Suddenly, This Summer

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Malcolm Gladwell, who popularized the term in his 2002 book, defines a “tipping point” as “the moment of critical mass, the threshold, the boiling point.” It’s the point, said Gladwell, when ideas, messages and behaviors that were once the exclusive province of early adopters suddenly tip and become the norm.

We at **SPTF** have been daring to wonder whether the work we’ve been doing for the past 15 years might just have reached that kind of tipping point. Because – suddenly, this summer –some significant developments are providing encouraging signals. In mid-June, the *Financial Times* launched a new weekly feature called **Moral Money**. Other than the pleasing alliteration, it might have seemed an odd choice for a name. People who read the *Financial Times* might not seem the most natural audience for moralism. And yet, all the advertising space in Moral Money for the year was sold out before the first issue hit the streets, and subscriptions have far outpaced the *Fiancial Times’* projections. This is according to the formidable **Gillian Tett**, chairman of the *Financial Times’* editorial board, who is driving the Moral Money project. Suffice it to say, the Financial Times has not delegated its ESG coverage to some cub reporter.

Then in late July, the *New York Times* ran a feature story about Jamie Gamble, a retired corporate lawyer whose firm’s client roster included virtually every major company in the United States—among them Facebook, Google, General Motors, and JP Morgan Chase. To be sure, it’s not unusual for the *New York Times* to cover the doings of the powerful. Mr. Gamble’s message, however, was quite unusual: he had become convinced that the CEOs of his client companies were not only incentivized but ***legally obligated*** **to act like sociopaths**, that is, people who care, single mindedly, about themselves, or in the corporate case, about shareholders. Once the Cult of the Shareholder took off in the 1980s, it became the CEOs’ obligation to maximize shareholder profit and ignore any other consideration for other stakeholders.

Gamble’s proposal is this: that every company incorporate a set of ethical rules into their bylaws. Those rules might embrace effects on the environment and future generations as well as effects on relationships with employees, local communities, customers, and suppliers. This seemingly innocuous step could have far-reaching consequences. Whatever the rules a given company sets for itself, once they are in place, “Any shareholder could sue the board of directors for violating the ethical rules — just as any shareholder can today sue the board of directors for violating the maximize rule,” he said. Mr. Gamble reports that his ideas so far have received a fair hearing and thoughtful responses from his former colleagues.

Then finally, in mid-August, came perhaps the loudest signal of all. The 181 members of the Business Roundtable, which includes some of the most powerful figures in corporate America, announced that it will henceforth **commit** to balancing the interests of shareholders with those of everybody else. That announcement unleashed a flood of coverage and commentary – it was the **cover story** of *The Economist* the week after it came out—and reactions ranged from fawning to **cynical**.

From where we sit, the significance of the Business Roundtable announcement is the fact that it's a collective statement. That element of collective action is the one that makes all the difference because it tackles the so-called "prisoner's dilemma" that keeps the world trapped in the short-term, quarterly-profit-driven mentality. While it's in everyone's collective interest to take the long view, it is to no single player's individual advantage to be the one who goes first and suffers a few quarters, or years, looking like an underperformer relative to his benchmark. The *only* way out of the prisoner's dilemma was for everyone to hold hands and jump at the same time – exactly what (we hope) this announcement signals.

Now of course comes the hard part. Let's assume for the sake of the argument that everyone is sincere, that now the Business Roundtable members, Mr. Gamble's former clients, the Moral Money-reading masters of the universe – that all of them are committed to no longer behaving like sociopaths. Where will they go to find out how, concretely, they should rethink their bylaws? Their operating procedures? Assuming they succeed in embracing and internalizing a radically different worldview, *how do they operationalize it*?

This is the work SPTF has been doing with colleagues for 15 years now. It took 15 years (12 years to build trust and awareness, 3 years to write) but we do actually have a roadmap, the **Universal Standards for Responsible Inclusive Finance**, that guides companies through the journey of walking the talk.

SPTF was created to be the voice of ethics, responsibility, and impact for what was then called the microfinance industry. At SPTF's inception in 2005, these were fringe concepts. So we spent much of our time simply talking about the importance of a double bottom line and trying not to position ourselves as the sad-eyed conscience of the industry. Partly that was a strategic (and aesthetic) decision: no one wants to be that person, or listen to that person. But mostly it was practical. Our messages were: Don't let the perfect be the enemy of the good. Start where you can, and do what you're able, but *get started*, and be real.

As the trust grew and the messages took hold, social performance management took off. SPTF and our partners and colleagues developed standards for balanced performance management, tools for executing best practice, and a global community of people willing to share their successes and failures. The experiences and the tools have proven relevant to other sectors, and have turned the inclusive finance sector into something of a model for other ESG investment classes.

Our sector is home to literally hundreds of financial service providers who have decided that profit is not their sole purpose. Without fuss or fanfare, these businesses are balancing growth with quality customer service and customer protection, protecting their employees' rights, measuring the social outcomes of their work, and holding their leadership accountable for social metrics – behaviors laid out in the Universal Standards and encouraged by our global community of practice (see "Balance Social and Financial Performance" – from SPTF's **Guidance for Board of Directors** – below).

Our partners in countries as diverse as Pakistan, the Philippines, and Guatemala are taking this balanced approach to business value – often in operating contexts that are much more complex and challenging than what U.S.-based business leaders are used to. We encourage corporate leaders: it can be done! We remember a time when ethics and creating value for customers were assumed to be a drain on a bank's financial bottom line. That assumption has been replaced with "what's good for customers is good for business." The inclusive finance community – SPTF, **CERISE**, the **Smart Campaign**, and many other responsible actors – completely changed the conversation.

Balance Social and Financial Performance

Evaluating the CEO based on the financial and social performance of the institution.
The FSP's social targets should be part of the CEO's performance criteria. Such criteria might include customer outreach and retention targets, customer outcome targets, and employee retention targets.

Setting and monitoring growth targets that promote customer and institutional wellbeing.
The Board should understand both local market conditions that affect growth (external factors), and the institution's capacity for growth (internal factors), such as staff capacity and risk management capabilities. The Board should participate in setting target growth rates that allow the FSP to maintain good customer service, respect customers' rights, and ensure manageable workloads for employees. The Board should monitor whether the FSP is staying within the targeted growth rates, as well as whether institutional capacity is keeping pace with growth.

Aligning expectations between the institution and investors, particularly on profit, and pursuing profits that contribute to customer and institutional wellbeing.
The board should also be involved in setting desired profit levels as well as institutional policies on the use of profits. Management, the board, and other investors should develop a shared understanding of the appropriate level of profit and the allocation of profits between investors, the institution, and customers. This will help maintain consistency between profit expectations/allocation and the FSP's social goals.

As the grizzled veterans of the ESG impact world, we're excited to see this critical mass of corporate leaders who are rethinking the meaning of "value" and "purpose." We urge them not to panic when the pressure intensifies to walk the talk. A lot of the work has been done. Our Universal Standards, Social Investor Working Group, implementation resources, and community of thousands of committed partners can serve as an example for how to take this moment of momentum and turn it into the new normal.

Sometimes the past 15 years have felt like trying to break a boulder. You hit it and hit it, and finally, success comes with the hundredth blow. But it wasn't just the force of that hundredth blow. It was the cumulative force of the 99 that had gone before. Events may yet prove us wrong, but something tells us that suddenly this summer, the boulder did split, the system did tip, the most powerful people in our society really did wake up to the reality that business as usual simply can't continue.

The moment is here, the opportunity is now to put our collective energy behind a more ethical vision for corporate behavior.