically demonstrated. Gartenberg et al. (2016) and Sisodia et al. (2014) use a similar research process. First, they carry out a pre-selection to narrow down their search for companies with a higher purpose; then they analyze the companies' performance or perceived performance based on several qualitative and quantitative metrics, such as manager pay or employee well-being. While Sisodia et al. (2014) identify companies with a higher purpose mostly based on their own observations, Gartenberg et al. (2016) analyze an unbalanced panel data set of survey responses from the Great Place to Work Institute. The survey is based on data from 2006 to 2011 among 429 U.S. firms, with roughly 450,000 survey responses. The authors find that purpose can enable improved interpersonal and written communication, which, in turn, enables higher performance. However, the study also finds that a sense of purpose alone does not improve financial performance, as measured in stock returns. Firms whose employees feel a sense of purpose and where management clarity (clearly communicated goals and responsibilities) is present outperform other firms. Gartenberg et al. (2016) attempt to show that purpose has a causal effect on financial performance. They control for the risk premium of the respective market, as well as for size, value, and momentum factors when predicting the stock market returns of high-purpose and high–management clarity companies. The results indicate an abnormal annual return (alpha) of 5.90–7.60%, for companies whose employees feel a higher purpose and with high management clarity, statistically significant at the 10% level. The authors also find that the strongest positive effect on stock performance exists when the middle management exhibits the most clarity and purpose in a firm, compared to other management and non-management roles in an organization.

Sisodia et al. (2014) do not specifically focus their research on firms with a higher purpose, but on firms of endearment (FOEs). FOEs are companies that "endear" themselves to stakeholders by acting in a way that aligns the interests of all stakeholders, not by making tradeoffs between them. Most relevant to a higher purpose, FOEs do not see their purpose in profit making, but try to empower and encourage employees to serve others. The other characteristics center on the humane treatment of employees and fostering empowering work cultures. These companies emphasize the value of a genuine passion for their reason for being manifested, for instance, in hiring practices: Patagonia, for example, tries to only hire employees passionate about nature. Sisodia et al. (2014) find that U.S. FOEs outperformed the Standard & Poor's (S&P) 500 between 1998 and 2013 by 14.29 times. Over 10 years, FOEs outperformed the S&P 500 by 3.82 times, and over three years by 1.46 times. The performance is defined as total returns, which include dividends and stock price gains over the respective holding period. Even though FOEs share numerous other characteristics, all of them have an articulated higher purpose. Other characteristics of FOEs are lower-than-average employee turnover, modest executive pay, reasonable employee salaries and training, outstanding customer service, collaboration with stakeholders, and a culture resistant to short-term pressures.

No study to date has found a negative association between a higher purpose and business performance. The literature on the association between a higher purpose and financial performance reveals that, in comparison to firms without a higher purpose, firms with one perform better. Gartenberg et al. (2016) and Sisodia et al. (2014) mainly focus on companies in the U.S., where the Friedman (1982) doctrine of a solid and strong focus on shareholders has primarily influenced the understanding of the role of business. Germany, however, has a different view of the role of business compared to the United States. German companies try to balance the interests of their stakeholders, instead of focusing on their shareholders (Yoshimori, 1995). The discrepancy between the United States and Germany raises the question whether the financial out-performance of firms with a higher purpose also holds true in Germany. Since carefully selecting a new context is crucial in testing if results are replicated in different environment (Ethiraj, Gambardella & Helfat, 2016), we choose Germany to test the relationship between higher purpose and long-term financial performance. Lastly, the substantial out-performance of companies with a higher purpose shows that firms have a significant incentive to engage in purpose washing. Therefore, the empirical study starts at this point.

2.4 Hypothesis Derivation

There are no studies on the association between a higher purpose and financial performance in Germany. An essential difference in the perceptions of how business must be conducted makes this a fruitful research issue. A total of 75% of managers and executives of large corporations from the United States prioritized shareholder interest. In Germany, however, 82% of managers and executives indicated that they believe that large corporations exist to serve all stakeholders (Yoshimori, 1995). Thus, significant differences in the thinking of managers and executives between the two countries exist. This makes the Germany-U.S. comparison a valuable opportunity.

