Corporations are being pushed to change—to dial down their single-minded pursuit of financial gain and pay closer attention to their impact on employees, customers, communities, and the environment. Corporate social responsibility from the sidelines is no longer enough, and the pressure comes from various directions: rising and untenable levels of inequality, increasing evidence that the effects of climate change will be devastating, investors’ realization that short-term profitability and long-term sustainability are sometimes in conflict. For reasons like these, a growing number of business leaders now understand that they must embrace both financial and social goals.

However, changing an organization’s DNA is extraordinarily difficult. How can a company that has always focused on profit balance the two aims? It takes upending the existing business model. Not surprisingly, researchers have consistently found that companies are quick to abandon social goals in the quest for profitability.

Grameen Veolia Water’s social and financial goals inevitably came into conflict.
Yet some enterprises successfully pursue both. The U.S. outdoor-clothing company Patagonia, for example, which initially prioritized financial goals, has come to pursue social good more seriously over time. Others began with social goals but must earn revenue to survive. Grameen Bank, the Nobel Prize-winning microlender in Bangladesh, is an iconic example. We’ve spent a decade studying how socially driven businesses succeed, and what we’ve learned from in-depth qualitative studies and quantitative analyses may prove useful to traditional companies that want to adopt a dual purpose.

Our research reveals that successful dual-purpose companies have this in common: They take an approach we call *hybrid organizing*, which involves four levers: setting and monitoring social goals alongside financial ones; structuring the organization to support both socially and financially oriented activities; hiring and socializing employees to embrace both; and practicing dual-minded leadership. Taken together, these levers can help companies cultivate and maintain a hybrid culture while giving leaders the tools to productively manage conflicts between social and financial goals when they emerge, making the endeavor more likely to succeed.

**Setting Goals, Monitoring Progress**

Dual-purpose companies need to set goals along both financial and social dimensions and monitor performance on an ongoing basis.

**Setting goals.**

Well-constructed goals are an essential management tool. They communicate what matters and can highlight what’s working and what’s not. These goals should go beyond mere aspirations to clarify a company’s dual purpose for employees, customers, suppliers, investors, and regulators. Companies may need to experiment their way to a goal-setting model that works for them—something Grameen Veolia Water has managed by continually recalibrating its activities around explicit aims.

The company, which provides safe water in Bangladesh, started in 2008 as a joint venture between Grameen Bank and the water services provider Veolia. Veolia, which traditionally works under government contracts, recognized that no local authorities were responsible for providing drinking water to rural areas at that time. The partnership aimed to fill this gap. Its board set two goals for the new business at the outset: to provide safe, affordable drinking water to the inhabitants of the rural villages of Goalmari and Padua over the long term, and to sustain operations from sales without relying on grants.
These two goals came into conflict. When managers realized how difficult it would be to break even if they sold water only to poor rural households at a very low price, they designed a new revenue-generating activity: selling water in jars to schools and businesses in nearby urban areas. At this point it might have been tempting to focus attention and resources on the profitable new market segment at the expense of the original one. But leadership did not drift. The venture’s clearly stated social goal reminded board members and managers that urban sales were meant to subsidize village sales. Ultimately the former amounted to half the company’s revenues, helping Grameen Veolia Water pursue its social goal.

No single playbook exists for setting social goals. But our studies point to two rules of thumb. First, do the research. Often leaders try to set goals without developing a deep understanding of the specific social needs they aim to address—or of how they may have contributed in the past to the buildup of problems. Just as they conduct market research to identify opportunities for profit, they should study those social needs. Their research should involve the intended beneficiaries along with other stakeholders and experts.

Prior to launching operations, Grameen Veolia Water conducted major research to understand water issues in Bangladesh, interviewing public officials and health and water experts along with community organizations. Managers discovered that some rural populations suffered not only from drinking surface water contaminated with bacteria (the researchers’ initial assumption) but also from drinking water from wells built in the 1980s. Some well water, although clear and tasteless, was naturally contaminated by arsenic and was a major source of cancers in adults and cognitive impairment in children. This information led the business to focus its activity in Goalmari and Padua, which suffered from both sources of contamination. The company thus defined its goal as providing permanent access to clean water for everyone in those villages.

