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# Modelling the concept of corporate purpose through the lens of organizational identity

Submission to the

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## **INTRODUCTION**

In April 2019, the French law introduced several major judicial innovations in regards to the model of the corporation. First, the law offers the possibility for all corporations to write in their by-laws a “*raison d’être*”, which can be defined as the reason why the corporation exists: it designates a mission that calls for the development of new competencies and capacities in order to be achieved, and a common goal that engages stakeholders beyond their own interests (Notat-Sénard report, handed to the government in 2018). Secondly, a new statute of “Entreprise à Mission” can be adopted by corporations. This new statute resembles those of Benefit Corporations”, “Public Benefit Corporations” or “Social Purpose Corporations” introduced in the US or the – “società benefit” statutes. Indeed, firms adopting such statutes request that an additional purpose, of a social or environmental nature, be introduced in the articles of incorporation alongside the usual profit-making motive (Levillain and Segrestin, 2018). They define a clear but broad purpose that designates grand challenges the company seeks to tackle. Second, they require that the purpose be inscribed the corporate by-laws, as a commitment binding the corporation. Finally, this model defines an accountability framework, in which the CEO is then mandated to fulfill the purpose of the firm, and is evaluated based on the strategies she/he invents to do so (Hiller, 2013, Levillain et al., 2018).

These new opportunities have already been seized by several French firms. Some have announced the launching of *raison d'être* definition process, with a few of them having completed to this day. The water provider Véolia, for example, has formulated its *raison d'être*, of which the main statement is: “*Veolia sets itself the task of “Resourcing the world” through its environmental services business*”<sup>1</sup>. The *raison d'être* is sometimes understood as a preliminary purpose that these companies will have the possibility to commit on by adopting the newly available “*entreprises à mission*” statutes. The insurance company Maif, for example, is currently working on its *raison d'être*, with the strong will to then adopt such statutes<sup>2</sup>. These formal processes of purpose defining offer new and original empirical material.

On a theoretical point of view, this concept of purpose has been present in management literature, without the construct holding a clear definition (Singleton, 2011). Nonetheless, it appears that it might strongly resemble the one of organizational identity defined by Albert and Whetten in 1985. The authors define the latter as the features that are central to the organization’ character or “self-image”, that make it distinctive from other similar organizations, and that are viewed as having continuity over time.

However, we are willing to study more precisely these two concepts of purpose and organizational identity, to better characterize their theoretical variances and the practical implications of such differences. We therefore ask the following research question: To what extent does the purpose encompass the construct of organizational identity?

To conduct our research, we look, in this paper, to provide a conceptual work that aims at better characterizing the attributes of the concept of purpose, through the identification of its similarities and differences with the one of organizational identity. We will attempt at elucidating the expected implications in terms of management of the adoption of a purpose, such as cognitive framing of the members of the organizations, and its role in setting a strategic direction.

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<sup>1</sup> <https://www.veolia.com/en/news/veolia-group-giving-itself-purpose> [retrieved on the 13/01/2020]

<sup>2</sup> <https://www.lesechos.fr/finance-marches/banque-assurances/pourquoi-la-maif-veut-devenir-une-entreprise-a-mission-1026010> [retrieved on the 13/01/2020]

On a methodological standpoint, we use various sources to try and specify the concept of purpose. First, we posit that the terms “*raison d’être*” and “*mission*”, introduced by the law can most accurately be translated by the English term “purpose”. Therefore, we have conducted a literature search in management theories, and we have sourced several academic works precisely using and trying to define the construct of purpose. Secondly, these terms were introduced for the first time in the French law in 2019, but their introduction was previously defended in the report written by the Notat-Sénard report, which greatly inspired this reform. As a result, we will here refer to both the law (Loi Pacte), and this report, which contains some theoretical justifications for these introductions. Lastly, various organizations in France, such as consulting firms and corporate networks, have released documents aimed at providing explanations on the new concept of *raison d’être* or *mission* (such as methodology and guidelines). We refer to these as we believe they offer an insight into the way the concept of purpose may be apprehended by practitioners.

We begin by presenting the common features presented by these two concepts, before highlighting the attributes differentiating the organizational identity and the purpose.

## **A CORE CONCEPT PROVIDING COMMON COGNITIVE SCHEMES**

To begin with, both organizational identity and purpose refer to core, unique and lasting features of the organization, and offer a cognitive framework for members to make sense of their practical activities.

