

# ENACTING SYSTEMS CHANGE

**Precompetitive Collaboration to  
Address Persistent Global Problems**

BY Naomi Barker, Douglas Ely, Nicholas Galvin,  
Anya Shapiro, and Adrienne Watts

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# TABLE OF CONTENTS

# ENACTING SYSTEMS CHANGE

---

**AUTHORS** 2

---

**EXECUTIVE SUMMARY** 6

---

About IMAGINE 7

---

Partnership with the  
University of Michigan 7

---

**THE SOCIAL,  
ENVIRONMENTAL,  
AND ECONOMIC DIVIDE:  
WHY STANDARD  
APPROACHES ARE  
NOT WORKING** 8

---

Call to Action for Business 11  
Collaboration to Address  
Persistent Problems

---

**HARNESSING BUSINESS  
FOR MARKET  
TRANSFORMATION  
AND SYSTEMS CHANGE** 13

---

Defining Systems Change 14

---

Systems Change: Shifting the  
Conditions Holding a Problem  
in Place 14

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## **PRECOMPETITIVE COLLABORATION AS A FORM OF SYSTEMS CHANGE** **17**

---

Precompetitive Collaborations and Antitrust	19
Modern History of Collaboration in a Business Context	19
Precompetitive Collaborations Are Value-Chain Collaborations	20
Differentiation Between Competition and Collaboration (Co-opetition)	21
Not All Collaborations Are Created Equal	22
Making the ‘Business Case’ for Collaboration	24
Shifting the Pareto Frontier: How Collaborations Can Decrease Risk and Increase Opportunity	24
Precompetitive Collaboration Design and Implementation	25
Framework Components for Collaboration	25
Crisis: An Impetus for Collaborative Leadership	29
Collaboration Hurdles	31
Organizational Hurdles	32
Personal Hurdles	33
When Collaborations May Not Be the Answer	33

---

## **A NEW ROLE FOR COURAGEOUS CORPORATE LEADERSHIP** **35**

---

Role of Leadership: Competition and Collaboration	38
Leveraging CEO Individual Agency and Engagement	39
System Leadership	39
Positive Organizational Scholarship	39
Shifting from Externalities to Internalities	39
Inner-Outer Game: Pre-Work for Undertaking Systems Leadership	40
Psychological Flexibility	41
Motivating Leaders to Take Strategic Action	41
Moral Obligation as an Impetus for Action	43
Episode Creation	44

---

## **BEYOND BUSINESS AS USUAL: THE ROAD AHEAD** **46**

---

Bringing New Voices to the Table	48
Building a Movement	48
Government’s Role in Precompetitive Collaboration	49
A New Approach for Antitrust Laws and Lobbying	49

---

## **ACKNOWLEDGEMENTS** **51**

---

## **REFERENCES** **52**

---

# EXECUTIVE SUMMARY



In this report, we investigate why systems-change strategy is crucial to address persistent problems facing society today including but not limited to climate change, biodiversity loss, income inequality, and racial divides. After extensive research and in-depth interviews with thought leaders on systems change and collaboration, it is clear that a new way of working together will be needed to address the threats society faces. We also show that forward-looking leaders must develop and tap into new ways of operating to employ the changemaking power of their positions. Effective systems-level change requires a sense of interconnectedness and shared sense of purpose to operate for the long-term benefit of society. However, it must begin with personal leadership evolution.

Systems change is a concept frequently mentioned but rarely explained in the context of contemporary management challenges. Thus, this report has been compiled to 1) help leaders understand systems change and how it can be accomplished, and 2) provide concrete strategies for maximizing social and environmental impact through effective precompetitive collaboration. Precompetitive collaboration functions as a form of system change because it allows multiple actors to coordinate and address root causes of issues from multiple vantage points simultaneously, through a uniquely iterative and experimental collaborative framework. We hope this report inspires leaders to imagine what is possible, view people as interconnected partners on the journey to positive impact, and build a new business ecosystem for the benefit of all.

### The key takeaways from our report are:

1. Persistent problems arise and go on persisting due to misaligned goals and fundamentally complex factors. They are features of the systems themselves. The problems we face are too large and too interconnected to solve alone and thus require collective, collaborative action.
2. Systems change is both a process and an outcome that addresses the root causes of persistent problems and requires a hypothesis-driven approach and an “ecocentric” perspective (i.e., re-analyzing one’s understanding of complex systems and remaining adaptive).
3. Leaders must reframe their understanding of competition and stop externalizing costs in pursuit of short-term, egocentric goals.
4. Precompetitive collaborations are a form of system change. They can establish specific processes and activities in order to generate impact (i.e., there are critical design components).
5. Precompetitive collaborations are not created equal; while some collaborations focus on creating incremental change, persistent problems need a transformational approach. Similarly, some collaborations are created for individual gain (risk and cost sharing) but we need collaborations that focus on prosocial goals (mitigating climate change and income inequality).
6. Crisis can be a powerful catalyst for developing shared purpose, trust, and progress, which are key foundations for effective collaborations.
7. Reframing competition and antitrust in the context of society’s current economic and environmental conditions is needed if precompetitive collaboration is to emerge as a leading strategy to fight persistent problems.

In the spirit of continually learning and adapting, we recognize that much of the work surrounding systems change is aspirational and ongoing. Much of this report’s information was collected from US-centric viewpoints, so where we have failed to incorporate different processes, perspectives, and ideas, we concede there are many ways and opinions on how to best address these issues. We welcome feedback, thoughts, or collaboration to build upon these ideas. Please reach out through our emails at the top of this report or on the University of Michigan School for Environment & Sustainability (SEAS) website.

# IMAGINE

## ABOUT IMAGINE

IMAGINE is a recently founded organization led by former Unilever CEO Paul Polman, former Unilever Chief Sustainability Officer Jeff Seabright, Beacon Institute founder and EY Beacon Institute alumna Valerie Keller, and Livekindly Collective Chairman & CEO Kees Kruythoff. IMAGINE’s mission is to help build net positive companies, which thrive by giving more than they take. IMAGINE supports courageous collectives, which work across the value chain to tackle dangerous climate change, nature loss and global inequality.

IMAGINE ([www.imagine.one](http://www.imagine.one)) is in the feasibility stage of developing coalitions of “Hero CEOs” dedicated to building their companies into beacons of sustainable business, shifting mindsets, and redefining business models by putting purpose at the heart of superior performance and exploring their connectivity to the wider ecosystem. If CEOs work together in a precompetitive fashion with other corporate leaders across industries, they can make positive impactful changes, and raise the bar together. Imagine’s goal is to address persistent problems through systems change and precompetitive collaboration by driving a critical market share of the industry to collectively take action.

## PARTNERSHIP WITH THE UNIVERSITY OF MICHIGAN

IMAGINE has partnered with an interdisciplinary team of graduate students at the University of Michigan School for Environment and Sustainability (UM SEAS) and Ross School of Business to accelerate IMAGINE’s work. This partnership also brought together global collaboration experts such as Jason Clay of the World Wildlife Fund (WWF) and John Ehrmann of Meridian Institute.

## The Social, Environmental, and Economic Divide

# WHY STANDARD APPROACHES ARE NOT WORKING



As a society, we are collectively experiencing the impacts of persistent problems such as climate change, biodiversity loss, income inequality, and racial divides.<sup>2</sup> Persistent problems are inherently difficult to define, interconnected with other problems, and nearly

impossible to solve in isolation. To adequately respond, society needs solutions that move beyond mitigation and resilience toward addressing these problems' root causes and the paradigms that underlie their creation and momentum.

Ecological and social systems operate in interconnected and nonlinear ways; however, our current use of natural resources is exceeding the Earth's naturally imposed limits. In 2020, Earth Overshoot Day—the day on which a year's worth of renewable resources are used

up—landed on August 22. While the COVID-19 pandemic temporarily slowed ecological demand, humanity still used approximately 160% of Earth's annual budget for renewable resources: the planet's ability to replenish what we extract.<sup>3</sup> This overshoot of naturally imposed limits has marched steadily faster since the 1970s, when our annual resource demands roughly equaled Earth's biocapacity.<sup>4</sup> These realities bring an increased sense of urgency to persistent problems and compress the timeline in which changes must occur.

The timing of this report coincides with the global COVID-19 pandemic. While these persistent problems did not bring about COVID and COVID did not bring about these persistent problems, society witnessed a system in which institutions were not equipped to adequately react. Many of the issues highlighted above were exacerbated or the depths were further exposed by COVID.

Though these persistent problems may not be new or unique, the context in which they are occurring is



**CSR suggests that the social and environmental problems of modern society can be entirely resolved without calling into question the foundation of the present economic system. Leaders must recognize that while CSR delivered on some of its objectives, a new, more ambitious model is now needed.**

vastly different than ever before. People today trust the institution of business more than nongovernmental organizations, government, or media.<sup>5</sup> Business thus can play a crucial role in addressing and mitigating these challenges and is increasingly being asked to address issues in the political and social domain. As a response, business leaders from the Business Roundtable and the World Economic Forum (among a growing number of international groups and initiatives) are seeking to redefine the purpose of business to meet the needs of all stakeholders and engage in shared and sustained value creation.<sup>6,7</sup> These organizations are finding that to address persistent problems, they must reframe their understanding of competition and stop externalizing costs in pursuit of short-term, egocentric goals.

Business leaders can benefit from examining the impact they have on ecosystems and the lands we inhabit. While a collaborative approach to equity is a new concept for business, there are long traditions of cultures that work collaboratively. For example, we can learn from traditional ecological knowledge (TEK), which is “the knowledge of Native people about their natural environment that has been gathered across generations and is renewed by each generation.”<sup>8,9</sup> TEK is a collaborative concept that invites diverse groups to learn from each other specifically by creating cross-cultural and cross-situational learning opportunities for indigenous and non-indigenous leaders.<sup>10</sup>

In the face of the building need for systems change, many companies have conventionally embraced corporate social responsibility (CSR) tactics, which are loosely defined as “contributing to the well-being of the communities and society they affect and on which they depend.”<sup>11</sup>

CSR is a model that has stopped short of changing business operations at large, as evidenced by contemporary crises of increasing frequency and duration, though doing some good (many companies cleaned up operations, increased transparency, improved equality). Companies have been criticized for using CSR as a smokescreen to hide inaction. Decades of incremental CSR that businesses have deployed are not solving these persistent problems and other institutions are not filling the gap. The problems we face now are urgent and must be addressed within the next decade to avoid catastrophic impacts from negative feedback loops caused by climate change and global poverty.

CSR primarily relies on changing micro firm-level behaviors to solve macro systemic problems, which has prevented truly transformative change.<sup>12</sup> Even as CSR has grown in popularity within the past decade, structural challenges including the presence of slave labor in company supply chains, rising GHG emissions, and homogeneity in board leadership continue to persist. These factors contribute to the fact that many companies are unable to mitigate their complicity in the escalation of current ecological and social crises. CSR suggests that the social and environmental problems of modern society can be entirely resolved without calling into question the foundation of the present economic system. CSR is fundamentally incremental and focused on declaring early wins—for example through commitments and targets—but systems change is a different approach fit for a world where the problems needing to be solved are very urgent. Leaders must recognize that while CSR delivered on some of its objectives, a new, more ambitious model is now needed.

To effectively address systemic problems such as income inequality and climate change, it will be necessary to address their causes on the systemic level rather than on the level of the individual company through CSR. This reality requires a transition from private property to shared property and from elitist decision-making to participatory decision-making.<sup>13</sup> Worker-owned, controlled, and managed cooperatives are among the most common examples of this type of shift. Similarly, the emergence of cross-sector collaborations proves that there are other operating models that maximize public good while moving beyond traditional CSR.

Pressure on business to be a responsible social actor that engages with others to build a more just economy is expected to increase in the coming decade.<sup>14</sup> Employees, as a stakeholder group, are demanding more social and environmental action from companies. If companies hope to continue to attract top-level talent, it is critical that they strengthen their purpose for existing and commit to socially responsible operations. Increasingly, companies have publicized their social purpose and



## TODAY, COMPANIES AREN'T JUST ENTITIES THAT MAKE THINGS. TODAY, COMPANIES ARE ENTITIES THAT STAND FOR THINGS, AND WHEN YOU BUY SOMETHING, YOU NOT ONLY BUY WHAT THEY DO, YOU BUY WHY THEY DO IT.” Brian Chesky, Airbnb

values and their support of Black colleagues in response to police violence, but the public may remain skeptical of companies until they make decisions that sacrifice short-term profitability to adhere to those values.<sup>15</sup>

In 2020 alone, companies have witnessed employees walking out of their workplaces over issues like climate change and business practices that have attracted the attention of socially conscious interest groups. A 2020 report by McKinsey argues that “disconnects between public perceptions of business and its potential for good, or between employees’ desire for meaning at work versus what they experience, reflect a purpose gap.”<sup>16</sup> This purpose gap is increasingly noticeable: among 1,000 employees of US companies surveyed, 82% emphasized the importance of organizational purpose but only 42% thought that their corporate purpose was effective.<sup>17</sup>

The business world is being rapidly politicized. Organizations are realizing their role as global corporate citizens and positioning themselves as responsible for prosocial and environmental causes. Importantly, consumers are holding corporations to their promises and support for intentional and equitable interventions on persistent problems. Like employees, consumers are strengthening their voices through activism and demanding, by voting with their dollars, that the brands take a stand.<sup>18</sup> Airbnb CEO Brian Chesky noted this shift at a

BlackRock futures forum: “Today, companies aren’t just entities that make things. Today, companies are entities that stand for things, and when you buy something, you not only buy what they do, you buy why they do it.”<sup>19</sup> In 2017, 16 Fortune 500 companies with a combined market capitalization of nearly \$3.4 trillion signed onto a letter urging the United States to stay in the Paris Agreement on climate change.<sup>20</sup> In June 2020 Coca Cola CEO James Quincey released a statement of solidarity in support of the Black Lives Matter movement, saying “as a company, we need internally to be an example for corporate America and society overall.”<sup>21</sup> When the Georgia state legislature passed a regressive and racially-charged

voter suppression law in 2021, consumers and advocates called on companies to honor their promise of social leadership and actively and forcefully condemn the law. Over 100 companies, including Coca Cola, Delta Airlines, and several other major corporate players based in Georgia, have since signaled their opposition to the measures.<sup>22,23,24</sup> As Cliff Albright, co-founder of Black Voters Matter, argued for *TIME*, “just like we say that elected officials have to be accountable to the community, corporations have to be accountable to their community... they’ve got to be accountable to

the taxpayers, who prop up this democracy to make their businesses even be possible.”<sup>25</sup>

Only a minority of consumers believe that companies today have purposes that are robust enough to meet contemporary social challenges. Yet consumers are ready to support action. A 2020 global study on corporate purpose found that, from the consumer lens, people are 4 times more likely to buy from companies who are leading with a strong purpose and are 4.5 times more likely to be champions for these companies.<sup>26</sup> Further, consumers are 6 times more likely to step up to the plate to “protect the brand in a challenging moment” when consumers connect to a companies’ purpose.<sup>27</sup> Another study showed that 86% of US customers expect companies to take a stand and act on social and environmental challenges in our society.<sup>28</sup> These respondents said they would, with their dollars, support companies who “advocated for issues they cared about.”<sup>29</sup> On the other hand, more than 75% would actively avoid spending money with brands who advocated for an “issue contrary to their beliefs.”<sup>30</sup>

Businesses that have targeted addressing persistent problems as a business opportunity are now seeing increasingly strong investor returns. Investment into sustainable funds that apply environmental, social, and governance principles (ESG) has surged.<sup>31</sup> Businesses aligning with social and environmental impact are

seeing higher returns, which suggests ESG is more than an exercise in social responsibility alone.<sup>32</sup> Sustainable investors now include immense funds such as the Dutch pension fund ABP, Government Pension Fund Global (GPF) in Norway, and the Government Pension Investment Fund (GPIF) of Japan. BlackRock has announced that almost all of its assets (\$7 trillion) would be governed by ESG considerations. The Net Zero Asset Managers Initiative was launched with 30 of the world's largest asset managers.<sup>33</sup> Globally, ESG inclusion in financial analysis has been growing by 17% per year.<sup>34</sup>

