Combining **profit** and **purpose**:

A new dialogue on the role of business in society
October 2014

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Foreword

In the 40 years that I have been in business, expectations of business and its role in society have changed. When I started my career, the key marker of success began and ended with financial results. Today, as society is facing more serious challenges, from resource scarcity to concerns around health and well-being, more and more companies are committed to creating a profit while also defining their broader contribution to society.
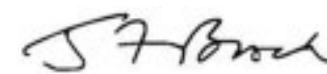
As Chairman and CEO of Coca-Cola Enterprises, the largest manufacturer, distributer and marketer of Coca-Cola products in Western Europe, I have been a firm advocate of two principles - that business must contribute to society and the environment, and that every investment a company makes should return value to the business. I do not believe these principles are mutually exclusive - in fact, I believe they are mutually beneficial.

This report explores the opinions of the business world on the social purpose of business - incorporating the views of both current CEOs of major European businesses and those we expect to be the future leaders of our businesses. Its findings are clear - both groups firmly believe business should provide value to society above and beyond a financial return to shareholders. They believe successful organisations take a holistic approach to how they define value, seeking 'shared value' between profit and wider society.

This imperative to social purpose can only become more pronounced as the mantle of business leadership passes onwards. The 'millennial' generation that is now entering the workforce are the CEOs of the future, and they have even higher expectations than their predecessors.

At Coca-Cola Enterprises, we've truly challenged the way we think about our business since launching our sustainability plan in 2011. We have moved from focusing on what we do inside our own four walls to exploring how we can be more sustainable across all aspects of our value chain - from sourcing to sales. These changes to our core approach to sustainability have driven us, informed us and challenged us. We recognise that we still have a long way to go on this journey, particularly as expectations of business continue to rise.

The next phase of this journey is finding new ways for all of our businesses to successfully combine profitability and purpose. As we seek to meet the expectations of a new generation of employees, customers and investors, this report provides powerful food for thought for the challenges ahead.

John F. Brock
Chairman and CEO
Coca-Cola Enterprises

Executive summary

What is the purpose and responsibility of business, now and in the future? This is the topic that Coca-Cola Enterprises (CCE) commissioned the Doughty Centre for Corporate Responsibility to explore ahead of its 2014 Sustainability Summit. We did so through interviews and surveys with current and future European business leaders, as well as desk research.

While current business leaders have grown up and managed businesses through a period of drastic change where business purpose and responsibility have been tested to new limits, future leaders have experienced both recession and societal stresses that they see worsening in the future. As a result, the two generations have very different views of the 'social purpose' of business and how well companies are delivering it.

1. Should business have a social purpose?

Current and future business leaders both agree overwhelmingly that businesses should have a social purpose. However, defining social purpose is more challenging. While future leaders perceive social purpose and commercial purpose to be inextricably intertwined, many current business leaders do not equate social purpose automatically with corporate responsibility or sustainability, while other business leaders link social purpose and CSR activities more explicitly.

2. Does business now have a social purpose? If so, what interpretation of social purpose?

While current and future business leaders agree overwhelmingly that businesses *should* have a social purpose, far fewer future leaders than current leaders agree that businesses currently *do* have a social purpose. For future leaders, social purpose indicates: operating in a responsible, transparent manner, with regard for social and environmental impacts; taking a long-term view of the company's fortunes; being prepared to consider alternative business models and being willing to collaborate with Government, NGOs and other actors to build a more prosperous society. For current leaders, responsibilities equate with optimising social and environmental impacts.

3. What is hindering companies' efforts to fulfil their social responsibilities?

Current and future business leaders differ in their views regarding the barriers which prevent companies fulfilling their social responsibilities. Future leaders believe that *internal* issues such as management attitude, lack of information and financial considerations are the biggest barriers. By contrast, current leaders perceive *external* issues such as government and legislation and regulators to be among their firms' biggest barriers to combining social and environmental purpose with profit.

4. What would encourage businesses to adopt a social purpose?

Both current and future business leaders feel businesses that combine societal and economic value will have competitive advantage now and in the future. However, fewer future leaders than current leaders feel that those businesses that focus purely on economic value will have competitive advantage. While current leaders highlight the benefits of adopting a social purpose as relevance to the next generation, business survival and closer relationships with customers as key benefits, future leaders cite engaged employees, increased innovation and increased trust in business as the major returns.

5. How should a business define its purpose?

Both generations perceive profitability and shareholder value as indicators of current business success. However, while current leaders believe these will remain key, future leaders believe future indicators of success will include societal and environmental impact, innovation and development of talent, all of which reflect integration of social purpose into the business.

Overall, we see an evolving spectrum of views and understanding about business purpose and business dynamics, requiring new leadership skills and a fresh approach to managing, developing and retaining talent. An enabling environment to encourage businesses to define their purpose might include requirements to cost the externalities and greater corporate transparency and accountability. Companies themselves need to collaborate better to share examples of business success and provide clarity around their social purpose.

Contents

This report summarises and contextualises the findings of parallel surveys and in-depth interviews with serving CEOs as well as current and recent students of leading European business schools. It was commissioned by Coca-Cola Enterprises (CCE) ahead of its 2014 Future for Sustainability Summit and conducted over summer 2014. What is unusual and important is the deliberate attempt to compare the attitudes and views of engaged current business leaders and future leaders on business today - but also crucially on business tomorrow.

Together, these surveys and interviews with sustainability-aware professionals provide intriguing insights into evolving ideas about the purpose of business and its place in a connected, global society.

Our research: Exploring corporate purpose and responsibilities

How are businesses combining duties to shareholders to drive for profit with a broader social purpose? This is the broad question which CCE commissioned the Doughty Centre for Corporate Responsibility to explore through interviews and surveys with current and future European business leaders, as well as through desk research.

Specific questions asked in this research include:

- What is the purpose of business?
- Should business have a social purpose?
- Does business now have a social purpose? If so, what interpretation of social purpose?
- What is hindering companies' adoption of a social purpose?
- What would encourage businesses to adopt a social purpose?
- How should business define its purpose?

For each question, we compare and contrast the views of current and future business leaders as well as provide commentary from the Doughty Centre for Corporate Responsibility. Finally, we reflect on how current and future business leaders might engage in a productive dialogue on business purpose and the role of business in society, and what this will mean for business leadership now and in the future.

Methodology

Parallel surveys of current CEOs (henceforth called current leaders) and the future generation of business leaders (henceforth called future leaders) were conducted by, respectively, the Financial Times' FT Remark and the Doughty Centre for Corporate Responsibility, together with the international student organisation Net Impact during June and July 2014.

The first survey, of current leaders of companies with a public commitment to corporate responsibility and sustainability, involved telephone interviews with 50 CEOs across Europe. Geographically, respondents were almost evenly split across specific countries. All interviews were conducted by telephone and the results analysed and collated by The Financial Times' FT Remark. The second survey, conducted with future leaders, involved almost 150 MBA and MSc students and recent graduates across Europe. It was conducted online by Cranfield's Doughty Centre for Corporate Responsibility and Net Impact.

