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How Organisations Will Shape
the Defining Challenges of Our Time

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Introduction

I. Why read this book?

This book is an inspirational how-to guide for organisations and entrepreneurs to prepare for the next decades. This book has three central premises:

- Our 21st-century macro environment will present us with collective, humanity-defining challenges
- Organisations are the ideal players to deal effectively with these challenges
- Organisations that succeed in tackling these challenges will be the new successful enterprises of this century

What will you get out of this book? Whether you are setting up a business, or you are leading an existing enterprise, this book will give you a detailed overview of the current trends in our world today, both from the perspective of the wider world and from the perspective of organisational leaders. It highlights a wider trend towards a purpose-driven paradigm where firms will aim to make a positive impact on multiple stakeholders and align themselves with larger goals in society. Building on these insights, this book provides you with pragmatic tools to successfully build organisations for this new world.

II. How to read this book

Successful transformations, whether they're personal or organisational, start with a good understanding of the beginning and end of the journey. The transformation then aims to bridge the difference between the two states. This book will follow the same logic: it starts by defining the starting point for today's world and today's organisations. It then describes the ideal organisations of the future. In our last chapter, we'll describe the pragmatic transformation approach that can be used to kick-start the needed change.

In this book, the idea of being purpose-driven, or using purpose+profit thinking, will be central. The definition of purpose-driven is:

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purpose+profit companies work with the ambition to positively impact a wider set of stakeholders through their strategy and daily operations, in addition to benefiting their shareholders

This means that purpose-driven firms combine profit goals with impact goals for their stakeholders. This set of stakeholders will be company-specific as it depends on the region the company operates in, the particular industry and the potential impact it can have. As we'll see later in the book, companies often set these goals by aligning themselves with the major challenges on earth, for example, those defined in the United Nations' Sustainable Development Goals. Note: the phrase '*through their strategy and daily operations*' is important as this notion is different from the idea of philanthropy. Being purpose-driven entails the strategic choices to do good *while* making money.

The first chapters provide a thorough overview of the starting point of our journey and discuss our first premise. We'll explore the world today by looking through five 'lenses of reality'. For each lens, we'll look specifically at what's going on at the moment and what we can reasonably expect in the coming decades. The lenses we'll be looking through to understand the world today are:

- economics
- geopolitics
- demographics
- technology
- environment

The second part looks at what's changing inside organisations today. It shows that organisations are reflections of society's belief systems, and changes in the wider world (outside-in forces) lead to changes in organisations (inside-out forces). This part of the book explores our second premise and highlights why for-profit organisations – not individuals, governments, or non-profit organisations – are the critical players to deal effectively with the defining challenges of our time. The chapter will also explain why it is in their own interest to do so, and will showcase organisations that have done so particularly well.

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The third and final part deals with the transformation approach. It explains in detail *how* companies can create more value while dealing effectively with the defining challenges of our time. The idea of combining purpose and profit in corporate strategy is at the heart of this book, and this section will present you with pragmatic, tried-and-tested transformation tools to realise just that. Included are all the frameworks we generally use with clients.

Two reading tips before you get started. First, important factors to remember in these trends are highlighted as a **tectonic shift**. Tectonic shifts, in this case, are big changes in existing patterns that will have a profound impact on the world we live in. Second, the book contains a good deal of data and references to visuals. These are important for three reasons: i) they provide *specificity* about the nature of the relevant changes; ii) they make the story as objective as possible, allowing you to interpret the data for yourself; and iii) the data and visuals simplify the story since a picture is worth a thousand words. If you're like most readers, you may well check the graphs first and then read the corresponding text.

Note that some sections might require some additional research if you're not familiar with the specific subject area. Where this might be the case, references for more information are provided. It is important that you do your own research and data analysis to get a good grasp of the trends discussed here. The data behind each graph, as well as all the visuals, are available on the purpose+ website¹. Additional data on the topics are also offered through our Global Progress Dashboard².

Regardless of the complexity of the subjects presented, the analysis of current global trends and a closer look at what the next decades will bring will be worth your while. It will enrich your understanding of our world and organisations as well as make you a better leader who is (even) better equipped to shape the ideal organisations of the future.

I sincerely hope you will find this book valuable. May it be an inspiration to you to manage existing organisations or design new ones.