ESG is growing in importance not only because investors are seeing superior returns but also because these ESG issues have a measurable effect on value, reputation, and risk management. Incidents related to safety, pollution, and weather-related value chain disruptions harm many aspects of business.<sup>35</sup> Investors are meeting demand from the public to focus on a global sustainability agenda, and that aligns with the way many view monetary investment as a way to demonstrate their social, political, and environmental values.<sup>36</sup> Many of the largest businesses investing in ESG are leveraging the UN Sustainable Development Goals (SDGs) as guidelines. Asset owners with ESG aspirations are increasingly being held accountable by their beneficiaries and regulators for long-term returns and the impacts of their investments on real world outcomes.<sup>37</sup>

## Call to Action for Business Collaboration to Address Persistent Problems

This surge in ESG interest is running up against a culture embedded in business in which economic goals do not align with societal interest. In this culture, shareholder capitalism, short-termism, and the Friedman doctrine inform a way of thinking that does not account for shared prosperity and wellbeing. These systems were designed to achieve specific goals with specific rules in mind. Therefore, to proactively address the root causes of these problems, it will take someone willing to “change the rules that govern or the culture that influences.”<sup>38</sup> Many forward-looking leaders are taking a long-term view and moving beyond a winner-take-all form of competition.<sup>39</sup> Paul Polman, Rose Marcario, and Larry Fink headline a growing consortium of business leaders embracing this new purpose and moving beyond prioritizing shareholders over all else. They are considering cross-sector collaboration that improves the state of the entire economy and the society it is designed to serve.<sup>40</sup> By recognizing that individual action cannot tackle the complexity and interconnectedness of persistent problems, they have found strategies for collective impact, coordinated across institutional boundaries.<sup>41</sup> Business leaders have long found that collaboration is competition in a different form and can be especially effective when strategic goals converge.<sup>42</sup>

## SHAREHOLDER PRIMACY 'FRIEDMAN DOCTRINE' SHIFTING TO STAKEHOLDER PRIMACY

There is an ongoing societal shift that stakeholders and shareholders alike are demanding from businesses. The ubiquity of Milton Friedman's 1970's “shareholder primacy” doctrine proves to be the largest hurdle to overcome in reacting to this zeitgeist. Friedman's thought is rooted in the idea that a CEO must respond to the shareholders, since a CEO is an employee through share ownership. He furthers his claim that CEOs are not equipped to make social or environmental decisions because they are not experts in these areas and therefore would be wasting money that should flow to shareholders. Friedman teases out the idea that corporations should not make decisions on behalf of individuals who can decide to spend their returns in any way they see fit.<sup>44</sup>

However, in 2019, the Business Roundtable challenged the long-standing idea that the purpose of a corporation is to maximize profits and shareholder returns. Larry Fink, the CEO of BlackRock, the world's largest asset manager at US \$9 trillion as of April 2021, led the charge by declaring the purpose of a corporation must include views from all stakeholders (communities, employees, suppliers, etc.) and that profit and long-term value creation are products of a stakeholder view of the firm.<sup>45,46</sup> The Business Roundtable statement reflects the societal trend of demanding more from business in the era where there is a void of responsibility once held by government.

Cultivating spaces and infrastructure for collaboration will allow credible leaders to co-create the future and tackle the biggest challenges—climate change, biodiversity loss, income inequality, and racial divides. These issues are part of a larger system that is self-reinforcing and not balancing, externalizes problems, and preys upon unequal access and inequity. To date, those trying to fix these persistent problems tend to misdirect resources and not act on the root causes that are keeping

the system in place.<sup>43</sup> Without partners and collaboration any initiative to fully address these issues is doomed to fall short. All leaders now have a choice: to seek comfort in maintaining the status quo or to aspire to transforming the future. Those who want to transform the future need new strategies and frameworks that propel themselves and others to take action. Through collaboration, businesses can respond in novel ways that encompass environmental health, social equity, and economic prosperity. These types of collaborations must function as a system; competition between individual collaborations reinforces existing stalemate without leveraging the immense power of a collective.

Collaboration is not a panacea, nor a one-size fits all approach for advancing positive systemic changes. There are times when collaboration is an inappropriate strategy or may put a firm in a legally precarious situation. While there are a multitude of ways to mitigate these issues, it is important to note that collaborations are not the only way companies drive progress or address persistent problems.

This report is a study of precompetitive collaboration as a form of systems change and how it can facilitate a net positive impact through purpose-driven businesses.

**IMAGINE CEOs MOVING AS IF THEIR SHOELACES ARE TIED TOGETHER. ANY INDIVIDUAL CEO CAN ONLY MOVE SO MUCH FARTHER AHEAD THAN THE OTHERS. EVEN WITH THE BEST PRACTICES AND INNOVATIONS, THIS IS SYSTEMIC AND CAN'T BE SOLVED ON AN INDIVIDUAL CEO BASIS.”** Russ Gaskin, CoCreative<sup>47</sup>

**To date, those trying to fix these persistent problems tend to misdirect resources and not act on the root causes that are keeping the system in place.**

Systems change—the process of addressing these persistent problems and the ultimate outcome—requires new ways of thinking and being. This report shows:

- Persistent problems arise and continue to persist due to misaligned goals and fundamentally complex factors. They are too large and too interconnected to solve alone and thus require collective, collaborative action.
- Systems change is both a process and an outcome that addresses the root causes of persistent problems and requires a hypothesis-driven approach and an “ecocentric” perspective (i.e., re-analyzing one’s understanding of complex systems and remaining adaptive).
- Leaders must reframe their understanding of competition and stop externalizing costs in pursuit of short-term, egocentric goals.
- Precompetitive collaborations are a form of system change. They must establish specific processes and activities in order to generate impact (i.e., there are critical design components).
- Precompetitive collaborations are not created equal; while some collaborations focus on creating incremental change, persistent problems need a transformational approach. Similarly, some collaborations are created for individual gain (risk and cost sharing) but we need collaborations that focus on prosocial goals (mitigating climate change and income inequality).
- Crisis can be a powerful catalyst for shared purpose, trust, and progress, which are key foundations for effective collaborations.
- Reframing competition and antitrust in the context of society’s current economic and environmental conditions is needed if precompetitive collaboration is to emerge as a leading strategy to fight persistent problems.

# HARNESSING BUSINESS FOR MARKET TRANSFORMATION AND SYSTEMS CHANGE



Capitalism is flexible. It was not designed as the ultimate solution to our problems, but as a way to incentivize growth, innovation, and adaptation.

Despite the tectonic shifts in societal, environmental, and economic arenas, organizations continue to thrive within the current frameworks. For centuries, organizations have perpetuated and exacerbated persistent problems with little consequence. However, many businesses are now recognizing their role in the creation of persistent problems and are seeking to improve them. Business, the most powerful institution within the capitalist system, has the potential to enable systems change.

However, the traditional market-based approach passes negative externalities onto others and can deceive businesses into believing they are successfully operating for the betterment of society. Unless market players change the conditions that are in place, modern crises like climate change and rampant inequality will never transform.<sup>48</sup> The pervasiveness of these crises has changed the rules of the game and forced many to reconsider winner-take-all competition of the market. Instead, companies are leaning into strategies that improve the society it is designed to serve<sup>49</sup> Viewing others solely as competitors within a zero-sum game no longer works.

Individual businesses have agency to deploy resources as they see fit to change products and supply chains, but making their operations *less bad* will never

Systems change is both a process and an outcome that addresses the root causes of issues. One significant difficulty in changing a system—or seizing the opportunity to do so—depends on how quickly and often parts of the system interact.

reach the scale needed to address persistent problems. Moving beyond today’s models requires a new phase of business sustainability that has been called “Market Transformation: Business 2.0” by the University of Michigan’s Ross School of Business Professor Andrew Hoffman.<sup>50</sup> It focuses on creating *more good* in the system, through innovative models and new corporate purposes intended for long-term impact, such as shifting patterns of consumptions through systems change.<sup>51</sup>

### Defining Systems Change

Among the challenges of defining systems change is that there are several leading interpretations. Contemporary definitions differ in their framing; some are focused on theory while others are focused on practice. However, they all describe systems change as a physical *act* that requires examining existing conditions as a starting point and then making a series of changes to dismantle inertia, starting from the root source of the issue.

Systems are interconnected and dynamic. Systems (human systems, ecological systems, thermodynamic systems, etc.) are also made up of complex relationships.

One significant difficulty in changing a system—or seizing the opportunity to do so—depends on how quickly and often parts of the system interact. For a human-affected system to change, people must change why they are interacting. This means shifting or transforming the structures, customs, mindsets, and rules that hold problems in place.<sup>52,53</sup> Therefore, this report defines systems change as both a process and an outcome that addresses the root causes of issues. Though it is traditionally known as an outcome of transformational processes, the analysis in this report shows it is something that can be physically enacted by changing why and how people interact.

### Systems Change: Shifting the Conditions Holding a Problem in Place

Decades of CSR initiatives have provided a clear roadmap for how the symptoms of persistent problems could be addressed through corporate action. However, they have focused largely on voluntary action to reduce social and environmental impacts, such as by develop-

ing lower-footprint products, reducing emissions, and donating to nonprofits. These initiatives aim to be *less bad* than business-as-usual, rather than attempting to change the fundamental system in

which we operate. Addressing the symptoms of systemic challenges—such as those mentioned above—will not address the root causes. Addressing symptoms is one of the lowest-impact levers we can pull. The causes are still in place, and therefore simply acting within a system (repeatedly addressing the symptoms) will not change it.

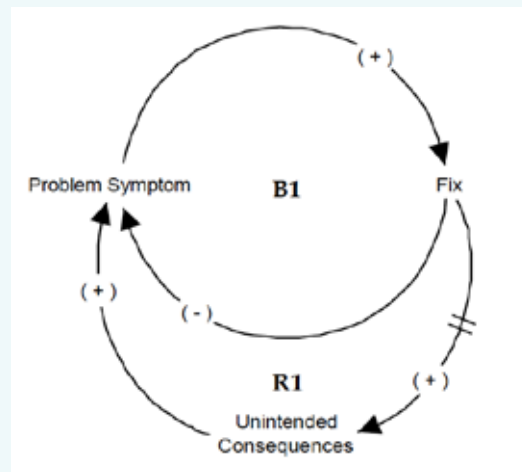
CSR initiatives too often incrementally address symptoms. These actions do not reverse steadily worsening situations and tend to create unintended consequences (see box below on “Dealing with Symptoms Rather Than Underlying Causes” for the system archetype explaining this pattern). It is often reasonable, and easier, to focus on a symptom (e.g., emissions) but this approach misses an opportunity to enact transformative change, typically because it is either too hard (to measure, to fund, etc.) or the underlying causes are not visible.

Systems-change scholar Donella Meadows posited that the levers leaders most frequently influence are the lowest points of leverage and least likely to transform the systems of which they are a part.<sup>56</sup> While these levers are the most clearly understood and manipulated, they do little to change overall behavior and system processes. Meadows outlines twelve leverage points to intervene in a system, from lowest impact to highest.

# DEALING WITH SYMPTOMS RATHER THAN UNDERLYING CAUSES

Fixes that fail is a systems archetype where actors deal with symptoms instead of an underlying cause.<sup>54</sup> In this case it is reasonable to focus on a symptom (e.g., emissions) in ways that are effective, but many will miss an opportunity to do deeper and longer-term work because it is either too hard or the underlying causes are not visible. One way to recognize this archetype is to observe a steadily worsening situation (e.g., global warming or income inequality expanding).

**FIGURE 1:** “FIXES THAT FAIL” SYSTEMS ARCHETYPE FROM BRAUN’S “THE SYSTEM ARCHETYPES.”<sup>55</sup>



A low leverage point tends to impact minutiae that do not ultimately change persistent problems, while a high leverage point is a place where a “small shift in one thing can produce big changes in everything.”

Lower leverage points are ultimately a product of misaligned objectives and outcomes (e.g., proposals to tax carbon emissions without a clear ceiling may not substantially reduce emissions) and are notoriously slow to change systems. Examples of these lower leverage points include:

- Constraints and parameters (e.g., changing the variables within a system, such as by introducing new subsidies and taxes)
- Buffering and stabilizing stocks (e.g., changing the size of systems themselves)
- The structure of material stocks (e.g., changing the physical structure of systems, such as by improving air pollution in certain neighborhoods by redesigning highways)

Alternatively, leverage points that focus on transformative measures are critical when attempting to impact systems-level changes. These levers are not typically realized because they attempt to shift the systems holding problems in place. They are often nebulous, difficult to define, and have a longer timeframe. The high leverage points consist of:

- The structure of information flows within a system (or new flows of information)
- The rules that govern the system (e.g., incentives, punishments, constraints)
- The power to evolve, change, and self-organize (e.g., making new rules and structures)
- The goals of the system
- The power to transcend paradigms (beyond challenging the system’s fundamental assumptions; changing the values and priorities that lead to these assumptions)

Leaders should look more broadly at changing levers like *mindset* and the system’s *goals* so the behaviors in service to it will also change. Many of these systems are self-reinforcing, so shifting the goals shifts both the system’s design and the conditions keeping problems in place.<sup>57</sup>

Examples of high-leverage impacts are few but are being increasingly called for. Encouraging changes do exist, however. The Toxic Release Inventory, which required every factory in the United States releasing hazardous air pollutants to report those emissions, vastly altered the availability of information flows to the public and resulted in a 40% drop in emissions within four years. The 2020 letter from BlackRock CEO Larry Fink began

to change the rules for investment by calling for wide-spread ESG disclosure and reporting, which has led to a shift in attitudes toward ESG.<sup>58</sup> A parallel movement by major corporations such as Chipotle and Nike tying executive compensation to environmental performance shifted the goals of a system by reframing from a goal of maximizing shareholder returns to providing stakeholder benefits.<sup>59,60</sup>

Shifting the goals of a system is among the most complex but impactful strategies that can “unstuck” systems. Basic corporate strategy dictates an approach where those producing similar services or sharing similar customers are competitors within a zero-sum game. In order to truly transform a system, leaders need to identify new ways of acting and move beyond endless growth as an end goal. If leaders can move to an advanced form of competition that isn’t to the death they will be able to perceive space for multiple actors to exist and accept that endless growth may not be truly desirable or even necessary.<sup>61</sup> This is the fundamental issue with

the prevailing view of business that is being taught in top business schools and practiced worldwide. By viewing others only as competitors, the natural response is to use additional resources to sustain a competitive advantage and maintain momentum which is described in the box below on “Escalation System Archetype.” In an escalation system, archetype actors escalate a behavior to a point where they harm themselves and others. When one party’s actions are perceived as a threat, the second party will respond in a similar manner, further increasing the threat. This creates two reinforcing feedback loops that can lead to exponential effects over time. To break free of this cycle, leaders should identify a larger goal that encompasses the goals of both parties and identify alternative ways to differentiate in the market.

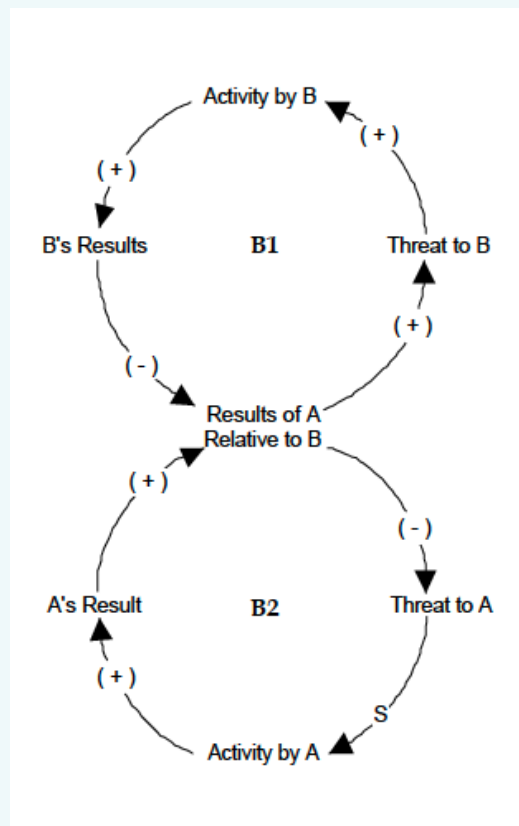
An extremely powerful leverage point is reconsidering the purpose of a system, which would reform the rules of the game entirely (the “why are we here?” question). Some posit that this thinking concluded in Copernicus and Kepler showing that the earth is not the center of the universe and Einstein showing energy and matter are interchangeable.<sup>62</sup> These examples illustrate the sheer scale and magnitude of systemic change that can be accomplished by changing the thinking around our purpose.