In parallel, the Doughty Centre conducted 1:1 interviews with five corporate CEOs from Benelux, Scandinavia and the UK; and with five future generation leaders from France, Germany, Netherlands, Sweden and the UK. This was a self-defining group: current and future leaders who are committed to responsible business and social activism.
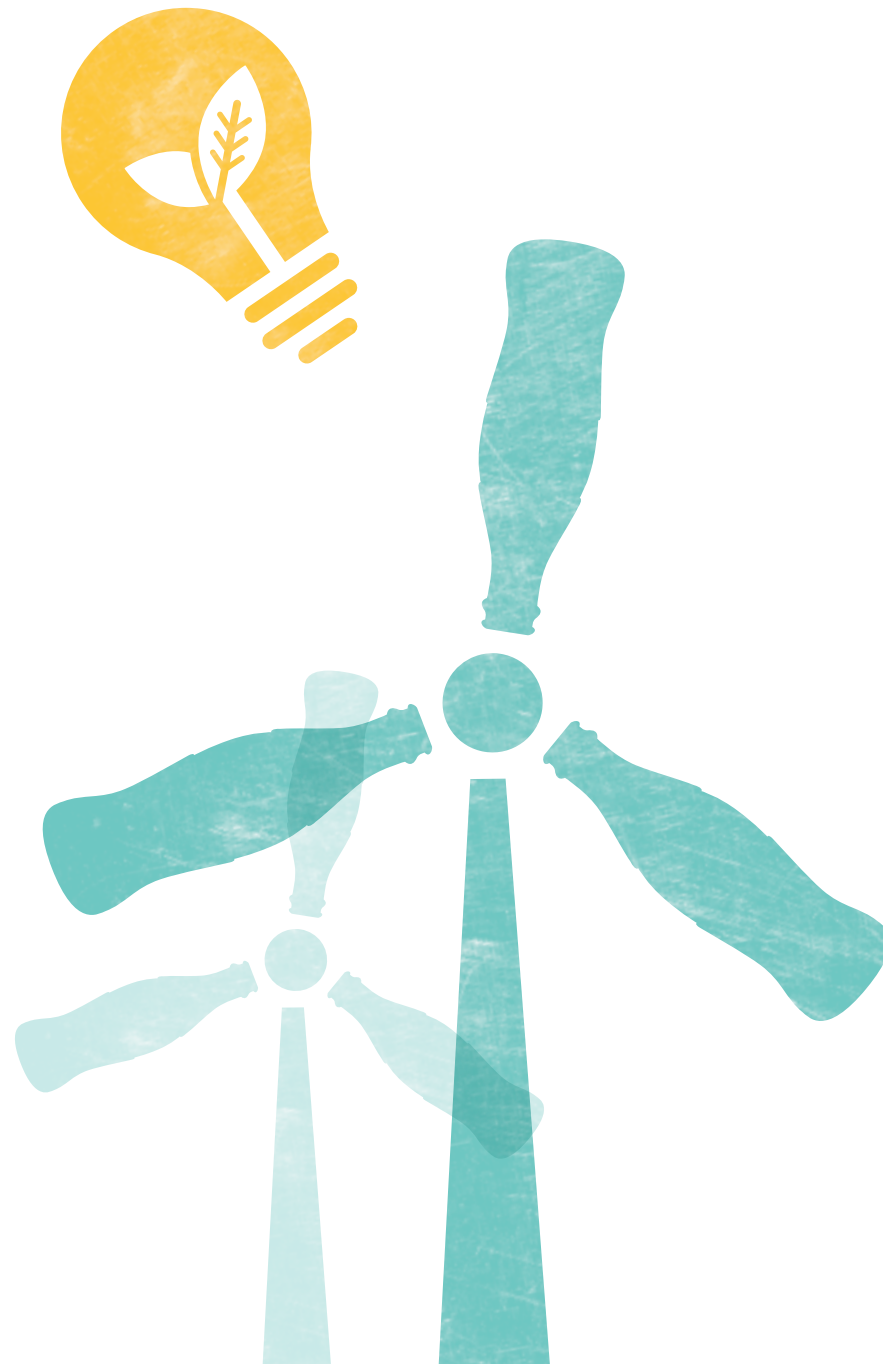
During our research we asked future leaders what they thought the purpose of business was. One clearly but firmly replied:

"It's obvious - if we are not talking about it [social purpose], if business is not aiming to create equity, then they are left behind. It is so matter-of-fact that we have moved on from questioning it. Those who do not move on won't survive."

Future leader, The Netherlands

But is this a view shared by both generations? Over the last 40 years, current generation leaders have grown up and managed businesses through a period of drastic change, where business purpose and responsibilities have been tested to new limits. The next generation of future leaders by comparison is having very different experiences, stemming not just from the recent recession but increasing societal stress. No surprise, then, that we found that the two generations have very different definitions of what social purpose is and therefore why they think business is or is not delivering that social purpose. This fundamental question of the purpose of business is, once again, up for debate.

What is a company for?

In 1943, the then chairman of Johnson & Johnson (J&J), Robert Wood Johnson II, wrote the J&J "credo". It proclaimed that J&J's first responsibility was to its customers and then to employees, management, communities, and stockholders in that order. As Professor Robert Reich notes in a recent *Harvard Business Review* blog:

"A half-century ago, CEOs typically managed companies for the benefit of all their stakeholders - not just shareholders, but also their employees, communities, and the nation as a whole. "The job of management," proclaimed Frank Abrams, chairman of Standard Oil of New Jersey, in a 1951 address, "is to maintain an equitable and working balance among the claims of the various directly affected interest groups … stockholders, employees, customers, and the public at large…" This view was a common view among chief executives of the time."[1]

Maximising Shareholder Value

The J&J credo was a view that was rejected by the Nobel prize-winning economist Milton Friedman. In his 1962 book '*Capitalism and Freedom*', Friedman declared that *"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, engages in open and free competition without deception or fraud."* He subsequently criticised managers of businesses who were *"spending someone else's money for a general social interest."*[2]

This led to the idea that the purpose of a company was Maximising Shareholder Value (MSV). The birth of the shareholder value movement is commonly traced to a speech that Jack Welch gave in 1981, shortly after taking the helm at General Electric (GE). He did not mention the term but outlined his beliefs in selling underperforming businesses and cutting costs to increase profits faster than global economic growth[3].

MSV did not go unchallenged. Peter Drucker argued in 1973 that *"there is only one valid definition of business purpose: to create a customer."* Klaus Schwab, the founder of the World Economic Forum, and separately Ed Freeman, developed 'Stakeholder Theory', which proposed that businesses must consider the interests of parties other than shareholders[4].

Responding to both MSV and Stakeholder Theory, management guru and social philosopher Charles Handy asked the question *"What is a company for?"* in a seminal 1990 RSA (Royal Society for the encouragement of Arts, Manufactures and Commerce) lecture. He suggested that a company *"owes something to each of the ring-holders [stakeholders], but is owned by no one"*. He added that using profit as the principal yardstick of success confounded ends with means: *"How can a yardstick be a purpose? It is like saying that you play cricket to get a good batting average. It's the wrong way round. You need a good average to keep on playing cricket in the first team."*[5]

Nevertheless, the mantra that the purpose of a company is MSV became ever more pervasive, taught as an article of faith in the world's business schools, asserted in corporate boardrooms as a non-negotiable.

The result, as columnist Martin Wolf reflected recently in the *Financial Times*:

"Almost nothing in economics is more important than thinking through how companies should be managed and for what ends. Unfortunately, we have made a mess of this. That mess has a name: it is "shareholder value maximisation". Operating companies in line with this belief not only leads to misbehaviour but may also militate against their true social aim, which is to generate greater prosperity".[6]

Professor Roger Martin, then Dean of the Rotman School of Management, Toronto, writing in the *Harvard Business Review* in 2010, made the point that returns to shareholders have actually declined since MSV became the dominant paradigm. Martin described the paradigm as *"tragically flawed"* and, echoing Drucker, advocated focusing on the interests of customers instead[7]. Martin has declared that we are finally entering *"the age of customer capitalism."* If firms serve customers well, Martin asserts, benefits for shareholders and the community follow.
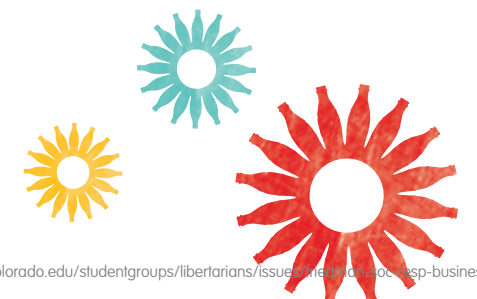
1 How Business Schools Can Help Reduce Inequality, Robert Reich , HBR Blog September 12, 2014
2 The Social Responsibility of Business is to Increase its Profits The New York Times Magazine, September 13, 1970. http://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html
3 "Growing Fast in a Slow-Growth Economy" 1981
4 See R. Edward Freeman, "Strategic Management: A Stakeholder Approach" (2010). http://www.cambridge.org/gb/academic/subjects/management/business-ethics/strategic-management-stakeholder-approach
5 Charles Handy, Michael Shanks Memorial Lecture, RSA, December 1990: http://www.som.cranfield.ac.uk/som/dinamic-content/research/doughty/Handy.pdf
6 Martin Wolf, "Opportunist shareholders must embrace commitment," FT.com, 26 August 2014, http://www.ft.com/cms/s/0/6aa87b9a-2d05-11e4-911b-00144feabdc0.html
7 Martin R, (Jan-Feb 2010), The Age of Customer Capitalism, Harvard Business Review p58-65

Beyond Shareholder Value

The anti-globalisation protests from the turn of the millennium, the global financial crisis, corporate scandals, loss of trust in business and the need to deliver inclusive prosperity within planetary boundaries have stimulated renewed interest in the purpose of business.

Various formulations of social purpose for business have been proposed. In *'Profits with Principles: Seven Strategies for Delivering Value with Values'* (2004), Ira A. Jackson and Jane Nelson suggest business should pursue SV2: shareholder value and societal value. The Sustainable Companies Project[8], coordinated by the Law School of Oslo University, which brings together senior legal academics from around the globe, proposes a new purpose of the corporation: to provide sustainable returns to investors within planetary boundaries. Corporation 20/20, an initiative convened by the Tellus Institute in the US, states its first principle as "*The purpose of the corporation is to harness private interests to serve the public interest*"[9]. Professors Michael Porter and Mark Kramer have suggested that business should seek shared value: simultaneously finding value for business and society[10].

