

Governing for profit and purpose

What boards need to think about to have it all

A Take on Board online event



Supporting for-purpose organisations
to be strong and successful.
for a more just world.

Tara Anderson

In the corporate world: increasing push for purpose

Harvard Business Review

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SOCIAL RESPONSIBILITY

181 Top CEOs Have Realized Companies Need a Purpose Beyond Profit

by Claudine Gartenberg and George Serafeim

August 20, 2019

August 2019: 180 of the world's biggest companies pledged their firms' purpose was no longer to serve their owners alone, but customers, suppliers and communities too

The New York Times

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Opinion

Marc Benioff: We Need a New Capitalism

The current system has led to profound inequality. To fix it, we need businesses and executives to value purpose alongside profit.

By Marc Benioff

Mr. Benioff is the chairman and co-C.E.O. of Salesforce.

Oct. 14, 2019

2018: 75% increase in five years in companies directing CSR from the C-Suite



Better Business Act campaigners urge UK parliament to halt

Mass lobby of lawmakers, headed by high street champion Mary Portas, calls for law change so responsibilities of company directors will include communities, workers and the environment.

Market pressure = shift from compliance to competitive advantage and from cost center to profit center (new capital markets, new revenue streams, social licence)



Purpose and Profit: An Inextricable Link

I write **best case** that every company needs a framework to navigate this difficult landscape, and that it must begin with a clear embodiment of your company's purpose in your business model and corporate strategy. Purpose is not a mere tagline or marketing campaign; it is a company's fundamental reason for being – what it does every day to create value for its stakeholders. **Purpose is not the sole pursuit of profits but the animating force for achieving them.**

Profits are in no way inconsistent with purpose – in fact, profits and purpose are inextricably linked. Profits are essential if a company is to effectively serve all of its stakeholders over time – not only shareholders, but also employees, customers, and communities. Similarly, when a company truly understands and expresses its purpose, it functions with the focus and strategic discipline that drive long-term profitability. Purpose unifies management, employees, and communities. It drives ethical behavior and creates an essential check on actions that do not align.

Multiple drivers

Investors are backing it

Financial market pressure applied downstream

Private equity funds using investment screening to protect from ESG risk

Over 50% of global asset owners evaluating environmental, social and governance (ESG) in investment strategy

Emergence of new finance for social impact eg Social Impact Bonds, Green Finance etc.

Lenders integrating ESG risk into loan considerations

Consumers want it

Consumers favouring ethical and social brands

Growing interest in values-driven consumption

Desire for social/green 'credentials' – expectation of proof points

Purpose is becoming a point of differentiation

Employees are excited about it

Post COVID people have a different relationship with work

Humanising of the workplace

Drive to build more meaning into work life (the great resignation)

Businesses with in-built purpose becoming more attractive

Regulators demand it

59+ countries with mandatory ESG reporting

Corporations Act guidance – annual report includes discussion of ESG risks that could affect finances

Expecting a gvt framework for ESG in AU in 2024 (Tassie & Qld starting out)

ESG reporting standards used by many ASX 100 eg Global Reporting Initiative (GRI) & Sustainability Accounting Standards Board (SASB)

Regulators now focussing on green washing and sustainability washing

Additional legislation around modern slavery, social procurement, climate etc.



In the NFP world: increasing drive for new income streams

- Growing challenge to generate income beyond traditional fundraising and grants.
- Global research from CAF - last year a third of charities said they could continue for less than 6 months without additional support and half said that they could last for less than a year.
- Even after lockdowns have eased, around 3 in 5 (58%) expect to see a continued loss of income sources.
- Charities in most countries see the only option as generating their own trading revenue.



