



10 Actions for Business in 2019





Introduction

We believe that 2019 will be the year when doing business responsibly mainstreams as a boardroom priority. This will be the year when the ethics of a business emerge as a key business driver for the companies of tomorrow.

Political uncertainty and factiousness, data scandals through smart-yet-opaque AI algorithms, the UN Global Goals shortfall, and the void of trust in institutions of all types, all contribute to the headwinds businesses are facing.

Business has the capability and the opportunity to lead the change required to tackle our biggest societal and environmental challenges. How businesses choose to respond to some of the major trends in 2019, will be crucial.



Resetting Purpose

The emergence of the Chief Purpose Officer as a new c-suite function, underlines the extent to which Purpose is now a live issue for many companies. But it's also become divisive, confused, clichéd and at risk of contamination.

That's because too often, Purpose activation is skin-deep and short-lived – making a lot of noise but inauthentic. An ulterior purpose of short-term shareholder returns (at the expense of everything else) quickly appears.

The gap between rhetoric and reality is widening the trust deficit between business and society at large. Our own research with global business leaders, reveals clear consensus that Purpose is a vital topic and is a table-stake for being taken seriously. However, this year expect Purpose to evolve away from being a 'trend wagon' of marketing froth, to become a business-wide process, inspired by and grounded in the organisation.

The fundamental question is more important than ever: What is the role of business in society? The answer, in our view, comes from understanding a corporate's 'citizenship' and what that means for a company's rights, responsibilities and aspirations. Purpose then needs to be activated through substantive change – to products, services, culture and business models. It needs to be lived in the boardroom and on the ground in local communities. It requires the right goals and targets.

2019 is the year to rethink corporate purpose based upon holistic corporate citizenship, not just shareholder returns.

Critical Questions



- **Rethink Purpose.** Have you defined the value you bring to the world, and does your stated ambition ring true with reality?
- **Do your strategy, product portfolio, culture and community programmes** align with your rights, responsibilities and aspirations?
- **How are you resetting behaviour?** How you act is crucial. Embedding Purpose requires behavioural change internally and across the value chain, where everybody touched shares in the value created.



Ethics in tech

Digital technologies and platforms have brought unprecedented opportunities for business to innovate, drive growth and connect with others. But what Facebook's Cambridge Analytica scandal, plus countless other news reports continue to reveal are the ways in which companies have applied new technologies is causing profound unintended consequences.

What's clear is that many tech innovations have little consideration of their ethical implications. So much so that it's leading to the emergence of dedicated new non-partisan, non-profit newsrooms such as The Markup, based in New York, which investigate big tech and its effect on society. It's also what led the founder of the World Wide Web, Sir Tim Berners-Lee, to create a Contract for the Web (#ForTheWeb). Due to be published in May, it aims to help steer conversations in governments and boardrooms, and provide the public with a means to hold the powerful, including the tech giants, to account.

In 2019, tech is going to have to start behaving responsibly, and this needs to be a priority for all businesses.

The challenge for business, is to understand the opportunities and potential risks to the business and society of each tech system introduced into a business. This covers everything from data security to ethics in the code, to AI-led analytics, to social media policies and using the Internet of Things to drive environmental efficiencies.

Ethics in tech is not a prime concern just for those creating the tech. It needs to be a priority for every department of every business.

Critical Questions



- **Ethics in tech is a business-wide challenge.** Does the business have a holistic understanding of the material issues arising from the internal use or external production of tech?
- **Are the right mechanisms** in place to ensure tech is managed responsibly and used strategically to maximise business and societal value?
- **Given the growing societal awareness of issues concerning tech,** is the business able to clearly communicate the steps being taken to address its use and create positive impact?



Supply Chain Radical Transparency

Limited visibility across supply chains has long been an issue for companies in all industries. Now brands are increasingly facing pressure from consumers and investors for even greater supply chain accountability. As consumer consciousness heightens following high-profile, prime time documentaries, and investors align long-term value with ESG and sustainable supply chain practices, brands are being asked for more data, more collaboration and more transparency in their supply chains.

With this necessity for risk reduction and increased transparency, there's an emergence of new supply-chain models, and technologies that can transform supply chains.

