

Why Might Purpose Matter? Driving System Wide Change

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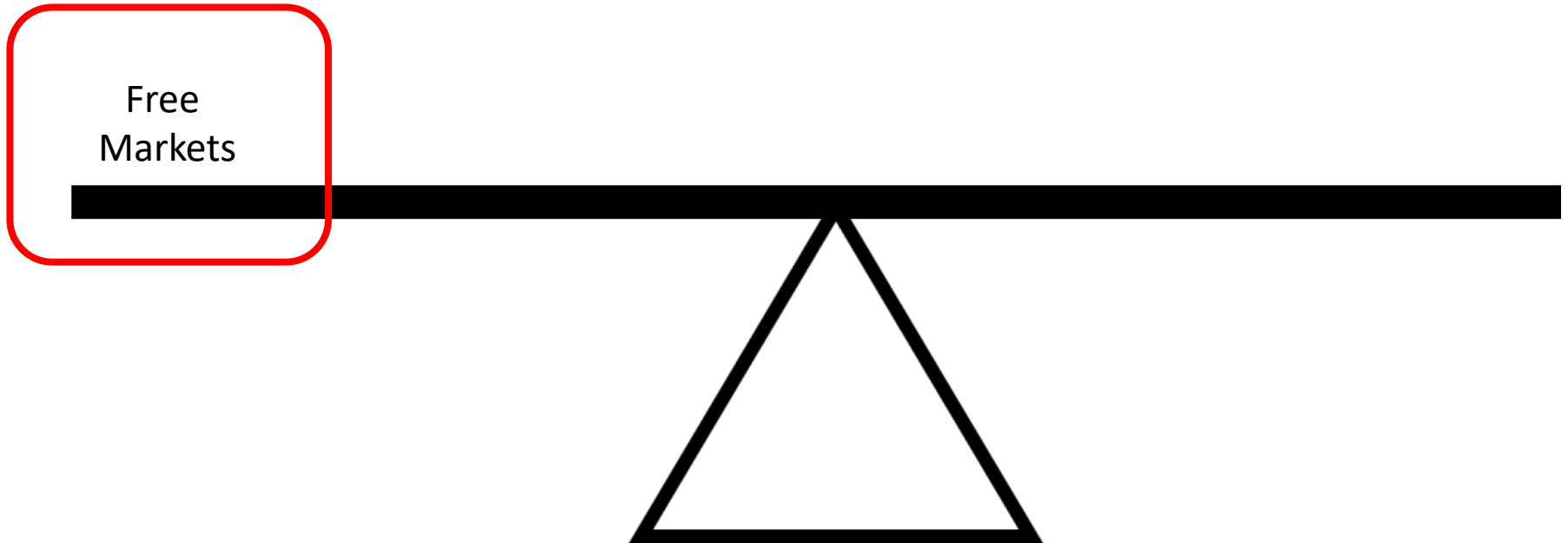
REBECCA
HENDERSON

**REIMAGINING
CAPITALISM
IN A WORLD
ON FIRE**

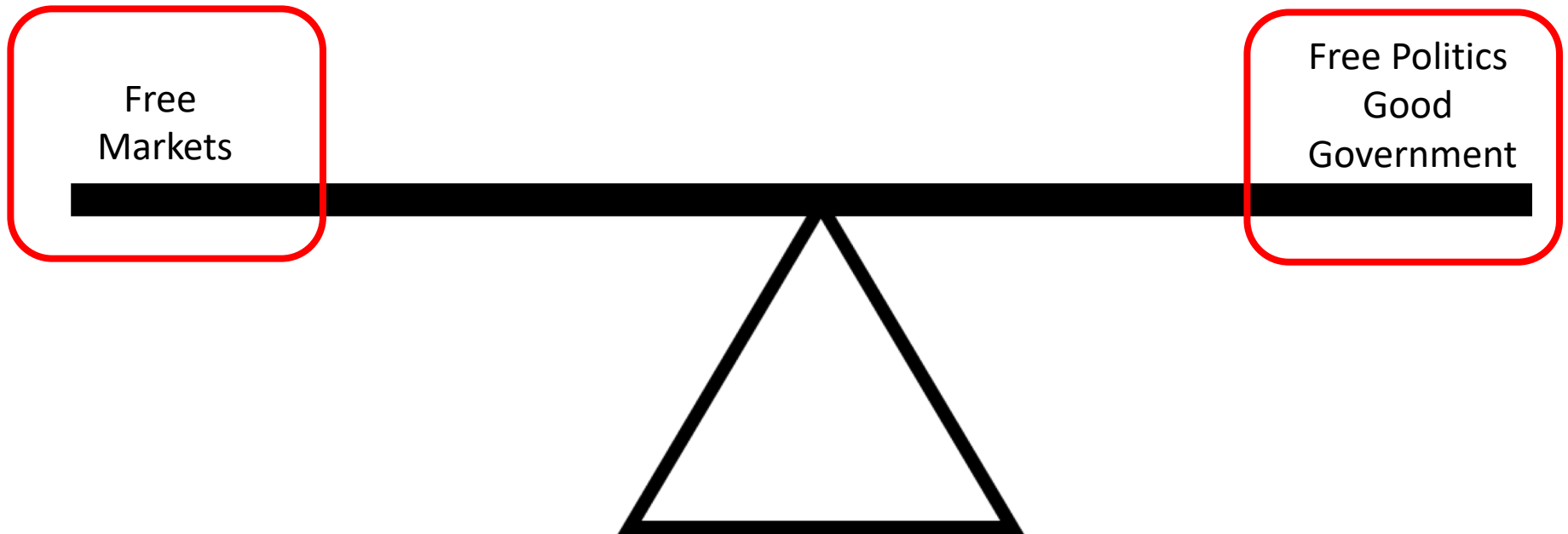
Why “System Wide Change”?

