

Adapting is unique to people, and therefore to companies ...



Different perspectives on the evolution of a company's positioning and its necessary adaptation for its corporate image

UK Market focus

Our societies are in the throes of change, the level of expectation of its transformation has never been higher. There are plenty of reasons for this... instantaneous and permanent information in all four corners of the world, growing inequalities, digitalisation which changes the proximity of things, where the individual is strengthened, even sublimated. At the same time, it groups together by community to better make its differences and expectations heard.

People as individuals, in all of this are at the heart of everything, and at the same time the sole architects of change. They must take a stand to change the established, invent a future, invent a new society, and their own role within it.

The leader especially, must be all of this within their company, which is made up of a "tribe", connected to various communities, within an ecosystem, itself highly interconnected.

We are living in a tremendous time of change and transformation, which of course is not a long quiet river.

For the company, the inclusion of each of the stakeholders becomes first an objective, then gradually an end. Only the contribution to the whole, will allow stability and sustainable development of the company and transformation must be implemented systematically.

In this, we must continue to adapt, to change, to transform.

Where are we today?

1. The subject of "Purpose"

The concept and status of **Community Interest Companies (CIC)** was introduced in 2005 in the UK.

In 2006 the **B-Corporation** certification, born in USA, has started globally.

Certified B Corps are a new kind of business that balances both purpose and profit. They are legally required to consider the impact of their decisions on their workers, customers, suppliers, community, and the environment. B Corp certification guarantees that a business is measuring its environmental and social impact and B Corps commit to transparency by publishing their score online.

In July 2015, the first UK company certified B Corp was **One** (water). Today we have over 400 UK companies certified, a significant increase.

France, May 2019, the **"Pacte" law** is formalized and introduces the notion of the company's social interest, with nearly one hundred so far, which have adopted such a status.

Washington, August 2019, **Business Roundtable**, 181 CEOs sign and commit to delivering value to all company stakeholders and no longer be body and soul, turned only to the shareholder.

The notion of Purpose is becoming generalised, internal teams often do a remarkable job of analysis within the company, to understand who they are, what they bring, how they contribute. To be able to focus on the essentials and update their "DNA", amplify the company's project and organise themselves to deliver it.

How leaders build the corporate footprint



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To date, many companies are in this transformation. We would have many examples of companies, which have reinvented their status, revisited their strategy for a purpose alignment, or the opposite, which is a good sign.

Unilever is very active and uses the brand portfolio to transform the overall corporate positioning and impacts. By the way, Unilever is a good illustration of 'corporate branding dynamics'. They have 8 brands already B-Corp certified (Ben & Jerry's, T2...). Some others are very engaged and recognised like Dove, for inclusion and diversity.

We have also, companies like Tesco, who have illustrated their care for wellbeing (employees and customers) during the 2020 pandemic.

Traditional & industrial business are aligned on this move, even though it could be difficult on some aspects. Rolls-Royce is a good example, with sustainable engagement, or Mace in the construction industry.

Anglian Water has announced in July 2019 a fundamental change to its Articles of Association. Legally and formally enshrining public interest within the constitutional make up of the business.

There are also many SMEs/SMBs, very recent companies, even start-ups, a new generation of "company 2.0", which from the beginning are directly involved & community oriented (Deliveroo is a good example, Ocado in Retail, Innocent or Brew-Dog in the Food-Beverage arena and Urban Volt in Energy, as well as Bridges Fund Management in investment)

It's invigorating to see that a large part of them, are representative of this second category of start-ups and SMEs / SMBs, which stimulates traditional big players to change.

2. New Concept of « Purpose leadership »

A committed company is led first and foremost through its people.

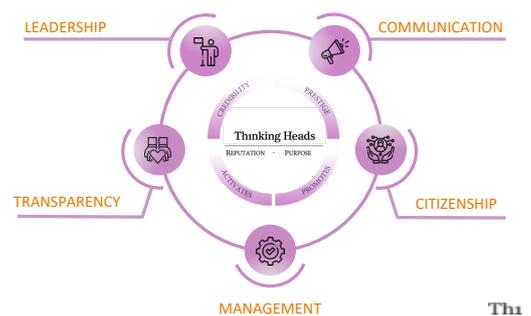
A leader who embodies purpose with their voice, commitments and those of the company, brings a vision, which is shared internally and externally.

