

Activity: Introducing the Economics of Mutuality

The Economics of Mutuality (EOM) model provides a parsimonious framework and metrics for examining and evaluating company sustainability strategy and practice. See the EOM Instructor Summary for an outline of the model and metrics. This activity introduces students to the EOM model and the challenges associated with sustainable business strategy and operations.

Why do this activity?

Sustainable business strategy and operations continue to generate controversy. Introducing the EOM model and actively engaging students in a conversation about the merits and complexities of sustainability facilitates critical evaluation of the concept and model. A simple reading exercise may result in students accepting or dismissing EOM based on preconceptions about sustainability.

What this activity is

This exercise introduces students to the EOM model and examines a company that is debating the merits of sustainable strategy and operations. It utilizes a news story as a classroom discussion case. See Classroom Discussion Cases, Instructor Notes, for additional guidance on using news stories as discussion cases.

When to do this activity

This activity should follow the [Co-creating Class Discussion Norms](#) and [Giving Voice to Values](#) activities. It can be associated with the stakeholder, ethics, or sustainability modules in the business policy text and syllabus.

Learning Objectives

1. Understand the Economics of Mutuality model and metrics and its use as a sustainable business framework.
2. Critically evaluate a company's execution of its sustainability strategy using the EOM model.

How to do it

This activity can be completed in one 75-minute class meeting.

This activity makes use of news stories about Unilever from January 2022. Instructors should replace the Unilever story with other stories less than 6-months old each semester.

Tools, equipment, supplies

- YouTube video: [Economics of Mutuality Research at Mars -- Full Version](#)¹
- Hardcopies of the Non-financial Capital handout (1 for each student; see pages 6-8 below)
- Hardcopies of two Unilever stories (1 of each for each student)
 - [Unilever cuts 1,500 management jobs in global overhaul](#), by Anna Cooban, *CNN Business*, January 25, 2022²
 - [Investment star Terry Smith attacks Unilever for 'ludicrous' focus on social and green issues](#), by Sam Benstead, *The Telegraph*, January 11, 2022³

Instructions

1. Begin the discussion by introducing the role that environment, social, and governance (ESG) criteria have on contemporary investment decisions. ([Investopedia](#) and [Blackrock](#) provide useful primers if needed.) Note that “ESG” is the term used in the investment community to refer to sustainable business strategy and practice. Sustainability is not just a management issue but is also a concern of many shareholders.
2. Note that there are no standard ESG metrics; reporting varies from company to company. We’ll try to simplify and focus our discussion of sustainability by utilizing a model developed at Mars, Inc., called the “Economics of Mutuality” (EOM).
3. Introduce the roots of EOM at Mars by playing the YouTube video: “[Economics of Mutuality Research at Mars - Full Version](#)”
4. Distribute the non-financial capital handout and review each form of capital with students, using the handout as a guide.
5. Caution the class that not all inventors or managers are fully convinced that integrating sustainability criteria into company strategy and practice is in shareholder best interest, i.e., it does not prioritize building shareholder wealth. These news stories about Unilever help to illustrate the sustainable strategy and practice controversy.
6. Distribute the Unilever case stories and read the first story with the class: “Unilever cuts 1,500 management jobs in global overhaul.”
7. Advise the class that we’ll discuss this tension between sustainable business strategy/practice and the more traditional approach to strategy in a structured discussion. Half of the room will examine the Unilever website to identify how the

¹ EOM video URL: <https://youtu.be/L8JNoz-OIBk>

² Cooban (2022) article URL: <https://www.cnn.com/2022/01/25/investing/unilever-job-cuts/index.html>

³ Benstead (2022) article URL: <https://www.msn.com/en-gb/money/other/investment-star-terry-smith-attacks-unilever-for-ludicrous-focus-on-social-and-environmental-issues/ar-AASFBIg?li=AAwnS0s>

company emphasizes each form of non-financial capital using the EOM model. The other half will finish reading the case and identify investor concerns and the financial capital measures.

8. Organize students into small groups of 4-5 students each. Identify one-half of the groups as EOM researchers using the Unilever website and the other half as the case analyzers. To streamline group research, you may want to assign human, social, and natural capital to specific Unilever groups. Allow 15 minutes for groups to complete their investigation.

Instructions for the EOM researchers:

- Go to www.unilever.com
- Identify how Unilever is trying to address each form of non-financial capital
- What projects are they engaging in (what are they doing)?
- How are they measuring their results?

Groups should identify a spokesperson and be prepared to report their findings.

Instructions for the case readers:

- Read the second Unilever case story: "Investment star Terry Smith attacks Unilever for 'ludicrous' focus on social and green issues." Go to Google or Yahoo Finance to access financial data as needed.
- Identify Unilever investor concerns about financial capital in both stories.
- How are investors (and the company) measuring financial capital?