- Massive environmental degradation
 - Climate change, waste, resource depletion
- Accelerating Inequality
 - Poverty, Exclusion, Declining opportunity
- Failing Institutions & Declining Trust
 - A Move to Populism

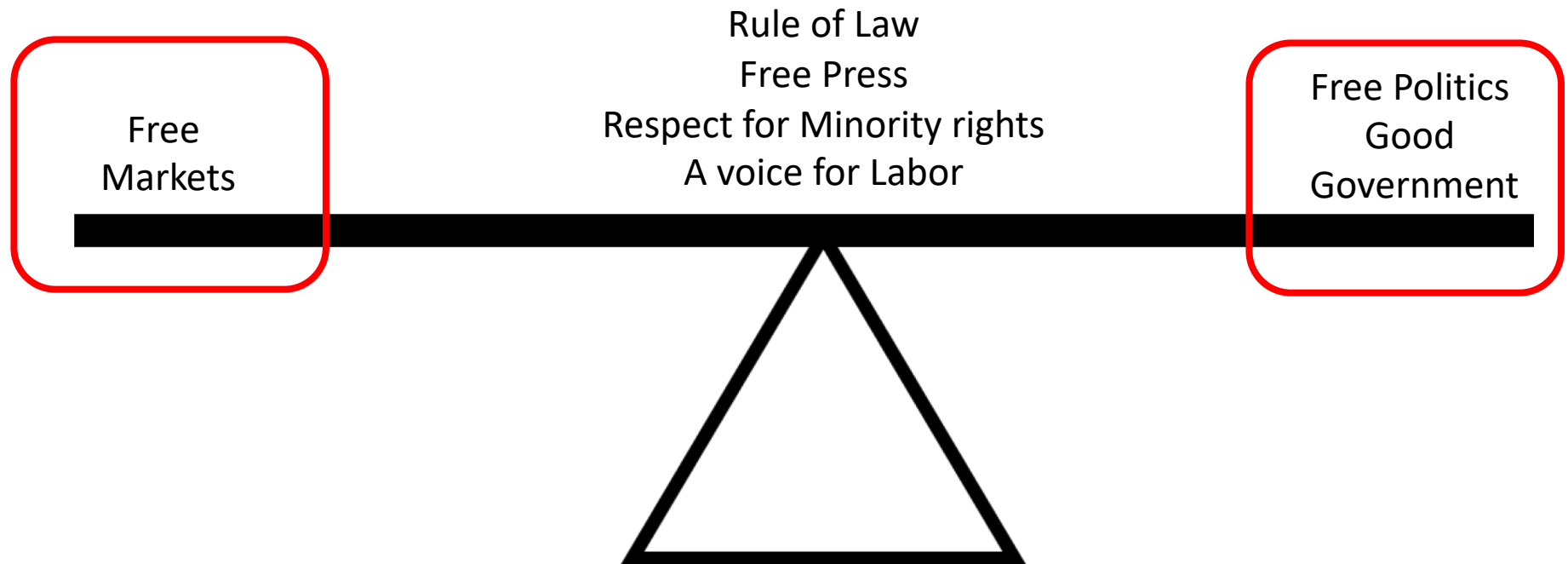
The First Best Solution: Rebuilding Inclusive Institutions



