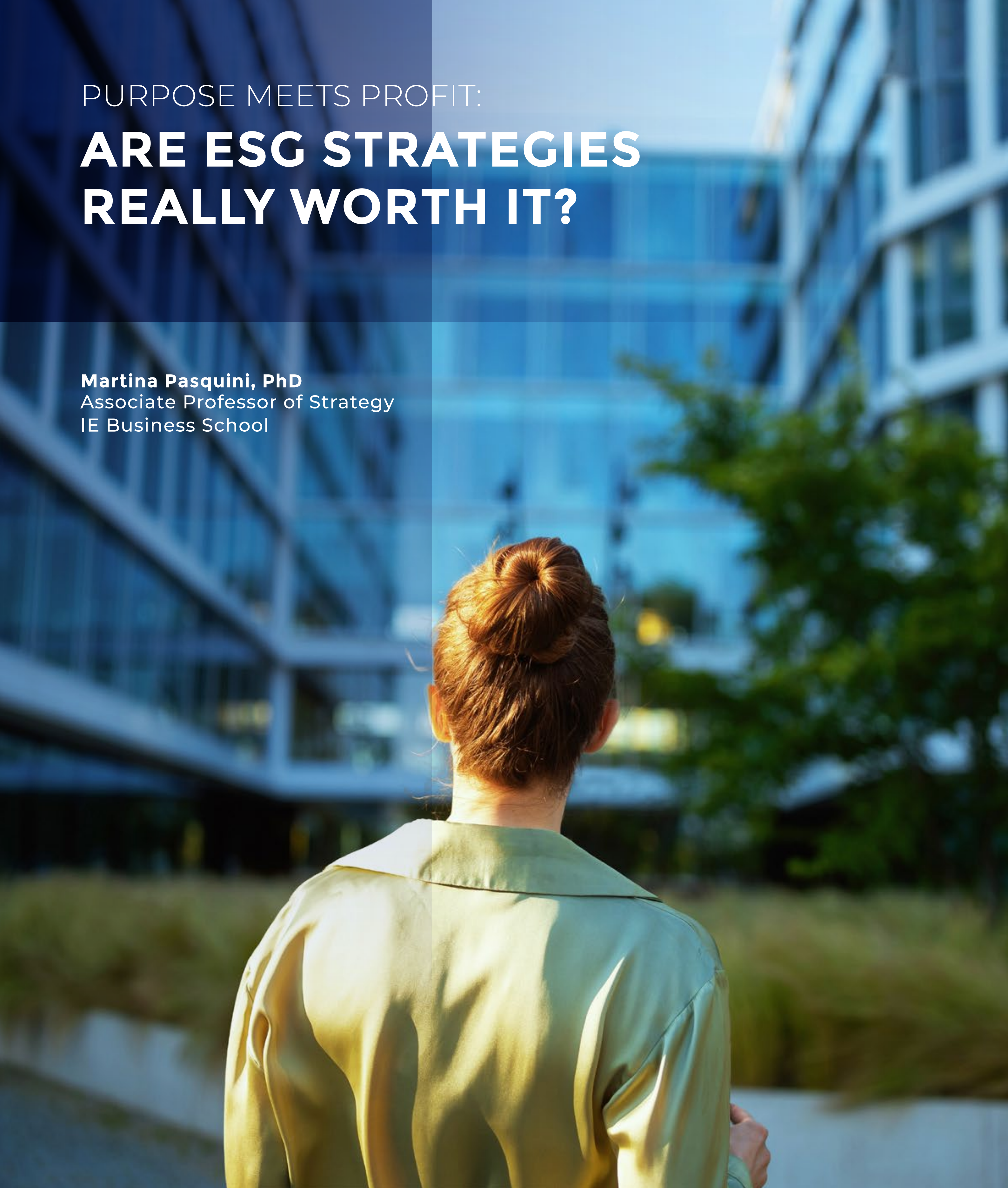
PURPOSE MEETS PROFIT:

ARE ESG STRATEGIES REALLY WORTH IT?

Martina Pasquini, PhD
Associate Professor of Strategy
IE Business School



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Index

Foreword

Enrique Aznar
Director
IE-Elecnor Knowledge Hub
on Ethical Business

It is my pleasure to present this comprehensive IE-Elecnor Knowledge Hub on Ethical Business report entitled, "***Purpose meets profit: are ESG strategies really worth it?***". This study, led by Martina Pasquini, PhD, and an Associate Professor of Strategy at IE University, delves into the evolving landscape of Environmental, Social, and Governance (ESG) strategies and their impact on corporate value creation.

In recent years, the role of businesses has shifted from a singular focus on profitability to a broader commitment to societal and environmental responsibility. This report aims to explore how businesses with purpose navigate this transition, evaluating the various ESG strategies they adopt and examining their tangible impact on both financial and societal outcomes. By analyzing the intricate balance between stakeholder expectations and economic objectives, the report strives to provide a nuanced understanding of the mechanisms through which companies can generate sustainable value.

The IE-Elecnor Knowledge Hub on Ethical Business' mission is to foster richer dialogue on ethical business practices, conscious governance, and the role of emerging technologies such as artificial intelligence and distributed ledger systems, to elevate standards of transparency, accountability, and principled decision-making across industries.

In line with this mission, this report sheds light on the critical factors that characterize effective ESG strategies, from philanthropic initiatives to governance-oriented approaches. It also leverages rigorous research and case studies to identify best practices that can guide businesses in aligning their purpose-driven missions with their strategic goals. The ultimate aim of this report is not only to assess the current state of ESG practices but also to inspire a more integrated and actionable approach to sustainability within the corporate world.

I would like to extend my sincere gratitude to our long-standing partner, the Elecnor Foundation, whose support has made this report a reality. It is our hope that the insights presented here will serve as a valuable resource for businesses, policymakers, and academic institutions in their ongoing efforts to foster a more sustainable and ethical corporate environment.

Acknowledgements

In line with the spirit of the Knowledge Hub, this report has been drawn up to study the heterogeneity of ESG strategies and disentangle the underlying mechanisms that enable firms to create value and ultimately reduce costs. The goal is to identify best practices and disseminate them. I would especially like to thank the members of the IE-Elecnor Knowledge Hub on Ethical Business who sponsored and supported this research. A grateful mention also goes to the Knowledge Hub's Director, Enrique Aznar, for his constant help and support, and for his extremely useful comments on the previous versions of the report. I am also grateful for the tireless and invaluable work of Rafael Rivera, who has proved to be an exceptional research assistant over the last few months. Additionally, I would like to thank my co-authors who allowed me to use some additional data from our shared papers. It should be said, however, that any mistakes are entirely mine.

Martina Pasquini

01.

Introduction

The debate over whether ***Environmental, Social and Governance (ESG) strategies truly create value for businesses or are simply a passing trend has become increasingly polarized***. ESG proponents argue that it is essential for long-term value creation, as it helps companies align their practices with societal expectations while contributing to sustainable growth. Meanwhile, critics point to issues such as "greenwashing", where companies make misleading claims about their sustainability, and question whether these strategies genuinely lead to improved financial performance.

Once a beacon for businesses seeking to align profit with purpose, the ESG movement now faces significant challenges. However, ***many argue that ESG is not "dead" but is instead undergoing a "transformation"***. Critics suggest that the current phase of disillusionment could ultimately foster a more pragmatic, action-oriented approach to ESG, moving beyond declarations and reports towards meaningful corporate initiatives. The introduction of robust frameworks, such as the ***United Nations Sustainable Development Goals (SDGs),*** offers a global roadmap for businesses with purpose, balancing profit with societal impact. Companies that combine their ESG strategies with the SDGs are often better positioned to meet both market demands and societal expectations.

This report seeks to address the pressing question: ***do ESG strategies really create value?*** To explore this, we have dived into the core of the ESG debate, rooted in the long-standing tension between "stakeholders vs. shareholders". Historically, businesses' main goal was to maximize shareholder returns. However, today's companies increasingly aim to become ***"businesses with purpose",*** striving to balance their economic interests with the needs of all their stakeholders, including employees, customers, communities and the environment.

Several leading companies have successfully embedded ESG criteria into their operations, delivering transparency and accountability to investors and stakeholders alike. For instance, ***Unilever***'s Sustainable Living Plan has helped decouple growth from environmental impact while promoting positive social contributions. Microsoft has committed to carbon neutrality and substantial investments in renewable energy, coupled with sound governance practices to ensure accountability. ***Patagonia*** is recognized for its comprehensive ESG initiatives, utilizing recycled materials, enforcing fair labor practices, and donating a percentage of its profits to environmental causes. ***Ben & Jerry's*** has also built social and environmental activism into its business model, from sourcing Fairtrade ingredients to advocating for climate change and racial equity. These examples demonstrate how effective ESG strategies can foster trust, enhance resilience, and create long-term value by addressing the concerns of both internal and external stakeholders.

However, ***the impact of ESG on firm performance is not consistent***. While some companies successfully align governance and community engagement initiatives to procure positive returns, others struggle to obtain tangible benefits. Research indicates that firms with robust ESG strategies often outperform their peers in areas such as customer satisfaction, talent retention, and innovation. A McKinsey report identified five ways in which ESG creates value, including top-line growth and risk mitigation. However, poorly implemented ESG initiatives and a lack of accountability can lead to greenwashing, which erodes trust and exposes companies to both regulatory and reputational risks.

This report critically assesses a range of ESG strategies, from philanthropy (i.e., *philanthropic ESG strategies*) and *sustainable innovation* to governance-driven initiatives (i.e., *governance-oriented ESG strategies*). ***Philanthropic donations, sustainable innovation, and governance-driven practices are key components of ESG strategies*** that can create significant value for both internal and external stakeholders. Philanthropy, such as corporate giving and community investments, helps build stronger relationships with local communities and improves a company's social license to operate. Sustainable innovation, i.e., developing eco-friendly products and adopting green technologies, drives operational efficiency, reduces waste, and enhances brand reputation, thus appealing to environmentally conscious consumers. Governance-focused initiatives, such as ethical leadership, transparency and accountability, strengthen internal controls, improve decision-making, and attract responsible investors. Collectively, these efforts foster trust, loyalty and resilience, benefiting employees, investors and society alike. This report explores diverse approaches and provides qualitative examples of best practices to furnish a nuanced understanding of how businesses can successfully balance purpose with performance, ultimately creating value for both the financial market and society as a whole.

02.

Main objectives of the report

Although recent studies appear to coincide that investments in ESG strategies create value for firm performance, ***pinpointing the ESG strategies that have a major impact on firms' value and how the heterogeneity of ESG strategies can influence performance indicators differently remains unclear***. This raises an important question at corporate level on how a portfolio of ESG strategies can be designed to positively impact a firm's economic objectives without interfering with the quality of its social impact.

Therefore, this sets ***two main objectives for this report.***

1. ***To understand how businesses with purpose create value and to ascertain the best practices and ESG strategies to achieve this.***

2. ***To assess these ESG strategies and analyze whether they create value and, if so, establish which strategies add the most value.***

The report is organized as follows.

