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STRATEGY

Balancing Profit and Purpose: The Power of Enterprise Foundations

by Izzy Greer

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Enterprise foundation governance helps businesses balance long-term vision with financial success.

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What happens when corporate values conflict with financial responsibility?

A corporate mission defines a company's desired legacy. For many, actioning these values conflicts with financial performance. But there is a governance model that balances financial and social responsibility: enterprise foundations. Enterprise foundations are legal entities combining business ownership and philanthropy. Danish pharmaceutical giant Novo Nordisk is a prime example.

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Novo Nordisk has a north star: fighting chronic disease. They are majority owned by the Novo Nordisk Foundation and guided by the Novo Nordisk Way: “to be a sustainable business and our clear patient-centric purpose: driving change to defeat serious chronic diseases.”[1]

Both their financial and philanthropic endeavors work toward that same north star. Novo Nordisk leverages their pharmaceutical expertise for both financial gain and social good; to both make money selling treatments as well as to research even better therapies.

This isn’t to say Novo Nordisk’s financial and social goals don’t often conflict. For each cent they raise the price of a drug, they make that drug less accessible and decrease the likelihood that the associated disease will be eradicated. The price of prescription drugs is high and access to those drugs is inequitable.

The charter of the Novo Nordisk Foundation provides a roadmap for making these tradeoffs. In 2023, increased demand for diabetes medications like Ozempic increased revenues, but those same medications aren’t affordable in many parts of the world. Their charter forces them to compensate with programs like the “Access to Insulin” commitment to provide subsidized insulin to low-income countries around the world.

Enterprise foundations build priorities into a company’s DNA to which leadership is accountable, ensuring a long-term realization of a predetermined balance between financial performance and non-financial mission. Their simultaneous commitment to value and values is paying off: Novo Nordisk Foundation is the wealthiest charitable foundation in the world; Novo Nordisk was the 12th most valuable company in the world as of March 2024.

While there are several models of enterprise foundations, they share several characteristics. Structurally, a foundation must have a controlling interest in a business. There must be an irrevocable legal separation between the foundation and its founder. And most significantly, enterprise foundations are governed by a charter that dictates the relationship between business and philanthropic goals.

The benefit of enterprise foundations is how they enable companies to operationalize both financial and non-financial goals. Enterprise foundations are committed to long-term ownership and bound by charter, protecting the business from stock market fluctuations and shareholder pressures. This allows short term financial results to be tempered with a long-term mission. When goals conflict, managers use the charter to guide tradeoffs.

When companies aren’t structurally accountable for non-financial goals, financial growth takes center stage. Milton Friedman claimed that the responsibility of business managers is first and foremost to drive profit, and that anything other than maximizing financial value was immoral.[2] Outside of enterprise foundations, Friedman’s philosophy is the bedrock of corporate structure. Managers are primarily responsible for delivering revenue, profitability, and growth; financial metrics drive job security, compensation and bonus pay.

But stakeholder expectations of corporations are changing. Companies are increasingly devoting resources and reporting into environmental, social, and governance matters. 80% of "the largest firms in 52 countries" publish ESG reports. Sustainable funds are getting an increased share of investment dollars.[3] Some have claimed ESG is dead; the financial performance of sustainable funds relative to the general index has been hotly debated.[4] But the impacts of being mission-driven on employee performance and productivity are not; mission-driven companies have lower employee turnover, higher employee engagement and higher trust, all of which are correlated with higher year over year revenue growth.[5]

Even as expectations shift, corporate behavior won't meaningfully change unless accountability measures are in place. Managers agree that corporate responsibility is a critical component of running a business. However, the economic impacts of the COVID-19 pandemic highlight that when forced to choose between social responsibility and financial performance, companies still choose profit. This is evident in the pattern of layoffs across in 2022 and 2023 when ESG-related or non-revenue generating teams were often those hit hardest.[6] Under economic pressure, these companies prioritize their bottom line.

While the enterprise foundation model may feel fringe in much of the world, it is common in the Nordics. Some of the most impactful companies in the world are foundation-owned Nordic enterprises: shipping giant Maersk; home furnishing retailer IKEA; Novo Nordisk. These examples suggest that enterprise foundations are not limited to any particular industry.

Rather than a question of morality, tax law is often the biggest roadblock to the foundation structure. Taxes on a private foundation's business holdings make enterprise foundations less financially viable.[7] Where these taxes are not as restrictive, such as Denmark, enterprise foundations have been able to proliferate. US law is stricter in granting tax-exempt status to private foundations, making enterprise foundations more exceptional in the United States.

This isn't to say that there isn't a future for enterprise foundations in the United States and beyond. Patagonia founder Yvon Chouinard dominated the news cycle in 2022 when he announced he would cede ownership of his company to charity. The family irrevocably donated the entirety of their voting shares to the Patagonia Purpose Trust, which will govern the company. The rest of Patagonia's non-voting shares were given to a non-profit called the Holdfast Collective, which will be the recipient of all company profits with a charter to combat climate change. The workaround to the question of taxation was, simply, to pay the taxes.

It is not feasible, possible, or likely that the majority of businesses will move to enterprise foundation structures. But the lesson to be learned from the enterprise foundation model is that purpose is not mutually exclusive from financial success. Individual stakeholders are motivated by purpose, and reward companies who do good with their employment and purchasing power. When companies align social and enterprise values, they set themselves up for sustainable success.

Endnotes

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