

“Inclusive Capitalism” and Total Stakeholder Value

MI’s work goes right to the heart of how organisations need to work if they are to regain trust and societal legitimacy. [In a recent article for Board Agenda](#) Paul Kearns explains the nature of Total Stakeholder Value as the ultimate measure of both financial and societal value.

While corporate scandals are still rife low productivity, income inequality, sub-standard product/service quality and weak innovation continue to blight both organisational value and economic and social progress. Amidst this decline in both corporate and professional standards the world is waking up to the fact that humanity works best as a whole system. Since the latter part of the 20th Century, long-term value creation has been eroded and increasingly skewed towards rewarding a narrower group of stakeholders.



From a leadership and management perspective, the need for greater integration of management disciplines towards a long term, sustainable solution is now recognised by many. This has led to the evolution of the concept and practice of a holistic, ‘mature’ approach that is focused on the creation of [Total Stakeholder Value](#) through maximising the value of everyone connected to an organisation for the benefit of all. This is not just the “right thing to do” and the most ethical option it is simply a question of how to maximise value. It is also self-evident that we should not need to enforce such a beneficial outcome through legislation and regulation.

There has never been a more appropriate time to ask boards to rethink the purpose of the corporation and for investors, regulators and other critical players to demand coherent change towards a wider and clearer construct of value. It is also the right

Are our banks working? Have our banks improved since the global financial crisis in 2008? Do they pose less risk? If so, has this translated into higher value for investors, customers, workforces and other key stakeholders? Our free webinar will consider key lessons from The Maturity Institute’s ground-breaking, comprehensive 65-page [2017 Banking Governance and Culture Report](#). To join us at 1pm GMT+1 on 21 September email stuart.woollard@omservices.org

time for MI: a new, professional, single umbrella body that integrates this current thinking and practice into a coherent way forward.

A Question of Purpose

The litany of corporate failures over decades; inequality between the wealthiest and the poorest; and the unresolved issue of corporate diversity are some of the drivers behind increasingly vociferous demands for organisations to embed a purpose that seeks to benefit society rather than exploit its resources.

Yet most of the research, commentary and lobbying for a better corporate purpose has been unable to incorporate one critically important factor. This missing piece is a clear and measurable definition of purpose linked to quantifiable value outcomes. Without this, any message becomes diluted and far less powerful; often relying on weak and anecdotal evidence that is insufficient to compel impetus for change.

We constructed our OMINDEX ratings and [OM30© instrument](#) on the premise that people will generate more value, and mitigate risk, if they are aligned to a common purpose. Additionally, a purpose explicitly linked to societal value matters more. An emerging evidence base tells us that people prefer to work (and are likely to add more value) when purpose gives meaning to their working and personal lives.

Purpose and societal value are thereby synonymous. We define both as producing the **“Best quality product or service at best possible cost (including any external harm e.g. environmental impact)”**. This means our definition can be applied to every type of organisation across all sectors; regardless of state, public or private ownership. OM30© applies this standard to a set of questions that allow us to measure the impact of any corporation’s purpose on its ability to create value and mitigate risk.

In our latest project, MI’s [2017 Banking Governance and Culture Report](#), we identified that the very best banks adhered to, or largely met, our standard. They seek to serve society first; that is their customers and the wider community, and this is done on the understanding that this also produces the best returns for all other stakeholders.



MI is delighted to have been invited to become part of [the 10 Years After the Crash network](#). We have also provided our proposal to carry out an in-depth study into purpose and value creation within the financial services industry. If you would like more information on this initiative please contact stuart.woollard@omservices.org

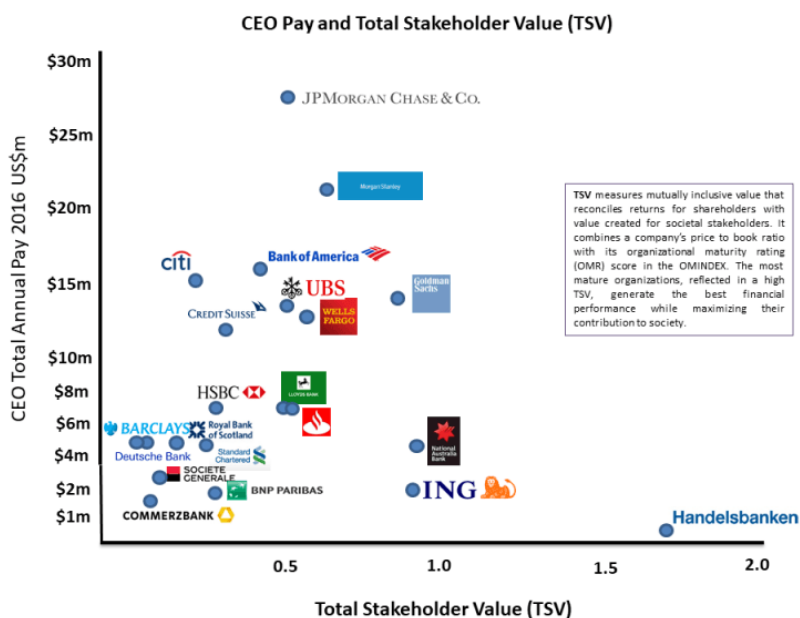
Our report identifies nine banks that articulate a clear purpose, societal in dimension, which informs their primary decision making. This is encouraging. However, the evidence strongly suggests that, for many, such a ‘purpose’ reflects the enormous pressure provided by regulators, governments, and wider societal stakeholders to re-shape business models; those which precipitated damaging banking misconduct costs and are considered no longer ‘fit for purpose’. Purpose has in effect largely been imposed. This perhaps explains why articulating societal purpose is not the same as embedding it operationally. In this respect, only 3 banks managed to evidence the minimum level of success required.

