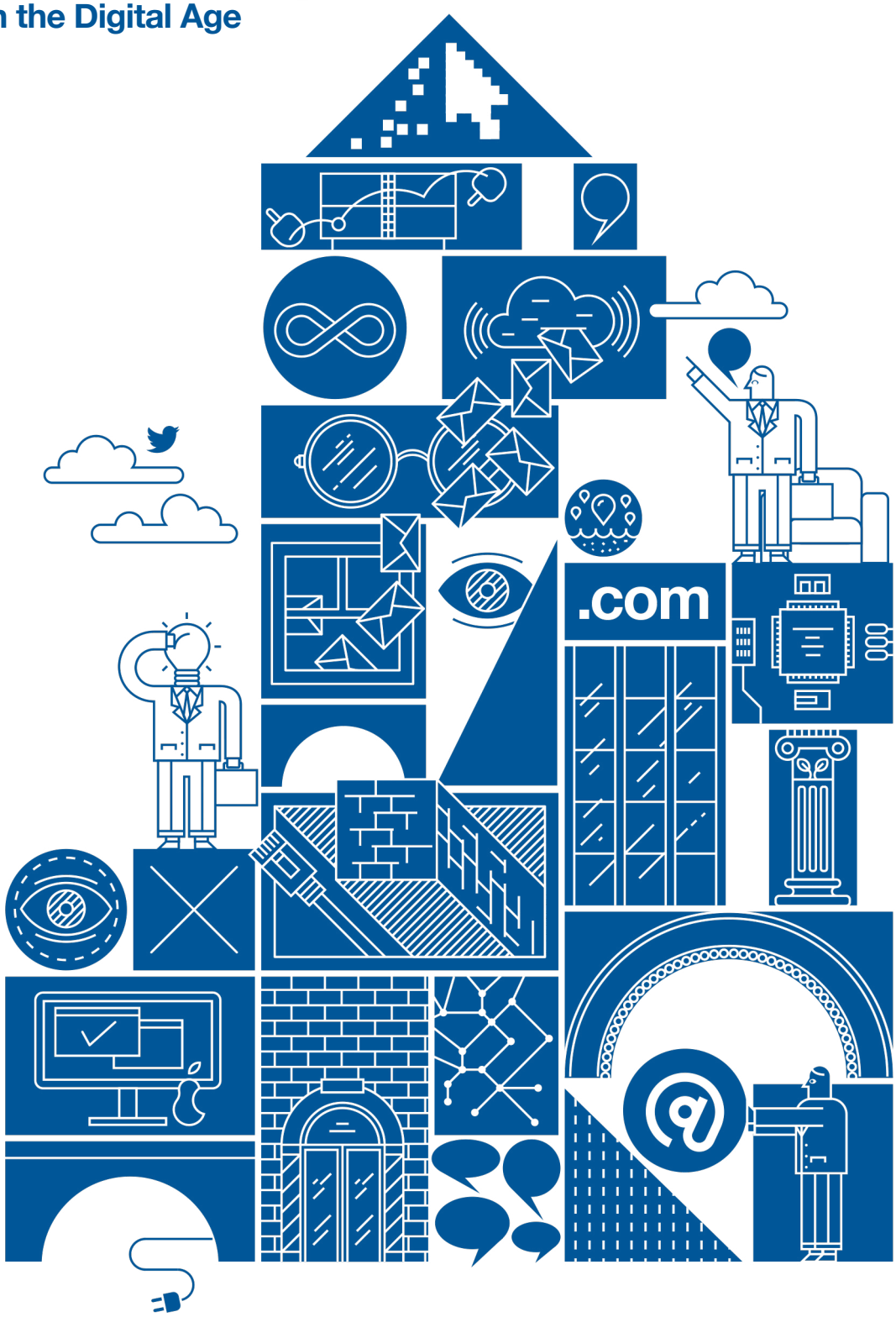
Reinventing the Company

in the Digital Age



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Sustainability and the Company of the Future

Carol A. Adams

In her article Professor Adams examines how the company of the future will do business differently while understanding the value of its relationships and the resources and services provided by the natural environment. She sees that the globalization of business which has occurred over the last few decades has made some companies more powerful than some national governments, and has made it easier for some companies to exploit cheap labor, plunder natural resources, and cause serious consequences for the natural environment, human health and biodiversity through pollution.

