

# THE ECONOMICS --- of --- HIGHER PURPOSE



**Eight Counterintuitive Steps for  
Creating a Purpose-Driven Organization**

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**Robert E. Quinn and Anjan V. Thakor**

## **Praise for *The Economics of Higher Purpose***

“Quinn and Thakor create a powerful case and practical guide for why and how we should run into a burning building. Their eight counterintuitive steps for purpose-driven management are a must-read for leaders who understand that all you can command is attendance, and all the good stuff is given willingly by those that understand and share the higher purpose of their organization.”

—**Jim Mallozzi, former Chairman and CEO, Prudential Real Estate and Relocation Services**

“As an HR leader, I am constantly thinking about how to provide a richer, more meaningful work experience. *The Economics of Higher Purpose* provides a compelling blueprint to help our people connect to a deeper purpose in their work. If this is done well, work becomes more than a paycheck; it satisfies our desire to be a part of something bigger.”

—**Shawn P. Patterson, Vice President of Organizational Effectiveness and Chief Learning Officer, DTE Energy**

“In this book, Quinn and Thakor teach us a great yet challenging lesson: when we learn to look beyond profit maximization to a higher purpose, we learn to create lasting prosperity.”

—**Charles C. Manz, Nirenberg Chaired Professor of Leadership, University of Massachusetts Amherst, and coauthor of *Twisted Leadership* and *Twisted Teams***

“In their new book, Quinn and Thakor share amazing insights and stories on how higher purpose turns everyone into a fully invested person. This volume is a profound playbook for those who want to unleash the human and economic power in the people around them.”

—**Jim Haudan, Chairman, Root Inc.**

“The authors take us on a compelling journey in which we discover the why and the how of creating organizations of higher purpose. Then they give us the gift of practical tools and exercises—it is a precious volume for those who want to make a difference.”

—**Nick Craig, author of *Leading from Purpose***

“By discovering what has made some organizations so hugely successful, Thakor and Quinn give higher purpose the instrumental role it deserves in everybody's life project, large or small. They have written a fantastic, eye-opening book. It is both visionary and highly practical. I have followed their rules unknowingly for the better part of my life.”

—**Jan Krahnén, Professor of Finance, Goethe University, and Founding Director, Sustainable Architecture for Finance in Europe**

“Everyone has a brand. This book will teach you how to translate your purpose, vision, and values into a strong personal and professional brand. The book leads you on a journey that will help you understand the power of your personal brand and nurture its evolution throughout your career.”

—**Dave Ulrich, Rensis Likert Professor, Ross School of Business, University of Michigan, and Partner, The RBL Group**

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for Creating a  
Purpose-Driven Organization

ROBERT E. QUINN  
ANJAN V. THAKOR



Berrett-Koehler Publishers, Inc.

# The Economics of Higher Purpose

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Berrett-Koehler Publishers, Inc.

1333 Broadway, Suite 1000

Oakland, CA 94612-1921

Tel: (510) 817-2277, Fax: (510) 817-2278

[www.bkconnection.com](http://www.bkconnection.com)

## Ordering information for print editions

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Distributed to the U.S. trade and internationally by Penguin Random House Publisher Services.

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## First Edition

Hardcover print edition ISBN 978-1-5230-8640-5

PDF e-book ISBN 978-1-5230-8641-2

IDPF e-book ISBN 978-1-5230-8642-9

Digital audio ISBN 978-1-5230-8644-3

2019-1

Book producer and text designer: BookMatters, Berkeley

Cover designer: Leslie Waltzer, Crowfoot Design

Copyeditor: Mike Mollett

Proofer: Janet Reed Blake

Indexer: Leonard Rosenbaum

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## PREFACE

Professors of management and professors of finance speak two different languages, so communication among them is very limited. The two of us, Bob and Anjan, not only talk, we cherish talking. We cherish it because we have a higher purpose. We love learning, and we both yearn to help others gain the love of learning. When we talk together, we not only move forward, we also flourish. We flourish because we have established such a high-quality connection that we make each other better. When we spend a day together, we spend weeks afterward unpacking all the new ideas.