Second, set goals that are explicit and enduring (though they may have to be updated in light of a changing environment). Impact would be limited if the village residents consumed clean water for just a few years; to achieve a significant positive change in their health, they would need access to clean water over decades.

Monitoring progress.

Just as important as setting goals is identifying and adapting key performance indicators (KPIs) in order to measure the achievement of specific targets, be they financial or social. While we know how to measure sales, revenue growth, and return on assets, no widely accepted metrics currently exist for many social goals (although more progress has been made on measuring
environmental impact). Nonetheless, it is possible to set both financial and social KPIs successfully. Our research has found that companies succeed by dedicating substantial time and effort to developing a manageable number of trackable metrics during the goal-setting process and revisiting them regularly to assess their continuing relevance and adequacy.

At Grameen Veolia Water, managers consulted with members of the rural communities they sought to serve and with academic experts before formalizing four KPIs: the company’s self-financing ratio (its ability to fund planned investments from its own resources), the number of villagers with access to its services, the rate of rural penetration, and the rate of rural regular consumption (which captures both financial and social performance). The four numbers are updated monthly to monitor operations, and the board discusses them quarterly to guide strategic decision making.

A learning mindset is essential for developing and using KPIs. A willingness to experiment and change on the basis of experience, whether their own or others’, helps businesses better understand social problems and how to address them. Dimagi’s approach to setting social performance metrics exemplifies this mindset. Founded in 2002 and led by Jonathan Jackson, one of its cofounders, Dimagi provides software that NGOs and governments can use to develop mobile apps for frontline health-care workers in developing countries. At first Dimagi’s primary social metric was the number of active users, which was meant to indicate how many people the technology positively affected. Jackson hoped to improve this metric, because it failed to distinguish between those who actually used the data to improve service delivery to patients and those who collected but did nothing with it.

The company formed a dedicated impact team to refine the social KPI. After exploration, the team created a metric—“worker activity months”—to measure the number of health care providers who were actually applying Dimagi’s technology, and it implemented internal data systems to track the metric across all projects. But Jackson soon realized that this, too, was flawed, because the outcome was beyond Dimagi’s control: How workers used the software depended more on the actions of Dimagi’s clients—NGOs and governments—than on its own.

After reaching out to other social enterprises for advice, Jackson reverted to the number of active users as the company’s primary social barometer, yet combined it with a new entity—an impact review team—that focused on qualitative quarterly analyses and discussions about the impact of all projects. These reviews ensure that a team doesn’t focus unduly on the quantifiable aspects of
a project (revenue, costs, completion dates) but also explores the effectiveness of its service delivery and how that could be improved to better support frontline health-care workers. The team discusses indirect forms of impact as well, such as helping organizations assess their readiness for digitization.

Every meal Revolution Foods sells to a school creates both kinds of value.

Other successful businesses also complement KPIs with in-depth qualitative assessments of their social performance. For example, the Brazilian impact investing firm Vox Capital hired Jéssica Silva Rios, an executive dedicated to understanding and measuring its impact, and recently made her a full partner. Some companies also incorporate external social indicators developed by independent NGOs such as the Global Reporting Initiative, the Sustainability Accounting Standards Board, and B Lab. For example, Vox Capital monitors whether its rating from the Global Impact Investing Rating System is above average in comparison with other funds in developing markets and adjusts the fees it charges investors accordingly.

**Structuring the Organization**

It’s virtually impossible to succeed on financial and social fronts over the long run if the company isn’t designed to support both. Achieving an effective design requires that you think about which organizational activities create economic value and which create social value, how those activities relate to one another, and how you’ll try to balance them.

**Aligning activities and structure.**

Some activities create social and economic value at the same time. Others create predominantly one kind of value. For activities that create both kinds, an integrated organizational structure usually makes sense. Otherwise the activities are often best managed separately.