Stakeholder Capitalism



Business for good

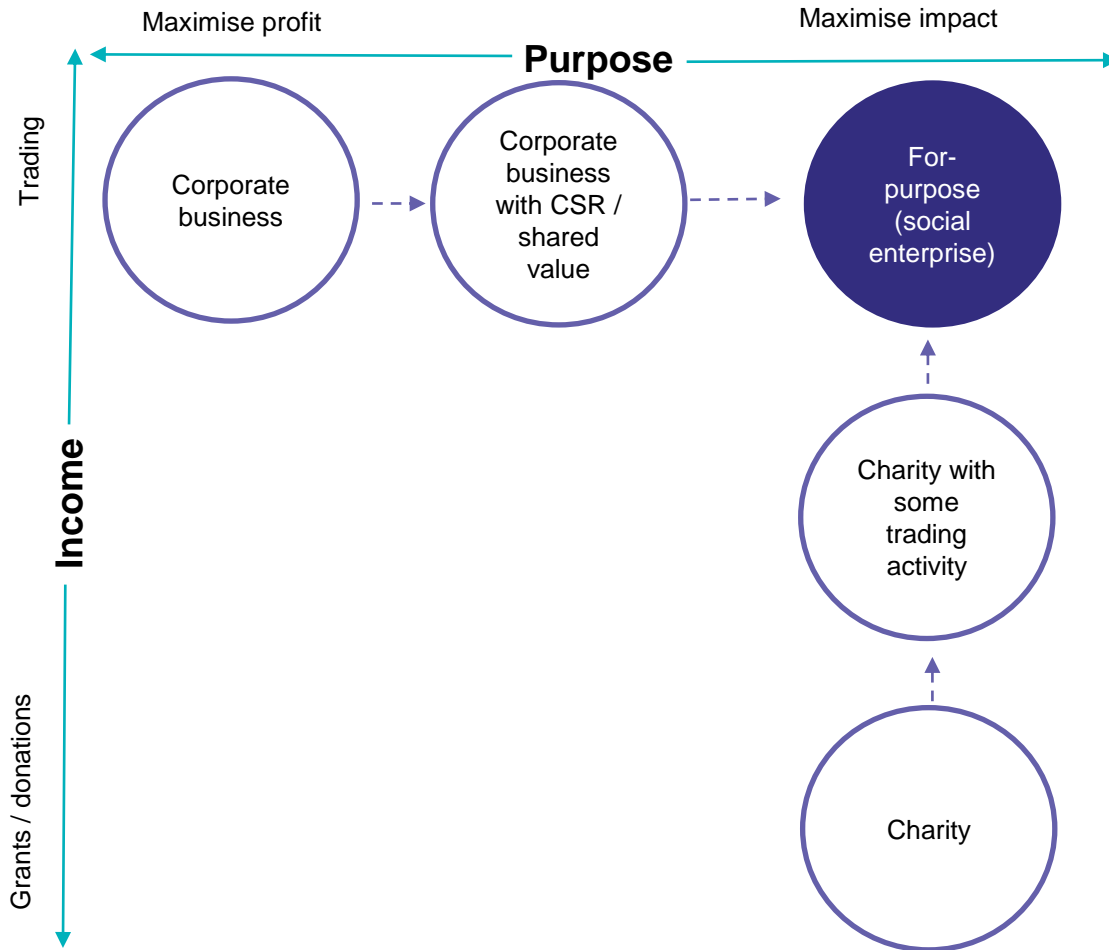
For-purpose

FIVE PRINCIPLES OF A PURPOSE DRIVEN BUSINESS

<p>HONEST AND FAIR WITH CUSTOMERS AND SUPPLIERS</p> <ul style="list-style-type: none"> • Sets fair and transparent relations with customers and suppliers • Ensures high quality, consistent, safe products and services • Treats all customers and suppliers with respect and dignity • Operates in a fair and transparent manner • Operates in a socially responsible manner 	<p>A GOOD CITIZEN</p> <ul style="list-style-type: none"> • Considers the wider impact of its decisions on the wider community • Contributes to the well-being of the community • Complies with all applicable laws and regulations • Engages with the community on issues of public interest • Promotes the well-being of the community
<p>A RESPONSIBLE AND RESPECTFUL EMPLOYER</p> <ul style="list-style-type: none"> • Treats everyone with dignity and provides for pay for all • Engages and welcomes constructive dialogue about its behaviour in helping to do its purpose • Fosters innovation, leadership and personal accountability • Protects and nurtures all who work for it to ensure people flourish, contribute and thrive 	<p>A GUARDIAN FOR FUTURE GENERATIONS</p> <ul style="list-style-type: none"> • Honours its duty to protect the natural world and conserve finite resources • Contributes knowledge and experience to promote better regulation for the benefit of society as a whole rather than protecting self interest • Invests in developing skills, knowledge and understanding to enable society to encourage informed citizenship
<p>HAS A PURPOSE WHICH DELIVERS LONG-TERM SUSTAINABLE PERFORMANCE</p> <ul style="list-style-type: none"> • Operates true to a purpose that serves society, respects the dignity of people and so generates a fair return for responsible investors • Engages and welcomes public scrutiny of the alignment between stated purpose and actual performance 	



For-purpose = charity heart + corporate head



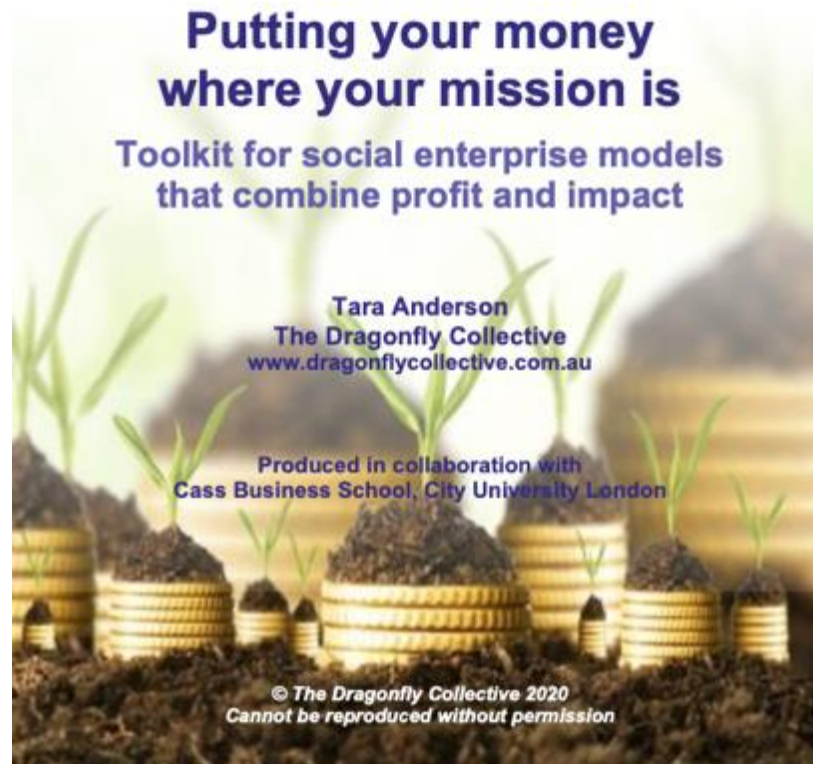
Blend corporate commercial logic with third sector social impact logic.

The practical vehicle for delivering both profit and purpose.

Thousands around the world. We can learn from them.

Shift from 'why' to 'how'?

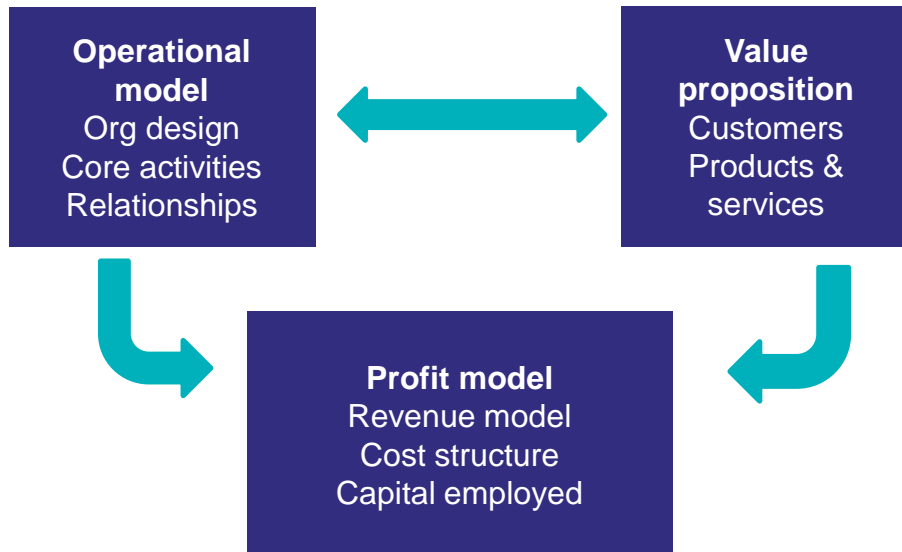
We need to go to the heart of strategy: business model design



What is a for-purpose business model?

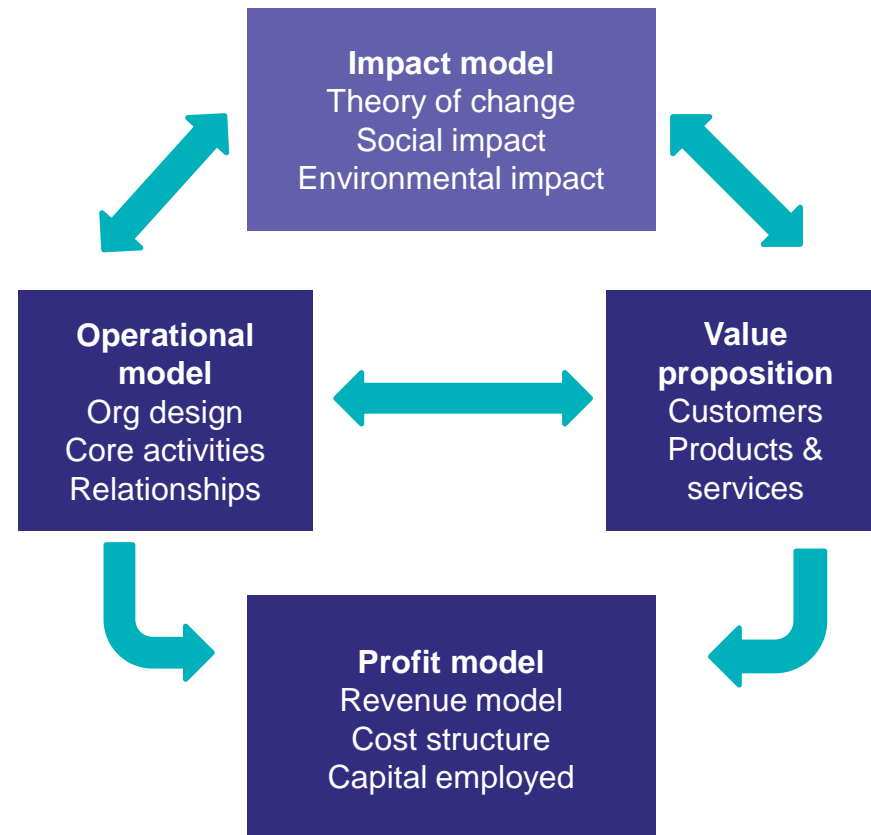
Corporate business model

Creates profit for business owners. Driven by cost-benefit considerations and the need to acquire and defend.