1 | **Businesses should have social purpose**

88%
of current leaders

90%
of future leaders

agree

Our research among future leaders supports this view:

"The question of social purpose needs to exist, but not as a separate question. It's a given. I hope it's a transition period we are in between those who recognise that the type of contribution needs to change and so are bringing responsibilities into the management horizon, versus others who take profit as the single driver of success. They are facing pressures to transform and that pressure will elevate. Hopefully all businesses will realise this."

Future leader, UK

Rather than suggesting there is a common purpose that all businesses share, whether MSV or some alternative, Charles Handy suggested the true position is less definitive, less clear-cut. It depends, or rather it should depend, on the individual company. He concluded:

"Business purpose is something that each company must define for itself because it is, at its heart, a community (versus a property) … whose principal purpose is to fulfill itself, to grow and to develop to the best that it can be, given always that every other corporation is free to do the same. It owes something to each of the ring-holders [stakeholders] but is owned by no one. It is in charge of its own destiny, and it is immortal or would like to be. It is not a piece of property inhabited by humans, it is a community, which itself has property." [11]
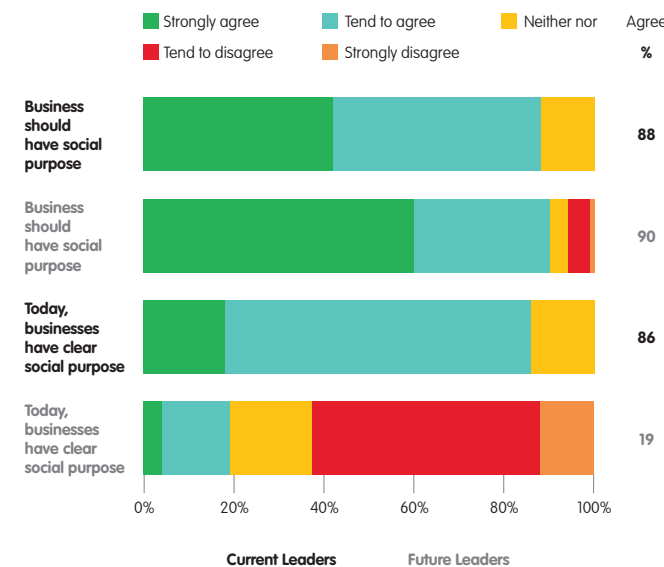
Key conclusion

Each company needs to define for itself its purpose and its core ideology. It is up to each company to decide whether that embraces social purpose and how that purpose is interpreted in practice. This is the paradigm shift.

Research results

Current and future business leaders both agreed overwhelmingly (88% and 90%, respectively) that businesses should have a social purpose.

Graph One - Business should have a social purpose

Legend		
Strongly agree	Tend to agree	Neither nor
Tend to disagree	Strongly disagree	

	Agree %
Business should have social purpose	88
Business should have social purpose	90
Today, businesses have clear social purpose	86
Today, businesses have clear social purpose	19

Current Leaders   Future Leaders

However, defining social purpose and therefore agreeing what social purpose is, was more challenging. Responses from both current and future leaders reflected a range of views about how to define social purpose and its relationship to corporate responsibility and sustainability.

Our interviews with future leaders suggested that they perceived social purpose and commercial purpose to be inextricably intertwined in business:

"Profit and social purpose cannot be separated. Any organisation has existed because it had a social purpose of one sort or other alongside making profit. Now these are not providing the right type of contribution we need, there is a disconnect that is becoming more obvious…"

Future leader, UK

"The business is not to be managed in isolation from society. The internet generation is a very connected, very organic networked culture and organisations need to relate to that. "

Future leader, Sweden

For some current business leaders, social purpose did not equate automatically with corporate responsibility or sustainability:

"I don't use social purpose or CSR or social responsibility when talking to colleagues and stakeholders - I prefer to talk about sustainability, which I think is a more profound concept. I think 'social purpose' is ambiguous. The first purpose of a company is to serve customers and, by doing so, to create value for shareholders and other stakeholders. For me, sustainability is about the capacity to continue into the long-term future - and for a corporation to be able to really do that, one has to take into account all important stakeholders and get rid of short-termism."

Thomas Leysen, Chairman, Umicore and Chairman, KBC Group, Belgium

"Business should have social purpose - what this is depends on size and type of business."

Diane Thompson, Chief Executive, Camelot Group, UK

But for other business leaders, the links between social purpose and CSR activities are more explicit:

"Social and environmental purpose in business is our responsibility as corporate citizens, and our determination to fight against the odds for the community and the environment."

Current leader, real estate CEO, UK

"The people who are employed within companies need to ensure that they have the right policies, guidelines and procedures and to take the responsibility for CSR, and also to see that these guidelines are followed in reality."

Current leader, industrials and chemicals CEO, Norway

[8] www.jus.uio.no/ifp/english/research/projects/sustainable-companies/
[9] http://www.corporation2020.org/
[10] Creating Shared Value, Michael E. Porter and Mark R. Kramer, Harvard Business Review, Jan 2011
[11] Handy, op. cit, p. 5.

Doughty Centre Commentary

Various thought-leaders and consultancies have proposed that business should have a social purpose. Businesses with social purpose might be defined as: for-profit enterprises which either formally or as part of their strategy aim to create blended or sustainable value - value for business and society. While the profit motive is still of primary importance for business leaders, they also see their companies as delivering societal goods and benefits, and increasingly they want the performance of their companies to be measured against their societal purpose too.

But what is social purpose? Is it the same thing as corporate responsibility, as these phrases are often used interchangeably? And how important is it for a company to incorporate social purpose into its business?

The responses of current business leaders in our research are consistent with PwC's latest Global CEO Survey ('*Fit for the future - Capitalising on global trends*')[12]:

- Most CEOs surveyed agree that business has social as well as financial responsibilities.
- 80% say it is important for their business to measure and reduce its environmental footprint.
- Over three-quarters think that satisfying wider societal needs and protecting the interests of future generations is important to their business.
- 74% agree that measuring and reporting non-financial impacts contributes to their busines's long-term success.
- 69% say that the purpose of business is to balance the interests of all stakeholders.

In addition, McKinsey & Co's '*Global Sustainability Survey 2014*' also shows an increasing proportion of CEOs identifying sustainability either as top priority or a top three priority for them (up from 3% and 31% respectively in 2010, to 13% and 36% respectively in 2014).[13]

This would suggest that many companies do see a need to have a social purpose, but see this being managed through CSR, corporate sustainability or corporate responsibility.

A number of companies have specifically adopted a social or societal purpose (see box 1).

BUSINESSES WITH SOCIAL PURPOSE

Campbell's Soup:
"Campbell strives to promote global wellness and nutrition while building a sustainable environment and honoring our role in society from farm to the family."

Danone:
"Bringing health through food to as many people as possible."

Desso:
"We want to be the world leader in making environmentally responsible flooring products that deliver outstanding value in design and functionality and thus contribute to people's health and wellbeing."

GSK:
"To improve the quality of human life by enabling people to do more, feel better and live longer."

Kingfisher:
"Our purpose is to make it easier for customers to have better, more sustainable homes."

Legal & General:
"We believe that, in addition to our role of delivering products and investment returns to our customers and shareholders, as a business, we have a responsibility to take a position of leadership in broader society. We must ensure that we relate to the day-to-day lives and concerns of our customers, and help guide any companies that we invest in to do the right thing - This is our social purpose."

L'Oréal:
"Together we will make beauty sustainable. Together we will make sustainability beautiful."

Unilever:
"Our Corporate Purpose states that Unilever's mission is to add Vitality to life and that to succeed requires the highest standards of behaviour towards everyone we work with, the communities we touch and the environment on which we have an impact."

The term social purpose arguably implies something different from social responsibility or sustainability:

- Purpose speaks to ends while responsibility refers to means;
- Purpose is the reason for being, the reason the firm exists.

This second point resonates with the research of James Collins and Jerry Porras who, in 1994, introduced the concept of visionary companies: the crown jewels in their industries. In contrast with their less illustrious peers, such firms exhibited a *"core ideology - core values and sense of purpose beyond just making money - that guides and inspires people through the organisation and remains relatively fixed for long periods of time"*[17].

Having a social purpose, a core ideology, is all about answering the question: What is our unique purpose for being in business at all? That may encompass being a responsible business, but it is not an assumption that having and practising a core ideology equates to corporate responsibility. Presumably it is possible for a company to be socially responsible without necessarily fulfilling a social purpose (at least explicitly). The prime purpose of a company could still be making money, having regard, for example, to social, environmental and economic impacts. This distinction between how and why a business operates is critical. How a business operates could change over time, in response to societal feedback about what types of operational behaviours are, and are not, appropriate. But why a business operates should be relatively constant - in the DNA of the organisation from its inception - and stand the test of time.

