



Balancing financial and social goals in dual-purpose companies

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There is a growing trend of companies attempting to balance financial and social goals simultaneously. However, they often face challenges because different stakeholders have different expectations. When these challenges become more intense, companies might prioritize one goal, which can lead to them losing their original mission or even going bankrupt.

In this article, the authors explore the conditions that influence the intensity of the financial/social trade-offs experienced by dual-purpose companies.

The authors found that these challenges become more significant in places with a strong focus on economic liberalism. However, certain governance practices, such as setting clear financial and social goals, thinking long-term, having leaders who understand both aspects, having a board that cares about both financial and social goals, and linking performance rewards to both financial and social achievements, can help companies manage these challenges better.

[#Dualpurpose](#) [#EconomicLiberalism](#) [#Governance](#) [#SocialEconomy](#)

Background

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Context



- The idea of **which goal a company should pursue has evolved over time**. During the late 19th and early 20th centuries, organizations were often understood to serve not only the investors but also their communities. However, since the second half of the 20th century, the focus has been on shareholder value maximization, exclusively targeting financial goals.
- Over the past decade, **companies have been encouraged to embrace a dual purpose**, combining the pursuit of financial and social goals. Despite the growing interest, this model is still far from dominant.
- Companies that pursue both goals must deal with **several challenges and sometimes antagonistic demands** because each stakeholder has a different view on which goals should be followed. This results in constantly dealing with financial/social trade-offs.
- Meeting the expectations of some stakeholders may negatively impact the expectations and demands of others. This can affect the survival of companies. It may also result in companies prioritizing their financial goals. Because of this, **these organizations are often seen as riskier and illegitimate** as they deviate from the dominant model.
- Dual-purpose companies can address the apparent incompatibility of financial and social goals in two ways: (i) **explicitly incorporating social goals** into their mission and (ii) **focusing on situations where social goals enhance the company's financial performance**.

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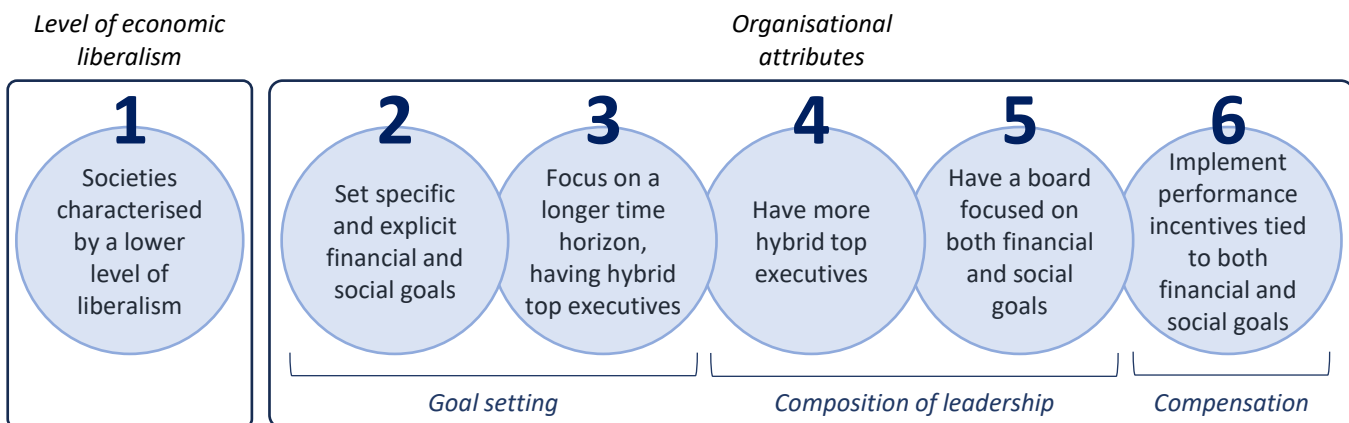
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Take aways & Learnings



- The authors propose **six propositions to understand the conditions that affect the intensity of financial/social trade-offs** experienced by dual-purpose companies.
- 1. The intensity of these trade-offs increases with the **level of economic liberalism** in which companies operate (e.g., non-market actors such as regulatory agencies or NGOs have less power in liberal economies and thus cannot outweigh the demands of market forces on the companies' behavior, resulting in higher financial/social trade-offs).
- 2. This level of economic liberalism is **filtered and mitigated by specific organizational attributes**. The authors propose focusing on three governance pillars to strengthen the company's commitment to its dual purpose: (i) goal setting, (ii) composition of leadership, and (iii) compensation of organizational members. Furthermore, companies may experience lower levels of financial/social trade-offs when they:
 - Set more **specific and explicit financial and social goals**;
 - Focus on a **longer time horizon** of financial and social goals;
 - Have more **top executives** knowledgeable and experienced in both financial and social logics;
 - Have a **board** focused on the achievement of both financial and social goals;
 - Implement **performance incentives** to accomplish both financial and social goals.

Figure 1. Intensity of financial/social trade-offs in dual-purpose companies in six propositions



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