What about *Purpose* and Total Stakeholder Value (TSV)?

Total Stakeholder

Value (TSV) is our measure of mutually inclusive long term value that reconciles both the generation of returns for shareholders and value created for all societal stakeholders. It combines a conventional indicator of organizational performance – the P/B or price to book ratio

– with a corporation’s Organizational Maturity Rating (OMR) score in the OMINDEX. The most mature organizations, reflected in a high TSV, are able to generate both the very best financial performance while at the same time maximising their contribution to society.



Our two highest rated banks (Handelsbanken and ING) were found to have an operationally embedded societal purpose. NAB also provided strong evidence that social purpose was becoming increasingly embedded within the bank. These 3 banks generated the highest TSV scores, which we also compared to CEO pay in the chart above:

Handelsbanken	1.55
National Australia Bank	0.93
ING	0.89

Our work demonstrates that any leadership team, that wants their organisation to be seen as socially responsible, cannot simply communicate a new purpose and then hope that it will take hold. They need to go through a critical learning process to be able make social and shareholder responsibilities work in harmony, not opposition. Making this happen is not easy and requires whole system thinking and systemic solutions. However, the benefits can arise quickly, even if this is a truly long-term undertaking.

Our view is that the best way forward is for all stakeholders to make both shareholder value and societal value one and the same. This approach is encapsulated in OMINDEX and integrated within Total Stakeholder Value (TSV) because it captures the totality of value in the long term. Using TSV will mean that boards, investors and wider stakeholders accept the clear and growing evidence that companies with higher OMINDEX ratings outperform those with lower ratings across critical indicators, including conventional financial value metrics. This makes 'purpose' far more compelling – a core factor to value creation; not a 'nice to have', 'the right thing to do', or something demanded by regulators.

Our full findings for the banking sector, an essential read for boards, investors and regulators can be found in our [2017 Banking Governance and Culture Report](#).

Human Capital Reporting: the SEC



The Maturity Institute recently responded to a [petition submitted](#) by the Human Capital Management Coalition, a collaboration of 25 pension funds representing over \$2.8 trillion in pension assets.

Meredith Miller, Chief Corporate Governance Officer for the UAW Retiree Medical Benefits Trust, who leads the HCM Coalition effort said of the petition:

"The ability to effectively harness and apply the collective knowledge, skills, and experiences possessed by each individual in the workforce is essential to long-term value creation and is therefore material to investors evaluating a company's future performance. Current disclosures leave investors with an incomplete picture of how well companies are seizing opportunities and managing risks."

[Our response](#) urges the SEC to be cautious in its approach. Our recent [series of posts](#) on the potential for meaningless and misleading metrics to be reported by companies identifies the damage that bad measures can cause. OMS LLP, MI's accredited Organisational Maturity Ratings provider and creator of the [OM30 organisational health](#) diagnostic, has [separately proposed](#) that the SEC recognise this important instrument (now freely available as one of our global standards).

Many human capital reporting initiatives during the last 20-years have failed, yet these efforts continue, highlighting that stakeholder appetite for better company insights remains stronger than ever. It is now time to adopt a different, more sophisticated and whole system approach to this complex area. By doing so, organisations can begin to understand the latent potential that exists in their human capital for long-term value creation. For more information please contact paul.kearns@maturityinstitute.com

Prague Programme – new cohort 2018

Following the success of this year's [Prague Programme](#), we are now registering the new cohort to commence in February 2018. If you would like to become part of this ground-breaking L&D programme and enhance your own professional development, please contact stanislav.tichy@develor.com

MI People

Council member Nick Shepherd has been appointed as a curriculum adviser to the new [Institute for Enterprise Engagement Learning at the University of Texas](#). Nick has also been appointed to The Standards Council of Canada for ISO TC 260 (Human Capital Reporting) and WG 10 (Engagement).

Congratulations to MI Associate Nick Ford, who has become COO at WIS International

Stuart Woollard has been appointed as a team leader at the Transparency Task Force where he will be spearheading a research study to consider corporate purpose in the Financial Services sector. More information can be found at: <https://www.transparencytaskforce.org/ttf-teams/team-pisces/>

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