Henderson and Van den Steen's (2015) model implies that firms that adopt a higher purpose differentiate themselves from companies that choose not to do so. Given the difference in managerial thinking between the United States and Germany, the question is whether the association of the stock market out-performance of companies with a higher purpose also holds in Germany. It could be that the superior financial performance of companies with a higher purpose compared to companies without a higher purpose stems only from the effect of differentiation. As Yoshimori (1995) demonstrates, baseline companies in Germany, companies without a higher purpose, differ from companies without a higher purpose in the

United States. The differentiation mechanism that Henderson and Van den Steen (2015) describe could fail in Germany. Therefore, our first hypothesis is as follows.

> H1: The stocks of companies with a higher purpose perform better than the stocks of companies without a higher purpose.

The literature indicates that embracing a higher purpose can increase a company's financial performance. Gartenberg et al. (2016) and Sisodia et al. (2014) find that, among other variables, a higher purpose exerts a positive influence on the financial performance of U.S. companies. No study has examined the association between purpose washing and financial performance. Therefore, the consequences of purpose washing are unknown. Again, there could be an analogy with greenwashing. Greenwashing has been proven to have a significantly negative effect on a firm's financial performance (Walker & Wan, 2012). Therefore, purpose washing is expected to lead to inferior financial performance. Our second hypothesis is as follows.

> H2: The stocks of companies that engage in purpose washing perform worse than the stocks of companies not engaged in purpose washing.

3. Data and Methodology

Based on the discussion above the following five criteria are used to evaluate the purpose statements:

(1) The purpose explains why a company exists.

(2) The purpose transcends profit or is not directly concerned with financial reward.

(3) The purpose appeals to humans because of its reach beyond narrow self-interests, containing an act of service to others.

(4) The statement consists of simple, personal words.

(5) The purpose transcends profit or is not directly concerned with financial reward (where a focus on customers is regarded as being directly concerned with profit).

These criteria can be separated into two sets: The first three criteria could be viewed as essential, since they are necessary for building a statement of higher purpose. Criteria (4) and (5) increase the quality of a statement but are not as essential as criteria (1) through (3). Therefore, criteria (4) and (5) constitute the second set of criteria. Hence, companies that meet criteria (1) through

(5) have the highest-quality statements of higher purpose. This distinction increases the granularity of the empirical analysis of higher purposes.

Using these criteria, we categorize companies into four types after coding the corporate reports, fulfilling different sets of criteria:

- Basic higher purpose (**BHP**)—criteria (1) to (3) are fulfilled;
- Higher purpose (**HP**)—a basic higher purpose and criteria (4) and (5) are fulfilled;
- No purpose (**NP**)—criteria (1) through (3) are not fulfilled; and
- Purpose washer (**PW**)—criteria (1) to (3) or (1) to (5) are fulfilled, with instance(s) of purpose washing identified.

We label (1)-(3) as a basic higher purpose because it represents the essentials of a higher purpose. A higher purpose, criteria (1)-(5), has a conceptual meaning, grounded in Hollensbe et al.'s (2014) and Sisodia et al.'s (2014) descriptions of purpose.

Corporate reports often contain long-term company projections. Moreover, financial and non-financial reports provide a holistic picture of the whole company and are subject to standards that guarantee a minimum amount of granularity and scope of the information provided. Hence, social and other media are not suited for data extraction. Accordingly, we retrieved data for the identification of purpose statements from DAX 30 companies' websites and financial and non-financial reports for the year 2018. Corporate websites were searched for purpose statements because websites can be easily accessed by all stakeholders, such as employees, government officials, investors, and the public. Annual reports, financial reports, corporate responsibility reports, sustainability reports, integrated reports, and human resources reports from each company for 2018 were analysed, amounting to 57 reports analysed overall. For brevity, these reports are henceforth called corporate reports. Corporate reports were also used to extract communications about or related to a company's purpose. The use of corporate reports means exploiting the newly implemented CSR Guideline Implementation Act, which states that certain companies, including all DAX 30 companies, need to report a minimum amount of non-financial information at a minimum level of granularity. Each corporate report is coded individually and is therefore the unit of analysis. The empirical analysis is a cross-sectional non-experimental descriptive study. Following Saldana's (2009) call for precise terminology, we name the data structure of the qualitative content analysis as follows: Dimensions summarize themes and therefore have the highest level of abstraction. Themes summarize concepts. Concepts contain codes, and codes have the lowest level of abstraction and are thus the direct result of the analysed content.

