

‘Value Scotland’

A Maturity Institute (MI) Project

Introducing the Maturity Institute

The Maturity Institute (MI) is a new, multi-disciplinary, not-for-profit, professional development body, established in 2012, to teach leaders, managers and entrepreneurs the benefits of whole system thinking. Our work is also utilised by other key stakeholders such as investment managers, risk professionals, academia and regulators. The goal is to ensure all organizations create the best possible value for the benefit of society, particularly through a more mature and enlightened approach to the management of people. Our growing evidence base shows that this approach also serves the best interests of all stakeholders. We call this a ‘Total Stakeholder Value’ economic system.

Our ‘Value Scotland’ Project aims to bring this education and its benefits to Scotland as a whole socio-economic system. It is the first experiment of its kind anywhere in the world.

Why Scotland?

Since the global financial crisis of 2008, the very foundations on which economies are run have been questioned as never before but what are the alternatives? The ‘Total Stakeholder Value’ economy concept has been developed from existing organizations. The Maturity Institute’s original exemplar company was Toyota. The Toyota Production System has been around since the 1930s and has been the template for all manufacturers aspiring to ‘world class’ status. However, while many companies have tried to copy Toyota few have achieved the same level of success because they fail to see the underlying governance and culture that make Toyota so good at what they do. There is no secret recipe, only a clear goal of getting the very best from all the people who work either with the company, across its wider supply chain, or otherwise connect to the organization. These are the ‘intangibles’ that are so difficult to replicate. It is only the most ‘mature’ organizations who understand how to ensure all the necessary intangibles are in place and producing superior returns and organizational value.

Maturity is not limited to automotive or manufacturing though. Other evidence from the Maturity Institute reveals how banks like Handelsbanken and even not-for-profit organizations like Buurtzorg have already been working to these principles for many years. Both of these organizations excel at what they do and produce far better results than their peers, whether in the private or public sector. So maturity applies

to any type of organization. That is why it is particularly appropriate to apply to an economy such as Scotland. The methods and management practices they employ can be taught and act as the basis for a conscious and explicit policy for developing a more mature, national economy.

Some of these lessons have been taught and applied in Iceland over the last decade. The first academic study of maturity across a whole economy's corporate sector was undertaken by the University of Reykjavik in 2005. Since then many lessons have been learned and now is the right time to offer these lessons to a bigger economy and scale up the potential opportunities. We are confident that Scotland provides a perfect testing ground for the next stage in development. It has the same independent spirit as its much smaller neighbour and has a history of enlightened thinking going back to Adam Smith with his 'Theory of moral sentiments' and 'Wealth of Nations'. This is a refreshed and reinvigorated version of responsible capitalism for the 21st Century. Scotland has a unique, once in a lifetime opportunity to set an example to the rest of the world in engaging its population in this endeavour that should reap returns for all.

The University of Edinburgh Business School partnership

Considering a project that aims to change the way economies work in a more responsible way requires partners who are not afraid to experiment and challenge their own conventional thinking. Resistance to change is the biggest barrier to achieving first mover advantage and the huge opportunities available from raising organizational maturity levels. The team at the University of Edinburgh Business School have embraced this opportunity from the outset and have already given it their wholehearted support. More important still, we are already taking practical steps and developing a new course to run in conjunction with their existing MBA and Executive Education Programmes. We are able to do this because of the initial funding from the Amersi Foundation.

Project Plan

Phase 1.

The first step is testing initial interest and identifying other, prospective partners from across the Scottish economy. This will involve promotion by the Events team at the University of Edinburgh Business School leading up to the project launch **seminar on the evening of 19th February 2019.**

Phase 2.

Immediately after the launch event we plan to form an initial group from interested parties. Value Scotland is an evolutionary initiative. We will be introducing simple ideas and methods that all organizations can try out for themselves. This can include organizations gauging their existing level of maturity on the organizational maturity index - OMINDEX.

Phase 3.

Only when there is growing interest from positive feedback and signs of early adoption will we establish a more formal project monitoring committee to oversee further development of Value Scotland. At that point we will revisit the scale of everyone's ambition and resource the ongoing project accordingly.

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The Mature Corporation

A Model of Responsible Capitalism

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Cambridge Scholars Publishing

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Preface

Humankind's history is littered with conflict. If we are ever to avoid further social revolutions, political turmoil and economic trade wars, then searching for a common purpose might be a good place to start. It seems only common sense that if life appears to be unfair, especially to the disadvantaged, then we should continue to expect very strong backlashes along the way. Perhaps we are only just beginning to realise that to avoid human conflict we should all believe we are ultimately on the same side. Even today we have forced ourselves into making a false choice: are we on the left or the right; democrat or republican, conservative or labour or somewhere indistinct? What if we changed this simplistic paradigm once and for all? If the interests of all stakeholders were one and the same, then there would be no need to take sides or adopt an adversarial stance. This, in essence, is the basic premise on which we build a better business paradigm for The Mature Corporation, to take its legitimate place within a capitalist system that serves everyone's best interests.

