

DISCUSSION:  
**A Company's Purpose, its  
Strategy, and ESG**

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Pittsburgh



The CENTER FOR SUSTAINABLE BUSINESS  
Pillars of ESG Program

ESG as a Strategic Imperative  
Profits and Growth in an Unknowable Future

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Co-founder and PI, Business of Humanity® Project

Director, Organizations and Entrepreneurship Area

**Katz Graduate School of Business and College of Business Administration**



# BUSINESS PERSPECTIVES



**Larry Fink**—*BlackRock CEO*

“...a company’s ability to manage environmental, social, and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process.”



**Paul Polman**—*Unilever CEO (At the Time)*

“Why don’t we develop a business model aimed at contributing to society and the environment instead of taking from them.”



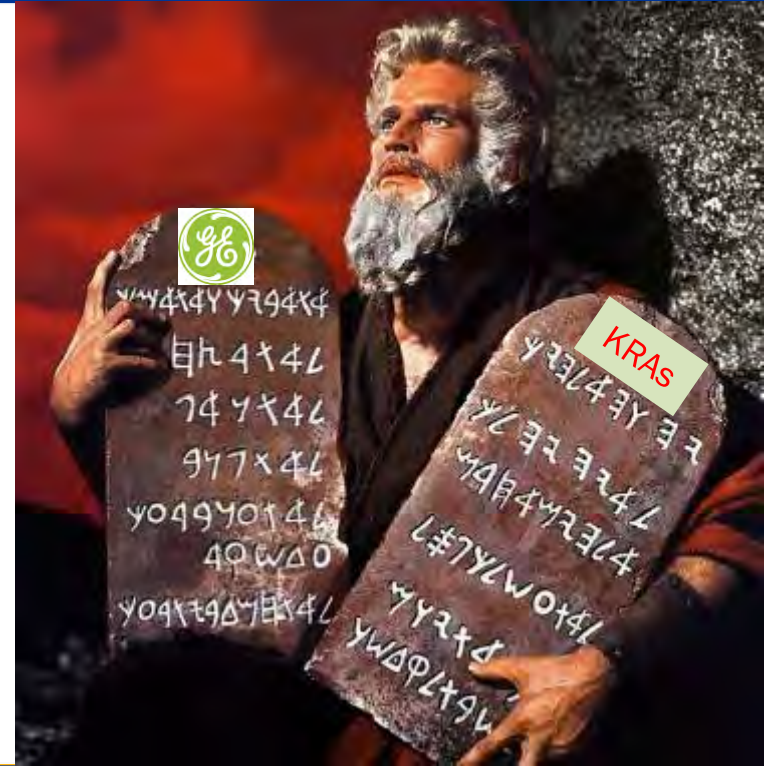
# Management Roots of ESG

## The ~~10~~ 8 Commandments KRAs

GE's Measurements Project

### Key Result Areas—Essential for Survival

1. Profitability
2. Market Share
3. Productivity
4. Product Quality
5. Management Development
6. Employee Morale
7. Public Responsibility
8. Balance between Short Term and Long Term



# Management Roots of ESG

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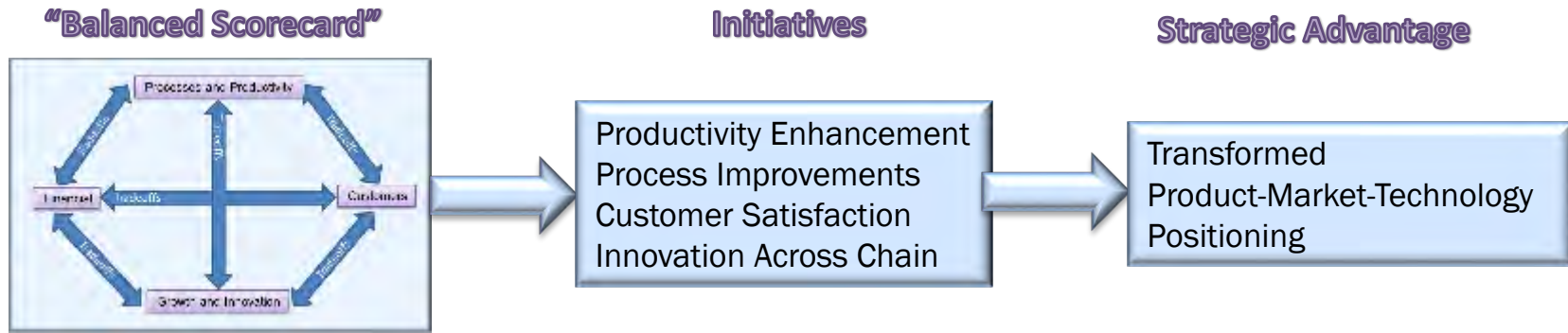
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# From Performance Measures to Strategy



Source: Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," *Harvard Business Review*, January-February 1996

# From ESG Measures to Strategy

Strategic  
Advantage

Initiatives

ESG Measures

Branch to Root Method

AKA

**The Science of "Muddling Through"**

- Actions to Policy
- Incremental

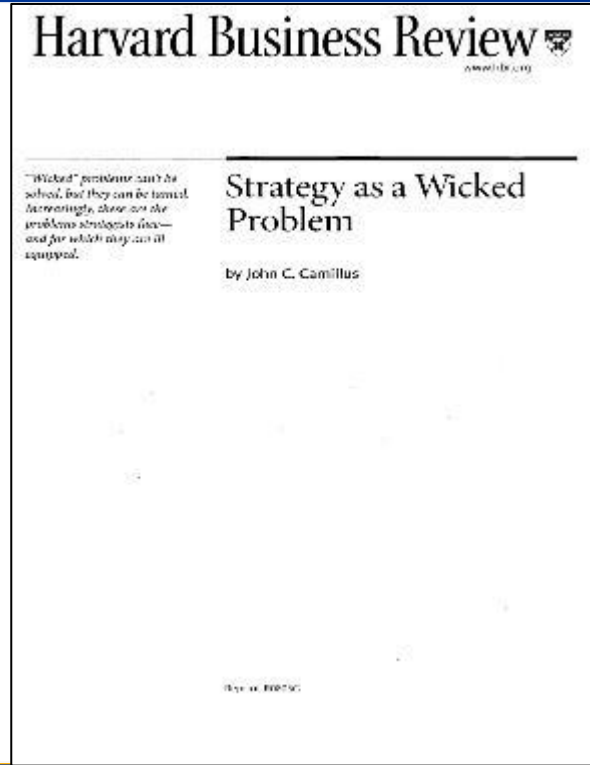


**Charles Lindblom**, "The Science of  
"Muddling Through," *Public Administration  
Review*,  
Vol. 19, No. 2 (Spring, 1959), pp. 79-88.