To measure financial performance, we obtained company share prices and dividend data from Yahoo Finance (2019). The share price data are in monthly intervals, using the prices from the last trading day of the respective month. The historical stock prices were adjusted for dividends and stock splits.

To identify and evaluate purpose statements, the four elements that comprise a statement of higher purpose are simplified to evaluate the quality of the companies' purpose statements. The first three criteria capture (1) the intention, (2) the scope, and (3) the spirit of a purpose. Directly addressing customers in a higher purpose is a gray area for such a statement. Criterion (4) captures the style of the statement. Criterion (2) is also used as a variant of (5). Criterion (5) is the same as criterion (2), except with the difference that customers should not be addressed in the statement of higher purpose. Criterion (5) is added to exclude companies that address their customers only, which, could be argued, is also mainly self-serving and closely related to the financial performance of a company. With criterion (5), customer-focused companies cannot "buy" themselves a higher purpose by simply taking care of their customers.

Qualitative content analysis is suitable because it can represent not only explicit communications, but also inferred communications (Downe-Wamboldt, 1992). Moreover, qualitative content analysis helps determine how companies convey information, including visualizations. Inductive content analysis is useful in this case, since there is no theory and the scientific literature is limited (Hsieh & Shannon, 2005). Moreover, inductive analysis is applicable when knowledge of a phenomenon in the literature is insufficient or fragmented (Elo & Kyngäs, 2008). This process allows codes and themes to emerge from the data, rather than using preformed labels (Hsieh & Shannon, 2005). Generally, Mayring's (2002) recommendations are followed during the analysis.

Regardless of whether a purpose statement is found on a company's website, the corporate reports are analysed to search for a purpose statement. If no statement is identified, the company is marked as not having a higher purpose. Companies with a purpose are evaluated according to the two sets of criteria, to determine whether their statements meet criteria (1) through (3) or criteria (1) through (5) of a statement of higher purpose.

Subsequently, a random selection of 20% of the reports are searched for content that can be directly linked to the purpose of the respective company. A direct link means that a connection to the topic is evident when reading a passage in the reviewed documents and the purpose statement. For instance, if a purpose statement is concerned with protecting the environment, a passage in a document with a direct link to the company's purpose could refer to climate awareness initiatives, recycling, carbon dioxide balances, or energy savings. Only passages with a direct link to a company's purpose are coded and sorted into categories and themes. If purpose washing is suspected during the material review, the instance is noted for further review after all the company reports are analysed. Then, the remaining 80% of the company reports are analysed and coded. Additional categories are added if the codes of 80% of the company reports do not fit into the preformed categories. After this step, themes are formed to summarize the categories.

After 100% of the companies are analysed, the instances of suspected purpose washing are reviewed again and, if necessary, additional sources from the scientific literature and secondary sources are consulted to evaluate the materiality of the suspected instances. After that, any evidence of purpose washing is described for each case.

To compare the communication methods used for greenwashing to those used for purpose washing found during the empirical analysis, we summarize the communication strategies of greenwashing. Two summarizing frameworks of greenwashing strategies (Gallicano, 2011; Lyon & Montgomery, 2015) are merged to obtain a comprehensive picture of the communication strategies. These two frameworks are chosen because they are complementary, since they merge findings on greenwashing communication from both theory (Lyon & Montgomery, 2015) and practice (Gallicano, 2011).

