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## **How can purpose-led businesses contribute to inclusive growth and how can policymakers help them?**

### **ABSTRACT**

This pamphlet outlines why purpose-led businesses are key to building more inclusive and sustainable societies. It explains what purpose-led businesses are and how they can help to solve societies' problems and enjoy long-term success at the same time. It then considers what policymakers need to do to create an environment where purpose-led businesses can thrive.

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# THE WORLD HAS MADE GREAT PROGRESS AND THERE IS MUCH MORE TO DO

The world has made great progress in tackling some of its biggest challenges. Between 2000 and 2015, 2 billion more people gained access to clean water, 43 million more children went to school, and the number of people living in extreme poverty halved.<sup>1</sup> These are huge achievements that should give us confidence that we can tackle the new challenges that now face us.

Chief among these is inequality - globally, one report estimates that 42 billionaires now own the same wealth as the bottom 3.7 billion people, while in OECD countries income inequality is at its highest level for 30 years.<sup>2</sup> This and other social issues will need to be addressed alongside tackling climate change, requiring humanity to find a new safe space to operate between providing a social foundation for all and not exceeding our planet's finite environmental boundaries.<sup>3</sup> The rapid development of new technologies such as artificial intelligence is likely to offer new solutions and exacerbate existing challenges.<sup>4</sup>

In 2015, the 193 Member States of the United Nations adopted the Sustainable Development Goals, a set of 17 Global Goals to end poverty, protect the planet and ensure prosperity for all by 2030.<sup>5</sup> A key difference to previous global agreements is the emphasis on the role that businesses have to play in helping to achieve these goals. The majority of the world's 100 largest economic entities (measured by annual revenue) are no longer nations but companies, and it will not be possible to transition to a new 'safe space' for the planet without them.<sup>6</sup>



## Ørsted - from black to green energy<sup>7</sup>

Today, Ørsted is the world's largest developer of offshore wind farms, with a 25% market share and 5,800 employees. Their vision is to create a world that runs entirely on green energy to reduce the effects of climate change.

This represents a profound transformation for what was formerly Danish Oil and Natural Gas (DONG) Energy run by the state.

The realisation that over a third of global carbon emissions came from power production led to a fundamental rethink in their business strategy. By 2023 the company aims to be completely coal-free and have reduced its carbon emissions by 96%.

From 2006 to 2016, DONG Energy reduced their use of coal from 6.2 million tonnes to 1.7, cutting their carbon dioxide emissions by 67%. They have divested their upstream oil and gas business and converted their Danish coal power stations to sustainable biomass.

Stating that they had become too green for their name, in November 2017 they became Ørsted – after Danish scientist Hans Christian Ørsted whose work on electromagnetism 200 years ago helped lay the foundations for the way we produce power today.

# INCLUSIVE GROWTH OFFERS HUGE OPPORTUNITIES FOR BUSINESSES AND SOCIETIES

The good news is that helping to fix societies' problems is good for business. Peter Drucker, one of the first twentieth-century academics to focus on management, wrote that "every single social and global issue of our day is a business opportunity in disguise".<sup>8</sup> Indeed, the Business and Sustainable Development Commission estimates that achieving the Global Goals in just four economic systems could open up more than \$12 trillion in business savings and revenue by 2030, with more than half of these opportunities in developing countries.<sup>9</sup> The same report suggests this could create more than 380 million new jobs by 2030, with nearly 90% of them in the developing world.<sup>10</sup>

Alongside these expected benefits, helping to meet the Global Goals also provides an opportunity for businesses to regain the trust of the societies in which they operate. According to the Edelman Trust Barometer, trust in all institutions plummeted after the 2008 Financial Crisis and remains low, especially in many OECD countries. The same global survey reported that 60% of respondents think that CEOs are driven more by greed than a desire to make a positive difference in the world.<sup>11</sup>

Continuing with 'business as usual' is highly unlikely to restore trust or seize these new opportunities. For the last 40 years, the dominant global view has been shaped by the idea - most famously articulated by Milton Friedman in the 1970s - that businesses exist, above all, to maximise returns for shareholders.<sup>12</sup> There is an increasing realisation that this model has led to a focus on short-term profitability often at the expense of society and the environment. It has also put the wealth of shareholders ahead of the health of the company.<sup>13</sup>

As Paul Polman, CEO of Unilever, has said, "business simply can't be a bystander in a system that gives it life in the first place".<sup>14</sup> If we are to address the social and environmental challenges we face - and benefit from doing so - we need to reintegrate businesses into the heart of our societies.