For more than twenty years, we have traveled the globe together running workshops, making presentations, and interviewing senior executives. As we have had these rich experiences, each of us has always been incredibly interested in what the other thinks. We take an experience that captivates us on a given day. Then we collectively ponder it. We explore it from the perspective of management theory. Then we analyze it from the perspective of financial theory. Then we seek to integrate what we have learned. As we do this, we become bilingual as we learn to speak a little more of each other's professional language, and we take on a more inclusive mind-set in which differences can be integrated.

Since neither of us fully understands what the other is talking about, we have to pay close attention. We also have to reduce complex ideas down to notions with which the other can connect. We also have to become vulnerable. We have to expose our ignorance and confess that we do not understand. Since we both respect and



trust each other, we are comfortable exposing our ignorance as we join in mutual exploration.

A relationship of purpose, trust, vulnerability, and learning often gives rise to new capacities. The capacities are real. There have been times when we have put together a major presentation, requiring the integration of complex concepts, in less than five minutes. If one of us did the same task with a different person, it would take days. We are able to do this because we live in a relationship based on trust, and trust gives rise to collective intelligence. Together, we can do extraordinary things.

## **The Birth of This Book**

In 2006 Bob was asked to serve without pay for three years as president of a mission for the Church of Jesus Christ of Latter-Day Saints in Adelaide, Australia. So he and his wife, Delsa, went to Australia. In 2009 Anjan was to receive a major award in St. Louis, and Bob, who had just returned from the mission, flew to St. Louis to be at the awards ceremony. As soon as they were together, Anjan began inquiring about Bob's experience in Australia.

Bob described his efforts to build a positive organization driven by a higher purpose. As the people in the organization pursued the higher purpose, they became fully unified and engaged. They began to collaborate and learn in the same way that Anjan and Bob had collaborated and learned. The people had a sense of purpose, contribution, positivity, and growth, and the organization performed at a high level.

Anjan became engrossed in the account and asked one probing question after another until the conversation was interrupted. That night during a break in the ceremony, Anjan dashed across the room and grabbed Bob by the arm. He said, "Your story violates the assumptions of economics. Economics suggests that wealth is created by a single-minded focus on shareholder value or wealth

maximization. There is no place for higher purpose or for positive culture in the logic of value creation. You must choose one or the other. We need to write a paper. In the morning we should meet before you fly out.”

That meeting and the discussion eventually grew into a research project. We built a mathematical model of an organization. The model was composed of principals (bosses) and agents (employees) engaged in conventional relationships of transactional exchange: for this amount of money, we agree that you will do this amount of work.

We then altered the model. We introduced a collective purpose higher than profit. When we introduced the higher purpose, the organization was transformed. The employees began to act like owners. The assumptions of self-interested, transactional exchange fell away. The employees became intrinsically motivated and were willing to go the extra mile to reach their goals. The model was an organization of higher purpose.

In interpreting our findings, we concluded that, on the one hand, value creation and the pursuit of higher purpose can conflict with profit maximization as conventionally understood. Yet, on the other hand, value creation and purpose can also be complementary. We began to focus on the notion that some leaders learn to transcend fear and intellectual arrogance. They begin to integrate the seemingly conflicting assumptions of management and of economics, and this results in a more inclusive mind-set. They create an economy of higher purpose and begin to more fully tap the potential of a given organization.

We desired to find out more about how real leaders imbue organizations with purpose and create economies in which people thrive and exceed expectations. We assumed the heads of organizations would understand this notion, so we began by interviewing more than 25 leaders who were known for having organizations of higher purpose. Some were from Fortune 500 companies. Some were from

entrepreneurial companies. Some were from outside the business world.

The interviews generated a surprising finding. Some of the CEOs did not believe in purpose when they first became CEOs. They were steeped in the conventional perspective of economics, and they were blinded by intellectual arrogance. They saw no value in purpose as a transformer of people and culture. The notion of discovering, articulating, and clarifying higher purpose seemed like a wasteful distraction.