4. Research Findings

4.1 General Observations

The data structure is shown with examples from theme one and four in Table 1. Table 1 shows the heterogeneity of the coded material, the different depths in terms of detail, and the different language styles used by different companies. For instance, theme four has a more descriptive tone compared to theme one.

TABLE 1 Excerpt of the coded material and the resulting dimensions

Aggregate dimensions	2nd order themes	1st order concepts	Example from documents	Example from documents
Beliefs leading to courses of action	Fundamental beliefs of how to run a company purposefully	Purpose statement	Deutsche Bank HR Report 2018, p. 6 *Our purpose as a leading European bank with a global reach is to enable economic growth and societal progress by generating positive impact for our clients, our people, our investors, and our communities.*	Merck Annual Report 2018, p. 61 *Our purpose is "We are curious minds dedicated to human progress". Science is at the heart of everything we do. It drives the discoveries we make and the technologies we create, it inspires our ideas and drives our entrepreneurial spirit.*
Non-core business activities to pursue purpose	Taking on environmental and human rights responsibility related to products and purpose	Promotion of conscious consumption	Covestro Annual Report 2018, p. 26 *These three little conservationists are the heroes of a picture book published by Covestro and distributed at primary schools and kindergartens in Taiwan. Since the book was launched in 2017, it has reached an audience of over 20,000 young readers. With its light-hearted approach, it aims at encouraging children to develop a responsible attitude to waste and opening their eyes to a problem affecting not just the island of Taiwan, but the world at large: plastic waste in the oceans. An average of eight million metric tons of plastic finds its way into the sea every year.*	SAP Combined report 2018, p. 74 *One Billion Lives: This initiative addresses the world's biggest social problems through our people, technology, and resources. The goal to improve one billion lives is realized by developing a portfolio of lean, sustainable, shared-value impact ventures, operating at startup speed, with the support of SAP.iO's Venture Studio. In 2018, more than 2,000 SAP employees participated in over 70 ideation events all around the world. Close to 400 submissions were received spanning design challenges focused on the UN Development Goals.*

Four types of companies emerge from the empirical analysis: nine BHP, six HP, 16 NP, and five PW companies are identified (see Table 2).

TABLE 2 Sample Description

Criteria	BHP	HP*	NP	PW	Companies per Set of Criteria
(1)-(3)	x	x			**14**
(1)-(5)		x			8
Not (1)-(3)			x		**16**
At least (1)-(3) & purpose washing				x	5
Companies per type	**9**	8	**16**	**5**	**30**

Notes: *HP is a subset of BHP with BHP=Basic higher purpose; HP=Higher purpose; NP=No purpose; PW=Purpose washer

Overall, the inductive qualitative content analysis yields 127 codes, which are summarized by five themes, with the numbers of codes and purpose washing (PW)-codes, respectively, in parentheses.

1) Beliefs leading to courses of action (47 codes, 13 PW codes),
2) Core business activities to pursue a purpose (28 codes, four PW codes),
3) Communication related to a purpose (23 codes, two PW codes),
4) Non-core business activities to pursue a purpose (17 codes, 11 PW codes), and
5) Consequences of activities related to a purpose (12 codes, five PW codes).

As expected, the consequences of activities are more prevalent in the PW group than among the DAX 30, on a relative basis. All consequences concern adverse events. The relative weights of categories in the PW group differ from those for all 30 companies. The relative frequencies of communication related to core and non-core business activities among purpose washers are 10.62 and 7.67 percentage points lower, respectively, than among all 30 companies. All differences between other category weights between the PW group and the DAX 30 are within five percentage points. This result shows that a company that engages in purpose washing is less concerned with the communication of actions related to its purpose than the average DAX 30 company is. The relative frequency of codes between the DAX 30 companies and purpose washers is within two percentage points for all codes, except for three. The codes “purpose as guidance for strategy formulation,” “litigation and compensation for unlawful conduct,” and “lawsuits related to injuries from products” are 3.1, 4.1, and 6.3 percentage points more popular, respectively, among companies engaged in purpose washing. Adverse events related to a company’s higher purpose can be expected among purpose washers.