Revolution Foods, founded in 2006 by Kristin Richmond and Kirsten Tobey, provides nutritious lunches to low-income students in the United States. Richmond and Tobey created the company to serve a social purpose, having witnessed how poor food options hold kids back in underfunded schools. Every time they sell a healthful meal to a school, two things happen: They enhance a child’s health, and they make money. Their core activity thus creates both kinds of value. As a result, they opted for an integrated structure, with a single manager in charge of operational efficiency, business growth, and the promotion of child well-being. Account
managers often engage students in nutrition education (either directly or through community organizations), introducing them to new foods and collecting their feedback on taste. The exposure to healthful foods enhances the long-term wellness of students and supports sales at the same time.

In contrast, the French company ENVIE learned over time that it needed to decouple the two kinds of activities. Launched in 1984, it had the goal of reintegrating long-term unemployed people into the job market by hiring them on two-year contracts to collect and repair used appliances for sale in secondhand shops. The company also provides support and training in how to repair appliances, how to look for a job, how to write a CV, and how to interview. The resale of appliances is what creates economic value. The training to enhance individuals’ ability to find jobs outside ENVIE creates social value, but it doesn’t make the company more profitable—in fact, it increases costs.

In the early years, staff members were asked to do two jobs: give beneficiaries technical guidance on how to repair or dismantle appliances (economic value) and provide them with social support (social value). However, it was difficult to find supervisors with both social and technical expertise. Even when they had both, the supervisors struggled to balance the two dimensions of their jobs. ENVIE’s founders accordingly decided to set up separate organizational units, one for social support and one for repair, to be overseen by social workers and technical experts respectively. This increased the company’s effectiveness in generating both kinds of value.

**Creating spaces of negotiation.**

The rub is that tensions inevitably arise—particularly in differentiated structures. Left unattended, they can bring an organization to a halt. The Bolivian microlender Banco Solidario provides a cautionary example. In the 1990s constant resentment and fighting between bankers (concerned with fees and efficiency) and social workers (concerned with the affordability of loans and the livelihoods of microentrepreneurs) essentially froze the company. Loan officers quit left and right, the number of active borrowers plummeted, and the profit margin dropped. We’ve found that successful dual-purpose companies avoid such paralysis by supplementing traditional organizational structures with mechanisms for surfacing and working through tensions. These mechanisms don’t make the tensions disappear—rather, they bring them into the open by letting employees actively discuss trade-offs between creating economic value and creating social value. Such deliberation provides a powerful safety valve and can speed up effective resolution.
Consider Vivactif, another French work-integration company. Founded in 1993, it hires and trains the long-term unemployed at recycling facilities. Those responsible for achieving one kind of goal or the other at the company often did not see eye to eye. While production supervisors managed workers to meet recycling targets, social workers were eager to take them away from the floor for mentorship and job-search training. The company set up quarterly meetings between the two groups so that they could discuss each beneficiary’s progress and bring up coordination issues. Joint work planning allowed both to share important deadlines (such as for commercial deliveries or social trainings) and to find joint solutions to scheduling conflicts. This improved productivity and furthered the company’s social goals.

Spaces of negotiation can be successful in large companies as well. In one multinational cooperative bank headquartered in Europe, decision makers representing each of the local branches collectively make strategic decisions only after iterative debate, during which different groups of employees are responsible for championing either the social or the financial objectives of the organization. When individuals speak up about issues, their assigned roles prevent tensions from becoming personal.

**Hiring and Socializing Employees**

Embedding a dual-purpose focus in an organization’s DNA requires a workforce with shared values, behaviors, and processes. Hiring and socialization are crucial to getting that right.

**Hiring.**

Employees in a company that pursues dual goals tend to be successful when they understand and connect with both the business and the social mission. We’ve seen companies mobilize such people by recruiting three types of profiles: hybrid, specialized, and “blank slate.”

