

Corporate Reporting

Evidencing Contribution to Social Cohesion

26/06/18

This is the third paper in a series of three. It sets out evidence that supports the assertion that the companies that make a greater contribution to social cohesion (CoSH) achieve greater long-term monetary returns.

In these papers, the term “corporation” is shorthand for any formal organisation of people for the purpose of improvement in human prosperity. It includes incorporated entities, unincorporated entities, not-for-profit entities and government entities. The term “human prosperity” is used as shorthand for any term that describes positive human outcomes. It includes physical and mental wellbeing, quality of life, happiness, peace and flourishing.

Conscious Capitalism

Conscious Capitalism became a formal organisation in 2010, embodying a term that was coined by Muhammad Yunus in 1995 of the “socially conscious capitalist enterprise”.

The movement is based around corporations having a higher social purpose in four domains: embodying social purpose, adopting socially conscious culture, serving the interests of all its immediate stakeholders and leadership based on social awareness.



Raj Sisodia, the organisation’s founder, writes in his book *Conscious Capitalism* about his research on the financial consequence of businesses engaging with Conscious Capitalism. He identified 18 businesses that had Conscious Capital characteristics between 1996 and 2011. He compared their annualised fifteen year total return during that period with the return by the S&P 500 companies. He found that the Conscious Capital companies achieved an annualised return of 21%, compared with 6.5% for the S&P500 companies. This illustrates his assertion that Conscious Capital organisations outperform the stock markets by over three times. The number of organisations in the review are too small to draw any statistically valid conclusions. But they are significant enough to question the practice of compromising long-term objectives to accommodate short-term demands.

McKinsey Global Institute

The McKinsey Global Institute issued a discussion paper in 2017 called “[Measuring the Economic Impact of Short-Termism](#)”. They researched 615 large and mid capitalised US listed companies. They used a number of patterns to distinguish corporations that focus predominantly on short-term outcomes from corporations that have a longer-term perspective.

The chart on the right summarises their findings. In short, long-term corporations outperformed the short-term corporations in terms of earnings growth by 36% during the 11 year period from 2001-2014, which included the financial crash of 2007.

Short-termism is directly relevant to contribution to social cohesion. There are necessarily short-term costs of contributing to social cohesion. Responding to the needs of staff, for example,

McKinsey Global Institute	
Measure	Performance
Revenue growth	+47%
Earnings growth	+36%
Economic profit	+81%
Avg Market Capitalisation	+\$7bn
Avg growth in employees	+12,000
Annual contribution to GDP	+0.8%

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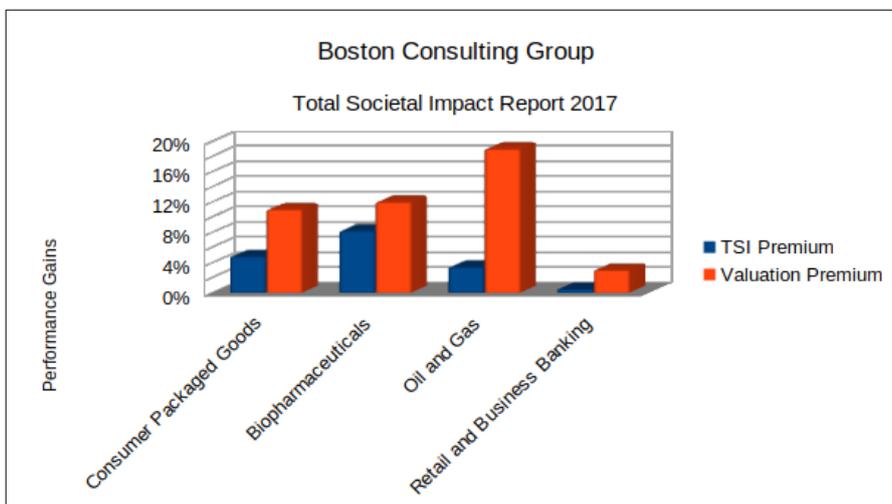
26/06/18

may increase staff costs in the short run. The challenge is assessing whether the associated longer-term gains will outweigh the shorter-term costs. The McKinsey report gives insight into the answer.

Boston Consulting Group

The Boston Consulting Group published a paper in 2017 called the [Total Societal Impact \(TSI\): A New Lens for Strategy](#). The researched 300 companies in five industries, which they based on interviews they carried out themselves, and metrics around environment, social and governance issues surveyed by two major research groups. They define TSI as the collective measurements of both the financial and societal impact of the entirety of a corporation's activities.

