

The founding director of the Institute for Gender and the Economy explains how to approach the stakeholder trade-offs inherent in every business model.

Thought Leader Interview:

Sarah Kaplan

by Karen Christensen

How do you define a 360° corporation?

Nine years ago, I created a course at the Rotman School called “Corporation 360°”, because I wanted to take a hard look at the stakeholders that surround companies from every direction — all 360 degrees. Since then, my students and I have been thinking a lot about the role of the corporation in society, and what companies might do to deal with the trade-offs created by stakeholder needs that conflict with their bottom line.

The fact is, meeting stakeholder demands often requires actions that could compromise profits. Things like improving worker conditions, investing in environmental advances, creating talent pipelines for marginalized communities and putting an end to polluting activities are all costly endeavours, in terms of time and money and in terms of organizational disruption.

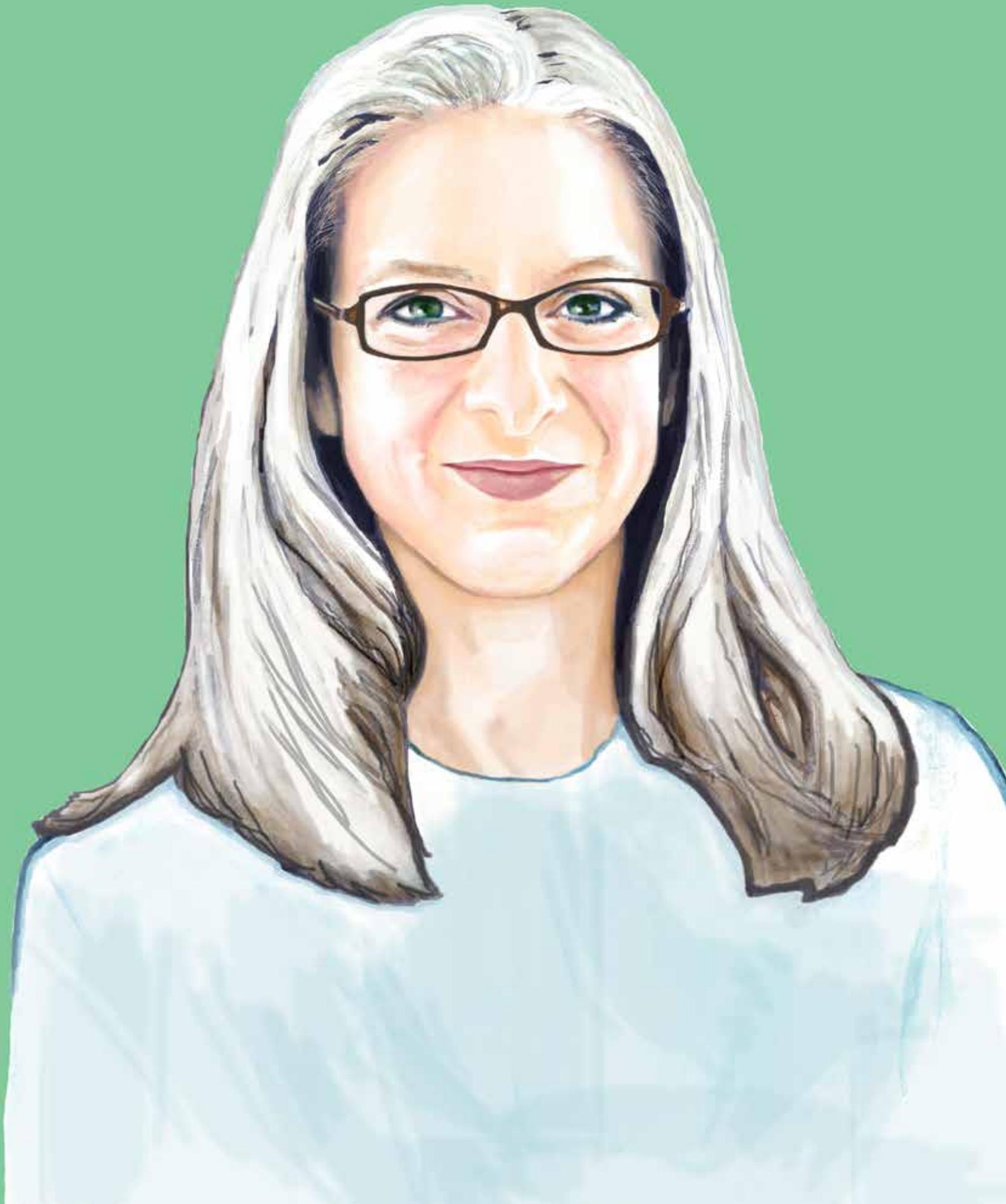
Despite these challenges, corporate leaders have begun to demand action from their colleagues. In 2017, **Larry Fink**, the CEO of **BlackRock** (an investment firm that manages over \$1 trillion in assets) wrote an open letter to CEOs in which he said, in part, “Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every