## ESCALATION SYSTEM ARCHETYPE

Adhering to seven key principles can help collaborations avoid the “Escalation Archetype” scenario in which archetype actors escalate a behavior to a point where they harm themselves and others:<sup>63</sup>

1. Identify the competitive variable—where do actors differentiate between themselves?
2. Identify the key actors in the system or industry.
3. Map what is being threatened. Determine if actors are preserving a status quo that is no longer viable.
4. Reevaluate the competitive measure. Can the foundation of the game be shifted?
5. Quantify and identify delays that may distort the nature of the threat (e.g., what is the current perception of externalities?).
6. Identify a larger goal that encompasses both parties’ goals.
7. Avoid future escalation traps by creating a system of precompetitive collaboration. Specify how actors can demonstrate fidelity to new, larger goals to avoid distortion of actions and perceptions of threats.

FIGURE 2: FROM BRAUN’S “THE SYSTEM ARCHETYPES.”<sup>64</sup>







# PRECOMPETITIVE COLLABORATION AS A FORM OF SYSTEMS CHANGE

# PRECOMPETITIVE COLLABORATION AS A FORM OF SYSTEMS CHANGE



We can contextualize systems change through precompetitive collaboration. Precompetitive collaboration is both a process to reach systems change as well as a form of systems change itself through corporate engagement. According to Jason Clay of the World Wildlife

Foundation, precompetitive collaboration differs from other forms of private sector collaboration in that it takes place before differentiation in the marketplace occurs.<sup>65</sup>

Our definition of precompetitive collaboration from a third-party perspective is as follows: a group of independent stakeholders committing time, energy, and resources to address systemic problems by leveraging the power of collective action and expertise. These stakeholders can include, but are not limited to, businesses, NGOs, units of government, philanthropic funders, and consumers. Precompetitive collaboration functions as a form of system change because it allows multiple actors to coordinate and address root causes of issues from multiple vantage points simultaneously, through a uniquely iterative and experimental collaborative framework.<sup>66</sup> Previous collaborations have focused on environmental

Precompetitive collaboration is a group of independent stakeholders (businesses, NGOs, units of government, philanthropic funders, consumers, etc.) committing time, energy, and resources to address systemic problems by leveraging the power of collective action and expertise.

sustainability and global supply chains, but but companies are beginning to understand that global supply chains may be some of the most inequitable institutions on the planet and are actively examining what they can do individually and collectively to address DEI issues as well as the SDGs. Businesses are taking accountability for actions of their “scope 3 activities”—activities from assets not owned or controlled by the reporting organization but that indirectly impact its value chain—through collaborations that address issues across entire value chains or among competitors at a specific place in the value chain (e.g. producers, traders, brands, etc).<sup>67,68</sup>

Precompetitive collaboration differs fundamentally from other types of collaboration (e.g., public private partnerships, etc.) because it seeks to leverage the power of the private sector and corporate leadership for bold, transformative action. By acknowledging the private sector's involvement in exacerbating the root causes of persistent problems, precompetitive collaboration is perfectly positioned to address them.

Individual actors across a value chain lack the power and knowledge to individually address massive challenges that can undermine entire industries. Therefore, partnerships across the value chain—including all actors listed above—are the preferred type of collaboration to address issues that stem from and contribute to persistent problems. Effective strategies to address challenges of efficiency and effectiveness no longer reside solely *within* organizations but rather *between* organizations.<sup>69</sup> Furthermore, innovations are more rapidly adopted and diffused in value-chain collaborations and thus can address persistent problems beyond the scale of individual actors.

## Precompetitive Collaborations and Antitrust

The role of antitrust must be addressed, as it is a common and valid concern when the idea of precompetitive collaboration is raised. Antitrust has the benefits of the customer at its heart, but it is important to consider whether there might be a role where governments enable corporate collusion *for* the benefit of customers, which would enable more nimble, effective, and efficient precompetitive collaborations to emerge.

Precompetitive collaboration can tread the line of antitrust, and the distinction between collaboration and collusion lies in the interpretation of country-specific antitrust legislation. In the United States, the Sherman Antitrust Act is the reigning law on antitrust and preserves competition in the market. This preservation of competition in service of the consumer is the most cited reason to uphold the Sherman Act. Passed in 1890, the act “is a federal statute which prohibits activities that restrict interstate commerce and competition in the marketplace” and prohibits “every contract, combination or conspiracy, in restraint of trade or commerce.”<sup>70,71</sup> It is left to interpretation on a case-by-case basis to discern if an agreement between firms preserves competition in the market and decentralizes power in the interests of the consumer.<sup>72</sup> The act aims to diminish restraints on trade in order to provide the best outcome for consumer welfare through economic efficiency. However, defining the best possible outcome for consumers fosters contradictions. For example, consumer welfare might mean lower prices, or it could mean increasing quality, innovation, or options. For these reasons, it is important to apply and interpret the ambiguous language of the Sherman Act with individual circumstances

in mind. US rules uphold that *any* questionable collaboration will be rejected after a brief examination. Since it is time-consuming and nearly impossible to understand all the economic implications from an agreement or collaboration, laws and regulation may err on the side of safety by dismissing potentially questionable agreements. These rules can often deter even the most altruistic collaborations, given that the onus for proving a collaboration is not “unreasonable” would fall on the business.<sup>73</sup>

## Modern History of Collaboration in a Business Context

Global leaders often call for collective action to address the persistent problems of our time, but there is a simultaneous breadth of research indicating that the general public is losing faith in government to solve challenges. In the United States, trust in the federal government has been trending down. In 2018, 75% of Americans reported a loss of trust in the government and 64% said the low amount of trust makes it difficult to solve problems in our country.<sup>74</sup> In lieu of successful government action, business leaders are being beckoned to fill the void and enact transformative progressive change.

For business to effectively answer this call and address persistent problems, the shareholder primacy mentality must shift to a more inclusive model that can see the root of issues through stakeholder capitalism. Business leaders are speaking out about this call to action, with prominent examples ranging from Larry Fink's aforementioned Business Roundtable letters to Paul Polman's call for executives across industries to collaborate and address the persistent problems of our time. As conversations around the stakeholder-driven era of business accelerate, business leaders are discussing how this will influence and require new models of business and collaboration.

Collaborations across lines of business are not new. Companies have been collaborating to ensure their fiscal success for decades. Although the strategic purpose of opportunity-based collaborations is typically to secure a competitive advantage in the market rather than to address a societal issue or concern, they share a fundamental component of all collaborations: to learn from your collaborators. Collaborations present an opportunity for companies to expand their knowledge base, expertise, market reach, and social impact. Although many other collaborations are formed with different or broader-reaching goals in mind, the understanding that impact is greater as a collective remains the backbone collaborative goal.

The modern-day increase in complexity of value chains and economies is already generating novel forms of precompetitive collaboration, such as the Sustainable Apparel Coalition, Nestlé's Creating Shared Value Initiative, World Economic Forum COVID Response

Alliance for Social Entrepreneurs, and The Global Salmon Initiative, to name a few examples (detailed below). These collaborations are novel as they address disruptive externalities and increase resilience in times of crisis.<sup>75</sup> They are often formed in direct response to perceived crises. Sara Enright of BSR noted that the Sustainable Development Goals (as well as the development of the SDGs themselves) helped to accelerate corporate collaboration initiatives by intentionally integrating the private sector as partners and contributors to the global development goals (see box below).<sup>76</sup>

## Precompetitive Collaborations Are Value-Chain Collaborations

Collaborations from a traditional business lens can take place as joint venture, strategic partnership, or value chain arrangements. Value chain collaborations involve members throughout the supply chain, such as raw material producers, suppliers, manufacturers, marketers,

and places of point of sale, as well as other stakeholders such as non-profits and academia. Specifically, precompetitive collaboration from the business lens takes place before differentiation in the marketplace occurs.<sup>80</sup> Effective strategies to address challenges of efficiency and effectiveness are shared between organizations, which is why value chain collaborations are so powerful.<sup>81</sup> Individual actors across a value chain lack the power and knowledge to address massive challenges that can pull the rug out from under entire industries. This is particularly true in a time when companies are becoming more specialized in knowledge as they lean into their competitive and comparative advantages. Modern challenges are more effectively addressed as innovations are more rapidly adopted and diffused in value-chain collaborations.<sup>82</sup> Ultimately, working together across a value chain focuses and scales the efforts of individual actors through knowledge sharing.<sup>83</sup> Thus the collaborators build collective capacity alongside improved performance and the maintenance of public and private accountability.<sup>84</sup> Put another way, by sharing knowledge, participants can

# SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs), developed by the United Nations and adopted in 2015, ambitiously aim to create a better world by 2030 by addressing persistent problems. The goals were developed alongside private sector leaders. As companies increasingly recognize their role in global citizenship, many see the 17 SDGs as a valid framework along which to align. Business leaders have developed action plans based on the Global Goals for Sustainable Development (see box on “Unilever’s Sustainable Living Plan,” page 42) and are recognizing market opportunities of nearly US \$12 trillion per year associated with them.<sup>77</sup>

To highlight two goals particularly relevant to systems change: Goal 16 concerns peace, justice, and institutions, and Goal 17 articulates the necessity of global partnership for sustainable development by explicitly setting targets for financial, technological, capacity building, trade, and systemic issues.<sup>78</sup>



79

flatten the learning curve. Scaling can also happen more readily through pooling commitments. Companies are increasingly pooling their purchasing commitments to drive change in product creation and sourcing. When pooled commitments become large enough, investments follow to meet the demand in these markets.<sup>85</sup>

## Differentiation Between Competition and Collaboration (Co-opetition)

Despite the terms seeming diametrically opposed, firms do not have to choose between competition and collaboration within the market. Precompetitive collaboration is a form of “co-opetition,” a strategy in which the benefits of competition (e.g., innovation) are furthered and fostered through collaboration.<sup>86</sup> Co-opetition is understanding that competitors’ strengths can exist together, and even flourish, when partnered in a working relationship. Athletic competition is a near-perfect example of co-opetition. Athletes (competitors) and their backers agree on rules for the game. Athletes then compete inside the agreed-upon rules. On the individual level, taking the ball and going home is not productive for a player, who would thus be forfeiting the opportunity to learn and grow and win honors and higher compensation. Practicing and playing against better athletes makes players better themselves, honing their skills through a competitive challenge and thus making the games more attractive to the potential paying audience.

At the core of this thinking is a growth mindset—in contrast to a scarcity mindset—on both the individual and firm level. A growth mindset provides the foundation to an understanding that all parties involved can find value and benefits in their interactions: the gain of one does not come at the detriment of the rest. In the athletic competition example, all players are getting better as the skill level increases.

For a more concrete example, consider the pharmaceutical industry. Most pharmaceutical companies are involved in at least one precompetitive collaboration, either directly with a partner or through an alliance. Research collaborations between companies, governments and small firms in the pharma development pipeline are becoming increasingly important as technology and data evolves too rapidly for a company to go alone.<sup>87</sup> The need to collaborate in the face of complexity and speed of change is also prevalent in the software industry where open-source development and collaboration is commonplace. Shared solutions and standards can be applied to nearly every sector, and can specifically shift innovation from single-firm competitive *dis*-advantage or first-mover risk through collaboration.<sup>88</sup>

Co-opetition itself is inherently not a zero-sum game and therefore can be a competitive advantage for firms involved, especially versus those companies who are not engaged. In the most straightforward measure of

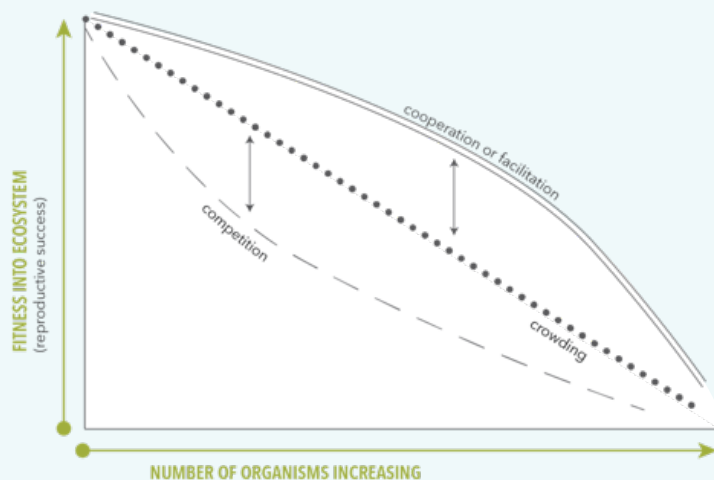


FIGURE 3: FROM DR. DAYNA BAUMEISTER'S "THE NATURE OF COMPETITION"<sup>95</sup>

## COMPETITION AND COLLABORATION IN NATURE

Though competition has long been seen as a tenet of successful biological systems (e.g., “survival of the fittest”), ecological research beginning in the 1960s showed that competition is not the universal driving force. A landmark 1997 study in *Ecology* found that cooperation is a more beneficial interaction between species than competition.<sup>93</sup>

Dr. Dayna Baumeister, co-founder of Biomimicry 3.8, found that “competition is only one of a suite of ways in which organisms interact with each other and actually occurs rarely. As a rule of thumb, living things avoid direct competition because it is costly, resulting in reduced fitness (a term biologists use to measure success) as energy is devoted to competing rather than diversifying into new niches.”<sup>94</sup> Her research shows that short, intermittent competitive actions generate healthy ecosystems but, when persistent and dominant, competition becomes detrimental to the long-term health of the species. Dr. Baumeister illustrates this ideal cooperative scenario as denoted by the double line in the figure below. The vertical axis measures fitness and ecosystem adaptation, while the horizontal axis measures the number of organisms increasing and the prevalence of interaction between organisms. These ideal cooperative or mutualistic interactions are particularly visible in ecosystems characterized by harsh conditions. Abundant environments typically exhibit fewer mutualistic interactions given that the stark benefits of a cooperative relationship are less important for survival.

success, early examples prove the business model of collaboration can be profitable. Microsoft and Intel created the Wintel Alliance to build software and hardware platforms, culminating in global adoption of their products.<sup>89</sup> Pfizer and Merck collaborated to bring cancer treatments to market as quickly as possible.<sup>90</sup> In 2020, Adidas and Allbirds announced they would collaborate to make the most sustainable shoe ever produced to set a new industry standard and build brand equity.<sup>91</sup> Collaboration is an advanced form of competition. The founder of the Collective Leadership Institute, Petra Küenkel, has stated that “in order to make collective leadership work you need to have less ego, but sufficient selfishness and the knowledge that collaboration can meet your needs far better than going it alone.”<sup>92</sup>

## Not All Collaborations Are Created Equal

Precompetitive collaboration is not a new concept and there is a wealth of illustrations across industries. For example, the oil and gas industry is well-known for precompetitive collaboration in which several companies join forces in exploration and production of unproven reserves, or in energy project finance through special purpose vehicles. The goal of collaborations in this space is to diversify risks as a hedging strategy. Further, precompetitive collaborations have been prominent in the pharmaceutical industry. With high costs of research and development, collaborations are a way to spread those costs and risks across several parties. These features are attractive at a time when the number of drugs approved for market trends down and drug development expenses grow each year. Collaborators in this space leverage the specific knowledge of actors to achieve their goals.<sup>96</sup> In these examples of precompetitive collaborations, the goals are strongly rooted in risk management and cost reductions for individual gain.