They discovered the power of purpose only as a result of some traumatic challenge. When they were challenged in that way, they experienced deep learning. The conventional approaches they used to lead their organizations seemed ineffective in handling the major challenges they were confronting. They needed to turn to something unconventional, something transformative. Many found the answer in an authentic higher purpose for their organization.

Consequently, these leaders evolved from a narrow to an inclusive mind-set. This mind-set allowed them to incorporate higher purpose and positive organizing. They became “bilingual leaders” who could converse in both the language of transactional problem solving and the contributive language of higher purpose.

This allowed them to appreciate the reality of constraints, without losing sight of the reality of possibilities. They could recognize, surface, and transform conflict—which tightens constraints—into creative collaboration that expanded possibilities. They could elevate the collective intelligence and create cultures where people flourished and exceeded expectations.

As we continued to interview purpose-driven people, teach classes, run workshops, and help executives change their organizations, we constantly explored the notion of higher purpose, positive culture, and bilingual capacity. We became increasingly clear in our belief that there were two worldviews that needed to be integrated.

## Higher Purpose

This book is about how to create an organization of higher purpose. An organization of higher purpose is a social system in which the greater good has been envisioned, articulated, and authenticated. Like all organizations, an organization of higher purpose is a cauldron of conflict. Yet the higher purpose is the arbiter of all decisions, and people find meaning in their work and in their relationships despite the conflicts. They share a vision and are fully engaged. They strive to transcend their egos and sacrifice for the common good.

In an organization of higher purpose, despite constant pressures to regress to the norm, the people interact with one another with respect and engage in constructive confrontation. Trust is continually repaired, and conversations are authentic. The people have a win-win mentality, and positive peer pressure emerges to support high levels of collaboration. They maintain these collaborative relationships in the face of recurring adversity. Leadership not only flows from the top down, but it also emerges from the bottom up. Meetings are generative, and members of the organization co-create the future. Employees believe they work in an organization of excellence. Customers and other external constituents are drawn to the excellence and confirm it by joining in the co-creation of the organization's future.

## The Organization of the Book

This book is organized into two parts, and you may prefer to read either or both. Part I examines the theories that govern organizational behavior, some of which are also formally articulated in economics. We believe these conventional assumptions of economics are valid but incomplete. Hence, we offer a new logic that transcends the conventional assumptions and includes them. We show that higher purpose helps to resolve the classic principal-agent problem

at the heart of microeconomics. We explain why numerous books and articles on higher purpose have failed to gain traction in the workplace.

In part 2, we shift from theory to practice. We offer a framework of eight counterintuitive guidelines, which are drawn from research and from our interviews with leaders of higher-purpose organizations.

Each chapter explains one guideline and shows why it is counterintuitive and often ignored. We offer grounded illustrations of how the guidelines can be understood and implemented. The guidelines provide a way for you to find your organization's higher purpose and a way to intersect the purpose with the organization's strategy. We conclude each chapter with an exercise you can do to begin the journey to finding your own higher purpose. In the final chapter, we list and answer the practical questions of many executives, and we provide some advice on how to get started.

## PART I

# The Economics of Higher Purpose

**P**art I, chapters 1 through 6, describes the economics of higher purpose. In chapter 1 we present an overview of the book. We discuss how conventional assumptions prevent us from recognizing the impact of higher purpose in people and in organizations. In chapter 2 we show that higher purpose changes everything. We give illustrations of how embracing higher purpose transforms human potential at both the individual and organizational levels, and we review the research verifying the impacts of higher purpose. In chapter 3 we suggest that it is difficult for professionals to imagine organizations of higher purpose. Conventional thinking is based on bipolar logic that values knowing over learning. We explain the need for an economic logic based on assumptions of inclusion, of learning, and of growth.

