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Purpose: the Starting Point of Great Companies

By Nikos Mourkogiannis

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The cover of *Purpose* shows a healthy tree with green leaves extending skyward, and below ground a broad network of sturdy roots, soaking up water and minerals to provide nourishment. That's the metaphor: A company, too, is a living organism, and to flourish it has to be nourished by more than capital and raw materials. It needs a sense of Purpose.

What a wonderful image! In an era of greed and cynicism, the message of Nikos Mourkogiannis's book seems humane and wise. No wonder that numerous CEOs have offered glowing tributes. *Purpose*, they write, is an inspiring and profound book.

So how could anyone have a negative word about this book? It makes you feel like the Grinch that stole Christmas.

It's sad to say, but on closer inspection, *Purpose* is typical of so much muddled thinking in the business world. Managers might find it inspiring, but so are many other deeply flawed books. In fact, this book suffers from two of the delusions I write about in *The Halo Effect*. At a minimum, *Purpose* it has some fundamental problems of logic and judgment. At worst, its high-sounding terms are an exercise in flattery, and divert our attention from more important issues that managers ought to consider as they seek high performance.

First, the Good News

Let me start by agreeing that "Purpose"—defined by the author as "a set of values that defines it and inspires and motivates its employees"—is a useful thing. A sense of purpose is vital as a way to guide important choices, to keep perspective when times are tough, and—here too I agree with the author—as a way to inspire employees. Not many employees find the goal of delivering shareholder value to be terribly captivating or fulfilling. Appealing to something larger, to some sense of Purpose, is no doubt useful. In fact, in my work with clients, I sometimes invoke the word. I ask: *What are you trying to achieve? What is your purpose? Are your employees engaged and involved in something more powerful than financial goals?*

So where's the problem? Consider the title: *Purpose: The Starting Point of Great Companies*. That's the author's claim: If you want to be a great company, you need to start with a clear

Purpose. And how does Nikos Mourkogiannis support his assertion claim? By examining successful companies, and concluding that each of them is imbued with a strong sense of Purpose.

It all sounds so nice. But let's take a closer look.

Problem #1: What Color is my Purpose?

A first concern has to do with the typology of Purpose. Mourkogiannis asserts that great companies have one of four moral purposes: Discovery ("The New"), Excellence ("the Good"), Altruism ("The Helpful"), or Heroism ("The Effective"). Each purpose, in turn, is personified by an eminent philosopher: Kierkegaard for Discovery, Aristotle for Excellence, Hume for Altruism, and Nietzsche for Heroism.

There are examples for each. Hewlett-Packard, with its emphasis on innovation, was an exemplar of Discovery. BMW, a leading automobile maker for high achievers, was guided by the purpose of Heroism. Sam Walton at Wal-Mart, with his relentless focus on operational detail and efficiency, was a paragon of Excellence. Henry Ford, who sought to bring affordable transportation to the masses and also pay his workers the unheard of sum of \$5 per day, was endowed with a purpose of Altruism. Four great companies, each one inspired to greatness by tapping into a basic Purpose. Sounds convincing, doesn't it?

But wait. *Actually, I switched the list.* To Mourkogiannis, Hewlett-Packard is not an example of Discovery, but of Altruism; BMW is driven by Excellence, not Heroism; Henry Ford was all about Heroism, not Altruism. And Wal-Mart, which has driven countless small merchants out of business, which plays hard-ball with suppliers, and which pays notoriously low wages and is the target of countless allegations of worker mistreatment? According to Mourkogiannis, the beacon that guided Sam Walton along his path was Altruism. That's right: *Sam Walton, Altruist.*

You get my point. Take any successful company, and it's not hard to spin a tale about Excellence or Discovery or Heroism or Altruism. The categories are so elastic, and the definitions so broad and subjective, that we can find these qualities in just about any good company. Take one of the companies I admire most, Johnson & Johnson. Does it have a sense of Purpose? Absolutely, as embodied in its famous Credo. But which of the four is it? With a little imagination, we could tell a credible story about J&J as having a Purpose of Altruism (caring for the sick and aged), or Excellence (insisting on high standards throughout the company), or Discovery (great new products and medical discoveries), or Heroism (championing progress in the world). The insistence on narrowing a sense of purpose into one of four categories offers a neat typology, but it misses the way that companies really operate—they are not monolithic, nor static, and the best of them do not fit neatly in a given box.

Problem #2: The Halo Effect

The fuzziness of these four categories leads us to an even more basic problem: the Halo Effect. Show me *any* successful company, and I can claim that it is imbued with some Purpose. After all, look at the definitions: the New, the Good, the Helpful, and the Effective. There's no successful company that cannot be described in these terms.

The Halo Effect is tendency to make specific judgments based on an overall impression. It's widespread, and it is commonly found in the business world. So many of the things we think *drive* company performance are in fact attributions *based on* performance. In my book, I look in depth at two companies, Cisco Systems and ABB. When Cisco Systems was growing rapidly in the

late 1990s, it was widely praised by journalists and researchers for its brilliant strategy, its masterful ability to manage acquisitions, and its superb customer focus. When the tech bubble burst, the same observers were quick to make the opposite claim: Cisco was now said to have a flawed strategy, haphazard management of acquisitions, and to have neglected its customers. On closer examination, Cisco really had not changed much—it was a decline in performance that led people to see the company differently. The same thing happened at ABB. In the 1990s, when performance was strong, ABB was lauded for its elegant matrix design, its risk-taking culture, and its charismatic chief executive, Percy Barnevik. When performance later fell, ABB was blasted for its chaotic organization, its complacent culture, and its arrogant CEO. ABB's diminished performance became a filter through which observers viewed the company differently. Performance bestows a Halo that shapes the way we make attributions.

