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Firm Purpose and Problem Wickedness: A Review of the Academic Literature

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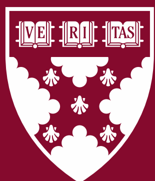

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FIRM PURPOSE & PROBLEM WICKEDNESS

A review of the academic literature

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Abstract

Our understanding of the firm's role in society has evolved greatly over the past 70 years, with more recent years seeing a sharp rise in interest for how firms can contribute more than profits to society – that is, have a purpose beyond profits. Businesses engaged in the pursuit of "purposeful" activities often engage with complex societal challenges, many of which have the characteristics of wicked problems, which are characterized by high conflict among stakeholders, high complexity as a result of multiple and interconnected variables, and high uncertainty where the information required for problem solving is missing or unknown (e.g., climate change, food insecurity, poverty). This literature review aims to lay the foundation for further research into the nature of purpose-driven firms and into the impact of wicked problem engagement on organizational and operational behaviors. We provide an understanding of how business leaders and firms come to engage in purpose-driven activities and the nature of such engagement. Further, we offer insight into the potential benefits of firm engagement with wicked problems.

Introduction

Over the last few years, there has been a focus on understanding the “purpose-driven company”, with scholars and business leaders touting the importance of purpose in enabling companies to grow. Most company leaders today believe that their firms must make a positive difference in the world, above and beyond maximizing shareholder value[1]. Understanding this movement, the reasons for its growth, and the potential differences from “business as usual” is critical to understanding an emerging business paradigm – one in which profits do not come at the expense of others, or of broader social utility.

The pursuit of purpose-driven activities is not an entirely new phenomenon – it may be more accurate to think about it as the evolution of a series of movements (CSR, “Triple Bottom Line”, ESG, among others) that have expanded the scope of the firm beyond shareholder value. This evolution means that there is a history of academic investigation into “purpose-adjacent” behavior by firms. By reviewing this literature, we hope to better understand the reasons for this movement, the reasons for firm engagement in purpose-driven activities, and the types of behavior that we can expect to see from purpose-driven firms in the future.

Because the “purpose-driven company” is driven by goals of creating a positive difference in the world, its purpose is often tied to an environmental or social challenge like climate change (companies like Beyond Meat, Tesla, Allbirds, Land O’Lakes), equal economic opportunity (platforms like Uber or AirBNB that connect sellers to buyers with less friction; crypto was founded on this idea), equitable access to education (Coursera / Udacity, Microsoft / LinkedIn), or food security and nutritional access (Chipotle, PepsiCo, Kind / Mars). These types of challenges are often described as “wicked problems” – a specific type of problem that is difficult or impossible to solve due to its complex or interconnected nature. Because the pursuit of purpose so often drives engagement with these types of problems, it is worth exploring purpose-driven activities through this lens: specifically, can we learn anything about the nature of purpose-driven behavior when we see it as the behavior of an organization that fundamentally tackles a Wicked Problem? Moreover, it is possible that applying the lens of Wicked Problems to the approaches of businesses provides clarity or insight into the patterns of purpose-driven behavior we’ve seen to-date.

While many popular articles have been written on the topic of purpose-driven behavior, it is always helpful to understand the nature of current academic understanding. As such, the following paper explores the following areas of academic investigation in understanding the nature of firm purpose:

- **How did we get here?** An overview of the evolution of purpose at the firm level, exploring how and why firms engage in activities that are at least in part focused on generating positive impacts (above and beyond those generated by run-business activities)
- **How do firms get engaged in purpose-driven / wicked problems-related activities?** A characterization of how businesses are engaged in purpose-driven activities today, including intrinsic vs. external motivations, “types” of engagement behavior, and the role of ecosystem factors like regulators and investors

[1] (Joly, 2021)

- **What is the nature of purpose-driven engagement by firms?** A review of what it means for a firm to be involved in purpose-driven activities, including the nature of "success" in pursuing a purpose outside of shareholder value maximization
- **Why is introducing purpose to a firm different than the "run-business" paradigm of maximizing shareholder value?** An overview of the "wicked problems" approach to thinking about problems (and why wicked problems are different from more traditional business problems), and a mapping of common firm purpose initiatives to wicked problems

As a note – it has been strongly suggested that purpose-driven firms may outperform their peers for a variety of reasons. We have left the review of such research for another paper – this paper is firmly focused on understanding the pursuit of purpose and the changes in behavior that we may expect to see as a result.

Process & methods

The team combined both structured searches and broader literature review to determine the appropriate materials to include in this literature review. Because the literature on wicked problems and business is extensive and not well-connected, we used several key search terms to ensure we are capturing a wide range of disciplines, perspectives, and research studies. We searched for "wicked problems," "ESG," "corporate social responsibility," "sustainability and business," "business and SDGs," "shared value," and "purpose-driven business" for published journal articles. We limited the scope of research to thematic areas reasonably related to wicked problems and business. We reviewed quality of the results by looking at citations, journal accreditation, and author credentials. Each article was then reviewed to determine relevance. Some articles pointed to additional references which we then searched online, including business magazines, books, and reports from international bodies and NGOs. We used several key literature reviews and authors to guide our search, including books by George Serafeim and Alex Edmans (two of the most prolific researchers in this space).

After this "top down" approach, we also took a tactical approach to filling in the remaining gaps with existing research. Where we found "holes" in logic, we did our best to supplement the literature review with specific searches to test the necessary hypotheses. The team made sure to include both the research that most strongly supported our theses as well as those that may contradict the perspective detailed above. Papers were only excluded from the review if later findings demonstrated contradictory results that were explained as the result of a societal shift (e.g., the perspectives of investors on the value of ESG involvement by businesses may rationally have changed over time).

The evolution of purpose in the firm

The present state of purpose in the firm

Most firm leaders have made it clear that they believe their firms must care about their impact on the world, beyond focusing on generating profits. In *Fortune*'s 2019 survey of the *Fortune* 500 CEOs, only 7% agreed with the statement that their firms should "mainly focus on making profits and not be distracted by social goals."[2] Additionally, in an HBR Analytic Services survey of 474 executives, there was a strong

[2] (Murray, 2019)

acknowledgement of what firms may gain from being purpose-driven: 89% said strong purpose drives employee satisfaction, 84% said purpose could affect the firm's ability to transform, and 80% said purpose helps increase consumer loyalty.[3] The survey also found only 46% of executives reported that their firm currently runs in a purpose-driven way, while 44% reported their firm is trying to develop a purpose-driven nature.[4]

The concept of being purpose-driven has become a popular way of describing firms who care about the benefit of all stakeholders, beyond just the shareholders, which involves engaging in activities for societal good. In 2019, the Business Roundtable announced a new Statement on the Purpose of a Corporation, signed by 181 CEOs, "who commit to lead their companies for the benefit of all stakeholders – customers, employees, communities and shareholders."[5] In that same year, Larry Fink (Founder, Chairman, and CEO of BlackRock) emphasized in his annual letter to CEOs that profit and purpose could work together: "Profits are in no way inconsistent with purpose—in fact, profits and purpose are inextricably linked. Profits are essential if a company is to effectively serve all of its stakeholders over time—not only shareholders, but also employees, customers, and communities."[6] Along these lines, by examining the link between profit and societal good, Kramer finds that a purpose-driven culture can shape the "very tissue that creates genuine and meaningful differentiation" for firms.[7]

Businesses are beginning to engage in incremental purpose-driven activities. First, firms reporting on purpose-driven activities has increased. 92% of the S&P 500 Index companies and 70% of Russell 1000 companies published sustainability reports in 2020, up from 90% and 65% in 2019 respectively.[8] These reports usually include goals and plans to address environmental, social, and economic sustainability topics. This represents significant engagement growth since 2011, when only 20% of S&P 500 firms published ESG-related reports.[9]

Additionally, firms are starting to make some substantive purpose-driven changes, especially when they have a clear business benefit. Ritala et al. found that corporations have increasingly engaged in sustainable value creation over time, specifically in responsible use of resources (reducing energy and raw material consumption, recycling what they do use, and using renewable energy sources) rather than social and economic activities. By analyzing press releases of S&P 500 companies for key words related to sustainable business models, they also find firms focus on sustainable activities that create economic and operational value, i.e., activities that can reduce monetary costs or affect subsidies. These findings suggest that corporations are currently more likely to look towards incremental changes that make business sense vs. investing in radically different business models with more ambiguous long-term payoffs.[10]

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[3] (Services, 2015)
[4] (Services, 2015)
[5] (Business Roundtable, 2019)
[6] (Fink, Purpose & Profit, 2019)
[7] (Kramer, 2020)
[8] (Governance & Accountability Institute, Inc, 2021)
[9] (Governance & Accountability, Inc, 2020)
[10] (Ritala, et al., 2018)

Overview of the evolution of purpose in the firm

Business and social/environmental impact has evolved over the past 70+ years. What began as philanthropy to give back to their communities, morphed into corporate social responsibility (CSR), despite Milton Friedman's strong objection to these activities as inappropriate and unjustifiable. Businesses began to recognize strategic CSR and the ways that CSR can create competitive advantage and growth opportunities. Businesses faced increasing pressure from governing bodies to take on more responsibility. The United Nations defined sustainable development in 1987, and corporate sustainability (environmental and social) caught on. Ideas like stakeholder capitalism and the "triple bottom line" took hold, urging businesses to consider more than just shareholders in their decision-making processes. In 2011, Creating Shared Value (CSV) was proposed as a replacement to CSR which was critiqued for being too narrow and separated from civil society. Most recently, the field of Environmental, Social, and Governance (ESG) investing advanced the idea of companies measuring and reporting their impact on social and environmental issues in a similar standardized manner to financial accounting.

