Journal 01.2014

Exploring Mutuality

THE BREWERY

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Editorial

Stephen M. Badger II

Welcome to the latest edition of *The Brewery Journal*, freuds' periodical publication of insightful and provocative ideas from a hand-picked selection of some of the world's most eminent academics, business leaders, political thinkers, and others. Regular recipients will know that each iteration of the *Journal* is conceived with a particular overarching theme in mind. As Guest Editor of this edition, I chose Mutuality as the topic.

Almost 70 years ago, in 1947, my grandfather Forrest E. Mars, Sr. penned a letter that spoke to his vision for Mars, Incorporated. It was nothing remarkable to look at – just a few short sentences of simple typewriter ink on paper that has grown yellowed and faded with the intervening years (see opposite).

Simple as it was, its content had a powerful resonance that continues to echo through the family and our business decades later, as it was his attempt to answer the most fundamental questions any institution can face. What are we for, why do we exist?

Forrest didn't believe that his business was simply about generating profits by satisfying a set of socially responsible consumer needs. Instead, he laid out his belief that Mars, Incorporated should prioritise the promotion of a mutuality of service and benefits across every stakeholder that comes into contact with the business: from farmers and suppliers to consumers, commercial partners, and even to competitors–all before shareholders. Put plainly: we should be a positive force in the world.

Nearly 70 years later, Mars, Incorporated has grown to become one of the world's largest and most successful food manufacturers, distributing a portfolio of billion-dollar, household name brands across sectors ranging from Chocolate and Drinks to Petcare and Food to Gum and Confections. Ask anyone within our business from the boardroom to the factory floor where this success story stems from and the answer will be unequivocal – our Five Principles (Quality, Responsibility, Mutuality, Efficiency, and Freedom), of which Mutuality is of course one thereof. We believe and strive for every engagement with Mars at any level to be a win-win experience, whether financially and socially for the smallholder farmers who grow our cocoa, or the distributors who get our products to shelves around the world.

Clearly, then, Mutuality – creating shared value for all stakeholders through a form of capitalism and responsible business practices that defines success in much broader terms than profits for shareholders – has had a profound effect on Mars and indeed my own life. But the significance of this concept is by no means restricted to Mars, or indeed to the business world. From the corridors of public power to the halls of academic innovation, the influence and impact of Mutuality can be felt everywhere and has potential to effect change across boardrooms and borders everywhere. In curating this latest selection of *The Brewery Journal* essays, my goal is to shine a light on this growing belief in what we at Mars call Mutuality and to share some experiences of implementing it, including our own, with wider audiences.

Contributors range from former British Prime Minister Tony Blair to one of the world's most eminent academic experts on social entrepreneurship, Dr Pamela Hartigan from the University of Oxford's Saïd Business School; from Steve Howard, sustainability guru for global retail powerhouse IKEA, to celebrated business thinker John Elkington and Emmanuel Faber, COO of the highly successful company Danone, whose philosophy of business is deeply similar to Mars. While limited by the length of the *Journal* itself, I nevertheless believe this collection of essays reflect a sound cross-section of the thinking on Mutuality across the realms of business and academia, politics and intellectual thought.

Also included here is a new research study conducted specially for this edition of *The Brewery Journal* by freuds' Insight team. The purpose of this research was to explore the link between Mutuality, commercial success and public perception. What becomes clear is that there is an unambiguous assumption that the most commercially-successful organisations are also those that place the greatest importance on delivering shared benefits across their entire value chains. And while not all successful global businesses currently embed this concept at the core of their corporate DNA, there is risk in not doing so given the public's increasing suspicion of businesses' motives overall and their lack of faith in anointed leaders.

I would like to conclude by taking the opportunity to offer my gratitude to Matthew Freud for the invitation to be the Guest Editor, and to each of the authors who kindly contributed content for this latest iteration of *The Brewery Journal*, as well as to those not included herein but who are advancing this dialogue in their own manner both publicly and privately for the benefit of all. And, in the spirit of Mutuality, I hope readers of this publication will find value in the ideas herein and add them into this critical conversation about the present and future of capitalism in which all are needed to participate. Without tangible action, I fear that capitalism will both fail to reach its full potential or achieve the benefits so desperately needed for the 7 billion alive today and those who are still to come on our fragile planet Earth.

Regardless, no one firm or individual can hope to define the purpose of corporations as we enter this second millennium, but together I firmly hope and believe that we can start to chart a route towards a new and more sustainable capitalism and a version thereof to which all business leaders, shareholders and others can subscribe. Falling short of that will leave our children, the planet, and all its inhabitants with a bleak future indeed.

Yours sincerely,

Stephen M. Badger II –
Guest Editor &
Chairman of the Board,
Mars, Incorporated

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THE COMPANY'S OBJECTIVE

The Company's objective is the manufacture and distribution of food products in such manner as to promote a mutuality of service and benefits among:-

CONSUMERS

DISTRIBUTORS

COMPETITORS

OUR DIRECT SUPPLIERS OF GOODS AND SERVICES

GOVERNMENTAL BODIES

ALL EMPLOYEES OF THE COMPANY
AND
ITS SHAREHOLDERS

This expresses the total purpose for which the Company exists - nothing less - and it is expected that the Board of Directors, all Management and employees of the Company, will be motivated by this basic objective, and will keep it constantly in mind as the guiding principle in all their work for the Company.

28th July 1947.
FHS/nc.

A brief history of business in society: from liturgies to Lehman Brothers

Arlo Brady

Since the earliest days of commerce, there has been an active and healthy debate about the role and responsibility of business in society. At its most basic level, this has derived from the fact that commerce has enabled some individuals to become either extremely wealthy or inordinately powerful in contrast to their wider communities. And as a result, strategies and templates for those made wealthy through commerce have also existed for thousands of years.

Back in classical Athens of 500 BC, such individuals were expected to give back to society through what were called liturgies. These involved both money (an early form of taxation) and time, and were something that people were very proud of – to the extent that often individuals voluntarily did more than was societally expected of them.

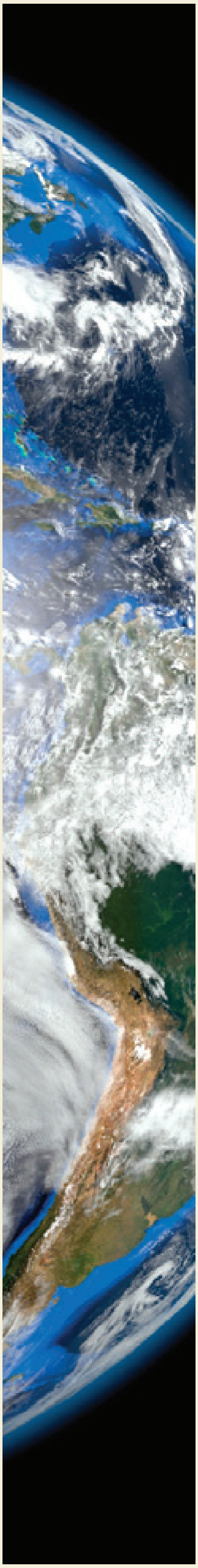
For at least the last 400 years, the transformative power of business has been undisputed – certainly since 1600, when Queen Elizabeth I granted the East India Company a monopoly to trade to the east of the Cape of Good Hope. This public-private partnership laid the foundations of the British Empire, the cultural basis for efficient enterprise (even at its height, its head office only ever employed between 150 and 250 staff) and made vast sums of money for its investors. This methodology, and variations thereof certainly transformed the world, but questions remained about whether or not this transformative power could be harnessed for the good of society and the planet, as well as for small groups of individuals.

Unsurprisingly, the debate really took off 200 years ago, as the Industrial Revolution began to remake the world. Incomprehensibly vast fortunes were being made and the advent of mass media meant that more people than ever before were aware of the resulting disparities in wealth.

In the UK, religion and enlightened self-interest drove pioneers like Lord Lever, the Cadbury brothers, John Stuart Mill and Lord Shaftesbury, to name just a few, to fund and deliver an extraordinary range of public health and educational activities. This self-interest arose primarily from an increased awareness of the link between wellbeing of employees, health and productivity. Some businesses went to great lengths to ensure that employees were treated well; examples include the planning and development of model company towns such as Port Sunlight (1888) and Bournville (1895). So strong were the recognised links between wellbeing and economic prowess, they even led to the first iterations of welfare states across Europe. However, self-interest also led to exploitation and this forced the birth of several more mutually-beneficial types of economic enterprise. Of particular note was the growth across Europe of a set of businesses – cooperatives – run solely for the benefit of their customer members.

In the US, the rapid growth of big business following the Civil War led to a consolidation of wealth within a relatively small group of entrepreneurs. The general public believed that these individuals, referred to as the 'Robber Barons', had used exploitative practices to amass their wealth, and as such the 'anti-trust' movement grew in strength. In the end it was the US Government in the form of the Supreme Court that forced a change, determining that a business is 'incorporated for the benefit of the public' and holds its privileges and franchises 'subject to proper government supervision'.

That the government took such an interest is predictable: the formal role that business played in society was felt keenly in government, where coffers were topped up by taxation, the most basic form of corporate responsibility. Informally, particularly in the US, entrepreneurs



such as John D. Rockefeller and Andrew Carnegie triggered a culture of philanthropy and private support for public works that still persists in American thinking today.

The Great Depression of the 1930s shook capitalism to its ideological foundations. High levels of debt eventually toppled banks, businesses folded like cards, and even entire countries were bought to their knees. In the aftermath of the Depression, governments took active control of their economies. They stimulated demand and triggered a consumer goods boom that – interrupted by another World War – lasted through to the 1970s.

Corporations grew faster than the total world economy and consolidation led to the growth of a small group of mega-businesses including Exxon or General Motors, whose incomes eclipsed the GDP of many countries and whose influence stretched well beyond national borders.

Yet in parallel to this economic boom, there was a growing and vocal awareness of its negative impact on the environment. It is often said that this awareness was triggered by the famous 'Blue Marble' photograph of the Earth, taken on December 7, 1972, by the crew of the Apollo 17 space mission. This represented the first time humankind truly witnessed the isolation of our one and only home, galvanising the environmental movement and driving a revival of legislation.

The oil crisis of the 1970s triggered another major market scare and was significant enough to force governments to change the rules again. A decade later, Margaret Thatcher and Ronald Reagan set about removing the restrictions on capitalism. Heavily influenced by the Nobel-Prize winning economist Milton Friedman, they extolled the virtues of a free market economic system with minimal government intervention. Friedman's perspective on social responsibility – which still pervades today – was that a corporation's overriding purpose is to maximise returns to its shareholders, and its only social responsibility is to increase its profits. Greed, as Wall Street's Gordon Gekko infamously argued, was good.

Globalisation, easy access to capital and seemingly unlimited human and environmental resources was a recipe for a 'kind of' success. In the short term, it appeared that Thatcher and Reagan's approach had worked. The global economy boomed, but in a different way: at the start of the 90s, the 50 biggest global economies included 13 major global corporations with greater assets than several Western countries. The age of the multinational corporation and the global brand was well and truly born.

But just as the 1970s saw a rejuvenation of environmental concerns, the late 80s and 90s also saw increasing awareness of the disparities that exist in our society. Events like LiveAid helped mainstream audiences witness the grinding poverty that exists in contrast to the gilded life in the developed world. It inspired an entire movement to get off their backsides and do something about poverty.

Over the course of the next few decades, thanks to an explosion of media, corporate influence over society – good and bad – was given a proper airing in the court of public opinion. High profile scandals such as those impacting Arthur Andersen and Enron served to emphasise the growing perspective that the economic liberalism of the 70s and 80s had gone too far. Big business, conspicuous in its wealth, found itself in the dock and having to justify itself.

It was here, in the 1990s that the concept of Corporate Social Responsibility (CSR) first entered the common lexicon. The phrase CSR itself seriously challenges Friedman's doctrine that business has a responsibility purely to its own shareholders. However, it was and still is frequently used in a way that does not challenge this perspective. It is often adopted as a catch-all phrase to describe ongoing philanthropic efforts, or the positive impact a business has on local communities, while ignoring the negative impacts.

It's worth noting at this point that outside of the Western world, some of the basic tenants of CSR have been practiced for some time, primarily under religious guidance. Islam, for example, has long championed its own distinctive value-based ethical system for business dealings and individual philanthropy. Eastern philosophies such as Buddhism and Confucianism also recognise the importance of returning wealth into society and are making themselves felt across Asia.

CSR has many critics, neo-classical economists on the right and die-hard activists on the left who suggest that it's too basic, just window-dressing, cynical 'greenwash'. Corporate citizenship or conscious capitalism are two examples of the approaches that have been considered in a more positive light.

But putting the jargon and semantics to one side, it was more or less accepted that as we started a new millennium, there were clear links between high standards of responsibility and long-term commercial performance. These links were given their first high profile airing by Collins and Porras in their now-legendary book Built to Last. Their message was not really picked up on at the time of publication, but in the last decade it has reached acceptance in many boardrooms. The idea that businesses need to consider not only their financial performance, but also their environmental and social performance led to John Elkington coining the phrase 'triple bottom line', which many firms have since adopted. Most recently, even

Harvard's Michael Porter, the world's authority on strategy and competitiveness, has highlighted the importance of what he calls the creation of 'shared value'. Since 2000, the United Nations has run a programme called the Global Compact, the 10 key principles of which are designed to encourage businesses worldwide to adopt sustainable and socially-responsible policies, and to report on their implementation. In its first 10 years of operation, the initiative managed to sign up more than 6,000 businesses from all over the world.

On paper at least, it seemed that things were going in the right direction. But the global financial crisis of 2008 demonstrated that they were not. Thousands of businesses collapsed – big and small – and millions of people all over the world lost their jobs, homes and savings. The media told us we were living in a 'them and us' world – where business was separate from society, perhaps even competing with it. Wall Street's wealthy were branded as criminal by the Occupy movement.

Businesses like Starbucks, once the darlings of the high street, became poster children for the evasion of basic social responsibilities that had been considered the norm even more than 2,500 years ago in ancient Greece. Recent failures of the Co-operative Group in the UK have even shaken faith in tested alternative models of business.

While it is fair to say that most big businesses are currently vilified, there are many exceptions to the rule. Companies that are seen to be on the side of society and trailblazing a different way of doing business are held up as heroes and their innovative approach has won them many plaudits. Examples range from Wholefoods, Unilever, IBM or GE through to Patagonia or PUMA. But they are certainly not a majority.

It is here that we find ourselves in 2014. On the one hand, the economic approach we broadly refer to as capitalism has been awe-inspiringly transformative. We have never been more effective at bringing people out of poverty or coming up with innovative ways to solve structural challenges. But our societies are becoming more unequal, not less, and our environment continues to suffer.

This is the backdrop that contextualises today's challenges. We need to consider how we can breed more 'hero businesses' that have a more mutual relationship with their full range of stakeholders – businesses that recognise and act upon the implied social contract as much as any formal commercial arrangements and which accept environmental and civic issues as part of their basic model of trade. These are the businesses that would have thrived in ancient Greece, and will succeed today.

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Mutuality and morality in business

COLIN MAYER

A MOST REMARKABLE INSTITUTION

This article is about the most remarkable institution in our lives. I am not talking about the state, religion or universities. I am talking about an institution that clothes, feeds and houses us, employs us and invests our savings. It is the source of economic prosperity and the growth of nations around the world. It is a much-neglected institution because, at the same time, it has been the source of terrible depravation, poverty and environmental degradation.

