

Transforming Business Purposes and Practices: The Need for a Systems Approach

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Abstract

Given the huge issues facing the world—and businesses—today, the need for purposeful transformation towards something like wellbeing for all has never been more apparent. Transformation in both businesses and their societal contexts requires major shifts in core aspects of business models. What needs to change includes how businesses and external stakeholders view and operationalize business modes themselves, not just tinkering with one or two elements. This article describes changes that require vision, leadership, and courage from leaders in businesses and leaders in the public square.¹

System transformation and social innovation are hot topics these days. Calls for systemic transformation, including especially the transformation of business models and practices, come from scientists, social activists, and policy makers, among others. Many activists and scientists are now demanding that businesses, governments, and humankind in general put significantly less pressure on the natural environment, reduce the potential for climate change, create a less divisive and more democratic politics, and generate greater social equity and a fairer distribution of resources. Doing so requires *purposeful* system transformation in new directions, not just the transformation of individual businesses however large and powerful they might be.

Purposeful system transformation, from this perspective, is directionally guided change towards some generally agreed goal, e.g., wellbeing for all. It is something more deliberate than the kind of transformation that is already happening as a consequence of undirected activities that, for example, are creating climate change or technological shifts with their many unintended

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and sometimes transformative consequences. Achieving such purposeful *system* transformation, however, I argue, is incredibly difficult for individual businesses unless they have unusual market power. Rather, the whole ecosystem that surrounds businesses, along with the businesses themselves, also needs to transform. Such shifts can happen through public policy, normative pressures, and other transformational efforts (including climate and technological shifts) that radically alter the *context* in which businesses operate.

Contextual changes can pressure all businesses to change their business models and, ultimately, their impacts on both societies and the natural environment. Given the huge issues facing the world—and businesses—today, the need for purposeful transformation towards something like wellbeing for all has never been more apparent.

The Context that Demands System Transformation

Globally and for many businesses, the situation is increasingly unstable. For example, activists and protesters have created significant social unrest and societal implosions deriving from growing inequality (gaps between the rich and poor) and a sense of widespread corruption that involves both businesses and governments. Countries like Chile, Spain, France, Bolivia, Egypt and many other places, where inequality has grown over the past decades, have experienced massive protests, riots, looting, and destruction of infrastructure resulting from citizen outrage. Other protests and disruptions emphasize climate action—for both governments and businesses, as the popularity and impact of the young Swedish climate activist Greta Thunberg attests. Businesses are often targeted during protests, as for example was Santiago's Enel building at the outset of massive protests in Chile in October 2019, despite that the company was known for its 'green power'. Similarly, protests have erupted in countries as widely dispersed and different as Germany, Spain, Austria, France, Hong Kong, and New Zealand, among other places, creating major disruptions to business as usual, as a result of strikes, street violence, transportation stoppages, fires, unwillingness (or inability) of customers to do regular business.

Transformation: Shifting Away from Business as Usual

While each of these outbursts has unique root causes and specific emphases linked to the context, collectively they reflect growing dissatisfaction with the status quo, that is, with business as usual. They also highlight the two main factors that anthropologist Jared Diamond identified in his masterpiece *Collapse* as being behind collapsing civilizations: growing inequality and ecological unsustainability. We can potentially add populism

and political divisiveness, the perils of climate change, and lack of real democracy (in and outside of businesses) to that list. The breadth and depth of such protests speak to the need for systemic transformation of a different sort than ‘just happens’ as a result of ecological, social, technological, and environmental changes. Further, given the depth of issues in today’s system, just tinkering around the edges of the existing system is unlikely to drive change in a desirable direction since business as usual is a strong motivator. So there’s a problem.