Future leaders seem to agree with this:

"It is more about how and when they are producing their goods - that the core of the business contributes to social good... Social purpose should be at the core of the business... The responsibilities should be about how they run their operations and their products. How they conduct themselves."
Future leader, France

But do truly great companies operate in this way? Echoing Collins and Porras, Professor Rosabeth Moss Kanter from Harvard Business School argues that,

"It's time that beliefs and theories about business catch up with the way great companies operate and how they see their role in the world today. Traditionally, economists and financiers have argued that the sole purpose of business is to make money - the more the better... This lopsided logic forces companies to blank out the fact that they command enormous resources that influence the world for better or worse and that their strategies shape the lives of the employees, partners and consumers on whom they depend. Above all, the traditional view of business doesn't capture the way great companies think their way to success."

Key conclusion

How a business operates will change over time, in response to societal feedback about appropriate operational behaviours and why a business operates should be constant and stand the test of time.

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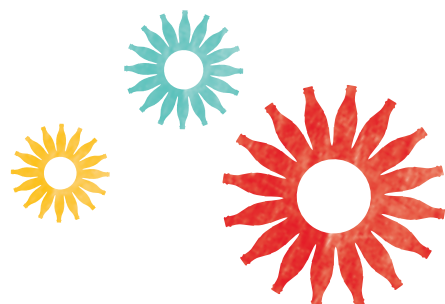
[12] Fit for the future - Capitalising on global trends, PWC 2014 http://www.pwc.com/gx/en/ceo-survey/2014/key-findings/purpose.jhtml
[13] Sustainability's strategic worth: McKinsey Global Survey results, July 2014,
http://www.mckinsey.com/insights/sustainability/sustainabilitys_strategic_worth_mckinsey_global_survey_results.

If so, what interpretation of social purpose?

### Research results

Current and future business leaders both agree overwhelmingly that businesses *should* have a social purpose, but they differ markedly in their opinions about whether today's businesses currently *do* have a clear social purpose. While 86% of current leaders agreed that businesses today clearly have a social purpose only 19% of future leaders agreed.

2 | Businesses have a clear social purpose

Nearly

9/10

current leaders agree

However only

2/10

future leaders agree
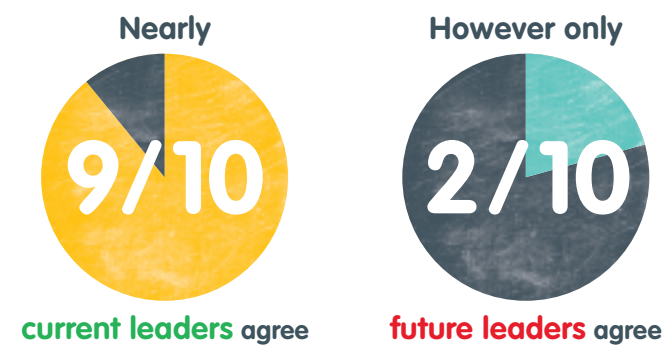
Doughty Centre Commentary

Logically, if most current CEOs think businesses already have social purpose, and most future business leaders don't - and assuming this is not just a failure of current businesses to communicate - then current and future business leaders have very different concepts of *what* social purpose is.

"It is not the business of business to solve society's problems: but dangerous if business is seen as a problem in society." Lionel Barber, editor of the *Financial Times*, speaking at the Inclusive Capitalism Conference, 27 May 2014.

The context is the perceived danger that business could be to itself and the risk of political action if business does not maintain a positive reputation. On the Stages of Corporate Responsibility Maturity, this represents the risk mitigator. It is about reducing reputational and social 'licence to operate' risks. It is arguably about corporate reputation management. If it is not the business of business to solve society's problems, then does a corporation need a social purpose?[14]

Harvard's Rosabeth Moss Kanter provides an alternative view. Great companies believe that business is an intrinsic part of society, and they acknowledge that, like family, government, and religion, business has been one of society's pillars since the dawn of the industrial era. Great companies work to make money, of course, but in their choices of how to do so, they think

about building enduring institutions. Kanter refers to a very different logic from the traditional shareholder value view - a social or institutional logic – that holds that companies are more than instruments for making money; they are also vehicles for accomplishing societal purposes.

The key question is where is the boundary of the company? The shareholder value/free market view sees the corporation in isolation, effectively separate from society and free of government regulation, with a narrow focus on one stakeholder; and in the most extreme end of the spectrum, no responsibility for externalities. The alternative view sees the institutions of business as just one of a number of related institutions in human society at large that can only operate together.

The stark difference in views between current CEOs and future business leaders may also reflect different views about the role of social purpose:

- *as a subsidiary* purpose to help deliver MSV
- alongside MSV or other declared business purpose such as serving customers
- as *the* purpose of the business
- or (most exciting, but difficult to articulate) some new paradigm, whereby businesses are built to stand the test of time by managing to deliver social, economic and environmental value.

Like Porter and Kramer's '*Shared Value*,' social purpose could be any of the above. What is very clear is that future business leaders are very critical of slow progress and emphasise the need for more rapid change.

"It's going in the right direction but for many businesses the rate of progress is nowhere near as fast as it should be."
Future leader, Sweden

"After the 2008 financial crisis people and businesses have woken up to the fact that chasing short term financial gains means everyone loses in the long run."
Future leader, UK

"It is only changing now, in my opinion, because there is no alternative."
Future leader, France

"At the high level it's becoming part of mainstream discourse, particularly the commitment to reducing the business' carbon footprint. At a more fundamental level though I see little change in business as usual."
Future leader, UK

Key conclusion

Business has to be clear on the definition, prioritisation and weighting given to its social, alongside more commercial, purposes.

[14] See Ron Ainsbury and David Grayson, "Business Critical: Understanding a Company's Current and Desired Stages of Corporate Responsibility Maturity" (May 2014) http://www.som.cranfield.ac.uk/som/dinamic-content/media/Doughty/SOMAT%201505%202014%20final.pdf
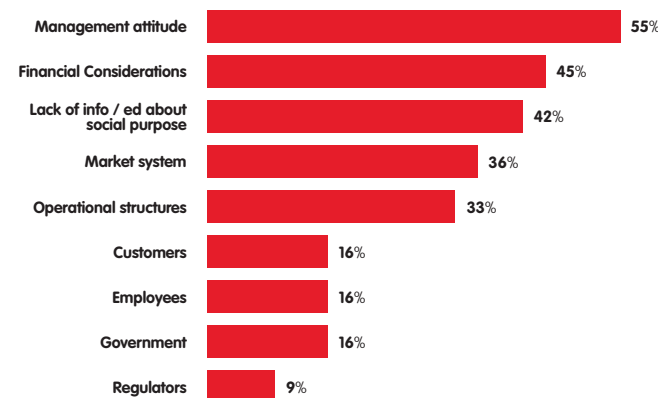
Research results

Current and future business leaders differ in their views regarding the barriers to companies fulfilling their social responsibilities.

Future leaders see a shared responsibility to ensure businesses include social and environmental considerations in success, from both outside (government, customers) and inside (senior management, CEO) the company. But they also believe that management attitudes are the biggest barrier to achieving this. In fact they are more likely to state internal issues such as management attitude, lack of information and financial considerations as barriers than current business leaders.

Graph Two - Future leaders' views on the barriers to social purpose

Q What do you consider the biggest barriers for businesses to join social and environmental purpose with profit?

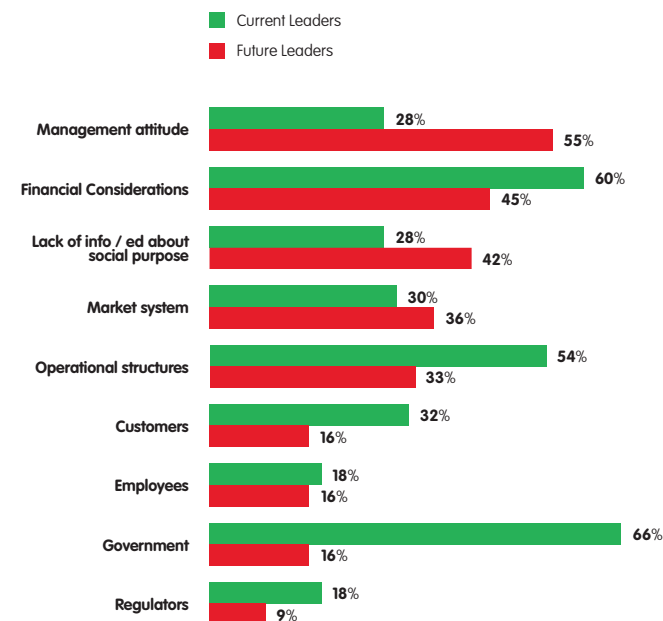| Barrier	%
Management attitude	55%
Financial Considerations	45%
Lack of info / ed about social purpose	42%
Market system	36%
Operational structures	33%
Customers	16%
Employees	16%
Government	16%
Regulators	9%

"Many businesses are becoming aware that ignoring social and environmental issues leads to reputational and legal impacts, but changes are slow as I feel shareholders and top management still value short term income gains."

