

Tomorrow's Capitalism: The 2020s Leadership Agenda

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Tomorrow's Capitalism: **The 2020s**

Leadership Agenda

Today, globalised capitalism is contested in a way that it hasn't been since the end of the Cold War. Even arch-capitalists like Ray Dalio, founder of Bridgewater, a hedge fund, and Larry Fink of BlackRock, the world's largest asset management firm, have issued stark warnings that capitalism-as-usual is no longer fit for purpose.¹

Serious reform is needed to deal with the systemic challenges currently roiling the global economy. The climate, biodiversity, society, politics: all are in crisis, and increasing numbers of people are pointing the finger of blame at capitalism - or, rather, the version of capitalism that has reigned supreme across much of the world for the last 25 years.

The age of hyper-globalisation and shareholder value maximisation has led businesses to create negative social and environmental externalities like never before. From spiralling greenhouse gas emissions to the hollowing out of local communities as jobs and tax revenues disappear - the costs to society of corporations' single-minded pursuit of profit are adding up.

Whose job is it to address these systemic flaws in the way contemporary capitalism operates? Many business leaders would say, not theirs. These are political challenges - and politics is not, to adapt a familiar adage, the business of business. Or at least that's what many CEOs continue to believe.

That doesn't mean that corporate leaders are blind to the problems that business-as-usual is creating for society. Far from it, in fact. An awareness of the unsustainability of many current business practices has, over the last 25 years, led thousands of companies to adopt Corporate Social Responsibility or Sustainability programmes, often built around concepts like the "Triple Bottom Line" - a term coined by Volans Founder, John Elkington in 1994.

Last year, we issued a "product recall" of the Triple Bottom Line concept via Harvard Business Review, on the grounds that 25 years of well-intentioned efforts by companies have not halted - let alone reversed - the undermining of social and environmental systems on which we all rely.²

That doesn't mean that nothing worthwhile has been achieved: thousands of companies have reduced their negative impacts and increased their positive impacts on society as a result of concerted efforts to integrate sustainability into corporate decision-making. But anyone who believes that a few more companies trying a little bit harder to do what we call "sustainability-as-usual" will eventually add up to a sustainable global economy is deluding themselves.

¹ <https://www.linkedin.com/pulse/why-how-capitalism-needs-reformed-parts-1-2-ray-dalio/>; <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

² <https://hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it>

The defining characteristic of sustainability-as-usual is that it tries to create change within businesses and across value chains without challenging contemporary capitalism's operating system. Companies may talk about purpose, shared value or stakeholder value - but they operate within markets that reward them principally for their financial performance. Hence, as we wrote in the HBR piece, "whereas CEOs, CFOs, and other corporate leaders move heaven and earth to ensure that they hit their profit targets, the same is very rarely true of their people and planet targets."

Rewiring capitalism's operating system

Since announcing the Triple Bottom Line "recall" in 2018, Volans, alongside a select group of corporate and non-corporate partners, has embarked on an in-depth inquiry into what the corporate leadership agenda for the 2020s will need to look like in order to address the interlinked climate, biodiversity, social and political crises we now face. We call this the Tomorrow's Capitalism Inquiry.³

People in the corporate sustainability field have talked about the need for "systems change" for a long time now. The 2020s are going to have to be the decade when we finally learn how to do systems change.

This starts from a recognition that there is no such thing as a sustainable company in an unsustainable economy. Again, this is not a new idea, but the truth of this statement will be brought home forcefully to companies over the next decade as their bottom lines are negatively impacted by climate and social breakdown - symptoms of an unsustainable economy.

Being a little more "sustainable" than your peers will do little to insulate a company from external shocks caused by extreme weather or extreme politics. When the risks are systemic and the failures are at a market level rather than an individual business level, a response that focuses exclusively on improving individual business performance will prove inadequate.

So companies are going to have to step up to become much more active and effective agents of systems change, unless they are content simply to be passengers on a voyage captained by the ghost of Milton Friedman, which appears to be headed towards the mother of all icebergs.

How, then, does a company become an effective agent of systems change? As part of the Tomorrow's Capitalism Inquiry, we're working to distil the best available thinking on this question into actionable guidance for corporate leadership teams. The Inquiry is still ongoing, but what follows is a preview of our emergent conclusions.

Firstly, companies interact with other stakeholders in the markets, economies and societies in which they participate in a number of ways. They act as citizens, buyers, investors, employers and producers. The way in which a company performs these functions determines its effectiveness as an agent of systems change. Let's look, briefly, at each in turn.