Blockchain is one model, with the ability to trace, gather and assess consistent and secure, irreversible social and environmental data. This improved data quality has the potential to reduce duplication of supplier audits, as well as increase trust across the value chain.

Innovative finance is another model, which offers a tiered system of preferential payment terms to suppliers who meet progressive levels of sustainability targets, supplemented by investments in SMEs and public-private partnerships to help suppliers achieve those targets. For example, the Food Securities Fund from Clarmondial and Convergence in Canada, which provides access to credit for local agricultural companies.

Finally, high-impact partnerships involving governments, civil society corporates and cross-industry collaborations are being created to tackle specific social or environmental issues. These are delivering new solutions and impact at scale. For example, HSBC works with the Joint Money Laundering Intelligence Taskforce and the Thomson Reuters Foundation to provide practical advice for banks on tackling human trafficking.

Critical Questions

- **Is your supply chain** proactive and collaborative?
- **Do you know what data** your key stakeholder groups want to see published and how they wish to receive it?
- **Don't work in isolation.** Are the right high-impact partnerships in place to build the right sustainable and transparent supply chain for your business?



Reporting smarter, not harder

Regulators, investors and financiers are pushing for better disclosure on Environmental, Social and Governance (ESG) factors, concerning performance metrics and accounting for risks and opportunities. Meanwhile, sustainability reporting standards bodies continue to charge ahead with their respective frameworks, charting a path that can be both complex and confusing for companies to follow.

The results, often, are reports that try to be all things to all people, don't fully meet anyone's needs and are read by only a few.

Leading reporters recognise that the users of sustainability information are diverse and have different interests. These companies are moving away from one-way reporting, to engaging in a two-way dialogue and using multiple formats, to reach relevant audiences in as real time as possible.

Great reports also have a laser focus on telling their unique story, using relevant standards and frameworks as tools to guide their disclosure. This helps to avoid falling into the trap of box ticking, where reports become long, dry and boilerplate documents that don't engage. Brands such as Santander UK now build their story from AI-led materiality assessments and insights.

For sustainability reporting to truly differentiate a company from its peers, it must be authentic. It must be part of, and reflect, a dynamic system that is integrated into the way the business is managed, not just an output.

Critical Questions



- **Do you know what matters** to each of your audiences and are you reporting accordingly?
- **Has the existing one-way reporting** made way for two-way dialogue that uses multiple formats?
- **Does your sustainability report convey the business' unique story** and reflect how the business is genuinely managed?



Now or never for climate change

With the World Bank doubling its investments in climate action to \$200bn from 2020-2025, and global insured losses from natural disasters are now at their highest levels with an annual average of \$55bn, 2019 promises to be a pivotal year in deciding whether the deep cuts in emissions and rapid transition to a low-carbon global economy look like fiction or reality.

Without rapid and transformational change from economies and industries worldwide, the chances of succeeding in limiting global temperature rise to 'well below' 2°C above pre-industrial levels, and avoiding dangerous climate change, look increasingly slim. And at a time when stray voices from major global powers contradict urgent calls from the scientific community for action, all eyes are on business to lead the way and act quickly and meaningfully.

The recommendations from the G20's Taskforce on Climate-related Financial Disclosures (TCFD) are spurring ever more scrutiny from investors on whether their funds and assets are equipped to respond and adapt to climate change. Companies failing to act fast and talk clearly and transparently about climate risk and opportunity, stand to lose out in a major way. That's why Shell has taken the lead in announcing its intent to link executives' pay to CO2 goals.

For business, it's now or never. Board-level oversight of climate change, a clearly communicated long-term climate strategy, and ambitious science-based GHG reduction targets (SBTs) supported by real action, are the 'new norm', and businesses falling behind have increasingly limited time to turn things around.

Critical Questions

- **Climate change is an issue for the board,** who need to understand the material risks and opportunities from climate change. Are these risks and opportunities being clearly communicated to investors and wider stakeholders?
- **Are you speaking up and leading the way?** How can you use the TCFD recommendations as an opportunity to start a dialogue with investors, regulators and other stakeholders?
- **Walk the talk.** Acknowledging the issue and outlining future plans to deal with it are no longer enough. Are stakeholders able to see real changes in the way businesses operate?



