



Part 2: The impact of ESG on private enterprises

Featuring Mike Linter, our Global Head of Private Enterprise Tax, KPMG International, Loek Helderma, Global Tax Lead, KPMG ESG, KPMG International, and Partner, KPMG in the Netherlands, and Shay Menuchin, Policy Lead for KPMG's Private Enterprise Tax Network, KPMG in Canada

Musical intro

Announcer:

Hello and welcome to another episode of ESG voices! Thank you for joining us for the second half of our two part episode on ESG in the private enterprise tax space. We had a lot to discuss on the topic, so I am pleased to be joined once again by Michael Linter, our Global Head of Private Enterprise Tax, KPMG International based in the UK, Loek Helderma, Global Tax Lead, KPMG ESG, KPMG International and partner based out of the Netherlands and Shay Menuchin, Policy Lead, KPMG's Private Enterprise Tax Network based at KPMG in Canada.

Mike, Loek and Shay, thank you for taking the time to join us again to continue this conversation on this top of mind topic Shay to kick off today's discussion. In our last episode, Loek commented on the importance of companies having comprehensive, exhaustive, and transparent data related to their ESG efforts. Shay, do you have any comments you would like to add to this?

Shay Menuchin:

I fully agree that transparency and the move to greater transparency requires companies to be in control of their facts over their circumstances, to be able to know where from, to extract information, what they're reporting to the different authorities, what they're reporting in different reports, and be in total control of it. It's new for public companies. It's definitely new for private companies. And that will be a core element of compliance in the next few years that when companies will manage or try to manage to move from today's scenarios to the future, where they have to have consistent and comprehensive disclosure, throughout whether it's ESG, BEPS or other type of disclosures.

Announcer:

Thanks Shay, and what policy developments have you seen in relation to ESG that may impact private companies?

Shay Menuchin:

Going back to the data policy, as we noted earlier, there is a pressure and I just mentioned that again for transparency and disclosure and a recent article in Forbes.com from the

26th of July of this year dealt with the changing landscape where the used to be a norm developed back in the 60 and 1960s and 1970s, when Milton Friedman free market ideas were developed and got much more spread during the 1980s when leaders as President Reagan in the US or Prime Minister Thatcher in the UK were in charge, that you can separate your business dealings from other things and the focus on business was enhancing shareholder value, enhancing and increasing or maximizing return on investment.

This is no longer viable because customers, employees, stakeholders and the public expect the company to behave in a more ethical, more responsible way. Look at the the responsible tax initiative.

And in addition, we see that, you know, a lot of private businesses or their owners make donations, try to support social initiatives. You can no longer separate your business dealings from your donation and social activity in a way you need to treat everything as one because the public, employees, stakeholders, look at that as one. And in this Forbes article, they're dealing with some of the existing practices and what we're likely to see in the future and the fact that, going forward, companies will have to align their behavior to be consistent, both in doing business and outside the pure business environment. Another thing that is worth mentioning is the fact that there is now a call, there is a critique against the ESG and trying to basically call for separating the E from the S&G.

There is an economist special report from July 23rd of this year that basically calls for building a more sustainable, understandable objectives standard for rating companies that would allow businesses, customers and stakeholders and the public at large to better understand how each business is graded. You know, for example, a business can have a very good governance system and be very responsible, but at the same time be not very environmentally friendly and the same can go the other direction. And basically what The Economist is calling for is for ESG 2.0. And this is not really surprising because we've seen it in BEPS, we've seen in other policy areas, there usually is some sort of a development and evolution of policies. Over time, you can't get it fully right on the first attempt. There was an evolution with BEPS and we didn't get to BEPS from nowhere and now we are in BEPS 2.0 and the same is likely to happen with ESG.

There's going to be an evolution of how reporting has to be done, how companies are going to be rated, and that will change over time. The key thing for businesses and private businesses in particular is to be on top of things, to act consistently and to be agile, to be able to change quickly as things develop.

Announcer:

Thanks, Shay. Private companies are well-placed to move quickly in this environment compared to public companies. What are some of the most common ESG compliant strategies you're seeing private enterprises implement to drive both top and bottom line growth?

Mike Linter:

Yeah, I think it's interesting. I think this really plays well for private enterprise businesses, Loek and Shay have spoken around agility and also reputations. And I think the benefit for it is patient capital as well. I've been very impressed by how private enterprise businesses are actually looking at investing in energy transition. But for the long term, they're prepared to make some bold moves around divesting from non-compliant businesses and actually making some long term investments, both in acquisitions and R&D for those businesses that are much more compliant.

