[OpEd] It's Strictly Business

Mark Sickles January 25, 2018

To fully understand Larry Fink's "A Sense of Purpose" message as stated in his 2018 annual letter to CEOs, we all need to eschew the "Tyranny of the OR" in favor of the "The Genius of the AND."

(Newswire.net -- January 25, 2018) -- The title of a January 20 Barron's article asks, "Did BlackRock's Larry Fink Go Too Far?" by stating in his annual letter to CEOs that "Society is demanding that companies, both public and private, serve a social purpose." Before we can responsibly answer that question, we need to first consider how far Mr. Fink went.

In the section of his 2018 letter on a new model for corporate governance, Fink could have gone as far as encouraging companies to become, where possible, benefit corporations whose purpose is to create general public benefit, defined as material positive impact on society and the environment. According to Wikipedia, "A benefit corporation's directors and officers operate the business with the same authority as in a traditional corporation but are required to consider the impact of their decisions not only on shareholders, but also on society and the environment. In a traditional corporation, shareholders judge the company's financial performance; with a benefit corporation, shareholders judge performance based on the company's social, environmental, and financial performance." Fink chose not to go this far.

From a retrospective view, did Fink go any farther on this topic than in 2017 or 2016? The Barron's article asks us to accept the fact that Fink devoted more words to the topic this year than last year as a "step up in pressure." While relatively succinct on this point in 2017, Fink was nonetheless clear and compelling:

> *"Environmental, social, and governance (ESG) factors relevant to a company's business can provide essential insights into management effectiveness and thus a company's long-term prospects. We look to see that a company is attuned to the key factors that contribute to long-term (profitable) growth: sustainability of the business model and its operations, attention to external and environmental factors that could impact the company, and recognition of the company's role as a member of the communities in which it operates. A global company needs to be local in every single one of its markets."* (Note the stated interdependence between ESG and long-term (profitable) growth.)

In addition to not needing more words to make his point, perhaps another reason for Fink's efficiency in 2017 on this topic compared to 2018 was that he was reiterating his spot-on 2016 message, stated below:

> *"Generating sustainable returns over time requires a sharper focus not only on governance, but also on environmental and social factors facing companies today. These issues offer both risks and opportunities, but for too long, companies have not considered them core to their business….Over the long-term, environmental, social, and governance (ESG) issues…have real and quantifiable financial impacts.*
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> *At companies where ESG issues are handled well, they often are a signal of operational excellence. BlackRock has been undertaking a multi-year effort to integrate ESG considerations into our investment process, and we expect companies to have strategies to manage these issues."*

Like the 2017 message, this 2016 statement clearly indicates that the relationship between the financial sustainability of the firm and the sustainability of the environment and society is synergistic. This is what Fink means in his 2018 letter when using phrases including, "To prosper over time", "achieve its full potential", "To sustain that performance", and "so essential to sustainable growth." Moreover, to master "doing well *by* doing good" requires a greater capability than "just doing well" or even "doing well *and* doing good." This superior level of capability can be continuously used to consistently beat the competition in all other ways, further ensuring the optimization of sustainable value creation for shareholders.

The Barron's article proposes that now is a good time to debate the following: "Is a company run for the benefit of shareholders, the traditional Wall Street view? *Or* for all the stakeholders, a newer attitude that also takes customers, employees, suppliers, the environment, and other potential constituencies into consideration?"

We respectfully disagree. The red flag in these two questions is the word,“ ***Or.***” We all know management is not a game of “or” but rather a game of “*and*.” It’s about the Hegelian Dialectic Jim Collins cleverly described as “The Genius of the AND” in *Built to Last*, as opposed to what he called “The Tyranny of the OR.” This is the process of taking two ideas that, at one level, are in conflict, and moving to a new level of synthesis where they become complementary and more powerful than when they were separate and in conflict. When you look for it, you see that Fink has continued to embrace the “AND” in 2018 as he did in 2017 and 2016, synthesizing it into the complementary “BY:” Doing well *by* doing good. Hegel would be proud.

What Fink is talking about in all three letters is the *Sustainability Synergy*. Embedding financial, environmental and social sustainability into your strategic approach to governance is essential to optimizing sustainable value creation for your shareholders simply because so many of the people whose support you need to run your business – employees, customers, suppliers, investors, regulatory agencies, and communities - want and expect you to “do well by doing good.” The right question to be debating now on this topic is, “What's missing that, when present, will enable firms to contribute to the financial, environmental, and social sustainability of the world in ways that optimize sustainable value created for shareholders?

Consider this excerpt from our second book, *Strategic Governance – Enabling Financial, Environmental, and Social Sustainability*, written in 2010 and being re-launched next month as part of our new book, *The SuperOrg Way – How Corporate Leaders Optimize Sustainable Value Creation*:

“Strategic Governance (SuperOrg) provides the tools needed to account for the increasing concern for the social and environmental impact of a business in addition to the financial impact. Consider the exploding interest among investors in “ESG.”

In the planning segment of Strategic Governance, these types of issues are called External Driving Forces, which are the forces influencing the ability to create shareholder value in a particular sector. If you don't take them into account, adjusting your strategy, organization, and operations accordingly, your organization is not behaving intelligently, which means you are not governing strategically.

When environmental and social concerns (“E” and “S”) are identified as threats and risks to the financial success of a firm, there is a powerful incentive to identify the strategic imperatives... that must be carried out to cope with these driving forces. This is enabled by Strategic Governance. (“G”)

Moreover, we all know by now that coping with external driving forces is needed to *survive*. To *flourish*, you must learn how to turn these forces into sources of advantage so that your bottom line is blacker and more stable than it would have been had you not become a global model of financial, environmental, and social sustainability.”

“It’s not personal. It’s strictly business.”

Mark W. Sickles, CEO

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Source: http://newswire.net/newsroom/oped/00099628-op-ed-it-s-strictly-business.html