Yours sincerely,
Rens ter Weijde

CHAPTER 1

The Defining Challenges of Our Time

Perspective is worth 80 IQ points.

- Jeff Bezos, CEO, Amazon

Through the following five lenses of economics, geopolitics, demographics, technology and environment, I hope to give you a better understanding of what's going on in sufficient detail. I aim to create what astronauts describe as the 'overview effect': the shift in awareness during spaceflight when an astronaut looks back at Earth from space³. This shift in awareness can be so powerful that it can change a person's personality. Astronauts have described Earth as a 'fragile oasis', 'hanging in the void', and often realise their entire identity is linked to the planet. Since I don't have the power to lift you into space, I will try to give you a glimpse of this effect.

The central hypothesis of this section is that *the 21st century will present us with collective, humanity-defining challenges*. With this hypothesis at the back of your mind, I hope you'll find these topics as captivating as I do.

1.1 A note on cognition

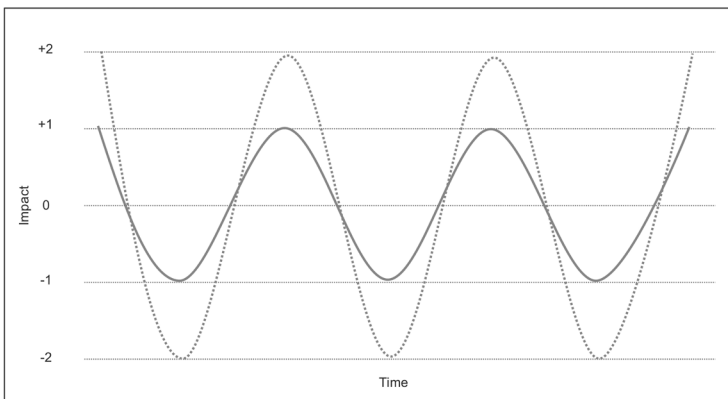
Before we dive into the world around us, I'd like to explain three psychological fallacies, or biases, that can play a role when studying the world around us. These cognitive shortcomings explain why we sometimes *fail* to read the writing on the wall, although the writing itself can be obvious in hindsight. Making predictions about the future is hard work, and people mostly get it wrong. Many of the great revolutions of the past came as a surprise to outside observers, not least for the revolutionaries themselves. Transformative moments in history, like the French Revolution of 1789⁴, Iran's Islamic Revolution of 1978-1979, and the Russian Revolution of 1917 all stunned their expert observers⁵ and were not anticipated. Even Lenin believed he would not see the change in Russia in his lifetime, even though he was the one who lit the fire. Paul Gascoigne, a British footballer, clarified his antipathy against (the complexity of) predictions well when he stated that "I never make predictions and I never will."

Our minds can be baffled by the complexity of understanding all aspects of reality; our minds, therefore, take shortcuts to the 'truth'⁶. These shortcuts are effective, but can sometimes distort our perception of reality, in which case we call them biases. The cognitive biases relevant for this book include (but are not limited to) our *failure to understand interdependence*, the *assumption of linearity*, and *hyperbolic time discounting*. I hope that by pointing these

biases out to you beforehand, you may be a little less susceptible to them when reading the next chapter.

Let's start with the first bias, which is *the failure to understand interdependence*. This says that most trends cannot be understood in isolation as they continuously affect one another and may weaken or strengthen each other in that process. This interdependency effect, popularised in physics as the 'butterfly effect', states that a small change in an unstable subsystem can sometimes lead to large outcomes in the wider system. A currently relevant example is the economic trend of *rising levels of inequality* in many societies. Looking at the inequality numbers themselves does not tell the full story, but if you start relating this trend to other trends, you can start to connect the dots and begin to see the relevance. For example, rising inequality in society coincides with an increase in social problems and political tensions⁷. This, in turn, affects the leadership style politicians exhibit to help them get elected and may influence demographic changes (people moving to areas with better opportunities) and environmental changes (less attention to environmental impact, 'own economy first' thinking), among other changes. Consider, for example, the graph below. To help you grasp the complexity, it can help to think of two waves (see *visual 1*). If two trends go in the same direction, their waves 'amplify'. If not, their waves can cancel each other out. Another way of saying this is that trends can exhibit a positive feedback loop (strengthening each other) or negative feedback loop (weakening each other).

