

Under pressure from consumers and employees, firms now compete for the most fragile commodity: goodwill



The history of business is the history of human beings trading with each other; discovering efficiencies of scale and comparative advantage, creating surplus, investing capital, and building infrastructure. In its purest form, capitalism is a sort of social and cultural glue. It's about markets and money, trade and competition, risk and reward. It's about the allocation of resources to create advantage. It's about innovation. And there's no question that capitalism can be credited with extraordinary human progress for humanity, saving lives and lifting people out of extreme poverty.

So, what's the problem?

Over the course of the last century, things changed. The complex balance of power between owners of capital, managers of firms, and regulators of firms shifted decisively to favour investors. From the mid-1970s, this 'financialised' form of capitalism flourished, delivering many advantages but creating a host of costs too. Costs that have been borne by people, and by the planet. Today people are beginning to worry that the steady improvements wrought by business growth entail costs we are only now beginning to understand.

As we move into the second decade of the 21st century, it's clear that we are at an inflection point. There is a growing consensus that the costs imposed on our environment need to be shared with capital markets, governments and business organisations. Today's consumers and employees have unprecedented access to information which means they also have unprecedented control over firms' reputations. And as new generations with new values and priorities come to the fore, firms are under pressure to compete for the most fragile commodity: goodwill.

To thrive in the longer term – to survive even in the years to come – business needs to find a way to *rehabilitate* capitalism; to harness its potential to create positive impact, while minimising the concomitant potential to do harm. This new *conscious capitalism* means there's an onus on firms to prioritise financial gain *and* social impact. Purpose *and* profit. And that means building new knowledge and new skills.

From raising finance to leveraging new types of investment to designing new competitive strategy that drives a triple bottom line, companies need to develop a raft of technical competencies. They must re-think how they capture – and share – value. The kinds of activities and innovations they need to pursue to do that. And how to measure their social impact. Most importantly, firms need to identify and articulate what purpose actually means in terms of their organisational culture.

There are hundreds of well-known companies in today's global business panorama who are successfully leveraging markets' genius for value creation, while maintaining a focus on things that *matter*. Organisations like Unilever and Danone seek to use market mechanisms to achieve impact in areas like plastic packaging, carbon positivity, clean water, gender norms and human rights. BlackRock and McKinsey are starting conversations around decarbonisation and the future of work. There is growing momentum around the world to put social mission at the heart of the enterprise. It's unproven, contested and sometimes derided but doing good while mitigating harm has become a standard preoccupation for boardrooms across the world as businesses become acutely aware of the need to act – and the risks of not doing so.

Firms that fail to prioritise social impact are putting themselves in danger of losing the faith of their customers, or not recruiting and retaining the talent they need to drive future growth. They're also likely to find themselves paying taxes or exposed to punitive regulation if they fail to meet standards. Most threatening of all is the existentialist threat of climate change and the truly catastrophic effects of rising sea levels. Corporate strategy has shifted from being only about competitive advantage to being also about planetary health.

Of course, it's hubris to think that reforming business can resolve every problem in our world. Business lives in a complex relation to politics, culture, environment, technology, and demography. Recognising these interdependencies and re-establishing the role of business in creating positive social change is crucial. Those who fund, start, run and advise companies need to think how we can commit to an evolving process of change. And how intentionally we act to mitigate things that have gone wrong in the past, and that might yet go wrong in the future.



Notes:

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