Future Leaders Survey, Spain

By contrast, current leaders perceive (almost exclusively) external issues as the biggest barriers. CEOs surveyed considered government and legislation (66%) to be among their firms' biggest barriers from joining social and environmental purpose with profit. Other factors cited included the role of customers, limitations of information technology, market pressures, and misperceptions of investor demands.

Graph Three - Future and current leaders' views on the barriers to social purpose

Q What do you consider the biggest barriers for businesses to join social and environmental purpose with profit?

- Current Leaders
- Future Leaders

Barrier	Current Leaders	Future Leaders
Management attitude	28%	55%
Financial Considerations	60%	45%
Lack of info / ed about social purpose	28%	42%
Market system	30%	36%
Operational structures	54%	33%
Customers	32%	16%
Employees	18%	16%
Government	66%	16%
Regulators	18%	9%

"There is no clear set of rules and regulations that we can bank on, the ever-changing legislation makes it very difficult."

Current leader, industrials and chemicals CEO, France

"I believe that the so-called tyranny of quarterly earnings is more in the mind of CEOs, rather than an unavoidable constraint imposed by the markets. At Umicore, we went for a profound transformation of the group which took a decade. Of course we cared about annual results, but my main dialogue with shareholders focused on the strategy and where we were heading."

Thomas Leysen, Chairman, Umicore and Chairman, KBC Group, Belgium

"There is the fear of greenwashing and lack of knowledge. Fear of doing something because you know you can't do everything immediately and therefore fear being accused of greenwashing … Challenge of consumers - we need help with helping consumers to make sustainable choices - why can't governments help consumers?"

Lars Appelqvist, CEO Lofbergs, Sweden

Doughty Centre Commentary

Current CEOs and, to a lesser extent, future leaders see governments and the lack of appropriate government action (or consistent rules and regulations) as a significant barrier.

"Legislation definitely is harming. We need strong financial incentives and legislative frameworks. Zero hour contracts are an example of this."

Future leader, Germany

This also confirms earlier surveys among current leaders, such as the UN Global Compact/Accenture *'CEOs Sustainability Survey 2013.'* [15] In that study, 83% of CEOs see an increase in efforts by governments and policymakers to provide an enabling environment for the private sector as integral to advancing sustainability. 81% of executives emphasise the need for governments to set a policy framework for "economic development within the planetary boundaries of environmental and resource constraints" for the global economy. Business leaders believe that only with greater government intervention - at global, national and local levels - can sustainability move from sporadic incremental advances to a collective and transformative impact.

Companies will need to become more vocal and more insistent in their advocacy of public policy changes that they believe will facilitate establishing and fulfilling social purpose.

Both generations see financial considerations as a significant barrier (ranked second highest by both groups). Again, this is consistent with the UNGC Accenture *'CEOs survey 2013'* which reported a plateauing of corporate sustainability efforts:

"CEOs remain convinced that sustainability will transform their industries; that leadership can bring competitive advantage; and that sustainability can be a route to new waves of growth and innovation. But beneath this commitment, frustration is clearly evident: business leaders are in many cases unable to locate and quantify the business value of sustainability; are struggling to deliver the business case for action at scale; and see market failure hindering business efforts to tackle global challenges." [16]

Both generations of leaders also agree that ownership models are a potential barrier. Just under a third of current CEOs and just over a third of future leaders cited the market system, namely, the idea that companies must maximise shareholder value and the resulting management mindset of focusing on short-term gains and the bottom line.

Yet as Professor Lyn Stout, Distinguished Professor of Corporate & Business Law at Cornell University, has set out in her 2012 book, '*The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public* ':

"Contrary to what many believe, U.S. corporate law does not impose any enforceable legal duty on corporate directors or executives of public corporations to maximise profits or share price. The economic case for shareholder value maximisation similarly rests on incorrect factual claims about the structure of corporations, including the mistaken claims that shareholders 'own' corporations." [17]

Continuing ambiguity about the legal status and teaching of MSV doctrine among business leaders and academics needs to be resolved as a matter of urgency, as this is a major challenge for leaders wishing to manage companies to achieve long-term sustainability and adopt a social purpose.

Comments from the research with current CEOs include caution about getting too far ahead of their customers. The Financial Times' FT Remark survey shows that CEOs see a lack of consumer interest as a barrier to faster progress on issues like sustainability. Even companies leading on social purpose and sustainability, such as Unilever, have reported that they are finding it a challenge to engage consumers [18]. There are a number of practitioner and academic projects to engage consumers with company efforts to improve social, environmental and economic impacts. This is a topic, however, where more corporate leadership is required.

Key conclusion

Some of the barriers discouraging wider adoption of social purpose require public policy changes; but others are a matter of education and mindset shift.

15 http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-UN-Global-Compact-Acn-CEO-Study-Sustainability-2013.PDF
16 The UN Global Compact-Accenture CEO Study on Sustainability 2013 Architects of a Better World
17 The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public (Berrett Keohler Publications, 2012)
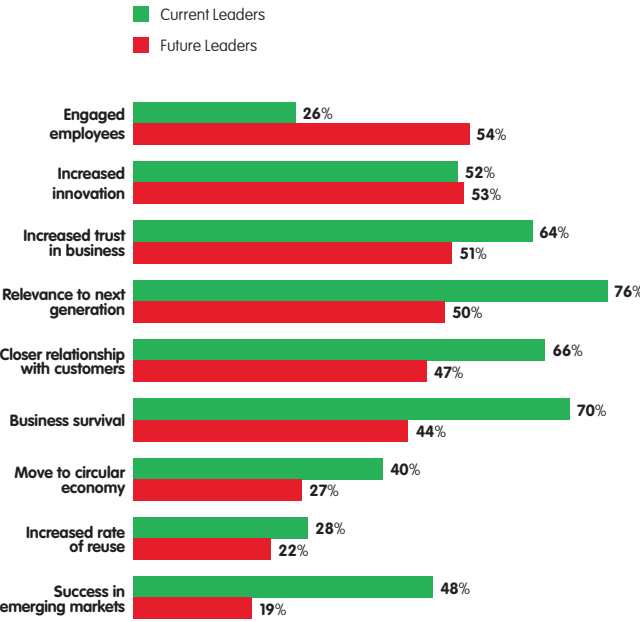18 Unilever Sustainable Living Plan Progress Report 2011

Research results

Our research shows that the two generations have a different idea of the context of social purpose returns, as well as the benefits. A clear social purpose is expected by future leaders, and viewed as key to their future survival. In particular, building trust and reputation with stakeholders was cited by both generations as a key return on their investment in creating social purpose. In addition, while both audiences highlight relevance to the next generation, business survival and closer relationships with customers as benefits of a social purpose strategy, future leaders cite engaged employees, increased innovation and increased trust in business as the major returns.

Graph Four - Future and current leaders' views on the returns for business of having a social purpose

Q What do you see as the returns for a business where it focuses on societal and environmental as well as economic value?

Legend:
- 🟩 Current Leaders
- 🟥 Future Leaders

Category	Current Leaders	Future Leaders
Engaged employees	26%	54%
Increased innovation	52%	53%
Increased trust in business	64%	51%
Relevance to next generation	76%	50%
Closer relationship with customers	66%	47%
Business survival	70%	44%
Move to circular economy	40%	27%
Increased rate of reuse	28%	22%
Success in emerging markets	48%	19%

86% of both current and future business leaders feel businesses with a focus on both societal, environmental and economic value will have competitive advantage now and in the future. However, only 57% of future leaders feel that businesses with a focus purely on economic value will have competitive advantage (vs. 84% of current leaders).

"I see the majority of businesses factoring in social and environmental purpose as part of their reputational risk. The next stage is for them to incorporate it as part of their branding and innovation/survival strategy."

Future leader, Spain

"Involvement in social and environmental fields bolsters businesses' good reputation and hold in the market. This also increases levels of trust and satisfaction, so involvement significantly adds economic value."

Current leader, industrials and chemicals CEO, France

"[Business] owners recognise they have to look round the corner for future risks and opportunities and that they have to work together with society."

Lars Appelqvist, CEO, Löfbergs, Sweden

"In Belgium, we are trying to get a stronger single voice by merging organisations and initiatives to concentrate expertise in a single organisation to increase capacity to bring best practice - this will give more power to the messages."

Jacques Vandermeiren, CEO, Elia Group and Chairman, Belgium Business and Society

"When employees and unions and companies and government collaborate, it works well. We have a social consensus in Germany, with strong unions working together. This then is the responsibility of all to ensure."