1950s: From philanthropy to the early days of corporate social responsibility (CSR)

Early efforts of socially responsible leaders made significant contributions to their local communities through philanthropic efforts (investing money, time, resources, etc.).[11] The period after WWII and the 1950s ushered in adaptation and changing attitudes towards the discussion of corporate social responsibilities.[12] In 1953, Bowen defined the social responsibilities of business executives as "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society."[13]

1960s: CSR continues to take form

In 1960, Davis argued that businesspeople have economic and human values obligations to society and thought that social responsibility could have economic returns for the firm to some extent. He indicated that the "social responsibilities of businessmen need to be commensurate with their social power."[14]

1970s: CSR draws criticisms while continuing to build momentum

The discussions of the 50s and 60s continued into the 70s, though with some new push back. In 1971, the Committee for Economic Development acknowledged that the social contract between business and society was evolving[15]: society was asking businesses to take on broader responsibilities beyond contributing products/services, employment, and economic growth. [16] For example, society urged businesses to develop a greater awareness of matters such as "environmental conservation; hiring and relations with employees; and more rigorous expectations of customers for information, fair treatment, and protection from injury."[17]

[11] (Marinetto, 2006)
[12] (Agudelo, Johannsdottir, & Davidsdottir, 2019)
[13] (Bowen, 1953)
[14] (Davis, 1960)
[15] (Committee for Economic Development, 1971)
[16] (Agudelo, Johannsdottir, & Davidsdottir, 2019)
[17] (Committee for Economic Development, 1971)

Milton Friedman led the criticism with *The Social Responsibility of Business is to Increase its Profits*, published in 1970, in which he argued that corporate social responsibility activities were an inappropriate use of company's resources that would be spending someone else's money for a general social interest.[18] Similarly, in 1975, Preston and Post argue that corporations have a public responsibility that is limited by clear boundaries, anything outside is not an obligation for the firm and is inefficient.[19] They argued that companies are only responsible for the direct consequences of their business activities and not improving social problems.[20]

1980s: Governments back off but other institutions continue with an added focus on stakeholders and sustainability

In the 1980s, while governments took a step back from regulating corporate behavior, communities and interest groups still had social expectations of firms. The term stakeholder became more common as scholars researched business ethics and ways to operationalize CSR so that businesses could answer to shareholders, employees, and consumers.[21] In 1984, Edward Freeman and Jeanne Liedtka wrote about stakeholder capitalism stemming from the long history of business as an important element of society rather than a purely economic entity. Stakeholder capitalism is based on four principles: the principle of stakeholder cooperation says that "value is created because stakeholders can jointly satisfy their needs and desires"; the principle of complexity claims that "human beings are complex creatures capable of acting from many different values"; the principle of continuous creations says that "business as an institutions is a source of the creation of value"; and the principle of emergent competition says that "competition emerges from a relatively free and democratic society so that stakeholders have options."[22]

Towards the end of the decade, sustainability began to have its own moment as a corporate responsibility. In 1987, the World Commission on Environment and Development defined sustainability as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs," sustainability aims to secure intergenerational equity.[23]

1990s: Influenced by Corporate Sustainability, the Triple Bottom Line is introduced; CSR, Stakeholder Capitalism, and Corporate Sustainability continue

Triple Bottom Line

The Triple Bottom Line was first conceived by Elkington in 1994 as a sustainability framework to balance social, environmental, and economic impact. The triple bottom line concept became popular in the late 1990's as a practical approach to sustainability and it has remained important because economic goals need to be balanced by social and environmental goals and positive behavior.[24]

[18] (Friedman M. , 1970)
[19] (Preston & Post, 1975)
[20] (Agudelo, Johannsdottir, & Davidsdottir, 2019)
[21] (Carroll A. , A history of corporate social responsibility: concepts and practices, 2008)
[22] (Freeman & Liedtka, 1997)
[23] (World Commission on Environment and Development (WCED), 1987)
[24] (Agudelo, Johannsdottir, & Davidsdottir, 2019)

CSR

In 1991, Wood defined three dimensions of Corporate Social Performance (CSP): first, the principles of corporate social responsibility; second, the processes of corporate social responsiveness; and third; the outcomes of all corporate behavior as social impacts, programs, and policies.[25] Also in 1991, Carroll presented the "Pyramid of CSR," as the four main responsibilities of any company: 1) economic responsibilities are the foundation, 2) legal responsibilities, 3) ethical responsibilities, and 4) philanthropic responsibilities.[26]

In 1992, the association, Business for Social Responsibility (BSR), was founded which initially included 51 companies.[27] Later in 1996, Burke and Logsdon identified five dimensions of strategic CSR which are essential for achieving the business objectives as well as for value creation: 1) centrality, CSR's proximity to the company's mission and objectives; 2) specificity, the ability to gain specific benefits for the firm; 3) proactivity, the ability to create policies anticipating social trends; 4) voluntarism, actions not influenced by external requirements; and 5) visibility, CSR's relevance for internal and external stakeholders.[28]

Stakeholder capitalism

In 1995, Donaldson and Preston argued that the three aspects of stakeholder theory (its descriptive accuracy, instrumental power, and normative validity) are mutually supportive and that the normative base of the theory—which includes the modern theory of property rights—is fundamental.[29]

Corporate Sustainability

To help businesses, in 1992, The Business Council for Sustainable Development published *Changing Course*, a practical introduction to new methods of running businesses to support the realities of the environment and the needs of human development.[30] In 1996, ISO (International Standards Organization) 14001 was formally adopted as a voluntary international standard for corporate environmental management[31] In 1999, Dow Jones launches Sustainability Indexes, tools to provide guidance to investors looking for profitable companies that follow sustainable development principles.[32] The Global Reporting Initiative (GRI) was established in 1997 to create an accountability framework for companies to display to their stakeholders their responsible environmental practices.[33]

2000s: ESG and Shared Value are introduced; CSR and Stakeholder Capitalism continue

[25] (Wood, 1991)
[26] (Carroll A. , The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders, 1991)
[27] (Business for Social Responsibility, 2022)
[28] (Burke & Logsdon, 1996)
[29] (Donaldson & Preston, 1995)
[30] (Schmidheiny, 1992)
[31] (ISO, n.d.)
[32] (Naqvi & Jus, 2019)
[33] (Atkins, 2020)

Environmental, Social, and Governance (ESG)

ESG investing is a term that is often used interchangeably with sustainable investing, socially responsible investing, mission-related investing, or screening.[34] ESG issues were first mentioned in the 2006 UN Principles for Responsible Investment (PRI) report. In PRI's first year, 63 investment companies signed on with $6.5 trillion in assets under management (AUM) incorporating ESG issues.[35] The initiative has grown dramatically, as of June 2021, there are 4,000 UN PRI signatories representing over $110 trillion in AUM.[36] In 2009, GRI shifted from its founding focus on sustainability to focusing on ESG issues and implementing the newer term.[37]

Shared Value

Shared value was first introduced in the 2000s as a replacement for CSR. In 2006, Porter and Kramer critiqued CSR for being too fragmented and disconnected from business and strategy, with business leaders focusing on the frictions between business and civil society.[38] Porter and Kramer introduced shared value to encourage firms to see the mutual dependencies of firms and society, such that firms take actions that provide value for both sides.[39] Otherwise, a firm's temporary gain at the expense of society will eventually undermine the long-term prosperity of both.[40]

With this concept of shared value, there is the concept of benefit (or "B") corporations that create value for non-shareholding stakeholders. Certified B Corporations are social enterprises verified by B Lab based on how they create value for non-shareholding stakeholders, such as their employees, the local community, and the environment. The first generation of B Corporations was certified in 2007.[41]

CSR

In July 2000, the United Nations Global Compact (UNGC), a pact made to adopt sustainable and socially responsible policies, was launched, gathering 44 global companies, 6 business associations, and 2 labor and 12 civil society organizations.[42] Between 2001 and 2004 the European Commission held several conferences on CSR which then led to CSR as a strategic element for the European Commission's Plan of the General Direction of Business.[43] In 2002, the International Organization for Standardization's (ISO) Committee on Consumer Policy created international certifications for CSR.[44] In 2008, Heslin and Ochoa analyzed 21 exemplary CSR practices and found that strategic CSR (SCSR) practices follow seven common principles: cultivate the needed talent, develop new markets, protect labor welfare, reduce the environmental footprint, profit from by-products, involve customers, and green the supply chain.[45]

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[34] (MSCI, 2022)
[35] (Atkins, 2020)
[36] (Segal, 2021)
[37] (Atkins, 2020)
[38] (Porter & Kramer, Strategy & Society, 2006)
[39] (Porter & Kramer, Strategy & Society, 2006)
[40] (Porter & Kramer, Strategy & Society, 2006)
[41] (Kim, Karlesky, Myers, & Schifeling, 2016)
[42] (Agudelo, Johannsdottir, & Davidsdottir, 2019)
[43] (Eberhard-Harribey, 2006)
[44] (Agudelo, Johannsdottir, & Davidsdottir, 2019)
[45] (Heslin & Ochoa, 2008)

Stakeholder Capitalism

In 2001, Freeman argued that corporations have a responsibility towards suppliers, consumers, employees, stockholders, and the local community and should be managed accordingly. [46] A. L. Friedman and Miles agreed that the relation between corporations and their stakeholders is dynamic and has different levels of influence on the firm.[47]

Following the financial crisis of 2007-2008, stakeholder or "inclusive" capitalism was brought up again to address flaws in current capitalist systems, assumptions, and institutions. Sachs et al. describe the role of the firm in addressing societal issues such as the 2008-2009 global financial crisis through stakeholder governance.[48]

2010s: Without new categories of thought, concepts present in the 2000s carry on

CSR

In 2015, CSR Europe, with 10,000 companies in its network, launched the Enterprise 2020 Manifesto with the purpose to set the direction of businesses in Europe and play a leading role in developing an inclusive sustainable economy.[49] In 2016, Chandler expands SCSR previous models to encompass five major components: 1) CSR's integration into the company's strategic planning process and culture; 2) understanding that all company actions are directly related to the core operations; 3) a stakeholder perspective is necessary; 4) mid- and long-term perspectives incorporating all key stakeholders is necessary; and 5) firms should try to optimize the value created.[50,51]