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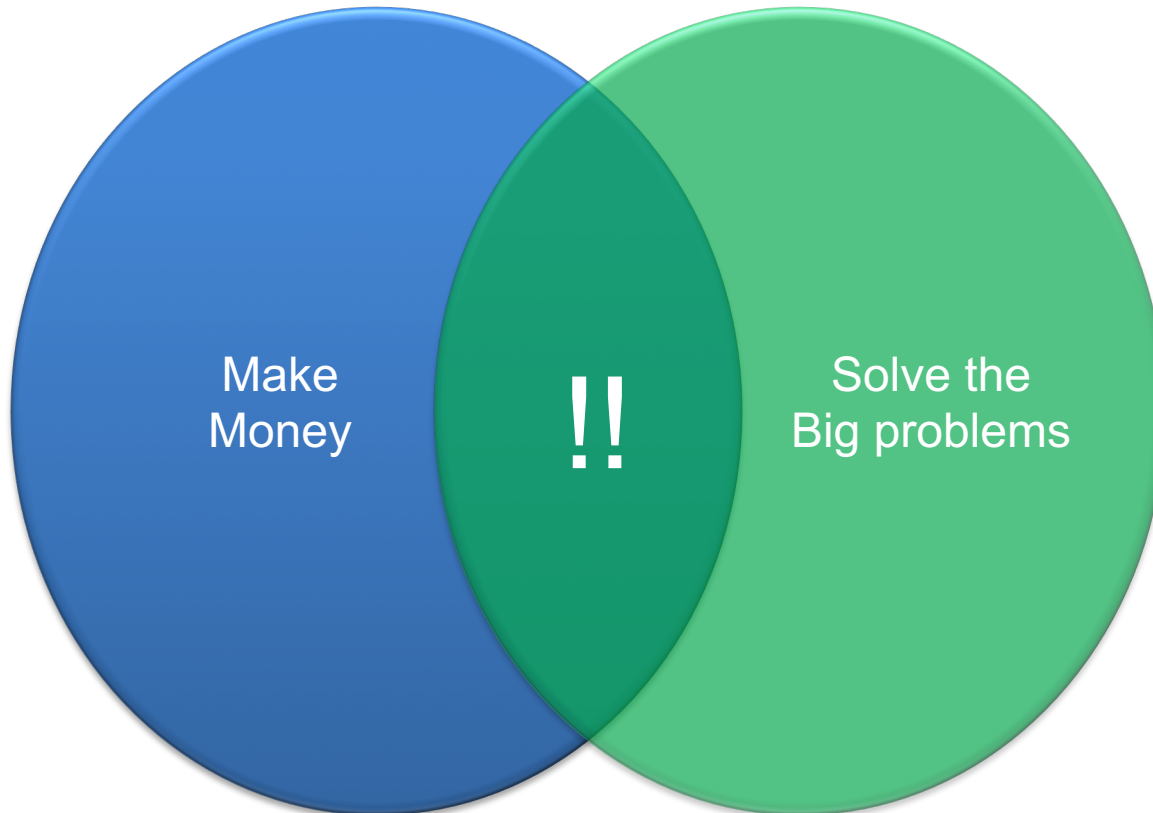
But our Institutions are under Stress



