

GROW THE PIE

Should companies be run to earn a profit, or to serve a purpose? In this ground-breaking book, acclaimed finance professor and TED speaker Alex Edmans shows it's not an either-or choice. Drawing from the highest-quality evidence and real-life examples spanning industries and countries, Edmans demonstrates that businesses driven by purpose are consistently more successful in the long term.

But a purposeful company must navigate difficult trade-offs and take tough decisions. Edmans provides an actionable roadmap for company *leaders* to put purpose into practice, and overcome the hurdles that hold many back. He explains how *investors* can discern which companies are truly purposeful rather than greenwashing, and engage with them to unleash value for both shareholders and society. And he highlights the crucial role that *citizens* can play as employees, customers and investors, in reshaping business to improve our world.

This edition has been thoroughly updated to include the pandemic, the latest research, and new insights on how both companies and investors can make purpose a reality.

Alex Edmans is Professor of Finance at London Business School and a leading authority on reforming business to serve the common good. He has spoken at Davos and in the UK House of Commons, and gave the TED talk 'What to Trust in a Post-Truth World' and the TEDx talk 'The Social Responsibility of Business'.

PRAISE FOR THE HARDBACK EDITION OF GROW THE PIE

Financial Times Business Book of the Month (March 2020)

Financial Times Summer Books of 2020

Financial Times Best Books of 2020

Chartered Management Institute Management Books of the
Year

‘The quest to encourage companies to adopt positive values, for the benefit of all stakeholders, sometimes seems long on vision and short on firepower. Edmans, a finance professor, provides plenty of ammunition to support the idea that visionary leaders can expand the whole “pie” in pursuit of purpose and profit.’

—*Financial Times*

‘In a thoughtful new book, *Grow the Pie: How Great Companies Deliver Both Purpose and Profit*, Alex Edmans of LBS argues that the wealth accrued by a boss does not necessarily come at the expense of others . . . Mr. Edmans’s view of pie-growing is nuanced. He advocates an approach to business with the primary aim of creating value for society. Profits are not the main goal but a welcome side effect.’

—*Economist*

‘In his newly published and excellent book *Grow the Pie*, Alex Edmans lands an important and fundamental message about the relationship between profit and purpose. He explains that businesses are better off if they look to “grow the pie” by serving the needs of all stakeholders rather than by pie splitting and focusing simply on shareholders and profit.’

—*Management Today*

‘Edmans’s insights are fresh, often surprising, and always thoughtful and thought-provoking . . . One doesn’t have to agree with every one of Edmans’s recommendations to respond positively to the spirit that infuses his writing: Optimism, supported by copious evidence, about the potential for positive-sum outcomes to transform business performance and its contribution to society. It is a tonic for our times.’

— *National Review*

‘I do not know whether capitalism is in crisis. But I do know Alex Edmans’s superb book makes the case, compellingly and comprehensively, for a radical rethink of how companies operate, and indeed why they exist. It is the definitive account of the analytical case for responsible business, but is at the same time practical and grounded in real business experience. It is a *tour de force*.’

— *Andy Haldane, Chief Economist, Bank of England*

‘This is an original and important book that will help transform how business sees itself – and how we see business. Alex Edmans, in his passionate advocacy of ‘Pieconomics’, challenges us all to adopt a mindset and unity of purpose in which all business actions contribute to pie-growing. The implications are radical and far-reaching. Read it: it will challenge how you think.’

— *Will Hutton, former editor-in-chief, The Observer,
and author of The State We’re In*

‘Politicians are calling for large companies to be regulated or split up. In this compelling book, Alex Edmans argues that there is indeed a problem with corporate behaviour, but that the solution may be simpler: change corporate purpose so that companies focus on growing the pie rather than grabbing more of it. Edmans’s arguments are a powerful and persuasive antidote to much of the conventional wisdom about the corporate world.’

— *Oliver Hart, 2016 Nobel Laureate in Economics*

‘This is a brilliant and timely book, taking the business case for responsible capitalism to a whole new level. Edmans provides a rigorous, evidence-based approach, exploring numerous angles around how businesses can (and, as he shows, must) combine profit-seeking with purpose, as well as the role investors and other stakeholders can play in driving a genuine win-win approach. He tackles counter-arguments head on and has the courage to expose examples of virtue-signalling that falsely discredit responsible businesses. Citing case studies collated over decades, it’s a great read, too, offering fascinating examples well beyond the usual suspects. *Grow the Pie* really has the power to convince the sceptics as well as to encourage advocates to consider new ways to embed the approach further in their businesses.’