*Hybrid* individuals arrive equipped with training or experience in both business and social-value fields, such as environmental science, medicine, social work, and so forth. Such people are able to understand issues in both camps and can connect with employees and other stakeholders of either orientation.

Jean-François Connan is a good example. He was recruited in the late 1980s by Adecco, one of the largest temp work groups in the world, because he had training in industrial maintenance and human resources and experience as a teacher and a mentor for at-risk youth. The company hired him to help address a long-standing problem: A large number of its temp workers lacked strong
qualities. Connan played a leading role in building a dual-purpose subsidiary for Adecco that helps the long-term unemployed reenter the job market by hiring them for temp jobs. His background lets him interact seamlessly with Adecco leaders and corporate clients as well as with local partners (such as nonprofits dedicated to youth mentorship) and those whom they seek to serve. Now he is the company’s head of responsibility and social innovation.

But hybrid employees aren’t always available and may not always be the best fit. Dual-purpose corporations often hire specialized talent, which allows them to tap into deep expertise and networks in each area. The main weakness of this approach is that it is more likely to result in conflict between groups, which may not understand each other’s norms, vocabularies, and constraints—especially if the organization separates economic activities from social ones. As a result, tensions and turnover in these companies tend to be higher than in those with an integrated structure, producing a negative effect on the bottom line.

To mitigate this at Dimagi, Jackson explains the primacy of the organization’s social purpose on his very first recruitment call with a technical expert (such as a software developer). After hiring, he creates opportunities for the expert to learn about the social business through formal talks, informal office interactions, and even face-to-face fieldwork in the underserved communities with which Dimagi works. Vox Capital, too, has hired managers with technical capabilities (such as fund management) and no experience in a social-mission-driven environment. Yet it systematically screens applicants for their ability to embrace and thus adapt to the company’s hybrid culture.

When companies recruit blank slate individuals, who have experience in neither business nor the social sector, they put them in entry-level jobs and help them acquire dual values and skills. The Bolivian microcredit lender Los Andes S.A. Caja de Ahorro y Préstamo, founded in 1995, took this approach, hiring university graduates with hardly any professional experience to become loan officers. The sense was that they would embrace a hybrid organizational culture more readily than experienced employees might. Of course, this approach has limitations. Taking inexperienced staffers into an organization may lower productivity. It also requires a considerable investment in training.

Although recruitment strategies obviously must be adapted to specific HR needs, we have observed that hybrid employees tend to be particularly well-suited for managerial and coordination positions; specialists can contribute useful expertise as middle managers in
differentiated structures; and blank slates do best in entry-level jobs, where training won’t be too challenging.

**Socialization.**

Once people are on board, socializing them can be daunting. Every employee needs to understand, value, and become capable of contributing to both financial and social goals in some form.

Formal approaches to socialization may include companywide events such as annual general assemblies and retreats where dual goals and values are explained, discussed, assessed, and put into perspective. Dedicated trainings can remind employees—particularly those who specialize in just one sector—of the interconnectedness of revenue-generating and social-value-creating activities. Job-shadowing programs and other forms of experiential training can also purposefully bring different groups together. At Vivrectif social workers spend at least one day a year alongside recycling supervisors, and vice versa, so that each can learn and relearn about the company from the other perspective.

Another example comes from Oftalmología salauno, a Mexican company cofounded in 2011 by Javier Okhuysen and Carlos Orellana to provide high-quality, low-cost eye care to people who can’t otherwise afford it. Although the pair saw economic goals and social goals as connected, they observed that some doctors focused only on patient care, and some managers considered only costs. So they formulated a set of core tenets and shared them at a daylong training for all employees, which clarified the interrelatedness of the company’s financial and social aspects and gave employees a shared language for discussing tensions. Okhuysen and Orellana later instituted such sessions for new hires and continue to reinforce the training content in day-to-day interactions.

