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Institute for
Business in
Global Society



**COUNCIL on
BUSINESS & SOCIETY**
An alliance with a purpose

**Harvard BiGS-CoBS
Special Issue**



Companies & Purpose

**Purpose-driven business and its imprint
on employees, profit, society, and planet**

Exploring the Role
that Business Plays
in Solving Social
Problems

The Tightrope of
Hybridity: Managing
the dual mandate of
profit and purpose

The New Business
Leader: Decisions that
connect both head
and heart

Profit with Purpose:
Innovations from the
Global South



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Global Society**

Harvard Business School's Institute for Business in Global Society is pleased to present research-backed insights about climate change in this collaborative publication. This content combines the latest thinking of faculty, researchers, and business leaders from both Harvard Business School BiGS and the Council on Business & Society's member schools. We invite you to explore – and share – this publication and to increase your understanding of climate change, a critical global challenge we all face. We hope that the expert knowledge provided here will motivate you to take meaningful action.



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**COUNCIL on
BUSINESS & SOCIETY**
An alliance with a purpose

The Council on Business & Society (CoBS) is delighted to welcome you to this special joint-publication on the pressing issue of climate change. Bringing together the expertise of leading faculty, researchers, and industry experts from the CoBS member schools with those of the Harvard Business School Institute for Business in Global Society (BiGS), our wish is that this publication sparks awareness, builds on your existing knowledge or provides you with further insight in order to take an active part in addressing one of the most urgent and necessary issues of our times – climate change. We hope you enjoy your reading.



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Editorial

We may imagine that each generation finds its own times as the most complex and challenging times in the whole history. In fact, it may have always been the case. Examples abound. For instance, in the late XVII century, Joseph de la Vega, a merchant in the Amsterdam Stock Exchange wrote the famous book *Confusion of Confusions*, presenting a firsthand experience of perplexity, difficulties and risks in the economy and markets of those times.

Another example, closer to us in time, was in the early 30's, when the Spanish philosopher Ortega y Gasset famously said that "we do not know what is happening to us and that is precisely what is happening to us." Nowadays, one does not need to be a great intellectual to have the same insight as that of Ortega. Indeed, confusion, uncertainty, hesitation, seem to be the watchwords of these times.

Despair, however, should not be the answer. Because it is precisely in uncertain times that stability, objectiveness, and rationality become more necessary than ever. And such a call can, indeed should, come from academia. During the last decades, scholars and practitioners from around the world have dared to describe new and audacious ideas about the balance of profit and purpose, equality, coopection for a better world, sustainability as a strategic purpose, and capitalism for good, among other bold propositions. A small sample of those promising and much needed ideas are featured in this second special issue of our magazine.

The topic addresses three broad issues. First, companies and the changing landscape, as firms need to cope with an ever-changing context. Second, leading by example, a point so frequently overlooked these days. Third, global perspectives on companies and purpose, as solutions nowadays are more and more contextual, located in a precise and specific space. Management, being a social science, cannot omit such contextualization. What works well in Buenos Aires may not work equally well in Berlin, in Bangalore or in Brussels. And vice versa.

Welcome to our second special issue that brings our academic and practitioner brains and brawn together for an increasingly pressing cause!



Prof. Debora Spar,
Senior Associate Dean,
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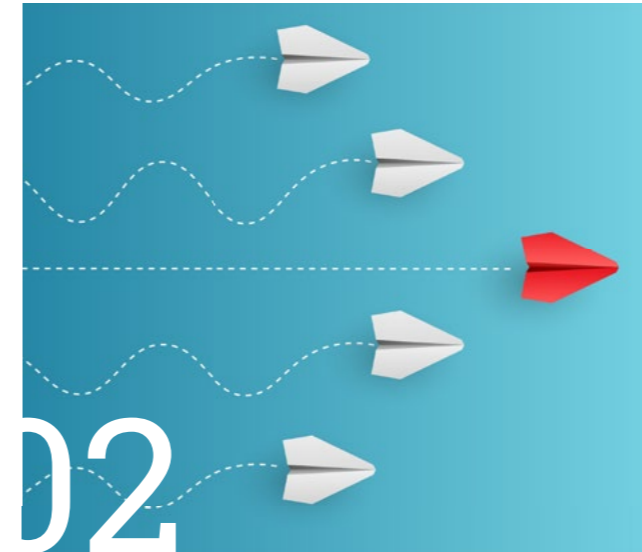
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Contents



01 Companies & the changing landscape

- 10 Friends, Foes, and Fixers: Exploring the role that business plays in solving social problems
- 14 The Tightrope of Hybridity: Managing the dual mandate of profit and purpose
- 20 Capitalism is Good – but it Needs Re-alignment with our Needs
- 24 Dare to Discover, Align, Realize, and Evolve: The journey of purpose
- 28 Navigating Divisive Social Issues: A framework for companies
- 30 The Purpose Ecosystem: When private actors and stakeholders help companies reach the SDGs
- 34 181 US CEOs Pledged to Lead Companies for ‘All Stakeholders’ in 2019: Did it make a difference?
- 38 The Power of Purpose – It’s Obvious, Isn’t It?



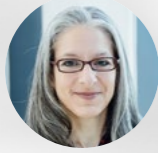
02 Leading by example – purposeful businesses

- 36 Creating Wealth at Work: Why broad-based employee ownership is getting attention
- 40 ES & ‘the Forgotten G’: Making Integrity Strategic in Governance
- 44 Meet the father of “Stakeholder Capitalism”
- 48 E for Ecosystem: Giving power to corporate purpose
- 52 The New Business Leader: Decisions that connect both head and heart
- 56 Corporate Cooperation as a Strategy for a Better World
- 60 Companies Benefit When They Respect “Caregiving”
- 64 Sensemaking in Times of Crisis
- 68 Authentic Purpose in Banking: The ultimate strategic advantage



03 Global Perspectives on Companies & Purpose

- 74 Latin American CEOs: Business has a responsibility to tackle inequality
- 78 Profit with Purpose: Innovations from the Global South
- 82 Private Equity: Time for transparency?
- 86 The Green Light to Sustainability Innovation: How the Shanghai Metro ran for low-carbon
- 92 Decisions Fit for the Future: Greening up corporate impact
- 96 Three Purposeful Leadership Strategies: When East meets East
- 100 Moving Beyond the Business Case for Equality
- 104 From Doing to Becoming: Reframing sustainability as purpose



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Leo Strine



R. Edward Freeman



Caroline Rees



Arun Gupta



Andrew J. Hoffman



Hubert Joly



Anne-Claire Pache



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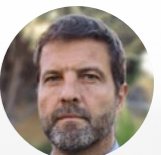
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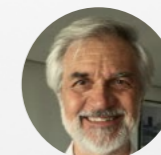
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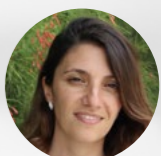
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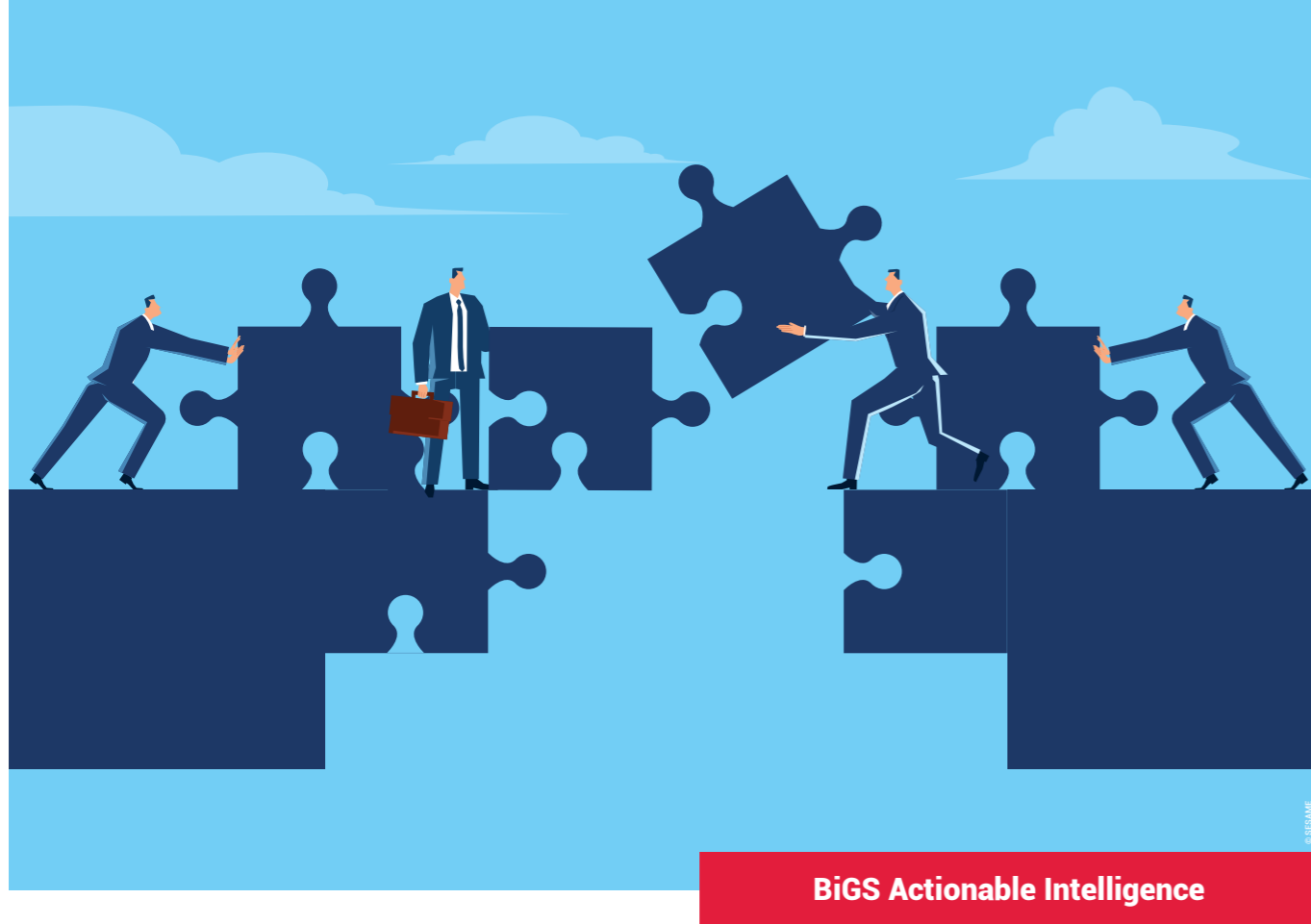


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Companies & the changing landscape

- 10 Friends, Foes, and Fixers: Exploring the role that business plays in solving social problems
- 14 The Tightrope of Hybridity: Managing the dual mandate of profit and purpose
- 20 Capitalism is Good – but it Needs Re-alignment with our Needs
- 24 Dare to Discover, Align, Realize, and Evolve: The journey of purpose
- 28 Navigating Divisive Social Issues: A framework for companies
- 30 The Purpose Ecosystem: When private actors and stakeholders help companies reach the SDGs
- 34 181 US CEOs Pledged to Lead Companies for ‘All Stakeholders’ in 2019: Did it make a difference?
- 38 The Power of Purpose



BiGS Actionable Intelligence

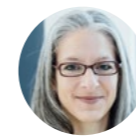
Friends, Foes, and Fixers: Exploring the role that business plays in solving social problems

How can companies embrace their social responsibilities? How can economies help change the incentives for companies to encourage them to contribute to societal aims? A nine-month series of seminars organized by **Harvard BiGS** extracts the key insights from participating experts on the question.

Harvard Business School's Institute for Business in Global Society (BiGS) hosted a series of thinkers and practitioners to offer perspectives on the evolving role that firms can, should, and are increasingly expected to play in addressing social problems. Businesses are deeply embedded in the fabric of society, seminar presenters argued. They are not isolated entities, and they have the potential to either contribute positively to society's sustainable prosperity or cause significant harm.

Using the lens of "Friends, Foes, and Fixers," the BiGS Faculty Seminar Series, held in 2023-24, probed how society holds firms accountable, explored new models to encourage firms to embrace their social responsibilities, and envisioned how our economic systems might evolve to change the incentives firms face and direct them to contribute to societal aims. The extent of businesses' responsibilities to a wide array of stakeholders—employees, customers, suppliers, and society, in addition to shareholders—was a recurring theme throughout the nine-month seminar series.

Overall, the BiGS Faculty Seminar series highlighted both the promise and challenges of businesses taking on greater social responsibility. While innovative models show what is possible, entrenched obstacles like outdated regulations and firms that try to defer responsibility slow creative thinking and progress. By exploring these evolving topics and presenting cutting-edge research on accountability, leadership, and stakeholder approaches, the "Friends, Foes, and Fixers," series deepened understanding of the purpose of the firm and businesses' complex role in taking on society's challenges. Following are highlights from some of the seminar's speakers.



Sarah Kaplan
Distinguished Professor of Gender & the Economy and Founding Director of the Institute for Gender and the Economy (GATE) at the Rotman School of Management, University of Toronto

Holding corporations accountable for promoting gender equity on their boards of directors is critical but challenging, Kaplan argued, especially when companies try to avoid clarity in their disclosures. In her presentation, Kaplan explained that companies often nominally comply with regulation while hiding their actual conduct. Her research shows how companies evade requirements to provide clear information about the gender makeups of their boards of directors—or provide an explanation for not doing so.

High-visibility firms, which are more likely to face scrutiny from activists, media, and other stakeholders, tend to adopt more substantive measures, whereas less visible firms are more prone to symbolic compliance, she said. **"Disclosure requirements alone are insufficient,"** Kaplan said. **"Social enforcement—intense scrutiny from stakeholders—is essential for ensuring accountability."**



Leo Strine
Of Counsel at Wachtell, Lipton, Rosen & Katz and former Chief of Justice of the Delaware Supreme Court

Strine called for a recalibration of corporate law and governance to better align with the interests of stakeholders, including employees, customers, and the environment. Strine argued that changes in corporate law and economic policy have reinforced a shareholder primacy model that has led to a series of negative externalities in society, including increased social and economic inequality and environmental degradation.

"You can't think of corporate governance in isolation from the shareholder primacy movement," he said. "The changes in corporate governance explain a lot of harms, including declines in economic gains going to workers." Strine attributed the shift to the erosion of a public consensus about the role of business in society. He called for the restoration of a balanced model of capitalism based on the New Deal era, when corporations profited while being compelled to operate in a manner more aligned with social interests.

Corporations must embrace responsibilities beyond shareholder returns to foster long-term value creation for all stakeholders, he argued. "Corporate governance must now be part of the solution. If we want to restore this public consensus, the power dynamics in corporate law must support stakeholder interests," Strine said. **"Good corporate citizenship means making money the right way. This involves high standards of consumer protection, fair wages, community support, and environmental stewardship."**



R. Edward Freeman
University Professor and Olsson Professor
of Business Administration and an
Academic Director of the Institute for
Business in Society at the University of
Virginia Darden School of Business

The traditional focus on shareholder primacy is outdated and insufficient for solving problems such as inequality, climate change, and social justice, Freeman argued at the BiGS seminar. He proposed a new narrative where businesses operate with a purpose beyond profit. "Stakeholder capitalism is about creating value for customers, suppliers, employees, communities, and investors alike," he said. "As societal institutions, businesses are not just about shareholders."

Freeman's seminar echoed his seminal 1984 book *Strategic Management: A Stakeholder Approach*, which questioned the salience of the concept of stakeholder management. He recounted how the stakeholder idea has evolved from an obscure academic theory to one that resonates with and inspires a broad set of executives, entrepreneurs, and advocates for responsible business.

With Harvard Business School faculty, Freeman discussed means of educating managers to integrate ethical considerations into their businesses' core operations. He argued that purpose and profits are not mutually exclusive, but rather complementary. "Stakeholders are interconnected, and their interests are interdependent," Freeman argued. **"This interdependence is the core of stakeholder theory and what makes it fundamentally different from shareholder-focused models."**


A well-defined
corporate purpose
can drive growth,
productivity,
and employee
well-being.




Caroline Rees
President and Co-Founder of Shift, the
leading center of expertise on the UN
Guiding Principles

Corporations have a responsibility to ensure the protection of human rights, Rees argued at the seminar. She outlined the three pillars of the United Nations Guiding Principles on Business and Human Rights (UNGPs): the state duty to protect human rights, the corporate responsibility to respect human rights, and the right of victims for access to remedy.

"Companies are responsible for human rights impacts connected to their products, services, and operations, regardless of where they occur in the supply chain," Rees said.

"Even if a company does not directly cause harm, it must use its leverage to address human rights issues within its supply chain and ensure responsible business practices."

Rees challenged businesses to engage in reporting that requires due diligence and "assessing risks to people, integrating findings into company actions, tracking effectiveness, and communicating transparently with stakeholders."



Arun Gupta
CEO of NobleReach Foundation, venture
capitalist, Lecturer at Stanford University,
and Adjunct Entrepreneurship Professor
and Senior Advisor to the Provost at
Georgetown University

Leveraging entrepreneurial approaches to drive social change is critical for economic growth and societal flourishing, Gupta said, echoing ideas he explored in his 2024 book *Venture Meets Mission*. He highlighted how entrepreneurial talents, when harnessed for mission-driven purposes, can address societal challenges such as education inequality, healthcare accessibility, and environmental sustainability.

"Aligning people, purpose, and profit is crucial for innovating and transforming society," he said. Gupta underscored the importance of creating public-private partnerships to scale impact and discussed the necessity of integrating the speed and innovation of entrepreneurship with the reach and resources of government. **"A symbiotic relationship between the private and public sectors is necessary for large-scale societal transformation,"** he added.



Andrew J. Hoffman
Holcim (US) Professor of Sustainable
Enterprise at the Ross School of Business/
School for Environment & Sustainability,
University of Michigan, BiGS Climate
Fellow, Harvard Business School

Hoffman delivered a thorough critique of modern business schools, calling for a complete overhaul of management education and research to address capitalism's shortcomings and presenting ideas to transform business education to address the pressing challenges of climate change and social inequality. "Business schools need to move beyond win-win scenarios and address the complex win-lose realities necessary for a just and effective climate transition," Hoffman said. "We must rejuvenate business education by integrating moral and intellectual training that prepares future leaders to serve both society and the planet."

He added that **"business schools should instill an ethos of management as a calling, training students to be stewards of the market. We need a curriculum redesign that encourages systems thinking and interdisciplinary collaboration across universities."**

Hoffman criticized the current educational focus on efficiency and value metrics, advocating for a broader understanding of prosperity that includes social and environmental well-being. He also stressed the importance of fostering ethical leadership. Hoffman's call for a balanced curriculum aims to produce business leaders who are not only capable of driving economic success but also committed to addressing broader societal challenges.



Hubert Joly
Harvard Business School Senior Lecturer
of Business Administration, Former
Chairman and Chief Executive Officer
of Best Buy, and author of *The Heart of
Business: Leadership Principles for the
Next Era of Capitalism*

Joly presented a compelling framework for integrating corporate purpose into business operations—something he said will enhance performance and employee engagement. Joly emphasized the importance of "unleashing human magic" by connecting employees to a noble corporate purpose that contributes to the common good. Corporate leaders must define their personal purpose, craft a compelling corporate purpose, and align strategy, culture, and execution, he said. "Our personal purpose is the foundation for leadership," Joly said. "Business is very personal; a noble corporate purpose that contributes to the common good can enhance performance and employee engagement."

A well-defined corporate purpose can drive growth, productivity, and employee well-being. Joly's research includes insights from leading companies like Microsoft, Netflix, and Ralph Lauren, demonstrating how purpose-driven strategies can lead to significant business outcomes. His concept of "human magic" emphasizes creating an environment where employees feel psychologically safe, connected, and motivated, which he believes is essential for translating corporate purpose into practical, everyday actions. **"When people are fully engaged and fired up, they deploy their maximum energy, creativity, and genius to serve the common purpose,"** Joly said.



Download the full Friends, Foes, & Fixers report.

The Tightrope of Hybridity: Managing dual mandate of profit and purpose

Anne-Claire Pache



CoBS Insight

What does it take to lead an organization that balances profit and purpose without losing its way? **Anne-Claire Pache**, Professor in Social Innovation, holder of the ESSEC Chair in Social Innovation, and Associate Dean for Strategy and Sustainability at **ESSEC Business School**, sits down for a thought-provoking conversation on the challenges, myths, and opportunities of hybrid organizations. From the delicate balance of profit and purpose to the governance pitfalls that can derail even the most well-intentioned efforts, her insights uncover the nuances of leading organisations with dual missions – and how to turn tensions into triumphs. From an interview with Prof. **Adrian Zicari**.

The Tightrope of Hybridity: Managing dual mandate of profit and purpose by Anne-Claire Pache and AZ. Edited by Anshuman Sisodia. **Related research:** Battilana, J., Pache, A., & Lemmel Hay, C. (2024). Strengthening boards to navigate the intersection of profit and purpose. *Stanford Social Innovation Review*. Pache, A., Battilana, J., & Spencer, C. (2024). An integrative model of hybrid governance: The role of boards in helping sustain organizational hybridity. *Academy of Management Journal*, 67(2), 437-467.

AZ: Today we can discuss two recent research papers of yours. I'd like to begin with the more recent one, in the *Stanford Social Innovation Review*, where you start with a very interesting story – the OpenAI board controversy – and the tension between profit and purpose. Nowadays, we have many hybrid organisations: in insurance, in banks, and in Spain, you have Grupo Mondragón. How do you see this tension between profit and purpose? What causes it, and what can one do about it?

Anne-Claire Pache: I would like to begin by saying that hybrid organisations have been around for a very long time. Hybridity is not a matter of essence, but a matter of degree. This means that, to some extent, all organisations incorporate a multiplicity of objectives that – depending on how central and strategic these multiple objectives are – may lead organisations to experience the challenges of hybridity.

In my research, I've been focusing on those organisations that incorporate hybridity at the heart of their strategy and operations. But first, I'd like to emphasise that this notion of hybridity is important and interesting to take into account in almost all types of organisations.

Now, when we talk about the multiplicity of objectives in organisations – especially companies – there is an idea that they are not only meant to achieve financial objectives but also other types, including social and environmental ones. And there's been a kind of myth that has persisted. It says, "Oh, in fact, financial and social or societal goals can be perfectly aligned, and we should look for these opportunities where more social performance leads to more financial performance, and vice versa."

That's the shared value model (Porter and Kramer, 2011), suggesting that yes, you can perfectly align these goals and everything will be fine. Now, there are definitely instances where we see this alignment – and when it happens, great. But the truth is, in many cases, there's actually a misalignment between social or societal and financial goals. Leaders in most organisations have to navigate these social-financial trade-offs. They have to manage them, and sometimes, they're faced with tough decisions about which objectives to prioritise – whether to put financial goals first or focus instead on social and environmental responsibilities.

What we've been exploring in this research, which we've conducted with Julie Battilana and Channing Spencer, is really looking at what happens in these situations – specifically, the role of boards of directors in managing these tensions. We're examining what kind of board configurations best support the achievement of these dual objectives in the most effective way.

THE OPENAI CASE: A CAUTIONARY TALE

AZ: Anne-Claire, could you tell us more about the OpenAI case and how it relates to the opening of your paper? Specifically, how does that story illustrate the challenges organisations face when trying to balance societal and financial goals?

Anne-Claire Pache: In this *Stanford Social Innovation Review* paper, we use OpenAI as an example to illustrate the tensions that do arise when combining societal and financial goals. OpenAI was founded with a bold, hybrid purpose – to develop AI that serves humanity on the one hand, and on the other, as ChatGPT was developed and took off, to incorporate a business model that maximised profitability for its tools and models.

We had, in the board of directors of OpenAI at the very beginning, a combination of directors who were supporters or champions of OpenAI's societal goal, and we also had representatives or champions of the financial dimension.

But then, something happened – and it's public – that led to complete chaos in OpenAI's governance. As ChatGPT took off and its impact grew, the board members who were more aligned with OpenAI's societal purpose started to feel uneasy. They saw the organisation shifting too much towards financial priorities and said, "Wait, we're becoming too focused on the money. We're losing sight of our mission."

That tension reached a breaking point when these board members made the dramatic decision to fire Sam Altman, the founder. To them, he was pushing OpenAI too far in the direction of financial success at the expense of its original purpose.



Then, the coalition of people supporting the financial objective of the organisation, including employees, retaliated, ultimately leading to the dismissal of the members of the board who were representing the social coalition. The financial coalition then took over, reinstating Sam Altman as CEO and bringing him back into his role on the board of directors.

This is just an illustration of the fact that these people hadn't read our research [laughs]. The research wasn't published yet when that happened, and I doubt they've followed it since...

It's a great illustration of the fact that if you want to lead an organisation with multiple objectives, you can't just – like OpenAI did – have a board that represents these two sides of the organisation. That's the first necessary step, but that's not enough. You also have to ensure the board itself is stable, meaning you have to make sure both sides – both the societal and financial aspects – are firmly represented in the governance structure. You need to somehow write down and secure the presence of these two sides. It's crucial to ensure that one side doesn't get overtaken by the other. That's one of the key takeaways.

AZ: That makes a lot of sense. So, you're saying that the structure of the board needs to be stable and deliberately balanced, with protections in place to keep either side from dominating?

Anne-Claire Pache: Exactly. Not only do you need to ensure that one side doesn't get overtaken by the other, but you also need to think about how you structure the board to prevent big shifts in its composition that could tip the balance. You don't want one of the two coalitions – the societal or the financial – disappearing entirely. That's where the structure comes in.

But structure alone isn't enough. You also need processes that allow for open, fruitful conversations. These processes should recognise and respect the differences between the two sides and, most importantly, help manage the trade-offs that inevitably arise when you're balancing these competing objectives.

