Future-Fit Business

Business Beyond COVID-19

Maximising Resilience to Extra-Financial Risks

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The Blended Capital Group

Future-Fit Foundation

The Legal 500

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1. Foreword

What can business learn from the COVID-19 pandemic?

What forms of collaboration can enable our global community to tackle a broad range of systemic risks more effectively? What are the legal and investor implications of how business has faced up to the unimaginable complexity of the COVID-19 crisis? How can we make the best of this crisis to form a new blueprint for action?

These questions are the focus of a global discussion process led by The Blended Capital Group and The Legal 500. Future-Fit Foundation is pleased to be a key knowledge partner in this discussion, and this paper is our contribution to it.

The process began with an online conversation in Johannesburg on June 18th. Judge Professor Mervyn King and Professor Paul Q. Watchman framed the debate, emphasising dual priorities: to drive systems change through integrative collaboration; and to increase the culture of risk awareness as societal values shift rapidly in the light of COVID-19.

Why start in South Africa? From the end of Apartheid in 1994, South African business demonstrated an openness to explore new forms of collaboration and integrated thinking. Facets of this change over 30 years have been embedded in the powerful Johannesburg Stock Exchange. As the COVID-19 crisis accelerated, Business for South Africa was created to help drive a collaborative cross-society response. What better place to begin than a country which has envisioned and acted on profound systemic change?

Over the next six months the discussion will visit a further nine cities, spanning the globe from Tokyo to Sao Paolo. We will dissect how businesses in different jurisdictions have collaborated with a broad range of stakeholders to respond to the profound socio-economic and health impacts of the pandemic.

The process will culminate in December 2020 with a presentation to a major United Nations investor conference on the steps required for effective cross-sector action to manage, mitigate and reduce the impacts of systemic risks.

Please join us for this discussion, which is fully aligned with realising our vision of a Future-Fit Society.

Warmest regards,

Paul Clements-Hunt
Chair, Future-Fit Foundation

2. Executive summary

If we don't change direction soon,
we'll end up where we're going. — *Irwin Corey*

Where do we want to go?

Imagine a future in which no company undermines the wellbeing of people or the planet, where business is considered universally as a force for good. Where the more profitable companies are, the more they are celebrated – not just by their shareholders, but by *everyone* – because those companies clearly and credibly articulate how each dollar they earn creates value for society as a whole.

In this future, we live in harmony with nature: today's *take-make-waste* approach has been supplanted by a *borrow-use-return* approach. "Growth" is synonymous not with higher GDP, but with increasing trust, greater equity, healthier lives, and richer ecosystems. In their pursuit of growth, all companies strive to ensure that every person contributing to their success is afforded the opportunity to learn, grow and lead fulfilling lives.

In this future, society becomes ever more socially just, economically inclusive, and environmentally restorative – because all key actors are working collaboratively, consciously and continuously to the same end: the removal of barriers to our collective progress.

How can we get there?

Such a future might feel very remote, but two things should give us reason to hope that it is possible.

First, we already have a shared vision for the problems we must solve, and a common vocabulary for directing and describing progress: the UN Sustainable Development Goals (SDGs).

Second, the COVID-19 pandemic has created a rare peacetime opportunity to identify and start to correct the counter-productive behaviours inherent in our current economic system.

We are still only just beginning to understand the extent of the damage the pandemic has done to companies and communities across the globe. But there is lot we can learn from it.

This paper explores where we are today and how we got here, and summarises the systemic vulnerabilities the pandemic has revealed. The worst thing we could do at this point is try to get things 'back to normal': to become resilient to future shocks we must chart a new course. To that end we close with some thoughts on how we can all play our part in building back better – by enriching our system intelligence, valuing what really matters, and pursuing extra-financial success.

3. Getting our bearings

We have an economy where we steal the future, sell it in the present, and call it GDP. *Paul Hawken*

3.1 Today's economy is not fit for purpose

250 years ago, there were less than 1 billion people on Earth. Back then, Earth's resources – and its resilience in the face of our demand for them – must have seemed limitless.