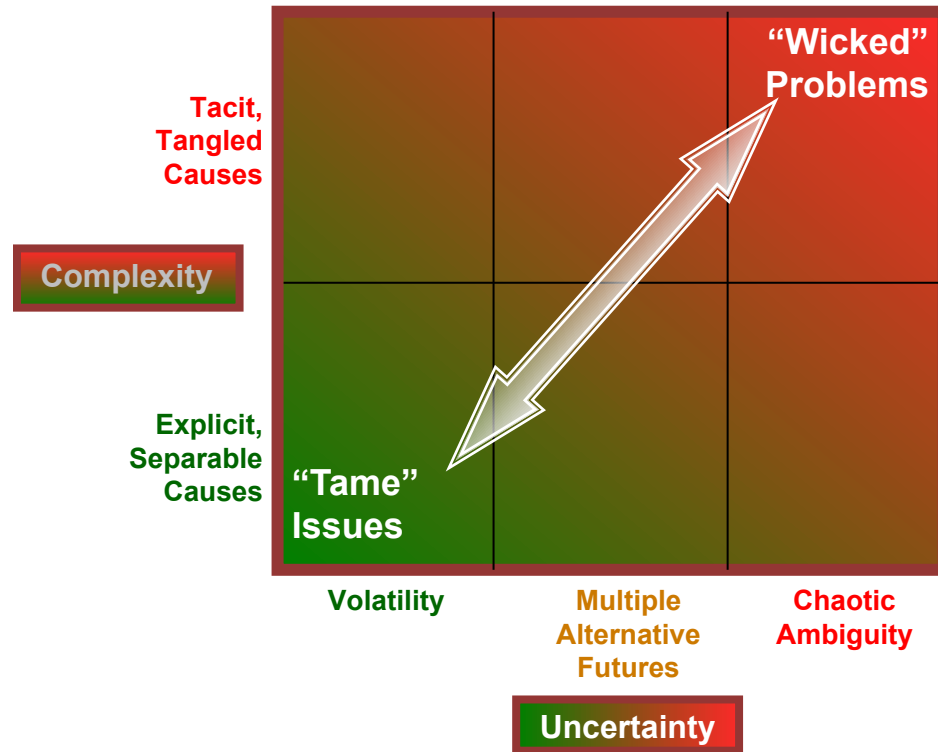
# Recognizing “Wicked Problems”

1. Is the perceived “problem” substantially **without precedent**?
2. Are there **multiple, significant stakeholders with conflicting values and priorities** who are affected by the perceived “problem” or responses to the “problem?”
3. Are there **many apparent causes** of the “problem” and are they **inextricably tangled**?
4. Is it possible to be **sure when you have the correct or best solution**?
5. Does the **understanding of what the “problem” is change** when reviewed **in the context of alternative proposed solutions**?





# Extreme Complexity and Uncertainty Create Wicked Problems



# Stating the (Semi) Obvious

**To Understand and Manage Strategy Today,  
We Need to Understand and  
MANAGE  
Tomorrow's Business Environment,  
Which Happens to be a Petri Dish for Wicked Problems**

# Mega-Forces – Winds of Change

Importance of ESG  
Imperative of Innovation  
Inevitability of Globalization



# Globalization—The Ship Has Sailed

## Inevitable, Accelerating Trends:

- Global Competition
- Global Standards
- Global Quality
- Global Markets/Growth
- Global Sourcing
- Global Partnerships
- Global Financing



# Innovation—The Elixir of Life

## Imperative to:

- Accelerate growth
- Respond to competition
- Cope with change
- Meet customer expectations



# ESG—Regulatory, Investor, and Community Pressure

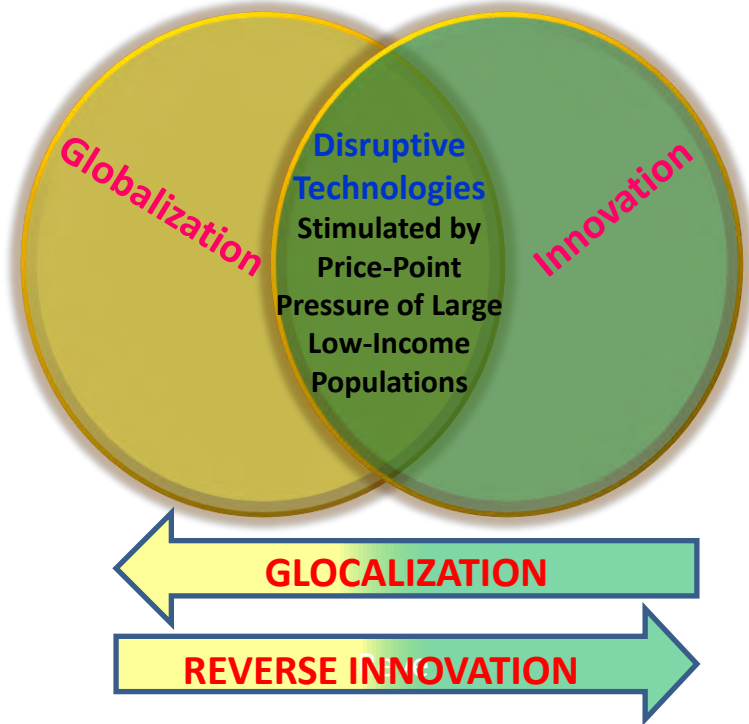
Importance increasing because of:

- Mandates
- EU regulations and reporting
- Investment firms' expectations
- Business Roundtable statement
- Pressure from NGOs
- Community pressure