### **Enduring, central and distinctive qualities**

To begin with, we believe both concepts refer to manifestations of unique and enduring attributes of the firm. First, according to Albert & Whetten (1985), Ravasi and Schultz (2006), and Gioia et al. (2013) identity is a central character of the organization. The term “central” can be compared to the notion of “core” ‘ideology’ mentioned by Collins and Porras (1996) in their paper on companies’ vision: the ideology, which encompasses the purpose of a company, refers to the fundamental values of the firm. However, central can also be interpreted as being present in all of the activities performed by the firm. CitizenCapital and Deloitte, 2019 mention the example of Patagonia, whose purpose was precisely integrated into the core of all of their businesses. Secondly, the authors consider that identity refers to the elements that provide

distinctiveness for the firm. Similarly, according to the Citizen Capital report, every company has its own *raison d'être*, whether it has been formalized or not. In order to formulate this purpose, companies need to identify the elements that make them “singular”. Lastly, Albert and Whetten posit that there is a durable quality to the concept of organizational identity, which the purpose possesses as well. Indeed, the Notat-Sénard report states the pursuit of the *raison d'être* contributes to the completion of long-term objectives (p.19). Citizen Capital also mentions the need to reintroduce a long-term perspective in management practices, which might be achieved through the formulation of the purpose.

### **A Cognition-framing function**

First, we argue that both organizational identity and purpose provide members with interpretative frameworks that help them make sense of the actions taken by their organization. As Gioia (1998) mentions, identity can be described as shared interpretative schemes that are collectively constructed to give meaning to their activities. According to Gioia and Thomas, (1996), identity serves as an “interpretative lens” that is shared by members of an organization. Equally, purpose can also be understood as a cognitive framework for members to make sense of their on-going, envisioned, activity. The notion of “collective understandings” used by Gioia et al. (2000) is also central to Barnard's organization theory (1938). For the author, collective action must remain ‘coherent’ in order to fulfill its “common purpose”, that is, all members must come to the same understanding of the purpose. The purpose can only constitute a solid base for cooperation if there is a uniform interpretation of its meaning by participants. To ensure this uniformity, the executives must then make sure that all means of communication are well-functioning. As he states: « *all communication relates to the formulation of purpose and the transmission of coordinating prescriptions for action* » (p. 184).

However, these two concepts hold a different status, as the purpose introduces a committing dimension that engages its members to preserve some identified features of the organization.

### **THE INTRODUCTION OF AN OPPOSABLE COMMITMENT**

According to Ravasi and Schultz (2006), organizational identity reflects the institutional claims about the characteristics of the firm. Although this framework considers that these characteristics are enduring, the cases described in the literature do not indicate that firms have *committed* on the preservation of these features. On the contrary, the *raison d'être* or *mission*,

as described in the law, constitute objects that firms commit upon, as they are considered fundamental principles that must be preserved. This idea can be supported by 14/01/2020 20:20:00 model (2002), in which purpose is a core attribute of an organization's identity, that members wish to preserve in all conditions. Along with another component – the “philosophy”, the purpose is something that members are not willing to sacrifice or to compromise on.

By adopting a legal purpose, the organization holds itself accountable for its fulfilment, as the *French law* states that the *raison d'être* is “constituted by the principles which with the corporation endows itself and for which it plans to deploy the means in the realization of its activity” [Loi Pacte, Art. 169, I. 2°; our own translation]. In practice, purpose may take the form of promises made to particular stakeholders or designated beneficiaries. For example, in the case of Nutriset, described by Levillain (2017), the formulated purpose specifically addresses populations suffering of malnutrition. Indeed, according to consulting firm Prophil (2018), when the purpose is written in the by-laws, these precise commitments engage the firm and the executive team, as the latter must account for its strategic decisions in regard to the purpose. In this sense, the corporate purpose possesses an opposability.

We believe that this committing quality of the purpose entails a different approach to the perceived discrepancy between the current and future conceptualizations of the two constructs.