If we are to identify the spark that ignited this search for a new paradigm it has to be the Global Financial Crisis (GFC) of 2008. Yet the roots of this crisis can be traced back to insidious changes that took place during the second half of the 20th Century. That was a quiet revolution, by stealth, where "shareholder primacy" became the mantra of those wishing to seize power and personal riches through corporate behaviour that was a perversion of legitimate capitalism. It might be called the GFC today but future historians may come to document it as the first, global, socio-economic revolution. When credit was cheap and paper profits were riding high, it may have felt like the capitalist system was working well but the day that Lehman Brothers collapsed¹, September 15th 2008, was a very rude wake-up call for the whole world.

When those "profits" proved to be an illusion, as they were, the system collapsed and its inherent flaws were exposed for all to see. Subsequent generations will continue to pay the price for the misdeeds of those executives who exploited the weaknesses in the system and the regulators who failed to regulate. More importantly, irrespective of any legalities, we had allowed a corporate culture to proliferate that lost its purpose and social licence. A culture that now has to be corrected if we are ever to lay the foundations for a much more sustainable version of capitalism. This is the primary objective of this book.

We offer here a framework and a set of whole system practices, based on the work of the Maturity Institute, established in 2012 to make a new start, with a fresh agenda. It is self-evident, from the many corporate fines and legal actions since 2008, that things have to change. A key change has to be the very nature of the corporation, the fundamental building block of capitalism. Healthy corporations, using mature management practices, focused on long-term value and sustainability, are necessary for capitalism to re-assert itself as the most effective way to underpin socially cohesive nations and their economies.

Of course, the problems of capitalism can only be resolved effectively if we develop the right methodology, tools and practices for better corporate management. This mandate requires clearer definition of the core problems and a much better understanding of the complex dynamics of the whole system. For example, there is a growing consensus that "corporate culture" is now one of the main issues², and that requires more precise definition, diagnostics and measurement than has ever been applied before. However, culture cannot be addressed as an isolated issue. It cannot be separated out from the operating system of a sound business model and financial controls. A corrupted culture will aim to achieve a profit at any price (e.g. mis-selling sub-prime mortgages, spurious banking products, or pharmaceuticals). It will show no concern for the fair competition necessary for fair capitalism. The short-term numbers in the latest quarterly figures might look good but that same accounting convention must now incorporate counterbalancing measures of true value, including the price society is having to pay in the long-term.

¹ https://en.wikipedia.org/wiki/Bankruptcy_of_Lehman_Brothers

² <https://www.nacdonline.org/Resources/Article.cfm?ItemNumber=48256>

This requirement for a better, conceptual framework for operational capitalism has already been well recognised for decades with the advent of balanced scorecards, notions of corporate and environmental responsibility and integrated reporting. This is why The Mature Corporation has to be measured across a range of indicators that capture the complete picture of the whole organization, working within the constraints of a legitimate, global, capitalist system, working towards a common goal.

How will a corporation know when it is becoming more mature? The simple answer offered here is a single measure of the extent to which any organisation is creating benefit for all those with a valid, vested interest: what we have named as the primary metric of Total Stakeholder Value (TSV). This might sound like an oxymoron; how can something be made so simple and be applied in practice, and yet truly reflect the complex dynamic of organizational systems, actions and behaviour? All of this will be explained in due course but, for now, just imagine that this TSV measure aims to match each individual's DNA with that of the organization they work for: only then might you begin to appreciate the potential of its powerful insights. The developments that led to TSV go back many years but the main part of that story is told when we explain how the Maturity Institute arrived at its Organizational Maturity Index (OMINDEX). This is a universally applicable scale of maturity, based on credit rating conventions, that can measure *any* type of organizational entity: for profit, not-for-profit, private, publicly quoted, public sector, charity or NGO. The Oxfam scandal that rocked the charity world in 2018, when it was found to be allowing its staff to abuse their position, revealed just how perverted organizational behaviour has become across all contexts. Even organizations that start out with the best of intentions can lose their way when trying to reconcile the pressures of operational delivery with the responsible management of fallible human beings. Organizations in such a situation have to be able understand how they arrived at such a low point and what they can do to be able to heal themselves.

This is why maturity analysis sees all organizations, first and foremost, as human organisms that are likely to behave in peculiar ways, unless all the right elements are in place and they are managed as a whole system. Each of these core elements of organizational leadership and management have to be identified and measured; both individually and collectively. When we cover the OM30 question set, a diagnostic instrument that produces OMINDEX ratings, you will see how each question is designed to produce new, crucial insights. In effect, we are analysing and measuring what traditional company analysis and accounting practices have always left out; often peremptorily lumped together and dismissed as the “intangibles”. Questions relating to matters of organizational purpose, values, principles, learning and culture, to name but a few, are obviously critical aspects of an organizations ability to perform well. If they are not analysed and measured effectively their value creating capabilities cannot be managed. This first principle of measurement by management is irrefutable. Incorporating such factors into how we diagnose and improve organizational health creates huge implications for the way corporations have to be led, managed and valued in the future.