- Section 3 ***profiles businesses with purpose***, to obtain a clearer picture about what types of companies they are, which sectors they belong to, and where they are located.
- Section 4 introduces our results showing which of the multiple ESG strategies create(s) significant value for businesses with purpose and increase(s) performance. These are considered to be ***substantive*** ESG strategies. We use ***different performance indicators*** to ascertain whether ESG strategies have an effect on market value, on intangible value (Tobin's q), and on traditional key performance indicators (KPIs), such as Return on Investment (ROI) and Return on Assets (ROA), aiming to discern whether ESG strategies have a ***higher impact on value creation***, i.e., capital turnover (CT), or ***value capture*** (Return on Sales, ROS).
- Section 5 describes the four ESG strategies in greater detail: (i) ***Philanthropic donations*** (e.g., ESG-diversified and ESG-specialized philanthropy; local community versus global community philanthropic investments); (ii) ***Sustainable innovation and social products*** (e.g., focused versus diversified sustainable innovation); (iii) ***Internal governance practices*** characterized by separate roles for the CEO and President, special compensation policies, diversity policies, effective cultural diversity among executives, gender diversity on board, significant representation of female employees and (iv) ***Social impact orientation*** characterized by a sustainability committee, a formal policy for quality education and gender equality, as well as effective human rights support.
- Finally, Section 6 is a guided summary drawing on previous evidence that positions this report in a broader, comparative context. A number of selected readings has also been included to enable more comprehensive understanding of a range of topics.

03.

What are businesses with purpose?

The rise of businesses with purpose

A company's social purpose has become a critical element in organizational design and strategic decision-making. ***Businesses with purpose are for-profit, financially self-sustaining organizations that factor a social mission into their core objectives***. Companies that aim to fulfill both social and competitive purposes face heightened complexity, as they must navigate potential internal conflicts between these two objectives. Business with purpose also labeled social business hybrids are organizations where social and economic logics coexist, often independently. Scholars in this field focus less on how ESG investments translate into financial returns and more on understanding and managing the organizational dynamics resulting from these dual logics. They argue that the inherent ***tension between social and commercial objectives is a natural outcome of this dual purpose***. These organizations often experience internal conflict as they attempt to balance these competing requests from the economic and the social dimensions, which co-exist in the same enterprise and often challenge and compete against each other. This conflict can lead to organizational paralysis, drift, and even failure, if not managed effectively. Scholars have proposed several solutions to manage this tension. For instance, human resource practices and socialization policies can foster a common language and routines to mitigate conflict. Another approach involves designing organizational structures that clearly separate and then bring together the two logics through well-defined processes, performance indicators, and routines. Without these measures, hybridity may lead to mission drift, where one logic overshadows the other, and even to financial instability, resulting in organizational collapse.

As socially responsible businesses become more prevalent, there is a growing need to ***evaluate their social impact and authenticity in environmental, social and governance (ESG) commitments to combat greenwashing***. ESG factors have become crucial non-financial criteria for investors when assessing business sustainability. Comprehensive databases such as the MSCI KLD Social Index, Thomson Reuters Asset4, Risk Metrics, SharkRepellent, and Foundation Directory Online are all used to evaluate the CSR initiatives and ESG ratings of public firms. Additionally, certifications from agencies such as B-Corporations, IQNet SR10, ISO 26000, and ISO 37001 provide official validation of a company's social impact and transparency initiatives.

Profiling businesses with purpose

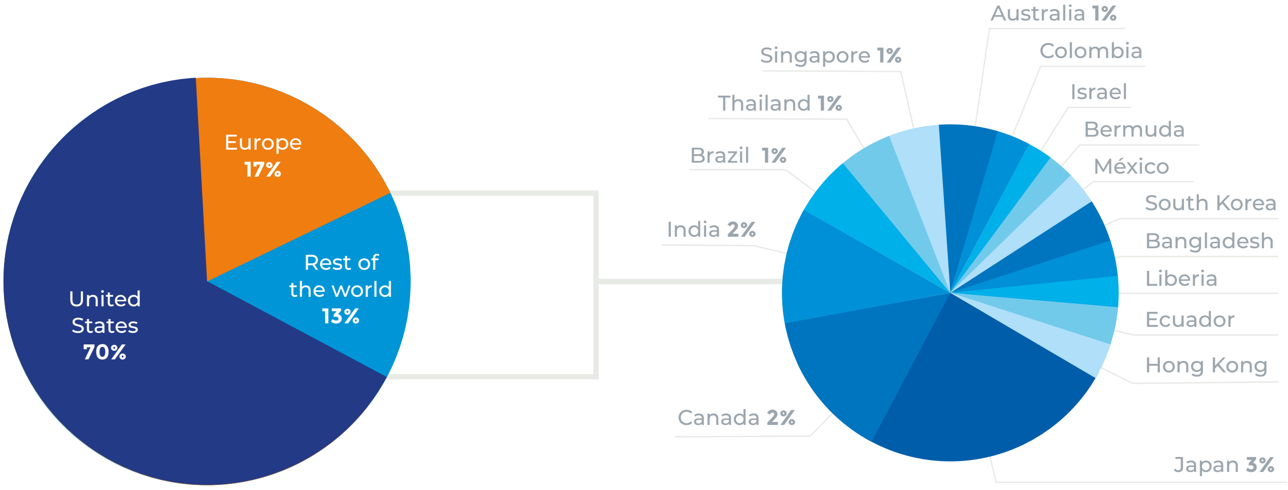
Our study selected businesses with purpose that had excellent social visibility and heterogeneous ESG strategies from the yearly ranking of "***The World's Most Ethical Companies***" compiled by *Forbes*[1] to procure a sample of firms that could be considered as "socially responsible champions". A list of ***254 businesses with purpose*** was obtained from the ***2012-2022 period***. The companies included Apple, Iberdrola, Capgemini, Illy Caffè, Colgate, Avon Products, AT&T, Intel and Mattel, among many others. A breakdown of the geographical location of our businesses with purpose revealed the following: 70% were from the United States, 17% were from Europe, and 13% were from the rest of the world. See Figure 1 for details.

On average, the businesses in our sample were founded in 1972 (SD = 42; median = 1988). This means that they are currently (2024) 53 years old. Additionally, they are large companies, with an average of 60,000 employees (SD = 95,000; median = 23,000). They also have a number of branches and subsidiaries (e.g., they are multinationals).

They are heterogenous in terms of ***industrial sectors***, based on the Standard Industrial Classification (SIC) codes, with insurance companies making up almost 10% of our sample, followed by banks (4%), hospitals (3%), business services (3%), perfumes and cosmetics (3%), electronics and computers (2%) and motor vehicles (2%). Table 1 and Figure 2 show this information in detail.

[1] https://ethisphere.com/ethisphere-announces-the-2020-worlds-most-ethical-companies/

Figure 1. Geographical location of the sample



All these businesses with purpose have ***been ranked by the major rating agencies such as Standard & Poor's, Morningstar's Sustainalytics, and MSCI*** and have a strong reputation for being ESG-oriented and committed to social impact.

Table 2 shows that the businesses with purpose analyzed in this study achieved very high scores during the last year of available data, with the top ten companies obtaining some of the highest scores given by each of the rating agencies.

Table 1. Profiling characteristics of businesses with purpose

Variable	# Businesses with purpose	Mean (SD)	Median value	Mín.	Máx.
Year founded	254	1972 (42)	1988	1808	2022
Firm size	254	60,000 (95,000)	23,000	117	73,300

Figure 2. Industry breakdown of our sample (SIC primary business activity)

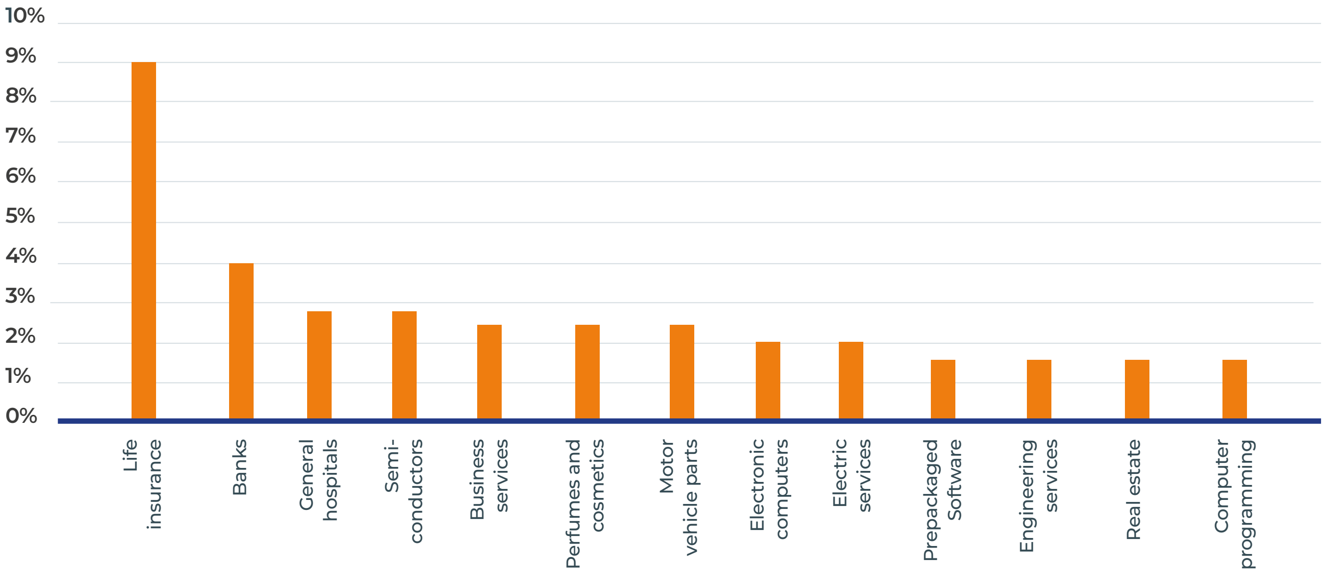


Table 2. ESG performance by rating agencies (top ten businesses)

#	Businesses with purpose	Standard & Poor's score	Sustainalytics score	MSCI ESG score
1	Schneider Electric	88	10.5	AAA
2	CBRE	69	8.3	AAA
3	HP	77	11.3	AAA
4	Ricoh	84	15.7	AAA
5	Allianz	82	13.3	AA
6	Iberdrola	86	17.2	AAA
7	Infosys	74	13.8	AA
8	ABB	65	15.4	AAA
9	LAM Research	57	13	AAA
10	Johnson Controls	69	14.3	AA
	Sample average	53	21	A

N.B.: a high S&P score reflects high performance in managing material ESG variables, a low Sustainalytics score indicates a low comprehensive ESG risk, and a high MSCI score shows a company has consistently reported above industry performance on ESG metrics.

04.

Do ESG strategies create value?

When assessing the potential impact of ESG strategies on a firm's performance, it is important to differentiate between ***KPIs*** as well as acknowledging that value creation is heterogeneous. This occurs, on one hand, because several indicators are taken from the firm's ***internal balance sheet and pertain to its accountability***, such as EBIT (Earnings Before Interest, Taxes, Depreciation, and Amortization), operating profit, ROI, ROS, and CT. These indicators reflect the value created through strategic management. Conversely, indicators such as market value and Tobin's q, which assess the market value of intangible assets, relate to a firm's ***external financial market value and how it is perceived in the stock market.***

Social value investments provide a positive return for purpose-driven businesses

This report considers four broad categories of ESG strategies, which will be further detailed in Section 5. They are: (i) ***philanthropic ESG strategies:*** this is the amount of money firms allocate to donations and charitable events, (ii) ***Sustainable innovation and social products:*** these are the financial resources earmarked for developing sustainable products and processes that address societal needs, (iii) ***Governance-oriented ESG strategies***: these are the strategic investments aimed at improving the situation of internal stakeholders, such as employees, to create a fairer, more diverse, and better-rewarded working environment, and (iv) ***Social impact-oriented ESG strategies***: these are strategic social investments tied to a firm's core business which target the improvement of human rights and the quality of education within the firm's community.

