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THE PURPOSE-DRIVEN CORPORATION

Strategy in an Era of Stakeholder Capitalism



The idea that good business is about delivering more than just profits has been steadily gaining traction in recent years. Organizations are increasingly embracing the concept of aligning their purpose with societal themes like sustainability, wellness and mobility. This shift toward stakeholder capitalism is being driven by growing recognition that how companies treat their people, the environment and the communities within which they operate is fast becoming a competitive differentiator with investors, employees and customers.

We see it in the way that financial institutions and activist investors are steering funds toward companies reporting progress in areas like diversity and sustainability. It's evident in younger generations looking to buy from and work for companies aligned to their values. And global challenges like the pandemic, geopolitical uncertainty and climate risk are amplifying that trend, as stakeholders look to CEOs and the organizations they lead to take a more active role in addressing social causes and issues, agreed business leaders gathered for a recent roundtable discussion sponsored by *Chief Executive* and Tata Consultancy Services.

"Society's expectations are changing," said Cynthia (CJ) Warner, CEO of Renewable Energy Group. "Young employees don't just want to have a job, they want to feel proud of where they work and have a reason for doing it. They pretty much demand that. And our investors are starting to do that, too."

Vipin Garg, CEO of Altimmune, echoed that viewpoint. "Younger people want to make money, but they don't want to just focus on money," he said. "They focus on quality of life and on making a difference. So I think society is changing."

"This intense focus on purpose is a common phenomenon around the world," agreed Frank Diana, managing partner and futurist at Tata Consultancy Services. "And as that occurs, we'll see more and more changes to how we measure our businesses and how we think about strategy. What does a focus on purpose mean to strategy? Do I become part of a broader community that helps solve some of these challenges? And if so, what does that mean for M&A activity? All of these are open questions that will change how leaders think."

All of this is happening at a time when advances in science and technology are transforming entire industries, and economies around the world are in flux, he adds. "There's a great deal of change taking place in virtually every domain. Geopolitically alone, there's so much happening, whether it's digital currencies and central banks, social unrest or the coming fall in working-age population. This decade is being projected to be the most transformative in all of human history."

Navigating the challenge of helping their companies define and stay true to a purpose within this rapidly evolving

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business landscape is perhaps the biggest challenge today's leaders face. Even among early-stage and mature companies, what purpose-driven means and how best to approach it varies widely.

Sustainability goals, for example, are at the very heart of Renewable Energy's business model, which involves using a low-carbon method of converting waste oil to biodiesel fuel. "We're trying to create a more sustainable form of energy with great portability so it's accessible to everyone," explained Warner. "The purpose behind that is to help make the world a better place by reducing greenhouse gas."

Yet, at the same time, when the company embarked on an effort to define its mission, financial performance was also a big part of the conversation. "The sustainability mission is very clearly stated to be not just about environmental and energy sustainability but also about the company's financial sustainability," said Warner. "Because we recognize that if we don't focus on that collectively, we won't live to continue to meet our purpose. We have to be financially sustainable. So it has to be an 'and,' not an either-or. And it's very important that our employees understand that too—that profit is very, very critical because it's what drives the rest of the engine."

A Goal and Guidepost

Conversely, when mounting financial pressures have the potential to cloud decision-making, identifying and articulating a corporate purpose can serve as a company's North Star. Aveo Oncology's well-honed purpose acts as a touchstone for team members operating in a volatile industry where a failed clinical trial can bring decades of research to a screeching, devastating halt. "Biotech is inherently risky; There are lots of ups and downs and no guarantees," said CEO Michael Bailey.

“But keeping our mission—to improve the lives of patients with cancer—first and foremost is not only inspiring and motivating but also clarifying for us. When we look into licensing a drug or any kind of business question, we can usually answer it with that question: ‘Will it improve the lives of patients with cancer if we do this versus that?’”

Karim Mikhail, CEO of Amarin, echoed that sentiment, noting that his company’s decision-making is guided by its mission to bring cardiometabolic benefit to as many patients in the world as possible. “We very quickly realized that if we don’t make every effort to truly live the purpose, we would be disappointing the millions of patients who are counting on us,” said Mikhail, whose company is commercializing an FDA-approved treatment for cardiovascular risk reduction. “So all of a sudden your strategy evolves away from, ‘Oh, let’s deal with the quick wins.’ It becomes about doing everything possible globally to address the cardiometabolic pandemic—not the Covid-19 one—which changes everything from your global expansion strategy to the way you think of partnerships.”

As a result, the company is currently pursuing regulatory approval in 20 countries outside of the U.S. and Europe, following its mission of bringing healthcare advances to the rest of the world. “We dealt with the partnership mindset in a much different way,” said Mikhail. “We were far more open to collaboration and, at the same time, to having a completely different take on M&A because there is tremendous pressure on cash in these challenging times, and you cannot win this fight alone.”

As a pharmaceutical company with just one asset in production, Amarin’s purpose-orientation is regularly tested by peers seeking alliances. “For example, a company will come by and say, ‘I have an asset that will definitely deliver revenue, but it’s completely out of your space, are you willing to do it?’” explains Mikhail. “That’s a true test of what you’re really about because if you say, ‘Yeah, sure,’ then you’re just a revenue-driven organization and the real purpose of making a difference for the patients you serve is not so critical for you. We face those tests because [companies in our industry] need a second and third asset, and you don’t always have the financial ability to acquire it. But you sort of remind yourselves, well, if everybody does this, we’ll all end up doing the simple stuff, and nobody will deal with the true patient challenges pharmaceutical corporations need to address.”

