RESPONSIBLE BUSINESS LEADERSHIP AND THE PATH TOWARDS PURPOSE

More than ever, now is the time!

This research note was developed by the Center for Responsible Business & Leadership (CRB), a unit of Católica Lisbon School of Business and Economics. The Center is a strategic initiative in Católica Lisbon's ambition to be a catalyst for IMPACT creation, through knowledge development and innovation, in order to place responsible business at the core of corporate strategy.

Responsible Business (RB) is becoming an essential part of corporate strategies and the CRB aspires to develop critical knowledge among students and executives to face the sustainability trends as opportunities. Our aim is to contribute to CATÓLICA-LISBON mission to be a top business school and create a position of intellectual leadership, while finding the right answers for the world's toughest challenges.

We believe that corporations able to act as a Responsible Business, integrating all its dimensions into their strategies and culture, will be the leading companies of the future.

Introduction

Over the past few decades, Responsible Business (RB) related issues have become increasingly prominent on the business agenda, shifting from a focus on philanthropy, compliance and reputation management to longer-term risk management and the creation of strategic competitive advantage.

This novel strategic positioning of RB in terms of corporate value creation has resulted in an extensive production of literature about how the concept and its practice should be embedded within companies.

This comes hand in hand with the need to incorporate sustainability[1] in the core of the business strategy in its broadest sense (Porter and Kramer, 2011). These practices and its positive results for businesses and society, have led to a clear learning for management practitioners and researchers: *There are no sustainability strategies, sustainability is the strategy*.

Based on a systematic review of the main RB and sustainability practices, this research note aims to shed light on the importance of businesses to act as Responsible Businesses and to understand what sort of Leadership should be expected from corporate leaders.

The Research Note is divided in four parts: 1. History of the concept and a proposed definition of Responsible Business; 2. The kind of responsible leadership that businesses seem to be in need of; 3. Recent Leadership examples from the Coronavirus crisis; 4. The business case for action.

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[1] Sustainability is the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland, 1987). There are three pillars of sustainability, which are social, environmental and economic (Purvis et all, 2018).

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1

1. Corporate Social Responsibility and Responsible Business: History and an attempt of Definition

It is not possible to jump into a discussion of Leadership in the context of a "Responsible Business" strategy without understanding its roots within the concept of Corporate Social Responsibility (CSR).

CSR, in the post 2nd world war period, was practiced mostly with a philanthropic character (Carroll, 1991; 1999; 2008). Nonetheless, by the end of the 60's the overall social context brought a strong pressure on corporations to behave according to the social expectations of the time, most of which were expressed in protests on environmental and anti-war campaigns (Waterhouse 2017).

But even when some scholars begun applying a wider scope to the social responsibility of corporations (seeing them as part of their business), there were others who were sceptical of the notion of CSR. Notably, Milton Friedman (1976), a renowned economist and Nobel laureate in economics (1976), gave way to a perspective of the role of corporations in a free capitalist system, in which firms should limit to the pursuit of economic benefits. Friedman would further explore this notion in the article titled *The Social Responsibility of Business is to Increase its Profits* (1962), in which the author sees CSR activities as an inappropriate use of company's resources that would result in the unjustifiable spending of money for the general social interest" (Latapí, 2019).

During the 70' and 80's, the understanding of CSR was influenced by social movements and new legislation. For Carroll (2008), the most relevant societal concerns and expectations of corporate behaviour revolved around "environmental pollution, employment discrimination, consumer abuses, employee health and safety, quality of work life, deterioration of urban life, and questionable/ abusiveness practices of multinational corporations". As Carroll (2008) explains, this context led scholars to begin looking into alternative approaches to social responsibility. Consequently, and during the 1980's, the concepts of business ethics and stakeholder management became part of the business vocabulary, being part of a wider discussion around the corporate behaviour (Latapí, 2019).

The globalization process of the 1990's increased the global reach of multinational corporations and capitalism expanded rapidly. This meant that corporations began having concerns with regards to competitiveness, reputation, global visibility and on an expanded network of stakeholders (Carroll, 2015). This gave way to alternative theories such as the stakeholder theory. "In the traditional view of the firm, the shareholder view, the shareholders are the owners of the company, and the firm has a binding financial obligation to put their needs first, to increase value for them. However, stakeholder theory argues that there are other parties involved, including governmental bodies, political groups, trade associations, trade unions, communities, financiers, suppliers, employees, and customers" (Freeman, 1994).