In a way, this can happen in a fruitful and productive manner, avoiding the kind of destructive and unproductive conflicts we've seen – like at OpenAI, where the founder was fired first, followed by members of the board. The key question is: how do you create a culture where two sides with very different views, cultures, and biases – especially

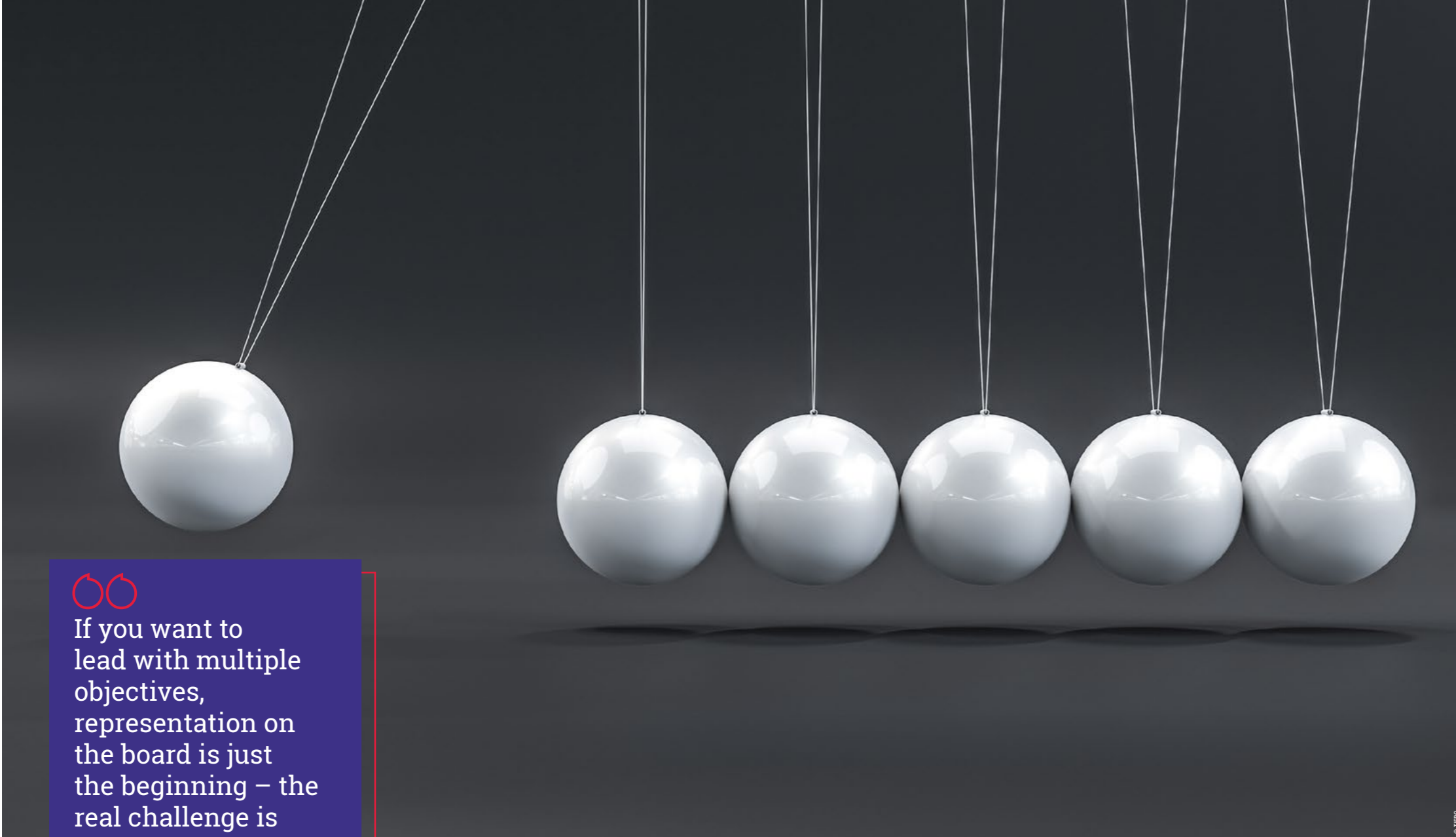
in terms of which objectives they prioritise – can coexist? You need to establish processes that ensure all voices are heard and respected. It's about raising awareness about the different perspectives of the board members, openly valuing both, and channelling the emotions that naturally arise in conversations where disagreements surface into positive energy, rather than letting them spiral into negativity and conflict.

AZ: In your paper, you've shared some great advice about relationships within the board – what you call the relational process – as well as relationships outside the board, which you refer to as bridging with top management. This seems crucial to preventing disconnects between the two. Could you maybe give an example of these two processes working well in practice?

Anne-Claire Pache: Yes, absolutely. This is a very important point, and the OpenAI case illustrates it well. At one point, there was a coalition of organisational leaders – led by Sam Altman – where senior leaders at OpenAI mobilised against members of the board. This highlighted a clear gap and fault line between those advocating for the social mission of OpenAI and those focused on the financial mission. Interestingly, some of these proponents were part of the senior leadership itself.

This underscores the need not only for alignment within the board but also for significant effort to ensure understanding and alignment between the board and the senior leadership of the organisation. One way to achieve this is by regularly inviting members of the senior leadership to speak to the board, fostering mutual knowledge and understanding. Additionally, decisions made by the board should be communicated clearly – often by the CEO or president – to the senior leadership. This helps avoid situations where estrangement, misunderstanding, or a lack of recognition arises between the board and senior leadership.

Any activities that promote better knowledge-sharing, more interaction, and clearer explanations of decisions are crucial. It's also about making the cultures and worldviews of senior leadership visible to the board, and vice versa. This process of enculturation – ensuring that the values and perspectives of different groups are understood – is vital to preventing the emergence of these fault lines within the organisation.



If you want to lead with multiple objectives, representation on the board is just the beginning – the real challenge is governance.



OSCILLATIONS VS. SIMULTANEOUS BALANCE: WHAT WORKS BEST?

AZ: Let's imagine we're in a macroeconomic crisis – something we've seen several times before. In this kind of crisis, I've noticed, at least anecdotally, two different approaches. One is to say, "Look, right now, in this moment of crisis, we need to focus on cash flow and save the sinking boat. We'll think about purpose next year." The other approach is to say, "No, no – precisely in this moment, we need to stick to our purpose, because if we stay true to it now, people will believe in us." What's your take on this debate?

Anne-Claire Pache: What we've seen in hybrid organisations – and I think you're providing a great example here – is a tendency at times to address these goals, purpose versus profit, in sequential terms. This means focusing on one dimension for a few years, often due to internal or external crises, and then shifting focus to the other dimension later. These oscillations, which we've observed in some hybrid organisations, usually arise as a result of these tensions.

From our data, we've found that while oscillations can be a way to manage hybridity – alternating between focusing on one dimension and then the other over time – some companies manage to balance both simultaneously.

They don't necessarily need to alternate. Specifically, they achieve this by incorporating governance structures and processes that allow them to manage these trade-offs on a regular, even daily, basis. Instead of saying, "Okay, let's go all-in on profit for a few years, then all-in on purpose for a few years," they find ways to integrate both.

Yes, oscillations do work – at least in the organisations we've observed – but we believe they're not ideal. Dropping one objective for a period of time and then switching to another isn't necessarily the best approach. The ideal model would be to sustain both objectives over time, simultaneously.

We've found that this kind of balance is possible, but only under the condition that a hybrid governance model is not just implemented but actively practised on a daily basis.

It requires a culture where board members, despite their diverse perspectives, develop the ability to consistently incorporate both dimensions – purpose and profit – into their decision-making. They need to manage the trade-offs that almost always come with pursuing multiple goals but do so at the board level in a way that avoids the strong oscillations we've observed in many organisations.

EMBRACE HYBRIDITY AS AN OPPORTUNITY

AZ: Anne-Claire, would you like to share a particular message with the readers of our magazine?

Anne-Claire Pache: Absolutely. I'd like to encourage everyone to see hybridity as an amazing opportunity. The idea of embracing multiple goals – taking a combination of financial, social, and environmental objectives seriously – is crucial for all organisations today. However, it requires specific structures and practices to ensure these models succeed. I really urge readers to explore the potential of placing these multiple goals at the centre of their strategy, but also to take seriously the need to manage them carefully and thoughtfully.

There's another piece of research I've conducted with Julie Battilana, Metin Sengul, and Marissa Kimsey where we highlight four key dimensions that organisations must consider when they seriously commit to pursuing multiple goals. These dimensions are critical for ensuring that hybrid organisations can thrive without losing sight of their dual missions. That could be another conversation.

AZ: Okay, we'll keep the suspense for the next conversation. Thanks a lot!

Anne-Claire Pache: Thank you so much, it was nice speaking with you.

BiGS Climate Change

Capitalism is Good – but it Needs Re-alignment with our Needs

Colin Mayer



Capitalism has given the world great prosperity – but it also has contributed to some of the world's greatest problems. Business can be socially responsible while still being profitable, economist and **University of Oxford Emeritus Professor Colin Mayer argues. Harvard BiGS** caught up with him to discuss his book **Capitalism and Crises: How to Fix Them** and his ideas.

By: Barbara DeLollis

Thanks for sitting down with us to discuss your latest book, *Capitalism and Crises: How to Fix Them*. Tell us about it.

The book is about why we've got into the mess that we're currently encountering in terms of the ever-growing number of crises around the world. I look at why this is happening, the role of capitalism in bringing this about, and, in particular, the role of business and what we can do to sort out these problems.

Why is capitalism a problem? Why is it failing us as a society?

Capitalism has been an incredible contribution to us. It has created economic prosperity, the growth of nations, and the alleviation of poverty around the world. So, it's against that background that we have to look at what's happening. Basically, the driving force behind capitalism—namely profit—has gotten out of line with what we as individuals, societies, and the natural world need.

In your view, how should businesses operate to achieve both profitability and social responsibility?

The framework that I developed is around the purpose of business—corporate purpose—and I define that in a particular way. Namely, business exists to solve problems that you and I face as individuals, societies, and the natural world, but to do so in a profitable way, because business is not about charity. It's about the hard-nosed business of making money.

What are some examples?

If you look at what are sometimes termed the Magnificent Seven, the trillion-dollar companies in this country, they all basically have the same feature. They're highly purposeful. They set out to solve really big problems and to find ways of making it commercially viable to do that. That's what distinguishes every successful business around the world.

What broader responsibilities and roles should companies embrace to generate profits ethically?

What we've got to realize is that profit is not simply the difference between a company's revenue and costs, operating costs and capital costs. It's also about the costs of ensuring that companies don't create problems—that they don't pay people below-living wages, that they don't pay their suppliers below a fair-trade price, that they do not profit from producing pollution or biodiversity loss or emitting global warming gasses. They recognize that it's their role to avoid those problems or, when they do cause them, to clean up the mess they create.

Would it be easy for leaders to adopt your framework? If they're making great profits, what's their incentive to change?

So long as every business recognizes that that is really its purpose, then the best companies come out on top. They outcompete other firms. But at the moment, companies in many cases are profiting from creating detriments, and that undermines the functioning of markets. We talk about encouraging competition. Competition is great and it does create a 'run to the top,' provided that it's a level playing field. It's not a level playing field if some companies can profit from, for example, dumping raw sewage into seashores and lakes. That undermines the competition process and causes a run to the bottom, not to the top.

So, did Milton Friedman get it wrong?

Milton Friedman did not get it wrong when he said, 'There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, it engages in open and free competition without deception or fraud.' Now, that was fine, but it excluded five key words: 'without imposing expense on others.' What he was saying in terms of the role of business was perfectly reasonable and understandable, but because those five words were not included, it has actually created increasing problems for us.



What it takes is a recognition that business should solve problems for us, and that profit should derive from that, not from creating problems.



Where does regulation, or the lack thereof, play into this?

Regulation is important in laying down the exact conventions by which business should operate. But regulation has serious problems, and it's a cause of an immense amount of controversy and political divide, particularly in this country.

The left believes that regulation is required to avoid these problems. The right says, on the contrary, this is undermining political freedom, growth, investment, and jobs. We're not actually going to solve the problem simply by imposing regulation. What we need is for the notion of the company's purpose—to profit from producing solutions, not problems—to be intrinsic to the way we structure companies, and the way companies are run. It's a matter of corporate law, not just regulation.

So how does that happen? Do you propose revamping corporate law and the structure of a company?

In the U.S., corporate law is basically set and implemented at the state level. It should be structured so that companies' success is reflected in the way in which they make profits, not simply in the level of profits they make. It has to incorporate the notion that companies' success is measured by the extent to which they're solving, not creating, problems.

How would your ideal corporation put your framework's principles into practice?

In the U.K., we've got a company law that says it's the responsibility of the directors to promote the success of the company for the benefit of its shareholders. Okay, that's basically how corporate law operates in the U.S. But it goes on to say that in doing so, the directors of the company should have regard to the consequences of that for other parties—for their employees, for their suppliers, for the environment, etc.

Now, if that's interpreted in the right way, that is to say that companies profit when they're taking due regard for the interests of those other parties, that does exactly what I'm talking about. Put simply, the purpose of a company, as stated in corporate law, should be to profit from producing solutions, not problems.

What do you think it will take to change the narrative on this subject?

There are two ways in which the transformation can come about.

The first is building on something that Milton Friedman once said that only a crisis—actual or perceived—produces real change. When that crisis occurs, the actions taken depend on the ideas that are lying around. He went on to say that it is therefore our duty to create new ideas, keep them alive and available until the politically impossible becomes the politically inevitable.

The other is to pick up his idea that it's ideas that change the world. You know, we invented the modern corporation in a form that has created immense benefits for us. But we're increasingly realizing that those benefits are coming at a really serious price. Therefore, we can recognize that there are other ways to envisage how business can operate.

And that's what I'm trying to do. It doesn't take a revolution to sort out these problems. It doesn't take a revolution for emerging and developing countries to prosper and flourish and to become developed alongside the rest of the world. What it takes is a recognition that business should solve problems for us, and that profit should derive from that, not from creating problems.



CoBS Insight

Will you Dare? The Journey of Purpose

Concépcion Galdón



Prof. **Concépcion Galdón**, Vice-Dean for Business with Purpose at **IE Business School**, and Director of the IE Foundation's Center for Social Innovation & Sustainability Center, shares her insights into DARE, a framework that helps individuals and organizations not invent purpose, but uncover what they already know—about their unique role in the world and how they contribute to it.

“Everyone has their own specific vocation or mission in life... a concrete assignment that demands fulfillment. Therein he cannot be replaced, nor can his life be repeated.” —Viktor E. Frankl, *Man's Search for Meaning*¹

Imagine walking into a Swiss watchmaker's workshop, where tiny, intricate pieces are laid out before you. Alone, each may seem insignificant, but together, they create something remarkable. Remove one, and the system fails.

Or think of the human body. The smallest cell or the least understood organ only makes sense in connection to the whole. Each part finds its meaning through its relationship with the others.

The same is true for us. We belong to a broader social-ecological system, as Nobel Laureate Elinor Ostrom describes—a system that includes every person, animal and natural element¹. Planet Earth doesn't need us. It was here long before life appeared and will endure long after we're gone. But we need it—and we need each other.

Human vulnerability demands collaboration. The two core instincts of survival—self-preservation and species continuation—both depend on pro-social behavior for humans. Our success is collective, not individual. Our survival—physical and emotional—depends on connection. Research confirms that those with a strong sense of purpose live longer, are healthier, and experience greater well-being.

This is what I explore daily as Vice Dean for Business with Purpose at IE Business School—helping students and businesses uncover the irreplaceable role they play in a greater whole.

To do this, I invite them to DARE—to Discover, Align, Realize, and Evolve their purpose. DARE is not a tool but a framework—one that accommodates diverse perspectives, philosophies, and traditions. It isn't meant to be novel or disruptive. Quite the opposite: it was designed to feel familiar.

1. Ostrom, Elinor. *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge University Press, 1990

Purpose isn't about a neatly packaged statement. It's about continuous engagement with the world—understanding our role within it. DARE is an invitation to that journey—not just for individuals, but for businesses too.

DARE TO DISCOVER

“What a long time it can take to become the person one has always been.” — Parker J. Palmer²

Purpose isn't something you invent—it's something you uncover. But discovering it isn't always easy. We absorb so many external expectations about what success should look like that we often mistake them for our own. Real purpose isn't imposed from the outside—it emerges when we strip away those expectations and look at what truly energizes us.

The clearest mirror we have? Our lived experiences. Rather than chasing an abstract idea of purpose, pay attention to patterns in your past: What strengths and attitudes emerge naturally in crisis? When have you felt most energized, most “in flow”? Psychologist Mihaly Csikszentmihalyi describes flow as the state where challenge and skill are perfectly balanced, often leading to a deep sense of meaning and intrinsic motivation.³

For some, writing a purpose statement can be helpful, but it's not essential. Some people never write theirs down, yet live with deep conviction about what matters to them. Purpose isn't about a polished phrase—it's about recognizing the unique way you relate and contribute to the world.

The same is true for organizations. Many companies mistake purpose for a branding exercise, crafting polished statements that sound good but mean little. As Donella Meadows reminds us, “Purposes are deduced from behavior, not from rhetoric.”⁴ A company doesn't create its purpose—it uncovers it by looking at how it already operates, what impact it truly makes, and what role it plays within the broader system.

2. Palmer, Parker J. *Let Your Life Speak: Listening for the Voice of Vocation*. Jossey-Bass, 2000.

3. Csikszentmihalyi, Mihaly. *Flow: The Psychology of Optimal Experience*. Harper & Row, 1990.

4. Meadows, Donella H. *Thinking in Systems: A Primer*. Chelsea Green Publishing, 2008.



Purpose isn't about a polished phrase—it's about recognizing the unique way you relate and contribute to the world.

Discovery requires honesty. Whether for individuals or organizations, the question isn't *What should I be? but rather, Who am I already?*

DARE TO ALIGN

"People allocate fewer and fewer resources to the things they would have once said mattered most." – Clayton Christensen⁵

Discovering purpose is just the start—the next step is ensuring your actions align with it. Unfortunately, self-perception is tricky. We justify our actions and assume our intentions are clear. But purpose isn't about what we *think* we stand for—it's about what we *demonstrate* through our choices.

That's why alignment begins with deep listening—seeking honest perspectives from those who know us well. Ask a trusted friend, mentor or colleague: Where do you see me most engaged? If you had to describe what I stand for, what would you say?

Then comes action reflection—because, as Batman put it, *"It's not who you are underneath, it's what you do that defines you."*⁶ It's easy to believe we are aligned, but real behaviors tell the truth. Looking at your actual choices, ask: If someone only observed my behavior, what would they think I stand for?

The same applies to businesses. A company's real purpose isn't found in website statements—it's revealed in daily decisions. Organizations must also engage in deep listening—seeking feedback from employees, customers, and stakeholders. Then comes corporate action reflection—analyzing whether business practices align with stated values. Leaders must ask: If a customer or employee only observed our actions, what would they say we prioritize? If the answer doesn't match the purpose you uncovered, the organization is not aligned.

Alignment requires honest assessment—before we find ourselves among those who, as Christensen warns, have neglected what once mattered most.

5. Christensen, Clayton M. *How Will You Measure Your Life?* Harper Business, 2012.

6. *Batman Begins*. Directed by Christopher Nolan, performance by Christian Bale, Warner Bros., 2005.

DARE TO REALIZE

"The rubber meets the road when a potential yes means saying a thousand noes to a legion of legitimate choices." – Dan B. Allender⁷

Awareness without action leads nowhere. Once you have discovered your purpose and assessed your alignment, the next step is the hardest: living it out.

Realizing purpose is not about big declarations; it's about making choices that reinforce what truly matters. This is where many struggle. We wait for the "right time" to fully commit, telling ourselves we'll pursue what matters once things settle down, once we have more clarity, once we feel ready. But purpose isn't realized in the future—it's shaped by the decisions, big or small, we make right now. So, ask yourself: What small steps can I take to make purpose real in my daily life?

For businesses, the same challenge applies. Many organizations define purpose but fail to implement it. Realizing purpose in business means ensuring that it is reflected in strategy, operations, and culture. It's not about having a well-worded statement—it's about whether leadership consistently makes decisions that align with purpose, even when it's inconvenient.

Purpose is not theoretical. It's not a belief—it's a way of being. Realizing it means taking action, no matter how imperfect, and owning the choices that make it real.

DARE TO EVOLVE

"The meaning of life differs from man to man, from day to day, and from hour to hour." – Viktor Frankl⁸

Purpose is not a fixed destination—it evolves as you grow. Some resist this idea, believing that once they've defined their purpose, it should remain unchanged. But life is dynamic. Who you were at 20 is not who you are at 40. Your experiences, your environment, and the world around you will shift—and with them, your purpose will deepen, expand, and sometimes even take unexpected turns.

7. Allender, Dan B. *To Be Told: Know Your Story, Shape Your Future*. WaterBrook, 2005.

8. Frankl, Viktor E. *Man's Search for Meaning*. Beacon Press, 1946 (original in German: *Ein Psycholog erlebt das Konzentrationslager*).

That's why evolution is built into the DARE framework. It's not just about discovering, aligning, and realizing purpose once—it's about creating the habit of doing so again and again, at every stage of life and business.

Businesses, too, might need to evolve their purpose. A company's expression of purpose might have to shift to remain relevant. Or maybe not. Just as markets, industries, and social expectations change, so too might a business's way to engage with them in meaningful ways evolve. For leaders, this means regularly asking: How has our role in the world evolved? Are we responding to its changing needs while staying true to ourselves?

WILL YOU DARE?

Purpose isn't a statement—it's a way of being. It's uncovered through experience, aligned through honest assessment, realized through action, and refined over time. Whether for individuals or organizations, purpose demands courage—the courage to discover, to align, to realize, and to evolve. It's not a one-time exercise but an ongoing journey. So, the only question left is: Will you DARE?

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Pull out quote: As many companies have recently learned, any decision has the potential to alienate investors, employees, customers, or the public.



BiGS Actionable Intelligence

Navigating Divisive Social Issues: A framework for companies

Lynda Applegate, Vikram Gandhi & Debora Spar



Harvard BiGS shares insights from its roundtable event that brought business and non-profit leaders together to identify how leaders in today's complex and changing landscape can respond.

By: Katherine Hutt Scott

As racial and gender inequality, climate change, and other societal challenges grab the attention of companies and their stakeholders, leaders are expected to engage while taking care to be thoughtful about what they tackle and how. And it's not easy.

To help clarify how leaders can respond, Harvard Business School's Institute for the Study of Business in Global Society (BiGS) brought Midwestern business and nonprofit leaders together in Detroit. Faculty engaged with the leaders to unlock insights and identify a path forward. BiGS captured findings in its exclusive roundtable report, "Doing Business in a Divided World: A Guide for Leaders."

"Society is expecting business to be more involved," Professor Debora Spar, HBS senior associate dean for business in global society, said. "We are past the hand-waving stage... If we want business to play a more active role tackling societal challenges, how do we do that?"

HIGH LEVEL OF TRUST IN EMPLOYERS OVER OTHER INSTITUTIONS

And why? Data from the Edelman Trust Barometer_2024 found that people trusted their employer more than business in general, and that people trusted business more than NGOs, government, and media. 79% of workers trust their employer—a full 25 percentage points more than the average of the other three institutions. Companies should repay that trust by ensuring that their employees see their values expressed in how business gets done, according to the Edelman report.

Furthermore, the Edelman Trust Institute research showed that employees were up to 14.5 times more likely to work for an organization with a public commitment to issues such as human rights, racial justice, and climate change.

Leaders and their employees, however, often don't see eye to eye on the issues. Only half of U.S. workers want their CEOs to take stances on societal issues, a figure that dropped 10 percentage points from 2022 to 2023.

FRAMEWORK FOR COMPANIES TO DECIDE WHETHER TO GET INVOLVED

Vikram Gandhi, HBS senior lecturer of business administration, presented a framework for companies to weigh whether to get involved in issues. When hot issues arise, companies can do something, say something, neither—or both. And as many companies have recently learned, any decision has the potential to alienate investors, employees, customers, or the public.

So, what is a CEO to do? Leaders were advised to match their approach to their company's values. Hubert Joly, the former chairman and CEO of Best Buy who is now a senior lecturer of business administration at HBS, advises that before engaging, leaders examine factors such as:

- Is the issue relevant to the company's brand, values, purpose, customers or employees?
- Does the company have legitimacy to get involved in the topic?
- Is the company's stance authentic and thoughtful, not just opportunistic?
- Is there congruence between the company's positions and actions?
- What is the likely business impact of the company's involvement?

As they look at those issues, leaders must look at the perspectives of others, such as employees and customers. Why? Because while a company may have authentic reasons to get involved, others may not see it that way. HBS Professor Lynda Applegate says when weighing a statement or action, companies should do a stakeholder analysis, starting with a list of how it would affect everyone involved. Looking at each stakeholder's expectations and potential reactions, companies should chart whether the company approach would be positive or negative to them, she advises. The stakeholders can be inside or outside the company. After weighing the importance of each stakeholder to accomplishing company goals, leaders should identify ways to clarify or realign those stakeholders' interests and expectations.

As differences over politics increase, companies must navigate between a consistent enterprise-wide talent strategy and the needs of stakeholders in their local markets, Edelman's report points out. Helpful strategies are clear communication, a focus on company values, and a careful analysis of possible actions to take.



CoBS Insight

The Purpose Ecosystem: When private actors and stakeholders help companies reach the SDGs

A new form of ecosystem is emerging – the purpose ecosystem. What is it and how does it help corporates achieve their sustainability goals? Profs. **Frederik Dahlmann, Warwick Business School, Joao Porto de Albuquerque, University of Warwick**, and co-researchers **Wendy Stubbs** and **Rob Raven** of **Monash University**, explore.

Related research: Dahlmann, F., Stubbs, W., Raven, R. and de Albuquerque, J.P., 2020. *The 'purpose ecosystem': Emerging private sector actors in earth system governance. Earth System Governance, 4, The Purpose Ecosystem and the United Nations Sustainable Development Goals: Interactions Among Private Sector Actors and Stakeholders*, Wendy Stubbs, Frederik Dahlmann, Rob Raven, *Journal of Business Ethics*, 21 June 2022.

Frederik Dahlmann, Joao Porto, Wendy Stubbs and Rob Raven



When it comes to discussing the impact of business activities on society and the planet, the focus tends to be placed on one major aspect of the issue – the negative impact of business activities. It has been widely discussed and demonstrated that socio-economic factors – among them consumerism, capitalism, and global value chains – represent major causes of global warming and the subsequent effects of this. Coupled with increasing inequalities, poverty and conflicts, this context has led to the recognition that corporations have a crucial role to play to address these challenges.

In contrast, there has been less discussion about the role that corporations can take to tackle these challenges and develop sustainable activities, as most of the developments have concentrated on the role of politics and society. Yet, experts are calling for rapid and far-reaching changes in business activities and most companies are not well equipped to face these challenges. One solution has been to propose that companies should review their “raison d’être” and take into account the social and environmental consequences induced by their activities. Nowadays, it even appears that these calls have been heard by companies. Indeed, some of them have introduced social and environmental objectives into their “raison d’être”, have become “B-Corporations”, or have referred to UN SDGs.