We've also interesting seeing focus on the space. We've also actually seen them actually really engage with their employees as well. There's a huge piece here around employee engagement and also employee participation and ownership of private companies. We've actually seen that really accelerate over the last few months that people actually realize what a precious resource their employees are. But obviously being compliance and also that employee participation with everything from employee ownership trusts to employee participation in share schemes, we're seeing an uptick in that, obviously, because having a really focused and loyal employee group is absolutely key to actually supporting businesses growth and transition.

We're also seeing it as well and Shay made the point actually, we're actually seeing people really engage, I think very quickly with lenders as well. Not only in terms of banks, but also down further in the supply chain is the fact that they're actually trying to work with the banks to see actually what good looks like in terms of ESG, especially when it comes to actually accessing capital and its cost. I also think finally, I think I think the other piece is, is this interesting supply chains we've mentioned a couple of times today that the pandemic has actually accelerated and actually changed supply chains.

We're also seeing businesses really actually making sure their supply chains are compliant and actually promoting that as well. You know, from an ethical basis, so, you add all of those things up. I've been really impressed with how private enterprise businesses have actually embraced this and moved very, very quickly to drive both top and bottom line

And I'm sure you'll see some really impressive results in the next couple of years from private businesses who've been fast to market and fast to act.

Announcer:

And Mike, are you seeing any challenges faced by private enterprises as they work to implement ESG strategies, specifically from a tax perspective?

Mike Linter:

I think it's around resource and data. I mean, I think that this is obviously people's ability to be compliant and transparent is only, you know, the amount of resource they can deploy here and the data that it's based on. So we are seeing businesses absolutely want to comply, but it's a, it's a very fast moving space, not only in terms of the regulatory environment and the compliance environment, but also business models have changed as well.

So I think then the two things actually is that how do you actually get the resource or how do you actually procure the advice you need to be to actually look into these changes? And also, how do you actually access the data as well? Because obviously, the it's a it's a very fast evolving world in terms of data requirements. And I still think a number of private enterprise businesses still need some help to actually do those two things.

Announcer:

Thanks, Mike and Loek, any thoughts on this?

Loek Helderman:

I fully agree with Mike. And I alluded to indeed the data extraction for tax transparency reporting and indeed the support from maybe some technology in this, in this area is getting more and more important for larger multinationals, listed companies and larger private enterprise, this is, in my view, very, very important. But I would also like to say a bit more about purpose of the company, the overall approach towards sustainability and meeting, for instance, the United Nations Sustainable Development Goals, because that is usually the sort of approach companies take. And in my view, the approach for tax must be embedded and that's purpose in the overall approach towards sustainability within the company. There may be a difference between the various industries companies are active in, some are very transparent about their tax policies and the amount of tax being paid even on a country by country basis. And others are more, I would call it maybe conservative about this and are basically looking also at what competition is doing.

And they will recognize and include in their assessment the impact, let's say, these disclosures may have on competition and, and to what extent they want to disclose information. And that is understandable, in my view, and can be explained and as long as a company can explain what they disclose and why they disclose it, that's, I think, the right approach. And it's coming back to the right narrative behind your strategies.

Announcer:

And Shay, any challenges you're seeing from a policy perspective?

Shay Menuchin:

There are a couple challenges. First, in looking from the business perspective, businesses will need to be agile and quickly respond to changes because they're likely to be many changes and they'll need to, to find a way to be both consistent and compliant. Two words that we use quite extensively today. Second thing is that governments and inter-governmental bodies will need to work together to develop a more objective, coherent and unified criteria for reviewing rating businesses and non fiscal metrics. In similar lines to what The Economist special report I mentioned earlier referred to. This is also to allow businesses to reduce their burden of compliance. They need to have an understandable, coherent, consistent system for disclosure. Because if each country has its own unique system, that can create a big burden on businesses to comply with. And lastly, and I think this is more of a of a positive, proactive note.

Businesses will need to be on the lookout for environmentally friendly, legislation that will be offered by different governments to offer incentives for businesses to comply if they act in an environmentally friendly way.

This can be a big win for businesses if they are able to identify legislation that are consistent and help their business model and that they can benefit from the incentive provided by this legislation.

Announcer:

Thanks Shay. As we note, the past few years have brought geopolitical shifts. Technological innovation, globalization and new business and consumer demands. And sound tax advice is now more crucial than ever. What are some of the most common questions you're hearing from private enterprise clients lately in regard to ESG, Mike?

Mike Linter:

I think first and foremost, I think there's a need for a common narrative and a benchmarking here. I think that I think we've got a real role to play. I think, in the helping our clients actually establish that. Obviously, many of these businesses are obviously very successful businesses, but don't have the type of support, and I think in terms of management layers, I think that some of the PLCs have.