However, it was not until 1999 that CSR gained global attention with the landmark speech of UN' then Secretary General, Kofi Annan, who, at the World Economic Forum expressed: "I propose that you, the business leaders gathered in Davos, and we, the United Nations, initiate a global compact of shared values and principles, which will give a human face to the global market".

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The first decade of 2000 thus brought to light the recognition and implementation of CSR to a different level. It was also in this decade when, more than recognition, CSR started to be seen as a strategic approach, a different way to conduct business and to become competitive. Lantos (2001) further explained that CSR can become strategic when it is part of the company's management plans for generating profits. This means that a company can take part in activities that can be understood as socially responsible, only if they result in financial results. As a result, the literature on CSR begun including strategic considerations. This is manifested in Werther and Chandler's research (2005) who started using the term "Strategic Corporate Social Responsibility" (SCSR). Specifically, the emphasis was placed on the need to shift the focus of social responsibility as a minimal commitment to "becoming one that is a strategic necessity".

Later on, Porter and Kramer (2006) built on the notion that "companies can achieve a competitive advantage through CSR and explained that corporations can address their competitive context through a strategic approach that results in the creation of shared value, benefiting society while improving the firm's competitiveness" (Latapy et al, 2019). Indeed, CSR policies, if disconnected from the company strategy, don't result in "any meaningful social impact nor strengthen the firm's long-term competitiveness" (Porter and Kramer, 2006).

The concept of Creating "Shared Value" was further developed by Porter and Kramer in 2011, explaining it as a necessary step in the evolution of business. They defined Shared Value as: "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress". This places traditional CSR as an outdated and limited concept, focused on improving company's reputation, and, therefore, they claim that Creating Shared Value (CSV) should replace CSR.

Later, Chandler and Werther (2013), further contributed to this discussion by defining SCSR as: "The incorporation of a holistic CSR perspective within a firm's strategic planning and core operations so that the firm is managed in the interests of a broad set of stakeholders to achieve maximum economic and social value over the medium to long term."

Overall, the short term, profit-centred capitalist model of the prior 40 years (shareholder value creation) seemed to bring society to a point of extreme inequality and environmental burn, demanding from companies a new approach, in case they want to keep their license to operate (Hollensbe et all 2014; Eccles et all, 2014; Ioannou and Serafeim, 2019).

As a consequence of these insights and trends, many companies began adopting social innovation practices. These included examples of internal innovation in the value chain through social intrapreneurship to partnerships with social entrepreneurs or open innovation programs[2]. Grameen Danone Foods, Grameen Veolia Water (Yunus Social Business, 2020) and IKEA Social Entrepreneurs (IKEA, 2020) program are great examples of these approaches.

In this line of happenings, the year 2015 can be considered very important in this evolution because it was marked by the Paris Agreement and the launch of the 2030 Agenda for Sustainable Development, including the adoption of seventeen Sustainable Development Goals

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[2] This topic is to further be explored in a subsequent research note from the Centre for Responsible Business and Leadership.

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(SDGs) which represent a "shared vision of humanity and a social contract between the world's leaders and the people" (Ban, 2015).

Actually, companies and society share a symbiotic relationship: "one cannot flourish without the other" (Hollensbe et all, 2014). And "any business that pursues its ends at the expense of the society in which it operates will find its success to be illusory and ultimately temporary" (Porter and Kramer, 2006). In fact, "the competitiveness of a company and the health of the communities around it are closely intertwined" (Porter and Kramer, 2011). For that, unlocking the power and competence of companies to create social and environmental value, alongside with profits is not only an opportunity, but the only solution companies have to strive and be successful.

Some of the world most influential CEO's have already expressed their vision on the prominence of stakeholder capitalism as we enter in a new decade. Their compromise to lead their companies "for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders" was made clear as a strategic choice for the future (Business Roundtable, 2019). Literature corroborates this position, validating that "the largest corporations have a role to contribute positively to society by balancing different stakeholders' interests, instead of maximizing profits" (Serafeim, 2014).