In the increasingly complex world in which business has to evolve, she considers the need for integrated thinking and what that means for organizational structures and cultures; the traits of leaders of tomorrow's companies; the connected company; new ways of thinking about value; and the role of transparency and accountability in the new business order.

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Key Features for the Company of the Future:

Diversify Your Leadership Team

Your leadership team should include women and an appropriate mix of backgrounds, aptitudes and skills to facilitate dynamic responses to a changing and increasingly complex external environment. Organizational cultures should encourage innovation and risk taking. Focus on fostering collaborative leadership and building partnerships and relationships to support strategy.

Think More Broadly About What Value is and for Whom It Is Created

Making money is no longer considered the only way of creating value for shareholders. Indeed, much of what is of value to an organization is not included on its balance sheet. Creating value for shareholders increasingly requires having strong relationships with stakeholders based on mutual trust and "win-win" outcomes. Being socially and environmentally responsible is essential to earning this trust. Recognize that success is intertwined with and dependent on the well-being of society and the environment.

Think Longer Term

Chief Financial Officers, other senior executives and boards of the future will place more emphasis on long-term success. They will understand the importance of identifying and addressing sustainability risks and taking advantage of sustainability opportunities to achieve strategy. Be prepared for the ongoing risks and opportunities presented by the social and environmental sustainability megaforces of our times.

Sustainability and the Company of the Future

Introducing the Company of the Future

The company of the future will do business differently, understanding the value of its relationships and the resources and services provided by the natural environment. It will be very different from the company of today.

Above all, it will face a high level of complexity and its people will have a broad knowledge and skill set to equip them to look at problems from different perspectives and to work collaboratively with colleagues from different disciplines. Whilst there will, of course, still be some specialists, overall the staffing profile will be more generalist. Leadership teams will be more diverse to ensure that the mix of aptitudes, attitudes, and skills facilitates dynamic responses to a changing external environment. Organizational cultures will encourage innovation and risk-taking.

The globalization of business which has occurred over the last few decades has made some companies more powerful than some national governments. Globalization made it easier for companies to exploit cheap labor, plunder natural resources and cause serious consequences for the natural environment, human health and biodiversity through pollution. And they did—and still do. But that is changing.

Companies which may have got away with environmental destruction and conditions causing death up to the 1980s have increasingly found the world more informed and less tolerant since the advent of the internet and social media. Cutting costs through the exploitation of labor and pollution of the environment, rather than leading to financial success has led to difficulties for corporate giants such as BP, Exxon Mobil, James Hardie, Nestlé, Nike, Shell, and more. They have been forced to change in order to survive. Those forces for change will increase as the world is faced with climate change, water scarcity, food security issues, greater inequality in wealth distribution, and many more challenges.

Cutting costs through the exploitation of labor and pollution of the environment, rather than leading to financial success has led to difficulties for corporate giants

Milton Friedman, an economist, famously said: "… a corporate executive is an employee of the owners of the business. He [*sic*] has direct responsibility to his [*sic*] employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to *make as much money as possible* while conforming to the *basic rules of the society* …" [*emphasis added*].[1]

But what are the "basic rules of society?" Whilst globalization means that these "rules" are converging across geographical boundaries, they will continue to change over time. Taking the "rules of society" regarding the position of women in the workplace as an example, fifty years ago women in banking in the UK were expected to leave work upon marriage and were not employed for management roles. An examination of annual reports in the UK banking and retail sector going back to before the Second World War[2] reveals not only the circumstances of women's employment, but also acceptance and encouragement of unequal opportunities on the part of companies. In the quote below, for example, women were excluded from consideration of opportunities:

> It is not always realised what a variety of opportunities this firm can offer to *young men*… there are attractive careers in selling … and in such fields as Publicity, Buying and general business administration… For… candidates who show promise of reaching senior rank, we have organised a training course, candidates for which are chosen irrespective of their *background*… [*emphasis added*] (Boots' corporate annual report, 1955)

It is clear that "background" does not include gender, and this public statement indicates that this view was considered perfectly reasonable at the time by (male) corporate leaders and politicians alike. But the "basic rules of society" regarding women's employment have changed to the extent that many employers

now make considerable effort to attract and retain women staff and publicly disclose these efforts. It has become good for business and essential to reputation management. Not only have the rules of the game changed, but making money is no longer considered the only way of creating value for shareholders. Indeed, much of what is of value to an organization, is not included on its balance sheet. Creating value for shareholders increasingly requires having strong relationships with stakeholders based on mutual trust and "win-win" outcomes.