FAILURE OF THE CONVENTIONAL VIEW OF THE CORPORATION

Underlying the corporation is a belief that it exists to serve the interests of one particular group in society – its shareholders – and its executives owe its shareholders a fiduciary responsibility to uphold their interests and maximise the value of the firm. This view of the corporation is widely held but is incorrect. The corporation does not exist simply to further the interests of its shareholders. It exists to do things, to make goods and services that benefit us as customers and communities. The corporation is exceptionally well placed to do that because it can balance the commitments it gives to different parties with the control that it exerts over them. It is an Alice in Wonderland, but over time it has become a Dracula in Transylvania and the reason for that is it has been hijacked by one particular interest group in society – its shareholders, and in particular very short-term shareholders.

WHY IS THIS HAPPENING?

70 years ago, the average holding period of shares on stock exchanges around the world was eight years. 30 years ago, it was four years. Today it is a matter of months, weeks, days, hours, seconds or, in the case of high frequency trading, nanoseconds. The consequences of this for our financial, economic and environmental systems have been devastating because, in the pursuit of short-term shareholder gains, corporations have been willing to sacrifice our interests as creditors, employees, communities and, above all, future generations.

WHAT SHOULD BE DONE ABOUT IT?

In seeking to address the problem we should be clear about what we want our corporations to do. We want them to promote our long-term well-being as customers, communities and employees as well as creditors and shareholders. Critical to this is the ownership of corporations.

Currently some of the most successful nations are the Nordic countries, such as Denmark, Norway and Sweden. One of the distinguishing characteristics of these economies is the nature of their corporations and the fact that control of them frequently resides in families who hold the firms through many generations, such as the Wallenbergs in Sweden.

As a consequence, while in UK and US firms the audit, appointment and remuneration committees report to their boards of directors, in Nordic corporations they also report to the shareholders. That means that not only is control in the hands of owners interested in the corporations' long-term prosperity but there is also better governance by informed shareholders who have an interest in monitoring their performance.

CORPORATE VALUES

Engaged long-term ownership is the first requirement to address the failings of corporations but it is not sufficient. Corporations also need to expound their values and principles much more clearly and precisely than at present. In a survey of middle management undertaken in France, Germany, Japan, the UK and US, respondents were asked whether they thought their companies were being run just in the interests of their shareholders or also for their wider stakeholders. 70 per cent of the middle management of the UK and US firms said that they thought that their firms were run just for their shareholders while 20 per cent of the French and German firms gave that response and just three per cent of Japanese firms.

And these differences matter. The middle management were also asked whether in the event of their company getting into financial difficulty they thought that it would cut employment or its dividends. 90 per cent of the UK and US firms said that they thought that their company would cut employment, compared with 40 per cent of the French and German firms and just three per cent of the Japanese firms.

CREDIBLE COMMITMENTS

Shareholder-oriented firms do not have to be exclusively focused on their shareholder interests but if they are to uphold our wider interests with conviction and go beyond the empty rhetoric of 'Corporate Social Responsibility' then three criteria need to be satisfied. First, the values of the firm need to be clearly articulated. In whose interests is it being run? Does it exist to further the interests of just short-term shareholders or those of other stakeholders as well and, if so, what precisely are the purposes of the firm?

Second, the values that the firm attributes to the human capital of employees, the social capital of customers and communities, and the natural capital of future generations need to be carefully measured and reported in corporate balance sheets and income statements alongside existing financial information. Third, someone needs to be responsible for promoting the different forms of capital and ensuring they are properly protected and enhanced. That responsibility should start at the top with the board of directors and should then permeate throughout the organisation.

Some of the most successful corporations in the world display these characteristics: Bertelsmann, the media company; Robert Bosch, the automotive supply company; Carlsberg, the brewery; Tata, the Indian conglomerate; Velux, the window manufacturers. All of these firms have one thing in common: they are all owned by industrial foundations. These foundations donate a majority of their corporations' profits to charities, but it is not their philanthropic nature that is their most important feature. More significantly, it is the directors of the foundations who are responsible for upholding the values of their corporations and bearing responsibility if they fail to do so.

TRUST FIRMS AND MUTUALITY IN BUSINESS

This combination of long-term ownership, clearly articulated values and an independent board of directors responsible for upholding corporate values gives rise to what I term 'trust firms' – firms that we can trust to protect our interests as customers, communities and employees, as well as creditors and shareholders. These three features are the basis of the principle of mutuality in business by which the rewards of the corporation are appropriately shared amongst those who contribute to it.

Mutuality is not only a fairer way of sharing the benefits of business but also of enhancing financial returns. In a comparison that was recently undertaken of 90 'high sustainability' and 90 'low sustainability' firms, it was found that $1 invested in the shares of the high sustainability firms in 1992 was worth $23 in 2010, while it was worth just $15 in the low sustainability firms – a 50 per cent difference.[1] What distinguished the first group of firms from the second was a stronger emphasis on high sustainability policies, a greater focus on long-term performance and a clear alignment of the incentives of executives with measures of sustainability.

Restoring trust in corporations is probably the most important issue of this decade because without it economic systems will go on failing, financial systems will repeatedly collapse and the environment will continue to degrade

MORAL FIRMS

Ultimately, the goal should be to establish corporations as moral entities. The notion of a moral, commercially-oriented organisation might sound like an oxymoron but it is not because corporations are exceptionally powerful instruments for upholding commitments. Two corporations that illustrate this particularly well are Lehman Brothers and Barclays Bank – not their current or recent manifestations but their 19th and 17th Century versions respectively. Mayer Lehman, the founder of Lehman Brothers, took his children every weekend to the Mount Sinai hospital in New York to show them the plight of the poorer members of New York society. John Freame, the founder of Barclays Bank in 1692, wrote Scripture Instruction, a text that was used for more than 100 years in Quaker schools. These banks, which were established by founders with strong ethical principles, have over time come to be owned and controlled by shareholders and executives who are interested in one thing and one thing alone – making money.

Restoring trust in corporations is probably the most important issue of this decade because without it economic systems will go on failing, financial systems will repeatedly collapse and the environment will continue to degrade. With it, we can achieve higher levels of economic prosperity and social wellbeing than have been possible to date. Because ultimately, a moral corporation is a commercially successful corporation and the competitiveness of nations depends on the moral fibre of their corporations.

Professor Colin Mayer is the Peter Moores Professor of Management Studies at Saïd Business School, University of Oxford

1 Eccles, Robert G. and Ioannou, Ioannis and Serafeim, George, "The Impact of Corporate Sustainability on Organizational Processes and Performance" (November 23, 2011). Harvard Business School Working Paper Series 12-035.

Tony Blair: beyond politics

THE FORMER UK PRIME MINISTER TALKS TO EDWARD AMORY ABOUT WHY HIS FOUNDING POLITICAL PRINCIPLE OF MUTUALITY SHOULD SHAPE THE BUSINESSES AND ECONOMIES OF THE FUTURE

Tony Blair has always believed in mutuality. Speaking in Singapore in 1996, he said, 'We need to build a relationship of trust not just within a firm but within society. By trust, I mean the recognition of a mutual purpose for which we all work, and in which we all benefit.'

Then, as Prime Minister of the UK, he applied this principle to the business of governing. But he now believes that his Third Way concept, and the belief in mutuality which underpinned it, has far wider implications for the corporate world. First of all, he says, 'in the same way that my concept had the state as fulfilling an empowering or strategic role, and not necessarily having to deliver all services, you could have the same approach within a corporate organisation'.

'The skills that make the company a great company with a solid profit line are also the skills they can bring to social and philanthropic ends'

Sometimes, he argues, his model of a smaller, more enabling government can work for business. 'Some companies can come to resemble government bureaucracy, which is not very sensible. It's incredibly important that companies keep their creativity and ability to adapt but if they can do that, with the quality of the people and the reach that large organisations have, they can do immense things'.

More significantly, however, he believes that in the same way that the Third Way in government broke down the 'traditional battle between state and private sector', in business it can attack 'what was originally a rigid demarcation between management and labour'. This is being replaced by 'a way of working that is less hierarchical and more willing to take on the ideas and input of the staff'. There is, Mr Blair explains, 'a read across to a more mutual way of running a company'.

But can this shift towards mutuality go as far as the triple bottom line that companies such as Mars are now considering? 'It's a completely realistic goal provided you understand that the first part of the bottom line has to be achieved. If the company is not selling a good product, no matter how good your social or environmental policies, they are not going to save you.'

However, increasingly he believes that mutuality makes hard business sense. 'If companies want to have the right sentiment amongst consumers and they want to attract quality people, my experience of running my own business and my foundations is that it is important for the people who come and work for you that the company is about more than the bottom line profit'.

But companies must never forget the bottom line, not least because 'the skills that make the company a great company with a solid profit line are also the skills they can bring to social and philanthropic ends. Sometimes what you come across either with individual philanthropists or with companies engaged in corporate social responsibility is that in their day job they are tough minded, inventive and creative. Then they come to philanthropy and they become all sort of floppy and gooey and not hard headed'.

Mr Blair, whose legendary understanding of voters delivered three successive general election victories, believes that the corporate world can no longer afford to ignore the requirement for a social licence to operate. He believes that 'people have accepted that the essential nature of the capitalist system is correct and necessary but are therefore expecting a degree of responsible behaviour and social awareness that wasn't the case 20 years ago'.

He also has an interesting take on the credit crunch, arguing that it has increased social demands on companies, but that although 'there were individuals who behaved extremely irresponsibly, the essential problem was there were financial instruments being created that people didn't fully understand, not just among individual practitioners but amongst governments and regulators as well. It's slightly heretical to say this, but when you have a terrible crisis like the pension crisis in the 80s in the UK, if you're not careful you produce a set of regulatory frameworks designed to solve the last crisis. Crises very rarely reproduce themselves in precisely the same way.' The market, he feels, didn't fundamentally fail.

Mutuality, he says, is if anything even more significant for firms operating in less developed nations. 'A lot of the work I do now is in emerging market countries. We've probably got teams on the ground in roughly twenty different countries around the world. All of them are desperate to attract investment. It's so important that it's the right quality. There's an enormous opportunity and responsibility on big corporate players when they come into a country'. He explains: 'I wouldn't advise any company in the resource or commodity sector to arrive in a country with anything other than a very well worked out plan to put social and environmental perspectives alongside the bottom line, and I'd argue that from a business perspective'.

Mr Blair sees both sides of the equation. 'One of the first pieces of advice I give to the presidents or prime ministers I work with is to get the best of the corporate sector and bring them alongside you. But as countries develop, it moves beyond the leadership. If you take a country like China, as the economy develops and you get these companies that become very large, there is now a lot of pressure from within China, from local people and not just the political system, for companies to operate in a socially- and environmentally- responsible way'.

He accepts that it's tough to be among the best if you are accountable to stock markets with short time horizons. 'I don't know what the answer is but I hear from multinational companies that quarterly accounting can be to the long-term detriment of the company, in particular where they are investing long-term in research and development and you need to take a ten or fifteen year view'. It's a problem exacerbated by 'activists who get into a company – they are not always wrong, but it can be about extracting short term value'. Family businesses, of course, are immune from some of these pressures, and Mr Blair 'can't imagine that many of them would want to swap their structure for something else'.

However, even the stock market is beginning to understand that companies with only the pursuit of profit at their core are not necessarily good investments, and one of the reasons for this is the information explosion. As Mr Blair says: 'the availability of information is a revolutionary phenomenon, politically and in corporate life. You can see this in the rows over whether companies are paying tax or not, these can very quickly spiral into major problems, where if consumers have any choice they are inclined to exercise it. As a result of social media you get a multiplying effect, as waves of opinion reach tsunami force level very quickly and they can be incredibly destabilising for companies. The consequences of a consumer revolt could be devastating'.

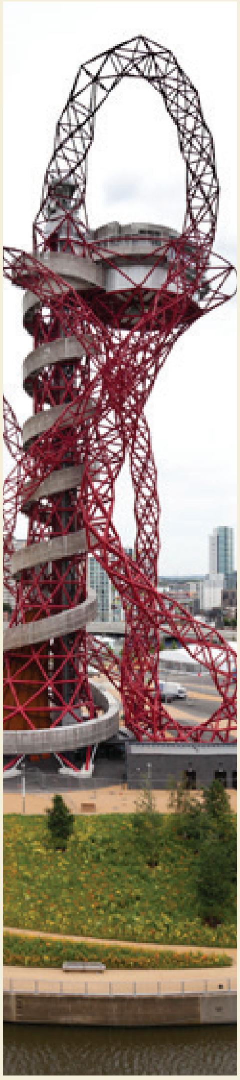
If in another life Tony Blair had gone into business rather than politics, what sort of business would it have been? 'I would have wanted to build my own company, something global, with a product that enables or empowers people or provides them with opportunity. I'd want to have a visible impact on people's lives'. In the mutual world that Mr Blair envisages, that impact could be delivered just as easily by a businessman as a politician.

'One of the first pieces of advice I give to the presidents or prime ministers I work with is to get the best of the corporate sector and bring them alongside you'

Putting a premium on value creation over value extraction

3

PHILIP DILLEY



In historical terms, financial crises are fairly commonplace occurrences. History has long been punctuated by events such as Tulip Mania in the 17th Century, the 18th Century's South Sea Bubble, the Wall Street Crash of 1929, the 1997 Asian Financial Crisis, and, more recently, the 2001 Dotcom Crash, the Global Financial Crisis of 2008 and the European Sovereign Debt Crisis of 2010.

Viewed in that context, any one of these crises could be dismissed as more or less serious 'adjustments' in a long-running series of events that have disparate specifics, but share common themes of greed, fear and regulatory failure.

Yet it is just possible that the most recent crash may have prompted some deeper reflection this time. Even stalwart supporters of free market economics such as the *Financial Times* have run thought pieces under the banner 'Capitalism in Crisis'.

As a result, there appears to be an appetite for checking under the bonnet and looking at whether the growth engine might be modified so that it blows up less frequently. Or at least, inflict less damage when it does.

Among debates about banking reform and ways to rebalance the economy, the crisis has also prompted political and economic figures to cast around for alternative corporate models.

In part, this follows a recognition that capitalism devoid of any form of social contract serves too narrow an interest and ultimately undermines its own foundations.

If capitalism is to continue to be viewed as one of the greatest engines the world has ever seen for reducing poverty and driving innovation, it simply has to be designed to work for, and with, a broader range of social stakeholders and not just in its own self-interest.

This search for viable alternatives to the traditional corporate structure has put groups such as Arup and the John Lewis Partnership very much in the spotlight as employee-owned businesses that have a decent track record in this regard.

Evidence from the Employee Ownership Association and others suggests that employee-owned firms are not only more effective at distributing the benefits of capitalism between stakeholders, but are often also more innovative, more resilient during downturns and drive greater staff engagement.

Certainly, a short history of Arup would seem to back up this view. The firm began the transition from traditional partnership to employee ownership back in 1977, when the partners' shares were gifted to a trust set up for the benefit of all employees, past and present.

Three and half decades of steady global growth later, the group today has no debt, has never posted a loss-making year and has a turnover of more than £1 billion.

More importantly, all staff members get a twice-yearly profit share determined by the group's global profits rather than regional or local performance. For a company dependent on shared knowledge and information to deliver quality projects worldwide, this is an invaluable incentive for collaborative working.

Tellingly, the most recent staff survey in the UK shows that 88 per cent of staff members 'feel proud to work at Arup', whilst 85 per cent 'would recommend it as a place to work'.

Clearly, staff engagement is high, which is a differentiating characteristic for many employee-owned groups.

At this stage, it is important to point out that, while this model has delivered for Arup, employee ownership will not be the right solution for every enterprise.

However, Arup remains one of many examples that demonstrate that alternative models can, and do, work, whether you are discussing

There appears to be an appetite for checking under the bonnet and looking at whether the growth engine might be modified so that it blows up less frequently. Or at least, inflicts less damage when it does

mutuals, cooperatives, partnerships, social enterprises or employee ownership.

