

Ethical CORPORATION

March 2018

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Root and branch reform

Why nature is key to risk-reduction

Capitalism in crisis

How can we restore trust?

Sharing the benefits

The rise of the B Corporation



Green growth

The drive to put natural capital at the heart of business

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Welcome to the March 2018 issue

This month, Ethical Corporation is looking at natural capital, and the global drive to put a dollar figure on the ecosystem services that allow companies, and countries, to prosper, such as air, water and land.

Angeli Mehta reports on the efforts to bring natural capital accounting into the heart of decision-making for business with new tools, such as the Natural Capital Protocol, and recommendations that natural capital reporting be included in the Task Force on Climate Related Financial Disclosures. She gives case studies of companies that are leading the way in natural capital accountancy: Nestle, AkzoNobel, Yorkshire Water, Kering, and Dow Chemicals, which is partnering with data analytics firm Earth Genome. We also report on the growth of the land restoration economy, taking a look at innovative projects by EcoPlanet Bamboo and France's Michelin.

Our second briefing this month surveys some key projects under way on both sides of the Atlantic to try to address the crisis of trust in capitalism identified in the Edelman Trust Barometer.

Martin Wright reports on an ambitious British Academy initiative to try to make corporations fit for the future, called the Future of the Corporation, and reviews candid comments by 16 business leaders about the challenges of delivering quarterly results amid their commitments to sustainability.

Mark Hillsdon charts the rise of the B Corp movement, which has been strengthened by the entrance of multinational brands such as Danone. He also reports on a new UK index, the Good Economy, which rates Plcs on their contribution to inclusive growth and job creation.

Finally, I report on a project by 33 CEOs in the US-based Coalition for Inclusive Capitalism to develop new metrics to report the long-term value they create to investors.

I hope you find it stimulating and useful reading.

Terry Slavin



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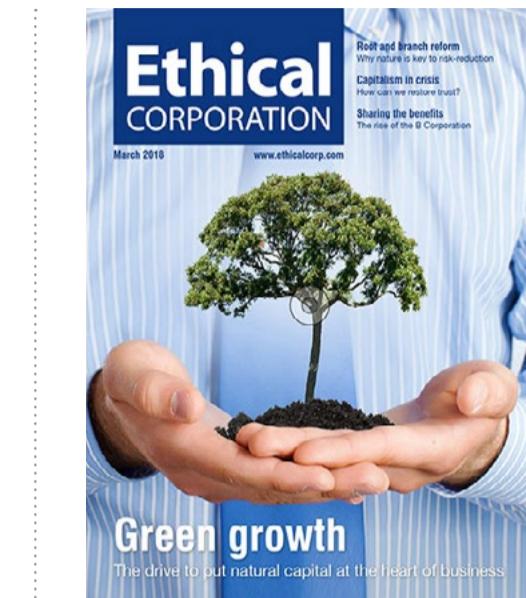
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BRING AWARENESS to your recent ground-breaking sustainability initiative

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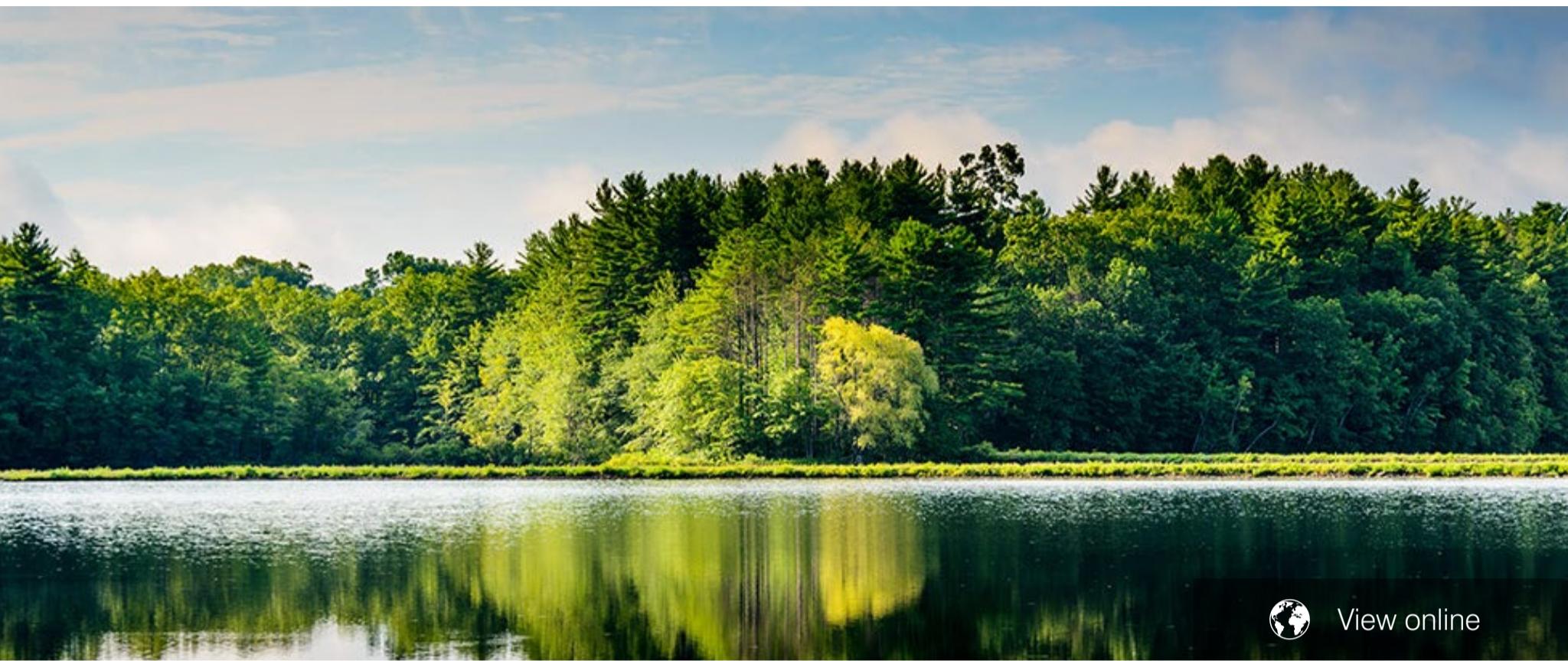
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KAREN GRIGORYAN/SHUTTERSTOCK

Accounting for change: the drive to put a dollar figure on nature

Natural capital has entered the mainstream for business. Angeli Mehta reports on efforts to now take it to the heart of decision-making

This month, many companies will report on their end of year finances, and we'll be able to see clearly who made a loss or a profit. Alongside those accounts, companies might also disclose their carbon emissions, how much energy they saved, and whether they're using less, or more, water.

But in their financials very few of those companies will have taken any account of the natural capital that enables their business to prosper. Natural capital is everything nature provides for life: air, water, and land. We derive essential services from renewable resources such as forests, which sequester carbon, prevent soil erosion and minimise flooding. Likewise, we benefit from non-renewable stocks such as oil and gas.

The latest attempt to put a value on global ecosystem services was made by Australian and European researchers: \$125trn a year in 2011. It's sobering to realise that in the same year global GDP was \$75.2trn. The authors estimate that due to changes in land use between 1997 (when they made their first calculations), and 2011, global loss of ecosystem services was somewhere between \$4.3trn and \$20.2trn a year.

"We need to move from CSR," says [Mark Reed](#), professor of socio-technical innovation at Newcastle University. "The idea of natural capital now is mainstream. Companies appreciate that there are benefits for business, but what

'The idea of natural capital now is mainstream. What is required is the win-win for business to become more apparent'



is required is the magnitude of the win-win for business to become more apparent.” Reed is leading a major [UK project](#) to try to do just that, with food giant Nestlé. (see [Nestlé helps to build a business case for natural capital](#))

Measuring natural capital

At last November’s World Forum on Natural Capital, held in Edinburgh, the word “data” was on everyone’s lips: where to find the data; its quality; and how to interpret it. That is because without measurement, good decisions often can’t be made.

Jessica Fries, executive chairman of [Accounting for Sustainability](#) (A4S), points out that work is evolving around how to measure natural capital, but “innovation is needed to improve measurement and manage natural capital so that it’s at the heart of every decision made”.

Luxury fashion house Kering [pioneered](#) environmental profit and loss accounting, and has made its methodology open source (see [Kering gets to the bottom of its supply chain](#)). Michaël Beutler, director of sustainability operations at the French company, suggests: “We need a level playing field in terms of data ... a forum where [players] can compare data to stimulate action.”

One tool to help companies is the [Natural Capital Protocol](#). Launched 18 months ago, it was piloted by more than 30 companies. The protocol is designed to provide a standardised framework to help companies take account of natural capital in their decision-making.

“Companies were coming at it from different directions ... we needed a generally accepted logical process to make it less intimidating and more accessible,” explains Hannah Pitts, relationships director at the National Capital Coalition. “The primary objective was for internal decision-making, to make a business case for more sustainable choices on raw materials and processes etc.”



30 SECOND READ

- We derive essential services from resources such as forests, which sequester carbon, prevent soil erosion and minimise flooding.
- The value of global ecosystem services was an estimated \$125trn a year in 2011. In the same year global GDP was \$75.2trn.
- Work is evolving around how to measure natural capital, but innovation is needed to manage natural capital so that it’s at the heart of every decision made.
- The Natural Capital Protocol is a standardised framework to help companies take account of natural capital in their decision-making.
- The UK’s 25-year environment plan mentions “natural capital” more than 100 times. It says government intends to use natural capital as a tool to “help us make key choices and long-term decisions” but is short on the detail of how.
- Natural Capital Coalition will next month launch a guide to help financial institutions take natural capital impacts into their lending, investment and insurance practices.
- Kepler Cheuvreux looked at 700 European companies and found that their use of resources and their polluting emissions affect more than 2,500 species each year.



The protocol is designed to be applicable to any business sector, and complementary to approaches that companies might already be using to examine their impacts.

From its ongoing work in the private sector, the coalition found that a lack of ready access to robust data for decision-making was proving to be a barrier for businesses.

It's working to develop a data kit that will provide a catalogue of existing data sets, and their limitations; a "lexicon" to help achieve standard definitions; and examples of how decisions can be made despite data gaps and uncertainty.

Challenge for governments

Valuing natural capital is a challenge for governments, too. A report for the multi-stakeholder [Green Economy Coalition](#) says that natural capital should be reflected in national wealth accounts, as it is a better guide to economic progress than gross domestic product.

The report suggests that all natural capital, whether renewable or not, "could support greater prosperity if it were more appropriately valued and hence more efficiently used", and says governments and scientific institutions have important roles to play in data management and economic valuation.