The value of philanthropic ESG strategies & social impact-oriented ESG strategies

Our results[2] highlight that ongoing, well-designed investments made in social communities created value for firms. Specifically, our findings show that social impact-oriented ESG strategies were associated with higher EBIT, operating profit, and capital turnover. A similar effect is observed from the total amount of philanthropic donations, suggesting that ***social value investments provide a positive return for purpose-driven businesses***. These investments generate a societal impact, such as improving educational quality, promoting human rights, enhancing employee diversity, and addressing environmental concerns, as well as bettering business performance.

However, our research uncovered other significant insights. ***A specific, well-designed ESG strategy*** is essential for social impact-oriented initiatives and philanthropic donations to create value and improve the KPIs mentioned. The key factor isn't simply whether a business is highly social impact-oriented or donates large sums of money. Instead, it is the structure and design of these ESG initiatives that truly matter.

The study firstly revealed that the donations that targeted a local community had a stronger impact. This can be attributed to the fact that these donations are more visible and create a sense of reciprocity between local communities and companies. In addition, value creation and performance metrics improved when businesses with purpose aligned their initiatives with a ***greater number of Sustainable Development Goals (SDGs) and when their philanthropic donations were diversified.*** Sharing donations across multiple causes led to better financial returns than concentrating on just a few. This strategy was particularly effective for multinationals and diversified companies. The reasoning behind this is that stakeholders tend to value the breadth of giving over the total amount donated to any single cause. Diversification enables companies to maximize their positive social

[2] A series of regression analyses was conducted using panel data. The results are available upon request. Only the final outcomes are reported here for simplification purposes.

impact, maintain flexibility, and enhance their corporate reputation.

One especially relevant insight was the positive effect these strategies had on capital turnover, which is a critical metric in business strategy. Capital turnover measures how efficiently a company uses its assets to generate revenue. High capital turnover indicates that a firm leverages its capital investments effectively, enhancing returns. This is crucial for long-term profitability and competitive advantage, as it demonstrates the firm's ability to maximize returns with minimal capital investment, which is an attractive feature for investors and stakeholders focused on efficient resource allocation.

The impact of sustainable innovation and social products

Another series of analyses conducted on sustainable innovation and social products also revealed some key findings. These investments did not generate immediate impacts on operating profit or EBIT and initially had a negative effect on ROS and ROI. ***This indicates that these strategies do not provide short-term returns.*** However, the level of sustainable innovation and the number of social products, i.e., those addressing specific societal needs, and which are branded to support social causes, ***positively influence a firm's sales and sales growth***. This is unsurprising given the boom in sustainable consumption in recent years, where investments attract a niche of conscious consumers who are often willing to pay a premium for products associated with social causes.

In our study, the positive impact of sustainable innovation on sales growth was especially strong when these innovations and ***social products were focused on just a few Sustainable Development Goals (SDGs), meaning they are specialized***. This is intuitive: the more diverse the innovation targets, the more costly it becomes, which helps explain why ROI and ROS may decrease in the short term. Additionally, when sustainable investments are spread too thin (i.e., not focused), consumers may perceive them as less authentic. This lack of commitment to specific SDGs and values can create a perception of "not walking the talk". Conversely, when such investments are focused, they create a strong sense of identity and forge links between the customer and the firm.

Hence***, sustainable innovation and social products must be designed with a different logic compared to philanthropic ESG strategies***. Sustainable innovation should be focused and specialized to drive sales growth, as this fosters strong links between the firm and its customers, leading to increased purchases, brand loyalty, and willingness to pay premium prices. In contrast, philanthropic donations should be diversified to create value, as this supports a broader community and conveys a sense of genuine generosity.

Value creation via governance-oriented ESG strategies

How beneficial is it for a company to invest in its organizational framework, business model, and employees? Our analysis shows that governance-oriented ESG strategies do not necessarily generate immediate value in terms of operating profit, EBIT, or capital turnover. ***These strategies do not help businesses use their capital more efficiently, and we cannot conclusively say they have a positive impact on ROI.*** However, it is important to view these ESG strategies as a long-term investment aimed at improving the internal business model.

One of the main effects of governance-oriented ESG strategies is an increase in R&D expenditure. When ***companies focus on enhancing business model innovation,*** such as recruiting superior talent, reducing the gender pay gap, and increasing employee and executive compensation, they naturally incur in higher research and development costs. While these higher costs can initially strain resources, they also contribute to value creation.

Governance-oriented ESG strategies lead to sales growth because internal improvements in work-life balance, fair treatment of employees, and equitable compensation send strong signals to the market. These practices ***enhance a company's reputation*** which, in turn, increases the likelihood that both business-to-business clients and end consumers will prefer to engage with companies that deploy best practices with their employees and society as a whole.

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How does the market react towards different ESG strategies?

Our study identified two key takeaways about financial evaluation. First, ***market value is primarily driven by sustainable innovation and social products.*** These ESG strategies are long-term in nature and are designed to create a lasting impact on society through continuous innovation. As a result, they also have a positive influence on the public market value of businesses.

However, the study revealed another important set of findings. ***Governance-oriented ESG strategies and social impact-oriented strategies did not directly affect market value. Instead, they significantly impacted Tobin's q, a key performance indicator that reflects the intangible value of a firm***. In short, while governance initiatives do not immediately boost operating profit or improve capital turnover efficiency, they yield long-term returns by enhancing the firm's intangible value.

This is crucial because it underscores how governance and social impact investments contribute to higher reputational capital and strengthen the firm's brand image, when they are aligned with the firm's core business. Consequently, these strategies elevate the external market's perception of the business. The "intangible value" KPI highlighted that, beyond physical assets, there was an additional intangible component (beyond recorded intangible assets) that created a competitive advantage for firms.

Do ESG strategies create value for businesses with purpose?

To answer this question, we explored how different ESG strategies impacted various KPIs. As seen above, ***the design of ESG strategies plays a crucial role in this.*** The impact of these strategies on value creation depends on whether they are broad-ranging or specialized and whether they target the local community (which is visible and close to the business) or a broader audience. For instance, the benefits of diversified philanthropy and specialized innovation demonstrate how strategic focus matters.

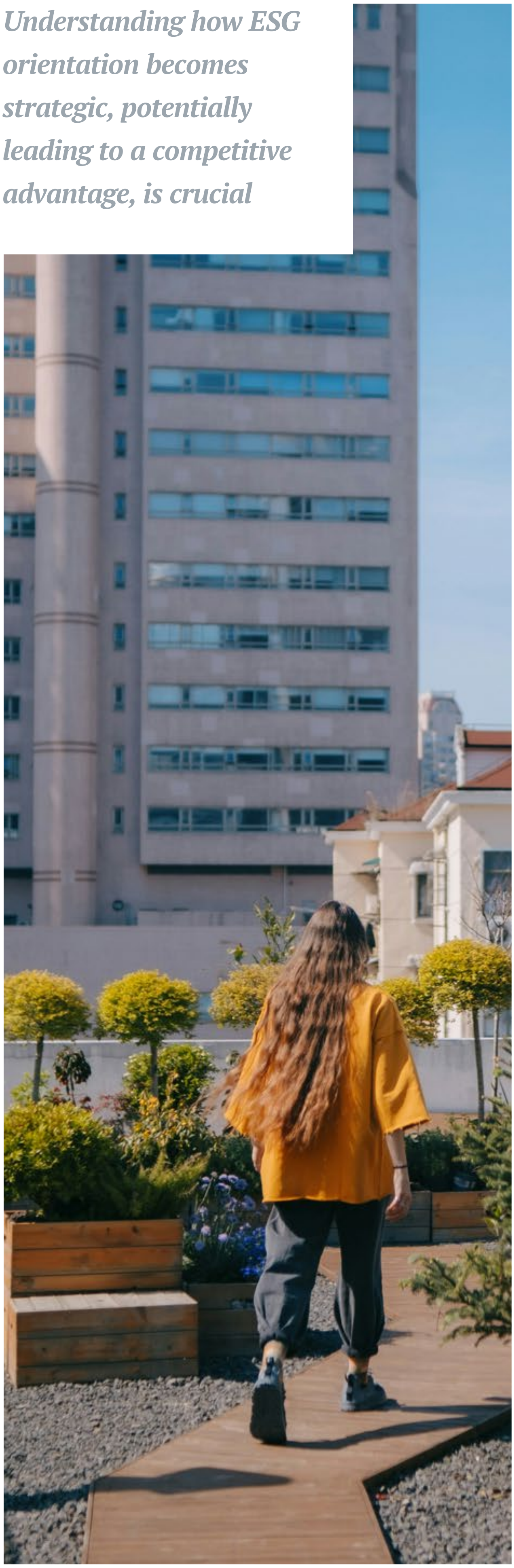
Second, ***value creation often takes time to materialize***. ESG strategies may initially have a negative impact on certain financial KPIs, but this short-term setback can lead to positive market reactions in the long run, as we observed with sustainable innovation.

Finally, ***investing in societal welfare pays off***. Social investments and governance initiatives build reputational capital and strengthen employer branding, which enhance the market's perception of companies and their contribution to the greater good. However, a greater effect is obtained when the social investments are related to a firm's businesses because this increases the authenticity imperative that the market needs to perceive to differentiate this from mere greenwashing or window-dressing.

Table 3. Do ESG strategies create value?

ESG strategy	Impact	Value creation KPI	Notes
Philanthropic ESG strategy	Positive	Increases EBIT, operating profit, and capital turnover	• This must be diversified and broad-ranging across several SDGs and different causes • It must target the local community, which is geographically closer, fostering stronger ties between the firm and the community to increase the value created
Sustainable innovation & social products	• Negative in the short term • Positive in the long term	• Decreases ROI, decreases ROS • Increases sales growth • Increases market value	• Investment must be focused on just a few social targets • A reduction in social values and goals reinforces identity salience and thus the likelihood that consumers will identify with firms' products
Governance-oriented ESG strategy	Positive	• Increases sales growth • Increases intangible value (Tobin's q)	• Governance initiatives create employer branding and reputational capital • This attracts consumers and positively impacts market perception
Social impact-oriented ESG strategy	Positive	• Increases EBIT, operating profit, and capital turnover • Increases intangible value (Tobin's q)	Social investments that are aligned with a company's core business have a positive impact on profitability as well as on its intangible capital (employer and consumer branding, legitimacy, reputation)

Understanding how ESG orientation becomes strategic, potentially leading to a competitive advantage, is crucial



Past evidence on ESG strategies and effects on business performance

A significant number of studies have examined ***the effect of ESG strategies and economic performance***. However, initial findings were sometimes conflicting and remained inconclusive. However, more recent research has generally provided evidence of the positive economic impact of ESG initiatives. Understanding ***how ESG orientation becomes strategic***, potentially leading to a competitive advantage, is crucial. The impact of ESG strategies on firms' economic performance is twofold: ***they can preserve economic value*** as well as ***generating economic value.***

The first approach is rooted in mainstream ***stakeholder theory***. It posits that companies must coordinate the actions of stakeholders to maximize economic value, which depends in part on stakeholders' behavior and approaches. Under this logic, ESG strategies reduce various transactions among stakeholders with contrasting interests. ESG activities signal a firm's reputation and trustworthiness to stakeholders, demonstrating its altruistic intentions. Hence, they act as a form of ***insurance*** during negative events by creating reputational capital. This intangible capital reduces overall transaction costs, such as monitoring, and makes it easier to coordinate and align different stakeholders.

