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## Aligning purpose and profit

Purpose is more than an industry buzzword. Nadia Terfous, MD of Economics of Mutuality Solutions, explains how it can drive mutual value creation for all stakeholders

The definition of success in business is evolving. Financial profitability is no longer the principal indicator, as companies increasingly look at other factors ranging from social to environmental impact. Some businesses are starting to put purpose at the heart of their strategy, although many are held back by fear of how it affects the bottom line. Nadia Terfous, Managing Director of Geneva-based Economics of Mutuality Solutions and keynote speaker at Quadpack's recent AGM, explains how purpose and profit can go hand in hand in business.

Everyone is talking about 'purpose', but what is it exactly?

Purpose is the reason why a company exists. It is about building profitable, scalable and sustainable solutions for people and the planet. It is about helping us collectively solve our problems. It differs from mission, which describes your day-to-day activities. Your vision sets out where you want to be in, say, five to 10 years, in terms of success, while your values express how you behave as an organisation. Your mission, vision and values should all work towards delivering on your purpose.

How does purpose relate to a company's success?

Purpose revolves around new ideas of what success looks like. Success is not just defined in terms of financial capital. While it is important to deliver value to shareholders, it must be delivered to other stakeholders, too: employees, customers, consumers, suppliers, communities and the environment. Success is measured by equally growing human, social and natural capital. Although a company should reach a minimum level for all its stakeholders in all these areas as part of its responsibility agenda, it can deliberately choose to embark on a purpose journey where it can make the biggest difference. Purpose is not necessarily related to its core activity; it's really about the type of impact it can create for selected stakeholders by providing them with solutions for their

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unmet or emerging needs.

Have we shifted to stakeholder capitalism?

We are slowly moving from shareholder capitalism to stakeholder capitalism, but we are not there yet. The growth of ESG (environmental, social and governance) is an artefact of that shift. When assessing the overall performance and risk profile of a company, investors consider ESG topics in addition to traditional financial indicators, as they can have significant implications for its long-term value and reputation. Companies with strong ESG practices are often seen as more sustainable and responsible businesses. However, ESG metrics have their limitations. They are not measured in the same way, which means that different ratings agencies can rate the same company very differently. They are also typically more focused on value protection than value creation. A purpose-driven company needs to develop its own set of metrics that reflect its specific purpose and the associated levers to deliver on it.

Are purpose and profit compatible?

Yes, everything being equal, you are more likely to become a high-performing company with a purpose-driven model. At the macro-economic level, studies have shown that companies that are truly purpose-driven with a multi-stakeholder approach perform better than their peers. At the micro-economic level, it has been proven that, by trying to respond to unmet or emerging needs, these companies can develop innovative and commercially-viable business models that benefit people and the planet. Of course, profit remains essential to sustain and scale your business, but it is redefined as a means instead of an end. Everyone can win; thatâ€™s what mutual value creation means.

So how do you put purpose into practice â€” and do so profitably?

You start by defining your purpose, so that it becomes the guiding light of your strategy. Then, you define the key stakeholders who are material to that purpose, as well as their needs, their relationships, their aspirations and their objectives. You should include yourself and atypical stakeholders such as NGOs.

Next, you start profiling solutions based on those needs. This is the â€”innovation phaseâ€™. It pays to involve or partner with other stakeholders to help build and deliver your solutions and there

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will likely be a lot of trial and error. Itâ€™s a case of starting small and scaling up and it requires a lot of agility.

Finally, you should measure the impact of your solutions. Are they really solving the needs of your stakeholders and delivering on your purpose? Are you also creating value for yourself? Once you have proved these solutions are a source of mutual value creation, you can deploy them more broadly.

Are you seeing a shift towards purpose-led business?

There have been some efforts by governments, investors, companies and consumers to better take stakeholders into account. Of the top 250 companies, 96% have some kind of sustainability reporting in place, but we are certainly not yet at the stage where mindsets and practices are fundamentally evolved. If climate change is high on the agenda, greenwashing is pervasive and a lot of topics such as social considerations are still being left behind. We need more understanding of what it takes to develop innovative business models of mutuality to solve societal challenges.

We also need to accelerate the shift on a larger scale. I am optimistic, but it needs to happen quickly or the challenges we face will become more difficult to solve, not to say impossible.

About the Economics of Mutuality

The Economics of Mutuality is an operating model that equips companies to create enduring mutual value for the benefit of all stakeholders. It emerged from a long-term research programme led by Mars, Inc. and Oxford Universityâ€™s Saïd Business School, based on the principle of mutuality. Now independent from Mars, the Economics of Mutuality is advanced and implemented globally by the Economics of Mutuality Foundation and its management consulting arm, Economics of Mutuality Solutions.

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*About Quadpack Industries SA*

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