There are a number of reasons for this. For a start, less common corporate ownership models often free firms from the distraction of meeting short-term demands for shareholder returns.

This has broad-ranging implications for how the group is run. For example, firms owned by their employees are free to determine their own long-term strategic goals without the same pressures to cut corners or divert course for an immediate profit at the expense of a potentially more lucrative, or more purposeful, long-term goal. Arguably, this explains the greater resilience.

The engagement element is also critical. The various types of employee ownership models – and there are quite a few – typically offer a clear link between organisational performance and personal reward. So while each model may distribute the benefits in different ways, employee ownership models tend to have lower disparities between pay at the top and pay at the bottom. This sense of being 'in it together' typically makes it easier for management and staff to align their interests based on common goals.

Nobody is saying that any of these types of models represent a panacea for either business or society. And certainly, no-one can doubt the enduring power of the limited liability company.

Yet there is ample evidence to suggest that change is required. Relying on business models that are increasingly remote from the outcomes we would want to see as a society runs the risk of undermining the case for capitalism.

We need to support capitalism by finding new ways of putting a premium on 'value creation' that benefits the many rather than 'value extraction' that accrues to the few.

If that happens, then the 2008 crash might just leave a positive legacy in its wake.

Philip Dilley is Group Board Chairman of Arup. Arup's projects include Sydney's Opera House, Beijing's 'Bird's Nest' stadium, Paris's Pompidou Centre, London's Shard and Japan's Kansai Airport

Firms owned by their employees are free to determine their own long-term strategic goals without the same pressures to cut corners or divert course for an immediate profit at the expense of a potentially more lucrative, or more purposeful, long-term goal

The Mars mutuality journey

PAUL S. MICHAELS

Mars, Incorporated was founded with the concept of Mutuality at the core of its culture. In 1947, Forrest E. Mars, Sr. wrote a letter to staff setting out this philosophy. This note has provided inspiration to Mars and its Associates ever since. It laid out the belief that the objective of Mars, Incorporated is the promotion of 'a mutuality of service and benefits' across the entire range of stakeholders– from consumers, distributors, competitors, suppliers, governmental bodies, employees and shareholders – through the manufacturing and distribution of our products.

This represented radical corporate thinking at a time when turning a profit was commonly regarded as sufficient reason for being and shareholder benefit was the only focus. And while the business and global landscape might have shifted since 1947 beyond all recognition, the principle of Mutuality remains core to the Mars culture, sitting alongside Quality, Responsibility, Efficiency and Freedom as the Five Principles that guide everything the business does.

Of course, discussion of principles is all very well but, ultimately, our success will be judged by the tangible, enduring benefits we create where it really matters – for people and the planet

What Mutuality looks like at Mars has evolved based on the needs of our stakeholders, however at its most basic and constant level it refers to the promotion of enduring 'win-win' scenarios in all manner of relationships that Mars has with all stakeholders (including the planet). One practical example of this approach might be the procurement of services from a supplier at a fair market price, which neither undercuts the supplier (reducing their profitability) nor passes on unnecessary cost increases to the consumer. Of course mutual benefits are not always financial in nature. They also relate to societal or environmental impacts, such as supporting Associate engagement and work/life balance through the adoption of flexible working practices; or reducing our impact on the environment by eliminating our fossil fuel energy use and greenhouse gas emissions, minimising our impact on water quality and availability, and mitigating the impacts of waste creation – what we call becoming 'Sustainable in a Generation' at our sites. We believe that our responsible growth gives us the opportunity to amplify our positive impact throughout our value chain. As a family-owned business with a long-term outlook we have an enviable degree of freedom to explore and deliver against this agenda.

Today, the business that Forrest E. Mars, Sr. helped to shape has grown to become one of the largest and most successful food manufacturers in the world, employing more than 72,000 Associates in 74 countries. We have 11 billion-dollar brands in categories including Petcare, Chocolate, Gum and Confections, Food and Drinks. This growth wouldn't have been possible without an enduring belief in our Five Principles, and especially the principle of Mutuality that Forrest introduced.

Of course, discussion of principles is all very well but, ultimately, our success will be judged by the tangible, enduring benefits we create where it really matters – for people and the planet. In this regard, the board and management team are committed to assessing not only how the business is performing financially, but also how the business is performing when it comes to creating a mutuality of benefits [see Economics of Mutuality article on page 16]. This is work in progress, but as we learn more, we are finding different and important ways to deliver on this objective.

I'm pleased to say that we have many examples of creating Mutuality across the business, from the smallholder cocoa farmers of Côte d'Ivoire, to the stretch targets we have set to make our operations 'Sustainable in a Generation', to leveraging our expertise in science to address food safety challenges in developing and developed geographies.

An interesting example of Mutuality in action can be found in our Russian business. Back in 1998, Russia defaulted on its foreign debt and the Rouble crashed. Overnight, the entire economy came to a grinding halt. Our whole customer base stopped ordering our products. They had no money to pay us. Instead of pulling out, we gave our customers a lifeline offering them product that they did not have to pay for until they in turn sold it. This saved many of them from bankruptcy and allowed them to continue to operate in uncertain times. This unusual response ensured that we, together with our customers, were in a position to thrive following the crisis while many others had closed their doors.

More recently, in 2010, Mars, Incorporated was lead partner in an 'uncommon collaboration' project with stakeholders including IBM, which successfully mapped the cocoa genome and then made the data publicly available on the internet for the benefit of the academic, business and cocoa farming communities. Of course, as one of the world's largest consumers of cocoa, Mars has a vested economic interest in the future stewardship of the cocoa farming industry. But, the way we see it, open sharing of this knowledge for the benefit of all cocoa farmers, all industry players, all governments dependent upon cocoa for revenue, and the whole sector will accelerate the increase of cocoa yields which in the end will create mutual benefits for Mars and these other stakeholders.

Mutuality helps define the standard that we must strive for with all our business activities and our sustainability efforts. We must be mutual to all people in our value chain and to the planet. For many materials, certification is a first step in this direction and we have made a number of ambitious commitments – many of them industry firsts, such as sourcing 100 per cent of raw ingredients, including cocoa, coffee, fish, palm oil and tea, from certified sustainable sources by 2020. This demonstrates Mutuality as we are ensuring that we prioritise and reward those farmers and suppliers producing commodities more sustainably.

Newer for Mars is our focus on leveraging our iconic brands as catalysts of behaviour change and awareness on issues. We call this approach 'Doing Good Marketing'. Examples include Whiskas' Big Cat Little Cat WWF tiger conservation partnership, and the Pedigree Dog Adoption Drive. It is our ambition to identify opportunities to create cause-related marketing that is at least as effective as more traditional marketing strategies, delivering a mutuality of benefits both to our brand equity, our non-profit partners – and in the case of Whiskas and Pedigree – endangered wild cats, and shelter dogs that need a home.

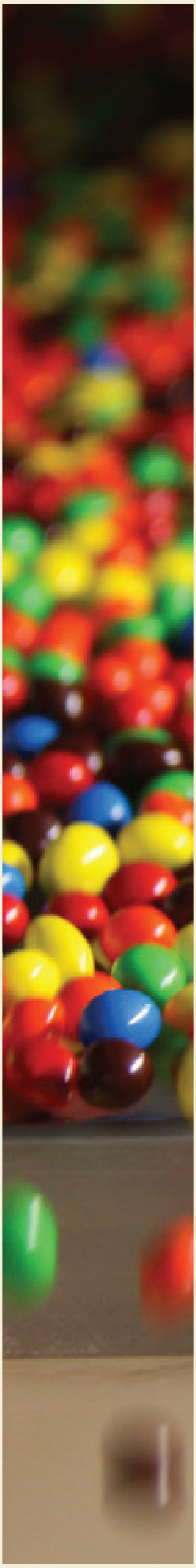
In all of these examples, it is our Associates that are bringing Mutuality to life – whether they work in a factory, create marketing campaigns, or explore new technologies that will help deliver affordable nutrition. Across the organisation, our Associates have a tremendous appetite to deliver shared benefits. One of our jobs as an organization is to enable and recognise their efforts. Our Mars Volunteer Programme (MVP) offers all Associates an opportunity to give something back to the communities where they live, work and do business with paid time off. At the end of 2012, nearly 12,500 Associates from across the global business had invested around 50,000 hours in MVP volunteering projects. I'm proud to say, as of the writing of this, we had a 32 per cent increase in the number of Associates that participated in 2013.

The economic, social and environmental landscape has changed dramatically since Forrest E. Mars, Sr. wrote his letter in 1947. Yet his belief that a principled business can be a financial success, and a powerful force for meaningful change in a challenging world is more relevant than ever – and more difficult to operationalise. For seventy years, Mars and its Associates have worked to deliver on the promise of Mutuality, not always perfectly, but with a steadfast commitment and sense of pride.

Despite our adherence to an economic model that differs significantly from the classic corporate model, we have – by any traditional standard of performance – become a very successful company. Indeed, aspiring to Forrest's vision has driven our market resilience and helped us thrive through a century of change.

We believe that by continually improving how we deliver Mutuality in all that we do, we can deliver sustainable growth for generations to come and, hopefully, encourage others to join us on the journey.

Paul S. Michaels is President of Mars, Incorporated



The economics of mutuality

BRUNO B. ROCHE & JAY F. JAKUB

More than a year before the 2008 financial crisis, Mars, Incorporated asked itself what the right level of profit should be for the business. This question was in part triggered by a growing appreciation of our social and environmental impact, and the influence that this could have on the long-term sustainability of the business. Through our internal think-tank called Catalyst, we launched a research programme termed the Economics of Mutuality (EoM) that continues today. Starting by exploring the relationship between profit and growth, the programme has evolved via a series of experimental business and academic pilots into an alternative metrics-based business model that may change the way in which we measure value at Mars.

Rather than stigmatising the pursuit of profit, Economics of Mutuality recognises that value creation is more effective and sustainable when all parts of the value chain are considered

EoM's objective is to develop a value optimisation model to address new forms of scarcity that did not exist 40 years ago when Milton Friedman's 'Chicago School' model rose to prominence. Friedman's thesis that 'the only social responsibility of business is to use its resources and engage in activities designed to increase its profits' was developed to address a scarcity of financial capital in a world enjoying natural resource surpluses. Today, the scarcity paradigm has turned on its head, with financial capital in growing (dysfunctional) surplus and natural and human resources under pressure. EoM is designed to address new forms of scarcity by taking into account all aspects of the value chain, whether human capital (at the individual level), social capital (for communities), natural capital, or shared financial capital.

Our initial research uncovered a surprising absence of a relationship between profit and growth – from data encompassing the 40+ years dominated by the Chicago model, across 3,000 plus+ companies with revenues greater than+$1bn – with the bottom line consistently following a steep upward trend, the top line random. Concluding that this was more likely a result of Friedman's dogma that 'the sole social responsibility of business is to increase profit and maximise shareholder value' than from any natural law, the Mars team then considered whether 'prosperity' could instead be more sustainably linked to creating a mutuality of benefits for the corporation and its stakeholders and, if so, how much value one should create for others to achieve that sustainable 'sweet spot.' Our initial research also showed us that throughout human history there have been three variables that account for prosperity - the land that provides, the labour that transforms, and the capital that provides liquidity. The business case for EoM is built around sustainable prosperity, i.e. the need to account for all of these variables together.

Our focus on metrics creation exemplifies the difference of approach between the EoM programme, in which a returned benefit to those involved in the transaction is endemic to the business model, and many corporate social responsibility programmes, where payback to society or the environment is often positioned as a supplementary cost and a trade off for the business.

New metrics, Catalyst believes, can be used to create powerful incentives for managers to manage differently, in ways that would more holistically account for impact beyond the pure profit motive (i.e. in business, you often only manage what you measure).

Our programme has four focus areas: human capital, social capital, environmental capital and financial capital. Our activities within each focus area are at varying stages of development as we explore below.

Human Capital: We started out by considering the degree to which a business can impact human capital through its policies, rewarding practices, ways of working and so forth. The research programme's aspiration – working on the basis that charity begins at home – was to augment the conventional metrics of well-being at work (e.g. salary, working hours, environment), with a deeper exploration of other factors impacting employee satisfaction, including social interactions, corporate identity, and prospect of upward mobility. We identified a series of drivers that a company can leverage directly to impact the human capital of employees, and indirectly to impact the human capital of employees of value chain partners – these drivers helped us to understand the types of human metrics that could be developed.

Social Capital: The team undertook a series of scientific and business pilots on both the supply and demand sides of the value chain, to develop a methodology to assess the social fertility of the communities in which Mars operates, in addition to the social impact of Mars operations. Catalyst evaluated the contribution of 40-60 variables to a sense of 'social capital' – following the World Bank's definition as the 'quality and quantity of a community's social interactions'.

Two breakthroughs characterised this work. First, Catalyst found a remarkable stability and consistency of variables across very different cultures, geographies, and commodity growing communities, with the variables reduced to just three, covering over 80% of the variance and making business scalability possible. The data also revealed a correlation between the level of social capital present in farming communities and the economic output of those communities, further demonstrating the relevance of this measure to business needs.

Environmental Capital: The impact of a business on the environment has been studied in detail over the years, but it remains challenging to measure. At Mars our approach has been informed by both our Efficiency principle (i.e. 'we use resources to the full, waste nothing'), and our belief that we must operate within planetary boundaries. As an example, we have measured inflowing materials used across the coffee product lifecycle to determine total resources required to produce one unit. This approach enabled managers to benchmark products against each other to identify 'hotspots' in which abnormally large amounts of resources are being consumed. This, in turn, enabled us to make targeted investments against the right metrics to reduce inputs, such as biodegradable coffee packaging, thereby enhancing resource efficiency. We are now setting our overall business targets to ensure that our impacts on the planet, such as water use and GHG emissions, move towards levels that are within the ability of the planet to sustain.

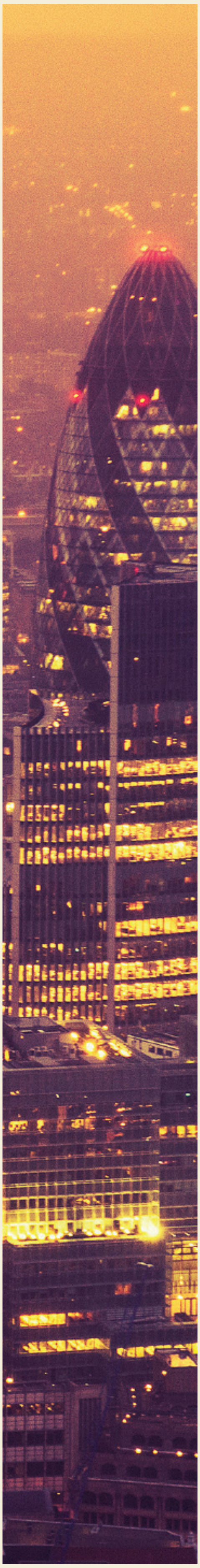
Financial Capital: In the exploration of how to expand the concept of financial capital beyond profit, the team revisited Forrest E. Mars, Sr.'s philosophy of creating a 'mutuality of benefits' among all stakeholders through the manufacturing and distribution of our products. The result was the development of an analytical tool to look at the financial capital and benefits generated across the value chain, in order to develop a simple and scalable approach to understand how value is distributed across stakeholders.