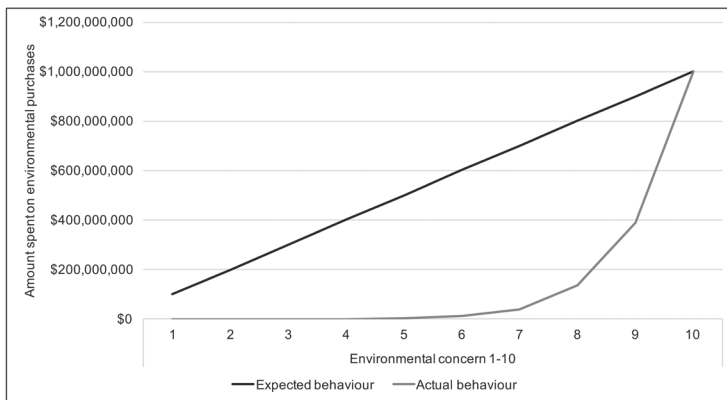
Visual 1: Two waves make a bigger wave



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A second psychological bias when reading the trends is the *implicit assumption of linearity*. Al Bartlett, a physicist, has called this inability to understand exponential functions ‘the greatest shortcoming of the human race’. Most people are intuitively comfortable with linear graphs (and most corporate profit projections we’ve seen show a linear trend upwards). This book, however, shows that few relationships between variables will be exactly linear. A famous example of a nonlinear trend, well known to social psychologists, is the general progression of behavioural change (*visual 2*). As a rule, people tend to resist change for a long time until the pressures become too great and the change simply *has* to materialise. Note that the example illustrated here is fictional and not based on any data. As you can see in the visual, the amount of environmental concern people have is not directly predictive of their actual environmental purchases as long as it’s in the 1-7 category. Having a little concern is simply not relevant enough to justify changes in consumption behaviour for most people. However, this behavioural change can occur rapidly when concern ratings are 8 or higher. This form of progression, known as exponential growth, is characterised by very slow ‘under the radar’ growth at first, followed by increasingly rapid growth in the later stages. This kind of growth leads to tipping points⁸ or critical mass effects⁹, and it is also the kind of trend that many business leaders fear when they discuss ‘disruptive innovation’¹⁰, e.g. through platform or technology businesses.

Visual 2: Expecting linearity where there is none

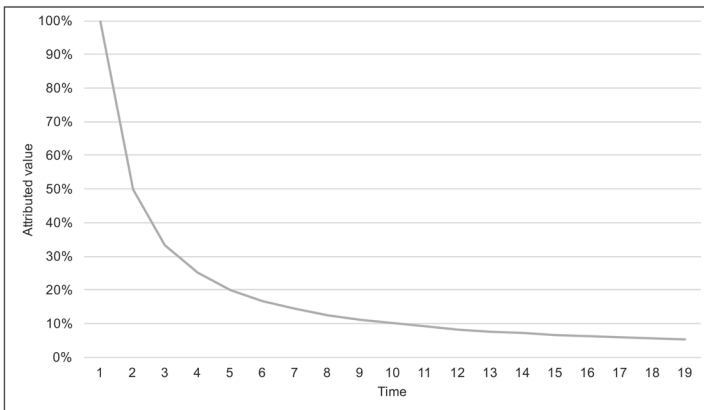


Source: HBR, *Linear Thinking in a Nonlinear World*, 2017; *Critical Mass: How One Thing Leads to Another*, Philip Ball (2004); *Superforecasting: The Art and Science of Prediction*, Tetlock (2016)

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A final fallacy is what behavioural economists call *hyperbolic time discounting*. This states that when people evaluate things that may happen to them, they will *discount the future compared to the past*. In most people's minds, today matters more than tomorrow. Harvard's David Laibson has shown that this trend permeates lots of our decision-making in daily life and how we calculate future risks. Time discounting is used in the fields of behavioural economics and game theory, and explains why most people plan to eat lots of vegetables *next week* (but not today), plan to start losing weight from January 1st onwards (but not now), and why many people buy gym memberships in the first quarter of every year, even though they fail to go the rest of the year. People, therefore, underestimate the future costs associated with the needed behaviour change, even when the prospect of the activity looks good in theory. Note that the bias of time discounting, combined with a misunderstanding of exponential change, can lead to *collective inaction*, even when change is obviously needed. Climate change seems to be such an example: experts in the field have been warning us about global warming and (again, nonlinear) tipping points that will be detrimental to all of us¹², but most people feel the problem is *not happening today*, and the future is simply worth less than today in most minds. This final bias is shown in visual 3.