Just because a collaboration is precompetitive does not imply that the goal is to change the system and address persistent problems for the betterment of society. So all collaborations are not created equal. Compared to instances of collaboration for risk management, there are far fewer with a purpose beyond individual gains, such as

combating climate change or global income inequality. One example in this space is Gavi, the Vaccine Alliance, which has a mission to “save lives, reduce poverty, and protect the world against the threat of epidemics.”<sup>97</sup> Gavi is a collaboration across non-profits, foundations, vaccine manufacturers, research agencies, and governments to distribute vaccines that save the lives of millions, which improves countries’ economic prosperity and public health outcomes.

By juxtaposing these examples—oil and gas development and vaccine distribution to save lives—we can see that collaborations are on a spectrum from self-interest through prosocial motivations.

Even within collaborations that are prosocially motivated to address persistent problems, there is an additional important spectrum at play: incremental and transformational change. Many precompetitive collaborations that are prosocial have incremental goals such as setting standards, seeking innovations, aggregating data, or creating a new product (see box on “Incremental Goals in Prosocial Collaborations”). For example, the Sustainable Apparel Coalition (SAC) was founded in partnership between Patagonia and Walmart. The mission of the SAC is to standardize the measurement of environmental and social impacts in the apparel and footwear supply chain. The SAC does so through a collaboration of retailers, manufacturers, brands, non-profits, and academic leaders setting industry sustainability goals and sharing data to increase transparency. Through standardization of impact measuring, the apparel and footwear industry benefits from building trust with stakeholders and customers, reducing supply chain risk, decreasing environmental and social impacts, and increasing production and shipping efficiency.<sup>98</sup> Yet these noteworthy changes are still aimed at doing *less bad* and are a form of incrementalism as opposed to changing the system. These forms of collaborations are still important and useful in the journey to transformational change and may even become transformative themselves. They begin laying the groundwork by building trust and transparency with stakeholders. Today’s incremental prosocial collaborations are enablers for tomorrow’s prosocial transformational collaborations.

## WE CAN TRANSFORM THE FLEXIBLE CAPITALISM SYSTEM FOR THE BENEFIT OF SOCIETY

<p><b>Current Approach</b></p>	<p>Doing less bad Negative externalities Winner-take-all, zero sum game</p>	<p><b>A Market Transformed</b></p>	<p>Creating more good Internalization of impacts Cooperation, collaboration to create a better society for all</p>
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## INCREMENTAL GOALS IN PROSOCIAL COLLABORATIONS

Below are notable examples of collaborations that have incremental goals yet have potential to generate or pave the way for transformational change.

### **GOAL: STANDARDS, CERTIFICATIONS, AND CODES OF CONDUCT**

**Example: Sustainable Apparel Coalition and the Higg Index (also data aggregation)**

The coalition is a value chain collaboration of retailers, manufacturers, brands, and others to promote sustainable production across textiles, apparel, and footwear. The center of the coalition is the Higg Index. This tool measures and scores the sustainability performance of both companies and single products with the intended purpose to share best practices through transparency.<sup>99</sup>

### **GOAL: INFORMATION AND INNOVATION SEEKING**

**Example: Creating shared value prize by Nestlé**

In 2010, Nestlé, in partnership with Ashoka, a social systems change-making think tank, created a program called the Creating Shared Value (CSV) Prize, which aims to use the power of private enterprise and business solutions to address social challenges.<sup>100</sup> The CSV Prize is akin to a seed round of funding for promising social entrepreneurs and businesses who aim to address the theme for that year.<sup>101</sup> For example, the mission of the CSV Prize in 2021 is to create a waste-free future through packaging innovation.<sup>102</sup>

### **GOAL: DATA AGGREGATION / TRANSPARENCY AND REPUTATION**

**Example: Global Salmon Initiative (also certification)**

The Global Salmon Initiative is a collaboration consisting of “producers, retailers and brands, researchers, regulators and NGOs” to improve management of common resources in salmon farming. The collaboration was initiated by 17 aquaculture companies representing 70% of the market for salmon production and started with a dialog facilitated by WWF to agree on key performance indicators (KPIs) for sustainable salmon farming. To work toward the KPIs agreed upon, companies disclosed information on a publicly available platform to assess their performance against competitors. Further, competitors shared information on how to achieve desirable results, which led to significant strides in achieving GSI’s goals, building trust between competitors and creating a positive impact on reputation along the way.<sup>103</sup>

### **GOAL: PRODUCT DEVELOPMENT**

**Example: Beyond the Bag Initiative**

The Beyond the Bag Initiative is an innovation challenge backed by Walmart, Target, and CVS Health to reimagine the single-use plastic bag and the ways we transport items. The challenge was open to the public and coordinated by Closed Loop Partners, an investment firm.<sup>104</sup> After public submissions have been reviewed, the top ideas will enter a product accelerator with a total of \$15 million in funding in hopes of turning ideas into viable and scalable businesses, with the companies who are backing the challenge as first customers.<sup>105</sup>

## Making the 'Business Case' for Collaboration

The prevalence of persistent global problems such as climate change, food and water shortages, cultural conflicts, and rampant inequity have illuminated the vacuum left by insufficient government policies. In the absence of robust government action, many businesses are beginning to actively address those social gaps. More than at any other time in modern history, firms are recognizing the benefits of being a purpose-driven company that aims to mitigate persistent global problems and their associated threats. The aforementioned prosocial collaborations are motivated to solve challenges beyond self-benefit and are a way to mitigate long-term risks for individual actors. Beyond the moral obligation to fill

this void, companies are gaining tangible benefits of embedding purpose into their corporate mission, such as increased revenue, increased employee and customer satisfaction, and reduced employee turnover. These benefits are magnified through collaboration and are best visualized through an analogy to a systems-wide Pareto frontier. Viewing collaboration through a Pareto frontier lens helps anchor us in the business case for collaboration and clarifies that it is not a sacrifice to be made but an opportunity to be seized for a possible future better for all.

## COLLABORATION SPECTRUMS

Precompetitive collaborations tend to fall on a variety of spectrums. This is helpful to consider in understanding what the goal of a collaboration is, how it formed, and how it is structured.

### Collaboration Dichotomies:

- Issue-focused vs. Industry-focused
- Proactive vs. Reactive
- Long-term vs. Short-term
- Smoldering vs. Sudden
- Inclusive vs. Exclusive
- Backbone organization vs. Additional to current job



## Shifting the Pareto Frontier: How Collaborations Can Decrease Risk and Increase Opportunity

A way to visualize and understand the impact of the business case for collaboration is through an analogy to a Pareto frontier or multi-objective optimization problem.<sup>106</sup> A Pareto frontier is a graphical representation of system optimization containing two or more objectives. Conceptualize, for instance, a firm with only two equally weighted objectives: profits and carbon emissions. Through improvements, a firm will eventually reach a point along the Pareto frontier where any increase in proposed changes toward improvement would mean other individual objectives suffering losses. Ideally, every firm would operate at a point on this plane or curve.

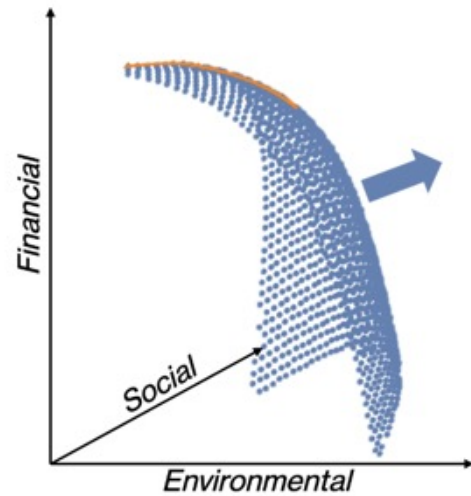


FIGURE 4: GRAPHICAL REPRESENTATION OF A THREE-OBJECTIVE PARETO FRONTIER.

To appropriately leverage the Pareto frontier for their own operations, firms should have a clear understanding of their objectives as a business. A firm's associated objective function describes and quantifies the criteria that they are concerned with. These criteria can be tangible (such as a firm's financial health) or intangible (such as alignment with a firm's values or social impact)



## TANGIBLE COMPONENTS FOR SUCCESSFUL PRECOMPETITIVE COLLABORATIONS

	WHAT	WHY
COMMON VISION	A mission statement or guiding principles. In addition to providing the collaboration's focal point and overall vision, the process of developing the shared language is vital in fostering interpersonal, interprofessional, and aspirational trust	<ul style="list-style-type: none"> <li>• Creates legitimacy for the consortium</li> <li>• Aligns collaborators with a common goal to guide the work of the organization</li> <li>• Fosters organizational and corporate commitment to the collaboration's aims</li> </ul>
SHARED EXPECTATIONS	A series of metrics outlining the conventions, expectations, and requirements of consortium members	<ul style="list-style-type: none"> <li>• Guides the collaboration's operation, practices, timeline of activities, and commitments</li> </ul>
DEFINED ROLES	Clearly outlined responsibilities and defined roles in service of the collective	<ul style="list-style-type: none"> <li>• Creates behavior norms</li> <li>• Tracks specific commitments of individual collaborators (financial obligations, staffing support, meeting design etc.)</li> </ul>

or have elements of both (such as environmental impact). Efforts to redesign products, improve operational efficiency, address inadequate working conditions, or increase customer willingness to pay will increase a minority of categories, but not all of them simultaneously.

Technological breakthroughs, engineering improvements, and disruptive innovations can shift Pareto frontiers in one or multiple directions. However, these shifts are sporadic, unpredictable, and not able to be captured by all firms in a given industry. When a firm captures these shifts, it will likely lead to a competitive advantage. Collaboration provides an opportunity to capture these gains while also allowing for an adaptive management strategy. Adaptive management strategy at its core is resilience through agility, where disruptions offer opportunities (not threats), and no single path forward is set in stone. Thus, collaboration can create opportunities for synergy and efficiency. Most importantly, collaboration changes the goal from escalation or growth tactics to operational improvements and efficiency as a means of competition.

### Precompetitive Collaboration Design and Implementation

To design and implement successful precompetitive collaborations, several critical components must be present, realized, and intentionally addressed. Precompetitive collaborations require a catalyzing force that energizes leaders to become motivated to collaborate, which can manifest in the form of a business opportunity or competitive advantage, a feeling of moral obligation to act in response to socio-political or economic forces, or to mitigate risk.

Once a precompetitive coalition has formed, it must

meet a series of requirements to ensure its long-term success and efficacy. These requirements are present not only at the intangible systems-change level (intentional fostering of trust, transparency, shared purpose, and balanced power dynamics) but also at the practical collaborative level (development of a clear common vision, shared expectations, and demarcated roles and responsibilities). Parties to the collaboration must also be aware of potential personal and organizational hurdles so that they can be effectively mitigated and leveraged for further opportunities.

### Framework Components for Collaboration

Our analysis has identified several design principles for effective precompetitive collaborations. Although the absence of these principles does not preclude a successful partnership, they have been shown through tested research to be the most important ingredients for success. Collaborations emerge and evolve differently. There are many ways for them to form. However, ultimately all collaborations require transparency and measurable results.

#### Trust (relational space)

Without trust, collaborations would disintegrate. Trust must exist in collaborations because there is an inherent risk—effective collaborations must transparently share information and metrics. The development of inter-collaborative trust is the first necessary step toward creating the collaboration's *relational space*. Relational space can here be defined as a cultivated “shared trust and learning that precedes shared expectations or negotiated projects and execution.”<sup>107</sup> Among precompetitive consortia, the creation of this relational space is particularly critical

because there may be no foundation of work within a particular sector, shared lexicon, or even familiarity with the work of participants in a collaborative process. Trust is a continuous process that is not built overnight. The presence of aspirational trust (like we are seeing around responses to sudden crises) can foster the development of interpersonal trust. Given these insights, strategies for generating trust include but may not be limited to:

### Purpose

Fostering relational space and transparency within precompetitive collaborations is difficult, arguably more difficult than doing so within traditional collaborations that form for individual benefit. However, unlike market-based collaborations, precompetitive collaborations are formed with “aspirational trust: a unique form of trust gained as the product of a shared goal to make the world a better place. Whereas values-based trust depends on past actions that demonstrate corporate principles, aspirational trust reflects a vision of potential that may transcend one’s organization, expressing one’s personal, ‘prosocial’ ideology and motivation for action.”<sup>108</sup> This aspirational trust arises from the shared vision of a long-term social mission of precompetitive collaboration. Precompetitive collaborations for the social good are bound by the desire to enact systems change beyond the scope of individual collaborators, and it is this shared purpose that creates space for aspirational trust to grow and transition to concrete, supported, and reliable corporate trust.

Collaborations must center themselves around a communal purpose that can guide operations, interventions, and long-term goals. However, this is not just as simple as identifying a shared purpose. Companies and corporate leaders must align their individual interests with the collective interest. Nidumolu et al. argue in the *Harvard Business Review* that “to be successful, collaboration initiatives must ensure that each participant recognize at the outset the compelling business value that it stands to gain when shared interests are met.”<sup>109</sup> In the case of social impact collaborations aligned around a moral purpose, compelling business value can take the form of radical social and economic transformation as well as individual corporate resilience and market advantage. By aligning individual and shared interests, both the collaboration and the collaborators are well-positioned to enact the desired change.

### Transparency

The transfer and sharing of expertise, information, knowledge, best practices, and skills is a critical framework component for all consortia, especially those formed with broader societal impact as a general goal. In fact, “organizational learning has been identified as one of the key benefits of business collaborations generally, especially in periods of uncertainty and rapid change.”<sup>110</sup> Inkpen and Currall have separated this learning process



Precompetitive collaborations for the social good are bound by the desire to enact systems change beyond the scope of individual collaborators, and it is this shared purpose that creates space for aspirational trust to grow and transition to concrete, supported, and reliable corporate trust.

into two components: learning *about* a collaborator and learning *from* a collaborator.<sup>111</sup> Learning about a collaborator “facilitates relational understanding and can provide the foundation for trust development,” whereas learning from a collaborator “may produce knowledge others can exploit to the benefit of their own operations.” Systems-change collaborations, such as precompetitive collaborations and coalitions for sustainability, must leverage both styles of learning to create new institutional practices and standards.

To develop the relational space necessary for knowledge exchange, all collaborations must adhere to a specific and predetermined level of transparency. Transparency here means a commitment to knowledge sharing, candor, honesty, and a promise not to withhold necessary or beneficial information from collaborators. This can be an extremely difficult undertaking for companies engaging in precompetitive collaboration, as there are natural and understandable concerns arising from the protection of proprietary information and corporate operations. However, transparency across a collaboration is critical not only because it is fundamental to open, honest, and radical transformative conversation, but also because transparency by collaborative leaders is necessary to inspire transparency in others. For example, “perceived environmental transparency matters in customer–firm relationships: Customers’ willingness to undertake pro–environmental actions in collaboration with a firm is affected by their perception of the firm’s

## GUIDING PRINCIPLES

The development of guiding principles is a well-established practice of both business and nonprofit organizations. Guiding principles, also known as organizational values or company beliefs, summarize what an organization stands for and provide a broad-strokes framework for how the organization's behaviors and operations should function.<sup>115</sup> Guiding principles have a slightly sharper degree of specificity than a mission statement and can help to clearly outline the requirements expected of collaborators. For example, guiding principles may clearly state that each collaborator's organization must have a demonstrated individual commitment to the collaboration's goals, must be free of specific financial ties to competing or counterproductive companies or sectors, and must be willing and able to make contributions both financially and in staff engagement. In addition to providing support for the organization's mission, guiding principles help to foster employee engagement and build relational space. For example, the Sustainable Apparel Coalition (SAC) guiding principles are: "1) Build on the best of existing work, 2) Don't let perfect get in the way of good enough, and 3) Discuss, then decide. Don't wait for agreement on every detail."<sup>116</sup>

Without codifying the means of operations, collaborations are likely to stall in their early phases. The process of developing shared expectations is just as important as the final joint result.<sup>117</sup>

environmental transparency. The higher the perceived transparency, the higher the customer's willingness to contribute to a collaborative pro-environmental action.<sup>112</sup> Although this research focuses on the relationship between consumers and companies, their conclusions about the vitality of perceived and real transparency is equally applicable to precompetitive collaboration.