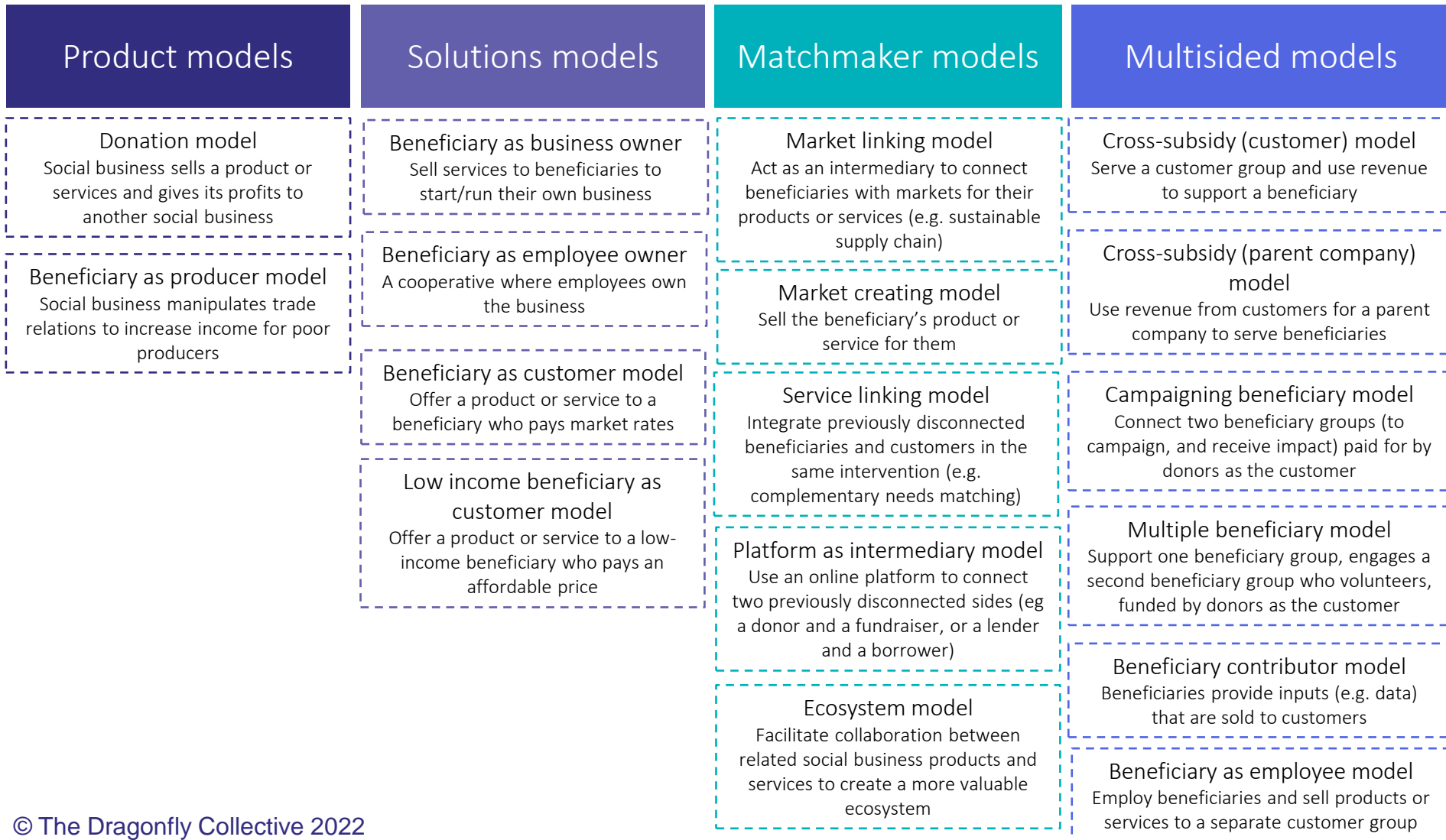
For-purpose business model

Creates value outside the business, rather than capturing value internally. Driven by creating social/environmental impact.



Our research: 17 for-purpose business model types

Type often determined by asking - 'how can we generate revenue to cover the costs of delivering impact'?



For-purpose business category 1 'Product' models

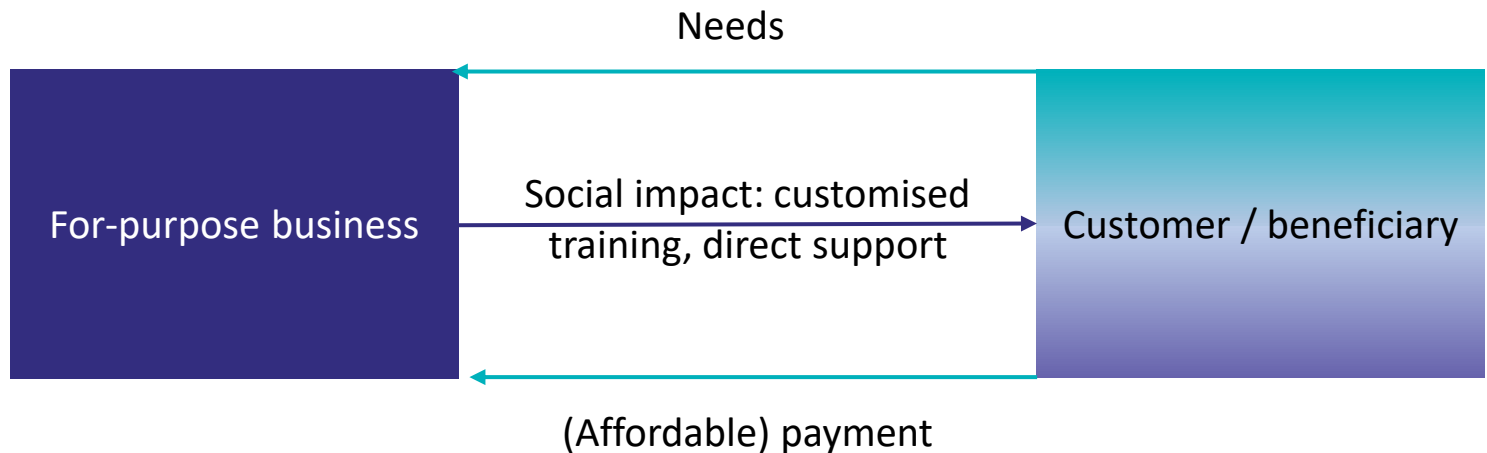


Example

Embrace infant warmer – global product that keeps newborns at a constant temperature for six hours without electricity. For rural hospitals, reduces cost of an incubator from \$20,000 USD to \$300 USD.