The UK does publish estimates of the quantity and value of the country's natural assets. These are not complete because the underpinning methodologies are still being developed, and many ecosystem services have not yet been valued. (see [graph](#))

The UK's 25-year environment plan, published in January, mentions "natural capital" more than 100 times. It says government intends to use a natural capital approach as a tool to "help us make key choices and long-term decisions" but is short on the detail of how, save to say it will use incentives and regulation where needed.

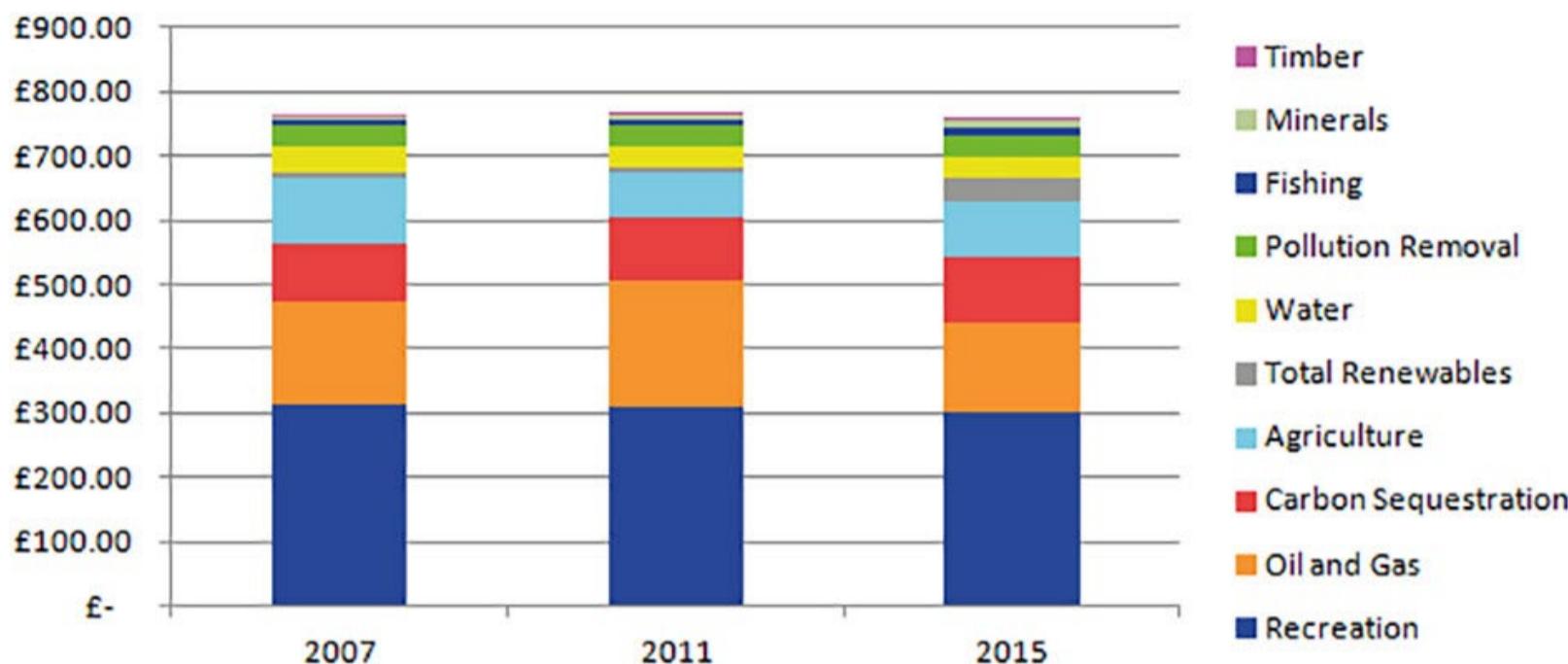
Peter White, chief operating officer at the World Business Council for Sustainable Development (WBCSD) told the World Forum on Natural Capital that the UK government should align its policy on natural capital with the



Investing in increasing forest cover can help avert flooding

AC RIDER/SHUTTERSTOCK

'If I'm an investor, I want to know what will your business look like in a two-degree world?'



Estimation of the value of UK natural capital in 2007, 2011 and 2015 (£ billion, 2015 prices)

recommendations of the industry-led [Task Force on Climate-related Financial Disclosures](#) (TCFD). These call for organisations to publicly reveal how they manage climate risk, and who is responsible for the governance process of those disclosures.

"If I'm an investor, I want to know the climate risk or opportunity of a company ... what will your business look like in a two-degree world?"

If government policy was aligned with the TCFD recommendations that would drive reporting and investment in natural capital, says White.

Earlier this month, the EU said it would [revise guidelines](#) on non-financial disclosures to bring them more into line with the TCFD recommendations. Its strategy for sustainable financing also proposes to clarify the duty of asset managers and institutional investors to take sustainability into account in the investment process and enhance disclosure requirements.

Everything is connected, so concentrating on one criteria, such as CO² emissions, may distort the bigger picture

Raising awareness

Next month the Natural Capital Coalition will launch a guide to raise awareness of natural capital and help financial institutions make decisions. It will provide guidance on taking account of natural capital impacts in their lending, investment and insurance practices.

Developed with the Natural Capital Finance Alliance and the Dutch Association of Investors for Sustainable Development (VDBO), it will build on the framework of the Natural Capital Protocol.



Independent financial services company Kepler Cheuvreux has shown that there is enough information out there for investors to get an overview of which sectors and companies they should be concerned about, and what liabilities they might incur in future. But it cautions that everything is interconnected, so concentrating on one criteria (eg CO₂ emissions), may distort the bigger picture and have unintended consequences elsewhere. For example, while companies might report water consumption, very few provide the context of water scarcity.

Kepler Cheuvreux's analysts looked across 700 European companies in a variety of sectors and found that their use of resources and their polluting emissions affect more than 2,500 species each year – much of the impact coming from the value chain. The companies are responsible for €2000bn of impacts.

Moreover, 45% of the companies (in sectors such as food, forestry and packaging) wouldn't be profitable if they had to pay for their use of the ecosystem services they depend upon.

There are caveats, but using company-level data can refine the results. Kepler Cheuvreux worked with UK-based natural capital accounting firm eftec to apply environmental accounting tools to publicly available information on a Swedish forest company, SCA.

Its analysis showed that while the company reported profits of €234m in 2016, the impact of its operations – through air pollution and water use, for example – caused a net deterioration in natural capital of €190m, which is not reflected in its financial balance sheet. However, its assets of forest (valued at €3.25bn) also provide benefits to society such as carbon sequestration and recreation, valued at €7.3bn. Again this value doesn't appear in its financial reports.

Pitts of the Natural Capital Coalition says that companies shouldn't be dissuaded from using natural capital in their decision-making just because the data on valuing it isn't perfect. "You can still make decisions on the basis of what you've got."

In the following pages we profile some of the companies that are leading the way. ■



Lack of access to robust data on natural capital is a challenge



Angeli Mehta is a former BBC current affairs producer, with a research PhD. She now writes about science, and has a particular interest in the environment and sustainability.
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Nestlé helps to build a business case for natural capital

Nestlé is taking advantage of partnerships to develop the sustainability of its raw materials in the face of risks like climate change, erosion of top soils and species decline. In the UK, there's also Brexit to contend with, and potential threats to farm incomes. As part of the Natural Capital Impact Group, Nestlé has been looking at interventions farmers could make to increase productivity, cut costs and protect the natural capital that the dairy industry depends upon.

"We're applying the principles of natural capital valuation, although the thinking around that is still evolving ... in effect we're using risk and opportunity as a proxy in the short term," explains Andy Griffiths, head of environmental sustainability for Nestlé UK and Ireland. That's a language business understands, he adds.

Nestlé's farmers produce 1% of the UK's total milk output: that's some 110m litres that goes into KitKat, Yorkies, and Nescafé pre-packaged drinks. Now they're getting a price premium per litre for trying out a range of natural capital interventions.

Sustainable sourcing lead Robin Sundaram says work with the First Milk dairy co-operative revealed that "farmers were probably already doing stuff, but not in structured way".

Surveys provided a baseline for how many hedgerows, and stone walls they had on their land. Farmers made upfront investments in interventions such as hedge planting, and fencing restored hedges and watercourses. This year, Nestlé's farmers will tackle soil and water specific interventions.

Have they been able to measure actual benefits so far? The answer is that it is hard to measure impact at the farm level. "We believe it's having an impact but it's difficult at this stage to explicitly report against, because we need more effective measurement."

Which is why Nestlé is now part of a four-year project – the N8 AgriFood programme – which aims to make the UK dairy industry more sustainable. The work, led by Newcastle University, has a range of partners and is funded by three UK science research councils. The project is itself part of a wider effort to address challenges of global food security, and will look at



multi-functional benefits of interventions across animal health, habitat, water, soil quality and CO₂ emissions, to see what works at scale.

“Our project asks: do things work ... and what are the benefits and trade-offs?” says Mark Reed, who leads the research project. “What is the magnitude of effect: is it worth a price premium?”

Nestlé and Newcastle University have been working closely with sustainability advisers [3Keel](#) to develop a Landscape Enterprise Networks (LENs) model. The approach, says Reed, “looks at all the natural capital benefits across the landscape and matches them to buyers who might benefit, then pools resources from across those buyers”.

Griffiths adds: “Typically you’d choose a particular commodity or product as a gateway in, for analysis.” Here it’s dairy. “You start to identify where natural assets are and when you understand those, you understand what functions they deliver and then the risks ... Once you start to get into assets and functions you’re going beyond dairy, and then you can identify other interested parties or beneficiaries – like water companies.”

Natural capital valuation, he says, “drives insights but to get interventions at scale you need collaboration.” Nestlé is, he says, “very focused on sharing the insights and outcomes to engage more partners”.

Nestlé is currently funding the price premium for its dairy farmers, but as others come on board they might be persuaded to put their hands in their pockets if evidence of the benefits can be demonstrated.

“The project signifies a change in tone of debate around natural capital ... [which has] remained stuck for some time as a form of CSR,” says Reed. “Only when companies begin to see how important [it is] for increasing resilience against future shocks will it become possible to make the business case for investment in natural capital.”