### Common Vision

The aspirational trust described in detail above can, and should, be leveraged to create a common vision of the collaboration that clearly outlines the goals and desired impact of the coalition. The development of a common vision, which often takes the form of a mission statement or guiding principles, has several key benefits for precompetitive collaborations: it creates legitimacy for the consortium, aligns collaborators with a common

goal to guide the work of the organization, and fosters organizational and corporate commitment to the collaboration's aims. In addition to providing the collaboration's focal point and overall vision, the process of developing the shared language is vital in fostering interpersonal, interprofessional, and aspirational trust. Creating the common vision is the first step in allowing relational space or trust to grow between collaborative leaders, and it establishes the coalition within the broader landscape of global systems-change interventions.

### Understanding Power Dynamics

The power of aspirational trust and relational space within precompetitive collaborations is dependent upon understanding and balancing power dynamics within the collaboration. Realistically, power dynamics will never be truly balanced, but there are ways to mitigate imbalances through understanding and accounting for their existence. Power dynamics arise from what Rodríguez et al. define as *symbolic* or *Foucauldian*: a type of power that "removes the focus from how one organization, group, or individual may acquire and use power over another to the way in which all organizations are embedded in a network of countervailing powers, which mutually constrain all of them."<sup>113</sup>

The complexity of power dynamics within precompetitive collaborations and consortia for systems change is particularly strong due to the importance of executive engagement. As discussed above, corporate leadership is a critical component of precompetitive collaboration and requires personal aspiration from CEOs and other executives. However, the presence of multiple executive leaders and stakeholders can lead to complex challenges arising from skewed power dynamics. Enright expanded on several examples of difficulties arising from power dynamics within collaborations, from the challenge of identifying the right leaders within companies with the authority to advise

and shepherd the initiative to the importance (and often, difficulty) of sharing knowledge from the collaboration to other points within the company to make good on the company's collaborative commitments.<sup>114</sup>

Power dynamics present a significant threat to the creation of trust and relational space. What makes them particularly difficult to navigate is that, unlike other core components of collaboration and systems change, power dynamics can be difficult to concretely identify and address. However, they can be mitigated through a combination of systems change frameworks and collaborative principles that will be discussed in depth below.

### Shared Expectations

Once the process of articulating and finalizing a collaboration's common vision has been completed, it is imperative that collaborators develop a series of metrics outlining the conventions, expectations, and requirements of consortium members. Unlike the common vision, which creates the framework of the collaboration at large and establishes the overarching purpose of the collective, these shared expectations will guide the collaboration's operations, practices, timeline of activities, and commitments.

Oliver Jaeggi, managing director at ECOFACT, spoke directly to the risks of not conducting candid, transparent, and goal-oriented expectation setting when he said,

"the partners might fail to establish trust and overcome internal concerns about things such as differences in their respective organizational cultures, the potential partner's intentions or reputational risks that might result when engaging with the partner."<sup>118</sup> In the very early stages of precompetitive collaboration development, it is critical for collaborators to clearly express their ability to engage and identify their planned level of commitment. For example, all successful collaborations require staff time and expertise, financial commitment, publicity, and clearly stated public support from executive leadership.

### Defined Roles and Responsibilities

Borne out of the process of creating shared expectations is the necessity of defining the roles and responsibilities of collaborators across the consortium. In the iterative process of creating these shared expectations and vision, establishing responsibility typically comes last. Although there is a certain degree of overlap between expectations and responsibilities, the definition of roles is the most concrete and tangible component of collaboration-building. Roles and responsibilities here mean the specific commitments of individual collaborators in service of the collective.

For example, some responsibilities to be codified include the level of financial commitment of individual members, the role of CEOs and corporate executives in

## SIX COMPETENCIES FOR COLLECTIVE LEADERSHIP

Adapted from Künkel<sup>119</sup>

The power and necessity of robust collective leadership are well established throughout this report. While the foundations of collective leadership can seem abstract and theoretical, the practice of establishing and adhering to collective leadership principles can be as beneficial to a new coalition as the creation of the collective's general principles. Künkel has identified six key competencies for collective leadership that could be coupled with collaborative guiding principles and further bolster buy-in and long-term commitment from leaders:

- **FUTURE POSSIBILITIES:** Positive outlook and seeing opportunity, inspire others to act, take decisive action (what are we talking about here: here is how you design).
- **ENGAGEMENT:** Design space and process for high-quality connections, develop trust, create network of diverse actors, align actors for joint implementation (create trust).
- **INNOVATION:** Cultivate creative energy, strive for excellence, adapt quickly as situations change.
- **HUMANITY:** Attend to depth of issues at hand, balance personal and professional, use empathy to reconcile and seek understanding (balance power dynamics).
- **COLLECTIVE INTELLIGENCE:** Allow coherence and collective understanding to emerge through inquiry and clear communication; diversity in thought enhances quality of decisions; cycles of reflection and evaluation are essential to inform adaptations.
- **WHOLENESS:** Consider larger context of one's actions; respond to the needs of society and the world; interactions should enhance strengths and energy for action; consistently refine contribution to sustainable world.

international convenings and publicity, the number of full-time staff that each collaborator can commit to the collaboration's work, and the development of the collaboration's governance processes.

These roles can also include entry and exit strategies for particular collaborators. For example, foundations may engage at an early stage to catalyze financial contributions and relationships, but they may not need to be fully involved throughout the entirety of the collaboration's lifespan. Similarly, a precompetitive collaboration may be formed initially without the presence of nonprofit organizations or government liaisons, but there may come a time when engagement with these entities is necessary. Clearly defining the roles of these collaborators early on allows for a smooth transition process between phases and creates a set of standards and metrics to which all collaborators must adhere.

Critically, these roles and expectations provide the foundation for benchmarking and the development of key performance indicators. Without clear expectations

**Regardless of the stakeholders selected, collaborations emerge in response to crises when stakeholders recognize their interdependence, share a sense of risk and develop “a shared aspiration that goes beyond perceptions of past behaviors, and relies on the projected visions of self and other and precedes action projects.”**

for short- and long-term responsibilities, precompetitive collaborations cannot develop processes for monitoring, evaluating, and reporting on their activities and interventions.

## **Crisis: An Impetus for Collaborative Leadership**

Social and environmental crises can fundamentally disrupt business operations and can be powerful opportunities to spur industry-wide collaboration. Organizations face issues daily and so, for appropriate management, it is critical that they distinguish between what is a crisis and what is simply a difficult business issue. The term “crisis” conveys the notion of severe threat or adversity but three primary factors distinguish a crisis from a normal threat: high time pressure, high value of potential loss, and high probability of that loss occurring.<sup>120,121</sup> However, to drive action a crisis must force a breaking point that convinces people that an entirely new approach is needed.<sup>122</sup>

A crisis can be a powerful catalyst for action, yet leaders tend to default to managing their own institutional crises first. Balancing internal and external crises is vital for driving change within a firm and across a sector. Leveraging a crisis for action is difficult due to the subjective nature of perceptions, the number of stakeholders involved, the time pressure, and the multitude of types of crisis that an organization may face.<sup>123</sup>

However, crises are indeed opportunities to challenge assumptions, be vulnerable, and set aside pre-set goals and agendas to see what is possible. Crises mark the transition from one stable pattern into one of many possible alternative futures, where working to address urgent issues or finding complementary ways to work together is vital.<sup>124</sup>

The Institute for Crisis Management has identified two types of crisis (see box on “Sudden and Smoldering Crisis”). The first is a sudden crisis, which can take the form of a global pandemic outbreak, natural/ environmental disaster, terrorist attack, workplace

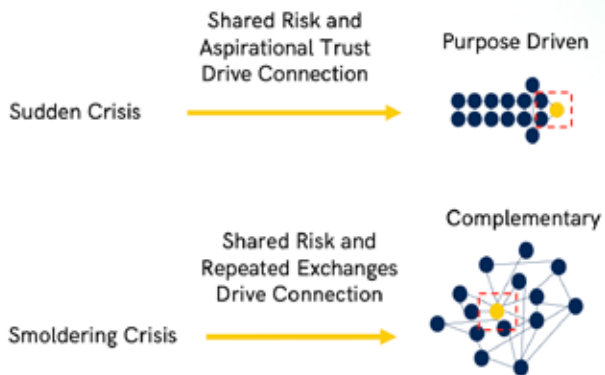
violence, massive fraud or hack, hostile takeover, or surprise death of a highly important leader. A sudden crisis is an unexpected event in which the organization has virtually no control and is perceived to have limited fault.<sup>125</sup> In these scenarios, it is necessary for leaders to first act decisively, then sense what is happening in the broader environment, *and then respond* as the situation evolves.<sup>126</sup> In

response to sudden crises we often see that shared risk and an aspirational trust can drive connection to create purpose-driven collaborations. Such reactive, or issue-driven, collaborations have occurred in response to the COVID-19 crisis like the World Economic Forum's COVID Response Alliance for Social Entrepreneurs and the American Express “Stand for Small” coalition. Regardless of the stakeholders selected, collaborations emerge in response to crises when stakeholders recognize their interdependence, share a sense of risk, and develop “a shared aspiration that goes beyond perceptions of past behaviors, and relies on the projected visions of self and other and precedes action projects.”<sup>127</sup> The connection between risk and trust is magnified in crisis events, and investments or exchanges in response can facilitate repeated interactions that create trust among stakeholders.<sup>128,129</sup> Response happens more quickly when trust is already established across a value chain and positive relationships enable leaders to better sense and respond to crises by seeing things from new viewpoints, assimilating complex concepts, and addressing real-world problems and opportunities.<sup>130,131</sup>

## SUDDEN AND SMOLDERING CRISIS <sup>135,136</sup>

Nearly three-quarters of all business crises fall into the second category, the smoldering crisis. Smoldering crises are defined as events that start out as internal problems and become public because of inattention. The connection between risk and trust is magnified in crisis events, often taking the form of significant investments, exchanges, or promises.<sup>132</sup> Crises like climate change, income inequality, lack of social cohesion, lack of workplace safety, provocative activism, and labor disputes fall into this smoldering crisis category. Companies have a role in perpetuating these crises through their business-as-usual actions. Thus organizations should treat these crises as situations that require their direct response. In these scenarios leaders must first probe to seek understanding, ideally by engaging with a diverse set of stakeholders, then sense what is happening in the broader environment, and lastly respond as required.<sup>133</sup> A continual question is whether a smoldering crisis will transition to a sudden crisis, catalyzing people and organizations to act.<sup>134</sup>

### PRECOMPETITIVE COLLABORATION AS A FORM OF SYSTEMS CHANGE



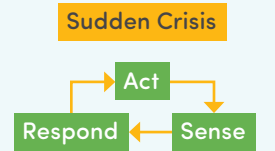
Both sudden and smoldering crises play roles in prompting response to persistent problems. Courageous and thoughtful leaders can use sudden crises to motivate others and call attention to the serious urgency of the problems at hand and sometimes even their root causes. They should leverage aspirational trust to create a guiding team and get buy-in for their vision and strategy. If the crisis extends and looks more like a smoldering crisis, leaders should seek to increase buy-in, empower others, and generate short-term wins. Determining if a crisis like climate change is a sudden or smoldering crisis may depend on where leaders are in their own journeys and their perception of urgency and responsibility. Leaders can avoid paralysis in the face of crises by engaging with peers and diverse stakeholders to capitalize on the suspension of the norm and make positive change.

### CRISIS

High Time Pressure

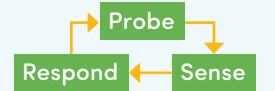
High Value of Potential Loss

High Probability of Loss



- Global Pandemics**
- Natural disasters
  - Terrorist attacks
  - Workplace violence
  - Hostile takeovers
  - Environmental disasters

### Smoldering Crisis



- Climate Change**
- Natural disasters
- Social cohesion
- Workplace safety
- Consumer activism
- Labor disputes

Actions taken during the crisis process become "defining elements for the temporary resolution of that crisis, but, at the same time, they may become steps toward the creation of the next."<sup>137</sup> An organization's stakeholders (customers, suppliers, the competition, employees, middle management, top leadership, unions, government agencies, the media, the natural environment, and even future generations) are all directly involved in both causing and mitigating the effects of crises.<sup>138,139,140,141</sup>

The difficulty in establishing a beginning or end of a crisis and the number of stakeholders involved means leaders almost always respond to crises in complex or chaotic environments where there is rarely a best or even good practice to follow.<sup>142</sup> Response is most easily associated with hectic moments of decision-making, but in actuality it also covers prevention, preparation, recovery and change. Traditional crisis response training focuses on acute threats and sudden crises, yet modern crisis response is often a long-term process that takes the form of the "crisis after the crisis."<sup>143</sup> When responding, leaders often centralize authority in crisis situations but in complex environments it is impractical or impossible for a resolution to emerge from a single source, and unfortunately, traditional leadership training leaves leaders to use their natural capabilities to rely on in those complex and chaotic

# WHY COVID-19 IS CHANGING THE WAY INDUSTRIES CAN WORK TOGETHER

COVID-19 was a sudden crisis that exposed a multitude of smoldering crises and the fact that our institutions were ill prepared to manage them. In effect, COVID-19 is a dress rehearsal for the impacts of climate change on global supply chains. In the face of these crises, organizational self-interest could no longer be decoupled from the creation of conditions that ensure the success of others. In short—sustainability is a precompetitive issue: all companies depend on it but none can make it happen by themselves.

The overwhelming societal push toward developing a new normal in the wake of COVID-19 presents unique opportunities for collaborations and systems-change efforts. Arjen Boin of the Crisis Research Center notes “crises mark the transition from one stable pattern into one of many possible alternative futures.”<sup>146</sup> In a now-historical example, the 2008 financial crisis prompted companies to turn to new ways of capturing value by moving to longer-term relationships with their key suppliers; many companies credit their survival of the 2008 recession largely to their working relationships with buyers and suppliers. They were able to do so because successful supply-chain collaborations depend upon much more than cost efficiencies and economic conveniences.

Existing collaborations are well positioned to capitalize on the social desire for systems change, and new collaborations have already begun to spring up in response to the threat posed by a post-COVID-19 K-shaped recovery. The 2020-2021 global pandemic shined a light on smoldering crises and exacerbated racial, wealth, social, and gender disparities, pointing to what experts expect to be a recovery where the wealthiest are able to recoup much of their financial loss while the less wealthy may well enter a downward economic spiral.<sup>147,148</sup> Specifically, a K-shaped recovery occurs when different parts of the economy recover at different rates following a recession. The efforts to use this moment of crisis as an opportunity reflect the rising focus of both consumers and employees on corporate purpose and the necessity of collaborating for radical system transformation. The COVID-19 pandemic is simply one of many examples of crises that will open doors to collaboration action in the coming decades.

environments. The unique context of each crisis means there should be no predetermined pathway and, as Jane Dutton highlights, “decision processes should not be expected to be universal across decision events or across the full range of strategic issues.”<sup>144</sup> Frameworks such as action learning, human-centered design, safe-to-fail experiments, positive deviance, agile design, change labs, and strategic/emergent learning take advantage of sudden crisis situations with high ambiguity. These frameworks acknowledge that action is better than inaction and that shared perceptions of risk bind diverse stakeholders together.<sup>145</sup>

## Collaboration Hurdles

Though sustainability challenges are often perceived as a unifying force, sustainability itself is increasingly being used as a differentiator and opportunity for competitive advantage. Therefore, the concern that commercial secrets would be discovered through a precompetitive collaborative process—even with antitrust lawyers closely involved—cannot be underestimated as a barrier to precompetitive collaboration. Precompetitive collaboration fundamentally changes the point of competition, and therefore challenges the reigning understanding of free enterprise that underpins the basis of the US and global economy.<sup>149</sup>

All of a firm’s actions occur within a legal framework to ensure appropriate accountability, transparency and compliance. Anti-trust legal considerations are very important in deciding how to structure multi-corporation dialogues concerning pre-competitive collaborations to advance sustainability. Terry Yosie, former president and CEO of the World Environment Center notes, “all of a firm’s actions occur within a legal framework to ensure appropriate accountability, transparency and compliance. Anti-trust legal considerations are very important in deciding how to structure multi-corporation dialogues concerning pre-competitive collaborations to advance sustainability. It’s very important to practice good legal hygiene in organizing such dialogues by getting lawyers involved at an early stage to listen and ensure that issues related to pricing and other anti-trust factors are not discussed. Smart companies do this very well and adjust to the fact that countries have different anti-trust concepts and legal requirements. My experience is that anti-trust issues and pre-competitive collaboration to advance sustainability are ultimately compatible.”<sup>150</sup>

Dr. Philip Marsden, the globally-renowned former antitrust legal expert for the Consumer Goods Forum, identified the critical role of lawyers in mitigating anti-trust concerns early in the precompetitive collaboration process and stressed the importance of guiding collaborative conversations toward basic principles, general aims, and the overall purpose of the collaboration.<sup>151</sup> By explicitly avoiding any conversation about product pricing



## TO OVERCOME THE NOTION THAT COMPANY SELF-INTEREST PROHIBITS COLLABORATIVE ACTION REQUIRES EXPANDING DEFINITIONS OF OWNERSHIP: SHARING SUSTAINABLE SOLUTIONS AND INNOVATIONS BETWEEN COMPANIES.”