### **THE DELIBERATE PROJECTION INTO A DESIRABLE FUTURE**

Indeed, in the organizational identity framework, the will to pursue what (Whetten et al., 1992) call a desired future identity can be a drive for change. This identity refers to future aspirations of the firm, and desired images about what it “wishes to become” (Kodeih and Greenwood, 2014, p.32), although these are still embedded in the organization's past. According to Reger et al (1994), ideal organizational identity encompasses future-oriented beliefs about what is desirable for the organization. More precisely, there is an “identity gap” between current beliefs and future aspirations, when actions that are inconsistent with members' beliefs about the organization are going to be difficult for them to interpret. In this same line of work, Ravasi and Phillips (2011) mention the identity drift, initially conceptualized by Albert and Whetten (1985), and which designates an increasing misalignment between traditional claims and new and unacknowledged belief. This gap therefore requires a new alignment between who members think they are as an organization and how they believe they are perceived or would like to be perceived by others (Albert and Whetten, 1985, Dutton and Dukerich, 1991).

The purpose, on the contrary, deliberately refers to a future service or good, that does not yet exist, and that the firm is willing to invent in order to fulfil this purpose. Indeed, according to Barnard (1938), one of the common purpose's feature is the ability to project members into an unknown future. For example, Collins and Porras (1994)'s concept of vision relies on a what the authors call an 'envisioned future' for the corporation, which « *requires thinking beyond the current capabilities of the organization and the current environment.* » (p.73). Similarly, in the literature stream on mission statements, it has been argued that the latter hold an 'aspirational function', according to Askun and Bakoglu (2007), in that they offer members a representation of the desired future of the company. By committing on a desirable future, the organization creates a gap between its current and envisioned activities, and projects its members into the unknown, so as to drive internal innovation (Levillain, 2017). The purpose might therefore be a concept aiming at articulating the desirable aspirations or claims with current activities: it precisely provides a basis for control of the change of substantive activities.

### **STRATEGY-MAKING IN THE INTEREST OF THE PURPOSE**

To close the identity gap, it is organizational leaders, who must, according to Ravasi and Schultz (2006), renew their identity claims, so as to update their own understandings and aspirations in terms of identity. More specifically, in Thomas and Gioia (1996)'s case study, in order to step towards a desired future image, executives must perform sensemaking tasks. These can take the form of a "periodic renegotiation" of the meanings associated with unchanging official claims of the organisation (Ravasi and Phillips, 2011). Then, according to Gioia and Chittipeddi (1991) sensegiving activities are necessary in order to gain members' acceptance of the management's vision for the organization's future. Therefore, the CEO and top managers are considered in charge of making sense of, and giving sense about, the interpretation of a new vision for the organization. Although these tasks enable the beginning of a strategic change, they mostly consist in changing the self-perceptions of the firm.

In the case of the purpose however, it is expected that its definition must not be left to the executives of the firm, but involve its stakeholders (CitizenCapital, 2019). Secondly, it can be argued that the purpose requires the execution of tasks that directly concern the strategy-making of the organization. As for Levillain (2017), the purpose calls for the "invention" of new strategies in order to be fulfilled, according to Notat-Sénard report, the *raison d'être* should be necessarily declined in every aspect of the strategy of the firm. The report therefore states that

is a “guide (for governance) for important decisions, a useful counterpoint to the short-term financial criteria, that cannot serve as a compass”. There is a clear expectation that every strategic decision taken by the executives must be in the interest of the corporate purpose.

## CONCLUSION AND FURTHER RESEARCH

To conclude, the purpose, as organizational identity, designates features of an organization that are central, durable and distinctive. What is more, they both are used as cognitive schemes for members of an organization to make sense of the activity they are conducting. However, firms that adopt a *raison d'être* or “*entreprise à mission*” statutes will formulate promises to designated stakeholders, and for which they will hold themselves accountable. What is more, the purpose may not naturally reflect itself in the formation of new substantive attributes, but rather strongly drive conception activities aimed at pursuing a desirable future. Finally, the required management tasks are different in the two settings: in the case of organizational identity, it is a sensemaking and a sensegiving activity that is expected from the management teams. In the setting of a purpose, the formulation itself must involve the CEO as well as various stakeholders. It is then expected that the CEO will invent the strategies that will enable the firm to fulfil the purpose.

In a further step of our research, we will intend to illustrate two different managerial regimes as practical embodiment of the two studied concepts. Indeed, we are in the process of collecting data at La Poste, which is the historic operator in charge of delivering the mail in France. We currently aim at characterising two different regimes at La Poste: 1) the creation of a societal commitment department, as an organizational identity-based regime 2) the recent decision to formulate and officially adopt a *raison d'être* (this process has begun in autumn 2019) as an initiation to a purpose-based regime.

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