The second approach moves away from viewing ESG strategies merely as a response to stakeholder pressure. Theoretically, the scholars advocating this approach adopt a micro-perspective, focusing on ***synergies between ESG strategies and economic goals, so that they reinforce each other***. This framework introduces the ***concept of "reciprocity"*** or reciprocation as a basic mechanism for economic value creation. ESG orientation enhances an individual's identity salience, loyalty, and sense of belonging to a community where the firm is a member or founder. Studies leveraging shared value creation ideas suggest that ESG strategies can generate synergies with business models beyond insurance effects. For example, CSR can strengthen customer demand, purchase satisfaction, and willingness to pay premium prices. It can also boost employee motivation and loyalty, job productivity, organizational commitment, and protect against knowledge spillovers.

05.

Heterogeneous and substantive ESG strategies

After assessing the value creation associated with different ESG strategies, we shall now move on to explore each of them in greater depth. A company spotlight is also included for every ESG strategy.

What are substantive ESG strategies?

Companies often adopt either ***symbolic or substantive strategies***, each reflecting different levels of commitment and impact. Symbolic refers to actions and policies that are designed primarily for appearances and public relations rather than to bring about meaningful change. Companies employing symbolic ESG strategies focus on creating a positive image and demonstrating a commitment to social responsibility without making substantial changes to their core operations and practices. These initiatives are often high-profile but low impact, serving more as a marketing tool than a genuine effort to address social and environmental issues. Examples include ostentatious charity events, and sponsorships that garner media attention but have little real-world impact. Symbolic CSR can sometimes be seen as a form of "greenwashing", where the company's outward appearance of responsibility does not match its actual practices. Substantive strategies, on the other hand, involve genuine, systemic changes that factor social and environmental considerations into the company's core operations and decision-making processes. This approach is characterized by deep and meaningful commitments that lead to tangible benefits for society and the environment. Companies that pursue substantive ESG strategies typically embed these values into their business model, engage in practices that go beyond compliance, and make significant investments in sustainable and ethical practices. Substantive ESG often involves initiatives such as adopting environmentally friendly production processes, ensuring fair labor practices, and making significant investments in community development. These strategies are aimed at creating real, long-lasting impact, and they often align closely with the company's long-term strategic goals.

The differences between symbolic and substantive ESG are crucial in understanding the effectiveness and authenticity of a company's social responsibility initiatives

The ***differences between symbolic and substantive ESG are crucial in understanding the effectiveness and authenticity of a company's social responsibility initiatives***. Symbolic ESG strategies may temporarily enhance a company's public image but are unlikely to lead to long-term positive outcomes or to build enduring stakeholder trust. Conversely, substantive ESG strategies not only contribute to societal and environmental well-being but also foster stronger, more resilient relationships with stakeholders, enhance corporate reputation, and can drive long-term financial performance. This is significant as companies are increasingly under scrutiny from consumers, investors, and other stakeholders who demand greater transparency and accountability in ESG practices.

Why does heterogeneity matter in substantive ESG strategies?

Despite consensus on the positive effects of ESG on corporate performance, some studies acknowledge that its economic impact varies depending on the heterogeneity of social initiatives. First, there are a series of ***contingencies that influence the strength of the relationship between profits and ESG-oriented initiatives***, highlighting the importance of firm capabilities. These diverse ESG approaches reflect strategic decisions made by firms, which can significantly affect their performance and competitive advantage. For example, when ESG initiatives are closely linked to business operations, they can create efficiencies and synergies from a supply-based perspective, making these actions more socially beneficial. However, current studies have also emphasized the benefits of diversifying ESG initiatives, enhancing stakeholder engagement and providing advantages in terms of differentiation. For instance, relatedness across ESG initiatives fosters synergies with complementary assets and improves the efficiency and quality of social interventions. ESG activities related to a firm's core business, which do not overlap with non-profit initiatives, yield the best outcomes for both firms and society. Furthermore, there are industry conditions under which firms must diversify their ESG approaches away from core industry pressure to gain competitive advantage. Past evidence shows that heterogeneous philanthropic donations can generate more profitability if the firm has a diversified product portfolio, as this enables it to respond to diverse stakeholder pressures. Finally, evidence suggests that firms tend to respond more effectively to institutional pressure from geographical areas closer to their headquarters or to their subsidiaries.

5.1 PHILANTHROPIC ESG STRATEGIES

Our study retrieved data from the Online National Foundation dataset, which is a comprehensive repository that offers detailed information on various charitable organizations and philanthropic activities in the United States of America. In the period under study (2012-2022), we found that businesses with purpose registered a total of ***60,748 spontaneous philanthropic activities, with philanthropic ESG strategies*** amounting to an ***average of USD 214,337*** (SD =711,7849; median =17,000; Min =5,000; Max =1.06 Billion). Not all businesses with purpose had a holistic donations policy: ***121 (47%) reported at least one donation*** over the period considered.

Which causes were addressed by philanthropic ESG strategies?

The ***major causes*** were higher education (19%, with a total of around 83,000 USD), human and family services (10%, with a total of around 66,000 USD), community (10%, 146,000 USD), arts (8%, 59,000 USD), and healthcare (6%, 1.06 million USD). See Figure 3.

Which SDGs did companies attain with their philanthropic ESG strategies?

Businesses with purpose attained SDG 4 Quality education (29%), SDG 11 Sustainable cities and communities (19%), SDG 17 Partnerships for the goals (17%), SDG 3 Good health and well-being (9%), and SDG 16 Peace, justice and strong institutions (8%) through their philanthropic ESG strategies. See Table 4 and the Appendix for more detailed information.

Figure 3. **Top five causes in philanthropic ESG strategies**

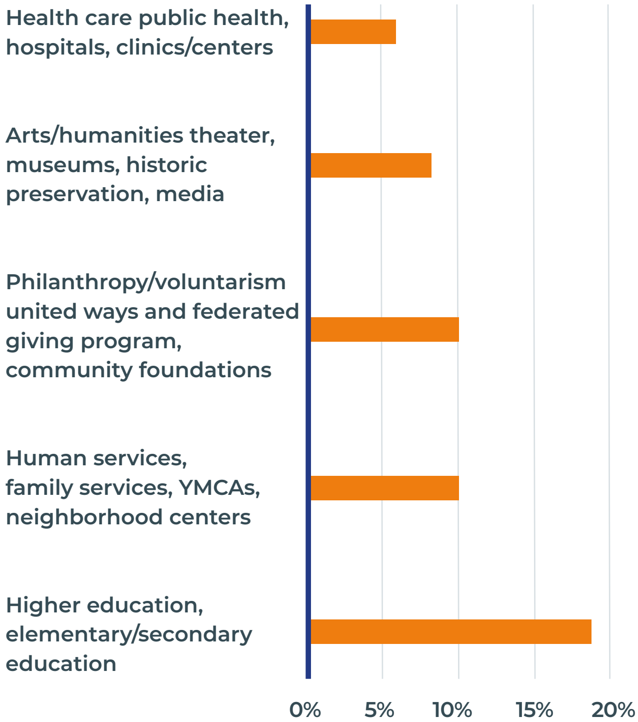


Table 4. **Top three SDGs attained via philanthropic ESG strategies**

SDG attained	Number of donations	%
SDG 4 Quality education	17,507	30%
SDG 11 Sustainable cities and communities	11,683	20%
SDG 17 Partnerships for the goals	10,581	18%

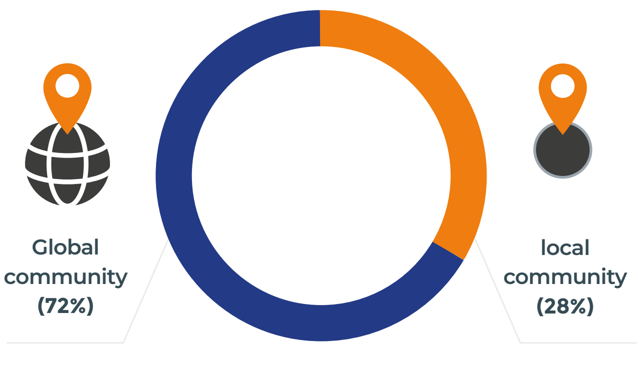
Where were philanthropic ESG strategies directed?

Businesses with purpose invested in different ***geographical areas***: both close to their headquarters, with strategies that helped their local community (28%), as well as further away in a more global community (72%). In the local strategy (i.e., in-state), 53% of the donations targeted the same community as the company's headquarters.

Our study revealed that each firm tackled 10.51 UN SDGs (SD = 3.40; the minimum is represented by one SDG, the maximum by 15 SDGs) within the philanthropic ESG strategy. However, we observed two trends, namely, (1) a ***specialized philanthropic ESG strategy:*** businesses with purpose focused on financing few causes and few SDGs; and (2) a ***diversified philanthropic ESG strategy,*** where businesses with purpose dedicated their resources to many different, heterogeneous causes.[3]

The *specialized philanthropic ESG strategy* and *the diversified philanthropic ESG strategy* differed in the number of UN SDGs (e.g., the number was higher in the diversified strategy compared to the specialized strategy), and in the amount of money that businesses with purposes invested (e.g., each cause or SDG received less money in diversified strategies). In other words, businesses with purpose that followed diversified philanthropic ESG strategies invested in more causes and more SDGs but allocated a smaller amount of money to each transaction. Conversely, specialized ESG strategies invested in few SDGs and causes, but assigned five times as much money to each one.

Figure 4. Local community and global community donations



More detailed statistics supporting Figure 5 are available in the Appendix.

5.2 SUSTAINABLE INNOVATION AND SOCIAL PRODUCTS

To measure and track the presence of sustainable innovation, data was collected from the ***US Patent and Trademark Office (USPTO) and the European Patent Office (EPO) on all the trademarks associated with products registered*** by our businesses with purpose until 2022. Trademarks are "any sign that individualizes the goods of a given enterprise and distinguishes them from the goods of its competitors" (WIPO, 2004: 54; see also Castaldi, 2020). ***Trademarks provide a measure of the innovative output produced by companies***. They display the product description

Figure 5. Diversified philanthropic ESG strategy vs specialized philanthropic ESG strategy

Philanthropic ESG strategies	
1) Diversified philanthropic ESG strategy	**2) Specialized philanthropic ESG strategy**
• Adopted by 51% of businesses with purpose	• Adopted by 49% of businesses with purpose
• Businesses with purpose targeted almost eight SDGs	• Businesses with purpose only targeted four SDGs
• They financed about 15 different causes	• They financed about five different causes
• Each social initiative received 300,000 USD on average	• Each social initiative received two million USD on average

[3] To measure these two strategies, we used a classical Herfindahl index to determine the level of strategy specialization or diversification, scoring from zero to one. The value of zero (or values close to zero) denoted perfect diversification and dispersion around the 17 UN SDGs, while the value of one (or close to one) denoted specialization, namely concentration in few SDGs.

which identified the existence of ***social products***; namely, products released and commercialized in the market that are associated with a social purpose and in which the firms have invested both efforts and resources to innovate and transform this product. To a certain extent, these products are the proxy for ***social and sustainable innovation***. Content analysis was performed to identify trademarks with SDG content and thus relate them to social commitment and initiatives, as suggested by *Corporate Knights*.[4] ***Corporate Knights*** is a media and research company that promotes and certifies SDG objectives and outcomes in the business world. Its research division produces rankings for companies and business schools.