TABLE 3 Overview of the Purpose Statement Analysis

	The purpose statement…		
	…fulfills criteria 1-3	…fulfills criteria 1-5	Purpose on website
Adidas	x	x	
Bayer	x	x	x
Beiersdorf	x	x	
Covestro	x	x	x
Deutsche Telekom	x	x	
Fresenius	x	x	x
Fresenius Medical Care	x	x	
Infineon	x	x	
Merck	x	x	x
RWE	x	x	
SAP	x	x	x
Allianz	x		
Deutsche Bank	x		x
Siemens	x		

Notes: Companies without a Purpose: BASF, BMW, Continental, Daimler, Deutsche Börse, Deutsche Lufthansa, Deutsche Post, E.ON, HeidelbergCement, Henkel, Linde, Münchner Rückversicherungsgesellschaft, Thyssenkrupp, Vonovia, Volkswagen, Wirecard.

The majority of purpose statements are neither explicitly nor formally stated. Instead, purposes are often implicitly and informally stated, as Collins and Porras (1997) also find. Table 3 indicates that five of eight HP companies did not state their purpose explicitly. Thus, the minority of companies with a higher purpose formally labelled it as such on their website. Warriner (1965) argues that the challenge of capturing purpose is that companies issue different statements of purpose to different stakeholders while simultaneously implying that each one is the single most important one. This is not the case for the reviewed companies, except for one. This company's communicated purposes did not change topics between its reports and its website; however, it specifically addressed its customers in its purpose statement on its website, but addressed all its relevant stakeholders, communities, clients, employees, and investors in its human resources report.

4.2 Inductive Findings: Purpose Washing Communication Strategies

The qualitative analysis indicates the topics with which instances of purpose washing are concerned and matches them to the means of deceptive communication used. A total of 10 cases of purpose washing by five companies are identified. Most instances of purpose washing revolve around product safety and effectiveness, as well as environmental damage and protection. The most common act of purpose washing involves a discrepancy between a company’s stated purpose and its actions (five instances). The second most common activity is the selective disclosure of information (three instances), followed by failure to acknowledge the existence of an informed debate (three instances). Roughly an equal number of topics involved in purpose washing range from the environment to products or services and to deceptive communication strategies.

TABLE 4 Combination of Constructs for Purpose Washing

Purpose Washing Construct	**Greenwashing Construct Equivalent**
Discrepancy between organizational structures and necessary structures to pursue purpose	Decoupling
Discrepancy between purpose and actions	Means/End decoupling
Symbolic efforts	Symblic management
	Halo Effect, astroturf lobbying, pooling
Selective disclosure of information	Selective disclosure
Unproven usefulness of actions	Cheap talk
Not tackling the root cause	Costly state falsification
	Incomplete comparisons, implied superiority, exaggeration
Failure to acknowledge that an informed debate exists	Reality denial
	Lying, advertising lawful conduct
Shifting responsibility to consumers	
Unlawful conduct	

Notes: Author´s table. The greenwashing constructs represent the combined frameworks of Lyon and Montgomery (2015) and Gallicano (2011).

Table 4 presents the identified means of communication used for purpose washing, matched with the most suitable construct of greenwashing. In seven of nine instances, the constructs match the preformed constructs for greenwashing. The two that do not are “shifting responsibilities to consumers” and guilty of “unlawful conduct.” In the first instance, a company reframed the roles of those who are responsible for the adverse effects of its business activities and shifted the responsibility to its consumers. Except for the last description, all means of communication of purpose washing are concerned with deceiving the receivers of the messages, but not with unlawful activities. The last construct is concerned with illegal actions by purpose washers.

4.3 H1 and H2: Relation of Financial Performance, Higher Purpose, and Purpose Washing

The literature on higher purpose does not quantify "long term" regarding the positive effects of a higher purpose on financial performance. To ensure the maximum use of the available data, different periods of stock market performance are tested. The longest period is 18 years, and 10-year and three-year periods are tested.