So I think it's really important. I think that we can actually help them with that. I think if you're a private enterprise business, you have got very few benchmarks, public available benchmarks. I think that's something that they're asking for. I think this is really to ESG has become both a domestic and international issue as well. Not any more, I think. Loek and Shay and I have mentioned supply chains and remember times, but it's also around complexity now, around things such as customs duty as well. It's a fast moving world with geopolitics and actually making sure businesses are compliant in a number of different jurisdictions is absolutely key. Now I think the third thing is, is that obviously many businesses have actually had to find new routes to market.

They are now multi-channel businesses and actually making sure that they're actually appraised and aware of the implications of those Shay mentioned, BEPS and Loek mentioned in terms of the fact that the need for rigor in

disclosure. I think that's absolutely right. I think what's happened, I think for business is that their business models have changed so quickly over the last two years. I think it's now a time for them to reflect, to actually make sure that actually that not only are they compliant, but they're actually maximizing the opportunities around ESG and actually making sure that projecting that to their customers and teams as well.

Announcer:

Great. Thanks, Mike. And any final thoughts to wrap things up, Loek?

Loek Helderma:

Yeah, maybe a comment from my side or a few points. Well, first of all, this topic won't go away. It will be, therefore, for the future. And in the close to 40 years of experience in tax, I've spent 25 years with a large multinational and 12 years with, with KPMG. There has been an, I would call an evolution in terms of tax advisory services and the way taxpayers behave in terms of the tax policies and the theme of responsible tax.

And we touched on this many times is front of mind today. And we already talked about tax transparency, social behavior of companies and its management. I also mentioned the importance of environmental and E in ESG, and for a company to be in control of its incentives, its credits, its subsidies, as well as environmental taxes. It needs to pay. Taxes is an instrument, as we always professionals, to change behavior and is probably seen by governments as a means to reach the sustainability goals as well.

So getting to also a net zero position for the country and the EU green deal, we didn't talk about it, but it's a very important development which people should bear in mind. If countries will be focusing on these instruments, companies will be exposed to many new regulations. And in the EU Green Deal quite a few will pop up where they must make sure that they are in control and that they comply with it. But also optimize positions and maybe do some tax planning and mitigating that risk. And maybe worth mentioning that that as KPMG, we have developed a global tax and regulatory database to to follow all those developments as well as a climate policy dashboard to, to advise and help clients in, in making their assessments.

Companies, in my view, at the finance function, tax departments with larger multinationals must consider all these challenges in addition to already existing many challenges they have. It is about, let's say, the finance and possibly the tax schemes being closely connected with all business functions, understanding the objectives of the company and as I mentioned earlier, the purpose of the company and maybe one final point which I would like to add is that we are seeing is that everyone is is at a different stage in in this journey.

And this is new and a developing area for all businesses across all sectors, across all industries. And people can learn from each other the impact of climate change, as we all know, is enormous. And we've seen that, let's say scientists have come up with very dramatic reports. And many companies, is our view, will embed ESG and sustainability in all the work they are doing. And that's the

same for us as tax professionals. Maybe this sounds a bit dramatic, but it's meant to be an upbeat comment. So the attention and action for mitigating climate change will also allow, as is tax professionals, to contribute to improvements in terms of, let's say, the climate change that is emerging so very, very important topic in my view.

Announcer:

Mike?

Mike Linter:

I think absolutely endorse what Loek said about this is one of the biggest changes we have seen. But I do think this is a great opportunity for private enterprise businesses. We've talked in previous podcasts around the focus on reputation around these businesses being agile and also their ability to invest for the long term. I think all of these actually allow private enterprise businesses not only to embrace ESG, but also to actually invest for the long term. And I think they really can be at the forefront of not only adopting ESG, but also, I think, actually thriving in a world where ESG is going to be a common benchmark once it's evolved. And I do see very positive opportunities for private enterprise businesses in this space.

Announcer:

And Shay? Any final thoughts from you?

Shay Menuchin:

I want to summarize three takeaway that I have for our listeners and for private companies. One, we mentioned

quite a lot reputation and consistency, and this is the core. Companies have to make sure that they guard their reputation. They develop their purpose, and they act consistently in furthering this purpose and preserving their reputation. The second thing is being control of the facts, having a view of the big picture, but not losing sight of the details because there is different reporting and they may need to make sure that everything is in line.

It's no longer the tax department in the back office, is doing returns. It's being involved with the business, understanding the big picture, making sure that their reporting are consistent and are supporting the goals of the company. And lasting agility, there will be a lot of changes and companies will have to act quickly and be very agile to be able to adapt to a new environment as the environment keeps changing.

Announcer:

That's great. Thank you, Shay. And thank you all for such a great discussion. That's all we have time for today and that brings us to the end of our two part podcast episode which originally aired on KPMG's own Future of Tax podcast series. Join us again next time for more insights from ESG leaders and innovators. You can also find our latest insights covering a range of ESG topics by visiting kpmg.com/esg.

Thanks for listening.

Musical outro

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