Stakeholders have changed the "rules of society" by which business operates and they continue to do so.[3] The company of the future will know that its success depends on its relationship with society and the environment.

> The company of tomorrow will operate in a different capital market imperative where rewards are in terms of a responsible business which creates value for itself and for its stakeholders in the long term. These rewards feature in the share price of a company that has this responsible approach as the 'catch 22' cycle has been turned on its head, with sustainable business and a sustainable planet/society being intrinsically connected." (Paul Druckman, CEO International Integrated Reporting Council)

Economists and scholars have speculated about what Adam Smith, a professor at the University of Glasgow in the eighteenth century, would have said about the role of business today. Adam Smith is often referred to as the "father of capitalism," an advocate of market forces, an enemy of government regulation and a believer in something referred to as the "invisible hand." Yet in his book, the *Wealth of Nations* (1776),[4] wealth is equated to well-being of people. Indeed much of Adam Smith's thinking was based on morality, justice, and doing good. He advocated action when the rights of individuals are violated because action is called for and necessitated by justice. Smith's central tenet that a person's rights according to law must be protected through a system of justice is an arguably moral stance. We might consider, for example, poor working conditions and unfair pay as a violation of rights (worker rights).[5]

The company of the future will know that its success depends on its relationship with society and the environment

There are some controversial and incomplete interpretations of Adam Smith's work used to shore up different arguments about the role of business in society.[6] In any case, Adam Smith did not witness globalization on the scale that we have, nor the challenges, even atrocities, and opportunities which globalization has brought. Smith was in favour of small businesses and opposed forms of economic concentration that distort the market's natural ability to establish a price that provides a fair return on land, labor, and capital.[7]

This contribution considers: the increasing complexity facing business and the changing world in which it operates; the need for integrated thinking and what that means for organizational structures and cultures; the traits of leaders of tomorrow's company; the connected company; new ways of thinking about value; and the role of transparency and accountability in the new business order.

Increasing Complexity and a Changing World

Corporate leaders face increasing complexity and ambiguity. They will need a clear vision and a powerful moral compass to guide the company through it. This will be tested like never before. Some will shine and many others will flounder. It will be harder to get by without vision and a keen sense of right and wrong.

Corporate leaders are grappling with a range of issues which are changing the way business is done. For many companies, climate change is the most significant issue,[8] bringing with it a range of other concerns including scarcity of natural resources, food security and poverty. They are frustrated by policy uncertainty.[9] Rather than use this policy uncertainty as a reason for inaction and buck passing they need to take responsibility and be guided by a long-term vision of what is possible and what needs to happen.

Corporations have played a major role in exacerbating inequality of wealth distribution. They have earned profits from their operations in Lesser Developed Countries (LDCs) and paid them to their owners in wealthier home countries. Some are now seeing that it is in their interests to work to fix wealth inequality. For example, Unilever works to improve the livelihoods of smallholders through training because it recognizes the benefits in terms of better-quality products and increased stability of supply.[10] As the middle class increases globally, large companies will not have the benefits of cheap labor that globalization has brought them to date.

Corporate leaders face increasing complexity and ambiguity. They will need a clear vision and a powerful moral compass to guide the company through it. This will be tested like never before

Many of the irresponsible business practices and disasters we have seen have been driven by short-termism, the desire for instant gratification, and the lure of rewards for short-term performance. For example, deferred maintenance and slack management have been blamed for leaks from the Union Carbide India Ltd pesticide plant in Bhopal in 1984. Estimates put deaths from the gas release in the thousands and injuries at over half a million. Union Carbide Corporation's payout

for litigation made in 1989 was the equivalent of almost one billion US dollars in today's terms. In 2010 eight ex-employees including the former chairman of Union Carbide India Ltd were convicted of causing death by negligence, and the seven surviving were put behind bars.[11] Consultants repeatedly stress the risk implications of the consequences of short-termism.