Future leader, Germany

Doughty Centre Commentary

Survey responses show that a strong business case is a key driver for adopting a social purpose - but the question is what is the perspective of 'value'? Business leaders who can articulate and measure the financial benefits of integrating social and environmental impacts into their business strategy and operations are more likely to adopt a social purpose. If they only take an economic approach, then that is a barrier, but if they have a wider focus (for example, because of a historic social purpose or mission, or ownership structure such as the John Lewis Partnership) then it becomes easier for them to take the next step and fully adopt a social purpose.

The survey suggests that future leaders think that the focus should be on social, environmental and economic impacts and that future competitive advantage will come from that. But current CEOs think competitive advantage can come from economic value first and so have less of a motivation to engage with social purpose. It is about mindset and focus.

Clearly, the financial costs and benefits will have to shift for more of today's CEOs to take greater transformative action. In other words, what are commonly known as the externalities of business, such as a price on carbon, will have to be internalised. This can only be achieved by governments and by international agreement.

Similarly, trust in business will only be restored when there is greater transparency and accountability, which argues for greater corporate disclosure of social, environmental and economic impacts. And if business is to learn faster from good practice, it will require more effective vehicles for collaboration.

Business leaders who can articulate and measure the financial benefits of integrating social and environmental impacts into their business strategy and operations, and the risks of failing to do so, are more likely to adopt a social purpose. Collaboration is key to achieving systemic change.
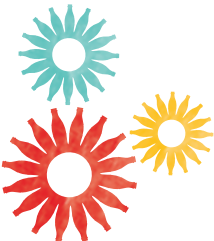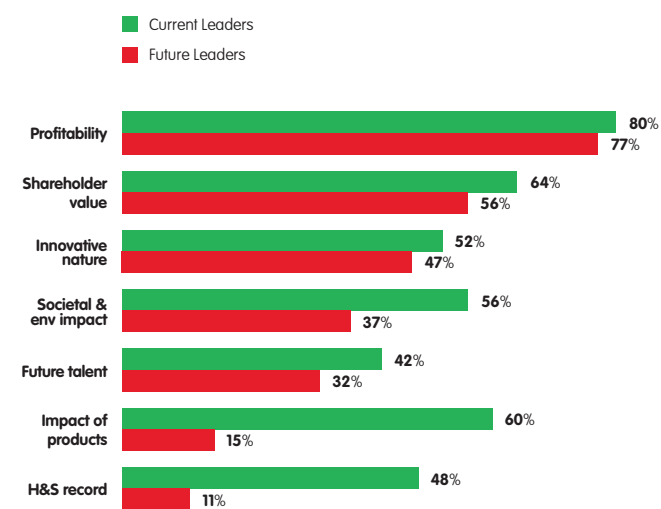
5. How should a business define its purpose?

Research results

The research shows profitability and shareholder value are seen by both current and future business leaders as the current indicators of business success.

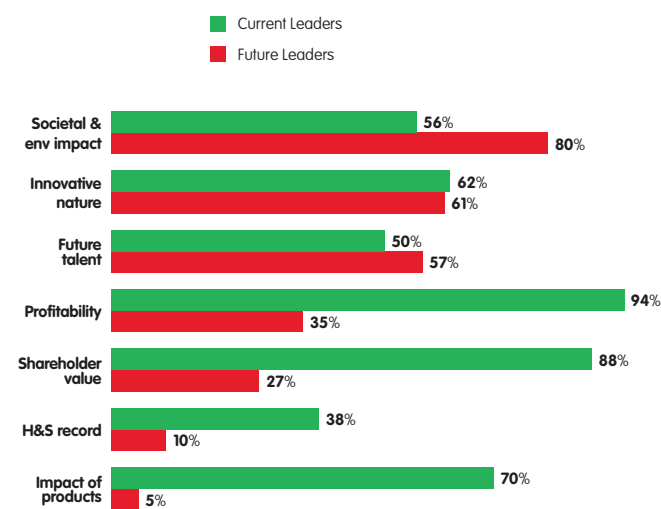### Graph Five - Future and current leaders' views on the indicators of business success today

Q Which two or three do you consider the most important indicators of business success today?

- Current Leaders
- Future Leaders

Indicator	Current Leaders	Future Leaders
Profitability	80%	77%
Shareholder value	64%	56%
Innovative nature	52%	47%
Societal & env impact	56%	37%
Future talent	42%	32%
Impact of products	60%	15%
H&S record	48%	11%

However, while current leaders believe these will remain key, future leaders give more importance to social purpose as integral to the very definition of success in the future.

Graph Six - Future and current leaders' views on the indicators of business success in the future

Q And which should be the most important indicators of business success in the future?

- Current Leaders
- Future Leaders

Indicator	Current Leaders	Future Leaders
Societal & env impact	56%	80%
Innovative nature	62%	61%
Future talent	50%	57%
Profitability	94%	35%
Shareholder value	88%	27%
H&S record	38%	10%
Impact of products	70%	5%

Future leaders defined social purpose in three ways: reducing any negative impact; integrating social and environmental issues into decision-making and outcomes; and pursuing opportunities to lead future life choices and developing innovative solutions.

"To be aware and manage the external outcomes of your business. To integrate your employees in the decision taking."

Future leader, Switzerland

"The combination of improving environmental performance, demonstrating benefit to society through businesses practices and providing an economic/financial return to the business - creating shared value."

Future leader, Norway

"I like to think of this as the Brundtland Report defines sustainability, meeting the needs of today without stealing from future generations their ability to meet the needs of tomorrow."

Future leader, UK

Doughty Centre Commentary

Businesses come and go with great speed nowadays: *"The average lifespan of a company listed in the S&P 500 index of leading US companies has decreased by more than 50 years in the last century, from 67 years in the 1920s to just 15 years today"* according to Professor Richard Foster from Yale University.[19] And yet the research showed that our future generation wants businesses to have a long-term purpose that is embedded into the way they innovate, manage their impact and choices and have a forward looking vision.

The aspiration, at least, is surely to build to last; to be a living company, a sustainable business which can endure into the long-term future - as described by future leaders in our research. In today's world of disruptive innovation, enduring businesses will have to reinvent strategy and activities on a regular basis. Having a clear long-term sense of purpose is all the more critical, if this is to be done successfully.

"In Japan, there are more than 20,000 companies that are more than 100 years old, with a handful that are more than 1,000 years old, according to credit rating agency Tokyo Shoko Research..... There is even a specific word for long-lived companies in Japanese: shinise.

...Professor Makoto Kanda, who has studied shinise for decades, says that Japanese companies can survive for so long because they are small, mostly family-run, and because they focus on a central belief or credo that is not tied solely to making a profit."[20]

It seems from the research that there is a paradigm shift between the generations in their thinking about the purpose of business. Given this state of flux, what should current boards and senior management teams do?

- Keep MSV, if that is where they are?
- Hedge their bets with a modified shareholder-value approach that recognises that trade-offs with other stakeholders need to be managed and optimised?
- Play safe and publicly add a social purpose?

Each approach will have some proponents and some short-term advantages. Each also carries underlying risks. Historically MSV has often not delivered even for shareholders. Having bolt-on CSR initiatives and sustainability programmes leaves a business vulnerable to charges of greenwashing. Silence means a lack of clarity about what is the company ultimately for. As Handy put it a quarter of a century ago, each business needs to do the hard work of defining its own purpose.

So how do businesses define their long-term purpose? This is clearly not something which can be outsourced. It will require deep reflection and debate by the board and senior management team of each company.

When we looked at expressions of corporate purpose, however, we found that very few of the companies we searched even use the word purpose. Some referred to their mission or vision. Many do not address the fundamental question of why they exist, other than to produce products or services. Corporate purpose currently often needs to be inferred, therefore, from other statements. This need not be so.

What practical steps could a company take towards defining its long-term social purpose so that it is closer to the ideal our next generation of leaders want?

"Social and environment purpose in business is about the recognition that all businesses have a social and environmental aspect and that for businesses to ensure their long-term success they have to focus on that as well as the economic."

Future leader, Ireland

Mark Goyder from the 'think-do' tank Tomorrow's Company, founded in response to the 1990 lecture by Charles Handy, has drawn on the experience of family and other types of business to develop a process which it describes as a board mandate[21]:

"A mandate captures the 'essence' of the 'character' and distinctiveness of the company, in terms of: its essential purpose; its aspirations; the values by which it intends to operate; its attitude to integrity, risk, safety and the environment; its culture; its value proposition to investors; and plans for development. It is a living statement about what the company stands for and how it wishes to be known to all of its stakeholders."

The key thinking about the mandate in relation to shareholders is that, especially in publicly listed companies where shareholding is dispersed, the mantle of the entrepreneur has been passed not to the shareholders, but to the board of directors who need to set out their business proposition and invite the shareholders to either let them get on with implementing it, or vote them out.