However, the stakeholder approach has the downside that it can lead corporate leaders to focus on addressing the needs and expectations of the more powerful stakeholders and lead to internal politics and divisions. What business needs is a strategic approach that brings Purpose as the higher dimension that provides the unifying factor, the common denominator on the debate of shareholder vs stakeholder primacy.

In this context, and in attempt to bring all stakeholders interests to the company's core, several authors have advocated that companies need to realign their strategy with a broader purpose, not only for the good of society, but mainly to achieve long term success and to get a license to operate (Porter and Kramer, 2011; Hollensbe et all ,2014; Eccles et all, 2014; Ioannou and Serafeim, 2019). In the corporate world this is illustrated by the famous Larry Fink's letters in the recent past (Blackrock, 2018; 2019, 2020). Actually, in a world of sharply rising inequality, we urgently need to reframe how we collectively understand the purpose of business" (Hollensbe et all, 2014).

Purpose, the justification for the business existence (Handy, 2002), emerges then as the ultimate "north star", bringing to a new unified level the debate between shareholder vs stakeholder primacy. In Handy's (2002) words, the purpose of a business "is not to make a profit (…), it is to make a profit so that the business can do something more or better. That "something" becomes the real justification for the business" existence (Handy, 2002).

This vision seems to be opening up a new era on the history of capitalism: the era of purpose. In fact, most of the world most relevant CEO's are now considering purpose as core to their business strategy, and they are seeing society challenges as key opportunities for business success (Leaders on Purpose, 2019).

Bearing all of this in mind, we propose a modern and operational definition of Responsible Businesses as: "Companies that have sustainability[3]at the core of their business strategies,

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[3] in the holistic sense, that includes economic, environmental and social issues (Purvis et all, 2018).

always embracing an integrated view of the relevant stakeholders' interests, sharing the same broader purpose, in order to advance society's well-being".

Purpose is considered as the defining common goal that brings all relevant stakeholders together and it is also the natural evolution of the stakeholder-based approach. Purpose becomes a strategic factor that unifies the different stakeholder interests and, as a consequence, will move even further away from the traditional shareholder approach. It will become the "safety net" against a return to the previous shareholder model.

Next we discuss the role of leadership in promoting and practice of responsible business.

2.   Responsible Business Leadership

The Anglo-Saxon etymological root of the words lead, leader and leadership is 'laed', which means path or road. The verb means to travel. A leader is one who shows fellow travellers the way by walking ahead. Leadership – which focuses on the effectiveness of strategy – is different to management – which deals with the efficiency of operations (De Vries, 2001)

The academic and management world is not short of inspiring definitions of leadership. Just to quote a few:

Ian Cheshire (2010), CEO of Kingfisher, says "leadership is about getting people to go where they wouldn't have gone on their own" (Visser and Courtice, 2011). Management guru Tom Peters (1989) suggests leadership is about "discovering the passion, persistence and imagination to get results, to be able to find the Wow factor and to be able to think the weird thoughts necessary to learn and thrive in a disruptive age". Visser and Courtice (2011) proposes another definition of leadership, as follows: "A leader is someone who can craft a vision and inspire people to act collectively to make it happen, responding to whatever changes and challenges arise along the way."

Which leads us to the question: is there anything special about Responsible Business Leadership or the traits, styles and skills of Leadership are all the same?

We suggest the answer relies on the complexity of the different angles (economic, environment, social) that calls for a coordinated and, holistic approach. And above all, an approach that needs to be guided by a common Purpose.

Sandy Ogg (2010), Chief Human Resources Officer for Unilever, explains this challenging approach when it comes to Sustainability: "I don't think there's any difference between character or timeless elements of leadership, whether you're leading sustainability or whether you're leading for profit. But when it comes to the differentiators, why is it that Paul Polman [former CEO of Unilever] stands out? It's because he understands the context and understands leading with empathy in a multi stakeholder environment" (Visser and Courtice, 2011).