Visual 3: Tomorrow is less important than today



Source: Inspired by David Laibson, Harvard University

1.2 Economics

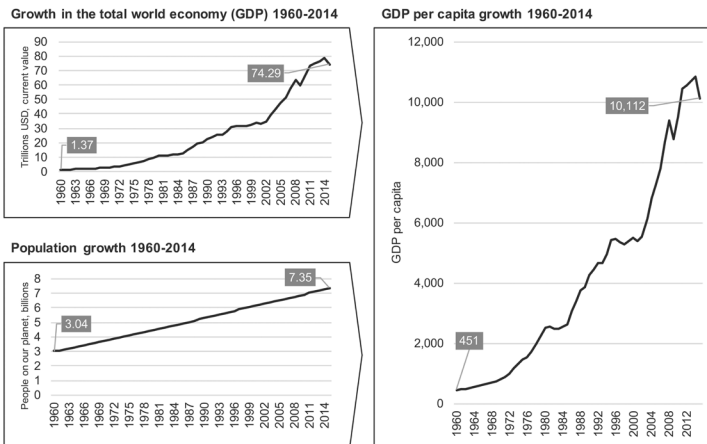
The economic lens forms the start of our story about today's world. Economic trends are famous for the direct effect they can have on people (e.g. unemployment, changes in business landscapes, rising prices), as well as their indirect impact on the other lenses we will discuss, like the environment and political landscape. This chapter gives a helicopter view of the global economy and then moves into specific details for advanced economies and emerging economies. As stated in the introduction, if a trend is particularly relevant, it will be shown as a **tectonic shift**. The chapter ends with a recap of all the tectonic shifts mentioned.

Although it makes sense to start by looking through the economic lens, some observers accuse economics of many wrongdoings. When Thomas Carlyle, a Scottish historian, famously called economics the 'dismal science' in the 19th century, he did so to highlight that 'finding the secret of the universe in supply and demand' was an impossible endeavour. The phrase of the 'dismal science' has been repeated often for other reasons, mainly because economics is simply far from the hard science we would like it to be. For example, it remains a science that wins Nobel Prizes for having opposing opinions. Other observers have questioned the assumptions of rationality in most models, as it appears people make emotional decisions most of the time¹³. As I am aware of these problems, I will try to bring you the current trends as clearly as I can, always naming the data source and highlighting different points of view where they exist.

Let's start with some general numbers on our global economy. The size of the world economy was estimated to be around US\$74.3 trillion¹⁴ in 2015, up from around US\$1.4 trillion in 1960. This 'economic miracle', where the world economy grew 50 times its size in just 55 years, is unprecedented in human history. The spectacular increase in GDP coincided with lots of other changes, notably the number of people living on our planet, which increased from 3 billion in 1960 to around 7.5 billion today¹⁵. This growth in population is relevant as it can dilute the benefits gained per person since they have to be shared among a wider community. Looking at GDP per capita, however, there is still a similarly spectacular pattern in line with overall GDP: the average GDP per world citizen was approximately US\$451 in 1960, but is over US\$10,000 today – a stunning increase by 22 times in

half a century. Note that this 22 times increase is based on averages, where GDP per capita is simply the total GDP divided by the midyear headcount, which does not take into account the inequality that exists in our world today (more on this later). However, GDP per capita growth could be considered to be the real miracle as the economy as a whole escaped the *Malthusian trap*. Named after Thomas Malthus, a British scholar and economist, who predicted that population growth would inevitably⁶ result from economic prosperity, which would, in turn, keep people poor indefinitely as people would continue to run out of land, food, and resources. Malthus, however, was wrong. Where the economy in the pre-growth phase was indeed a brutal zero-sum game, and just over a century ago in 1910 more than 80% of the global population lived in poverty⁷, by 2015, that number was less than 10%. Malthus clearly underestimated human ingenuity and miscalculated the efficiency increases (e.g. higher farm yield) that would coincide with economic growth. The result today is a very different picture than Malthus envisioned, of a world that is richer than ever before. Some experts estimate that poverty will officially be history in 10-20 years, although this will depend on coherent economic policy between nations and is not a given. These trends can be explored in *visual 4*.