CB Bhattacharya, University of Pittsburgh  
Katz Graduate School of Business

or proprietary information, a precompetitive coalition of corporate leaders can direct their focus toward enacting social initiatives or policy changes without fear of violating antitrust regulations.

Concerns about freeriding also dominate, as corporate leaders are concerned that collaborations may purport shared value but have unfairly shared costs. Overcoming the notion that company self-interest prohibits collaborative action requires “expanding definitions of ownership: sharing sustainable solutions and innovations between companies.”<sup>152</sup> Systems change also requires that a large market share of an industry participate—yet widespread participation can be challenging when each company has different management and disclosure structures. A context of shared trust and learning must precede the emergence of shared expectations, and precompetitive collaborations fail in their early stages because partners “fail to establish trust and overcome concerns about things such as differences in their respective organizational culture, their intentions, or reputational risks that might result when engaging with the partner.”<sup>153</sup> The relative obscurity of precompetitive collaborative “success stories” can also be a barrier to the formation of new initiatives. Systemic educational gaps in the art and science of collaboration also discourage companies from engaging in precompetitive collaboration.

### Organizational Hurdles

Action on precompetitive collaboration is often perceived as peripheral to a company’s objective, given business norms and corporate laws on the purpose of corporations. For instance, corporate management and boards of directors are obligated to make decisions that maximize

the economic value of the company.<sup>154</sup> As well, rational self-interest for companies requires maximizing economic value. Investor confidence is linked directly to profitability, and organizations often struggle with demonstrating that precompetitive collaboration is essen-

tial to a company’s objective and operating principles. Precompetitive collaboration fundamentally challenges the notion that it is in a company’s self-interest to ensure the most competitive prices for its customers at the lowest cost to the business. Therefore, organizational norms may not create opportunities for risk-taking that could jeopardize investor confidence.

One way that organizational norms can hobble collaboration is by failing to capture the importance and necessity of collaborating in all roles, teams, and positions across a company. According to Enright, “supply chain and procurement teams are often not incentivized or hired by their firms to lead collective actions, but are increasingly called upon to lead a company’s sustainability commitments across value chains. Effective collaborators in these positions find that they also need to build internal buy-in and support from a network of colleagues that can make good on the commitments they make to external groups.”<sup>155</sup> Although some companies are more mature in collaborating with others, effective collaboration requires time, money, and commitment that is often accompanied by a steep learning curve. Firms with strategic partnerships leaders that sit within sustainability or CSR teams are one step toward rectifying the staffing resource gap stalemating precompetitive collaboration today, but the problem of building internal buy-in remains.

One of the factors of successful collaboration identified in our report is decision-making agency. Oftentimes, collaborations fail as the stakeholders around the table lack the decision-making authority to break through roadblocks and keep the process moving forward. In addition, many firms are bound by the “agency problem,” in which agents are appointed to conduct operations within the firm, yet it can be difficult to ensure that corporate “agents”—the board of directors and CEO—act on behalf of owners rather than in their own-self-interest.<sup>156</sup> These



challenges with leadership, staffing, and internal buy-in are a critical barrier to effective collaboration.

Burnout is also a pervasive phenomenon, both physically and strategically. Conversations with interviewees clearly identified that the length of time required to visualize concrete outcomes from collaborative initiatives can lead to burn-out among stakeholders. Staff turnover and departures within companies can also derail efforts, and it is common for staff not to assign replacements, or to assign replacements with limited decision-making authority. According to Enright, “collaboration is always a slower moving strategy than most companies are expecting – protracted negotiations and compromise in early stage partnerships can lead to frustration and even burnout of participants that want to move fast. The slow pace of collaborative dialogue, if not acknowledged by participants, may create a barrier to continued collaboration.”<sup>157</sup> Maintaining internal organizational stamina is a challenge strategically as well, as long-term initiatives may be reticent to constantly revamp strategy after some initial wins have been achieved.

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## Personal Hurdles

While systemic and organizational barriers are rooted in enduring poor operational and strategic thinking, internal barriers are found directly in the individuals in power. Because of its personal, emotional nature, this category of barrier is, perhaps, the most difficult to overcome. In 2006, Paul Babiak and Robert Hare highlighted the presence of psychopathy among corporate leaders, and the implications this has on business practices.<sup>158</sup> While actual quantification and diagnosis has varied in the published literature since, one finding remains: narcissism, Machiavellianism, selfishness, and a lack of empathy are hallmark traits among business leaders.<sup>159,160,161</sup> These characteristics from the “dark triad” of psychology are often cited as reasons why collaborations fail to both initially convene and eventually succeed. As noted by thought leaders in the precompetitive space, many decision makers in major companies view their personal brands as more important than following a “hero CEO.”<sup>162,163,164,165,166</sup> An overhaul of this framing of relational space is critical for collaborations to succeed. We must move away from the concept of a single “hero CEO” and toward collective ownership of collaborative efforts—that is, a group of hero CEOs working *together* to transform not only their own organizations but society as a whole.

Ultimately, the purpose and thrust of a firm are rooted in its leadership. Without clear goals and communicated intent from internal leadership, change will move too slowly. The loudest opposition we hear to taking this plunge is that while businesses are beginning to see value in these positions, they are often not comfortable leading them or being advocates.<sup>167,168</sup> This comes from a combined fear of alienating consumers—or even other companies that need to be convinced of these positions

if they are to be achieved, being late movers (i.e., other firms are much further down the road), and uncertainty around achieving predetermined goals—especially short-term goals which involve their suppliers and opaque supply chains.

Personal bandwidth is yet another barrier that comes into play, especially when addressing systemic changes to a firm’s operations. This is partially due to the time and attention costs needed when ideating and executing new strategic choices within the upper echelon of the corporate hierarchy.<sup>169</sup> Many decision-makers are pursuing precompetitive collaborations *in addition* to their more traditional roles within companies. This inherently creates an either/or scenario, where ongoing operations usually take precedence in one’s schedule over external involvements.

Collaborations can devolve despite original intentions of a win-win goal and revert to competition when one party takes an action that the other perceives as outside the spirit of their understanding. Other actors then give themselves permission to retaliate, thus returning to a competitive relationship. This is a system archetype, accidental adversaries, and is outlined in the box “How Collaborations Can Devolve” below.<sup>170</sup>

To prevent this from happening collaborations can spend time developing an initial alignment on values and identifying objectives that are clear and strategically relevant. Collaborations that take a learning approach and seek improvement can mitigate an erosion of trust. However, if an erosion of trust does occur collaborators will need to suspend suspicions and seek to understand the other’s motivation. They can revisit the original opportunity and seek understanding before acting. Renewal of the shared vision and adherence to the learning approach is necessary in complex environments.

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## When Collaborations May Not Be the Answer

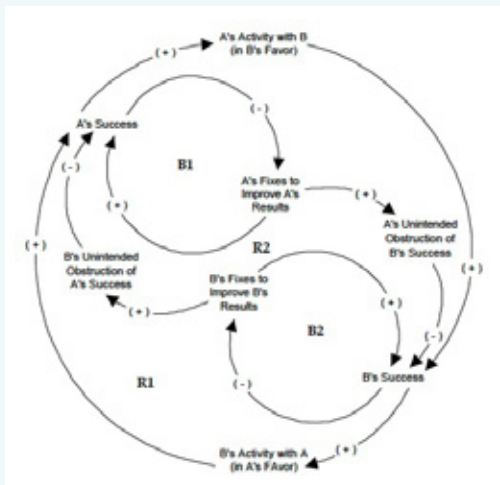
It is important to note that collaboration is not a panacea, nor a one-size-fits-all approach for advancing positive systemic changes. Collaborations are not always harmonious. In fact, occasional conflict may be the best evidence of mutually beneficial collaboration. Few alliances remain win-win undertakings forever.<sup>171</sup> Collaborations grow, evolve, and require ongoing commitment of resources, well beyond an initial mutual commitment to action.

If the goal of collaboration is not strategically aligned with the strengths and goals of an individual company, collaboration is likely not an appropriate fit. There need to be measurable indicators of progress, success, and accountability. Without the synergy between the goal of the collaboration and that of the company, individual companies will not see value (strategically or in the form of ROI) in collaboration nor have the motivation to pursue the goals of the collaboration.

## HOW COLLABORATIONS CAN DEVOLVE: ACCIDENTAL ADVERSARIES

This system archetype results from a misunderstanding or misinterpretation arising from unrealistic expectations or an erosion of relationships. Over time these actions will adversely affect both parties. Actions of another are filtered through one's own biases. In a business context, corporate decision-making is dominated by strategies for maximizing competitive advantage. To live with this, collaborators must articulate their authentic expectations and moderate responses to perceived ruptures in the collaboration. Adhering to seven key principles can help collaborations avoid the "accidental adversary" scenario:

- Reconstruct and revisit the conditions that catalyzed the collaboration.
- Review original understandings and expected mutual benefits.
- Identify what is incentivizing adversarial behavior.
- Map the unintended consequences of this behavior.
- Develop overarching goals for both parties.
- Establish metrics to monitor collaborative behavior.
- Establish routine communication.



This causal loop diagram illustrates how unintended consequences that affect other factors may lead to a deterioration of a collaboration. By establishing routine communication between actors, we can change the dynamics of the system to be in balance.

**FIGURE 5:** "ACCIDENTAL ADVERSARIES" SYSTEMS ARCHETYPE FROM BRAUN'S "THE SYSTEM ARCHETYPES."<sup>173</sup>

Collaboration may not be the answer if too many compromises are needed or if competitive goals are too divergent. If one partner gives up more than it gains, the relationship may not survive. This is often the case with data sharing agreements, when free riders or unequal sharing can prevent a trustworthy exchange of information.

Additionally, in small markets when resources are limited or allocation is needed, antitrust issues can arise around coordinated action. In the case of OPEC, an aligned and coordinated group is able to directly impact the price of oil by coordinating supply cuts when the price is deemed too low and supply increases when prices are too high.<sup>172</sup> While OPEC and select organizations remain outliers, this

kind of coordinated action may run afoul of antitrust laws.

The increasing number and breadth of collaborations bring about a new challenge as well: competition with other collaborations. Critically, new collaborations must ensure that they are acting in concert with existing initiatives rather than competing for resources, partners, and engagement. Organizations should make careful decisions about where to allocate their reach and resources for the greatest possible impact, even if that means minimizing the number of collaborations in which it participates. Similarly, building and designing collaborations should be done with an eye toward areas of opportunity within the existing space.



# A NEW ROLE FOR COURAGEOUS CORPORATE LEADERSHIP

RETURN TO TABLE OF CONTENTS »

# A NEW ROLE FOR COURAGEOUS CORPORATE LEADERSHIP

**F**or businesses to truly serve society, corporate leaders will need to take a systems view to shift the conditions that hold society's persistent problems in place. However, only a courageous few are currently changing at an inner individual level and tapping into a deeper sense of humanity. The kind of leadership required for systems change is beyond the leadership that has been asked of executives thus far in "business-as-usual" operations. CEOs will have to grapple with the fact that they must be willing to learn, grow, and lean into discomfort to make radical change. Executives must not only facilitate engagement between their own teams but more importantly must engage other leaders in their respective networks. It is not enough for CEOs to merely adjust their organization's regular operations; they must contribute to the creation of a coherent, organized, purpose-driven movement across industries and across persistent problems. This is not a short or easy undertaking, and every individual is at a different point and level of comfort along their personal journey. Precompetitive collaboration leverages the power of individual CEOs to enact change, not because they are CEOs but because they are courageous, visionary, and capable people.

Executives must facilitate engagement between their own teams but more importantly must engage other leaders as well as and their respective networks. It is not enough for CEOs to merely adjust their organization's regular operations; they must contribute to the creation of a coherent, organized, purpose-driven movement across industries and across persistent problems.

Ultimately, the decision to intervene in a system is a personal choice dictated by beliefs, values, ego, and perception. Successful leaders in this space must leverage their creativity, engagement, and character to bolster the capabilities of their organization (as described in the section below on "Positive Organizational Scholarship") and support the staff of their corporation so that they can, in

# WE NEED LEADERS WHO KNOW THAT BY INVESTING IN OTHERS, THEY WILL BE BETTER OFF THEMSELVES.”

Paul Polman

turn, support their CEO. As Paul Polman has said, “[we] need leaders who know that by investing in others, they will be better off themselves.”<sup>174</sup>

**Since systems are composed of complex relationships, individual change must be a key part of the system change process. Ultimately, the decision to intervene in a system is a personal choice dictated by beliefs, values, ego, and perception.**

The motivation for corporate leaders to respond to these crises depends on the perceived urgency, the personal values of the leaders, and the likelihood that these problems will have a negative impact on the organization itself. Thus, corporate leaders play a critical role in catalyzing cross-sector systemic change<sup>175</sup> but too few courageous leaders are stepping up. CEOs, board members, and other key decision-makers set incentives, policies, and strategic vision for organizations, but most corporate leaders have set goals and created incentives that do little to combat the persistent problems previously mentioned. To catalyze the institutional power of business, corporate leaders need to deepen their understanding of the issues at hand and believe they can address problems today.

Leadership development often focuses on competency building and information gathering but understanding how we live, how we organize, and how we engage with the world is both the process to frame

the outcomes we desire and the transformation we seek. Leaders must prepare themselves to transform the outer world because “the ethics and values that guide decisions at a personal level are the same that families, communities, and nations use to make decisions about how to live collectively.”<sup>176</sup> A deep understanding of how to engage enables leaders to conceptualize the web of connections that structure systems. The box below on “Theory U” outlines the milestones and stages required in individual leadership behavior change.

Forward-looking leaders are laying out the elements of a just transition toward change by mapping competitive playing fields, identifying tipping points, and developing new skill profiles and jobs.<sup>177</sup> These leaders see strategy as the responsibility of the entire organization rather than solely that of senior executives. These leaders are operating with a level of consciousness that accounts for their externalized impacts while simultaneously offering a vision of the future that reorients persistent problems as opportunities. Changemaker leaders are acting with others who share a sense of urgency.<sup>178,179</sup>

Organizational transformation is not dependent on goals but on how it uses resources. Resources (people, ideas, materials) are defined by what they are connected to in practice. Therefore, leaders must look for inherent connections between how their resources are used and persistent problems they face. Courageous leadership is characterized by acting from this dualistic perspective that sees inherent connections between disparate items, like wellbeing and citizenship. Changemaker leaders’ perspective also emphasizes practical action and re-frames challenges as opportunities to create new paths forward and answer new questions.<sup>180</sup>

This section outlines key components and provides a suggested roadmap of this journey. It is important to note that the order one undertakes this journey is not so much important as is the fact all of these components are needed.