— Dame Helena Morrissey, financier and founder of the 30% Club

‘This is a must-read book for anyone interested in reforming capitalism – particularly in its role of serving wider society. The book is grounded in academic evidence, but the ideas are highly practical, and recognise the need for business to be profitable as well as purposeful. Most companies have inspiring mission statements; Edmans provides a concrete framework for translating them into actual practice. He does not shy away from acknowledging the challenges with running a purpose-driven company. Instead, he tackles them head-on, giving clear guidelines on how to navigate tough decisions, which he illustrates with powerful examples.’

— Dominic Barton, former Global Managing Partner of McKinsey

‘In *Grow the Pie*, Alex Edmans has provided us with a valuable contribution to contemporary thinking about how business can be a force for good in society. I have long advocated seeing the mutuality of interests between business, the workforce, suppliers, communities, the government and other stakeholders, and Alex employs a solid evidence base to back up this belief so many of us intuitively share: that

generating social value is good business. His thought-provoking, often contrarian, ideas are rigorously logical, delving beneath the superficial analyses we often see, which assume correlation implies causation. And Alex's engaging storytelling brings the principles of "Pieconomics" to life with examples of prominent businesspeople – not just those who understand the benefits of growing the pie, but also those who don't.

I'm pleased to see this impressive piece of work come out at a time when we in the business world need to raise our game in building trust with stakeholders. This means not just arguing for the benefits of business for society, but actually delivering on those benefits. It means an underlying shift in attitude away from "us versus them", towards mutual efforts to grow and share the pie of business value.'

— *Sir James G. M. Wates, Chairman of Wates Group*

'Alex Edmans provides robust evidence against the claim that businesses must choose between shareholder value and social responsibility. Although there are trade-offs, there is no single trade-off. What is good for shareholders can be good for society: evidence matters.'

— *Baroness Onora O'Neill, philosopher and former President of the British Academy*

'Alex Edmans has done a great service to society by showing that business doesn't have to be a zero-sum game if we focus more on growing the pie rather than maximising our slice of it. This is capitalism with a human face.'

— *Andrew Lo, MIT Sloan School of Management*

'As someone who believes passionately in the power of business to contribute powerfully to the broader well-being of society, I'd thoroughly recommend this important, timely and evidence-rich book. For me, three things jump out from its pages: healthy businesses help to make healthy societies;

business and society should see each other as partners, not adversaries; and it is an act of enlightened self-interest for business to be driven by its long-term social purpose, not short-term profit maximisation.'

— *Liv Garfield, CEO, Severn Trent*

'Just as *Freakonomics* encouraged readers to look beyond the conventional wisdom that underlies many public policies, now Professor Alex Edmans introduces the concept of Pieconomics. In *Grow the Pie*, he challenges popular rhetoric that the free enterprise system is broadly detracting from society. Instead, through many and varied examples, he offers an alternate lens through which we can interpret what constitutes responsible business. In this thoroughly readable book, Edmans debunks mythologies about corporate behaviour and offers a new vocabulary by which we can have principled discussions about the role of business in society. A "must-read" for leaders in government, business and the media that reports on both.'

— *Paula Rosput Reynolds, Director of GE, BP and BAE*

'An important, thoughtful and timely book. The conflicts surrounding business, and its effects on society, are the subject of a heated debate. With clarity and insight, Alex Edmans makes a valuable contribution to this key debate. Anyone interested in this important subject would find much to learn from, or wrestle with, in this book.'

— *Lucian Bebchuk, Harvard Law School*

'Alex Edmans has produced rigorous evidence that the choice between people and profits is a false dichotomy. Now he makes his work accessible to a broader audience and explains how it's possible to overcome the trade-offs that hold so many leaders and companies back.'

— *Adam Grant, author of *Originals* and *Give and Take* and host of the TED podcast *Work Life**

‘Contemporary discussion tends to focus on the exercise of power by investors, boards and executives, often involving confrontation and dispute. But while strong decisions will often be required and critically important to the success of a business, the overarching need is for the embedding of pervasive influence geared to the purpose of promoting long-term sustainable growth. A fundamental ingredient is the way in which shareholders discharge the obligations that inexorably go alongside their privilege and rights as owners. This book is a must-read for asset owners, fund managers and the boards and executives who lead business enterprise. It provides evidence-based analysis and guidance on how the influence of well-designed stewardship can yield benefit in terms of both financial returns for savers and investors and returns for all stakeholders in a way that benefits society as a whole.’

— *Sir David Walker, former Chairman of Barclays and Morgan Stanley International, author of the Walker Review*

‘This uplifting book provides powerful examples, as well as evidence, that socially responsible businesses generate even higher long-term profits than corporations focused on short-term profit maximisation. Value is created particularly in new-economy enterprises by employee purpose, creation of brand and reputation, which drives customer preference. The findings reflect my own real-world experiences of striving for business excellence across the global Life Sciences industry.’