Visual 4: Breaking out of the Malthusian trap

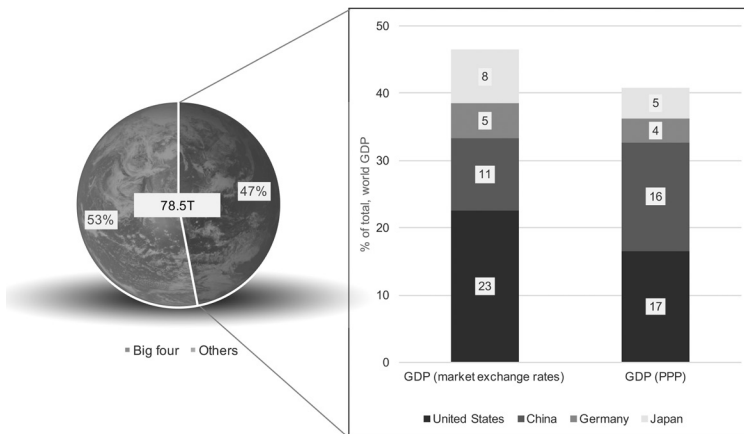


Note: value calculated in current dollars
Source: World Bank

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Although some economists believe that a ‘rising tide lifts all boats’ (a phrase famously used by John F. Kennedy on multiple occasions), data show that, although there is some truth in the notion, the reality is that some boats seem simply more buoyant than others. The 20th century’s miracle growth has seen clear winners, and there seems to be a strategic first mover’s advantage at play in the world at large. As an example, the top four economies – the United States, China, Japan and Germany – together generate 47% of global GDP (shown in *visual 5*). Being born in one of these countries presents a person with opportunities that are unlikely to materialise in poorer countries as the quality of institutions and educational systems correlate with the strength of the economy. Although these countries could see their hegemony challenged in the future (e.g. through the rise of India, which currently accounts for just 3% of the world economy), it appears they are safely locked in place for the century to come. Their position is strengthened by the fact that these countries have extensive foreign investments (a ‘diversified portfolio’, as it were) and trade relations with other countries, and will, therefore, benefit from any growth in different regions as well. In short, although the economic growth in the 20th century has been impressive, the wealth is strongly clustered on our planet, and it pays to be in the right spot.

Visual 5: The big four rule (half) the world



Note that graph does not show the EU, if it would the EU would show roughly same size as the US economy
Source: World Bank, IMF

How about the future of our world economy? Contrary to some doom scenarios, it is unlikely that we will run off a cliff anytime soon. The future of our world economy is, according to the World Bank, expected to be a relatively rosy one²⁰ – assuming no big surprises occur. The expected growth rate for the world economy in 2017 is 2.7%, and for the years ahead (2018 and 2019) it is even higher, closer to 3%. For the long-term (2050), although less reliable, similar growth rates between 2% and 5% are projected²¹. Although this may seem like a relatively small increase and far from the miracle growth we saw in the 20th century, this growth rate is, in fact, more positive than it sounds. As a reference point: the world economy saw an average growth rate of 3.5% between 1961 and 2016, and the US economy grew 3.1%²². Obviously, relative growth becomes progressively harder once an economy is already large²³, but the absolute amount of production increase per year will still increase significantly. At the current global growth rate, the world economy is expected to more than double in size by 2050²⁴.

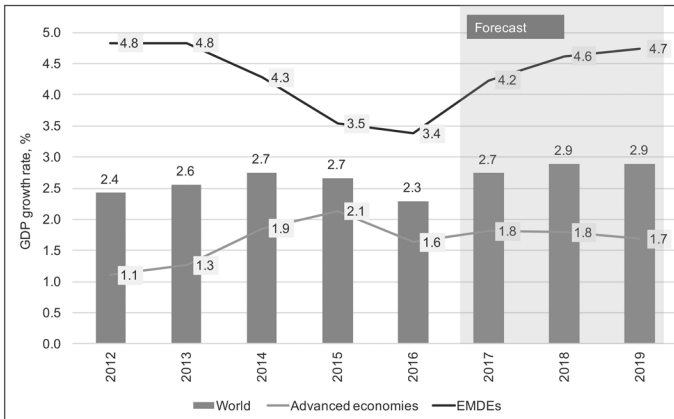
This growth will not be equally high in all countries though. Much of this growth will come from emerging and developing economies (EMDEs) with an average expected growth rate of 4.5% annually. Advanced economies, like the US and the Eurozone, are expected to grow much slower, at roughly 1.8% annually. This **re-balancing of our global growth engine** is our first tectonic shift as it will create new economic powerhouses in time. Today, emerging economies collectively make up only a third of the world economy, in 2025 this will have grown to half. *Visual 6* shows the difference in projected economic growth rates between advanced economies and EMDEs in the short term and explains the fundamental re-balancing of the world's economic engine. In the long term, this change in growth rates will change the world dramatically, however. By 2050, Chinese GDP per capita will rival that of Sweden today, India will resemble Taiwan today, and Russians will on average be as rich as a person living in today's Switzerland. This re-balancing will shift the economic centre of gravity to the east. Let's take a look at each of these economic growth zones for a deeper understanding of what's going on.