Their report specifies the areas as representing each industry-specific metrics. In general, the areas measured were based on areas that are currently the focus of management attention. This puts a higher weighting on sustainability and other preventative actions (such as health and safety, and environmental damage), and a lower weighting on affirmative actions (such as employee wellbeing, and contribution to societal trust).



Notes:

- The TSI Premium is the additional margin (as percentage of turnover) achieved by TSI-based organisations
- The Valuation Premium is the additional market valuation multiple achieved by TSI-based organisations.

The report found companies who make improving their total societal Impact a core component of their business strategy achieve both a TSI premium (which is the extra margin they can achieve) and a Valuation Multiple premium (reflected in a higher Price:Earnings ratio).

Global Consciousness Indicator

Richard Barrett, founder of the Barrett Values Centre, is a co-author of this series of papers. He has published a paper, the Global Consciousness Indicator, that searched human consciousness in 145 nations for patterns of human prosperity and wellbeing. He worked with 17 global indicators, such as the Life Satisfaction Index, the Yale Environmental Performance Index, Legatum Social Capital and the Global Peace Index. He mapped the indicators to his seven levels of consciousness, which is an expansion and extension of Maslow's hierarchy of needs. Level 1 for example, the lowest, relates to survival. Level 2 relates to safety, level 5 to social cohesion and level 7, the highest, to service to mankind.

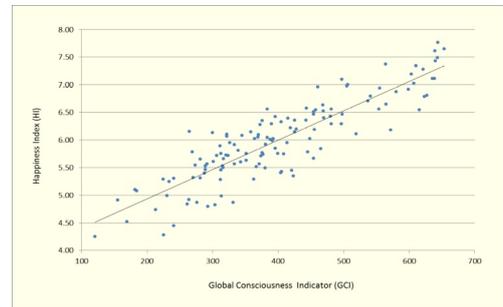
Corporate Reporting

Evidencing Contribution to Social Cohesion

26/06/18

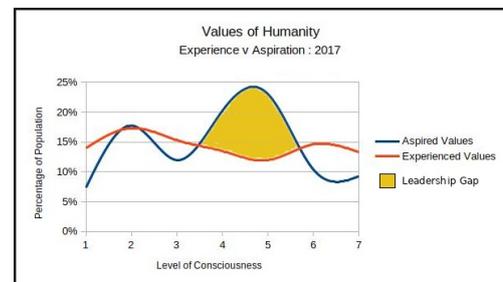
Understanding consciousness is significant because it gives insight into the cultural impact of people's perceptions of their experiences in life. And public consciousness of experience drives voting patterns. So an increase in safety fears in the "Values of Humanity" chart below (level 2 consciousness), may explain the recent attraction of populism in many countries.

Barrett ranked each country's score, in each of the levels of consciousness, and compared them with three different indicators of human prosperity: the [Happiness Index](#), the [Gap Frame](#), and the [KOF Index of Globalisztion](#). He found a correlation between consciousness and all these three indicators of human prosperity. For example, he found a moderate to strong correlation between the average level of consciousness and the happiness index, of 0.72.



His research provides good evidence that the quality of a nation's social cohesion is directly linked with the prosperity experienced by its citizens.

Barrett then compared each level of global consciousness with the results from a survey of the aspirations of 1/2 million people. The most compelling result is identified in the chart on the right. It plots the difference between people's aspirations and their experiences at each level of consciousness. The unexpected finding is the shortfall of peoples aspirations and experiences at levels 4 and 5. The peak deficit is at Level 5, corresponding to social cohesion. We call this shortfall the Leadership Gap.



The results show that people's aspirations for social cohesion are higher than any other level, but their experiences of it are lower than any other. The need for corporations to play their part in bridging the leadership gap has never been greater.

Conclusion

The results in this paper provide strong evidence to confirm two assertions:

- Corporations who contribute more to social cohesion achieve better financial outcomes for their shareholders.
- Citizens experience greater prosperity in nations with stronger social cohesion.

The findings are not yet conclusive, but they are becoming increasingly persuasive. There is no suggestion, for example, that a focus on contribution to social cohesion will compensate for poor management. But strong evidence is mounting for investors that a corporation's contribution to social cohesion is a significant factor in assessing the opportunities for its long-term profits. And the evidence is now very compelling for policy makers that social cohesion contributes to a nation's experience of prosperity.

Corporations that succeed in contributing to social cohesion are more likely to achieve better financial returns, and more likely to play an identifiable part in creating the environment for a stronger, more humanly prosperous society in the process.