Together, we believe that the work being undertaken in each of these areas will provide us with the beginnings of a framework around which the Economics of Mutuality can be measured and impacted. But, more importantly, for us this work represents the beginnings of a new business model that has the potential to challenge the Chicago School's belief in the pursuit of profit as an end in itself by aligning profitability with a more sustainable holistic approach to business activity. By expanding managerial focus beyond simple profit to take account of the full cost and benefit of doing business, the Economics of Mutuality seeks to address the new forms of scarcity that have arisen in human and environmental spheres that threaten the sustainability of the capitalist model.

Rather than stigmatising the pursuit of profit, EoM recognises that value creation is more effective and sustainable when all parts of the value chain are considered.

Now that the Economics of Mutuality programme has arrived at a tested methodology for quantifying capital across People, Planet and Performance, the next phase of the programme will see us sharing our research with external audiences. As a first step, Mars has launched a research partnership with Oxford University's Saïd Business School to undertake research to develop a business management theory around the Economics of Mutuality. In parallel we will be continuing to learn from the work of others, and looking for opportunities to operationalise the methodology across the Mars business.

Bruno B. Roche is Chief Economist & Catalyst Managing Director at Mars, Incorporated.
Jay F. Jakub is Director of External Research at Mars, Incorporated / Catalyst



For any questions on the operationalism of Mutuality at Mars please contact Barry Parkin, Chief Sustainability Officer, Mars, Incorporated

Flat-pack sustainability

EDWARD AMORY TALKS TO STEVE HOWARD, CHIEF SUSTAINABILITY OFFICER AT IKEA

Listen to Steve Howard talk about principles, and he sounds like the Chief Sustainability Officer at Any Old Firm Plc. He ticks all the boxes. 'For business today to be successful, it needs a clear purpose'. Sustainability at IKEA has moved from a 'nice to do to a must do'. Our market driven global economy has been in 'planetary deficit since 1980. There are three billion people coming out of poverty in 2030, which is great for them but a big challenge for us'. Rapid changes in both values and technology frame our world. The bar 'for big brands is now set really high'. So far, so decent, so principled, so predictable.

It's when the head of sustainability at IKEA starts to talk about what he and the company that he has worked for since 2011 are doing about these challenges, how they are putting these principles into action, that the triathlon-running Mr Howard starts to sound really exciting, and you can understand why the former chief executive of a leading environmental charity saw this as the job in which 'I can maximise my personal impact'.

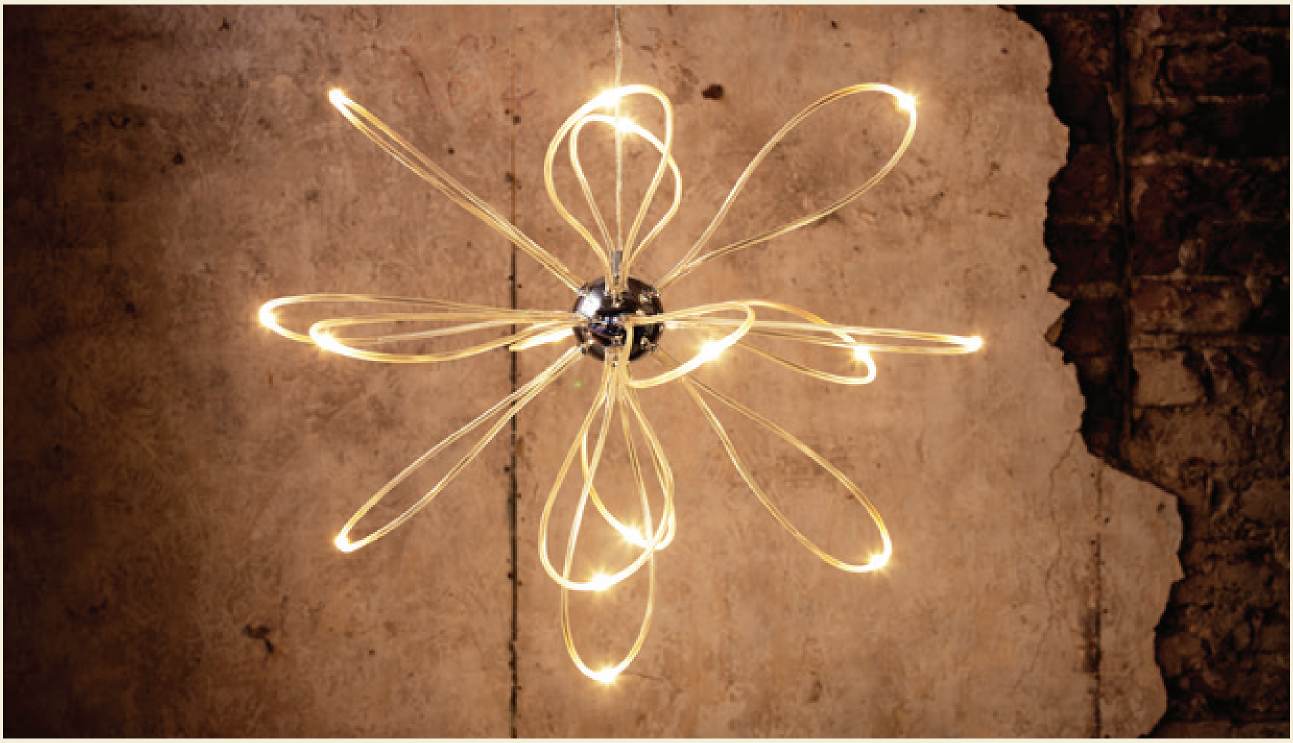
In the past, he explains, sustainability meant 'expecting people to trade down', to accept a worse quality product. Company sustainability reports were 'deliberately printed on rough paper', despite human beings having 'spent years making paper better'.

It's paid off: a better quality product at a lower price has persuaded consumers to change their behaviour

IKEA believes the opposite – that sustainability is about human progress, about making a better product for consumers at lower cost. For example, the company promised to stop selling old-style light bulbs by 2016, and switch to LED. It upped the manufacturing quality – its light bulbs are turned on and off 100,000 times during testing. Bulbs are now expected to last over 20 years. And it's paid off: a better quality product at a lower price has persuaded consumers to change their behaviour, and last year within the space of a few weeks in July, customers in IKEA stores worldwide 'flipped the market', as LEDs won the argument.

Or consider an IKEA kitchen. It is guaranteed for 25 years. The kitchen drawers have been tested to open and close 200,000 times (this is not unusual - a 150kg weight is rolled across their mattresses 50,000 times). It is built to last. But it's the level of detail in the design that makes the sustainable difference. First, IKEA worked out that solid wood doors were a waste of trees, as each log yielded too few kitchens. Then they considered that if you made a wooden door from particle board, you could vary the density of the wood in different parts of the door. Some parts, like the hinges and handle, required high-density wood – others, like the middle of the door, needed low density. Then consider that you could in parts replace the wood with a honeycomb of paper. The result is that IKEA can make four or five times as many doors from the same log, can reduce the cost of making that door and therefore the cost it charges the consumer, without compromising on quality.

Another example is flat packing, the 'IKEA DNA'. This is not just a technique for torturing those unable to reassemble their coffee table upon getting it home. It is in fact part of a company-wide war on 'sweet air'. This, it turns out, is not an industrial disease in confectionary factories, but the empty space that IKEA effectively pays to ship in containers, the gaps between products. So as the company 'hates sweet air' they have designed even their best-selling sofas so that they pack flat for travel, with the result that three times as many sofas can be fitted into the same cargo container. Over time, the company has effectively 'tripled fuel efficiency for the whole transport process'. Of course, all this takes investment. One designer spent months redesigning 'one lamp in the range', with the result that he managed 'to take out about half the components, half the weight'. This produced a lighter lamp that used fewer scarce planetary resources - only possible because of the vast economies of scale available to a company the size of IKEA.



Nor is this extraordinary attention to detail confined to production. It also finds its way into the supply chain. A few years ago, IKEA decided that all of its suppliers must meet a much stricter code of conduct about the way they treated employees regarding their age, working hours and so on. A few – 75 suppliers out of more than a thousand - declined. They were phased out straight away, demonstrating to those who had made the effort to meet the code that it was worth it, because 'they'd been rewarded with continued business'.

The same is true for the production of cotton used in IKEA products. According to Mr Howard, it's a great raw material, except that its production can have bad environmental impacts. Cotton is very demanding of water use in some of the world's driest places. It encourages flood irrigation; a quarter of all the world's pesticides are used on cotton; it uses a great deal of fertilizer; and yet many of those producing it are not making much money. So IKEA wants to 'flip the market' and now '72 per cent of our cotton is more sustainable', produced using a quarter to a third less water, fewer pesticides and less fertiliser. And by reducing the inputs, profits for the small farmer rise; by '24 per cent in Pakistan' for instance. By the end of 2015, all the cotton IKEA uses will be produced this way.

Mr Howard works for a company that thinks differently. It even applies this process to profits. At a total group level, the company aims to keep profits at around 10 per cent of sales, 'if it's more than that, we adapt by lowering prices further'. As a result, IKEA prices in real terms have fallen by 25 per cent since 2000.

Of course, the company is hugely profitable, but that's because over roughly the same period it has grown four-fold in size. But is its ability to take this long-term view of sustainability the result of its ownership structure? It was founded by one man, Ingvar Kamprad, and is now owned by foundations he established. He agrees that companies bound by the quarterly reporting cycle will find this kind of long-term innovation more difficult, but not impossible, because according to Mr Howard, if you are in good financial shape and have a 'strong business model, any business can do it regardless of ownership structure'.

Sustainability at IKEA has moved from a 'nice to do' to a 'must do'

Which brings us back to IKEA, where Mr Howard sits on the nine-person group management board as a real contributor, not an 'exotic extra'. That's possible because IKEA is a different kind of company, where employees are encouraged to dare to be different and take risks, whilst at the same time 'most people are ready to say yes and step up'. It's also a place with 'decent people and decent values'.

So go back to the opening paragraph, to those lofty sounding commitments about sustainability having moved from a 'nice to do to a must do', and it's clear that IKEA and Steve Howard have found a profitable, decent, purposeful, values-driven way to put those principles into action.

Mutuality

B

MUTUALITY REPUTATION INDEX
CONSUMER PERCEPTIONS OF MUTUALITY

RESEARCH METHODOLOGY

The fieldwork was conducted via an online survey and the sample was representative of the adult populations of the respective countries.

The sample sizes across our markets were 201 in the UK, 202 in US, 182 in Brazil and 216 in India.

In December 2013, we conducted a poll among consumers across four markets, the UK, US, Brazil and India, to explore perceptions of mutuality of some of the world's most popular and iconic brands. We asked consumers to score the brands on a wide range of criteria (e.g. paying fairly, doing the right thing, improving all our lives) and analysed the results in order to develop this index of brands that consumers perceive to be most mutual.

1 Google

2

3 SONY

4 TATA

5 TOYOTA

At the top of our index - with the best reputation for mutuality amongst consumers in the UK, US, India and Brazil – is Google. There are two probable forces driving Google's reputation in this area. Firstly, through Google search and the associated services, they have arguably made the single largest contribution to society's advancement of any one company in recent times and secondly, they have done so 'for free'. For the purposes of this research we defined mutuality as a company 'being committed to sharing the benefits of their business with society'. What could be more mutual than Google's abundance of game-changing services, all free to consumers at the point of use?

Apple's position at number two is perhaps more surprising. Most conversations about mutuality focus on business practice, and as such Apple is not a company we spontaneously associate with mutuality. The answer lies in their products, and in the 'benefit to society' their products bring. If Google gives us access to information and content, Apple allows us to create, curate and share content. Their reputation for mutuality is less about consumer judgement on their business practice and more a testament to the pleasure the world has derived from using their products.

UK

1. IKEA
2. SONY
3. APPLE

USA

1. APPLE
2. UPS
3. GOOGLE

BRAZIL

1. GOOGLE
2. APPLE
3. SONY

INDIA

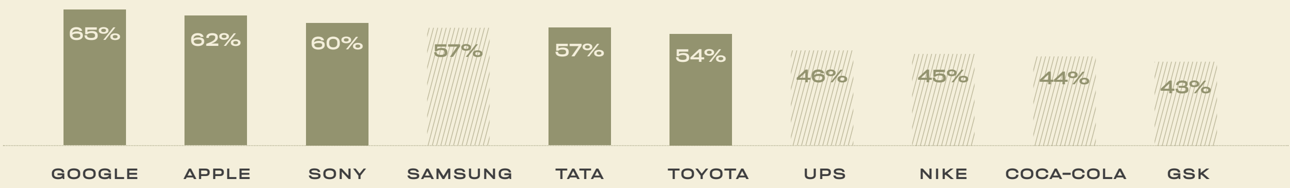
1. TATA
2. GOOGLE
3. SONY

IMPACT ON REPUTATION

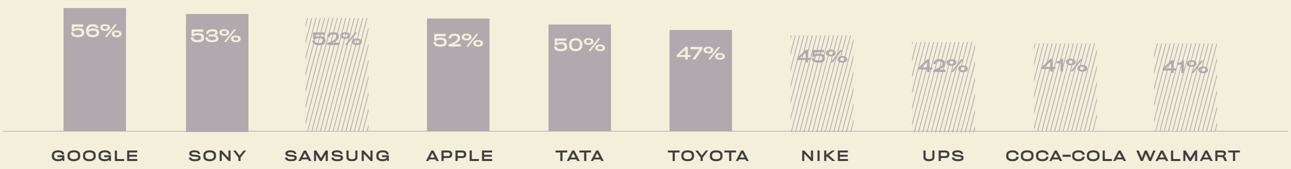
As well as looking at perceptions of mutuality, we also examined views of what these brands are like as employers, and how buying their products makes us feel.

We found that brands that performed strongly on our Mutuality Index also outperform the category average on being a brand that consumers feel good about supporting and a company that consumers would be proud to work for.

% AGREEING THAT "I WOULD BE PROUD TO WORK FOR THIS COMPANY" (TOP 10)

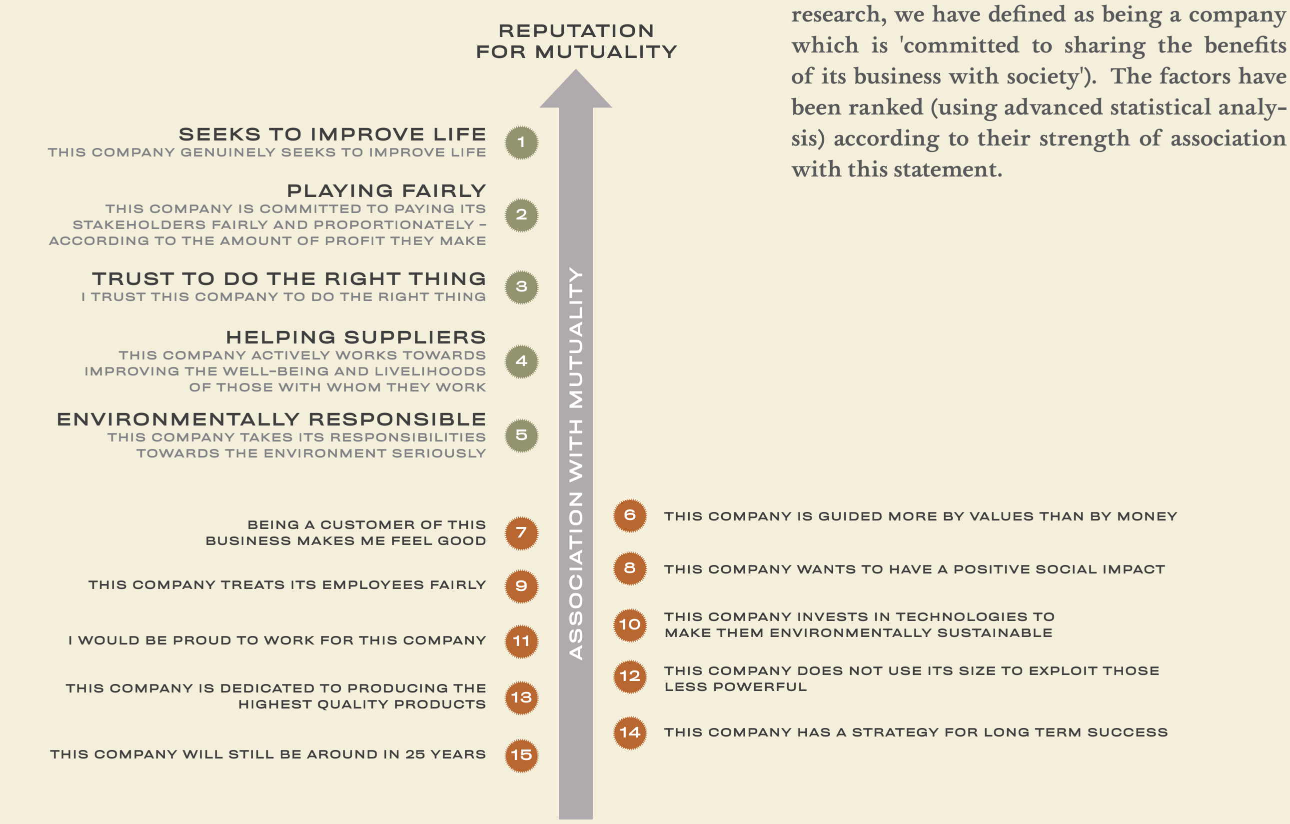


% AGREEING THAT "SUPPORTING THIS BUSINESS BY BEING A CUSTOMER MAKES ME FEEL GOOD" (TOP 10)



DRIVERS OF MUTUALITY

This chart shows which factors have the greatest impact on driving consumers' perceptions of mutuality (which, for the purposes of this research, we have defined as being a company which is 'committed to sharing the benefits of its business with society'). The factors have been ranked (using advanced statistical analysis) according to their strength of association with this statement.



