

PROFITS WITH PRINCIPLES - NEW VISIONS FOR FINANCE PROFESSIONALS

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Where to begin to rebuild?

We live in a globally interconnected world where business is the major institution, many with more power and resources than national governments. Our new global citizenship accountability requires a revised business success formula to respond to the values and expectations of sophisticated institutional and individual investors as well as a digitally empowered civil society.

When the CEO of the largest asset management company in the world, says it's time to rethink your business success model, then savvy leaders in business and asset management, realise, it's time to take heed of changing societal value shifts and expectations.

BlackRock is the world's largest asset manager with over \$6.3 trillion in assets under management. Earlier this year, its CEO Larry Fink, wrote to CEOs of public companies outlining his expectation that they start accounting for their effect on society. Fink warned that managing for the short term was no longer good enough. Blackrock's CEO's letter sent a dramatic shot over the bows of traditional business models and reminded leaders that they have a choice in deciding whether they tune in and be part of a new force for social good.

NET POSITIVE TO SOCIETY

BlackRock's CEO, together with other savvy global CEO's such as the 15 who resigned from Donald Trump's advisory Boards because of Mr Trump's refusal to participate in the Paris Climate Change agreement, recognise that, as the major institution in the world today, *how* business gets done matters! Leaders can choose whether it profits at the expense of society's interests or whether it purposely chooses to manage its business operations so that they are overall *net positive* to the societies in which they operate. These leaders know that business as usual is no longer good enough. They accept that to qualify as an ethical and responsible corporation or, to be positioned as the investor of choice, they need to create organisations where people want to belong, customers want to shop and as the move into new markets, they are welcomed for the positive contributions they will make as responsible global citizens working purposely to raise the ethical floor below the marketplace.

The banking sector is coming to realise that the new world order of hyper connectivity, ever increasing global transparency and grass roots activism is demanding greater accountabilities around their role in stablishing or destabilising societies such as witnessed during the GFC, their role in global climate change by their funding choices as recently witnessed in the boycott of Australian banks supporting the proposed Adani mining of the Great Barrier Reef, as well as wealth polarisation and workplace inequalities. It's time to look beyond shareholder focus, to stop hiding behind the myth that profits and principles are incompatible and to include goals that aim at collective social and environmental wellbeing in addition to economic prosperity:

Our jobs as CEOs now include driving what we think is right. It's not exactly political activism, but it is action on issues beyond business. Bank of America's CEO, Brian Moynihan 2018

The Internet world where we now live is enabling far reaching accountability to be pursued such as the viral campaigns “outing” big corporates for not paying “their fair share of taxes” or the work of organisations such as Transparency Int’l , highlighting where corrupt business practices are being employed around the global to achieve business success at the expense of societal progress.

THE RISE OF THE STAKEHOLDER ECONOMY

In the United States, institutional investors are increasingly flexing their muscles and demanding specific social accountabilities. companies with all-male boards, for example, have been targeted by institutional investors and over the last two proxy seasons at least 45 shareholder resolutions have been filed asking these companies to reveal their approach to increasing gender diversity. The Australian Shareholders association is also waging a similar campaign with success demanding greater gender representation on Australian Boards.

It not just gender diversity that is being pursued by investors - both institutional and individuals - but also the wider range of social and environmental accountabilities that are the result of how leaders choose to conduct their business.

The tech giants for example are being targeting for what is increasingly recognised as their negative social impacts. Concerns here revolve not just around the impacts of their products on the social development of their users; their organisational cultures that tolerate female harassments; the environmental impacts of their largely nonrecycled products but also their failure as, the most powerful global citizens, to pay their fair share of taxes. Apple, for example, have been the subject of successful investor activism initiatives that have resulted in Apple bowing to investor pressure and introducing the first parental control mechanisms in their iPhones. Uber was held to account by its major investors, for the “unacceptable” bro culture allowed to flourish under its former CEO who was then forced to resign to retain investor confidence in the organisation. Facebook is still embroiled in controversies over its failure to monitor hate speech or protect its user’s privacy rights and its CEO is currently reinventing his business success model to be more in line with stakeholders and investors’ expectations about modern day governance standards.

The heightened consciousness of all of business’ impacts has fuelled the ethical investment movement at citizen level as they select funds, and fund managers, who match their values on corporate social and environmental responsibility. Ethical funds purposely restrict their investment portfolios to screened portfolios such as FT Good, Australian Ethical Investment Funds and Domini Index with most outperforming the non-screened funds on financial outcomes as well as societal and environmental impacts. Individual and institutional level ethical investors share a vision of using their investment power to reshape traditional business success formulas to make them more accountable for their global social and environmental impacts. Ethical investments are the fastest growing part of the investment market signalling the global community’s increasing concern to select asset managers who are attuned to the wider responsibilities of corporate citizenship.

Recognising their wider accountabilities, leading CEO’s are now steering their ships towards more sustainable economies that in turn support more stable societies with new visions such as that outlined by Kenneth Frazier, CEO of multinational Merck:

I don’t see that big a conflict between meeting the needs of shareholders and meeting the needs of society. The role of the chief executive has never been more complex — or more consequential.

Business leaders today are reshaping the internet, reimagining health care, upending transportation and more. But being a chief executive is no longer just about running a company. It means taking political stands on everything from immigration to gun rights. It means weighing in on tariffs and taxes — all while balancing short-term profits with long-term goals, dealing with activist investors and attracting talented employees.

PROFITS WITH PRINCIPLES

These leading CEOs now talk about transforming capitalism to make it more inclusive, sustainable and net positive. Businesses that aim to be Net Positive go beyond minimizing harm, to actively creating good - creating impact beyond traditional business boundaries, across the whole value chain. It enhances natural and social capital, creates long-term business resilience, and delivers bottom-line benefits in the short term

They stress that the business of business is not business alone. They recognise that the sustainability of the business in many cases is directly tied to the sustainability of market share, of core resources, of attracting and retaining the best employees. By their actions, they are demonstrating that a new transformational ethical business agenda for the world we want is now possible when we change the goal of the system, the system changes. This is not the old idea of morality ethics centred on the character of the CEO alone, but rather one of ethical leadership where leaders create the ideal context inside their organisations to enable employees to flourish. Where, leaders also accept their responsibility for managing all their external impacts and do so guided by a vision of ensuring a positive role as part of their accountability as the major institution in society today shaping how our global commons is protected and our global societies evolve.

Unilever is perhaps the poster child for how an organisation can thrive by adopting a sustainable business success formula that purposely manages to be net positive. Its success formula has realized tremendous business benefits in the form of efficiencies, growth and employee engagement and retention. Its portfolio of Sustainable Living brands has grown 50 percent faster than the rest of the Unilever business — and delivered more than 60 percent of Unilever's overall growth in 2016. At employee level, 90 percent report that they are proud to work for Unilever and the company is the number-one most searched fast-moving consumer goods brand on LinkedIn. Shareholder returns have substantially benefited and these have seen a 290 percent total shareholder return. In fact, financial experts are projecting the Unilever stock may actually outperform the FTSE 100, with EPS that is forecasted to rise at an average rate of 15 percent per annum over the next two years. Some 70 percent of shareholders have held their shares more than seven years — and 60 percent of the company's top 10 shareholders have held shares for five years or more.

Its time finance professionals got on the train and set their direction towards net positive benefits too. Customer benefits as well as societal benefits have a rightful place within the traditional business frame of "Fair Exchange of Value." Make the ethical choice to pursue profits with principles and join with others in bringing forth a restorative economy where flourishing is a common destiny and not the preserve of the few.