Towards a Purpose Driven Theory of Change



The Shared Value Opportunity



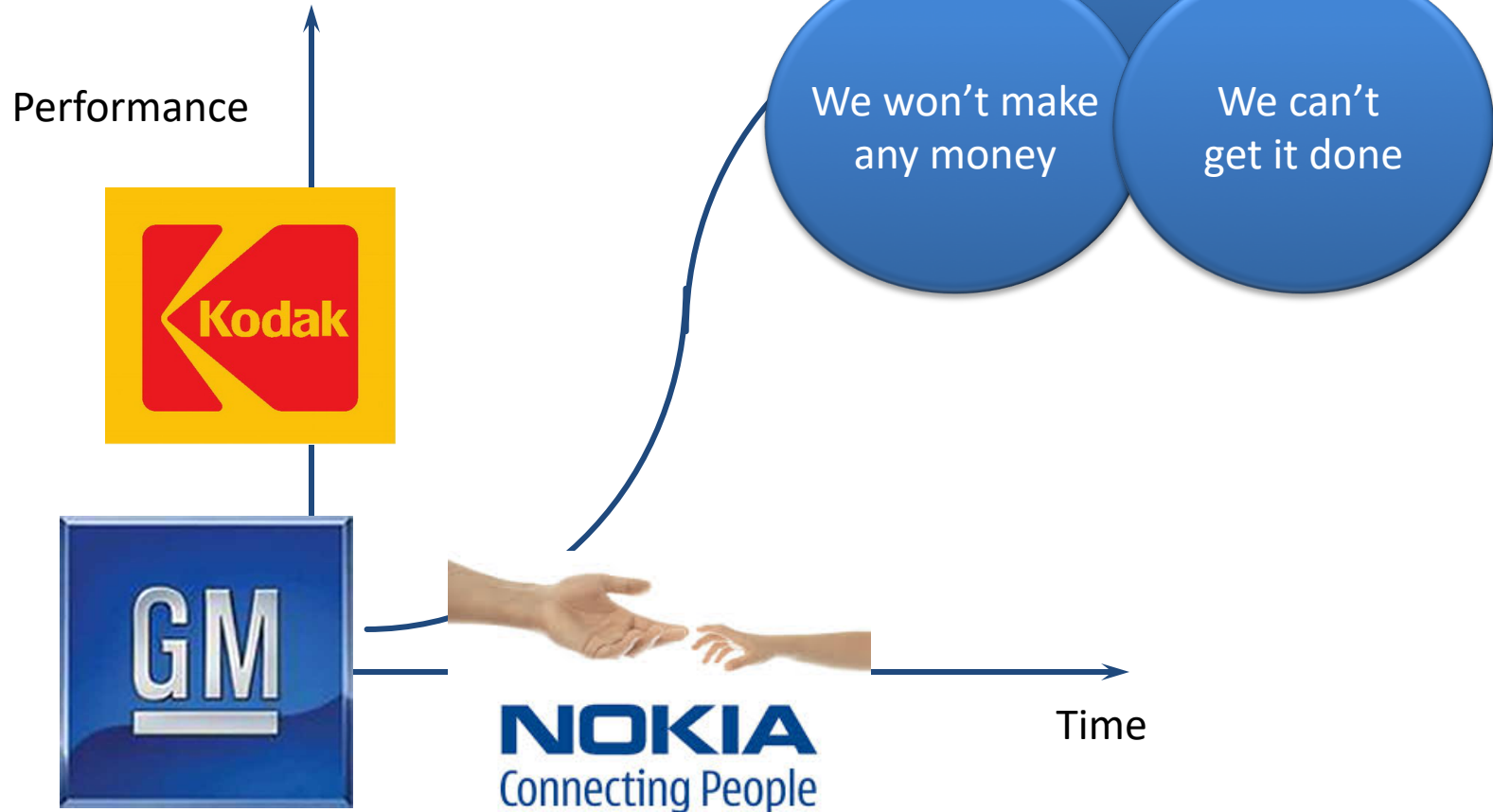
- Attract talent
- Increase employee engagement
- Reduce risks
- Reduce costs
- Drive differentiation
- Build entirely new businesses