Pressure for firms to be socially responsible continued to trickle down from the UN to national governments to firms through policies and regulation. In 2015, the UN updated the Millennium Development Goals to 17 Sustainable Development Goals (SDGs). The SDGs cover a wide range of areas, from climate change to the eradication poverty and hunger, as well as the fostering of innovation and sustainable consumption. The SDGs are interconnected, so addressing one goal almost certainly involves tackling issues of another one.[52]

Stakeholder Capitalism

In 2013, conscious capitalism is introduced, which encompasses stakeholder capitalism. John Mackey, co-founder and co-CEO of Whole Foods, and Raj Sisodia, Bentley University marketing professor, coined the term "conscious capitalism" in their book *Conscious Capitalism: Liberating the Heroic Spirit of*

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[46] (Freeman R. , 2001)
[47] (Friedman & Miles, 2002)
[48] (Sybille Sachs, 2011)
[49] (CSR Europe, 2016)
[50] (Agudelo, Johannsdottir, & Davidsdottir, 2019)
[51] (Chandler, 2016)
[52] (UNDP, 2022)

Business. The four guiding principles are: higher purpose, stakeholder orientation, conscious leadership, and conscious (corporate) culture.[53,54]

ESG

The Sustainability Accounting Standards Board (SASB) began in 2011 to develop standards that display both sustainability and financial fundamentals. Jean Rogers, the creator of the framework, stated the goal was so "investors could compare performance on critical social and environmental issues, and capital could be directed to the most sustainable outcomes."[55] To help inform investors' decisions, SASB Standards identify the sustainability information that is financially material for the firm (material to understanding how an organization creates enterprise value).[56]

Based on a study of Russell 1000 firms publishing sustainability reports in 2020, the GRI (introduced in 1997) and SASB reporting standards are almost equally adopted, with 52% and 53% of firms using each standard respectively.[57] In 2021, another standard was introduced. The International Sustainability Standards Board (ISSB) was announced at the COP26 UN Climate Change Conference to develop global reporting standards.[58]

Shared Value

In 2011, Porter and Kramer continue to argue that businesses need to adopt the Creating Shared Value (CSV) framework instead of CSR. CSV is in reaction to the conventional narrow-viewed business strategies which generally don't consider the broad factors that influence their long-term success. Porter and Kramer argue that CSR is outdated and limited, and only came to be to improve a company's reputation. Porter and Kramer established three ways for creating shared value: by reconceiving products and markets, by redefining productivity in the value chain, and by creating supportive industry clusters where the company operates.[59]

How firms get engaged in purpose-driven activities

Why businesses become purpose-driven

Business initiative to be purpose-driven is influenced by a number of extrinsic factors (e.g., motives relating to financial outcomes, competitive advantage, pressure from employees and shareholders, increased government involvement) and intrinsic factors (ethical and philanthropic motives, altruistic motives). A 2019-2020 cross-sectional survey of 71 business representatives[60] involved in cross-sector social partnerships found that the top drivers for involvement were related to (1) having a positive impact on environmental and community sustainability, (2) building new relationships and networking, (3) increasing community engagement, (4) sharing their own experiences, and (4) improving firm

[53] (Conscious Capitalism, Inc, 2021)
[54] (Mackey & Sisodia, 2013)
[55] (Rogers, 2019)
[56] (SASB, 2022)
[57] (Governance & Accountability Institute, Inc, 2021)
[58] (IFRS, 2021)
[59] (Porter & Kramer, Creating shared value, 2011)
[60] (49% senior executives; 30% middle managers; and 11% junior staff, external advisors, and others)

reputation.[61] Firms that have both intrinsic and extrinsic motives to pick up a social cause may have deeper engagement strategies and correspondingly improved outcomes.[62]

Some studies have found that extrinsic factors were primary motivators for many firms. Particularly, larger firms may take external, economically oriented motives into greater consideration than smaller firms.[63] In a 2003 survey of 500 UK business directors, business directors stated that employees, external to leadership, (82%) and customers (81%) were important stakeholders in encouraging the organization to think about its social and environmental impacts.[64] In 2004, The Economist Intelligence Unit surveyed 136 executives on the main drivers of corporate responsibility's increased importance and found the top five drivers were greater shareholder focus on corporate responsibility (cited by 29% of respondents), greater pressure from regulators (29%), recent corporate scandals (29%), greater media focus on corporate responsibility (24%), and the opportunity to gain a competitive advantages (24%).[65] CSR activities may rise with firms' performance, as firms may have additional resources that allow them to engage in / spend more on CSR activities.[66]

In some cases, while extrinsic factors led, an intrinsic sense of responsibility was close behind. Results of a 2012 survey of 473 Dutch executives suggest that executives are motivated by financial (extrinsic), ethical (intrinsic), and altruistic (intrinsic) motives to take responsibility for the labor, environmental, and social aspects of their business. Bansal & Roth interviewed 53 firms in the UK and Japan on "why companies go green" and identified three motivations: (1) to be competitive, (2) to demonstrate legitimacy, and (3) a sense of ecological responsibility.[67]

In some cases, intrinsic motives lead. Firms in Africa that choose to incorporate goals of alleviating poverty into their business purpose typically have intrinsic motives rather than extrinsic ones[68] One study found that for both social and environmental aspects of CSR, intrinsic motives are stronger than the extrinsic.[69]

Minulla and Miles combine two theoretical frameworks for corporate social responsibility (Van Marrewijk and Carroll's) to illustrate corporate motives for CSR at ambition levels that increase from 1 to 5: [70]

Ambition level (5 being most ambitious)	**The firm's source of motivation:**

[61] (Ordonez-Ponce, Clarke, & MacDonald, 2021)
[62] (Lashitew & van Tulder, Why do firms choose to fight poverty? The motivation behind inclusive business practices in Africa, 2020)
[63] (Lashitew & van Tulder, Why do firms choose to fight poverty? The motivation behind inclusive business practices in Africa, 2020)
[64] (Joseph, 2003)
[65] (Economist Intelligence Unit, 2005)
[66] (Harrison Hong, 2012)
[67] (Bansal & Roth, 2000)
[68] (Lashitew & van Tulder, Why do firms choose to fight poverty? The motivation behind inclusive business practices in Africa, 2020)
[69] (Graafland & Mazereeuw-van der Duijn Schouten, 2012)
[70] (Munilla & Miles, 2005)

1: Compliance-driven CSR	Its legal duty to society, social obligation, and see it as the cost of doing business
2: Profit-driven CSR	Its economic incentives to gain competitive advantage
3: Caring CSR	Its ethical and philanthropic goals to balance the triple bottom line of profits, people, and planet
4: Synergistic CSR	Its economic, legal, ethical, and philanthropic values that support creating a sustainable corporation
5: Holistic CSR	Its economic, legal, ethical, and philanthropic values that believe establishing CSR as part of the corporate culture will benefit the firm, similar to when firms adopt a quality orientation

How businesses decide which societal challenges to engage in

There are few studies that look at *how* businesses decide which societal challenges to engage in. van Zanten and van Tulder surveyed 81 European and North American Financial Times Global 500 companies to understand how multinational enterprises decided on their engagement with the SDGs. They found that enterprises engaged more with SDG targets that are actionable within their value chain operations and more with targets that avoid harm vs do good.[71] While it's unclear whether firms use the following tool, Eden and Wagstaff propose an SDG materiality matrix, to determine which of the 17 UN SDGs matter to an enterprise's performance and strategy.[72] The matrix is based on quality of evidence for the target, salience of the target to the enterprise, actionability of the target by the enterprise, and ethicality of the target for the MNE.[73]

How systematic movements by financial institutions have influenced firm behavior, and how investors have changed their priorities

In 2011, Eccles et al. leveraged data from Bloomberg to demonstrate investors' interest in ESG data, specify differences in areas of interest by country and investor type, and predict a growing market interest in nonfinancial information.[74] The predication of a growth in interest has proven to be largely accurate. In 2020, sustainable funds netted double the 2019 total and nearly 10 times the 2018 total net flows.[75] The number of PRI investor signatories increased 26% and assets under management increased 17% from 2020 to 2021.[76] Canadian ESG assets under management grew 48% from 2017 to 2019.[77]

Presently, investors are seeking increased transparency and accountability with respect to firm ESG activity and firm impact on long-term shareholder value. Investors are increasingly holding corporations

[71] (van Zanten & van Tulder, 2018)
[72] (Eden & Wagstaff, 2021)
[73] (Eden & Wagstaff, 2021)
[74] (Eccles, Serafeim, & Krzus, 2011)
[75] Morning Star Global Sustainable Fund Flows Report
[76] https://dwtyzx6upklss.cloudfront.net/Uploads/y/o/i/pri_annualreport_2021_web_346706.pdf
[77] (2020 Canadian Responsible Investment Trends Report, 2020)

accountable of diversity and inclusion, responses to current events (i.e., COVID-19, political activity) and requesting executive compensation create accountability for executing on ESG commitments.[78]

Fears related to the performance of sustainable investments have fallen. According to a 2021 institutional investor survey, 38% of institutions had performance concerns, down from 48% in 2019 and 45% in 2020. At the same time, only 8% of investors surveyed said they did not believe in the benefits of sustainable investing, down from 23% of investors in 2018.[79] Likewise, many types of investors seem to exhibit higher "willingness to pay" (i.e., lower returns) on impact funds (compared to traditional VC funds) – a 2021 study shows that investors may accept 2.5-3/7% lower IRRs ex ante compared to traditional funds,[80] suggesting that financial performance isn't the determining factor for investment decisions.