Spaces of negotiation can be valuable informal socialization opportunities, too. At Vox Capital a weekly time slot allows anyone to pose a question if he or she feels that the company’s practices don’t align with the organizational mission and values or is witnessing financial-social trade-offs. Employees haven’t shied away from tough topics. Some have asked whether its investment portfolio sufficiently emphasizes the social missions of the businesses, while others have questioned whether the company’s approach to raising capital is ethical.
Such conversations pushed cofounder Daniel Izzo to think critically about Vox’s principles. “First I thought, It doesn’t matter as long as [investors] don’t have a say in what we do,” he says. “But then someone asked, ‘Would you take a drug lord as an investor?’ Of course not. So there is a line. But where do we draw it? Do you take money from companies involved in corruption scandals in Brazil? Or from sons and daughters of top executives in those companies?”

Similarly, Bernardo Bonjean, who founded the Brazilian microfinance organization Avante in 2012, instituted a monthly breakfast where employees could come together and ask him questions. He also shares what’s on his mind in letters to employees, discussing everything from the company’s KPIs to his concerns about cash flow in the coming months. Okhuyzen and Orellana put posters showing a matrix of Oftalmología salauno’s four core tenets—commitment, service, reach, and value—in every meeting room. They can refer to these tenets when decision points arise, supporting a shared language among employees.

To encourage questions from employees, it’s important to create an environment where people feel safe raising contentious issues. And when employees see changes in thinking and processes result from these discussions, they know that what they say is valued.

Events and conversations aren’t the only ways to socialize employees. Promotion and compensation are also important. At the multinational cooperative bank mentioned above, being promoted to general director of a local branch requires excelling in business development, cost reduction, and profit making while also demonstrating a clear adherence to the company’s social goals and a willingness to work collaboratively. One candidate for promotion commented, “I have seen many brilliant people fail because they did not embrace our values enough.”

Vox Capital, like several other companies we studied, bases individual bonuses on both financial and social performance. Furthermore, Izzo is clear that he does not want the economic inequality that Vox is trying to redress in Brazil reproduced inside the company itself, so the maximum difference between employees’ highest and lowest salaries and bonuses is capped at a multiple of 10. (In the United States in 2017 the average ratio of CEO-to-worker compensation was 312:1, according to the Economic Policy Institute.) Other companies, such as Revolution Foods, use shared ownership to motivate employees and increase their commitment to dual performance. Any full-time employee can become a shareholder through stock options. Richmond and Tobey believe that sharing ownership with employees, many of whom live in the low-income communities the company serves, is integral to their social mission.
Practicing Dual-Minded Leadership

Leaders must manage the tensions that inevitably crop up on the path to achieving dual goals. These tensions often involve competition for resources and divergent views about how to reach those goals. Leaders must affirm, embody, and protect both the financial and the social side and address tensions proactively.

Making decisions.

Strategic decisions should embody dual goals. Whereas goals reflect aspirations, decisions provide real evidence of leaders’ commitment to achieving specific aims. The experience of François-Ghislain Morillon and Sébastien Kopp is a good example.

Morillon and Kopp created Veja in 2004 to sell sneakers made under fair trade and environmentally friendly conditions in small cooperatives in Brazil. When they realized that advertising accounted for 70% of the cost of a typical major brand’s sneakers, they made the bold decision not to advertise at all. That allowed them to sell sneakers at a price comparable to what their bigger competitors asked despite having production costs five to seven times as high. To make up for the absence of traditional advertising, the company formed strategic partnerships with high-end fashion brands such as agnès b. and Madewell and stores such as the Galeries Lafayette to increase media exposure, grow sales, and become profitable.

At first Veja’s clients—shoe retailers accustomed to the marketing of major sneaker brands—were skeptical. So Veja trained salespeople to educate them about the benefits of its product for people and the environment. Clients and the media now view the “zero ads” decision as evidence of the founders’ commitment to their social goals, ultimately both giving the company social impact and making it profitable.