Responsible Leadership tests common assumptions about who counts as a leader and proposes that anyone who takes responsibility for understanding and acting on sustainability challenges qualifies as a sustainability leader, whether they hold formal leadership positions. They lead with, rather than over others, in ways that account for the long-term viability of complex, interconnected

living systems. Responsible leaders recognize that the experience of change itself, and the dissonance it creates, fuels new thinking, discoveries, and innovations that can revitalize the health of organizations, communities, and the earth. Finding the balance among and between simultaneous and sometimes contradictory demands for economically, socially, and environmentally sustainable solutions is a compelling leadership opportunity, ultimately grounded in a personal ethic that reaches beyond self-interest (Ferdig, 2007).

The need to differentiate responsible leadership from leadership in general may be a necessary, but temporary phenomenon. Ian Cheshire (2010) believes that "embedding the sustainability agenda in the organisation is the current set of challenges on a 10-year view. Beyond that, hopefully it becomes much more business as usual" (Visser and Courtice, 2011). In other words, the ability to gain a competitive advantage by having a Sustainability agenda will not be there forever. After a decade it is likely to become just "business as usual".

Similarly, Neil Carson (2010), CEO of Johnson Matthey, says: "This is like the quality revolution that we had in the eighties. What happened was companies either died or they got quality. One day this is going to be the same for sustainability".

In fact, in a study conducted by Courtice (2013), several respondents argued that sustainability needs to be seen as both an aspirational state and just another business challenge depending on the organisational level: for individuals at the highest level in an organisation, it requires a different way of understanding and envisioning the wider context and role of the organisation, and a willingness to participate actively in the reshaping of the business-society relationship; whereas for executives involved in delivering sustainability it is, and should be, dealt with in the same way as any other business problems in order for it to be normalised, i.e. become an integral part of doing business.

Many responsible leaders realise that their task is, ultimately, about survival. Ogg (2010) says about Unilver's former CEO "This is what Paul Polman has been very, very clear about. This is not some aspirational dream to help us to try to recruit the best people in the world. At the end of the day this is a survival issue. We will not get the right to grow, and even worse, will not have the right to be in business, if we create a big environmental disaster. The world won't put up with it" (Visser and Courtice, 2011).

In the Cambridge Programme for Sustainability Leadership Report, entitled "A Journey of a Thousand Miles: The State of Sustainability Leadership" (2011), the authors proposed seven key characteristics of sustainability leadership: 1. systemic understanding; 2. emotional intelligence; 3. values orientation; 4. compelling vision; 5. inclusive style; 6. innovative approach; 7. long term perspective CPSL (2011).

Would this apply to the concept of Responsible Business Leadership? It can be argued that it does[4], and it is followed by the suggestion to include two other concepts: the concept of "partnership mindset" and of "purposeful leadership".

The concept of "partnership mindset" assumes that today's needed leadership is one that finds its strength in forging right and solid partnerships, able to resolve the global and common issues

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[4] Considering the definition of responsible business proposed above, that already encompasses the sustainability principles.

that we are facing. The image of the "competitive leader" will tend to fade away as the "hero leader" of tomorrow will be represented by the "cooperative leader". The challenges Humanity faces can only be solved in close cooperation through a variety of partnerships, amongst the public and private sector, amongst different industries and within the same industry. Being able to design and develop the right partnerships will be, more than ever, a key leadership skill.

1. The concept of "purposeful leadership" is the one who puts people, customers and other relevant stakeholders first, all embracing a shared purpose treating profit as an outcome rather than the goal, as referred before in the proposed RB definition, according to the inputs of the cited authors including Handy (2002) and Hollensbe et all (2014). Purpose driven traits and style, the ability to align stakeholders around a common aspiration, that goes beyond the direct interest of stakeholders, seems to be a key leadership characteristic in the future, and even more important in moments of crisis.

Figure 1 – Responsible Business Leadership framework

Source: Authors elaboration based on CPSL (2011), *A Journey of a Thousand Miles: The State of Sustainability Leadership*.