Because of this increased engagement, large investors are well-positioned to act as "stewards of the commons" who drive individual firms to engage in good behavior such as pre-competitive[81] collaborations. Financial institutions have updated proxy voting policies with the aim of influencing board diversity[82] and other ESG policies.[83] Evidence suggests that firms are responsive to such engagement efforts from financial institutions. Firms' disclosures and lobbying efforts are found to be greater aligned with ESG issues highlighted in institutional mandates.[84] Coordinated activism among institutional investors has been found to increase firms' ESG and CSR engagement and performance.[85] [86] A 2021 study examining the impact of activist engagement on ESG performance found that firms successfully complying with activist ESG demands experienced improved ESG ratings and a boost in sales.[87] Shareholders demanding sustainable practices and long-term orientation has increased substantially.[88] [89] [90] [91] Likewise, financial institutions have reduced their exposure to firms that produce high carbon emissions over time, which result in a higher cost of capital for high-emissions firms, such that they are driven to innovate towards being greener.[92]

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[78] (Peter Reali, 2021)
[79] (Institutional Investor Study, 2021)
[80] (Barber, Morse, & Yasuda, 2021)
[81] (Serafeim G. , Investors as Stewards of the Commons?, 2018)
[82] (Goldman Sachs Asset Management Updates Its Proxy Voting Policies To Increase Ethnic And Gender Diversity Expectations For Public Company Boards, 2021)
[83] (Fink, The Power of Capitalism, 2022)
[84] (Andrea Pawliczek, 2021)
[85] (Elroy Dimson, Coordinated Engagements, 2018)
[86] (Tamas Barko, 2021)
[87] (Tamas Barko, 2021)
[88] (Flammer, Corporate social responsibility and shareholder reaction: The environmental awareness of investors, 2013)
[89] (Flammer, Does Corporate Social Responsbility Lead to Superior Financial Performance? A Regression Discontinuity Approach, 2015)
[90] (Flammer & Bansal, Does a long-term orientation create value? Evidence from a regression discontinuity, 2017)
[91] (Judith Walls, 2012)
[92] (Choi, Gao, Jiang, & Zhang, 2022)

Research has found that “activist” hedge funds that implement changes at target companies can increase the productivity of target firms, potentially by reallocating capital to more effective avenues while reducing employee hours (but maintaining stagnant wages), creating long-term changes.[93]

Some actions by large institutional investors have been less successful. In 2006, with large institutional investors, the United Nations introduced the Principles of Responsible Investment (PRI). Later, a study that compared firms in funds that did and did not sign the PRI between 2013-2017 found that the ESG scores of firms in funds that signed the PRI did not improve after signing, and PRI funds’ financial returns were lower than funds that did not sign.[94] This evidence along with other research has indicated that the UN’s PRI is not successful at integrating ESG considerations into all signatory’s investment decisions.[95]

How movements by the government impact business involvement in purpose-driven initiatives

Government attempts to guide firms through ESG regulation is increasing. In 2020, 48 national governments (including China, Canada, France, Germany, the US, and the UAE) plus the EU introduced 151 new regulations (i.e., laws, guidelines, suggested standards, etc.) for issuers and investors regarding ESG issues, primarily to meet the challenges of the climate crisis and enhance transparency around corporate governance.[96] 151 new regulations in 2020, is up from 103 in 2019, 53 in 2018, and 32 in 2010.[97] But how impactful is regulation? The following section presents research that has found government regulations effective at forcing some businesses to “clean up their act” and even innovate proactively in anticipation of impending regulations.

The Environmental Protection Agency (EPA), Consumer Product Safety Commission (CPSC), the Equal Employment Opportunity Commission (EEOC), and the Occupational Safety and Health Administration (OSHA) were created in the 1970s in large part to address and regulate businesses and their societal impact.[98] A 2013 study found a positive influence between greater regulatory and normative pressures and a company’s likelihood of innovating to address environmental issues.[99]

Regulation can drive investment and innovation into purpose-driven problem-solving. For example, the 1970 U.S. Clean Air Act forced automakers to adopt two important new technologies to meet the new emission standards. Gerard and Lave’s research identifies the following three factors that were critical to the government’s regulation successfully driving the adoption of new technology by businesses: agency credibility to enforce standards, competitive pressure to drive industry R&D, and uncertainty about technological development.[100] Additionally, research finds that multinational companies that have “high exposure” to more stringent international environmental regulations tend to produce more green patent applications.[101] Regulation can also force firms to improve the reliability of their information and update

[93] (Brav, Jiang, & Kim, 2015)
[94] (Ranja Gibson, 2021)
[95] (Sakis Kotsantonis, 2016)
[96] (MSCI, 2022)
[97] (MSCI, 2022)
[98] (Carroll A. , 2015)
[99] (Pascual Berrone, 2013)
[100] (David Gerard, 2005)
[101] (Kim, Pantzalis, & Zhang, 2021)

internal procedures and governance, specifically when the regulation is regarding disclosure of non-financial information.[102]

Recent regulation will further test the government's ability to influence firms effectively. In March 2022, the U.S. Securities and Exchange Commission (SEC) proposed rule changes that would require SEC-registered firms to make climate-related disclosures in materials prepared for investors.[103] These disclosures would include information on climate-related risks and climate-related financial statement metrics.[104] This proposal has been called a notable landmark in accelerating the amount and quality of climate disclosures by firms.[105]

As an alternative to regulation, Walls explores how judicial action can be a potential strategy to address the wicked problem of climate change. Walls cites a 2015 case, filed in The Hague District Court by an environmental non-profit on behalf of 886 Dutch citizens, which ruled that the Dutch government's stance on climate change was illegal and ordered the government to cut greenhouse gas emissions by at least 25% by 2020, relative to 1990 levels.[106] This decision went through appeals and was ultimately held up in Dec. 2019 by the Netherland's Supreme Court.[107] One immediate impact of the court ruling was that, in March 2019, the Dutch government closed a coal-fired power plant four years early.[108] The case has also had the impact of accelerating climate change litigation around the world, led by NGOs.[109]

How big social movements impact the role that businesses take in purpose-driven initiatives

There is some evidence that businesses respond to long-term social movements – ones that seem to have "staying power" – but short-term firm responses to such social movements are historically uneven and can range from reputation-management to active retaliation against those involved.

Firms respond to social movements (particularly when specifically called out in the form of protest, boycott, or legal action) in several ways, including symbolically to manage their image and reputation, increasing donations to philanthropic causes, conceding to activist demands (or changing behavior), doing nothing at all, or even worse, retaliating against activists.110 Social norms also impact the behavior of large institutional investors, which results in those firms facing additional pressure to engage in positive societal initiatives. While "sin stocks" – those for companies involved in alcohol, tobacco, gambling, etc. – have higher returns, they have less institutional ownership and analyst coverage than comparable stocks, suggesting that social norms can impact the willingness of large institutional investors.111

[102] (Selena Aureli, 2020)
[103] (SEC, 2022)
[104] (SEC, 2022)
[105] (Cifrino & Hollinger, 2022)
[106] (Walls, 2018)
[107] (Urgenda Foundation v. State of the Netherlands, n.d.)
[108] (Bart Meijer, 2019)
[109] (Lopik, 2021)
[110] (Soule, 2018)
[111] (Hong & Kacperczyk, 2009)

Georgallis' 2016 paper identifies and explains three mechanisms through which social movements drive businesses to engage in social initiatives. The three mechanisms are: (1) influencing key stakeholders' expectations and demands for firms' social responsibility, (2) using conflict or collaboration to shape firms' reputation and legitimacy therefore modifying the costs and benefits of a firm engaging in social issues, and (3) triggering employees' values which affects managerial cognition.[112] These three mechanisms can be viewed as occurring at the ecosystem ("field-level" in the paper), firm, and individual level respectively.

Externally, media attention may influence firms to engage with CSR. Borghesi et al (2014) find a positive correlation between the level of media scrutiny surrounding firms and firms' CEO and the level of CSR investment.[113] Likewise, a 2020 study finds that increased public attention is associated with increased female board representation, especially in firms that, even before the public attention, prioritized gender equality in their culture.[114]

Internally, perceived competitive advantage in terms of long-term profitability can help actions based on social movements gain more traction at a firm.[115] Firms may also act based on social movements depending on how politically active they are. A 2019 study found that for S&P 500 firms, firms that are less politically active are more likely to agree with proposals from socially oriented shareholders and social activists.[116] Politically active firms can use their political activity to buffer or deflect activism and support the corporate status quo. In this study corporate political activity includes both financial and relational activities, and activism is focused on social and environmental firm practices.

The nature of firms' purpose-driven activities

The "types" of involvement that businesses can engage in

Multiple academics propose maturity models / typologies of business involvement in purpose-driven activities; a common thread in these typologies is to highly rate involvement that is perceived as "transformative" (i.e., the development of new products and new business models to support purpose-driven business growth) compared to "operational" or "compliance-driven."

For example, Henderson suggests there are three particularly promising business models: 1) forestalling risk (preventing brand damage/preserving the license to operate), 2) increasing operational efficiency, and 3) selling to the environmental niche.[117] Similarly, according to Serafeim (2020), companies evolve through three stages before achieving sustainable innovation: 1) compliance, 2) operational effectiveness, and 3) growth and innovation.[118]

With a slightly different approach, Ioannou and Serafeim (2019) differentiate between common vs. unique sustainability actions. Common actions are those that the industry has converged upon whereas unique have a high degree of novelty in their industry. Actions are classified based on three variables: 1) low

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[112] (Georgallis, 2017)
[113] (Richard Borghesi, 2014)
[114] (Mariassunta Giannetti, Forthcoming)
[115] (Bansal & Roth, 2000)
[116] (Michael Hadani, 2019)
[117] (Henderson, Making the Business Case for Environmental Sustainability, 2015)
[118] (Serafeim G. , 2020)

market uncertainty, 2) low regulatory uncertainty, and 3) high practice novelty to determine whether the actions are common or unique. Unique sustainability actions are significantly and positively associated with both accounting measures of performance and market valuations.[119]

Alex Edmans suggests that truly responsible businesses eschew a “pie-splitting mentality” in favor of a “pie-growing approach” in which a company’s primary objective is social value, with profits “coming along” as a byproduct of successfully creating positive societal value.[120] Edmans redefines “trustworthy businesses” as those who use their expertise and resources to address societal challenge and contrasts businesses that treat CSR as an “ancillary” function, using their profits to “make up for” the harm that they create to society, with those who embed social good into their core business. Per Edmans, mature businesses must also actively work to ensure that outcomes are Pareto-optimal – that is, no stakeholders are harmed in the making of the social good – or at least, decisions about trade-offs are guided by the business’ social purpose rather than financial optimization.