Instead of transformation, most business implement corporate social responsibility, philanthropy, community relations, social innovation, shared value, and greening initiatives in the hope of being perceived as ‘responsible’. Such efforts, while laudable and doing some good in the world, fall far short of actual transformation, which necessarily involves radical changes to business models and everything associated with them to bring them into alignment with whatever general goals exist—e.g., goals of wellbeing, dignity, and equity for people or ecological sustainability. Such directionally-guided objectives and targets have already been established (for example) by the UN’s Sustainable Development Goals (SDGs), which have been accepted by the nations of the world. In other words, *both* business and system transformation are needed to meet growing cries for real sustainability (not just what John Ehrenfeld and Andrew Hoffman call less unsustainability) and to create the more equitable and sustainable world that protesters (and the UN and its member nations) are calling for.

Businesses, of course, do change, constantly adapting to market conditions, competitive pressures, technological changes, and regulatory shifts, as well as stakeholder demands, among other pressures. They, however, seldom truly transform. Transformation means a significant, deep and wide change in the business model and fundamental operating practices, and even in how a business views its fundamental purposes. Two well-known examples of (purposeful) business transformations are former CEO Paul Polman’s efforts to transform consumer goods giant Unilever and the late Ray Anderson’s attempt to transform carpet company Interface, both towards sustainable business practices.

Combined with the relatively paucity of other examples, these companies’ experiences speak to just how hard it is for *individual* businesses to achieve real transformation in a context that does not demand such change. Many companies would perhaps justifiably view themselves as being put at a competitive disadvantage if they attempted, for example, to implement true sustainability measures, transform their business purpose or practices, or significantly change their interactions with stakeholders and their competitors did not also do so.

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Two assumptions, it seems to me, underpin much of the transformation conversation: 1) that businesses are willing or desire to transform in the existing context, and 2) that they understand what transformation means to their business models. I am not convinced that either assumption is accurate. To paraphrase an old political saying, ‘It’s the system, stupid.’ The ecosystem in which businesses operate plays an extremely important and under-recognized role in determining how businesses operate. Most businesses will most likely find it next to impossible to transform to sustainability or greater social equity on an individual basis unless and until (at least some of) the regulatory, legislative, political, normative, and social contexts in which they operate demand, possibly require, that they do so.

The ‘What’ of System Transformation for Business Models

Despite a widespread conversation about transforming businesses to meet sustainability, climate change, and other social demands, most businesses (unless guided by a powerful visionary leader) quite justifiably find it hard, indeed, nearly impossible, to transform on their own. The outcome is that they continue to operate on a business-as-usual basis, at least until the expectations, norms, and demands of their ecosystem change—not just for a few businesses but for all of them. Only with a set of external ecosystem changes that shift the demands on all businesses can an individual business expect to operate on a level playing field. When the business ecosystem or context shifts the innovative prowess, technological expertise, and ingenuity (as Thomas Homer Dixon noted in the early 2000s) for which businesses are well-known kick in. Let me explain.

Right now business purpose, for example, tends to be narrowly defined by profitability and the maxim of ‘maximizing shareholder wealth.’ True, some businesses espouse broader purposes, but they are still ‘forced’ by the system’s current standards to meet expectations around financial profitability and growth at the expense of other, possibly even more important, values and goals. Shifting business purpose broadly or systemically means changing general expectation for businesses, perhaps to something more like what scholars Thomas Donaldson and James P. Walsh in an important paper have described as collective value that does not incur dignity violations.

A business on its own might try to emphasize such collective value, i.e., working towards some combination of social and ecological ‘goods’. But doing that might mean reducing the business’s financial profitability and orientation to accommodate the other socio-ecological goals embedded in a notion like collective value. For example, higher product quality and durability to meet sustainability objectives might mean fewer repeat sales in

the short term, lessening near-term profitability. That outcome would presumably incur the wrath of financial analysts and investors, which most business leaders would find unacceptable in today's context.

The only way for something like collective value, however it is ultimately measured or described, to achieve widespread adoption in the business community would be for lawmakers, regulators, other companies collectively, business associations, and/or the public to impose the *general* expectation that *all* businesses so shift their orientation. That way, no single business would be at a (short-term) competitive disadvantage and all would be operating with the same set of expectations.