As Hubert Joly (Executive Chairman Best Buy) puts it "this belief is particularly relevant in times of crisis like the one we are going through now. This is a time when performance is not defined by a company's share price. This is a time when performance will be judged by how a company and its leadership serve everyone and fulfil a higher purpose —and specifically how they have shown up and met the requirements and expectations of its multiple stakeholders" (Joly, 2020). And he sums it up with a question: "How do you want your leadership from this time to be remembered?"

As we evolve from a shareholder approach to a stakeholder one, purpose is the missing piece to cement that evolution. Understanding "why we exist as a Company will represent the "glue" that will provide guidance for decision making processes within the corporation. It will be the

"unwritten rule", the guiding boundary that will provide to all relevant stakeholders (including shareholders) the necessary assurance that appointed management teams will be delivering the Company's "raison d´être".

Stakeholder approach without Purpose is unlikely to resist and the bouncing back to the traditional shareholder approach could be a risk, that needs to be managed.

With clarity on the Purpose, aligning a strategy and an implementation plan that makes sense will come naturally. It will be and sound as authentic. Purpose and authenticity are two sides of the same coin and will drive a smoother implementation of a "Responsible Business" strategy.

3.   Leadership Examples from the current crisis

Considering the above-mentioned concept of Responsible Business and the nine characteristics of Responsible Business Leadership proposed, it is important to illustrate how these concepts are applied in the business world by corporate leaders.

For that, some examples on how recognized multinationals companies faced the COVID-19 outbreak will help to make clear how responsible leaders act in times of a global crisis. For that, "best examples" and "poor practices" presented below will be illustrated with the nine characteristics of the Responsible Business Leadership proposal presented on this Research Note.

Among some of the best practice efforts made by well-known companies and brands to act as a responsible business are:

- At the request of the English government, **Dyson** designed a special ventilator (within 10 days!) that helps patients suffering from Coronavirus. The first 10.000 machines will be delivered early April. Furthermore, Dyson committed to donating 5.000 more of the Dyson CoVent machines to international aid organizations. This is a great way to show your innovative approach and agility as a company and benefitting the government and society as a whole.
- **Danone** has committed 250 million euro to the 15,000 small businesses in its global ecosystem, providing their support for partners (farmers, suppliers, and service providers) in their supply chain and incorporating a long-term perspective. Furthermore, in these times of job insecurity for many, Danone committed to securing all employment contracts and wages for the 100.000 Danone employees worldwide until June 30 – a great commitment to their internal stakeholders: their employees.
- **Unilever**, a champion of the stakeholder model since Paul Polman's tenure, announced an immediate donation of €50M in soap to the Covid Action Platform, which was set up by the World Economic Forum in partnership with the World Health Organization. Unilever's commitment is a testament to its longstanding relationship with its customers all over the world and underlines once again the long-term perspective of the company for society. Furthermore, they will provide €500M of cash flow relief to support livelihoods across its extended value chain, through 1) early payment for their most vulnerable small and medium sized suppliers, to help them with financial liquidity and 2) through extending credit to selected small-scale retail customers whose business relies on Unilever, to help them manage and

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8

protect jobs. Last but not least, Unilever showed a great sign of commitment to its employees by protecting its workforce from sudden drops in pay, as a result of market disruption or the inability to perform their role, for up to three months.

- **BP**'s UK branch is offering to supply free fuel to the UK emergency vehicles – police, fire, emergency NHS ambulances and NHS trust non-emergency vehicles. Furthermore, they are providing support to electric taxi drivers who are transporting NHS workers during the current crisis. BP Foundation will donate $2 million USD to the WHO's COVID-19 Solidarity Response Fund, which supports medical professionals and patients worldwide by providing critical aid and supplies. By doing so, they are showing long-term perspective whilst supporting local communities.

- **Zara's** owner Inditex offered to convert part of its textile manufacturing capacity to produce hospital scrubs, helping its home country, Spain, fight the coronavirus pandemic. Furthermore, it stated it had already donated 10,000 masks and another 300,000 were due to be sent a week later. This is a great example of an innovative approach as it changes the functionality of their production line and supports local communities.