While many of these frameworks focus with in the firm, firms may also participate in “pre-competitive collaborations,” i.e., companies coming together to develop standards, generate data, create knowledge, and/or fuel product development around a specific ESG area.

However, these academic typologies typically focus solely on the impact the firm can generate as a single entity (potentially discounting, for example, the impact that operational efficiencies can have when perpetuated throughout a full business ecosystem), and fail to incorporate findings that show that, when “dirty” businesses are forced to innovate to be compliant with new government regulations, they develop high volumes of high-quality product innovations in response. This purely intra-firm model may therefore require an “intersectional” / ecosystem-driven lens to truly ensure it captures the transformative potential of different business activities.

How do businesses determine their “type” of involvement?

Stakeholder pressure is agreed upon to be often underlying firms’ determination of their type of involvement. Additionally, institutional pressure and expected business outcomes will also play a role at determining how firms get involved with purpose-driven activities.

One study identified two forms of involvement a firm might exhibit: alignment to a (1) symbolic or (2) substantive self-regulatory code.[121] In this case, they determined the UN Global Compact to be a symbolic regulatory code and the Global Reporting Initiative to be a substantive self-regulatory code.[122] Their analysis found that the type of stakeholder pressure and the availability of resources for response were the two key variables in determining the type of involvement a firm took on.[123] In aggregate, stakeholder pressure was associated with substantive involvement, but for three out of eight dimensions

[119] (Ioannou & Serafeim, 2019)
[120] (Edmans, Grow the Pie: How Great Companies Deliver Both Purpose and Profit, 2020)
[121] (Perez-Batres, Doh, Miller, & Pisani, 2012)
[122] (Perez-Batres, Doh, Miller, & Pisani, 2012)
[123] (Perez-Batres, Doh, Miller, & Pisani, 2012)

of stakeholder pressure, the association was to symbolic involvement.[124] There was a positive association between resource discretion and substantive action.[125]

Another study found that differing CSR strategies (obstructionist, defensive, accommodative, and proactive) are a result of both institutional and stakeholder pressures.[126] Institutions primarily shape the incentive structure that is associated with different CSR strategies and stakeholder pressure will either amplify or buffer the institutional pressure.[127] Lastly, Clementino and Perkins find that firms in Italy respond to ESG ratings in one of four ways: passive conformity, passive resistance, active conformity, or active resistance to ESG rating agencies' guidelines.[128] These response types varied based on (a) the firm's understanding of how stakeholders, primarily investors, would respond to a better ESG score, and (b) the firm's belief that changes made as a response to ratings would contribute to business outcomes.[129] The primary motivation for passive conformity was to attract investors, while the motivations for active conformity was to attract investors and to engage in activities that were most strategic for business outcomes.[130]

What "success" looks like for purpose-driven activities

How do we define or measure the "success" of business approaches to purpose-driven activities?
Academics have not yet aligned on the appropriate metrics to understand the success of a business's approach to purpose-driven initiatives; many elide the issue by either leveraging data from external weighting agencies, which can be highly variable between agencies and may not be reliable; or simply relying on announcements of activity as a proxy. This is in large part because different businesses often choose to take on different aspects of societal challenges in a way that makes them difficult to compare. In addition, scores provided by rating agencies primarily reflect inputs to ESG initiatives rather than the outcomes or impact of the investment. While some academics have offered generalizable frameworks for measuring success or impact of business's approach to purpose-driven initiatives, their application remains limited.

ESG ratings vary considerably across rating agencies and are often considered not a reliable definition of success. The multidimensionality of sustainability performance and absence of standards on what constitutes success can also give rise to inconsistent measurement, leading to ESG scores that vary greatly.[131] [132] Ratings may also be subjective in some cases, as a rater's overall view of a firm can influence the measurement of certain categories.[133]

[124] (Perez-Batres, Doh, Miller, & Pisani, 2012)
[125] (Perez-Batres, Doh, Miller, & Pisani, 2012)
[126] (Lee M. , 2011)
[127] (Lee M. , 2011)
[128] (Clementino & Perkins, 2021)
[129] (Clementino & Perkins, 2021)
[130] (Clementino & Perkins, 2021)
[131] (Florian Berg, 2019)
[132] (Christensen, Serafeim, & Sikochi, 2022)
[133] (Florian Berg, 2019)

Standards for measuring organizations' social impact are underdeveloped.[134] Rawhouser et al. (2019) reviewed 71 papers that offered measurement frameworks and found issues along the lines of multisector approaches being limited by data quality/availability, single sector measurements facing the downside of generalizability, lack of alignment on measuring social impact activities or outcomes, and lack of agreement on the definition of social impact.[135]

Serafeim et al. (2020) find that most ESG performance scores primarily reflect inputs into a process rather than outcomes. In other words, measures represent efforts of investments rather than the outcome itself. This presents challenges in connecting inputs to outcomes, especially with a likely time lag between the input and outcome, raising doubts about the usefulness of the measures. Further, it is easier to adopt a policy rather than demonstrate an outcome, which has led to competitors imitating each other in terms of setting similar targets and policies but not improving outcomes.[136] Likewise, Bouman et al. (2013) reviewed the literature and concluded that most studies reviewed the effect of partnerships for social purpose on outputs, not on outcomes or impact.[137] As partnerships are frequently discussed as solutions (or at least, part of the solution) to societal challenges, it reiterates the difficulty in attributing concrete outcomes to specific interventions, particularly with the long and variable timescale inherent in purpose-driven problem solving.

As ESG scores are unreliable indicators of performance, there have been several attempts at developing frameworks for measuring the success of businesses engaging with societal challenges without solely relying on ESG scores. Edmans (2020) uses employee satisfaction scores as a measure of "social good" and future stock returns as a measure of successful financial performance[138] Porter and Kramer adopt a shared value approach, arguing that generating economic value in a way that simultaneously drives social/environmental value constitutes a successful approach to value creation.[139]

van Tulder et al. (2016) developed an "impact value chain" to monitor and evaluate cross-sector partnerships that aim to solve economic, social, and environmental problems through collaboration and providing social goods.[140] The impact value chain consists of six elements total that are divided between a process or "internal" phase and a result or "external" phase.[141] The process phase includes four elements: 1) establishing the mission, 2) identifying the resources and capabilities that will be inputs, 3) executing activities and implementing structure through which the inputs are leveraged, and 4) gathering the output which are results that can be measured and assessed directly (e.g., profits, members, legitimacy, exposure, etc.).[142] After the process phase, the result phase contains two elements: 1) assessing outcomes (e.g., benefits or changes for individuals, communities, or society), and 2) assessing

[134] (Rawhouser, Cummings, & Newbert, 2019)
[135] (Rawhouser, Cummings, & Newbert, 2019)
[136] (Grewal & Serafeim, 2020)
[137] (Bouman, Friperson, Gielen, & Wilms, 2013)
[138] (Edmans, Grow the Pie: How Great Companies Deliver Both Purpose and Profit, 2020)
[139] (Porter & Kramer, Creating shared value, 2011)
[140] (van Tulder, Seitanidi, Crane, & Brammer, 2016)
[141] (van Tulder, Seitanidi, Crane, & Brammer, 2016)
[142] (van Tulder, Seitanidi, Crane, & Brammer, 2016)

impacts, i.e., ultimate changes positive and negative, intended or unintended.[143] This approach is useful for teasing out steps that often get lumped together. Especially at the end of the value chain, it is helpful to recognize the difference between (a) outputs that occur internally and are able to be directly measured, versus (b) outcomes that occur externally and are harder to measure, and (c) impacts that also occurs externally and are not only hard to measure but also can take a while to observe.

Elements of organizational approaches

Although the difficulty in defining success can make it challenging to identify common elements in successful approaches, there are some trends in the approaches the approaches that organizations take while addressing purpose-driven challenges. Organizations that integrate social and environmental policies into their business model and adopt a long-term orientation approach tend to be more successful in addressing social and environmental issues.[144] [145] Setting an ambitious target is also an element of a successful approach, as ambitious targets are more likely to be met than modest or realistic ones.[146]

Serafeim has offered frameworks for successful approaches to tackling purpose-driven initiatives. According to Serafeim, in order to find and execute on worthwhile and sustainable ESG innovations, firms must adopt a five-pronged approach[147]: 1) Find and adopt the most strategic (and forward-looking) ESG practices; 2) Create good ESG goals and accountability structures, including metrics and financial incentives; 3) Ensure accountability starts at the "highest levels of the organization"(e.g., potential board involvement, linking executive pay to outcomes) supported from the bottom up by a culture around corporate purpose; 4) Make "the right" operational changes: Firms typically need to centralize to move from "compliance" to "efficiency" stage and then decentralize to progress to "growth and innovation." This requires ultimately "designing for trust" (but book does not say how); and 5) Communicate effectively to investors and the world.