To counter this short-termism the International <IR> Framework (International Integrated Reporting Council, 2013), backed by accounting professional bodies around the globe, strongly emphasizes the need to focus on long-term performance. Chief Financial Officers of the future, currently major stumbling blocks in taking advantage of sustainability opportunities and addressing its challenges, will think more about long-term success. They will understand the importance of identifying and addressing sustainability risks to achieve strategy.

The ability of social media to build and damage trust and reputation is another issue concerning corporate leaders today. It's not worth cutting corners, telling lies or covering up. Everyone can find out everything, and quickly. The media is quick to pick up on cover-ups, half-truths and poor corporate behavior.[12] The company of the future will set an ethical culture from the top. It will strive for transparency and accountability.

KPMG's "Expecting the Unexpected" report (2011)[13] summarized a number of scientific predictions concerning "sustainability mega forces" to which today's companies will have to adapt if they are to be around in the future. Many of the issues are connected to climate change and cannot be resolved by any one part of our society. Regulation, government agencies, business leaders, and NGOs will achieve little on their own. If we are to achieve the required reduction in CO_2 emissions to save the people of this planet, we need to work together. Business must engage with regulators, both must engage with communities, and NGOs must engage with all of these parties. We must all be prepared to change. That way we'll find workable solutions. The goals of climate change adaptation and sustainability cannot be achieved without a range of stakeholders taking action and becoming engaged.

Connected issues include: population growth; a growth in the global middle class; ecosystems decline; water scarcity; food security; material resource security; higher global energy demand; changes in the geographical pattern of energy consumption; energy supply and production uncertainties; and increasing regulatory interventions related to climate change.

Global population growth, climate change and the increasing middle classes, particularly in China, will put pressure on ecosystems, the supply of natural resources such as food, water, energy and materials. Businesses will face disruption in supply of materials and resources, and price volatility. Companies will need to develop substitute materials and recover materials from waste.

More companies are realizing how dependent their operations are on the critical services that ecosystems provide. In 2011 Puma valued its impact resulting from land use, air pollution and waste along the value chain at €51 million, added to previously announced €94 million for GHG emissions and water consumption.[14]

Businesses will be vulnerable to water shortages, declines in water quality, water price volatility, and reputational challenges. Growth could be compromised and conflicts over water supplies may create a security risk to business operations. Coca Cola had to close a plant in India this year because farmers said it was using too much water.[15]

More companies will do what Nike has done in its 2013 Sustainability Report,[16] identifying global trends which impact their business. Nike's list includes: increasing energy consumption; water inadequacy; changing climate; income divides and bridges; obesity spreading; the coming of age in the southern hemisphere; women in a New Light; and easy access to information.

Issues which Nike has identified as having the potential to pose challenges or opportunities for Nike in the future include: radical transparency/traceability; new emphasis on the genetically modified debate; impacts of counterfeit waste; from fast fashion to fast e-waste; growing attention to stranded assets; divestment as a new form of climate advocacy; raising the bar for women farmers; China's green future; Brazil's environmental push; and greater focus on product end of life. Similarly, Unilever's Annual Report and Accounts 2013[17] considers risks associated with not managing: sustainability; customer relationships; people; the supply chain; and systems and information.

Integrated Thinking

The extreme challenges of the next two decades will clearly differentiate exceptional leaders. A few bold leaders will become known for forging a new and rewarding path for business, one that is aligned to the well-being of society and the environment.

The company of the future will not only recognize that to survive and thrive it needs to adapt, but will also take steps to change both the way it does business and its notion of what constitutes success. A number of business leaders are rising to the challenge.

Paul Polman, Unilever's CEO, has made a clear connection between long-term business success and tackling social and environmental issues:

> … the biggest challenge is the continuing threat to 'planetary boundaries'; resulting in extreme weather patterns and growing resource constraints. These have increasing impact on our business… We remain convinced that businesses that both address the concerns of citizens

> and the needs of the environment will prosper over the long term… As… [the Unilever Sustainable Living Plan] becomes embedded, there is growing evidence that it is also accelerating our growth.
> (Annual Report and Accounts 2012, p.4)[18]

Similarly, in a Foreword jointly signed by the chairman and chief executive, the Royal Bank of Scotland Group's RBS Sustainability Review 2013[19] begins with the words: "In 2013, we were the least trusted company in the least trusted sector of the economy. That must change."