So it should come as no surprise that classical economics – which dates from that period – did not consider the fact that we live in a finite, resource-constrained world. That belief set the tone for the way we have done business for generations: producing, consuming and disposing of ever more stuff, without weighing the long-term consequences.

Decades of industrialization powered by cheap fossil fuels, rapid population growth, and widespread encroachment on the natural world have taken their toll. Ever-more extreme weather events, coupled with a huge drop in soil fertility due to intensive agriculture, are affecting crop yields around the globe. Fresh water is scarce in many areas. Many natural resources that were once plentiful are now harder and costlier to obtain.

The effects of these changes are often felt first by those who are financially and physically vulnerable. But their shockwaves – in the form of economic migration, supply chain disruptions, and the rise of populism to name a few – impact us all.

There are now around 7.5 billion people on the planet, and 2 billion more are set to join us by 2050. If everyone is to have the opportunity and capacity to lead a fulfilling life, things need to change fast.

3.2 A global response: the SDGs

Recognizing the extent of the challenges facing humanity, world governments came together in 2015 to launch the UN Sustainable Development Goals. [1]

The SDGs – which were co-created with academic experts, business leaders and civil society advocates – are a rallying call for everyone, from nation states to corporations. There are 17 SDGs in total underpinned by a total of 169 targets which all UN member states have committed to reaching by 2030. They offer all economic actors something that has been sorely lacking: a shared vision for the problems we must solve, and a common vocabulary for directing and describing progress.

Yet five years on from their launch – with only a decade to go before their 2030 deadline – it's hard to find evidence of real SDG progress. So far bold ambition has translated only into modest action. If agreement on what has to change is so universal, what's going on?

3.3 Our socioeconomic system is highly resistant to change

Much of humanity's wealth and power is controlled by a handful of individuals, and the gap between the haves and have nots is growing. This is in part because in today's economy wealth accrues most to those who already have it. But it is also because people with money and influence are often the least disposed to change the system which gave it to them.

The rise of the internet was in theory going to democratize access to information, but today a tiny number of companies get to choose what news and views people are exposed to. And almost without exception, their business models are predicated on learning individuals' biases and monetizing that knowledge through highly targeted advertising.

The more time a person spends on a particular platform, the more money can be made. And – particularly among those who are already disaffected – outrage, sensationalism and conspiracy are more likely to hold someone's attention than challenging their preconceptions, explaining the nuance of complex issues, or exposing them to hard truths.

None of this is conducive to creating a shared sense of purpose or fostering trust, which is the glue that holds our social fabric together. Trust is essential because in a globalized world everything 'works' only through coordinated action and devolved responsibility. Trust is associated with low levels of corruption, democratic stability, and economic equality. [2] But trustworthiness accrues only over time, and quickly degrades when institutions do not act in the best interests of those they serve.

Add all this up, and it appears our entire socio-economic system has become hard-wired to resist change, at a moment when rapid and radical transformation is desperately needed.

3.4 Enter the novel coronavirus: an unexpected opportunity

COVID-19 has triggered an economic discontinuity with the size of the Great Depression, the speed of the 1987 crash, and the fear of 9/11.

It is far too early to estimate the extent of the pandemic's fallout, but there is a silver lining: the turmoil it has caused has shaken the confidence and challenged the assumptions of the most powerful and privileged people on Earth.

Those with the means to really change things are starting to see that their security lies not in the diversity of their portfolios, but in the health of the companies, communities and infrastructure which underpin them.

So we find ourselves at a crossroads: COVID-19 has created a rare peacetime opportunity to challenge many of our unquestioned assumptions about the roles of business and government. Our collective response to the crisis, while far from over, has shone a spotlight on the limitations inherent in our current socioeconomic system – and there is much we can learn from as we seek to build back better.

We're gaining a new perspective on what really matters

When everything appears to be ticking along fine, it is easy to bemoan taxes, and to want to dismantle the state. But when all hell breaks loose, it quickly become apparent that a well-resourced, functional government is critical.

The pandemic has also helped us to see which members of society we *really* depend upon – not just medical professionals, but the often low-paid workers who keep our hospitals clean, our buses and trains running, our supermarket shelves stocked, and so on.