Serafeim also lays out four "pillars" of sustainable behavior: outcomes-based incentives, education of the next generation of leaders, a government-maintained information environment, and continual transparency through analysts (firms must not only set goals but also measure how their outcomes measure up against them and be willing to adapt their behavior to enable meeting those goals).[148]

Serafeim et al (2018) identify three principles for creating successful strategies that drive inclusive, sustainable, and profit-generating ecosystems.[149] First, companies should search for systemic, multisector opportunities that benefit not only themselves but also others. Second, companies need collaborative partnerships across sectors. Third, seed and scale-up financing from organizations with an

[143] (van Tulder, Seitanidi, Crane, & Brammer, 2016)
[144] (Eccles, Ioannou, & Serafeim, 2014)
[145] (Flammer & Bansal, Does a long-term orientation create value? Evidence from a regression discontinuity, 2017)
[146] (Freiberg, Grewal, & Serafeim, 2021)
[147] (Serafeim G. , 2020)
[148] (Grewal & Serafeim, 2020)
[149] (Robert Kaplan, 2018)

aligned mission will better support the firm than financing from organizations under pressure to generate short-term financial returns and minimize risk.[150]

Edmans suggests that leaders should consider three principles, described in Table 1, to understand whether decisions will both “grow the pie” and grow profits simultaneously: multiplication, comparative advantage, and materiality.[151]

Table 1: Success Principles for Growing the Pie

Principle	Satisfied if?	Implication
Multiplication	Social benefit > private cost	Activity delivers net social value – it is more cost-effective for the business to take this action than to just pay the cost to the stakeholder who would benefit
Comparative Advantage	Social benefit > social cost	Activity creates value – this firm can have a bigger impact on the issue than other firms – the “stay in your lane” idea that’s reflected in Serafeim’s idea of materiality (and our 2 by 2) – and is typically based on either direct control of an activity or expertise
Materiality[152]	Social benefit > Social cost AND activity benefits material stakeholders	Activity creates profits through creating value – activity can either create profits for material business stakeholders (investors, employees, suppliers) and/or via intrinsic materiality – stakeholders the business cares about as a matter of principle, as decided by a combination of investors, leaders, and employees

Elements of unsuccessful approaches

Organizations that do not integrate ESG or purpose into their business models tend to perform worse with respect to environmental and social issues. Gulati (2022) differentiates between deep purpose and “purpose-as-win-win-only” practices of companies. The latter focuses only on those opportunities to maximize both profit and social good, thereby avoiding tough tradeoffs. When push comes to shove,

[150] (Robert Kaplan, 2018)
[151] (Edmans, Grow the Pie: How Great Companies Deliver Both Purpose and Profit, 2020)
[152] Note Edmans’ definition of materiality differs from that proposed by Serafeim – where Serafeim focuses on the ability of the action to generate value or innovation for the firm in question, Edmans defines materiality based on the stakeholders being impacted

these companies usually choose to maximize shareholder value over social value and pursue social value projects only when the economic payoffs are clear.[153]

Simply donating to charity is not enough, and the market is especially concerned with "improper" donations. When companies announce donations to charities where their directors act as insiders, their stock price drops by 0.87% (potentially due to a concern that directors who drive money towards their own philanthropic interests may otherwise be behaving in ways that further their goals rather than those of the firm).[154] Corporate donations to charities that are affiliated with the firm's independent directors (i.e., external board members) may be used to incentivize lax monitoring of firm performance and fundamentals, with CEO compensation being 9.4% higher, on average, at firms that donate to organizations affiliated with their directorship.[155]

In addition, approaches that fail to consider the full complexity of an issue are likely to fail. McMillan and Overall (2016) review existing decision-making models of organizational theory and critique existing models within the context of societal challenges. The authors find that existing decision-making models are characterized by an underlying assumption of reasonable stability, focusing on problems that are known and understood and can be addressed using conventional tools of linear analysis. The authors argue that existing strategic management and decision-making models cannot address such complex problems.[156]

A systematic review of "Base of Pyramid" (BOP) approaches – those that emphasize the ability of large multinational corporations to serve the poor by simply developing products and services that target their needs – finds that most of these approaches either fail to generate profits effectively or to alleviate poverty in their target markets. BOP approaches are too simplistic of a solution to account for the complexity of a purpose-driven initiative. Evolutions of the BOP approach expand the focus to sustainable development and enabling innovation ecosystems (rather than simply developing individual innovations) but have not been empirically studied or proven to be successful.[157]

Firm purpose through the lens of wicked problems

What is a wicked problem?

The term wicked problem was first used in the context of urban planning and policy in 1973. Since then, many researchers have expanded upon the definition of wicked problems and applied the problem framework to several policy and social science issues, most notably in environmental policy. The term "wicked problem" is used to describe problems like climate change, food insecurity, global access to equitable and quality education, etc. While the term "wicked problem" has inspired research in many fields, the term has created confusion, as it lacks analytical precision and has been used in many different

[153] (Gulati, Deep Purpose: The Heart and Soul of High-Performance Companies, 2022)
[154] (Masulis & Reza, 2015)
[155] (Cai, Xu, & Yang, 2021)
[156] (McMillan & Overall, 2016)
[157] (Dembek, Sivasubramaniam, & Chmielewski, 2020)

ways. Academics recently have focused on developing a more precise understanding of what constitutes a wicked problem.

The term has been used less frequently in business literature. One significant article comes from Camillus in 2008 when he wrote “Strategy as a Wicked Problem,” published in HBR. Camillus emphasizes that, inherent in the definition of wicked problems, success is hard to measure as you never “solve” wicked problems, rather one can address, ameliorate, or mitigate them. Several leadership approaches have been proposed to address wicked problems which usually describe the importance of partnerships, collaboration, test-and-measure, and “clumsy approaches” which allow for flexibility in execution.

Origins of the term ‘wicked problem’

Horst Rittel, a design planner at UC Berkeley in the Architecture department, first discussed the idea of wicked problems in a 1967 seminar when he used the term to describe a class of ill-formulated social system problems, characterized by confusing information, numerous clients and decision-makers with conflicting values, and solutions that result in unintended ramifications.[158]

The term “wicked problem”, later formally coined by design theorists Horst Rittel and Melvin Webber in 1973, was initially used in the context of urban planning and policy to describe the complexities of addressing planning and social policy problems. They argue that wicked problems are those that cannot be definitively described, lack an objective definition of equity, and lack optimal solutions in terms of definitive and objective answers.[159]

Rittel and Webber described 10 characteristics of wicked problems, which continue to be cited heavily in literature today:[160]

1. There is no definitive formulation of a wicked problem
2. Wicked problems have no stopping rule
3. Solutions to wicked problems are not true-or-false, but good-or-bad
4. There is no immediate and no ultimate test of a solution to a wicked problem
5. Every solution to a wicked problem is a ‘one-shot operation’; because there is no opportunity to learn by trial-and-error, every attempt counts significantly
6. Wicked problems do not have an enumerable (or exhaustively desirable) set of potential solutions, nor is there a well-described set of permissible operations that may be incorporated into the plan
7. Every wicked problem is essentially unique
8. Every wicked problem can be considered to be a symptom of another problem
9. The existence of a discrepancy representing a wicked problem can be explained in numerous ways. The choice of explanation determines the nature of the problem’s resolution
10. The planner has no right to be wrong

[158] (Churchman, 1967)
[159] (Rittel & Webber, 1973)
[160] (Rittel & Webber, 1973)

Since 1973, the use of the term 'wicked' problems increased substantially, particularly throughout the 1990s and 2000s. In 2010, there were as many citations of Rittel and Webber's paper in one year as there had been across the entire decade of the 1990s.[161]

However, many academics critique the use of the term 'wicked problem,' arguing that it lacks analytical precision and is used as a buzzword to describe any problem that is complex and challenging to solve.[162] [163] [164] [165] [166] Recent research has focused on developing a more precise understanding of what constitutes a wicked problem. Academics today tend to align on three wicked problem dimensions: stakeholder conflict, complexity, and uncertainty.

Wicked problems in policy and social science literature

Social science and policy academics have focused on developing a more analytically precise definition of the term wicked problems. Broadly, academics agree that problem wickedness is a matter of degree (rather than a dichotomy as originally proposed by Rittel and Horst) often suggesting that wickedness exists across three main dimensions: conflict (intergroup/stakeholder conflict), complexity (many variables that are interconnected), and uncertainty (low knowability).

The majority of policy research citing using the term wicked problems is within the field of environmental policy, as environmental problems are considered to be classic examples of wicked problems.[167] McBeth et al. argue that environmental problems are wicked due to a lack of policy solutions, and the lack of policy solutions is a result of the wicked nature of the problem, which they describe as involving multiple, competing interests, high levels of uncertainty, and proposed solutions that fail to resolve or may even intensify policy conflict.[168]

More recent research has conceptualized wickedness as a matter of degree. Alford and Head (2017) argue that complex problems vary in the extent of their wickedness. The authors breakdown complex problems into two dimensions – the problem itself and the stakeholders involved – and identify factors for each that, when present, contribute to a problem's wickedness. Three factors concerning the problem itself contributes to the problem wickedness: 1) the inherently complexity, where the problem involves many contradictions and dilemmas and problem remedies cause other problems; 2) the problem is unclear, having hidden or disguised information and intangible phenomena, and 3), the solution is unclear, involving multiple variables and requiring iterative discovery. The second dimension concerns the stakeholders involved, where 1) knowledge among stakeholders is fragmented, and the framing of

[161] (Crowley & Head, 2017)
[162] (Head & Alford, 2013)
[163] (Peters, 2017)
[164] (Turnbull & Hoppe, 2019)
[165] (Kirschke, Franke, Newig, & Borchardt, 2019)
[166] (Alford & Head, 2017)
[167] (Crowley & Head, 2017)
[168] (Mark K. McBeth, 2004)

knowledge distorts the understanding of the problem; 2) stakeholders have conflicting interests; and 3) power is not distributed evenly among stakeholders.[169]

Kirschke, Franke, Newig, and Borchardt (2019) also consider problem wickedness varies across dimensions. Their research empirically evaluated water-related problems in Germany across five dimensions: number and heterogeneity of goals, number of variables, variable dynamics, interconnections between the variables, and informational uncertainty. Based on factor analysis, they found that the dimensions could be reduced to three underlying factors: system complexity, goal conflict, and informational uncertainty.[170]

These themes of conflict, complexity, and uncertainty are mirrored in several papers. Bannink and Trommel (2019) argue that a conflict on the normative dimension, combined with complexity on the factual dimension, leads to problems that are wicked. Any normatively preferred solution that an actor may propose involves its own factually "correct" justification; however, the justification brings forth dispute from other actors. Many actors put forth conflicting truth claims and preferences. The dispute is possible because of the factual uncertainty of the issue.[171] Although Termeer et al (2019) take on a highly critical view of the term wicked problem, even suggesting that the field of policy reject the term altogether, they propose a path forward that involves analyzing problems across three dimensions: conflict, complexity, and uncertainty.[172]

Wicked problems as defined in economic literature

The term wicked problems in economic literature is most often used in the context of economic policy and is associated with complexity economics. Most economic literature draws from policy literature in describing wicked problems and focuses on applications of economic theory in addressing such problems (see next sections).

