How to rewire capitalism so it’s fit for the 21st century

SINK OR SWIM

TIME

FIRST, DO NO HARM
DAVID GRAYSON’S RECIPE FOR INCLUSIVE BUSINESS

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Our topic this month is no less than the future of capitalism itself. This comes in the wake of the recent statement by the Business Roundtable, made up of 200 of the biggest names in global business, that the purpose of a corporation is no longer primarily about making money for shareholders, but should also benefit employees, communities and the environment.

Mark Hillsdon asks whether the statement is self-serving PR or marks a true shift in business mindset, amid growing pressure from society for companies to step up to their responsibility to act on issues like climate change and the Sustainable Development Goals.

We have a trio of expert commentators: David Grayson, chair of the Institute of Business Ethics, looks at how to turn the 2020s into a transformational decade for business; Professor Colin Mayer of Oxford University’s Said Business School...
School calls for greater transparency to rescue 21st century capitalism; and Helle Bank Jorgensen, founder of Competent Boards, looks at how social and environmental impact issues are rising to the top of the C-suite agenda.

I interview Gilbert Ghostine, CEO of Swiss fragrance and flavours giant Firmenich, about its inclusive capitalism business model, while Amy Brown speaks to Barry Parkin of Mars Inc to find out why having responsibility for both sustainability and procurement is critical to the confectionary company meeting its ambitious commitment to align itself with a 1.5C future.

With divisions over Brexit damaging Britain’s social fabric and depressing its economy, David Craik reports on how companies like Lush, SSE and Richer Sounds are seeking to pair commercial growth with social progress.

And he looks at how business is contributing to this agenda in Wales, which in 2016 became the first government to enshrine the Sustainable Development Goals in law by passing the Well-being of Future Generations Act.

Hopefully that will be enough to keep readers going until November, when our focus turns to sustainable transport and responsible mining.
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Mark Hillsdon analyses whether the Business Roundtable’s statement ditching shareholder primacy marks a seismic shift or is instead self-serving PR.
Public trust in capitalism, corporations and the CEOs that run them continues to decline. Alongside the traditional bug bears of executive pay and tax efficiencies, the charge of greenwash has raised its ugly head again, too, with growing demands that businesses come up with a meaningful, long-term response to the climate emergency, not just words.

To help find solutions to some of the misgivings in which capitalism is mired, new ways to define corporate purpose are being put forward, ideas that place a greater primacy on companies working for the good of all stakeholders, not just those with a share portfolio.

In August, this profit-led status quo was jolted when the Business Roundtable (BRT), a group made up of 200 of the biggest names in global business, from Apple and Amazon, Siemens and Pfizer, pushed out a statement that they had decided to change the definition of the “purpose of a corporation”.

No longer would it be solely about making money for its shareholders, they said, but instead the purpose should benefit all stakeholders – employees, communities and the environment.

Several commentators pointed out that the group had made a similar proclamation in 1981, stating that “by giving enlightened consideration to balancing the legitimate claims of all its constituents (our italics) a corporation will best serve the interest of the shareholders.”

However, by 1997 the message had been lost, as the same group coined the concept of shareholder primacy, when it announced that “the principal objective of a business enterprise is to generate economic returns to its owners”.

You sense that this time around, such an about-face won’t be so readily accepted.
While reaction to the announcement was mixed, few have questioned the enormity of a move which, on paper at least, represents the final curtain for the concept of shareholder primacy. It’s a huge call for global capitalism but without becoming mandatory and legally binding, does it risk being filed as just another piece of self-serving PR?

The B Corporation movement, a group of around 3,000 companies, including major names such as Patagonia and Danone, reacted swiftly to the statement, with a full-page advert in The New York Times pointing out that the idea of maximising value, not just profits, was exactly what they were already preaching, and calling on the Business Roundtable to join them and “work together to make real change happen”.

As Katie Hill, chair of the management board at B Lab Europe, says: “As many of the companies are global employers with controlling market share … their expanded vision of a company’s purpose opens up the potential for business to leap forward in creating a more equitable and respectful prosperity for all.”

But how prepared are these businesses to take that leap and change their corporate purpose? According to Colin Mayer, a professor of management studies at the University of Oxford’s Saïd Business School, it hasn’t always been this way, and it is only over the last half century that corporate purpose has come to be equated solely with profit.

The shift came on the back of ever more aggressive tactics and manoeuvrings in the market, which, says Mayer, “gave rise to a pre-occupation amongst boards of directors with their financial performance and ensuring that their share prices avoid the threat of interventions that come from hostile takeover markets or from hedge funds.”

In turn, he continues, this has led to a growing number of social, political and environmental problems, the consequences, of which “have been an ever-increasing amount of regulation of businesses and decline in trust in society about the way in which businesses are operating.”
Mayer is also the academic lead for the Future of the Corporation programme; long-term research into the role of business in society, being conducted by the British Academy. A report on the second phase of the research will be published later in November and will set out a number of principles that Mayer believes are key to reforming business around the world.

“In particular what we are focusing on is the notion that corporate purpose should be at the heart of company law, and that the directors of companies should have a duty not simply to uphold the interests of their shareholders, but to state and promote corporate purposes.”

Mayer said the Business Roundtable statement showed that there is a growing appetite for this notion of purpose being at the heart of business. “And what companies are really doing now is to look for the mechanisms by which, in practice, they can bring this about.”

STAKEHOLDER CAPITALISM

Richard Roberts, from the consultancy Volans, which helps businesses to address key sustainability issues, was also buoyed by the BRT statement, seeing it as an opportunity to push forward with stakeholder capitalism.

“Even if that statement was intended purely as PR... I think it is still a significant indicator that the zeitgeist is shifting,” he says. “The idea of shareholder primacy is no longer sacrosanct... I would love to see some of those 181 companies becoming a Benefit Corporation on the back of this statement.”

It’s a topical subject in the US, he explains, with Senator Elizabeth Warren currently trying to push through an Accountable Capitalism Act, one element of which is that all large corporations, with revenue of over $1bn, would have to be re-chartered as a Benefit Corporation. “That would be a transformative step,” he adds.

Of course, Roberts doesn’t believe things will change overnight, or even that the majority of the signatories have any intention of changing. “I think there is a certain amount of complacency within that group and that assumption that ‘they’re already on it’,” he says. Many businesses look at the balance sheet, see healthy profits and presume they are already doing a good job looking after all their stakeholders. “It’s a case of: ‘we’re doing well, so we must be doing good,” he says.

“Of course, there will be blockers in the business community,” he continues. “As we shift to an economy where financial value creation is much more well aligned with social and environmental value creation, a lot of the big players will struggle to evolve and adapt to that world... but that doesn’t also mean that there can’t be lots of companies... that stand up and actively champion reform.”

Volans is working on its own project looking at the future of capitalism called Tomorrow’s Capitalism Inquiry, with the initial findings set to be released in January.

The new report will ask what the corporate leadership agenda for the 2020s needs to look like,
what it really means for a company to be an effective agent of system change, and how businesses need to shift to a regenerative economy, using what they do to help restore natural ecosystems and create a more inclusive and just society.

“Can we leverage the progressive voice of business much more effectively, in order to champion the political and structural reforms we know are needed to deliver a sustainable economy?” Roberts asks.

Before the findings are published, there are some relatively easy things that businesses can do in the short term to signal their intent and start to win back public trust, he continues.