Clearly we have not been adequately valuing everything that should be valued. The pandemic has surfaced a disconnect between what really matters (essential needs) and what doesn't (non-essential wants), and much of our economic activity is starting to appear frivolous.

When a problem is seen as critical enough, money is found

Within the space of a fortnight, the US government came up with a *$2 trillion* stimulus package to protect the economy. How many times over could the country rebuild its entire energy infrastructure around renewables with that level of funding?

Our economy is nowhere near as resilient as many assumed

Massive stimulus packages can only go so far. When millions of small businesses and families – even in affluent nations – are living hand to mouth, any temporary disruption to income can have massive and long-lasting effects.

Companies have collapsed and countless jobs have been lost within weeks of lockdown measures being imposed, and they won't simply reappear when restrictions are lifted.

Mitigation 'feels' expensive but is far less so than adaptation

The cost of maintaining stockpiles of personal protective equipment, and the infrastructure needed to rapidly rollout testing and tracing, would have been orders of magnitude lower than the amount now being spent on short-term recovery measures. But previous pandemics had never caused anything like this much disruption, so the constant pressure to save money meant that preparatory corners were cut.

This is an instance of what we might think of as the mitigation paradox: success fosters cynicism, because at every point in time the correct course of action seems out of proportion to the facts on the ground.

This paradox is already playing out again: some people are criticising lockdown restrictions as unnecessary because COVID-19 infection rates haven't been nearly as high as predicted.

Prepare well, and it can appear that the preparation was unnecessary. Fail to prepare, and the impact is huge. This is a sobering lesson, because neutralising the biggest risk to our future– the climate emergency – will require disruptive and sustained mitigation over many years.

We aren't well equipped to understand systemic risks

When the pandemic hit, it quickly surfaced that experts have been warning global governments for many years about the inevitability of such an event.

Some of those warnings – such as Bill Gates' TED Talk from 2017 – were so specific about the likely causes and socioeconomic impacts of a novel virus as to appear eerily prescient.

Was this advice ignored? Was the cost of mitigation deemed too high? The more likely answer is that those in power did not grasp the *systemic* nature of the pandemic risk – and therefore the full extent of the disruption it would cause.

Even in debates on national responses to the pandemic, people can be heard arguing about whether to pay more attention to the health crisis *or* the economic crisis, as if they are separable.

In an increasingly volatile, uncertain, complex and ambiguous world, we need to get better at understanding the interdependent systemic contexts we operate within.

3.5 There is no going back

Right now, many business and political leaders are thinking through how to get things 'back to normal', but going back is not the answer.

To avoid this level of economic disruption again – be it due to another virus, failed harvests, extreme weather, or myriad other events – we need to chart a new course: one which regenerates Earth's natural systems, rebuilds our social fabric, and in so doing increases our resilience to future shocks.

The next section offers suggestions in three areas to help us set off in the right direction: enriching our system intelligence, valuing what really matters, and pursuing extra-financial success.

4. Charting a new course

And all I ask is a tall ship
and a star to steer her by. *John Masefield*

4.1 Enriching our systems intelligence

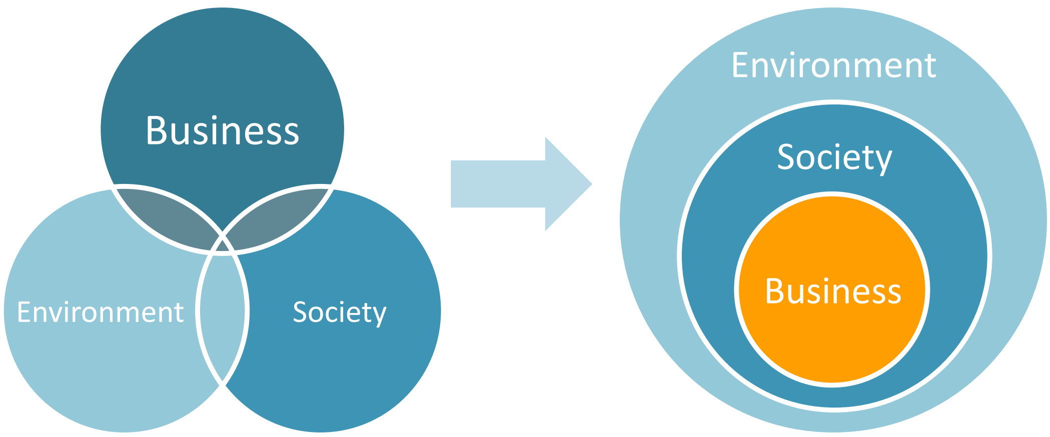
Businesses need better systems intelligence if they are to effectively anticipate, prepare for and respond to future shocks.