Conventional economic theory viewed agents in the economy as rational decision makers, facing well-defined problems and arriving at optimal behavior in equilibrium with the outcome their behavior creates. Starting in the 1990s, economists began to explore the economy as a complex, evolving system. Complexity economics materialized from this exploration, which assumes that agents differ, have imperfect information about other agents, and are constantly exploring, reacting, and changing their actions in response to the outcome they create.[173]

Batie (2008) argues normal science assumptions and approaches as inadequate for addressing wicked problems, and instead argues that applications of post-normal science and complexity economics should inform policies designed to address wicked problems. He summarizes the main elements of a wicked problem as 1) lack of a common definition of the problem, 2) differing stakeholder opinions about the

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[169] (Alford & Head, 2017)
[170] (Kirschke, Franke, Newig, & Borchardt, 2019)
[171] (Bannink & Trommel, 2019)
[172] (Termeer, Dewulf, & Biesbroek, A critical assessment of the wicked problem concept: relevance and usefulness for policy science and practice, 2019)
[173] (Arthur, 2021)

problem and causes, 3) lack of "stopping rule" aka no definitive solution, and 4) the problem's nature is highly uncertain in regard to system components and outcomes.[174] Van Bueren et al. (2003) add a network perspective for explaining agent behavior, arguing that institutional barriers, cognitive differences, and interaction dynamics impede collective action and contribute to problem wickedness.[175]

Wicked problems as defined in the field of ethics

Bauman explains that entanglement, multiple causality, and multiple time scales are key elements of wicked problems.[176]

Wicked problems as defined in the field of technology/engineering

There exists a long theory of computational complexity between computer science and mathematical theory.[177] One foundational concept is the ability to measure complexity based on the computational resources required, which are understood to be some amount of time and space.[178] From this measurement of complexity by the time and space required to compute comes a strict hierarchy for problems. At the base is the difference between class P and NP problems. Class P problems have solutions that are easy to find, while class NP problems have solutions that are so hard to find that it requires an impossibly long time to solve directly, but it is easy to check if something is the solution.[179]

Looking at engineering design theory, Farrell and Hooker (2013) argue that Rittel and Webber's 10 wicked problem characteristics can be summarized to three dimensions, common to both design and science: 1) agent finitude, 2) system complexity, and 3) problem normativity.[180]

Wicked problems as defined in business literature

References to wicked problems in business literature became more prevalent starting in the late 2000s and throughout the 2010s. In 2008, John Camillus, a professor at the Katz Graduate School of Business, explained how executives can tell if they're dealing with a wicked strategy problem. In a 15-year study involving 22 companies, he identified five key criteria for determining whether a problem is wicked: 1) the problem involves numerous stakeholders with conflicting priorities; 2) the roots of the problem are tangled; 3) the problem changes with every attempt at addressing it; 4) the problem is novel or one that the executive has never before encountered; and 5) there is no way to evaluate whether a remedy will work.[181]

In the 2010s, an increasing number of studies examining the role of business in tackling wicked problems and theoretical management frameworks were published. Reinecke and Ansari (2015) argued that businesses are increasingly responsible for taming wicked problems as a result of shifting boundaries

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[174] (Batie, 2008)
[175] (Van Bueren, Klijn, & Koppenjan, 2003)
[176] (Bauman, 2017)
[177] (Fortnow, 2004)
[178] (Hartmanis & Stearns, 1965)
[179] (Goldreich, 2010)
[180] (Farrell & Hooker, 2013)
[181] (Camillus, Strategy as a Wicked Problem, 2008)

between public and private responsibilities.[182] Camillus (2016) further described three mega-forces that interact to produce wicked problems in the business environment: the inescapability of globalization, the requirement of innovation, and the importance of shared value.[183]

A wicked problem definition based on common themes across the literature

We find that the literature converges on wicked problems being defined by three core dimensions: conflict, complexity, and uncertainty. Wicked problems are characterized by high conflict among stakeholders with multiple perspectives beliefs, interests, goals, etc.; [184] high complexity as a result of multi-causal and multi-dimensional, interconnected variables; [185] and high uncertainty where the information required for problem solving is missing or unknown.[186] Identifying that wicked problems are high across three dimensions also reflects that the concept of wickedness is a matter of degree.

Common purpose-driven firm initiatives are aimed at tackling wicked problems

While there is variety in the goals of purpose-driven firms, there are some common challenges that firms strive to address to give themselves purpose beyond serving shareholders. Common challenges purpose-drive firms try to address are climate change[187,188], food insecurity[189], poverty[190], and other UN SDGs.[191]

While the UN SDGs have been identified as wicked problems,[192] climate change, food insecurity, etc. have also individually been identified as wicked problems. For example, in his paper on what should be included in successful climate change legislation, Richard Lazarus explains how trying to address climate change is a wicked problem.[193] Candel et al. identify food insecurity as a wicked problem in their research on the European Commission's ability to cope with wicked problems.[194] In another case, Childs and Lofton focus specifically on the wicked problem of absenteeism within education inequality.[195]

Business problems as wicked problems

While most canonically explored wicked problems are broad, societal challenges, we can see similar characteristics and structures in business problems today. Some business problems can be also wicked

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[182] (Reinecke & Ansari, 2015)
[183] (Camillus, The wicked challenge of the business environment, 2016)
[184] (Alford & Head, 2017), (Kirschke, Franke, Newig, & Borchardt, 2019), (Bannink & Trommel, 2019), (Termeer & Dewulf, A small wins framework to overcome the evaluation paradox of governing wicked problems, 2019)
[185] (Kirschke, Franke, Newig, & Borchardt, 2019), (Termeer & Dewulf, A small wins framework to overcome the evaluation paradox of governing wicked problems, 2019)
[186] (Termeer & Dewulf, A small wins framework to overcome the evaluation paradox of governing wicked problems, 2019), (Peters, 2017), (Bannink & Trommel, 2019)
[187] (Jennifer Howard-Grenville, 2014)
[188] (Pollitt, 2015)
[189] (Ralph Hamann, 2011)
[190] (Gerard George A. M., 2012)
[191] (Gerard George J. H.-G., 2016)
[192] (Eden & Wagstaff, 2021)
[193] (Lazarus, 2009)
[194] (Candel, Breeman, & Termeer, 2015)
[195] (Childs & Lofton, 2021)

problems. The globalization and innovation made possible by technology in recent years has led to a more interconnected world where business decisions have larger impacts and externalities which can lead to business problems having more traits of a wicked problem.[196]

One helpful illustration of this is comparing the problem Walmart faces in trying to grow its business in the 2000s versus when it was just one store in 1962 or 24 stores in Arkansas in 1967.[197] In the 2000s, to grow Walmart had to navigate many stakeholders with different values and priorities, some of its prior strengths becoming new weaknesses, different potential solutions posing threats to other objectives, etc. – making growth a wicked problem.[198] In contrast, Walmart did not face all those dynamics in the 1960s and so growth was only a business problem not a wicked problem.[199] Other examples of business problems being wicked problems from the literature are PPG trying to diversify into new industries and countries,[200] and Tavistock Group trying to transform 7,000 undeveloped acres into a sustainable city centered around a healthcare innovation hub.[201] All these business problems that can also be considered wicked problems involve stakeholders with different perspectives and incentives, changing and sometimes contradictory requirements, and traditional approaches such as breaking down the issue or gathering more data can't resolve the problem.

Business problems that are considered wicked problems stand in contrast to business problems that are less wicked, or closer to "tame" on the spectrum. A few examples of tame business problems are "discovering a vaccine for smallpox, analyzing the chemical components of air pollution, and lowering the prime interest rate."[202] While each of these problems are analytically complex, they lack core elements of the wicked problem definition: they can often be solved in relative isolation from other problems (not multi-causal or entangled), and there is often consensus on why these problems needs to be solved (reduced levels of conflict).[203] Thus, for these complex but not wicked problems, common analytical methods and problem-solving approaches can be applied to increasingly reduce uncertainty and make progress.[204]

Approaches firms can use to tackle wicked problems

There is an extensive literature on the solving of complex problems, both specifically for wicked problems and more broadly from complex policy problems. Across the works, a consensus emerges around a few themes: iteration and adaptability, cross-disciplinary collaboration and learning, and creative, decentralized decision making. These themes align well with elements of successful approaches to purpose-driven firm activities reviewed earlier. For success, we saw outcome-based incentives being important, which can tie into iterative approaches, collaboration was also highlighted, and the need for creativity was present because conventional approaches are less successful.