We often speak of "**thought leadership**", public speaking and exhibiting the leader's position externally. In fact, Edelman in his latest "Trust Barometer 2021" measures that 86% of CEOs are expected to speak publicly on one or more of the societal challenges.

Internally, the CEO anchors his vision within his management committee, which appropriates it to integrate this vision into the strategic and operational management of the company.

The role of managers is crucial to articulate and disseminate it within the operational teams, which are the most valuable relays for the company to deliver the value expected by its various stakeholders. Everyone has a role to play and must be a committed actor.

The leadership qualities of company leaders are measured, and significantly influence the leadership of the company and with a ricochet effect, on the entire ecosystem. (ie: Leadership Purpose Strategy (LPS) model, Thinking Heads)



Transformation requires changing habits, finding new resources, new batons to pass, which often lie at the heart of teams. This is the concept of "Liberated Enterprise" & "Leadership Without Ego" so dear to Isaac Getz and quite widely shared today.

One of the hardest challenges for these companies is internal transformation, which clearly involves all of its employees.

HRs are extremely focused on aspects of transformation in order to capitalize on the company strengths and attract new talents. This is obviously one of the pillars of the employer's brand and one of the facets of the corporate image. The goal is achieved when employees become ambassadors for the company, embody the values of the company and naturally deliver this famous *raison d'être*.

We are finally going to talk about the DNA of the company, and what it really is. This is one of the most important differentiators.

3. Understanding the positioning of the company, its image, its reputation... This is more than necessary to successfully transform and adapt.

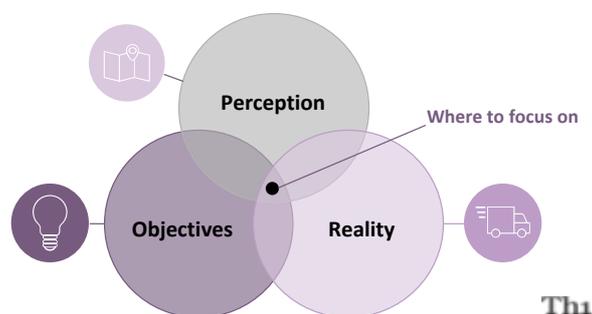
Large companies are equipped with a multitude of tools for measurement, reporting, barometers... They measure the satisfaction of their customers, their employees and their shareholders. They try to stay in control of digital communication tools, to moderate, to inform or even to counter-inform, (see fake news).

It is generally agreed that companies are crumbling under excessive data, which ultimately does not help them achieve a unified vision, allow executives to make decisions, or monitor the effectiveness of policies they have implemented. In particular, these policies often impact issues of image, purpose and leadership, and therefore define the positioning of the company in its corporate dimension.

The corporate image is a very broad concept, which integrates all facets of the business and all of its stakeholders. So, it's an approach that requires analysing and monitoring different things, which is not the prerogative of a single tool, nor of a single model.

The corporate image requires a 360 ° view, which must integrate:

- **Its objectives** versus societal expectations,
- **The way it is perceived** by its ecosystem,
- **Its reality**, what is said, how its actions are measured.



4. Which indicators? On what should we focus?

There is an infinite variety of possible indicators, depending on what you want to measure, what you want to say, what you want to demonstrate. The relationship between numbers and daily life is endless. Each department of the company has its own dashboard or barometer.

As already mentioned, in this period of transformation, our humanist societies are demanding more transparency, more truth and more commitment.

It seems that we have on this ground, a materialisation of the transformation that is taking place within companies to meet this societal expectation and this need for adaptation.

We have financial and extra-financial reports, which are more and more developed. We previously had the annual report, then the CSR report, then the integrated report, the reference document which becomes the Universal Registration Document - URD, (the integration of the concept of digital reporting, the constant live stream of information that never becomes obsolete).

A recent and extremely promising approach to unify all the concepts previously developed and to measure the real impact of the company is the emergence of ESG (**Environmental, Social & Governance**) indicators.

