

ORGANISATIONS NEED TO BE DRIVEN BY PURPOSE

Global KPMG Board Leadership Event

July 2021

Our sustainable future will depend on business helping to solve the world's problems and not creating them.

“Successful companies understand that profits should not come from creating the world's problems, but actually from solving them.”

PAUL POLMAN

FORMER CHIEF EXECUTIVE EXECUTIVE OF UNILEVER

With the world still in the throes of the COVID pandemic, global businesses and governments have focused on building back better.

But as the former Chief Executive of Unilever, Paul Polman, recently pointed out, we won't get there without the help of the private sector.

Speaking at the KPMG Board Leadership Centre's (BLC) recent global digital event *Building back better: A Board's-eye view*, Polman who is also the Co-Founder and Chair of Imagine says business needs to step up because the private sector “makes up 65 per cent of the global economy, 80 per cent of the financial flow and 90 per cent of the job creation”.

For Polman, business can't succeed if we are failing as a society, and “successful companies understand that profits should not come from creating the world's problems, but actually from solving them”.

He says companies need to put purpose at their core.

Moderator of the global event and KPMG Australia National Chairman, Alison Kitchen, agrees purpose needs to be at the core of what businesses

do, “and they need to be looking at their purpose through the lens of what's their value to society”.

Kitchen agrees with Polman's belief that “you cannot function as a business, if the society you're operating in can't function”, and that has been illustrated by the response to COVID from business and governments around the world.

The past year has emphasised the importance of embedding environmental, social and governance (ESG) principles in every business and if we are going to build back better, all firms must be responsible social corporations.

This means boards must make all decisions through an ESG lens, which need boards themselves need to drive.

She says boards are there to hold people accountable, to think strategically and set things up for the long-term.

It is boards that are signing off on the 22 metrics for ESG which report against the 17 United Nations Sustainable Development Goals (SDGs) drawn up by the Big Four global accounting firms last year in collaboration with the World Economic Forum.

The good news is companies around the world are rapidly moving to become more socially responsible. A [recent survey](#)² undertaken by global strategic advisory network AMO found companies are significantly keener to display their concern for people and their communities than before the COVID pandemic hit last year.

A world first, the “Values Most Valued” survey, examined annual reports and websites of 525 listed companies in 22 markets.

Crosshead: Things are getting real

Yet while AMO’s survey looks positive at face value, one criticism levelled at business during the BLC Global event was part of the problem is most of the focus on being responsible is rhetoric only. It’s all contained in glossy brochures like annual reports and outlined though a few vague principles.

BLC event participant, Dr Nora Scheinkestel, says Australian companies in particular have moved well beyond the rhetoric when it comes to being purpose-led and focussing on ESG issues.

Citing the 2021 [Edelman Trust Barometer](#)¹ – an annual global survey measuring societal trusts across all our major institutions - Scheinkestel said there had been an uptick in trusting companies at a time when trust in other institutions had plummeted appreciably.

And not only was business the only institution now seen as competent and ethical, this trust “was also very closely tied with trust in the CEO”.

According to the survey respondents felt business needs to step into the void left by government and 86 per cent of those surveyed expect CEOs to lead on societal issues.

Reason being is when things have become real in recent years, more often than not, business has stepped up.

As an example, Scheinkestel names AusNet, an electricity transmission and distribution company where she is a board member.

The survey found companies are putting more emphasis on their role as responsible members of society. In fact, nearly half of those reviewed are more determined today than before the pandemic to show that they care about people in general, citing at least one value associated with concern for people and community.

“You cannot function as a business, if the society you’re operating in can’t function.”

ALISON KITCHEN

KPMG AUSTRALIA NATIONAL CHAIRMAN

“The team there at the beginning of last year were dealing with bushfires, then COVID hit, then later in the year, storm events. These extreme weather events are happening and the consequences are damage to assets, disruption of services and the withdrawal of insurance capacity from markets. These are real events and the business and its people have to deal with them.”

