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The altruistic enterprise: How a company can actually succeed by doing good

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Abstract

Thousands of companies have adopted an array of stakeholder capitalism approaches, such as Triple Bottom Line, B Corp, Benefit Corporation, Conscious Capitalism, and more. Yet, the path to make stakeholder capitalism is confusing. Based on our research of several dozen companies we have identified three pitfalls, which prevent companies transforming themselves into the “greatest platform for change.” We have called these companies other-oriented or “altruistic” enterprises, a word from the Latin *alter*, the other. The altruistic enterprise serves its ecosystem members through its core business processes and does it unconditionally. We have also found that by doing so, it enjoys—as a consequence—greater economic results. The altruistic enterprise offers companies, engaged in an alternative to a profits-only approach, a proven way for stakeholder capitalism to work.

Keywords: Stakeholder capitalism, altruistic enterprise, social value, TBL, B Corp, Benefit Corporation

The altruistic enterprise: How a company can actually succeed by doing good¹

In 1971, WEF founder, Klaus Schwab coined the term of *stakeholder capitalism*. He suggested companies abandon both *shareholder capitalism* and *state capitalism*, which have proven incapable of meeting the world challenges, in favor of this new, social and economic value creation way for running a company.

It took several decades, but at the beginning of 1990s, thousands of companies adopted an array of stakeholder capitalism approaches, such as Triple Bottom Line (TBL), B Corp, Benefit Corporation, Creation of Shared Value (CSV, Porter & Kramer, 2011), and Conscious Capitalism (Mackey, 2011). Most recently, Business Roundtable (2019) declaration on the purpose of the corporation and McKinsey's 5P (Leape, 2020) have joined the array. It is a sign that society's expectations towards business are changing and that companies are increasingly aware of them. But the bad news is that this diversity is confusing. For a business leader, who sincerely wants to adopt stakeholder capitalism, the transformational path to make it actually work is not clear.

Confusing diversity

The confusion comes not only from the sheer number of approaches, all proposing an alternative to the profits/share-value maximization approach (see Fig. 1). The confusion also comes from the way the approaches themselves are practiced.

Thus, in 2018, TBL's (also known as *People, Planet, Profit*) inventor John Elkington, recognized that during the last 25 years companies failed to serve all their stakeholders equally, focusing instead on the profits and the shareholders only. Says Elkington (2018): "Whereas CEOs... move heaven and earth to ensure that they hit their profit targets, the same is very rarely true of their people and planet targets. Clearly, the Triple Bottom Line has failed to bury the single bottom line paradigm." Like car manufacturers, who recall their car model when it has a design flaw, Elkington asked for a recall of the TBL concept.

Let's take now a recent stakeholders approach—the 2019 Business RoundTable "Statement on the purpose of the corporation." In it, 181 of the top CEOs in the US affirm that they "share a fundamental commitment to *all* of [their] stakeholders", the word "all" being the only one underlined in the whole document. Specifically, they commit their companies to: 1) investing in employees, 2) meeting or exceeding customer expectations, 3) dealing fairly and ethically with suppliers, 4) supporting the local communities, 5) generating long-term value for shareholders. Yet, during 2020 pandemics, as *New York Times* reported (Goodman, 2020), Business RoundTable companies have not done well serving their non-financial stakeholders.

Other stakeholder capitalism approaches have also been subject to criticism. Of course, there are companies, which are more interested in their reputation than in making stakeholder capitalism actually work. That said, most businesses trying these approaches sincerely want to make it work—but can't.

For five years, we have been studying several dozen companies in three continents, of all types, sizes, and industries, which have managed to make stakeholder capitalism work (see

¹ This paper is partially based on the article which has appeared in the *Agenda* section of World Economic Forum site (Dec. 2020).

About the research). Conceptualizing their collective experience has brought to light three key pitfalls, which they avoided and which prevent other companies implementing stakeholder capitalism.

Pitfall N°1: Doing good indiscriminately

Doing good by all means is a pitfall, because it is not effective enough to generate the maximum social value the company is capable of generating. Corporate philanthropy and CSR are surely positives and without them many projects would not see the light. Yet, they don't leverage the core company's core competences and processes. As a result, they don't turn it into a major force for good or what Salesforce CEO Marc Benioff (2019) calls the "greatest platform for change."

