

(When) Should a Company Have Purpose?

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Introduction

Organizations in Catalonia and elsewhere are facing mounting pressures to embrace social, environmental, and governance (ESG) goals beyond profit maximization. Yet, these objectives are rarely aligned in ways that create value for shareholders *and* society. I use an organizational economics lens to survey recent evidence, tackling the question: *when should a company have purpose?* I focus on firms' ability to attract talent and finance via social activities, contrasting the experiences of smaller, younger organizations with those of larger, established ones. This review does not aim to be comprehensive or to dismiss social activities' value across the board, but simply to interpret poignant recent (empirical) evidence bearing on this important debate among researchers, practitioners, and policymakers. In doing so, I highlight modern methods scholars use to study the role of organizational purpose.

Context

According to a recent *Bloomberg* article, global ESG assets surpassed \$30 trillion in 2022 and are expected to rise to over \$40 trillion by 2030, when they will represent more than a quarter of total assets under management.¹ These numbers speak to the striking growth this investment area has seen recently. The private sector is not alone in devoting resources to ESG assets. International, national, and local (public) organizations support or incentivize efforts to both provide capital and generate potential investment targets. The UN, OECD, ILO, and European Commission maintain substantial websites dedicated to sustainability or the social economy.² In Spain, the Ministry of Labor and Social Economy estimates that over 43,000 firms operate in the social economy, (in) directly employing over 2 million workers and generating about 10% of national GDP; it aims to boost these numbers through an €800 million

1 Article available at <https://www.bloomberg.com/company/press/global-esg-assets-predicted-to-hit-40-trillion-by-2030-despite-challenging-environment-forecasts-bloomberg-intelligence/> (accessed October 10, 2024).

2 For a summary, see https://social-economy-gateway.ec.europa.eu/about-social-economy/social-economy-worldwide_en (accessed October 10, 2024).

investment in the 'inclusive economy'.³ Within Catalonia, regional and local governments provide numerous services supporting social enterprises and socially responsible investments' broader ecosystem, among their entrepreneurial support activity.⁴ Across a broad range of stakeholders, therefore, interest in ESG remains high. This is not surprising: as concerns rise over economic inequality, limited social mobility, or climate change, the desire to improve global living standards and address grand challenges is strong. While tackling the world's ills is a noble, ambitious pursuit, should all companies, large and small, espouse a primarily social purpose and engage in ESG activities? Or are some better placed to embrace purpose than others?

Hiring

Beyond superior ESG performance's inherent value, observers often claim purpose enhances productivity by attracting and motivating employees (Turban and Greening, 1997). Besley and Ghatak (2005) formalized this logic by theoretically showing how workers enjoy working for a firm whose mission matches their own social preferences, thereby exerting higher effort and allowing firms to save on monetary rewards. Their model's predictions have received ample support in economic experiments, but the real world evidence is less clear-cut, especially since it is difficult for researchers to pin-

point individuals' motives or ability, which may concurrently drive their choice of employer and effort.

Burbano's (2016) influential study significantly advanced this debate by creating a controlled environment, where she experimentally manipulates whether corporate social responsibility (CSR) activities are highlighted in real, online labor markets (Elance and Amazon Mechanical Turk). Freelancers on these platforms are typically hired by companies to perform relatively simple tasks at an advertised wage. Burbano (2016) mimics this process, but allows potential workers to bid for another task with the same company, whose (fictitious) CSR activities are randomly shown to some workers, but not others. She finds that highlighting CSR activities attracts additional workers who demand *lower* pay, such that as long as CSR is not too costly, motivated employees benefit organizational performance by keeping costs down. Evidence from *large* organizations – a global management consulting firm, U.S. public companies, and a bank active across continents – corroborates this finding: corporate social initiatives can help retain workers (Bode et al., 2015; Flammer and Luo, 2017; Portocarero and Burbano, 2024).

