

The purpose-driven company

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What should business leaders prioritise in today's global economic turmoil?



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THE conventional view is that, in hard times, business leaders have a responsibility to keep their eyes firmly on the bottom line, protecting workers' jobs and shareholders' investment.

To do this, busi-

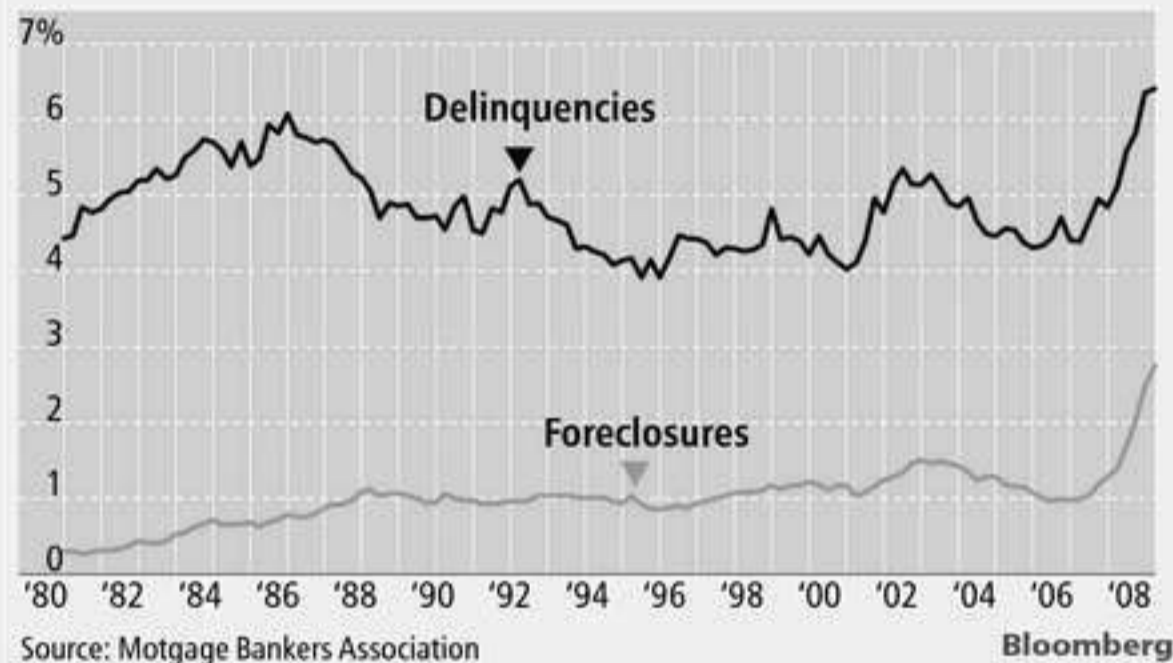
ness leaders often focus on cutting costs since it is difficult to raise prices in times when consumers are especially price conscious. An auto manufacturer may use lower quality inputs, a consulting firm may staff fewer resources for a client, or a consumer goods manufacturer may cut back on quality checks. Alternately, or sometimes in parallel, businesses will try to raise prices through hidden fees—whether that be airline fuel “surcharges” or credit card late fees or hidden penalties. The result is that customers get lower quality yet pay higher prices. But—the argument goes—this is justified because profits are protected, jobs are saved, shareholders remain confident and the business leader has fulfilled his obligation. There is simply no room, it is argued, for anything beyond economic survival when we are in such tumultuous economic times.

To the contrary, my experience suggests that it is precisely in such hard economic times that business leaders have to look deep into the souls of their companies and be true to the purpose of their companies, that is, to be a purpose-driven company. What I mean is that, whatever purpose drives a company—whether that be providing high quality cars or good airline transportation or producing soaps—the right strategy in tough times is not to lower quality and raise prices, but to ask shareholders to shoulder the

US mortgage foreclosures, delinquencies up

Foreclosures accelerated to the fastest pace in almost three decades during the second quarter as interest rates increased and home values fell

Delinquencies and foreclosures as a percentage of total loans



The goal of the subprime mortgage lenders was to provide low-income people an opportunity to buy a home. But in bolstering their own profits, they lost sight of this purpose

burden. Sounds counter-intuitive, I know, but let me explain why this makes sense.

Consider my company, SKS Microfinance. I launched it with a purpose—to provide financial services to poor women to enable them to get themselves and their families out of poverty. Because we are purpose-driven, we have designed products with the poor in mind—doorstep delivery, small weekly repayments, no late fees, micro-insurance, even interest-free emergency loans. And because this works for the poor, they have been extraordinarily good borrowers. The result is that we have delivered over Rs. 5,000 crores in unsecured micro-loans to over 3 million poor women with no credit history and they have maintained a 99% repayment rate. This has happened because we stayed true to our purpose—that of providing financial services in a way

that works for the poor.

In today's tough times, however, our borrowing cost has shot up and a knee-jerk reaction would be to raise interest rates to our borrowers. But we won't. We won't because it undermines our purpose. Instead, we ask shareholders to bear this burden. By putting the customer first, however, we create a loyal base that stays with us as times get better and as they move up the economic ladder. Today it is small loans for small businesses; tomorrow, it is large loans for growing businesses. So staying true to purpose in tough times actually leads to greater profits—in the long run. Just ask my venture capital investors. Trust me, they're in it for the profits. And they have understood that staying true to purpose in tough times actually leads to greater profits.

Staying true to purpose also has a tremendous impact on staff. The

vast majority of our 12,000-member staff are field workers from poor households. When they see our purpose-driven company do right by customers (by not raising interest rates), even in tough times, it generates a passionate commitment. Our purpose leads to their passion. And this builds long-term shareholder value.

Now one can counter that being a purpose-driven company may make sense for a social venture like microfinance, but that “real” businesses have to focus on profits. To the contrary, this approach is the right long term strategy for any business. If an airline tries to squeeze every last paisa from its customers through hidden charges, if a soap-maker lowers the quality of soaps, if a car manufacturer skimps on quality parts, customers will remember that—and when they can, when times are better, they will walk away. The only way for a company to survive in the long-run is to be true to its purpose, especially in tough economic times.

And if you don't believe me, just ask the subprime mortgage lenders in the US whose bad loans started this economic crisis. Their purpose was to provide low-income people in the US the opportunity to buy a home. But they tried to bolster their profits through skimping on appraisals and introducing hidden adjustable rate mortgages—in essence losing sight of their purpose.

Of course we all know the result. Companies earned profits in the short term, but in the end people couldn't pay their mortgages—and those companies are now out of business. Had they stayed true to their purpose, perhaps they would still be around and perhaps the world wouldn't be in such economic turmoil.

The author is founder & CEO of SKS Microfinance