Angeli Mehta



APTURESOUND/SHUTTERSTOCK

One per cent of UK milk output goes into Nestle's products



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AKZONOBEL

How AkzoNobel put a price on its impact across four capitals

AkzoNobel has been trying to measure impacts in its value chain for some years. In the early 2000s it worked on lifecycle assessments, but this approach has limitations as it only includes the environmental aspect of sustainability, explains Emma Ringström, sustainability manager at its pulp and performance chemicals business,

In 2014, the company embarked on a pilot at its bleaching chemicals business in Brazil to investigate the entire impact of its business across financial, environmental, human and social dimensions. In collaboration with True Price and sustainability consultants GIST Advisory, it did full profit and loss accounting across these four capitals – what it calls 4D accounting. The exercise confirmed that its sustainability strategy did indeed cover the most important elements, says Ringström.

It led AkzoNobel to increase its use of renewable energy, and put greater focus on better resource use of both energy and raw materials. Looking at impacts on human capital brought more emphasis on training and developing capabilities; while social capital led to work improvements in health and safety, and rights at work.

Later, it piloted the Natural Capital Protocol for the production of chlorate, used for bleaching paper. “Using the monetisation element of the protocol, we got the possibility to identify the biggest impacts, and to scale up the positive and reduce the negative impacts ... We can see the hot spots here and there, which are most important to work on.”

After the pilots, AkzoNobel applied the 4D approach across its entire pulp and performance chemicals business, followed in 2016 by environmental, social and economic profit and loss accounting across the entire business. It reported a monetary value for these three capitals, across its value chain.

Social impact assessment is in its infancy, but includes value related to the knowledge and skill development of employees and their future salary development.

The environmental assessment includes value through its products that help customers cut emissions. To put a monetary value on key impacts such as CO₂ emissions and use of fossil resources, it uses a science-based approach that takes a long-term view. Prices are,



SCANRAIL1

AkzoNobel makes coatings, including Dulux paints

says its report, based on what would happen in 50 to 100 years if we keep on using resources as we do today.

AkzoNobel has a wealth of data from its businesses, and more is becoming available in its supply chain, so the actual measuring is getting easier, says Ringström. Valuation, however, is more difficult.

"We'd welcome more scientifically based methods that are transparent and publicly available," Ringström adds. "It's important that the methods are transparent, so we can judge if the values are representative for our case, as well as interpret the results in a correct way."

As part of the Forest Solutions group at the World Business Council for Sustainable Development, AkzoNobel is piloting a forest sector guide, which will give the industry more specific guidance on measuring and valuing natural capital impacts. AkzoNobel is looking at the potential impact of changes in natural capital: for example, regional changes in water supply. The guide is expected later this year.

Angeli Mehta



JELLE VISSER/FLICKR

Kering gets to the bottom of its supply chain with EP&L

Kering, the French home of luxury brands like Gucci and Saint Laurent, pioneered environmental profit and loss (EP&L) accounting with its former sportswear brand, Puma, in 2010. The following year, the group chief executive decided to apply it in detail to all operations and brands in the stable, which generated €15.5bn in revenue in 2017. When development began on the Natural Capital Protocol, Kering contributed the work it had already done to build a methodology.

“It’s not just a tool. It’s also a mindset change. We engaged all our brands in developing the tool,” explains Michaël Beutler, director of sustainability operations. The “EP&L is the key cornerstone of our targets to reduce [our] footprint.”

Effectively the brands have a business intelligence and analytics platform that allows them to do “what if?” scenarios and calculate, on a product level, the impact of a new design. Raw materials sourcing is complex: Kering brands have an EP&L for 15 different kinds of wool, for example.

Having an EP&L has enabled Kering to work out where to focus its sustainability efforts. Almost 50% of the group’s footprint is in raw materials, another 25% is converting those raw materials to products. “No one was looking deep in the supply chain before this,” says Beutler.

Kering’s impacts were valued at €857m in 2016, compared to €773m in 2013. Leather is the major driver. Its [2016 EP&L report](#) points out that it is still expanding the scope of its analysis and that “leveraging changes across the supply chain is a long-term process, and in many cases will not yield immediate results”. As the company is growing, Beutler says, “we look at our efficiency in terms of the materials we use to produce an equivalent amount of product”. On that measure, the impact per kg or m² of product has fallen from €74 per €1000 of revenue in 2013 to €69 in 2016, after it took currency fluctuations into account.

Kering’s 2025 strategy is to drive a 40% reduction in EP&L, relative to its business growth. Half of that is intended to come from implementing best practices in its supply chain. The Kering standards, published earlier this year, cover sustainability certifications, traceability of raw materials and preferred sourcing countries for raw materials like fur and skins. The EP&L



shows that organic cotton has up to 80% less environmental impact than conventional cotton, so it encourages suppliers to use as much certified organic cotton as possible. Thinking about where and how it sources raw materials may help create some benefits through more sustainable herding practices, and better management of pasture lands.

The other 20% cut in EP&L will come through the use of innovative new materials, like “lab-grown” leather, and regenerated cashmere, and re-using cuttings waste. Since 2015, it’s also been exploring chemical recycling of cotton and polyester blends with UK start-up Worn Again.

Kering has developed an app that’s very simple to use. “It’s one of the easiest ways to understand natural capital,” asserts Beutler. The aim is to raise awareness about the different impacts that material choices and agricultural (or mining) practices can have on end products, to help designers make more informed choices.

Designed with international universities, including Stanford in the US and China’s Tsinghua, the current version has 4,000 data points from Kering’s global data set. In the next version it will be closer to one million.

The app has been shared with competitors and at UK and EU government levels. Beutler stresses that the app is in its infancy, but one can’t help but wonder if consumers could play a part: they now have some information at their fingertips to make more sustainable choices.



Almost 50% of Kering's footprint is in raw materials, such as leather

ABD. HALIM HADI/SHUTTERSTOCK

Angeli Mehta



TOM CURTIS/SHUTTERSTOCK

Yorkshire Water's plan to plant 1m trees for flood protection

Yorkshire Water [road-tested](#) the Natural Capital Protocol to help it decide what to do about a sludge landfill site that is coming to the end of its natural life. It worked with Arup, which has developed its own natural capital framework. A baseline survey provided information about habitat and land use, and what Yorkshire Water was putting into the site in terms of both landfill and vehicles visiting, for example.

Hannah James, lead adviser on sustainability at Yorkshire Water, said the company was interested in exploring whether aluminium oxide from water treatment could be recovered and the environmental implications: would it lead to degradation elsewhere?

A baseline of doing nothing was compared against four options: aluminium oxide recovery, house building, developing a solar farm, or handing the land to a third party for biodiversity management.

“It was quite challenging,” says James. There were a lot of assumptions and hypotheticals. “We looked at carbon pricing from the Treasury green book; case studies from other sites; then generated discounted cash-flow analysis using monetary figures for environment and social impact.” From all the research, a graph was generated showing the impacts of each option on ecosystem services such as flood protection, carbon sequestration, recreation, and food production from allotments.

The most beneficial, in terms of both natural and social capital impacts turned out to be conversion to a solar farm. The residential development was assessed as detrimental to both. When the site does come to the end of its life in a couple of years’ time, James says they’ll use the results from the case study to help decide its future.

James says that as she’s been developing sustainability accounting, she refers to natural and social capital, and it helps structure projects. “In a way it doesn’t matter what you label it as long as we know what the outcomes are, and they are consistent.”

At Yorkshire Water, an environmental profit-and-loss approach has been championed by its chief financial officer, an accountant with a geography background.



ROCK AND WASP/SHUTTERSTOCK

Yorkshire Water is supporting the government's plans for a Northern Forest

James says she is being asked by colleagues from across the business if capital assessment models can help them make decisions. Indeed, it is looking to integrate the approach throughout its entire business plan when it is next reviewed.

Last month, Yorkshire Water committed to planting a million trees in the next 10 years to reduce flooding, and support plans for a Northern Forest as part of the government's 25-year [environment plan](#).

It's been mapping land to assess where tree planting will have the most impact on flood reduction, carbon emissions, recreation and wildlife. "We will also have to be pragmatic about where we can plant trees, and balance tree planting against other priorities eg tenant farmer requirements, other valuable and priority habitats like wildflower meadows and grassland."

James says they've had some very valuable partnerships with A4S, and others.

"Just do it. Take a small project," she advises. "We made lots of mistakes but gained confidence, and that has taken us forward."

Angeli Mehta



Earth Genome zeroes in on water scarcity solutions

A California-based data analytics company, [Earth Genome](#), is concentrating on helping companies use big data to make decisions about risks to water supply and interventions to protect it. Market development VP Michelle Lapinski, says environmental profit and loss accounts identify challenges, but not solutions. “When you make decisions you need information about place; you need to know what you should do.”

Working with the World Business Council for Sustainable Development (WBCSD), and Arizona state university, Earth Genome has developed a Green Infrastructure Support Tool (GIST) that draws on 40 datasets.

Dow Chemicals was among the first companies to pilot the tool. Dow’s concern centred on its plant at Freeport, in Texas, where multi-year droughts are punctuated by devastating floods. The company had been considering investing in grey-water solutions to help maintain supply to the plant. Earth Genome’s analytics allowed Dow to visually explore the water-basin outside the facility and consider the potential financial and hydrological benefits of investing in wetlands, nature’s reservoirs. It was able to determine the best location for a wetland, to benefit everyone in the watershed, not just Dow.

Earth Genome has now expanded GIST to cover central and north America, but it doesn’t have funding to take it geographically further.

It is, however, working in Lahore, in Pakistan, with a major clothing company to help assess risks to the city’s water supply. The company wants to know just how serious the supply situation is, and how quickly the taps might have to be turned off.

Earth Genome has built a basin risk-assessment tool, considering all the factors influencing water input into the city, including industrial and agricultural demands. “We’ve set up a scenario that people can argue over,” says Lapinski, “to get a discussion going.”

The tool will enable the city and other major water users to see the risks in a visual format. It could then apply the GIST to see what kind of difference wetland restoration might make. That alone won’t be sufficient, says Lapinski. “No one company can fix this on their own – they need the World Bank, the municipality and other big water users on board.”

Angeli Mehta



DAVID HUGHES/SHUTTERSTOCK

Birmingham pioneers nature-based planning tool

Nick Grayson, Birmingham's climate change and sustainability manager, is trying to get natural capital at the centre of the city's decision-making. And he is optimistic he's getting close. The council and university have been partners in the [UK's Liveable Cities](#) project. Its goal is to understand how cities can be sustainable and resilient. It brought together a wide range of disciplines, from engineering and ecosystems to transport and psychology.

"The pressure on UK cities for house-building, infrastructure and growth is squeezing out land," says Grayson. "So the very point of contact between people and nature is being under-valued, which is compromising our future."

"Cities as a unit should work well because you have all the players and all the infrastructure ... but not a governance arrangement that works to meet 21st century challenges."