1.2.1 Advanced economies

The 1.8% growth rate for the advanced economies is a significant slowdown compared to growth in recent history, and this slowdown has been

the focus of many politicians²⁵ and economists' attention²⁶. Although the doom scenarios predicted by some politicians²⁷, like the 'American carnage' warnings in Donald Trump's election speech, are overdramatized and unlikely to materialise in the short term, it is indeed likely that our advanced economies will face some headwinds in the coming years that will counter further growth. In particular, there are worries that our current capitalist system in advanced economies will struggle with four main trends: i) the puzzle of proper distribution of wealth (inequality); ii) 'isolationist' forces; iii) declining productivity growth, and iv) the increasing emotional disconnect between value creation and investment. These trends combined provide a serious economic puzzle for our advanced economies.

Visual 6: The global economic engine is re-balancing



Source: World Bank Global Economic Prospects (January 2017)

Former US president Barack Obama called the rising inequality a 'defining challenge of our time'. Obama was not alone in this. Pew Research Centre found that 60% of the global population considers the gap between rich and poor a major challenge to overcome²⁸. The *New York Times* bestseller *Capital in the 21st Century* (Piketty, 2013) recently brought the topic into the spotlight. The book describes a central thesis ' $R > G$ ', where the average return on capital (R) is greater than the average growth (G) of the economy. This law, if true, is a main driver for the concentration of wealth in our societies. It further highlights that **levels of inequality are rising** in our societies, which is our second tectonic shift, as these levels are roughly similar today

to pre-World War II levels. You might have already noticed that Piketty's statements are in essence a direct attack on the American 'capitalist' belief in social mobility. Social mobility, the ability to improve your standard of living if you work hard and give life all you've got, is the central promise of American society. It is, therefore, no wonder that media announcing the 'death of the American dream' have appeared so frequently in the last few years, with catchy titles like *Looking for the American Dream? Try Denmark*²⁹. Although the American story has worked brilliantly in some ways, the notion of the American Dream is inherently a belief system, not a reality. Belief systems always contain the risk that people stop believing. What tends to follow is a philosophical vacuum that needs a renewed storyline. The section on geopolitics explores this further.

Media headlines aside, inequality in societies and its consequences are not easy to quantify. A relatively easy concept to grasp is the total income in society earned by the richest 10%. The graph below shows these numbers for the US, where the top 10% earn close to 50% of the income today, leaving the other 90% to divide the other 50%. This is shown in *visual 7*. Another, arguably more subjective, way is to check if people feel that the system is fair to them. Ipsos, a global market research firm, tested this notion in a survey of over 17,000 adults. When asked whether they agreed with the statement 'the economy of my country is rigged to advantage the rich and powerful', a global average of 76% agreed. Some countries had much higher levels, like Mexico (94%), Spain (85%) and Italy (84%). In all countries surveyed, the majority agreed. That makes inequality one of the truly global trends.

It is well known to historians and economists that high levels of inequality in societies correspond to other social problems, such as lower literacy, higher child mortality, more murders, higher substance abuse, lower social mobility, teenage pregnancies and lower levels of reported well-being. Historically, inequality has played a large role in revolutions like the 1789 French Revolution and the 1917 Russian Marxist revolution. The essence is a harsh one: if wealth is generated at a higher rate than our economy can provide higher salaries to workers, the concentration of wealth will increase over time. Or, in simpler terms: if you're born poor, you're likely to stay poor. If you want to get rich, you could try marrying a rich person.