# Interactions of These Mega-Forces Create More Complexity

**Interaction of  
Globalization and  
Innovation Creates  
Disruptive  
Technologies**



# ESG, Globalization, and Innovation

**Interactions of These  
Mega-forces Creates  
A Perfect Storm**





# “Do Look Up”—It Gets Worse, Much Worse

A Perfect  
Storm

**PLUS**

Tectonic Shifts  
and a Tsunami  
of Disruption



Pandemics

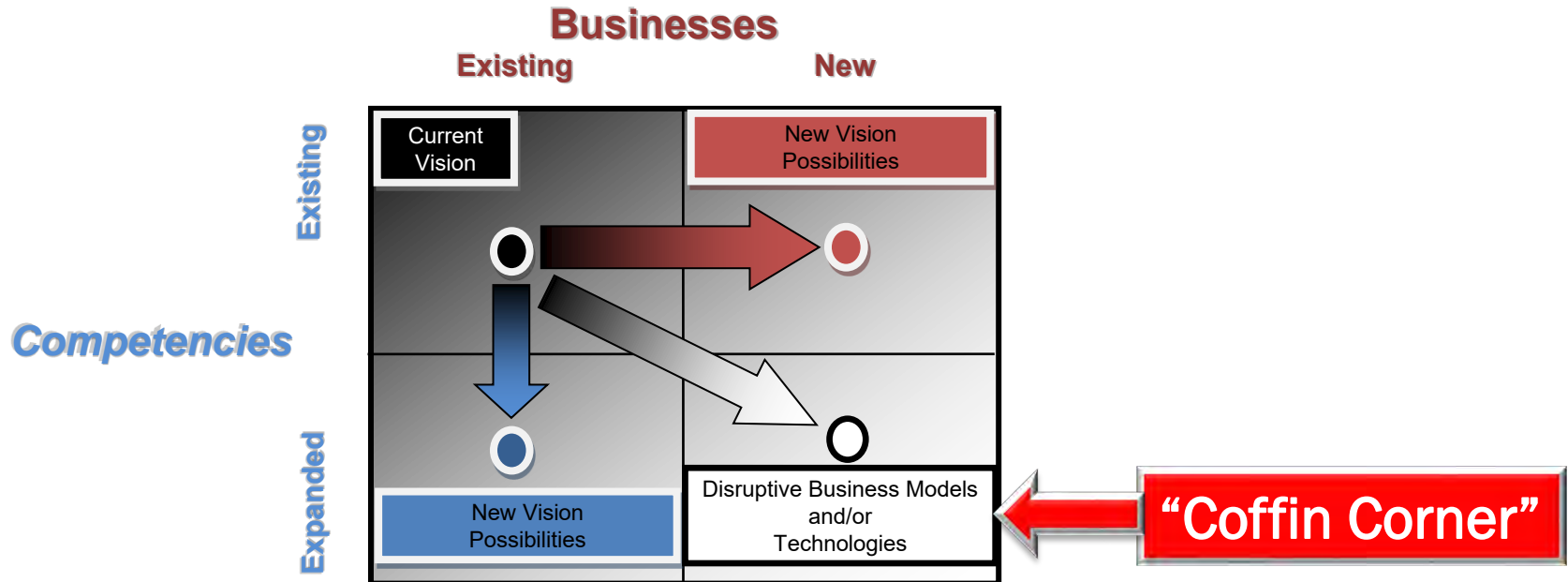
Climate Change

Gene Editing and Therapies

Artificial Intelligence and the Kurzweil Singularity

Political Revolutions and Chaos

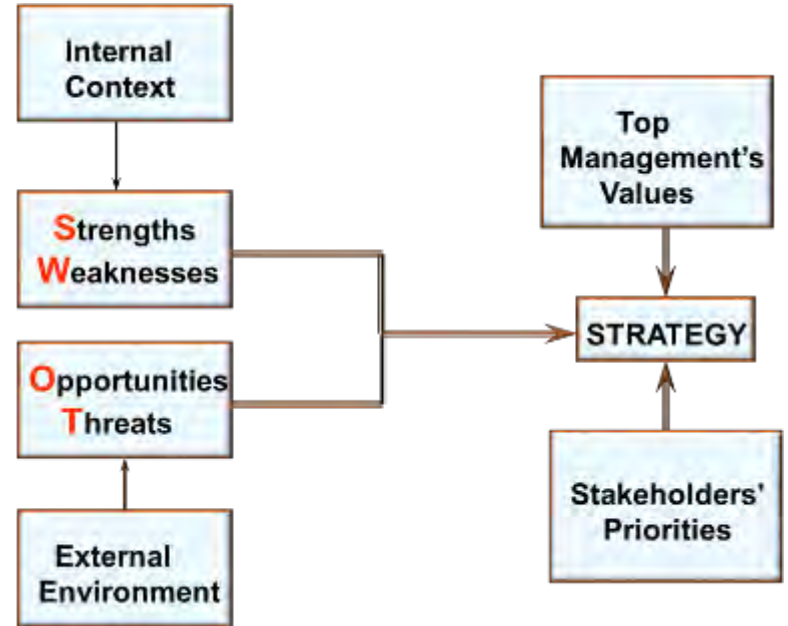
# A Forced Leap into the Unknown



# The Classic Strategy Process



1970, the **CONCEPT OF CORPORATE STRATEGY**,  
Kenneth Andrews

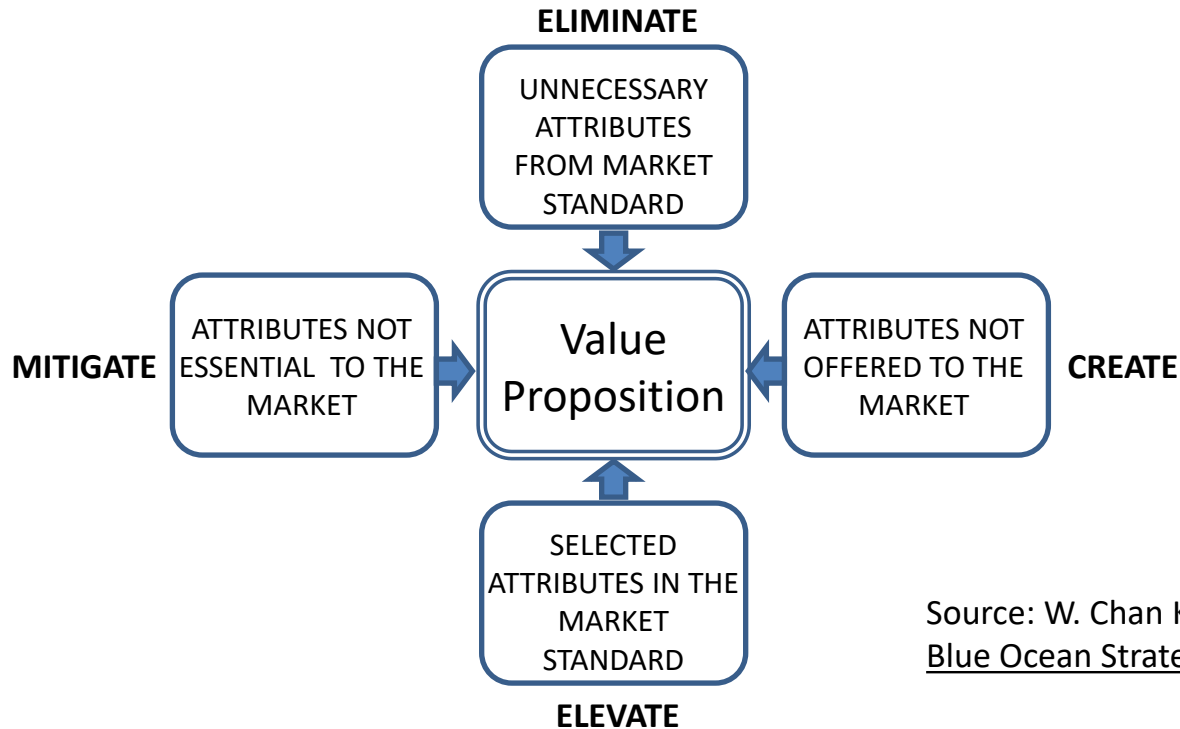


# Strategies for an Unknown/Unknowable Future

1. Blue Ocean Strategy
2. Possibility Scenarios, Robust Actions, and Real Options
3. Transformational Scenarios and Enablers
4. The Business of Humanity<sup>®</sup> Proposition