Grayson argues that city governance needs to work across not just natural capital, but four others too: social, human, financial and manufactured. At the moment, each sector operates in isolation: there's no oversight as to their interdependencies.

"You don't have a city that works across five capitals. It works on just one or two." He believes there is potential for an evidence-based governance and finance model that shows why green space is needed in cities.

Together with industrial partners, Birmingham has been developing and testing a natural capital planning tool that should be publicly available this year. The Excel spreadsheet uses indicators and science-based metrics to take account of 10 ecosystem services, including water quality regulation, recreation, and air quality. National trials at six locations are almost complete.

The idea is that a planner or developer doesn't have to have knowledge of ecosystem services. He or she puts information into boxes and the tool gives an output score of the impact the proposed scheme would have.

If the score is negative, there is a drop-down menu that suggests other options to look at. Birmingham's pilot site was greenbelt land that had been earmarked for 6,000 new homes, and for which there had been major objections. "We've run models with the tool: some have



DAVID HUGHES/SHUTTERSTOCK

Birmingham's Bourneville suburb; green spaces are 'undervalued' says sustainability chief Nick Grayson

failed; some have just got to the point of a positive balance" through the arrangement of green space, and the way its laid out.

The tool can also be used for existing development, says Grayson. "The highest-value land is the spaces in cities, but that's not recognised," says Grayson.

However by allying green spaces to health, air quality, and climate change resilience, for example, it could be valued differently.

His team has mapped the entire city on an ecosystem service basis, overlaid with local population demand. That exercise reveals the major challenges for a city expected to grow by 150,000 people in the next 20 years who will need more than 50,000 new homes.

Having mapped out natural capital services, the next step is to engage the beneficiaries. "Can we make a business case for restoration?" In this way a green bond to finance management of flooding should attract investment, because everyone impacted by flooding in a given catchment area recognises it will prevent future flooding of their premises.

Such an idea is being tried in Washington DC, where the city has issued [green impact bonds](#) to help alleviate storm-water run-off.

Angeli Mehta



View online

UWE BERGWITZ/SHUTTERSTOCK

The restoration economy: why trees are the next growth opportunity

Angeli Mehta reports on private-sector efforts to replenish natural capital by rehabilitating degraded land

The restoration of natural capital is known as the restoration economy and it is growing fast, according to research by the [World Resources Institute](#) and The Nature Conservancy, which suggests investors searching for the next growth opportunity could find it in trees. Over 25% of the world's land area has been degraded over the past 50 years – a loss that costs us over [\\$6.3trn a year](#).

Restoration projects [employed 126,000 Americans in 2014](#), almost 60% more than were employed in coal mining. A 2015 study estimated that the US restoration economy generated \$9.5bn in annual economic output.

One young company featured in the [WRI report](#) is Chicago-based [EcoPlanet Bamboo](#). It aims to take the pressure off natural forests by developing select species of bamboo that will provide a source of timber and fibre for various industries. It also has a wider social purpose to create natural capital projects that will be accessible to smallholders.

In Nicaragua, EcoPlanet Bamboo is planting bamboo on degraded land that was once rainforest – destroyed to make way for agriculture, then cattle. A pulping facility will begin operations next year, to make tissue and toilet paper. This will cut the country's reliance on imports. After the first year of operations, the business in Nicaragua will be self-sustaining, suggests co-founder Camille Rebelo.

Restoration projects employed 126,000 Americans in 2014, almost 60% more than were employed in coal mining



She says EcoPlanet Bamboo is creating permanent jobs for communities: “These are multi-generational projects ... In Nicaragua that [means it is creating jobs for] 90-120 years if managed correctly.”

“Bamboo is different to a forestry crop, where you get lots of jobs in the first couple of years, but low levels of employment until you chop,” says Rebelo. In contrast, “bamboo needs a lot of management in the first five to six years so employment is high on the field level ... then onto manufacturing”.

EcoPlanet Bamboo is also piloting a closed-loop biorefinery to make moulded pulp for disposable containers to replace plastics and styrofoam. An agreement with [Mantis](#) hotels group means it will move its luxury hotels away from single-use plastics when EcoPlanet’s production is up and running.

'Bamboo is different to a forestry crop, where you get lots of jobs in the first couple of years, but low levels of employment until you chop'



RICH CAREY/SHUTTERSTOCK

A quarter of the world's land area has been degraded over the past 50 years



EcoPlanet Bamboo also has a plantation in South Africa, where the first product is high-end charcoal for air and water purification systems. Plantations are being developed in Ghana, and in Rwanda, where the government has a strategy to develop a bio-economy.

Rebelo sees a huge potential for natural capital projects that are joint public-private partnerships. There is now a willingness amongst NGOs, she asserts, to work with the private sector. “If NGO money kick-starts a project and pushes it one or two years closer to return, you can leverage huge amounts of private sector investment.” Rebelo says there’s no reason why capitalism shouldn’t be “the driver for environmental and social stewardship”.

Last month the [Tropical Landscapes Finance Facility](#) issued a \$95m bond to finance a sustainable natural rubber plantation on heavily degraded land in Indonesia. The financing, which was arranged by BNP Paribas, will fund a joint venture between tyre-maker Michelin and the Pacific Barito group for “climate smart, wildlife friendly and socially inclusive” production of natural rubber. Working with WWF, the companies have set aside high-carbon value forest, as well as wildlife conservation and wetland zones. It is expected to support 16,000 fair-wage jobs when the plantation is mature.

“While not without its own challenges, this transaction is proof that financial institutions can generate socially beneficial outcomes when we really work hard,” said Eric Raynaud, CEO, Asia Pacific, and member of the group executive committee at BNP Paribas.

“This complex structuring arrangement also demonstrates that our institutional investor clients have the appetite to invest in projects and companies that combine commercial and financial performance with clear environmental and social purpose and impact.”

Given the difficulties of valuing natural capital, is there any danger of creating an investment bubble? Sofia Faruqi, lead author of the WRI report, argues this is unlikely. “If anything, investors massively undervalue natural capital.” Perhaps efforts by governments will help deliver change. ■



NOPPADON STOCKER/SHUTTERSTOCK

Michelin is involved in a sustainable rubber project in Indonesia



Angeli Mehta is a former BBC current affairs producer, with a research PhD. She now writes about science, and has a particular interest in the environment and sustainability.
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Future of capitalism briefing



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Can we make corporates fit for the future?

Martin Wright reports on an ambitious British Academy initiative to redraw the contract between business and society

The world's mighty companies are facing challenges as never before: a breakdown of trust with consumers; growing public scrutiny via the lidless eye of social media; populist politicians on left and right threatening to upset the corporate applecart; and, running through it all, the waves of disruption brought about by AI, automation and the so-called fourth industrial revolution (see [First, do no harm: regulators and tech industry scramble to tame the AI tiger](#)). All this at a time when business is increasingly expected not just to turn a profit for all its shareholders, but to "do the right thing" by wider society and the environment into the bargain.

So, amid all this turbulence, how can companies best respond? What can and should be the role of government, investors and civil society? How, in short, do we make corporates fit for the future?

Those questions are at the heart of [The Future of the Corporation](#), a major new initiative led by the British Academy, a fellowship of around 1,400 leading academics from the humanities and social sciences. Led by Professor Colin Mayer of the Said Business School at Oxford University, it sets out "to explore the purposes of business and ask what its role in society should be". And it has given itself an impressively broad remit, looking at everything from corporate culture and governance, leadership and trust, through to questions of ownership and investors, the role of regulation and civil society, and issues of responsibility and sustainability.

Every company must not only deliver financial performance, but also show how it makes a positive contribution to society



It's not the first such attempt but, Mayer insists, it's "much more ambitious than anything attempted in the past", bringing together leading academics and researchers from across the world, tempered by an advisory group of senior business leaders, among them Adrian Montague, chair of Aviva, and Peter Norris, chair of the Virgin Group. And Mayer is keen to stress it won't be a theoretical exercise: its outcomes will have "real impact on business practice and policy formulation".

But is there really an open door for fresh thinking in this area? Yes, says Mayer: several of them, in fact. First, there's growing pressure from government. In the UK, the Companies Act of 2006 broke with tradition by requiring directors to move beyond a narrowly defined duty of maximising benefits to shareholders, towards a wider responsibility for the overall health of the company, including its employees, suppliers and customers, while "having regard" to issues such as "the impact of [its] operations on the community and the environment".

Fine words on paper, but in the wake of incidents like the collapse of Carillion, critics have pointed out that implementation seems to be lacking. Now, however, says Mayer, a new Green Paper on corporate governance is exploring how to toughen up those provisions, and the Financial Reporting Council is likely to play a much stronger role in compelling companies to report on them.

Investors, too, are making waves, Mayer says, citing Black Rock's Larry Fink, who, in his latest annual letter to CEOs, states that "every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate." And Fink goes on to insist that "without a sense of purpose,



Professor Colin Mayer of the Said Business School at Oxford University

Technology is fundamentally reshaping business models from transport and energy, to food and financial services'



no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders.” Coming from one of the world’s most influential asset managers, this was seismic stuff.

This combination of tougher legal requirements on companies to embrace a wider purpose, and growing pressure from investors to do so, “will be really influential”, Mayer believes.

A wider political shift is having an impact, too, he argues, with the rise of a populist Left posing an existential threat to the way modern business operates. “If you’d suggested even a couple of years ago that the UK might elect a party committed to renationalising swathes of British industry, you’d have been laughed out of court. Yet it’s now a serious possibility. And that has shaken business out of its complacency.”

So much for the external, political and regulatory pressures bearing down on business. There are also strong internal drivers of change, notably the disruption brought about by technology. “It’s fundamentally reshaping so many business models – everything from transport and energy, to food and financial services,” says Mayer. Take banks, for instance. They have prospered forever by being, essentially, a safe repository for money. Now, says Mayer, they have to be a safe repository for information as well. It changes the competition landscape, so “HSBC will find it’s no longer just competing with Credit Suisse, or whoever, but with Amazon and Facebook too”.