The company of the future will take steps to change both the way it does business and its notion of what constitutes success

Unilever recognize that the growth of their business is dependent on reducing their environmental footprint and improving their contribution to society. Indeed, Unilever's vision is to double the size of its business while reducing its environmental footprint and increasing its positive social impact. Their 2013 Annual Report[20] succinctly captures the moral and business imperative for integrated thinking: "Business needs to be a regenerative force in the system that gives it life" (p.8).

Banks come up against scrutiny with regard to the nature of the projects they fund. And they are generally mistrusted by many. Demonstrating a contribution to creating value for the societies they depend on and diligence with regard to the environmental impacts of the projects they fund is therefore critical for their long-term success. The Standard Bank Group (SBG)[21] appears to do this better than many. The real proof, of course, comes in information provided publicly about the nature of loans made. The RBS Sustainability Review 2013 performance highlights includes both financial and non-financial performance measures, including £6.4 billion new lending to small and medium-sized enterprises (SMEs), 65% of energy project finance committed to wind and solar, and 6.2% reduction from 2012 in scope 1 and 2 emissions. These are the things which will increasingly matter to bank stakeholders. The RBS sustainability review sets out in some detail how the bank manages environmental, social, and ethical (ESE) risk. 2% of cases assessed against the bank's ESE policies were prohibited and a further 12% were escalated to the reputation risk committee.

The reader of SBG's 2013 Annual Integrated Report is also left with the feeling that the bank sees its success as inextricably linked with its relationship to society. For example, socioeconomic development and provision of sustainable and responsible financial services are identified as material issues. The report includes information on stakeholder engagement processes and explains its approach to environmental and social risk screening. Sustainability risk is explicitly mentioned alongside other operational risks (p.90).

These changes have occurred and will continue to do so because stakeholders, on whom the company depends, have demanded it and (social) media has ensured that these demands have been heard. In the company of the future responsibility for sustainable development will rest with the board (as it does already in some forward-thinking companies such as the Standard Bank Group and the Royal Bank of Scotland Group). The board will recognize that opportunities and challenges around responsibility and sustainability need to be reflected in strategy and that most well-considered strategic initiatives of value to a business are not developed in silos. Rather, they involve a range of inputs from around the company. The board of the company of the future will recognize that getting senior executives around a table to think about how the different parts of the organization work together in itself adds value. Working out what it is about people, relationships, and environmental measures that add value to a business is important for long-term success. Understanding how environmental impacts can affect reputation and financial risk makes good business sense. This is integrated thinking.[22]

The company of the future is less likely to have clear functional boundaries and hierarchical structures, but rather a more dynamic, flat structure that facilitates the desirable degree of cross-functional and informal communication channels needed to make sustainability change work. Job descriptions and performance review practices will increasingly incorporate sustainability activities and measures as well as the skills required to achieve them, such as ability to work collaboratively in teams, critical thinking, and showing initiative. Finance, communications, marketing, public affairs and environmental people will work together to get sustainability into strategy, develop the business case for sustainability initiatives, get agreement on sustainability Key Performance Indicators and targets and getting sustainability incorporated into plans, ensure that sustainability messages are consistent, prioritized, accurate and above all, not greenwash, and to develop stakeholder engagement processes to identify material issues and risk.

Leaders of the Company of the Future

I claim above that integrating sustainability will be essential for the survival of the company of the future. Achieving it depends on leadership,[23] and the company of the future will have: a CEO who has the foresight and courage to see that doing the right thing is good for business; board members who understand the relevance of sustainability to strategy and risk; and senior executives with the expertise and skills to make it happen and, crucially, the ability to collaborate and work across functions.

The CEO's moral conviction will be strong enough to convince others to follow. (Most employees will want to follow a sustainable path if that is where they are led. Being part of a team which is taking a sustainable path will be a source of great satisfaction to many.) The CEO will ensure that the management structures and governance processes to integrate responsibility and sustainability are in place and that the executive team have collaborative leadership styles. Territorial leaders who build silo empires will be a thing of the past.