In chapter 4 we review the central framework of microeconomics, the principal–agent model. This model describes how relationships ought to be structured between principals (owners of productive assets) and agents (those who work for the principals). It starts with the assumption that self-interest causes the goals of the principal

and agent to diverge, and it seeks to design contracts to minimize the misalignment of incentives resulting from the pursuit of self-interest. We suggest that this model, which normally predicts behavior so well, is based on assumptions that diminish the ability of leaders to inspire behavior that results in organizations of exceptional performance.

In chapter 5 we discuss turning everyone into a fully invested person. We elaborate on the principal–agent model and suggest that the mentality of contracts must be supplanted by the mentality of covenants. Leaders can create purpose-driven organizations in which people exceed expectations. Finally, because executives, for sound reasons, avoid working on higher purpose, we suggest that you have a golden opportunity. Chapter 6 explains why so many leaders avoid purpose work. We address the question “Why isn’t everyone doing it?”

By understanding the economics of higher purpose and internalizing the principles in part 2, you can become a person who creates a purpose-driven organization.

## CHAPTER ONE

# Seeing What Cannot Be Seen

Economics is a rigorous field that is concerned with the study of economic exchange and the resulting economic output. It studies the markets in which economic exchange occurs. It studies the entrepreneurs and organizations that produce the output involved in these economic exchanges, as well as the employees who work in the organizations. And it seeks to understand the behavior of the households that consume the economic output. Economics pays little, if any, attention to how the very purpose of organizations—their reason to exist—guides their decisions. Often, this purpose is stated in the language of economic output—banks exist to safeguard depositors' money and lend to borrowers, automobile companies exist to make and sell cars, and so forth. That is, purpose is stated in the context of *business purpose*.

In this book, we look beyond business purpose to *higher purpose*. Higher purpose is a prosocial goal that is defined not in terms of economic output but in terms of the contribution the organization makes to society. So when Starbucks states its reason for being as providing its customers “a third place between work and home,” it is articulating a higher purpose that transcends its business goals but yet intersects with them.

Higher purpose can be pursued by all organizations, big and small, and at every level within the organization. But the pursuit



of higher purpose is not the norm. Rather, it is an *exception* to the norm, so you will not find it when you look at the average organization. Micah Solomon gives the following example, quoting Jay Coldren in this story about The Inn at Little Washington in Washington, Virginia. This is something Coldren observed on his first day on the job at the hotel:

I watched a couple arrive at The Inn from Pittsburgh, several hours away, to celebrate their anniversary with a three-night stay. As the staff unloaded the luggage, our female guest said to her husband, “Don’t forget my hanging bag.” Her husband looked into the trunk and came up with a horrified expression on his face. Apparently, she had left her bag beside the car in their garage assuming he would pack it, but he never saw it.

At this point, she pretty much fell apart: This poor woman was checking into one of the most expensive places on the planet with nothing but the clothes on her back! As the doormen and I tried to figure out what to do to make this couple happy, one of the staff who had been there a lot longer than me drove up to the front of the inn in the company car. I looked at him oddly and he just smiled and said, “Get me their keys and the address; I’ll be back before dinner.”

I was floored. No one asked him to do this, and there wasn’t a moment’s hesitation on his part. He was so much a part of the service culture that he just knew the exact right thing to do. He was halfway to Pittsburgh before the lady actually believed that we were really going to get her luggage at her house. He drove eight hours straight and made it back before their dinner reservations at nine.<sup>1</sup>

This is an example of a purpose-driven employee. Instead of minimizing effort like a typical “agent,” he took ownership. The fact that people like him exist is important. When we’re coaching executives on how to do purpose work in their organizations, we often tell

them to do something paradoxical—look not for typical behavior as reflected in large-sample averages, but look for exceptions. These are the outliers. Look for excellence via positive deviance, examine the purpose that drives the excellence, and then imagine your entire workforce imbued with that purpose. But purpose work is not meant to be charity. Rather, it is about behavior that is woven into the fabric of your business model.

This book is all about the unique *intersection* between business practice and higher purpose.