company must not only deliver financial performance, but also show how it makes a positive contribution to society.”

Today, we are not any closer to a ‘quick’ solution, but I have distilled some key principles for action: I have developed four ‘Modes of Action’ that range from identifying the trade-offs all the way to thriving when these trade-offs seem intractable. Mastering these four modes is what the 360° Corporation is all about. People might think this is not the same thing as corporate social responsibility, but what I’m trying to point out is that corporate social responsibility is connected to the trade-offs that are embedded in your business model.

You believe trade-offs between stakeholders exist in virtually every business model. Please explain.

Every business model — from the corner store to a large corporation — contains implicit trade-offs between different stakeholders, whereby one group benefits and the other is hurt in some way. For example, **Walmart** has an ‘everyday low price’ strategy, and that is great for consumers. Clearly, they benefit because they can come in and buy a sweatshirt for \$5; but this model is



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built on the fact that Walmart also pays its people relatively low wages. Of course, they are not unique in the retail industry for doing that, but the fact is, they can't sell sweatshirts for \$5 unless they also pay low wages. That's just one of the implicit trade-offs in that business model.

Trade-offs aren't always obvious. What is the best way to figure out which stakeholders are being disadvantaged?

In most cases, companies don't even acknowledge that these trade-offs exist, which is why I came up with the four Modes of Action, to help people figure it out. Mode One of my framework involves taking the required steps to understand the trade-offs within a business model, which, as indicated, is a conversation that most leaders do not have. The only time it comes up is if a particular stakeholder becomes a 'squeaky wheel'; suddenly, you have a Twitter storm because of something you did, or workers are going on strike. *Then*, you pay attention to your stakeholders.

There is a more foresighted way to go about this, which is to take both an 'inside-out' and an 'outside-in' view of your business model. This entails first analyzing your model and thinking about who is experiencing trade-offs; that's the 'inside-out' part. Then, the 'outside-in' part involves bringing a variety of actual stakeholders to the table — environmentalists, workers, people from the supply chain, etc. — and having a frank conversation with them about their experience with your company. It is very difficult for leaders to imagine what the needs of stakeholders are; the only way to do this is to have them at the table.

People naturally resist change initiatives. Why is that, and what can be done about it?

People are naturally resistant to all kinds of change, and the way they try to overcome that in organizations is by making a business case for change. This is what I refer to as Mode 2 Action: If they can just prove, 'this is going to be good for the business' — whether it be a diversity initiative that makes teams more innovative or an environmental initiative that saves energy — people go to great lengths to make a business case to overcome inertia.

This is an important step, but it comes with a caution: The latest research shows that, in fact, *making a business case* may not motivate action in the way we think. First, simply having a business case might not actually convince people to act, because in

these situations, what really convinces people to act are things like moral outrage or an emotional or ethical response; the problem with a business case is that it deflects attention away from these powerful motivators.