Individual Firms have Real Impact

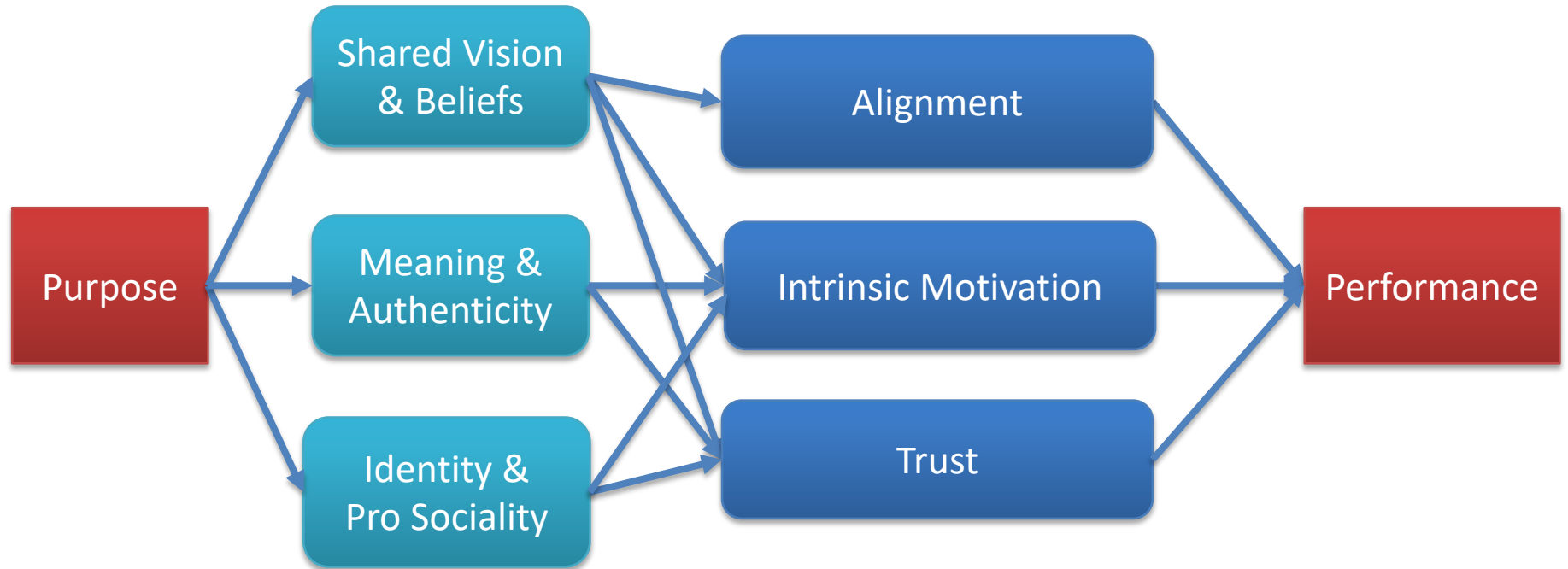
Purpose Driven Strategy & Operations

- Transforming the lives of millions of people
- Significantly reducing environmental impact
- Demonstrating the business case to competitors
- Driving down learning curves
- Changing consumer tastes
- Isolating badly behaving firms
- Laying the foundations for smart regulation

Purpose is critical because Change is Hard



What Purpose Does

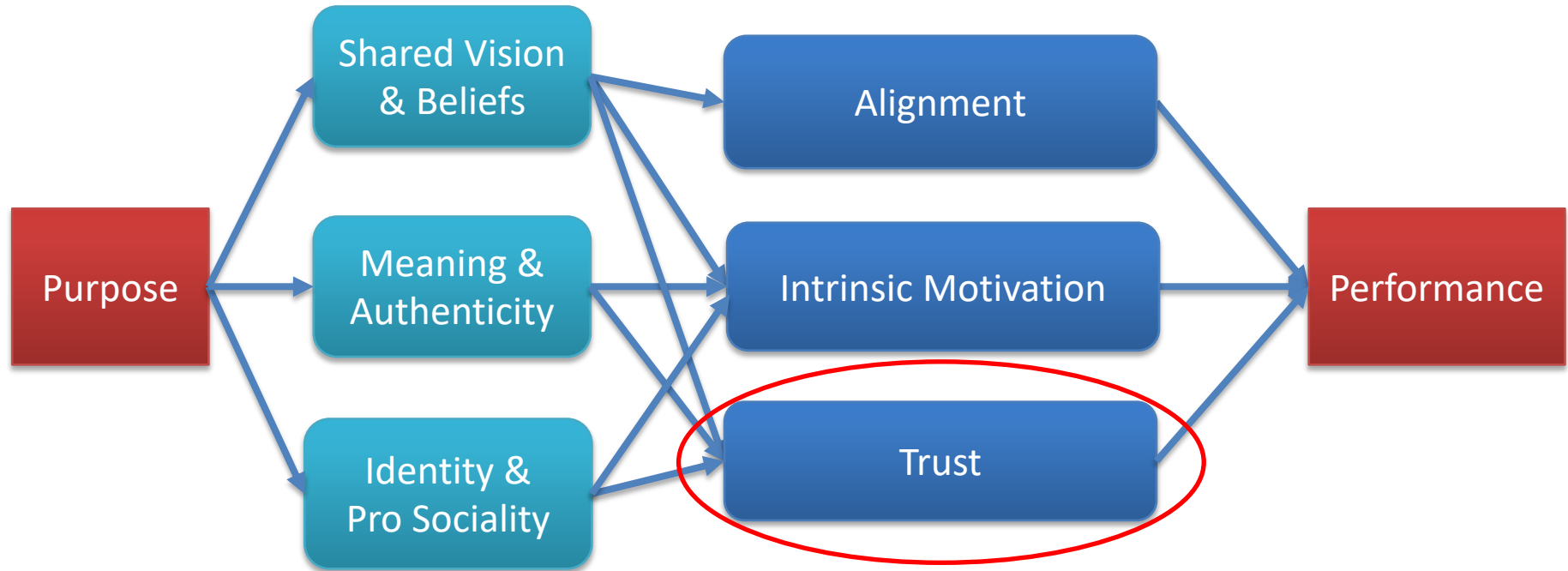


Source: Henderson, Rebecca

Innovation in the 21st Century: Architectural change, purpose, and the challenges of our time

Forthcoming *Management Science*

What Purpose Does



A role for relational contracts?