Conventional management practice, company valuation, and accounting and auditing practices, have now been found to be totally inadequate. An “integrated” business strategy and accompanying company reporting will have to embed all of these “intangible” measures and indicators, to operate holistically and then tell the complete story of what drives the corporation. Investors will increasingly have to understand how to preference the allocation of funds to those organisations who have healthier corporate cultures and human value creation systems. Business schools will have to rework curricula away from the traditional, siloed approach to “business administration”. Their teachers, all with their own specialist disciplines, will have to sit down together to produce a whole system curriculum and appropriate syllabuses for teaching. This is particularly true for the those who teach human resource management. They have to convince the accounting teachers that measuring training costs, as a proxy for training impact, is no longer an acceptable convention. Organizational behaviour specialists will then have to change attitudes to leadership and management development programmes. Development expenditure must only be sanctioned if it has a direct line of sight to value creation or risk mitigation. One wonders why these simple lessons are still there to be learned.

These new rules are the defining characteristics of The Mature Corporation but their application is extremely rare. Yet, we can no longer accept the notion that such key factors can be ignored or dismissed as just too difficult to measure. These are precisely the kind of underlying issues that helped to cause the GFC and should now become the best, most crucial, predictive indicators of sustainable and legitimate organizational performance. All of this might sound like an impossibly difficult task if it were not for the fact that mature corporations already exist today. Their superior business performance and contribution to society stand out as a

beacon among the mediocrity of conventional management today but the evidence is only just beginning to be recognised. Understanding and acknowledgement is bound to follow. Only then will corporations be able to replicate all of the necessary factors for sustainable success. “The Mature Corporation” is designed to provide a first text, the most important step in understanding for any board or CEO seeking to introduce a new approach to delivering long-term Total Stakeholder Value, or TSV. Or, for any emerging, purpose driven organization that needs to build the systems necessary for long-term impact and longevity.

Handelsbanken has over forty years’ experience of running itself according to a mature set of disciplines built around a clear focus on the customer and society. It also has the superior financial results to show for it. Whichever theory this bank may have based their practices on, the impetus for their re-development as an organization arose from crisis but involved a great deal of practical trial and error; learning from what works best for their corporation and their primary stakeholders, their customers, as it did from conventional management³. This might not sound much like a “scientific method” as it is understood by laboratory scientists. The multiple variables of running a business (the market, long-term strategy, external forces, financial constraints etc.) cannot be perfectly isolated, sequenced or controlled in real time. Conventional managers and organizational academics have only had a technology that can study performance with the benefit of hindsight, when it is too late to put it right. With the methodology and tools explained in this book, organizational leaders and managers will not have to wait for more academic research. They will be able to test what maturity means, in real time, and monitor the results based on measured, value outcomes.

The original exemplar for the establishment of the Maturity Institute, the Toyota Motor Corporation, had already changed the world of automotive and manufacturing when the institute was first formed in 2012. Copies of The Toyota Way had been seen sprouting up across other sectors, such as healthcare, for decades, but with few managing to grasp the essential, human elements necessary for success. When Ford and General Motors realised just how good Toyota were, they had already fallen even further behind its relentless pace of improvement. This is one of the main reasons why so few mature corporations currently exist today. Organizations making an acceptable profit, by conventional norms, have little motivation to constantly re-invent themselves and adapt for the future. Even if they wanted to replicate a company like Handelsbanken or Toyota, they do not seek to understand the whole, human system at play. Any manufacturer can try to copy the famous Toyota Production System (usually now referred to as “lean manufacturing”) but if they fail to replicate the whole Toyota System, especially its people management and culture, they are unlikely to match its performance over a long-term time horizon, and are far more susceptible to failure.

Becoming a Mature Corporation starts from a different paradigm. This paradigm is rooted in a corporate purpose based on serving societal interests first. It is then operationalised, not through one of “us and them” or a “zero sum game”, whereby every improvement in employee value is passed on to selected interests e.g. to shareholders via increased dividends. It is a simple and obvious statement that you cannot maximise true value for all stakeholders, including business and shareholder returns (or your own), if you do not maximise the value created by everyone involved in the organization’s whole system. There are no sides to be taken in The Mature Corporation because everyone works to a common purpose, which they believe to be in all of their own interests, and in the interests of future generations. This is the very nature of maturity and the most responsible platform for legitimate capitalism.

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³ [https://www.handelsbanken.co.uk/shb/inet/icentsv.nsf/vlookuppics/investor_relations_en_history_pdf_2008/\\$file/history_pdf_2008.pdf](https://www.handelsbanken.co.uk/shb/inet/icentsv.nsf/vlookuppics/investor_relations_en_history_pdf_2008/$file/history_pdf_2008.pdf)