How many social products and social innovations were developed by businesses with purpose?

In total, we managed to collect information on about ***127,000 products. Around 11% of these were classified as being the outcome of social innovation and therefore marketed to pursue at least one of the UN SDGs***. In our sample, our findings show that firms registered an average of 224.56 products (SD = 435.46, Min = 1, Max = 2,629). An average of 23 (SD = 97.34) addressed a social mission or represented an improvement / innovation targeting one SDG. There was high variance in our sample because there were businesses with purpose which had registered few or zero social products whilst others had over 600 products which could be considered as the outcome of social investments.

Which SDGs did businesses with purpose attain via social innovation?

Our data showed that the ***top five SDGs*** in which firms invested to modify and improve their products were SDG 12 (Responsible consumption

[4] This list of words is available at: https://docs.google.com/spreadsheets/d/1k-29dEmAvkJeQbBep1C8_L8GCcCEYJeH0_guezA9fBt0/edit#gid=0

Social products are those products launched and marketed in the market associated with a social objective

and production), SDG 13 (Climate action), SDG 3 (Good health and well-being), SDG 7 (Affordable and clean energy), SDG 4 (Quality education), and SDG 16 (Peace, justice and strong institutions).

Did businesses with purpose invest in broad-ranging or focused sustainable innovation?

We ran a similar analysis to that of the philanthropic ESG strategies to identify whether ***innovations*** ***were dispersed across multiple social SDGs or tended to focus on a single or few social SDGs***. This is a crucial point for firms because, on the one hand, it defines where and how to allocate corporate resources, and on the other, it determines reputational capital, which is key for a firm's intangible value as it signals the core capabilities aligned with its corporate social purpose to the market.

When firms followed a ***broad-ranging sustainable innovation ESG strategy*** they typically invested in SDG 7 (Affordable and clean energy), SDG 3 (Good health and well-being), and SDG 13 (Climate action), as shown in Figure 7. Conversely,

Figure 6. . Top five SDGs targeted via sustainable innovation in social products

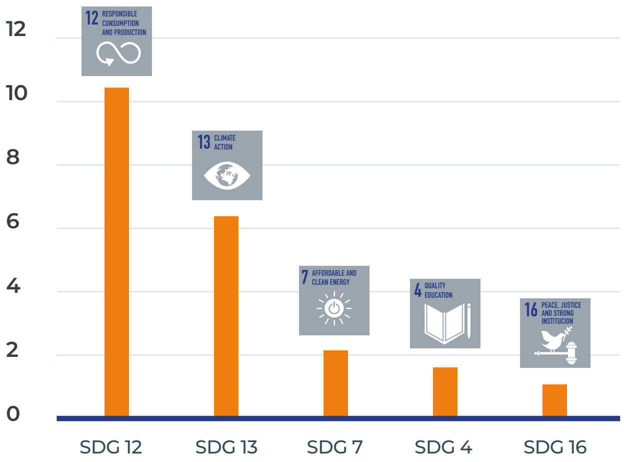


Figure 7. Top five preferred SDGs in a diversified sustainable innovation strategy

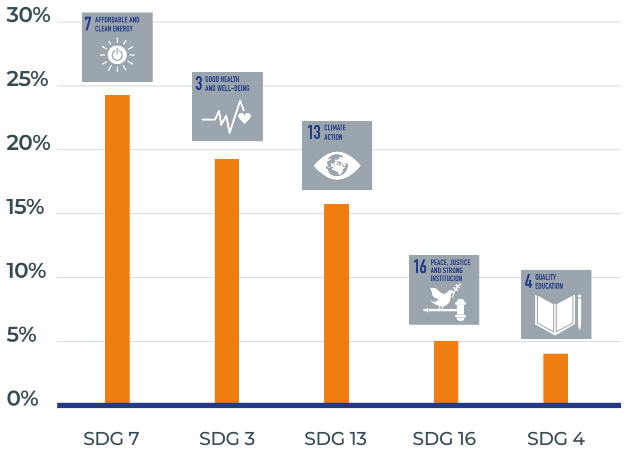
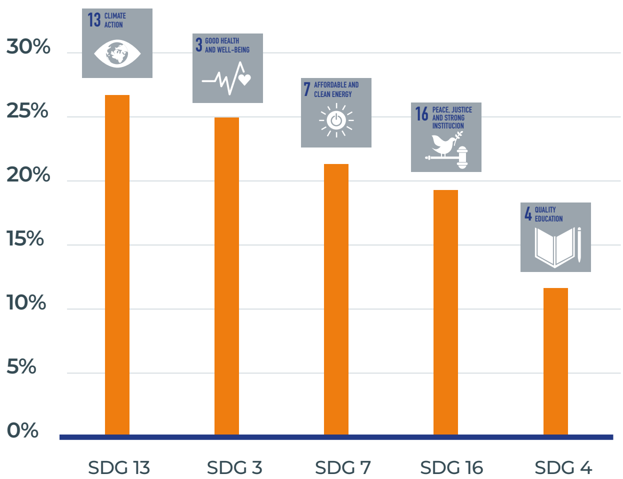


Figure 8. Top five preferred SDGs in a focused sustainable innovation strategy



when ***firms decided to adopt a focused sustainable innovation ESG strategy*** and directed their innovation towards one or just a few social causes, they tended to choose SDG 13 (Climate action), SDG 3 (Quality education), and SDG 7 (Affordable and clean energy). See Figure 8 for more information.

5.3 GOVERNANCE-ORIENTED ESG STRATEGIES

Information on governance and boards of directors was retrieved from BoardEx (a total of 15,758 observations were obtained for 123 firms over ten years. Further information from Asset4 Refinitiv was added to complete the analysis). The most salient characteristics of the boards of directors of these sustainability champions are outlined below.

Which are the Governance-oriented ESG strategies?

Businesses with purpose rated highly as Governance-oriented have *Separation between the CEO and the Chairman* (about 70%) *board members* are formally *compensated* (almost within 97% of companies) and the 84% of the businesses with purpose have a formal *policy to sustain diversity* internally. The presence of *Gender Diversity in the Board* has an average of 24.5% (reaching the maximum of 66.7% of women in the board as members). The *Cultural Diversity of the Executives* is another feature that distinguishes the ESG-strategies with Governance orientation. Similarly, the *Gender Diversity in the Executives* has the average of 20.5%. Still related to the presence of women, on average businesses for purpose have an average of 35.9 *Women Employees* (SD =15.05; median = 32; max number = 80 women employees). Finally, our evidence revels two important points: first, there is an existing *Gender Pay Gap*: in 90% of the companies, which seems still to exists. The practice of the figure of the *Chief of Diversity* is not established yet (less than 5% of businesses have it).

Figure 9. Features of governance-oriented ESG strategies

5.4 SOCIAL IMPACT-ORIENTED ESG STRATEGIES

Granular information from Refinitiv was obtained to assess companies' overall ESG orientation and especially practices characterizing the "social" dimension, such as the existence of a i) *sustainability committee*, ii) *stakeholder engagement* policy, iii) investments in *quality education* (UN SDG 4), iv) ongoing investments in *gender equality* (UN SDG 5); v) *human rights support*, and *vi) ESG-trained suppliers.*

How does social impact differ from Corporate Social Responsibility?

The businesses with purpose in our sample were rated with a ***Corporate Social Responsibility (CSR) strategy*** **and** ***social impact score***.

Our analysis showed that there were six main formal processes and also established the policies that characterized high CSR and the social impact assessment of firms:

i) Sustainability committee

ii) Stakeholder engagement

iii) Quality education

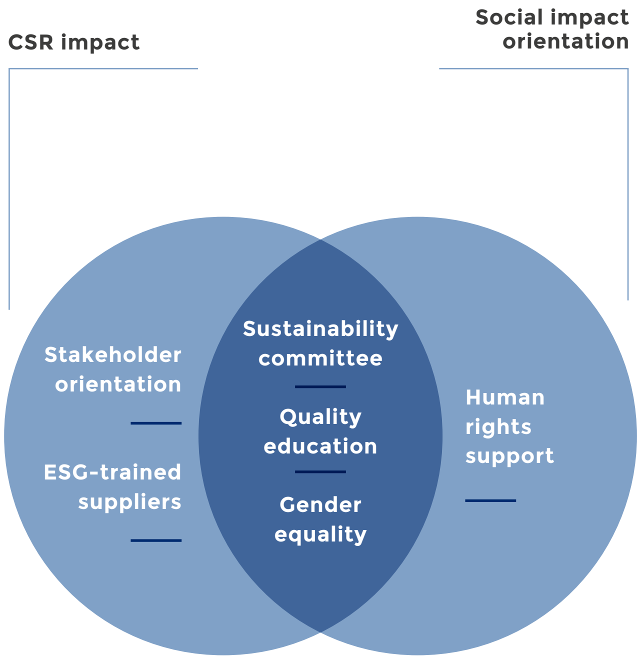
iv) Gender equality

v) Human rights support

vi) ESG-trained suppliers

The additional analysis reported in the Appendix explains that ***stakeholder engagement and the need for ESG-trained suppliers were typical of the CSR orientation, while human rights support characterized the social impact-oriented ESG strategy***. The statistical results are depicted in Figure 10.

Figure 10. Differences between CSR and social impact



06.

The transformation of ESG strategies over time

Philanthropy, originating from the ancient Greek word for "love of humanity," has been studied by numerous philosophers and political scientists over the centuries, from Aristotle to Bacon and from Thomas Aquinas to Hume. Entrepreneurs such as Carnegie and Rockefeller promoted the idea that business leaders should reinvest their wealth for societal benefit, usually making these decisions themselves or through family foundations.

In the 1970s, companies began transforming ***philanthropic initiatives*** into ***Corporate Social Responsibility (CSR)*** investments. Social initiatives became part and parcel of corporate decision-making, involving board discussions instead of being delegated to foundations. This shift prompted critique from Friedman, who argued that under the ***shareholder primacy model*** a company's sole aim should be to maximize profits and shareholder value. Friedman's position was often interpreted as an attack on philanthropy and social initiatives. However, his intent was to keep strategic business decisions separate from philanthropic considerations. He believed social investments should be the responsibility of individual shareholders and entrepreneurs, and should be managed externally, not by the company itself. Friedman's critique highlighted agency problems where managers could divert funds from shareholders to enhance their own reputation through CSR activities, potentially at the cost of competitive investments. This sparked ongoing debate about whether CSR should be part of a firm's decision-making processes. Today, Corporate Social Responsibility encompasses voluntary corporate initiatives aimed at improving social conditions beyond legal requirements and profit-seeking interests.

Environmental, Social and Governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. ESG factors play a critical role in ***shaping corporate strategies*** as they influence both investment decisions as well as a company's overall reputation and operational efficiency. ***Environmental criteria*** involve adopting practices that reduce the environmental footprint, such as improving energy efficiency, reducing greenhouse gas emissions, and ensuring sustainable resource use. The social criterion focuses on a company's relationships with its employees, suppliers, customers, and communities. ***Social strategies*** include ensuring fair labor practices, enhancing diversity and inclusion, and contributing to community development. Companies that prioritize social factors tend to have higher employee satisfaction, better customer loyalty, and stronger community ties. The ***Governance dimension*** pertains to the internal systems of practices, controls, and procedures a company adopts to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders. Good governance practices, such as transparent reporting and strong board oversight, can reduce the risk of scandals and build investor confidence.