Relative financial performance is appropriate for a comparison. Moreover, the DAX 30 consists of different companies over time. Therefore, the performances of the different company types are compared to each other, rather than to the DAX over each period. The three time frames allow us to observe the growth behaviour of the DAX 30 in different market environments. While the 18-year period covers the aftermath of the tech bubble in 2000, the 10-year period includes the aftermath of the financial crisis of 2007–2008. The three-year period, beginning in 2016, reflects global synchronized growth.[1]

The Compound Annual Growth Rate (CAGR) is used as the stock performance indicator. Financial performance is defined as the CAGR of the stock price plus dividends (not reinvested) for the respective time frame. The CAGR for each company type is the equal-weighted average of the respective set of individual companies' CAGRs. Over all time frames, the stocks of companies with a (basic) higher purpose perform the best and purpose washers perform the worst. The differences in performance between the BHP and HP groups are not as clear-cut over all time frames.

TABLE 5 Compound Stock Returns

	18 years	10 years	3 years
Criteria 1-5	601	491	146
Criteria 1-3	526	509	151
No purpose	506	405	139
Purpose washing	154	373	96

Notes: Compound returns for companies which were publicly listed since April 2001 (18 year period), April 2009 (10 year period), and April 2016 (3 year period) include the sum of dividends. Share price and dividend data retrieved from https://finance.yahoo.com.

[1] Data for Covestro, Vonovia, and Wirecard were not available for the 18-year period; data for Vonovia and Covestro were not available for the 10-year period; and all the companies' data were available for the three-year period. Obviously, the data were gathered before Wirecard's insolvency in 2020. This event would have had a significantly negative effect on the NP group.

Table 5 shows the compound returns over the three periods. The table reflects the consistently higher growth rates of companies with a higher purpose. Notably, since 2016, an investment in the PW group would have yielded a negative return over three years. The HP group outperforms the NP group by 1.09, 1.26, and 1.04 times, respectively, over the three-, 10-, and 18-year periods.

5. Discussion and Implications

Companies mostly use the same communication strategies for purpose washing as for greenwashing. Seven of nine strategies were previously used for greenwashing. Two new communication strategies in the context of purpose washing are identified. In most instances of purpose washing, companies did not explicitly advertise specific actions as being purpose driven, but instead stated that, as companies, they are generally purpose driven while behaving incompatibly. Purpose washing and greenwashing are not mutually exclusive. It is shown that purpose washing can include environmental topics, while greenwashing can include purpose-related topics if the purpose is concerned with the environment. The main motive for greenwashing is that companies want to gain a competitive advantage and reap the corresponding benefits, such as a better image or improved business performance (Mitchell & Ramey, 2011; Vos, 2009). At the same time, greenwashers do not want to incur the costs, such as changing processes, practices, and products, or to assume responsibilities such as transparency. The same rationale can apply to purpose washing. Companies might want to benefit from improvements in their performance or public image while not assuming the potential risks and costs of fundamentally changing the organization's activities. To identify companies engaged in purpose washing, it is vital to understand the communication strategies they used to mislead stakeholders. The communication strategies used for greenwashing, that is, deceptive communication concerning environmental performance, are well researched (e.g., Gallicano, 2011; Laufer, 2003; Lyon & Montgomery, 2015; Siano et al., 2017) and we showed that purpose washing follows similar communication patterns.

Companies with a higher purpose consistently outperform companies without a purpose and purpose washers over every time frame analysed. Therefore, H1 is confirmed. This finding is in contrast to the literature on the economic effects of greenwashing. Walker and Wan (2012) find that substantial environmental efforts have no effect on financial performance. However, the result of this study is in agreement with the literature on higher purpose. In line with Gartenberg et al. (2016) and Sisodia et al. (2014), higher purpose, among other variables, is positively associated with higher performance. The out-performance ratios of Sisodia et al. (2014) are significantly higher, at 14.3 and 3.8 times over 15- and 10-year periods, respectively, and around the same, at 1.5 times, over a three-year period. Gartenberg et al. (2016) try to show a causal relation between stock performance and a higher purpose. Their findings suggest a 5.90–7.60% outperformance of companies with a higher purpose and management clarity, statistically significant at the 10% level. This result would translate to a CAGR difference of 0.88–1.14 percentage points if companies with no purpose have a CAGR of 15%. The difference in CAGRs between the HP and NP groups for the DAX 30 is at least 1.05 percentage points, with one exception. This discrepancy, or “purpose premium” on the share price, could indicate that the causal effect would be smaller among the DAX 30.

