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George Serafeim
Charles M. Williams
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Business and Social Good Are Aligning. Are You Ready?

As businesses work to build competitive advantage and grow revenue, can they also find a way to “lift up” the world? About a dozen years ago, HBS Professor George Serafeim and colleagues set out to answer this question by investigating companies that were working to improve their impact on society. They consistently encountered resistance to the idea that social and environmental issues could be relevant or meaningful for business. Instead, executives, investors, and others saw these issues as “soft.” In fact, Wall Street analysts tended to issue more pessimistic investment recommendations for firms trying to do good.
Serafeim didn’t think the naysayers were right, but knew he needed more hard data to test his hypothesis. How did a company’s performance along dimensions such as decarbonization, diversity and inclusion, access to and affordability of products and services, product safety and quality, and opportunity in the workplace actually align with their financial performance? His eventual findings, outlined in his book *Purpose and Profit: How Business Can Lift Up the World*, were exciting: purpose-driven companies improving their performance on industry-specific and strategically relevant ESG (environment, social, and governance) issues outperform competitors. Business leaders are increasingly taking notice.

**TRENDS ALIGN**
Since Serafeim began investigating this topic, several developments have begun to change how people think about—and take action on—the role of businesses in society. As he explores in *Purpose and Profit*, social issues are increasingly becoming business issues. Key contributors include:

- **Changing expectations in a changing world.** People have become more attuned to the needs of society and put off by the excesses of capitalism, leading to growing demands that businesses do more than make profits for shareholders.

- **The search for meaning.** Even before the COVID-19 pandemic, workers were looking for more from their work lives. At every level, people are examining what they would like from their employers and how to derive more meaning from their work.

- **The impact of technology and social media.** Consumers, employees, and other stakeholders have powerful vehicles for understanding corporate actions and for communicating, individually and collectively, what they expect of companies.

- **Development of meaningful and comparable measures.** ESG metrics—in particular, those developed by the Sustainability Accounting Standards Board (SASB) and the Impact-Weighted Accounting Initiative (IWAI), two efforts Serafeim has helped drive—are providing new, more accurate ways for companies to share ESG performance with stakeholders and for analysts to compare a company with others in its industry.

**FROM PURPOSE TO EXECUTION**
As a result, many businesses have begun to act in new ways, stepping up to provide public good and filling a social role. According to Serafeim, the ESG journey typically begins with reactive initiatives and evolves into true ESG-driven strategies over time (see sidebar).
To help companies and their leaders accelerate the passage through the ESG stages and maximize results, Serafeim proposes a five-part framework for creating alignment behind a corporate purpose:

- **Find and adopt the ESG practices that will be most strategic for the business.** Identify strategic openings that can enable innovation and differentiation—and at the same time improve performance on sustainability metrics.

- **Create smart ESG goals and accountability structures.** Create both top-down, governance-driven strategies and bottom-up, culture-driven momentum throughout the organization to make ESG efforts work and make them stick.

- **Build a culture around corporate purpose.** Identify and disseminate a purpose that aligns with the ESG issues that have been identified as strategic and achievable.

- **Make the right operational changes for ESG success.** Start small and work toward larger goals. Keep ESG concerns at the top of everyone’s list—not just for the person in charge of the effort, but also for people at every level.

- **Communicate effectively to investors and the world.** Resist short-termism, invest in building relationships, and incorporate ESG metrics into the way corporate reporting communicates the value creation process.

### How to Create More and Better Value

Successful companies find ESG success by pursuing six categories of opportunity.

**Higher Upside Potential**

- **Create a New Business Model and/or a New Market**
  Grow revenue through new environmental or socially minded products.

- **Transform a Business to Achieve Greater Alignment**
  Shift an existing misaligned business into a different type of product or service.

- **Create a Totally New, Optimally Aligned Business**
  Launch a new business built on new environmental or social considerations.

**Lower Risk**

- **Market a Substitute Product**
  Leverage existing products that gain prominence in light of broader environmental or social issues.

- **Boost Operational Efficiencies**
  Save money by decreasing the company’s environmental footprint, increasing worker productivity.

- **Recognize Value**
  Communicate superior ESG risk management, differentiating the organization from its competitors.
STAYING ON TRACK: THE IMPORTANCE OF GOALS AND ACCOUNTABILITY

To drive ESG success and sustain progress, executives need to set meaningful goals and create effective accountability structures. In companies that are most successful in combining purpose and profit, stakeholders become actively involved with ESG at every level. The company finds ways to infuse its culture with a sense of purpose.

To align the organization behind the corporate purpose, companies can work to clarify the connection between the purpose and each person’s job. That is a very powerful way to inspire employees at all levels, including the crucial layer of middle managers.

In all cases, investors can play a significant role as they recognize that driving better outcomes on strategically relevant ESG issues can pay off in capital markets. By asking penetrating ESG questions, engaging with new standard measures of ESG performance, and seeking out and investing in businesses that have not yet maximized their ESG potential, investors can help companies stay on the right path.

Serafeim sees this process of aligning purpose and profit as not only one of improvement for a given company but also as a journey that the world’s businesses and their stakeholders are embarking on together. “As the world economy carves out a path toward closer alignment between business and societal interests,” he explains, “it is up to all of us to shape that journey.”

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