



## BUSINESS FACES GROWING PRESSURE TO TAP ENTREPRENEURSHIP FOR GOOD

THERE IS A SHIFT IN EXPECTATIONS OF PRIVATE SECTOR CONTRIBUTIONS  
TO SOCIETAL CHANGE

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In the shadow of an increasingly polarized world, corporate, government, and philanthropic leaders tackled the globe's biggest challenges at the World Economic Forum in Davos under the theme "Creating a Shared Future in a Fractured World." With an emphasis on corporate leadership and accountability, the meeting amplified increasing stakeholder and investor calls for the private sector to assume greater responsibility in society.

### **Entrepreneurship for good**

Traditionally, this space was occupied by bold social entrepreneurs, innovators, and philanthropists who have dared to think big to improve the state of the world, oftentimes in isolation and without much interaction with other types of stakeholders.

But, more recently, we are seeing a wider group of global stakeholders converging to seek entrepreneurial avenues towards societal impact. There's marked shift as corporations, banks, and investment funds reconsider business' role beyond financial returns as defined by economist Milton Friedman and consider their overall impact.

Unique partnerships are developing across industries and types of organizations, tapping into technology, innovation and entrepreneurship to tackle some of society's most difficult problems. As a result, we are seeing new opportunities for multi-stakeholder cross-learning and collaboration.

### **Stakeholders drive accountability**

Stakeholders are driving the expansion of the corporate role in public affairs. Shareholders, employees, and consumers are increasingly scrutinizing corporate behaviour, asking for evidence that they are not only 'doing no harm' (a CSR approach) but also improving society, as evidenced by their impact on broader challenges such as gender or income inequality. Participation by the private sector is seen as crucial to meeting society's biggest challenges, represented by the ambitious 17 UN Sustainable Development Goals, which aim to eradicate poverty and hunger, foster safe and inclusive societies, and combat climate change by 2030.

There is a growing concern that individual governments are not capable of addressing today's broad international challenges on their own, as they are subject to short political cycles and faced with weakening international cooperation. Among those surveyed the [2018 Edelman Trust Barometer](#) 64% said CEOs should take the lead on change rather than wait for the government.

### **Investors require impact metrics**

Greater access to data is laying corporate behaviour bare and raising red flags with investors. When assessing corporate viability, investors are increasingly analysing corporate Environmental, Social, and Governance (ESG) performance, heeding the old adage "what gets measured, gets managed". That's because purpose-driven companies that rank high on [ESG indexes outperform their peers](#) in the long term, [recent research shows](#). US investors seeking ESG data on companies more than quadrupled in the first half of 2017, according to [Morningstar](#). They are fuelling demand for more sophisticated ESG data and impact measurement methodologies.

In a strong signal in support of ESG measurement, the biggest investor in the world, Laurence D. Fink, founder and CEO of [Blackrock](#), warned the world's largest companies in January that he would withdraw his support without evidence they are contributing to society. Blackrock manages more than \$6 trillion in investments through 401(k) plans, exchange-traded funds and mutual funds.

If a company doesn't engage with the community and have a sense of purpose "it will ultimately lose the license to operate from key stakeholders," Fink warned.

Another US asset management giant, [Vanguard](#), in September called on all public companies to improve their climate disclosures and gender diversity on corporate boards. The investment company described climate change "an example of a slowly developing and highly uncertain risk—the kind that tests the strength of a board's oversight and risk governance."

One of Europe's biggest insurers, [Swiss Re](#), plans to move its \$130 bn investment portfolio to ethically-based benchmark indices. The insurer will use MSCI's ESG indices instead of traditional benchmarks. The insurer Axa also said it will sell all of its tobacco investments.

### **Governments boost pressure**

Governments are also examining corporate behaviour more closely. [Canada](#) is creating an independent watchdog to monitor and investigate claims of human rights abuses by its companies operating abroad.

In some cases, governments are applying financial pressure in addition to political levers. [New York City](#) announced it is suing the largest listed energy companies, saying they were aware of their contribution to climate change in public while minimizing the link in public. The city also plans to divest its government employee pension funds, which have \$189 bn in assets, of holdings in fossil fuel companies. New York's five pension funds hold \$5 bn in 190 fossil fuel companies.

Corporate leaders are taking note of the shift in sentiment. They are setting aside their often piecemeal, philanthropic CSR efforts in search of a broader strategy that integrates their core business with measurable societal impact. The number of companies directing corporate citizenship from the C-Suite has increased nearly 75 percent compared with five years ago, according to Boston College Center for Corporate Citizenship (BCCCC).

An increasing number of CEOs are discussing corporate purpose as part of their strategy setting and dialogue with stakeholders, [a study by the EY Beacon Institute and Oxford University](#) shows. Public discourse about corporate purpose has grown five fold since 1994, the study notes. The conversation is converging around value creation for and with a broader set of stakeholders.

Businesses should shift from maximizing Total Shareholder Return to a new strategic focus on Total Societal Impact (TSI), the total benefit to society from a company's products, services, operations, core capabilities, and activities, [a Boston Consulting Group recommends](#). The strategy requires leveraging a company's core business to create scalable and sustainable impact.

To be sure, the debates over the best models and the measurement of private sector impact are unlikely to be resolved soon, but it is clear there is a shift in expectations of private sector contributions to societal change. New frameworks and solutions will require unconventional partnerships, innovation, fresh perspectives and collaboration across sectors.

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