

URL: <https://ecorner.stanford.edu/clips/profit-and-purpose/>

Purpose is about both social impact and shareholder value, argues Harvard Business School professor Ranjay Gulati. But rarely, he adds, does any particular initiative perfectly embody both social impact and profit maximization. He advises leaders to take a portfolio approach to purpose, recognizing that some initiatives will be purely market-focused, some purely impact-focused, and that some may indeed synthesize social and financial outcomes.



Transcript

- I myself got very confused 00:00:04,803 because the word purpose has been hijacked.. It's been hijacked by both extremes.. On the one side of people say purpose of business is shareholder value, leave them alone to focus on making money.. All this other stuff is a distraction and attacks on business.. That's the government's job, or regulator's job.. Business's job is to focus on shareholders.. The other extreme has come along is that purpose is anything but shareholder value.. Shareholder value is bad.. It's about making, doing good things for society, anything but profit.. And then what happens is, so people start to do this purpose thing is a side hobby..

It's the real tax on business.. It's a CSR, ESG, get it out of there, call the foundation, whatever you wanna do, I'll give you a day, a month, to go and do some volunteer work, whatever, whatever.. And then it's a feel good exercise.. Actually, purpose is about both.. It gets to the very core of your business.. What's the economic engineer trying to build? And how is that economic engine going to have a commercial and social impact? And I think that's where we have to take it.. How does what we do make a difference in the world? - And Raja? But, if you're trying to thread the needle 00:01:19,870 between both, there is that danger of becoming motherhood and apple pie, becoming all those mission statements that you put up before that appease everything, but ultimately mean nothing.. How do you make sure that you're actually just not doing that and you're just drinking your own Kool-Aid, saying that I have purpose, but really you don't have deep purpose? - Thanks for calling that out.. I dug myself 00:01:39,530 into a hole here so let me try to dig myself out of it actually.. 'Cause actually Ravi is right..

There's another little wrinkle in this.. People started to say you surrender, you're saying purpose is win-win right? Win-win meaning when you can do both social and commercial at the same time, right? It's that magical thread the needle where you've got both happening.. I'm lending money in micro finance to poor people in Bangladesh have 20% because the government, market, banks charge, moneylenders charge them 100%.. So 20% is more than what they could get in the city, but they don't go to the city.. So I'm bringing money to them at 20% and I'm making money and I'm doing a good thing.. Win-win.. Most of life is not win-win.. It's really hard to get to win-win.. So you end up, imagine a two by two of market impact and social impact, right, to use your language.. And you say, well, I have some things that are purely social, I have some things that are purely market, and I have a few things that are accomplishing both..

Do I only do both? And I think that's not true.. There are some things that are purely market and don't have a social impact, something that are purely social, that don't have a market impact.. How will I manage that portfolio of activities? So you have to take a portfolio view of that and say, not everything is gonna be win-win.. But I have to ask myself, what is that in aggregation, how are we gonna make a difference? Right? So at one level you might say a company like an Etsy is commerce, making commerce human.. It's helping sellers of products sell to buyers.. So they create livelihoods and jobs.. And so maybe there's a social element there, but ultimately there are marketplace also.. So how do we unpack and think about what's social, what is commercial and how do I blend the two together? I think it's a very important question and not an easy answer because you have to justify the portfolio.. And if you have a legacy business, like look at British petroleum, they want to get out of oil and gas.. They want to be Beyond Petroleum, BP, but it's not gonna happen overnight, so you have to find a transitional journey..

Or you're Pepsi trying to go beyond selling junk food and cola.. You can't do it overnight.. So how are you gonna get there? So how do you balance that portfolio is the part that I think is not so easy.. I call it walking on the razor's edge...