³<https://volans.com/project/tomorrows-capitalism-inquiry/>

1. Citizen

Whether we like it or not, companies are powerful political actors. They may not vote in elections, but many are nonetheless extremely effective at ensuring their voice gets heard by legislators and regulators. Typically, though, corporate lobbying is primarily defensive: it seeks to halt or slow down the implementation of rules that will make business-as-usual more costly. But imagine if the substantial political influence wielded by companies was targeted instead towards achieving market reforms that ensure social and environmental value creation is properly incentivised. This may sound far-fetched, but remember that thousands of companies already go beyond regulatory compliance in some aspect or other of their sustainability performance. In advocating for regulation that would compel their competitors to meet the same standards that they have already chosen to meet voluntarily, these companies are merely pursuing their own enlightened self-interest.

2. Buyer

Companies spend trillions of dollars a year on procuring goods and services from other companies. SAP Ariba, the world's largest procurement platform, processes more than \$2 trillion worth of transactions each year — more than Amazon, Alibaba and eBay combined.⁴ Today, most procurement teams are incentivised to do one thing and one thing only: minimise costs. But imagine if companies started to treat procurement not just as a cost centre, but as an engine of social, environmental and economic value creation. By integrating extra-financial outcomes into purchasing decisions, companies can create real demand for products and services that contribute towards the sustainability of the overall economy. This is already happening in places as companies commit to source energy from renewables or work with suppliers that create good jobs at fair wages in poor communities.

3. Investor

It's not only investment firms that manage financial assets. Many non-financial companies have very significant investments too - stretching into the hundreds of billions of dollars in the case of large multinationals like Apple and Alphabet. How these assets are managed is a critical element of how companies engage with the wider market. Do they focus on financial returns exclusively? Do they screen out certain investments that have a negative environmental or social impact? Or do they actively seek out investments that create positive impacts for people and the planet?

4. Employer

Just as supply chains are often treated simply as a cost to be squeezed, so too workers, in the shareholder value maximisation paradigm, are seen primarily as an expense. Over the last few decades, the social contract between workers and employers has been eroded. In a less globalised, less digitally connected



⁴ <https://www.ft.com/content/3a0da70e-ad52-11e8-8253-48106866cd8a>

Features and Functions

of Tomorrow's Corporate Leaders

Features <i>Five characteristics that determine how a company behaves</i>	Functions <i>Five roles that every company plays</i>
<p style="text-align: center;">Ownership</p> <p><i>From... models that privilege uncommitted owners and short-term value extraction</i></p> <p><i>To... owners committed for the long term, empowering the company to pursue social and environmental value creation</i></p>	<p style="text-align: center;">Citizen</p> <p><i>From... passive, defensive engagement in politics and social movements</i></p> <p><i>To... being an activist voice for political reforms needed to make markets sustainable</i></p>
<p style="text-align: center;">Purpose</p> <p><i>From... no matter what it says on our website, our actual lived purpose is to make as much money as possible for our shareholders</i></p> <p><i>To... our purpose is genuinely about making a positive contribution to society</i></p>	<p style="text-align: center;">Buyer</p> <p><i>From... the goal of procurement is to minimise costs</i></p> <p><i>To... we use our purchasing power to create market demand for socially and environmentally beneficial enterprises</i></p>
<p style="text-align: center;">Management</p> <p><i>From... the incentives and KPIs that drive our business are purely about financial performance</i></p> <p><i>To... the incentives and KPIs that drive our business incorporate social and environmental performance on a par with financials</i></p>	<p style="text-align: center;">Investor</p> <p><i>From... corporate investments managed purely to maximise financial returns</i></p> <p><i>To... we invest in assets that generate positive outcomes for people and planet</i></p>
<p style="text-align: center;">Data</p> <p><i>From... the way we track social and environmental impact is largely qualitative and the data is patchy and out of date</i></p> <p><i>To... we track social and environmental impact rigorously and benchmark our performance against what science and ethics tell us is necessary for a sustainable society to flourish</i></p>	<p style="text-align: center;">Employer</p> <p><i>From... labour is a cost; we'll replace our workers with robots as soon as the robots are cheaper and, until then, we'll treat the humans like robots</i></p> <p><i>To... creating good jobs that pay a decent wage and allow humans to flourish is part of how we create value for society</i></p>
<p style="text-align: center;">Culture</p> <p><i>From... creating positive social and environmental impact is not as highly valued as generating financial returns</i></p> <p><i>To... our commitment to creating positive social and environmental impact is strong enough that it doesn't disappear when the going gets tough</i></p>	<p style="text-align: center;">Producer</p> <p><i>From... we make and sell stuff that is harmful to people and/or the planet</i></p> <p><i>To... our products and services directly contribute to ecosystem restoration and social inclusion</i></p>