Second, especially when it comes to things like 'a business case for diversity', the business case has the effect of 'othering' the people for whom it is being made, making these people feel like they don't belong. If you are a person of colour or a woman and people are making a business case for diversity, it just highlights to you that you are not already part of the system; you are outside of it, and this makes lots of people check out. The same thing could be said for people who are advocating for environmental change. Any situation that demands you make a business case for it implies that you and your ideas have no value on their own, and that is very demotivating.

The third reason a business case doesn't always work comes from some new research that I am doing. I have been studying the people who feel they need to make a business case to, for example, advocate for environmental improvement or for diversity. What I am finding is that these advocates find it to be soul crushing to have to economically justify something that they regard to be an essential human right. So, no matter how you look at the business case, it may be getting in the way of effective action — and it may actually be setting us back.

Making a business case has had a particular impact on diversity initiatives. Talk a bit about that.

Despite all the recent attention to inclusiveness and lots of corporate activities around diversity, we continue to see discriminatory outcomes in organizations. In my view, that's because we've been stuck in Mode 2 — focusing on making a business case for diversity — for 15 years now; and in those same 15 years, change has stalemated.

I don't think people go to work saying, 'I'm going to be super sexist today', or 'I'm going to be transphobic' — yet we continue to see it. Why? For one thing, we all have implicit biases, but we have focused virtually all of our attention on trying to fix people's brains and make them unbiased through things like 'unconscious bias training'. Here's a newsflash: We are never going to make people unbiased. Our biases are shaped from the moment we are born, right up to the day that we make corporate decisions. We

see this with the recent research by my Rotman colleague **Mikail Simutin**, showing that CEOs who were raised in less egalitarian settings (who went to an all-boys school, or had a mother who didn't work) are more likely to allocate resources to their male executives than to female executives [**Editor's Note:** see page XX of this issue for more on this research.]

We need to stop working on debiasing peoples' brains, and instead, focus on changing our systems. The reason discrimination is so persistent is because biases are embedded in our systems and processes and how we work, and those things are much harder to change. It's so easy to say, 'If we give people some diversity training, things will be better'. We do still need the diversity training, but we have to couple it with innovations to our systems. I think one reason this hasn't happened already is that it's going to require a lot of hard work, and people just don't want to do the heavy lifting. For example, they don't want to change the way they recruit. They want to keep recruiting people who are comfortable to work with, because they know that more diversity is going to create less comfort. But, as the research shows, that discomfort is exactly what drives creativity and innovation.

In addition to not wanting to do the work, people don't know how to do the work. I think if we were to treat discrimination inside organizations not just as an issue that gets assigned to HR, but as an innovation challenge that every employee should be working on, we would make a lot more progress.

In recent years, the conversation around 'balancing stakeholder needs' has been dominated by Michael Porter and Mark Kramer's concept of 'shared value'. Tell us how your approach builds upon or differs from theirs.

Porter and Kramer posit that there are lots of hidden 'win-wins' in organizations, whereby something you could do for the environment, for instance, will actually reduce your costs — like putting in better lighting systems company-wide. For example, Walmart worked with its suppliers to produce concentrated laundry detergent. That is potentially a win-win because it means lower shipping costs, less plastic, less water. There are huge benefits to the environment, but the organizations also benefit by saving costs and selling a better product.

There are two problems with this win-win approach. First, achieving shared value is hard to do. It wasn't like overnight,

Walmart said, 'We are only going to sell concentrated laundry detergents'. They had to work closely with their suppliers, change the way they shelved the products, create new signage and advertising, retrain their sales staff, and guarantee to the suppliers that they were not going to be disadvantaged by the smaller bottles. Even 'win-wins' require a whole lot of effort.

Second, not everything can be a win-win and, in fact, Porter and Kramer explicitly say that if you can't get a bottom-line win from the initiative, you should not proceed with it, because that becomes charity. We have to acknowledge that if you stick to the win-win framework, you are only going to be able to grab the 'low-hanging fruit', because you're only going to do things that benefit the bottom line, and therefore, you're not actually considering the true needs of stakeholders, workers or the environment.