First, they should look at renumeration and incentives, and start to pare back the growing gap between CEOs’ salaries and the average take-home pay of an employee. They can also start to better align shareholder interests with those of employees, by making employees shareholders too, while a commitment to procure goods and services locally would support the communities in which they operate.

Diverting money from share buybacks, when companies repurchase shares from shareholders, is another option. Instead, the money could be used on projects that create multiple benefits for multiple stakeholders, such as energy efficiency measures that reduce environmental impacts.

Volans also suggests that businesses should look at breaking up oligopolies and avoiding legal but unethical tax schemes, and that they should find the courage to look at their business models and change things which, although profitable, may be harmful to the health and wellbeing of some stakeholders.

And even if the CEOs themselves don’t become the agents of change, adds Robert, changes like these can empower people within businesses to start challenging what the company is actually doing.

ETHICAL ACCOUNTING

In June, the professional body Accountancy Europe released its take on reforming capitalism with the publication of 10 ideas to make corporate governance a driver of a sustainable economy. It aims to show how to embed environmental, social and governance (ESG) criteria into the day-to-day running of business and has at its heart the twin ideas that boards must recognise their public interest responsibility and commit to making the business sustainable, while policymakers and regulators need to focus on better outcomes rather than more rules.

As Olivier Boutellis-Taft, CEO of Accountancy Europe, says: “We must leverage the power of markets to make the global economy sustainable before it is too late. This means companies need to transform their business models: defining the corporate governance framework is the best tool to do so.

“It’s no longer viable to just keep making money by increasing sales,” he says. “We have to totally re-invent the way in which we do business.”

Consuming less and moving to a more circular model is crucial, he argues. There needs to be a shift from selling more and more goods that use increasingly scarce resources, and also an end
to artificial tactics like planned obsolescence and constant new models and updates. Instead, businesses need to look to make money "by increasing internal efficiencies, recycling... repairing; it's a total change of logic."

Whether or not there's an appetite for change is immaterial, he adds. “Soon it's going to be a necessity.”

Unsurprisingly, Boutellis-Taft believes that accountants, with their objectivity and independence, have a major role to play as change makers within businesses, helping to redefine corporate purpose.

“The role of accountants has always been to measure, to report, and to assure,” he says. “If you want to change something, if you want to take action, then you need information and you need this information to be reliable.”

The role of regulators also needs to be re-thought, he says. “Legislation and regulation are one thing [but] what is important is proper enforcement.”

Accountancy Europe advocates a new European regulatory framework for corporate governance, in which policymakers become strategic enablers of change.

Speaking at the launch of the report, Sebastien Godinot, an economist at WWF, said: “It is time for Europe to go to a due diligence regulation on sustainability impacts of large corporates. It is a “no regret” option: corporate leaders already integrating ESG issues outperform their peers, and it will contribute to reaching sustainability targets. We don’t have time anymore for voluntary initiatives.”

Within Europe, among emerging regulations around corporate governance is a planned taxonomy system to fight greenwash that will establish which products or services are truly green and help the environment. The system would help to underpin initiatives such as green bonds and the EU’s planned eco-label for financial products.

Particularly aimed at non-professional investors, the labels would help to overcome the lack of well-defined standards to ensure companies are being honest about any green claims they make.

In the UK, a new Corporate Governance Code, several years in the making, came into effect last January. Administered by the Financial Reporting Council (FRC), it focuses on the role that boards have in engaging with their workforce to better understand their views. It also tasks boards with creating a culture that aligns company values with strategy, and to assess how they can preserve value over the long-term, with an emphasis that the boardroom needs to contain the right mix of skills and experience.
There is a strong emphasis on succession planning, and limiting board membership to nine years, while also promoting diversity. The thorny problem of remuneration is also covered although, tellingly, there are no plans to make the code voluntary. Listed companies that don't comply must explain to shareholders why they aren't doing so, and whether they are part of any other scheme.

ASSIST, DON’T EXPLOIT

“Purposeful businesses can really make a major contribution to enhancing individuals’ and society’s wellbeing and welfare,” says Mayer, and this, he continues, will help them rebuild trust by showing that they exist to assist, not to exploit.

“Corporate purpose should be a profitable solution to the problems of people and planet... and they [businesses] should not profit from producing problems.

“If companies are really committed to that, and demonstrate what they are going to deliver on it, then it is a very powerful vehicle for creating, sustaining and restoring trust in our society.”

And if they don’t? “Their whole licence to operate comes into question and they find themselves tied up in ever-increasing regulatory knots,” he says.

If we don’t get this right, adds Roberts, not only will the climate crisis continue to escalate, but so will inequality and mass migration, there will be huge disruption to supply chains and a shift to more extreme politics.

“We have a window of opportunity within which to prove that a full stakeholder-oriented version of capitalism can deliver on the line of societal progress that we all want, and can help us deal with the big crises we face,” he says.

Mark Hillsdon is a Manchester-based freelance writer who writes on business and sustainability for Ethical Corporation, The Guardian, and a range of nature-based titles including CountryFile and BBC Wildlife.
FIRST, DO NO HARM

HOW TO TURN THE 20S INTO A TRANSFORMATIONAL DECADE FOR BUSINESS

From paying a living wage to paying tax and protecting the environment, David Grayson argues that companies have to serve all their stakeholders.
In the recent hit BBC/HBO drama series Years and Years, set in a dystopian near future, Muriel Deacon, the matriarch of the central Lyons family, delivers a bleak but powerful monologue. “It’s our fault,” she declares, “this is the world we built.”

Across the world, there is widespread discontent with “business as usual” whether that is in business itself, politics or wider society. Only one in five respondents to the Edelman Trust Barometer in 2019 think that the system is working for them. In the UK, it is just 14%.

This alienation is already disrupting the traditional political parties, stirring rising populism and deep divisions in society. The very tenets of capitalism itself are called into question. Even in sober business media like the Financial Times there have been recent headlines like “Capitalism: Elite gathering reveals anxiety over ‘class war’ and ‘revolution’,” and “Why American CEOs are worried about capitalism”.

At the Financial Times Weekend Festival at the beginning of September, participants observed a simulated editorial board meeting debating a putative editorial about reforming capitalism. Over recent years there have been a lot of initiatives in this space.

- Dominic Barton, when global managing partner of consultants McKinsey & Company, co-founded an initiative called Focusing Capitalism on the Long-Term.
- John Mackey, co-founder and CEO of the international supermarket chain Whole Foods, is a driving force behind the Conscious Capitalism movement.
- Mark Hillsdon in his article in this magazine refers to the Tomorrow’s Capitalism Inquiry by thinktank Volans.
- Since 2012, with increasing urgency and directness, Larry Fink the CEO of BlackRock – the world’s largest institutional investor – has been telling fellow CEOs that they need to help address intractable social and environmental challenges.

We are on the cusp of a decade of consequences, as the world grapples with the climate emergency, hyper-global inequalities, artificial intelligence,
rapidly ageing populations, biodiversity loss, mass migrations and other “wicked issues”. Will the coming decade be the “terrible 20s” or the “transformative 20s”? Or will the decade first have to be terrible in order to become transformative?

If, as Muriel Deacon said, “we are all to blame”, then we will all have to be part of the solution, whether that is accepting more sustainable patterns of consumption, more progressive taxation and becoming more active citizens. I want to focus, however, on what big business needs to do.

