



## How Great Companies Deliver Both Purpose and Profit

### In Conversation with Professor Alex Edmans

A big thank you to all who attended our inaugural “In Conversation with” event with Professor Alex Edmans, author of *Grow the Pie: How Great Companies Deliver Both Purpose and Profit*.

We hope you enjoyed the event and can draw on Professor Edman’s insight, including on how to embed purpose into practice. As a refresher for attendees, and for those unable to make the event, here’s a quick summary of five key points we discussed. [For the full video, please click here.](#)

1. **“Grow the Pie” is a way of thinking about how to run businesses to serve society and generate good returns.**

It eschews the notion that there is a choice to be made between profit and purpose and challenges the idea that size of the “pie” is fixed and must be split so that value either goes to investors or society. Professor Edmans’ research demonstrates that purposeful businesses are more profitable over the long term.

2. **Purpose matters today because the problems society faces are larger than ever**

– from climate change to income inequality to the effects of the pandemic – and many believe that capitalism, in its current form, is not working for them. Meanwhile, companies wield unprecedented amounts of power, which magnifies their capacity to address or exacerbate the world’s problems. Mainstream investors are increasingly aware that companies addressing social issues can be more profitable than those that exacerbate them.

3. **A purposeful business asks the question: *How is the world a better place for the business being here?***

A genuinely purposeful company is discerning about outcomes and intentionality – it focuses on what specific issues it is well positioned to address and where it can have the most material impact on stakeholders (rather than attempting to solve many issues or jumping on the latest craze). Coca-Cola’s last mile project illustrates this: it provides vaccines to children across African countries. Why? Because it delivers products to remote locations using refrigerated lorries – perfect for vaccines.

#### 4. Each part of the ecosystem has a role to play.

**Asset owners and investment consultants** should evaluate asset managers on the basis of long term returns and stewardship (because the performance benefits of purpose are only evident over the long term, according to Professor Edmans' research) and award long term mandates. Ask asset managers for case studies of divestment, engagement and impact, find out how they make decisions and examine outcomes. Asset owners are vital - they are at the end of the chain and their actions trick through to the rest of the ecosystem.

**Asset managers** should remain consistent in the areas on which they seek to engage with companies, examine incentives by horizon as opposed to quantum (longer-term remuneration is necessary to reward purpose in business) and analyse the materiality of what companies are attempting to achieve. Engagement is often more important than voting (where there is often a lot of emphasis because this is publicly available information) to achieving desired outcomes. Divestment is often a blunt tool – fossil fuels can be considered to be providing a net benefit to society, for example, because there is not yet a complete alternative; holding and engaging with fossil fuel companies can actively support the process of de-carbonisation.

**CEOs** need to define their purpose (which is not a synonym for altruism, but one for deliberate action) and recognise that this sometimes involves trade-offs and negative consequences. An energy company closing down a polluting power plant, for example, will be good for the environment but bad for workers. Clarity of purpose is essential if it is to filter through the organisation and be articulated to wider society.

#### 5. The pandemic is accelerating the shift in thinking around why companies exist,

especially as many companies now can't split the pie because there isn't one to be split. Companies have stepped up to help society, but they have often had to be nimble and innovative. For instance, Unilever, which has seen sales rise as a result of Covid-19, has donated €100m towards the world's pandemic response; most other businesses couldn't do that and many shifted production – Ford repurposing air bag assembly lines to make face masks and LVMH dedicating its cosmetics factories to hand sanitiser production, for instance. These kinds of pivot, the product of agility and innovative thinking, will help companies in the long run and may shape how companies see purpose in the future.

**We would like to thank Professor Alex Edmans for joining us and providing us all with his insights, practical advice and food for thought.**

To read more about Grow the Pie [please click here](#)

To read more about Actis' approach to Responsible Investing [please click here](#)

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#### About Alex Edmans

Alex Edmans is Professor of Finance at London Business School and Academic Director of the Centre for Corporate Governance. Alex graduated from Oxford University and then worked for Morgan Stanley in investment banking (London) and fixed income sales and trading (New York). After a PhD in Finance from MIT Sloan as a Fulbright Scholar, he joined Wharton in 2007 and was tenured in 2013 shortly before moving to LBS.

Alex's research has been covered by the Wall Street Journal, Financial Times, New York Times, The Economist, and The Times, and he has been interviewed by Bloomberg, BBC, CNBC, CNN, ESPN, Fox, ITV, NPR, Reuters, Sky News, and Sky Sports. Alex has spoken at the World Economic Forum in Davos, testified in the UK Parliament, presented to the World Bank Board of Directors as part of the Distinguished Speaker Series, and given the TED talk What to Trust in a Post-Truth World and the TEDx talk The Social Responsibility of Business with a combined 2 million views. He has written op-eds for the Wall Street Journal and Financial Times, writes regularly for Harvard Business Review, Huffington Post, World Economic Forum, and CityAM, and runs a blog, Access to Finance, that aims to make complex finance topics accessible to a general audience.

Alex serves on the Steering Group of The Purposeful Company, a UK consortium of leaders in responsible business, on Royal London Asset Management's Responsible Investment Advisory Committee, and as an Advisor to Research Affiliates. The UK government appointed him (jointly with PwC) to conduct a study on the effect of share buybacks on executive pay and investment. Alex also serves as Mercers' School Memorial Professor of Business at Gresham College, giving free lectures to the public. His 2019/20 lecture series is on Business Skills for the 21st Century and his 2018/19 series was on How Business Can Better Serve Society. His book, Grow the Pie: How Great Companies Deliver Both Purpose and Profit, was published in March 2020 and headed the list of the Financial Times Business Books of the Month.

### **About Shami Nissan**

Shami leads Actis' approach to responsible investment and impact, working closely with investment colleagues and company management to assess and manage ESG issues, helping to build world-class businesses and to deliver measurable societal benefits. Shami is a member of the Actis Executive Committee and reports to Torbjorn Caesar, Senior Partner.

Before joining Actis in 2014 she was as a senior consultant at PwC's Sustainability and Climate Change team for ten years. Prior to this, Shami led the London business of Innovest Strategic Value Advisors, providing sustainability research and analytics to institutional investors and asset managers. Shami has also worked with the United Nations Development Programme in Central America.

Shami is a Steering Committee member of the Emerging Markets Private Equity Association's Sustainability Working Group. During 2017, Shami was on the Sounding Board of the World Bank/IFC's Operating Principles for Impact Management. Shami is an Advisory Board member of Africa Matters Ltd, an Africa-focused consultancy, a Trustee of Actis Acts, a registered charity focused on improving livelihoods in the emerging markets.

Shami holds an MSc Environmental Technology, with Distinction, from Imperial College London and a BSc Biological Sciences from University of Durham.