

Boardroom Questions

Responsive & Responsible leadership
Linking social capital with bottom line performance

KPMG Board Leadership Centre



Responsive and Responsible leadership company stakeholders are interested



Populism, nativism, protectionism and more

To provide responsive and responsible leadership business leaders should recognize that **frustration and discontent** are increasing in parts of society that are not benefiting from **economic development and social progress**. As the **"fourth industrial revolution"** provides greater integration of artificial intelligence, robotics, the internet of things and people, the impact on future employment makes the situation more uncertain

Taken together, these forces point to the ever-tightening connection between **"social capital"** and **bottom line performance**. The potential downsides of not managing this changing narrative loom large. Yet, with responsible and responsive leadership, the changing world order **can unlock opportunities** previously unimaginable



Responsive leadership

Geopolitical risks may impact your business directly through customer, suppliers, operations, employees, investors and capital, at home and in overseas subsidiaries

Corporate strategy should be agile, factoring in various **political/policy scenarios** and focusing sharply on the mounting pressures for more **inclusive growth** and greater awareness of how the company's strategy and activities impact not only investors, but **all stakeholders**



Responsible leadership

Consideration of the corporation's **role in society** and the **importance of having a long term view** on corporate performance – **not limited by quarterly results** – is quickly moving to the **center of corporate thinking**

How a company **manages environmental and social issues** – and connects those activities to financial and operational performance – are becoming **signals to investors of how well the company is run**

Increasingly, investors, customers, employees and other stakeholders expect companies to understand the **total impact of their strategy and actions**



Possible implications of government changes

- **Impact on global strategy/footprint** – e.g. local organic growth, instead of acquisition; local alliances built and more local investment
- Increased **local government** intervention and possible support
- **Tighter regulations on overseas recruitment** and off shoring of roles
- **Higher costs**, e.g. foreign exchange rates
- Need for **greater investment in people** to help alleviate uncertainty and anxiety
- Different **supplier routes** relating to new trade deals
- **New markets** and even newer ways of serving them



Reinforcing responsible leadership

- **Taking a long term view on corporate performance**, factoring in the needs and expectations of all stakeholders – investors, customers, employees, communities, and the environment
- **Embedding environmental and social issues into the strategy** (i.e., beyond a "feel good," charitable or PR/marketing effort)
- Considering **incentives that drive a long term outlook** (versus being a slave to quarterly earnings)
- Assessing your corporation's **role in society** to understand the "total impact" of the company's strategy and operations, **well beyond the financial**

Boardroom Questions



How can we manage the **broader economic, political and societal issues** and **connect those activities to financial and operational performance which will signal our long term financial stability**? What strengths and weaknesses do geopolitical shocks expose in our operating models and more importantly how can we **lead responsively and responsibly – linking social capital and long term performance**?

Financial ambition

What does potential uncertainty mean for availability and cost of capital?
Will investors continue to fund capital investment programs?
Should we update our forecasts in light of new economic scenarios?

Markets

Which alternative markets and new trade routes should be explored?
Will trade continue between our key markets?

Organisational structure, governance and risk

Will our corporate structure need to change to take advantage of opportunities? Or respond to changes in regulation?
If we restructure our organisation will we face exit tax costs on transition?
Can we manage our business if we face travel restrictions?

Measures and incentives

Do we have sufficient data to understand how resilient our business is?
How can we improve monitoring to identify any shocks early?
Have we quantified the potential changes to the effective tax rate?

Propositions and brands

Is there an open window of opportunity for foreign brands if local brands face negative sentiment from global consumers if discussions become tense? What mitigation strategies exist?

Clients and channels

How resilient is our business to the loss of a key customer?
Are our customers already developing alternative suppliers?
Will we need to review pricing policy for changes in tax or costs?

Core business processes

Will we need to review our 'go to market' approach?
Does our distribution footprint and network still make sense in light of major geopolitical changes?
Do we have enough visibility over our supply chain to identify threats? Do we have natural hedges?

Operational and technology infrastructure

Will restrictions on cross border activity increase the administration burden for our global operations?
Will IT systems need to be adapted?
Are our systems and processes set up for increased logistics, tax impacts or new pricing structures?

People and culture

How do we manage our global workforce and the restrictions that may come on them?
How will we meet the gap if immigration is restricted?
How will our workforce change? Or our staff culture?
How will we deal with employment policies in affected markets?
How will we deal with racism/xenophobia if they raise their ugly heads near us?

What actions can the Board consider?



Set the tone and drive the culture.

Reinforce to senior management that we support thinking and acting with a long-term view – and ensure that incentives reward a long-term, "socially responsible" focus



Identify risks related to our company's operations – environmental impacts, product and worker safety, waste generation – and understand the legal and reputational costs of not addressing them. For starters, "do no harm"



Identify opportunities

Remind ourselves that risk aversion is a more intuitive human response than opportunity identification. Therefore, keep more than a watchful eye out for new ways out to grow, perform and comply (in the widest sense)



Set (or reset) the context for the conversation.

Interrogate our assumptions in an "all bets are off" world. Beware that dreaded 'echo chamber' effect of like-minded views giving us confirmation bias in our planning



Insist that **our company's efforts are regularly communicated to investors and stakeholders** – progress, results, and linkage to strategy. Tell the company's story

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