The SDGs were introduced in 2015, but there is nothing new about the idea that business performance should be about people and the planet as well as profit. In fact the term *Triple Bottom Line* was coined 30 years ago. [3]

Unfortunately, this critical concept has often been portrayed as three overlapping circles (Figure 1) which is unhelpful because it suggests that the wellbeing of people and planet are only peripheral to core business interests. Small wonder then that Environmental, Social and Governance (ESG) risks are often described as *non-financial* issues: matters of compliance only, rather than fundamental drivers of core strategy and board discussions.

The Triple Bottom Line is more accurately represented as three *nested* circles. Now the true context becomes apparent: business can only thrive if society flourishes, and society can only flourish if the natural world is capable of supporting our needs. *Non-financial* is clearly a misnomer: we should instead be thinking in terms of *extra-financial* risks and resilience.

Figure 1 – Looking at the Triple Bottom Line through a system lens



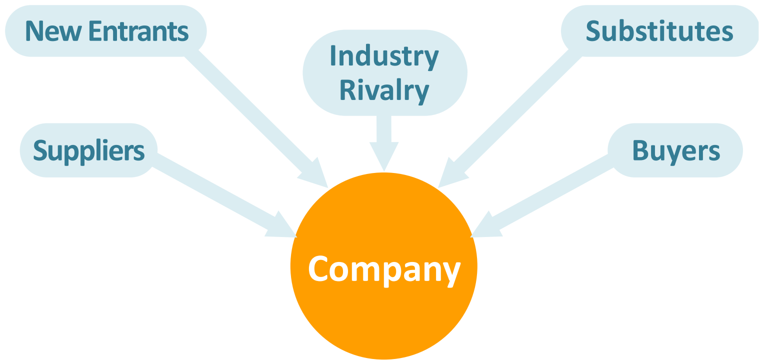
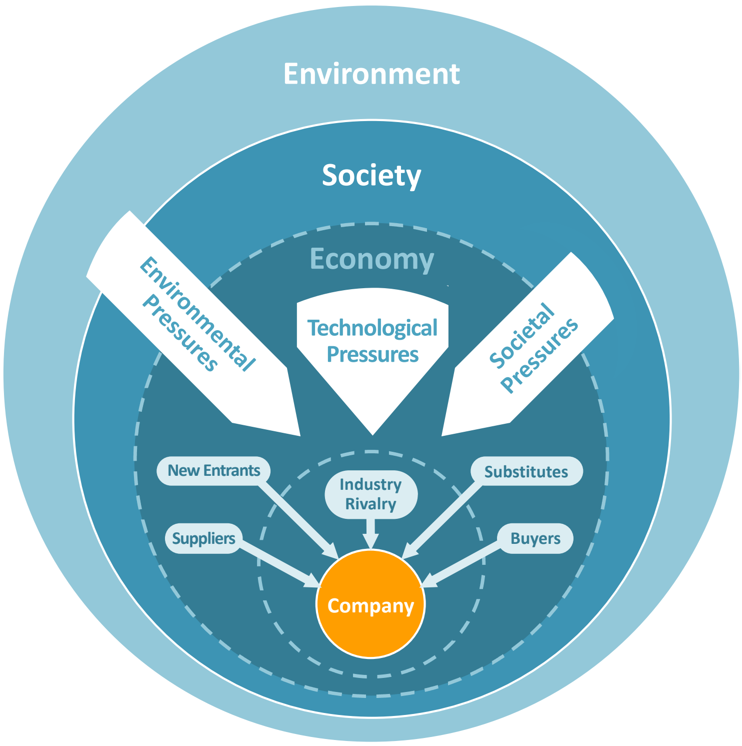


