

MANAGERIAL CHALLENGES IN THE EMERGING PURPOSE DRIVEN ORGANISATIONS

Abstract

Adoption of a ESG purpose is seen as a futuristic trend of organisations. The commercial for profit organisations of today are heading for a transformation towards donning the robes of purpose driven organisations with a dual objective of creating profits as well as making positive impact on social sphere. This transformation is going to pose many a challenge for the management. Managers have to equip themselves with newfound skills to negotiate such challenges successfully. This paper enlists the various management challenges on the anvil and illustrates the various areas where future managers have to hone up their managerial skills.

Keywords: Benefit organisations, Purpose led organisation, ESG.

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I. INTRODUCTION

An analysis of the key business and technology trends in the past couple of years , reveals a plethora of significant changes. Most of them were related to the attempts made by organisations to adapt themselves to and thrive in a landscape which is constantly changing under various pressures like, the mounting geopolitical tensions, risk of a global recession, ever expanding connections between people devices and data, increasing volume of digitalisation and AI, Shrinkage of available physical spaces, , advent of Wifi6 and 5G, and the emergence of ESG issues as prominent items underlining board room agendas. The lesson to be learnt is that the future is predictably unpredictable. In the coming years, for businesses to sustain, mere meeting of the evolving expectations of their stakeholder groups will not be sufficient, but they need maintain their relevance in the constantly evolving hybrid, digital-first and ESG conscious era also.

Advances in the fields of Science and Technology have provided solutions to most of such evolving problems , and if yet not, shall be expected to provide in the near future , thanks to the billions of dollars being spent in R& D field world wide. But the problems posed by the growing requirements and wide spreading community sensitivity related to ESG issues, mostly need managerial solutions.

II. LITERATURE SURVEY

Contemporary world is awestruck by the phenomenon of climate change. Environmental awareness is spreading like virus thanks to the contributions of Social networking and internet. In the Social sphere, inequality, racial discrimination, and infringed human rights have posed themselves as the most important issues to be dealt with globally. Corruption and lack of corporate transparency are identified as the major governance problems. Social audits of these entire phenomenon, apart from the ever increasing stringency of regulations related to these issues have catapulted the idea of ESG into prominence in the arena of corporate management. A literature review was done to find what research has contributed to the body of knowledge about the worth in pursuing ESG by companies, its role if at all in transforming the organisations , and if it does have a significant role, the projected future of organisations. The objective was to find out the exact nature of future organisations so as to identify the management challenges hidden in that transformation.

(Saluja, 2023) suggest that implementation of ESG helps business to become more sustainable, enviro friendly, efficient through waste reduction, thus attain leadership position in sustainability which automatically attracts new customers and partnerships. (Beergi, 2022) argued that ESG is more important now than ever for any business citing it's potential to draw talent, target future customers, and to facilitate innovation. (Edmans, 2023) stressed the importance of ESF in affecting a company's long term shareholder value. The author had opined that ESF affects the impact of the company on a wider society , and hence it is relevant for everyone who cares more than just profits. He added that ESG creates value for shareholders and all stake holders and so it is the biggest challenge faced by companies and societies now. A full plethora of literature speaks in favour of the worth in pursuing ESG by companies.

(Gassmann et al., 2021) argued that Social need and business opportunity are converging to transform the way organisations chart strategy, drive performance, and report results. They added that “A business that begins to report against broader nonfinancial metrics will quickly find that it needs to define objectives to manage these metrics, and therefore to drive change—transformation—to achieve these objectives”. And “The impetus for business to address ESG issues and opportunities is likely to continue to grow, spurred by investors and shareholders, governments and policymakers, employees, suppliers, customers, and citizens more broadly”

A research paper (Alkaraan et al., 2022) while reckoning that “manufacturing industry has been witnessing transformations in their core manufacturing models, and these transformations have been underpinned by investing in Industry 4.0,” have found out that “ESG strengthens the relationship between Ind 4.0 and financial performance. Furthermore Ind 4.0 cannot be viewed merely as a technology roadmap, but Strategic Investment Decision Making (SIDM) practices influence strategic choices to achieve successful long-term performance.” A case study (Zioło et al., 2023) had opined that companies are transforming their business models toward sustainability.