It starts in the boardroom. As Colin Mayer argues in his piece for Ethical Corporation (See ‘Shareholder primacy has had its day’), directors’ true fiduciary duty is for the long-term success of the business, and that means taking responsibility for what the economists call the “externalities” – their negative social, environmental and economic impacts.

Today, this includes social responsibilities such as paying a living wage to end the scourge of in-work poverty; contributing a fair share of taxes in the jurisdictions where corporate economic activity takes place; as well as environmental ones like setting an internal price for carbon and adopting science-based targets for reducing emissions.

These harm-reduction tactics are just the beginning. As I write in my recent book, with Chris Coulter and Mark Lee, businesses need to go All In for sustainability. This requires a strategy for sustainability that is comprehensive and covers the organisation itself and its supply chain.

To do that, as BlackRock’s Larry Fink has repeatedly argued, requires the board to define an organisational purpose that explains how the business creates value for itself and for society. This purpose must be authentic, inspiring and practical and informed by the organisation’s values. A clearly defined purpose will help the organisation make the big decisions when faced with the ethical problems of modern society.

This is the crucial point in the lively debate that has followed the re-statement by 181 US CEOs, under the auspices of the Business Roundtable (BRT), about the purpose of business. The Business Roundtable’s landmark “Statement on the Purpose of a Corporation” repudiates its 1997 declaration that “the paramount duty of
management and of boards of directors is to the corporation’s stockholders."

The new statement pledges commitments to five groups of stakeholders – customers, employees, suppliers, communities, shareholders – without hierarchy; shareholders are listed fifth, suggesting to some that they are in effect last among equals. The BRT statement has generated a lot of criticism and challenge – much of it thoughtful and reasoned. I particularly like the challenge on Twitter from Anand Giridharadas, author of Winners Take All: “Is there one tax manoeuvre that is legal but unethical that one company behind the statement will renounce?”

Nevertheless, I expect stakeholders to press the BRT companies on what they are going to change. Mark Hillsdon in his article, offers some practical starting points.

One very practical step is to check that their trade associations are not contradicting the business’s own stance on issues like climate change – and to pull out of any that are.

Adopting a societal purpose should lead a company to review its activities and its product (or service) portfolio and ask if any are unsustainable or unethical. If they are, then the company needs to develop a strategy for changing them or phasing them out altogether.

It is good practice, having adopted a societal purpose, to provide workshops for employees to explore their own personal purpose(s), how these relate (or don’t, as the case may be) to the company’s, and what further opportunities there might be to reconcile and advance personal and organisational purpose in their work.

Purpose on its own, however, will not drive change. Businesses need the right culture, too. This needs to be innovative, empowering and engaging, open and transparent, and ethical and responsible. Enlightened companies know that it is not enough, for example, just to pin your values on the wall and publish a code of ethics. It requires a holistic approach, training, tone from the top, consistent and persistent communication and an assurance process, as I have argued in a previous Ethical Corporation article.

Employees have to feel empowered and encouraged to speak up when they see things
Employees are calling for their leaders to speak out and speak up for social justice and sustainable development.

that don’t feel right. But this may not always be comfortable for business leaders, especially if employees challenge the ethics of (say) supplying surveillance technologies to totalitarian regimes or excessively wide pay ratios.

Employees are calling for their leaders to be prepared for advocacy: to speak out and speak up for social justice and sustainable development. Those same leaders are going to need to be prepared for employee advocacy as well, including advocacy directed at their own company.

The rise in employee activism could be seen to be a by-product of increasingly embedded business ethics programmes. Employee activism is, in a way, employees holding their organisations to stand by their stated ethical values. If there is a say/do gap – if the company says one thing but does another – then employees need to feel empowered to challenge, and speak up, where they see something unethical or out of line with the corporate values.

Recent research from Mazars and the INSEAD Business School suggests that whilst European boards now increasingly understand this agenda, they may lack the experience and skills to bridge the performance gap we currently see. Some businesses are restructuring to put stakeholder engagement more at the heart of decision-making, with stakeholder panels and sustainability advisers.

Might businesses experiment further? We’ve already seen temporary youth boards trialled to give greater weight to next-generation perspectives, for example, at retailer Kingfisher.

Could we see parallel boards of talented employees from different parts of a business and different levels of seniority, who receive the main board’s board-pack and give their inputs? In the political world, there is increasing interest in the use of citizens’ juries to help resolve intractable problems. Might companies – especially when dealing with tricky ethical dilemmas where there is no obvious right or wrong – also try out a variation of citizens’ juries.

It would be helpful if regulators and stock exchanges supported this greater emphasis on the long term, with reporting and listing requirements that incentivise business activities for inclusive growth and sustainable development. And I agree with Colin Mayer, who argues the case for reform of corporate law around the world to make it easier for companies to really be stakeholder companies.

Doing business ethically makes for better business. In the years and years ahead, we need big business to be ethical and sustainable role models. ☑

David Grayson is chair of the Institute of Business Ethics and emeritus professor of corporate responsibility at Cranfield School of Management

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‘SHAREHOLDER PRIMACY HAS HAD ITS DAY. HERE’S WHAT WE NOW NEED TO DO TO RESTORE TRUST IN THE CORPORATION’

Professor Colin Mayer of Oxford University’s Saïd Business School calls for greater transparency to rescue 21st century capitalism
From its early origins in Roman law, the corporation has been legally bound by public duty and social responsibility. Throughout most periods of history, fulfilling a social purpose has been an obligation on all those who held the public license to operate as a corporation.

Even the largest and, in the case of the East India Company, most pernicious corporations in history could be said to have had a stated purpose, a reason for which they operated.

It is only in the last 60 years, with the emergence of shareholder primacy, that there have been exceptions to this rule. Most people who have studied business and management, from CEOs of publicly listed corporations to “School of 2019” MBA graduates, will be familiar with the principle of shareholder primacy.

Most closely associated with the economist Milton Friedman, the principle divests corporate directors of any responsibility other than to maximise profits for their shareholders.

That maxim has become the sole purpose of the corporation, removing the trust that is essential to well-functioning markets, which should deliver benefits to all participants.

What does this 60-year shift have to do with, for example, the $60m court battle that Uber and Lyft have sworn to fight to prevent their drivers changing their legal status from independent contractors to employees? What connects it to Greta Thunberg’s vows to strike for the climate, Democratic nominee Elizabeth Warren’s threat to break up the big tech firms, or Jeremy Corbyn’s proposed shared ownership funds, which would reallocate 10% of company shares to employees in what the Financial Times describes as one of the biggest state raids on the private sector to take place in a western democracy?

After six decades of capitalism prioritising profit and promoting a set of policies designed to encourage this, today’s largest businesses form a corporate system that lacks purpose. But are we witnessing society re-imposing its will? And how can businesses respond?

In the US, the Business Roundtable of CEOs, chaired by Jamie Dimon, is one of the most vocal and powerful groups to offer a direct answer to the demands of consumers, the electorate and employees. The Governance & Accountability Institute estimates that ESG reporting has already increased over fourfold since 2011 among the S&P 500.

And, to judge by the shift in opinion among the next generation of business students and young entrepreneurs, doubts over the assumption of shareholder primacy are set to grow. Millennials are even more vehement about the return of purpose to the heart of capitalism; according to this year’s Global Leadership Survey by the Young Presidents Organization, nine in 10 young corporate leaders

ESG reporting has already increased more than fourfold since 2011 among the S&P 500
feel that the purpose of business is to have a beneficial impact on society, over and above the pursuit of profits.