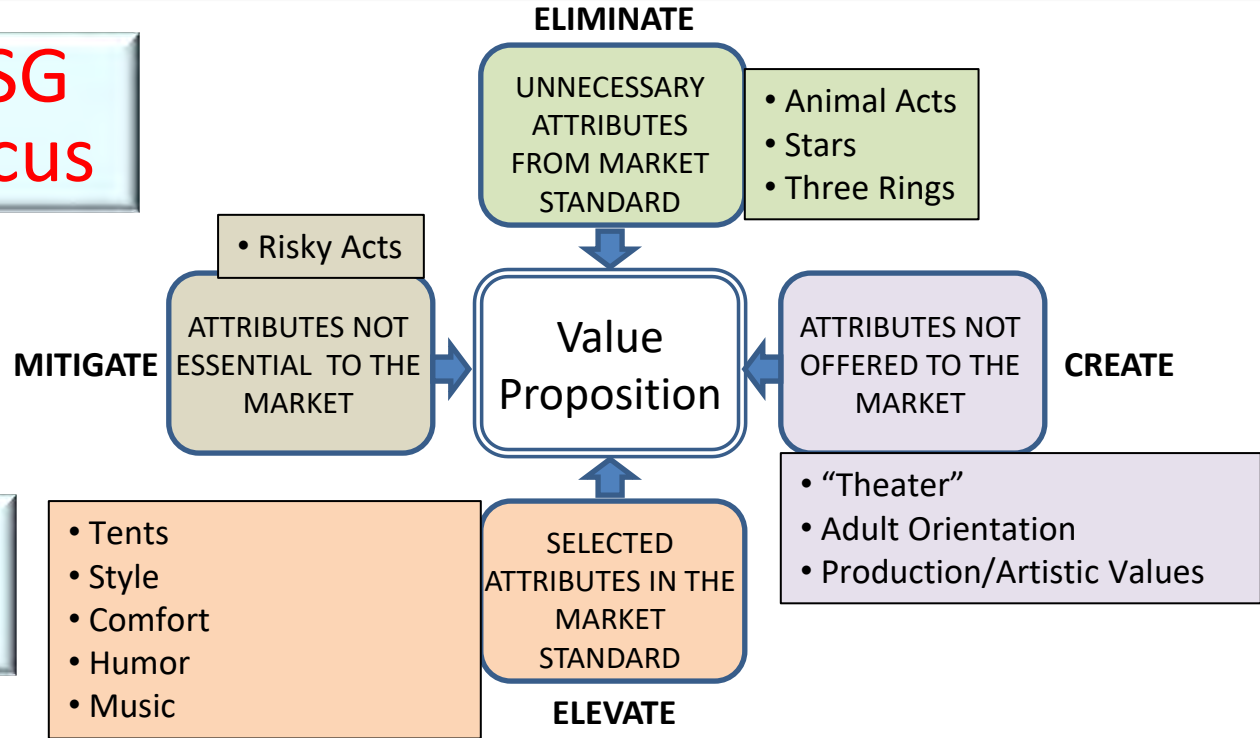
# Blue Ocean Strategy



Source: W. Chan Kim and Renée Mauborgne, Blue Ocean Strategy, Harvard Business School Press, 2005