Groups should identify a spokesperson and be prepared to report their findings.

9. Have groups on each side of the room report their findings. Limit responses to 1-2 observations per group, asking subsequent groups to build on what the previous groups have reported. In other words, they should report additional observations that the prior groups have not yet reported. Make notes of emerging themes in student reports, perhaps noting them on the whiteboard.

10. Ask the whole class these questions after each side has reported their findings:

- Can all four forms of capital be attended to by a company? If so, how?
- What approaches, attitudes, or values must board shareholders, board members, executives, and other stakeholders hold for all four forms of capital to hold equal value in a company?

Make a note of themes as they emerge. Note that the class is unlikely to come to a consensus. Remind the class of their discussion norms as needed.

11. Conclude discussion without passing judgment, but identify the importance and challenges of companies addressing these issues.

Discussion Question Sample Responses

These sample responses are not exhaustive. They represent the kind of responses instructors might expect from student groups.

1. Identify how Unilever is trying to address each form of non-financial capital. What projects are they engaging in (what are they doing)? How are they measuring their results?

- Human capital project. Unilever’s “Future of Work” initiative is a human capital project. It aligns with UN Sustainable Development Goal 8 (decent work & economic growth). Specifically, the initiative seeks to equip Unilever employees for the changing workplace of the future, ensuring they have the skills and knowledge to adapt as the workplace changes (e.g., a shift to remote work for knowledge workers or more automated processes in factories and distribution centers).

Human capital metrics. Unilever does not directly use the human capital metrics defined in EOM; it does incorporate those topics into its sustainability report. For example, its 2021 annual report notes Unilever provided training to upskill or reskill 7% of their employee population in 2021 (EOM upward mobility), and conducted research on the link between purpose and intrinsic motivation involving 3500 employees (EOM perceived status in the organization).

- Social capital. The “Future of Work” initiative also builds social capital by partnering with organizations worldwide to build employment skills in people 18-24 years old. In South Africa, for example, Unilever launched “Level-up,” an online platform that accredited training, volunteer, and work experience with Unilever and its partners. A program in Bangladesh trains people in sales and introduces them to potential employers.

Social capital metrics. Unilever reports that 400,000 South African young people have participated in Level-up over three years. It also estimates anticipated participation numbers in development programs in other countries, but it does not measure or report on the strengths of relationships or trust in communities as identified in the EOM model.

- Natural capital. Unilever’s 2021 annual report identifies a deforestation-free supply chain for palm oil, paper and board, tea, soy, and cocoa, among their natural environment goals. This includes publishing regenerative agriculture

principles for use with suppliers and farmers, and providing guidance on nourishing soil and water, carbon capture, and land restoration.

Natural capital metrics. The 2021 annual report reports 53,000 hectares under protection and participating in regeneration strategies through supply chain partnerships.

2. Identify Unilever investor concerns about financial capital in both stories. How are investors (and the company) measuring financial capital?

Unilever's share price is down from its peak at 63.87 USD in September 2019 to under 54.00 USD when the article was written (stock prices are available to students by clicking on article links or searching Google or Yahoo Finance). The article also reports that pre-tax profits have fallen for the preceding two years. Investors blame the falling stock price and lower earnings on Unilever's focus on environmental and social issues, calling this work a "distraction" for management. Unilever management is responding by cutting 1500 management jobs to reduce costs.

Financial capital is being measured in traditional terms, specifically building shareholder wealth through equity (increasing stock price) and income (dividend payments).

3. Can all four forms of capital be attended to by a company? If so, how? What approaches, attitudes or values must board shareholders, board members, executives, and other stakeholders hold for all four forms of capital to hold equal value in a company?

These are opinion questions asked for the purpose of integrating the Unilever case and student personal values (see the Giving Voice to Values exercise) into student thinking. Students will come down on both sides of the first question. The key is for students to have a critical discussion about the strategic importance of ESG while adhering to their established discussion norms. Encourage points of view from both sides while pressing students to draw on the Unilever case and EOM model to support their perspectives.

Non-financial Capital and the Economics of Mutuality

Why Non-financial Capital is Important

The three forms of non-financial capital identified by Roche & Jakub (2017)⁴ broadly include all of the stakeholders within a company's internal and external environment: human, social, and natural. Roche & Jakub's research found that business models addressing shareholder interests (financial capital) along with the interests of employees, society, and the natural environment, have more stable supply chains and sustainable business operations.

Attending to all four forms of capital in the "economics of mutuality" benefits all stakeholders and helps ensure business viability and profitability over the long term. Importantly, in the economics of mutuality, financial capital cannot be overly concentrated in one portion of the value chain. All value chain participants must realize a reasonable profit to ensure sustainability.

