#ReputationWithPurpose

CHANGING THE WORLD ONE COMPANY AT A TIME

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The old economic order is falling apart and unless businesses wake up to the fact that the Sustainability Revolution is here, they are doomed to failure.

In just 15 years more than half of the Fortune 500 companies no longer exist, but it’s not about digital disruption, although that is an enabler. It’s because they were structurally unfit to survive in a changing world.

In their ‘must read’ paper Breakthrough Business Models: Exponentially More Social, Lean, Integrated And Circular, developed with the Business and Sustainable Development Commission, Volans’ Chairman, John Elkington summarises it perfectly (emphasis my own):

“All good, as far as they go, but with system change now on the agenda they do not go nearly far enough. But if capitalism is to survive and thrive, today’s extraordinary must become tomorrow’s ordinary.

“The old approach of simply signing sustainable business charters or producing annual sustainability reports is a baseline activity, the entry tickets to playing by the new rules. The United Nations’ Sustainable Development Goals (SDGs) are a more radical agenda than most business leaders yet realize. They imply a shift from incremental to exponential mindsets and ambitions; from our current focus on the negative impacts of economic activity to the deliberate generation of positive impacts; and from the business case for action to a reconsideration of business models that ensures industries are fit for tomorrow’s very different market and geopolitical realities.”

It’s time for #ReputationWithPurpose
We’re at the point of no return

The old economic order is coming to an end. If Capitalism is to survive, it needs to shift to Conscious Capitalism and businesses need to adopt a breakthrough mindset, centered on #ReputationWithPurpose
Redefining the role of business in society

Society increasingly is turning to the private sector and asking that companies respond to broader societal challenges. Indeed, the public expectations of your company have never been greater. Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.

Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders. It will succumb to short-term pressures to distribute earnings, and, in the process, sacrifice investments in employee development, innovation, and capital expenditures that are necessary for long-term growth. It will remain exposed to activist campaigns that articulate a clearer goal, even if that goal serves only the shortest and narrowest of objectives. And ultimately, that company will provide subpar returns to the investors who depend on it to finance their retirement, home purchases, or higher education.

Larry Fink, CEO Blackrock, 2018 annual letter to CEOs

Adapting to our changing world requires an understanding that success as a company is defined by more than the bottom line. It also is about creating value for society. Our stakeholders must extend well beyond the shareholder, to include our people, our communities and the environment. Companies that lead in the future will be those that earn their right to operate by “doing well by doing good”.

The Dow Chemical Company, 2016 Sustainability Report
But CEOs are missing the point

In South Africa we have barely even scratched the surface. Only 75 organisations have signed up to the UN Global Compact, of which most are NGOs, municipalities and SMEs. Only 37 are ‘proper’ companies! Not a single South African CEO is part of the Leadership of The B Team.

In fact, they are being put to shame by the great African Leaders like Dr Mo Ibrahim, who was one of its founders, Strive Masiyiwa and Bob Collymore. There are only five certified South African B Corps, none of which a major listed companies.

Source: PWC Global Survey: CEO Perspectives on Sustainability

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2018 – A moment of truth for CEOs

Two major issues will test where business leaders stand.

1. **How the human capital model evolves in a technology-driven business world.** The digital revolution will be defined not by who has the best algorithms but by who is best able to integrate people with technology to drive innovation, adaptiveness, and productivity. Investing in great talent and helping each employee build new skills have never been as fundamental to competitive advantage. The people that underpin this opportunity, particularly Millennials, want meaning in their work, opportunities to grow personally and professionally, environments that enable them to balance their lives and be their authentic selves, and employers they can be proud of.

2. **How broader societal issues are addressed.** Investors increasingly consider a company’s environmental, societal, and governance performance in the way they value it. They are looking, in particular, for companies that integrate societal responsibilities into their core business strategies. For a CEO under attack from an activist investor, this might seem naive. But those activists depend on major asset managers to support their positions.

Leading asset managers increasingly recognize that their investors are in it for the long term, and that delivering positive societal impact is critical to managing risks and increasing resilience.