## **Audible – rebuilding a community**<sup>15</sup>

Donald Katz, CEO of Audible, wanted the company to contribute to the local community. In 2007, he decided to move its offices from a cosy suburb into the heart of a deprived area in Newark.

Today, nearly half of Audible's entry-level customer service positions are filled with Newark residents.

The company provides subsidies to employees who want to move to Newark and pre-paid debit cards they can use to dine at Newark restaurants.

And Katz has created an independent early stage venture fund, supported by Audible with money and talent, to create the next wave of Newark businesses.

When he moved, he was told the company would lose 25% of its workforce. Today, Audible is an Amazon subsidiary, the fastest growing private sector employer in the area and the largest audiobook retailer in the world.

# WHY PURPOSE-LED BUSINESSES ARE KEY TO THE TRANSITION

To lead this transition and enjoy the benefits of more inclusive growth, businesses need to be inspired and guided by a purpose that serves society. This means that business leaders need a change in mindset to put society at the heart of their thinking and their core business activities. To be truly purpose-led, leaders need to be prepared to challenge and change how their companies operate. In order to achieve this, they need to think differently about both purpose and people.

Purpose-led business leaders realise that profit is not the purpose of business but rather one outcome of contributing to society. They recognise that people are not solely self-interested but naturally care about the quality of relationships with customers, employees, suppliers, communities, investors and regulators. A Blueprint for Better Business has developed *Five Principles of a Purpose Driven Business*, which offer a picture of how a business might look if it thinks in this way about purpose and people (see page 7). Evidence of the benefits of a purpose-led approach is growing (see box below) and companies' reputations for doing good also help them to attract and retain talent, especially among the millennials who will account for three quarters of the global workforce by 2025.<sup>16</sup>

The number of purpose-led businesses is increasing.<sup>17</sup> However, while it is possible to be a successful purpose-led business within current laws and capital markets, it is not easy, and there are many barriers. While the fundamental shift needed is in mindset and behaviour, policymakers have a key role to play in improving the environment if purpose-led businesses are to thrive and grow.

## The business case for purpose

Some recent findings:

- Purpose-led companies are doing better than the rest in today's turbulent economy<sup>18</sup>
- Engaged employees in the US lead to a 21% increase in profitability<sup>19</sup>
- Meaningful brands outperformed the stock market by 206% between 2006 and 2016<sup>20</sup>
- 58% of companies that prioritised purpose achieved  $\geq 10\%$  revenue growth over three years<sup>21</sup>

## LeapFrog Investments - a better kind of investment <sup>22</sup>

LeapFrog Investments was founded in 2007, with the credo of Profit With Purpose. Its aim was to provide financial services to 25 million low-income consumers by 2020.

Today, its companies reach 126.2 million people across more than 33 emerging markets. 116.3 million of these people live on under \$10 a day and over 50% are women – many are accessing insurance, pensions, credit and local healthcare for the first time.

These social benefits have been matched by financial results – across the decade, the revenue of LeapFrog companies has grown at 40.1% a year.

Its investments include: AllLife, a disruptive South African insurer which has built a profitable business by offering affordable life insurance cover to people living with HIV; and Cignifi, an innovative tech platform which provides online credit scoring using mobile phone usage data for those with no documented credit history.