For-purpose business category 2 'Solutions' models

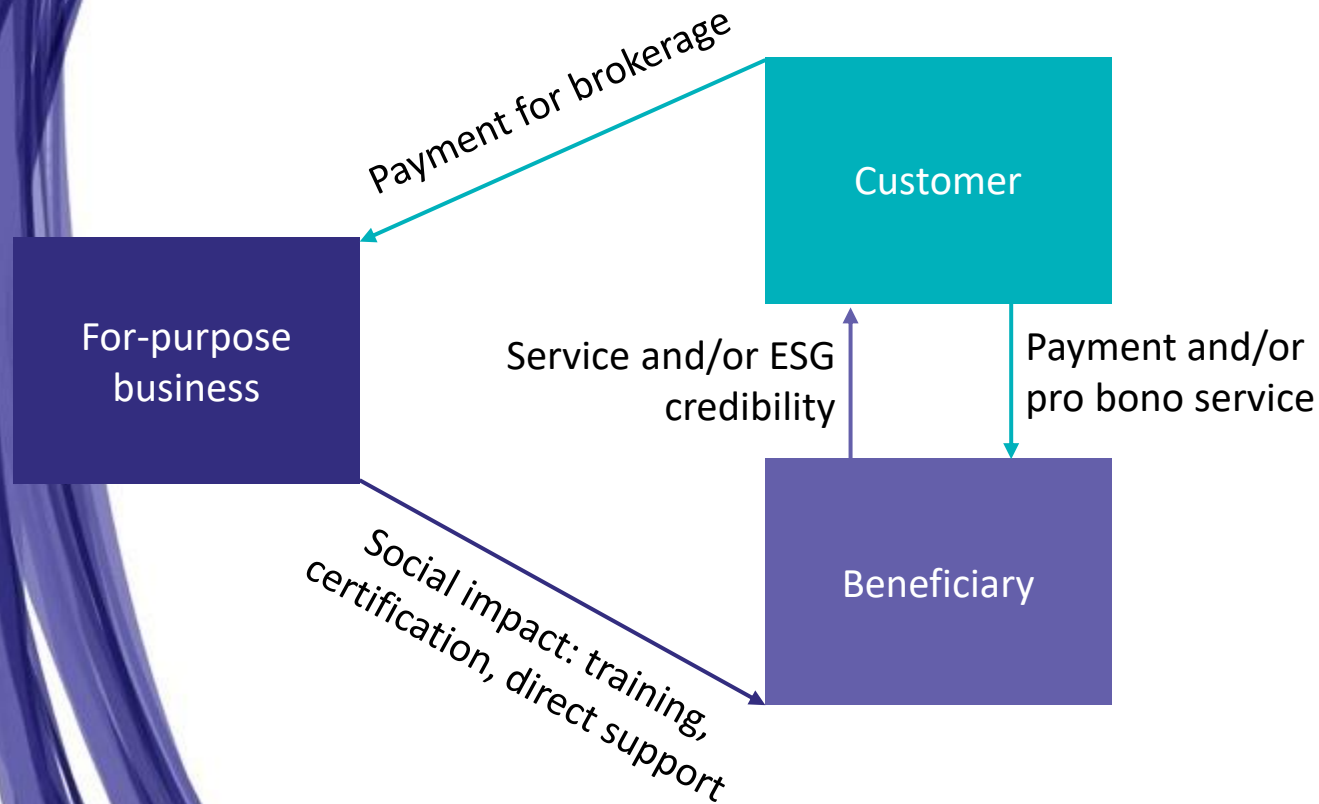


Example

Pro Mujer in Bolivia, Nicaragua, Peru and Mexico – offers microfinance and training in business development. The financial model is similar to a bank's: interest is charged on each loan and savings deposits are leveraged for on-lending.



For-purpose business category 3 'Match-maker' models



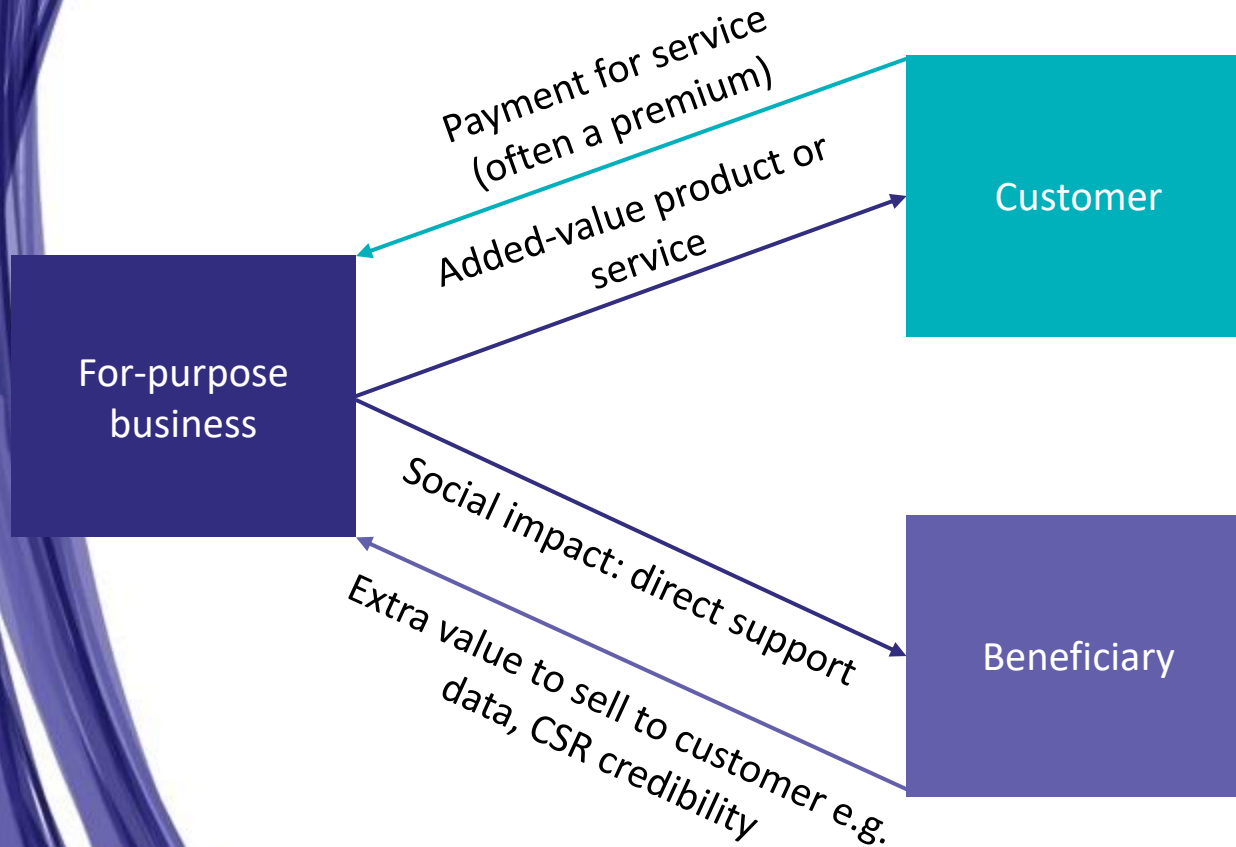
Example

Social Traders Australia – certifies and supports social enterprises with capacity building, then links them with corporate and government customers wanting to add social enterprises into their supply chains to achieve ESG goals.