Choosing to be part of the solution carries important implications for the leaders of major companies. Businesses have long been encouraged to create value for employees, communities, and society in addition to creating value for investors. But frankly, many companies have viewed this as a secondary priority. Driving shareholder value over a two-to-five-year horizon often stayed front and centre.

This needs to change - quickly. Every society needs leadership. Historically, this was the role of elected officials, while businesses were expected to focus on legally and ethically pursuing their more narrowly defined self-interests. But that is not sufficient for the world we live in.

If business leaders don't step up and shape a vision for shared growth and prosperity, a vision demonstrated through investments in people and in sustainable growth, reasoned fact-based discourse and mutual respect, they’ll be risking their ability to evolve and to sustain the support of society.

Source: Boston Consulting Group
The money is moving into sustainability

Globally, there are now $22.89 trillion of assets being professionally managed under responsible investment strategies, an increase of 25% since 2014. In all the regions except Europe, which tightened its definition of sustainable investing, sustainable investing’s market share has grown. In relative terms, responsible investment now stands at 26% of all professionally managed assets globally. Clearly, sustainable investing constitutes a major force across global financial markets.

Source: 2016 Global Sustainable Investment Review
Because ESG investments outperform the market

"Sustainability’s status has changed because more and more investors are convinced that investing in sustainable businesses is good for people’s conscience as well as for performance.

“In other words, sustainable companies have higher earnings potential and better risk-yield profiles than companies with a lower sustainability profile. Numerous studies have demonstrated this correlation.”

Andreas Feiner, Arabesque
And reputation delivers returns

Researchers from Oxford’s SAID Business School and the Stern School of Business at NYU have proven that companies with high social performance have the highest financial performance.

A recent paper by Dr Charles Fombrun, one of the global leading reputation academics, shows that on average, a 1-point change in public perceptions is worth 2.6% of a company’s market value.

Research by Harvard academics shows that companies with a poor reputation have to pay 10% more to attract talent and that’s if they even agree to join! Nearly half sample would not even consider taking the job.
Purpose drives reputation

Companies need to relook their business strategy, *modus operandi*, culture and performance to find a purpose that is linked to the United Nations Sustainability Development Goals.

This purpose needs to be translated into action that makes an impact beyond reach and communicated effectively to stakeholders both internally and externally.

Consistent, authentic and transparent communications builds the trust that underpins a good corporate reputation and drives above market returns.
Finding Your Purpose

**Look to the SDGs and consider the materiality of ESG issues to your business**

The Sustainable Development Goals (SDGs), otherwise known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

Achieving the Global Goals opens up US$12 trillion of market opportunities in the four economic systems: food and agriculture, cities, energy and materials, and health and well-being. They represent around 60 percent of the real economy and are critical to delivering the Global Goals. To capture these opportunities in full, businesses need to pursue social and environmental sustainability as avidly as they pursue market share and shareholder value.

**Natural Capital** is any stock or flow of energy and material that produces goods and services. It includes: Resources (renewable and non-renewable materials), Sinks (that absorb, neutralise or recycle wastes) and Processes (such as climate regulation).

**Human Capital** consists of people's health, knowledge, skills and motivation. Enhancing human capital through education and training is central to a flourishing economy.

**Social Capital** concerns the institutions that help us maintain and develop human capital in partnership with others; e.g. families, communities, businesses, trade unions, schools, and voluntary organisations.

**Manufactured Capital** comprises material goods or fixed assets which contribute to the production process rather than being the output itself – e.g. tools, machines and buildings.

**Financial Capital** plays an important role in our economy, enabling the other types of Capital to be owned and traded. But unlike the other types, it has no real value itself but is representative of natural, human, social or manufactured capital; e.g. shares, bonds or banknotes.

**Explore the Five Capital Model to identify your SWOT**

Spur a mindset shift from incrementalism to increasingly exponential, experimental, breakthrough thinking that understands business as part of wider social and natural systems, accepting that many current business models will become obsolete.

The incremental mindset focuses on making something better, while the exponential mindset is makes something different. Incremental is satisfied with 10%. Exponential is out for 10X.