An enquiry to find out the final destination of this transformation could expose many research works . One such work was (Perez et al., 2022), which found out that “companies are now approaching ESG in a rigorous, strategy-driven, socially attuned way. We call these organizations “forward-looking companies.” They make ESG intrinsic to their strategy by defining, implementing, and refining a carefully constructed portfolio of ESG initiatives that connect to the core of what they do. Forward-looking companies also contribute to a competitive landscape where good corporate citizenship is marshaled against existential challenges, not least—but not only—climate change.” Another paper (Bhattacharya, 2022) gave a lead how transformation may progress as it stated that “when driven by purpose, bespoke ESG metrics can be transformative and shine a light on the way forward. In other words, businesses themselves need to operate in a purpose-driven way with stakeholder value-creation in mind, rather than tailoring operations to meet a set of ratings or thinking of profit as the primary objective.” So several such studies have pinpointed the gradual blurring of the boundaries between profit goals and social goals. The profit generation value system is being complemented more and more by social impact value systems. The expectations of various stake holders related to different values are growing and the transformation in business models will be towards addressing such expectations. The destination of such transformation will be purpose driven organisation which are also called benefit organisations. (Fontan et al., 2019) illustrated the management ideas to meet the management challenges expected in the future purpose driven organisations. According tot them , during transformation, “the old logic of management evolves into the new logic of purpose, characterized by three main traits that will gradually become dominant in organizations”... and listed them as “ The first—personal purpose—introduces the idea of individual purpose in the organizational arena, the second—self-management—is the context where personal purpose flourishes within the organization, and the third—unity—is the natural connection between the personal and organizational purpose.” To learn the hidden management challenges in any purpose driven organisations , the book (Geok, 2018) was read which opined, that managing such organisations needed better ability in working with teams as well as with different stakeholders simultaneously, and quicker response to changing situations. This also could not pinpoint the exact nature of management challenges nor the exact

attributes to be cultivated in the managers to perform in the transformed organisations. A knowledge gap was identified in literature, and the research question arose was what are the particular attributes to be developed in managers to face the challenges in future organisations, (read purpose driven ones).

III. INFLUENCE OF ESG FACTORS ON ORGANISATIONS

The impact and value addition made by every company in the Environmental, Social and Governance areas are under constant scrutiny by regulators, and their public scrutiny is experiencing a steady rise in intensity. Managers have to consider on ESG factors also alongside financial factors in various decision making processes. All managers have to ensure their Companies perform as stewards of nature. They also have to manage the relationship with employees, suppliers, customers, and the neighbourhood communities, as well as maintain the working conditions, health and safety and diversity in compliance with the contemporary standards. Strategic managers have to live up to the ever evolving governance standards and the line managers have to support the strategic decisions in their actions. The challenge is that the ESG is rapidly growing and evolving. The investor community's ever growing aspirations to incorporate more and more ESG factors into the investment process is the major drive, taken up by the legislators and the business eco system comprising of media, consumers, stakeholders, and customers, resulting in an ever mounting pressure over companies. Gradually ESG factors are becoming a key determinant to financial strength.

A2020 research reported by (Kristen Sullivan et al., 2020) shows that “the top 20 percent of ESG-ranked stocks outperformed the US market by over 5 percentage points during a recent period of volatility. Twenty-four out of 26 sustainable index funds outperformed comparable conventional index funds in Q1 2020”. Trend shows that the Sustainable businesses have started to outperform non sustainable businesses. To remain functional as a brand or an employer, companies have to perform well on ESG. In the coming years, ESG may become compulsory or mandatory. So to stay ahead of regulations and competition, companies have to adopt methodologies that reflect sustainability and ESG.