Take a political stance

In today's connected yet increasingly divided world, companies are struggling to stay politically neutral. Now consumers expect to see their political opinions reflected in their favourite brands. Brands such as Starbucks, Nike and Ben & Jerry's have found competitive advantage in defining themselves as liberal and progressive, while rivals such as Dunkin' Donuts appeal to more conservative tastes. Meanwhile, brands that have tried to remain above the fray – from Fred Perry to Papa John's – have found themselves co-opted by online hate groups.

In the age of continuous commentary, everything gets a reaction. As brands have sought to project a more 'human' face to their customers via social media, they are increasingly dragged into political debates online. Even seemingly non-controversial issues can attract vast amounts of unwanted attention. The challenge is to work out whether a particularly vocal group of online critics constitutes a threat or a minor annoyance.

Perhaps more worrying for many companies, is when a political issue becomes an internal contentious issue. In recent months, Amazon and Google have found themselves at odds with their employees over US military contracts. Google also faced an internal schism over an internal 'anti-diversity memo', while Facebook's and Twitter's internal struggles over freedom of speech and censorship have been widely reported.

In 2019, companies will need to find their balance between partisanship and neutrality. Failure to take a stance leaves a void that could be misinterpreted or misappropriated.

Critical Questions

- **Is the business avoiding taking a stand?** History will not look kindly on companies that stayed silent on – or worse, deflected from – the big issues. Many of your stakeholders now expect it.
- **Do you know how to best connect with your key audience?** Brands shouldn't shy away from creating a stir, if it helps them connect with a key audience.
- **Are you being authentic?** Consumers are savvy and will see through messaging on a topic that doesn't reflect the values of a brand and its employees.



CFO fluency in sustainable business

Issues that were previously the focus and domain of Corporate Responsibility & Sustainability departments, are now making their way into boardroom agendas and influencing core business strategies. As a result, the CFO is increasingly becoming the friend, not the foe, of sustainability initiatives.

With this trend comes even greater focus on the financials, and a need to demonstrate the business case for sustainable and responsible business practices. During CEO Paul Polman's tenure, Unilever delivered a Total Shareholder Return of 290%. This is the kind of language a CFO, and investors, can understand.

However, the Environmental, Social & Governance (ESG) factors that underpin an approach to sustainability, can often be tricky to translate into financial terms. In addition, frameworks to help fill in the gaps are becoming increasingly sophisticated. In October 2018, the Sustainability Accounting Standards Board issued its first-ever industry-specific accounting standards, after six years of research and market consultation. But it's by no means the only game in town, and there have been calls for better alignment between the ever-growing number of standards on ESG.

New financial products are also paving the way, including corporate bank loans (revolving credit facilities (RCF)) with interest rates linked to sustainability performance. These facilities are touted in mainstream investor communications by CFOs from the likes of Thames Water (£1.4bn RCF) and