Intensifying M&A Decision-Making

In a similar fashion, the intensifying focus on purpose may well change how companies approach M&A activity and collaboration with industry peers. “In the context of purpose, when acquiring, does due diligence change because we have to think of that whole requirement a little bit differently?” asked Diana. “Other conversations that are happening are, ‘In this world of ecosystems where multi cross-industry stakeholders

come together to help create or capture value, do I need to acquire? Do I think critically about my core competence, the value I could add to an ecosystem, and the fact that maybe somebody could do things better than I? Why acquire? Why not just figure out how to collaborate within the context of their broader ecosystem?’ So, it changes strategy at some level.”

Always a tricky business, M&A deals can also become even more challenging when operating in a purpose-driven realm. “It’s a lot harder because your investors have to come along with you in the journey,” noted Nelson Griggs, president of the Nasdaq Stock Exchange. “You’re telling a story today and then, when you go to acquire, it’s going to be a five-year or 10-year path, and it’s going to cost X and hurt earnings this way, so you have a whole turnover set of investors if they’re surprised.”

The traditional path of innovative smaller companies being bought by larger, legacy companies looking to access innovation can also be problematic in the purpose-driven realm. When PURE Insurance was being courted by buyers, for example, CFO and Co-founder Jeff Paraschac recounted feeling fortunate to find a likeminded buyer in Japan-based insurer Tokyo Marine. “We had lots of suitors, but purpose-driven companies can have a hard time going to work for a cigarette manufacturer,” he said. “One of the key differentiators for us was [Tokyo Marine’s] sense of purpose and mission, which is essentially to make the world a better place. . . so, if you’re a coal manufacturer or company that struggles with the way the world is moving, solving that through M&A might be quite tricky because it will be hard to find people willing to make the leap to be that solution.”

Broadly, how the movement toward leading with purpose will ultimately impact deal-making remains to be seen, notes Diana. “In boardrooms, conversation is changing around the broader picture and whether growth by acquisition is the right strategy. Because this notion of a multi-stakeholder environment is going to be a dominant way that business is conducted in the latter part of this decade. As these purpose-oriented missions play out, it will be interesting to see if that will change how companies think about and go forward with their growth strategy.”

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MERCK: GROUNDED IN PURPOSE

A Q&A with Merck Chief Strategy Officer Mike Klobuchar



What has the increased focus on corporate purpose meant for Merck?

At Merck, we have a strong culture that puts patients first, and that's how we have thought about our business and how we operate for a very, very long time—long before it became common in the industry. Our founder was famously quoted positioning patients before profits, and that has continued for the entire 130-plus years we have been around; the notion of a purpose-driven company is not foreign or even new to us. Part of Merck's success in employee engagement and satisfaction can be attributed to our purpose of saving and improving lives.

We feel core to Merck is to ultimately provide value to patients as our primary stakeholders, but to do it in a way that recognizes the larger ecosystem within which we operate—how we do it, how we think about access to our medicines and vaccines and how we think about geographic distribution of those breakthrough solutions.

Merck's environmental, social and governance (ESG) efforts are grounded in the core values that have always guided the company's mission to invent for life, with a responsibility to patients and animals in need of medicines and vaccines, and with respect, inclusion and accountability to its employees. The company's 130-year legacy has been built on the understanding that operating responsibly, enabling access to health for the patients and communities it serves, investing in and cultivating the company's employees and reducing its impact on the environment underpin the success and long-term sustainability of its business.

As more and more companies start to focus on this, have you seen any differences in external behaviors, whether it be from your investment community or partners you deal with?

It is true that over time, there has been an increasing interest from many stakeholders on the role life sciences companies—as well as other industries—can play in helping solve major societal issues. The good news is that Merck's long history as a purpose-driven company means we have embedded these values in the way we operate. Merck has also been reporting on ESG measures for a long time. Measuring and reporting ESG is another way for us to deliver on our purpose and continue to establish ourselves as an industry leader. At Merck, we look to ESG frameworks as a way for us to ensure we are leading equitably in the areas where our operations can help to solve societal challenges. The world continues to move at a rapid pace, especially in ESG, and we at Merck ensure we are staying ahead.

What role do you see technology playing in broadening and driving better adoption of standards and attainment of ESG goals?

We're seeing, both in our personal lives and in businesses, a different basis of knowledge. When you have advanced technology facilitating easy knowledge sharing, you tend to remove fundamental barriers that previously may have been prohibitive for moving information and driving insights. Digital technologies will continue to penetrate all areas of our lives, attaining ESG goals being one of them. Fidelity of measurement on what we're doing and how we're doing it will be critically important as it relates to required disclosures. Transparency and disclosure will continue to be more of a responsibility over time. What I think the emerging challenge will be—and I'm sure some of our colleagues are struggling with this today—is the custody of that information. How do you use technology to validate that chain of custody? How do you say, "Okay, you reported that number, tell me the genesis of that number." Technology, I'm certain, will play a role in that too.

In other industries, we've seen big players in a given space influence what happens across a network. Have you given thought to the role Merck will play in the overall life sciences value chain?

At Merck, we are committed to a high level of ESG performance that helps us drive sustainable value for our business and society. Our ESG strategy ensures that we apply our global resources and investments to ESG priority areas that matter most: access to health, employees, environmental sustainability and ethics and values. Through these focus areas, we continue to challenge ourselves to innovate, make ambitious commitments and form collaborative partnerships to solve major global issues. As we look to the future at Merck, we continue to challenge ourselves to think differently, make more ambitious ESG commitments and maintain transparency about our ESG performance—all key to making informed decisions and earning a leadership position in the industry.

Chief Executive

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