

TOMORROW'S VALUE



The economic crisis has thrown up searching questions about what business contributes to the wider community, the values it upholds and the link between these values and the value it creates.

This paper – and the lecture series of which it is part – explores and debates ideas about how business value can be redefined to create a road map for a sustainable and prosperous future.

Lecture programme 2010/11

Foreword

In the wake of the recession, the collapse of large parts of the financial sector and the crisis of legitimacy faced by leading corporations, the words of Benjamin Franklin ring true.

Together, CIMA and Tomorrow's Company are delighted to welcome you to a series of lectures exploring the theme 'Tomorrow's value.'

This programme will bring together an outstanding series of speakers and contributors to explore, question and probe fundamental questions of what is value, what has value and why this is so important.

As we strive for economic security and seek to achieve prosperity and equity for a global population of seven billion people, our speakers will challenge fundamental assumptions on which economic policy is based. These include the following:

- Modern economics determines value through the process of exchange in markets, which sets prices – but is this a sufficient way of determining what has value?
- Economic theory could take resource abundance for granted – but how should value now reflect resource scarcity, the paradox of overconsumption by some and extreme poverty of many more, the need to internalise 'externalities' and the increasing interconnectivity and transparency of our shrinking world?
- Economic 'man' is rational and self-interested, active in isolated market places – but how does this square with the increasing impact that individuals can have, not just on the business that employs them or that they may lead, but also on the sector of which they are part, and the society and environment on which they depend not just to be able to do business, but to be able to live as human beings?
- Discount rates value future generations less than we value ourselves – but can we be confident of a basis of determining value that may deny our children's children the joy of nature and the increasing threat we pose to other species?
- The nature of risk is profoundly changing – we are living in a world in which 'black swan' events are fast becoming business as usual, in which 'unknown unknowns' create systemic impacts at frightening speed, leading to huge write-offs. What does this mean for how we assess value, if knowing what is enough and when to say no, may increasingly be the best ways of securing value for the long-term?
- We look upon the economy as operating to 'natural' laws – but, as Emerson put it so powerfully, the economy is socially created by us as human beings. How and should we price our ethics and behaviours, given the enormous cost evident from boardroom failures of not having done so? What, in short, is the relationship between value creation and values?

I conceive that the great part of the miseries of mankind are brought upon them by false estimates they have made of the value of things.

Benjamin Franklin



The paper that follows – written by our colleagues, Philip Sadler and Victor Smart – explores these issues and themes, and helps to frame this lecture programme.

Tomorrow's Company argues that business can, must and should be a 'force for good' – and that enduring value is increasingly created by aligning economic imperatives with social and environmental drivers. This 'triple context' frames the operating environment for business, with the result that for global companies, business success and sustainability are mutually reinforcing.

CIMA has a unique relationship with finance directors and others who together must 'earth' this new value agenda with its practical translation into metrics of performance, providing essential data and informing the critical decisions of management teams, company boards, investors and other key stakeholders.

Challenging how we think about value must be translated into the strategies, decisions and behaviours of leading companies and financial institutions if it is to be of more than academic interest.

As Albert Einstein once remarked: *'Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted.'* This reminds us of the need for humility as we raise these questions.

We offer no easy solutions but are convinced that these are essential questions to raise – and we are confident that this programme of lectures will stimulate dialogue and inspire the robust and rigorous thinking needed to start to provide much-needed answers.

It will not be sufficient, we believe, to rely on propping up the economy using the policy levers of the last century – rather we need to create a new mindset, which provides a far clearer understanding of what shape the economy of the future will take.

We argue that recognising the responsibilities of stewardship, to create economic, social and environmental capital, will provide a powerful framework for financial, investment and other critical business decisions.

In understanding how to do this in practice, we will be creating Tomorrow's Value.

Tony Manwaring
Chief Executive, Tomorrow's Company

Charles Tilley
Chief Executive, CIMA

The value of a dollar is social, as it is created by society.

Ralph Waldo Emerson

Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted.

Albert Einstein



Tomorrow's value

By Philip Sadler and Victor Smart

Business has done a remarkable job in creating value. Once, extracting value was a slow, painful and unrewarding human activity; raw materials were scarce and so too were the craft skills required to turn materials into an object anyone would prize. That has all changed. Industrialisation, mechanisation, automation, globalisation and digitalisation have meant that a country such as China can become established as a vast manufacturing hub within the space of two decades. And sectors such as investment banking find they can extract billions from devising securitisation and new financial instruments without making physical artefacts at all.