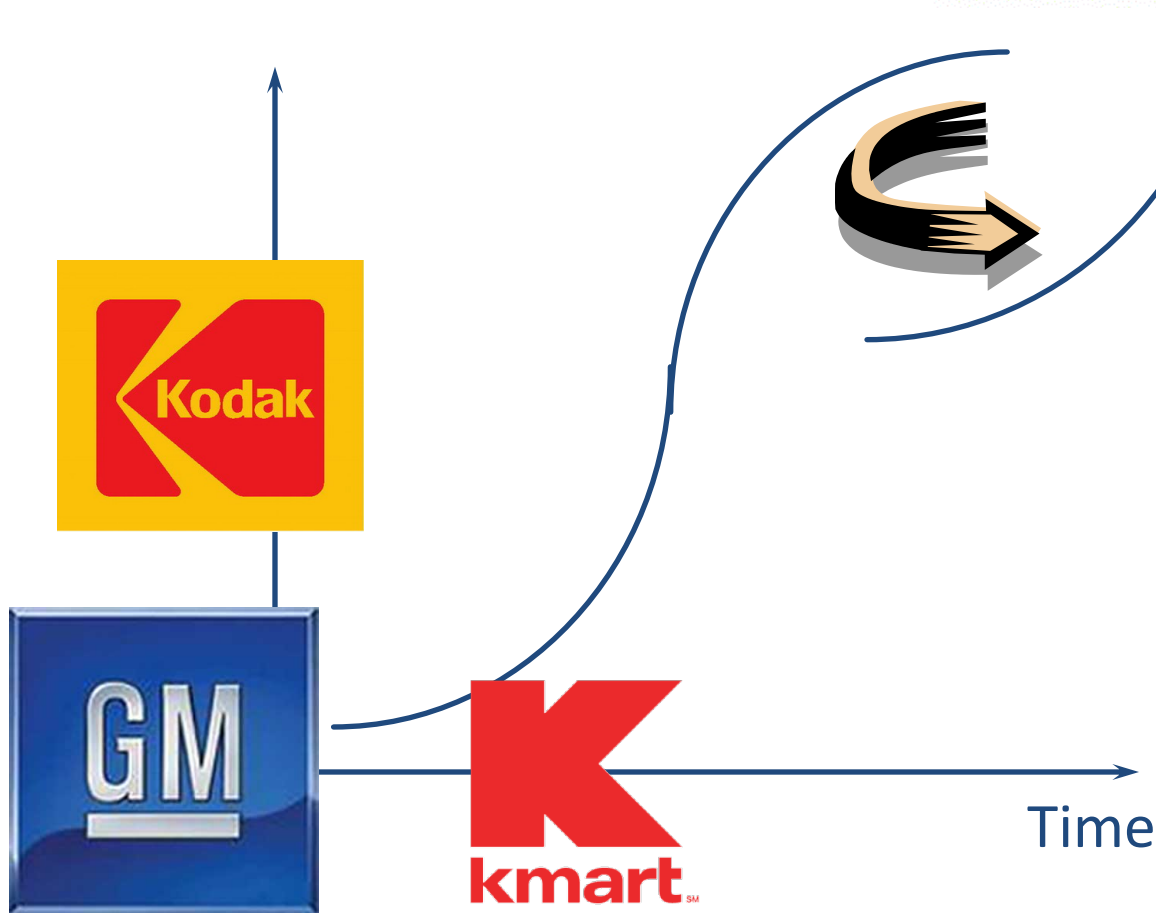
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Innovation in the 21st Century: Architectural change, purpose, and the challenges of our time

Forthcoming *Management Science*

30+ Years of Research

Performance



Lilly

But action by individual firms will not be enough



**Purpose Driven firms and the
Collective Case For Action**

The Prisoner's Dilemma can be solved

- Lobster Fishing in Maine
- The Institute of Nuclear Power Operations
- The International Chamber of Commerce

Many Firms are Trying



One Needs:

- A focus on the long term
- A strong economic case for cooperating
- The ability to monitor behavior
- And to sanction those who “cheat”

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-
- Some very intriguing research suggests that the presence of “pro-social” players significantly increases the ability to cooperate

But Self Regulation is
Inherently Unstable



Can Investors Enforce Cooperation?

The Rise of ESG & Impact Investing

- Environmental, Social and Governance Metrics
- Measuring material, non financial aspects of performance that shape the firm's success
- No evidence that outperformance on ESG *harms* financial performance, some recent evidence of a *positive* correlation with financial performance
- A powerful tool for change

Could purpose driven “universal investors” drive systemic change?