Nevertheless, concerns are being raised about the seriousness of these commitments. It is in this context that a myriad of intermediary actors, initiatives and organisations are appearing, whose activities are designed to push companies to review their objectives in view of more sustainable goals and to support the implementation of the UN SDGs. Prof. Dahlmann and his colleagues dub this the “Purpose Ecosystem”.

Actors, initiatives, organisations	Examples of actors	Systemic purpose
Impact investment	Banks, philanthropists, Big Society Capital	“Changing the broader purpose of investing beyond maximising financial returns.”
Sustainability targets initiatives	Science-Based Targets, We Mean Business Coalition, Pivot Goals, Future Fit Business	“Changing the way in which companies set strategic targets that are aligned with scientific evidence on Earth system science, sustainable development and the UN SDGs.”
Business purpose change agents	NGOs, social movements, micro-consultancies, Conscious Capitalism, Forum for the Future	“Changing the governance, business model and purpose of business to account for and address a wide range of social and environmental concerns.” “Changing mindsets among business leaders.”



WHAT IS A “PURPOSE-DRIVEN” ECOSYSTEM?

So what exactly is the purpose-driven ecosystem? According to Dahlmann et al, “*this is an emerging network of actors which interacts with each other and their stakeholders to help change the purpose of business and achieve the UN Sustainable Development Goals. These actors, private by essence, are defined as “purpose ecosystem actors”*. They also include the businesses which decide to become purpose-driven.

All in all, there’s a tendency to study the question of the role of companies in sustainable development from an internal governance perspective, through the angle of purpose-driven business models and the internal organisation of companies. In a different way, researchers who study the «purpose-driven ecosystem» focus on the identification of these new “purpose-driven actors”, their networks and the actions they adopt to bring companies to adopt social and environmental purposes. As such and given the recent, growing interest in this “purpose-drive” network, the first questions are: how is it composed? And how is it organised?

Contrary to traditional networks and NGOs, this ecosystem is characterised by an absence of “structure, governance and coordination” and is composed of independent actors. It also seems that these actors do not even recognize themselves as being part of such a network. Therefore, unlike formal, goal-directed organisations, this new purpose-driven ecosystem forms

an informal network. F. Dahlmann, JP de Albuquerque, W. Stubbs and R. Raven propose the following classification of key actors which compose the “purpose-driven ecosystem” (considering that no clear boundaries exist about this ecosystem and that this list is subject to evolve over time).

MAKING THE CHANGE, GOING FOR CORPORATE SUSTAINABILITY GOALS

How do these “purpose-driven actors” contribute to the adoption of corporate sustainability goals? A key factor is that of incentives, systems and infrastructures to support the development of purpose-driven businesses. These fundamentally integrate social and environmental objectives into organisational purpose. As such, the “purpose-driven” actors’ efforts are designed to instil change by making companies modify the purpose of their activities. They aim at turning them into purpose-driven organisations themselves and to achieve UN SDGs.

The emergence of this ecosystem is in fact partly linked to doubts raised about the effectiveness of efforts deployed by certain companies in terms of sustainable development. Current developments in this area are nonetheless overflowing and show that many companies are tending, for instance, to set up Science-Based Target Initiatives (SBTIs), as is notably the case in the automotive sector. Yet, for some authors, these

initiatives, internal to companies, are insufficient in the face of the urgency and the profound transformations made necessary by the environmental emergency. For others, these efforts are even futile, unless the companies involved understand that they are part of a larger socio-ecological environment.

Similarly, the internal nature of these initiatives tends to isolate them from each other. This is the case, for example, with the increasing use of sustainable materials by industrial companies. The problem remains that no official definition yet exists, so one company may well consider that it has integrated such materials into its products, while others will see these materials as not sustainable. This might even amount to “greenwashing” or “green marketing”, where companies tend to persuade consumers that their products or services are beneficial for the environment rather than focusing on concretely limiting their environmental impact.

As such, doubts about corporations’ compatibility with sustainable activities have led to the development of these “purpose-driven actors” which seek to institute change via a more systemic approach, and aimed at getting companies to adopt non-financial objectives and SDGs in their activities. In their research, F. Dahlmann, JP de Albuquerque, W. Stubbs and R. Raven identified six different types of actions adopted by these actors to reach their objective:

- Some play the role of *capacity builder*, which consists in providing companies and the purpose ecosystem with resources and tools to face the social and environmental challenges.
- For others, it will be to play the role of *communicator*, i.e. to raise awareness, inform, educate on the importance of achieving the SDGs through conferences, forums, and webinars.
- Another type of action is *collaboration*, which aims to connect companies with each other and with their stakeholders, in order to help them implement purpose-driven actions.
- *Enablers* aim to amplify and share knowledge, resources and tools to help companies think about their business through this lens of purpose.
- As for the “*influencers*” they seek to influence companies, investors, and even policy makers.
- Finally, the “*change makers*” support the role of catalysts to create change.



The purpose ecosystem seeks to push and help businesses redefine their “raison d’être” to achieve the SDGs and move towards sustainable activities.



A CALL FOR MORE RESEARCH ON THE “PURPOSE-DRIVEN ECOSYSTEM”

At this stage, the objective of research on the «purpose-driven ecosystem» is not so much, or at least not yet, to determine how the actors that make it up can help companies move towards the SDGs and redefine their objectives. Rather, it is a matter of raising awareness of the emergence of this new form of ecosystem and of their potential importance in responding to the social and environmental challenges already mentioned.

Dahlmann and his co-researchers have highlighted the ecosystem’s lack of organization and collaboration between its actors, many of whom do not identify themselves as part of the same organization. Nevertheless, this informal character also allows the ecosystem to benefit from a wide variety of actors and actions and to invite collaboration rather than coercion. Most importantly, Dahlmann et al’s research has highlighted the fact that its actors tend to pursue the full range of SDGs – and thus seek to contribute to the full range of social and environmental problems facing our world nowadays.

TURNING A SHADE OF GREEN

Born of the concerns about the compatibility of business with more sustainable activities, the wide variety of actors that compose the purpose ecosystem seek to push and help businesses redefine their “raison d’être” to achieve the SDGs and move towards sustainable activities. But because of its recent and informal nature, its role in addressing social and environmental challenges remains to be clarified. But once done, maybe that typical focus on the negative impact of business activities would turn a shade or two more green.



BiGS Actionable Intelligence

181 US CEOs Pledged to Lead Companies for 'All Stakeholders' in 2019: Did it make a difference?

Lynn Paine



Harvard Prof. Lynn Paine and **Ed Freeman** of **Darden School of Business** take a look back at the roundtable that promoted an economy that serves all Americans. While the pledge by CEOs made a difference, much still remains to find a shared definition of what stakeholder capitalism really means.

By: Cindy Perman

It's been more than five years since 181 CEOs of some of America's largest corporations—like Apple, Walmart, and Pepsi—signed a pledge that was promoted in a full-page ad in *The New York Times* to «lead their companies for the benefit of all stakeholders,» vs. only for the benefit of those who could afford to own shares in their stock.

The splashy pledge from 52-year-old lobbying group The Business Roundtable appeared to indicate that the CEOs would shift from focusing solely on shareholder value to concentrating on the needs of employees, communities, and other stakeholders. To recognize the pledge, the group recently issued a statement saying that the companies have done a good job at this mission.

Not so fast, says Lynn Paine

The Harvard Business School professor and expert on corporate boards argues that little has changed when it comes to one very important issue: corporate governance.

Writing in the *Harvard Business Review*, Paine cites research showing:

- Boards were never asked to approve the pledge.
- Shareholder value remains the ultimate objective of most corporations.
- Shareholder returns continue to be the main driver of CEO compensation.

"If they had intended a change in governance, you would have expected the CEOs to have talked to their board of directors... or worked with the board to rewrite their corporate governance guidelines to say, 'Our purpose is now to serve our stakeholders rather than just our shareholders,'" Paine said in an interview with *The BiGS Fix*. "But we didn't really see changes like that."

One of the problems, she noted, is that there isn't an agreed definition of stakeholder capitalism.

"I personally don't know what they committed to in signing the statement. And I am not sure they do either," said Paine, who co-chairs Harvard Business School's executive programs on corporate governance. "'Stakeholder capitalism' means different things to different people, and the statement itself is very vague on what companies owe their stakeholders."

Still, Paine thinks the pledge did have an impact: "Companies are talking a lot more about their stakeholders and some are even linking a small part of CEO pay to outcomes for other stakeholders."

A PR EXERCISE—OR NOT?

Academic Edward Freeman, who has been called the "father of stakeholder capitalism" because he planted the seeds for this concept 40 years ago when it seemed like no one was listening, believes that the pledge has had more impact than it appears.

"It made a huge difference", Freeman, now a professor of business administration at the University of Virginia Darden School of Business, told *The BiGS Fix*. "If nothing else, it's a good start. People are thinking about this idea."

Asked about what changes have been made to governance mechanisms, Freeman said that's the wrong question to ask.

"The right question is: 'What are companies doing? Are they actually paying attention to, let's say, their employees as much as they are paying attention to customers? Are they paying attention to their effects on communities? Are they paying attention to things like global warming?'" Freeman asked. "I think the answer to that is: 'Yes, they are.'"

HAS THE BACKLASH BEEN OVERBLOWN?

Despite the progress, there has been a growing backlash against corporate programs for diversity, equity, and inclusion (DEI) and environmental, social, and governance (ESG), with fewer mentions of these topics on earnings calls this year and companies pulling back on investments in these areas. Paramount, Bank of America, Pepsi and Goldman Sachs are among the most recent companies to dial back their DEI efforts.

So, what's happening? Are companies, under pressure from Republican political efforts, moving away from the idea of stakeholder capitalism and instead doubling down on shareholder capitalism?

Freeman said he doesn't think current trends are a sign of a return to shareholder capitalism but rather, a handful of companies coming under fire for their efforts on stakeholder issues such as DEI.

"I haven't paid a lot of attention to the backlash, to be honest with you, because I think there's less there than meets the eye," Freeman told The BiGS Fix. "I don't know companies that... are now back to... [destroying] the environment willy nilly. It's just not happening. They understand that, you know, things like global warming threaten them and threaten their employees. I kind of take it as companies are being a little more careful about what they say."

HBS's Paine agrees that there is no going back now and that most likely, leaders are merely becoming quieter about their stakeholder capitalism efforts.

"In my view, it's not really a return to... 'Now we're going to put on blinders so we don't consider our stakeholders,' or 'We're going to just think short term and ignore the long-term consequences,'" Paine said. "Some of the big challenges, like climate change and racial and economic inequality, are so big you can't really ignore them."

She thinks the "quieter" approach might, in fact, be even more powerful. There's less of a chance of companies exploiting these efforts for publicity or simply copying other companies' efforts.

FINDING THE RIGHT BALANCE

The notion of stakeholder capitalism can be traced back nearly a century. The word "stakeholder" first surfaced in the mid-1960s, Paine said, but the concept of having obligations to multiple constituencies dates back to a speech made in 1929 by the chairman of General Electric and it was discussed in a 1932 Harvard Law Review article, "For Whom Are Corporate Managers Trustees?"

Geoffrey Jones, an HBS business history professor, told BiGS in a previous interview that it is possible to serve both shareholders and other stakeholders at the same time.

"You can be deeply responsible and build successful businesses and brands," Jones said.

One of the examples he cited in the interview is Patagonia, a sportswear brand known for clothing that is environmentally responsible. Customers are willing to pay a little more for clothing that is ethically produced and built to last—and the company is highly profitable.

When Indra Nooyi took the helm of PepsiCo (2006-2018), she set an intention to ensure that the company would be a good corporate citizen—and she built that into the business model. In an article for Harvard Business Review, Nooyi explained her idea of "Performance with Purpose," which included delivering superior financial returns; reducing the amount of sugar, salt, and fat in its products and increasing healthy options; limiting the company's environmental impact; and putting more women in leadership positions.

At first, Nooyi faced resistance both inside and outside of PepsiCo, but she stuck to the plan and the results speak for themselves: revenue grew by 80% and the stock outperformed not only the consumer staples sector but also the S&P 500.

PepsiCo "has succeeded both commercially and ethically," Nooyi wrote in HBR. "It has learned to balance the short term and the long term, carefully thinking through the level and the duration of returns. A real sense of purpose is integrated into the company's core operations. It's the only way to make capitalism work for everyone."

Paine said she looks for companies to have performance measures that are tied to improving the welfare of each stakeholder.

"Let's say a board is discussing whether or not to make an acquisition. You would expect a systematic review of how it's going to affect each stakeholder group... employees, customers, communities, the environment, and so on" Paine explained. "I'm talking about the kind of rigorous analysis that's done today for the impact on shareholders... a richer information base for making decisions that bring stakeholders into it."

Freeman said, "I think stakeholder capitalism tells us there's a new version of what a business model is. It's not just about what's going to pay, it's about what you stand for, what your purpose is."



Stakeholder capitalism' means different things to different people, and the statement itself is very vague on what companies owe their stakeholders.



CoBS Insight



The Power of Purpose – It’s Obvious, Isn’t It?

Elsbeth Murray



Prof. **Elsbeth Murray**, Director of the Centre for Entrepreneurship, Innovation & Social Impact at **Smith School of Business, Queen's University**, explores the current context of slow-down for CSR and sustainability in North America, and shares research that highlights the compelling arguments for companies to remain committed to realizing the full power of purpose despite the political debate.

Related research: Thought leadership and research at the Centre for Entrepreneurship, Innovation and Social Impact at Smith School of Business


 We need more leaders who not only believe purpose-driven is the right thing to do, that it's the smart thing to do, but that it can be done.


PURPOSE IN PERIL: JUST A SLOW-DOWN OR A POSSIBLE U-TURN?

The evidence is clear – organizations that conduct business with purpose and go beyond maximizing shareholder returns outperform. Still, many companies continue to miss out on the opportunity to drive financial and societal gains.

The concept of purpose driven organizations – those interested in creating positive impacts on society, the environment and communities in addition to generating profits and returns for shareholders – has been gaining traction in recent years. Cultural shifts in investor, consumer, and employee expectations have spurred momentum in areas like ESG reporting and B Corp certification. At the same time, governments have been doing their part in many jurisdictions, enacting legislation and changing reporting requirements.

Unfortunately, the pace has been slow and, in some cases, businesses that have embraced the idea of purpose beyond profit, have done little to move beyond high-level rhetoric to meaningful action. The recent geopolitical upheaval, particularly in the U.S., isn't helping. A growing wave of criticism is building around purpose-driven initiatives (think ESG and DEI), seemingly pointing us once again towards a mindset of the primacy of profits.

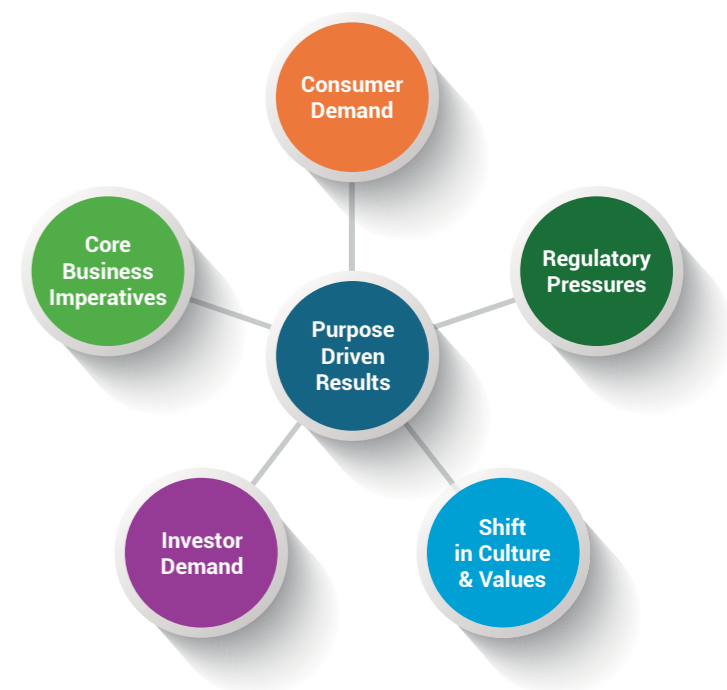
RECONCILING THE BARRIERS

Are we witnessing the beginning of the end of the shift to more purpose-driven corporations? Or will we see businesses continue to transcend governments-of-the-day and CEO perspectives to balance both purpose and profit?

- The answer to these questions lies in reconciling the barriers – real or perceived – at play, including:
- Concerns about short term profitability driven by pressure from shareholders and other investors to show results in the short term
 - Perceived lack of tangible benefits and/or the ability to capture these benefits in metrics
 - Leadership resistance to change
 - A lack of awareness or understanding of what purpose-driven really means, and illustrative cases of how it can be done
 - Not being market driven and the shift in values and beliefs present among post baby-boomer consumers
 - Deeply rooted beliefs that financial performance will suffer despite evidence to the contrary
 - Fears of appearing disingenuous or lacking in authenticity in the pursuit of purpose – so-called *green washing*.

RESEARCH POINTS THE WAY FOR COMPANIES TO REMAIN COMMITTED TO CSR AND SUSTAINABILITY PURPOSE

The research at the Centre for Entrepreneurship, Innovation and Social Impact at Smith School of Business is centered on helping organizations overcome these barriers by equipping them with insights and data on the mega forces shaping the current landscape.





The evidence is clear
– organizations that
conduct business
with purpose and go
beyond maximizing
shareholder returns
outperform.



CORE BUSINESS IMPERATIVE:

There are business advantages to embracing a more purpose-driven approach. A McKinsey survey indicates that products that make environmental, social, and governance (ESG) – related claims have achieved disproportionate growth compared to products without such claims. On the operational side, at CPG giant Unilever, the company has reduced costs by over €1 billion by reducing waste and enhancing energy as well as water efficiency.

CONSUMER DEMAND:

Numerous recent studies are pointing to consumers who not only say they care about sustainability but are buying accordingly, despite challenging economic times. For example, a 2024 PwC study revealed 80% of consumers are willing to pay an average 10% premium for sustainable products.

SHIFT IN VALUES AND CULTURE:

Purpose matters a lot to Gen Z and Millennials who will make up 75% of the workforce in 2025 and who are a powerful group of consumers. At Dutch pension fund ABP portfolio managers are accountable for assessing every investment in the context of risk, return, costs and ESG. Twenty per cent of ABP employees are Millennials, who expect sustainability to be integrated into daily operations. Employees of purpose-driven organizations have also been shown to be more resilient, innovative, and loyal.

INVESTOR DEMAND:

Investors are also 'voting' for purpose with their wallets. We are tracking five sub-forces and *following the money*. Asset managers are embracing purpose, including Blackrock, despite dropping ESG terminology. The financial risks associated with climate change (e.g. extreme weather events) are increasingly being recognized by investors and financial institution. Investors are seeing financial returns from firms that improve on material ESG issues. Investor perspectives are changing, with 50% of global asset owners implementing or evaluating ESG considerations in their investment strategy.

Institutional investors and investment consultants are integrating ESG factors as a matter of fiduciary duty. And growing shareholder activism – individual and collectives – are lobbying the largest greenhouse emitters to address climate change at the board level.

REGULATORY AND STAKEHOLDER PRESSURES:

Governments and stakeholder activist groups are applying pressure to companies and their directors to do better for the environment and society. The legal profession is responding, with one firm opining that there is *an increased risk of liability*, citing various changing regulations in Europe such as the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD). There are also positive non-regulatory moves afoot in North America such as the Business Roundtable whose members – 181 U.S. CEOs – signed on to an expanded view of the Purpose of a Corporation and one that included leading their organizations for the benefit of all stakeholders, not just shareholders.

PURPOSE-DRIVEN RESULTS:

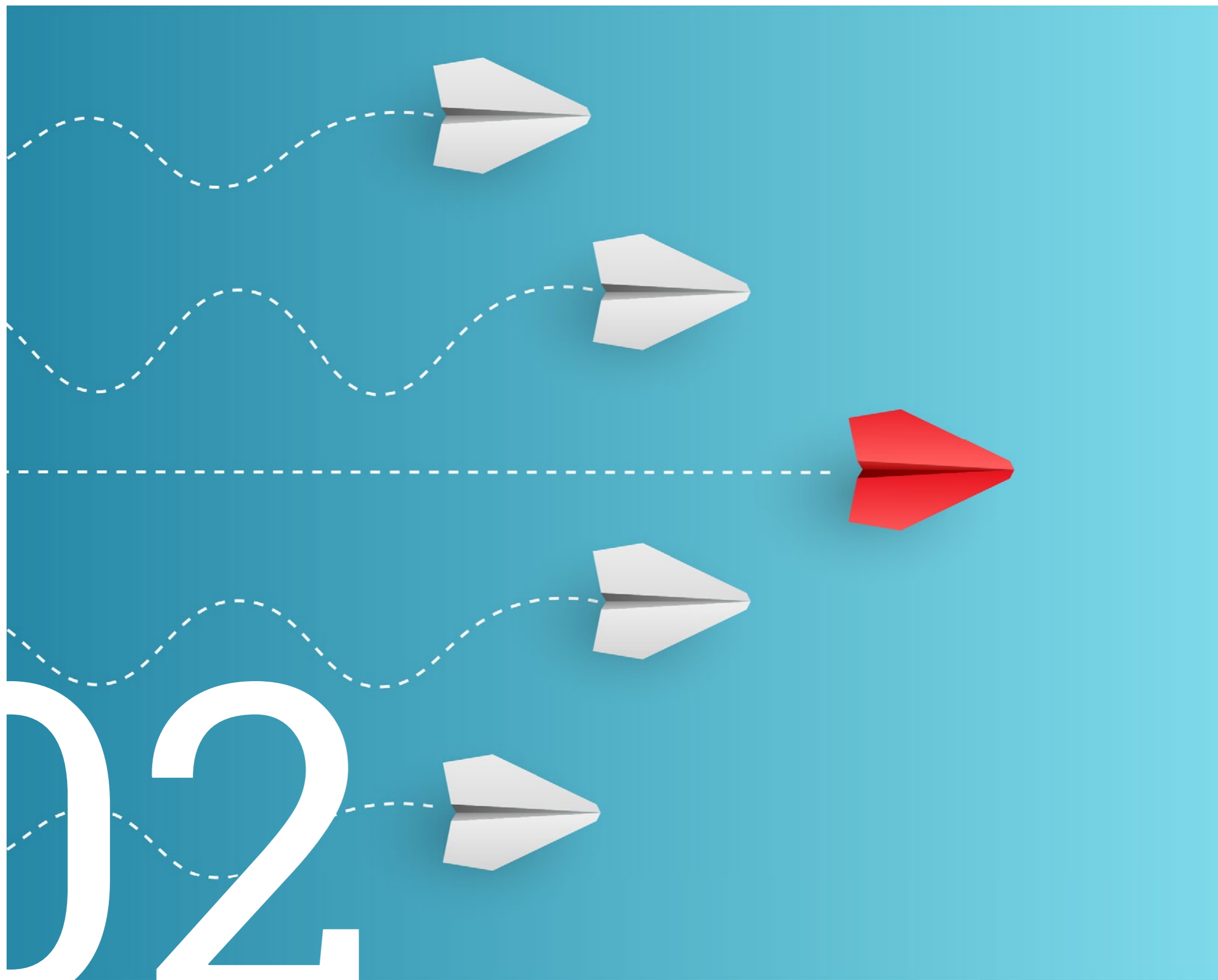
There is a growing list of exemplar organizations and cases in point, that have proven not only that purpose-driven does lead to outperformance but have also shown how to affect this shift. One such case is Unilever, a global Consumer Packaged Goods firm. Under the leadership of CEO Paul Polman, the organization has achieved remarkable results. Most interestingly, according to Unilever, purpose-driven brands contribute to almost 75% of the company's growth and are growing 69% than the rest of the business.

REALIZING THE FULL POWER OF PURPOSE

Now, knowing all this, what will it take for businesses to realize the full power of purpose? A Harvard Business Review interview with Polman in 2012 captured three areas of focus and illustrates what it takes to lead with purpose beyond profit – belief, a focus on long-term results, and investor management. As Polman states:

"First of all, you have to accept that our job isn't just about creating shareholder wealth. A myopic view of driving shareholder wealth at the expense of everything else will not create a company that's built to last. Second, you need to attract a shareholder base that supports your strategy – not the other way around. So, we actively seek one that is aligned with our longer-term strategy."

The confluence of the mega forces at play create reason for optimism that the momentum for purpose beyond profits will continue. The evidence is clear – purpose-driven is a great path forward. But we need more Paul Polmans leading our businesses – leaders who not only believe purpose-driven is the right thing to do, that it's the smart thing to do, but that it can be done. We need investors to continue to use their cash to signal and require change. And we need consumers and citizens to expect and demand more from businesses.



Leading by example – purposeful organisations

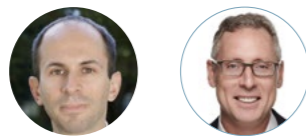
- 36 Creating Wealth at Work: Why broad-based employee ownership is getting attention
- 40 ES & 'the Forgotten G': Making Integrity Strategic in Governance
- 44 Meet the father of "Stakeholder Capitalism"
- 48 E for Ecosystem: Giving power to corporate purpose
- 52 The New Business Leader: Decisions that connect both head and heart
- 56 Corporate Competition as a Strategy for a Better World
- 60 Companies Benefit When They Respect "Caregiving"
- 64 Sensemaking in Times of Crisis
- 68 Authentic Purpose in Banking: The ultimate strategic advantage



BiGS Actionable Intelligence

Creating Wealth at Work: Why broad-based employee ownership is getting attention

Ethan Rouen and Pete Stavros



Harvard BiGS talks to Prof. **Ethan Rouen, Harvard Business School**, and **Pete Stavros**, global co-head of private equity at **Kohlberg Kravis Roberts**, on the potentially life-changing benefits of employee ownership and the payback for company performance.

By: **Glen Justice**

There were shouts, laughter, and applause. There were tears, too. When KKR's Pete Stavros announced to the workers at C.H.I. Overhead Doors the financial results of their ownership in the company, the response was something close to joy.

Indeed, the moment in 2022, caught on video, was extraordinary. A group of employees at an industrial garage door manufacturer, where the average salary was \$48,000 a year, were making incredible windfalls—life-changing money in some cases. These payouts were the result of an employee ownership program that was established when KKR purchased the company seven years earlier.