We have reached the point where regulators and lawmakers are feeling significant pressure to make reforms. The last thing they wish to do is break the system or replace capitalism as the leading paradigm in the 21st century. So, deciphering the effects of the rise of shareholder primacy, and regaining control over its most malignant impacts, is the challenge that unites academics, lawmakers and corporate leaders in this generation and the next.

The rules and conventions of corporate law, governance, measurement and finance – all currently designed to privilege shareholders – need an overhaul.

Indeed, Business Roundtable’s statement in August, in which it made a “fundamental commitment to all our stakeholders” will only prove to be more than a carefully stage-managed display if it follows through with action. As new corporations enter maturity, go public and gain influence in the 21st century, their leaders and investors will need to acknowledge a formula that lends primacy to corporate purpose instead of shareholder profits. This will require us to use the levers we have to hand.

While it may take a decade or more for the legal and regulatory frameworks to catch up with advances in digital technology, these will be needed to settle disputes – such as those over the status of workers in casual labour in the gig economy, who are increasingly raising questions over the purpose of corporations like Uber and Lyft.

Conventions and policies regarding corporate governance will also need to adapt to catch up with prescient figures such as the leading corporate lawyer, Marty Lipton. Lipton proposed as far back as 1979 that CEOs and investors needed to commit to stakeholders to ensure short-term profits did
not come at the sacrifice of long-term gains for business and wider society.

Many businesses, including B Corps, now measure and report their performance against a “triple bottom line”. Non-financial metrics for measuring business impact and performance are an important element of corporate renewal, and their implementation relies on these metrics being taught at business school and taken seriously in boardrooms.

Financial institutions and private investors are starting to invest more responsibly, with major players divesting from fossil fuels towards impact and ESG investing.

How we shift these levers – law, governance, measurement, and finance – to make corporations more trustworthy and accountable to society will be the subject of the next major report by the Future of the Corporation – a major commission by the British Academy examining the purpose of business in 21st-century society – to be published in November this year.

While advocates for corporate reform can expect dissent from some quarters, this evolution is intended to restore trust in the corporation, not to marginalise shareholders. The reason the idea of a corporation has been successful for nearly 2,000 years is that it has evolved to meet the needs of the time. This ability to adapt to the expectations of society and deliver more benefit than harm is what makes the corporation so valuable. With reform, the corporation can find its purposes and deliver prosperity for all.

Professor Colin Mayer is Peter Moores Professor of Management Studies at University of Oxford Said Business School and academic lead of the Future of the Corporation at the British Academy.
Boards know that today’s striking children are the stakeholders they will need to rely on in the long run.

‘IT’S UP TO BOARDS TO MAKE THE NEW YORK CLIMATE WEEK COMMITMENTS STICK’

Helle Bank Jorgensen of Competent Boards says social and environmental impact issues are rising to the top of the C-suite agenda.
I spent the beginning of the New York Climate Week together with over 1,800, primarily American, board members. I was not in New York, however, but in Washington DC, where the National Association of Corporate Directors (NACD) holds its yearly summit to discuss what boards across the country are talking about, or should be talking about.

Missing the New York Climate Week was a purposeful decision on my part. Although I didn’t get to see all the great people I know, and hear all the commitments, I believe that it is the tone from the board of directors that will make the commitments stick and result in true impact.

To my delight, ESG, climate and sustainability were discussed in most of the NACD sessions I participated in, and if they were not, the audience, including myself, asked questions related to those topics. The new Business Roundtable statement on the purpose of a corporation was mentioned frequently, as was Larry Fink’s CEO letter. If the more than 1,800 directors present at the conference can be viewed as a proxy for the average board in the US, there is no doubt that an interest in examining the wider societal impact and responsibility of corporations has climbed closer to the top of the corporate board agenda.

The former CEO and chair of Vanguard, Bill McNabb, said in his presentation that Vanguard, under his leadership, had existential discussions, asking “Why do we exist?” The result of the discussions made Vanguard rethink and reshape its business strategy to focus on the bigger picture.

Those who know that I have spent close to 30 years talking about and helping companies on their sustainability, ESG and climate strategy, execution, and reporting efforts will understand that I’m thrilled. We are getting closer to valuing and encouraging integrated thinking, based on a sense of purpose. There is, however, still a long way to go before integrated reporting becomes a mainstay, and we embed all positive and negative externalities into the financial statements – the vision I presented 30 years ago in my Master’s thesis.

Nowadays, as I spend a lot of my time talking to board members, I can’t help but reflect on the purpose of the board of directors. The role of the board is to hire and fire the CEO and provide oversight.

And it’s clear that this governance role has undergone a transformation: from a time when the board, chosen by the CEO, was nodding along to what the CEO presented before dinner was served – to a time when board members get to work on
It seems that every day there are stories about questionable business practices that beg the question: where was the board?

a Monday morning and are expected to question the management team and be able to articulate the company strategy to investors. Investors need to get a sense of how well the board understands and oversees the strategic direction; how well they support management in getting the best possible short and long-term results for shareholders and stakeholders, and how well they support management in a crisis situation.

Even though the commitments and workload for board members have increased exponentially over the last years, it seems like every day there are stories about questionable business practices in the news – practices that beg the questions: Where was the board? Why did the board allow an unethical behaviour that led to lost lives and/or trust in a company and its leadership, and financial value destruction?

Do board members ask themselves why so many people are joining the climate strike and blaming leaders and corporations for not doing enough? Do they ask themselves why companies are accused of a range of negative social and environmental impacts on society, and on the lives of the many people – including the corporation’s own employees, customers, and ultimately, shareholders and stakeholders – the corporation relies upon. Do they know why kids, some of them the children of those shareholders and stakeholders, are taking to the streets?

I would say yes: the board knows that those shareholders and stakeholders are the people they rely on to be successful in the long run. Most know that acting in a way that works for only the few will lead to unrest and volatile markets that don’t benefit companies.

I believe that boards of directors need to carve time out to discuss not only the purpose of their companies but “Why do we, as a board, exist? What do we want our legacy to be? What should not happen on our watch? And what should happen? What future do we imagine, and how do we create it?”

All too often we discuss tabletop exercises on what we would do if x happened. Only belatedly do we discuss why it happened and how we could have prevented it. We are looking downstream instead of upstream; solving symptoms instead of tackling problems and creating the future we envision.

I’m happy to say that the purpose of Competent Boards is not only to provide insight so that boards can provide oversight, but also work with boards to make well-informed decisions about what to do better.

We need not only competent boards – we need courageous boards.

Helle Bank Jorgensen is founder of Competent Boards. She serves on HRH Prince of Wales’s A4S Global Expert Panel, the Cornerstone Capital Global Advisory Council, the WBCSD governance and internal oversight high-level advisory group and is a board facilitator for the UN Global Compact Board Program.
When Gilbert Ghostine received a phone call from a headhunter six years ago asking whether he would be interested in being CEO of a company called Firmenich, he did what most people do when they hear the name: turned to Google for help.

The Swiss fragrance and flavours company is virtually unknown, despite the fact that its ingredients go into brands used by a mind-boggling 4 billion people every day. Partly that is because the 124-year old company is privately held and, until Lebanese-born Ghostine joined, had been run exclusively by five generations of the Firmenich family.
The company, which has 8,000 employees and operates in 100 markets, is also strictly business-to-business rather than customer-facing, and does not advertise who its big-brand customers are.

