

By Re\_Generation

# Business Model and Organization

## 4.1 Business Model Transformation

### Description

Recognizing the abysmal failures of the shareholder primacy model, there has been a global movement of purposed-oriented businesses [emerging from the grassroots](#). Often smaller in scale, these [social enterprises](#) are focused on integrating social and environmental purpose into their very reason for being, turning their business models into ones that inherently strive to make the world a better place. Mainstream corporations have caught on to this language of purpose, and many large corporations are adopting purpose statements of their own that serve to orient their firms in a time of social upheaval. A growing movement for '[stakeholder capitalism](#)' has emerged that, on paper, obliges firms to consider the needs of all stakeholders, not just shareholders. Businesses should aim not just to release new purpose statements replete with vague platitudes and empty promises; instead, they must fundamentally transform their business models and governance practices from the ground up to prioritize social and environmental well-being and achieve the promise of their purpose. To learn more about corporate purpose and the creation of transformative business models, continue reading this PDF.

# Acknowledgements

Written by Gareth Gransauil, Associate Director of Re\_Generation, with review by some of Canada and North America's most influential sustainability leaders.

## About Re\_Generation

[Re\\_Generation](#) is a Canadian youth movement that seeks to build a regenerative, sustainable, and just economy. We aim to reimagine our schools, repurpose our careers, and remodel our companies to be aligned with regenerative principles. In particular, we provide resources for individuals to launch impact-driven careers and advocate for change within their companies and schools. We also aim to advance public policies that promote regenerative and sustainable business practices.

Our successful 'Our Future, Our Business' Manifesto campaign received the support of 65 youth organizations, 130 high-level executives, and 100 civil society organizations recognizing the need for reform in business education on sustainability. After three years of existence as the Canadian Business Youth Council for Sustainable Development, we have changed our name to Re\_Generation to become more inclusive of all youth, not just business youth.

We believe that the ideal society is a [regenerative](#) one. Regeneration to us means putting human and ecological [well-being](#) at the centre of every decision. It means restoring relationships, both within nature and within society, while helping all communities to thrive. Read more about our history and vision at our [About Us](#) page.

## Issue Summary

As the frailty of democracy becomes increasingly apparent in an era of increasing political polarization, social antagonism, and class resentment, business leaders around the world have paid lip service to the need for change. A growing movement for '[stakeholder capitalism](#)' has emerged that, on paper, obliges firms to consider the needs of all stakeholders, not just shareholders. However, there is scant evidence that this trend has moved beyond sloganeering and catchy rhetoric, even leading some to characterize it as an '[elite charade](#)'. The Business Roundtable, the largest corporate lobbying group in the United States, adopted a new 'Statement on the Purpose of a Corporation' even as it lobbied for corporate tax breaks under President Trump and [advocated against President Biden's social spending bill](#). This hypocrisy is not new; for decades, the doctrine of 'corporate social responsibility' has [failed to address the problems of shareholder primacy](#). At best, CSR serves to marginally reduce a firm's negative impacts, while at worst it amounts to little more than an elaborate form of marketing and positive publicity.

Recognizing the failures of the shareholder primacy model, there has been a global movement of purpose-oriented businesses [emerging from the grassroots](#). Often smaller in scale, these [social enterprises](#) are focused on integrating social and environmental purpose into their very reason for being, turning their business models into ones that inherently strive to make the world a better place. The [United Way Social Purpose Institute](#) defines social purpose as where the purpose of the business is to create a better world, while the [British Academy Future of the Corporation](#) program defines the purpose of business as "producing profitable solutions to the problems of people and planet and not profiting from creating problems." The global [B Corp movement](#) has grown exponentially, leading more and more companies around the world to aspire to become a certified 'benefit corporation'. A global '[Social and Solidarity Economy](#)' is developing around principles of economic democracy, social well-being, and ecological restoration, aiming to serve as a genuine alternative to neoliberal capitalism. At the foundation of this movement is a growing ecosystem of [cooperative-owned, community-focused](#) organizations aiming to create a more [just and equitable economy](#) that works for everyone, not just an elite class of owner-managers.

Mainstream corporations have caught on to this language of purpose, and many large corporations are adopting purpose statements of their own that serve to orient their firms in a time of social upheaval. The movement towards a more conscious capitalism is long overdue, and should be applauded. However, it is equally important to ensure that the language of 'purpose' does not become another form of vacuous virtue-signaling tailor-made for a new age of socially aware consumers. Businesses should aim not just to release new purpose statements replete with vague platitudes and empty promises; instead, they must fundamentally transform their business models and governance practices from the ground up to prioritize social and environmental well-being and achieve the promise of their purpose. This means actively undermining shareholder primacy by sharing power with stakeholders, giving voice to workers and affected communities, tying executive pay to prosocial goals, allocating substantial resources to organizational change, and investing for the long-term, in addition to many other necessary reforms. Instead of focusing on incrementally reducing negative harms, firms must focus on creating positive social and environmental value as their reason for being, and redefine the very meaning of the concept of 'value' in the process.

