Companies with purpose

204 – average pay ratio of a CEO to median worker in the US

10,000 – community Interest Companies registered in the UK

Companies with purpose

As trust in 'business' declines, structures and practices of large corporations are under scrutiny. Businesses come under greater pressure to improve performance on environmental, social and governance issues.

Today, particularly in Anglo-American markets, many see that it is the responsibility of the management of 'the company' to protect the interests of its shareholders. However, with little or no distinction between short or long-term interest, the tendency has been towards maximizing immediate profits at the expense of society and the environment, rather than creating long-term value. Publicly listed companies are under tremendous pressure from some investors, activist shareholders, takeover threats and general market dynamics to generate short-term value. The banking crisis, where society paid for the risky (and sometimes fraudulent) activities of the finance sector, a new-found transparency on the human and environmental impacts of global supply chains, and a succession of exposes around tax avoidance, have diminished public trust in business.

Some questions go to the very core of business: what is the purpose of the corporation, and specifically of the large, listed company with dispersed shareholders? Will the current model of large publicly listed companies survive the next decade, and if not, what will it be replaced by?

The inequity between executive and worker pay is at the greatest ever. A wider dissatisfaction with the inequities of modern capitalism sets a backdrop for similar critiques for corporate practices. In the US the average pay ratio of a CEO to median worker is 204 to 1 - in the UK, 183 to 1. In response, and in a bid to bring some balance back towards 1995 levels, in 2015 the US SEC approved a rule requiring transparency of the pay gap.

With growing realization that growth, as traditionally defined, is difficult to find in the current global economy, and particularly in the West, there is growing interest in the role of business in solving global problems rather than simply 'making a profit'. The concept of 'creating shared value' has moved from academic proposition to business strategy, where companies are searching to articulate their purpose with their consumers and wider stakeholders. Global business organisations such as the WBCSD are transforming the UN Sustainable Development Goals into a business framework for action and Unilever starts its purpose to be 'To make sustainable living commonplace'.

NGO campaigns are highlighting the decreasing diversity of brand ownership. Whether in consumer goods or media companies, consolidation through mergers and acquisitions has brought about limited ownership in many sectors. A steady stream of high profile incidences of corporate tax avoidance (Alliance Boots, Starbucks and more recently Google) has highlighted the ability of global companies to aggressively manage their tax affairs. This has met with public disapproval and agreement, in 2016, of OECD agreement on rules against complex tax avoidance arrangements. The EU is now also starting to talk about action on this, although how quickly change may come is up for debate.

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Power and influence

A widespread response to the call for greater transparency has been the growth in corporate reporting and the mover towards Integrated Reporting – reporting of non-financial performance on environment, society and governance (ESG). Supported by a growing community of major multinationals, the aim is for organisations to share progress against a multi-capital view that alongside financial capital growth also reports on headway for intellectual, human, natural and social capital. The International Integrated Reporting Council has launched its Breakthrough Phase 2014-2017 with the intention of achieving a 'meaningful shift towards early adoption of the International Integrated Reporting Framework'.

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Some wonder whether this will be the decade where the wider public see the positive role models such as Tata, Toms and Patagonia – organizations that are successful outside the constraints of the US and European stock markets by following a different path. Tata, the largest conglomerate in India, has bold ambitions for growth, and Its varied company shares are some of the highest performers on the Mumbai exchange; yet the company gives over 50% of its profits to trusts that support social actions from building new hospitals and schools to helping alleviate urban poverty. Compare that to an average of 0.7% of pre-tax profits apportioned to CSR activities by companies in the FTSE 100.

There has also been the birth of the Social Enterprise movement. Organisations such as B Corp are providing a process and certification for Benefit Companies or companies with a purpose. Started in the US, B Corp was launched in Europe in 2015. While many B Corps are small, the influence of the approach is being seen in wider business, and organisations focused on delivering community value are on the increase - there are now 10,000 Community Interest Companies registered in the UK.

In addition to identifying and creating business value out of solving social problems, there is a call for longer-term thinking and a a willingness to wait for a return on investment. Unilever's controversial move away from quarterly reporting in 2011 has not yet been widely copied, but it appears not to have harmed the value of the business which continues to be seen as one of the world's most progressive leaders.

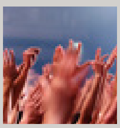
Major changes are on the way for company boards. Strengthening 'shareholder democracy' by giving shareholders additional powers such as a say-on-pay seems a good way to encourage institutional investors to steer companies in the right direction, but it is unclear whether investors will take on this responsibility. It may be that other stakeholders will take on an increasingly important role; Board level employee representation is well established in much of continental Europe and has started to receive some attention at the EU level. Board diversity is also a key topic now and will almost certainly be into the future. We may well see reserved seats for women, visible minorities, and other traditionally under-represented groups.

Consumer demand for authenticity, transparency and connection will mean that there will still be strong demand for local, small, challenger business models and companies. Integrated Reporting has been picked up by an increasing number of companies welcoming the ability to show the whole picture of the company. As these changes gather momentum, many are hoping for a shift forwards to a more holistic view of the benefit that an organization provides beyond profit, and back to the days when maximizing shareholder value was not the only purpose of a company.

There is a call for longer-term business thinking.

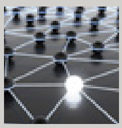
Related insights

Capitalism challenged



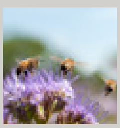
Unable to shake key issues like inequality, capitalist societies face cries for change, structural challenges and technology enabled freedoms. Together these re-write the rules and propose a more participative, collaborative landscape of all working together.

Organisation 3.0



New forms of flatter, project-based, collaborative, virtual, informal organisations dominate - enabled by technology and a global mobile workforce. As such the nature of work and the role of the organisation blurs.

Full Cost



Increasing transparency of society's reliance on nature, intensify requirements for business to pay the true cost of the resources provided by 'natural capital' and so compensate for their negative impact on society.

The real sharing economy

Increasing collaboration drives organisations to reconfigure based on social networks and impact. Real sharing enterprises, not driven by profits, seek to share resources, knowledge, and decision-making responsibilities.