[196] (Camillus, The wicked challenge of the business environment, 2016)
[197] (Camillus, Strategy as a Wicked Problem, 2008)
[198] (Camillus, Strategy as a Wicked Problem, 2008)
[199] (Camillus, Strategy as a Wicked Problem, 2008)
[200] (Camillus, Strategy as a Wicked Problem, 2008)
[201] (Edmondson, 2016)
[202] (King J. , 1993)
[203] (King J. , 1993)
[204] (King J. , 1993)

Academics emphasize the importance of an iterative approach when addressing wicked problems. Kwakkel, Walker, and Haasnoot discuss two approaches to cope with the wickedness of public policy problems: robust decision making (RDM) and dynamic adaptive policy pathways (DAPP), which address different aspects of problem wickedness. RDM is an iterative approach which tests across numerous scenarios to facilitate trade-off analysis and iterative learning about a policy problem. DAPP recognizes that the future is uncertain and so plans need to be adaptable, involving strategic vision with a framework to guide future actions based on the results of short-term actions.[205] Gunderson and Light (2006) argue that dealing with complex systems with multiple uncertainties requires adaptive forms of experimentation and governance.[206] Termeer et al. (2013) outline an integrative approach for wicked problem solving with four governance capabilities: 1) reflexivity, i.e., the capability of dealing with multiple frames; 2) resilience, i.e., the capability to adjust actions to uncertain changes; 3) responsiveness, i.e., the capability to respond to changing agendas and expectations; and 4) revitalization, i.e., the capability to unblock stagnations.[207]

Approaches for tackling wicked problems involve strategies for driving collaboration across stakeholders and disciplines. Some academics argue that governance approach to tackling wicked problems can enhance collaboration. Van Bueren et al. (2003) focus on network governance and look at the nuances in wickedness in terms of the varying circumstances of cognitive, strategic, and institutional uncertainty. Because interdependent actors have a collective action problem, the uncertainties involved in wicked problems can only be addressed through network-based cooperation to enhance and intensify interactions between stakeholders.[208] Roberts (2000) focuses on collaborative governance, suggesting that acting as a collective accomplishes more than acting as independent agents, and driving coordination among agents requires institutions of governance.[209] Torfing et al. (2013) coin the term “interactive governance” for joint efforts to address wicked problems. They suggest that there are three different types of interactive governance – quasi-markets, partnerships, and networks – and argue that each are complex and process-based (rather than linear and grounded in existing institutions), focus on the pursuit of common objectives in the face of stakeholder conflict, and are decentered such that no one is in control as to induce actors to engage with other actors.[210]

Drawing on methodologies from psychology, information systems, business management, and military strategy, Game et al. recommend addressing wicked problem of conservation though defining clear objectives, using scenarios, emphasizing pattern analysis, and ensuring greater scope of the problem for creative and decentralized decision making.[211] Others have added distributed decision-making, incorporating diverse opinions, pattern-based predictions, tradeoff-based objectives, and reporting of failures as needed to address the elements of the wicked problem of conservation.[212]

Changes in behavior we might see from firms who are tackling wicked problems

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[205] (Kwakkel, Walker, & Haasnoot, 2016)
[206] (Gunderson & Light, 2006)
[207] (Termeer, Dewulf, & Breeman, 2013)
[208] (Van Bueren, Hans Klijn, & Koppenjan, 2003)
[209] (Roberts, 2000)
[210] (Torfing, Peters, Pierre, & E, 2013)
[211] (Game, Meijaard, Shell, & McDonald-Madde, 2013)
[212] (Mason, et al., 2018)

To understand how firms who are purpose-driven and tackling wicked problems may change because of these efforts, we looked towards literature on the indirect outcomes of firms' CSR, ESG, and sustainability initiatives.

Over time, firms have come to view CSR as strategic for sustainability because of risk reduction benefits, strengthened reputation, and other competitive advantages (e.g., increased employee motivation, above industry average sales performance).[213] When evaluating results of CSR efforts, employee motivation often emerges as a main benefit.[214] Superior performance on CSR strategies has also been found to result in better access to financing, as firms that perform better on social and environmental dimensions of CSR have enhanced stakeholder engagement (which reduces agency costs) and increased transparency (which reduces informational asymmetry).[215]

Similar to findings based on CSR engagements, researchers have found that businesses experience improved accounting performance, improved governance, and increased institutional ownership after successful ESG engagements.[216] For example, in a 2018 study commissioned by the UNEP Finance Initiative and the UN Global Compact, researchers found that three ESG engagement dynamics create distinct types of value for companies (and investors): (1) communicative dynamics, i.e., communicative value through the exchange of information, (2) learning dynamics, i.e., learning value through diffusion of ESG knowledge, and (3) political dynamics, i.e., political value through facilitating diverse relationships (internal and external).[217]

According to a 2019-2020 cross-sectional survey of 71 business representatives involved in cross-sector social partnerships looking at benefits of engaging in sustainability partnerships, businesses achieved beneficial outcomes in five forms of capital: organizational, human, sustainability, financial, and physical.[218] Table <X> below shows the top two most valuable outcomes in each category of capital (the value scale goes from 1 to 5 with 1 being the most valuable.).

Table <X>: Sustainability Partnership Outcomes[219]

Type of capital	Outcome	Value
Organizational	Built new relationships	1.99
	Networking	2.06

[213] (Lars Isaksson, 2014)
[214] (Chung Hee Kim, 2013)
[215] (Beiting Cheng, 2014)
[216] (Elroy Dimson, Active Ownership, 2015)
[217] (Gond, et al., 2018)
[218] (Ordonez-Ponce, Clarke, & MacDonald, 2021)
[219] (Ordonez-Ponce, Clarke, & MacDonald, 2021)

Human	Shared own experiences	2.00
	Gained knowledge/learning	2.09
Sustainability	Contributed positively to environmental challenges	2.01
	Contributed positively to community sustainability	2.10
Physical	Improved processes	3.30
	Increased resources	3.46
Financial	Made new business	3.33
	Developed new products/services	3.34

From the literature on the indirect outcomes of firms' CSR, ESG, and sustainability initiatives, we observe various positive result across the business. However, it is still common for business leaders to face the question of whether engaging in wicked problems will come at the cost of business success. Additionally, what is required for engagements with wicked problems to lead to neutral or positive business outcomes? While it has been strongly suggested that purpose-driven firms may outperform their peers, we've left the review of research addressing that hypothesis and potential mechanisms for another paper.

Discussion

In starting this literature review, we hoped to better understand the nature of purpose-driven firms. What, if anything, makes them different from more traditional firms, with purely shareholder focus? In the process, we learned:

It is possible to "do purpose well" – or conversely, to "do purpose badly": As firms gained more experience with the notion of the purpose-driven firm, it became clear that successfully driving purpose takes more than mere philanthropy. Over the decades, different academics have proposed different frameworks for describing and structuring firm purpose and to help guide firms towards more successful outcomes. Today, firms are often described as more or less purposeful based on their level of business engagement, which can range on a spectrum from "transactional" or "operational" to "integrated" or "transformative". These typologies examine the level of engagement, change, and innovation that each firm brings while attempting to pursue its purpose. One potential area for improvement in this understanding of what it means to do purpose well involves the business ecosystem: most typologies and characterizations of behavior focus only on internal action or investment and ignore the potential for businesses to learn from and engage with the ecosystems around them. However, if purpose-driven

initiatives are truly Wicked Problems, then firms must deliberately engage as part of an ecosystem – it's not enough to focus internally.

Successful firms are driven by a combination of intrinsic and extrinsic factors: Firms describe both intrinsic and extrinsic motivation for engaging in purpose-driven initiatives – which reflects a balance of altruism and profit orientation. Edmans "growing the pie" description of the most successful firms mirrors Adam Grant's description of "otherish givers" – those who have the most success recognize that it is possible to innovate and create new value, and in the process, take more value for yourself.

Engaged firms follow specific patterns, as do unsuccessful ones: Engaged firms very often take concrete change management steps to driving purpose-driven initiatives. They are able to create concrete, measurable goals and hold each other accountable to meeting them. They are also able to successfully navigate the change process and accept the potential short-term impacts of introducing new operational changes in order ot meet a long-term goal. Unsuccessful businesses instead take a "shallow" approach, with typical failure modes including a lack of stakeholder understanding, poor understanding of the problem's complexity, and failing to change business models and operations to support the purposeful initiative.

Purpose-driven firms are actually tackling Wicked Problems: Common "firm purposes" such as climate change, food insecurity, and economic inequality can all be described as Wicked Problems – problems that have a high (and unusual) combination of stakeholder conflict, complexity, and uncertainty. These problems are substantially different from simply "difficult" problems, which may score highly in only one dimension, because typical approaches to solving a high-conflict problem, for example, may not work in cases which also feature high uncertainty. This means that, by taking on an additional purpose orientation, firms are selecting to tackle problems that may force them to develop new approaches to problem-solving.

In today's climate, however, an increasing number of business problems are taking on elements of Wickedness. Increasingly, businesses face run-of-business situations that feature high stakeholder conflict, high complexity, and highly uncertain environment. In the face of challenges like a multi-year pandemic, a war in the Ukraine, or the imminent impact of climate change on global supply chains, business leaders must be able to navigate conflicting recommendations and learn rapidly from their environments to drive their teams to success.

It seems possible, therefore, that purpose-driven firms – those who deliberately tackle Wicked Problems – may have learned problem-solving skills and forged partnerships that translate into additional business benefits. We have explored the links between tackling Wicked Problems and business performance elsewhere; however, the research has yet to establish a potential mechanism for driving those outcomes (if indeed there are improved outcomes). Establishing this link and understand how (if at all) purpose-driven firms become more successful overall is critical for both an improved understanding of organizational and operational behavior, and for a more pragmatic business leader, looking to navigate an increasingly Wicked world.

APPENDIX

Common ESG measurements and standards

A common criticism of ESG is the lack of standardization. Below are some ESG measurements and standards:

- Carbon Disclosure Project (CDP)
- Taskforce on Climate-related Financial Disclosures (TCFD)
- Workforce Disclosure Initiative (WDI)
- UN Sustainable Development Goal (SDG) alignment
- Some notable ESG rating agencies:
- MSCI
- Sustainalytics
- RepRisk
- ISS Environmental and Social QualityScore
- Dow Jones Sustainable Indices (DJSI)
- Bloomberg Professional Services
- FTSE Russell
- Vigeo Eiris

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