Catalysing Multistakeholder Value

Key Points

- Companies are unlikely to make major positive social or environmental impacts until valuations reflect how well (or badly) they are performing in those areas.
- Boards have a responsibility not only to frame long-term strategies on social responsibility, but also to ensure their own diversity of composition.
- Excessive reporting can lead to opacity not transparency; companies need to keep reporting simple and tailor the message and the medium for specific constituents.
- Investors could outsource the creation of corporate social responsibility indicators and ensure companies ' performance is measured against them

Synopsis

The voluntary payment of more tax by Starbucks in the United Kingdom and the example of British retailer Marks & Spencer in moving beyond labelling to influence customer behaviour to buy more sustainable products are examples of a paradigm shift, which is underway towards greater corporate social and environmental responsibility.

Two major planetary problems facing businesses in the medium term are how to provide enough worthwhile jobs within the limit of increasingly scarce natural resources – including atmosphere, topsoil and water. The ideal purpose of a company would be to harness the profit interest to serve the public interest. However, this is unlikely to happen until valuations reflect how well or badly companies are performing against social and environmental criteria. Companies need to collaborate with civil society actors and unions to change the rules of the game. Equally, companies must provide more transparent and nuanced information to investors to build more trust around their value propositions.

Boards carry a range of responsibilities to promote social and environmental sustainability. They must agree on a long-term strategy and communicate their policies clearly to both society and shareholders. Today ' s graduates are increasingly concerned about the sustainability values and track records of prospective employers. Boards need to put their own houses in order by ensuring that their composition is diverse in terms of gender and age.

In 2011, France passed a law stating that 40% of executive board members of the largest companies will be female by 2016. Introducing younger board members could bring valuable insights into contemporary social issues, but they may require training to take on the legal responsibilities of being a board member. Participants discussed the thorny issue of compensation, noting that disparities between the lowest and highest paid employees in some sectors has increased to over 200 times; however, there was no consensus on what a reasonable metric might be.

There is an important distinction between reporting and transparency. While regulators tend to think that the more information companies put out the better, an overload of reporting can create opacity rather than transparency. Different constituents – boards, employees, customers, investors – view transparency in different ways, so companies need to tailor both the message and the medium of their reporting accordingly. The Johannesburg Stock Exchange, for example, reports its performance on YouTube. Participants argued that " no comment is no longer acceptable " and called for companies to move from reporting on corporate social responsibility as a separate entity towards including it in formal financial reports, measuring progress against competitors and communicating the results through online social media. They concluded that integrating transparent reporting about sustainability issues into the business model is not just about damage limitation during a crisis but will also improve profits.

Investors too have a responsibility to take an interest beyond the bottom line – but how far? Good governance, adherence to regulations and risk management are all areas of interest. But investors could also commission third parties to create social and environmental performance indicators and measure companies ' performance against those criteria.

Investors clearly need an interest in this area and a long-term perspective, but ultimately all investors are going to look for long-term value creation. Some companies have proved that prioritizing social and environmental issues can deliver: Patagonia is a successful outdoor clothing manufacturer, which contributes 10% of its pre-tax profits to environmental organizations; while the US-based Whole Foods Markets, which sells good-for-you foods, has outperformed the market.

Disclosures

This summary was written by Jonathan Walter. The views expressed are those of certain participants in the discussion and do not necessarily reflect the views of all participants or of the World Economic Forum.