In the world of metrics, two types of indicators can be distinguished: **objective indicators** obtained by observing procedures and **subjective indicators** resulting from human judgment. Both are necessary and complementary:

- **Objective indicators** are factual and can be compared objectively and therefore serve to ensure that certain real ESG performance is achieved by the company, for example ESG indicators from Thomson Reuters (among others).
- **Subjective indicators** or perceptions identify the extent to which stakeholders recognise that these social, environmental and governance standards are respected.

The viability of the business depends on supporting behaviours such as buying, investing, recommendation, etc. However, these behaviours are not random but depend on the attitudes and opinions, which have been formed by the stakeholders towards them.

Stakeholders are more important than shareholders for the long-term success of the company
(Sources Edelman 87%)



Some, like John Lewis, run well-recognised initiatives that ensure that employees' voices are heard on a regular basis. They have put more than 60% of their shares in their employees' hands. Obviously, it has a direct impact on the way such companies are operating as a group (ie *John Lewis & Waitrose*).

5. ESG_ A new extra-financial rating, which is evolving into a great tool for measuring the company on all of its facets and contributions.

ESG standards allow companies around the world to identify, manage and communicate important extra-financial information on their sustainability, to the eyes of their various stakeholders.

We are talking about a set of standards for a company's operations, which socially conscious investors use to screen potential investments.

- **Environmental criteria** take into account the way in which a company acts as a steward of nature.
- **Social criteria** examine how it manages relationships with employees, suppliers, customers and the communities in which it operates.
- **Governance** concerns the type of management of the company, its ethical behaviour, its transparency, executive compensation, audits, internal controls and shareholders' rights.

To date, there is a wide variety of ESG indicators, which are not yet unified. The United Nations has developed the Sustainable Development Goals (17 SDGs), The Sustainability Accounting Standards Board (SASB), its 26 Indicators and many other bodies also follow the list.

If ESG indicators become, for informed investors, a tool to select companies in which to invest in a sustainable and perennial way, they become de facto, a relevant tool in order to assess oneself, differentiate oneself and communicate to display one's values. In a concrete, real way and not just in a declarative way.

Larry Fink (CEO of BlackRock) in his 2021 letter to CEOs, urges them to publish their extra-financial reports using these ESG indicators, including SASB. He notes in particular a tremendous progression during the year 2020 (363%) as more than 1,700 companies that have done it in detail.

He observes companies as they become aware and become actors in this global and virtuous transformation, where climatic and human subjects become a marker.

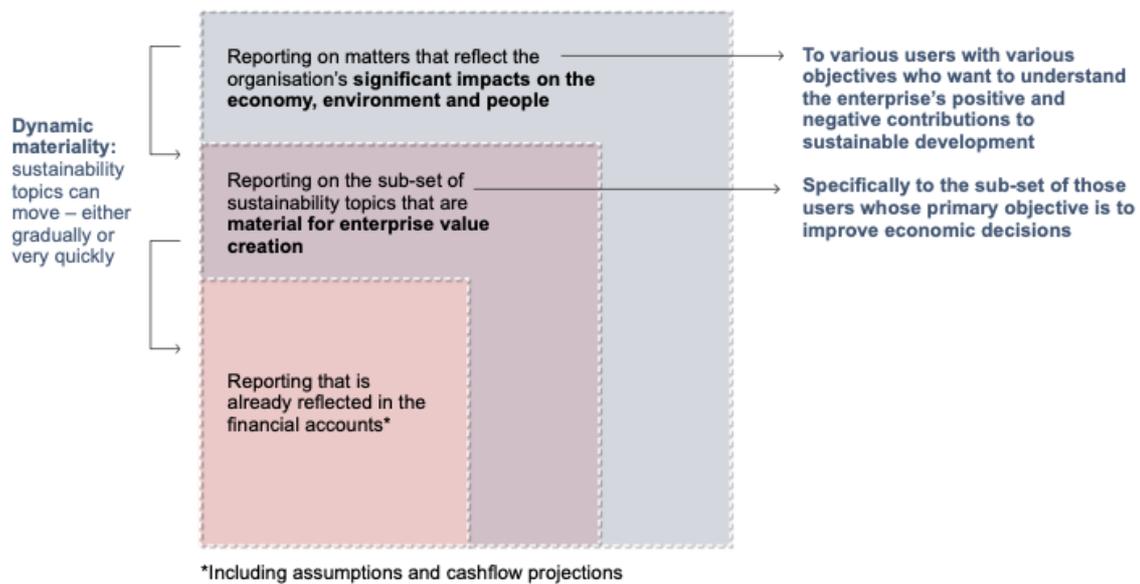
Among other things, he confirmed his optimism about the future of capitalism and the future health of the economy - not despite the energy transition, but because of it.