Morillon and Kopp also decided to temper the company’s growth, despite increasing consumer demand in the United States. They refused to lower their fair trade and environmental standards to sell more shoes. Instead they decided to set production targets in keeping with the capacity of their fair trade partners while working closely with them to increase that capacity, ensuring a growth rate compatible with financial sustainability. That decision demonstrated, to employees in particular, the genuine commitment of Veja’s leaders to their dual goals. In making bold decisions, the cofounders both emphasized the company’s priorities and created the conditions for achieving them. They also showed that it’s possible to avoid one of the most common pitfalls for dual-purpose companies: prioritizing profits over society when the pressure is on.
Veja boldly decided to do no advertising, which kept its sneakers affordable.

Profit allocation is another important area of strategic decision making. Dividends can be capped to ensure that financial goals don’t overshadow social ones. When founding Oftalmología Salauno, Okhuysen and Orellana pledged to reinvest 100% of their profits for at least seven years, so the investors they selected—a social impact fund, the World Bank, and a private wealth-management fund—knew that no dividends would be paid during that time. Okhuysen explains: “Our investors ultimately expect both financial and social returns on their capital. But the alignment between us around reinvesting profits to improve and grow our network of eye-care clinics has helped ensure that financial goals do not take precedence over our social purpose.”

**Engaging the board.**

In successful hybrid companies, board members serve as guardians of the dual purpose. Thus they must collectively bring a combination of business and social expertise to the table. Diversity on the board is important for drawing the organization’s attention to both social and financial goals, yet it increases the risk of conflict, because members with different perspectives are more likely to differ as to the best course of action. We have seen some companies experience near-paralyzing governance crises when socially and commercially minded board members with similar levels of influence strongly disagree.

Yet other companies have managed to avoid such crises because a chair or an executive director systematically bridged gaps between the two groups. By fostering regular interactions and information sharing between them, such leaders enabled the groups to develop mutual understanding. Recall the subsidiary Jean-François Connan founded at Adecco. He invited representatives from prominent local nonprofits to join the board as minority shareholders, enabling the company to benefit from their social expertise, networks, and legitimacy and helping to protect the company’s social mission. His hybrid experience put Connan in a good position to bridge the gap between the two groups of directors, fostering common ground by constantly reminding each of the importance of the other.

**CONCLUSION**

Some major roadblocks to dual-purpose organizing are outside a company’s control. Chief among them is that the business ecosystem is still set up to prioritize the creation of shareholder wealth. The Global Reporting Initiative, the Sustainability Accounting Standards Board, and B Lab, among
others, have taken steps to overcome some of these barriers. Each of them has created metrics for tracking companies’ impact on the lives of employees and customers, the communities served, and the environment, providing organizations with benchmarks. What is at stake is ensuring that companies don’t pick and choose areas of social focus on the basis of convenience.

Rating agencies are only one part of the ecosystem, however. Although more changes are under way—such as awarding legal status to public benefit corporations in the United States, community interest companies in the United Kingdom, and società benefit in Italy—the regulations, educational standards, investment models, and norms that govern the production of economic value and social value are still mostly distinct from one another. As an increasing number of companies engage in hybrid organizing, the systems that support business also need to change.

But changing organizations and the ecosystem that surrounds them is difficult. Companies must fight the inertia of inherited ways of thinking and behaving. Trade-offs and tensions are inevitable, and success is more likely when leaders address them head-on. The four levers we have outlined are meant to help.

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Julie Battilana is the Joseph C. Wilson Professor of Business Administration at Harvard Business School and the Alan L. Gleitsman Professor of Social Innovation at Harvard Kennedy School.

Anne-Claire Pache is the Chair Professor in Philanthropy at ESSEC Business School.

Metin Sengul is an associate professor of strategy at Boston College’s Carroll School of Management.

Marissa Kimsey is a research associate at Harvard Business School.
Comments

S. Brovkin  2 days ago

When one approaches work as contributing to society and getting compensated for it, the perennial discussion of work-life balance fades away.
If not for the stigma of the “shareholder value” that we dutifully inherit and pass on, we would not need to invent “dual-purpose” and “dual-minded leadership.” So where’s the root cause? It is a tough call, no doubt, but resolving the bigger evil by replacing it with a number of lesser evils is hardly a viable solution.

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