**<u>REMARKS TO CAMARCO DINNER AT THE CALEDONIAN CLUB, LONDON, JAN 23RD 2020 – DAVID GRAYSON - Now is not the time for half-measures.</u>**

"Society increasingly is turning to the private sector and asking that companies respond to broader societal challenges. Indeed, the public expectations of your company have never been greater. Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate."

If they were my words, you could be forgiven for dismissing them as the theories of an obscure Professor of Corporate Responsibility.

They are not my words – although I heartily endorse them. They are Larry Fink's. The founder and CEO of BlackRock – the biggest institutional investor in the world with $7 trillion – trillion with a T – under management.

Since 2012, Larry Fink has written a series of increasingly urgent annual letters to global CEOs. In the past, critics have suggested that Fink should post his letter to his own employees, since despite the exhortations to boards and SMTs to concentrate on the long-term, BlackRock managers still pushed for short-term returns. Perhaps implicitly recognising those criticisms, Fink this January talks a lot about what BlackRock themselves are now doing. In his latest letter released last Tuesday. He asks that companies in which BlackRock invests, should produce sustainability and climate-related risk disclosures against specified international frameworks and warns:

> "Given the groundwork we have already laid engaging on disclosure, and the growing investment risks surrounding sustainability, we will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them."

And, of course, this is not an isolated development. I am watching with interest, what happens with the proposed motion for the Barclays AGM in

May, asking the bank to phase out its financing of fossil fuel companies that are active agents in driving the climate crisis.

This landmark resolution – the first climate change resolution filed at a European bank – requests that Barclays publishes a plan to gradually stop the provision of financial services (including project finance, corporate finance, and underwriting) to companies in the energy sector, and to gas and electric utilities that are not aligned with the goals of the Paris climate agreement.

Anyone who has children or grandchildren or godchildren, in their teens or twenties, won't be surprised by what I have said so far. You can take potshots at who might be "manipulating" Greta Thunberg, but the point I would make is that she is your employee, your customer, your owner, maybe your regulator or even your nemesis, in just a few short years.

Personally, I did not expect to see the day when I would be more inspired BY, and more in empathy with, a 17 year-old Swedish school-girl than a President of the USA.

**RESETTING CAPAITALISM**

A few years ago, the Doughty Corporate Responsibility Centre at Cranfield School of Management that I was then running, did a mapping exercise on initiatives to renew capitalism. We stopped when we got to 130! What struck me was that these were not projects by old-fashioned Trots and Marxists to overthrow capitalism. We were looking at serious initiatives from the likes of the global managing-partner of McKinsey and from CEOs of some of the world's largest companies.

I've been a regular reader of the Financial Times for more than thirty years. I am struck by the growing coverage in the paper about business purpose and indeed the very basis of capitalism. Last Autumn, they launched a campaign to – in their words – "Reset Capitalism."

As Lionel Barber, who stood down last week after 14 years as FT editor, observes:

> "The liberal capitalist model has delivered peace, prosperity and technological progress for the past 50 years, dramatically reducing poverty and raising living standards throughout the world.

> But, in the decade since the global financial crisis, the model has come under strain, particularly the focus on maximising profits and shareholder value. These principles of good business are necessary but not sufficient.
>
> The long-term health of free enterprise capitalism will depend on delivering profit with purpose. Companies will come to understand that this combination serves their self-interest as well as their customers and employees. Without change, the prescription risks being far more painful.
>
> Free enterprise capitalism has shown a remarkable capacity to reinvent itself. At times, as the historian and politician Thomas Babington Macaulay wisely noted, it is necessary to reform in order to preserve. Today, the world has reached that moment. It is time for a reset."

Again, I strongly agree. Alongside the systemic risks to the financial system from Climate Change, we need to understand the systemic risks to the financial system from hyper global inequalities.

This week in Davos, the World Economic Forum launched its 2020 Davos Manifesto emphasising Stakeholder Capitalism. Some say it bears a remarkable resemblance to the 1973 Davos Manifesto which also focused on stakeholder capitalism.

Now, again, you can criticise the sense of entitlement and self-reverentialism that "Davos Man" – sadly yes still too much Davos **Man** – often exudes, but that again I think misses the crucial point.
Influential business leaders are increasingly recognising *Business as Usual* is not an option. Nor is incremental improvement sufficient.

I have had the privilege of helping to lead three of the Prince of Wales's charities. Yesterday, in his speech in Davos, HRH added his voice to those emphasising the need to move to Sustainable Markets. He called for nothing less than a "paradigm shift" and " action at revolutionary levels and pace."

Again, I share the sense of urgency.