Figure 2 – Porter's 5 Forces Model

Porter's 5 Forces Model (Figure 2) has been taught in MBA programs since the 1970s. [4] It's a tool that business leaders use to understand the various forces operating in and around their industries, and to identify the risks and opportunities they pose. We can think of this as a *systems intelligence* tool: the 5 Forces help business leaders 'see' the context within which their company is operating, so they can create better strategic responses to it. The richer a company's systems intelligence, the more likely it is to spot new threats and opportunities. And today the way to improve that systems intelligence is to look *beyond* traditional industry boundaries. When we extend our view outwards, we see that *entire industries* are being buffeted by a further three, macro-level forces (Figure 3).

Figure 3 – Future-Fit's 8 Forces Model



- **Societal pressures:** Social norms and people's needs are shifting, in response to factors as diverse as mass economic migration and workforce automation – all exacerbated by a rapidly growing and aging population.
- **Environmental pressures:** These range from more intense and frequent droughts and flooding brought on by the climate crisis, to the build-up of pollutants in nature, and increasing competition for natural resources.
- **Technological pressures:** A number of emerging technologies – artificial intelligence, 3D printing and gene therapy to name a few – are making it possible to meet societal needs in completely new and far less impactful ways.

The confluence of these three macro-level forces is already disrupting entire industries. Every 21st Century business would be wise to embrace this new perspective, to enrich its systems intelligence and thereby increase its chances of success.

4.2 Valuing what really matters

What can a systems perspective tell us about 'growth' and 'value'?

Ask politicians, investors or CEOs if growth is 'good' and their *yes* will likely be as emphatic as the *no* one might hear from concerned environmentalists. Such polarization is due to different perspectives on what *growth* actually means. To reconcile these views, we must again apply a system lens. In so doing, we find that there are actually four types of economic growth: [5]

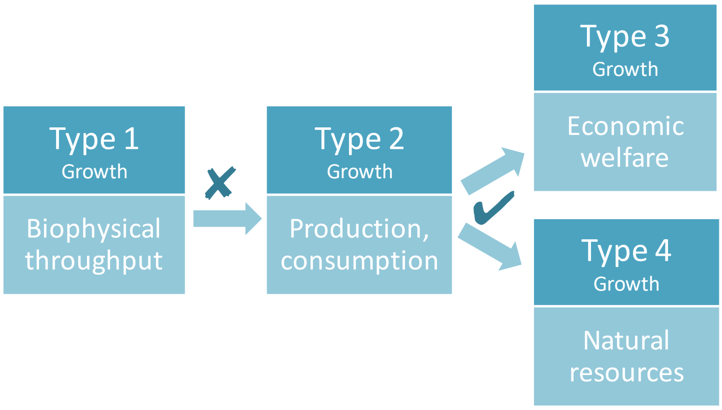
- **Type 1 – Growth in biophysical throughput:** The amount of raw materials we take out of (and waste we put back into) the environment. On a finite world, infinite growth of this type is not possible. [6]
- **Type 2 – Growth in production and consumption:** This is the amount of goods and services flowing through society, which is roughly what Gross Domestic Product (GDP) measures. This kind of growth isn't *intrinsically* bad. For example, as the population grows, more food will have to be produced and consumed.
- **Type 3 – Growth in human welfare:** This represents people's capacity and opportunity to lead a fulfilling life – and in particular the degree to which their basic needs are met (Figure 3.6). There is a strong relationship between this type of growth and type 2 – but it is not a simple one.
- **Type 4 – Growth in natural capital:** This is concerned with the amount of biomass (fish, wood, etc.) which regenerates through natural processes such as photosynthesis, and the health of the ecosystem functions (fresh water, fertile soil, etc.) which enable that regeneration. This type of growth increases the raw materials available for our consumption, and enriches the natural systems we depend upon.

Growth of types 3 and 4 is unequivocally 'good', since it contributes directly to our collective resilience, for example by increasing equality or food security. Given that we're placing far too great a demand on Earth's natural systems, type 1 growth is a problem (see Figure 3.7).