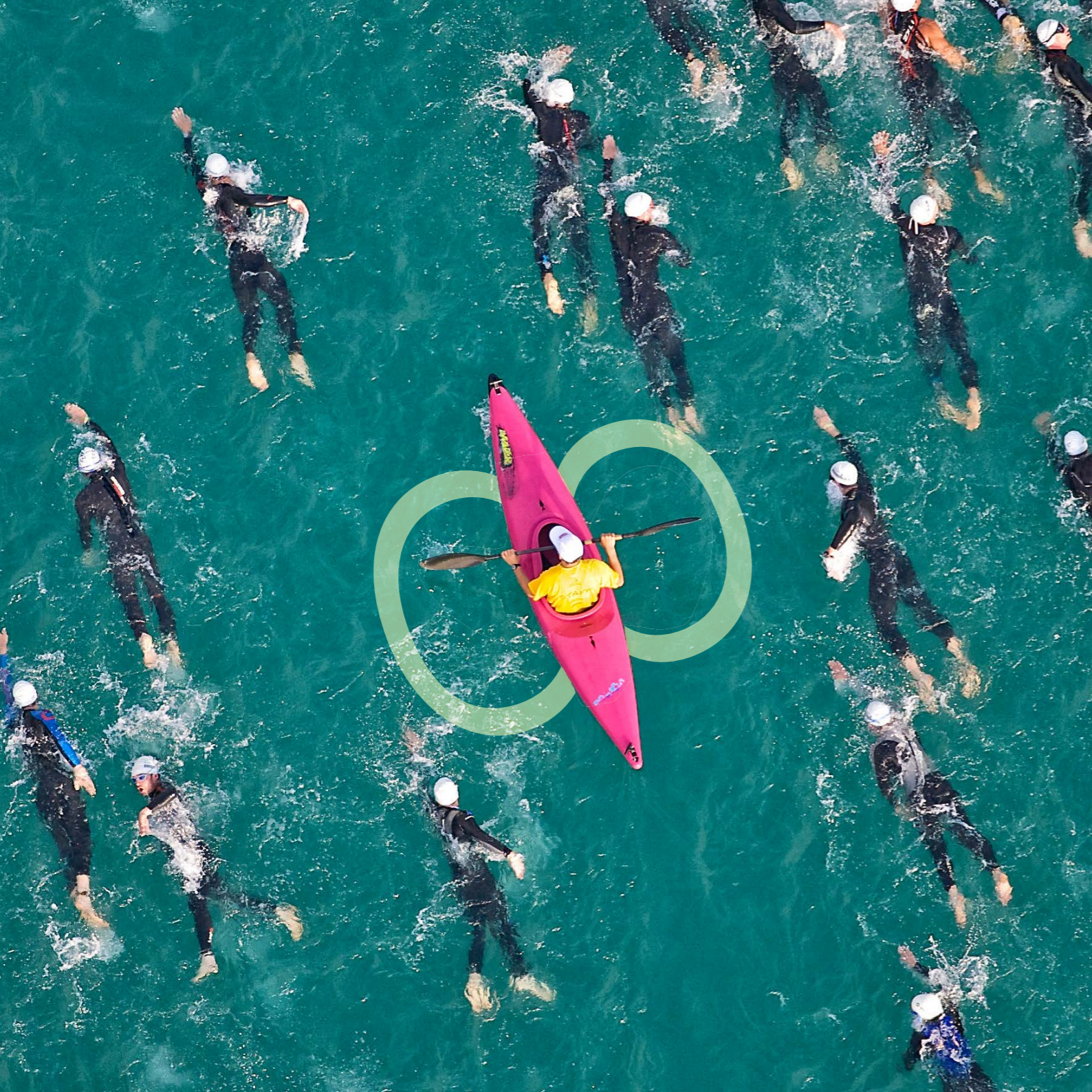
the insurer Generali (€2bn RCF). If these companies meet their ESG performance targets, they will see this translated into a lower cost of capital.

Quantification into financial metrics represents the final hurdle in full sustainability integration within an organisation. CFOs and the investment community will be instrumental in achieving this in 2019.

Critical Questions



- **Navigate the standards.** Have you made sense of the ESG rating and reporting landscape, and have you prioritised them according to your unique context?
- **Explore opportunities.** Are the ways in which you are leveraging your ESG information and innovative sustainability programmes helping you to attract investors focused on long-term investment and stewardship?
- **Are you differentiating through a new narrative** that engages new audiences interested in both long-term financial performance and ESG risks and opportunities?



The future of work and employee wellbeing

The relentless technological transformation of work is driving a new gig economy of more flexible, part-time work. Nurturing workforces through good human capital management is becoming more challenging than ever. In 2019, as the trend towards greater flexibility continues, we can expect new debates on the rights and responsibilities of both employers and employees, particularly in the following four areas.

Remote working and networking hubs: Cloud-base collaboration and HR tools such as Quip and Workplace are enabling employees to work from anywhere in the world. Co-working space provider WeWork, founded in 2010, is now the largest private-sector office occupier in London – catering to start-ups and freelancers. As this new economy blends the lines between working and living, traditional corporate environments will need to keep up – balancing flexibility for employees with a company culture.

Skills and the AI threat: The advent of Artificial Intelligence (AI) means that the skill-set employers require is changing. AT&T has committed \$1bn to retraining 250,000 employees. Turnover costs and lost time in getting new hires up to speed mean that retraining is cheaper and retains valuable institutional knowledge.

Meaningful work: The next generation of employees want to work for companies that demonstrate their purpose beyond profit – pledging to join and stick only with corporates that share their values.