**ALL IN**

This is the context in which I wrote All In – The Future of Business Leadership – together with two Canadian colleagues. Our message is straightforward. Businesses can no longer be hesitant or half-hearted about sustainability. They have to go *All In.*

We believe that All In businesses have five key, interlinking attributes:

1. They have a **Purpose:** an inspiring, authentic explanation of how the business creates value for itself and for society. Personally I like the definition of the Purpose of the Corporation Project of the British Academy which defines Purpose as finding profitable solutions to the problems of people and planet, and not to profit from doing harm.
2. They have a comprehensive **Plan:** covering all aspects of the business and increasingly for their value-chain, which minimises negative Social, Environmental & Economic (SEE) impacts; and aims to maximise positive SEE impacts.
3. They have a sustainable **Culture:** one that is innovative, engaging, and empowering, open and transparent, and ethical/responsible.
4. They emphasise **Collaboration**. They have the skill and the will to partner with a range of other organisations: other businesses, NGOs, social enterprises, public sector agencies, academia, etc. to drive sustainability at speed and scale.
5. And finally, **Advocacy.** All In businesses speak up and speak out for social justice and sustainable development.

Crucially today, leadership requires all five attributes. So, for example, Advocacy is only credible and effective if it builds on the other four attributes and so on.

Now, Ginny said: "Keep it very practical! Explain what people can do!"

Well, I started my working life in brand-management in Procter & Gamble, so I never miss a marketing opportunity! You can start by reading All In, which thanks to Camarco, you have a copy of. It is a very practical book – it is not academic. It tells the stories of companies that are trying to go All In like Unilever and Patagonia and Ikea. It is based on interviews with CEOs and Chairs and FDs and Chief Sustainability Officers. Hopefully, you will recommend it to your colleagues. At the risk of seriously upsetting our publisher, I can tell you that you can go to www.AllInBook.net and download for free, the Introduction to the book, which summarises our framework.

Meantime, what actions can boards take now to turn their sustainability aspirations into actions? The Corporate Governance Centre at INSEAD have narrowed this down to six action points, which I am happy to endorse:

1. Revisit company statements of purpose.
• What does value creation mean to your company?
• Is there a comprehensive view of how the world is changing—not least in regard to climate change — and the role your organisation plays in that changing world?
• How is your company creating societal progress and does your corporate culture effectively support this?
• Is this consistent with contemporary sustainability demands and principles?
• Is it aligned with the SDGs?

2. Arrange a meeting of the entire board with the sole purpose of discussing what sustainability means to the organisation. Compare leading edge sustainability practices with your own and leave ample time to address in-depth the:
• risks and opportunities into the medium- and long-term.
• gaps between current sustainability performance and where the organization needs to be.
• the strategies already in place for getting there, and those identified for future development.
• board sustainability priorities for attention in the short- medium- and long-term, noting where they intersect with the board's understanding of company purpose.

3. Audit board member sustainability expertise and mindset. Evaluate the level of understanding and mindset on sustainability within the board.
• Is it adequate to embed sustainability thinking into board processes, risk management and investment decisions such as M&A and innovation?
• To what extent does the board need to prioritise recruitment of new members and any specialist expertise required?
• Does board membership need to evolve to better reflect its sustainability priorities?

4. Evaluate adequacy of sustainability information provided to the board.

• How do organisation sustainability goals translate into metrics?
• What information is currently reported?
• What further information is required?
• Does your board have benchmark data on its performance and that of competitors?
• Are the right KPIs in place for management?
• Are they part of an overall dashboard, integrating sustainability metrics with other firm performance metrics?
• Are additional resources needed to better understand or investigate data on your firm's sustainability performance?

5. Organise the board to ensure board oversight on sustainability is effectively managed.
• Which board committees should engage in detail on sustainability?
• Should there be a sustainability committee and how will its deliberations be brought to the main board?
• Would an independent expert panel help to challenge board actions and progress?

6.Explore how the firm engages with, and learns from, its critics — NGOs and others. Does the board need to hear from them independently?

Boards have a crucial role to play and I think these INSEAD action points are practical and sound.

There are specific issues of course: are you paying the Living Wage? Addressing in-work poverty? Tackling gender pay ratios and overall compensation ratios? Giving employees a stake in the business? Adopting a responsible tax strategy? Ensuring that the trade associations you are members of, have consistent positions on issues like the Paris Climate Agreement? Do we have a Code of Ethics & Business Principles? Do we train on these and regularly reinforce them and have a "Speak Up" culture?

**CONCLUSION**

This year's Edelman Trust Barometer also published last week, has a stark statistic: across the world, 56% agree with the statement
"Capitalism as it exists today **does more harm than good in the world."**

And across the world only 18% think "the system is working for me."

That’s why Trump, why Brexit, why populism across the world is on the rise.

Like Lionel Barber I passionately believe in the entrepreneurial spirit; in the moral as well as the practical worth of business; in the potential of business to be a positive force in the world.

BUT – we have to prove and keep on proving that business is worthy of its licence from society to operate.

In the era of the Naked Corporation where everything is ultimately for the record, business had better be buff. And, in this context, being buff means business being responsible, ethical and being All In for Sustainabilty. As HRH The Prince of Wales said in Davos this week:
“We need a paradigm shift!”

Now is not the time for half-measures.

*David Grayson CBE is Emeritus Professor of Corporate Responsibility at Cranfield School of Management and Chair of the Institute of Business Ethics.*