Steering the CEO to Bolster Bottom Line and Societal Success

Description

The board’s role in transforming the company and society

Institutional investors and boards are taking a wider lens on risk and thinking even more deeply about the bigger social purposes of companies and capital.

As a result, many of the world’s largest investors have upped their attention to how companies perform on environmental, social, and governance (ESG) factors and are increasingly incorporating that performance into how they make investment decisions and engage with company management.

Collective commitments like the Financial Stability Board’s Task Force on Climate-related Financial Disclosures, with some $87 trillion in assets under management by signatory financial institutions, promises to spotlight climate risks in new ways and with new consequences. And then there are the United Nation’s 2030 Sustainable Development Goals (SDG) that call on companies and private capital to play a major role in helping society meet its biggest challenges – offering new business opportunity in the process.

Companies around the world have begun to tell their stories on how they are contributing to achieving the SDGs, as are capital holders like pension funds and even private equity houses.

All of this creates a messy period of “capitalist social activism” with the potential for inflated rhetoric and missteps, but also new hope and potential value.

Given all of this, what are the implications for the board?

Boards must guide management to frame an agenda for the company to meet its most critical challenges. And that agenda should include consideration of how the company will shape its future environment, including its contribution to meeting society’s most critical challenges. And yet, few boards (or management teams) are fully prepared to engage in such an expansive and consequential agenda for the good of the company and the good of society.

This should not be surprising. Most corporate directors of the past have spent their careers under the
microscope of financial metrics and were rewarded for increasing shareholder returns, with other stakeholder interests considered only as they impact returns or impinge on the company’s rights to operate. For example, boards gave little thought to how government could respond to the social issues created by shifting production overseas and displacing large numbers of workers. As expectations grew for corporate social responsibility and sustainability, those functions were positioned alongside, if not outside, the core of the business with a bias to compliance and mitigating risk.

Companies, capital and markets were aligned to doing their part with the belief that doing things that made companies competitive and shareholders better off would deliver shared prosperity and stronger societies.

Now several decades on, most of us realize that our perspective was flawed.

Today we are suffering the unintended social consequences of taking too narrow a perspective about the connections and accountability between the private sector, public sector, social sector and capital. Yet few boardrooms have developed the skills or agenda to think across those sectors and press management for business models that better deliver both positive shareholder returns and better societal benefits.

But that is exactly what our times require – boards that help management build great companies that are great stocks and create great societal benefits. This new paradigm must be top of mind for a good board and particularly a board chair.

So how can the board effectively wrestle with this bigger agenda? Engage the CEO on these five questions:

- How can our corporate strategy simultaneously deliver on shareholder returns, strengthen the company for the longer term, and create additional value to society that brings new opportunities and rewards to the company?

- What difference is our company making to the sustainable development goals

- What are the three biggest societal challenges in each key geography that puts our company’s business at risk; that our company could impact through our core business? How do our strategies in those geographies incorporate those societal risks and opportunities?

- How are our largest institutional investors assessing the company’s performance on what they regard as material ESG metrics? How are we assessing our performance and the rate that we are improving? Are we effectively communicating that performance?

- What are we doing to assure that investors, governments and other stakeholders fully recognize the positive societal value that we are creating? How has that translated into a premium in share price, market position, margins, or expanded our rights to operate, improved the loyalty of our customer base, or positioned us better with government?
While the above will certainly challenge the board and management, it promises to open up new insight about the business and its potential. In the process, the board can help guide the CEO to make the calls that will build a great company, a great stock, and great societal impact.

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Date Created
December 13, 2018

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