What we found through our research is that it is only when companies transform their core business processes to generate social value, that the dramatic benefits to society will be generated and that these companies will fully align with their "better world" purposes. Put differently, they will steadily walk the talk, instead of tiptoeing, and sometimes stumbling.

Pitfall N°2: Chasing more than one rabbit at the same time

The second pitfall that current approaches are suffering from, is what we call "chasing more than one rabbit." Indeed, it is impossible to maximize several distinct and separate variables at the same time. We know it from the operational research linear programming discipline, which clearly states that we can optimize only one variable, others serving as constraints in the optimization process. We also know it through common sense. Privately, we cannot maximize the number of objects we buy and the amount of money on our account at the same time. In business, a company cannot maximize environmental protection and its profits at the same time.

Paradoxically, in his famous 1970 article in New York Times, Milton Friedman had it right when he said that businesses have to chase only one rabbit. The problem is that Friedman suggested the wrong one: profit maximization.

Pitfall N°3: Calculating how to do well by doing good

But even if a company decides to focus on the social value and expect that profit will follow, it may suffer from the third pitfall: calculating how the first leads to the second. The problem is that such a calculation will make companies pursue social value as long as it does not hurt their profits. In other words, serving the members of the company's ecosystem becomes the costs of doing business—not a driver of performance, nor a company purpose.

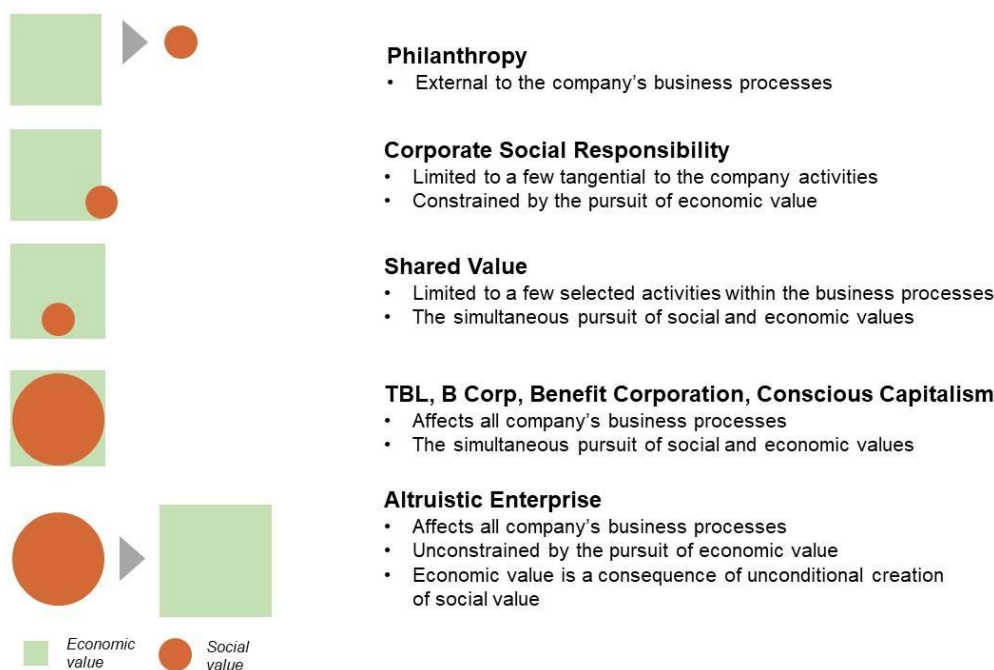
This pitfall is perhaps the hardest to overcome because it arises from the deeply ingrained business leaders' mindset, which, since Frederic Taylor at least, views companies mechanistically.

The road map to the altruistic enterprise

The companies we have been studying avoided these three pitfalls. They decided to take care of all of their ecosystem members — their customers, their suppliers and their local communities — through all of their core business processes and to do so unconditionally. We called them "altruistic enterprises", a word from the Latin *alter*, the other.

Figure 1. Approaches to Social Value Creation and the Altruistic Enterprise

The fact that altruistic enterprises pursue social value through *all their core business processes* sets them apart from philanthropy conducted outside the core business processes (Tata et al., 2013) and from most CSR practices pursuing social value through only a part of their business processes or outside of them altogether. It also distinguishes the altruistic enterprises from CSV pursuing social value only through a part of the core business processes. Next, the fact that altruistic enterprises pursue social value *unconditionally* sets them apart from TBL, B Corp companies, the Benefit Corporation, and Conscious Capitalism, which, while pursuing social value through all their core business processes, do so simultaneously with the pursuit of economic value.



