Responsible leadership: creating *shared* value

By ***Ronald de Jong and Steffen Giessner***

In a groundbreaking 1970 essay in *The New York Times*, the late Chicago economist and Nobel Prize winner Milton Friedman spread a doctrine that has dominated the Anglo-Saxon business world ever since: that a company's solitary purpose is to increase shareholder value. Friedman died in 2006, but his mantra did not – until now.

Around the world, companies are increasingly shunning shareholder primacy that has hitherto underpinned Western economics, often at the expense of other stakeholders. The new model is to create social and ecological as well as economic value, and to consider the impact of decisions – both positive and negative – on multiple stakeholders.

A new generation of responsible leaders is redefining the role of organisations in society. In 2019, the most powerful US corporate lobby, the Business Roundtable, jettisoned the Friedman model. Instead, the chief executives of 181 public companies pledged to care for the environment and create value for all stakeholders (customers, employees, suppliers and society at large).

Capitalism has to become more inclusive in order to survive. Maximising shareholder value might result in irreversible social, economic and ecological issues. A new vision is needed. There are many other stakeholders that contribute to the success of a business. Creating *shared value* is the new doctrine.[1]

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There are manifold symptoms that suggest we have reached the end of the industrial age. The extraction of natural resources over the last 200 years has led to unprecedented wealth (financial resources), but at the expense of other resources. It is leading to potentially irreversible damage to our environment and growing social inequality; hence it is not only about creating shared value, but also the distribution of it.

Meanwhile, we have seen the financial meltdown of 2008 that led to social disintegration and unrest, like the French *gilets jaunes* protests. The paradigms of the last century have increased economic inequality and undermined the relevance of capitalism in its current form.

Sustainable future

It is high time that the wealth accumulated over the last 200 years is redistributed and invested in creating a resilient society and the transition towards a sustainable future for the planet. The Netherlands has long been a leading environmental advocate and this is reflected in the sustainable business models of firms such as Philips, Unilever and DSM.

But corporations everywhere are keen to recast themselves as change-agents and be part of the solution rather than the cause of some of the biggest challenges of our times, such as the climate crisis. They are aligning their business models with the United Nations' Sustainable Development Goals (SDGs) that span education, the environment

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and reduced inequality. Launched in 2016, the 17 goals are a roadmap to sustainable economic, social and environmental development.

Philips, for instance, has aligned itself to the sustainable development goals, most notably the third SDG (to ensure healthy lives and promote well-being). The company set the ambitious aim of improving three billion people's lives each year by 2030, and its Foundation was set up in 2014 to improve access to healthcare in poorer nations, thereby reducing health inequality, among other things.

Business has a big role to play in addressing issues like the climate crisis, and they are increasingly using their vast wealth to address the big challenges the world is facing today. The burden of societal responsibility thus no longer rests on the shoulders of taxpayers or NGOs alone.

Acid test

However, the coronavirus crisis is something of an acid test for the earnest statements of intent made by corporations on becoming sustainable. There are concerns that putting purpose before profit will fall by the wayside when economies are on the brink. Indeed, companies are already cutting costs to solve liquidity problems and stay solvent.

Yet a return to shareholder capitalism as we know it would be a huge mistake and a missed opportunity to accelerate the transition to a new era. While the Paris Agreement and the SDGs have brought about positive change, some people believe it will be harder to reach those goals because of Covid-19. However, the pandemic has actually raised their relevance. Indeed, the coronavirus crisis painfully amplifies the underlying weaknesses in society, even in advanced economies like the US.

The change in the role of a corporation is partly driven by a growing sense that profit and purpose can no longer exist in isolation: alignment will ensure success both now and in the future. Sustainability is a moral imperative, but there is a strong business case too. This was illustrated by the resilience of ethical investment funds in the earlier stages of the coronavirus pandemic, with more than half of them outperforming their benchmark in March and attracting inflows despite the uncertainties.

Sustainability can feel like a defensive mechanism, but there is a business opportunity in securing the long-term survival and prosperity of an organisation, and doing so in harmony with all key stakeholders in the society in which it operates. Consider the local example of Unilever, the British-Dutch consumer goods company whose sustainable brands outperform the rest of the business and account for 75 per cent of the company's annual growth.

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Developing responsible leaders

Meanwhile, the millennial generation has also contributed to the shift towards clean capitalism. There is upstream pressure from employees who are questioning their employers' unsustainable business practices. Organisations that don't change are shooting themselves in the metaphorical foot because the ability to attract and retain top talent is crucial to the survival of a company.

The same is true for business schools. A new generation of conscientious students are pursuing careers outside of the usual lucrative banking and consulting industries. Instead, they are choosing jobs that have a positive and tangible impact on society, or are creating their own sustainable businesses.

This is reflected in the teaching at RSM, which is committed to being a force for positive change in the world. The Erasmus Centre for Leadership, for example, develops responsible future leaders and conducts research that helps unravel the mechanisms of effective leadership and leadership development. The Centre also facilitates leadership expeditions that get students out of their comfort zone and focusing on their authentic selves. Further, it has an advisory board that brings industry experience to academic expertise.

We have a duty to develop responsible leaders who consider more than just short-term shareholder value creation. Leading with purpose means balancing financial, social and environmental development, and transforming the notion of value creation to incorporate every stakeholder. Leading with purpose might involve trade-offs between these three key factors behind sustainable development, but marrying them all together is increasingly the mantra.

Responsible leaders take accountability for more than just the short-term financial results of their organisations. They see themselves as having an obligation to help society advance. Chief executives have a lot of influence and resources at their disposal that they can use to align the interests of multiple stakeholders around a common purpose. They put the collective interest above the individual interest, for instance, by speaking out on topics outside of their traditional domain, whether it be climate change, healthcare or inequality.

One standout example is Larry Fink, the head of BlackRock, the world's largest investment firm, which manages some US$7 trillion of assets. In Fink's influential annual letter to chief executives this year, he pledged that BlackRock would immediately stop investing in companies that pose a risk to sustainability, such as coal producers. He noted that climate change is an economic issue that affects house prices, insurance markets, productivity and food costs, and said it is having a growing impact on investment returns too.

The pivot to a more responsible form of capitalism requires new accounting tools that measure not just earnings, but also how income is generated. Many organisations have developed frameworks for measuring the triple bottom line, or assessing financial, social and environmental performance metrics. While companies need physical assets to run their operations, they rely just as much on the environment to provide resources, human capital to put it to good use, and society to give them a licence to function.

Companies need to look at the consequences of their decisions for all stakeholders, both positive and negative. Such a system of measurement has been developed by scholars at RSM, thus highlighting the practical application of research that is having an impact on the business world.

The challenge for leaders is navigating the myriad different metrics and standards for measuring the impact of their decisions. Business schools have a starring role to play in this, and in producing the next generation of responsible managers who lead with purpose. ■

Prof. Ronald de Jong *is Chairman of the Philips Foundation, a retired member of the Executive Committee of Royal Philips, and a member of the advisory board of the Erasmus Centre for Leadership.*

Steffen R. Giessner *is Professor of Organisational Behaviour and Change, and Chair of the Department of Organisation and Personnel Management, Rotterdam School of Management, Erasmus University.*
EMAIL *sgiessner@rsm.nl*

[1]***Creating Shared Value,*** **Michael Porter and Mark Kramer (2011),** ***Harvard Business Review*****: https://hbr.org/2011/01/the-big-idea-creating-shared-value**