ESG indicators will therefore allow companies to be objective, to measure what they are doing and to have key comparison indicators.

They therefore complement all financial standards as part of their usual publications and fit easily into materiality studies, which will expand the subject.

The diagram below also demonstrates that materiality is a dynamic concept, in an ecosystem that changes via the impacts of the organisation on the economy, the environment and people.

Figure 1. Dynamic materiality¹¹



Likewise, some of these sustainability themes may also become important elements for the creation of enterprise value, either gradually or rapidly as with human capital topics such as racial equity and, more recently, the Covid-19 pandemic.

Conclusion

We can now establish the link between business performance and the virtuous positioning of the company, as seen above on its purpose, mission and leadership. We will also be able, if we integrate all these elements and especially if we use these ESG criteria and indicators, to demonstrate the reality of the company, which is becoming a big step.

Image, reputation, materiality studies, so many different subjects that contribute to a global vision of the company.

It is more than necessary to make this 360 ° view of the corporate image through the prisms of Objectives/Perceptions/Realities, which must be crossed with the expectations of the business ecosystem.

ESG indicators will ultimately represent this DNA of the company by objectifying its contribution.

Any business strategy is based on 3 axis:

- Having a strong value proposition,
- To be Innovative,
- To differentiate

As mentioned by McKinsey: *“When leaders actively seek to embed purpose throughout their organizations, ESG feels less like a cost of doing business and more like a source of competitive advantage”.*

They propose to embed Purpose and ESG indicators as part of the Strategic planning, for a better appropriation across the company and its operation.

To embed purpose in your company and deliver value, follow the 5Ps.

1 Portfolio strategy and products

- Redefine product portfolio—eg, withdraw some products, introduce new products
- Revise pricing in line with purpose
- Review portfolio and test purposefulness of individual assets against common criteria



2 People and culture

- Align recruiting, people development, and career pathways to enable purpose
- Define purpose KPIs and hold employees accountable/give them incentives to meet targets
- Articulate and role-model desired individual mindsets and behaviors linked to purpose



3 Processes and systems

- Adapt operational processes to meet purpose-related targets
- Ensure supplier behaviors are in line with purpose



4 Performance metrics

- Set performance targets and metrics in line with purpose
- Introduce capital-allocation metrics in line with purpose for decisions (eg, capital expenditures, M&A)



5 Positions and engagements

- Tailor external engagement and communications to purpose
- Revise external positions in line with purpose
- Align affiliations (eg, trade-association membership) with purpose

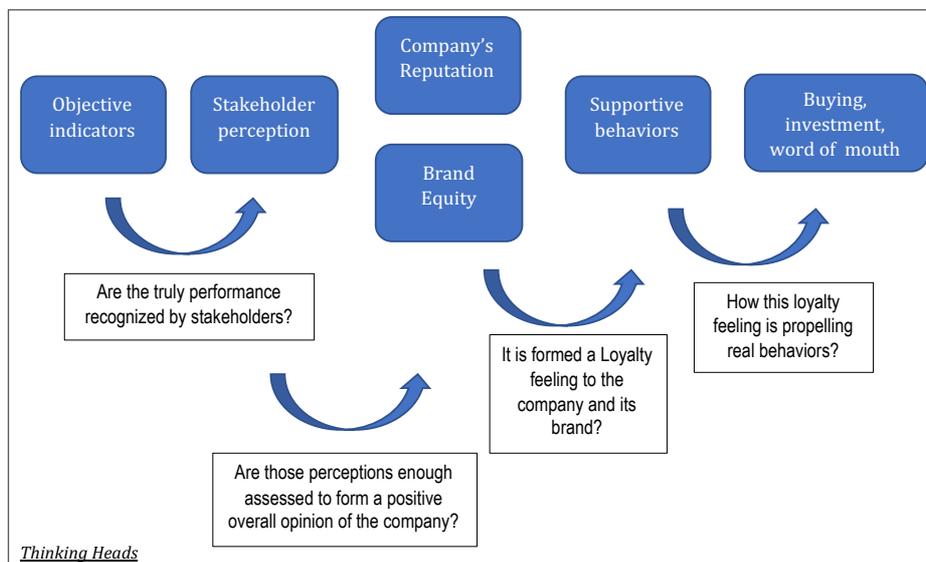


McKinsey - November 2020: "More than a mission statement: How the 5Ps embed purpose to deliver value"

Today, it can be said quite bluntly, that a company that has an established and efficient product or service must base its reputation and its attractiveness on all the other facets of the company.