Put all that together, Mayer concludes, and it’s clear that “the model that business has taken for granted for decades needs to change”. How it does so, and what the results might be, will be central to the Future of the Corporation project. It’s kicking off with a series of “landscape reviews”, to be published later this year. If the outcomes match up to Mayer’s ambitions, it could be the most influential exploration of the future role of business this century – so watch this space. ■

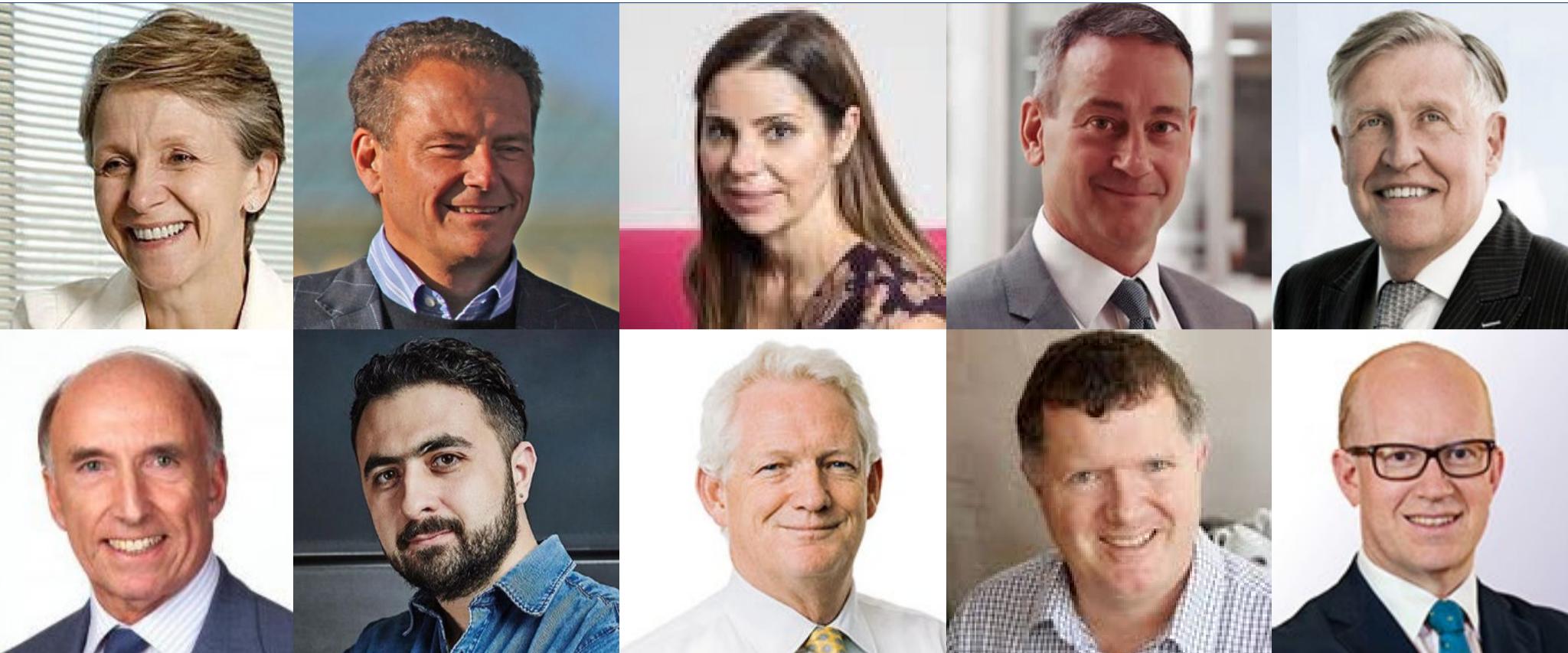


COVARDION/SHUTTERSTOCK

Banks nowadays have to be a safe repository for information as well as money



Martin Wright (@martinfutures) is a writer, adviser and public speaker specialising in environmental solutions and sustainable futures. He is a former Director of Forum for the Future.



'Like a football manager, a CEO who has two or three bad quarters will go. The pursuit of results trumps everything'

Brunswick partner Lucy Parker conducted in-depth interviews with 16 senior UK business people about the challenge of delivering quarterly results against commitments to sustainability and purpose. Martin Wright reports on what she heard

As a curtain raiser to The Future of the Corporation report, the British Academy commissioned Lucy Parker, partner at Brunswick, to canvas opinion from a wide range of business leaders. The 16 chosen for *The Voice of Business* went well beyond “the usual suspects”, as Parker calls them, of those already engaged with the whole sustainability/purpose agenda.

The list encompassed everyone from traditional corporate giants such as BP's Carl-Henric Svanberg, Centrica's Rick Haythornthwaite and Rolls-Royce's Ian Davis, through to the worlds of finance (David Fein of Standard Chartered; Helen Alexander of UBM), tech (Mustafa Suleyman of Google's DeepMind) and challenger brands (Debbie Wosskow, founder of Love Home Swap). They spoke on the record, but anonymously, which encouraged some frank expression of opinions.

Parker kicked off by asking about the role of business in wider society. For those used to hearing earnest assurances around purpose and sustainability, some of the responses might be a little sobering.

'If a company turns a profit ... there is a considerable amount of public good already being done just through that'



Said one: “The role of business is to make the world go round, and make the economic world go round – because we all want goods and services, and it’s business that provides them.”

Another said: “I don’t dispute the fact that companies need to be responsible profit makers – but when you boil right down to it, if a company turns a profit it is therefore paying dividends to investors, salaries to employees, who in addition pay taxes into the public purse. So there is a considerable amount of public good already being done just through that.”

It’s a fairly narrow view of business’s role, perhaps, but one that doesn’t surprise Parker. “People sometimes forget that business is not a university, it’s not a policy think tank: it’s the engine of innovation, that gives us our lights or our phones or whatever.” And those in charge of the engine need to keep their eye on the road or they’ll be out on their ear.

“[The discipline] of quarterly results can be brutal,” observed one. “It’s like being a gladiator in the forum: he can go, he can stay; thumbs up, thumbs down. The truth is that, like a football manager, a CEO who has two or three quarters of bad results will go. The pursuit of that is unremitting, it trumps everything.”

Consumer power

So while consumer power can help shift a CEO’s attention to the wider horizon – as is happening right now with plastics, for example – it can’t be relied upon as a progressive driver.

“My experience is people are conflicted about these things. Mothers start out wanting cloth nappies and then buy disposables; people want local hardware stores but buy from big chains,” was the view of another leader. “Typically, consumers want a fantastic value proposition: they want it cheaper and easier. Only after that do they sometimes screen for values they have a connection with. In any business, you make your money by meeting the needs of consumers, but [based on] what they do – rather than what they say.”

So far, so sobering. But that doesn’t mean purpose has no role to play. Those who’ve embraced a commitment to it see their stock soar in the eyes of employees – actual and potential.



30 SECOND READ

- As part of the British Academy’s Future of the Corporation project, 16 business leaders spoke about the role of business in wider society. Many said their focus was on delivering goods and services to customers and a decent return to shareholders rather than some wider notion of corporate responsibility.
- The leaders referred to the tyranny of quarterly results, with one likening it to “being a gladiator in a forum”.
- Several drew attention to the gulf between consumers’ dissatisfaction with corporate behaviour and their purchasing choices, where price and quality tend to trump ethical concerns.

‘Typically, consumers want a fantastic value proposition. Only after that do they sometimes screen for values they have a connection with’



"There's no question it makes a difference to recruiting. It's hugely powerful and incredibly motivating for people," one interviewee said. "We used to get 40,000-50,000 CVs a year, now we get over 200,000 – including CVs [from] most of our competitors. You've got to have something that positions your company as a magnet for the talent you're going to need to run it."

And it can help when times are tough, too, suggested another. "When the competition is very brutal and things are moving very fast, you almost cannot live without a clear sense of purpose because that is what you hold on to."

The challenge, though, is to make sure "purpose" actually means something, says Parker. "I fear its wishy-washiness ... There's no set terms for the conversation ... everyone talked about what they wanted to talk about and then said 'this is purpose'. I understand the impetus towards it, and I understand why it's catching, and I wouldn't want to take away any of the positivity towards it – but [at the moment] it's just a code word for 'something other than money', and that's not helpful. How do you apply it in action? And especially, how do you apply it in action when things get difficult?"

Some of the more grounded "purposeful" comments came in relation to the environment.

"Companies are a means by which we organise capital and labour to serve people and the planet, and in doing so make a profit. We need to add 'planet' more clearly. We can't deliver growth that destroys the environment. That is morally unacceptable," was the view of one leader.

Regulation

So much for purpose – what about the role of regulation? While there was some enthusiasm for it among those sectors that stand to benefit from ruling



BRUNSWICK GROUP

Lucy Parker, partner at Brunswick, conducted the interviews for Voices of Business

'Purpose is just a code word for 'something other than money', and that's not helpful. How do you apply it in action when things get difficult?'



P MAXWELL PHOTOGRAPHY/SHUTTERSTOCK

'Consumers are conflicted. Mothers start out wanting cloth nappies, then buy disposables'

out the cowboys, like pharmaceuticals, many saw regulation as a blunt instrument, at best.

As one leader commented: “Every time there’s a crisis, there’s new legislation, often in haste, and then we live with the outcomes as companies for years and years. It [works] as a safety net, to stop egregious behaviour – but it’s not a sophisticated mechanism for shaping companies’ behaviour generally.”

Another observed: “Today in the UK a new regulation goes to the House of Commons, then the Lords, then when it comes onto the books it stays for decades – while the business world changes. But imagine a world where we could work collaboratively with government to put something in place for three or four years and then review it.”

Many respondents saw such an approach as essential in an age of fast-moving technological change, with the disruption poised to rip up many existing business models and force a radical rethink of company strategy (See [Can we turn AI into a force for good](#)).

Trust also surfaced as a significant issue, but as Parker observes, there is a difference between generalised notions of trust in a company, and trust in a product. This particularly applies to new, tech-based companies – the Amazons, Ubers, Facebooks, etc.

“They are engendering trust around the product. People hardly see it as a corporate, which is why it blows up when one of the big tech companies doesn’t pay tax, or whatever, or treats its workers badly.”

***'Every time
there's a crisis,
there's new
legislation,
often in haste,
and then we
live with the
outcomes as
companies for
years'***



When it comes to the crunch, though, if consumers trust a product, they are likely to keep buying it, so keeping the company in business, even if they profess to be scandalised at its ethical shortcomings.

"If there is an exposé of Amazon's working conditions, for example – showing that's why people can get things delivered so cheaply the very next day – I don't think it dents their sales for a minute," one leader observed

Leaving aside growing awareness of the tech tsunami poised to disrupt business, one of the greatest shifts, in the eyes of some at least, might come through the changing legal duties of directors. Tellingly, one respondent remarked how many didn't seem aware of the shift in the Companies Act requiring directors to widen their remit beyond maximising benefits to shareholders (see: [Can we make corporates fit for the future?](#)).

"You still hear the phrase a lot, 'We're here to serve our shareholders'. Actually, that's not what a director is for any longer: a director is here to serve all stakeholders. It may be shareholders and stakeholders – but it's definitely all stakeholders."