Sometimes, of course, the most powerful companies that have tentacles stretching into many other firms or somehow influence many firms *can* act. Two examples stand out. In the 2000s Walmart adopted high sustainability standards and developed a sustainability scorecard for its suppliers. By pushing its higher standards down into its massive supply chain, a company as powerful as Walmart can have systemic impact. Similarly, financial giant BlackRock's CEO Laurence D. Fink announced in his 2020 CEO letter that the company would make sustainability investments a core goal. That reorientation has the potential to shift how other financial institutions act because the company holds nearly \$7 trillion in investments. As the *New York Times*' Andrew Sorkin put it, this policy shift could 'reshape how corporate American does business and put pressure on other large money managers to follow suit'.

In addition to shifting business purpose and associated perspectives about what functioning and roles of businesses in socio-economic (and ecological) systems, another important change lever is performance metrics, which is what both Walmart and BlackRock are pushing. Accountants believe that 'you get what you measure,' so new societal-level metrics that support something like collective value in the ecosystem could foster transformation at the individual business level. Such metrics, e.g., established by governmental bodies like the SEC in the US, would shift the focus away from financial profitability towards metrics emphasizing aspects of wellbeing, shifting company practices in the process so they could meet the new expectations. Metrics along the lines of the Genuine Progress Indicator at the societal level could also begin to replace gross domestic product or GDP in different nations if governments made that decision. That would help foster something like wellbeing because GDP only measures economic activity, whether it is positive or negative. Broader metrics like the GPI could drive an entirely different and transformed set of company practices than does GDP, while emphasizing and allowing for monitoring of overall system wellbeing.

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Transformation Is Complex and Hard...And Understandable

System change is hard because it happens in a context of complexity and what are known as wicked problems. Even were the business ecosystem, i.e., the regulatory, social, and political context, to change its expectations of businesses, transformation is extremely difficult. It is complex, with interacting elements, unclear starting and ending points, unpredictable outcomes, and interdependencies that might not be realized until change starts to happen. That complexity and the associated ‘wickedness’ do not obviate the need for transformation to meet the demands introduced above, but do present a reality check. They mean that (purposeful) change can come from many different places in the system—places where what systems theorist Donella Meadows called leverage points can be found.

Transformation in both businesses and their societal contexts requires major shifts in core aspects of business models. They need to go beyond incremental changes, such as what Porter and Kramer suggest with their famous ‘shared value’ framework, which basically leaves the existing system intact. What needs to change includes how businesses and external stakeholders view and operationalize business modes themselves, not just tinkering with one or two elements. At both the business and societal level purposeful system transformation focuses on changing:

- business *purpose(s)* that indicate ‘what business we are in’ and what the business’s core emphasis is (for example, change the expectation fostered by US courts that the ‘only’ purpose of business is to maximize shareholder wealth by implementing explicit wellbeing-oriented expectations or defining collective value explicitly);
- the *perspectives* or paradigms that leaders and employees hold that define ‘who we are’ and ‘how we do business here’ (for example, recognize that untrammelled growth is impossible on a finite planet and change business expectations accordingly);
- the *power relationships* and related resource flows that exist in enterprises and determine who gets to do what (for example, implement measures to ensure employee ownership, voice, and collaboration across and within enterprises);
- the operating *practices*, policies, and processes (for instance, meeting carbon neutral standards in production processes, or internalizing costs that are now considered ‘externalities’); and
- the *performance metrics* by which they measure themselves and are assessed by others (as discussed with GPI above or by shifting to a newly-developed metric around collective value).

These five elements comprise the ‘what’ of transformational change for businesses. They can be changed through appropriate regulatory, legislative, normative, standard-setting, and other means, as well as through citizen activism that shifts public expectations.

Achieving transformation in business purposes, perspectives, practices, powers relationships, and performance metrics probably requires that the *ecosystem* changes around businesses. Public, stakeholder, and citizen expectations, legislative and regulatory requirements, and competitive pressures, and knowledge about the limits of the natural environment (among other factors) shape the business ecosystem. Accomplishing transformation is a matter of public ‘will’, citizen activism, as well as relevant legislative, judicial, and regulatory decisions. Citizen, business, and governmental knowledge, and system understanding are part of that process, which demands vision and courage from leaders of all sorts and from many different places in the system where they can gain leverage. External ecosystem changes, once in place, can then drive internal changes and the ingenuity of businesses, individually and collectively.