However, ***ESG strategies remain a contested field*** with two major theoretical clusters. The first emphasizes ***balancing social aims with profit in a viable business model, focusing on synergies between these goals.*** The mainstream framework here is stakeholder theory, with recent approaches in marketing and strategic human capital highlighting how ESG-oriented actions foster social identity processes with stakeholders, driving reciprocal behaviors. The second explores ***maintaining social aims under economic constraints, investigating intrinsic motivations for doing good and managing the tensions that arise in socially mission-driven organizations***. This stream analyses the motivations of entrepreneurs and managers to pursue positive societal impact, especially amid conflicts between social and business goals, proposing remedies to balance these aims while ensuring economic viability. Today, ESG is embodied in businesses with purpose whose ESG strategies and governance have come under scrutiny, as this report shows.

07.

Discussion and conclusions

In concluding a report on businesses with purpose, we can draw several key insights on how investments in philanthropy, sustainable innovation, and governance initiatives contribute to long-term value creation. The most impactful results often come from aligning these initiatives with a firm's core business, as well as maintaining a strategic balance between purpose and profit.

Successful sustainability initiatives are not standalone efforts. They are most effective when they are linked directly to a company's main business operations. For instance, sustainable innovation, such as the development of products that reduce environmental impact and meet societal needs, often achieves greater success when it is mainstreamed into a firm's core business strategy. NVIDIA's energy-efficient GPUs and Apple's move to the use of recycled materials both reflect the alignment of these companies' sustainability goals with their product innovation and business model. These initiatives do not only enhance firms' market positions but also create long-term financial and reputational gains. The examples showcased in the spotlight on Pfizer are another case in point.

These initiatives do not only enhance firms´ market positions but also create long-term financial and reputational gains

However, corporate philanthropy can be a double-edged sword. On one hand, diversified philanthropic programs are seen as a way to spread positive impact across multiple societal causes. However, it is essential to avoid the perception that philanthropy is simply a way to "wash away" the negative impacts of other business operations. Many companies establish foundations specifically to balance this dual objective, enabling them to contribute meaningfully to society while maintaining a clear separation from their core business functions that may not align with sustainability goals. An example is the Salesforce 1-1-1 model, where the company builds philanthropy into business growth without neglecting its core focus on equality and environmental issues.

Governance-oriented ESG initiatives, particularly those focused on improving employee conditions, may not have immediate financial payoffs in terms of operating profit and capital efficiency. However, these investments are crucial to create a positive internal business model. Although improved governance, particularly around diversity, fairness, and employee well-being, is not always directly linked to short-term KPIs like ROI, it helps to build long-term reputational capital and employer branding. For instance, Microsoft's commitment to employee equality and fair treatment has strengthened its market position by building trust with stakeholders and consumers.

One of the most significant takeaways from examining these strategies is their impact on intangible value. Governance and social impact initiatives may not boost immediate financial metrics, but they do contribute to long-term value by enhancing a company's reputation, brand, and stakeholder trust. This is evidenced by the positive influence on metrics like Tobin's q, which measures firms' intangible assets. Over time, these investments translate into stronger brand loyalty, better market perception, and ultimately greater financial success.

One important aspect that the report does not examine is the critical role of industry compliance and the broader industry effect in shaping value creation for firms that adopt ESG strategies. Past evidence suggests that while internal endeavors such as governance and innovation play vital roles, industry-level norms and regulatory frameworks can either amplify or constrain the effectiveness of these initiatives. For instance, industries with strict regulatory environments or well-established sustainability standards often see greater returns from ESG investments, as compliance not only mitigates risks but also positions the company as a leader in responsible practices. Conversely, sectors with less stringent regulations may have weaker incentives to invest heavily in sustainability, potentially limiting the value created from these initiatives. This underscores the importance of aligning ESG strategies with a firm's internal values as well as with industry-wide expectations to maximize long-term gains and thus avoid being outpaced by competitors who may be better aligned with regulatory and industry trends.

While this report has primarily focused on the financial and economic performance of businesses with purpose, it is equally important to explore social performance as a critical dimension of value creation. Social performance refers to the impact a company has on the well-being of its employees, communities, and broader society, beyond mere economic gains. Metrics such as employee satisfaction, community development, inclusion, and contributions to social equity come under this category. Ben & Jerry's is an example of this given its long-standing commitment to social causes such as racial justice and climate action. Its social performance is measured by the positive community impact it creates through partnerships with non-profits, employee activism, and its "Caring Dairy" program, which works to improve conditions for farmers and reduce environmental harm in its supply chain. By aligning these actions with its core business, Ben & Jerry's builds trust and loyalty among socially conscious consumers, while still maintaining strong financial performance. Exploring social performance in future research would provide a more holistic view of how businesses create value for stakeholders, aligning ESG strategies not just with profitability but also with the broader societal good. This perspective could highlight the reciprocal relationship between social impact and financial success, where investing in society and employees leads to long-term business resilience and sustainability.

Overall, we can state that sustainability initiatives are most successful when they are carefully designed, aligned with core business strategies, and perceived as authentic by stakeholders. While short-term financial gains may be modest, the long-term benefits, especially in terms of reputational capital and market value, are profound. This holistic approach is ultimately what drives businesses with purpose toward both societal impact and financial success.

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and suggested readings

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Appendix

DATA SOURCES

A variety of data sources was used for this report.

1. Orbis & COMPUSTAT

First, public financial and market information from the ***Orbis*** and ***COMPUSTAT*** datasets were used to evaluate the value creation of ESG strategies.

2. USPTO dataset

Information was downloaded from the ***USPTO dataset***, namely all the trademarks registered by the companies during the period under study. This data identified "social products", i.e., products associated with a specific cause and the United Nations Sustainable Development Goals (UN SDGs). The data was used to ascertain (a) whether the company commercialized products or services that had a social impact and (b) which social cause(s) and SDGs the company pursued.

3. Online National Foundation dataset

Information on philanthropic activities was retrieved from the Online National Foundation dataset, namely firms' spontaneous donations and engagement with different ESG-oriented initiatives. The data was used to ascertain (a) which cause(s) and SDGs the company pursued; (b) whether firms' philanthropic strategies were focused or diversified, (c) the geographical preferences of ESG-involvement (local vs non-local areas).

4. BoardEx dataset

We matched information from the BoardEx dataset, which is a comprehensive database of detailed information on board members and senior executives in public and private companies around the world. This data helped (a) to identify the KPIs of firms' boards of directors; (b) understand the levels of diversity (minority and women), (c) ascertain board independence.

Table A1. Data summary

Source	Description	Objective
ORBIS and COMPUSTAT	Economic and financial information about companies	To evaluate financial and market value performance
USPTO	Information on products and trademarks registered by companies, identifying "social products" and related UN SDGs	To ascertain whether companies have developed and commercialized products/services based on social innovation, i.e., they therefore have a social impact and are aligned with SDG objectives
ONLINE NATIONAL FOUNDATION	Information on firms' philanthropic activities, donations and ESG-oriented initiatives	To ascertain the cause(s) and SDGs pursued, the ESG strategy focus and the geographical preferences of ESG involvement
BOARDEX	Detailed information on board members and senior executives in public and private companies around the world	To identify the KPIs of firms' boards of directors, level of diversity (minority and women), and board independence
ASSET4 REFINITIV	Comprehensive dataset on companies' sustainability practices and ethical impact	To evaluate companies' sustainability practices and ethical impact

5. Asset4 Refinitiv dataset

Information was selected from the ***Asset4 Refinitiv dataset***. Refinitiv's Environmental, Social and Governance (ESG) data is a comprehensive dataset designed to help investors, analysts, and other stakeholders evaluate a company's sustainability practices and ethical impact.

PHILANTHROPIC ESG STRATEGIES

The description of the specialized versus diversified philanthropic ESG strategies reported in Figure 5 is taken from the statistics in Table A2.

Table A2. Specialized versus diversified philanthropic ESG strategies

Strategy	% in the sample	Average no. UN SDGs (mean, SD)	Average no. causes financed (mean, SD)	Average amount of money donated (mean, SD)
Diversified ESG strategy	51%	7.8 (3.3)	14.30 (4.96)	299,008.30 USD (764,803.40 USD)
Specialized ESG strategy	49%	3.5 (3.2)	4.56 (3.32)	2,021,879 USD (972,196 USD)
t-test; p-value	-	20.38 p < 0.000 ***	10.45 p < 0.001 ***	10.75 p < 0.001 ***

[N.B.: * p<0.1 – significant at 10%; ** p<0.05 – significant at 5%; *** p<0.01 – significant at 1%; p>0.1 not statistically significant]

Table A3. SDGs attained via philanthropic ESG strategies

SDG attained	Number of donations	%
SDG 4 Quality education	17,507	30%
SDG 11 Sustainable cities and communities	11,683	20%
SDG 17 Partnerships for the goals	10,581	18%
SDG 3 Good health and well-being	5,414	9%
SDG 16 Peace, justice and strong institutions	4,671	8%
SDG 9 Industry, innovation and infrastructure	2,464	4%
SDG 1 No poverty	1,583	3%
SDG 13 Climate action	1,490	3%
SDG 8 Decent work and economic growth	1,182	2%
SDG 2 Zero hunger	606	1%
SDG 10 Reduced inequalities	553	1%

SUSTAINABLE INNOVATION AND SOCIAL PRODUCTS

Table A4. Comprehensive overview of SDGs pursued by firms via "social products"

SDG	Observations	Average number of social products associated with this SDG per firm	Min. no. products per SDG	Max. no. products per SDG
SDG 12 Responsible consumption and production	126,959	10.86	0	419
SDG 3 Climate action	126,959	6.32	0	229
SDG 7 Affordable and clean energy	126,959	2.36	0	101
SDG 4 Quality education	126,959	1.83	0	118
SDG 16 Peace, justice and strong institutions	126,959	1.32	0	38
SDG 11 Sustainable cities and communities	126,959	0.83	0	48
SDG 10 Reduced inequalities	126,959	0.59	0	23
SDG 5 Gender equality	126,959	0.53	0	24
SDG 13 Climate action	126,959	0.41	0	44
SDG 9 Industry, innovation and infrastructure	126,959	0.31	0	23
SDG 17 Partnership for the goals	126,959	0.10	0	6
SDG 6 Clean water and sanitation	126,959	0.07	0	10
SDG 15 Life on land	126,959	0.03	0	9
SDG 1 No poverty	126,959	0.02	0	3
SDG 14 Life below water	126,959	0.01	0	3
SDG 8 Decent work and economic growth	126,959	0.003	0	2
SDG 2 Zero hunger	126,959	0.0002	0	1

GOVERNANCE- ORIENTED ESG STRATEGIES

The sample was split into two subsamples, according to whether the companies had been awarded a high or a low governance score by the Asset4-Refinitiv rating in order to identify the best practices guiding governance and the Board of Directors. The median governance score was 65.2. All the companies with an equal or higher score were included in the high governance score (55% of firms), while the remaining companies with a lower score were included in the low governance score (45% of firms). A series of t-tests were run (Table 5) to check whether the characteristics identified and reported in Figure 9 were statistically different in the high governance score group compared to the low governance score group to obtain statistical evidence demonstrating that the six features identified came under the profile of governance-oriented ESG strategies.