age, companies faced an imperative to invest in creating good jobs. Maintaining a loyal workforce was crucial for business success back when jobs could not so easily be outsourced to somewhere with lower labour costs halfway around the globe, or to a gig economy worker who receives none of the benefits of being an employee, or, indeed, to a robot. Now companies must learn once again what it means to create good jobs that allow prosperity to be shared, and to provide people of all genders, sexual orientations, ethnicities and backgrounds with opportunities for advancement.

5. Producer

Companies exist to produce goods and services. But are the goods and services they are producing - and the business model that wraps around them - good for society and the planet? Given that studies have shown that, in a world where all negative externalities were internalised, almost every industry would today be unprofitable,⁵ most companies will need to radically rethink their products and business models to thrive in a more sustainable capitalist system.

Curing corporate schizophrenia

Digging a layer deeper, a company cannot act sustainably over the long term unless its ownership structure, purpose, management practices, data systems and culture are properly aligned to enable this. Many companies today suffer from a form of what Kate Raworth, author of Doughnut Economics, calls “corporate schizophrenia” - a condition brought on by a fundamental misalignment between these different elements of a company’s DNA.⁶

Many companies today have lofty **purpose** statements proclaiming their commitment to making the world a better place. But too often, there is a world of difference between a company’s stated purpose and its lived purpose as expressed by the day-to-day actions of its employees and executives.

One common cause of this disconnect is the way **ownership** is structured. To quote Martin Wolf of the *Financial Times*, a publicly-listed company in today’s world is required “to serve the interests of those least committed to it, while control is also entrusted to those least knowledgeable about its activities and at least risk of damage by its failure.”⁷ The traditional PLC model may be failing, but there are lots of alternative models that provide more fertile ground for sustainability: employee ownership; private or family ownership; state ownership; industrial foundations; and hybrid models that combine elements of these (by giving an industrial foundation a controlling stake in the business, for example) with the access to liquidity provided by having some shares publicly traded. None of these forms of ownership guarantees a specific set of outcomes, but at least they make it possible for companies to seriously pursue outcomes other than short-term profit maximisation.

⁵ <https://www.naturalcapitalcoalition.org/wp-content/uploads/2016/07/Trucost-Nat-Cap-at-Risk-Final-Report-web.pdf>

⁶ <https://www.weforum.org/agenda/2018/01/how-to-do-business-with-doughnuts/>

⁷ <https://www.ft.com/content/786144bc-fc93-11e8-ac00-57a2a826423e>

Management, too, must evolve in order to deliver on a sustainability agenda that is about more than incremental harm deduction. Generations of corporate executives have been trained to maximise shareholder value. Now, as the shareholder value paradigm disintegrates, they are having to learn a new game: how to manage and incentivise extra-financial value creation.

To do this, corporate decision-makers require access to the right **data** at the right time. Extra-financial impacts need to be tracked in real time and assessed in relation to science- and ethics-based thresholds, so that companies can use this data to inform their decision-making and steer a course towards genuine positive social and environmental impact.

Last but not least, nurturing and sustaining a corporate **culture** that empowers all employees to access and act on their innate human desire to make a positive contribution to the world is essential. Companies have sometimes relied too heavily on culture to be the carrier of corporate values. When these values are at odds with the way formal incentives are structured, culture alone is rarely strong enough. But without the thousands of individual choices and behaviours that make up an organisation's culture being aligned to the vision of creating a sustainable business within a sustainable economy, very little can be achieved.

Pockets of the future

This essay has only skimmed the surface of the transformative leadership agenda we see emerging over the next decade. We have not yet encountered a single organisation that successfully combines all of the elements summarised in the table on page 5. But we have uncovered many “pockets of the future” within companies all over the world where the future-fit version of one or more of these functions and features is already in play. None of the ideas presented in this essay is based simply on wishful thinking: all we have done is extrapolate from and synthesise the best, most hope-inspiring aspects of the contemporary corporate landscape.

As the science fiction author William Gibson famously said, “**the future is already here - it's just not evenly distributed.**” Yet.