- **EDP**, together with CTG, are offering 50 ventilators, 200 monitors and medical equipment to Portuguese hospitals for a total worth of around €4M. Furthermore, the company committed to pay its suppliers earlier then the contracted payment term, offering their suppliers liquidity in these times of financial distress as well as showing a long-term dedication to their partners (EDP, 2020). EDP showed to be a market leader by doing so, as a number of banks and other companies followed their example causing a positive snowball effect in the Portuguese market.

- Portuguese pharmaceutical maker **Hovione** jumped into manufacturing disinfectant gel during this time of need. The company's plant in Loures is converted into a production facility for the alcohol-based sanitizer and is distributing to hospitals, other health-care facilities, and municipalities.

- Several distilleries, such as the **Super Bock Group**, **Bavaria** and **AB-InBev** turning high-proof alcohol into hand sanitizer gel. **L'Oréal** and **LVMH** (owner of luxury brands like Givenchy, Louis Vuitton and Dom Pérignon) are also using their factories to set up production lines of its perfume and cosmetic brands to produce large quantities of hydroalcoholic gels – an innovative approach to helping the community fight the virus and at the same time adapting an innovative approach, benefiting society and governments.

- **The Body Shop**'s North American donated 30,000 units of its cleansing products to shelters and senior communities across the US and Canada, to ensure the most vulnerable can stay clean during the pandemic. As well as these donations, the North American team has provided all of its employees with hand washing products to take home, in order to keep their families safe, showing their health concerns are inclusive of <u>all</u> employees.

However, some least exemplary cases are also seen in the market with rather negative implications on employees). For instance:

- **McDonalds** has stated that it will cover sick leave for any employees at corporate-owned locations who are asked to quarantine for two weeks, but didn't clarify whether workers who have COVID-19 symptoms and aren't ordered to quarantine — including those who attempt to get tested for coronavirus and are turned away or those who can't afford to seek medical care

in the first place — also qualify. Furthermore, McDonalds' initiative to alter their logo in order to support the call for social distancing was not appreciated by the public, with people publicly asking the company to - instead of using the Coronacrisis as a marketing tool to benefit their company- offer free meals to those in need, turn drive thru's into safe testing sites, and donate the happy meal box content to children who are stuck inside. McDonalds reacted to this media storm by taking down the change in logo campaign and followed up with multiple counter initiatives, such as offering free meals to health professionals, donating face masks and closing a unique partnership with supermarket chain **Aldi** in Germany to refer workers from the burger chain to retailer's stores "quickly and with no bureaucracy".

- **Whole Foods** suggested in early March that workers share paid time off during Coronavirus by proposing to employees to donate their accumulated paid time off to their (sick) coworkers. Asking this, the company puts pressure on their employees, even though -as a subsidiary of Amazon- they can easily afford to pay its hourly employees for sick days during the Coronavirus outbreak. This may show a lack of an inclusive leadership style. A week later, however, Whole Foods has updated its policies. Its new approach includes an additional $2 an hour for all employees through April, double-time for all overtime, unlimited callouts, two weeks additional paid time off for all those diagnosed with coronavirus or forced into quarantine, and more.

- **Virgin Atlantic** asked its employees to take up to 8 weeks of unpaid leave to help the airline cope with the pandemic. At the same time, Richard Branson called for as much as 7.5 billion pounds in UK aid for the aviation industry, causing a social media firestorm given his net worth of $4 billion. However, Branson tempered criticism with a blog post that he'd invest $250 million in Virgin Group to support operations, hit by the virus.

In this crisis context, companies have a fundamental role to play, in the sense that they have the resources, capabilities and processes to operate the necessary changes, for the present and for the future. This brings us to the key question for the definitive involvement of companies: Is there a "Business Case" for a strategic path towards a Responsible Business positioning?

4. Business Case for Action

Is there a "Business Case" for a strategic path towards a Responsible Business positioning?

As in any business case, value creation must result from a combination of lower cost, price increase due to higher perceived value or volume increase. The business case for action will also be very obvious when the company's reputation is at risk (with a direct impact on any of those three dimensions).

Various credible consulting studies and surveys, as well as academic papers are demonstrating the business case for action. Some examples:

- BCG Total Societal Impact: "We found clear links between nonfinancial and financial performance. Our quantitative analysis showed that nonfinancial performance on certain ESG topics had a statistically significant impact on company valuations and on margins" (BCG, 2017).
- Nielsen 2018 report concluded "No matter what, sustainability is no longer a niche play: your bottom-line and brand growth depend on it" (Nielson, 2018).