# Blue Ocean Strategy

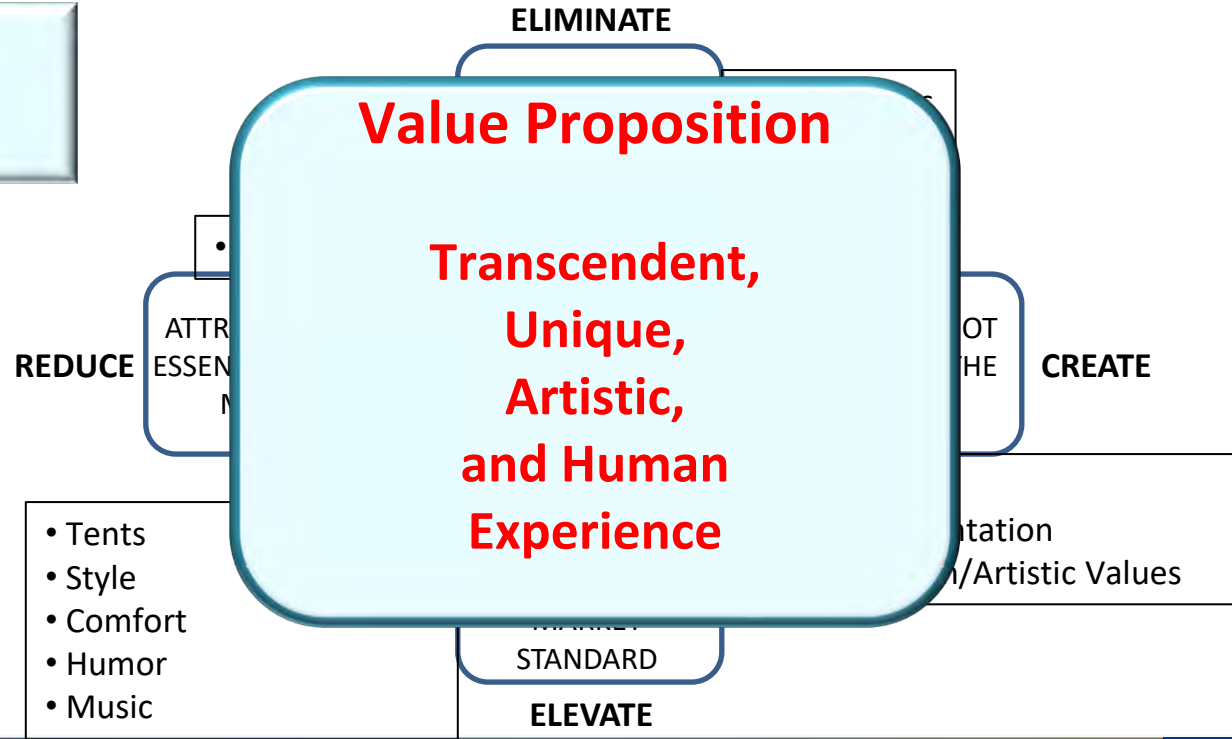
## Applying an ESG Lens to the Circus



## Blue Ocean: Cirque du Soleil

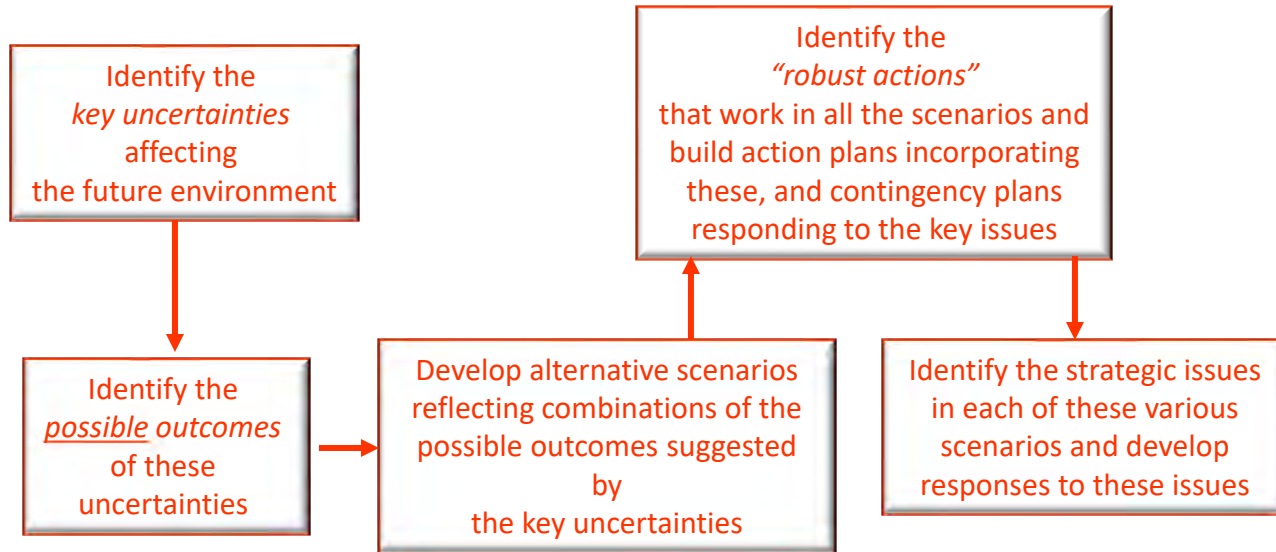
# Blue Ocean Strategy

Blue Ocean:  
Cirque du Soleil



# Possibility Scenarios, Robust Actions & Real Options

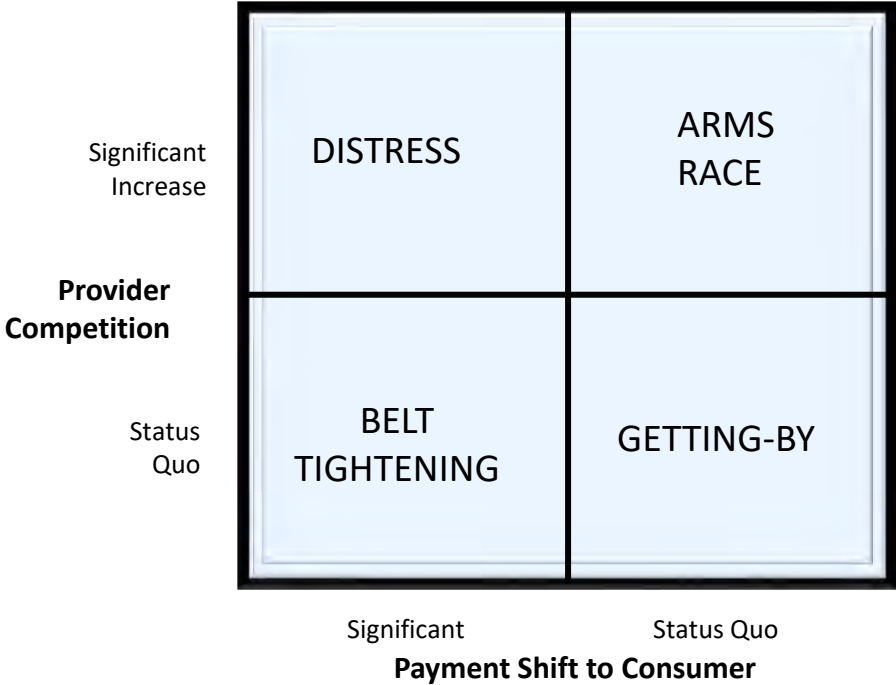
## The Process





# Possibility Scenarios, Robust Actions & Real Options

## Possibility Scenarios – U.S. Health Systems



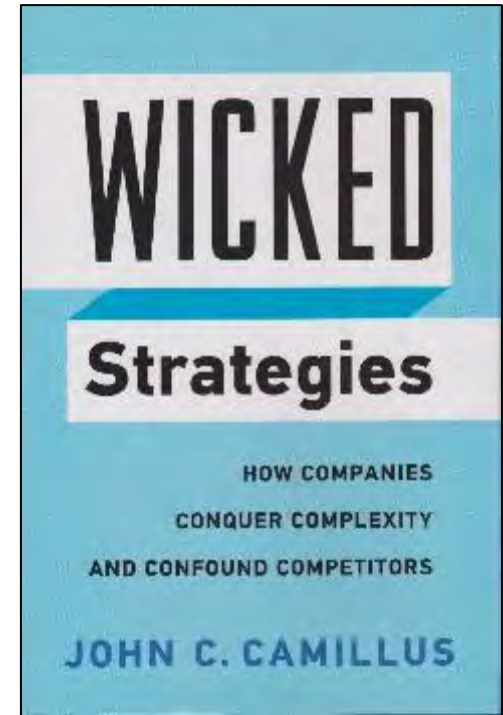
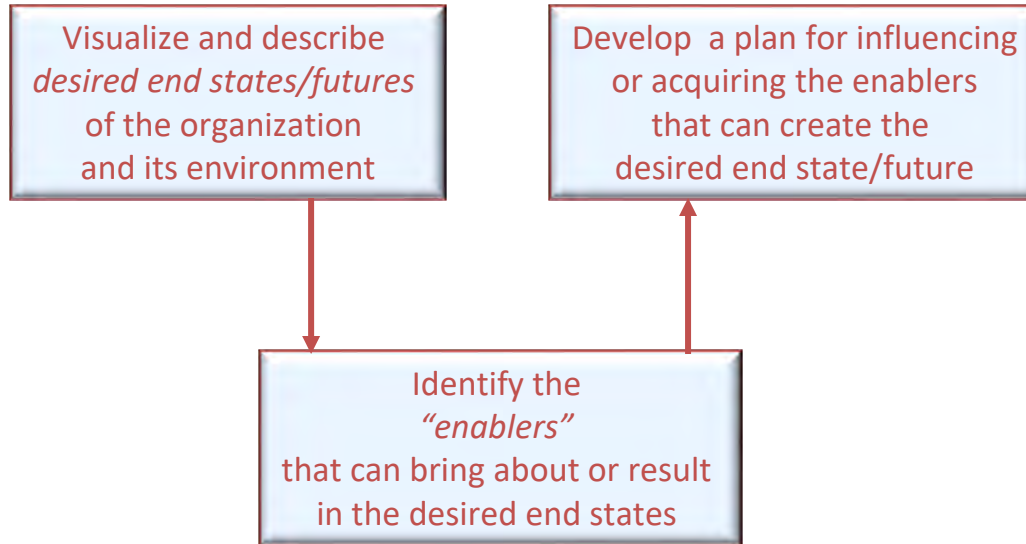
# Possibility Scenarios, Robust Actions & Real Options

## U.S. Health Systems – Robust Actions

- Building the brand image of the health system. This would reduce the inclination of consumers to shift to competitive providers.
- Providing wide access to measure of quality of services. This would enhance the brand equity and promote the confidence of consumers in the system.
- Emphasizing customer service. Consumer loyalty would naturally increase as a consequence of excellent service.
- Investing in information technology. Information technology and systems are key to supporting operations, enhancing and tracking quality, and supporting customer service.
- Engaging in research. This would improve the quality of patient outcomes and provide a competitive edge.
- Constraining costs. The ability to charge less would be critical in all contexts and particularly so when patients exercise care in their choices because of the greater financial impact on them.

# Transformational Scenarios and Enablers

## Building Transformational Models



# STRATEGY– AN ACADEMIC PERSPECTIVE



## Michael Porter:

“Companies... remain trapped in an outdated approach to value creation...[they] **must** [emphasis added] take the lead in bringing business and society together.”

## *Social Benefit and Profits are Synergistic*

Mandate:

## *Focus on underserved and BoP*



Porter, M.E. and Kramer, M.R. (2011) “Creating shared value,” *Harvard Business Review*, January-February, pp. 62 – 77

# STRATEGY– A CONSULTANT’S PERSPECTIVE



## C. K. Prahalad:

Multitrillion-dollar fortune at the BoP creates profitable opportunities for business that can benefit BoP and eradicate poverty.



***BoP business models can generate profits and social benefit***

Opportunity:

***Focus on BoP with innovative business models that couple profits and social benefit***

Prahalad, C. K. (2005). *The Fortune at the Bottom of the Pyramid*. Wharton School Publishing.

# STRATEGY—AN INNOVATOR'S PERSPECTIVE



**Clayton Christensen:**

Disruptive innovations at the base of the pyramid have much greater potential than those that begin and end in developed markets.

**Reverse innovation emanating from serving BoP offers great profit potential**

**Opportunity:**

***Build innovative business models based on BoP-sourced disruptive technologies***



Hart, S. L., & Christensen, C. M. (2002). The great leap: Driving innovation from the base of the pyramid. *MIT Sloan Management Review*, 44(1), pp. 51-56.

# THE “HOLY TRINITY” OF STRATEGY

Michael Porter

Synergy between social benefit and economic value.

**Mandates** strategic on underserved communities and the **BoP.**

C. K. Prahalad

Fortune at BoP

**Proposes** how to profit from and for **BoP.**

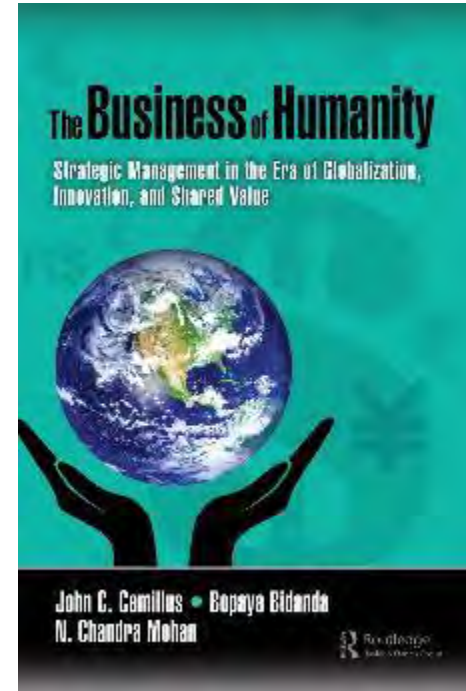
Clayton Christensen

Profit Potential of disruptive innovation  
**Embraces** disruptive innovations emerging from the **BoP.**

# THE BUSINESS OF HUMANITY® PROPOSITION

Strategic decision making that employs criteria falling under the rubric of "humanity," in its two dimensions of "humaneness" and "humankind," leads to **superior economic performance** and **enduring value**.