It is therefore the corporate identity that prevails vis-à-vis all of its stakeholders, for the purposes of differentiation and membership (other than the product / service itself and the innovation induced).

Obviously, each new emerging subject generates its share of "washing", but through a 360 ° approach to the Corporate image, including these ESG elements, the company will be able to gain transparency, be more concrete, better understood via more channelled communication.



Thinking Heads

As mentioned, we live in a fascinating period, in constant evolution.

Looking closely at what is happening within companies belonging to sectors of activity that are rather unloved in terms of reputation, it becomes enlightening to witness the transformation taking place:

- Big Financial & Banking institutions are revisiting their investment portfolio, for the carbon emissions alignment to the Paris Agreement and goal of net zero by 2050 or sooner, (*ie*: HSBC...) They want to become net zero in their operations and their supply chain by 2030 and to accelerate renewable energy financing.

Transforming its behaviour only internally on societal aspects (inclusion, diversity, employee well-being) without attacking the very nature of its business, would have been unproductive and completely artificial.

We have seen in recent years, much more focus from funds, to invest in a more virtuous economy. They are driven by other metrics than just short-term profitability. (*ie*: Bridges Fund Management as already mentioned, but also Nutmeg, Royal London Sustainable world Fund, SLI UK Ethical Fund, Impax Environmental Markets Investment Trust...).

- Major traditional Energy players are also transforming the way they operate to reduce drastically their carbon impact on their operations. They are investing in their product portfolio, to reinforce and better balance fossil energy with more responsible energy (developing electricity, gas, solar... and for few, alternative or at least renewable energies). At the size of BP in UK, but also Shell or Total, we are talking about tens of billions of dollars per year as structural investments. They are in the same race for differentiation and transformation.

Let us never forget that transformation is never fast enough for some, and too brutal for others.

You have to adapt, those who have not yet started in earnest will certainly have to work extra hard. It's all a matter of time, except that in our modern and competitive worlds, good timing is key, let alone on climate issues.

Let's be realistic and pragmatic, the end of all this is clearly business.

Have a sustainable development of the company, where we put humanity in the broad sense, at the heart of the device to give meaning to their action, to each, which will "ultimately" protect their business for the good of the whole, and therefore of its stakeholders.

References and exchanges that fed these reflections ...

*Years of discussions with major economic players in UK and France in particular,
Meetings with investment funds, in particular those focused on responsible investments (UK & FR)
Numerous publications on the theme of Purpose, the raison d'être and internal initiatives of companies.*

- *The British Academy publications ("Measuring Purpose – An Integrated Framework"; "Shareholderism versus Stakeholderism"; "The Future of the Corporation and the Economics of Purpose" ...)*
- *Colin Mayer, University of Oxford, CEPR and ECGI (so various inspiring publications)*

- Isaac Getz, Author of "The liberated company", "The Altruistic Company" co-written with Laurent Marbacher
- BSR Publications: ("Sustainability reporting & Materiality assessment" ...)
- Statement of Intent to Work Together Towards Comprehensive Corporate Reporting. Summary of alignment discussions among leading sustainability and integrated reporting organizations CDP, CDSB, GRI, IIRC and SASB. Facilitated by the Impact Management Project, World Economic Forum and Deloitte.
- McKinsey, November 2020: "More than a mission statement: How the 5Ps embed purpose to deliver value"

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Thinking Heads, we are a European consulting firm dedicated to help Corporates develop their global image and reputation, through strong and effective purpose leadership.
We are unique in our capabilities to aggregate models, to extend our analysis and get a 360° view of company positioning, leadership, image & reputation; through all perceptions and realities, using the ESG indicators as concrete proven facts.