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- Harvard Business School Working Paper ("Corporate Sustainability: A Strategy?" (Ioannou and Serafeim, 2019) states: "Our exploratory results confirm that the adoption of strategic sustainability practices is significantly and positively associated with both return on capital and market valuation multiples. Our results suggest that sustainability can be both a necessity and a differentiator. Some sustainability activities are simply becoming "best practice" and so are a necessity. But the data suggests that some companies are creating real strategic advantage by adopting sustainability measures their competitors can't easily match".

- McKinsey Survey: "The ESG premium: New perspectives on value and performance", illustrates that whilst in 2009 only 30% of CEOs saw short term value on Environmental Programmes, that number has increased to almost 60% in 2019. The same with Social Programs, moving from 40% to 65% (McKinsey, 2020).

- United Nations/Accenture 2019 study shows that whilst in 2013, 37% of CEOs were unable to identify the link between Sustainability and Bottom Line, that number decreased to 26% in 2019 (UN and Accenture, 2019).

- PwC's 17th annual *Global CEO Survey* (PWC, 2014) finds that CEOs around the world are starting to recognize that sustainability matters, since 74% of the CEO's are reporting their social and environmental impact, alongside with financials, since they consider it relevant for the long term. Moreover, 40% of the CEO's believe the purpose of business is to balance the interests of all stakeholders.

Citizens and consumers make daily decisions on how to protect the environment and on "what and from whom to buy." The growing evidence demonstrates a clear tendency for consumers to buy products and services from companies that are recognized as making a difference in sustainability. And this virtuous circle will increasingly empower these companies to drive further the sustainability agenda, through responsible leadership. This trend will consolidate even further with the transfer of trillions of dollars, in the next decade, to the hands of Millennials' decision makers.

With that scenario in mind then everything gets clear. Clarity on costs, clarity on prices, clarity on market share, and surely clarity in risk mitigation. It is this clarity that large investors and the management of large companies already have, and that will engage the entire ecosystem of small and medium-sized companies gravitating around them.

A new undisputable scenario thus seems to be established: a new status quo where consumers and citizens are increasingly available to follow companies and adopt products that genuinely care about sustainable and responsible topics. The only questions remaining would be "at what speed?" and "how much will it vary geographically?" At the time of writing this Research Note, right in the middle of the Coronavirus Crisis, the question that comes to mind is how all these figures will be impacted in the future and in which direction. Will sustainability and responsible business be more important than ever?

In addition to the success stories of companies such as Unilever, Patagonia, Lego (and many others), the greatest evidence that the macrotrend "is here to stay", relies on the famous letter of Larry Fink (CEO of Black Rock), "Sense of Purpose" issued in January 2018. As it is commonly said on Wall Street, there's "one before and one after the letter". When a CEO responsible for the management of $7 trillions in asset value addresses his "Asset Managers" (the CEOs of the

company Blackrock invests in) focusing on the long term and clearly stating that long term can only be guaranteed by the strong adoption of ESG (Environmental, Social and Governance) metrics aligned with a clear definition of the long term Purpose of the company, then something is really changing. This was very evident during 2018 with the positioning and strategic review of a vast number of companies. Larry fink's 2019 letter "Purpose and Profit" reinforced the importance of focusing on being a "Responsible Business" and definitely put the concept of Purpose in corporate agendas, which was followed in the 2020 letter by a strong focus on climate change.

In the future, value creation will only be sustainable and profitable when the interests of all relevant "stakeholders" are considered in the corporate strategy and purpose will be the north star for decision making. The current, almost exclusive, concern with the interest of shareholders will tend to phase down. And companies that do not recognize this reality today and adapt, will have difficulty surviving in the future.

We strongly support the belief that if companies do not change into socially and environmentally responsible companies, with responsible business practices, because it is the best for the planet, then they must do so because it is the best for their business.

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Center for Responsible Business & Leadership at CATÓLICA-LISBON

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13

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