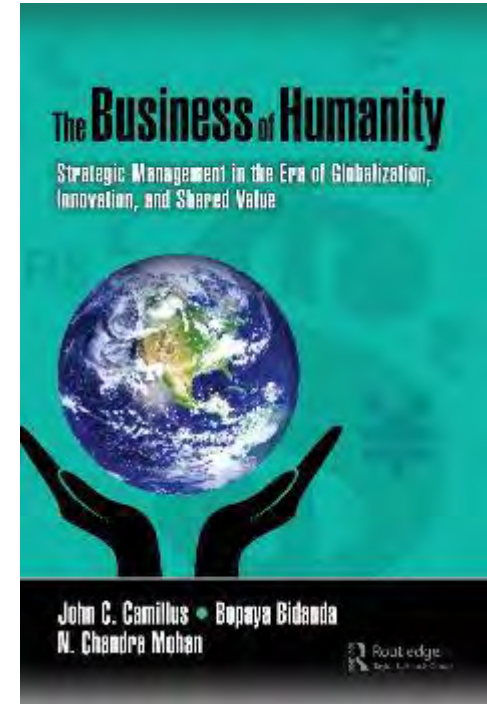
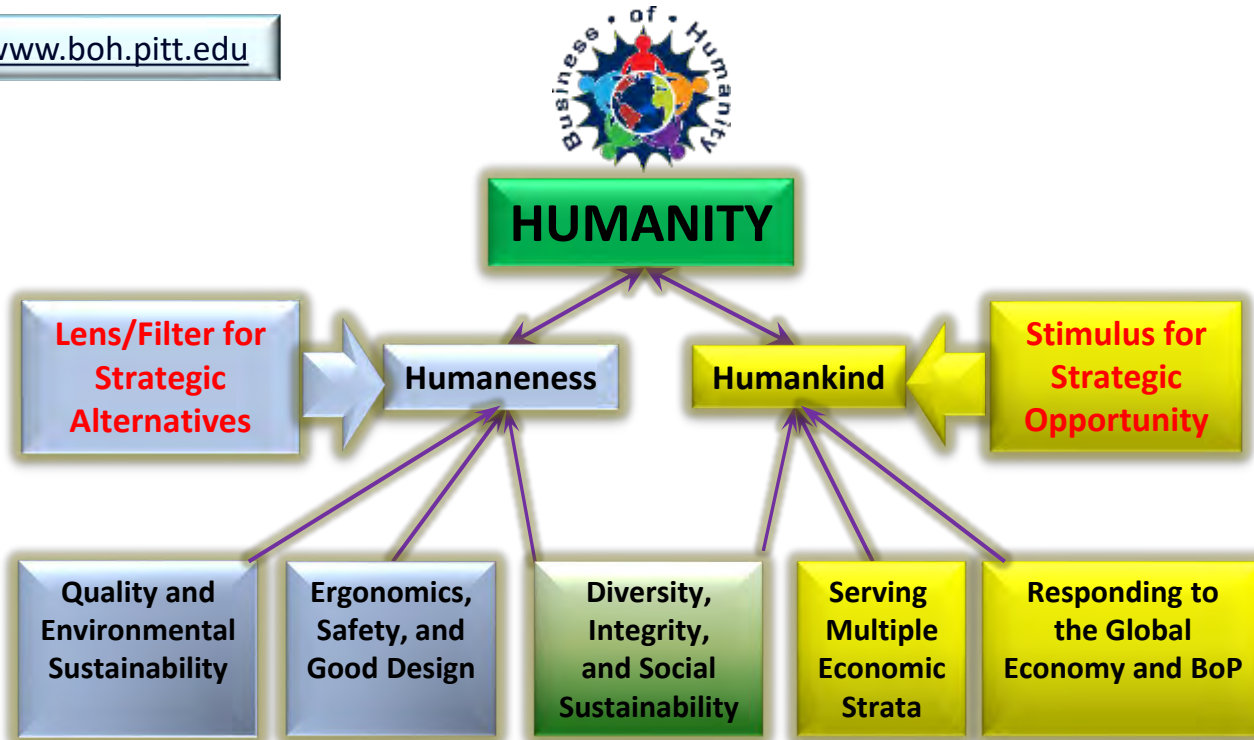
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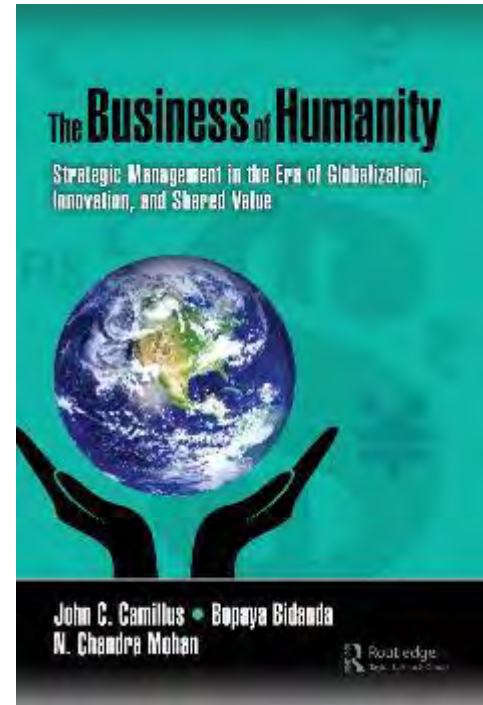
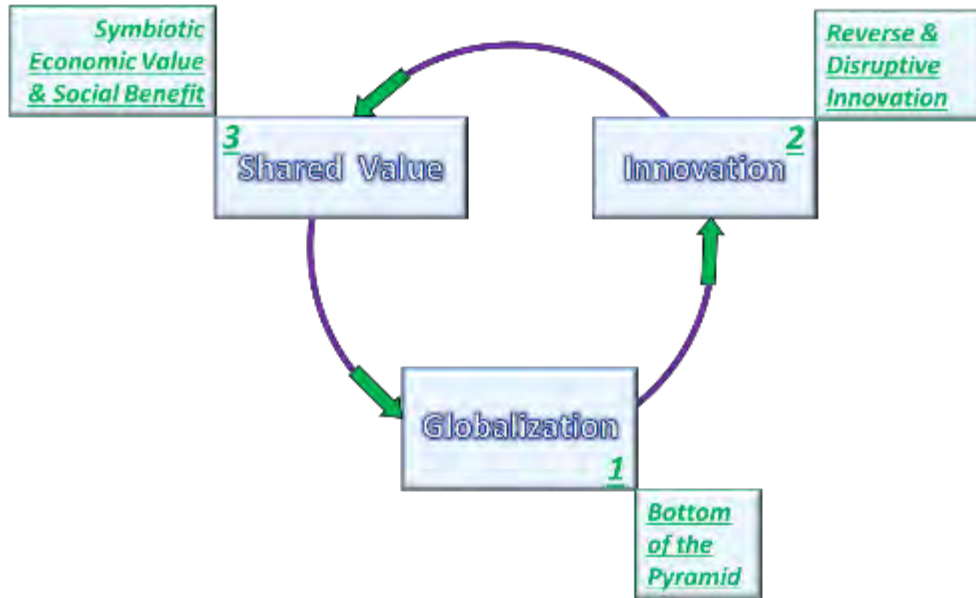