Economics teaches us that people tend to be self-interested and effort averse. Managers often say, “My people do not work as hard as I do unless they are paid enough, and even then I have to watch over them.”

This work-resistant logic drives managers to create systems of control. Employees recognize that the control systems are in place, and they often respond by devising ways to circumvent the control and blunt its effectiveness. This behavior reconfirms the initial assumptions of the manager and demonstrates a need for more control. Over time the employees become less engaged, and the manager becomes more frustrated.

The surprising truth is that when managers accept the empirically sound assumptions of economics and related disciplines that employees are effort averse and work hard only if sufficiently monitored and compensated, these gloomy assumptions become self-fulfilling prophecies, and the workforce tends to underperform. Energy is dissipated, output is sacrificed, and there is no logical way out of the energy-draining vicious cycle.

But there is an alternative view of organizational behavior, a view in which the organization gains an authentic, prosocial, higher purpose that transcends the usual business goals and affects decisions big and small. When this view takes hold, the collective interest becomes the self-interest and employees become less work resistant. It happens because a paradoxical shift is created. When employees

make the shift, they begin to see things that cannot normally be seen.

### **From Transaction to Contribution**

Managers often make well-justified, negative assumptions about employees and then design systems that end up bringing forth the assumed negative behaviors. They must transform the vicious cycle into a virtuous, self-reinforcing cycle. To do this, they have to shift the transaction-oriented mind that is focused on constraints to the purpose-motivated mind that is focused on the service of possibility. They enter the realm of imagination and emotion, and there they clarify a passionate, higher purpose that orbits around contribution.

When managers become purpose driven, they begin to transform into leaders. They begin to transcend conventional thinking, and they begin to comprehend the economics of higher purpose. They come to understand that when an authentic higher purpose permeates business strategy and decision making, the personal good and the collective good become one, and the vicious cycle is broken. Both employers and employees begin to engage more fully. They collaborate and exceed expectations. Long-term economic benefits are produced.

This works, however, only if employees believe that the higher purpose is authentic. If higher purpose is pursued solely for economic gain, it will be viewed as a tool of manipulation, and employees will recognize it immediately. They will see it as one more attempt to control, and it may fail to produce long-term economic gains. Unless the higher purpose becomes the arbiter of every strategy and leadership decision, the organization has no higher purpose. Herein lies the paradox: an authentic organizational higher purpose will change the fundamental implicit contract between employers and employees and change behavior, thereby producing long-term economic gain, but *only if it is not pursued with the intent of producing economic gain.*

## Why Is the Pursuit of Higher Purpose Not More Common?

At this stage, we often find that people have questions like these: This sounds good, but if it is such a great idea, why isn't everyone doing it?

This question is natural, and chapter 6 is devoted to answering it. But for now we note that managers often reject the option to pursue higher purpose based in part on their level in the organization—many feel they are not high enough in the organization to implement organizational change. Think of the CEO's choice. Some of the reasons why CEOs do not pursue higher purpose are these:

- **Lack of belief and personal doubt.** Many leaders think of their workforce as being self-interested and motivated only by additional wealth, organizational prestige, and promotions. Thus, they view the pursuit of higher purpose as not being in their best business interest, and they think that a serious embrace of higher purpose will cost the organization in terms of business outcomes.
- **The tyranny of the here and now.** How do I pursue higher purpose when I barely have time for the next crisis? Time is precious and scarce. Many CEOs feel that they do not have the luxury of time to pursue higher purpose.
- **What will my financiers think?** Pursuit of higher purpose may sometimes be difficult for shareholders and creditors to distinguish from the pursuit of pet projects that provide personal benefits to the CEO at the expense of shareholder wealth. This misgiving may make them suspicious of the CEO embracing higher purpose and devoting organizational resources to it.
- **Cultural disconnect.** How do I promote collaboration around the pursuit of higher purpose in an organization that does not value it? How can higher purpose have positive impact in an organization with a control- and competition-focused culture?