Just because you can't find a win-win, it doesn't mean you shouldn't keep at it. As indicated, in my framework, the business case is only Mode 2 of four modes. I try to start where shared value leaves off — at the impasses that occur when you can't get to shared value in your current scenario.

Mode 3 Action involves innovating around a trade-off. What is one of your favourite examples of that?

If you can't find a win-win through your existing ways of doing business, you need to think about how to *innovate around* the trade-off(s) you identified in Mode 1. You might still end up with a business case, but you will come at it from a very different angle; it won't come from your traditional understanding of your business, and you may have to rethink the very nature of the business.

In the 1990s, **Nike** was famously assailed for its supply chain practices, where workers in Vietnam and other places were getting paid four cents a day under horrible conditions to make shoes that sold for \$200. At first, they resisted making changes; but then they began to invest in getting their factories to comply with international standards. What they discovered is that compliance was not going to be enough: They were never going to get improved work conditions by focusing only on the factories, and as a result, they ended up innovating in all sorts of different ways. They found new ways to work with the factories, using new management practices. They taught people about total quality

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improvement and helped managers learn to be more effective leaders. They helped them learn how to do scheduling. They implemented a wide range of standard business improvement practices.

They also realized that they had to change how they operated at their own headquarters. One reason the factories had substantial overtime and abusive scheduling was due to constant changes to the product designs that were based on the whims of the consumer — resulting in rush jobs for the factories. In the end, Nike had to rethink and innovate its approach to designing products and managing the process of procurement in order to create less pressure on the factories. That is a prime example of Mode 3 action: They eventually got to a win-win, but only after a whole lot of changes and innovation. Today, Nike is considered the gold standards in terms of how it deals with its global factories. It's not perfect — but it's much better because it chose to innovate as opposed to just focusing on compliance.

You indicated earlier that there are cases where innovation is not (yet) possible. How should leaders approach these situations?

I call these Mode 4 situations. In these cases there is no obvious win-win, and you don't have an innovative solution yet, either. The sad truth might be, 'We can't do anything about this at the moment, for now it is just a cost of doing business'. Yet, more and more, companies are keeping their innovative efforts alive in these cases. They might say, 'Look, we can't do this across the entire company right now — but here is one area where it might be currently feasible. Let's try it out there.' Another approach is to say, 'We can't do this right now, but let's set it as a long-term goal and continue to invest in working on it.'

Again, Nike provides an example. It is famous for its Nike Air shoes — which have air bubbles in them. A number of years ago, it realized that the chemical it was using to create the air bubbles was terrible for the environment. They tried to get rid of it, but they couldn't find another gas that would maintain the bubbles' appearance. Nevertheless, they didn't give up: They invested in a decade-long project to create new air systems with less environmentally-damaging gasses.

Eventually, they came up with a solution that entailed getting rid of the big air bubbles and replacing them with smaller bubbles throughout the entire sole of the shoe. That led to the Air

360, which was highly successful. By resolving to work hard on the problem — not knowing the solution in advance, and holding its intention firm for a period of time — Nike came up with an innovative solution.

You have said that for every organization, the urgency to move beyond bottom-line thinking could not be any greater than it is right now. Why is that?

It's pretty obvious just from the news in the last year that climate change is directly effecting the lives of millions of people in all sorts of ways, and corporations are obviously part of the problem; but they can also be part of the solution. We're learning that not all governments are going to be reliable in terms of creating regulations or following through on commitments to climate or non-discrimination, so we are at a moment when corporations really have to take the lead. This is happening in the U.S. right now, where some leaders are saying, 'I don't care what the government says: We will not back off of our climate change commitments'.

We're also seeing workers — whether it's in the supply chain or in corporate headquarters — pushing back on all different kinds of conditions, whether it's working conditions in **Amazon** warehouses or discrimination at **Google** or **Nike** headquarters. Leaders are realizing that they're going to get pressed more and more. The expectation of workers and of society is that they can no longer 'look the other way' on any of these issues. Whether they like it or not, they're going to be forced to do the right thing. **RM**

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