Corporate Reporting

Contribution to Social Cohesion

This is the first paper in a series of three. It sets out the rationale and basis for accounting for corporate contribution to social cohesion (CoSH).

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.

The Role of Business in Society

Society is the place where people live and work together for mutual benefit. The goal of society is to deliver an output to its members of safety, material gain and the opportunity to prosper and thrive. It achieves its goal by structuring its people and resources for that purpose.

The role of corporations is to support achievement of society's goal by actively organising members and resources to deliver output. Individuals have a complementary role in achieving the goals through informal activity and interactions.

The better the viewpoint,
the clearer the view

Capitalism is a particular system of organisation that seeks to make efficient use of human and other resources. It delivers reward to organisations based on their contribution to output in line with the value of contribution as determined by society's members. In theory, capitalism favours organisations that deliver the best output for society with the least resources per unit of output. In practice, the system is only a partial success. Inherent weaknesses in the system skew resources. It favours the people who enjoy a disproportionate level of control over others with a greater share of output and an undue influence over the perceived value of individual units of output. The level of human prosperity achieved by society is profoundly undermined by inequality of opportunity.

Accounting for Society

Monetary GDP

The traditional measure of the success of an economy has been monetary Gross Domestic Product (GDP). The usefulness of monetary measures is severely limited. For example, the traditional measure of success reflects only those activities towards human prosperity that flow through the monetary system, of which there are many. It practice, the scope of human-impact activities included in GDP is relatively arbitrary. Examples of omitted or poorly measured activities include charity, child rearing and the costs of global warming. The deficiencies of GDP as a measure of success are compounded by many other inherent limitations in the way money is used to measure the value output.

It turns out that, despite it being the best we have, money is not a good measure of economic performance.

Human GDP

A parallel measure of the success of society is emerging. It uses a more human-centred assessment of success, which we refer to as "human prosperity". It is measured by reference to the human experience delivered by

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society, providing a counter-balance to some of monetary GDP's limitations. No universal term has yet emerged to refer to the outcomes. They are variously referred to as wellbeing, quality of life, happiness, human prosperity and flourishing. Similarly, no universal basis of measurement has yet emerged. But a number of significant and independently verifiable measures do exist in most countries and are rapidly maturing.

It is substantially more complicated to define and measure human experience of life than it is to define monetary outputs. It requires an understanding of human psychology, which is continually evolving. It is inevitable that the measure of human prosperity has a long way to go before it becomes a reliable, well understood, universal measure. Yet despite its limitations, it is clear that human prosperity needs to be part of any meaningful assessment of the success of society.

Accounting for Corporate Activity

There is a reasonably traceable link between a corporation's monetary results (turnover and profits, relative to net assets and capital) and monetary GDP.

It should be noted that monetary accounting is not a precise science. Measurement of a corporation's cash flows is fairly straight forward and precise. In the long-term, profits and cash flows are one and the same thing. However, assessment of short-term profits is heavily dependent on predicting unknowable future events. There are many different ways to account for uncertainty, which yields a wide range of valid reported profits year on year. Uncertainty about future events renders modern accounting both necessary and unreliable. Nevertheless, corporate turnover, profits and rate of return on capital are well established measures of an individual corporation's contribution to overall monetary GDP. We take its limitations on the chin, often in blissful ignorance.

Accounting for Contribution to Social Cohesion

In terms of human experience, there is no such linear link between individual corporate output and the human equivalent of GDP. A millennial may enjoy using Google or Facebook, for example, but it has little bearing to their long-term quality of life if they have just discovered they have an incurable illness.

This lack of individual corporate accountability is potentially a significant weakness in human-centred accounting. But there is a solution which arises from an understanding of the relationship between human and corporate activity.

As mentioned, the primary purpose of corporate activity is to deploy people and resources to further human prosperity. The success of humanity is founded on our innate ability to collaborate with each other, both economically and socially. We possess naturally evolved capacities that equip us to collaborate. For example, our openness to collaboration depends on our judgement about whether we can trust others, and whether we feel connected to them. These natural capacities can be nourished or suppressed by the people we come into contact with, and are heavily influenced by our individual circumstances.