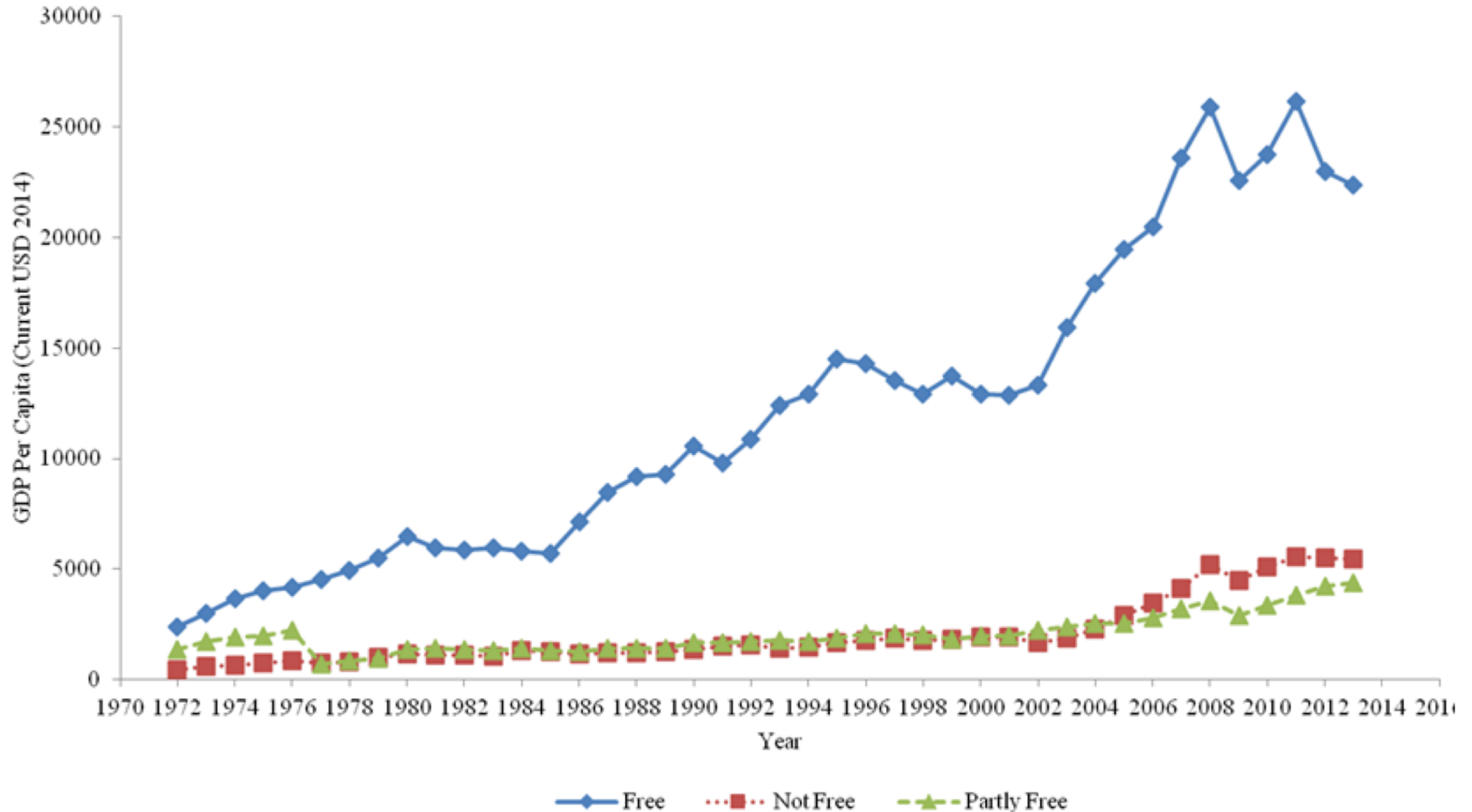
- *Private business is always built upon a competitive model. But GPIF is a public asset owner; we don't need to beat competitors or the market... GPIF is a super-long-term investor. We are a textbook definition of a universal owner... ...we are not interested in making excess returns. We are more interested in making the whole system more viable.*
- *Hiro Mizuno, CIO, GPIF*

But private sector action seems unlikely to be able to solve all our problems – particularly the problem of inequality



Can Business Help Rebuild our Institutions?