Human Capital

What it is. The skills, abilities, knowledge, information, and capabilities each individual person possesses.

Why it is important. Companies with higher levels of human capital and employee well-being tend to attract and retain more talented people (people with high levels of human capital), and happy talented employees are more likely to perform at higher levels (utilize their human capital to benefit the organization) than those who are unhappy, less motivated, and less talented.

Key performance indicators (KPIs).

- Prospect of upward mobility: the opportunity for advancement and new opportunities).
 - Perceived status in the organization: the feeling that one does important work and can make a difference in the organization.
 - Quality of relationship with immediate supervisor: positive relationships are more likely to result in greater employee well-being and efficient/effective use of human capital.
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⁴ Discussion and descriptions based on Bruno Roche and Jay Jakub (2017). *Completing Capitalism: Heal Business to Heal the World*. Berrett-Koehler.

Social Capital

What it is. The number, breadth, and strength of relationships among people in a community (or an organization). The more relationships a person has in their community, the more potential access they have to the human capital possessed by the people in their network and potentially the networks of others. People with more and broader relationships in their communities tend to have higher levels of social capital.

Why it is important. Social capital is a key driver of business and community prosperity. People with high levels of social capital can help organizations run more efficiently and can contribute to the flourishing of their communities.

Key performance indicators (KPIs).

- Trust: positive expectation one person has toward another in situations involving risk
 - Social cohesion: the degree of attraction people have toward their organization or community, and their desire to maintain membership.
 - Capacity for collective action: the ability, willingness, and history of community members to work together to achieve a common purpose or goal.
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Natural Capital

What it is. The value of raw materials used in the manufacturing of goods or the production of services.

Why it is important. Effective management of natural capital can be advantageous to a business (i.e., reduce costs and stabilize supply chains), as well as promote individual and community well-being. Reducing natural capital inputs increases efficiencies inside the organization (reduces costs) and helps ensure resource availability for future generations.

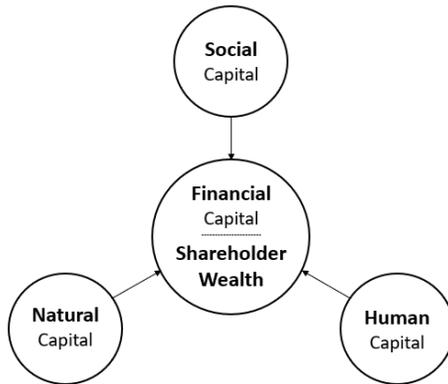
Key performance indicators (KPIs).

Amount of raw materials used in five categories:

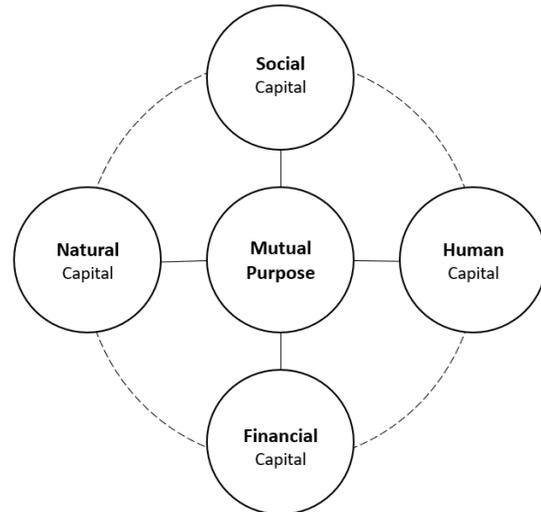
- Biotic materials (plants and animals).
 - Abiotic materials (minerals and other non-living components in the natural environment).
 - Air.
 - Water.
 - Soil erosion (not a material, but a result of raw material use).
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Relationships Between the Four Forms of Capital

In the traditional model, forms of non-financial capital serve financial capital. Their purpose is to increase shareholder wealth. In the mutual model, the four forms of capital are held in balance in service to a larger purpose for the organization, a mutual purpose.



*Traditional Model*⁵



Mutual Model

A traditional profit and loss analysis focuses on financial capital. In a mutual approach, the P&L includes non-financial capital analysis as well. Importantly, the non-financial capital KPIs are not monetized but measured using metrics consistent with their inherent worth (see the KPIs above).

Traditional Profit & Loss Analysis

- Revenue
- Operating Costs
- Financial Capital
Creation/Depreciation

Mutual Profit & Loss Analysis

- Revenue
- Operating Costs
- Financial Capital
Creation/Depreciation
- Human Capital
Creation/Depreciation
- Social Capital
Creation/Depreciation
- Natural Capital
Creation/Depreciation

⁵ Traditional and mutual model drawings based on: Economics of Mutuality (2021). *Four Management Shifts*. <https://eom.solutions/four-management-shifts>