To understand the tears, one need only see the numbers. KKR bought C.H.I. in 2015 and sold it to Nucor, a manufacturer of steel and steel products, last year for \$3 billion, giving the firm one of its largest returns in the past 30-years. Upon the sale, non-management employee-owners received a payout ranging from \$20,000 for first-year employees to an average of \$170,000 for those who joined the company between 2015 and 2017. In rare cases, veteran truck drivers received more than \$800,000.

"There are so many memorable outcomes from this program," Stavros told The BiGS Fix. "We achieve a big payout and people can pay off their mortgage or pay off their car, or now they've got a chance at sending children to college and all the things that would probably be pretty obvious. There are also some not-so-obvious things that have happened."

As an example, Stavros describes a plant worker and his wife who had earlier decided against having children because they were in debt, a situation that was resolved when they received their payout. "They got out of debt, and they started a family," he said.

The concept that engineered boom times at C.H.I. is known as broad-based employee ownership and it has been in development at KKR & Co. for more than 16 years now. Unlike profit sharing and other compensation-related benefits, broad-based employee ownership allows

employees to own equity in the company and, therefore, share in the wealth created when companies grow profitably and reap the windfalls that come with a sale or a public offering. The concept also calls upon companies to give employees serious responsibility in an effort to build authentic, company-wide investment in common goals, ranging from revenue targets to environmental objectives.

The model is gaining attention among private equity firms as a tool for unlocking growth and value creation within portfolio companies. It has also spread to public companies such as Harley Davidson which doesn't have private equity-backing, but was inspired by Stavros' work on ownership and in 2021 sought his advice on creating a program.

It is challenging to create wealth without investing capital, but one powerful way to do so is by owning shares in a company, according to Ethan Rouen, an associate professor at Harvard Business School (HBS) who studies broad-based employee ownership.

Today, broad-based employee ownership is in practice at major companies like Ingersoll Rand, Insight Global and Gibson Guitars. KKR alone has implemented the concept at more than 35 of its portfolio companies, creating billions in wealth for over 60,000 workers.

A VISION FOR EMPLOYEE OWNERSHIP

"The big picture opportunity for society is to generate and create wealth at the bottom of the economic ladder," Stavros said. "There's a racial and gender equity component because, typically, equity ownership is not traveling to parts of the organization that have great diversity. That's where diversity is stacked... it's at the bottom of organizations."

Stavros grew up in Chicago, where his father worked as a union construction worker, operating a road grader for roughly 40 years. He saw firsthand how employees with no stake in the company can become disillusioned. Workers want more money, more hours and more voice. Employers want lower labor costs.

"That leads to nonstop conflict," Stavros said. "That's what I grew up with, is my dad always fighting, he and his



The company made progress on environmental goals and employees pulled together to undertake projects, from factory improvements to charitable donations.



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union fighting with management." When Stavros entered HBS in 2000, he decided to study broad-based employee ownership. Later, at KKR, he put his ideas into practice, having a number of early successes with companies that were part of a pilot program. Today, as co-head of global private equity, Stavros has become an evangelist, pointing out the benefits for both management and labor.

EMPLOYEE ENGAGEMENT CRITICAL TO SUCCESS

At C.H.I. Overhead Doors, for example, he cited major improvements that took place through deepened employee engagement even before KKR sold the company. Safety levels increased drastically. Profitability soared. The company made progress on environmental goals and employees pulled together to undertake projects, from factory improvements to charitable donations. At the same time, workers attended training in financial literacy to understand the ownership system.

Profitability soared. The company made progress on environmental goals and employees pulled together to undertake projects, from factory improvements to charitable donations. At the same time, workers attended training in financial literacy to understand the ownership system.

"It is not only good for society – it is also good for business," Rouen told The BiGS Fix. "The reason is that when you have more engaged workforces, you see lower turnover, higher retention rates, greater productivity and lower injury rates. All of these factors... can be improved through this connection to employee ownership."

Rouen stresses that driving and measuring employee engagement within an organization is essential to this model, since there are upfront costs to increasing engagement and the benefits will come further in the future." To better directly connect those costs and benefits, you need to think about what you're measuring and what you expect those outcomes to be," said Rouen, who is studying the model and its benefits for companies, people and society.

CAN A VISION BECOME A MOVEMENT?

In 2021, Stavros launched the nonprofit Ownership Works to advance broad-based employee ownership, particularly at private equity firms that, together with the companies they back, employ roughly 12 million people in the United States. Today, Ownership Works has a long list of name-brand partners, including Bank of America, Citi, Goldman Sachs, Ford Foundation, The Rockefeller Foundation, TPG, Advent International, Warburg Pincus, McKinsey & Co., and Gallup.

The nonprofit aims to generate at least \$20 billion in wealth for lower-income and diverse workers over the next decade.

"We firmly believe that employee participation programs can help more employees grow their wealth, reducing wealth inequalities in society while also enabling firms to prosper," Ralph Hamers, then-CEO of UBS Group, said in a release at the organization's launch.

Stavros acknowledges that adopting the program can be difficult and that it takes strong leadership within each company to share ownership with employees.

"I have sympathy for CEOs who say, 'I'm overwhelmed. There's already so many priorities. We've got to double our profits. We've got to decarbonize, reduce our utilization of key resources, diversify the board and change how we recruit to increase diversity throughout the organization. And now, on top of that, you're asking me to share ownership.'"

However, he argues that a more engaged, stable and financially resilient workforce is better equipped to achieve all of those goals. The mission of Ownership Works is to give both management and employees better models and tools. So far, Ownership Works says that more than 95,000 employees have received more than \$359 million, with an average payout to low- and moderate-income workers of more than \$100,000 per person.

"With the right leadership, the right commitment and being patient, this absolutely can work," Stavros said. "It can deliver mind-blowing outcomes over time."



ESG

CoBS Insight

ES & 'the Forgotten G': Making Integrity Strategic in Governance

Daniel Malan



Professor **Daniel Malan, Trinity Business School**, draws on his research in over 24 leading companies to propose a blueprint for ethics and integrity to become strategic, holistic and effective tools in corporate governance.

Related research: *The Rise and Role of the Chief Integrity Officer: Leadership imperatives in an ESG-driven world*, World Economic Forum White Paper 2022.

The environmental, social and governance dimensions to business have come to the forefront in recent years – so much so that the acronym ESG has become household with hardly a strategic correspondence going by without mention of it. But for Daniel Malan, Assistant Professor in Business Ethics at Trinity Business School, it is almost a case of 'ES + the forgotten G', governance having been relegated to third and often overlooked place as Environment and Social steal the limelight and garner greater attention and support.

For Malan, this over-focus on ES within corporations may be detrimental to a firm's performance and impact. While putting more emphasis on integrity in the governance dimension to business may not only help deal with the complexities firms face, but also be a powerful source for strategic advantage.

INTEGRITY ON THE RISE

Prof. Malan has researched the issue of governance, ethics and compliance as part of his academic role at Trinity and also as part of his work as a member of the World Economic Forum's Global Future Council on Transparency and Anti-Corruption. In collaboration with co-authors Alison Taylor, Anna Tunkel and Birgit Kurtz this research culminated in an article that was published by MIT Sloan Management Review¹.

Their findings point towards ethics and integrity gaining ground in companies, perhaps the clearest evidence being the recent emergence of the role of Chief Integrity Officer in leading firms. Often, the incumbent sits on the corporate C-suite and has a degree of independence and autonomy. But according to Malan, more is needed to fully make integrity and ethics an inherent part of corporate culture, behaviours, and importantly – a driver of strategy.

1. Malan, D., Taylor, A., Tunkel, A. and Kurtz, B. (2022). *Why Business Integrity Can Be a Strategic Response to Ethical Challenges*. MIT Sloan Management Review. Available at <https://sloanreview.mit.edu/article/why-business-integrity-can-be-a-strategic-response-to-ethical-challenges/>

Meanwhile, ethical business continues to make its way in corporate circles, with the big names – Pepsi-Co, Vestas, Novartis and Unilever among them – leading the way. Giving it strategic importance makes it easier, internally, for managers and execs to identify instances of potential breach of ethics as well as avoiding hypocrisy. A decision, for example, to make an exception and offer a corporate gift very much above the norm to a 'good and longstanding friend' of the company could turn out to be an ethics & compliance nightmare when it comes to employees' future belief in the function's legitimacy and efficacy.

Malan's research has also revealed an external impact when putting ethics under a strategic light. Investors, for example – increasingly willing to place their money in businesses with solid reputations and beneficial impact for the wider good – are demanding that companies straighten out their commitments to sustainability, as well as rules on lobbying and political spending.

Sometimes, blending integrity into strategic initiatives has both internal and external benefits. Reviewing sales and marketing strategy – especially regarding operations and supply chains in emerging markets where the temptation is higher to cut costs to the detriment of employee working conditions and wellbeing, or taking advantage of loose bribery and corruption legislation – can provide aligned ethical business practices internally, while strengthening external reputation and value for potential investors.

All in all, the research among leaders in over 24 large companies and institutions highlights three ways forward for ethics and integrity to gain momentum and weight: Make it aligned with strategy, make it holistic by breaking down silos and impacting every department in the organisation, and, finally, engage employees on ethics and integrity issues and initiatives.

INTEGRITY MUST FLOW

To open up integrity to an organisation, silos must be broken down. One initial way of achieving this is a change in the Ethics & Compliance role. From being a 'niche' department that others respect, tolerate – or even fear – integrity must flow through several dimensions and impact the operations and decisions of the entire organisation. At Novartis, a pharma and healthcare company, for example, the role has expanded to become Chief Ethics, Risk and Compliance Officer thereby incorporating a key dimension – risk reduction – that cuts across all of the company's operations.



Putting more emphasis on integrity in the governance dimension can be a powerful source for strategic advantage.



Another trend is that of broadening the collaboration between business, compliance, legal and CSR/ sustainability departments within a company. This ensures coverage of matters ranging from CO2 emissions, safety, impact on stakeholders, legislation and human rights by an underlying thread that is integrity. Failure to tackle silos leads, at best, to dealing with individual issues and problems and, at worst, to increased risk of missteps and ethical lapses.

In short, integrity and ethics must be holistic in that they become an integral, inherent part of the firm's operations and strategy, with no part of the whole able to function without an ethical culture underpinning its subsequent actions and behaviours. Unilever, for example, has set up a global business integrity team to manage all aspects of its internal conduct and external actions. And to ensure that decisions and their resulting impact remain ethical and desirable, the team also includes a gamut of stakeholders – other businesses, government, NGOs and civil society – in its actions and problem-solving initiatives.

GETTING PEOPLE INVOLVED

Challenging as it may be, it is essential to onboard all employees – from senior management to front-line – for business integrity to become a core competency and culture in an organisation. Learning from the pioneers is useful.

Novartis, for example, developed its code of ethics via an inclusive, co-creation initiative including input from thousands of its employees. Setting up a team of behavioral scientists, the company also launched an ethical culture survey among its 108,000 employees, and HR now features ethical dilemmas as part of the recruitment process.

The research also brought to light the Canadian engineering and construction company SNC-Lavalin which has implemented an ecosystem of 150 integrity ambassadors whose job is to increase awareness, offer help and guidance, and promote integrity throughout the company. Training workshops have given way to discussions involving employees, creating an open space where they can raise questions on issues – including ethical challenges – they face on a daily basis rather than uniquely on compliance.

Prof. Malan notes that many of the interviewees in his research put an emphasis on building an ethical culture within their organisations. This makes sense. For culture – the under-the-waterline segment of Edward T. Hall's classic iceberg model – along with values, ultimately drive behaviours.

HOW TO MOVE FROM OVERLOOKED AND TOLERATED TO FOCUSED, HOLISTIC AND USEFUL

Although creating the post of Chief Integrity officer is a first step, this alone will not guarantee a culture of integrity within the organisation. Drawing on the results of the research in over 24 leading companies, Prof. Malan offers a set of recommendations to make ethics and integrity an inherent part of both the firm and employee:

- The first is to endorse integrity as strategic, with an effort to ensure alignment and coordination with the company's business strategy. This increases the effectiveness of integrity tools such as decision-aids, codes of ethics, or internal Q&A forums. Integrity would also gain much in legitimacy if it is reflected in corporate reporting and roles, with back up coming in the guise of task forces to address ESG issues.
- As mentioned previously, Malan's research points to an important factor being the breaking down of silos and cascading integrity throughout the various levels and departments in the organisation. A further way of trickling integrity throughout the matrix would be for compliance teams to work closer with their colleagues in sustainability/CSR and, as such, obtain an understanding of how the company's stakeholders view its performance on social and environmental issues.
- Culture: being strategic and holistic, integrity can play a dynamic part in shaping behaviours and reducing risk.
- Autonomy and independence are important dimensions if the Chief Integrity Officer is to operate effectively, as well as having a voice in decision-making at board level.
- The Ethics/Integrity team multiply its chances of impact and success if it is composed of members drawn from a diverse set of cultures, skills and professional backgrounds. Skillsets should include data analysis, policy, stakeholder engagement and behavioural science.

Able to work on a wide range of ethical issues – from political spending and lobbying, to human rights, controversial social issues and ensuring the company walks the line of its values and ethical culture – the Chief Integrity Officer and team can prove of invaluable assistance to CEOs and organisations overwhelmed by both the complexities and demands of an increasingly fast-paced environment. Making integrity strategic would also help make corporations remember, not forget, the 'overlooked G' in ESG.

Key takeaways

- Integrity and ethics, if fully integrated in the Governance dimension of ESG has the potential to unlock strategic advantage for the company.
- Ethics and integrity are gaining ground in companies with the emergence of the role of Chief Integrity Officer. Leading firms are pioneering this role and giving it strategic importance, thus making it easier for managers and execs to identify instances of potential breach of ethics as well as avoiding hypocrisy.
- The role also has external impact among investors who are increasingly placing their money in businesses with solid reputations and a beneficial impact for the wider good.
- Three factors contribute to the impact of ethics: Make it aligned with strategy, make it holistic by breaking down silos, and, engage employees on ethics and integrity issues and initiatives.
- The role of CIO can be expanded to include cross-company stakes such as risk, sustainability, social and stakeholder impact. Alternatively, global integrity teams can be set up across MNCs.
- It is essential to onboard all employees – from senior management to front-line – for business integrity to become a core competency and culture in an organisation.
- Prof. Malan offers 5 recommendations to make ethics and integrity impactful:
 - Endorse integrity as strategic and ensure its alignment and coordination with the company's business strategy;
 - break down silos and cascade integrity throughout the various levels and departments in the organisation;
 - make it part of the company culture;
 - ensure that the Chief Integrity Officer has autonomy, independence a voice in decision-making at board level;
 - compose the ethics and integrity team of people from diverse backgrounds and skills sets, notably data analysis, policy, stakeholder engagement and behavioural science.



BiGS Actionable Intelligence

Meet the father of “Stakeholder Capitalism”

Ed Freeman



Harvard BiGS interviews **Ed Freeman**, American philosopher and professor at **Darden School of Business**, on the changing nature of doing business in the United States and the dimensions to stakeholder capitalism that can shift businesses towards both profit and the common good.

By: **Glen Justice**

Consider America in 1984. Ronald Reagan was president. Apple launched the Macintosh personal computer. The Dow Jones was in a decade-long climb. In a few short years, filmmaker Oliver Stone would introduce the world to Gordon Gekko, the fictional Wall Street bad boy.

Against that backdrop, the young academic R. Edward Freeman wrote a book, *Strategic Management: A Stakeholder Approach*, which argued that companies should focus on employees, customers, communities, and other “stakeholders,” rather than merely on shareholders. Building on the work of scholars before him, Freeman laid the foundation for what is now commonly called “stakeholder capitalism.”

IT WAS NOT A POPULAR IDEA. AS FREEMAN PUT IT, “NO ONE CARED.”

That context has changed. In the four decades since Freeman’s book was published, companies have come under increasing pressure to address social problems, from racial and gender equality to environmental responsibility. The result: the world has caught up with Freeman’s thinking and his ideas are getting fresh attention. His book was re-released in 2010.

“He really is the father of stakeholder capitalism,” Kip Tindell, former CEO of The Container Store, told Harvard Business School’s Institute for Business in Global Society. “There’s nobody I would rather talk to about this topic than him. I have spent a zillion hours talking to him about it, but there’s still something refreshing and new every time.”

Now a professor at the University of Virginia, Freeman continues to champion the idea that companies can work with consumers, lenders, environmentalists, regulators, governments, and others to practice what he has called “responsible capitalism.”

“Business is a societal institution,” Freeman told Harvard BiGS. “If we’re going to address and solve some of these problems... we’ve got to have business be a part of that solution. Business is about profits, sure, but it’s also about purpose.”

A CHANGE IN BUSINESS THINKING

It’s undeniable that the corporate mandate in the United States has expanded in recent years to include action on societal issues. One major example is the Business Roundtable’s decision to redefine the mission of a corporation.

For roughly 40 years, the business advocacy group of 200 chief executives from major corporations endorsed the idea of shareholder primacy, which holds that companies exist primarily to serve shareholders. It was an idea famously put forward by economist Milton Friedman in a 1970 New York Times essay, and widely accepted as dogma for decades in the corporate world.

In an historic turn in 2019, 181 Business Roundtable CEOs signed a letter agreeing to provide value to customers, invest in employees, deal fairly with suppliers, support communities, protect the environment, and generate long-term value for shareholders.

“Each of our stakeholders is essential,” said the statement, signed by CEOs of companies such as Johnson & Johnson, Vanguard and JP Morgan Chase. “We commit to deliver value to all of them, for the future success of our companies, our communities, and our country.”

While there is disagreement over how the companies that signed the letter are incorporating stakeholders into their decision making, the letter marked an acknowledgement that the purpose of a corporation is expanding. The 2025 Edelman Trust Barometer, which has measured trust globally for decades, found that business was the most trusted among institutions. Further, among business, government, NGOs and the media, only business was seen as being both competent and ethical.



It's undeniable that the corporate mandate in the United States has expanded in recent years to include action on societal issues.



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"The whole story of business, that business is just about the money, doesn't really work anymore," Freeman said. "If it ever did, it certainly doesn't work today. Nobody is arguing that what we really need to do to address these societal issues is bear down on shareholder value."

FREEMAN: 'FIGURE OUT WHAT YOUR PURPOSE IS'

Instead, executives must create what Freeman calls "a new story about business," and that story requires cultivating core values that extend beyond profitability.

"Entrepreneurs don't start businesses to maximize profits," Freeman said in a 2013 TEDx talk. "They start businesses because they're on fire about something. They're on fire about an idea."

That fire—and the idea—are central to companies that want to adopt a stakeholder approach, said Freeman, who studied mathematics and philosophy.

"The best way to start is to figure out what your purpose is," Freeman told Harvard BiGS. "Focusing on who you are, who you're doing it for, who your stakeholders are—those are the things that can tell you which societal issues really resonate with the company and its business model."

Freeman has always acknowledged that companies need to increase revenue and build shareholder value, but he argues that the best companies take a more holistic approach. "The interest of shareholders is dependent on how well you deal with customers and suppliers and employees and communities," he said. "I'd even venture to say the amount of money you can make is a function of how you deal with those other stakeholders."

'TURN PEOPLE LOOSE'

A stakeholder approach requires creative solutions, Freeman says, and that poses an interesting question: How do you get modern executives to think more creatively? Perhaps not surprisingly, Freeman has a creative answer.

"It's going to sound weird, but the best way to foster creativity is to help people be creative... to get involved in the creative arts," Freeman said. "If you spent 15 minutes a day practicing a musical instrument, guess what? It changes your brain."

Freeman, who has played guitar and other instruments for decades and practices martial arts, has experimented with the idea for years. He has taught business school classes in which MBA students write, direct and perform an original work of theater. He has done similar classes with music and creative writing.

"Many CEOs want quarter-over-quarter organic growth, but to get that you have to really turn people loose a little bit," he said. "You have to turn them loose to see differently."

In successful stakeholder-oriented companies, that creativity also extends to hiring and inclusion, Freeman says. Diverse teams can produce better results, often as the result of creative friction between colleagues.

"We have to learn how to... have conversations with people who are different from us," he said. "How are you going to sell your product in Morocco if you don't have any idea what Moroccans are like? The best way to do that is, of course, to hire some."

'PURE COLLABORATION'

The ability to listen is important, Freeman says, because it can identify new opportunities, whether for product innovation and new business or better corporate citizenship. It can be especially helpful outside the company, when dealing with suppliers, communities, customers—even critics.

"Behind every critic, there's a new business idea," Freeman said. "That may not be a new idea that you can take advantage of, but people are telling you you're not doing everything you could do or should do." That, he said, is almost always worth hearing.

The approach works well internally, too. "That's a good place to start as CEO, when you start to think about how to be a stakeholder capitalist: the employees you've already got," Freeman said. "It's kind of pure collaboration, much like theater. What I tell the theater students is that all you guys align ideas when you're on stage, so it's pure collaboration. And I think we'd be better off if we saw relationships... as pure collaboration—trying to find those win-win-wins."



CoBS Insight

E for Ecosystem: Giving power to corporate purpose

Jan Ondrus



Prof. **Jan Ondrus, ESSEC Business School Asia-Pacific**, looks at the pitfalls of corporate purpose and how business ecosystem orchestration can dovetail value creation with the common good.

Related research: Chapter, Business ecosystem orchestration in the service of corporate purpose, Sylvain Remy, Julie Kolokotsa, Jan Ondrus, Yassine El Ouarzazi, and Nicolas Glady, *Putting Purpose into Practice: The economics of mutuality*, Colin Mayer and Bruno Roche, Oxford University Press.

INS AND OUTS

Purpose can be an elusive notion for companies and organisations to grasp. Take the following past and present vision statements: “*Make better products*,” “*Don’t be evil*,” and “*Understand and solve the healthcare needs of people across the world*.” Who got it right and why? While Nissan, Google and Sanofi – the respective organisations behind the above statements – all had purpose in mind when they created their rallying calls, only Sanofi it seems managed to successfully pin it all down. Let’s look closer.

Purpose has long-featured as a way to empower organisations with a higher and more meaningful objective than just profit. And this, not only to positively impact its employees but also the wider community beyond the organisation. The problem is that in many cases, purpose has mainly been applied inside the corporation. The example of Nissan is telling. *Making better products* indeed galvanized its workforce into doing just that, with great results – but it acted more as an inwardly-focused ambition rather than an outwardly focused purpose, failing to both clarify benefits to customers let alone a broader circle of stakeholders. Likewise, Google’s *don’t be evil* missed the target, being so wide and generic that it failed to differentiate the firm from other organisations – after all, no business organisation deliberately aims to be evil.

So how can *purpose* reach its full purpose? On the one hand, states Prof. Ondrus and his colleagues, it is authenticity that counts. Leaving behind empty rhetoric, purpose must be characterised by appropriate action. Purpose should also provide a vision of the ‘new world’ the organisation wishes to take its community of stakeholders to. Moreover, it should be broad but not so much so that it loses its relevance to the corporation’s business activities. And finally, purpose and vision are linked to change and transformation.

THE CHALLENGE

It is here that things become challenging for an organisation. If purpose is outward-oriented for the benefit of the common good, then making positive social impact the primary objective goes far beyond the traditional CSR approaches of reducing or making amends for the negative impact business activities might have. Social objectives can even run counter to business objectives. And, because classic management and leadership is inwards-oriented – inside the firm – transforming behaviours and mindsets to the wider perspective may stretch and strain the corporation, not only systemically but also psychologically.

Purpose beyond profit implies expansion and transformation in the ways it does business with the outside world – and such novel interaction might prove daunting to achieve, most notably because it calls for tying links with a wider, more diverse community of stakeholders. This is where Jan Ondrus and his colleagues step in. With fellow researchers, Prof. Jan Ondrus, at ESSEC Business School Asia-Pacific, turns a new leaf among the volumes on corporate vision and purpose to focus on business ecosystem orchestration as an answer.

CONDUCTING BUSINESS NOT-AS-USUAL

What is a business ecosystem? Ondrus defines it as a community of diverse stakeholders who put resources in common to co-create value. For him, the pace and scope of changes across industries and accelerated innovation across the economy – sparked by digitization – mean that business are increasingly no longer able to compete alone to create value. Planning, organising, and coordinating (i.e. orchestrating) such ecosystems has been recognised as the expertise of such household names as Apple, Google and Amazon, each of which work within a highly complex ecosystem of very diverse stakeholders. The latter refer not only to connections such as suppliers, but unconventional types of organisations like non-profits or communities. As such, concludes Ondrus, the business ecosystem fulfils an essential prerequisite for corporate purpose in that it harnesses diverse stakeholders from outside the boundaries of the organisation, thereby achieving real social impact without compromising profit.



BE THE EXTERNAL CHANGE YOU WANT TO SEE

If business ecosystems embrace a wider scope of stakeholders and interactions, they are also a great way to understand the business environment as a much bigger community of stakeholders than was formerly perceived. Not only suppliers, customers and competitors are included in the stakeholder net, but those having related objectives, aligned goals or complementary resources. Take pharma companies, for example. These are frequently involved with government bodies, health agencies, practitioners, hospitals and patient organisations – but not just in the role of supplier, customer or competitor. They may also co-create value.

Spurred by more complex and fast-changing business environments, improved communications and digital innovations, stakeholders increasingly need to co-create competitive bundles of products and services. They join forces, pool resources, share knowledge or jointly

develop new knowledge or solutions – not independently inside each stakeholder as is the traditional case, but interdependently. Moreover, business ecosystems also encompass value exchange through market transactions. Take aircraft manufacturers. Traditionally, they exchange products or services with upstream components suppliers and downstream airlines. But to remain competitive, they also now need to co-create with non-primary stakeholders – airports, industry associations and flight servicing providers. Co-creation can also take place when companies co-create with their own suppliers or even customers – like software companies where user communities actively contribute to enhancing products.

GO FORTH AND CO-CREATE

Co-creation opportunities are a crossroads where business ecosystems and corporate purpose meet, states Prof. Ondrus. With each encounter with a stakeholder, companies may ask themselves if it provides

an opportunity to further their purpose. However, stakeholders should be chosen wisely. Building a limitless network of them might disrupt the balance of who exactly owns and drives the purpose.

Moreover, the simple fact of being impacted by or impacting the corporate purpose isn't enough to justify an interaction between the company and the stakeholder. Unless the interaction is a form of value creation, it leads to nowhere and will hardly have impact on the wider, social dimension that is sought after through a corporate purpose. In fact, very few stakeholders actually meet the mark. There may be a divergence of goals, unwillingness to cooperate through a lack of belief in the corporation's social impact, an absence of complementarity between resources, or simply the fact that company and stakeholder resources are located on opposite sides of the planet.