But these results pertain to contexts where uncertainty is limited, either because the task an individual is contracted for is quickly completed or the organizations involved are highly stable. Start-ups, however, operate in highly uncertain environments, which may significantly alter how potential employees respond to social vision communications. Tarakci and van Balen (2023) address this possibility, using data from a worldwide startup recruitment platform and an experiment advertising a real vacancy to business school students. They find that Burbano's (2016) insights do not apply

³ Please see <https://www.mites.gob.es/EconomiaSocial/es/index.html> and its sub-pages, including the *Estrategia Española de Economía Social 2023-2027*, available at <https://www.mites.gob.es/EconomiaSocial/es/iniciativas-financiacion/estrategias-espanolas/index.html> (accessed October 10, 2024).

⁴ For additional information, see <https://agenciae-conomica.amb.cat/es/serveis-per-empreses/serveis-de-tall/-/serveiempreses/emprendimiento-social-en-cataluna/898293/11708> (accessed October 10, 2024).

to *young firms*: espousing a social vision led prospective job candidates to perceive lower career advancement prospects and rewards, reducing applications. Offering larger wages dampens this negative effect, as it alleviates applicants' concerns, but for start-ups to afford large wages, they need to ensure sound financial fundamentals. Hence, **unless economic performance is strong, purpose is unlikely to attract talent.**

Even when purpose – pursued alongside profits, as social enterprises do (Baron, 2007; Besley and Ghatak, 2017) – does attract workers, it may induce an undesirable effort allocation. In a multitasking model with motivated workers, incentives' absence renders 'mission' the only motivation tool, leading social enterprise employees to attend to social, rather than competing commercial tasks (Vladasel et al., 2024). This problem arises often in practice. In an enterprise tackling homelessness, employees disregarded operational concerns and instead prioritized beneficiary welfare; in a work integration enterprise, employees spent more time recruiting and aiding beneficiaries than ensuring work quality; in a youth development enterprise, employees focused on securing adequate housing for disadvantaged individuals, but neglected to collect the relevant rent; in a fair trade enterprise, employees prioritized producers, but insufficiently heeded customer needs. This choice threatens social enterprises' performance, with outcomes from sustained operational difficulties, to negligible revenue streams, and business closure.

To guard against the threat of 'revenue drift' – a shift away from vital revenue generation – social enterprises may consider offering monetary rewards. In online experiments with more than 1,500 subjects, Vladasel et al. (2024) find that low-powered incentives redirect employ-

ee attention towards commercial tasks and attract additional workers; larger incentives have similar effects, but risk attracting somewhat less prosocial employees. Although such 'selection' plays a minor role overall, one finding stands out. Fewer than 29% of subjects choose to work for social enterprises – rather than for-profits or non-profits – that don't pay bonuses; this rises to 71% when incentives match those in for-profits. In practice, monetary rewards in social enterprises are unlikely to be that high. However, the core insight that **workers are happy to pursue a social cause as long as they earn enough for themselves** appears to be remarkably robust and valuable for managers and social entrepreneurs.⁵

Finance

Another popular claim is that social activity helps firms raise external finance. Large companies are typically subject to considerable scrutiny, but agency costs remain high, as investors do not have access to all relevant information. Using a sample of publicly listed firms, Cheng et al. (2014) show that CSR performance – *policies* on emission reduction, human rights, shareholder rights, and *outcomes* regarding greenhouse gas emissions, personnel turnover, or remuneration packages – lowers capital constraints by increasing transparency and stakeholder engagement. Firms, nevertheless, do not randomly select their CSR participation, which may yield spurious correlations with investor behavior. To overcome this challenge, Hawn et al. (2018) examine how investors value

⁵ Yet, another complication may emerge from this incentive-based solution. Prosocial workers experience a slight cognitive dissonance when financial rewards encroach upon their moral values, slowing down response times, especially for women (as my ongoing work finds). If firms value agility, pursuing profits and purpose jointly can prove counterproductive, even when they deploy other tools to manage employees' attention and effort allocation.

firms that are added, deleted, or retained to an index mapping out the top 10% of CSR leaders across industries, the Dow Jones Sustainability Index. Firms at the margin of inclusion are similar, but the index highlights their CSR activities, which should theoretically influence investors. Investor response appears surprisingly muted. Nonetheless, as investors increasingly value sustainability, being listed on the index grows more profitable in recent years for large organizations (Durand et al., 2019 successfully replicate these findings).