IV. PURPOSE LED COMPANIES

A good reputation has been accepted widely as the most important success factor of any company and this notion was empirically proved by (Helm, 2007) . That the Pursue of a purpose can enhance the reputation of a company was found out by (Collins & Saliba, 2020) and (Oechsle Sixtus J III, 2002). Further as , (Fontan et al., 2019) and the survey report (Renjen, 2014) had suggested, the implementation of a purpose enhances corporate performance. The ‘purpose’ mentioned above means ‘a concrete goal or objective for the firm that reaches beyond profit maximization’ as defined by (Henderson & Steen, 2015), who had also proved that “any such purpose can create value for the firm beyond its social impact by developing or strengthening employee’s identity and reputation”.

Since 2018 companies have started focussing not only on earning profits, but also in orienting their decisions and actions towards higher purposes related to ESG. The CEO of Siemens when presenting their vision 2020+ in 2018, had stated that the company would be putting a purpose at the heart of their strategy. Since then we are seeing more and more companies establishing specific purposes as the reason of their existence. The stated purposes

are seen occupying a wide spectrum, like ‘making the world a safer place’ by the insurance company IAG, ‘Empowering people to stay a step ahead in life and in business’ by the finance company ING, ‘Nourishing families so they can flourish and thrive’ by Nestle, ‘Making sustainable living commonplace by Unilever, and ‘First move the world’ by Mercedes Benz cars, to name a few.

In reality also purpose and financial performance have been found closely related. The case paper (*The case for purpose: Demystifying the field*, 2020) talks about a study by Harvard Business review & EY amongst 474 executives that concluded “any purpose that is a core driver of strategy, fosters an organisation’s ability to transform and innovate “. It also quotes a survey by EY (2017) that evidenced 52% increase in customer loyalty and 51% rise in brand value and reputation by companies after they had deeply integrated a sense of purpose into their operations. The study by (Gartenberg et al., 2019) had shown that “organisations with midlevel employees with strong beliefs in the purpose of their organisation and clarity in the path toward that purpose experience better financial performance.”

Summarising the above, it can be inferred that in the days ahead more and more organisations are bound to adopt their choice purpose from among the numerous ESG related purposes as their *raison d'etre*. The managers have before them many a management challenge due to this transformation.

V. MANAGEMENT CHALLENGES IN PURPOSE DRIVEN ORGANISATIONS

A research paper(Figueroa, 2020) had summarised that the management challenges emerging from the change brought about by adopting any driving purpose by organisations are in the fields of Organisational -legal structure, Culture, Financial stability, Mission drift, and Governance.

1. Organisational - Legal Structure: After adoption of a driving purpose, the organisation has to meet both the financial and social goals simultaneously. The organisation has to take up both commercial and social activities to attain this end. The organisation has to manifest itself with ‘just a Commercial structure integrated with social activities’ or as having different verticals for each mission: a ‘for profit structure’ for the commercial mission and a ‘non-profit structure’ for the social mission. Either case, the organisation assumes the shape of a hybrid organisation. However the choice is important to determine the subsequent strategies that positions the organisation in a better way, against the market demands as well as the social sector demands. A balance should be maintained between both sets of demands always. Considering the fact that the said demands are changing constantly, alterations to the structure are to be made to maintain the balance between the demands. This calls for flexibility and willingness to change the structure at short notice, so that the strength of the missions are held constant. (Haigh et al., 2015) had identified different reasons that call for such structural changes like facilitating the mission under changed circumstances, need to raise fresh capital, diversify income, improve fitness with the founder values, perceived advantages etc. Deformation of Scalar chains, alteration in sphere of authority, changes in short term goals as well as KPIs , relocation to new teams etc are the major challenges to be met by managers, that too

quite often. Transformational type leadership as moderator is to be invoked to negotiate this successfully.