At the same time, undermining shareholder primacy will never happen without the creation of new laws and regulations that oblige corporations to care for the interests of groups other than shareholders. Substantial policy change will be required for firms to move towards a fundamental reinterpretation of fiduciary duty, and to implement forms of integrated reporting that do not require translating non-financial issues into the language of enterprise materiality. In the United Kingdom, reporting on corporate

purpose has been [enshrined in the corporate governance code](#) since July 2018, legally requiring firms to align managerial interests with action on corporate purpose. We need to go much further than just disclosure, however. When running for President in 2020, Elizabeth Warren developed a proposed '[Accountable Capitalism Act](#)' that was full of ideas to institutionalize corporate purpose, including the notion of mandatory corporate charters, worker representation on boards, constituency statutes for corporate directors, and other transformative clauses. As the fundamentally hollow nature of the shareholder primacy model becomes more clear over time, ambitious proposals like these will become increasingly commonplace.

## Key Considerations

The notion of social purpose [cannot simply be superficially applied on top of the existing model](#) of short-term, profit-maximizing neoliberal capitalism if it is to have a real effect. Existing language around corporate purpose often positions purpose as the best way for firms to make money, which can paradoxically cause firms to pursue ethical or purposeful action only when it is profitable to do so (while ignoring it otherwise). For a firm to adopt a corporate purpose that has genuine meaning, this must involve much more than copy-pasting the language of social purpose onto its existing business strategy. In fact, it requires a complete and total transformation of a corporation's underlying business model, as well as its organizational structure, culture, and governance processes.

To illustrate this difference, consider the case of corporate purpose in the oil and gas industry, a sector that is experiencing significant disruption. For a fossil fuel firm to adopt a new corporate purpose in the age of climate action, it would need to restructure itself as a clean energy company by transitioning away from high-emitting fuels, shifting capital expenditures towards renewable energy generation, and wind down existing reserves. What this would not look like is the firm releasing a new purpose statement to brand itself as the world's leading "sustainable, responsible clean fuel company" by announcing vague plans to use carbon capture or offsets to disguise the harm it creates. In the first case, the firm has genuinely recognized the need to reform and fully marshalled its resources in the direction of organizational transformation; in the latter, the firm hides behind appealing language and positive PR to avoid investing in real change.

The British Academy, in its [report on the future of the corporation](#), has developed a set of principles for purposeful business that address many of these systemic problems, and pave a way forward for a new era of purpose driven businesses. These principles include:

1. Corporate law should place purpose at the heart of the corporation and require directors to state their purposes and demonstrate commitment to them;
2. Regulation should expect particularly high duties of engagement, loyalty and care on the part of directors of companies to public interests where they perform important public functions;
3. Ownership should recognise obligations of shareholders and engage them in supporting corporate purposes as well as in their rights to derive financial benefit;
4. Corporate governance should align managerial interests with companies' purposes and establish accountability to a range of stakeholders through appropriate board structures. They should determine a set of values necessary to deliver purpose, embedded in their company culture;
5. Measurement should recognise impacts and investment by companies in their workers, societies and natural assets both within and outside the firm;
6. Performance should be measured against fulfillment of corporate purposes and profits measured net of the costs of achieving them;

7. Corporate financing should be of a form and duration that allows companies to fund more engaged and long-term investment in their purposes;
  - Corporate investment should be made in partnership with private, public and not-for-profit organizations that contribute towards the fulfillment of corporate purposes.

See the Academy's report on '[Policy and Practice for Purposeful Business](#)' for further elaboration on these principles.

## Tools

Forward-thinking firms must see the creation of social and environmental value as their very reason for being. This involves taking a systems approach to value creation by considering the parameters outlined in Kate Raworth's [Doughnut Economics framework](#); firms should examine both external environmental thresholds (i.e. the [planetary boundaries](#)), as well as social foundations (i.e. the minimum social safeguards necessary to achieve human flourishing) when making all decisions related to strategy and capital allocation. Firms wishing to adopt this approach should first view [this video](#) from the Doughnut Economics Action Lab on 'When Business Meets the Doughnut', which outlines strategies for enterprise design that helps firms structure themselves as intentionally regenerative and redistributive. For more information about doughnut economics, check out the [Doughnut Economics Action Lab](#), as well as their community-driven [tools and stories](#) for interesting case studies.

Before applying the doughnut economics model to firm-level business models, however, [please read this FAQ](#) from the Doughnut Economics Action Lab which stipulates that the doughnut model "cannot be used publicly by businesses (including consultants in their work with business clients), whether for branding, on a website, in presentations, or in publicly available materials." Firms are advised not to attempt to create their own scaled-down 'company doughnuts', and should wait until the publication of the official Doughnut Economics toolkit and guidance (date TBD).

Corporations should also take inspiration from the [B Corp movement](#), which is a global network of purpose-led businesses that are embedding social and environmental value into their core business model. Stories of successful B Corp businesses can be seen at [B the Change](#), as well as the B Corp '[Best for the World](#)' ranking which identifies the top-performing companies in all issue categories from the environment to labour rights to corporate governance. It is not currently a requirement to have a social purpose to be considered a B Corp, but they are now working to address that gap.