Companies that engage in purpose washing perform consistently worse than companies with and without a higher purpose. The differences in performance are material and consistent over 18-, 10-, and three-year time frames. Therefore, H2 is confirmed. This result is in line with the literature on greenwashing. Walker and Wan (2012) find that greenwashing has a significantly negative effect on financial performance. Thus, the touted advantages of a higher purpose do not materialize for companies that engage in purpose washing in the observed period.

A higher purpose could be beneficial for companies that prioritize shareholder value maximization. However, to follow a higher purpose, these companies would first need to change to purpose-driven thinking for value creation. Therefore, a change of thinking in organizations following the paradigm of shareholder value maximization would have to occur before they could adopt a higher purpose. The positive association between higher purpose and financial performance in Germany also suggests that balancing stakeholder concerns is not sufficient to capture the positive effects of purpose-driven businesses.

The possible reasons for a negative relation between financial performance and purpose washing range from decreased employee motivation to the loss of customers. However, companies that are in a disadvantageous financial situation could also view purpose washing as a way to improve their perception. The two companies’ instances of purpose washing also being illegal activities, could have had a significantly more negative effect on their financial performance than other, legal instances of purpose washing.

6. Conclusion

The findings show associations but no causal relations between purpose or purpose washing and financial performance can be claimed. It could be that companies with superior financial performance or those with a higher market capitalization adopt a purpose and therefore exhibit superior growth. The case that companies with higher market capitalization adopt a higher purpose seems unlikely, because the DAX 30 already represents Germany’s 30 largest companies. Other potentially important variables could be differences in industry sectors, regulatory environments, company size, company age, and internal capacities.

This paper contributes to research in three ways. First, it derives a definition of purpose washing, using greenwashing as a starting point. The definition aims to provide a basis for further research. Second, the paper identifies the respective strategies of purpose washing. Third, the paper empirically investigates the association between purpose, purpose washing and financial performance and shows a strong association.

Future research could focus on the scope and drivers of purpose and purpose washing. Mackey and Sisodia (2014) and Sisodia et al. (2014) argue that purpose-driven businesses are an integral part of society, as are the government, civil associations, and political parties. Thus, future research could also focus on governmental agencies, associations, and politics to explore whether and if these entities benefit society more than they did before they adopted purpose-driven thinking. Purpose washing seems to be a more recent phenomenon. Therefore, it could be fruitful to focus on its drivers. Panel data could enable scholars to analyse within-company variations in higher purpose and to analyse whether a causal relation between company performance and a higher purpose exists.

There are limitations with regard to the methodology as well as to the applicability of the findings to settings in other countries or other companies. The limitations pertaining to the empirical part involve the identification of a higher purpose, purpose washing, and means of deceptive communication. We have taken several measures to mitigate subjectivity and ensure reproducibility, but these steps may not have been sufficient. All the steps of the content analysis are documented, and the type of qualitative content analysis used, inductive analysis, reflects the preliminary stage of the research on purpose washing. Furthermore, Mayring's (2000) process of inductive qualitative content analysis is used to ensure that the codes and categories are as close as possible to the coded material.

To summarize, the paper shows that it is necessary to hold companies accountable for their claims of higher purpose. Purpose washing is prevalent among Germany's 30 economically most relevant companies, which can be harmful to stock market performance, as well as to the realization of the higher purpose. However, following a higher purpose is associated with superior stock returns, in addition to positive effects on employees, society, and the environment. Thus, companies that authentically follow a higher purpose could be agents of change, to the benefit of society and themselves.

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