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CFA SINGAPORE INSIGHTS

By Lutfey Siddiqi

The missing link between pledges and metrics

To make stakeholder capitalism work, the narrative within companies is a critical component

AT A breakfast session in Davos, the impassioned president of a major bank (and signatory of the Business Roundtable) approached his newly appointed head of Sustainable Finance to say that they must set three specific sustainability-related targets to each of the bank's business lines. I suggested that the first iteration might be to ask each of the business lines how they wish to contribute to the bank's high-level pledges and then co-design those tangible targets?

On the eve of the World Economic Forum's (WEF) 50th Annual Meeting in Davos, I wrote about the need for well-intentioned corporations seeking to lead a new era of stakeholder capitalism, to convincingly separate themselves from the also-rans.

By the end of the forum which was held in Switzerland from Jan 21 to 24, I was pleased to see businesses race against each other to forcefully signal their sustainability credentials. We have seen companies make pledge after pledge, most prominently around net zero emissions, and various attempts to translate those pledges into metrics. However, in the space between pledges and metrics, one critical component may still be missing: the narrative within companies.

Stakeholder capitalism is a theory of change. On a socio-political backdrop where the system is characterised as either broken or rigged, there are broadly three choices:

a) reinforcing the Friedmanite view that the business of business is business;

b) a wholesale uprooting of the capitalist system of organising resources, or

c) accepting the responsibility of business for extra-financial outcomes and towards a wider range of stakeholders.

While all three views remain on display, for the first time in decades, the battle of rhetoric is now dominated by the latter.

The battle of rhetoric has been won

We have come some distance over the years. Even as recently as half a decade ago when the WEF provided a platform for me and others to advocate for impact investing, it was far from the mainstream of discourse at Davos.

Most banking organisations housed this endeavour, if at all, as a subset of philanthropy offerings which itself was nested within other "support services", away from core investing and banking operations. The Circular Economy was no more than a curiosity when the Ellen MacArthur Foundation highlighted the concept or when, in 2015, the Forum of Young Global Leaders and Accenture Strategy launched the annual Circular Awards series in Davos.

Today, global multinationals – from UBS to Bank of America, Accenture to Ernst & Young and MasterCard to Microsoft – are parading their sustainability contributions as showstoppers in Davos. Instances such as US Treasury Secretary Steven Mnuchin's comment about climate change activist Greta Thunberg sounded off-key and there was robust debate on whether BlackRock or Goldman's announcement went far enough.

Colgate was the first to create recyclable toothpaste tubes, which it is sharing with Unilever in order to assist the industry as a whole.
PHOTO: COLGATE-PALMOLIVE

There is growing realisation that companies must pre-commit to pre-defined objectives that are proportional to the scale of their core business. Anything less could invite accusations of tokenism or "impact washing", undermining those who are genuinely moving forward and eroding the very trust that they seek to grow.

Leaders are also embracing the need for collaboration. I was pleasantly surprised to hear Marc Engel, chief supply chain officer at Unilever, highlight that Colgate was the first to create recyclable toothpaste tubes, which it is sharing with Unilever in order to assist the industry as a whole.

In another conversation, Orit Gadiesh, chairperson of Bain & Company, suggested that the management framework of "Agile" be re-purposed specifically as a tool to help companies implement sustainability goals.

Meanwhile, the OECD (Organisation for Economic Co-operation and Development) has launched its Business for Inclusive Growth (B4IG) initiative, which has collected yet more pledges from the CEOs of well-known companies to combat inequalities. Much of the discussion on this in Davos was focused on the need for a measurement framework to assess impact on an internationally comparable basis.

It is important that pledges and suggested metrics are concordant with the narrative of stakeholder capitalism as it applies internally to specific organisations, firm-by-firm, industry-by-industry. Every employee must feel engaged and directed by a sense of purpose that they have had an opportunity to co-create.

The battle of metrics can be won, provided ...

Once again, I was struck by the absence of a critical link between the top-down macro perspective on what needs to be done and the bottom-up micro strategy of how it should be done.

Stakeholder capitalism, apart from being a theory of change, is also a narrative of change. And an important constituent that needs to be energised by the narrative is the employees of large organisations – the intrapreneurs who fight the good fight from within their companies, fostering change further up the hierarchy.

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Stakeholder capitalism presents not only a business opportunity. It is a tool of employee engagement, of reinforcing values and organisational purpose, at a time of major upheaval in virtually every industry. This will require effective storytelling – the power of narratives – to bridge the distance between pledges and metrics. These stories must appeal internally within the organisation, not just externally as part of marketing and outreach.

Companies must seize this opportunity to include rank-and-file staff in navigating and shaping the new reality.

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