Intelligent orchestration of a business ecosystem and its various players may, however, provide opportunities for all, especially if the stakeholders' various purposes can be broken down into goals and aligned in order for co-creation to occur. Co-creation does not, indeed, necessarily have to be purpose-driven per se: the simple fact of co-creating value means that a stakeholder naturally inherits some of the value produced – thereby representing an actual piece of the social impact the corporate purpose intends.

Jan Ondrus points to the practical implications of ecosystem orchestration for corporations. It enables assessment of stakeholders in co-creation opportunities, aligning wider purpose to co-exist with profit, and breaks down the high ambitions of a broad purpose into manageable and very tangible steps. So when Sanofi offers a vision of *understanding and solving the healthcare needs of people across the world*, it does so with a whole ecosystem of stakeholders and value co-creation at hand. And corporate purpose no longer seems that elusive at all.



BiGS Actionable Intelligence

The New Business Leader: Decisions that connect both head and heart

Caroline Rees



Caroline Rees is president and co-founder of **Shift**, a consulting firm advising businesses, governments, and financial institutions on how to incorporate human rights principles into their work. Rees ran negotiations to establish the Special Representative of the United Nations (UN) Secretary General's mandate on business and human rights. She is also the former director of the Governance and Accountability Program at the Harvard Kennedy School's Corporate Social Responsibility Initiative.

Harvard BiGS interviews her on the challenges corporate leaders face when addressing human rights.

By: Barbara DeLollis

You played a key role in establishing the mandate for the Special Representative of the UN Secretary General on business and human rights. Can you start by explaining the principles that underlie the mandate?

The principles are essentially a standard of conduct for business when it comes to their effect on people's basic dignity and equality. Up until about 12 years ago, when they were endorsed by the Human Rights Council at the United Nations (UN), it was honestly a radical proposition that corporations had responsibilities when it came to issues of human rights. Today, it is normal to ask what can reasonably be expected of business as they go about their operations, to understand where the greatest risks to people lie and what they need to be doing about them.

These principles are driving a new wave of legislation and standards, especially in the European Union. What are the most important pieces of legislation to emerge, and how wide do you expect their impact to be?

In the European Union, new standards are coming in that ask companies to report on issues that are financially material, environmental, climate related, and social. They will mandate harsher penalties for companies whose practices involve forced labor or child labor. And a corporate sustainability due diligence directive is about to be finalized that will apply to 40,000 or more companies.

To adhere to the directive, companies are expected to take actions to understand where there are risks to people's human rights and to address them. Estimates suggest that perhaps as many as 3,000 of those will be U.S. companies with significant operations or presence in the European Union.

The prevailing assumption about business in the United States is that its primary responsibility is to maximize profits for shareholders. How do these principles challenge this assumption?

The guiding principles are based on the idea that business cannot succeed if it is premised on short-term shareholder value that creates costs and risks for the most vulnerable people in our societies. You can outsource your supply chains, you can outsource your labor force, but you cannot outsource your responsibilities for how the people who help you succeed in the world are treated.

The response from many companies is a realization that this is in their own interests, that they don't want to be a corporation that is known to be making profits on the back of misery and poverty and the degradation of the human experience. In respecting human rights, they're also shoring up their own reputations and their own operational and financial success.

How are companies today incorporating, or at least beginning to incorporate, those principles into their operations?

This is very, very far from where we were 30 or 40 years ago when we were talking about corporate social responsibility as some kind of philanthropic endeavor. Companies are coming together in collaborative initiatives with others in their industry, with civil society, and with labor organizations to change their practices, change how decisions get made, and engage with the people that their operations may be affecting.

Whether we're talking about forced labor and child labor or living wages in supply chains, or about the displacement of communities around extractive sites, or the ways in which data gets used and how privacy or well-being might be threatened through IT platforms or social media, the guiding principles have changed assumptions about what companies should be doing.

What can investors do to incorporate respect for the principles into their decision-making?

They can educate themselves, talking with industries to understand more about how human rights risks arise and what best practices can make for a smarter set of exchanges. Engagement with companies is critical. What questions are they asking of companies they invest in on quarterly earnings calls about what those companies are doing to address risks to people's basic dignity? How are they coming together to use collective leverage on industries? What due diligence are they doing on their portfolios to understand where the risks to human rights are and to use their voice, as well as their investment decisions, to reduce them? The ripple effects that questions from investors can have on a company are enormous.



Business cannot succeed if premised on short-term shareholder value that creates costs and risks for the most vulnerable people in our societies.



What role can scholarly research play in informing and shaping efforts to convince more companies to think about human rights?

Academia can help us build out the case and can help bring the evidence to show the correlations that bring more leaders into the conversation. We also need academia to be part of the conversation about why these matter for the world we want to live in, to show the true lines between what business does out there in the world and inequality.

The implementation of these ideas is challenging. How do you see companies beginning to rise to those challenges?

One of the things I love seeing again and again in the work that we do with businesses is when people within the organization connect the head and the heart. Yes, they work day to day with the spreadsheets and the data points and everything else that drives decision making within the business. But they connect that up with their own humanity, the sense of who they are in the world.

We see it in the corporate leader of a mining company who is out there at the mining site talking to the Indigenous leader and understanding at a visceral level what this means for communities anchored for thousands of years in the protection of our planet. We see it when the corporate leader is talking to the woman out picking strawberries in the field and realizing what her day-to-day life is and the difference it makes as to whether she can put food on the table for her child. We see it when the corporate leader sees pictures in the newspaper of the men in the plant in India forging iron to make part of the products that go into his business's success and they are walking around barefoot and in loincloths, carrying molten metal and in danger of harm at any moment to their life and limb.

Those are the light bulb moments when the empathic nature of the leader meets the data-driven decision-making aspects of leadership, and he or she brings the two together in the decisions they make going forward.



CoBS Insight

Corporate Coopetition as a Strategy for a Better World

Jako Volschenk



Prof. **Jako Volschenk**, Head of Teaching & Learning at **Stellenbosch Business School**, shares his research into how companies can turn competition into win-win partnerships that trigger purposeful business.

From an interview with Prof. Adrian Zicari, ESSEC Business School. **Related research:** *The Value Implications of Coopetition* included in the *Routledge Companion to Coopetition Strategies*.

Prof. Adrian Zicari: In your study you present the idea of coopetition in an attractive light. How would you distinguish coopetition from collusion? How to make sure it is not the case?

Prof. Jako Volschenk: One could see coopetition and collusion as respectively the virtuous and non-virtuous sides of the same phenomenon. In fact, some authors argue that while some level of competition remains, one should see collaboration as coopetition rather than collusion.

Moreover, there are a number of characteristics that one can use to identify collusion versus competition. For instance, collusion usually requires a level of concealment. Thus, members of cartels often have to deal with the trade-off between secrecy and efficiency. There are other traits that we could discuss, but in short – I would ask whether the collaboration between competitors is for the benefit or the detriment of consumers.

Collusion usually entails either an agreement around geographic areas where partners may agree not to operate, or to agree on prices (i.e. price-fixing) in some other cases. This means that consumers are robbed from choice in a specific region or they are robbed from a lower price, or even sometimes of quality. But this does not need to be the case. For instance, when Toyota, Citroen and Renault worked together to design a more fuel-efficient small car, consumers benefited from a better product as well as a lower-cost vehicle.

One aspect that I find very interesting is that both collusion and coopetition often happen away from consumers. For instance, it is usually not in the interest of companies like Citroen, Toyota and Renault to tell consumers that they are essentially buying the same vehicle. This would dilute the brand value for each of these car companies. The same is true for collusion – companies for obvious reasons would not like it to be known that they work together.

My own research, on the other hand, is focused on how companies collaborate with competitors to solve environmental problems of mutual interest. Quite often it is to the benefit of these companies to publicly announce their collaboration in order to maximize brand image benefits. Take environmental certifications like the Marine Stewardship Council as an example. It is an initiative of a number of companies in the fishing industry working together to protect the reputation of the industry. There would be no point in hiding the collaboration from consumers.

VALUING INTANGIBLES FOR OPTIMISED DECISION-MAKING

Prof. Adrian Zicari: You point to the creation of other forms of value, not only financial. How would you estimate those forms of value?

Prof. Jako Volschenk: This question is continuously under focus, not only in business schools, but also in industry. It is an important question because unless we include other forms of value in our decision-making we may be making suboptimal decisions. Climate change is one of the biggest market failures in the history of mankind because we failed to value the damage we do.

How do we value one litre of recycled water? For someone living next to a clean mountain stream that water may be worth very little, whereas that water may be priceless to someone in a region that is suffering from heavy oil pollution in their drinking water. How do we even start measuring quality of life? The same ambiguity in value is present when we value good health and the happiness of a community.

Furthermore, when it comes to environmental value we should admit that nature has value – even if there is no-one counting. We are unfortunately prone to think of nature only in terms of anthropogenic value. The objective is not to put value on all these different categories but to acknowledge their existence in our decision-making.

Besides, a litre of clean recycled water could protect the reputation of a mining company in the same oil polluted region and hence it can be valued to some extent.

Having said all that, whether companies should reduce their environmental impact is unquestionable from an ethical point of view. But I believe the corporate world will act much quicker if we can show the value of those actions.

COMPETITORS AS ALLIES IN RESPONSIBLE BUSINESS

Prof. Adrian Zicari: You raise the issue of stakeholder salience (i.e. who the stakeholders are). Particularly, you emphasise the role of competitors as stakeholders. This is unusual! Could you please explain this interesting point?

Prof. Jako Volschenk: I'm happy you noticed this aspect in my research. In an ever-more complex world our competitors are often also our customers. Take for instance Apple and Samsung and how they both collaborate and compete with each other.

I believe we are in a post-competition era. While competition brought us more efficiency, lower prices and choice, collaboration with competitors can further deliver on these. Furthermore, there are problems that we are unable to solve on our own.

Specifically, when it comes to solving environmental or social issues of mutual interest, my competitor is also often my ally. In South Africa, the fishing companies on the West coast of the country collaborate to protect the fishing resources by helping government with determining and enforcing of quotas. They do this for the protection of their own interest, but they also realise that they would not be able to accomplish this on their own. We could use this as evidence that the tragedy of the commons can be avoided by the "citizens" of the industry when they collaborate.

Another example is the Glass Recycling Company in South Africa, that acts as an industry body to raise awareness amongst people about glass recycling. By raising public knowledge about recycling they ultimately reduce the cost of glass for the industry as well as provide a source of legitimacy for glass users. Again this is an example of industry players collaborating around a common concern.

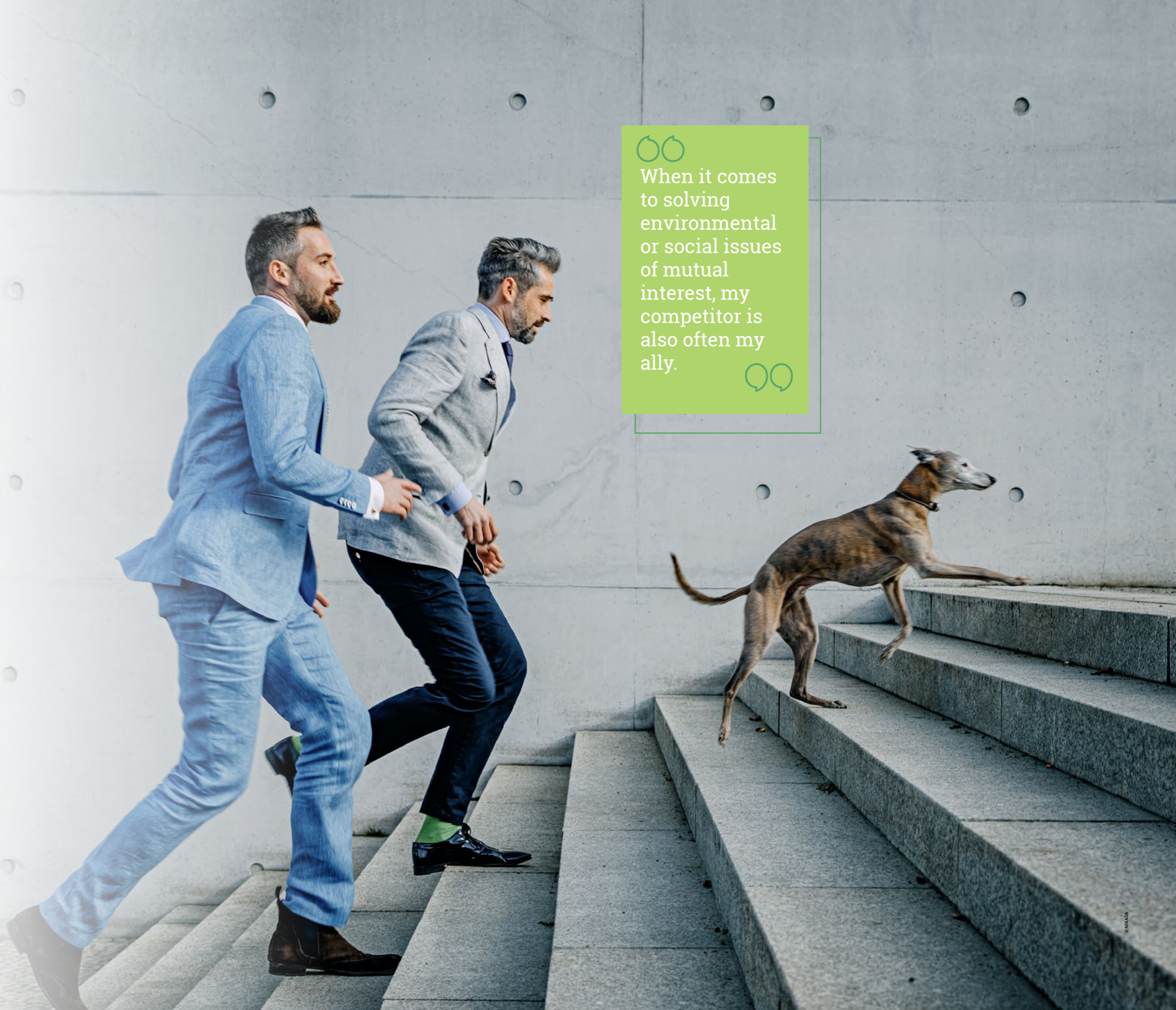
Prof. Adrian Zicari: At the very beginning of the chapter, you put forward the case of a wine bottling company that wanted to reuse empty bottles. Could you tell us how it went? How did they create value for themselves, for competitors, and for society?

Prof. Jako Volschenk: Sadly, that example was never successful. It did however stimulate my own thinking around what could be done when industry players collaborate and it did pave the way for my research in this area. In fact, it was the frustration about the lack of progress that galvanized me to investigate further.

I do believe there is scope for such an initiative still, but vested interests and poor reverse logistics hamper the idea. Fortunately, 80% of glass in South Africa is reverted away from landfills, and ultimately find their way back to the glass producers.



When it comes to solving environmental or social issues of mutual interest, my competitor is also often my ally.





BiGS Actionable Intelligence

Companies Benefit When They Respect “Caregiving”

Joseph Fuller



Prof. **Joseph Fuller, Harvard Business School**, shares his own experience and research into the impact of employee caregiving and the benefits having a solid caregiving policy can bring to both employees and the company.

By: Esther Schrader

As a corporate consultant for more than 30 years and a professor at Harvard Business School, Joseph Fuller has seen the impact of “caregiving” on the workforce from many angles. That includes direct experience.

For several years, Fuller’s aging parents lived with him, his wife and their three young children. During that time, his father suffered a stroke, lost his ability to speak fluidly and later partially lost his sight. The family had the resources to handle the situation, but it did require his wife to step back from her career for a time to manage it all.

The experience underlined what Fuller’s research has also proven: caring for young children and elderly family members places a heavy burden on many families—and that has a direct impact on the workforce. At a time when many companies are having trouble filling jobs, addressing employee caregiving needs can make a measurable impact.

A 2024 report by Fuller and his colleagues at Harvard Business School called Healthy Outcomes shows that caregiving demands decrease employee productivity at work, impact turnover and “impose significant financial costs on employers.” By contrast, employers that invest in caregiving support benefits enjoy measurably favorable economic returns.

The question that preoccupies Fuller today is not how employees handle work-life balance, but whether companies will come to understand that failing to help workers manage caregiving responsibilities can have a direct financial impact.

“In a tight labor market, particularly for people with post-secondary credentials and high social skills, it’s going to become increasingly important to get this right,” he told The BiGS Fix.

A MAJOR DISCONNECT BETWEEN EMPLOYEES AND EMPLOYERS

Fuller’s research shows that there is a large disconnect between how employees and companies view caregiving. About 80 percent of the workers surveyed for the report said that caring for another person impacts their productivity. Ask employers the same question, however, and only 24 percent say it has an impact.

While the traditional solution for employers has been either to ignore the issue or to offer limited benefits, companies that offer innovative care benefits can make better hires, mitigate turnover and increase productivity and morale, the report shows.

“Investing in new benefits models that address the needs of caregivers is no longer a nice-to-have fringe activity,” the report said. “It is an essential investment in building a more stable and competitive workforce for the 21st century—one that guarantees a high return.”

The study analyzed data from 97 clients of Wellthy, an employee benefits provider that works with companies in the United States, Britain, Canada, and Ireland to provide benefit services targeted to help employees with caregiving responsibilities at home. Unlike a typical benefits provider, Wellthy acts as a sort of care concierge, helping match employees with providers and advisers.

The 21-month period studied showed a clear impact: Employer-provided caregiving benefits reduced employee turnover by one to seven percent and absenteeism by 10 to 50 percent. For employers, that added up to a return on investment of as much as 72 percent.

THE COVID-19 PANDEMIC: ‘PIVOT POINT’

While Fuller has studied the impact of caregiving responsibilities for years—he published his first report on the subject, *The Caring Company*, in 2017—he said the COVID-19 pandemic was a “pivot point” that made it clear companies had to make adjustments.



Employer-provided caregiving benefits reduced employee turnover by one to seven percent and absenteeism by 10 to 50 percent.



© PwC/EFFECT



Historically, employees juggled caregiving responsibilities in silence. But when employees began working from home during the pandemic, more started to speak up and the demands of family life literally became visible to employers. As video business meetings became the norm, employers could see the rooms where their employees lived. Behind them, children played, aging parents convalesced, and the employees managed the chaos.

Faced with evidence of employee need, employers during the pandemic moved—often were forced—to allow people to work from home, grant more flexible and predictable work hours, schedule fewer in-person meetings, and reduce business travel.

“Generally, corporate America performed amazingly during that period,” Fuller said. “Companies introduced into the discussion a new deal, that work should be viewed through a lens of the employee’s well-being.” What was not discussed, Fuller said, is whether that deal would last as the pandemic receded. It is still too early to say how many companies have backtracked on the accommodations they made during the pandemic, Fuller said, but the data is not encouraging.

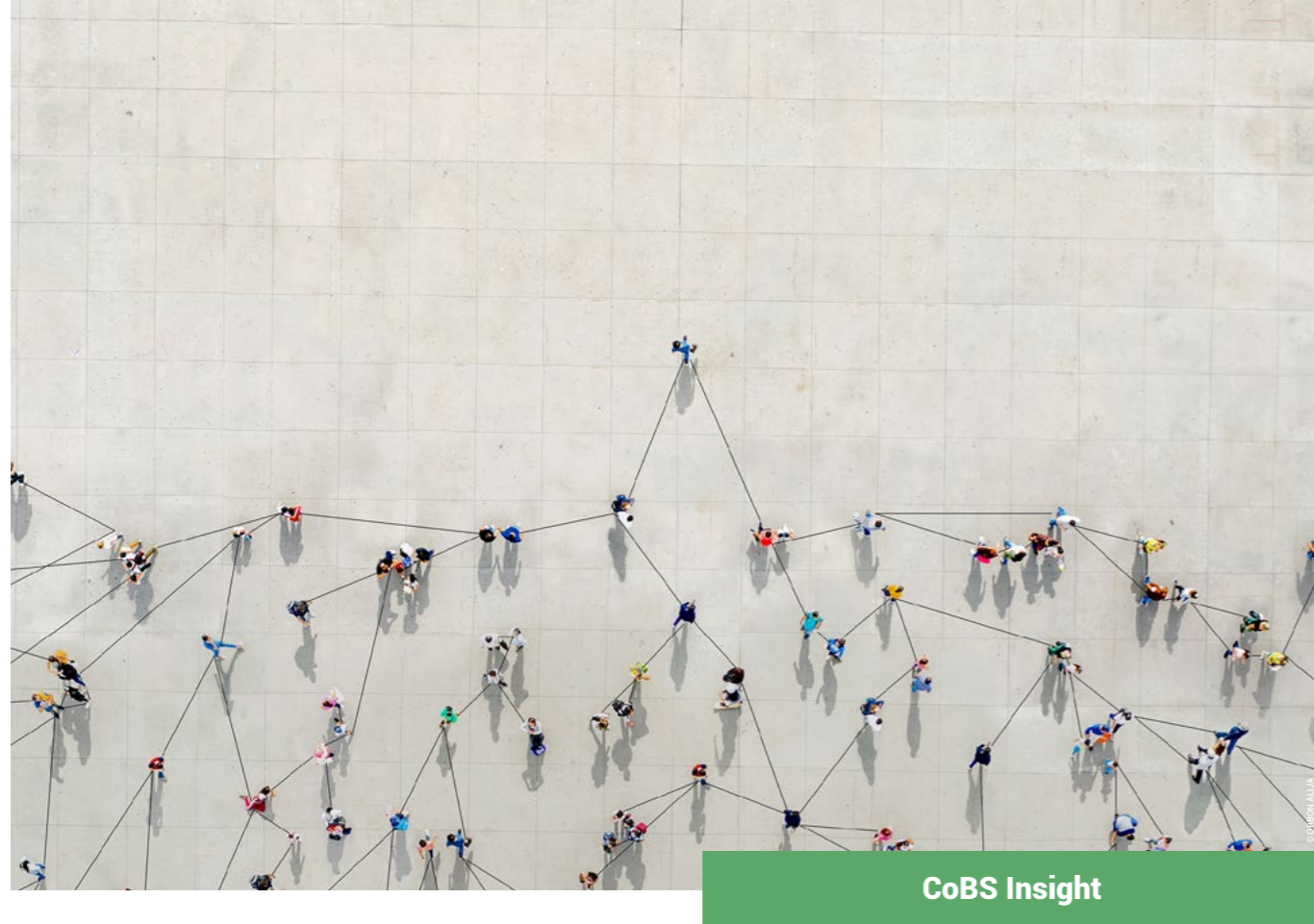
Of 53 major companies surveyed by S&P Global/AARP, 62 percent increased benefits and resources to their employees during the pandemic. But only 50 percent planned to continue offering backup childcare or elder care, and just 44 percent planned to continue to offer paid sick days.

HUMAN RESOURCES: VIEWED THROUGH OUTMODED PRISM?

Fuller says that too many companies continue to view hiring, job roles, career paths and benefits through a decades-old prism that is no longer effective. The focus is often on costs while metrics like productivity and turnover are given far less weight. Companies that fail to embrace these metrics, he said, are not seeing the full picture.

“Companies don’t really understand their own economics, but they are convinced that they do,” Fuller told The BiGS Fix.

“You as a company ought to think about what the implications are for you,” he added. “If you’re not taking into account systems effects like reduced turnover and improved productivity in your analysis of benefits, you’re doing the math wrong.”



CoBS Insight

Sensemaking in Times of Crisis

Ralph Kober, Associate Dean Programs and Professor of Management Accounting at **Monash Business School**, shares research that grew from impact measurement to observation of real-time crisis management during the COVID pandemic in Australia. From an interview with Prof. **Adrian Zicari**, **ESSEC Business School**.

Related research: Coordination in a not-for-profit organisation during the COVID-19 pandemic: organisational sensemaking during planning meetings, Ralph Kober and Paul J. Thambar, *Accounting, Auditing & Accountability Journal*, Emerald Insight.

Ralph Kober



Adrian: Hello. Here, we welcome Ralph Kober from Monash Business School, Melbourne, Australia. Welcome, Ralph. Thank you for being here today.

Ralph: Thank you very much for inviting me, Adrian.

Adrian: Today I would like to talk with you about your recent research paper about a food relief association in Australia. It's a very interesting paper and I like the paper for several reasons. One is because it's a case study done in a very unusual situation.

Ralph: Yes, definitely. We're very fortunate actually that the food relief association contacted us in February to do an impact evaluation. It's a unique organization in that they have a different model of food relief. They actually give people a weekly box of fruit, vegetables and bread for 40 weeks, and they operate through primary schools as opposed to the traditional food bank approach where people have to come to a charity and get one-off lots.

FROM IMPACT MEASUREMENT TO MANAGING THE COVID CRISIS

They didn't have any idea of whether their approach worked, or what the benefits were. So they contacted us to develop a social impact measurement framework and to evaluate the benefits of their program. We commenced that work in February 2020, and then in March 2020 the whole world changed due to the pandemic and lockdown. We had to put the project on hold, but then we became aware that all their meetings had moved online because of work-from-home restrictions, so we asked if we could sit in on their meetings.

The organization was great. They let us observe all their meetings. And as researchers, we were very fortunate that we could go online and observe all their meetings online – especially because all prior research and accounting that looked at crises had all been retrospective – it was always researchers interviewing managers or surveying managers of past events. We were very fortunate and made the best of a really bad situation in observing in real time how this organization was coming to terms with the COVID-19 pandemic and the crisis. As such, we observed the crisis as it unfolded.

Adrian: Yes, a crisis during the crisis. And during the "battle".

Ralph: Yes, that's right.

Adrian: Do you imagine that the results would have been different in another situation or perhaps, given that we live in VUCA times, that crisis is permanent nowadays?

Ralph: Yes, that's a good question. I've been thinking about that actually. I believe it probably depends on the operating environment that a company or business faces. For a business that's operating in a high uncertainty environment, I think the results would probably hold, as you said, in these VUCA times and constant change.

A lot of companies are faced with high levels of uncertainty. They're in this constant mode of having to deal with mini-crises as they unfold. On the other hand, for companies that are operating in low uncertainty environments, where it's business as usual, I think the results probably wouldn't hold for those companies. I think it's dependent on the operating environment.