**YOU DON'T WASTE TIME WITH REACTIONARIES; RATHER YOU WORK WITH ACTIVE CHANGE AGENTS AND WITH THE VAST MIDDLE GROUND OF PEOPLE WHO ARE OPEN-MINDED."**

Donella Meadows

### Role of Leadership: Competition and Collaboration

If leaders aren't willing to engage in precompetitive or multi-stakeholder collaboration, that can hobble the entire organization's collaborative ability. In some instances, leaders are called to engage through the actions and demands of their employees, particularly if those employees are calling for the company's attention and action around a persistent problem. Piloting collaborative approaches in small ways can open leaders' minds to collaboration, but it can be a slow and winding path forward. If key leaders are not on board and decision makers do not use resources differently, then change will not be swift and widespread within a firm. Conversely, if organizations or individuals do not

## THEORY U: PROCESS MILESTONES FOR LEADERSHIP TRANSFORMATION

Leaders interested in systemic impact must break through past unproductive patterns of leadership. Frameworks like the Presencing Institute's Theory U, which is an awareness building process, help leaders engage with an open mind and full self in the purpose of their work. Theory U is especially well suited to opening a leader's orientation to systems thinking, as it transitions its students through multiple ways of learning and knowing about our place in the world: thinking (individual), conversing (group), structuring (institutions), and ecosystem coordination (systems).



FIGURE 6: FROM OTTO SCHARMER'S "THEORY U"

The Theory U process begins by an individual first connecting to the world that is outside of one's bubble, then experiencing how their bubble interacts and shapes with their own worldview, and finally incorporating the understanding of these relationships and interactions at the systems level into their personal actions and purpose.<sup>182</sup> Please reference the five-step process at left.

"Moving down the left side of the U is about opening up and dealing with the resistance of thought, emotion, and will; moving up the right side is about intentionally reintegrating the intelligence of the head, the heart, and the hand in the context of practical applications."<sup>184</sup>

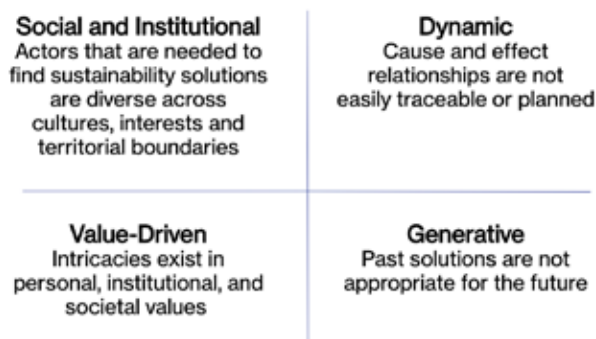
have a track record of working toward change, potential collaborators may be skeptical of underlying motivations. Public statements are a first step but holding oneself accountable to demonstrable change and impact are key to developing the trust necessary for collaboration to occur.

## Leveraging CEO Individual Agency and Engagement

Systems change requires a radically expanded understanding of leadership. Leadership for systems change requires “putting away the ego-driven certainty of ‘right’ answers, and genuinely engaging in the push and pull process of making decisions with others. Leaders, informed by an expanded view of how our complex universe operates, know that paradox, contradictions, and difference in points of view are natural characteristics of healthy networks of human interaction. They understand that the tension that comes from differences and the conflict it can generate hold extraordinary potential for breakthrough thinking.”<sup>161</sup> CEOs and corporate leaders are critical actors in systems change and must be engaged at the highest levels to enact systems change.

## System Leadership

Current frameworks and approaches to precompetitive collaboration do not account for the multi-dimensionality of the persistent problems they are intending to address, and many problems display multiple forms of complexity (see Figure 7 below).



**FIGURE 7:** TYPES OF COMPLEXITY PRESENT IN PERSISTENT PROBLEMS<sup>166</sup>

To mitigate these misunderstandings and navigate this complexity, leaders must determine if the goal of the system in which they are operating is survival, resilience, differentiation, or evolution.<sup>165</sup> Many of the systems we operate in today fluctuate between survival and resilience, but transformational change will require a system designed to evolve.

## Positive Organizational Scholarship

The domain of Positive Organizational Scholarship (POS) includes the study of energy in organizations, relationships, cooperation, and creativity, all fundamental building blocks of successful precompetitive collaborations.<sup>167</sup> POS rests on the belief that enabling human excellence unlocks potential in people who ultimately make up systems.<sup>168</sup> It seeks to reframe organizational focus from remedying dysfunction to amplifying strengths. Moving beyond the binary of positivity versus negativity, POS enables a sense of possibility and courage. It connects wellbeing, citizenship, and health as ends to economic performance and as worthy goals in and of themselves.<sup>169</sup> Empirical data showing the impact of positive organizational culture on organizations concludes that implementing positive leadership practices is positively related to profitability, productivity, quality, efficiency, customer innovation, and employee retention.<sup>190</sup> Those companies who focus on amplifying positive attributes such as loyalty, resilience, trustworthiness, and compassion within their workplaces perform better financially.

**Shifting from externalities to internalities causes individuals or organizations to take responsibility and be accountable for all the impacts of their actions.**

## Shifting from Externalities to Internalities

Actions that harm the climate or increase economic inequality will, over time, come to harm the institutions causing that harm themselves. Thus, these actions cannot be classified as externalities (costs borne by others). Reframing externalities as internalities allows organizations to reconsider who their actions affect and how to account for decision factors. This changes the accounting system people use to make decisions. An externality is a “good or service that imposes a cost or benefit on an individual in the long run that is not taken into account when the individual consumes that good or service.”<sup>191</sup> If organizations reconsider who their actions will impact, they can better combat biases like short-termism and more easily align with the long-term interest of their stakeholders. This shifts their perspective from viewing others as separate competitors (either/or, dichotomous) to seeing them as connected collaborators (both/and, dualistic).

Companies that have historically contributed to negative environmental externalities are increasingly



## EXXON LIED CAMPAIGN

In 2015, InsideClimate News and the *Los Angeles Times* reported that scientists at ExxonMobil had been aware of the serious negative environmental consequences of oil and gas extraction as early as 1977, 11 years before it became a public issue.<sup>195</sup> Yet, for decades, ExxonMobil scientists and leadership publicly questioned the science surrounding climate change, even going so far as to actively lobby the United States, China, and India against signing the 1998 Kyoto Protocol (an effort in which they were ultimately successful). The InsideClimate News report spurred global outcry and even legal action in several cities, with comparisons being drawn to similar misinformation campaigns by Big Tobacco.

seeing those effects come back to affect them through advocacy campaigns and harm to their brand and product. With increased transparency brought about by big data transformation, companies that formerly could hide their externalities will not be able to do so in the future (as shown by the Exxon Lied Campaign that began in 2015; see box below).<sup>192</sup> Recognizing internalities requires first acknowledging and then adjusting our biases. We are inherently biased to protect against losing something personal to us, damaging our view of the world, and alienating ourselves from those similar to us (safety, experience, and similarity bias). Similarly, we prefer what is closer to us (in distance and in time) and are biased to rush to act.<sup>193</sup> For example, many were able to dismiss climate change for decades while relying on the belief that it will happen to someone else, someplace else, and in the future. The increasing volatility and duration of localized environmental crises—wildfires in California, blizzards in Texas, hurricanes in Puerto Rico—have changed Americans’ beliefs on climate change. Data from the Yale Program on Climate Change Communication revealed in 2020 that 27% of the US adult population was alarmed by climate change—almost doubling the percentage expressing concern in 2015.<sup>194</sup>

### Inner-Outer Game: Pre-Work for Undertaking Systems Leadership

Leaders who seek to transform the world around them must prepare themselves for change as well. A deep understanding of one’s own way of being and interconnectedness with the world is vital to transforming one’s purpose into one’s actions. Leaders must prepare themselves in order to transform the outer world because “the ethics and values that individuals guide decisions at a personal level are the same that families, communities, and nations use to make decisions about how to live collectively.”<sup>196</sup> The result of this preparation leads to novel ways of seeing the world, discovering one’s own purpose and practicing one’s deeply held values. Those who succeed know what is needed to transform the current systems and as well understand how to frame desired outcomes.<sup>197</sup> Leaders who improve their own awareness and consciousness within this complexity seek to do four things:

1. Understand the parts of the whole.
2. See how the parts are interconnected.
3. Ask “what-if” questions about possible futures.
4. Be creative and courageous about redesign.



The result of inner work leads to novel ways of seeing the world, discovering one's own purpose and practicing one's deeply held values. Those who succeed know what is needed to transform the current systems and as well understand how to frame desired outcomes.

## Psychological Flexibility

Psychological flexibility is an emergent approach that is forward-looking and adaptive, using the ability to recognize changing situational demands and adapt by changing behaviors and shifting mindsets.<sup>198</sup> It encourages individuals to be aware and open to new information while staying rooted in behaviors that are congruent with one's personal values.

This mindset allows leaders to change their behavior. It changes leadership from a rigid process flow to an adaptive, dynamic playing field in which no single path is fixed as correct.

Psychological flexibility is critical for leaders as it enables them to avoid short-term thinking and create original, long-term organizational adaptations.<sup>199</sup> Leaders who accept new information about their impacts and personalize them are more likely to act. In this way, flexible leaders cultivate organizational flexibility; the ability to change. This mindset contributes to an openness to experimentation and adaptive management and the use of new evidence that might run counter to previous beliefs.<sup>200</sup> It enables leaders to unlearn cultural elements that are found to be dysfunctional. Increasingly, we are seeing disruptions to operations that were previously unthinkable.

## Motivating Leaders to Take Strategic Action

In complex environments it is impractical for a resolution to emerge from a single source and nearly impossible to impart meaningful change as a single entity. Unfortunately, traditional leadership training rewards leaders for solitary action. Thus, we are left with results from individuals using only their isolated capabilities in complex and chaotic environments where they could benefit from additional perspective and options.<sup>201</sup> Leaders who follow only their own intuition tend to oversimplify complex systems to fit their own world views, which leads to misinterpretation and solving the wrong problems.<sup>202</sup>

Today's global, interconnected economy confronts leaders with problems that are deeply interconnected to each other. They are tasked to respond to dynamic

scenarios that consist of complex systems of changing problems that interact both directly and indirectly with each other.<sup>203</sup> The likelihood any leader will respond successfully to an issue depends on how well they understand the issue and perceive their capacity for dealing with it.<sup>204</sup> The more decision-makers perceive they understand a strategic issue and perceive they have the capacity for dealing with it, the more the momentum for change. Any lesser combination of understanding and capability renders the individual (or firm) unlikely to change or address the root cause of issues.

Approaching persistent problems can be daunting: It leads to uncertainty around an individual's perceived capability and understanding of the systemic issues. This uncertainty frequently leads to paralysis. When leaders collaborate or seek out diverse stakeholder viewpoints, they gain a higher degree of understanding of an issue. Similarly, collaboration increases the size of the pie—and with those increased resources necessary to make changes they are propelled to act. Propelled leaders view this act not only as necessary but see the opportunity in such endeavors.

		Perceived Understanding	
		LOW	HIGH
Perceived Capability	LOW	<p><b>"Powerless"</b></p> <p>Issue perceived as threat: no response</p>	<p><b>"Trapped"</b></p> <p>Opportunistic responses</p>
	HIGH	<p><b>"Perplexed"</b></p> <p>Coping, ousting responses</p>	<p><b>"Propelled"</b></p> <p>Issue perceived as opportunity: reorienting responses</p>

**FIGURE 8:** LIKELIHOOD OF ACTION BY A FIRM OR INDIVIDUAL. ADAPTED FROM DUTTON AND DUNCAN'S *THE CREATION OF MOMENTUM FOR CHANGE THROUGH THE PROCESS OF STRATEGIC ISSUE DIAGNOSIS*.<sup>205</sup>

The more decision-makers perceive they understand a strategic issue and perceive they have the capacity for dealing with it, the more the momentum for change.<sup>206</sup>

## THE POWER OF LEADERSHIP: UNILEVER'S SUSTAINABLE LIVING PLAN

The development of the Unilever Sustainable Living Plan exemplifies the complex process of leadership evolution.<sup>207</sup> The Sustainable Living Plan, developed under the leadership of former Unilever CEO Paul Polman, aligned corporate purpose with social and environmental priorities. Polman incorporated the internal—his belief that business can do well by doing good for all—with the whole, bringing Unilever’s competitors and value chains to the table in discussing proactive solutions for issues facing their collective operations. While Unilever’s competitors may have viewed these moves as antithetical to their business financial goals and growth, these moves proved to be fruitful for Unilever. As of 2019, Unilever’s purpose-led Sustainable Living Brands were outperforming Unilever’s traditional brands, growing 69% faster than other brands and contributing 75% of the company’s overall growth.<sup>208</sup> Unilever’s 10-year retrospective on its sustainability work, published in March 2021, explicitly references the power of business to drive systems change and exemplifies Polman’s vision of a socially responsible corporation.

## HOW LEADERS ENACT ORGANIZATIONAL CHANGE

Implementing organizational change involves some key steps to “unfreeze” business-as-usual thinking. Steps that leaders can take to accomplish these goals include:

- Clearly highlighting threats to surface if no change occurs, and encouraging others to believe that change is possible and desirable.
- Providing a vision and new operating model.
- Filling key positions with individuals who share their vision or rewarding the adoption of new directions.
- Discrediting myths that preserve dysfunctional traditions or creating new rituals and symbols around the new vision.<sup>209</sup>

## NOW IS THE TIME WHERE THE MORAL LEADERS SEPARATE THEMSELVES FROM THE GREENWASHERS.”

Paul Polman<sup>210</sup>

### Moral Obligation as an Impetus for Action

Many collaborations organized around the goal of social impact arise through an individual’s or company’s vision for a new future or a realization that current socioeconomic issues cannot remain unaddressed. For individual corporations, this has often meant developing CSR initiatives for internal execution. However, if a leader wants to create real, lasting impact in addressing persistent problems, they must be collaborative. This is reflected in our earlier discussions of systems change and precompetitive collaboration, but it can be also summarized in one basic tenet: *More is done together than alone.*

This idea has catalyzed many collaborations borne out of a moral obligation to address a sociopolitical or economic threat. Companies with stated goals to combat persistent problems are more than twice as likely to pursue nontraditional strategies such as collaborating.<sup>211</sup> (See box below on “Interface/Ray Anderson...”). Investment and buy-in from top management are essential to effectively transforming an organization. For example, in the early 2010s there were increased conversations surrounding the human rights issues caused by using specific minerals (e.g., gold, tantalum, tin) for product inputs in the electronics industry, particularly within the Democratic Republic of Congo (DRC). Specifically, there was a concern with forced labor, child labor, and fatalities in the DRC mining industry, as

## INTERFACE/RAY ANDERSON AND THE ROLE OF MORAL OBLIGATION IN DECISION-MAKING FOR COLLABORATION

Ray Anderson founded Interface, a modular carpet tile company, in 1973. In the early 1990s, as Anderson describes it, he had a “spear in the chest moment” when a customer asked him what he and his company were doing to protect the environment.<sup>214</sup> This moral epiphany about his company contributing to environmental waste and degradation led Anderson to bring together an “Eco Dream Team” of activists, authors, scientists, and entrepreneurs to identify seven key areas where Interface needed to progress in order to become more sustainable. Those seven fronts informed Interface’s strategic direction and acted in service of the company’s new purpose: to become the world’s first completely environmentally sustainable and restorative company. This goal to become a company with net-zero negative impact on the planet was achieved in 2020. The company has since shifted its focus forward with a new campaign called “Climate Take Back,” in which Interface are working to re-create a climate fit for all life.

Anderson’s unwavering moral commitment to institutionalizing sustainability at Interface was arguably the most critical driving force in the success of the company’s impact efforts. Without his “spear in the chest moment,” Interface would not have become the beacon of corporate social good that it is today. Moral obligation clearly cannot be the only motivator for executive leadership to address persistent problems, yet is an important prerequisite for systemic change.

much of the industry was controlled by armed forces. As the electronics industry became more closely tied with the human rights issues in the DRC, the moral obligation to address this issue beyond switching sourcing locations was apparent.<sup>212</sup> This moral obligation was initially addressed by Intel, with its bag and tag initiative, and aimed to bring transparency to the supply chain to source conflict-free minerals.<sup>213</sup> Moral obligation can be a stand-alone prerequisite for change.

## Episode Creation

Systems change work requires imagining a divergent or entirely different path from established practices—a task that is difficult to accomplish without a clear catalyst. Disruptions in personal or operational norms provide an intervention to closed-mindedness, a space or opportunity to temporarily remove the blinders of “business as usual.” This allows leaders to see themselves and perceive that they are part of a bigger picture and community.