But this almost invisible company has been totting up an unparalleled track record on sustainability under Ghostine’s stewardship. When CEO Today awarded Ghostine its Global CEO Award in 2019 for “inclusive growth leadership and innovation” it noted that Firmenich was one of only two, with L’Oréal, to be awarded CDP A-lister status in 2018 for climate, water and deforestation risk; ranked among the top 1% of 45,000 suppliers by EcoVadis for environmental and social impact; and is the seventh company worldwide to be certified by EDGE, as a global standard for gender equality. Firmenich also came first for diversity and inclusion at Ethical Corporation’s Responsible Business Awards 2019.

Then there is the leadership Ghostine has shown on climate change, most recently in the run up to Climate Week New York last month, when Firmenich signed up to the Business Ambition for 1.5C: Our Only Future coalition of 87 companies that have set 1.5C science-based targets and pledge to be net-zero carbon by no later than 2050.

The company is also a founder-member of the One Planet Business for Biodiversity (OP2B) coalition, led by the World Business Council for Sustainable Development and Danone CEO Emmanuel Faber.

Of course, consumer goods giants Danone, Nestlé, Mars Inc and Unilever, which are also involved in both coalitions, can wield huge influence with consumers. The same can not be said about Firmenich.

In an interview with Ethical Corporation after giving a keynote address at Responsible Business Summit Europe in June, Ghostine was asked...
whether Firmenich was disadvantaged by being a business-to-business brand. Rather the opposite, Ghostine said: “By being business-to-business, we can impact directly in all the big companies and all the big brands in the world. We touch 4 billion consumers every day, through the brands of our strategic customers. So our reach is far broader, and far deeper than if we were business-to-consumer.”

As an example, he says when Firmenich was awarded triple-A status by CDP earlier this year, “I wrote personally a letter to the CEOs of all our customers, and of our suppliers, to share with them this recognition, thank them for their support... and at the same time offer to share with them best practice on what we have learned, and how we have benefited” from 10 years of reporting to CDP. He said the response to the offer had been “overwhelmingly positive”.

Firmenich invests 10% of its revenues annually in research and development, and nearly $400m in the last calendar year alone.

One big area of innovation, and where it has engaged its customers, has been in its project with the Bill and Melinda Gates Foundation to help the 4.5 billion people in the world who don’t have access to sanitation, something that contributes to the deaths of 800,000 children each year from hygiene-related diseases.

Among them are 2.5 billion people who only have access to public toilets and one billion who lack access or decline to use any toilet at all. As a fragrance leader, Firmenich realised that it had a role to play because the biggest deterrent to people using public toilets is bad smell.

It invested $6.5m, a sum matched by the Gates Foundation, in sending its best scientists to the worst latrines in India and Africa to come up with breakthrough technologies to counter malodour. “The good news is that Bill Gates was very excited about this, he visited our facilities back in June 2016. And he decided to promote our breakthrough technologies on his personal blog. And now, we feel very proud that these technologies are already available in products of our customers in Bangladesh and are being trialled in India.”

He said Firmenich convinced its customers to accept a lower margin on these products, and produce them in smaller formats, to make them affordable to low income consumers.

Ghostine said this is not about philanthropy, but makes good business sense. “Neither we nor our customers had access to this part of the market in the past.”

Bérangère Magarinos-Ruchat, global head of sustainability at Firmenich, pointed out that the products being sold in Bangladesh are using the same technologies, branding and packaging as those on the shelf in the UK. “We create a very aspirational product that will help people move along the sanitation ladder, and transform their
behaviour. We won’t be able to drive behaviour change if consumers are not going to be as inspired by the product, not just by the smell, but also because of the brand, the packaging, the distribution. It is a premium product for low-income consumers.”

This is leading to the growth of the sanitation economy, not only around the services of public toilets, but in waste-management, bioenergy, and using human waste for bioenergy and organic fertilisers for regenerative agriculture, she said.

She added that the The Toilet Board Coalition, the business-led coalition Firmenich helped to set up in 2015, has begun to attract banks as members, an indication of the investment opportunities emerging in that space.

The One Planet Business for Biodiversity coalition, newly minted at Climate Week New York, has three areas of focus: scaling up regenerative agricultural practices to protect soil health; boosting cultivated biodiversity and diets through increasing the number of ingredients used and expanding provenance-based sourcing; and eliminating deforestation and enhancing high-value natural ecosystems.

Asked how Firmenich is advancing this agenda, Ghostine points to Firmenich’s Naturals Together programme to source ingredients exclusively from 16 of the world’s most sustainable producers, selected through an extensive due diligence process.

And it has partnered with Mars Inc, Danone and Veolia in the Livelihoods Funds for Family Farming, which has invested €120m to convert 200,000 farms to sustainable agricultural practices.

Firmenich is the world’s second-biggest buyer of vanilla, which comes mainly from Madagascar, one of the poorest countries on Earth, and a big recipient of funding through the Livelihoods Funds.

“We have decided as a company to pay 5% premium to the market price of vanilla, and this 5% premium we offer to the local cooperatives to invest in projects that are relevant for their own communities.” The money has been used to build schools and medical dispensaries, and to dig 43 water wells.

He got a glimpse of the impact this approach is having on a visit to Madagascar two years ago, when he visited a water well, and asked one of the
women farmers how it had affected her life. “She said: ‘I used to walk for four hours [to the river] to get water from my home every day. Now I walk 10 minutes. It has freed my time. And as you know, vanilla is the only flower that is pollinated by hand and not by bees. So [with the free time] I pollinate my vanilla flowers. And now I have a business. And through the business, I have sent my two daughters to school and to university.’

So, by investing this premium in their local communities... you give them the opportunity to transform their lives,” Ghostine says happily.

Unilever has a similar project in Madagascar, called Vanilla for Change, working with Save the Children, ME to WE, and one of Firmenich’s biggest competitors, Germany-headquartered Symrise, also a member of the OP2B coalition.

Ghostine says he welcomes the competition. “We want like-minded companies to do the same thing, everywhere around the world, to help improve the lives of these communities. So competition is good and responsible competition is even better. It pushes our creativity, it pushes our ideation. And at the same time, we will have an even bigger impact on our communities.”

Another area where Firmenich sees it can have a big impact within the OP2B coalition is in using its large R&D budget to help bring more plant-based proteins to the mainstream by improving their flavour, texture, and “mouthfeel”.

“This will help reduce the greenhouse gas emissions and water consumption, and at the same time, it’s healthier for people. So that’s another area where we are intimately involved.”

It can’t help but be healthy for Firmenich as well, given the current boom in the protein market. »
Inclusive Capitalism Briefing

In the last calendar year, Firmenich grew at 7.5%, double the rate of its industry, and has been gaining market share in each of the past 10 years, with 10 acquisitions over the past three years alone.

But surely, given the fact that Earth Overshoot Day, the day humanity uses its natural resource budget for the year, is now at the end of July, there must be limits to growth for even a company like Firmenich?

For Ghostine, the growth figures are vindication of Firmenich’s inclusive business model.

“I’ve been active organically and inorganically, while at the same time doing the right thing, by our communities, by our planet, by all our stakeholders,” he says.

The company has decoupled its manufacturing output from its CO2 emissions, with output up 18% and emissions down by 30% since 2015.

Firmenich has also joined RE100. The company’s sites throughout Europe, North America and Brazil already operate with 100% renewable electricity and Ghostine says he is confident Firmenich will be running on 100% renewable energy globally by the end of 2020.

But he accepts that growth does pose some risks.

