MOI GLOBAL

Why Purpose Matters

This article by Michael Shearn is excerpted from a letter of Time Value of Money, LP.

We have spent over 20 years researching the best-performing companies in the world across multiple industries in order to identify the common elements of their success. When we started investing, we thought competitive advantage was the most important element, but saw these advantages quickly erode in companies with poor leadership. We later saw leadership as more important, but made the mistake of investing in leaders who were laser-focused on shareholder value. Their strategies worked well in the short term but in most cases resulted in serious negative consequences for their companies (*e.g.*, witness the decline of Sears Holdings). Although there obviously isn't a single factor that guarantees success, we believe we have uncovered a few traits found in those businesses that have consistently produced the best results for our fund.

In order to find these traits it was necessary for us to look beyond the numbers and look at what we dare consider the "heart" of a company. In our experience, many of the strongest, healthiest, and most enduring companies have leaders with a *purpose* beyond just maximizing profits. These leaders focus on maximizing value for *all* stakeholders, including customers, employees, shareholders and suppliers. Ultimately, we have found that these companies also create greater and more sustainable profits.

At the simplest level, a business exists because it provides value to customers and the people who work there. If the business doesn't create value then it will fail to exist over the long term. We think the best way for a business to create value for its customers is to have a vibrant and engaging workplace where employees feel valued and are motivated to deliver their best work.

Although many business leaders see employee engagement and workplace culture as important, they don't always implement practices that develop such cultures in their workplaces. Recent Gallup research in the US shows that a staggering 68 percent of employees are not engaged at work, which means they aren't putting energy or passion into their work. Included in this number, around 20 percent of all employees are *actively disengaged*, creating multiple problems for their companies. Professor Raj Sisodia at Babson College provides a vivid picture of what this looks like: "It is like a rowing crew where 3 are rowing, five are not rowing and two are hitting everyone else on the head!" Think about those businesses you interact with on a day to day basis where you feel the employees actually care about you and then think about those businesses where you know the employees do not care about you. Which is more likely to survive and grow? Purpose matters.