— *David Pyott, former Chairman and CEO of Allergan*

‘Finance Professor Alex Edmans defines his purpose in life as “to use rigorous research to influence the practice of business”. This book, *Grow the Pie*, demonstrates his manifest success in fulfilling that purpose. Edmans mobilises evidence – not anecdotes – to make a case, both accessible and compelling, for policies and practices that increase

the value available for all stakeholders, versus simply and simplistically maximising profit. Edmans's critical contribution is to reframe arguments about business and capitalism from an all too prevalent short-term zero-sum game to collaborative games where, over time, all can benefit.'

— *Bill Janeway, Warburg Pincus*

'*Grow the Pie* has some excellent messages for managers . . . Edmans urges firms to focus on what is closest and most important to them. He presents evidence that counterintuitive business strategies, consistent with increased worker welfare, can deliver market-beating returns for innovative firms. He also presents compelling arguments from the other side of the debate, justifying some of the most maligned business strategies in the corporate world, such as high CEO salaries and stock buybacks, as potentially legitimate and beneficial.'

— *Law & Liberty*

'There have been a number of articles on the challenges faced by capitalism and everyone has asked for a rethink. Everyone laments the growing inequality, the dominance of a few companies in a few sectors, etc. Most people offer glib solutions like break up the company, add more taxes. Edmans, through pragmatic research done over years, points out that social value or delivery to society need not be in conflict with shareholder value.'

— *Founding Fuel*

'*Grow the Pie* sets out a pioneering new approach to how companies can create both profit and social value, based on rigorous evidence and real-life examples spanning industries and countries. It provides an actionable framework to guide which investments to take and which to turn down, and shows how to navigate difficult trade-offs. By applying it, companies can create both profit for investors and value for society – which is more important now than ever.'

— *CEO Today*

‘*Grow the Pie* reveals a pioneering approach to solve the crisis in capitalism: moving away from a “pie-splitting” mentality and advocating a new “pie-growing” mentality. It lays out an actionable framework explaining how managers, investors, and policymakers can reform business to serve society, and also how citizens can play their part. The book presents quality evidence on controversial topics such as executive pay, shareholder activism, and share buybacks, uncovering many surprising results and showing that they can in fact be used for social good.’

— *The European*

‘Ultimately, if we are going to make progress on social and environmental issues, we need to make progress on what happens within companies. This book is very much grounded in the real world, but shows how companies can become more successful by embracing purpose. Lots of new examples.’

— *ESG Clarity*

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GROW THE PIE

How Great Companies Deliver
Both Purpose and Profit

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PREFACE TO THE REVISED EDITION

By the time *Grow the Pie* was released on 26 March 2020, COVID-19 had already started to devastate the world. 24,000 citizens had lost their lives, 520,000 had tested positive and millions more were estimated to have been infected, but had not yet been tested. Fifty-six countries including the UK, France, Germany, Italy, India and Mexico, plus several US states, had already gone into lockdown.

The impact on business would be catastrophic. Thousands of companies were forced to close, sparking mass redundancies. Among those that survived, there were serious concerns that responsible business would be a relic of the past – a luxury in a time of crisis – as companies needed to watch every penny.

Yet many enterprises took extraordinary actions to serve society. Some ensured a fair split of the pie, by continuing to pay furloughed workers, offering loans to customers and suppliers, and donating products to communities. Not every company had pie to share – some didn't have relevant products to give; others were strapped for cash as their business had been badly hit. So they instead played their part by growing the pie through innovation and excellence. Mercedes' precision engineers teamed up with University College London to reverse-engineer a breathing aid and improve its design so that it could be manufactured at scale. Perfume companies used their expertise in alcohol-based products to make sanitiser, and clothing companies pivoted to masks and hospital gowns. And citizens played their part too, buying groceries for their vulnerable neighbours or advance-purchasing products from local businesses.

Most of these leaders and citizens won't have read the book, so I can't claim they were intentionally implementing the principles of Pieconomics. But the pandemic highlights the power of viewing responsibility as growing the pie and actively doing good, rather than only splitting the pie and doing no harm. It showed how serving society needn't involve substantial financial expenditure and is thus feasible even in a crisis. I recognise it's rare to update a book so soon after its release, and a paperback edition is usually the same as the hardback but a year later. But I wanted to update it to give aspirational examples of how enterprises and citizens are growing the pie even under the most difficult circumstances. Creating value for society isn't just an ancillary activity to pursue when times are good, but both realistic and urgent in a downturn.