Table A5. Profiling ESG strategies with high governance orientation

	High governance score Mean (SD)	Low governance score Mean (SD)	ANOVA-test	p-value
Separate roles for CEO and President	0.60 (0.48)	0.74 (0.43)	34.69	p < 0.000 ***
Board member compensation policy	0.98 (0.22)	0.95 (0.11)	16.13	p < 0.000 ***
Diversity policy	0.84 (0.45)	0.71 (0.36)	6.21	p < 0.000 ***
Cultural diversity among executives	13.3 (5.8)	8.2 (2.5)	13.21	p < 0.000 ***
Board gender diversity	26.7 (9.5)	22.4 (9.9)	72.47	p < 0.000 ***
Percentage of board gender diversity	12.05 (5.4)	10.4 (4.3)	9.68	p < 0.000 ***
Gender diversity among executives	22.5 (13.2)	18.5 (12.9)	34.57	p < 0.000 ***
Female employees	34.3 (15.1)	38.2 (14.7)	15.14	p < 0.000 ***
Female managers	32.1 (12.8)	34.2 (12.4)	4.75	p < 0.5 **
Gender pay gap	94.8 (8.4)	96.7 (7.0)	2.29	p = 0.13

[N.B.: * p<0.1 – significant at 10%; ** p<0.05 – significant at 5%; *** p<0.01 – significant at 1%; p>0.1 not statistically significant]

SOCIAL IMPACT ESG STRATEGIES VS. CORPORATE SOCIAL RESPONSIBILITY

The following data was used to construct Figure 10 and identify how social impact-oriented ESG strategies and Corporate Social Responsibility might have common traits and differing characteristics. The sample was split into different groups (High CSR vs Low CSR) and (High social impact vs Low social impact) and we checked whether the groups with High CSR (or social impact) were significantly different from Low CSR (or social impact). The results are shown in Table A6.

Table A6. Profiling ESG strategies with high CSR or social impact orientation

	High CSR strategy orientation Mean (SD)	Low CSR strategy orientation Mean (SD)	ANOVA (p-value)	High social impact orientation Mean (SD)	Low social impact orientation Mean (SD)	ANOVA (p-value)
Sustainability committee	0.94 (0.23)	0.61 (0.49)	318.82 (p<0.000)***	0.95 (0.21)	0.64 (0.48)	283.37 (p<0.000)***
Stakeholder engagement	0.85 (0.36)	0.18 (0.38)	1.181.86 (p<0.000)***	0.81 (0.39)	0.30 (0.46)	552.42 (p<0.000)***
Quality education	0.37 (0.48)	0.16 (0.37)	19.39 (p<0.000)***	0.38 (0.48)	0.20 (0.40)	19.50 (p<0.000)***
Gender equality	0.52 (0.50)	0.19 (0.39)	43.76 (p<0.000)***	0.52 (0.50)	0.30 (0.45)	23.55 (p<0.000)***
Human rights support	0.94 (0.22)	0.64 (0.48)	273.03 (p<0.000)***	0.97 (0.16)	0.64 (0.48)	344.69 (p<0.000)***
ESG-trained suppliers	0.50 (0.50)	0.21 (0.40)	144.55 (p<0.000)***	0.55 (0.50)	0.18 (0.38)	248.80 (p<0.000)***

[N.B.: * p<0.1 – significant at 10%; ** p<0.05 – significant at 5%; *** p<0.01 – significant at 1%; p>0.1 not statistically significant]

Table A6 shows all the characteristics that were statistically different between the High vs Low groups indicating that High CSR and High social impact were statistically different from Low CSR and Low social impact. However, we took another step forward to check whether some of these characteristics were more specific to CSR or social impact. We conducted a series of t-tests comparing the subgroups in High CSR-oriented strategies to the High social impact-oriented strategies. The summary of the statistics is reported below. It shows that *Stakeholder engagement* and the need for *ESG-trained suppliers* were typical of *CSR orientation*, while the involvement of *Human rights support* characterized the *social impact*-oriented ESG strategy. The remaining features were present in both orientations, and they were equally relevant. The results are summarized in Table A7.

Figure 10 was compiled based on this evidence.

Table A7. Differences between CSR and social impact orientation

	High CSR strategy orientation Mean (SD)	High social impact orientation Mean (SD)	t-test	p-value	
Sustainability committee	0.94 (0.23)	0.95 (0.21)	-1.068	(p>0.10)	Equally important for both strategies
Stakeholder gagement	0.85 (0.36)	0.81 (0.39)	2.8993	(p= 0.03)**	Typical of CSR orientation
Quality education	0.37 (0.48)	0.38 (0.48)	-0.567	(p>0.10)	Equally important for both strategies
Gender equality	0.52 (0.50)	0.52 (0.50)	0.111	(p>0.10)	Equally important for both strategies
Human rights support	0.94 (0.22)	0.97 (0.16)	-3.6523	(p=0.000)***	Typical of social impact orientation
ESG-trained suppliers	0.50 (0.50)	0.55 (0.50)	-2.9559	(p=0.004)**	Typical of CSR orientation

[N.B.: * p<0.1 – significant at 10%; ** p<0.05 – significant at 5%; *** p<0.01 – significant at 1%; p>0.1 not statistically significant]

Company spotlights

Company spotlight 1
Specialized philanthropic ESG strategy

Capgemini is a global leader in consultancy, technological services, and digital transformation. The company operates in over 50 countries and employs more than 340,000 people, helping organizations to accelerate their transition to a digital and sustainable world. Capgemini offers a wide range of end-to-end services, including strategy and design, engineering, cloud and data solutions, AI, and intelligent industry capabilities.

Capgemini is an example of a firm that deploys a specialized philanthropic ESG strategy as it only engages in a few charity activities (and programs) that are partly aligned with its core business.

One of the cornerstones of its ESG strategy centers on *digital inclusion and education* **(SDG 4 Quality education)**. Capgemini's initiatives, such as *CodeYourFuture*, aim to teach technological skills to refugees and low-income individuals. They also support UNICEF's education programs through partnerships that provide digital and innovative solutions for youth. The company's second target is to *reduce diversity to improve inclusion* **(SDG 10 Reduced inequalities).** Capgemini collaborates with organizations such as *The Prince's Trust* to provide support and opportunities for disadvantaged young people. Its initiatives include skilling programs and volunteering activities aimed at reducing inequalities. Finally, the third core value endorses environmental sustainability, namely **SDG 13 Climate action.** Capgemini supports grassroots climate action by mobilizing young people through the *Green Rising initiative in conjunction with UNICEF*. This partnership focuses on education, skills development, and empowering youth to become champions for the planet.

ADDITIONAL MATERIAL AND SOURCES

Website

https://www.capgemini.com/

ESG strategy

https://www.capgemini.com/about-us/csr/digital-inclusion/

https://www.capgemini.com/about-us/csr/diversity-and-inclusion/

https://www.capgemini.com/about-us/csr/environmental-sustainability/

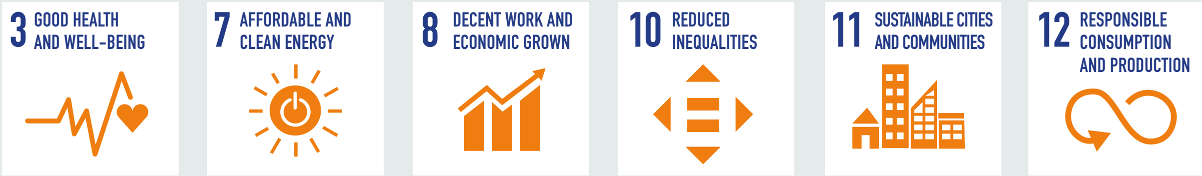
YouTube videos & interviews

https://www.youtube.com/watch?v=Sd-CH0WF5wc

https://www.youtube.com/watch?v=BqLlf1FgyCU

Company spotlight 2
Diversified philanthropic ESG strategy

FedEx®



FedEx is a company specializing in transportation, e-commerce, and supply chain solutions. It operates in over 220 countries and territories and employs more than 500,000 people. The company connects people and facilitates business around the world. FedEx offers a wide range of services, including express shipping, freight, and logistics.

FedEx is an example of a company with a diversified philanthropic ESG strategy as it engages in multiple, broad-ranging charity activities and programs.

Its ESG strategy touches on several objectives in the SDG Agenda, such as *energy efficiency* **(SDG 7 Affordable and clean energy) through diverse projects, including the installation of smart meters, LED lighting systems, and energy** management systems across its facilities. FedEx promotes *socioeconomic advancement & empowerment* **(SDG 8 Decent work and economic growth and SDG 10 Reduced inequalities)** by supporting diverse suppliers and providing equitable market access for women and minority-owned small businesses through training, mentoring, and networking programs. Another major focus is on *green buildings* **(SDG 11 Sustainable cities and communities)**. Accordingly, FedEx dedicates resources to the design, construction, and maintenance of facilities that meet or exceed LEED Gold certification. Finally, FedEx supports *eco-efficient and circular economy adapted products* **(SDG 12 Responsible consumption and production)** by committing to increase the resource efficiency of its packaging through R&D, and the implementation of new initiatives to reduce materials, waste, and dimensions, enhancing the reusability and recyclability of packaging solutions. FedEx offers comprehensive incentives to support health, well-being, and productivity, both in and out of work **(SDG 3 Good health and well-being)**. It provides eligible full- and part-time employees with competitive benefits such as healthcare, wellness initiatives, paid leave, and flexible time off. Its *"Your Choice"* plan offers flexible, transparent, and accessible healthcare options, and its *Type 2 Diabetes* plan has successfully helped many members lower their blood sugar levels.

ADDITIONAL MATERIAL AND SOURCES

Website

https://www.fedex.com/

ESG strategy

https://fedexcares.com/
https://www.fedex.com/en-es/about/sustainability.html
https://www.fedex.com/en-us/sustainability/reports.html

YouTube videos & interviews

https://www.youtube.com/watch?v=vF2OE_Mi4HI
https://www.youtube.com/watch?v=-_2ZoZsx48o

Company spotlight 3
Sustainable innovation and social products

Pfizer*, is a global leader in pharmaceuticals and healthcare,* committed to advancing sustainable innovation and social responsibility. A primary focus for the firm is to enhance global health **(SDG 3 Good health and well-being)** through partnerships that improve access to medicines, highlighted by the equitable distribution of the Pfizer-BioNTech COVID-19 vaccine. Pfizer also supports quality education **(SDG 4 Quality education)** by fostering health literacy and empowering communities through educational programs. Pfizer contributes to climate action **(SDG 13 Climate action)** by setting a target to reach net-zero emissions by 2040, incorporating energy-efficient technologies, and adopting sustainable practices across its operations. The company also promotes affordable and clean energy **(SDG 7 Affordable and clean energy)** by optimizing energy usage and transitioning to renewable energy sources in its facilities. Pfizer makes essential medicines more accessible through initiatives like Pfizer RxPathways, ensuring affordability for underserved populations to reduce inequalities **(SDG 10 Reduced inequalities)**. The firm also advances sustainable industry and innovation **(SDG 9 Industry, innovation and infrastructure)** by integrating green chemistry and continuous manufacturing technologies that minimize environmental impact and improve efficiency. The company is committed to developing sustainable cities and communities **(SDG 11 Sustainable cities and communities)** by supporting local healthcare infrastructure and community well-being. Lastly, Pfizer upholds peace, justice and strong institutions **(SDG 16 Peace, justice and strong institutions)** by maintaining ethical business practices, transparency, and respecting human rights across its global operations.