# POLICYMAKERS MUST CREATE AN ENVIRONMENT WHERE PURPOSE-LED BUSINESSES CAN THRIVE

Parliamentarians, ministers, regulators and policy officials need to create an environment where purpose-led businesses can thrive if societies are to enjoy the benefits. A recent study has shown the importance of both law and culture in driving this change.<sup>23</sup> While the detail will vary between countries, policymakers across the OECD can all help by:

1. **Leading a cultural shift to a mindset where businesses are expected to play a positive role in society.** Many - in business and society - are still unaware of the concept of purpose-led businesses, or worse continue to believe that companies exist solely to make profit for shareholders. Policymakers have a platform to challenge these views and change the social context, including by championing existing purpose-led businesses in their country. We need a “new normal”, where the standard expectation is that businesses exist to play a positive role in society rather than just to make money.
2. **Ensuring national law and guidance permits and is clear about the importance of corporate purpose and long-term sustainable success.** In many OECD countries, the law is already more permissive than commonly realised. In these cases, more needs to be done to signal clearly that a director’s responsibility is to the success of the company and that they have the freedom to run a purpose-led business within the existing law. In other countries where existing laws and regulations continue to reinforce shareholder primacy and short-termism, then changing those laws to permit purpose-led businesses must be a priority.<sup>24</sup>
3. **Helping to shift the mindset of investors, who have a huge role to play in either enabling or disabling purpose-led business leaders.** Larry Fink, the CEO of the largest asset manager in the world BlackRock, was unequivocal in his 2018 letter to his CEOs – “without a sense of purpose, no company, either public or private, can achieve its full potential.”<sup>25</sup> Change is in the air, but it is too slow. Here a key challenge is to change the thinking of institutional investors so their decisions can become increasingly informed by the needs of the ultimate beneficiaries of the investment returns (e.g. people with pensions) rather than the intermediaries who handle the shares. Policymakers can help by ensuring that laws and guidance on investment promotes long-term stewardship, not short-term reporting and rewards.
4. **Treating businesses as partners in achieving the Global Goals.** The Goals are too big to be met by governments alone. A new level of collaboration is needed, with policymakers bringing businesses and non-governmental organisations into discussions that were previously reserved for governments. In addition, policymakers can work with businesses to raise and maintain environmental and social standards across whole sectors at the same time, keeping the playing field level for all.<sup>26</sup>

# CONCLUSION

Improving the world is good business – purpose-led businesses can help to build a more inclusive and sustainable world and enjoy long-term success while doing so. This will not happen through technical changes alone. It needs inspiration, hope and the realisation that businesses can contribute a huge amount to society if they change the way they think and act. A better future remains firmly within our grasp if business leaders and policymakers can work together to seize the opportunities.



## Vodafone – empowering women <sup>27</sup>

Vodafone is one of the world’s largest telecommunications companies and employs more than 100,000 people.

In 2015, the CEO gathered its top 40 leaders in one room, placed the Blueprint Principles (included on page 7) on a wall, and started discussing how Vodafone’s practices and strategy compared. One of the results was a new strategic focus on women’s empowerment.

This built on the existing Women First Programme, launched in 2013, which connects women in rural Turkey, giving them access to mobile phones and the internet. The accompanying advertisement service uses SMS to enable women to advertise their products on one of Turkey’s largest e-marketplaces.

Internally, a new ReConnect programme was launched which includes flexible working options, training, coaching and induction programmes to help women prepare for re-entry to the workplace after parental leave and progress their careers.

# FIVE PRINCIPLES OF A PURPOSE DRIVEN BUSINESS

The *Five Principles of a Purpose Driven Business* offer a picture of how a business might look if it is inspired and guided by a purpose that serves society. The Principles were rigorously developed by A Blueprint for Better Business through a year-long collaboration with a wide range of businesses, NGOs, investors, academics, different faiths and others in 2013.



A Blueprint for Better Business is an independent charity. We are not a consultancy or funded by business. We are a catalyst to help businesses be inspired and guided by a purpose that serves society. Our work is about stimulating and energising a different way of thinking and behaving in business. If you would like any more information about us or the Five Principles please contact [enquiries@blueprintforbusiness.org](mailto:enquiries@blueprintforbusiness.org).

You can also follow us on Twitter at [@Blueprint4biz](https://twitter.com/Blueprint4biz).

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