Being part of a team which is taking a sustainable path will be a source of great satisfaction to many employees

In setting the strategic direction of the company, the board will recognize the importance of staff, customers, communities, and the risks associated with the limitations of natural resources and the impact of pollution. The board will understand the critical impact of these issues on the business model, long-term success, and ability to deliver on strategy. They will understand that identifying sustainability risks requires stakeholder engagement and having governance processes which expect the unexpected. The board's Remuneration Committee will obtain sustainability performance data to inform its deliberations. Corporate boards of the future will also ensure that climate change and sustainability issues are incorporated into strategic and operational planning and risk assessment.

> A business enterprise of the future would have a leader and leaders down the line with a wide bandwidth to appreciate the true potential of people, their aspirations and enhance well-being, along with deep love for nature and its enhancement. People must feel from their experience and stories such leadership culture enhanced life and nature!
>
> The business will have an enterprise model that recognises excellence and innovation - to generate moderate profits or revenues, after giving back suppliers and dealer-chains fair rates and on time; employees given fair compensation, social security, development and work satisfaction with care and so on. People connected in every way should say - may this Company grow forever! The Ownership structure and Governance processes reflect a *consensus* based activity.
>
> The Business of the future is one which clearly demonstrates that Relationships are above all forms of transactions and performance. So, more than what is called 'shared value', the focus is on convincing oneself and all other stakeholders that *sustainable value is co-created*, never created by one or the few. (Anant Nadkarni, retired Vice President CSR and Sustainability, Tata)

Boardrooms of the future will no longer be dominated by white men. The proportion of female board members will have substantially increased, in part due to recognition that this ensures a social and environmental sustainability focus along with the profit imperative[24] and an understanding of the relevance of sustainability performance to overall performance.

Committed and proactive executives will collaborate to react to changes in the external environment and work together to make necessary organizational change happen. These leaders will be knowledgeable about sustainability issues, processes, performance management, and communication. These change leaders will have the ear of the CEO. Moral authority and leadership skills are important, but not enough for the scale of change required.[25]

Solving the challenges and taking the opportunities they present requires corporate leaders who are guided by a sense of what is right. Tomorrow's senior executives will be a self-aware diverse group with collaborative leadership styles working in a culture which allows for critical reflection. They will have the courage to "do the right thing" and to create a collaborative culture where dissenters are heard.

The Connected Company

The strength of relationships with stakeholders, including customers, suppliers, employees, investors, civil society groups, and NGOs will be increasingly critical to the success of the company of the future. Some companies will follow Nike in learning the importance of this the hard way.

Nike contracted with factories throughout Asia (which became known as Nike sweatshops) which were found out for using child labor, poor working conditions, and excessive overtime, and for sexually harassing female workers and paying below the minimum wage. This was widely publicized by CorpWatch (a US-based research group), Naomi Klein in her book *No Logo* (1999),[26] Michael Moore and the BBC in documentaries, and various anti-globalization and anti-sweatshop groups. Universities started to boycott Nike products, leading to a global boycott campaign in the 1990s. Nike's original denial of claims[27] and its view that what happened in supplier factories wasn't its concern, only served to increase the campaign against it. Nike has been forced to change its position, now taking transparency, accountability, and corporate responsibility very seriously.

The company of the future will encourage its pension fund to realize the benefits of socially responsible investment

The Ethical Consumer website[28] provides information about current boycotts, how to start one and successful boycotts. Nestlé is included on the successful

boycott list. It has been much criticized for its aggressive and deceptive sales of baby milk formula in countries with limited access to clean water.[29] In 2010 Greenpeace launched a campaign[30] against Nestlé, resulting in Nestlé's adoption of a comprehensive zero deforestation policy in its palm oil supply chain.

The company of the future will encourage its pension fund to realize the benefits of socially responsible investment. Unilever did this[31] and is set to increase responsible investment following good results.[32] This will be an increasing trend by pension funds which itself will be a powerful force in shaping the company of the future. The desire to get into, and stay in, socially responsible investment funds will influence corporate strategies and encourage longer-term, responsible thinking.

Dramatic changes in China and other parts of Asia will have a global impact. The rise in the middle classes means Chinese companies will no longer be able to compete with cheap labor alone. They are addressing this by being the best in other areas—including sustainability. Huawei's Sustainability Report 2013,[33] for example, details extensive and world-leading practices to integrate sustainability into its supply chain.