The results are everywhere to be seen. In the rich world, the average teenager has a surfeit of choice in expensive consumer goods his parents would never have dreamed of. Elsewhere, billions of people are being lifted out of poverty. China was poor 20 years ago. Not today.

But we are painfully learning the limits to all this value that surrounds us. The consumer is questioning whether retail therapy can bring happiness. People worry that the proceeds are not distributed fairly to regions such as sub-Saharan Africa. They wonder whether we have gone from intelligent, sparing use of natural resources to depleting the oceans and exhausting the planet. They ask what the benefits to the wider community are from the activities of traders who hold stocks or currencies for only nano-seconds, of hedge funds who buy hoping values will fall, of lawyers who arbitrage regulatory jurisdictions. And they are asking troubling questions about what all this value has done to our human values.

The purpose of this lecture series is to explore and debate ideas about how business value can be defined – or redefined – to create a road map for a sustainable future.

Today, value is often defined primarily in monetary terms or in terms of material wealth, as in the overworked phrase 'shareholder value'. Yet if you ask people what they most value in their lives, the replies are wide ranging. Certainly, people want houses, cars and healthcare, but also non-material things – love, family, faith, nature.

Oscar Wilde defined a cynic as a person 'who knows the price of everything and the value of nothing'. Have we all then become cynics? And has business become cynical, adept at creating material value, manufacturing consumer 'needs', but more and more hopeless at satisfying anyone's real needs in a sustainable way?

It is important not to be naïve about creating value. Even in this post-scarcity world, business leaders cannot take it for granted that their enterprises will succeed. Companies fail, big brands and even entire industrial sectors go into irreversible decline. It is a competitive world out there, the Darwinian process of attrition is brutal and not everyone, governments or companies, plays by the rules. Business people have to be single-minded to survive. They cannot simply put looking after their workforce, or 'saving the planet', above all else. Nor can governments assume that if the City of London went into decline, value and tax revenues would pop up elsewhere in the British economy to fill the gap.

And though everyone seems suddenly to agree that the idea of shareholder value went too far, it is not at all clear where the boundaries between a company's self-interest and those of the wider society lie. A baker may serve his own interest while serving those of the community. But should a big City law firm refuse to undertake work for an investment bank, or on a big takeover, say, simply because it could not see how society would gain from this activity?

Clearly because of their scale, power and influence, tomorrow's global companies will have an important wider role as carriers of human values – for good or ill. If they fail to set high standards, others outside the company will find it easier to tolerate corruption, fraud and human rights violations. However, if they do act as role models, they will add value to the health of the societies in which they operate.

One recent study by M. S. Schwartz sought to establish the 'core universal moral values by which corporate codes of ethics can be ethically constructed and evaluated.' It examined companies' codes of ethics, global codes of ethics and business ethics literature. From these, six 'universal moral values' were extracted: trustworthiness; respect; responsibility; fairness; caring; and citizenship.¹

¹ Schwartz, M. S., (2005), Universal Moral Values for Corporate Code of Ethics, Journal of Business Ethics, 27- 44.

Changing values

In the developed societies of the west, and increasingly in other cultures, the closing decades of the 20th century witnessed massive shifts in human values. Among the most obvious examples are those to do with acceptance of diversity, considerable strides towards gender equality, greater regard for health and safety and a growing concern for the natural environment. The early advocates of such changes were often dismissed as cranks and idealists. Yet the values they espoused have become mainstream and been accepted as part of peoples' lives. Looking to tomorrow, such ideals as the elimination of gross differences in the quality of life, the protection of the rain forests, the right of every person to clean water, and the goal of sustainable development will become fully accepted and embedded as parts of our values systems. Far-sighted business leaders know this and at the very least are swimming with the tide. Some, such as Ray Anderson of Interface, are ahead of the game.

Ian Wilson calls the combined impact of all these changes in peoples' values a 'New Reformation', involving eight shifts of emphasis in peoples' values:

- from considerations of quantity (more) to ones of quality (better)
- from valuing independence towards recognising and valuing interdependence (of nations, institutions, individuals, species)
- from mastery of nature to living in harmony with it
- from competition to co-operation
- from valuing technical efficiency to concern for social justice and harmony.²

The triple context

In 2007 a group of business leaders from global companies such as BP, ABB, Ford, SUEZ, Infosys, Anglo-American, KPMG and Alcan set out their views in forthright fashion:

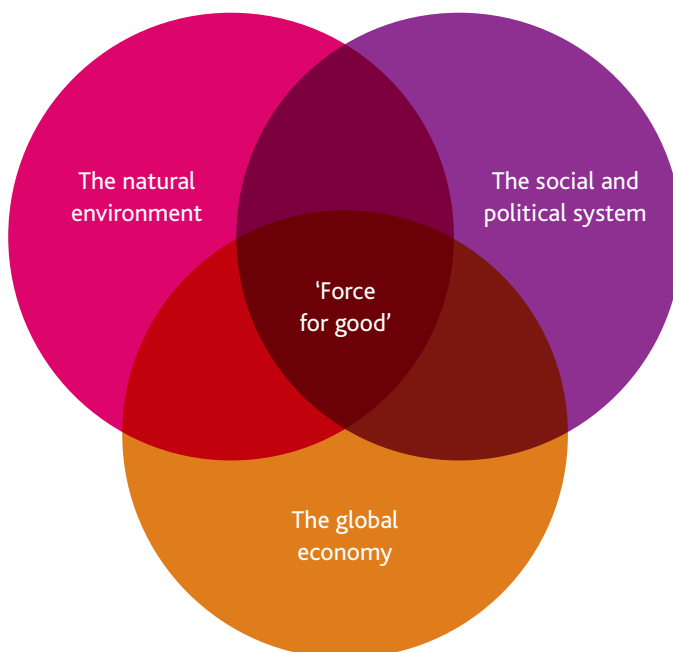
The 'system' to which they were referring involves a highly complex process of interaction between the global economy, human society and the natural environment. At Tomorrow's Company we call this dynamic interaction 'the triple context'. This emphasises that sustainability cannot be defined in terms of one part of the system, such as the environment in isolation, but only in terms of the system as a whole. The diagram below illustrates this interdependence. Companies whose leaders think in terms of the system as whole can be a powerful force for change.

The triple context suggests that consideration of the whole system should inform, guide and coordinate improvements in components of the system. It emphasises the need for collaboration between companies, governments, NGOs and other institutions, and between experts in different fields.

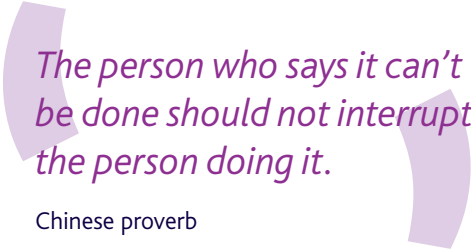
Today, beyond any doubt, the desirability of system change is widely accepted. There is a growing consensus about the need to tackle three urgent problems at a global level.

'We believe that we are entering a period of history in which it is becoming clear that the operation of the current system is unsustainable and that to progress further, tomorrow's global companies need to redefine success and help to create better frameworks for the working of the market.'

Tomorrow's Company 2007



² Wilson, Ian (2000) The New Rules of Corporate Conduct Quorum Books, Westport, Connecticut.



*The person who says it can't
be done should not interrupt
the person doing it.*

Chinese proverb

First, there are environmental sustainability issues including the threat of climate change, impending water shortages and severe resource constraints.

Second, there is the evident fragility of the global financial system and in particular that over-speculative part of it that we call the 'casino economy.'

Third, there is the huge challenge of inequality and poverty.

As a starting point, when considering the prospect of system change we must accept that there are strong vested interests in the perpetuation of the existing system. This is true of the general populace as well as the powerful elites of the prosperous countries of North America, Western Europe, Australasia and Japan. In these countries investors are fearful of any change that might threaten their savings; companies are protective of their existing markets and business models; employees are protective of their jobs; and consumers cling to accustomed lifestyles. In the emerging economies such as China and India, people aspire to the benefits of the system and eagerly await the day when they, too, will enjoy them. In the poorer countries, the political and business elites who hold the reins of power are huge beneficiaries of the system.

A tipping point?

Nevertheless, as has happened countless times over the centuries, the system will change significantly as the evolution of human society continues to unfold. Institutions that become dysfunctional wither and die and new institutions take their place. System change is inevitable and remorseless and in the end is strong enough to sweep vested interests aside. Indeed, system change is a continuous process as new technologies interact with the economy and with changing social attitudes and lifestyles. It only becomes apparent when the cumulative impact of incremental changes makes it clear that a tipping point has been reached and that a fundamental change has taken place, as was the case with the Industrial Revolution. At Tomorrow's Company we believe that such a tipping point is now very close.

A powerful social movement has been set in motion, one which is powerful enough to strongly influence political decisions at both national and international level and is having a considerable influence on the allocation of resources. However, many of those who are working to achieve these goals are vehement in their opposition to continuing economic growth. The opposition seems to be based on several different grounds.