And many other events took place since I completed the hardback, so this isn't just a 'pandemic edition'. In August 2019, two months after handing in the final manuscript to my publisher, the Business Roundtable redefined its statement of the Purpose of the Corporation away from just shareholders to include stakeholders. This sparked a vigorous debate on whether shareholder or stakeholder capitalism was the appropriate model, and scrutiny on whether the signatories were actually putting it into practice. New, high-quality research on responsible business has since come out, and readers alerted me to previously published papers of which I was unaware beforehand. Exciting developments have occurred in the practitioner as well as academic world, such as new ways to measure the societal impact of investments.

While all the physical launch events were cancelled, I'm deeply grateful to the companies, investors and universities who extended invitations to give webinars on the book, as well as to the podcast hosts and journalists who interviewed me. Through the Q&A, I received challenges and pushbacks to my ideas, and learned which of the arguments and evidence I gave in response most resonated. Audiences asked about topics they were interested in but weren't in the hardback, or I did

cover but they wanted more. In particular, while large-scale evidence – the backbone of this book – focuses on mature public companies, many were interested in how Pieconomics applies to start-ups and private firms. Some companies and investors invited me to work with them on putting the principles of the book into practice. These practitioners taught me some great ideas for Part III of the book on ‘How to Grow the Pie’. Universities gave the opportunity to participate in debates on responsible business, since 2020 marked the 50th anniversary of Milton Friedman’s claim that ‘The Social Responsibility of Business is to Increase Its Profits’. Through these interactions, I learned from the differing perspectives of others.

So rather than tacking on an epilogue chapter about the pandemic, this revised edition contains changes throughout. The core principles remain the same, but several of the examples and applications are new. There are major enhancements to the middle third of Chapter 1 (contrasting Pieconomics with other modern approaches to business, such as Corporate Social Responsibility and Stakeholder Capitalism), the final third of Chapter 1 (applying Pieconomics to the pandemic, and dealing with a shrinking pie), the first half of Chapter 2 (contrasting Pieconomics with the Friedman viewpoint), and the first half of Chapter 3 (on the danger of viewing responsibility as a public relations exercise). The amendments to the evidence-rich Chapters 4–7 mainly involve adding new research, with Chapter 4 covering whether social performance pays off in a downturn and how it affects debtholders, not just shareholders, and Chapter 6 containing a new section on investors in private companies. In addition to new research, Chapter 5 discusses how executive pay should be modified in a pandemic, and Chapter 7 tackles how responsible companies should approach dividend policy, to supplement the material on repurchases. Chapter 4 gives the reader a fly-on-the-wall peek into the peer-review process – taking one paper and walking through all the hurdles it had to overcome to be

published – to underscore the book’s focus on research from the most stringent journals.

The most substantial changes are to Chapters 8 and 9, on how enterprises and investors can put Pieconomics into practice. Chapter 8 contains new material on how companies can define, embed and communicate their purpose, as well as on the power of purpose in start-ups. Chapter 9 goes into much more depth on how an investor can assess whether a company is responsible, discussing the various data sources and their limitations. It features a revised set of questions that asset managers can ask companies to evaluate whether they’re truly growing the pie, shaped by numerous conversations with investors since the hardback version – as well as questions for savers, such as pension funds, to ask asset managers to scrutinise whether they’re actually practising responsible investment. It also draws a parallel between responsible investing and responsible procurement that’s often overlooked, emphasising the power of corporate customers to hold their suppliers to account and use the frameworks established in responsible investing to do so. Chapters 10 and 11, which are focused on citizens, have minor enhancements on how we can play our part in a crisis. Since an overwhelming array of studies are now coming out on responsible business, given its popularity, Chapter 10 provides significantly more detail on how to assess which ones are reliable. And over and above the content, there are several changes to the structure throughout the book. In particular, long sections have been broken up into bite-sized chunks with sub-headings to bring out the key takeaways most clearly.

I thank student researchers Nicholas Britz, Hortense Morillion, Adama Sarr and Alvaro Sebastian Cotera Solano, plus Rose Beale, Dave Brealey, Øyvind Bøhren, Eric Daniels, Tom Gosling, Clare Hayes Guymer, Andrew Parry, Erica Serpico and Ben Yeoh, for input into this revised version. Most transformative was the work of Andrew Tickell, who closely read every word, researched several new examples and

provided constructive criticism on my edits. I'm grateful to everyone who showed interest in the hardback edition – for reading it, spreading the word, giving opportunities to present and discuss it, providing feedback and offering critiques. I learned a substantial amount from these interactions and insights and I hope the revised version does them justice.