Creating Value

As discussed earlier, Milton Friedman saw the *purpose* of business to simply be to make as much money as possible for the owners of the business. The power of big business today is such that it is expected by many to serve a broader purpose, sometimes reflected in different forms of ownership, such as customer, community or employee owned businesses. The purpose of business includes providing jobs, educating customers about the social and environmental impact of products, advocating for government policies to reduce the impact of climate change, and so on.

The company of the future, as part of an increasingly globalized and complex world, will be a connected and dynamic part of the fabric of society. Not only will the boundaries around its constituent departments/divisions/functions be increasingly blurred as companies recognize the need to take a multi-functional and multi-disciplinary approach to solving complex and interconnected problems, but also the boundaries around the organization will be increasingly fuzzy as companies recognize that their success depends on their taking responsibility for the environment, employees, suppliers, customers, and other stakeholders.

The changing view of the relationship between businesses, society and the environment is to some extent reflected in, and perhaps to a greater extent further catalyzed by, the work of the International Integrated Reporting Council (IIRC). It encourages companies to consider the role of a range of "capitals" in their business model. Whilst traditionally companies have thought about their business model in terms of flows of money or "financial capital," the IIRC

encourages businesses to explain their business model with respect to a number of capitals including, for example, human capital, natural capital, social and relationship capital and intellectual capital. Extending this line of thinking we can consider value as being created (and depleted) across all capitals through relationships with a broad range of stakeholders:

"Value is not created by or within an organization alone" (IIRC Framework, para 2.2)

Tomorrow's company will have contributed to redefining how we consider and measure value, a process which itself will have contributed to changing the nature of business

Over the last century a mass of rules has developed to measure financial capital. These rules now capture an ever decreasing component of the worth or value of a company. Tomorrow's company will have contributed to redefining how we consider and measure value, a process which itself will have contributed to changing the nature of business. The company of the future will explain how it defines value and the relevance of multiple capitals and stakeholder views to their concept of value. It will go on to explain what steps they have taken to maximize value creation according to its definition.

The shift from Milton Friedman's way of thinking in the case of Unilever is clear from this statement:

> Our purpose: to make sustainable living commonplace … Our first priority is to our consumers—then customers, employees, suppliers and communities. When we fulfil our responsibilities to them, we believe that our shareholders will be rewarded. (Unilever Annual Report and Accounts 2012, inside front cover)[34]

Similarly Sasol outlines how stakeholders create value for the company:

> … Communities … understanding of … issues and … potential challenges which may need to be addressed … Unions … Through … discussion … we develop and build relationships and grow trust ... (Sasol Annual Integrated Report 2013, pp.38-9)[35]

The company of the future will not only listen to its stakeholders and define value broadly in terms of all six capitals, but will also recognize its duty of transparency and accountability over a broad range of activities and impacts in which stakeholders have an interest.

Transparency and Accountability

As the power and impact of the world's largest companies have increased, so have demands for increased transparency and accountability. Many a corporate reputation has been damaged by misinformation, not disclosing negative issues or impacts (which are instead revealed by the media or NGOs), and by not accepting a responsibility of accountability to stakeholders over corporate impacts on them. By the same token transparency and accountability have been useful to restore public trust. Shell was the subject of public outrage in the late 1990s over its plan for Brent Spar, a decommissioned floating oil storage facility, and was also accused of complicity in the murder of Ken Saro Wiwa and eight other activists against Shell's treatment of the Ogoni people in Nigeria.[36] A very public, high-profile and global campaign led by Greenpeace about plans to dump Brent Spar in the North Sea got a lot of support. There was a widespread boycott of Shell service stations across Northern Europe. Shell abandoned its plans to sink Brent Spar, parked it in a Norwegian fjord and later reused much of its structure. Subsequently Shell went on to win the ACCA social reporting awards,[37] complying with globally recognized sustainability reporting frameworks and including negative comment from stakeholders in their report. They were keen to show they had listened to stakeholders and learned their lesson, and to win back public trust.