The board mandate process involves boards and senior management teams defining not just their business purpose, but also how the business will behave in seeking to fulfil its purpose. Will the business, for example, aim to operate ethically and be run according to responsible business practices? Will it seek to minimise negative social, environmental and economic impacts and maximise positive impacts, i.e. embrace sustainability?

Again, contrary to some commentators' views, this is entirely consistent with the fiduciary obligations of boards and senior management teams. As the Sustainable Companies Project observes:

"All jurisdictions expect boards to ensure their companies comply with environmental law, and allow boards to go beyond the requirements of environmental law to internalise environmental externalities, at least as far as they can articulate a business case argument for this. Some jurisdictions go further and allow companies to protect the environment beyond the scope of the business case. The business judgement rule adopted in most jurisdictions broadens this discretion considerably."[22]

In practice, this requires clear articulation of corporate purpose and strategy; being realistic rather than over-promising to investors; and effective and on-going communication and dialogue with employees, institutional investors and other stakeholders.

Key conclusion

Each company needs to work out how to define its own purpose. The lessons from this research are to ensure future leaders are involved and engaged in that process; and that talent strategies enable this.

[19] Can a company live forever? Kim Gittleson, BBC News, New York, 9 January 2012 http://www.bbc.co.uk/news/business-16611040
[20] ibid
[21] See http://tomorrowscompany.com/board-mandate
[22] http://www.jus.uio.no/ifp/english/research/projects/sustainable-companies/news/sustainablecompanies2pagesummarycompanylaw.pdf

From the Doughty Centre for Corporate Responsibility

It seems that most practical business leaders recognise that assuming some responsibility for their social, environmental and economic impacts is simply now part of doing business. It is part of a societal license to operate. Apart from some economists, political philosophers and other academics who generally have never sat on a corporate board or had to meet a payroll, the idea of MSV as the *purpose* of business is increasingly seen as too simplistic, especially among the next generation of leaders - who will of course be customers, employees, active citizens and maybe politicians, too.

Instead, we see an evolving spectrum of views and of understanding about business purpose and business dynamics. For some, it is a matter of hard-nosed pragmatism - a mixture of global connectivity, changing employee and consumer attitudes, natural resource constraints and planetary boundaries. Peer pressure obliges business leaders - at a minimum - to accept some responsibility for the impact of their business. This may be an updated, 'shareholder-value modified' perspective. Some are more enthusiastically embracing the idea of social purpose as part of delivering value to shareholders and other stakeholders.

Some CEOs and more future leaders are embracing sustainability, experimenting with new business models like the Circular Economy or Circular Advantage and are fashioning a business purpose based on social and environmental as well as economic value.

On one level, the impatience and frustrations of future leaders could be seen as the natural certainties and impetuosity of young people. Yet in a few years' time, these future leaders will be trying to do their best with the hand of cards dealt them by today's leaders. Anyone concerned with personal legacy or organisational resilience - let alone with the desire to do the right thing - would be well advised to pause and think about what they can do differently now, in order to hand over to their successors the very best possible cards. That starts with better dialogue between today's and tomorrow's leaders.

Charles Handy concluded his 1990 RSA lecture on 'What is a company for?' with these words: *"In a time of change, we must always question whether the things that used to work, will work so well in future. We must not be slaves to our history but trustees of our destinies. Our businesses are too precious to be lost because we have not dared to question the past or to dream the future. Let us start now, before it is too late."*

The intervening quarter-century has seen a great deal of questioning, dreaming and experimenting. There is now a paradigm shift away from only maximising shareholder value as the purpose of business. Now is the time to act and realise business for profit *and* purpose.

What would encourage businesses to adopt a social purpose? An agenda for action

The Doughty Centre suggests that three key developments could accelerate the shift of business toward adoption of social purpose.

1. Costing the externalities

As Aviva Investors argue in '*A Roadmap for Sustainable Capital Markets '*[23]:

"We see the primary failure of the capital markets in relation to sustainable development as one of misallocation of capital. This, in turn, is a result of global governments' failure to properly internalise environmental and social costs into companies' profit and loss statements. As a consequence, the capital markets do not incorporate companies' full social and environmental costs. Indeed, until these market failures are corrected through government intervention of some kind, it would be irrational for investors to incorporate such costs since they do not affect financial figures and appear on the balance sheet or therefore affect companies' profitability. This means that corporate cost of capital does not reflect the sustainability of the firm. The consequences of this are that unsustainable companies have a lower cost of capital than they should and so are more likely to be financed than sustainable companies."

Internalising environmental and social costs into companies' profit and loss statements is the kind of 'hard' government intervention that the UNGC-Accenture survey findings proposes. This should start with global agreement on binding reductions in CO2 emissions at the Paris Climate Change talks in 2015.

Significantly, a major new KPMG report, published as this paper was being completed, confirms the growing pressure for internalisation:

"Externalities are increasingly being internalized, bringing new opportunities and new risks with significant implications for corporate value creation in the 21st century."[24]

Although we had written our commentary before the KPMG report was published, we are delighted to see that there is a considerable complementarity and mutual reinforcement of what is needed to encourage positive change.

2. Greater corporate transparency and accountability

This starts with purpose. Companies need to state their purpose and their values clearly, and use the mandate they have defined to measure and report on how well they have fulfilled this purpose, including their social, environmental and economic (SEE) impacts as well as their financial performance. In recent years, there has been a marked increase in the numbers of large companies

producing regular reports on their SEE impacts (Corporate (Social) Responsibility / Sustainability Reports). As the biennial KPMG global survey of CR Reporting has made clear, such reports are now de facto, soft law requirements for large companies. This 2013 survey concludes that:

"Corporate Responsibility (CR) reporting is now undeniably a mainstream business practice worldwide, undertaken by almost three quarters (71 percent) of the 4,100 companies surveyed in 2013. This global CR reporting rate is an increase of 7 percentage points since 2011 when less than two thirds (64 percent) of the companies surveyed issued CR reports. Among the world's largest 250 companies, the CR reporting rate is more or less stable at 93 percent."[25]

The Governance & Accountability Institute found that 72% of the companies included in the S&P 500 Index published CR reports in 2013.

Thanks to the work of the Corporate Sustainability Reporting Coalition, the Rio+20 UN Sustainable Development Summit called on governments to promote greater corporate transparency. The concluding document from the summit, '*The Future We Want,*' includes paragraph 47 on sustainability reporting:

"We acknowledge the importance of corporate sustainability reporting and encourage companies, where appropriate, especially publicly listed and large companies, to consider integrating sustainability information into their reporting cycle. We encourage industry, interested governments and relevant stakeholders with the support of the United Nations system, as appropriate, to develop models for best practice and facilitate action for the integration of sustainability reporting, taking into account experiences from already existing frameworks and paying particular attention to the needs of developing countries, including for capacity building."

The European Union has subsequently developed a new reporting directive, approved overwhelmingly by the European Parliament in April 2014. This requires large listed companies to report annually on principal risks to human rights, the environmental and social impacts linked to their operations, relationships, products and services - as well as aspects related to bribery and diversity - and their due diligence procedures for identifying, preventing and mitigating those risks.[26]

In parallel, the Sustainable Stock Exchanges Initiative is encouraging participating stock exchanges around the world including London, New York and NASDAQ to make improved corporate reporting of SEE impacts a listings requirement.

With this mix of peer, market and regulatory pressures for greater corporate transparency, the focus needs to shift to emphasise greater robustness, consistency and use of metrics. CR reports are of variable quality. Integrated Reporting has been championed by HRH The Prince of Wales' Accounting for Sustainability Project, and now developed by the International Integrated Reporting Council. Broadscale adoption of Integrated Reporting by companies could help improve the quality of the reporting

23 A Roadmap for Sustainable Capital Markets: How can the UN Sustainable Development Goals harness the global capital markets? Aviva Investors White Paper June 2014
24 A New Vision of Value: Connecting corporate and societal value-creation value creation
    http://www.kpmg.com/Global/en/topics/climate-change-sustainability-services/Documents/a-new-vision-of-value.pdf Sept 2014.
25 http://www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/default.aspx
26 http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm
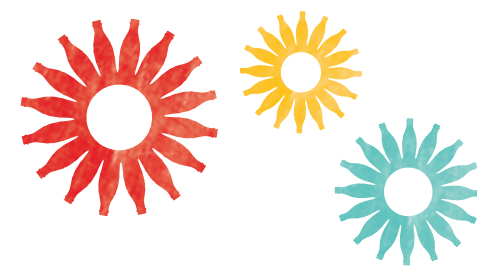
by integrating with the main annual report and accounts and business strategy. Better reporting would in turn improve business-institutional investors' dialogue about long-term issues. However it would be a mistake to imagine that change will be brought about if the focus of regulators is on social performance in isolation from overall business stewardship.