USING ACCOUNTING TO GUIDE DECISIONS

Adrian: In your paper, performance indicators play a key role. Could you tell us about them?

Ralph: What we observed in the paper was that accounting information – and in particular performance reports for this organization – triggered sensemaking. This means that accounting information was being used by the managers in the organization to understand the impact that the COVID-19 crisis was having on the charity. They were using performance reports in terms of the number of food packages, boxes delivered, and comparing it to forecasts.

They were also using forecast information like accounting cash flows and how much cash reserves they had left before they would run out of money. This information was triggering the sensemaking process, and it was being used by people within the association to understand the impact on the charity. It made it real to the people in terms of the impact of the crisis.



When a participatory approach to sensemaking was engaged, the decisions that were arrived at were followed through.



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LEADERSHIP AND SENSEMAKING

Adrian: The interesting point of the research paper is the role of the CEO, the leader of the organization, who at some point has a more top-down view of sensemaking, and then, as the crisis unfolds, changes his approach.

Ralph: Yes, that's right. I think this was probably due to the fact that no one really knew what was happening. The COVID-19 pandemic was a crisis that none of us had ever experienced previously, and that had those dual health and economic aspects. In times of uncertainty, the initial reaction of a lot of leaders is to make unilateral decisions – and in the of the association, the CEO did just that. We observed that in the initial meeting in May when Australia was coming out of its first lockdowns.

I think there was probably a sense of optimism, and there were discussions about how the organization should fund or how the charity should fund itself. He was adamant that they should continue their current model of funding where they were primarily reliant on one corporate donor who was donating 90% of their funds. Then as times changed, he understandably changed his mind as well.

New information came to the fore, and we saw that in June 2020 at the association's June meeting. The state of Victoria in Australia had entered its second lockdown. People started realizing that COVID wasn't going away. It was going to be here for a while. At one of the meetings in June, the chief operating officer presented his cash flow

forecast, and it showed the organization only had three months' worth of cash reserves to survive.

Understandably, the CEO then realized that he had to change his mind. He changed his position and realized that the organization had to diversify its funding. Then they started looking for philanthropic organizations, doing public campaigns and stuff. Also at this time, we observed that, as you said, it became a lot more participatory as well. There was what we call *guided organizational sensemaking*, where different people, different managers, would sense give and all debate about what their preferred position was and what their preferred decision was. There were very interactive levels of discussion taking place.

We also observed what we called *reflexive sensemaking*, which is a new *sensemaking* approach which only come into research literature in 2021. It's very unique. It's where the CEO realizes that the organization needs to change, but isn't sure of what the change needs to be. We saw a lot of that in this organization because the crisis was so unusual that the CEO knew that they had to change but didn't know what the solution was.

He actually guided others within the organization. We saw that at meetings where there was a lot of debate and discussion about what should happen, but the CEO never imposed his view. In both these instances, when this participatory approach to sensemaking was engaged, the decisions that were arrived at were followed through, and they didn't change.

DATA AND PERFORMANCE INDICATORS AS A TOOL FOR DEALING WITH CRISIS

Adrian: All these processes, in a sense, were supported and accompanied by performance indicators. Is that right?

Ralph: Yes. Every single aspect of sensemaking that we observed was all due to accounting information. Indeed, accounting information triggered the need for this sensemaking. The performance reports, the cash flow forecasts all made it real to the managers within the charity of what the impact of COVID-19 was on the organization. Interestingly, in the *restrictive sensemaking* – where the CEO imposed what his position was – and even in the *reflexive sensemaking* – where the CEO guided the managers – accounting information didn't play any further part in the process. It triggered the need for sensemaking, but it wasn't involved in the sensemaking.

In the *guided sensemaking*, where all the organizational actors were trying to impose what they thought the preferred option was on the others, and there was a lot of debate, we saw that they were drawing on accounting information to try and argue for their side of things. In that one form of sensemaking, we did see a lot of use of accounting information. We think it was to try and convince others – a need for some sort of device to try and convince people – and they were using accounting information to try and play that role of convincing others.

Adrian: I think it's not the first time that you've work with this kind of organization. From the beginning of the process of research to the end, did you have any surprises? Were there things that you never expected to happen?

Ralph: I suppose the biggest surprise was the COVID pandemic. As I mentioned, for this organization, we had actually only just commenced working with them in February 2020. It was a very new organization. I suppose in terms of surprising, one of the things we didn't notice which we've written about in another paper, is the extensive use they made of accounting information.

A lot of prior research in charities has said that accounting information is not used that much by charities, or it's not that useful. We did notice that this charity had very well-established financial reporting systems in place, even prior to the crisis. In another paper, we talk about how we believe that this actually helped the organization, so that when the crisis hit, they had all these measures that they could actually draw upon.

That then allowed them to have this information to use in sense-making processes. Interestingly, I've just read a working paper from someone else that actually looks at a health department in Australia, and it shows that was very different. They didn't have the accounting information prior to the crisis. When the crisis hit, the first thing they needed to do was actually establish the measures to gain that understanding, whereas in the case of the charity we were analysing they had that. That gave them that advantage to help navigate the crisis.

Adrian: So, accounting can serve a purpose. After all, it's not just merely a legal obligation but can also be a useful tool. It's important to claim that accounting can help.

Ralph: Oh, definitely. That's one of the things that we talk about in the first paper that we wrote on this organization. The actual role that accounting information plays, the very important role that it played in navigating the crisis because the charity had accounting systems in place so that when the crisis hit, they could draw on accounting information to gain that understanding of the impact of the crisis.

Adrian: Thanks a lot for your visit, Ralph.

Ralph: Thank you very much, Adrian. It's been great talking to you.

 View the **video version** of this interview.

Authentic Purpose in Banking: The ultimate strategic advantage

Anjan V. Thakor and Robert E. Quinn



CoBS Insight

Profs. **Anjan V. Thakor, WashU Olin Business School**, and **Robert E. Quinn, Michigan Ross School of Business**, draw on their research into the Bank of Bird-in-Hand in the United States to highlight how even a highly regulated institution can embrace authentic purpose and integrate it into its business model.

Related research: Ethics, Culture, and Higher Purpose in Banking: Post-Crisis Governance Developments, International Journal of Central Banking, December 2021.

Many Fortune 500 companies have an explicitly stated mission statement, but few have an authentic statement of higher purpose – one that transcends the typical pursuit of profit and prevents the emergence of a transactional culture where self-interest drives the culture. An authentic statement of higher purpose clarifies the organization's mission and attracts people to commit to the common good. It serves as the guiding principle for every decision, breaking down silos and fostering a culture of unified, creative effort.

The key is authenticity. As we pointed out in our 2018 Harvard Business Review article, most attempts to create purpose-driven organizations fail because many executives cannot imagine themselves, or others, moving beyond a conventional, self-interested mindset to genuinely pursue the common good. Most “know” it is impossible. As one CEO candidly told us, “I do not want to create a statement of purpose, because I know we will not live it.” Unfortunately, hypocrisy is often assumed in professional life. We live in pretense, perpetuate it, and ultimately reap its consequences.

People work for many reasons, one of which is to make money. While money may bring a person's body to work, it seldom brings their soul. In high-performing organizations, people feel a deep sense of meaning and passion for their work. These organizations typically have a higher purpose – not a PR statement or a productivity tactic, but a collective call to contribute to something greater. This purpose is a moral statement that everyone believes in and endorses, creating accountability that comes from within, not imposed from outside.

Since higher purpose transcends conventional thinking, pursuing it can be particularly challenging in organizations where control and compliance are paramount, such as highly regulated, deposit-insured banks. Following our 2018 HBR article, we set out to explore whether purpose-driven banks exist, and if so, how they balance business prudence with authentic purpose.

A little over a year ago, we were fortunate to find just such a bank and conduct an in-depth study, including on-site visits and interviews with executives, employees, customers, directors, and investors. The bank, called Bank of Bird-in-Hand, is the first FDIC-insured de novo bank

to open in the U.S. after the 2007-09 financial crisis. Our research provided valuable insights into how even a highly regulated institution can embrace authentic purpose and integrate it into its business model. Here, we share some of what we learned.

BACKGROUND

The Bank of Bird-in-Hand was founded in December 2013 with 10 employees, becoming the first bank in the U.S. to gain a charter since 2010. It was established by a group of investors in the rural village of Bird-in-Hand, located in Lancaster County, Pennsylvania – a regional home to a significant Amish community. The bank's purpose was clear from the start: to provide much-needed banking services to the underserved area, particularly to the Amish and Mennonite communities, who had limited access to financial services.

The bank received approval from the Federal Deposit Insurance Corporation (FDIC) on November 27, 2013, and launched with \$17 million in equity capital provided by the initial investors. Although the bank is stockholder-owned, it is not publicly traded.

From its inception, the bank's major investors and Board of Directors made a decisive commitment: they would not “cash out” by selling the bank to profit from their investment. Instead, the transcendent purpose of the bank—to provide financial services to an underbanked community – remained the focus. The bank's first CEO, Brent Peters, stepped down on July 1, 2014, and was succeeded by Lori Maley, who served as acting CEO until November 2014, when Alan Dakey was appointed. After his retirement in March 2017, Ms. Maley was promoted to CEO, a role she holds today.

Since its founding, the bank has experienced impressive growth, with total assets reaching \$1.363 billion, deposits totaling \$1.089 billion, and shareholders' equity amounting to \$141.253 million by the end of 2023. Investors we interviewed expressed high satisfaction with their returns.

While it may sound overly complimentary, it's important to highlight a few remarkable facts about the bank. First, the bank has experienced virtually no loan defaults, a testament not only to its credit risk management but also to the strength of its purpose-driven culture and its deep relationships with borrowers and the local community.



Since higher purpose transcends conventional thinking, pursuing it can be particularly challenging in organizations where control and compliance are paramount.



Second, the customers we interviewed – including those at the bank’s annual customer appreciation picnic – were genuinely enthusiastic about the bank. Third, employee engagement and satisfaction were exceptionally high. One employee, recovering from cancer treatment, was advised to take more time off before returning to work, to which she responded, “Why? The bank is where my sunshine is!” Finally, bank regulators have expressed satisfaction with the bank’s operations, indicating that it has successfully balanced regulatory compliance and control with fostering a purpose-driven culture that empowers employees without stifling them.

WHAT DO WE LEARN?

Rather than delving into the specifics of how the Bank of Bird-in-Hand has managed to be both authentically and successfully purpose-driven, we’ll highlight the three most important lessons we learned from studying the bank.

Lesson 1. Authentic, higher purpose comes from an external motivation, but the channel through which it is manifest is internal.

The key to the success of Bank of Bird-in-Hand’s higher purpose pursuit is the impact its purpose has on the internal motivation of the bank’s employees. But alignment is key to having a positive motivational effect, so how do you align all employees with that purpose? What we learned from studying the Bank of

Bird-in-Hand is that for an organization to truly live its purpose, employees must believe in it as passionately as the founders and senior leaders do. This may sound straightforward, but in practice, it’s a formidable challenge.

To achieve this alignment, several elements must be in place: employees must trust that their leaders genuinely believe in the purpose, so that when profit and purpose seem to conflict, the organization chooses purpose; the pursuit of purpose must inspire pride in employees, offering deep meaning in their work; and the purpose must transparently guide routine decision-making, shaping the organization’s culture. At the Bank of Bird-in-Hand, all these elements were present. So, even though the bank was motivated by the “external motivation” of serving an underbanked community, its success was driven by the internal commitment of its employees.

Lesson 2. Leading a purpose-driven organization is challenging internally because authenticity of purpose conflicts with the transactional belief system

Given the growing evidence – both anecdotal and empirical – that purpose-driven organizations achieve positive economic outcomes, the obvious question is: why isn’t everyone following this model? The answer lies in the subtle conflict between purpose-driven leadership and the more common, control-oriented, transactional leadership style that delivers solid economic results for many companies.

In a purpose-driven organization, leaders don’t treat employees as mere factors of production, as standard microeconomic theory suggests. Instead, they see them as “creative geniuses” who must be respected and aligned, not controlled. Leaders in these organizations understand that their role is not to manage people, but to help them find their “why” – the deeper purpose that drives their energy and focus.

From there, the organization is built around these values. This requires placing recruitment at the forefront and making decisions that don’t threaten the culture. For example, the Bank of Bird-in-Hand has turned down numerous opportunities for rapid growth, always asking one critical question: “Can we do this while maintaining our approach to recruitment and our culture?” Few organizations can consistently operate with such a commitment to alignment.

Lesson 3. Internal challenges in pursuing purpose are magnified by hidden non-believers.

Many organizations have leaders who publicly endorse the organization’s higher purpose but secretly don’t believe in it and may even engage in undetected sabotage. We’ve observed this problem in too many organizations, where managers are promoted not because they inspire others but because they excel at complying with directives or ingratiating themselves with higher-ups.

These leaders often find themselves in charge of employees who are more purpose-driven and sharp-witted than they are. Leading such employees is a task these managers often fumble. Worse, they may feel threatened by them. This dynamic can lead to a series of decisions that gradually extinguish the organization’s purpose. Fortunately, at the Bank of Bird-in-Hand, the leadership provided by Lori Maley and her team has avoided this pitfall, preserving the organization’s purpose and maintaining its authenticity.

Lesson 4: Because bankers cannot believe in higher purpose, higher purpose is the ultimate strategic advantage

Leaders cannot pursue what they cannot imagine. Purpose-driven banking is outside the transactional mindset that dominates global banking. Most readers of this paper will likely dismiss the idea, “knowing” that higher purpose cannot be implemented in modern banking.

In each interview, we asked whether the culture of the bank could be replicated in an area very different from Lancaster County, Pennsylvania, say South Chicago. Almost everyone doubted it. The two exceptions were Lori Maley and Bill O’Brien, the individuals most responsible for the success of Bank of Bird-in-Hand. Both acknowledged the challenges and the costs involved. They recognized that most people wouldn’t be willing to pay that price. Yet, both firmly believed that such a culture could be created in South Chicago – or anywhere else. The key differentiator is being an authentic leader fully committed to the common good of the bank.

Further details can be found in our case study and accompanying video (see Quinn, R., and A. Thakor, “Banking in Paradise: Bank of Bird-in-Hand”, WFA center for Finance and Accounting Case Study, August 2024).

03



Global Perspectives on Companies & Purpose

- 74 Latin American CEOs:
Business has a responsibility
to tackle inequality
- 78 Profit with Purpose:
Innovations from the
Global South
- 82 Private Equity:
Time for transparency?
- 86 The Green Light to
Sustainability Innovation:
How the Shanghai Metro ran
for low-carbon
- 92 Decisions Fit for the Future:
Greening up corporate impact
- 96 Three Purposeful Leadership
Strategies: When East meets
East
- 100 Moving Beyond the Business
Case for Equality
- 104 From Doing to Becoming:
Reframing sustainability as
purpose



BiGS Actionable Intelligence

Latin American CEOs: Business has a responsibility to tackle inequality

The **Harvard BiGS** Roundtable in São Paulo, Brazil, put the spotlight on key firms and people in the forefront of responsible business practices in Latin America, with a survey among the former indicating that business leaders have “significant” or “full” responsibility for addressing economic inequality.

By Esther Schrader and Barbara DeLollis

SÃO PAULO—When Fulvio Pagani began managing the Argentina-based confection company that his grandfather founded 70 years earlier, his top priority was expanding the company's reach to more than 120 countries.

Yet even as he lifted growth and profits for Grupo Arcor, which today employs more than 20,000 people in 45 countries, Pagani never forgot the philosophy his grandfather lived by—unless people have the means to buy what you sell, even the candy business will sour, he told *The BiGS Fix*.

“It’s in my genes”, Pagani said of his conviction that addressing inequality is good for business. “No company can keep on growing and do it in the future without having that social role. This is something that my grandfather started, and it was never a question. This is how we do business.”

Pagani was among more than 60 corporate and nonprofit leaders who gathered in São Paulo, Brazil, at a roundtable convened by Harvard Business School’s Institute for Business in Global Society (BiGS) to delve into this complex issue.

Based on BiGS’ polls of attendees, the leaders agree that private enterprise can play a role in addressing societal issues as they generate profits and jobs. In one survey, for instance, 73% of attendees ranked economic inequality as the most or second-most important problem facing Latin America, compared with growth, inflation, and populism.

Furthermore, 62% said they believed that business leaders have “significant” or “full” responsibility for addressing economic inequality.

Conference attendees came from Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, the United Kingdom, the United States, and Uruguay. Facilitated by HBS faculty, the conference was marked by frank, concrete discussions on the private sector’s role in driving economic mobility—and the progress that enterprises have made thus far in addressing the wealth disparities that continue to worsen political and economic instability across the region.

The gathering, the first international roundtable hosted by BiGS, furthered the institute’s ambitious goal to fuel business solutions to some of society’s greatest challenges.

PERSISTENT INCOME INEQUALITY UNDERMINES SOCIOECONOMIC PROGRESS

There are immense obstacles to closing the wage gap among Latin America’s 600 million people. The poorest 50% of the population earns just 10% of total income, while the wealthiest 10% earns 55%, according to the World Bank. Measured by income distribution, 16 of the 30 most unequal countries in the world are in Latin America. And inequality extends beyond income. Participation of women in the labor force, for example, is about 22 percentage points lower than that of men. While most children of the wealthy graduate from college, only one in ten children of non-college-educated parents obtain a college degree by age 25.

Persistent income inequality in the region, which encompasses South America, Central America, Mexico, and the Caribbean, has undermined socioeconomic progress for decades and resulted in social unrest, which aggravates political and economic instability. During most of the last two decades, solid economic growth rates helped improve social indicators. However, gains have stagnated since 2015, when growth faltered with the end of the commodity boom. The COVID-19 pandemic worsened conditions for the poorest segments of the population.



“In Latin America, towering skyscrapers and vast fertile farmlands are clear expressions of the critical role business has played, but the sprawling urban slums and rural indigence also reflect the human potential that is wasted,” said Michael Chu,

senior lecturer of business administration at HBS and originally from Uruguay.

CONTINUOUS DIALOGUE CAN FUEL NEW IDEAS AND ACTION PLANS

"It is our aspiration," Chu said, "that this roundtable may be the beginning of a continuous dialogue between all of us to find the new ideas and action plans that will harness the power of private enterprise to unlock this potential."

Over two days of lively discussions, the business leaders rose to the challenge. They discussed, and at times disputed, the proposition that prioritizing doing good can be good business. They commiserated about the difficulties of working with governments, some plagued by corruption and mismanagement. Occasionally, they despaired over the immensity of the problems plaguing the region and the world.

But on these key points, attendees agreed:

- Building new business models to serve the unmet needs of low-income communities can generate profitable solutions to address inequality.
- Deploying capital to support businesses serving low-income communities can have an economic multiplier effect that creates a flywheel to positive economic growth for the entire community.
- Investing in social programs for a firm's workforce, such as education, can have significant long-run returns.

BUILDING BETTER FUTURES: HOME IMPROVEMENT COMPANY TRANSFORMS DWELLINGS AND FAMILIES



"It's time for businesses to understand that their role is to generate development, not only economic, but also social and environmental, on our planet," said

Brazilian entrepreneur Fernando Assad, who founded Programa Vivenda, a for-profit company that provides affordable home improvement kits to people living in the country's vast slums. About 40 million Brazilians live in houses that pose health risks.

Assad started his business seven years ago. With more than \$30 million raised from private investors and a partnership with furniture giant IKEA, he scaled up, creating a tech platform that connects thousands of slum dwellers to resources, credit, technical assistance, and construction materials that they can use to transform their dwellings with necessities such as bathrooms and running water.

"Every time I ask a client, 'So what's your life now? What was the impact of your new bathroom?' They always say, 'I stopped fighting with my husband. My kid is studying more...'" Assad told The BiGS Fix. **"The point is, when we renovate an inadequate house, it's kind of a spark of development for all other dimensions of their lives, because the house is the... basis of development. So, this is the beauty of this work. You're not only improving the space, but you are improving the whole dynamic of life inside."**

While Assad's business takes aim at one measure of inequality—inadequate housing—some enterprises' primary *raison d'être* is making profits from addressing the wage gap conundrum, which is considerably thornier.

FOR PROFIT AND COMMUNITY: DEPLOYING CAPITAL TO SPUR INCLUSIVE ECONOMIC GROWTH



Almado, an impact investment firm in Argentina, is the creation of Alejandro Preusche, a former senior partner of the global management consulting firm McKinsey & Company.

In 2006, Preusche began developing businesses in Argentina and Paraguay with the express purpose of reducing poverty: organic waste recycling ventures, agricultural ventures, and affordable housing projects.

His investments in a poor region bore some unexpected fruit. Preusche bought farmland in a poor region in Paraguay at a low cost. When he invested in improving the land, the community, and its infrastructure, thousands of lives were improved significantly. In addition, the land value rose as other investors were attracted to the region.

"That was an eye-opener," Preusche said. **"Pay attention to the needs of the poor, and you'll have a better business."**

INVESTMENT IN WORKER EDUCATION YIELDS GOOD RETURNS

Falabella S.A., based in Santiago, Chile, started with one tailoring store in 1889 and now encompasses 588 shopping malls in seven countries, financial service operations, banks, and an e-commerce website that serve 38 million customers a year.

In recent years, Falabella made some significant corporate efforts to address inequality then-CEO Gaston Bottazzini said during the roundtable. It established financial education and technical advancement classes for its employees, a volunteer operation to offer skills training to prison inmates, and a partnership with nonprofits to offer job skills programs in communities.



"If you take the perspective that what you are building is long-term value rather than short-term economic results, then you're building a lot more customer loyalty over time," Bottazzini said. "...I think it's very good for business."

However, Bottazzini cautioned that while Falabella can help individuals, it can't provide help at the scale necessary to make a dent in a vast societal problem. Only governments can undertake that sort of transformative change, he said.



Enrique Tellez, cofounder of a commercial real estate developer in Mexico City, knew that many of his construction staff had never finished primary school. So, he established private pop-up schools on the construction sites where employees can attend part-time during work hours. Run by a private educational partner, the schools provide primary, middle, and high school classes.

Hundreds of workers of Tellez's company Desarrolladora del Parque have graduated from the programs, he said. Some have earned college degrees. Juan Martinez, raised by a single mother in a tiny mountain town who started working for Tellez when he was 19, earned a degree in engineering and now works as a supervisor for the developer.

"I'm a deep believer in education," Tellez said. **"So, if you were to ask me what the business rule should be, obviously we are set to create a profit... But within our means, we have to invest in our community."**



Grupo Arcor's Pagani, whose sweets business helps fund university programs to train local workers near its plants, encouraged business leaders at the BiGS roundtable to leave their offices and see the needs in their own communities. That is the lesson, he said, his grandfather taught him.

"Go out there, see reality, see how people are living and try to understand what everyday life is for them," Pagani said. **"And once you see that, what you're going to say is, 'I need to make a change, I need to be a part of this.'"**

Prioritizing doing good can be good business.



CoBS Insight

Profit with Purpose: Innovations from the Global South

Sourav Mukherji



The relationship between purpose and business has always been an evolving one. In today's world, we are witnessing a shift from the traditional view of profit maximisation to a more balanced approach that integrates purpose with profitability. Prof. **Sourav Mukherji** from the **Indian Institute of Management Bangalore** exemplifies how purpose-driven organisations in the Global South are innovating new business models to align social impact with financial sustainability.

Profit with Purpose: Innovations from the Global South by Sourav Mukherji. **Related Research:** Arvind Eye, Narayana Heart, Selco, Phool: Inclusive Business Models by S. Mukherji, Cambridge University Press, 2022.

SHORT-TERM GAINS VS. LONG-TERM PURPOSE

Organisations have had a strange relationship with Purpose. Some scholars have argued that the only purpose of organisations is to maximise shareholders' wealth and any other purpose, if it exists, should be viewed as means to maximising profitability. Others have argued that profitability should be a consequence of pursuing a worthy purpose, and shareholders are only one of the many stakeholders for which organisations need to create value. The founder of one of the largest and oldest business groups in India, Jamsetji Tata¹ had said that the larger community is not just one of the stakeholders of business, but the very purpose of its existence. During the last 160 years of its existence, the Tata group has been a pioneer in taking active part in community development and nation building, even while it has remained highly profitable.

Despite such inspirational examples, there exists a schism between purpose and profitability because many noble purposes such as reducing economic inequality or achieving environmental sustainability needs a long-term orientation, which might come at a cost of short-term profitability. As a consequence, organisations have been broadly split into two types – the for-profit organisations whose primary purpose is profitability and the not-for-profits who can pursue noble or long-term purposes without worrying about profitability.

RISE OF FOR-PROFIT SOCIAL ENTERPRISES IN THE GLOBAL SOUTH

However, during the last 50 years, India, and many other countries from the Global South, have seen the rise of an interesting breed of organisations, the for-profit social enterprises, who seek a sweet spot between noble purpose and profitability through business model innovations. While they remain committed to making their organisations profitable, they maximise their purpose of positive social impact instead of maximising profits.

1. Tata Stories by Harish Bhat, Penguin Publishers, 2021

These organisations constantly experiment with various dimensions of their business models to solve a social problem, such as providing affordable healthcare or access to energy for the poor, in a financially sustainable manner.

In India, hospitals such as Aravind Eye and Narayana Heart have evolved a model of cross-subsidy that ensures that their poor and uninsured patients receive free treatment from the surplus generated by treating their economically well-off and insured patients. But how do they fight the market forces that would drive even their economically well-off patients to cheaper options where there are no cross-subsidy? This is done through innovations on the ground that leverage their resources much better, such as developing and deploying a large team of para-skilled professionals for routine tasks, so that their doctors only focus on critical and non-routine tasks. This makes such hospitals as price competitive as those who do not offer cross-subsidy. An additional advantage of providing cross-subsidy is achieving high economies of scale, which also enable these hospitals to get better deals from their suppliers, who they compensate on basis of usage rather than paying capital costs.

Since 1998, another organisation Selco has been providing solar lights to the poor in rural India that often remains cut off from electricity during large parts of the day. Selco sells solar lights to the poor, that would seem unaffordable, given their meagre income levels. But Selco figured out that a solar light can be an important source of income generation for its poor customers. It can extend the business hours of a restaurant owner or replace a polluting source of light such as kerosene for a push cart vendor. It worked with local banks to create a financial model such that the additional income or cost savings that can happen because of the solar light can pay off the mortgage in about a couple of years. This had the additional benefit that after the loan is paid off, the solar light became an asset for the poor, which they could use to take additional loans from the bank.