And so...

Fundamentally, I have argued that it is more possible for individual companies to transform themselves to be sustainable or foster greater equity when the expectations of key stakeholders, the socio-economic system and the dominant narrative in which they are embedded reflect a consistent set of *new* and *broader* socio-ecologically sensitive expectations. Further, a range of aspects of the business and its business model need to align with these changed expectations, not just one or two if the system is to transform. Clearly, some especially courageous pioneering leaders can make significant changes in individual firms, as Polman and Anderson have done in their companies.

The changes briefly described here require vision, leadership, and courage from leaders in businesses and leaders in the public square. Efforts like those of Walmart and BlackRock are important because they set an example and change the conversation—the ‘story’ about business, and suggest what individual businesses can do. Importantly, citizen activists who understand the need for transformation and issues around sustainability as well need to influence their elected officials to better represent those issues in public policy decisions, e.g., around things like corporate purpose, sustainability standards, as well as reporting standards. Companies, operating collectively, could influence actors like the US like the Securities and Exchange Commission (SEC) to require reporting on climate impacts, or other ESG standards, as some other governments have already done.

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Similarly, corporate purpose in the future could well shift following a statement by 180 major companies in the Business Roundtable (BRT). In 2019, the BRT issued declared that companies share a ‘fundamental commitment to *all* of [their] stakeholders’. BRT made a series of commitments to deliver customer value, invest in employees, deal ethically with suppliers, support communities where they operate, and generate long-term shareholder value.

Since numerous corporate leaders already ‘get’ the need for transformation, they too could use their lobbying efforts—if they so choose—to constructively—and in the direction of wellbeing for all—influence the context in which their own businesses. Global initiatives like the UN Global Compact with its ten principles also influence the context by establishing new standards of behavior, especially for big and powerful actors, shifting the norms to which companies adhere. The constant criticism about lack of enforcement by such voluntary initiatives as the Global Compact, however, makes shifting norms and standards, public policy and subsequent regulation, as well as judicial decisions ever more important.

Currently, however, too few business leaders recognize the imperative of transformation resulting from the potential disruptions associated with climate change and lack of social cohesion illustrated briefly in the first few paragraphs. Thus, too few are willing to take the risk to make radical changes in their business model unless there is a clear imperative to do so.

In other words, in behaving as they do, whether sustainably, equitably, democratically, or not, businesses tend to do exactly what is expected of them by the socio-economic system in which they operate. That is why changing that context and those expectations, including about business purposes, perspectives, power relationships, practices, and performance metrics, are important steps on the road to business transformation. Sustainability, responsibility, human (and other beings’) dignity and worth, and the long-term viability of the human project are, fundamentally, what is at stake. From wherever we are in the system we can all begin to demand such changes.

For Further Reading:

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- ✓ Diamond, J. (2005). *Collapse: How societies choose to fail or succeed*. New York: Penguin.
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- ✓ Ehrenfeld, J., & Hoffman, A. (2013). *Flourishing: A frank conversation about sustainability*. Palo Alto: Stanford University Press.

- ✓ Homer-Dixon, T.F., & Homer-Dixon, T. (2002). *The ingenuity gap: Facing the economic, environmental, and other challenges of an increasingly complex and unpredictable world*. New York: Vintage.
 - ✓ Meadows, D. (1999). *Leverage Points: Places to intervene in a system*. Harland, VT: The Sustainability Institute.
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 - ✓ Sorkin, A.R. (2020, January 14). BlackRock CEO Larry Fink: Climate crisis will reshape finance. *The New York Times*.
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Endnotes

1. This article draws from Waddock, S. (2020). Achieving sustainability requires systemic business transformation, *Global Sustainability*, 3(12) and Waddock, S., & Waddell, S. (2019). *Five dimensions of purposeful system transformation* (Working Paper). Boston College, SDG Transformations Forum.