A more recent example of recognition of the importance of accountability is provided by the Royal Bank of Scotland Group in its Sustainability Review 2013. The Chairman and Chief Executive Foreword begins with the words, "In 2013, we were the least trusted company in the least trusted sector of the economy. That must change." The report increases the focus on impacts of banking which are of public concern, such as lending policies, new lending to small and medium-sized enterprises and first-time mortgages, diversity and equality at work, and cultural change towards enhanced ethical behavior.

Transparency and accountability have been useful to restore public trust in the world's leading companies

Key Performance Indicators include the percentage of energy project finance committed to wind and solar, and the chief executive acknowledges the link between financial and non-financial performance, and value creation for investors and society: "The success of a bank depends on a strong financial position, and a reputation for great customer service based on a deep connectivity with the society the bank supports, and is in turn supported by." (p.7). In 2013 a wider range of stakeholders was consulted and the board level Group Sustainability

Committee met with 26 advocacy groups during the year. Overall this type of engagement by board level committees and consideration of sustainability and social responsibility issues is low, but will be commonplace in the company of the future.

Aside from avoiding the negative consequences of a lack of transparency and accountability there are clear benefits of being accountable. Not only does accountability avoid the consequences of reputational risk; it also strengthens relationships with stakeholders. The trust that it allows to develop builds a bank of goodwill which can be relied upon to see an organization through difficult times. A company that has worked to build trust will more readily survive an incident which brings it into question. This is extremely valuable.

Accountability also significantly improves internal decision-making. The imperative of making information publicly available means that information and data have to be collected and verified. Very often the decision to make information available externally is reached the first time the information is gathered, making it available for the first time to inform internal decisions. Not only does this improve the quality of internal decisions, but it also ensures that performance on the matter being reported is monitored. Monitoring performance, of course, is key to improving it.

A hundred, even fifty years ago, corporate reporting consisted of little more than a profit and loss account and balance sheet. Whilst these financial statements are still an important feature of the corporate reporting package, non-financial performance measures and information on management and governance processes get as much, if not more attention, by some readers. Companies are increasingly disclosing their strategy and information on the context, both opportunities and risks, in which they are working to achieve it. This is something investors will increasingly want to know about. According to KPMG (2013)[38] only 5% of the G250 currently include information on the financial value at stake through social and environmental risks. Quality reporting on social and environmental sustainability impacts should disclose the process of engaging with stakeholders, determining material issues and managing sustainability in the supply chain. It should also have time-bound targets. Many companies still fall short of this.

Looking ahead, companies will disclose what value means to them and what steps they are taking to maximize value according to their definition. They will seek to convey the value that is created through their relationships with society and the environment and the value of the natural resources they consume. This will further shift corporate thinking away from a narrow short-term profit motive to a more holistic way of thinking about what constitutes success in a new world order.

Closing Word: The Company of the Future

In summary, the company of the future will be one which has excelled at:

- addressing climate change risks;
- expecting the unexpected;
- building partnerships and relationships to support strategy;
- fostering collaborative leadership;
- focusing on the short, medium *and* long term.

> The company of the future needs to be more deeply integrated with civil society, rather than one standing to one side with a somewhat detached focus on its profit objective. That integration needs to be both physical (i.e. with the natural world and nature's balance) and ethical (i.e. where societal values happen to be). In that way it will be both less vulnerable to change in factors beyond its control, and more attractive and trustworthy to both talent and customers. (Mark Joiner, former Finance Director, National Australia Bank)

The company of the future will also be one that responds to the increasing tendency of consumers, employees, and other stakeholders to look for:

- a corporate vision and goals which recognize the importance of the company's relationship with society and the environment and a leader with a sound moral compass;
- diversity in the senior leadership team;
- a collaborative culture allowing for innovation and responsiveness;
- flexible work patterns and a variety of work opportunities;
- quantified social/environmental targets;
- transparency and accountability.

Notes

1
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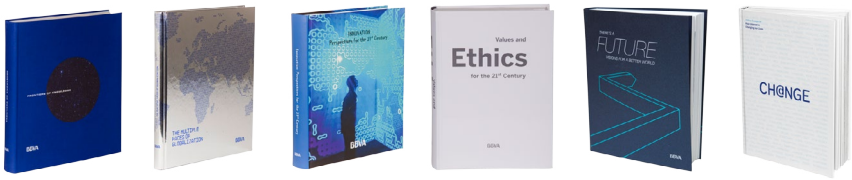

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