Niklas Luhmann, a pioneer in systems theory and social evolution, calls such disruptive moments “episodes,” where communications and processes are able to suspend their normal routine structures of discourse, communication, and hierarchy to create the opportunity for reflexive strategic practice.<sup>215</sup> These are opportunities to suspend business as usual and allow leaders to find and create catalyzing moments for change or “generative episodes.” Beyond a simple disruption or pause, generative episodes provide a foundation upon which complex discussions and radical transformations can be built. Some scholars believe that generative episodes are societal events or shifts (such as the emergence of the agrarian state, establishment of democratic processes, or the resurgence of the Black Lives Matter movement) that radically shift traditional thinking.<sup>216,217</sup> Similarly, the 2020–21 COVID-19 pandemic itself was a generative episode: It changed how we operate, interact, and conduct ourselves and our businesses. This episode allowed courageous leaders to step forward and act on new leadership strategies and new methods for conducting business.

Generative episodes can also include simple opportunities such as annual meetings or standing convenings where reflection, personal growth, and new ideals can be introduced. The annual conference held by the World Economic Forum (WEF) in Davos-Klosters, Switzerland

(typically referred to simply as “Davos”), provides business and government leaders with the opportunity to have in-depth discussions about ethics, purpose, and the role and responsibility of business in society at large—conversations that would likely not have happened organically without the creation of the Davos episodes. The suspension of norms through the creation of these generative episodes allows for radical communication, personal growth, and transformative action. Leaders can create episodes to build awareness of an ethical engagement with the world (see box on “Awareness-building”). Successful episodes dedicated to systemic change allow individuals to remove themselves from current structures and create an episode, or opportunity, to allow stable structures, communications, and processes to be suspended.

By capitalizing on generative episodes, leaders can begin to reassess and realign their understanding—and therefore their organization’s understanding—of the systems in which they operate. Thinking at a system level is critical to reframing the purpose and goals of an organization toward a forward-thinking and adaptive approach.

The outcomes from any one of these generative episodes differ in their direction and scope. However, they can be catalyzing moments for self-realization, highlighting the need for systemic change. Davos, for example, may instill a sense of collective action and large-scale initiatives while the COVID-19 pandemic highlights the fragility of many of our supply chains and affirms the importance of human capital. It is the responsibility of leaders, therefore, not only to recognize both large- and small-scale generative episodes as opportunities for communication and collaboration, but to intentionally create and capitalize upon these moments of engagement.

## A COURAGEOUS FEW ARE TAPPING INTO A DEEPER SENSE OF HUMANITY AND POSITIVE LEADERSHIP

Episodes create opportunities to develop new synaptic architecture and behavioral norms

Episode

...to find new paths forward

Motivated leaders recognize and capitalize on episodes...

Episode: suspension of regular structures, communications and processes

## AWARENESS-BUILDING BIISKABYIANG

Leaders need to get away from focusing solely on their own institutions and expand their awareness to have a larger, more inclusive perspective. The indigenous North American Nishnaabeg peoples call awareness-building Biiskabyiang, which more specifically is a “reengagement with things we have left behind, a reemergence, and unfolding from the inside out.” Biiskabyiang informs and structures ethical engagements with the world, the sense of interconnection with current systemic structures, and one’s freedom and self-determination.<sup>218</sup> L.B. Simpson highlights Biiskabyiang as occurring when a group of people isolate themselves from the surrounding society in order to create an autonomous community. Such separation can provide perspective that individuals may not be able to access in the course of daily life.

If an individual or single organization could solve persistent problems then they would. There are many guides for change management, but three key factors underpin any action a leader takes: a sense of urgency, a need to bring others along, and persistence to match the problems at hand. John Kotter lays out a simple, eight-step process for leaders who aim to do well under the stress and uncertainty of rapid change in complex scenarios (see box just below).<sup>219</sup> Leaders need to change others’ hearts and minds and can use symbols and stories to accelerate change through meaning-making, emotional affects, and collective connectedness.<sup>220</sup>

**It is the responsibility of leaders not only to recognize both large- and small-scale generative episodes as opportunities for communication and collaboration, but to intentionally create and capitalize upon these moments of engagement.**

## THE EIGHT-STEP MODEL TO MANAGING ORGANIZATIONAL CHANGE <sup>221,222</sup>

### 1. Create a sense of urgency

Help others see the need for change and the importance of acting immediately.

### 2. Pull together the guiding team

Make sure there is a powerful group guiding the change—one with leadership skills, credibility, communications ability, authority, analytical skills, and a sense of urgency.

### 3. Develop the change vision and strategy

Clarify how the future will be different from the past, and how you can make that future a reality.

### 4. Communicate for understanding and buy-in

Make sure as many others as possible understand and accept the vision and the strategy.

### 5. Empower others to act

Remove as many barriers as possible so that those who want to make the vision a reality can do so.

### 6. Produce short-term wins

Create some visible, unambiguous successes as soon as possible.

### 7. Don’t let up

Press harder and faster after the first successes. Be relentless with initiating change after change until the vision is reality.

### 8. Create a new culture

Hold on to new ways of behaving, and make sure they succeed, until they become strong enough to replace old traditions.

Beyond Business as Usual

# THE ROAD AHEAD





While modern capitalism is not designed to operate sustainably, it is flexible enough to adapt for a future that does. To do so, businesses must shift their purpose away from unbounded

growth to stakeholder value creation: becoming socially beneficial through decoupling growth and consumption. Traditional metrics of societal and business success must be rethought to reflect a new future where corporate actors and governments are evaluated for their action to address environmental and social crises. Just as profit and loss statements measure only a company's ability to generate sales and manage expenses, GDP fails to capture state-level activities that are positive and detrimental to society in the long term (e.g., overfishing, deforestation). Purpose-driven business decisions that to date had negatively impacted profit and loss statements may need to be evaluated against different metrics that prioritize decisions that ensure positive long-term benefits to business and society.

Business leaders must perceive that they do not have the necessary knowledge and ability to act alone. They must be open to collaboratively navigate environments where their thoughts are not predominant, and they are not operating from individual positions of power. This perception is the critical prerequisite for precompetitive collaboration. Beyond business-as-usual is a new type of value creation that can meet

the mounting and urgent social and environmental challenges facing humanity in the coming decades.

Operationalizing collaboration in the coming decades requires focused attention on how to share data securely, maintain and build trust, and equitably engage marginalized perspectives. In particular, the intricacies of collaboration (sharing data, maintaining confidentiality, evaluating progress, and aligning schedules) must be managed by effectively engaging key partners such as:

- *Neutral data holders*: trusted organizations (including management consulting firms) that deal with large amounts of sensitive data daily
- *Neutral holders of space or "conveners"* who can connect CEOs with a range of allies, also known as backbone organizations
- *Measurement and evaluation watchdog organizations* to oversee independent governance and provide accountability to collaborations

Non-corporate organizations must be critical partners in collaborations to bring accountability, transparency, and trust to decision-making processes. For example, watchdog organizations are often the first ones to sound the alarm about the externalities of global challenges, alerting business leaders to early opportunities to get ahead of crises. Similarly, labor organizations and unions have first-hand knowledge of how value chain operations impact lives and livelihoods; they can ensure that solutions are not causing undue harm to communities.

LESSONS LEARNED ON SUSTAINING SUCCESSFUL COLLABORATIONS		
ENGAGE NEUTRAL PARTNERS	ELEVATE MARGINALIZED VOICES	BUILD A MOVEMENT
Involve neutral data holders	Encourage diverse perspectives within and across organizations	Cultivate inclusive partnerships with key players
Involve neutral holders of space (conveners)	Integrate Traditional Ecological Knowledge (TEK)	Invest for reach and credibility
Involve measurement and evaluation watchdog organizations	Include labor organizations and representatives in collective discussion	Develop aspirational branding and value-based endorsements

### Bringing New Voices to the Table

Lessons from ecological science have taught us that increased diversity in ecosystems stabilizes functioning in the face of environmental change. Similarly, engaging diverse perspectives in collaborative strategy-setting will be critical in a world of extremes and volatility. This form of collaboration will require not only an increased *number* of diverse perspectives at the table but also thoughtful consideration about how to keep those perspectives engaged and accountable throughout the collaborative process.

The entities responsible for social and environmental harms cannot be the only ones in the room solving it. Instead, stakeholders at the table should include those impacted by the problem that needs addressing through the collaboration. Diversity of stakeholder voices is paramount, not only within corporations but throughout their extended networks. Stakeholders such as suppliers, customers, and communities in which companies operate must be included in these collaborations for systems change to scale across value chains.

Environmentalism without justice is similar to what former Interface CEO Ray Anderson described as a loss of community, a loss of the soul and spirit, loss of connection to the land, and loss of the ability to find yourself within that. Both innovators and traditionalists, masculine and feminine perspectives, will be necessary to bend toward justice. Engaging traditionally under-represented perspectives will increase the number of paths forward and create a more holistic understanding of any issue.

### Building a Movement

Offentimes, setting a collaborative goal is the first step of many in the scaling of systems change across value chains. Creating a movement behind the goal is more challenging, but when done effectively can significantly amplify impact. People need to know what they are fighting for and what they are fighting against—stories and narratives can begin to move people to act where data fails.<sup>223</sup> The time is right for individuals and organizations to look for opportunities to reframe sustainability from a deficiency and problem lens to a possibility and solution-based perspective. Action cannot rest on individual consumers; the onus is on corporate actors and their partners to provide consumers with the opportunity to find congruence between their own values and the values reflected in their brands. For example, the movement to remove child labor from the fashion industry has accelerated as brands signed on to audit suppliers and partners.<sup>224</sup>

Several key underlying conditions inform whether a movement can be launched and successfully scaled, including but not limited to broad cultural mainstream interest and new technologies or improved offerings, which all create the environment for an inflection point.

Organizations and individuals can accelerate movements in several ways:

1. Form partnerships with key players to extend influence through partner capabilities.
2. Make investments to increase reach and credibility.
3. Pivot to aspirational branding, which can enable individuals to see themselves as part of the movement.
4. Seek endorsement from celebrities and influential figures who are values-aligned.



## BEYOND PUBLIC-PRIVATE PARTNERSHIPS: JURISDICTIONAL APPROACHES FOR GLOBAL DEFORESTATION GOALS

Ambitious precompetitive collaborations to address persistent problems such as global deforestation in agricultural supply chains often hinge on getting commodities suppliers to change practices. Supplier pressure is often not enough to incentivize these changes. Sustained involvement from in-country government and NGOs is essential for precompetitive efforts to scale.

This insight is seen clearly in the example of global deforestation loss efforts. A new collaborative strategy, *jurisdictional approaches*, aims to drive change at scale through strategic collaboration between local governments and other key stakeholders.<sup>225</sup> Jurisdictional approaches enable companies to collaborate with local governments, local communities, and producers in their sourcing regions. Working together, the stakeholders ensure that the local laws, regional efforts, and corporate policies work in tandem to reduce deforestation across a region rather than a supply chain.

For example, Malaysia's implementation of the Sustainable Palm Oil standard as the mandatory requirement for palm oil producers was accomplished through a jurisdictional approach. Government policies set a legal baseline for new growing practices that can complement voluntary business incentives to scale impact.<sup>226</sup> In addition, the governments of Cote d'Ivoire and Ghana collaborated with the world's leading cocoa and chocolate companies on the Cocoa and Forests Initiative to end deforestation and promote forest restoration in the cocoa supply chain. Together, these stakeholders have pledged no further conversion of forest land for cocoa production and elimination of illegal cocoa farming in protected areas.<sup>227</sup>

## Government's Role in Precompetitive Collaboration

It is undeniable that the future of precompetitive collaboration will require sustained government involvement to scale. International climate agreements and green legislative packages like the Green New Deal emerging in the United States and the European Union cannot succeed without business to implement them. Similarly, companies setting ambitious carbon neutrality or zero-waste goals require government policies that improve related infrastructure. Locally, companies with extensive global supply chains need government involvement to ensure environmental, labor rights, and exploitative practices are addressed. The status quo, which is marked by an overabundance of money in politics, government subsidies for polluting industries, and back-door lobbying, is not sustainable for a future of crises intensifying in both frequency and scale.

The fundamental lever of change for systems change is transparency. Government regulations can facilitate greater transparency and set the foundation for corporate leadership and industry-wide collaboration. New government frameworks to encourage this type of collaboration (e.g., EU Green New Deal, shifting landscape for EU antitrust laws) will be needed to de-risk collaboration at the scale that will be needed to meet global goals.

Persistent problems such as climate change, income inequality, and biodiversity loss are too big for individual businesses or governments to solve alone. It may be too simplistic to assume that either no regulation or more regulation will address the challenges. Both government and business action can address persistent problems, but neither can address them alone. These powerful institutions must be mobilized by leaders that do not view impact on society and their own wellbeing as a zero-sum game. It may also be too naive to assume that government actors or corporations will not push for self-serving objectives from time to time. Instead, the path forward will involve re-envisioning how laws and regulations should complement or accelerate the outcome of collaborations to improve public welfare. It will also require re-thinking how corporations and governments interact with one another through the traditional lobbying process.

## A New Approach for Antitrust Laws and Lobbying

Antitrust laws that are predicated on consumer welfare may require a new framing for a world where corporations have overwhelming influence over not only consumers but nations, regions, and ecosystems. Large companies currently have too much power that

perpetuates other consumer harms in addition to discriminatory pricing, such as environmental pollution, low wages, and labor abuse. New frameworks that call for regulators to look beyond price and static economic factors to determine the health of the market should be seriously evaluated.<sup>228,229</sup> The future of collaboration will require regulations that enable companies to collaborate in the public interest and penalize companies that act against it.

For example, lobbying efforts could focus less on lower tax rates and more specifically on lower tax rates for sustainable products such as those with recycled content, where both shareholders and stakeholders could benefit. Doing so can increase the incentive to build new business frameworks around sustainability (e.g., circular value chains) while lowering both demand for materials and carbon emissions.

In addition, a new approach to government relations that prioritizes opportunities rather than mitigates risk will be needed. For example, collaborative lobbying that engages coalitions representing different stakeholders (government, NGOs, labor, etc.) can ensure that laws passed truly benefit the collective. Coalition-based lobbying can also restore trust in government and business together at a time when such trust is at an all-time low across the globe.

Re-envisioning the relationship between business and government can scale-up systems change by eliminating barriers to collaboration in the public interest and “de-risking” the political process.<sup>230</sup> Precompetitive collaboration that results in consensus guiding principles can provide legislators across the world with political cover to implement ambitious new laws, knowing they will find support among a diverse swath of corporate

stakeholders. In addition, improved transparency and accountability ushered in through improvements in reporting and evaluation can restore confidence in both government and business.

## Future Research Directions

- How can facilitators and convenors leverage systems-change principles?
- How can businesses begin to act without activists demanding accountability?
- How might collaborations integrate a diverse global representation?
- How might collaborators learn from traditional ecological knowledge of collaboration?
- How do you share data logistically and get people to share on the supply chain?
- Do collaborative or competitive approaches make a bigger impact?
- What causes collaborations to fail in practice and what is an appropriate lifespan?
- What are effective ways to build trust between collaborators?
- How do collaborators manage financial obligations and impact measurement?
- How do participants get from mutual commitment to action to actual precompetitive collaboration?

## CONCLUSION

### GLOBAL ISSUES DEMAND GLOBAL ACTION

- Incremental CSR is not enough to address global persistent problems, and urgent action is needed.
- Global issues are increasingly interconnected, and corporations are called to take responsibility for their externalities.

### COLLABORATION IS CRITICAL

- Corporate leaders must catalyze transformative change from within their organizations, moving towards the power of collaboration instead of competition.
- Precompetitive collaboration faces real regulatory hurdles, so productively and proactively engaging institutions like government and civil society is critical.

### LEADERS ARE CALLED TO ACT

- Now more than ever, opportunities abound for courageous and creative leaders to enact change. Leaders must learn to recognize and capitalize on strategic opportunities for collaborative transformation.
- By transforming themselves, their organizations, and their corporate relationships, leaders can fundamentally transform the way systems function.

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