As for type 2, growth in production *may* make things worse (e.g. by causing ecosystem destruction), and excess consumption can be just as problematic (e.g. when single-use products result in large volumes of unrecyclable waste).

Today the global economy focuses almost exclusively on type 2 growth, production and consumption, regardless of how (and how much) it is linked to the other three types. Why? Because money changes hands when goods and services are bought and sold – and our economic system has evolved to treat *financial returns* and *value creation* as one and the same thing.

Figure 4: From a systems perspective there are four types of economic growth.



This evolution has been a consequence of the fact that every major nation on Earth has sought to maximize GDP since soon after the second world war. To quote the systems theorist Donella Meadows: *"If you define the goal of a society as GDP, that society will do its best to produce GDP. It will not produce welfare, equity, justice, or efficiency unless you define a goal and regularly measure and report the state of welfare, equity, justice, or efficiency."* [7]

This is why central banks and governments expend so much effort tweaking interest rates and other factors at their disposal, constantly trying to adjust borrowing and spending patterns in pursuit of never-ending growth. It is also why companies seek out the cheapest, legally acceptable route to getting something done. If that route results in generating waste, over-harvesting raw materials, using creative approaches to pay less tax, or outsourcing work to regions with less progressive labour standards, so be it.

Such negative impacts occur not because decisions makers are blind to social and environmental concerns, but because the economic context within which they are operating is not adequately driving the right kinds of outcome.

As long as our economic system pursues GDP (and thus type 2 growth) alone, restorative outcomes will remain the exception rather than the norm. Type 2 growth is desirable only if we can find ways to decouple it from type 1, and insofar as it contributes to growth of types 3 or 4 – by raising welfare or regenerating natural systems.

This is what 'good growth' means, and we must reorient our economic system to recognize and reward it. There is no magic button we can press to enable this. But a new growth paradigm can and will emerge over time if enough business and political leaders and governments start to factor this more nuanced understanding of growth into their decisions. If that happens, 'doing the right thing' will become the path of least resistance – and greatest reward – for all socioeconomic actors.

4.3 Pursuing extra-financial success

Companies that focus on extra-financial success in the years ahead will increase their own resilience and that of society as a whole.

As we have learned, calling social and environmental issues *non-financial* is a misnomer. Such considerations are *extra-financial*, because enduring financial success today depends on the degree to which we can find new ways to meet societal needs while restoring the natural world and our social fabric.

We end this paper with three simple questions which business leaders should ask themselves, to start embracing and operationalising this new mindset.

Resilient vs Efficient

One of the most common ways for companies to improve their financial bottom line is through efficiency drives. When it comes to resource use, this makes complete sense. Reducing the amount of materials used in products and packaging prevents waste. Reducing water use – particularly in water-stressed regions – eases the burden on a public resource everybody needs.

However, efficiency measures *undermine* resilience if they reduce the capacity of a business to cope with unforeseen circumstances. For example, halving the storage space for a vital product input may save on rental fees, but it also halves the length of time production can continue uninterrupted if supplies of that input are disrupted. Likewise, cutting corners on safety inspections might save time for workers to focus elsewhere, but if a dangerous problem goes undetected the results may be catastrophic.

Any business wishing to thrive in the years ahead should constantly ask itself ***What will make us more resilient?*** Efficiency will sometimes be the answer, but it should never be the question.

Competitive vs Compliant

It is bad for business and bad for society when ESG issues are seen as matters of legal compliance.

For one thing, regulations relating to environmental and social protection almost invariably lag behind what science tells us is required. So merely obeying the law, on issues ranging from toxic waste to working conditions, rarely equates to causing no harm.

Secondly it can be more expensive for a business to continuously monitor and gradually adapt to changes in legislation than to eliminate the risk entirely through preventative action. Any company which has eliminated its greenhouse gas emissions, for example, is immune to any future carbon tax.