The evidence from Japan, the USA and Europe suggests that lasting companies are those that are steeped in enduring purpose and values, alignment with societal expectations, and financial prudence. The aim of more rigorous reporting requirements should be to hold companies to account against their own stated purpose, values and strategy. This is the route for ensuring that companies combine the entrepreneurial with the responsible.

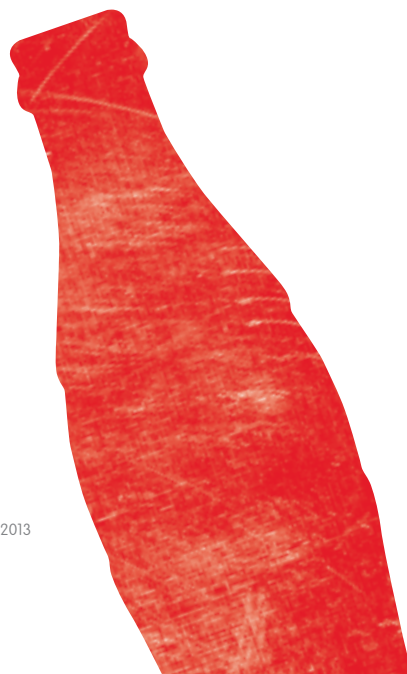## 3. Finding and sharing examples of business success from social purpose

Current business leaders have recognised the need for sticks as well as carrots to drive change. Inspiration, however, is needed as well as governments creating an enabling environment. Today's and tomorrow's business leaders need to be inspired by what is already being successfully achieved by leading sustainable businesses around the world. More good practice examples are needed, not least to drive change in the world's 13,000-plus business schools, which have assiduously promoted shareholder-value theory. Business leaders who have successfully and profitably embedded social purpose and sustainability need to share their stories and experiences.

But companies need to speak with a coherent voice if they are to catalyse large-scale change. Over the past forty years - and especially during the last quarter-century - there has been a global spread of business-led corporate responsibility coalitions and multi-stakeholder initiatives dedicated to improving business behaviour, developing and sharing good practice and practical solutions, and thereby rebuilding trust in business.[27] Whilst these coalitions have had some solid achievements, there needs to be a dramatic scaling up of their collective ambition and reach. This will, in turn, require an unprecedented degree of collaboration between these organisations. Some of the major international corporate responsibility coalitions such as the World Business Council for Sustainable Development, and networks like the Consumer Goods Forum and the World Economic Forum could play a greater leadership role, identifying and promoting examples of high performing sustainability businesses, and disseminating this information through education campaigns involving national and sector-specific corporate responsibility coalitions, traditional business associations, and business schools.

Ultimately, such collaboration could enable companies to work collectively with governments and NGO partners to change the rule book at a systemic level in order to incentivise business to adopt a social purpose and promote more responsible corporate

governance, as Handy envisioned. Martin Wolf highlights some systemic solutions to the governance dilemma put forward by Prof. Colin Mayer, of Oxford University's Saïd Business School.[28]

In his recent book 'Firm Commitment'[29] Mayer argues that the idea that the main function of companies should be to boost shareholder value rests on a misunderstanding of the nature of the firm. He suggests instead that companies are devices for getting groups of people - workers and managers as well as investors - to commit themselves to long-term goals. To promote longer-term commitments, he advocates creation of trust companies - with explicit values and a board designed to oversee them. This is linked to a wider plea for corporate pluralism which allows for a variety of corporate models - Anglo-Saxon, Continental, partnerships - that encompass divergent structures of control. Such an approach, Wolf suggests, would "let 100 governance flowers bloom" and, as Schumpeter in The Economist adds: "help to create a more robust corporate ecosystem".[30]

27 See, for example Grayson D and Nelson J, Corporate Responsibility Coalitions: The Past, Present and Future of Alliances for Sustainable Capitalism, Greenleaf Publishing, 2013
28 Martin Wolf, Ibid.
29 Colin Mayer, Firm Commitment: Why the corporation is failing us and how to restore trust in it.
   http://www.amazon.co.uk/Firm-Commitment-corporation-failing-restore/dp/0199669937
30 Schumpeter, "Companies' moral compasses: Some ideas for restoring faith in firms," The Economist , 2 March 2013,
   http://www.economist.com/news/business/21572748-some-ideas-restoring-faith-firms-companies-moral-compasses

Five principles of a purpose driven business

The Doughty Centre highlights an important new tool which can provide a practical framework for companies the 'Blueprint for Better Business' (www.blueprintforbusiness.org). By fostering dialogue and supporting companies, this charitable initiative encourages businesses to adopt Five Principles of a Purpose Driven Business:

- Honest and fair with customers & suppliers
- A good citizen
- A responsible and responsive employer
- A guardian for future generations
- Have a purpose which delivers long-term sustainable performance

This has profound implications for business and for business leadership at all levels. It is instructive that when in the surveys we asked current CEOs and future leaders what advice they would give to the other group, there was a common message about education: making sure that current and future leaders have the mindset and skills to cope in this new environment. Based in a leading international business school, we recognise the challenge this represents for us in management education too.

In a succinct and highly relevant presentation to business leaders recently, Anita Hoffmann, founder of Executiva (a board and senior executive search and coaching practice) and a Doughty Centre visiting fellow declared:

"Companies need leaders that have new skills and competencies to engage with the 'open system' world business now operates in. To attract them, they need to have a vision and values that reflect this changing role in society and people processes up to date with this change.

If we don't have a compelling vision of what we want our company to contribute beyond our competitive financial goals, it will become harder and harder to attract both young and mature leaders to our firms.

I often hear as the reason a senior candidate turns down a job offer is that they 'don't find the company values compelling or inspiring'. Younger leaders simply say, 'their vision of the future is not my vision of the future…

The bottom line: Effective leadership at all levels of an organisation - from front-line change agents to senior management - will increasingly depend on a sophisticated ability to identify, engage, and incorporate the needs and interests of a diverse range of internal and external stakeholder.[31]"

Hoffmann provides a tough but practical agenda for action, starting with incorporating social purpose in the company's vision. She also suggests creating new businesses and projects as part of core business to reflect the vision; defining the leadership competencies needed to deliver the vision;[32] and refreshing recruitment, development and promotion criteria and processes. The latter includes an intriguing idea for creating a Third Age career structure inside and outside the firm where "leaders could stay part-time in their existing employment to be a safe pair of hands, overseeing projects where younger leaders are fast track developed, and during the other part of their time leading new enterprises that are of interest to and have impact on the company and society at large.[33]"

Whatever talent strategies are adopted, it is clear that businesses and business schools need to rethink their approach to leadership as a crucial part of rethinking purpose.

Honest and fair with customer & suppliers

- Seek to build lasting relationships with customers and suppliers
- Deals honestly with customers providing good and safe products and services
- Treats suppliers fairly, pays promptly what it owes and expects its suppliers to do the same
- Openly shares its knowledge to enable customers and suppliers to make better informed choices

A good citizen

- Considers each person affected by its decisions as if they were a member of each decision - makers own community
- Seeks and provides access to opportunities for less privileged people
- Makes a full and fair contribution to society by structuring its business and operations to promptly pay all taxes that are properly due

Have a purpose which delivers long-term sustainable performance

- Operates true to a purpose that serves society, respects the dignity of people and so generates a fair return for responsible investors
- Enables and welcomes public scrutiny of the alignment between stated purpose and actual performance

A responsible and responsive employer

- Treats everyone with dignity and provides fair pay for all
- Enables and welcomes constructive dialogue about its behaviour in keeping true to its purpose
- Fosters innovation, leadership and personal accountability
- Protects and nurtures all who work for it to ensure people also learn, contribute and thrive

A guardian for future generations

- Honours its duty to protect the natural world and conserve finite resources
- Contributes knowledge and experience to promote better regulation to the benefit of society as a whole rather than protecting self interest
- Invests in developing skills, knowledge and understanding in wider society to encourage informed citizenship

31 Talent: Bridging the age and values gap, Anita Hoffmann, Executiva Ltd, The Bosphorus Club, June 27 2014
   http://executiva.co/downloads/talent-bridgingtheageandvaluesgap-anitahoffmann-bosphorusclub-2014-06-27web.pdf
32 See for example Executiva/BSR: Sustainability Leadership Competencies for Business Leadership, 2012 http://executiva.co/downloads/sustainabilityandleadershipcompetenciesforbusinessleaders.pdf
33 Talent: Bridging the age and values gap, Anita Hoffmann, Executiva Ltd, The Bosphorus Club, June 27 2014
   http://executiva.co/downloads/talent-bridgingtheageandvaluesgap-anitahoffmann-bosphorusclub-2014-06-27web.pdf For a similar idea for building on the respective strengths of current and next generation collaboratively see also People Bulletin: In Praise of Dynamic Duos. John Elkington, David Grayson & Charmian Love - May 2011