Research conducted by freuds Insight

Fixing the broken compass: finding our way to natural capitalism

7

JULES KORTENHORST & JON CREYTS

In 1999, Rocky Mountain Institute co-founder and chief scientist Amory Lovins co-authored a piece for the Harvard Business Review entitled 'A Road Map for Natural Capitalism'. It aimed to come up with a new economic model that took the needs of sustainability into account. This article laid out the business logic for solving environmental problems whilst also generating a profit for the companies involved – true win-wins, in other words. 'The real problem with our [current] economic compass is that it points in exactly the wrong direction', he wrote. 'Most businesses are acting as though people are still scarce and nature abundant... But the pattern of scarcity is shifting: now, people aren't scarce, but nature is'.

If we are to solve perhaps the greatest challenge that global capitalism has created – climate change – it is essential that we reconcile our prevailing economic model to place more emphasis on the importance of natural capitalism. Here's how:

'The real problem with our [current] economic compass is that it points in exactly the wrong direction...The pattern of scarcity is shifting: now, people aren't scarce, but nature is'

HONOURING NATURAL CAPITAL

The first step is to build pricing signals into the market that reflect shifts in scarcity such as the external factors burdening our natural world. We are already making progress here.

Assigning a price to carbon is perhaps the most obvious – and contentious – way to mobilise market forces to help tackle climate change. It's interesting that most citizens of developed countries happily pay for trash collection services and don't refute the need for waste companies to treat their refuse before releasing it into the environment, and yet applying a similar logic to carbon is still seen as controversial. Nevertheless, a number of states are taking a stand and it's reassuring to see early experiments in carbon taxes and cap-and-trade in Canada, China, the EU, New Zealand and on both seaboards of the USA.

Even without government policies, recent research from the Carbon Disclosure Project showed that an increasing number of US companies are now placing an internal price on carbon when evaluating potential projects, citing climate change risk. Businesses and investors are calculating their possible returns on certain assets with a notional carbon price in mind, acknowledging that formal pricing is likely to become a reality eventually.

Make no mistake: whether enforced by local government policy, encouraged by a long-promised binding global deal on climate change in Paris in 2015, the result of prescient corporate planning, or simply in response to an extreme weather event like the one that recently put portions of New York City under 10 feet of water, the march towards putting a hard financial value on carbon emissions is underway and gaining momentum, whatever the critics would like to think.

INCREASING THE TRANSPARENCY OF RISK

Pricing externalities like carbon is the surest long-term way to modify corporate and market behaviour in the longer term but, in the meantime, better-acknowledging the investment risks of both established and emerging energy assets can also be a powerful incentive to help repair Lovins' proverbial 'broken compass'.

At an individual project level, investing in energy efficiency projects can offer a bond-like consistency in financial returns, whilst also mitigating against the ongoing volatility in fuel prices. These assets therefore effectively create a natural hedge against market dynamics. Contrast this situation with a new coal-fired power station, for example, which is not only vulnerable to fluctuating fossil fuel prices but also to the very real possibility that over the next 40 years of its life, regulatory changes or a punitive carbon price could significantly erode its economic viability, dramatically impairing its current worth in the process.

These are all very rational approaches to risk and valuation but, increasingly, carbon-intensive assets could also become stranded if investors lose faith in their economic potential. Consider, for example, the current push by college students to make their universities divest fossil fuel investments. If this increasing social push for institutions to shift their portfolios away from these assets gains momentum, fossil fuel businesses may suddenly find themselves facing much higher capital costs and new investments in carbon-intensive assets could become unprofitable.

This situation becomes even more disconcerting if we consider the potential implications of a single, international carbon budget designed to restrict global warming to within the 'acceptable' two degree Celsius band. Such a cap on total CO_2 emissions would effectively dictate that two-thirds of the planet's remaining known fossil fuel reserves should stay in the ground. This in turn would represent a massive balance sheet risk to some of the most powerful economies and corporations in the world. Acknowledging these risks entails not just a punitive discounting approach, but also a dramatic write-off in value.

LETTING THE MARKET SORT ITSELF

As with any revolution, retooling our economy to address the opportunities and challenges presented by natural capitalism will create both winners and losers. New technologies will break through; new businesses will prosper; new skills will be in demand; new rules will emerge; and new fortunes will be made. At the same time, however, there will be losers: certain established technologies will be rendered obsolete; some established businesses will struggle; skills from a previous industrial age may become redundant; old rules will be revisited; and a certain proportion of economic value will inevitably be eroded, even as new sustainable economies emerge to fill the gap. Throughout the process, there will also be a natural tendency to defend the past.

Electric cars, long the laughing stock of Detroit, Houston and Wall Street alike, achieved a 12 per cent market share in Norway last year

Successfully honouring natural capital means we will need to challenge our instinctive defence mechanisms that tend to defer to the known and the proven. Doing so means unwinding some of those supportive policies and presumptions that have made the current carbon extraction industries and businesses some of the most financially-productive in the world. We will also need to be prepared to write-off established assets that no longer produce true value because of their environmental impact. We will have to accept that formerly great icons of success, titans of an earlier age, may tumble. Ask those who ran mainframe computer companies or former telecoms monopolists about the cost of disruption and paradigm shift. A similar value shift is inevitable in the world of energy as well – indeed, it is already underway, as unpalatable as that thought might seem in certain quarters.

In 2009, Royal Dutch Shell executives Gert Jan Kramer and Martin Haigh argued that new forms of energy take a very long time to become material sources of global power supply. But there are signs this reality is

changing too. The logic of the past, where growing energy supply generally required massive capital projects with correspondingly long lead times, is being overturned before our eyes. Solar panels on the roof of a family home require a much simpler capital sign-off process – generally around the breakfast table – than coal-fired power stations or fracking wells; they come in handy, modular, 'as needed' chunks; and they can be implemented in weeks, not years. More dramatically, returns on investment in energy-efficiency projects often filter through within months, rather than decades, and these projects are gaining traction everywhere from China's commercial sector to European and US real estate markets. A single LED lamp is not a revolution – but large-scale roll-out of LED lamps is.

FIXING THE BROKEN COMPASS

So, what are the implications of these various trends? The happy reality is that industrial upheaval may already be gathering pace, even without the stick of a high carbon tax or dramatic shift in the perceived risk of traditional, fossil-based investment assets. The largest utility firms in Europe, increasingly brought to their knees by the emergence of decentralised power, were recently forced to beg the European Commission for mercy. Their balance sheets no longer represent a basis for investments in large-scale energy projects. And their customers are increasingly embracing a future of renewable distributed power, selling energy from one home to another. Electric cars, long the laughing stock of Detroit, Houston and Wall Street alike, achieved a 12 per cent market share in Norway last year.

Could it be that a new energy economy, founded on a far more thoughtful and far-sighted approach to managing our planet's resources, is already emerging? It is certainly a predictable outcome and modern capitalism should take note. Those who design their business models and encourage their industries to embrace this shift should be positioned to prosper disproportionately in a brave new world where natural capitalism reigns.

Jules Kortenhorst is CEO of Rocky Mountain Institute and founding CEO of the European Climate Foundation; Jon Creyts is Managing Director of Rocky Mountain Institute and a former partner of McKinsey & Company

The value of environmental capital – can China lead the world in an environmental efficiency revolution?

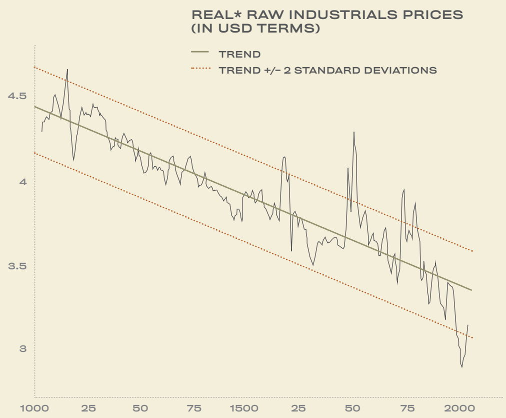
ERNST ULRICH VON WEIZSÄCKER

The human race is at a tipping point. A moment of great change lies before us. We have been so successful in developing our knowledge, technology and skills that we have created untold wealth and material prosperity – prosperity that could barely be dreamt of 100 years ago. The innovators of the 19th Century couldn't imagine the scale of innovation we enjoy today, but nor could they imagine the extent to which this change is impacting our environment.

Revolutions in electrical and digital technology mean the human race now covers much of the planet and harnesses resources from its furthest corners. However, this is not without cost. The size of our global community now rivals the planet's ability to cope.

Improved exploration and exploitation of resources means commodity prices have fallen over the past 200 years (Figure 1).

Figure 1. 200 years of declining commodity prices (in constant dollars).



Source: The Bank Credit Analyst, 2005

Some would argue this decline in prices has slowed since the year 2000. Why? Until roughly 2000, only about one billion people on Earth, chiefly in the economically advanced OECD countries, were enjoying modern type prosperity based on high resource consumption. But since the 1990s, the People's Republic of China and other populous BRIC countries have entered world markets as major buyers of petrol, minerals and other natural resources. Consumption in these rapidly developing countries is rising at a time when resource exploitation may have reached its natural geological and technological limits.

This increased scarcity doesn't mean there will be an immediate escalation in prices. I tend to believe that the rise of commodity prices on world markets will be considerably slower than in previous decades. Look at the boom of cheap shale oil and gas in North America, and the discovery of new metal ores in Africa. However, even if scarcity grows slowly, I believe that all countries are well advised to accelerate their efforts in developing technologies that are dramatically more resource-efficient than today's.

The countries that introduce efficiency technologies first will benefit... and will be ones to shape the future global economy

Why is this? Improved resource productivity is already available. Some pioneering countries in East Asia and Europe are already engaging in it and are thereby reducing global demand. Whilst the USA may be culturally reluctant and lacking in the necessary infrastructure to become truly resource-efficient, if China and Europe move ahead with the new technological revolution, then the USA will have no choice but to join the trend. China, in her 11th and 12th Five Year Plans, has already stressed the importance of energy efficiency in planning for economic sustainability.

I'd also argue that many overestimate the energy demands that a country really needs. The reason? Political leaders make short-term decisions to please their people or the electorate by making natural resources as cheap as possible, thus frustrating all efforts towards higher resource productivity. It never occurs to politics or industry that it could be wise to artificially create a financial signal of future scarcity. The notable exceptions are China and Germany.

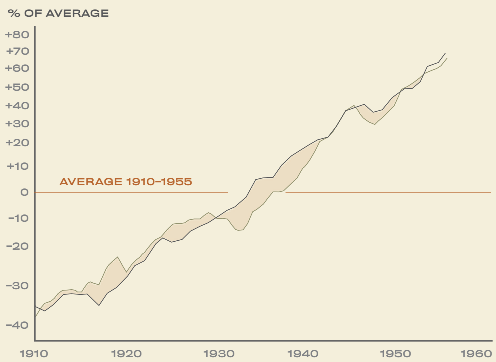
China first let energy prices, which were formerly heavily subsidised, gradually approach world market levels and later even moved them upwards beyond the world market. Germany, in 1999, introduced an ecological tax reform, which shifted an increasing part of the fiscal burden from labour to energy, thus making energy efficiency more profitable and the laying off of workers less so.

There is another way of putting a price on energy use, or more specifically, on the emission of CO_2 or other greenhouse gases: it is the limiting and trading of emission permits. This has been the method chosen by the EU countries for fulfilling their obligations under the Framework Convention on Climate Change (FCCC) and its Kyoto Protocol. But Europe's emissions trading system (ETS) has lost its traction, notably after the prices for the permits fell to near zero.

Direct pricing on a predictable trajectory can be very attractive for investors and creators of new technologies. They can more or less calculate by which time an efficiency technology will become profitable. If we were to make energy prices (and raw material prices) rise by as much as the documented efficiency gains of the previous year, then, on average, the cost of buying energy and materials should remain constant.

History demonstrates how human labour productivity rises in parallel with gross labour cost. Figure 2 shows a time window from the US, but very similar pictures exist for other countries. Over a period of 150 years, both labour productivity and gross labour cost rose roughly twentyfold in the successful industrialised countries.

Figure 2. Wages per hour and productivity per hour went up in parallel. Here is a time window from 1910 to 1960 in the USA, from US labour statistics



This mutually enforcing development of cost and productivity turned out to be the engine of technological progress and of spreading wealth.

This is an exciting time – I foresee a long-term but revolutionary improvements in resource productivity. Improved productivity would also affect infrastructure planning, housing, mobility, nutrition habits and the durability of goods – these are all issues that environmental policymakers have long struggled to find solutions to.

Worldwide scarcities, or the cost of refinement, will inevitably be felt in developed and well as developing economies. The countries that introduce efficiency technologies first will benefit, enjoying 'first mover advantages' on world markets, and will be ones to shape the future global economy.

Professor Ernst Ulrich von Weizsäcker is the Co-Chair of the United Nations Environment Programme's International Resource Panel and is Co-President of the Club of Rome

Measuring the impact of a company on society: how to gain an all-round view

DENNIS NALLY

Financial measures – historically the main focus of businesses' assessment and reporting of their performance – are no longer enough

THE IMPERATIVE TO REBUILD TRUST...

Business today is suffering from a global trust deficit. Recent experience has underlined time and again just how fragile trust can be, and how serious the consequences are when it evaporates. So the challenge – and priority – is to find practical and actionable ways to earn back the trust of society.

In fact, rebuilding trust is imperative for many reasons. Amid today's pervasive connectivity and constant 24/7 scrutiny, trust is a critical asset. Yet it doesn't appear on the balance sheet or figure in any financial reporting.

