LEADERSHIP INSIGHT FOR A NEW ERA OF CAPITALISM

Key points

- A new, more inclusive, form of capitalism is emerging, driven by the rise of the millennial generation with a different viewpoint on corporate responsibility.
- Leaders are being asked to manage and report on how their business delivers both shareholder value and social value.
- Companies face greater transparency challenges and the threat of stakeholder influence and interference. The impact of corporate behaviour and the level of trust with multiple stakeholders is an increasing driver of risk and performance.
- New insight is required to measure trust and behaviour as a new asset class and area of competitive advantage.
- Leadership teams and the Board ignore this insight at their peril. Words no longer carry as much influence and are being replaced by evidence of actions as the new public relations tool.
- Leadership teams, as a minimum, should be assessing the impact of stakeholder trust and corporate behaviour on an annual basis. This is not a complicated process.

Over the last year, both public and private companies have faced a barrage of new instructions on how their business model, strategy and operations should justify their existence and licence to operate.

Last month, the Business Roundtable in the USA took a significant change in stance by advocating for expanding organisations' historic focus on the interests of shareholders to embrace a wider set of stakeholders. This fundamental change to corporate purpose in the US mirrors the revisions to the UK Corporate Governance Code that came into effect at the beginning of this year and reiterate the rising importance of intangible assets such as ESG in the investment decision-making process. In the blink of an economic eye, the traditional management practice of maximising financial returns and focusing on shareholders is being swept aside. Leaders must now balance the views and influence of multiple stakeholders and, equally importantly, explain both shareholder and social value creation through their corporate narrative.

If you accept this change in approach, then the insight being used by senior management to make informed decisions is also going to have to change – and quickly. Decision-making processes have for many decades operated under a financial and data model designed to recognise financial and shareholder return and not necessarily other intangible items and wider stakeholders.

If you don't accept that capitalism is changing and see the rise of the principles of ESG and stakeholder dialogue and the growing demand for a corporate purpose as an unnecessary distraction, the bad news is that this demand is only going to grow and to ignore it will create strategic and operational risk to your business in the near future.

The blunt reality behind all the increasing noise from organisations - such as the Business Roundtable, the FRC and many investors supporting ESG - is that they have recognised that this is not purely about altruism, but more about a response to the rising power and influence of the next economic generation.

Millennials are becoming an ever-increasing proportion of the workforce; of the pension contributors and savers; of the end consumer of products and services; as operators in the supply chain; and as general economic influencers. How millennials view, interact and make decisions will determine the future success of a business. More than half of UK consumers already say they prefer to buy goods and services from companies that reflect their own values and beliefs. Millennials make up an ever-increasing proportion of the workforce and their spending power is estimated at close to $3 trillion globally. This path of influence of the millennial is unavoidable and as their views become ever more public, they are taking others with them – younger and older. A new more socially driven economic model is emerging with the millennial in every part of the business model including the workforce, purchaser, investor, supply chain, partner, regulator and government.

Why does this matter? The answer is millennials are fundamentally different decision-makers and influencers. They are also willing to act on their decisions to buy a product, support a business and be employed by a company. They are demanding new information and engagement. They hold a very different view on how they trust organisations; they look for authenticity; they are curious; they question motives; and most importantly, technology empowers them with the ability to look behind words, promotions, Annual Reports and corporate websites to make their own judgement on the true behaviour and actions of a company. Words are being replaced with actions and evidence of action is the new public relations tool.

The result is that trust and behaviour are becoming a new asset class. For many companies, their intangible value represents up to three quarters of their market capitalisation. A complete reversal of value creation compared to the 1970s. Managing this intangible value is key. Leaders today need to understand and measure the levels of trust they have amongst multiple key stakeholders and to understand the drivers of behaviour that create and destroy this trust in order to manage it as an asset class. The re-wording of the purpose statement and a polishing of the values will not last long against a millennial stakeholder group that expect complete transparency and have the ability to be extremely vocal. Any Board that does not understand the behaviour of the company they oversee and how this behaviour is impacting stakeholder support is increasing the risk of a negative stakeholder event, deteriorating commercial performance and declining enterprise value.

For some companies this has been a realistic scenario for a number of years and they have built stakeholder insight and corresponding actions into their business strategy. However, for others, they are ill-equipped to respond and act appropriately. Companies have a vast amount of insight and data generated within the business, but this is often buried lower down in the organisation and employed for tactical purposes – for example, the HR function has data on the employees; operations on the supply chain; marketing on the consumer; and IR on the investor etc. The initial purpose of this data has not been for Board insight nor has it been designed to interact with other data from other stakeholders. It is not fit for purpose.

The solution is simple and is beginning to be adopted. New insight tailored specifically for the demands of the leadership and Board, that provides answers to their direct questions and concerns and can be regularly updated. The new insight will allow the leadership to genuinely understand issues that have previously not been a regular feature on the Board agenda but are now areas of increasing interest. Statements of purpose and values that for many years have been words in Annual Reports or on posters on the wall can be translated into the strategy of the business and driven through the organisation with the ability to identify areas of strength and weakness. Culture becomes an asset that can be actively managed, not only as an internal exercise but how it impacts external relationships. The leadership can understand exactly how the business is behaving, rather than how the Board believe or would like to believe the business acts. Decisions can be made to quickly reduce the risk of a negative event and also build long-term value.

This is not a complicated process and the model and technology exists and is proven. Building a model tailored exactly to each organisation's requirements and delivering insight and recommendations can be achieved in a short space of time enabling the leadership to have valid insight well within the timeframe to meet the new reporting requirements for 2020 and beyond.

We are only at the beginning of this significant and unavoidable change to capitalism. Behind the millennials comes the next economic generation who are already showing they will be even more demanding and active. Leadership and Board insight is going to have to keep up.

For further information

Please contact: Fergus Wylie fergus.wylie@sifastrategy.com
Ben Morton ben.morton@sifastrategy.com

About SIFA Strategy

We work with senior management teams to enable them to measure and embed stakeholder measurement and engagement programmes to assist decision-making and support corporate governance within a Board framework.

Underpinned by our bespoke research and insight programmes, we analyse the current level of support for an organisation across employees and multiple stakeholders and the impact of culture. By identifying potential areas of reputation risk and strength, we enable organisations to protect and enhance their stakeholder relationships and treat corporate behaviour, culture and reputation as strategic and measurable tangible assets.

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