If we are to have any chance of achieving the SDGs on schedule, business models must be designed from the outset to deliver positive social and environmental outcomes at an increasing scale and accelerating pace.

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The first imperative is to Think Social. This is not simply about embracing social media and networks, but positioning business for a world pushing from 7 billion to 10 billion people within a few short decades. This builds on the work of social entrepreneurs and intrapreneurs and impact investors, moving us all into areas like behavioural and cultural change.

Tomorrow’s business models must deliver financial and extra-financial value by generating positive social impact. In the process, business leaders must ensure they do not undermine other key societal priorities.

Most businesses are social to a degree already, in that they employ and serve people. Indeed, this has been a pivotal argument for one-dimensional capitalism apologists, who see financial value creation as enough in and of itself. But for the SDGs to be achieved, businesses must recognize, operate and thrive in a world well beyond their four walls, and this means contributing to a healthier, safer and better educated populace as a direct result of their business models.

The second imperative is to Think Lean. The triple bottom line agenda - now also embraced by the burgeoning global B-Corp movement - expanded the focus from eco-efficiency to new forms of value creation - and destruction.

In business, the word “lean” links to several concepts, including the lean start-up movement, lean manufacturing, lean services, frugal innovation and more. Tomorrow’s business models must build on this momentum, using resources effectively, creating no waste and maximizing value across entire value networks.

They must optimize value creation across all forms of capital, from conventional forms like physical and financial capital, through newly understood forms like human and intellectual capital, to tomorrow’s understanding of social, cultural and natural capital. They will need to generate market-relevant value without depleting extra-financial capital.

Source: Volans
INTEGRATED X

The third imperative is to Think Integrated. To breakthrough, we need to evolve solutions that are integrated across - and impact - every level of the system. In tomorrow’s capitalism, this will mean seamless data flows from farms, fisheries and factories right out to the biosphere, oceans and atmosphere. The result: new forms of market intelligence that most business leaders do not yet know that they will soon find indispensable.

Businesses that integrate into their models an understanding of the needs of present and future generations, for multiple capitals and across entire value networks, must become the norm. This entails measuring and managing the financial and extra-financial impacts of a company’s value creation processes — aka its business models. This, in turn, will involve re-examining externalities (positive and negative, tangible and intangible) and internalising them in many cases.

By succeeding as a business, a company creates restorative value for society and the environment, while seeking to eliminate any activities that undermine our ability to thrive.

CIRCULAR X

The fourth imperative is to Think Circular. Going or thinking in circles used to be seen as a bad thing, but now concepts like the Circular Economy and Cradle-to-Cradle Design are gaining real traction. This aspect of the Sustainability X agenda runs directly counter to the linear take-make-waste model of Capitalism, but the accelerating push towards a low carbon economy, with the new emphasis on carbon productivity, will catalyse closed-loop value webs and business models.

All businesses must strive to become completely circular, their operations designed to sustain products, components, and material inputs and outputs at their highest utility and value at key points in the cycle.

Crucially, the circular economy concept distinguishes between technical and biological cycles. In both domains, the emerging discipline of biomimicry will be increasingly vital, ensuring business neither creates waste, nor undermines essential material and nutrient cycles, or wider ecological and social systems.

Source: Volans
Transitioning to the new economy as a sustainable, purpose-led organization with a strong reputation and above market returns is a process that requires the full support of the Board, a strong and authentic leader and world class internal and external communications.
Radical Engagement

*Radical engagement is the new frontier of competitive advantage*

Robin Nuttall, principal, McKinsey & Company: “The research shows that superior performance, in the matter of engaging with your stakeholders, is worth about 2 percent per year of superior stock market performance. That amounts to more than 20 percent over 10 years. So this is now a massive new factor in driving corporate performance and corporate sustainability. In fact, we would say that this is the new frontier in competitive advantage.”

Source: McKinsey & Co
HOW SECURE IS YOUR LICENSE TO OPERATE

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A highly regarded, passionate and accomplished strategic communications and reputation management expert with 20 years experience including managing reputation for SABMiller in Africa for many years.

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