“In today’s world, there is no shareholder value creation without value. So you need to make sure that the values that you have as an organisation are not only words on the wall; you are taking action, and these actions are reflected with everything you do,” he says. And that means ensuring that new employees are singing from the same song sheet.

When he joined the company five years ago, Ghostine began writing an internal blog to communicate directly with employees around the world, something he says is even more important today. “The good thing with this blog is it’s not a monologue, it’s a dialogue, because every one of my colleagues could communicate with me directly on this blog, with clear visibility to all the other 7600 colleagues all over the world,” he says.

“So this is how we make our company smaller, and at the same time, make sure that our culture, our inclusive capitalism business model, is still relevant and embraced by every one of our colleagues around the world.”

CEO Today awarded Gilbert Ghostine its Global CEO Award in 2019.

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Terry Slavin is editor of Ethical Corporation
Amy Brown interviews Barry Parkin of Mars to find out why having joint responsibility for sustainability and procurement are critical to achieving the consumer goods giant’s #PledgeforPlanet commitment to align with a 1.5C future.
Barry Parkin, who holds the dual role of chief sustainability and procurement officer at Mars, says this example crystallises the beauty of combining the two functions, something that the company did two years ago.

While integrating sustainability into procurement has long been part of overall corporate sustainability strategy, making them a single function is a more recent development. Parkin’s peers include Tony Milikin at AB InBev and Katharina Stenholm at Danone.

For Mars, combining the two functions was a natural progression in the company’s Sustainable Generation Plan, a $1bn programme launched in 2018. Targets include a reduction in total greenhouse gas (GHG) emissions across the value chain by 27% by 2025 and by 67% by 2050 (from 2015 levels).

At the UN Climate Week last month, Mars announced its new #PledgeForPlanet initiative to further reduce GHG emissions from its direct operations in line with the most ambitious aim of the Paris Agreement – to limit global temperature rise to 1.5°C.

As an initial demand, Mars has asked its top 2,000 suppliers to sign up to the Science Based Targets Initiative and to The Climate Group’s RE100, a global corporate leadership initiative bringing together influential businesses committed to 100% renewable electricity. Parkin points out that there are close to 300 companies signed up to RE100 now; Mars’ request to its top 2,000 suppliers will increase that number exponentially.

“Will they all sign up tomorrow? No. We’re going to have to incentivise them to do so. While right now we’re only asking them to sign up, we’ve made clear that over time only companies that align with what we want to do can be part of our supply chain,” Parkin says.

“The only way we can become a true sustainable business is by changing what we buy, how we buy it and where we buy it, and procurement is at the heart of that,” he says.

Parkin says benefits of joining the procurement and sustainability functions include a greater ability to influence positive social and environmental outcomes, such as reduced carbon footprint as well as human rights, labour rights, empowerment of women and poverty reduction, particularly among smallholder farmers.

The latter is a particular focus for Mars, which has chosen to champion SDG1 on poverty within the Business Avengers coalition, launched at Climate Week New York last month, of companies promoting individual SDGs. (See 2020s declared decade of action on climate, biodiversity and SDGs)

Danone, another of the “avengers”, and AB InBev have both partnered with Mars in the Farmer Income Lab, a multi-stakeholder platform that Mars founded in 2018 to drive a 200% increase in the income of smallholder farms.

“When I tell our people in procurement they not only need to meet all the usual targets for quality and cost but also reduce the GHG [greenhouse gas footprint] of that raw material and raise 50,000 farmers out of poverty, they scratch their heads typically and say, ‘I don’t know how to do that,’” Parkin says.

“But it forces them to really innovate and actually be radical. Once one or two of them figure out how to do it, they become the heroes in the function. Talk about purpose. They are at the heart of that”
journey. We put purpose in their jobs and they feel really good about it.

A staggering 95% of Mars’ carbon footprint is upstream in its supply chain, and along with its adoption of science-based climate targets, the company has had to put a laser focus on addressing the scope 3 emissions outside its direct control.

The sustainability-procurement combined function is also a hedge against risk, Parkin says. Supply chain operations and strategies are more visible today than ever before and represent a host of operational, financial, regulatory and reputational challenges for an organisation. Embedding sustainability ever deeper into supply chain management has been a key part of the way many companies have approached mitigating those risks.

SUSTAINABLE GENERATION PLAN

But implementation usually involves culture change. Many companies are not structured in a way that facilitates the alignment of the two functions, with sustainability at odds with traditional sourcing, where cost is often an overriding factor.

With 60,000 suppliers globally and 1,000 people working in procurement, Mars faced a heavy lift. A first step was having both functions report to Parkin and for the heads of its business units around the world to also merge its sustainability and procurement functions.

“We set the challenge to our sourcing directors, who buy all these raw materials and packaging, that they now own the sustainability impact of what they source,” he says.

He has observed a “real building of knowledge on both sides”, with the deep experts in sustainability able to share their insights about programmes, policies and measurements and then roll up their sleeves to work alongside procurement people to understand how they work on the ground with suppliers.

Parkin admits the change has made the sourcing team’s job more difficult, but it’s also unleashed new innovative approaches, like moving to longer-term contracts, from a year’s contract to a 10-year contract with a farmer, and reducing complexity in the supply chain.

“You can’t just put a Band-Aid on the supply chain you have now and say, ‘Job done. Now we’re”
sustainably sourced. You typically have to radically change the way you work,” Parkin says.

A case in point is Mars’ sourcing of palm oil, which represents about 0.1% of the palm oil market. Intent on fulfilling Mars’ commitment to end deforestation in its supply chain by 2020, Parkin said Mars traced its palm oil value chain and discovered it was buying from half of the palm mills in existence. “We were buying from everywhere and there was clearly no way to understand what was going on.”

The joint sustainability and procurement team set up “a massive simplification activity”, reducing the number of mills from which Mars sourced palm oil from 1,500 and “heading towards less than 20”, Parkin said.

“When you do that, you not only solve your sustainability issues but you are inherently entering into long-term agreements with fewer suppliers and unlocking the benefits of that. It took two years and four or five people working on it, but you come out the back end knowing you have a clean supply chain. And you save money.”

That so few other companies have followed Mars’ lead perplexes Parkin. “It is inconceivable for an organisation to be on a sustainability journey if their procurement function isn’t at the heart of it. I challenge some of my peers at other companies on this. When I meet with CSOs [chief sustainability officers] who don’t run procurement, I see them struggling to influence their supply chain and their procurement people. If the chief procurement officer isn’t your best friend, you’re going to have a problem.”

Amy Brown is a journalist covering sustainability and responsible business with a particular interest in sustainable agriculture.
Tyre company Bridgestone has aligned its sustainability and procurement functions.

ALIGNMENT
THE BEST POLICY
AS BRIDGESTONE PURSUES 100% SUSTAINABLE MATERIALS

Bridgestone, the world’s largest tyre and rubber company, has opted to align its sustainability and procurement functions rather than combine them.

“This was a global decision made with our global leadership team... that we could strengthen both functions by not combining, but rather aligning them closer together,” says Christine Karbowiak, who is executive vice president and group chief sustainability officer for the Japanese multinational.

She also wears a slew of other hats, serving as vice chair and chief administrative officer, chief risk officer and executive vice president for Bridgestone Americas, Inc.

Bridgestone’s global procurement goal of using 100% sustainable materials by 2050 and beyond is intended to shape how it does business at all levels.