As information asymmetries between investors and firms are even higher for start-ups with a limited track record (Cassar, 2004), third-party ESG certification could be especially useful in this context. Observers propose that the 'B Corp' label – given to firms meeting a performance threshold in key impact areas regarding workers, community, customers, environment, and governance – may facilitate external finance access for start-ups aiming to signal engagement with ESG practices (Gehman and Grimes, 2017; Grimes et al., 2018; Gehman et al., 2019). However, becoming a B Corp is difficult. Most companies fall short of expected performance on their first attempt and must undertake costly efforts to improve performance, often through a complete reorganization in order to enshrine their long-term mission. For young firms, this restructuring redirects valuable managerial attention and resources away from key commercial activities, hindering their economic performance (Parker et al., 2019; Wang et al., 2012 show similar findings for CSR activities more broadly).

Building on these results, van Balen and Vladasel (2024) find that B Corp certification actually *lowers* start-ups' success in raising finance from traditional investors. Even impact investors – a natural fit in non-financial preferences

– are keenly aware of the importance of economic fundamentals and deploy idiosyncratic impact metrics that more closely match their funds' ambitions, rendering third-party ESG certification superfluous. As a redeeming feature, van Balen and Vladasel's (2024) quantitative analysis of start-up investments – in B Corps and otherwise *comparable* young ventures globally – and qualitative evidence from interviews with European investors reveal that (impact) **investors view ESG certification as beneficial once a start-up has proven its business model**, only then can the label's consumer appeal begin to boost economic value.

Concluding remarks

Talent and finance acquisitions are critical for any firm, including those embracing purpose, but the ultimate goal is often more traditional – to generate financial value. The link between social activities and economic outcomes has a long-standing history, but limited consensus: mixed estimates are rife. Nonetheless, two studies are worth highlighting. Eccles et al. (2014) examine public companies, assessing long-run effects of relatively early sustainability practice

adoption. Among a carefully matched set of firms in 1993, they document significant gaps in including social and environmental metrics in governance practices, stakeholder engagement, long-term focus, and ESG disclosure in 2009. More importantly, high-sustainability firms have higher stock market and accounting returns than similar low-sustainability firms, although King (2024) casts substantial doubts on their analyses. It's possible, however, that firms differ in unobserved ways that influence both their adoption of sustainability practices and their broader performance. Mitigating this concern, Flammer (2015) studies listed firms (S&P 1500, Russell 3000

Index) whose shareholders put forward CSR proposals in annual meetings, comparing narrowly approved and rejected proposals. In this convincing empirical setup, CSR activity is positively associated with short-term stock market returns and long-term firm value, due to sales growth and labor productivity. Yet, one cannot extend these findings to CSR proposals in general. More generally, Berchicci and King (2021)(re-)examine recent evidence to argue that the link between social and financial performance is often positive, but that, **within a firm over time, social performance succeeds, rather than precedes financial success.**

On the basis of this evidence, the jury is still out on whether purpose drives success, even in large organizations. Instead, young firms should exercise caution in embracing purpose, given the difficulties associated with attracting talent and funding – two vital challenges in their early stages. Not all firms need to be hybrids maximizing shareholder profits while addressing grand societal challenges (McMullen and Warnick, 2016), as benefits accrue only under specific conditions (Mackey et al., 1997). Entrepreneurs may instead benefit from first establishing an economically sound business model, and only then shifting their attention to pursuing purpose. **Sometimes, the best way for young firms to make the world a better place may be to simply make money.**

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