Business does many great – albeit often unacknowledged – things for society as a whole. It creates jobs; drives economic activity and growth; generates the profits that fund tax revenues; and fuels global trade that helps reduce poverty. But all too often, business is perceived as ruthlessly pursuing its own interests, irrespective of society's needs.

For a company without public trust, doing business becomes very difficult. Conversely, a business that's highly trusted can magnify its beneficial impacts on society, by taking decisions faster and with more certainty, attracting and retaining more and better people, and being able to expand and innovate with greater confidence.

...DEMANDS A NEW SETTLEMENT – AND A CLEAR PURPOSE

So, how can we close the trust deficit? Trust is a two-way street: if it isn't reciprocated, it doesn't work. So what's needed is a new, mutually understood settlement between business and society – one that aligns expectations on both sides and clarifies the contribution that each is seeking from the other.

The settlement should define the purpose of business in society. By having a clear and explicit purpose that is based on and takes account of the needs of all its stakeholders, a business can give society an unimpeded view of why it exists, and of what it does and why.

MEASURING AND ARTICULATING IMPACTS

However, simply having a purpose and living by it isn't enough. Every business needs a way to measure and articulate its own impact across a broad range of issues.

Why? Because financial measures – historically the main focus of a businesses' assessment and reporting of their performance – are no longer enough. True, financial numbers are still important. But alongside that, a host of further factors now influence how highly a company is rated by investors and trusted by society.

For example, how do the business's activities and performance impact its employees? Its suppliers? Its customers? The environment? The communities it works with? And how do all these impacts in different dimensions integrate with each other, and with the business's overall purpose and strategy? Perhaps most importantly, how are competing issues prioritised and addressed?

THE NEED FOR A NEW MODEL

For some years, companies, standard-setters and regulators have been responding to the growing demand for more diverse and integrated information. Companies have raised their game in social and environmental reporting. And we've seen advances including 'triple bottom line' reporting, the Global Reporting Initiative (GRI) Guidelines, and – most recently – the Integrated Reporting Framework from the International Integrated Reporting Council (IIRC).

However, as reporting continues to evolve, today's assurance model – still grounded in financial measures – is struggling to keep pace. What's needed is a new model – one that enables a business to gain and provide transparent, credible and integrated insights into all its impacts across all relevant domains. Put simply, it would show whether a company's growth is 'good' growth in line with its purpose – and therefore worthy of being trusted by society.

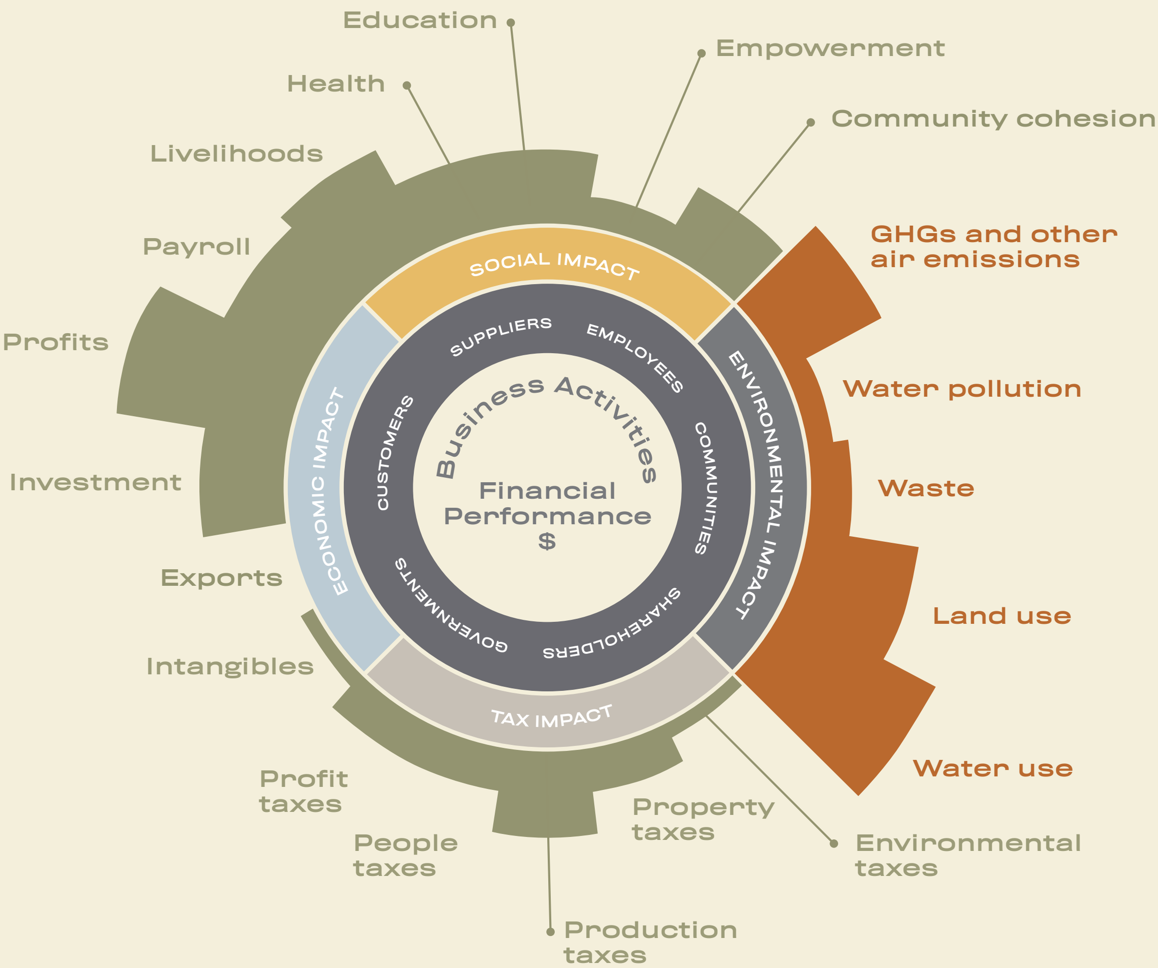
A WAY FORWARD: TOTAL IMPACT MEASUREMENT AND MANAGEMENT (TIMM)

Over the past three years, we've been working with our clients to create the basis for such a model, by developing ways to help them to measure, manage and track a wider array of impacts, and report these transparently and credibly to stakeholders. We've now brought all this together into what we call Total Impact Measurement and Management (TIMM).

As you can see in Figure 1, TIMM separates out an organisation's impacts between four core domains, and then breaks these down into specific areas, assessing the organisation's impacts in each. In this way, TIMM enables management to develop a better understanding of the social, fiscal, environmental and economic impacts of their activities and planned activities.

This approach means TIMM enables management to compare strategies and investment choices using quantified data, thereby evaluat-

Figure 1: Illustrative dimensions of impact considered within TIMM



ing the overall impact of each possible decision. This flexible modelling capability provides a framework supporting better-informed business decisions, through a deeper understanding of which stakeholders will be affected by which decisions and why.

It will open the way to new and wider approaches to assurance, by enabling companies to specify the source of each piece of information and – if appropriate – the process by which it has been assured. So the reader will be able to decide for themselves how credible and trustworthy each data item is, and how aligned it is with the company's stated purpose.

NOT AN END IN ITSELF – BUT THE START OF THE JOURNEY

At PwC, we believe TIMM is a good start on the journey towards providing the all-round view of a company's impacts that will ultimately drive renewed trust. But we also know there's a long way to go. The entrenched and long-standing focus on financial measures and statements – and on short-term planning and performance rather than longer-term sustainability – will be very hard to dispel.

For example, we recently carried out in-depth research among over 100 investors and analysts from 11 capital markets. Asked to rate on a scale from zero to 100 the level of assurance they would like on different pieces of information, they put the primary financial statements and notes top on 94/100, with non-financial information on corporate social responsibility way down the ranking at 28, and company strategy even lower at 24. Yet the potential for these areas to build trust makes them pivotal to long-term growth and earnings.

Looking forward, it's increasingly clear what needs to be done to rebuild trust in business – and the tools to do it are emerging rapidly. But it's equally clear that there are challenges ahead. To navigate the way to higher trust through clear, credible reporting on each company's all-round performance against its purpose, we believe that all stakeholders, including management, boards of directors, regulators, and particularly investors, need to enthusiastically embrace more innovative and transparent approaches, such as TIMM, to achieve this imperative of rebuilding trust.

Dennis Nally is Chairman of
PwC International Ltd

Tomorrow's bottom line

JOHN ELKINGTON

Somewhere I read that Paul McCartney couldn't believe he hadn't already heard the melody of *Yesterday* when it first popped into his brain. In the same way, I couldn't believe that I hadn't heard the term 'triple bottom line' (TBL) when it surfaced in my mind 20 years ago, in 1994.

So I admit to feeling a fleeting moment of paternal pride in 2012 when, in the run-up to yet another largely abortive summit, UN Secretary-General Ban Ki-moon characterised the sustainability challenge as delivering against 'what economists call a 'triple bottom line' job-rich economic growth coupled with environmental protection and social inclusion.'

I didn't coin the term 'sustainability', though when I co-founded the firm SustainAbility in 1987 we initially thought we had made a ghastly mistake. We spent the next few years spelling the word for people who had never come across it. But in 1994, after several years of trying to explain the business implications of the new agenda, I did coin the term 'triple bottom line' and helped popularise the core concept the following year with the linked phrase, 'People, Planet & Profit'.

When I co-founded the firm SustainAbility in 1987 we initially thought we had made a ghastly mistake. We spent the next few years spelling the word for people who had never come across it

The basic idea was that we create – or destroy – value in multiple dimensions. My aim was simple: to underscore the importance of taking into account our broader economic, social and environmental impacts, for good or ill. That said, I should confess that, although I have co-founded three companies since 1978, all of which are still operating, I remain largely numbers-blind when it comes to balance sheets.

But, through it all, I have had a bee in my bonnet about how we better account for the social and environmental externalities created by business and markets. In my 1987 book *The Green Capitalists*, I wrote that one problem is that 'industrialists and environmentalists are generally working to different clocks. This is more than a matter of simply operating in different time zones. It is more like two cultures colliding, producing inevitable culture shock.'

A few years on, pulling in the social dimension, we would have spoken in terms of three cultures colliding. These days business people increasingly accept that there are multiple forms of capital, including the financial, physical, intellectual, human, social and natural forms.

We also now talk of ideas going virtual. 20 years ago, I described the spread of the TBL meme as akin to the proliferation of rabbits across Australia. As luck would have it, Australia and New Zealand were among the key early champions of the new thinking, as was the Netherlands – where they still talk of the '3Ps.' One reason for this last breakthrough was that one of the first corporate sustainability reporters, the Anglo-Dutch oil giant Shell, decided to call its first (1997) sustainability report *People, Planet & Profit*.

Meanwhile, the rollout continues. Visiting Mumbai late in 2013, I was struck by how widely the TBL language is now shot through the debate about how best to respond to the country's new law, which encourages major companies to spend two percent of their profits on corporate social responsibility (CSR) initiatives.

In retrospect, the triple bottom line has been surfing a larger wave. As our world has become increasingly business-oriented, a process accelerated by the fall of the Communist bloc, bottom line language has also popped up in many different walks of life.

In business language, the term refers to the final line of an organisation's financial statement – showing the net profit or loss (for the year, or whatever the accounting period may be), with profit and loss often shortened to P&L. So, by extension, we have seen the evolution of terms like 'Double Bottom Line' (generally referring to a combination of the financial and social P&L), 'Social Return On Investment' (SROI), 'Blended

Value' (introduced by Jed Emerson), 'Shared Value' (championed by Michael Porter and Mark Kramer) and 'Environmental Profit & Loss' (EP&L).

At the same time, popular usage of bottom line language links back to an older debate, about where to 'draw the line.' In Eastern philosophy this links to the concept of karma, sketching out great cycles of cause and effect. To take just one topical case, China's one-child policy helped bring its burgeoning population under control. But at the same time it led to an estimated 336 million abortions over 40 years, many coupled with grotesque human rights violations. And it has also resulted in a population that is rapidly ageing, with mind-numbing socio-economic and political implications.

This level of causality may seem remote to most accountants toiling over the latest round of corporate results, but increasingly accounting must embrace corporate contributions to system-wide social and environmental effects. The more complex our world becomes, the more lines there are to be drawn, for example between profit and loss, between this quarter's results and the next, between the interests of shareholders and stakeholders, or between the interests of present and future generations. And lines drawn at one point in time, together with choices made, can look very different in the light of future realities.

The TBL approach has been further elaborated not only in many thousands of corporate TBL reports aligned with the Global Reporting Initiative (GRI) and in the work of financial analysis platforms like the Dow Jones Sustainability Indexes (DJSI) but also in a growing library of books. As the need grows to drive all of this into the business mainstream, we also see an emerging push to integrate accounting and reporting across the various bottom lines, a process spearheaded by the International Integrated Reporting Council (IIRC).

Meanwhile, some companies continue to dig deeper. A recent pioneer has been the German sportswear brand PUMA, which launched its first round of EP&L results in 2011. These priced the negative environmental impacts generated through the company's operations and supply chain in 2010, across key impact areas including greenhouse gas emissions, water use, land use, air pollution and waste, at €145 million — equal to around half of PUMA's profits that year.

This first round of evaluation revealed that PUMA's wider supply chain was responsible for 94 per cent (or €137 million) of the company's total environmental impact. Strikingly, over half (57 per cent or €83 million) of all environmental impacts were associated with the production of raw materials (including leather, cotton and rubber) deep down in the company's supply chain.

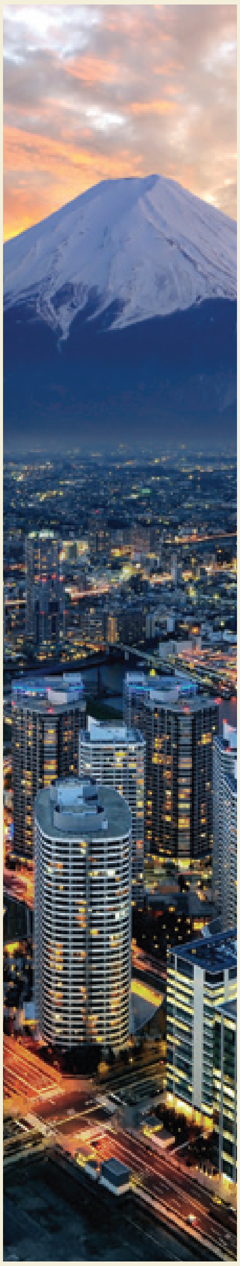
Stretching the initiative still further, PUMA's parent company – Kering, which owns around 20 fashion houses including Gucci and Stella McCartney – says that this groundbreaking process will be implemented across all of its key luxury and sports brands by 2016.

So there's plenty of life left in the original TBL concept, though here's a second confession: working with former PUMA CEO Jochen Zeitz, I am now finishing off a new book on what we call 'Tomorrow's Bottom Line'. Another TBL, true, which may unsettle a few branding experts. But also an inevitable next step in evolving new forms of corporate strategy, management, accounting, reporting, assurance and communication that the 21st Century will demand.

John Elkington is Executive Chairman of Volans. John is currently writing his 19th book with Jochen Zeitz, former CEO of PUMA, and Sir Richard Branson

Inclusiveness – the driving force for Japanese business at home and abroad

KIYOSHI MORI



'Inclusive business' is a relatively new term for the global business community, but its principles have been at the heart of Japanese policy making and business culture for some years.

The definition is quite clear. Firstly, an inclusive business should be financially viable. Secondly, it should benefit low-income communities by expanding opportunities and access to fundamental goods, services or wages for the poorest. It is a business initiative that, whilst maintaining its for-profit nature, contributes to poverty reduction through the inclusion of poor communities in its value chain.