Unlocking
business
for good



For-purpose business category 4 'Multi-sided' models

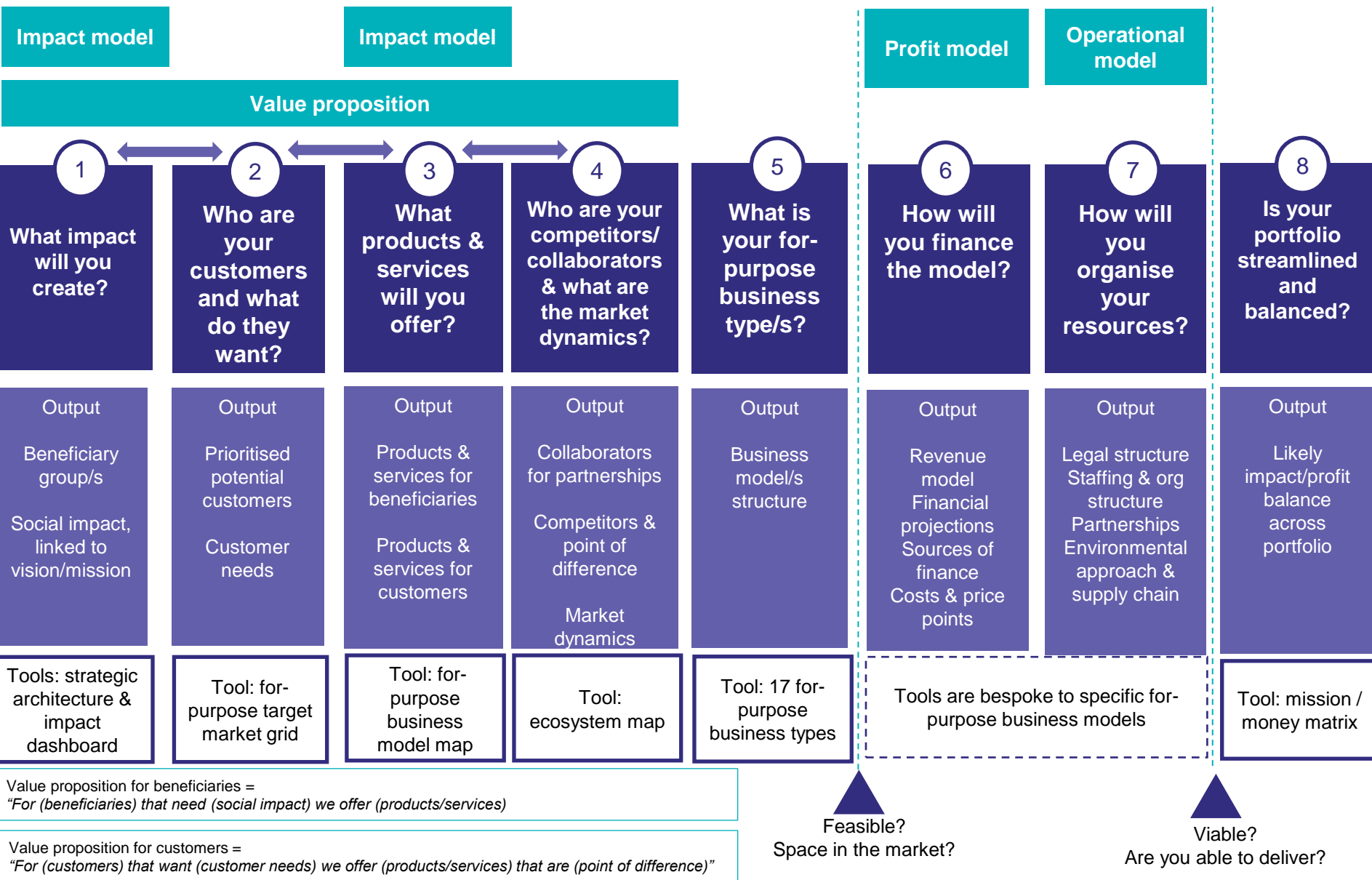


Example

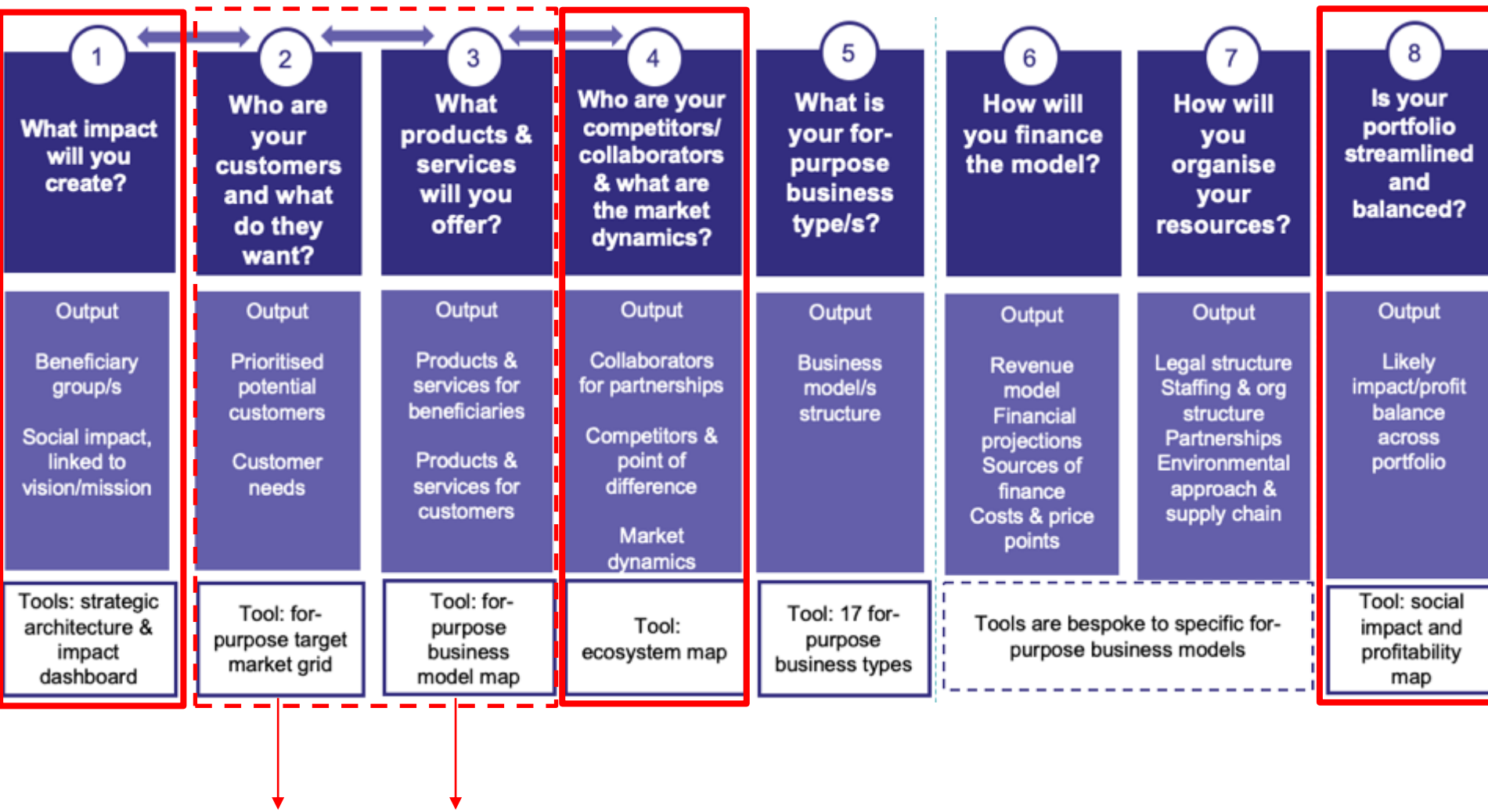
Brigade in London - top class restaurant giving homeless people the chance to gain professional training and to start a career in the restaurant industry.