One is revulsion at the materialistic values of modern society and a wish to see a return to a less material, perhaps more spiritual or at least more balanced set of lifestyles.

A second basis for opposition to growth is the belief that further economic growth will lead to the acceleration of the deterioration of the environment and the using up of valuable non-renewable resources. Yet it is only as a result of continued economic growth that the world will be able to produce the resources needed to tackle issues such as climate change and poverty.

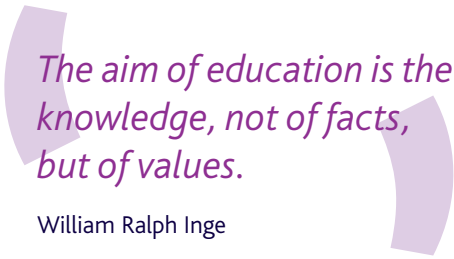
A third school of thought assigns the ills of the modern world to the ideology of the market and the operation of the invisible hand. The alternative of state control of the economy has been tried and failed many times. In Russia and in China in the 1950s and 60s it resulted in huge suffering, famine and loss of personal freedoms.

'No growth' is not the answer, nor is the abandonment of the role of market forces. But what is needed is sustainable, qualitative growth – as Hazel Henderson and Fritjof Capra have recently argued – as distinct from the sterile concept of quantitative growth used by economists. We need to redefine success at national level and at the level of the enterprise.

Such a change can only be achieved if it is value based. Values which place the emphasis on human rights, harmony with nature, and the elimination of gross inequalities must form the foundation of the transition to a sustainable, green economy and society.

Business leaders need to ask themselves some tough questions:

- How is the purpose of my organisation defined?



The aim of education is the knowledge, not of facts, but of values.

William Ralph Inge

- How does that definition relate to the need to create a more sustainable society?
- What are the shared values of my organisation?
- Are these values truly compatible with the ideals of human rights, elimination of gross inequality, harmony with nature etc?
- Are such values embedded within the culture of the business?
- Are they reflected in how people at every level actually behave?
- To what extent are they reflected in the rewards system?
- Do I role model these values in my decisions and actions?
- What is my organisation doing to influence the development of values in the school population and in the community?

About CIMA

CIMA, the Chartered Institute of Management Accountants, founded in 1919, is the world's leading and largest professional body of management accountants, with 172,000 members and students operating in 168 countries, working at the heart of business. CIMA members and students work in industry, commerce and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure that it remains the employers' choice when recruiting financially trained business leaders.

About Tomorrow's Company

Tomorrow's Company is the agenda setting 'think and do' tank which looks at the role of business and how to achieve enduring business success. We focus on strong relationships, and clear purpose and values as the foundation of effective leadership and governance.

In our programmes we challenge business leaders around the world to work in dialogue with others to tackle the toughest issues. We promote systemic solutions, working across boundaries between business, investors, government and society.

We believe that business can and must be a 'force for good.' This in turn requires a strengthening of stewardship by shareholders in partnership with boards of companies. We argue that the Age of Sustainability has begun, and that in the future success and value creation will come from recognising the 'triple context' – the links between the economic, social and environmental sub-systems on which we all depend, and the opportunities this brings.

www.tomorrowcompany.com and www.forceforgood.com

The authors

Philip Sadler CBE, is senior fellow of Tomorrow's Company. He was chief executive of Ashridge Business School for 20 years and is now a life vice president.

Victor Smart is director of profile and communications at CIMA.

For more about this lecture programme and the issues it explores, go to tomorrowvaluelectures.com hosted on forceforgood.com

Join the debate at:
www.tomorrowsvaluelectures.com

978-1-85971-665-6 (hard copy)

978-1-85971-666-3 (PDF)

Price £10 inc p&p

Tomorrow's Company

4th Floor, Samuel House

6 St Albans Street

London

SW1Y 4SQ

T. +44 (0)20 7839 4040

E. value@tomorrowscompany.com

www.tomorrowsvaluelectures.com

**Chartered Institute of
Management Accountants**

26 Chapter Street

London SW1P 4NP

United Kingdom

T. +44 (0)20 7663 5441

E. cimaknowledgeunit@cimaglobal.com

www.cimaglobal.com



CIMA is proud to be a Gold Sponsor



Mixed Sources
Product group from well-managed
forests and other controlled sources

Cert no. TICOC-002370
www.fsc.org
© 1996 Forest Stewardship Council

PR012V0610