Bridgestone’s global sustainable procurement policy targets four areas: transparency; compliance; quality, cost and delivery and innovation; and sustainable procurement practices.

The policy was launched in early 2018. By August 5% tier 1 material suppliers had completed third-party assessments with EcoVadis. Additionally, the company has trained hundreds of procurement, legal, technical and customer-facing colleagues.

Several requirements were strengthened, including a company-wide net-zero deforestation commitment; prohibition of the conversion of primary natural forests to plantation or other non-forest uses; and application of free, prior and informed consent (FPIC) principles when assessing any development opportunities.

Bridgestone is a founding member of the Global Platform for Sustainable Natural Rubber – an independent platform to lead improvements in the socio-economic and environmental performance of the natural rubber value chain.

In 2018, Bridgestone received an A rating, the highest rating, from CDP for Supplier Engagement, an A- on climate change, and a B for water, indicating some room for improvement on engaging the supply chain.

The CDP’s assessment suggested that Bridgestone adopt a robust engagement procedure that includes the outcomes and measure of success of the engagement with the most relevant partners of its value chain.

Water use is one of the target areas in the company’s new global policy.

Amy Brown
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With divisions over Brexit damaging Britain’s social fabric, David Craik reports on how companies like Lush, SSE and Richer Sounds are seeking to pair commercial growth with social progress.
Warren Kozera’s journey to inclusive growth began, perhaps appropriately, at a church service.

“It was a Sunday morning about two years ago, and I was listening to a talk from a member of the Bolton Family,” explains Kozera, director at Barkers Commercial Consultancy. “He explained that the Family was a group of around 40 local businesses and charities that are collaboratively dedicated to creating social value for the people in the town. I gave my wife a nudge and said I could help.”

Not long after, Barkers became the latest member of the Family, whose work is closely aligned with Bolton council’s 2030 Vision to create “stronger, cohesive, inclusive, confident communities”. It meets once a month to review its activities and judge how it can coordinate support behind the council’s objectives and help each other with initiatives.

One example is Working Wardrobe, which was set up by housing group and Family member Bolton at Home. Its fellow members have helped provide unemployed people with mentoring, work clothes and free dry cleaning. Since June 2018, Working Wardrobe has supported 104 people, getting 52 of them back into work.

“We give pro-bono advice to charities and community-focused groups like theatres, but we’ve also created our own grounds maintenance social enterprise called Lifescape, where we get excluded groups in the region back into work,” Kozera explains. “That could be a NEET [not in education, employment or training], an ex-offender, a homeless person or someone out of the forces [who is] struggling to get a mainstream role. We have employed seven ex-offenders to date on full-time contracts.”

Another firm focusing on employment opportunities for under-represented parts of society is VHR Global Recruitment. It has partnered with Youth Employment UK, which helps teenagers create good CVs and coaches them through job interviews.

VHR is also a founding partner of the Fair Labour Alliance, supported by the Department for International Development and Humanity United, which aims to ensure that employees are protected from mistreatment and enjoy working relationships built on communication and respect.

VHR’s chief executive Danny Brooks says: “For both groups, their target audiences often lack access to helpful information, so we aim to create clear, considered advice that can help a young person get a job, or encourage an executive to change their corporate structure.”

It is vital that businesses recognise their role in society, he adds: “We are living through a time of heightened tension across virtually all elements of society. If a business can play even a small role in bringing people together it should,” he says. “Nothing happens in a vacuum.”

Large corporates have also been making inclusive strides.

Energy group SSE has invested in renewable energy projects outside of London to create jobs in areas that need them most. Food chain Greggs
helps young people, ex-military and the long-term unemployed back into work. It also runs training schemes in prisons and work experience roles.

Retailer Lush is one of over 5,000 UK businesses that voluntarily pay employees a real living wage, which differs from the statutory national living wage in that it is based on what people need in order to live. Also thinking of his employees was Julian Richer, founder of Richer Sounds, who announced in May that he was putting 60% of his shares into an employee-owned trust. This meant his 50 staff shared a bonus pot of £3.5m.

These companies form part of a notable shift in the UK to a more inclusive economy as a reaction to Brexit and other societal pressures. A report from the Inclusive Growth Commission in 2017 said Brexit had forced open an “urgent debate” about the need to invest more in people and places and forge a more inclusive approach to growth in order to defeat social and wealth inequality.

Indeed, according to the Institute for Public Policy Research (IPPR), 44% of the UK’s wealth is owned by just 10% of the population.

The commission said this inequality came with a social cost and hampered long-term economic performance. It called for greater focus and investment in skills, early-years support and employment. Politicians, councils and businesses needed to see growth and social reform as on the same side of the coin. Businesses needed to boost productivity, offer high-quality, well-paid and flexible jobs, and include social growth in their planning.

Impact consultancy Palladium agrees that this is the core of inclusive growth: the intersection of commercial growth and social progress, the link between social and financial results to ensure long-term success.

“We are helping companies look beyond their traditional CSR programmes,” explains Eduardo
Tugendhat, Palladium’s director of thought leadership. “CSR is mostly focused on risk-avoidance and public relations and not necessarily closely linked to the core business. We want to find strategies that will help businesses improve their profitability and be more socially inclusive.”

He says that having this visibility and changing the business model can be a challenge. “Companies have a real credibility problem in society. They are viewed as only being interested in short-term profit and shareholder returns,” he states. “It’s harder for them to think longer term and [about] their broader range of stakeholders. You could focus on selling your goods to the 1% of the population who have the highest capital, but if you want to have a viable economy you need more of the population actively participating.”

**BRIDGING THE SKILLS GAP**

Tugendhat adds: “You need to understand your whole ecosystem and how to unlock better value, especially for those parts of society which are getting left behind. We work on developing more inclusive supply chains, so, say, a chocolate company ensuring fairer payments and conditions for growers. We also look at helping deliver services and products to parts of the population left behind and bridging the skills gap in workforces.

“So many people don’t have the right skills, and this means businesses don’t grow as much, either.

Businesses should form partnerships with training providers and ensure that they interview and hire people from disadvantaged backgrounds. It is a new business model, which aims to work for everyone.”

VHR believes its business has benefited greatly from its partnerships. “We have gained increased exposure. It has helped galvanise the team and lets them know they’re part of a business that’s making a difference,” Brooks says.

Kozera has also seen a positive impact. He has put some of his own personal funds into Lifescape and says 50% of Barker's profits goes into its social value creation initiatives. “We’ve also invested our management time,” he explains. “We've done it because we want to help our local society, but it also gives us business benefits. There are many organisations like us who share our commercial goals, but they don’t have the same social goals. It has helped differentiate our business and make us a more compelling destination for employees who share our moral values. They are more loyal and productive and engaged employees. We have also gained new work and opportunities from the Family members. We haven’t yet recovered our costs and time, but it is a long-term project.”

**ALIGNING WITH THE SDGS**

The Scottish Salmon Company has seen average sickness absence rates amongst staff fall to 3.67%, from 4.3% in 2017. It has aligned itself with
UN Sustainable Development Goals (See The wellbeing route to a more prosperous Wales) such as improving salmon welfare and offering attractive, safe and meaningful jobs. It has a modern apprenticeship scheme to boost employment in its rural location and has a staff-nominated community fund.

The Scottish government has also signed up to the UN goals, including providing decent work and economic growth. It believes businesses are key to delivering inclusive growth, but this must be combined with redistributive social, regulatory and fiscal policies.