For-purpose business model design



Four key differences to traditional for-profit or charity business models



Value proposition for customers =
"For (customers) that want (customer needs) we offer (products/services) that are (point of difference)"

Step 1: strategic architecture (impact model + corporate strategy)

- First question: what are you trying to achieve?
- Purpose must be at the heart – the starting point.
- It is the anchor for a for-purpose business model - it keeps your business focused on mission and vision and provides a safeguard against mission drift.
- Unique framework – *integrates* what are usually three separate documents created in isolation (vision/mission, org strategy, theory of change)



Six questions to answer

Step one - vision:

Overarching statement summarising your end game.

- What will the world look like when you're done (when you're no longer needed)?

Step two - impact areas:

These are the long-term changes attributable to your work.

- What changes will have occurred in the world as a result of your unique work?

Step three - mission:

This is the overarching statement summarising your outcomes.

- How will you generate the change identified in your impact areas (your unique role)?

Step four - outcomes:

The short or medium term changes caused by your work (the result or effect).

- What changes will beneficiaries experience through your work?

Step five – outputs / strategic goals:

The products/services and strategies you undertake.

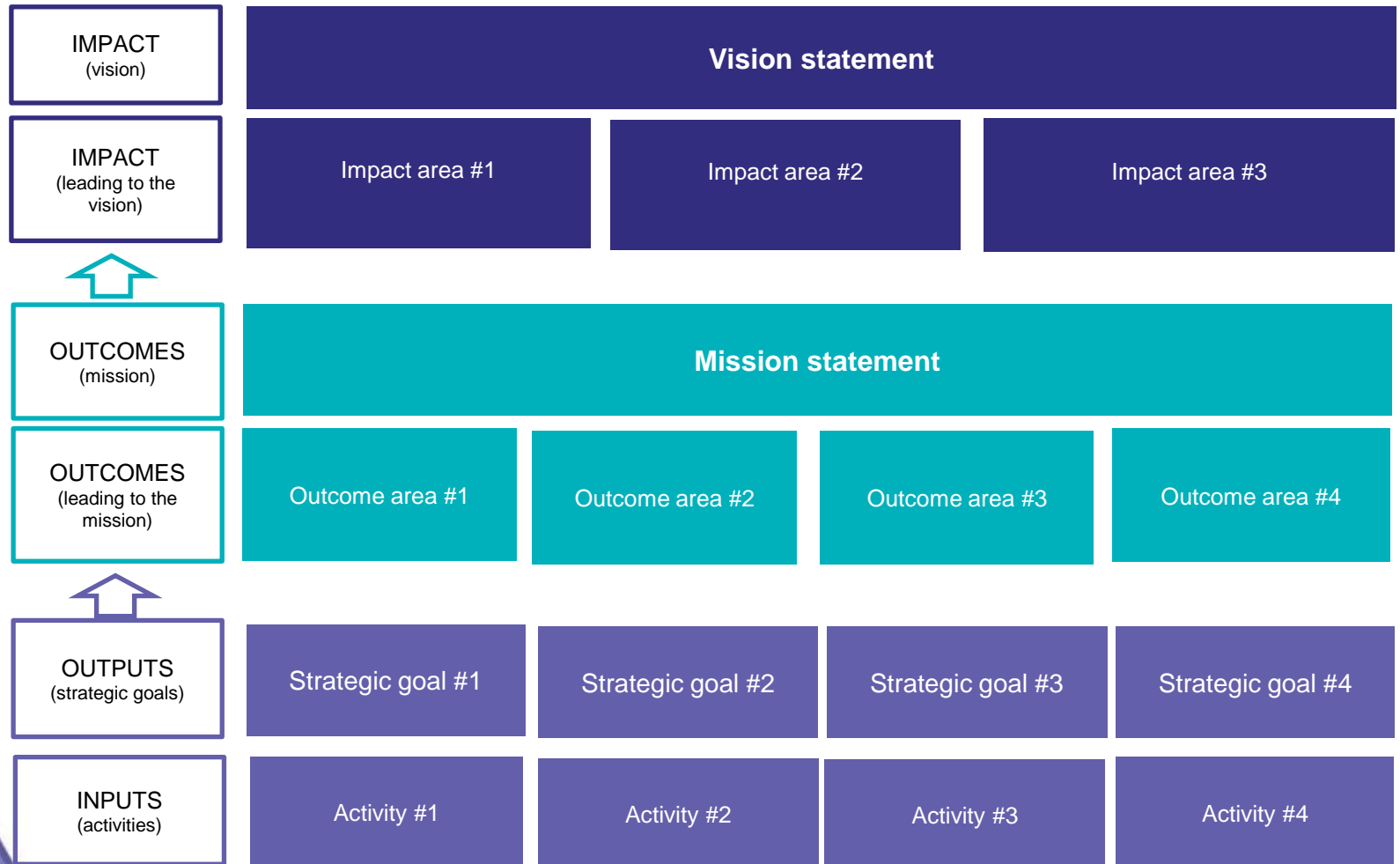
- What are your organisational strategic goals (that will generate the outcomes you identified)?

Step six - activities:

The tasks and interventions you undertake to achieve your mission.

- What are the tasks you will deliver under each strategic goal?

Tool 1.1 Strategic architecture



Steps 2 & 3 = value proposition

Step two: your customers

Step three: your product/service

Goal is to optimise the link between profit & social impact – create synergies across the business

Parallel value propositions: separating social impact and profit activity

- Parallel models have a market (customers) to cross-subsidise social activity for beneficiaries through activities that are not connected. This could be structural separation eg trading subsidiary or a corporate foundation.
- A complex model – requires delivering two (or more) sets of activities for different target groups – possibility for different business units to compete for resources and create tension in different forms of value creation.

Integrated value propositions: combining social impact and profit activity

- Economic and social value is created in mutually reinforcing ways.
- Rather than acquiring funds *for* the impact model, this generates revenues *with* the impact model - finding a way to build beneficiaries into the offers for customers, so that impact and profit are generated simultaneously.
- Avoids trade-offs between profitability and impact.
- Enables synergies – using the impact model to create revenue.



Step 4: partnerships & collaboration

A crucial difference between a for-purpose and corporate business model is your approach to collaboration.