Every day, millions of devotees through more than half a million temples in India, offering their deities flowers and garlands. Since flowers have limited shelf-lives, India produces about 300 tons of flower waste every day creating severe challenges of disposal.



Innovative business models of social enterprises give us direction and hope of how such a delicate balance can be achieved and thus solve some of humankind's toughest problems.



Profitability is like the air we breathe, absolutely necessary for survival. But it will be disheartening to say that the purpose of our existence is to breathe oxygen.



Phool is an organisation that engages local communities in collecting flower waste and converting them to commercial products such as incense sticks, soaps, vegan leather, and biodegradable packaging. While it is well known that lots of money can be made from waste, it was viewed as a difficult and dirty business that impinged on the interests of corrupt municipal officials. However, it took the courage and ingenuity of a social entrepreneur to find a novel business model that reduced pollution, created livelihood and is financially profitable.

WHEN PURPOSE FALTERS

None of these purpose-led business models happened easily. Their paths towards profitability were strewn with challenges and failures and it is a testament to the conviction, focus and resilience of these organisations that they were able to find that sweet spot of being committed to their social purpose and being profitable.

There are also examples of many business models where they have faltered on one of the two dimensions. For example, Gyanshala, which deploys a novel model of providing affordable education to poor children through a combination of standardised design and para-skilled community teachers, remains far from achieving financial sustainability. And India's microlending industry provides many disheartening examples of purpose-dilution and exploitation of the poor in their effort of chasing profitability. However, myriad examples from India and the Global South show that it is possible to create businesses that can pursue long-term social purpose without compromising their profitability objective. Though questions remain whether such purpose-led organisations can be scaled and made the new-normal.

GREEN SHOOTS OF HOPE

What implications does it have for the present context? First, the world faces some wicked problems such as inequality and climate crisis which, to solve, need organisations to adopt a long-term purpose orientation that moves beyond short-term profitability. We have realised painfully that solving such problems may even be sometimes at odds with the objective of profitability in the short term.

Business models of for-profit social enterprises are green shoots that tell us that if we are purpose-led, willing to experiment and be persistent, we may be able to find innovative business models that can achieve both – businesses that solve wicked problems even while being profitable. Second, annual surveys such as those done by Gallup reveal that there is a high degree of disengagement among employees in for-profit organisations.

Most employees do not feel inspired by their organisations and often develop a transactional relationship with organisations, which reveals the limitation of giving primacy to profitability. Organisations are possibly the most powerful forces driving progress of humanity and it is a tragedy if most employees feel disenchanting and resort to quiet quitting. One cannot de-emphasise the importance of profitability since it is a necessity for the sustenance of the organisation. Profitability is like the air we breathe, absolutely necessary for survival. But it will be disheartening to say that the purpose of our existence is to breathe oxygen.

Therefore, organisations must stand for a larger purpose that inspires, galvanises employees into giving their best. A wonderful example of this was Grameen Danone's² effort of making affordable yoghurt for the poor in Bangladesh. While the effort itself was a partial success, it created a renewed purpose for the organisation where employees queued up to be part of the project and to contribute, even though there were no personal gains.

The world has long realised the importance of purpose and how extraordinary things can be achieved through it. For organisations, the challenge has always been to balance it with profitability. Innovative business models of social enterprises give us direction and hope of how such a delicate balance can be achieved and thus solve some of humankind's toughest problems.

2. Regarding Grameen Danone: Creating a World without Poverty by M Yunus, PublicAffairs, 2007



BiGS Actionable Intelligence

Private Equity: Time for transparency?

John Coates



What happens when a small number of firms controls private equity? It undermines the legitimacy of capitalism itself, argues the author of a book on the concentrated power of financial institutions. **Harvard BiGS** talked with **John Coates**, a professor of law and economics at **Harvard Law School** and former general counsel of the U.S. Securities and Exchange Commission, to discuss insights from his 2023 book “The Problem of 12: When a Few Financial Institutions Control Everything.”

A In your book, you argue that concentrated ownership of private equity firms and index funds raises serious questions for business and society. What are those questions?

Index funds and private equity funds enjoy enormous economies of scale. The bigger they get, the better they are at doing the basic financial functions they were set up to do. A small number of these players are controlling larger and larger amounts of the U.S. economy, which means a small number of people have greater control over the U.S. economy and society. The power of index funds was demonstrated when they helped dislodge members of the board of Exxon in a proxy fight.

Give us a brief explanation of the history of private equity and how it is evolving.

Private equity has its origins in leveraged buyouts in the 1970s and 1980s. The idea was to take companies, usually publicly listed on the stock exchange, borrow a lot of money—that’s the leverage—and buy them out. Then, they could use their control to improve the value of the company and resell it, typically 3 to 5 years later. That’s the original idea of what private equity mostly does.

What’s changed since then is that the scale of operations of private equity has grown and grown and grown—to the point that now private equity controls between 15% and 20% of the entire U.S. economy. They’re no longer buying isolated companies and flipping them back to the public markets. Instead, they buy them and sell them to mostly other private equity firms. They’ve become their own separate capital universe.

You mentioned 15% to 20% of the economy is private equity. Does that surprise you?

Yes. Private equity has been growing at a compound annual growth rate that vastly exceeds that of the economy. It uses different kinds of investments, such as credit and real estate funds, and investments in commodity markets.

You mentioned that the term ‘private equity’ is misleading. Can you explain?

‘Private equity’ as a phrase sounds like some wealthy individual who owns companies. Most of the investors in private equity funds are themselves institutions, not individuals.

The biggest category of investors is pension funds which are investing on behalf of thousands or millions of workers or retirees. So, the money that private equity firms invest and use to run companies is derived from the public in a broad sense in the same way that a public company listed on the stock exchange has raised its capital from the public. So, ‘private equity,’ while a nice phrase to connote certain aspects of how private equity functions, really is misleading. It’s really investing on behalf of the broader public.

What sort of problem will this pose for business and society?

The private equity industry is very good at convincing Congress or regulatory officials to shape laws in a way that allows them to remain essentially dark. They don’t put out public reports. They don’t put out any information that the public can use to evaluate what they’re doing, or even their investment performance.

It is increasingly a challenge for the legitimacy of capitalism. Capitalism depends upon some degree of transparency about how it’s functioning, how workers are being treated, and how consumers are being treated.

How does that impact society?

Over the past 20 years, private equity has moved increasingly into new sectors, many of them in service businesses. These include medical businesses, dental offices, and pet care facilities. There’s no way to observe what they’re doing on a routine basis.

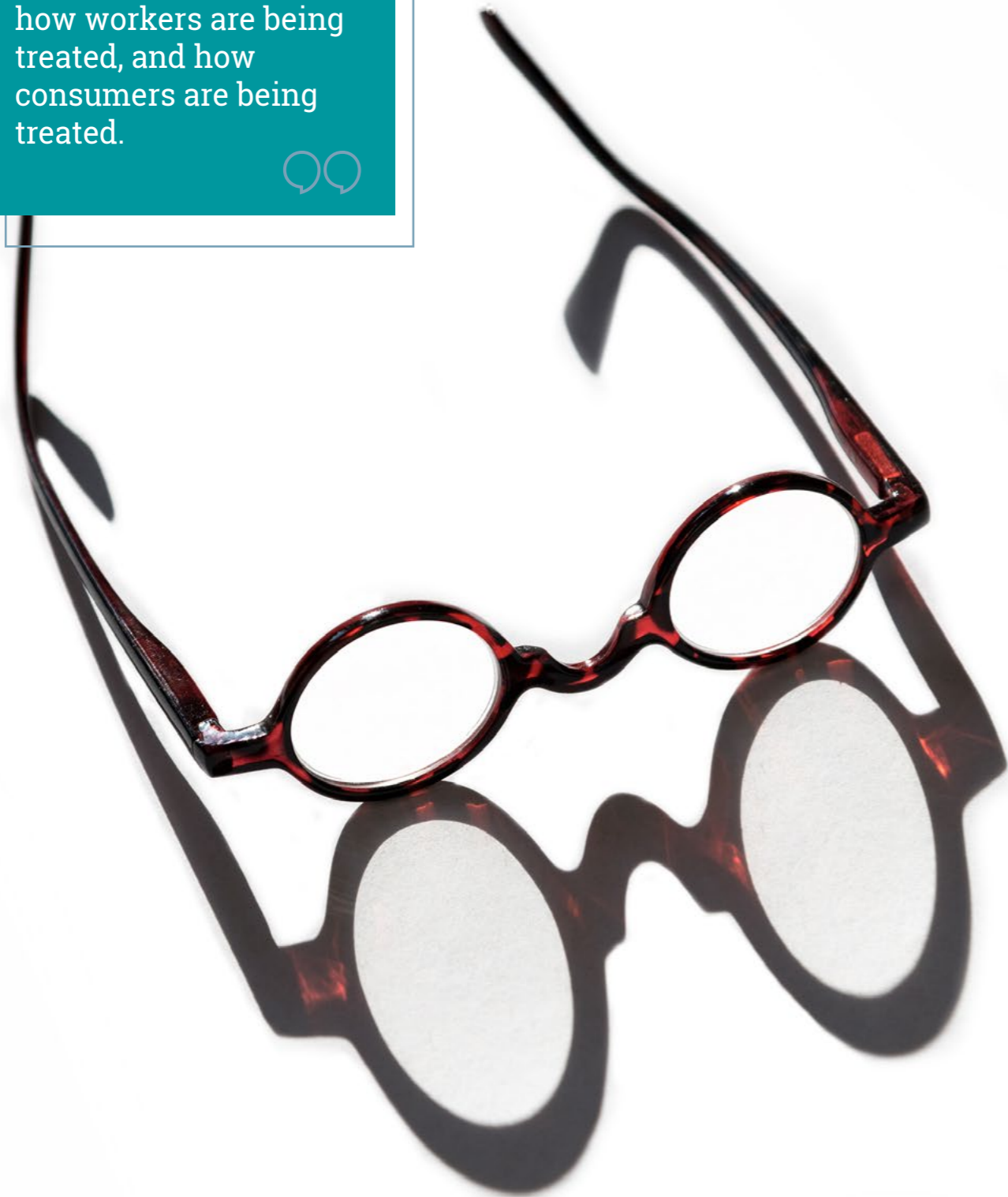
Medical care is an example. We regulate it by relying on a series of norms that doctors won’t harm their patients, even if it might make them more money. Now, if you take a private equity firm with debt, maybe they’ll skimp on care, understaff the nurses, or engage in over-diagnosis. It might help short-term profit, but not be a good result for people in general.



Capitalism depends upon some degree of transparency about how it's functioning, how workers are being treated, and how consumers are being treated.



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Can you give us a brief explanation of the history and concept of index funds?

Financial economists in the 1960s theorized about how hard it was to identify investments that would outperform the market as a whole and that maybe we would be better off not trying. Instead, they suggested buying all the stocks you could buy. Vanguard was founded on this idea.

It works because you're saving a lot of money on the investment professionals that you're not having to hire. It still provides a good return and you're diversified because you're buying all the companies in an index, which tends to reduce risk. It tends to beat most active management organizations. Index funds have become increasingly dominant.

What role do index funds like Vanguard, BlackRock, and State Street play in the economy?

Index funds, since the year 2000, have grown their assets at a rate that's vastly greater than the growth of the economy or stock markets. The top four index funds currently own 20% to 25% of the stock of every company on the stock exchange. With that ownership comes voting power, the ability to determine often who's on the board of a company, or how shareholder votes on various issues will come out.

What are the risks of this growth?

Index funds are correctly viewed as playing an important role in politics and in governance which makes them subject to attacks by politicians and people skeptical of the choices they're making. To keep doing what they do well, investing for millions of middle-class Americans, they need to be regulated more than maybe they would like. More disclosure about how they use the power they have would be a good first step.

Can you explain how the private equity industry differs from index funds when it comes to disclosure?

Index funds are currently subject to disclosure requirements, and that's how I can tell you what percentage of the companies they own. Private equity firms, by contrast, never have to make public disclosures. Private equity disclosure would be a dramatic change. Many of them would resist. The more thoughtful would recognize there's some value in greater transparency. Some disclosure would be good for the industry itself. They could tell better stories about themselves.

Why is the absence of disclosure for private equity firms a problem for society?

If pensions don't generate adequate returns, it's usually taxpayers who are on the hook for the deficit, particularly for public pensions. Since a large part of the money that pensions now invest is invested through private equity, the public has an interest in understanding the risks and the returns that private equity is generating for pensions.



CoBS Insight

The Green Light to Sustainability Innovation: How the Shanghai Metro ran for low-carbon

Qinqin Zheng



State-owned companies throughout the world face the paradox of fulfilling their purpose in terms of social mission, creating revenue and leading the ecological transition. How can they deal with this and win across all three? Research from Prof. **Qinqin Zheng, School of Management Fudan University**, focuses on the case of the Shanghai Metro and the lessons it can provide for public sector firms aiming for people, planet, and profit.

Related research: Sustainability-Oriented Low-Carbon Innovation in SOEs: A Case Study of Shanghai Metro. Guangyao Yu, Qinqin Zheng, Xueying Lin, and Kaiqi Yuan. MDPI Sustainability, *Sustainability* 2023, 15(23), 16216; <https://doi.org/10.3390/su152316216>

THE DIFFICULTY IN BEING A ROLE MODEL

Climate change and the pressing need for governments, the public and private sectors to tackle it has become one of the major issues of our times. International legislation, the UN SDGs and commitments made through the COP series of conferences have seen economies adopting various measures to decarbonise. In the forefront, state-owned enterprises – or SOEs – across the globe are expected to pave the way and act as green pioneers for innovation among their private-sector counterparts for carbon footprint reduction.

However, by their very nature and purpose, SOEs find themselves in something of a challenging situation in this new context – not to say a paradox. This is born from their inherent mission to maintain a diversity of value for their stakeholders: social utility through their goods or services to the public, financial performance, and environmental benefits. In addition, being answerable to the state, the pressure is on SOEs to implement national strategies and policies with expectations to take on an increasing role in protecting the environment through measures such as pollution control. Moreover, as players in the market and naturally supporters of national development, SOEs need to target financial returns and create profit and increased value. As such, public sector companies face a paradox of competition goals – social, environmental, and economic.

Under such pressure, and combined with aggressive legislation on low-carbon emissions, SOEs in some countries have seen their workforces cut, production output reduced, and high-carbon emitting yet high-profit activities sold off. We could suppose that government policies targeting carbon reduction add to the incentive to push for green solutions, though research has produced mixed results. While some SOEs are indeed influenced – with more available access to state loans for low-carbon initiatives – others have found legislation to have little or even negative results on SOEs' performance caused by the high costs of replacing or repairing equipment and infrastructure, inadequate investment, and low technical efficiency.

But all is not doom and gloom. In fact, such constraints and pressures have generally pushed SOEs to adopt an innovative approach to sustainability. Indeed, in many instances, it is crucial for them to adopt innovative strategies to deal with the paradox they face – that is, generate profit, provide social utility and benefit, and reduce carbon emissions.

And this provides the setting for new research carried out by Prof. Qinqin Zheng of School of Management Fudan University in Shanghai, one of the foremost academic institutions in Asia. She and her fellow researchers use the context of China and the specific case of the award-winning Shanghai Metro to analyse how SOEs successfully launch sustainability-oriented innovation and – more specifically – sustainability-oriented *low-carbon innovation* (SLI) initiatives.

NEXT STOP: A GREEN GIANT

In the last twenty years, and with an average GDP growth rate of 10%, China has become the second-largest economic power in the world behind the USA. Such economic expansion has come with a price, China topping the list of global carbon emitters as way back as 2009 and experiencing negative environmental impacts. However, China is also among the leading countries worldwide to implement green initiatives and innovations (this correspondent witnessed the progress at first hand during a visit to Shanghai in late 2024), and is not only active in all global sustainability initiatives – for example, the UN SDGs, the Paris Agreement, or the Convention on Biological Diversity – but has gone further than most in proactive measures on greenhouse gas emissions in line with its 2030 Agenda for Sustainable Development (Nestorovic, Cédomir, Geopolitical Perspectives on China's Sustainability Initiatives, book chapter, 2025).

Indeed, China's "dual carbon" goals that set the peak for carbon emissions by 2030, coupled with a goal to reach carbon neutrality by 2060, have put enormous pressure on state-owned enterprises to walk the talk and set the example as pioneers for the private sector to follow.

Enter the Shanghai Metro whose record in coping with the paradox of its mission versus sustainability goals may provide useful lessons for others across the globe to follow. A typical Chinese state-owned enterprise, the firm first began operating in 1993.



Constraints can in fact provide a hidden gift, prompting professionals – and corporates – to create solutions for purposeful business.



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Now the owner of the most extensive network in the world – a staggering 20 metro lines, with 508 stations covering 831 km – the Shanghai Metro transports over 10 million users per day, roughly 70% of the total public transport system in the city. Responding to the state-encouraged sustainability goals, the Shanghai Metro was the first to introduce low-carbon initiatives in 2006.

However, it hasn't been a totally smooth ride for the SOE. Faced with its multiple social, financial and operational goals – sometimes vaguely defined – it has had to navigate through continually evolving environmental protection policies and legislation, as well as constraints on low-carbon development. Moreover, its work isn't yet over, notably regarding the need to reduce its consumption of electricity which counts for a staggering 2.5 billion kWh annually. On the other hand, its commitment to going green has seen several measures to control and reduce emissions and is something of a show case in terms of innovations that effectively balance its economic, social and environmental obligations.

A RED LIGHT CAN TURN GREEN

As mentioned, constraints can in fact provide a hidden gift, prompting professionals – and corporates – to create solutions and, in the case of state-owned companies, incite them to play an essential role in encouraging sustainability-oriented innovation.

Its societal and financial performance missions aside, increasingly strict environmental regulations on carbon regulation over the past twenty years have set the Shanghai Metro tough targets in energy saving and carbon reduction. Indeed, two successive five-year plans since 2006 have led to energy reductions of 20 and 17% resulting in a lowering of carbon emissions of 18%. Recent developments have included the setting up of a system for controlling energy intensity and consumption, energy indexes and renewed emphasis on carbon reduction.

Given the massive amount of new tracks and stations built, a further constraint on the Metro has been the challenge of combining infrastructure growth – and subsequent large-scale operations – with a parallel objective to reduce carbon emissions. This has triggered emphasis away from construction projects to operating efficiency with the overarching target to reduce the energy consumption of the underground system. Moreover, at the same time, demand for low-carbon transport systems has rocketed, with expectations of quality of service remaining high.

And finally, going deeper into the financial constraints, while previously the renewal and modernizing of energy-carbon intensive equipment – air conditioning, lighting and electric engines – engendered hefty reductions in emissions, the potential for energy savings had gradually shrunk leading to increasingly smaller marginal returns on these investments. The financial pressure hasn't gone away – especially with the Chinese economy going through a period of lower overall growth – with the government reducing its financial support and revenue from ticket sales down. The answer has been to look for new revenue streams to ensure growth and prevent long-term decline. This is where innovation comes in.

INNOVATION IS.....

Some of us may have participated in brainstorming and conceptualizing new products or services in our professional lives. However, innovation goes beyond that to encompass a multi-stage process where organisations transform new ideas into enhanced processes, products and services, or business models. These may have various strategic aims that bring particular financial, social and environmental benefits. Moreover, setting up and organising innovation requires large amounts of capital and tech resources and its impact depends on how these resources are managed and made to work together throughout the various departments and teams.

As seen, under pressure from a number of constraints, state-owned firms are forced to innovate sustainability-oriented innovation (SOI) which typically follows a three-stage process of sensing and ideation, configuration, and transformation. SOI emphasises the notion that innovation should not only ensure financial advantage for companies, but also provide environmental and social benefit in line with John Elkington's Triple Bottom Line of people, planet, and profit. In the specific context of the Shanghai Metro case, it's more relevant to focus on sustainability-oriented low-carbon innovation (SLI) rather than the broader concept of SOI to address the challenge of benefiting the TBL dimension.

The first phase in innovation – that of sensing and ideation – involves gathering information, analysing it, interpreting it, giving meaning and conceptualising and is accompanied by the generation of ideas. It is important here to first understand the external context, changes, new technologies, threats and opportunities that will impact the company before taking into account

the internal environment, reaching consensus and agreeing on potential solutions before moving on to taking action. Not least, innovation is change – and subsequently requires a shift in values and behaviours towards sustainability from the out start. The Shanghai Metro acted on it by launching a "Low Carbon at Work" project for its employees that promotes awareness, using ecogestures in daily work, and setting up a reward and sanction system to change energy consumption behaviour.

The firm is active in gaining and interpreting institutional information including five-year plans, government statements and industrial policies to assist in understanding and decision-making. And in this sense, it transitions from passive to active mode, interpreting and transforming government guidelines into a license for rapid innovation.

The second stage of innovation is configuration. It is here that the various internal players – directors, project managers and team leaders – need to set up, manage and coordinate the organisation's resources and capabilities to obtain value from the initial ideas. Practically, this amounts to a 4-pronged approach of acquiring and leveraging resources, creating new departments and structures, research and experimental development, and cooperation and learning.

And lastly, transformation calls for the implementation and development of the innovation into practice, all the while aiming for continuous a review and renewal to maintain a competitive edge. In essence, transformation refers to applying a range of new techniques and management practices to bring an innovation to market. In the Shanghai Metro case, this has manifested itself in the establishment of a low-carbon management system, applying low carbon technologies, developing a low-carbon business, and building low-carbon collaboration networks.

TICKET TO RIDE

Given the context, constraints and innovation process, Shanghai Metro's track record in sustainability-oriented innovation is impressive. Linked to its vision for the future to provide a safe, efficient, and high-quality low-carbon commuting service while building a "green metro", notable accomplishments are the improvement of the energy monitoring system, a four-stage road map for

low-carbon practices, and the setting up of a Rail Transit Technologies R&D Center – facilitating cooperation between industry, universities and companies – that has undertaken more than 600 R&D projects and obtained over 100 patents in the last ten years.

In addition, Shanghai Metro uses something called the Sunshine Procurement Platform to work with environmentally-friendly suppliers and has signed a long-term partnership with Longi and Huawei to provide low-cost, efficient and customised components for solar panel construction, enabling Shanghai Metro to achieve the industry's first "Metro + Photovoltaic" initiative.

Another innovation relates to construction of new underground stations in the guise of award-winning (International Tunnelling Association and LEED Silver certification) "non-excavation" techniques involving the recycling of waste for road repair, backfilling and foundations which has resulted in converting over 100,000 cubic meters of waste materials into valuable, on-site resources, reducing solid waste pollution, and minimizing disruption to the transportation system.

In terms of developing low-carbon business, Shanghai Metro set up the subsidiary New Energy Co., Ltd whose main business revolves around energy conservation consulting and power development. Its achievements include the reduction of 37,795.32 tons of carbon dioxide emission through photovoltaic systems and the generation of 58m Yuan in revenues that are ploughed back into the Shanghai Metro to finance its green revolution. Going further, the firm has expanded its consulting activities to cover low-carbon certification and green tech services.

Customer awareness also plays a part in the big picture of sustainability. As a fully-automated Smart Metro, Shanghai Metro offers incentives for citizens to use the underground system, promotes green and eco-friendly lifestyles, and offers QR-code promotional campaigns to adopt them.

THE JOURNEY AHEAD

State-owned companies and governments worldwide can draw several key lessons from this case. Clearly, encouraging sustainability-oriented low-carbon innovation activities – acquiring low-carbon resources, building low-carbon management systems, investing

in low-carbon technologies, cooperating with low-carbon networks, and learning from others are important factors. SOEs would be wise to keep an eye on shifts in technology and changes in low-carbon developments. Sustainability in general, and sustainable innovation, need to be at the core of the SOE's mission and endorsed by senior management and state stakeholders. Government frameworks for their SOEs also need to be more supportive of sustainability and allow for dedicated funding for SOEs to achieve their green goals. They could also help by setting up trading platforms for low-carbon tech to stimulate R&D and the commercialization of it.

All in all, far from shying away from the tensions and constraints generated by the paradox of a state-owned firm's purpose of social and financial requisites and sustainability goals, these should be embraced to trigger innovation and solutions. For the invention, development and roll out of new ideas is a source of continuing vitality for both firms, the planet, and positive change in society.



BiGS Actionable Intelligence

Decisions Fit for the Future: Greening up corporate impact

Natalie Nicholles



Natalie Nicholles, Executive Director of the **Capitals Coalition**, looks at how leading companies are reprioritizing the capital we depend on to run the business to create impact for employees and the wider system of things.

By Natalie Nicholles, Executive Director of the Capitals Coalition with kind acknowledgments to Harvard BiGS.

Let's be honest—we are not winning. By October 2026, companies will have exhausted their total carbon budget to stay within the 1.5 °C Paris Agreement target. In the hour and a half after you read this, an additional nine species will have gone extinct, according to the United Nations Convention on Biological Diversity. And we are already beyond the safe operating space for six out of nine planetary boundaries, according to the Stockholm Resilience Centre.

We can see the impact. Global economic instability from these challenges, compounded by wars and more polarized societies, makes it easy for business leaders to feel powerless. And the recent election in the U.S. might make progress on these issues feel even more difficult.

BUT WE HAVE POWER

The scale of these issues, though pressing, is not insurmountable if we view them differently — as unprecedented opportunities for innovation and collaboration. And if we recognize that these challenges are interconnected, they then require a different way of dealing with them, both in our daily lives and in how we run our companies and investments.

At a roundtable on Europe's Green Transition hosted by the Institute for Business in Global Society (BiGS) at Harvard Business School, we agreed that economic instability caused by climate change, nature loss, and growing inequality is a problem of the global commons—resources from which we all benefit but no one owns. We also recognized that this is a problem we have not had to contend with in our history until now because it was only in the last century that both population and the demands of a modern lifestyle put such substantial strain on the planet.

Our typical approach to decision-making, which prioritizes financial capital and GDP growth, drove an output economy (i.e., the pursuit of the production of paid-for things). Over the past 70 years, this delivered notable prosperity, alongside a belief that competition and markets will solve all problems. But this same approach is now proving inadequate to find solutions to the problem of the commons, and therefore to our global economic stability. It's time for an update.

DECISIONS FIT FOR THE FUTURE

This update means our starting point is not the output economy of the past, but the impact economy of the future. This impact economy favors a broader set of socioeconomic outcomes intended to drive economic success. It means leveraging all forms of capital—natural, social, human, and financial—to provide more profitable and sustainable outcomes for all people living on the planet.