A new South of Scotland Enterprise Agency has been created to drive inclusive growth and boost economic development across the mainly rural region.

To best understand the needs of businesses there The Good Economy undertook a survey, in partnership with the Ethical Finance Hub.

It found that 85% of the 68 businesses it spoke to had three-year growth plans that include creating new high-quality managerial and apprenticeship roles. Many wanted to pay the real living wage but could not afford to do so, and a fifth were looking at adopting employee-ownership schemes.

They noted that the main barriers to jobs growth included transport connectivity and a lack of a large skilled labour pool, particularly youngsters.

"We found that the businesses were trying to do the right things, but often because of squeezed margins it was hard to invest in job creation and their workforce," says Mark Hepworth, director of research and policy at The Good Economy.

He describes inclusive growth as a place-based agenda. “There is a shift from a focus on shareholder to stakeholder value, and part of that is the workforce and the community,” he says. “Productivity, for example, depends on treating your workforce properly. Going into the community means working with young people in...”
schools and on-site learning schemes. Indeed, one good measure of inclusive growth would be: as older people retire to what extent are you getting a transfusion of young apprentices and graduates to replace them? Young people bring different modern skills and attitudes that old people don't have."

He says this is particularly pertinent given Brexit and the potential reduction in eastern European labour.

Also reacting to populist political events globally is a new initiative set up by the G7 and OECD called the Business for Inclusive Growth coalition. This involves 34 multinational corporates, which have all agreed a pledge to take concrete actions to ensure that the benefits of economic growth are more widely shared.

The programme includes tackling inequalities of opportunity, reducing regional disparities and fighting gender discrimination. They will seek to accelerate, scale up and replicate projects, including training programmes to upskill employees, greater investment in childcare, financially supporting small businesses and enhancing the integration of refugees into the workforce.

An incubator of public-private projects will also be created, offering companies access to the latest policy research, to help them launch and develop projects and undertake impact assessments.

Gabriela Ramos, who is leader of the OECD Inclusive Growth Initiative, says: “There was an idea in the past that inequality was a by-product of growth. It just happened. But now we are finding that this is causing social problems and leading to political consequences such as a rise in populism.”

She says the OECD will use a set of metrics to measure whether the projects are being effective, and that best practice will be disseminated down to SMEs.

Legal & General is one signatory. It has an existing philosophy of inclusive capitalism that has seen it invest in homes for homeless families, city infrastructure and helping its own staff with their personal finances.

It’s clear that inclusive growth means different things to different people. But at its simplest, being inclusive means businesses having a social mindset: of seeing themselves as part of society and using their power and finances to reduce inequalities, lack of opportunity and improve the environment. It is helping society grow as they grow. Firms can
That's what Ryan Jackson, founder of Gemini Parking Solutions, did when the group recently aligned with eForests, a not-for-profit organisation that is creating and restoring woodlands throughout the United Kingdom.

“We made a commitment to plant one new tree on behalf of every single one of our clients for every new agreement,” he explains. “We are now looking at giving a proportion of our profits to charities and community support. We believe in giving back and embracing our social responsibility. It helps society and helps our business as customers seek out firms who reflect their values.”

Kozera of Barkers Commercial Consultancy admits that such social focus does come with extra work and strain but is a “positive reason to get up in the morning.”

“I can be on a client site providing some commercial advice on a £1bn infrastructure project and get a call from Lifescape saying a homeless person is in difficulties,” he says. “You jump from one thing which is vitally important to that client to something massively important for a vulnerable individual. It is very rewarding.”

David Craik has been a freelance journalist for 15 years. He writes business news and feature articles for a variety of national newspapers and magazines.
In 2016, the Welsh government passed the ground-breaking Well-being of Future Generations (Wales) Act, based on the UN’s 17 Sustainable Development Goals.

The UN’s goals recognise that ending societal problems such as poverty must go together with strategies that improve health and education, reduce inequality and support economic growth, all while tackling climate change.

The Act put in place seven wellbeing goals, addressing many of these global challenges. Within this all the public bodies in Wales, such as health boards, the Welsh government and local authorities have a duty to maximise their contribution towards the goals.

“In the past the economic side of an organisation might not be thinking about the environmental or health side, and vice-versa,” says Sophie Howe, Future Generations Commissioner for Wales. “Now they have to think across all seven goals, rather than their siloed area. They also need to show they are planning for the long term, preventing problems from occurring or getting worse, collaborating with each other and involving citizens. My job is to support them and monitor.”
One of those stated goals is a more prosperous Wales that “develops a skilled and well-educated population in an economy which generates wealth and provides employment opportunities, allowing people to take advantage of the wealth generated through securing decent work.”

There are a number of levers where this flows down to the private sector, Howe says. “Our public bodies are required to demonstrate how they procure against the goals. In a recent rail franchise contract, I intervened asking Transport for Wales how it would deliver prosperous Wales, such as having social enterprises in stations rather than Starbucks, deliver apprenticeships or reduced fares for those in areas of deprivation into our city centres.”

She adds that any business that the private sector does with the public bodies must also demonstrate how they are meeting the seven goals. “The Act has created a movement for change and is being embraced by the private sector, even though they are not statutorily obliged to take it on board. For example, I have worked with the construction sector which has come together stating that there is a huge amount of sense in the Act and they want to be part of it,” she states.

Howe says Wales has seen great interest in replicating its model: from the UK’s Labour Party and the Scottish government to Canada, Gibraltar, the Netherlands and the UAE, which has just developed a national wellbeing strategy. “There is a huge amount of interest. We hope that what Wales is doing today, the world will do tomorrow.”

David Craik
Richard Bond, Global Senior Manager Sustainability at Lavazza Professional describes how he improved his communication and leadership skills – and developed an idea that is helping to improve the lives of smallholder farmers in Kenya.

I became interested in the sustainability agenda whilst working in the Commercial team at Lavazza Professional (formally Mars Drinks). After assuming the role of global supply chain manager, I wanted to build my knowledge and skills through a professional qualification. Studying with the University of Cambridge Institute for Sustainability Leadership (CISL) offered me the opportunity to do that.

**LEARNINGS FROM THE COURSE**
Throughout the course I saw marked improvements in the professionalism of my approach. I was exposed to a range of ideas and approaches, in particular around how a sustainable sourcing and pricing matrix could help the supply chain, which gave me an idea of how these approaches could be applied to raw materials, such as tea.

To make the transition to a more sustainable manufacturing process, one of my course assignments considered how Mars Drinks could work with stakeholders throughout its supply chain to reduce energy consumption in tea factories, passing the benefits on to smallholder farmers and workers.

**REAL WORLD IMPACT**
Following the course, I adapted my assignment objective to one that saw Mars Drinks form the collaborative partnership to scope. This involved developing and implementing a robust support initiative for these smallholder farmers throughout the tea supply chain to improve their income and, as a result, their livelihood.

By communicating the value of this opportunity, using the knowledge gained from CISL’s course, the initiative gained buy-in from the company’s global leadership team. It launched in May 2017 in collaboration with the Kenyan Tea Development Agency (KTDA), The Ethical Tea Partnership, GIZ and Taylors of Harrogate.

The course improved my confidence, and equipped me with the robust professional skill set I have today. This experience ignited a passion to continue my educational journey.

Richard Bond attended the value chains stream of the Postgraduate Certificate in Sustainable Business in 2015 and is now studying CISL’s Postgraduate Diploma in Sustainable Business.

**Read the full blog.**

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