The Embedding Project has created a list of [embedded strategies for the sustainability transition](#), which is an exploration of all the ways firms can create social and environmental value through a systems thinking lens to help drive resilience and well-being. This toolkit provides an introduction to elementary concepts of systems thinking, including ideas such as resilience, thresholds, and regeneration, and helps businesses select strategies and set goals for delivering on social and environmental purpose. Pages 21-27 of the toolkit identify many of the most important social and environmental indicators for businesses to consider when evaluating goals and strategies for their business model transition. For a guide about creating [regenerative business models](#), see this guide from nRhythm.

Companies hoping to transform themselves into purpose-driven businesses should evaluate themselves according to the [Social Purpose Continuum](#) developed by [Coro Strandberg](#). According to this continuum, the most ambitious purpose-led businesses select their corporate strategy on the basis of tackling complex social challenges, thus embedding social and environmental value into their very rea-

son for being. In such organizations, long-term value creation is prioritized over short-term performance, and leadership on purpose is driven directly by the CEO and all senior officers. Purpose-driven firms frequently participate in innovation labs and learning communities with other organizations, with the intent of driving systemic change in society as a whole. Coro Strandberg has also helped the Social Purpose Institute develop a [Social Purpose Assessment tool](#), which is a scorecard companies can use to assess the depth of their purpose integration. It provides insights into the practices companies must deploy to become authentically purpose-driven.

Governance Professionals of Canada has released a [report on purpose-led governance structures](#), which articulates the importance of ensuring board-level oversight of purpose strategy. Responsibility to oversee the firm's social purpose should be embedded into every board committee, and expert advisory boards should be appointed consisting of stakeholders and relevant experts to inform senior leaders on how to deliver on corporate purpose. Boards should evaluate their own performance on social purpose strategy according to the [ISO 37000](#) standard, the newest standard on corporate governance from the International Standards Organization, and release audited purpose disclosures to demonstrate how social purpose is embedded throughout an organization's structure and culture.

## Case Studies

Perhaps the most inspiring example of a purpose-driven corporate transformation is that of Orsted, the Danish energy company that transformed itself from a fossil fuel firm into the world's [most sustainable clean energy company](#). Orsted's senior leaders formulated an '85/15 vision', which entailed moving the company from 85% fossil fuels and 15% renewables to 85% renewables and 15% fossil fuels. Nowadays, Orsted is the world's largest offshore wind provider, and it is set to produce 99% clean energy by the year 2025. For more information on Orsted's transformation, see [this interview](#) with the head of its offshore wind business.

Inspiring examples of social purpose also come from outside of traditional corporate business structures. Cooperatives, and other forms of economic democracy, represent an alternative way of doing business that is often better for workers and the environment. [Vancity Credit Union](#), the largest community-based credit union in the world, is an [excellent example of one such company](#). Vancity shares profit with its customers, who are also its members, and has adopted a living wage policy while also maintaining a fixed ratio between average worker and CEO pay. The Mondragon Corporation, the largest network of cooperative businesses in the world in Spain's Basque region, provides another [interesting example of the benefits of cooperative ownership](#). For case studies about the transformation of corporations into employee-owned cooperatives, see [this report](#) by the Democracy at Work Institute, as well as the work of [American Working Capital](#) on [employee stock ownership plans](#). For more information about community wealth-building and cooperative ownership, see resources from [Community Wealth](#), the [Next System Project](#), and the [New Economy Coalition](#).

Forward-thinking companies are finding ways not just to reduce social and environmental harm, but actually build social purpose into their innovation practices and competitive strategies. Examples about sustainable innovation for organizational transformation are [outlined in this report by Deloitte](#). Interesting case studies cited include Volkswagen's decision to [radically expand its electric vehicle product lines](#), with plans to increase EV purchases to 40% of its sales by the year 2028. The \$100 million [Danone Ecosystem Fund](#) is an interesting example of a large multinational firm allocating capital to opportunities in regenerative farming, supporting projects that are co-designed by Danone subsidiaries and not-for-profit partners.

Additional case studies of social purpose businesses in action can be found in [this report](#), and another three are profiled on the [Social Purpose Institute website](#). For other examples of purpose-driven businesses, see the [B Corp Directory](#), the [B Corp Best for the World](#) ranking, and the [certified social enterprises listed by Buy Social Canada](#).

## Organizations/Initiatives

For organizations advancing a new way of looking at purpose-led business, and alternative economic structures designed to embed social and environmental value, see the following organizations:

- [B Lab](#)
- [Doughnut Economics Action Lab](#)
- [The Capital Institute](#)
- [The Embedding Project](#)
- [Social Purpose Institute](#)
- [Centre for Social Innovation](#)
- [Social Enterprise Institute](#)
- [Social Value Lab](#)
- [S4ES](#)
- [Social Enterprise Council of Canada](#)
- [Community Wealth](#)
- [The Next System Project](#)
- [The New Economy Coalition](#)
- [Democracy Collaborative](#)
- [Seed Commons](#)
- [Common Future](#)