- 2. Culture:** A purpose driven organisation needs to be populated with one set of people with commercial expertise and another set with social expertise. The organisational culture is deeply influenced by the people manning the organisation as workers, managers and directors. When the human resources of an organisation is a mix of commercial experts and social experts who are not mutually exclusive while the organisation is pursuing dual missions simultaneously, it becomes a difficult task for all concerned to find a balance between the two sets of people. Conflict management skills and diplomacy of the managers have to be brilliant to negotiate the unending series of turbulences, quite often calling for their fire fighting skills even. Managers have to be adept at crisis management too.
- 3. Financial Sustainability:** For the ‘for-profit organisations’ sophisticated vehicles for financing through equity and debt are available. For the ‘non-profit’ ESG organisations which pursue social missions also, funders are available in the form of several community foundations, government grants, and venture philanthropists. The purpose driven enterprises have to pursue a differentiated funding strategy that accesses the market of profit seeking investors for their commercial ventures and non-profit fund raising or government aid for social activities. Fund raising poses a tough job for finance management and the Operations management also will have to execute the tough task of delivering social and financial returns to the satisfaction of the respective investors. In future a market of impact investors who look for a blend of social value creation and commercial revenue may develop. The expected proportion of the social value addition and monetary returns for unit investment made shall not be same for all such investors. Managers have to fulfil the task of finding the right investor to match their projected ratio of social and monetary returns will be more difficult than the mid air refuelling of aeroplanes.
- 4. Mission Drift:** The challenge of mission drift was identified by the studies of (Santos et al., 2015). Clients of the Purpose driven organisations are those who pay for the product or service and their beneficiaries are those who benefit from the social mission. Payers need not be the direct beneficiaries in most of the cases. In such cases the fundamental market relations go cloudy or vanish altogether depending on the degree of overlap between the clients and beneficiaries. The search for new revenue sources can force the organisation away from its chartered path that follows its stated mission. Similarly, a blinded pursuit of the mission can put the financial stability attainable through commercial activities at jeopardy. Both are not advisable and are called mission drift situations. Managers have to be vigilant to avoid the risks of mission drifts. This calls for managers with special risk management skills. The Clients enjoy the power to select from the competing products which calls for innovation among competing organisations. Managers have to be more and more innovative to sustain markets, and also have to foster innovation for survival. When the organisation has no imperative other than serving the clients and beneficiaries at the same time, the organisation becomes harder to manage and scale. Delivering to the delight of both communities is a still more difficult task. Ingenuity, agility and ability to make data based decisions at a very fast pace are the attributes to be possessed by the managers.

- 5. Governance:** It appears that purpose driven companies cannot function with a profit maximisation mission. They have to invest even in unprofitable projects if they are meaningful in terms of the company's purpose, as long as the overall financial balance is not threatened. Profit gets degraded to the moderate status of a 'prerequisite for just survival or medium growth'. But from practical point of view the organisation cannot completely abandon the quest for performance. In reality, as the company's collective mission and purpose are the primary aim, the performance will get redefined in relation to this vision. If not to maximise performance, doing the best job possible will be aimed at. Thus the idea of overall performance will emerge. That will encompass incorporating the interests of all stakeholders, "social and societal performance", quality of products or services, "impact on the ecosystem" as a whole, "creating shared value" etc. all of which are to be balanced. This balance is hard to achieve in practice as it involves sharing power and changing the drivers of the organisation which are complex processes. The mettle, and resilience of the managers only can save the situation.

VI. CONCLUSION

Summing up, in the face of a transformation of organisations as benefit organisations (Purpose driven organisations), several seemingly insurmountable challenges are to be faced by the managers. Most likely every manager has to match their performance against two KPIs, one for financial performance and other for social impact performance. To equip the managers of morrow with the adequate skill set, military style training with the utmost rigour is inevitable. The existing managers have to hone up their skill sets to match the demands posed by the future organisations.

VII. FUTURE SCOPE FOR RESEARCH

Literature may be rich with further findings related to the significant management challenges hidden in the transformation towards purpose driven organisations. Also there would be many beneficial factors too which would perhaps offset the magnitude of the challenges. The challenges identified in this work also have to be studied in detail by modelling or other techniques to arrive at the exact dimensions of those challenges. Such challenges have to be analysed against the projected socio economic and technological universe that would prevail in a future state to arrive at the skills required by managers to mitigate those challenges. So the research ahead in this field is open and the domain is vast to map exactly the individual challenges posed by the transformation of organisations and business models towards purpose orientation, their interplays, and the managerial skills called for by the changed scenario.

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