

Global Agenda Council on the Role of Business Defining the New Business Covenant

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Business does not exist within a vacuum. The long-term success of companies is increasingly and inextricably entwined with the well-being of people, the prosperity of society and the healthy state of our planet. The impact of companies on society and our planet has increased enormously over the last decades – so too have companies' responsibilities.

At a time when the world is experiencing momentous changes, we, the World Economic Forum's Global Agenda Council on the Role of Business, believe that there is an urgent need for business to rethink how it interacts with society and that there is an enormous opportunity for it to play an active leadership role in building a better world. The major challenges of our time – from food security to climate change – can only be addressed when companies work together with governments, academia and non-governmental organizations, among others. Companies must be driven by stakeholder value, not simply by short-term shareholder value. By broadening its approach to value creation in a way that serves society and bottom lines, business can demonstrate its commitment to responsible global citizenship.¹

This paper seeks to define the new covenant of business in today's world and offers a range of concrete actions that can renew business's license to operate.² We welcome businesses to subscribe to the basic thoughts presented here and to implement several of the enclosed recommendations.

The turmoil in today's world has generated greater scrutiny of business and sometimes even scepticism about whether companies benefit society. That is why the behaviour of business, including its potential to lead in tackling some of the world's toughest problems, must be grounded in a redefined contract – a social contract, or better, a social covenant. This provides a great opportunity for businesses to contribute to further improve the state of the world. Just as a covenant implies a wholehearted commitment, more than just legal compliance, our vision of business's role in society includes both rights and responsibilities. These rights might include the freedom to make a profit, to be taxed fairly, to be regulated as efficiently as possible, and to trade and make contracts freely.

Responsibilities, which are basically instilled in ethics more so than legislation, might include honest and transparent behaviour and a focus on sustainable long-term wealth creation rather than short-term profit maximization. They include a commitment to measure the full financial, social and environmental benefits and costs of its actions, and to avoid decisions that increase financial profits but leave society as a whole worse off. And they reflect a readiness to be an enthusiastic and constructive partner with governments and civil society in tackling the world's challenges. In practice, we expect that many of these partnerships would be win-wins over the long run by creating shared value for society, the planet and business. In other words, these three pillars – people, planet and profit – are essential to create value for all stakeholders, such as customers, employees, shareholders and the society at large. All of this goes together with transparent communication and recognized responsible behaviour of businesses.

¹ Schwab, Klaus, Global Corporate Citizenship. In Foreign Affairs, 2008, Volume 87, No. 1.

² This paper was developed from a series of discussions among Members of the Global Agenda Council on Role of Business and does not necessarily represent the views of all individual Members. These proposals, as well as a broader set of recommendations, are described in greater detail in the full version of the white paper prepared by the Council: <http://gacreport.weforum.org/network-global-agenda-councils-2010-2011/#view/councils/role-of-business>.

Defining the Challenge

The core challenge for business in today's world is to generate value for all stakeholders, while safeguarding the societal ecosystems in which it operates, for current and future generations. How can this challenge be met? How can business leaders balance shareholder demands with the longer term need to respect its covenant with employees, customers and communities around the world? How can businesses lead in creating cultures of shared values? How can we introduce financial structures that reward long-term planning over short-term profits?



Mobilizing Partners

The business's social covenant involves a much wider set of constituencies than simply shareholders. The stakeholder groups that can influence business strategies and actions include:

- Corporate boards and chief executive officers
- Customers
- Employees
- Governments and regulators
- Industries
- Investors, owners and shareholders
- NGOs
- Scientific and research communities
- Societies
- Suppliers

What specific changes by each of these groups would improve alignment between business activity and long-term value creation across diverse ecosystems? The Global Agenda Council on the Role of Business issues a request for submissions of concrete proposals that would entice businesses to become more responsible agents within their specific contexts.

Outlining the Strategy

The components of the new covenant for business are grouped into five main areas: sustainable long-term wealth creation; transparency; leadership and corporate governance; responsibilities of investors; and creation of shared value through partnerships. Not every Council Member necessarily supports every intervention. Instead, this list aims to highlight some of the most provocative and promising strategies to make the new social covenant of business operational. We welcome business leaders to embrace the basic thought of this memorandum and to use the suggested strategies to make this more tangible.

Sustainable Long-term Wealth Creation

- Build explicit and meaningful value considerations for all involved stakeholders into the corporate strategy, company mission, employee inductions and senior management promotion.
- Clarify and delineate responsibilities of boards to focus on long-term corporate value creation for all stakeholders, and provide them a specific mandate to ensure that companies' broader societal impacts are part of their governance oversight responsibilities.
- Incorporate specific metrics of sustainability into corporate strategies.
- Increase incentives and "loyalty dividends" for widely held corporations to focus on long-term, responsible goals and value creation.
- Recognize the value of a diverse range of ownership structures – from cooperatives to companies owned by families, private equity or the state – that offer alternative models to balancing short- and long-term interests.



Transparency

- Measure the full externalities of corporate operations in terms of environmental, social and governance factors, both short- and long-term.
- Adopt tools for monitoring, reporting and verifying a broader range of corporate information.
- Integrate these externalities into corporate reporting (and balance sheets) that define both financial and non-financial matters to the greatest extent possible.
- Assume as the norm the disclosure of environmental, social, and governance performance and impacts; if not provided, encourage companies to explain why not.
- Improve environmental footprints, like energy efficiency and lower carbon emissions within the industrial and manufacturing sectors, and increase transparency about these efforts.
- Develop global standards on product transparency to allow consumers to compare and make deliberate choices.

Leadership and Corporate Governance

- Encourage managers, chief executive officers and executive boards to discuss sustainability and long-term social impact with boards, shareholders, customers, employees and even society at large.
- Address the particular role boards have to play in identifying and reducing risks created by the company to the societal ecosystems in which it operates. This is particularly true with new products or services that are operating on physical or technological frontiers, where existing regulations may not reflect new realities.
- Recognize employees' emotional stake in corporate operations and shift institutional logic to develop the leadership potential of these individuals.
- Compensate executives in ways that reward long-term value creation and broader value impact for all stakeholders.
- Recognize that companies exist by the commitment of their customers and that this commitment is often based on long-term-expectations

Investor Responsibilities

- Recognize the interests of owners, shareholders and investors putting their money and commitment to enterprises, but with an emphasis on long-term and sustainable wealth creation.
- Reward shareholders who hold their stakes in the company for extended periods of time.
- Redefine fiduciary duties of long-term owners, such as institutional investors and sovereign funds, to maximize long-term value creation.
- Review public pension funds' role as investors, particularly regarding alternative investment strategies and short-selling.
- Ensure that regulatory, tax and accounting systems encourage rather than penalize long-term investing.

Creation of Shared Value through Partnerships

- Cultivate leaders who are comfortable working across the private sector, government, academia, NGOs and civil society.
- Encourage business leadership in solving social challenges and playing a constructive role in developing policy.
- Increase the range of public-private partnership models to ensure the problem-solving capabilities of business are aligned to focus on social challenges.
- Stimulate and coordinate investments by governments, development banks, international foundations and NGOs to support early-stage social and environmental innovation.

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