Corporations have an inordinate influence on both our individual own economic circumstances and the circumstances of the people we come into contact with. This in turn influences how we apply and evolve our natural capacities to collaborate. Corporations influence a wide range of human stakeholders. They directly influence the people who work for them, directly employing around 75% of the population at one time or another. Their activities additionally impact their investors, suppliers, competitors, customers and the communities touched by their activities.

We may never be able to capture an individual corporation's impact on a single individual's quality of life. But we can capture its influence on people's capacity to collaborate, both economically and socially. We refer to the way corporation's use their influence as their "Contribution to Social Cohesion" (CoSH). Society's cultural framework is one of the the major driving forces that creates the opportunity for a successful society.Corporations help to shape that framework through their outputs and actions. This is how CoSH influences society's ultimate outcome in terms of human prosperity.

There are several methods to measure a corporation's contribution to GDP (eg. discounting rates, inflation adjustments, accounting for externalities). There are also several methods to measure CoSH. Whatever methods are used, they must have two important characteristics to be useful. They must be capable of being applied consistently, and they must be independently verifiable. So any measure needs needs to be clearly and unambiguously defined.

The second paper in this series of three, "Measuring Contribution to Social Cohesion", illustrates one such method of accounting for CoSH. It is based on well-established Barrett Values Centre's assessment principles. In this method, CoSH is reported as a percentage. The score is the average rating by individuals of their personal experiences and perceptions of the outcomes of a corporation's actions. A low score corresponds with a divisive corporation which substantially undermines individual trust, sense of connection and sense of self-worth. A high score corresponds with a corporation whose activities are closely aligned with the demands of a society in harmony with itself; which nourishes people's natural capacity to work with others; which strengthens trust in an individual's motivation for mutual support; and which supports development of effective social relationships.

Impact of Social Cohesion Accounting

The impact of contribution to social cohesion relates to the impact it has on people's motivations and actions. It is necessarily a judgement by and about the people impacted by a corporation's activities.

Corporations with a genuine social conscience achieve high scores by adapting their whole range of behaviours and activities to align with the needs and aspirations of people in society. Reported CoSH provides corporations with an independently verifiable measure of the social responsibility they take in practice.

There is one crucial issue, however, that needs to be addressed. There are two parallel economic models, one is monetary facing, the other human facing. Yet both assess the one single economic system based on monetary instruments. The pressure on corporations to achieve short term monetary profits relative to other highly competitive corporations is intense. Corporations fight with each other to the death. Those who succeed in destroying their competitors are handsomely rewarded with no regard to the overall cost to society. In general, corporations do not account for the cost of their actions to others. This creates an incentive to corporations to disregard their cost to others.

The particular irony of the current state of short-termism is that it serves the long-term interests of neither corporations, nor their owners, nor society. Life companies and pension funds, for example, hold substantial assets to fulfil long-term commitments. Yet, the pressures for them to achieve short term gains is every bit as fierce as it is on all other corporations.

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The third paper in the series, "Evidencing Contribution to Social Cohesion", highlights a counter-intuitive link between CoSH and long-term profits. Despite the short-term reward to corporations for antisocial behaviour, there is a growing body of evidence of a positive correlation between a corporation's long term profits and its alignment with the the interests of its various stakeholders. One piece of research found that long-term corporations outperform short-term ones by 36% over the 11 year period from 2001-2014. This establishes a potentially significant role for reporting contribution to social cohesion. CoSH provides corporations with an independently verifiable way to demonstrate their long-term credentials to investors. And it provides long-term fund holders with an independently verifiable way to demonstrate their integrity to both investors and customers.

Short-terms profits do not become irrelevant in evaluating the performance of corporations. But they are no longer the only game in town in CoSH equips corporations with new and improved tools to help them align their activities with the long-term needs of society, and to identify specific areas of its activities that are holding it back.

It is the best way we have today to realise the full potential of the people that power society's productive engine, in their capacities as both producers and consumers.