Financial wellbeing: With physical and mental health benefits now commonplace, financial wellbeing is recognised as one of the biggest sources of employee stress. In 2019, expect more companies to provide financial goals planning and even emergency financial support.

Critical Questions



- **Meaningful work attracts and retains talent.** Is your Corporate Purpose being brought to life in meaningful and authentic ways? Are you nurturing the value exchange that your business offers your employees?
- **Have you clearly defined and communicated your obligations** to your contract and freelance workforce? Widespread criticism of, and legal cases against, gig-economy platforms such as Uber and Deliveroo, highlight the expectation for companies to go beyond meeting the limited minimum requirements.
- **Culture is even more critical when employees are no longer united** through the sharing of physical space. How are you supporting the cultural and emotional challenges of remote working?



Growth of mission-driven business models

For the past decade, many businesses have been focused on delivering 'digital-first' strategies, as they optimise their business models for the digital economy. But in a context of rising uncertainty due to political transitions and climate change – compounded by heightened stakeholder expectations for responsible and sustainable business – boardrooms are now taking a hard look at how to structure the business for long-term value creation.

Social enterprise and mission-driven businesses – by which we mean B Corps, social enterprises, blended-value organisations, and other designations – are increasingly on the radar of global companies. These new models are based on profit as the outcome of the business activities, not the purpose of it. Two key trends are emerging:

Certification as a B Corp: B Corps are those that meet the highest standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose. B Corps is a growing global movement of people using business as a force for good, and includes brands such as Patagonia, Hootsuite and Danone North America (the world's largest B Corp). B Corp certification is proving to be a powerful way to attract and retain talent, and to win business, as Danone's double-digit recurring earnings per share growth demonstrates.

Embedding social enterprise and mission-driven businesses in the value chain: Companies such as Philips and Unilever are exploring preferential procurement for social enterprise and mission-driven businesses, increasingly integrating B Corps and other for-benefits into their supply chains.

Critical Questions



- **How is your business meeting the heightened stakeholder expectations** for responsible and sustainable business? How could a mission-driven model or certification help you drive long-term value creation?
- **Does and should your ecosystem support social enterprise** or mission-driven businesses?
- **Is there an innovative public-private partnership** that could help evolve your business model?



Business on the front line

Around the world, as a number of national leaders step back from support for social and environmental issues, business has found itself on the front line of safeguarding environmental protections and human rights.

This results from a range of circumstances; whether it's austerity measures that reduce government spending on crucial public services, anti-inclusive regimes that place increasing restrictions on people's liberty, or anti-globalist administrations withdrawing from international agreements or covenants. Whatever the root cause, businesses are increasingly having to plug the gaps.

In 2017, after President Trump announced US plans to exit the Paris Agreement, hundreds of companies stepped up and affirmed their support for the climate agreement. Today, more than 2,000 businesses and investors have signed a letter supporting the agreement. Kenco, the coffee company owned by Mondelez International, has stepped in by setting up the Coffee vs Gangs initiative in Honduras, which has the world's highest murder rate, to help provide alternatives to gang life through coffee, by equipping young people with skills and support to become successful coffee entrepreneurs.

Expectations are shifting, and if businesses are to realise their aspirations, they need to know how to navigate their responsibilities in uncertain times. Business is increasingly on the front line to make an effective, relevant contribution while continuing to drive business value. Those taking a watching brief, or burying their heads in the sand, face criticism and performance setbacks as a result.

Critical Questions

- **What is the scope of your responsibility and aspiration to get involved?** Listen to the expectations of your key audiences to inform your response.
- **How can your key capabilities and resources be most effective?** Identify the need gap where you can genuinely make a difference.
- **Who do you need to work with to amplify your involvement?** Change cannot be made alone. Collaborative approaches with unusual alliances will become more prevalent.



If you would like to talk to Corporate Citizenship about how any of these trends will impact your business, and how to address the challenges that they present, please get in touch with your local office, listed below.

We're a global consultancy that starts with the very simple premise that just as individual citizens have rights, responsibilities and aspirations, so do companies. For more than 20 years we've helped businesses find their place in the world.

Working as critical friends, we ask the sometimes difficult questions, that challenge our clients to fulfil their responsibilities and ambitions through practical action. What kind of corporate citizen do you want to be?

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