Leading companies are reprioritizing the capital we depend on to run the business: from the skills of our staff to the communities where we operate to the natural resources we use in our supply chains. Experiments with decision-making this way have been growing for decades.

The most recent development currently being piloted by leading companies, Beta Framework for Integrated Decision-Making, is a huge advancement, as it allows companies to develop innovative solutions that address the interconnectedness of performance on four capitals, rather than just one (financial). Experiments lead to action, as we see from Natura, a Brazil-based global cosmetics company. By leveraging integrated profit & loss accounts to value all capitals, they exemplify a commitment to regeneration across their business. Natura amplifies positive impact through innovative financial tools, such as blended finance and a recent R\$1.3 million sustainability-linked debenture tied to Amazonian bio-actives, underscoring the fusion of nature and innovation at the heart of their strategy.

But decision-making based on all capitals alone isn't enough, of course. Smart collaboration is how we will win the fight against the systemic risks that threaten our economies.



Our starting point is not the output economy of the past, but the impact economy of the future.



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EXAMPLES OF SYSTEM COLLABORATIONS

So, what does it take to collaborate across the economic system? Where companies have an abundance of capacity for innovation and action, they often lack the legitimacy to enact broad-scale policy changes. On the other hand, governments have legitimacy but are often constrained by limited capacity or political pressures. The key to effective, systemic collaboration lies in creating a mutually beneficial environment where both parties can contribute and put their unique strengths into practice.

There are many examples of successful collaborations, both old and new. In 1959, three major insurance associations came together to reduce highway safety risks in the United States. Together they represented about 80% of the United States auto insurance market. Choosing to address these risks rather than simply increase auto insurance rates, they established the Insurance Institute for Highway Safety (IIHS). The Institute has significantly influenced vehicle safety in the U.S. ever since, from conducting crash tests that have led to improved vehicle designs, to influencing federal safety standards and providing consumers with safety ratings for vehicles.

More recent examples show companies using their voices to advocate for ambitious action that addresses the systemic risks of today. The corporate collaboration that delivered the Natural Capital Protocol in 2016 is one example. This collaboration harmonized 40 different approaches by major (competing) consultancies and companies to manage their relationship with nature. It created a level playing field for managing nature risk for the global commons.

Another example is from 2022 when hundreds of companies and financial institutions called for governments to hold them accountable for their future impact and dependencies on nature through the development of the Global Biodiversity Framework (GBF). It worked. Target 15 requires the assessment and disclosure of nature-related risks, impacts, and dependencies by large companies and financial institutions through operations, supply chains, and portfolios, alongside a reduction of negative impacts on biodiversity.

These successful ventures have a common characteristic: they offer benefits to policymakers, businesses, NGOs, and financial institutions, creating a mutually attractive environment for collaboration. It is this type of transition we need to move toward, and both businesses and governments play a pivotal role.

Companies need to be recognized for their leadership, such as transforming their finance functions to define performance on all capitals, like the food company Olam Agri, or investing in integrated profit & loss accounts like cosmetics giant Natura & Co. Regulatory recognition, public recognition, and cost of capital recognition are urgently needed to speed up the transition.

A NEW ERA OF COLLABORATION

Governments need support to create enabling policies that invest in sustainable infrastructure and support innovative solutions. Major opportunities exist for innovation and collaboration, such as working together to transition away from the \$7 trillion implicit and explicit fossil fuel subsidies and direct capital toward creating the conditions for a speedy transition to net-zero and nature-positive to deliver stable economies.

By working together, we can harness the power of systems collaboration to win the fight. The next "industrial revolution" is fast upon us and our economies will adapt. How fast we transition to an impact economy is wholly dependent on how much trust we can build in one another to collaborate, and how courageous we are willing to be.



CoBS Insight

Three Purposeful Leadership Strategies: When East meets East

Keikoh Ryu



Japanese firms contribute significantly to China's economy, with many subsidiaries employing thousands of Chinese employees. What managerial approach do these firms use to ensure both employee motivation and wellbeing, and harmonious Sino-Japanese relations? Prof. **Keikoh Ryu, Keio Business School**, shares his research and reveals the 3 ethical climates necessary to address this.

Related research: *Theoretical research on organizational ethical climate: applications and practices of Japanese enterprises in China*, (Journal of Economic Behavior, 2017).

WHEN TWO DRAGONS MEET: JAPAN AND CHINA

Studying Japanese firms operating in China is essential for several reasons. Firstly, Japan and China have significant economic ties, with Japan being a major investor in China. Understanding Japanese firms in China is crucial for comprehending this bilateral economic relationship and its impact on the global economy. Secondly, Japanese firms in China represent a blend of Japanese management styles and Chinese work culture. Examining how these firms operate can provide insights into effective cross-cultural management strategies and the challenges of integrating different business cultures. At the same time, Japanese firms contribute significantly to China's economy and have a notable influence on global markets. Indeed, studying these firms can offer valuable insights into market trends, consumer behavior, and economic policies in China and beyond. And lastly, studying Japanese firms in China can inform policy-making and strategic decisions both within these companies and at the governmental level. This includes decisions related to trade, foreign investment, and international relations.

THREE ETHICAL CLIMATES

The research identifies three types of organizational ethical climates in JFMEs: Golden Mean style, Social Responsibility style, and Friendship-Efficiency style. The "Golden Mean" style of ethical climate is derived from the idea of the golden mean, a concept of moderation in traditional Chinese philosophy, which has been incorporated into Japanese management practices. It combines a focus on balancing friendship and self-interest, team interest and profit. The resulting tension between self-interest and profit on the one hand, and team interest and friendship on the other has been shown to result in an effective leadership style and a positive ethical climate.

The "social responsibility" style of organizational ethical climate also prioritizes self-interest but is infused with a sense of altruism toward others and society at large. It has become increasingly prominent as the Chinese government's focus has shifted from economic growth to social welfare. While over the

course of reform and opening-up, efforts have been made to extricate the management and operations of enterprises from government oversight by focusing on macro-economic regulations, the Chinese government continues to intervene in the economic activities of Chinese enterprises, and it has an outsized impact on organizational ethical climate. At the same time, the tendency of JFMEs to prioritize corporate social responsibility is also a product of the historically fraught relationship between China and Japan, as they aim to overcome the reluctance that some locals may have to Japanese products. Only with a positive image, which comes from assuming greater social responsibility, can JFMEs thrive in the Chinese market.

As for the "friendship-efficiency" style, JFMEs in China tend to act like multinational corporations in terms of their focus on international operations and increased efficiency through localization. At the same time, however, Japanese leaders place great importance on the individual needs of their employees, and positively impacting the organizational ethical climate. In fact, prior research shows that leaders play a pivotal role in influencing the formation and development of an ethical climate, and organizations' ethical standards are necessarily shaped by the psychological and behavioral makeup of their executives. This includes but is not necessarily limited to leaders' distinctive approach to problems, the values reflected in their managerial practices, the ethical distinctions they make, as well as the way in which they manage employee expectations. Therefore, to the extent that the management practices of JFMEs tend to emphasize both efficiency and friendship, the "friendship-efficiency" style of the organizational ethical climate remains widespread.

THE LINK BETWEEN ETHICAL CLIMATE AND JOB PERFORMANCE

The study suggests that these ethical climates significantly impact job performance and organizational commitment. For example, the Golden Mean style positively influences normative commitment, while the Social Responsibility style enhances corporate image and perceptions of fairness among employees. The Golden Mean style significantly influences normative commitment in JFMEs, with an influence coefficient of 0.75, indicating a strong positive impact; the style is characterized by a balance between employee



Ethical climates significantly impact job performance and organizational commitment.



satisfaction, team spirit, and fairness in wages. It fosters a sense of fairness and belonging among employees, contributing to a normative organizational commitment. The Golden Mean style blends a focus on team spirit and a caring organizational ethical climate with operational self-interest. This blend typically leads to a stronger commitment to organizational norms and values among employees.

As for Social responsibility style, the evidence in the SEM (structural equation modeling) regression data clearly shows that the observed variables associated with the social responsibility style of organizational ethical climate exert a significant positive impact on normative commitment, as well as on the measurement of the observed variables of social responsibility and organizational commitment. It is clear that the social responsibility style of organizational ethical climate can help JFMEs enhance their corporate image while encouraging normative commitment among employees by instilling in them a sense of fairness.

Moreover, the results suggest that the friendship-efficiency style of organizational ethical climate has a significantly positive impact on normative commitment with an influence coefficient value of 0.31. In addition, the following SEM regression tables reflect the significance of other observed variables, as well as the impact of the endogenous variables on the exogenous latent variables. The management philosophies of JFMEs

are necessarily influenced by Japanese culture and are based on the belief that self-interest and efficiency should ultimately be grounded in altruism. As a result, the tendency of Japanese enterprises to place a special emphasis on employee and consumer satisfaction leads to the development of a friendship-efficiency style of organizational climate, under which loyalty is fostered through training, investment and the cultivation of an overall sense of belonging.

PRE- AND POST-COVID-19: WHAT DID THE PANDEMIC CHANGE?

The COVID-19 pandemic has undoubtedly brought significant changes to many aspects of organizational functioning, including the impact of organizational ethical climates on job performance. The Golden Mean style emphasized balance, including employee satisfaction, team spirit, and fairness in wages, leading to a normative commitment to organizational values. The pandemic's challenges, like remote work and health concerns, might have amplified the need for balance. Organizations may have had to adapt by placing greater emphasis on mental health, work-life balance, and effective remote work policies. This could lead to a deeper understanding and implementation of the Golden Mean style, potentially enhancing its positive impact on job performance.

The Social Responsibility Style typically focuses on the well-being of employees and the larger community, emphasizing ethical considerations in business decisions. Here, the pandemic heightened awareness of social responsibility, particularly regarding employee health and safety and community support. Companies that actively engage in protecting their employees and contributing to societal needs may have seen increased employee loyalty and motivation, potentially leading to better job performance.

The Friendship-Efficiency Style focuses on fostering strong interpersonal relationships and efficient work practices. As such, the shift to remote work might have challenged the maintenance of close interpersonal relationships, necessitating new strategies for team building and communication. However, the efficiency aspect might have been bolstered as companies streamlined operations and adopted new technologies to cope with the pandemic's challenges.

ADVICE FOR INVESTORS IN CHINA

Firstly, it is important for investors to understand the cultural dynamics in China. Understanding and respecting Chinese cultural and ethical norms is crucial. Investors should be aware that local employees might have different expectations regarding organizational ethics, which can significantly impact their commitment and

performance. As mentioned, the study highlights ethical climates like the Golden Mean style, which emphasizes a balance of employee satisfaction, team spirit, and fairness in wages. Investors should consider these aspects when shaping the organizational culture of their ventures in China.

And secondly, it is also necessary to ensure a balanced approach to management, focusing on employee satisfaction, fairness, and team spirit (The Golden Mean). This balance is crucial for enhancing employee commitment and job performance. Given the increasing global focus on social responsibility, investors should prioritize ethical business practices that consider the well-being of employees and the community. This could lead to better brand perception and employee morale. Moreover, develop strategies to foster strong interpersonal relationships while maintaining efficiency. This may include team-building activities, effective communication channels, and encouraging a collaborative work environment.

By focusing on these areas, investors can create a conducive and purposeful work environment that aligns with local cultural norms and ethical expectations, thereby enhancing organizational commitment and job performance in their Chinese ventures.



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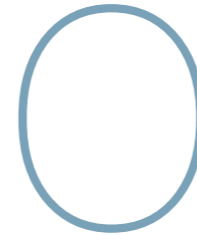
Moving Beyond the Business Case for Equality

Drew Keller



Drew Keller, Director of the **Harvard Institute for Business in Global Society**, explores how the business case for diversity and inclusion in US firms has come under increasing pressure in current times to propose an alternative for keeping the cause on the list of corporate policy.

By Drew Keller



Over the last several years, the business case for LGBTQ+ equality has become nearly universal in the United States. Nearly every major consulting firm has a report on it, and articles on LGBTQ+ inclusion in Harvard Business Review nearly always mention it. This is hardly surprising: The business case is exceptionally robust.

However, it is also complex, and the benefits of LGBTQ+ equality tend to take many years of hard work to arrive. Relying on the business case can set unrealistic expectations and cause executives to back away from their support of LGBTQ+ equality when circumstances change. And in the face of intense polarization and a well-coordinated campaign against LGBTQ+ equality, using the business case is no longer a winning strategy for achieving LGBTQ+ equality in the United States.

WHEN THE BUSINESS CASE WORKS: GIVING 'COVER' AND GETTING A FOOT IN THE DOOR

I know both sides of the argument.

Before leading Harvard Business School's (HBS's) Institute for Business in Global Society (BiGS), I spent four years compiling and synthesizing the evidence base for the business case for LGBTQ+ inclusion, discussing it with executives around the world, and developing new perspectives on the connection between LGBTQ+ equality and economic and business performance. In fact, Open For Business, the organization I formerly led, has identified 27 propositions underpinning the business case, spanning economic, business, and individual benefits that accrue in an inclusive environment. In addition, M.V. Lee Badgett, professor emerita at the University of Massachusetts Amherst, wrote *The Economic Case for LGBT Equality*, an eye-opening book on the economic case for LGBTQ+ equality. Among her findings: LGBTQ+ discrimination costs several countries at least 1% of their GDP.

I have also seen the business case for LGBTQ+ equality work in certain circumstances. At Open For Business, I spent my time building coalitions of business leaders in countries that had strong anti-LGBTQ+ sentiment and anti-LGBTQ+ laws in place—including Kenya, India (pre-2018), Eastern Europe, and the Caribbean. In many of these places, business leaders were much more likely to come to the table when they were presented with the business case.

Why? It was not because they only cared about LGBTQ+ equality if it meant making more money. While that was certainly a motivation, nearly all of them had a deep personal connection to the LGBTQ+ community and fundamentally believed that their country and company should be places where LGBTQ+ people could live happy, healthy, and productive lives. They simply needed the business case to give them cover to discuss such a taboo topic in environments where someone could go to jail for being gay. Once those business leaders engaged and advocated on behalf of LGBTQ+ communities, governments considered, and sometimes passed, pro-LGBTQ+ legislation. The business case was just the way to get our foot in the door.

EROSION OF SUPPORT REVEALS RISKS OF RELYING SOLELY ON BUSINESS CASE FOR DIVERSITY

Unfortunately, there are signs that the business case may be failing the LGBTQ+ community in the United States.

This is to be expected. Scholars who study diversity in organizations have found that relying on the business case does not lead to the sustained culture change necessary to drive lasting change in organizations. For example, Robin Ely, an HBS professor and an early leader in the racial and gender equity space, and David Thomas, president of Morehouse College, write that after 25 years of companies using the business case as the rationale for a focus on diversity, the companies "have largely failed to adopt a learning orientation toward diversity and are no closer to reaping its benefits. Instead, business leaders and diversity advocates alike are advancing a simplistic and empirically unsubstantiated version of the business case."



Ethical climates significantly impact job performance and organizational commitment.



Similarly, Jamillah Williams, a BiGS Fellow and professor at Georgetown Law, has found that organizations that rely heavily on the business case for racial equity have worse outcomes for Black employees than those that also discuss the moral or ethical case. According to Williams, this happens because organizations are too focused on the “surface-level benefits” of inclusion.

And we are starting to see the consequences of the overreliance on the business case in the United States. In 2023, there were high-profile campaigns against Bud Light and Target over their support of the LGBTQ+ community, which, at least for Bud Light, led to a sustained boycott. This created a chilling effect among companies, especially consumer-facing brands, in the United States. According to Gravity Research, a market research firm, 30% of consumer-facing brands planned changes to their Pride programming this year due to fear of consumer pushback. Even more concerning, according to polling by Gallup, the portion of Americans who believe gay and lesbian relations are morally acceptable has fallen by 7 percentage points since 2022, the largest drop since 2001.

Further, we have seen many brands make good on their plans to pull back support. Target reduced the number of stores with Pride displays. Nike did not come out with a Pride collection this year for the first time since 1999. The North Face stopped promoting its partnership with popular drag queen Pattie Gonia. And this is just naming a few.

It is hard to blame these companies for backing off, especially if they have consistently heard that they should support LGBTQ+ equality because it is good for their business. They did not see the “surface-level benefits” accrue, so went back to business as usual. It is what the research said would happen if we rely too heavily on the business case. Clearly, supporters of LGBTQ+ equality in the United States need to take a different approach to make sustained progress.

ADVICE: AFTER OPENING THE DOOR, SWITCH FROM BUSINESS CASE TO HUMAN FOCUS

So, what is the best strategy for supporters of LGBTQ+ equality in business? Unfortunately, we still have a lot to learn about what works and what doesn't when building inclusive organizations. However, here are a few recommendations from scholars around Harvard and from conversations I have had with dozens of business leaders:

- First, recognize that the business case is a useful tool in certain circumstances. Supporters of LGBTQ+ equality should use this data when engaging with business leaders or policymakers that are fundamentally opposed to LGBTQ+ equality, or need to use it as cover in less LGBTQ+ inclusive regions. As mentioned above, the business case can help reframe the conversation and get a foot in the door.
- Professor Jamillah Williams, BiGS Fellow, suggests to move from transactional to transformational language when discussing equality and inclusion for marginalized groups in your organization and in society. This means shifting away from the short-term aspects of the business case, and highlighting the human rationale for inclusive societies and organizations.
- Move to embed inclusion throughout your organization by focusing primarily on culture and organizational change. Frank Dobbin, professor of sociology at Harvard, and his co-author Alexandra Kalev suggest revamping key organizational systems to be more explicitly inclusive of marginalized groups.

Over the last 20 years, the United States has made significant progress toward realizing LGBTQ+ equality, both in business and in society. Now, in the face of new challenges, supporters of LGBTQ+ equality should be thoughtful about how they use the business case. It will still have a role to play, particularly in countries and regions in which LGBTQ+ people are economically and socially ostracized. By focusing on human-centered communications and sustained organizational and culture change, we can continue our steady march toward building fully inclusive organizations and societies.



CoBS Insight

From Doing to Becoming: Reframing sustainability as purpose

Ana Carolina Aguiar and Fernanda Carreira



Prof. **Ana Carolina Aguiar**, researcher at **FGV EAESP** and independent consultant and Prof. **Fernanda Carreira**, Head of the FGV EAESP **Center for Sustainability Studies**, draw on their experience with executive training initiatives in the Amazon to ask the question: What does it take for sustainability to truly guide us as purpose?



"The greatest thing in this world is not so much where we stand as in what direction we are moving." – Johann Wolfgang von Goethe



PURPOSE: EASY TO SAY, HARD TO DO – EVEN HARDER TO BECOME

The world in which we stand presents us with inescapable debates about which direction we are moving. One is the difficulty of making a planetary commitment to phase out fossil fuels – despite all the warnings from scientists we see climate disasters growing before our eyes. Another is the fragility – or illusion – of the DEIB (Diversity, Equity, Inclusion and Belonging) agenda in organizations, of the combat of human rights violations, or of the efforts for poverty reduction. Even the ESG (Environmental, Social and Governance) agenda, which has grown in popularity, seems as volatile as the financial markets. Yes, we continue to witness the struggle – and often failure – to translate ambitious corporate purpose statements into meaningful transformation. Sustainability remains trapped in instrumental logic: a checklist of KPIs, reports, and risk management strategies.

At the same time, we hear both young professionals saying they are driven by Purpose, and longer-serving executives reaching a rethinking stage in their lives. It is very common to hear from our Master's in Sustainability students at FGV EAESP: "After so many years in the market, I feel the need to reframe my Purpose, to reconnect with something deeper and greater. What legacy am I leaving?" This leads us, as researchers and practitioners of sustainability strategy and education, to ask ourselves: what does it mean to have sustainability as a purpose?

REIMAGINING THE PURPOSE OF PURPOSE

In theory and in practice, purpose is the reason why people and organizations do things, determining the direction in which they are moving. In a world marked by climate collapse, social fragmentation, and loss of meaning, we propose that it is not enough to know why we do what we do. We need to ask ourselves: What kind of future can we imagine? And who do we need to become to help realize it?

Sustainability as purpose implies an ethical and relational reorientation. It shifts the question from "What should we do?" to "Who should we be?" and "How should we relate?" This perspective invites not only organizational change – away from an egocentric, functionalist and short-term orientation – but transformation of oneself and one's relationships – an ecocentric, relational and long-term orientation.

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We have pursued this direction in our educational and research initiatives at the Center for Sustainability Studies of FGV EAESP. Not as a brand or a methodology, but as a lived commitment to fostering spaces where other ways of knowing, relating, and becoming can emerge. Our initiatives at the Center include award-winning integrated programs for future leaders at undergraduate level and also professionals already working in sustainability or seeking a career transition to this area. Here, self-awareness, relationships with stakeholders and innovation are prime skills that we develop. A second flagship initiative is that of Sustainable Leadership – the rainforest perspective, an immersive experience in the Amazon. Here, leadership is seen from a different perspective with meetings with indigenous communities and cultures, the social and environmental challenges becoming tangible as students observe devastated parts of the forest or hear from local communities about cultural and biodiversity losses including the river itself which is increasingly subject to periods of drought.



It is not enough to know why we do what we do. We need to ask ourselves: What kind of future can we imagine? And who do we need to become to help realize it?



In this instance, systems thinking and a sense of place and ties with stakeholders are the main skills developed. All in all, these initiatives help with NGO capacity building for a more qualified performance during the COPs through international negotiations simulations on climate change, as well as developing research on leadership and education for sustainability, dialogic organization development and transdisciplinary education. Indeed, feedback from executive students points to them reflecting on their type of leadership, how their actions as business leaders impact relationships and results, and what kind of future impact they wish to make as a person, professional, citizen and as an individual on the planet. In short, there occurs an awareness that they are part of the system.

Based on more than ten years offering and learning from these experiences, we offer three central dimensions for reframing sustainability as purpose.

WHAT DOES IT TAKE FOR SUSTAINABILITY TO TRULY GUIDE US AS PURPOSE?

Our experience and research suggest that sustainability as purpose goes beyond statements of great intention or strategic planning. It involves nurturing internal and collective conditions that enable a deep alignment between values, identity work and actions. Three dimensions have emerged as essential in this journey:

1. Imagination

Purpose needs direction, and direction requires imagination and innovation. Especially in sustainability, where the future is uncertain and the risks are systemic, the ability to envision alternative ways of organizing life and business is vital. We use speculative storytelling, Indigenous epistemologies, and scenario thinking to help our participants articulate futures worth striving for.

2. Dialogue

Purpose is rarely discovered and pursued alone. It emerges in conversations, differences, contradictions, and co-construction. In our programs, we use dialogue not just as a teaching method for stakeholder relations, but as a space for inclusive and ethical encounters. Dialogue, for us, is not about reaching consent or eliminating differences, but shortening distances and finding ways of going on together, despite our differences. This allows participants to meet different people, listen beyond the surface, challenge their own assumptions, and experience interdependence as a lived reality.

3. Embodied Experience

Purpose must be felt to become real. Transformation does not happen only through rational argument. We create experiential processes – from field immersions and artistic explorations to silence rituals – that invite people to reconnect with their emotions, intuition, and sense of place. This grounds purpose in the body, making personal or organizational narratives more tangible (literally felt), which promote deeper and enduring transformations.

Together, these dimensions shift purpose from an abstract goal to a relational, evolving practice. However, our research shows that such shifts occur differently at individual and collective/organizational levels, which brings us one last, but not less important, reflection.

THE PURSUIT OF INDIVIDUAL VERSUS ORGANIZATIONAL PURPOSE

Organizations already aligned with the need of overcoming sustainability challenges often come to the Center for Sustainability Studies of FGV EAESP looking for frameworks, tools, or ESG indicators. This is already an important and positive step. But as we have argued above, these strategies have proven insufficient given the extension of our social and environmental problems. Many leaders, then, gradually reveal another and often more personal quest: the search for coherence between their values and their actions within corporate contexts. A desire to reconnect with a sense of meaning beyond performance.

That is where significant tensions emerge, since the notion of success and performance of organizations are deeply rooted in the paradigm of utility/functionality, control and unrestricted growth. This puts professionals in a place of constant struggle between several tensions: personal purpose *versus* organizational demands, economic *versus* social and environmental priorities, short *versus* long-term goals, objective metrics *versus* subjective and systemic parameters, planned *versus* emergent results, local *versus* global/scalable impacts, engagement of *versus* dialogue with different stakeholders.

While for some professionals, these challenges may lead to paralysis, for those being transformed through imagination, dialogue, and embodiment, they create a sense of freedom. This is because embracing sustainability as a purpose ultimately means realizing that purpose is not about reaching a perfect finishing line, but about choosing to move in a different and better direction – no matter how contradictory and ambiguous this path may be. This does not mean that organizational and structural changes are not important – they are crucial. And exactly because of that, a sense of paralysis is counterproductive. A purpose ignited by creative imagination, dialogue, and deeply embodied felt experiences can tap into existing potential, already available here and now, regardless of external perfect conditions.

THE PATH OF BECOMING

Educating for sustainability is not about transferring knowledge or offering quick solutions. It is about creating the conditions for different imaginaries – and different ways of being and relating to the world – to take root. In times of uncertainty and collapse, we have learned – alongside our researchers, clients and students – that the most powerful work we can do is to hold space for transformation. Thus, when we hear this other common question from students "Will we have enough time [to solve the climate crisis]?", we answer with another question, reframed by our notion of sustainability as purpose:

"What will you choose to do and who will you choose to be with the time you have?"

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Harvard Business School's Institute for Business in Global Society is pleased to present research-backed insights about climate change in this collaborative publication. This content combines the latest thinking of faculty, researchers, and business leaders from both Harvard Business School BiGS and the Council on Business & Society's member schools. We invite you to explore – and share – this publication and to increase your understanding of climate change, a critical global challenge we all face. We hope that the expert knowledge provided here will motivate you to take meaningful action.



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The Council on Business & Society (CoBS) is delighted to welcome you to this special joint-publication on the pressing issue of climate change. Bringing together the expertise of leading faculty, researchers, and industry experts from the CoBS member schools with those of the Harvard Business School Institute for Business in Global Society (BiGS), our wish is that this publication sparks awareness, builds on your existing knowledge or provides you with further insight in order to take an active part in addressing one of the most urgent and necessary issues of our times – climate change. We hope you enjoy your reading.



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Climate Change

And you?

As the green transition unfolds, academia and education can serve both as catalysts for developing managers and leaders willing to deploy sustainable and responsible business practices, and as partners to business and industry in forging workable solutions.

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