Paradox: if you share a vision with other for-purpose orgs, you are compelled to enable them to succeed (or you're limiting your own vision)

- Traditional business = acquire and defend.
- For-purpose business = contribute to the ecosystem so others delivering a part of your vision can play their role. With a higher tide, all boats rise.

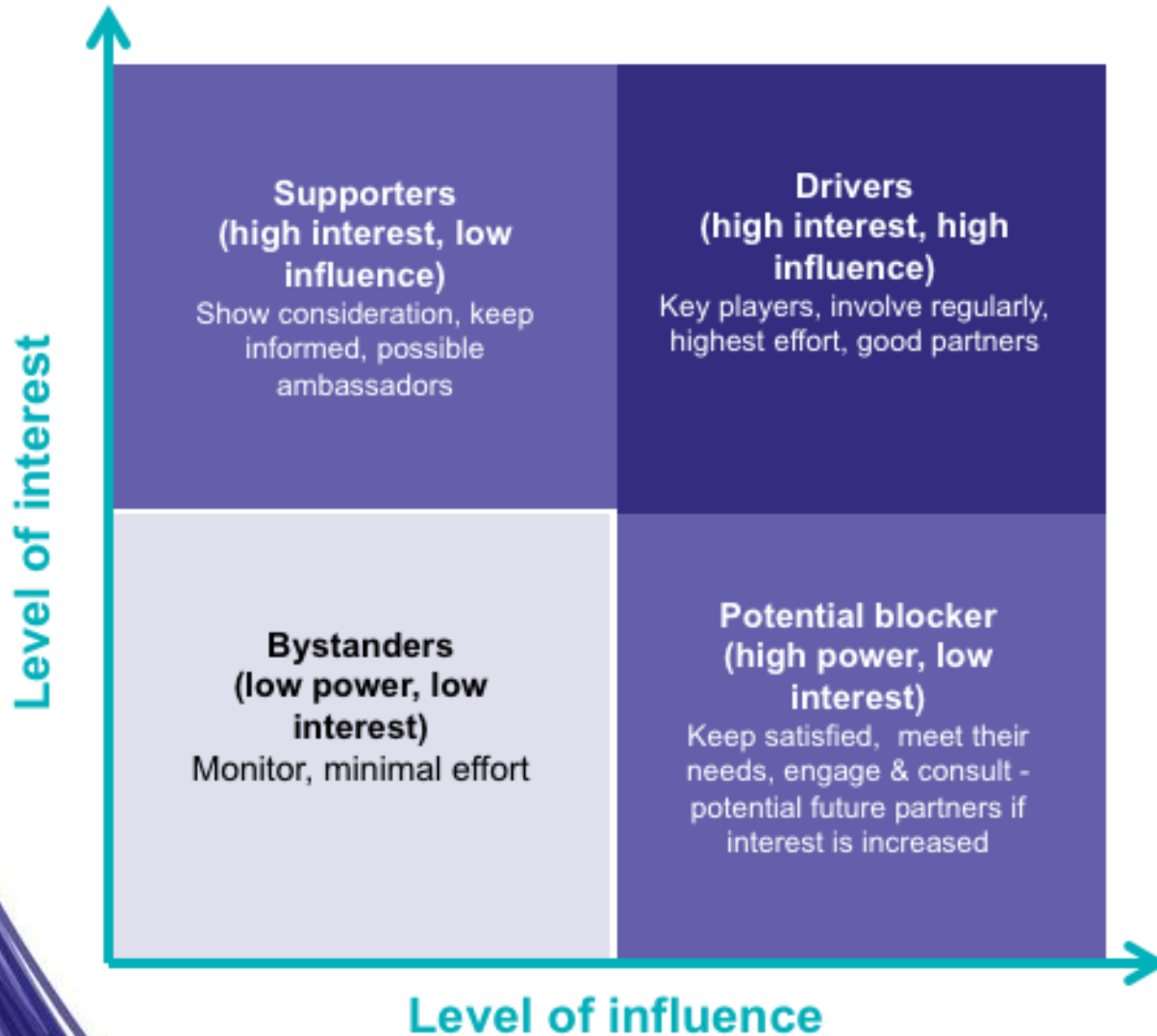
For corporates starting out on the purpose journey:

- Partnering with a for-purpose business is a great place to begin & learn (also hard to replicate, so a contributor to competitive advantage).
- Choose partnerships with for-purpose orgs that match the impact you want to create.
- Key is exerting influence without control - respect for the for-purpose partner.



Step 4: collaborators

Tool 4.1: ecosystem power map



Interest is defined as:
concern/care for your mission

Influence is defined as: ability to
support or resist you in
delivering your mission