In recent years the Japanese government and Japanese industry have been particularly focused on inclusive business models. Why?

At a time when developed markets are undergoing relative contraction, it is necessary to look at new ways to capture new markets. Many Japanese businesses enjoy an advantage in high-end segments of the economy. Government and business understand the need to recognise the numerous middle-income markets in developing countries. At the same time, economic cooperation with developing economies contributes to the resolution of the many social issues of developing countries, such as poverty, health and sanitation problems that are derived from low incomes and inadequate infrastructure. Using innovation to resolve these problems can create a mutually beneficial, win-win situation for all players.

Pursuing inclusive business strategies has enabled the Japanese Government to achieve sustained, effective economic cooperation through public-private alliances. It has boosted the global business presence and recognition of Japan, and has also enabled Japanese businesses to access new markets, innovate by creating new products, services, sales routes, or partnerships and build reciprocal alliances with other companies, governments, aid organisations, NGOs and social entrepreneurs.

So how does an inclusive business work in practice?

A good example is a water supply business in East Manila, in the Philippines. The company never excluded the areas where customers could not afford to pay for the service. It gained margins from other areas and compensated the inevitable loss from this profit. Some years later, with the economic expansion of Manila, these poorer areas of difficult management started diminishing and the company now possesses a relatively large area of clients. The Japanese trading firm that supported the company from the start was integral, shaping this inclusive business strategy.

Another example is that of a Bangladeshi-Japanese agricultural business. The firm, which grows soya beans, recruited local women in remote villages to grow, gather and select seeds. Seeds suitable for consumption as beansprouts were exported to Japan, whilst the remaining seeds suitable for domestic cooking were sold cheaply to the workforce, enabling them to sell these on the local market. The ratio between the two types of seeds is almost 50:50. This business created both employment and revenue for local villagers.

Let us look more specifically at how inclusiveness shapes different Japanese businesses. There are three characteristics that define the typical structure of Japanese small and medium-sized businesses (SMEs).

Firstly, Japanese SMEs have been very active and innovative within their local communities, contributing to the expansion of local social welfare.

Secondly, Japanese SMEs usually have efficient on-the-job-style training systems. There are many companies in Japan where managers take responsibility for the maximisation of their workers' education and welfare.

Thirdly, philanthropic activities, additional to the company's main purpose, are popular in Japan. The strong sense of unity between employers and employees means it is relatively easy to achieve consensus for this within a typical business.

These principles are evident in a typical inclusive Japanese SME business. For example, several years ago, one SME in Osaka succeeded in creating a powder extracted from fermented soya beans that is capable of removing dust from contaminated water. One tonne of contaminated water can be purified for around one dollar. The owner employed local women in Bangladesh, India and Tanzania and advised them to sell the powder in very small packages, so that even the poorest customers could buy them. He intentionally included remote areas in his market. He spent a lot of his time training women to explain correct usage of the product to local villagers. Many Japanese young people joined his company to support its philanthropic work.

In Dhaka, Bangladesh, one Japanese sister and brother developed and created a system of pre-paid travel cards for local commuters to resolve the chaotic ticketing situation. Their technological experience meant they were able to create the structure very cheaply. In Phnom Penh, Cambodia, a Japanese businesswoman set up an investment fund to assist farmers in creating value-added products like honey. She succeeded in securing assistance from Japan's top honey brand, enabling the success and profitability of a number of local farms.

Whilst these conscientious business activities are not exclusively practiced by Japanese SMEs alone, it seems that the three principles of innovation, training and philanthropy, which lie at the heart of Japanese business structure, mean they are better able to exercise and disseminate the idea of inclusive business in various countries throughout the world.

I would now like to examine the issue of inclusiveness within big business in Japan. Large Japanese companies have a history of training their foreign employees in Japanese business practices, often using training courses offered by the Japanese government. Some of these foreign trainees will go on to become ministers or business leaders in their home countries. They voluntarily establish alumni associations throughout the world, in countries such as Africa, China and India. They diffuse Japanese management style to local businesses, and in doing so increase the mutual welfare of local communities.

Examples include a distribution process for the sale of Lactaid milk, a system that was created in Japan almost 50 years ago. Today, more than 40,000 local women distribute the product every morning in Brazil, Indonesia, Korea, Thailand and 30 other countries.

The three principles of innovation, training and philanthropy+lie at the heart of Japanese business structure

Another Japanese company, which produces outboard motors, has taught local people in seaside villages in Africa, Asia and South America, how to create and manage their fishing businesses. This includes basic commercial practices, and also includes training on the efficient usage of outboard motors. As a result, this company has gained the top share in these markets.

Taking the technological and training needs of local employees into account has enabled these companies to increase social welfare whilst growing their businesses.

Two professors at Harvard and MIT recently published a book called *Why Nations Fail*, in which they presented the worlds of inclusive and extractive institutions as comparative notions. They recognise inclusiveness as a fundamental keyword for economic development. As I explained above, Japanese SMEs and big businesses have great potential to contribute by nurturing the concept of inclusiveness and developing this notion of mutuality. Inclusiveness will be a keyword that will represent Japanese business both at home and as a global force abroad in the 21st Century.

Mr. Kiyoshi Mori is the Deputy Director General of the Japanese Ministry of Economy, Trade and Industry

The case for business in developing economies

ANN BERNSTEIN

Business is good for society and essential for sustained development. It should stop apologising for its very existence and stand up for what it does every day. The facts are on its side

The global conversation about business and the public good is influenced predominantly by people who live in rich countries, who do not grasp the realities of poverty and the hard choices of development outside the rich industrialised world. The discussion is generally driven by people who live in formal, well-constructed houses, with clean, running water and office jobs, rather than desperately poor, newly urbanising people in Africa, Asia and Latin America, whose very best option is to secure work in low-skilled factory jobs. For these people – disproportionately women – a factory job represents the best opportunity they've ever had, far superior to back-breaking agricultural work often under the yoke of their father, husband or son. As a result the debate about business, 'responsibility' and corporate involvement in development is distorted with few voices from developing countries being heard. It's time to reshape the conversation about business and society.

Companies are continually pressured to 'do more', to demonstrate what benefits they provide society in addition to 'just making money'. It's as though profit-making has to be redeemed through good works; and companies must pay reparations for their existence. The current conversation about business is fundamentally flawed. The debate about 'responsible' corporations takes for granted the everyday activities of companies and their contribution to society. This makes it possible to focus so much attention on what else a company must do to contribute to the social good.

Business leaders and their companies have mostly responded to the attacks on enterprise as a respectable contribution to society by 'intellectual collapse'. In almost all cases they have given in and accepted the general charge that companies need to 'do more' than 'just' business in order to contribute to society. Instead of boldly and persuasively making the case for business, we have seen a process of appeasement.

Yet companies have direct and positive impacts through what they do in the developing world. Unilever has operations in about 100 countries and sells in 50 more. As its former CEO, Niall FitzGerald, has put it, 'The very business of doing business has a huge impact on society. Three quarters of our sales revenue goes straight out again to pay for goods and services for suppliers. And of the wealth we create each year by adding value to those goods and services, around 70 per cent of it is channelled back into society through employee wages, shareholder dividends, government taxes and community investment'. Oxfam conducted interviews in a number of communities living within one kilometre of Unilever Indonesia's facilities. Of those interviewed, half claimed to have benefited directly from Unilever's presence. These benefits included direct employment; increased sales in local shops; larger numbers of passengers for motorbike taxis; and opportunities to maintain or repair the bicycles or motorbikes of Unilever employees.

Possibly the most dramatic example of a large multinational transforming the economic fortunes of a country is that of the South African diamond mining conglomerate De Beers in Botswana. Diamonds account for 76 per cent of Botswana's export revenue, 45 per cent of government revenue and 33 per cent of gross domestic product. In 1966, when diamonds were first discovered in the country, there were only three secondary schools in the entire country. 40 years later, thanks to revenues from diamonds, there were 300 schools, with every child up to the age of 13 receiving free schooling. When indirect effects are taken into account, the diamond industry generates a quarter of Botswana's jobs. Without diamond mining, its national economy would be at a completely different stage of development.

Across the border, SABMiller, the global brewing company, employs around 8,000 workers in South Africa. On the basis of multiplier effects, in 2005 the company's activities in the country created 362,000 full-time jobs, equating to some 3 per cent of the country's total employment. The taxes that SAB paid constituted five per cent of total government tax revenue in 2005. In 2007, the company spent R1.96 billion on commercial equity for more than 4,000 black-owned suppliers. More than 85 per cent of the businesses started since 2003 are still in business and some are now multimillion-rand enterprises.

Companies are uniquely effective in making human effort productive. Specialised resources in the form of labour, raw and finished materials, capital and knowledge come together in a remarkable process that transforms these components into goods and services of greater value. In so doing, business also makes a revolutionary contribution to the world in which we all live. When dynamic enterprises are allowed to flourish, they tap into people's initiative, ingenuity, and self-reliance. When people participate in an economy by creating or joining an enterprise, they gain voice. Those who make development policy would best serve the interests of the poor by recognising the power of private enterprise to promote economic growth and reduce poverty, and doing everything possible to help them attain these goals.

Modern businesses also have indirect impacts, predominantly positive, on the societies in which they operate. This 'invisible corporate citizenship' is not discussed in company boardrooms because it's not what they intend to do. But if you look at the inadvertent impact of enterprise and corporate activity, you can discern a number of profoundly important phenomena. Walmart's everyday low prices bring down inflation; Toyota's 'just-in-time' methodology changed the Western world's production curve; Infosys became a global competitor out of Bangalore and redefined what is possible for India. The establishment of low-skilled factories offering employment in Asia empower women and change their lives and those of their children.

Through the unintended consequences of its everyday activities, business can transform the future of national economies. Business can deepen and strengthen civil society, expand human rights and unleash pressures (albeit with no guarantees) for democratisation. Apartheid South Africa saw companies recognise black trade unions and start to operate on a more equal basis in the workplace before democratisation.

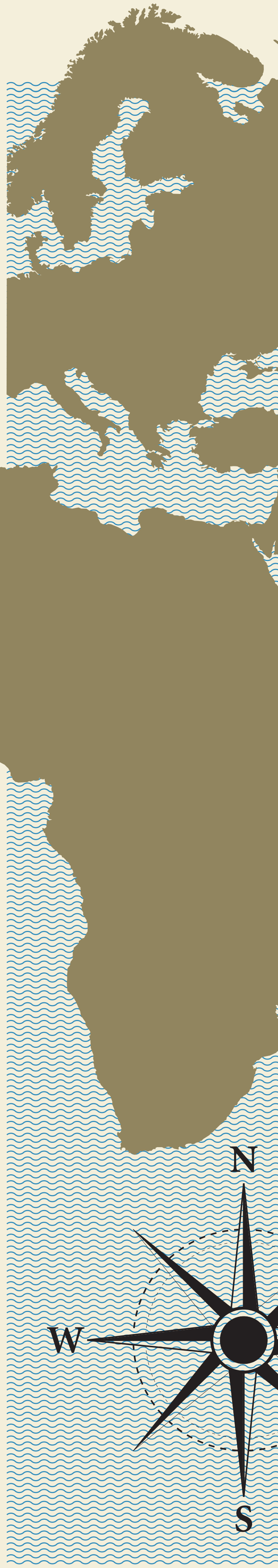
There's a lot of pressure on companies to get involved in doing something about global poverty. But companies should work out what their agenda is with respect to development and promote that. If you were to ask any multinational corporation wanting to work or invest in Africa 'what are the top three issues you think should be dealt with to make you more likely to risk investing money in that continent?' They would talk to you about infrastructure for growth and how to improve the environment for business. These are different priorities from the Millennium Development Goals, which hardly mention the role of markets. Entrepreneurs and companies simply do not focus on national competitiveness as the best means of lifting people out of poverty.

Companies, businesses leaders, and their organisations need to play a more thoughtful, strategic role in the societies in which they operate. The past 40 years have seen smart states opening their societies to more enterprise and more competition from local and foreign firms, with phenomenal results: more people have moved out of poverty than ever before and more quickly then we have ever seen.

Capitalism undersells itself! Companies – which market goods and products all the time and with great skill – are often very bad at communicating the good that they do.

Businesses leaders should recognise the importance of this ideological battle. Business is good for society and essential for sustained development. The question is how companies can become more effective at making this case. It should stop apologising for their very existence and stand up for what they do every day. The facts are on their side.

Ann Bernstein is Executive Director of the Centre for Development and Enterprise, South Africa



The future of social business

PAUL HILDER

We live in an age of crisis. From 9/11 and Iraq to financial meltdowns and Arab awakenings, the pace of change is accelerating. While the future is uncertain, the order of things is shifting. And amidst the turbulence, remarkable new possibilities are opening up.

Markets and governance have always had social roots – think of public opinion, brand perception, consumer demand or community needs. What is new is that today those roots are spreading like never before, sending up green shoots all over the world.

Every day on Change.org and other digital platforms, we see citizens and consumers discovering their own social power. But this is just the tip of the iceberg.

Over the next decade, I think this bottom-up wave will change the rules of the game for businesses and governments everywhere. And I believe that, while this transition will not be without its challenges, it will be overwhelmingly for the better.

This prediction is grounded not only in observation of how people are using our platform to reshape business models and political incentives, but also in our own experience of building Change.org as a new kind of social business.

Change.org is a mission-driven company, and our mission is simple: to empower people everywhere to create the change they want to see. This mission is the singular compass our company navigates by, and the touchstone for every major strategic decision. In this sense, we might resemble a non-profit.

Yet we are simultaneously building Change.org into a world-class technology business that thinks big, executes relentlessly, and scales rapidly to achieve global reach.

We do not talk about shareholder value, even profit. Mission is our single bottom line. But it is precisely that extraordinary, aspirational mission of universal empowerment which demands that we generate significant surplus revenue, so that we can expand our platform's footprint and augment the service it provides to users.

Is it working? Over the last two years, Change.org has grown from a few million users, mostly in the US, to over 50 million spread across every country in the world. The platform has been widely adopted in Europe's largest markets: in Spain we are racing past 15 per cent penetration of internet users, and we are also growing fast in countries like Brazil, Argentina, Thailand and the Philippines.

Our leadership team includes executives who came from Google, Twitter and Zynga. All of them are energised and excited by our mission-driven environment.

We have a robust, advertising-based revenue model that has funded most of our growth, with the rest coming from enthusiastic mission-aligned investors like Omidyar Network and Uprising, as well as prominent Silicon Valley entrepreneurs.

With an engaging brand and accelerating usage, prospects for future diversification and growth are strong. But we have publicly committed to never sell or float Change.org, and turned down significant offers of capital which were not fully mission-aligned.

We are building this company to last and flourish, not to be acquired; so we have invested heavily in organisational culture. Our mission is underpinned by a set of values for which staff feel deep ownership: 'we embrace openness', 'we serve with passion', 'we demand excellence', 'we love and understand'.+

We are seeking to take the best institutional DNA from across cultures and disciplines, from Silicon Valley to social movements, and weave these strands together in a new and transformational hybrid. Change.org is an empowerment company. Our mission and our entrepreneurialism are inextricably linked, and support each other organically.

One of the secrets to Change.org's dynamism is the integrity of our social contract with our users, and the quality of relationships that flow from that.

People trust the platform because they feel at home in it. They know from their own experience, as well as our public statements, that Change.org is designed first and foremost to fulfil our promise to them – 'come and create the change you want to see'.

More traditional commercial businesses

sometimes struggle to maintain user alignment as they seek to monetise and deliver shareholder value. They risk being torn apart when a gap opens up between their commercial imperatives and the promises they are making to the users, consumers and constituents whose buy-in generates much of the business's value in the first place.