Kitchen agrees all these events highlight the importance of organisations focussing more on larger societal and environmental issues because the upshot of these playing out is if society can’t function, business can’t operate.

Interestingly, Kitchen says glossy is a good start because it’s an example of an organisation attempting to tell their story publicly.

“And even if those companies are spinning rather than being honest and transparent, it’s forcing organisations to have different conversations about what they need to do, how they are going to change their behaviours and what processes they need to put in place to change those behaviours,” Kitchen says.

The next step is setting out what you actually want to achieve and then “setting right through the organisation all of the drivers that will help you change”.

Making that change requires different thinking on boards and Scheinkestel says board diversity is the key.

“Having people with really different perspectives is the best antidote to the groupthink that will lead us astray.”

Scheinkestel, who also sits on the boards of Telstra, Westpac and Brambles says the world has fundamentally changed and we need to think differently.

Having people with diverse experiences and from different backgrounds will assist us to “challenge each other on whether we are making the right decisions”.

“I think well-governed companies are making really good advances on that. For example, at Telstra, the board is just under 40 per cent female, three of our number are overseas-based and they all approach issues really differently.

“Backgrounds of the people on our board range from former CEOs, people who’ve come up through the union movement and young tech entrepreneurs. The sectors represented vary from fast moving consumer goods to highly regulated environments and publishing and, the only thing uniting them is they all have been deeply disrupted,” Scheinkestel says.

Crosshead: Diversity cross-pollinates

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Kitchen agrees companies need to bring different voices and different thinking to boards and it’s about striking a balance between gender equity, cultural diversity and a cross-pollination of different industries.

“It’s also generational because our younger generation are growing up in an environment where they can see some of the big systemic problems in our society and see beyond some of the baked-in expectations and stereotypes the current generation holds on to,” Kitchen says.

As for boards still stalling on embedding stronger ESG principles in their organisations, Kitchen says it’s not a case of trying to do everything at once. She’s a strong believer that rather than thinking about all 17 SDGs, every business should think about the three or four that are most relevant to their business and really focus on them.

“For example, at KPMG, we have goals around reducing our carbon emissions and our carbon footprint, but we’re not a heavy manufacturing company so we absolutely must do the right thing there,” kitchen says.

“We also have programs around reducing water and waste usage but by far, the biggest areas where we can make a difference is focusing on areas like inequality, gender equity and cultural diversity, to make sure that we’re giving everyone in society an opportunity to flourish and be their best selves at KPMG.

Scheinkestel agrees it’s about focussing on two or three SDGs relevant to a business “that you are committed to and can try to advance”.

“It is a really sensible way of approaching it because you can then speak about it with your people and help them understand why those three or four make sense as a focus. Just saying ‘we’re committed to the implementation of the SDGs’ doesn’t take it anywhere. You have to practically engage with something relevant within your business,” Scheinkestel says.

For Polman, engaging with the SDGs and embedding sustainability in corporate strategy is now a precondition for a successful company.

He says if you’re not purpose driven and don’t move to a more responsible, sustainable and equitable business model, “you risk not having a business at all”.

“At the end of the day, it’s about leadership and willpower - a mindset, of moving your company to becoming net positive,” he says.

Scheinkestel and Kitchen agree if your business’ attitude and perspectives are not in keeping with changes in societal values, you won’t retain your employees, let alone attract the talent that you need to take your organisation forward.

“Your customers will stop buying from you and you won’t deliver a return to your shareholders and then, you’re out of business,” Scheinkestel concludes.

“At the end of the day, it’s about leadership and willpower – a mindset, of moving your company to becoming net positive”

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Endnotes

- 1 Edelman Trust barometer 2021
www.edelman.com/sites/g/files/aatuss191/files/2021-03/2021%20Edelman%20Trust%20Barometer.pdf
- 2 AMO “Values most Valued” Survey
www.amo-global.com/fileadmin/user_upload/Corporate_Values_report_20210716.pdf

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