Pfizer is also an example of how **innovation contributes to social impact and sustainability.** Examples include new patents, while product releases feature **Green Chemistry and Sustainable Drug Development**, through which Pfizer has implemented continuous manufacturing technology to enhance the sustainability of drug production. This approach reduces waste, energy use, and water consumption, leading to faster patented production processes. Pfizer employs green chemistry principles for the synthesis of active pharmaceutical ingredients (APIs), such as a sustainable synthesis route for Sildenafil (Viagra), which reduces the use of toxic reagents and solvents, improving process efficiency and reducing environmental harm while also providing commercial benefits through patented processes.

Furthermore, Pfizer has adopted **sustainable packaging solutions** using recyclable, biodegradable, and compostable materials to minimize plastic waste and reduce the overall environmental impact of pharmaceutical packaging. In addition to physical products, Pfizer has invested in **digital health solutions and telemedicine**, including digital health platforms and mobile applications designed to support remote patient monitoring, medication adherence, and telemedicine. These tools reduce the carbon footprint associated with frequent hospital visits and provide healthcare access in remote areas, leading to new patents and product releases that enhance patient outcomes and contribute to a more sustainable healthcare delivery model. Additionally, Pfizer has developed new sustainable pharmaceutical products, such as oral antiviral therapies like Paxlovid (nirmatrelvir and ritonavir) for COVID-19 treatment, designed for at-home use, reducing the need for hospitalization and extensive medical resources, thereby lessening the environmental impact of healthcare by minimizing waste from in-hospital treatments and decreasing the burden on healthcare facilities. The patents for these antiviral therapies underscore Pfizer's dedication to addressing public health needs sustainably. Pfizer invests in R&D for neglected diseases, collaborating with global health organizations to develop treatments and vaccines for diseases such as malaria, tuberculosis, and tropical diseases affecting low-income populations. Pfizer has also invested in the **development of biosimilars,** biological medical products that are nearly identical to original products made by other companies, offering a more sustainable alternative to original biological therapies by lowering research and development costs, making these treatments more accessible and affordable. Additionally, the company has focused on energy efficiency in its manufacturing processes, with several patents for energy-efficient technologies, such as waste heat recovery systems and advanced HVAC (heating, ventilation and air conditioning) technologies, which significantly reduce energy consumption in pharmaceutical production facilities.

ADDITIONAL MATERIAL AND SOURCES

Website

https://www.pfizer.com/

ESG strategy

https://www.pfizer.com/about/responsibility/environmental-sustainability

https://pfizer.com/about/responsibility/health-safety

https://www.pfizer.com/about/responsibility/diversity-and-inclusion

YouTube videos & interviews

https://www.youtube.com/watch?v=Aaj2dyoK-YE

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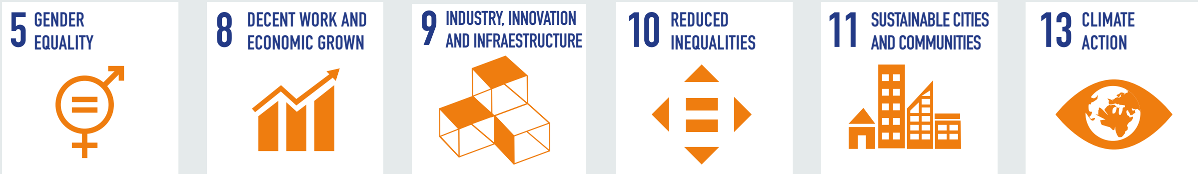
https://www.youtube.com/watch?v=1BFZPgcjSx0

Company spotlight 4
Governance-oriented ESG strategy

Weyerhaeuser



Weyerhaeuser Co., a leading timberland and forest products company, places strong emphasis on creating a diverse, equitable, and inclusive workplace. The company's internal governance initiatives focus on fostering a culture that values cultural diversity, promoting gender equality, ensuring fair compensation, and supporting a positive labor environment

The company's ESG strategy is deeply rooted in promoting cultural diversity and inclusion **(SDG 10 Reduced inequalities)** through a comprehensive Diversity and Inclusion Action Plan and active Employee Resource Groups, such as the Women's Network and Black Employee Inclusion Network, which foster a sense of belonging and support for diverse employees. In terms of gender equality **(SDG 5 Gender equality)**, Weyerhaeuser offers specialized leadership development programs for women, aiming to increase female representation in leadership roles, including significant representation on the Board of Directors. The company's dedication to fair compensation and a positive labor environment **(SDG 8 Decent work and economic growth)** is reflected in its annual pay equity reviews, transparent compensation practices, and comprehensive benefits programs that prioritize employee well-being and safety. Weyerhaeuser is also committed to fostering sustainable industry practices **(SDG 9 Industry, innovation and infrastructure)** by continuously improving its production processes to minimize environmental impact. The company's responsible forestry practices contribute to sustainable cities and communities **(SDG 11 Sustainable cities and communities)** by ensuring that its operations support the long-term health of the ecosystems and communities in which it operates. A key element of Weyerhaeuser's environmental stewardship is its proactive approach to climate action **(SDG 13 Climate action).** The company actively manages its forestlands to sequester carbon and reduce the impact of climate change, integrating sustainable practices across its value chain.

Its best practices include its commitment to cultural diversity through its **Diversity and Inclusion Action Plan**, which includes specific goals such as increasing diverse representation within its workforce and fostering inclusive leadership. The company also supports several **Employee Resource Groups (ERGs),** including the **Women's Network**, which focuses on advancing women through mentorship and professional development, the **Black Employee Inclusion Network (BEIN)**, which promotes inclusion for Black employees through mentorship and cultural awareness events, and the **LGBTQ+ Inclusion Network**, which fosters a supportive environment for LGBTQ+ employees. Additionally, Weyerhaeuser provides **inclusive leadership training to all managers,** aimed at developing skills to recognize unconscious bias and promote diversity. The promotion of women in leadership is another key focus for Weyerhaeuser, which offers tailored programs such as the **Women in Leadership Program** to prepare female employees for leadership roles through mentorship and executive coaching.

The company also partners with organizations such as **Catalyst, to advance gender diversity** in the workplace. Reflecting this commitment, Weyerhaeuser has significantly increased the representation of women on its Board of Directors in recent years. To ensure fair compensation, Weyerhaeuser conducts annual pay equity reviews to identify and correct disparities across gender and race/ethnicity. **Transparent compensation** practices provide employees with access to information about pay ranges and promotion criteria, reinforcing the company's dedication to equitable pay. Weyerhaeuser sustains a good labor environment through several initiatives, including a comprehensive benefits program under its **"Total Rewards Program,"** which offers health insurance, retirement savings plans, paid time off, parental leave, and wellness benefits. The company also prioritizes workplace safety through its **"Safety Leadership Program,"** training employees on best safety practices and conducting regular audits to maintain a safe working environment. Employee feedback is valued through mechanisms such as **Employee Engagement Surveys**, which gather insights to inform workplace improvements. To support continuous professional development, Weyerhaeuser offers "Weyerhaeuser University," an online platform with diverse training modules and workshops. Additionally, the company maintains positive labor relations and upholds fair employment practices with clear policies on **anti-harassment and anti-discrimination.** It also engages in dialogue with labor unions to foster a collaborative work environment.

ADDITIONAL MATERIAL AND SOURCES

Website

https://www.weyerhaeuser.com

ESG strategy

https://www.weyerhaeuser.com/sustainability/environmental-stewardship

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https://www.weyerhaeuser.com/sustainability/strong-governance

YouTube videos & interviews

https://www.youtube.com/watch?v=SISbrr94EU8

https://www.youtube.com/watch?v=cDOTDSXvr8s

Company spotlight 5
Social impact-oriented ESG strategy

3M Science. Applied to Life.™

3M is a multinational conglomerate known for its innovation across multiple industries, including manufacturing, healthcare, and consumer goods. The company has a strong commitment to creating social impact.

Accordingly, one of the cornerstones of 3M's ESG strategy focuses on reducing poverty through community engagement (**SDG 1 No poverty**). The "3M Impact" initiative sends employees to underserved communities, helping to address local challenges and foster economic development. Another vital priority centers on enhancing public health and well-being (**SDG 3 Good health and well-being**). 3M achieves this by developing innovative medical solutions and engaging in partnerships that improve healthcare access in low-income regions. 3M supports diversity in leadership, advances women in STEM fields, and fosters an inclusive workplace culture to promote gender equality (**SDG 5 Gender equality**). 3M also places emphasis on promoting decent work and economic growth (**SDG 8 Decent work and economic growth**) by ensuring fair labor practices and ethical standards throughout its supply chain. Additionally, 3M integrates sustainability into its innovation processes **(SDG 9 Industry, innovation and infrastructure**), employing green chemistry and sustainable product design to contribute to resilient infrastructure. The multinational is committed to reducing inequalities (**SDG 10 Reduced inequalities**) by supporting education initiatives and promoting diversity and inclusion to close the gap in opportunities for underrepresented groups. Furthermore, 3M champions peace, justice and strong institutions **(SDG 16 Peace, justice and strong institutions**) by upholding human rights across its operations and supply chain, ensuring fair labor practices, and preventing human rights abuse.

The elements highlighted in 3M characterize a social impact orientation. Here, the **Sustainability Committee** is essential in overseeing the company's sustainability strategies, ensuring integration across all business areas, from product development to operations. The committee is vital for driving accountability and setting measurable goals, such as reducing greenhouse gas emissions and increasing renewable energy use, which helps 3M maintain its leadership in sustainable practices and builds trust with investors, customers, and employees. 3M focuses on **quality education** by promoting STEM education and partnering with educational institutions to empower future generations. This investment not only helps build a skilled future workforce but also addresses educational inequalities, supporting underrepresented groups and fostering economic development. Similarly, 3M promotes **gender equality** through initiatives that increase diversity in leadership roles, support women's career development, and foster an inclusive workplace culture, recognizing that diverse perspectives enhance organizational performance and innovation. 3M also supports **human rights** across its operations and supply chain, with policies that ensure fair labor practices and prevent human trafficking, thereby protecting vulnerable populations and maintaining ethical standards. This commitment reduces risks related to labor disputes, reputational damage, and legal issues, while contributing to global human rights efforts.

ADDITIONAL MATERIAL AND SOURCES

Website

https://www.3m.com/

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https://www.3m.com/3M/en_US/sustainability-us/

https://www.3m.com/3M/en_US/sustainability-us/social/

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YouTube videos & interviews

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Martina Pasquini has a PhD in Business Administration and Management from Bocconi University and is an Associate Professor of Strategy at IE Business School. Her research focuses on strategy, innovation, and entrepreneurship, with particular emphasis on demand, communities of values, and social impact. She has received prestigious research grants from the EU Marie-Curie Program, the Spanish Ministry of Science and Innovation, and the FUNCAS foundation for her work on social responsibility strategies, social innovation and B Corporations. Her research has been published in leading journals, such as *Strategic Management Journal, Research Policy, and Journal of Business Venturing*. She serves on the executive boards of The Case Centre and B-Academics and is the Global Representative for Europe in the Academy of Management's STR division. She was previously a Representative-at-large in the Corporate Strategy Division at the Strategic Management Society. Martina Pasquini teaches courses on competitive strategy, innovation management and sustainability at undergraduate and graduate levels.

https://www.ie.edu/ie-elecnor-hub-on-ethical-business/en

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