The same holds for Purpose. While Cisco was on the upswing, it could have been said to have a marvelous sense of purpose—in fact, I'm sure we could have said it was guided by Discovery, Excellence, Altruism, and Heroism. Same for ABB. Take *any* successful company, and we can easily make an attribution of Purpose.

The Halo Effect is widespread and pervasive, yet Mourkogiannis overlooks it entirely. On p.218, he applauds Jim Collins and Jerry Porras's 1994 book, *Built to Last*, describing it as "An undoubted classic that adopts a rigorous approach to the question, What makes for a lastingly successful, visionary company?" That book was deeply flawed due to its reliance on data contaminated by the Halo Effect, as I explain in Chapter 6 of my book. Same for Jim Collins's *Good to Great*, described by Mourkogiannis on p.111 as a "well-reasoned" study—but in fact another example of deeply flawed research, compromised by the Halo Effect. In his desire to describe successful companies in terms of Purpose, Mourkogiannis misses this key problem.

In order to avoid the Halo Effect, researchers have to make sure that independent variables are truly independent of dependent variables—those things they are trying to explain. For Mourkogiannis's claims about Purpose to have any validity, he would need to define it in such a way that it is not merely an attribution about companies we know to be successful, but is something we can observe objectively, whether the company is successful or not. Only then might we know if Purpose is, as claimed, "the starting point of great companies."

Problem #3: The Starting Point of Failed Companies?

Imagine that we found a way around the Halo Effect by measuring Purpose objectively, perhaps in terms of a stated mission that appealed explicitly to one of the four categories, or recruiting programs that explicitly sought out people who held certain values, or a reward system that gave explicit importance to some desired behavior. In other words, imagine that we did not merely attribute Purpose to successful companies, but measured it independently of performance. What then?

My guess is that we would find that Purpose is indeed a starting point of most great companies—but we would also find that Purpose is the starting point of most mediocre companies, and most failed companies, as well. Why? Because almost every company starts with *some* sense of purpose—it sets out to achieve something, or to offer a new and different product, or to serve customers. I can't think of any company that began with nothing more than an entrepreneur who said to a few friends, "Hey, let's get together and start a company."

In fact, the closest I can come to a company without an obvious purpose at its birth is Hewlett-Packard, whose founders began with little more than the idea of commercializing electronics. Their first products included gadgets that would identify foot faults at bowling alleys, and an automatic urinal flushing device—hardly examples of lofty Purposes like Heroism or Altruism. Over time, of course, HP became a great and progressive company, and did indeed develop a strong set of purposes—not just one, but arguably all four of Mourkogiannis’s categories. Yet its founding was ordinary and modest, hardly an appeal to greatness. Hewlett and Packard were not influenced by Aristotle or Kierkegaard, or anyone other than Stanford professor Fred Terman, who encouraged them to go into business. Was there a Purpose at HP’s founding? Only if we define Purpose to mean just about anything we want.

In sum, there’s no persuasive evidence at all in Mourkogiannis’s book that Purpose is a determining element in shaping company performance. To make that claim, he would need to measure his variables objectively and track a number of companies over time, comparing that that achieved greatness against those that did not. But he has undertaken no such study, and cannot make any such claims.

What’s Really Going On

So what’s really going on here? If Nikos Mourkogiannis’s notion of “Purpose” is commonly an attribution based on performance, as much as a driver of performance; and if “Purpose” is likely to be the starting point of mediocre and unsuccessful companies as well as successful companies, what are we left with? What is this book really about?

Purpose: The Starting Point of Great Companies is, at its core, a comforting story that appeals to the vanity of managers. They may find it inspiring and no doubt enjoy being linked to lofty phrases and eminent philosophers. “Gee,” an executive may reflect, “I thought I was trying to meet next year’s sales target. Now it turns out that I’m guided by Aristotelian Excellence!” Or: “There I was, in a tough battle with my rival. Now it seems that I’m an embodiment of Nietzschean Heroism.” It all serves to flatter the manager.

Mourkogiannis isn’t shy about his claims. “Purpose,” he writes, “is the game of champions. Only strong minded men and women—adults with powerful intellects and real character and spines of steel—are suited for it.” The result is, of course, that the author presents himself as—in the words of one executive—a “Philosopher Consultant.” Why hire a plain old strategy consultant who talks about the nuts and bolts of business, when you can hire someone who will tell you that your company is Heroic or Excellent, and that its managers are reminiscent of Aristotle or Hume?

Purpose, as I said at the outset, is a worthwhile objective. But its treatment in this book is, regrettably, entirely vacuous. It is an exercise in self-delusion. It may appeal to our aspirations, and is surely inspiring, but Mourkogiannis’s *Purpose* does not remotely explain why companies succeed or fail.

Rather, to understand what drives company performance, we need to guard against easy attributions based on the Halo Effect. We need, as I write in my book, to understand that formulaic approaches do not lead predictably to success, because in business, performance is relative rather than absolute. In the last analysis, business performance is about making strategic choices under uncertainty, then executing those choices as well as possible. Purpose plays a role, to be sure, in that the choices we make may be guided by a sense of purpose, and our ability to inspire people to execute well may also be shaped by their commitment to a set of principles. But Purpose, although perhaps a contributor to success, is neither necessary nor sufficient for high performance. In the hands of a self-styled Philosopher Consultant, however, it may seem to be so.