And that undeniable fact, coupled with all the other pressures on business, may help provoke the sort of shifts in corporate identity and behaviour that The Future of the Corporation project is seeking to bring out. ■

Ten of the people interviewed in the Voices of Business are pictured on page 31. They are (clockwise from top left) **Dame Helen Alexander**, chairman, UBM; **Carl-Henric Svanberg**, chairman, BP; **Debbie Wosskow**, founder, Love Home Swap; **Dan Fitz**, general counsel & company secretary, BT; **Göran Ando**, chairman, Novo Nordisk; **Paul Geddes**, chief executive, Direct Line; **John Steel**, chief executive, Cafédirect; **Rick Haythornthwaite**, chairman, Centrica; **Mustafa Suleyman**, co-Founder and head of applied AI, DeepMind; and **Ian Davis**, chairman, Rolls-Royce.

Other business leaders who participated included: **Chris Gibson-Smith**, UBS, vice-chairman, corporate client solutions; **David Fein**, general counsel, Standard Chartered; **John Makinson**, former chairman, Penguin Random House; **Leo Quinn**, chief executive, Balfour Beatty; **Robert Swannell**, former chairman, Marks & Spencer; and **Rupert Pennant-Rea**, chairman, Royal London.



JERAMEY LENDE/SHUTTERSTOCK

'An exposé on working conditions at Amazon won't dent its sales for a minute'



Martin Wright (@martinfutures) is a writer, adviser and public speaker specialising in environmental solutions and sustainable futures. He is a former Director of Forum for the Future.

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SEVENTH GENERATION

Sharing the benefits: the rise of the B Corporation

Mark Hillsdon reports on how interest in a new way of doing business is snowballing as big companies like Danone and Unilever enter the movement through their brands

For the last few years, capitalism has been in the dock. From corporate greed to environmental indifference, tax avoidance to low wages, trust in the system has been crumbling.

Yet with CEOs bound by the principles of fiduciary duty, and a “shareholder-first” mentality that prevents even the most enlightened business leader from voluntarily doing anything that could affect the bottom line, such as reducing pollution or increasing staff wages, there has seemed little chance of change.

But an alternative is beginning to gain traction, a new commitment-based capitalism embodied by the B Corp – or benefit corporation – a movement where companies balance what they do with the impact they make, with profits no longer their only goal.

“It’s hard to deny that meaningful change is under way,” enthuses Katie Hill, executive director of B Lab UK, the charity that is rolling out B Corp in the UK. “Today’s most exciting businesses are operating for the benefit of all who contribute to its success – for shareholders and for stakeholders – and as such they are taking responsibility for their broader impact on employees, on communities and on the planet. This is the future of business.”

‘Today’s most exciting businesses are operating for the benefit of all who contribute to its success’



B Corp is a movement aimed at for-profit companies that was launched in the US in 2006, arriving in the UK nine years later. Its stated aim is to be for business what Fair Trade is to coffee, and LEED is to buildings.

Internationally, there are around 2,400 certified companies, with ethical outdoor clothing specialists Patagonia, and Unilever's ice cream subsidiary Ben & Jerry's, among the biggest names. In the UK, 150 certified companies include Pukka Herbs, Divine Chocolate and organic baby food company, Ella's Kitchen.

Together, these companies have a combined annual revenue of \$38bn, equivalent to the GDP of Cameroon, and the movement is growing, with B Labs recently opening an office in Nairobi to support potential African B Corps.

To become a B Corp, companies must first of all complete the B Impact Assessment, a free online questionnaire that delves into five key areas of business – governance, workers, customers, community and environment.

The assessment is tough, with a deceptively low pass mark of 80 out of 200 – the average is in the 50s – but a potential flaw, say critics, is that you can excel in one area but not in others, and still become certified. For instance, a company could be faultless in its support of the living wage and corporate transparency, yet do nothing about the emissions from its huge fleet of vehicles.

For many businesses, B Corp certification is about gaining recognition for what they already do, for others – around 60,000 globally – it's a benchmark that they can use to make improvements to their operations, but without moving on to the next level.

This second level involves a more in-depth process, with B Labs' standards team verifying the social and environmental performance of the business, as well as its transparency and legal accountability.

The final step involves changing the articles of business, and addresses the fiduciary conundrum by giving businesses a new flexibility to consider the



30 SECOND READ

- B Corp, or benefit corporation, was launched in the US in 2006. B Corps balance what they do with the impact they make, with profits no longer their only goal.
- Internationally, there are around 2,400 certified companies, with a combined annual revenue of \$38bn.
- To become a B Corp, companies complete a tough assessment into five key areas of business: governance, workers, customers, community and environment.
- Research in the UK this year revealed that the average year-on-year growth rate of a UK B Corp is 14%, 28 times higher than the national economic growth of 0.5%.
- For large public companies, the legal move can often be the biggest barrier. Some businesses, such as Unilever, are working through the process subsidiary by subsidiary.
- Rick Ridgeway of Patagonia, one of the first B Corps, says bigger companies are getting engaged. He cites consumer power as a tipping point and that legislation, such as carbon taxes, will make a difference.

'For many businesses, B Corp certification is about gaining recognition for what they already do, for others, it's a benchmark'



impact of their decisions on all stakeholders. This is the real core of what it means to be a B Corp, says Hill, and means it can never be a mere bolt-on to other CSR activities.

Earlier this year the first quantifiable research in the UK revealed that the average year-on-year growth rate of a UK B Corp is 14%, 28 times higher than the national economic growth of 0.5%. They are also an attractive proposition for ethical investors looking for long-term investments.

The movement is also tapping into the fact that employees are looking for more from prospective employers than a healthy balance sheet. “The outstanding benefit that has come up time and time again is that once a company certifies as being a B Corp, they then get a raft of talented people writing to them saying: ‘This is the sort of company I want to work for,’” says Hill.

Mark Cuddigan, chief executive of Ella’s Kitchen, agrees. “I’m absolutely convinced that commercially we’re a more successful business because we certified as a B Corporation.

“If a company has a purpose that is more than just making money, that gives people a real sense of pride ... which is vital when it comes to engagement and the quality of the work you are producing.”

But despite its successes, global multinationals are conspicuously absent from the B Corp roster. For large public companies, the legal move can often be the biggest barrier, with AGMs and shareholders needing to be convinced of the merits of such a seismic shift.

Big business as B Corps

In the UK, B Labs has set up the Multinational Public Markets Advisory Council to look at ways in which certification can be made more relevant and meaningful to large global businesses. “The movement needs the big companies because that’s what is really going to lift it,” says Hill, although she is adamant that they won’t drop standards in order to woo them.



Rick Ridgeway of Patagonia was a B Corp pioneer

Once a company certifies as being a B Corp, they get a raft of talented people saying: ‘This is the sort of company I want to work for’



Emmanuel Faber, CEO of Danone, which is aiming eventually to certify all 120 companies in its portfolio as B Corps

Some businesses, such as Unilever, are working through the process subsidiary by subsidiary, with Seventh Generation, which specialises in natural household products, joining organic herb company Pukka and Ben & Jerry's.

Danone has recently announced plans to see, eventually, all its sprawling portfolio of 120 companies certified as B Corps. Last year, its US subsidiary DanoneWave, with a revenue of \$6bn and more than 6,000 employees, began the largest B Corp in the world, while in February Danone UK also joined the movement.

By doing this, says Hill, B Corp values start to filter into all the different parts of the parent company, "and that's a very powerful effect".

Patagonia became one of the first businesses to sign up to B Corp in 2012. Rick Ridgeway, its current VP of public engagement, says there is evidence to put the lie to the argument that a public corporation that shifts away from the profits-first mind-set will see its stock devalued. "The brands within Unilever's portfolio that are committed to sustainability, whether they're B Corp or not, every single one of them is out-performing the brands ... that don't have the sustainability commitment."

'If a company has a purpose that is more than just making money, that gives people a real sense of pride'



In the early 2000s, he recalls Ford approaching him to see if the US carmaker could co-brand a new SUV with the Patagonia name. While an environmentally conscious clothing company and one of the world's largest car manufacturers were unlikely bedfellows, Ridgeway said Patagonia would agree to the alliance, but only if Ford would become a “[Pledge 1%](#) company,” and start giving 1% of its profits to environmental NGOs.

“The idea was shelved,” says Ridgeway. “It would have been anathema to their customers, they wouldn’t understand ... That was the default reaction back then of a big multinational.

“But now things have really changed. Now I think we’re getting close to the place where a customer going into an automobile showroom and seeing an automobile that is B Corp certified ... will want to buy that car for those reasons, [rather] than a competitor’s.

“When we get there, that’s the tipping point, that’s when the B Corp movement is going to scale up and my prediction is that we are just about there.”

As well as customer power, legislation, especially new carbon taxes being contemplated by several states, would also make a difference, says Ridgeway. Those companies that are already managing the carbon intensity of their business would gain an immediate price advantage over those that aren’t.

This will also have a knock on effect for B Corps, as businesses realise that with their existing sustainability commitments, they are already well on the way to meeting the criteria. “It will become a marketing advantage to do it, and there will be no cost at all,” he adds.

In the UK, Cuddigan believes that the government could look at cutting corporation tax by 1% for B Corps. “It sends out a signal that we are supportive of companies that have a purpose and that are measuring their impact on the people that work for them, society at large and the environment.”

“This is the future – there’s no way business can go on as it is,” says Hill. “It’s very exciting for those companies to say: ‘I’m part of something that’s about improvement, it’s about a change, it’s about reinventing what we can be.’” ■



Cocoa farmers Victoria Boakyewaa and Linda Berchie with Sophie Tranchell, CEO of Divine Chocolate, which is owned by its growers in Ghana

DIVINE CHOCOLATE



Mark Hillsdon is a Manchester-based freelance writer who writes on business and sustainability for Ethical Corporation, The Guardian, and a range of nature-based titles including CountryFile and BBC Wildlife.



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SSE

'We need to build an economy that works for everyone in Britain'

SSE, Persimmon and BT top a new index that measures the UK's biggest Plcs on their creation of 'good jobs'. Mark Hillsdon reports

An inclusive economy where the benefits of economic growth are evenly spread across the country is the goal of many of the world's most developed nations.

It's one to which the UK aspires, too. But rather than taking a path to "inclusive growth", social advisory firm The Good Economy Partnership suggests that Britain is actually experiencing "immiserating growth", a concept associated with falling living standards, when the benefits of economic growth have not been equally shared.

According to the Organisation for Economic Co-operation and Development (OECD) real wages in the UK are falling faster than anywhere else in the developed world, while the World Economic Forum's [Inclusive Growth Index](#), now ranks the UK 21st among advanced economies.