What we found is that as a consequence—not as a goal—they enjoyed great economic performance. Instead of calculating, they bet that the unconditional care of their ecosystem members will organically lead to fair profits. And this has worked for the altruistic enterprises for decades (Getz & Marbacher, 2019), as well as during the COVID pandemic (Getz & Marbacher, 2020).

Let us offer up one example among many we studied. Uno-X is the gas stations division of the Norwegian retailer Reitan Group. Though not required by any regulation, it decided to invest in—not yet profitable—hydrogen stations, in biofuels, as well as banning palm-oil-derivatives from the latter. And what about profits? Uno-X Finance Director told us: “In our meetings, we hardly talk about Ebitda or KPI. In the executive team, we are more interested in leadership issues.” By which he means the issues of building the company's culture of trust and responsibility, where each employee is free to act in order to create social value

unconditionally. And Uno-X has a track record to prove that such a culture indeed resulted in greater economic performance.

All these companies followed the virtuous spiral of a transformed leader, whose single-minded purpose of social value creation for the company's ecosystem attracts employees sharing it, who then invites them to transform their business activities to realize this purpose, and who finally enjoys—together with the employees—the results of the ecosystem taking care of them. This road map of transformation towards the altruistic enterprise is just that—a road map, that is a set of transformation principles we discovered, and not a method. Every leader of a company—or for large corporations, of a business unit—co-constructed with the employees a specific transformational path within a unique human, organizational, and economic context of this company. Moreover, as there is no method for building an altruistic enterprise, thus is there no model for it. The altruistic enterprise is not a model, but a business philosophy. It specifies a limited number of theoretical principles which are articulated in a unique way at every concrete form of this philosophy.

Thus, in the Reitan Group, its division Uno-X has used its own transformational path and built its own concrete form of the altruistic enterprise, as did another Reitan Group division—the discount stores chain REMA 1000. Still further different transformational paths to the altruistic enterprise and different concrete forms of it have been realized in other companies we have studied, such as a pharmaceutical multinational Eisai, the bank Handelsbanken, the dairy firm LDSH, seminar venue multinational Chateauform', and dozens of others. And since each of these concrete forms of the altruistic enterprise business philosophy is organic, they continue to be co-developed by their companies' leaders with their employees.

To sum up, all companies have stakeholders and some try to make stakeholder capitalism work as an alternative to profits-only capitalism. However, while trying to make it work, many of these companies fall into some of the pitfalls we have described and hence, falter. The road map to the altruistic enterprise avoids these pitfalls and offers companies engaged in an alternative to profits-only approaches a proven way to co-construct a concrete and evolving form of stakeholder capitalism that works.

Concluding point

While COVID-19 made stakeholder capitalism even more urgent, it demands a transformation of the very mental model that has been driving businesses for decades. This is not easy, but one fact may help.

Actually, every business has been created in the first place to serve the society, to provide it with a useful product or service. As Xu and Ruef (2005) have shown, profit is not a driver for most entrepreneurs, but rather the consequence of their self-realization in an authentic service for others with their start-up. So, in a way, the road to the altruistic enterprise is a return to businesses' DNA, to what they should never have ceased to have been: a means for building prosperous and harmonious societies, all the while—as a consequence—enjoying profits needed to sustain themselves.

About the research

The authors conducted their research over five years, with several dozen companies on three continents. We began by searching for companies renowned for providing unconditional

service to their customers, suppliers, and/or local community. Archival exploration, as well as professional and business networks, were used for this search.

We then spent 1 to 3 days in each of these companies interviewing its leader who was instrumental in their transformation, its current CEO, employees, managers, and where possible, customers and suppliers. In cases where the transformational leaders had passed away (Jan Wallander and Jacques Horovitz), we studied archival materials and interviewed several executives who had worked closely with them to learn about these leaders' attitudes and behaviors.

All interviews were recorded and later transcribed for analysis. We also collected corporate documents that were relevant to our topic. Where further clarification was needed, we contacted interviewees and exchanged with them via telephone and email. Finally, during the COVID-19 crisis, we followed up with some of the companies we studied to learn how they were coping with it. The specific findings in this paper were derived by using the observation- and document-based inductive reasoning typical to qualitative research, in general, add to field study ethnographic methodology, in particular.

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