# “HUMANITY” IN DECISION MAKING

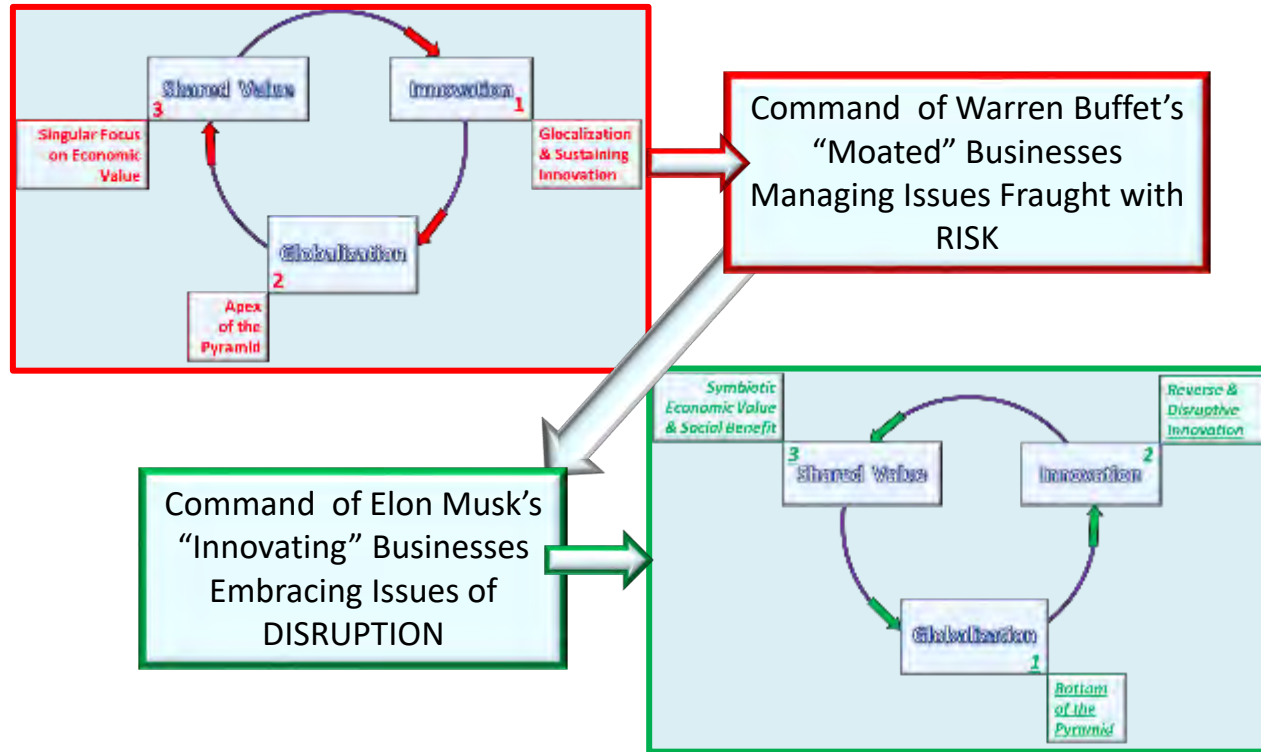
[www.boh.pitt.edu](http://www.boh.pitt.edu)



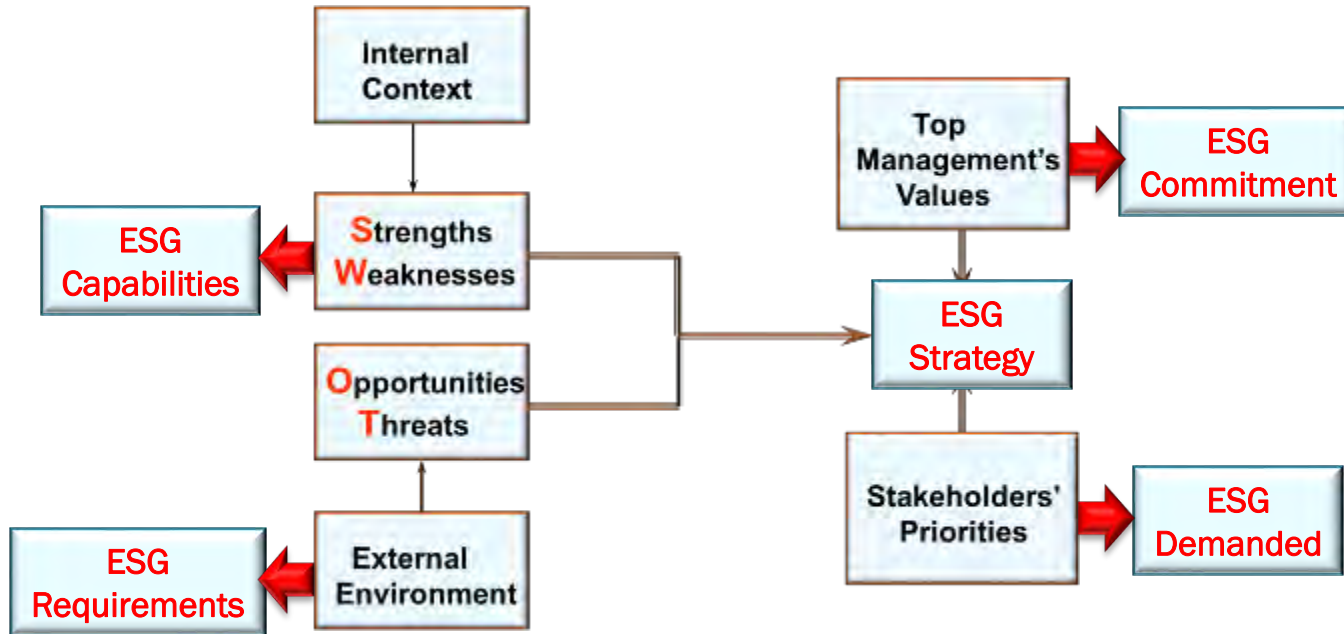
# “Humanity” in Decision Making



# Strategic Ambidexterity



# ESG is Integral to Strategy



# “Best Practice” Companies Benchmarked



# Companies Recently Studied for BoH Practices



# “HUMANITY” IN DECISION MAKING



**Charles Peirce**

**Greatest American Thinker**  
**Renowned Logician**  
**Seminal Statistician**  
**Eminent Mathematician**  
**Inventor Of Semiotics**  
**Founder Of Pragmatic Philosophy**

Peirce, C. S. (1986). “*The Doctrine of Chances.*” In Christian J. W. Kloesel (Ed.), *Writings of Charles S. Peirce: A chronological edition.* Volume 3, 1872-1878 (pp. 276–289). Indiana University Press.

It seems to me that we are driven to this, that logicity inexorably requires that our interests shall not be limited. They must not stop at our own fate but must embrace the whole community. This community, again, must not be limited but must extend to all races of beings with whom we can come into immediate or mediate intellectual relation