At Change.org, the mission of empowerment that drives all our decisions is centred on authentic service to our users. The alignment and value generated by this commitment is extraordinary.

This service-oriented ethos encourages our users not only to take action themselves, but also to get their friends, family and networks involved in the platform. It also helps build trust in our advertising model, which is based on permission marketing, matchmaking and delivering value to users as well as advertisers.

These ideas of social value and the public good are even more important in relation to the impact Change.org has on the world around us, and the wider mega-trend of social empowerment. They inspired Caroline Criado-Perez, for instance, to start her successful Change.org petition calling on Bank of England Governor Mark Carney to put women on banknotes.

These same ways of thinking were what impelled Brazil's public prosecutors to start a Change.org campaign that stopped Congress from granting itself immunity from investigation for political corruption. And the very same narrative helped stir a French association to use Change.org to ask ERAM, a major shoe business, to eliminate deforestation in its supply chain. ERAM has responded, committing to do so by 2015, and is now collaborating with the association to implement its commitment.

Every month, these ideas inspire thousands of Change.org users to start campaigns, and millions of others to join those efforts and spread the word. Every day we see more and more campaigns winning through the site. But this is just the beginning.

At the time of writing, Change.org is piloting a new offering – Decision Makers – which will enable any decision-maker, from politicians and officials to corporate CEOs, to engage in public dialogue with their stakeholders, consumers and constituents.

Early adopters in the political space include the Mayor of San Francisco, the Mayor of Barcelona, US Senator Elizabeth Warren of the Democratic Party and former Republican vice-presidential candidate Paul Ryan. We are now inviting expressions of interest from major corporations about adopting Decision Makers, and are already in active dialogue with several businesses.

In our experience, the idea of maximising

Decision-makers and institutions that operate transparently, responsibly and authentically... can expect not only to survive – but to prosper and flourish

social value is both dynamic and transformational. In this era of growing social power, it may also be an idea whose time has come – especially as more mercenary business concepts start to look untrustworthy or morally bankrupt.

Harvard professor Michael Porter, the father of competitiveness theory and company strategy, has recently been exploring similar ideas of shared value. Even cutting-edge technology start-ups with more commercial business models than ours are considering models of user alignment and mission-driven governance that flow from similar sources.

Meanwhile, vanguard blue-chip companies like Unilever have been exploring how to transform their business models, turning away from the treadmill of quarterly earnings results to focus instead on generating long-term value, and trying to increase the social impact and sustainability of their operations. And to repeat, all this is just the beginning.

The internet and social networks are connecting people, information and ideas faster than ever before. Simultaneously, we are seeing a remarkable wave of social evolution.

Attitudes, relationships and modes of organisation are all in flux. Citizens and consumers are starting to play an increasingly active role in governance and the marketplace, not just in Europe, America, India or Brazil but also in parts of Africa, East and Southeast Asia.

This new networked reality is disrupting traditional political and business models and shifting power from institutions to people. It may on occasion feel unsettling, even revolutionary, to incumbent power-holders – particularly when it's allowed to degenerate into conflict and confrontation. But in the long run, this shift is the best hope for the renewal of our democracies and businesses.

Why? Social power does not operate like military force or oligopoly market share, which are for the most part zero-sum games. On the contrary, when social power is well-channelled, it becomes a positive sum equation.

Legitimate governments and businesses empower and serve their people. They generate social value, build meaningful relationships, and in the process they themselves become reinforced and reinvigorated.

This is the promise of social power and social value. This is the win-win opportunity that some of the most foresighted political and business leaders in the world are already starting to explore.

Of course, many different models will be tried along this path, and we look forward to the innovation and experimentation that results. Change.org's particular model of social business is specific to us, and some of its details

We do not talk about shareholder value, even profit. Mission is our single bottom line

may not be appropriate for many other companies. But the ideas that animate our approach, and have driven our success to date, are much more generally applicable.

I have no doubt that the 21st Century will be the era of social business and social government. Those who fail to embrace these dynamics may find it tough going: they risk getting bogged down in a lengthy and distracting guerrilla war with their publics.

Meanwhile, though, decision-makers and institutions that operate transparently, responsibly and authentically, that engage with social power and make social value a core mandate, can expect not only to survive – but to prosper and flourish.

This is an exciting time, full of promise and danger. Many of the pathways to that better future are still to be blazed. We look forward to walking them with you.

Paul Hilder is Vice President of Global Campaigns at Change.org. He is a social entrepreneur who helped launch Avaaz.org, 38 Degrees and openDemocracy

Setting the conditions for innovation that is in the public interest

PAMELA HARTIGAN

Most organisations have a low tolerance for mistakes. Risk-averse societies and organisations keep people from failing. But they also keep them from trying

If there is one thing on which public and corporate leaders around the world today can agree, it is the ever-growing importance of innovation. The search for innovative solutions to the world's shared local, national and global challenges has become a clarion call, rallying people across multiple borders defined by nation, industry and academic discipline. Yet despite this cheerleading, there is a raft of institutional, legal, regulatory, and educational impediments that is stalling progress.

While not an innovation expert, I have been privileged to interact over a span of decades with the some of the world's most recognised social innovators – from those working at the grassroots to those at the helm of new industries. This has provided some perspective on the nature of innovation and the hurdles they face daily in their search for ways to disseminate their approaches and products.

Education is a good place to start. A society's capability to innovate arguably begins, or possibly ends, in school.[1] For the vast majority of primary schools, among the qualities of 'star' pupils are tidiness, adherence to rules and directions, and good behaviour. In the later grades, outstanding achievement is measured in grades, standardised test scores and, sometimes, the number of extracurricular activities undertaken. These constitute the ticket to acceptance to the top schools that produce the world's elite. But it is not clear that this is how to develop the talents of tomorrow's innovators.

The educational system is reinforced by employment policies in most governmental organisations, corporations and academic institutions. When reviewing candidates, recruiters invariably look for evidence of academic achievement and a steadiness that produces good exam pass rates and grades rather than for experiences that might suggest a candidate is innovative and inspired, perhaps even rebellious. This is because most organisations have a low tolerance for mistakes. Risk-averse societies and organisations keep people from failing. But they also keep them from trying. And the key to successful innovation is initial failure and persistence.[2]

It is hardly surprising, then, that among the commonly shared experiences of successful innovators is the recollection of having been described at some point as crazy, not just by acquaintances, but by family, friends and close colleagues. Almost by definition, innovators are mavericks. Most organisational structures and their corresponding managers and civil servants deal with what *is* rather than what might be. Innovators do exactly the opposite. They focus on creating things the world has never seen. They systematically disregard boundaries – whether of nation, academic discipline, or social status – to the predictable annoyance of those who consider it their responsibility to keep boundaries in place. An irony results: while the world clamours for innovation, it tends to deprive innovators of the resources and recognition that would maximise their potential to transform societies for the better. The challenge of innovation in the 21st Century is therefore about reshaping societies to be not only tolerant, but actually welcoming, of innovators – particularly of the disruptive kind.

I believe that one of the greatest opportunities for innovation exists in domains that bring market-based approaches to public good provision previously left to governments. Social innovators who have taken a market perspective are pioneering new models where most would only see looming problems and risk. In doing so, they are the harbingers of the biggest business opportunities of the century. And history suggests that they have at least as much chance of shaping the 21st Century as many of today's great incumbent businesses. Richard Foster and Sarah Kaplan note that 75 per cent of Standard & Poor's 500 will have disappeared from the S&P index by 2020.[3] In their place, companies unheard of today, using new business models, will be delivering products and services to new and existing markets, dislodging incumbents who have not been able to innovate fast enough to keep up with 21st Century needs.

Already today, there are hundreds of such innovators reaching new markets, serving unmet needs, and creating new supply chains. Innovators including Dr. Devi Prasad Shetty in India, who is spearheading a revolutionary model in health through his chain of Narayana Hospitals; Sal Khan who is up-ending the classroom model of teaching through digital technology; Sara Horowitz and her Freelancers' Union with over 230,000 independent worker members who are giving new meaning to 'mutualism'; Beto Veríssimo and Carlos Souza, Jr., co-founder of Imazon, the first independent deforestation monitoring system for the Brazilian Amazon, which has brought together formerly warring interests to save millions of hectares of rainforest in the state of Para. The list is endless.

Many, if not most, of today's social innovators defy traditional legal pigeonholing as 'not-for-profit' or 'for-profit' organisations. Rather, they intersect both – they are social innovators with a business case, so to speak, hybrids that straddle between a charity and a profit-maximising company. Consequently, many find themselves maneuvering through a tangled web of legal regulations to identify what benefits and obligations exist in relation to their enterprise.

The challenge of innovation in the 21st Century is therefore about reshaping societies to be not only tolerant, but actually welcoming, of innovators - particularly of the disruptive kind

Our fascination with these pragmatic visionaries and their organisations lies much less in the goods and services they provide and more in the catalytic role they play in triggering innovations in the social sector. Like the business innovators who come up with major innovations for the marketplace, social innovators are the mad scientists, as it were – working away in organisations that act like social innovation laboratories. They test and perfect different approaches, and when they come up with the most effective and efficient ones with the greatest impact, it should be government and the corporate sector's respective roles to celebrate this innovation, learn from it, and help scale it so that all can benefit. Ultimately, the innovation lies in the models devised for service and product delivery all along the supply chain – not in the provision of the good itself. It is those models that others need to take up and replicate.

Innovators in the public interest are the flames that ignite the fire of social transformation. Those flames must be fanned and nurtured by governments, publicly-traded and private companies, academia, media and individuals working together to achieve their promised - mutually beneficial - impact.

Dr Pamela Hartigan is Director of the Skoll Centre for Social Entrepreneurship at Saïd Business School, University of Oxford

[1] We recognise that a vast number of children in poor communities must abandon their formal education after the primary school years. Yet patterns of learning are developed at the primary level.

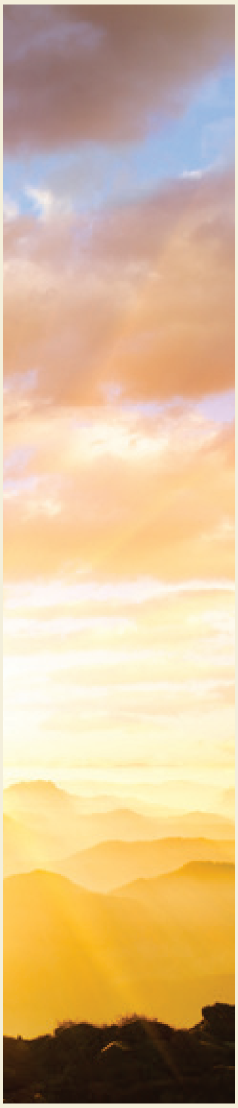
[2] Thomas Edison is oft-quoted as saying, "I have not failed. I have found 10,000 ways it won't work".

[3] Creative Destruction: Why Companies That Are Built to Last Underperform the Market--And How to Successfully Transform Them. New York, Random House, 2001.

Our world needs business leadership with a conscience

EMMANUEL FABER

'Ultimately, how do I account for the consequences that my everyday business dealings have on others, on society, and on my business competitors?'



In late 2005, as we were starting our Grameen-Danone social business, Muhammad Yunus took us to a village near Dhaka in Bangladesh. Our goal was to fight child malnutrition in rural areas. We were there to meet local women and discuss Shokti Doi, a yoghurt fortified with nutrients, which we planned to start producing locally. Shaded from the sun by a corrugated roof on four wooden pillars, about 30 women in multi-coloured saris sat and listened to what Yunus had to say, and his brief introduction of us. After a silence, a woman rose to her feet. 'Hello, my name is Yamina. I make mishti doi (a traditional form of yoghurt) with milk from my neighbour, who has a cow. In exchange for the milk, I look after her young children together with my own because she has to go and work in the fields. If I buy Shokti Doi, I won't want my neighbour's milk: how will she look after her children?'

This question came as a shock to me and remains the most difficult business question I have ever been asked: ultimately, how do I account for the consequences that my everyday business dealings have on others, on society, and on my business competitors, even those as small as a local producer of yoghurt?

Big Business understood long ago that it had to talk about 'sharing value' to protect its licence to operate. 'Shared value' is even one of the musts of modern business and therefore the widely used sentence 'we are proud to serve our clients and the broader community' inevitably appears on the front page of any decent annual report of a Fortune500 company. But in 20 years, I have found that taking this issue too seriously can be seen as a dangerous utopia — after all, shouldn't business be the only business of business?

But what does business actually mean? 'Win-win' agreements are easy to conceive: they have long been the basis of any good sales pitch. Ensuring mutuality and shared benefit between a business and supplier seems obvious when limited to contractual arrangements. What is far harder is embracing the interests of Yamina's neighbour, and indeed all those who are not sitting around the negotiating table of negotiation, in a more holistic manner.

Through a prejudiced reading of Adam Smith, we collectively embraced the principle of selfishness to drive the economy. We hoped and prayed that the 'invisible hand' existed (although nobody had ever seen it). Individuals, and the organisations they led, practiced the principles of 'profit maximisation', enabling them to rise to power and dominate the world economy. Business then spent the last five decades, and billions of dollars, on political lobbying, financing chairs of the world's best business schools, funding think tanks, visiting Davos and other influential policy forums, all to make the case for deregulation, championing the existence of the invisible hand and (believe it or not) the ability of economic actors to self-regulate. What a farce! How can you seriously expect self-regulation when you force 'good governance' to mean aligning all business and finance leaders on the principle of profit maximisation? Are they really economic leaders? Aren't they actually economic predators?

The word 'economy' derives from a combination of the Greek words oikos and nomia, meaning, 'the care for our common home; the art of living together'. Yamina remembered this. But we, the leaders of business, finance, politics, have put own personal appetites for success first. Our greed and fears mean we make small compromises every day, close our eyes, shut our minds and hearts to the most essential questions. It is only once we have banked more money than any one man could

There is no invisible hand. The only hands that exist and shape the world, that give and take, that harm or heal, are my hands, and those of my neighbour

ever spend in his lifetime that we turn to society and 'give back', and even then only provided our name appears somewhere. It is only once we are retired that we turn our attention to resolving the social problems our generation of business leaders helped to create.

Let's face it – in many business decisions, we reduce human beings to simple economic factors in production and consumption patterns. We have not even heard or listened to Yamina's question – what about my neighbour? Prisoners shot at dawn are blindfolded to avoid them staring at the soldiers' consciences, which allow them to fire. The same applies to any human being. We can try to look away, but ultimately our own consciences are facing us – it is they that make us human.

And as a business leader, I am not prisoner of a system – the system is our own creation and we are not bound by a set of invisible rules. Ultimately, there is no finance goddess that takes care of the collateral damage caused by my business dealings that contribute, day by day, to my personal wealth, power or status. There is no invisible hand. The only hands that exist and shape the world, that give and take, that harm or heal, are my hands, and those of my neighbour.

This selfish economy we have created poses a bleak future. How can development or growth be sustainable if it is not fair? How can we ban gratuity from our business dealings? Only if we accept the risk of opening them to our fundamental questions about life and existence, about our own humanity as we share it with others in an invisible flux, will we empower people to grow in and around our organisations as human beings and not only as falsely rational, supposedly efficient managers.

Yes, we will have more sleepless nights, but this is the price to pay for freedom. It is so easy to become prisoners of our own status. But we deserve more than this. The people that we lead deserve more than this. Our world deserves more than this, and desperately needs us to be bold in our leadership. Let's now close our eyes, take a deep breath and ask this question: what is ultimately more important: my stock-options plan or the future of Yamina's neighbour and her children?

Emmanuel Faber is Chief Operating Officer of Danone

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