Getting ahead of environmental and social issues is about competitiveness, not compliance. Progressive companies do what society actually needs, rather than what laws currently demand. And they leverage that fact – lobbying *for* more progressive legislation, knowing that they will benefit reputationally from doing so, while increasing pressure on their peers to step up.

So whatever environmental or social issue is under discussion, a business should be asking itself ***What response will both serve society and give us a competitive edge?*** This is not about maintaining license to operate, but rather winning support to succeed.

Holistic vs Defensive or Selective

Even though the SDGs have been described as a *"crowd-sourced purchase order from the future"*, most companies have not yet adequately answered their call to action.

Many current responses seek to defend the status quo, by building a narrative around what a business is already doing. For example, a company might say that because it creates jobs it is contributing to SDG 8 – Decent Work and Economic Growth. But what if those jobs pay less than a living wage or if worker conditions undermine employee health? A focus on storytelling alone merely justifies business as usual – which is what got us into this mess in the first place.

Other companies offer a selective response, responding to just a few SDGs. This is akin to the notion of *creating shared value* [8]: focusing only on areas where the company's business model already intersects with a societal need.

For example, a pharmaceutical company may choose to focus on SDG 3 – Good Health and Well-being – through the sale of medicines. Such efforts may indeed make a genuine contribution to SDG 3, if the medicines are affordable and accessible to those who need them most. But if, say, their manufacturing uses huge amounts of fresh water and takes place in a water-stressed area, the company may actually be undermining progress on SDG 6 – Clean Water and Sanitation.

Even the most well-meaning company might seek to solve one problem while inadvertently exacerbating another. Are such trade-offs acceptable? Possibly, but how can we be sure if we are not doing enough to identify and quantify them?

What we need is a holistic approach: one which considers all of a company's SDG impacts, both positive and negative, across the company's entire value web.

No decision is ever free of trade-offs. But if we take a systems approach – by looking at all interactions between the company and its suppliers, its customers, other socioeconomic actors, and the environment – it is possible to identify otherwise unforeseen issues. Negative trade-offs can then be anticipated and avoided – or at the very least mitigated.

This systemic approach to managing extra-financial performance is crucial, because positive and negative impacts almost never cancel each other out.[1]

Gradual gains in one area, at the expense of exacerbating problems elsewhere, aren't going to fix things. We must eliminate – and eventually reverse – all of the damage done to our natural systems and social fabric, and that means striving to maximise the good while working consciously and continuously to eliminate the bad. Such a holistic response is essential if we are to make the SDGs a reality.

We can think of this third way as creating not just shareholder value, or even shared value, but *system* value.

Every company today should at the very least be asking itself ***Is our SDG response holistic, and if not what would that take?***

And those willing to *really* to transform how they create value – for themselves and society as a whole – should in addition ask ***How might we redeploy our core competencies, existing assets and know-how in completely new ways, to make money in service of the SDGs?***

That's the way to build a 21st Century business that people will really want to work for, buy from, and invest in.

What next?

The Future-Fit Business Benchmark is a free, open source methodology designed to equip companies of any size or sector to operationalize the concepts presented in this paper.

It offers detailed guidance on how to set the right extra-financial ambitions, how to take better day-to-day decisions in pursuit of those ambitions, and how to transform stakeholder engagement through more authentic and inspiring reporting on progress.

Find out more at FutureFitBusiness.org or email us at info@futurefitbusiness.org.

[1] GHG emissions are an exception: a ton of CO_2 emitted in Johannesburg may be 'neutralised' by a ton drawn down from the atmosphere in Tokyo. But other kinds of impact – product waste, water stress, land use change, human rights violations – cannot be netted out, across time or location.

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Join the movement today

We must all play our part in society's journey toward future-fitness – and we'll get there faster if we work together.

For more information visit:
futurefitbusiness.org

Who we are

Future-Fit Foundation is the non-profit developer, promoter and steward of Future-Fit Benchmarks. Our vision is a future in which everyone has the opportunity to flourish. Given where we are today, this vision can only be realised through a rapid and radical shift in the way the global economy works.

Our mission is to catalyse that shift – by translating systems science into practical, free-to-use tools designed to help business leaders, investors and policy makers respond authentically and successfully to today's biggest challenges.

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