The Collective Case for Action



Data Sources: Freedom House and World Bank

It's happening now on a small scale

- School Funding in Columbus
- Collective Action in Orange County
- We Are Still In
- Leadership Now, Time to Vote, Fix the System, American Progress

There have been times when the private sector has supported systemic change

- Denmark, 1890s
- Germany, 1945
- Mauritius, 1968
- “Peak Associations” are key...

In Summary: A Pathway to Systemic Change



**Creating
Shared
Value**

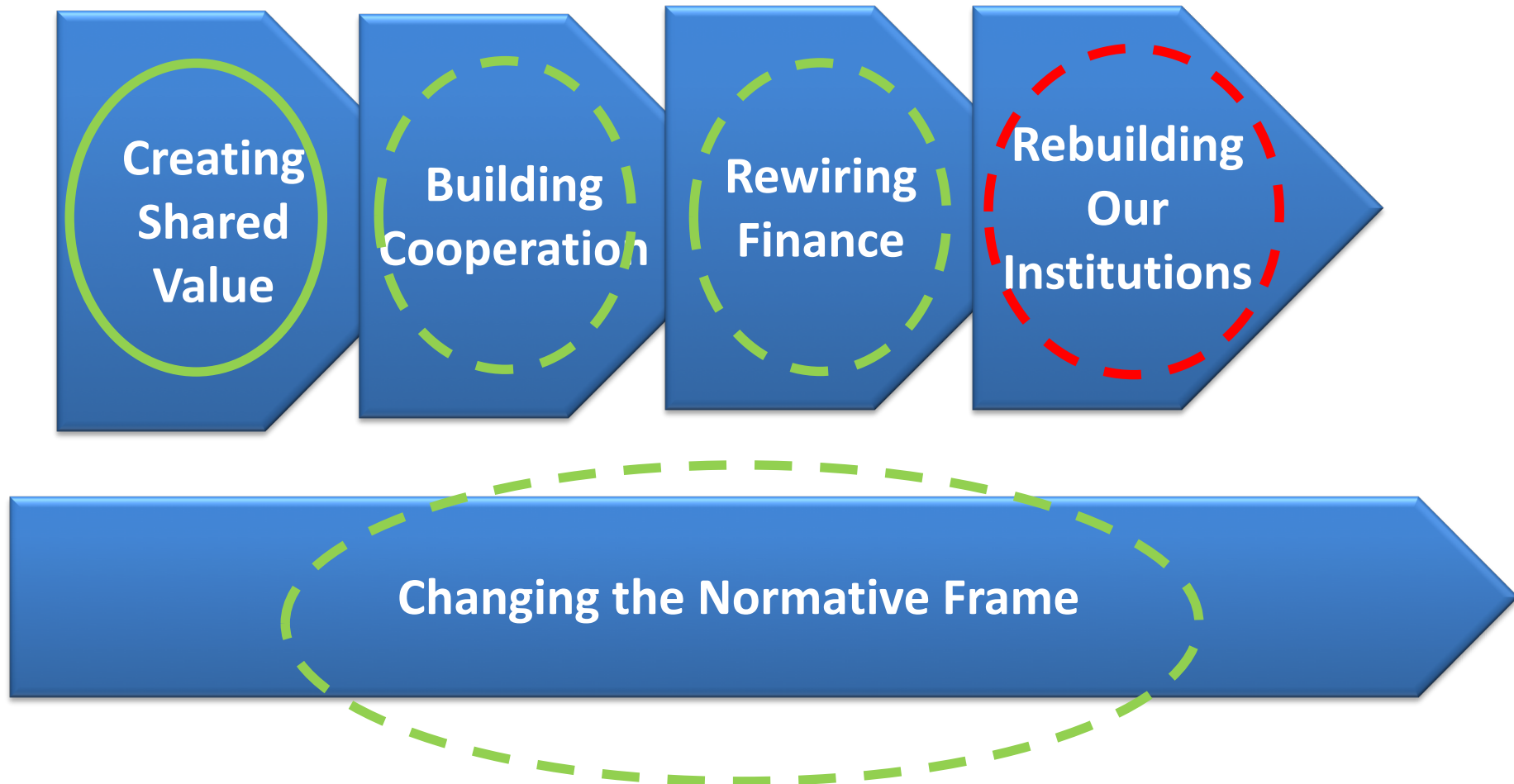
**Rewiring
Finance**

**Building
Cooperation**

**Rebuilding
Our
Institutions**

Changing the Normative Frame

There's lots of research to be done



And in the end, it's just the right thing to do



*"Yes, the planet got destroyed. But for a beautiful moment
in time we created a lot of value for shareholders."*

Thank you!