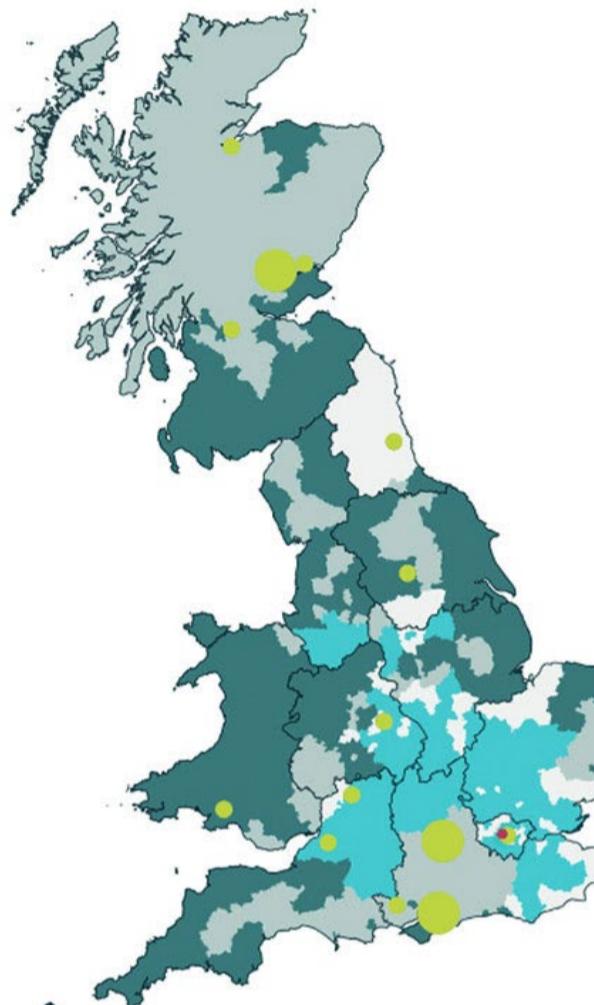
"If we seriously want to build an 'inclusive economy' – one that works for everyone – we need to be able to measure the most important dimension of inclusion: a good-quality job for everyone that wants one," says Mark Hepworth, director of research and policy at The Good Economy.

Not only is capitalism in the UK producing low unemployment, but "the quality of the jobs is low as well," Hepworth says, pointing out that vast areas of the UK show little or no, let alone inclusive, job growth. "Good jobs bring

'We need to be able to measure the most important dimension of inclusion: a good-quality job for everyone who wants one'



Chart 4: Inclusive Job Growth by Place

**Growth Inclusion Landscape**

Growth above GB average Inclusion above GB average
Growth above GB average Inclusion below GB average
Growth below GB average Inclusion above GB average
Growth below GB average Inclusion below GB average

Site Function

SSE [Top 10 Company]
Antofagasta [Bottom 10 Company]

Number of Jobs

< 100
100 - 499
500 - 999
1,000 - 2,499
>= 2,500

Contains OS data © Crown copyright and database right (2018)

Map revealing the inequality of economic growth and inclusion across the UK

earnings quality, job security and work fulfilment. They are central to social and economic well-being.”

Hepworth, who has produced social impact assessments for several private equity firms, set up Bath-based The Good Economy Partnership in 2015 with his wife Sarah Forster, who helped to develop the social investment arm of the Big Issue, and led on developing the Threadneedle UK Social Bond Fund.

The pair has come up with a new methodology to assess the inclusive job growth performance of companies, sectors and places in the UK.

Last month, they [launched an index](#) assessing the performance of 150 FTSE 350 companies using the methodology. Scottish utility company SSE, Yorkshire construction firm Persimmon and BT Group were the top three companies on the [inaugural index](#), while oil and gas firm Cairn Energy, InterContinental Hotels Group and Man Group featured among the 10 at the bottom.

Perhaps most surprisingly, two UK companies that invariably top other sustainability rankings, Unilever and M&S, came mid-table in this one, at 71 and 78, respectively,

Two UK companies that rise to the top of other sustainability rankings, Unilever and M&S, came mid-table in this one



Sam Waples, head of data analytics for The Good Economy, points out both companies have experienced little jobs growth, lowering their scores. Unilever, while a Voluntary Living Wage employer, has a relatively low proportion of employees in the UK. M&S has a high proportion of employees in the UK, but does not have Voluntary Living Wage status.

The ratings are designed to allow companies to benchmark their performance and demonstrate their social value as an employer, Hepworth says. Policy makers, meanwhile, can use them to analyse business and sector contributions to inclusive job growth.

They also offer investors a new way to screen and select companies that could create good employment opportunities, as well as signposting what Hepworth describes as “cold spots”, where the social returns are highest.

The ratings assess Britain's biggest publicly traded companies using indicators such as size and workforce growth, global turnover, regional distribution of employment and living wage employer status.

They also look at sectors, using measurements around growth, SME dynamism, and the representation of marginalised groups in workforces. This shows that the UK economy is tilted towards high-growth but low-inclusion businesses, and that a failure to re-balance this has resulted in low productivity and low good job creation.

'For a British company it is absolutely in our interests that the country grows, particularly in the post-Brexit era'



ZOLTAN GABOR/SHUTTERSTOCK

Investing outside of London and other boom areas is crucial for inclusion

Place-based investment

Investing outside of London and the other economic hot spots in south-east England is crucial, says Hepworth, and it was the main reason utility company SSE came out top in the inaugural ratings.



Rachel McEwen, director of sustainability at SSE, says that by investing in renewable energy projects, which are often located far away from traditional centres of economic development, the company is helping to create jobs in areas that need them most.

"For a British company focused on the UK, it is absolutely in our interests that the country grows, particularly in the post-Brexit era ... in a balanced, inclusive and fair way," she says.

John Godfrey, corporate affairs director at Legal and General, which was placed 56 in the ratings, agrees on the importance of "place-based" investment. "For the UK to grow successfully it's got to be the whole of the UK. That means getting growth to accelerate outside London and the south-east."

But the nature of investment is also important, he says. "There's more money available in the world for investment than ever before and you've got to put it into assets like infrastructure, housing, urban regeneration and green energy."

The Good Economy Partnership is advocating for the development of sector clusters, "Made in Britain" supply chains and social enterprise programmes to help those in need enter the workplace.

The creation of workplaces, with decent pay, engaged employees, and an accent on diversity, could help increase labour and workplace productivity, too, and form an important building block of an inclusive economy, Hepworth argues.

The paper also advocates a new social contact between big business, government and communities, that could build on emerging corporate and investor interest in the Sustainable Development Goals (SDGs), using them as a new rallying point.

Mark Evans, a member of Jupiter's environmental and sustainability strategy team, says the new ratings will give investors access to financially useful data on the social impact of companies and sectors. "We believe it is very refreshing to have a tool that focuses on quantifiable positive impact, rather than negative screens, a trend we are ourselves pursuing within our strategy." ■

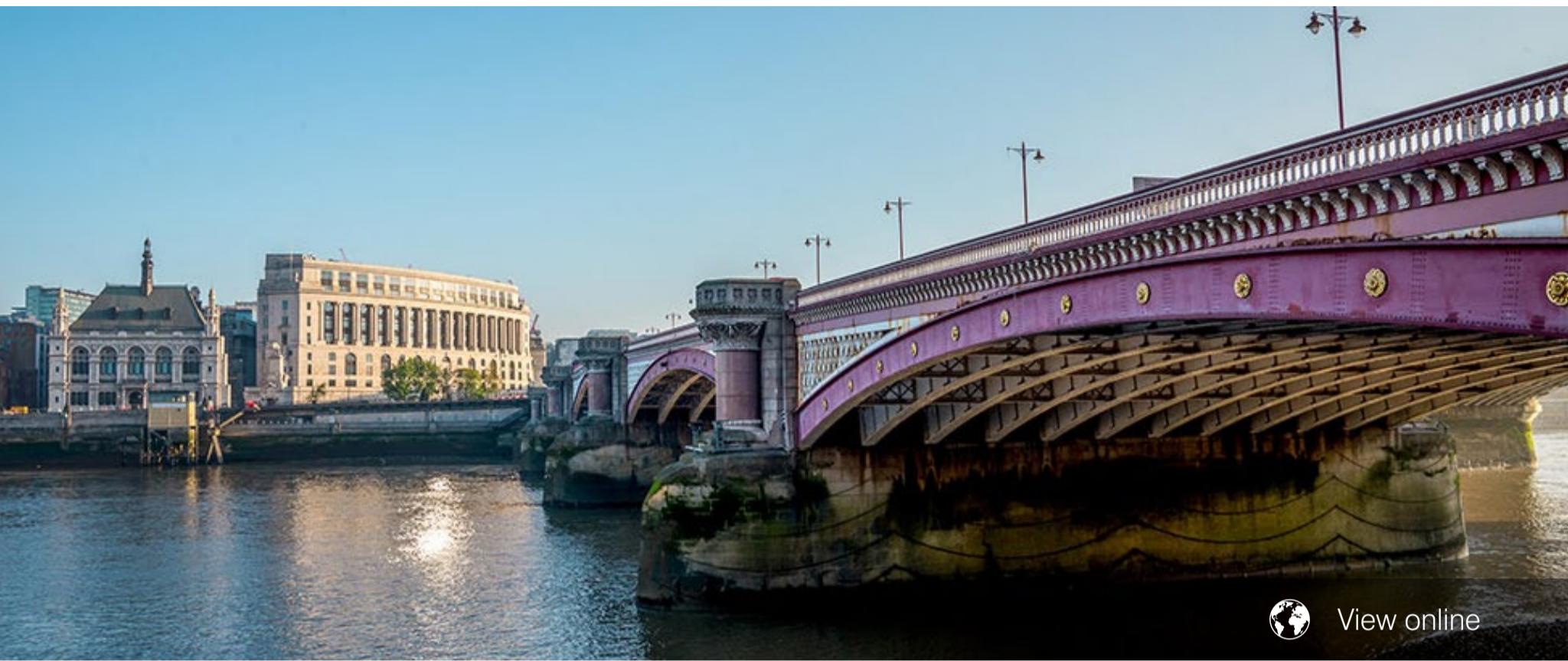


ARTJAZZ/SHUTTERSTOCK

Putting investment into assets like green energy is vital



Mark Hillsdon is a Manchester-based freelance writer who writes on business and sustainability for Ethical Corporation, The Guardian, and a range of nature-based titles including CountryFile and BBC Wildlife.