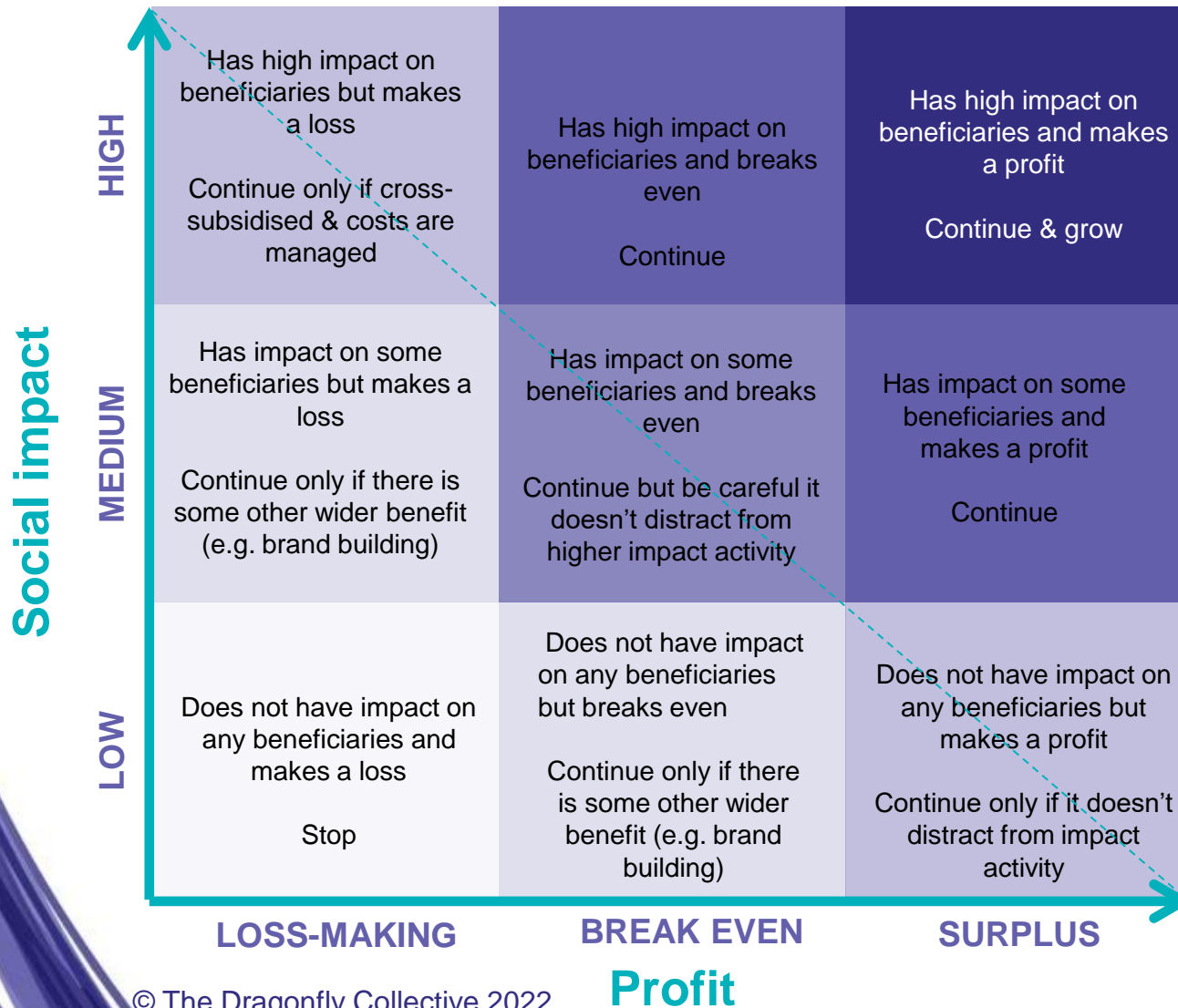
Step 8: portfolio check

- Key challenge in for-purpose models: mission/money balance
- A useful starting point for existing NFPs
- Ensures delivering social impact is financially sustainable
- Ensures you are genuine in creating purpose – not creating impact on one hand but harmful activity on the other



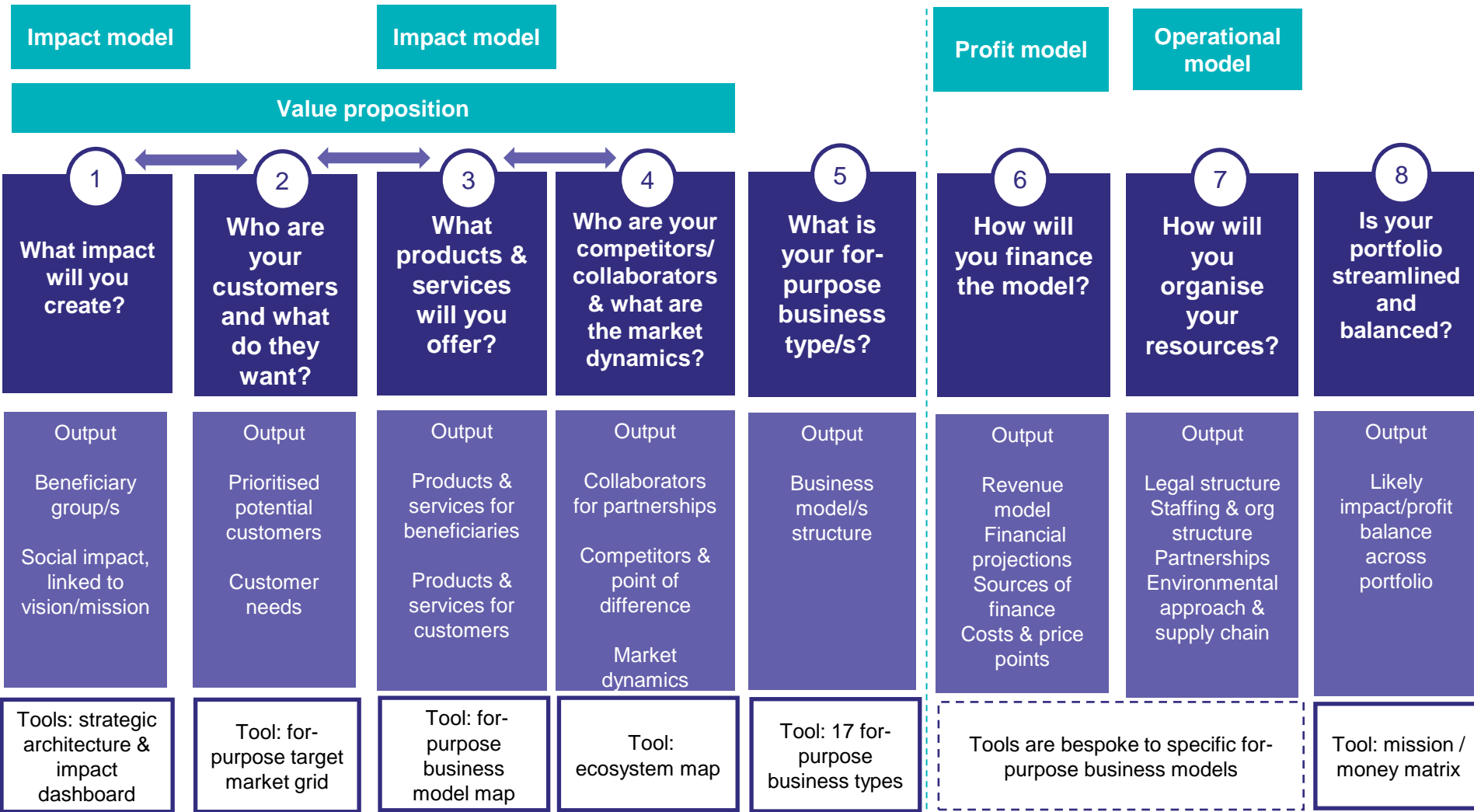
Step 8: balancing the portfolio

Tool 8: mission/money matrix



Starting out? Begin with step one.

Already on the journey? Refine your model at any point.



Value proposition for beneficiaries =
"For (beneficiaries) that need (social impact) we offer (products/services)"

Value proposition for customers =
"For (customers) that want (customer needs) we offer (products/services) that are (point of difference)"

Additional considerations for corporates

You can start in different places:

- Born – purpose baked in
- Transitional – positive/neutral impact
- Transformational – something about the business that isn't working eg fossil fuels – need a whole new business model (hardest)

Corporates are making the journey from:

Compliance (do only as much as we have to)

Strategy (it's a competitive advantage)

Purpose in-built (make sure everybody does it)

Considerations:

1. Check your assumptions eg that creating social impact is a cost only
2. Look for common points to integrate purpose with your strategy/activities
3. Assessment – who are your stakeholders (internal & external) and what's important to them
4. Consider frameworks for guidance that align with your goals eg SDGs, GRI etc and take the parts that are relevant
5. Consider internal education and awareness – what is it, but why would we do it? For-purpose businesses can help you make the case
6. Consider a collaboration or partnership to get started



The role of the board

- Purpose is a mindset, a philosophy.
- Purpose isn't something you do – it's everything you do.
- Important there are no silos for 'purpose' – it should be overlaid across everything you do (strategy, policy, operations, culture)
- Purpose must be led from the top – boards must set the culture & tone, showing why it's relevant
- Good purpose governance is a board sub-committee
 - It's standard practice to have a finance and audit committee. It should be standard practice to have a social impact committee.
 - Social impact committee tracks delivery of social impact.
- Commitment to for-purpose can create the synergy / golden thread across all business units that's key to successful strategy.



What if, there was no such thing as for-purpose business, because it was simply just business?

Let's prove that there's a better way. Call it conscious capitalism, ESG, for-purpose business, social enterprise – it doesn't matter. Just get started.

We have an opportunity -
to create business models that not only balance the books, but build a fairer and more just world.

For all of us.

It's the next frontier.

Join us?



Consultancy & training on the process



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