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ANASTAS_STYLES/SHUTTERSTOCK

CEOs and investors build bridges to tackle trust crisis at heart of capitalism

The Coalition for Inclusive Capitalism's Embankment project is trying to come up with new metrics to allow markets to reward long-term value. Terry Slavin reports

In the week after Paul Polman rebuffed a hostile takeover bid by Kraft Heinz last February, there was a meeting of 10 CEOs at Unilever's London headquarters on the Victoria Embankment.

The meeting of CEOs, representing global multinationals, investment managers and pension funds, had been organised by the US-based Coalition for Inclusive Capitalism to look at solutions to the myopia of capital markets; and the timing could not have been better.

Over the course of the weekend, Polman had succeeded in rallying Unilever's board behind him to resist the \$143bn assault by Kraft Heinz, which is controlled by Warren Buffett's Berkshire Hathaway and private equity firm 3G Capital.

The board, led by Dr Marijn Dekkers, had to move quickly to repel the bid before stock markets opened on Monday, or risk Kraft getting support from activist investors, an increasingly active class of investors with a laser-like focus on short-term shareholder value who aim to infiltrate boards.

Polman has long been aware that capital markets are not meeting the needs of wider society.

It used to be that a shareholder had a liability towards a company he invests in; now shareholders come and go



"We are really talking about a clash of two different economic models – between a long-term, sustainable business model for multiple stakeholders, and a model that is entirely focused on shareholder primacy," the 61-year-old Dutchman told the Financial Times last December.

"The average holding period in a company now is 4.5 months," he observed. "It used to be that a shareholder had a liability towards a company he invests in; now shareholders come and go." He said activist investors are a growing threat because "they enter into companies, make it very uninteresting for anybody else to be on the boards and soon they dominate it. And they start running it for the short term."

The disconnect between the type of corporate behaviour rewarded by markets and how society wants companies to behave is laid bare in the latest Edelman Trust barometer, which finds that 69% of respondents globally believe CEOs main job should be to ensure his or her company is trusted (well above increasing profits at 60% and above even ensuring high-quality products and services at 68%).

Measuring long-term value

A recognition of the crisis at the heart of capitalism was the reason why Lynn Forester de Rothschild, chair of private investment company EL Rothschild, and Mark Weinberger, CEO of EY, formed the Coalition for Inclusive Capitalism in 2014.

In 2016 EY had worked with the University of Cambridge to develop a [theoretical framework](#) to help companies measure and report long-term value in a meaningful way for capital markets, and the coalition had called the meeting at Unilever House to ask asset owners, asset managers and multinationals whether they would participate in an 18-month project to do a proof of concept of the framework.

By the end of the meeting the Embankment Project for Inclusive Capitalism was born, and last June it was launched publicly, with the backing of 20 CEOs,



30 SECOND READ

- Capital markets are not meeting the needs of wider society. Paul Polman, head of Unilever, refers to a clash of two economic models – a long-term, sustainable business model for multiple stakeholders versus a shareholder primacy model.
- The Embankment Project was born out of a meeting of CEOs at Unilever House organised by the Coalition for Inclusive Capitalism. It aims to transform the way businesses measure and report on the value they create for stakeholders.
- Existing accountancy methods were developed 30 years ago, when 80% of the value of companies was in tangible assets, such as bricks and mortar and machinery. The knowledge economy has led to a rapid growth of intangible assets, which are harder to quantify and require new metrics.
- A driver for change, especially in the US, is a shift of capital from publicly owned to private companies, such as the unicorns, which do not face the same short-termist pressures. This poses risks to social equity.

With the shift to the knowledge economy, the growth of intangibles [such as human and intellectual capital] has exploded



including Nestle's Mark Schneider, PepsiCo's Indra Nooyi, Alex Gorsky of Johnson & Johnson, Kurt Bock of BASF, Edward Breen of Dow Dupont and fund managers Black Rock, Schroders, Allianz and Vanguard. Another 11 CEOs have since joined.

In an interview with Ethical Corporation, Hywel Ball, EY's UK head of assurance, who developed the EY framework and was at the Unilever meeting, explained that existing accountancy methods are no longer up to the job of accurately measuring market value: they were developed 30 years ago, when 80% of the value of companies was represented by tangible assets, like bricks and mortar and machinery.

"With the shift to the knowledge economy, the growth of intangibles [such as human and intellectual capital] has exploded," Ball says. Tangibles now typically account for only 50% of market value, and in the case of the Fangs (Facebook, Amazon, Netflix, and Google) less than 10%.

The problem fund managers face in allocating capital on the basis of non-financial data is that while "companies have a lot of information [about non-financial performance] they don't necessarily disclose it. And some of the stuff they do disclose investors just ignore," Ball says.

He said this is because companies don't give robust metrics and explain how they are relevant to their strategies. One example is when a company gives its employee engagement scores in its annual report. "But they don't really articulate why employee engagement is important to the value they are delivering to their employees. They don't say what their target is, what they are trying to achieve, they don't give a trend. That's no use to anyone outside their organisation ... Unless fund managers see value in what companies report, they are never going to get it [long-term value]."

Over a series of workshops since June last year, the participants in the Embankment Project have tried to hammer out an agreement on metrics in each of the main value categories of human, consumer, and societal so that companies, fund managers and pension funds, which instruct the fund managers, can use them to set long-term mandates. The aim is to have a report with the new metrics signed off by CEOs published at the end of this year.

"There are two things going on [in the project]: to create the information and create the behavioural change to start disclosing it. And that requires trust and understanding on both sides," Ball says.



Unilever CEO Paul Polman has warned of the threat of activist investors

There's an overwhelming noise that we need to do something different



One challenge the workshops have thrown up is the varying timelines for investment. For example, Canadian pension funds are required by law to invest for a 75-year cycle, compared to the five-year horizon of a typical long-term investment portfolio, who would themselves be critical of the two- to three-year tenure of the typical US CEO. “It was quite surprising how big an issue this is, how people are struggling to cope with the duration piece,” Ball says.

“The workshops have been fascinating in bringing together all the differing positions. The biggest surprise is how consistent everyone’s concern is about the underlying drivers and the need for change. There’s an overwhelming noise that we need to do something different.”

Ball says one big factor driving the push for change, particularly in the US, is the flight of capital from publicly owned companies into private companies, which do not face the same short-termist pressures.

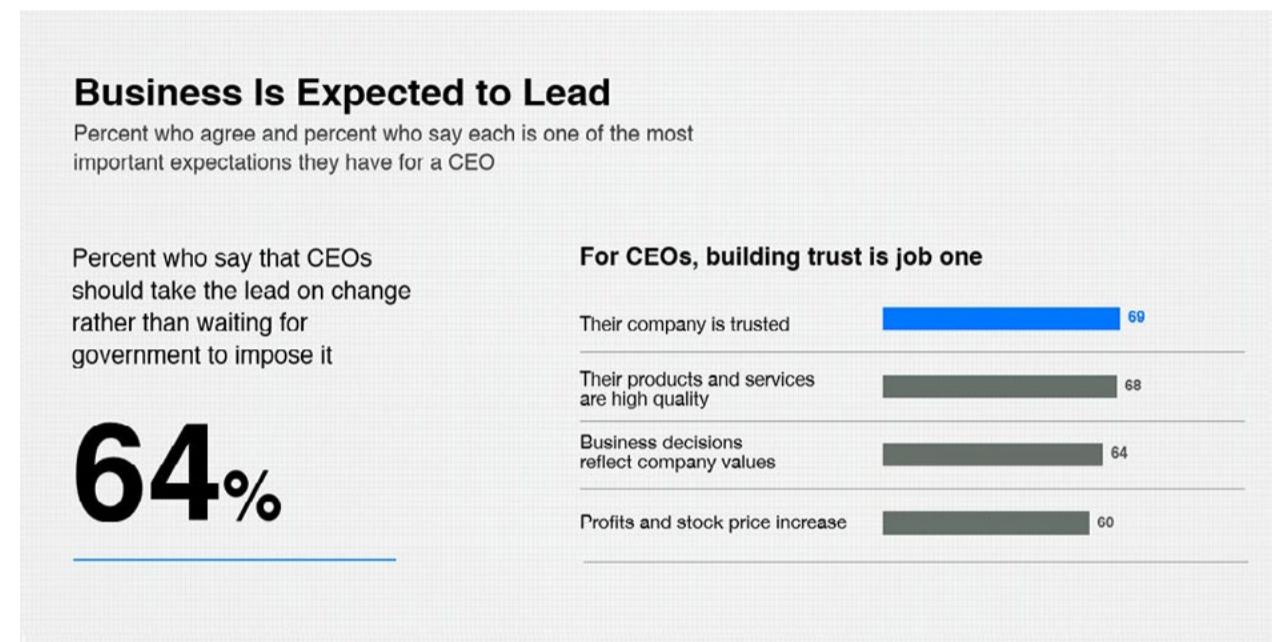
There are now at least 100 “unicorns” in the US, private businesses worth more than \$1bn that are reaping the rewards of long-term investment growth, he points out. While in stock-listed companies wealth is spread to society at large via listed markets, not the least through pension funds, in private companies any wealth created stays with individuals.

“Unless we can make these capital markets work really well, I’m worried about the drift towards private capital, with the wealth inequality that risks creating.”

Asked whether he feels optimistic that the project can overcome the issues identified in the workshops, he says: “There are lots of challenges, but we aren’t trying to boil the ocean.”

It will be a series of data points, he says, rather than single-number valuations like the Natural Capital Protocol is seeking to put on ecosystem services (see [Accounting for change; the drive to put a dollar figure on nature](#)).

“From our experience of people wanting to join the project, they agree those issues are big issues and we should try to find a solution ... Hopefully by the end of the year we will get some sign-offs from CEOs and that will be a nudge for the market and catalyse a bit of change.” ■



The Edelman Trust barometer found that building trust should be CEOs’ priority



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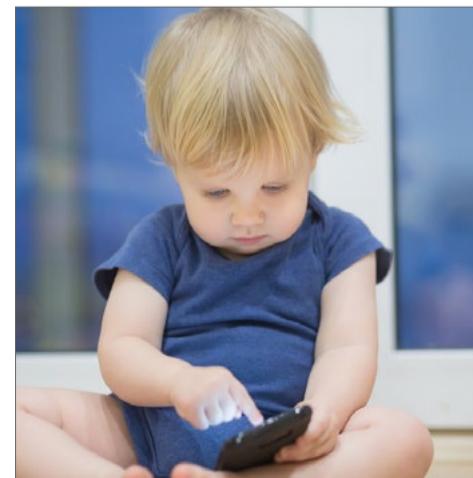
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