

Business has an integral role in creating a thriving society in a thriving environment. Embracing the relationship with society, the environment and government creates a new strategic lens through which to view and judge business success.

Business through a new lens



84% of CEOs said that they are expected to address wider stakeholder needs

82% of CEOs say they prioritise long-term profitability over short term

76% of CEOs say business success is about more than just financial profit

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Redefining business success

Foreword

Our CEO Survey gives us a snapshot into how CEOs are thinking about sustainability issues and starting to incorporate them into their business. A key theme for this year is the CEOs desire to address wider stakeholder needs. It comes at a time when there is unprecedented inter-governmental agreement to tackle major world issues - issues that have a significant impact on individuals, communities and the environment. It's a sign that CEO's understand just how interconnected their business is with society, the environment and government – they see the bigger picture and are mindful of the need to understand and report on their impact.



Nearly 200 UN countries came together twice in 2015 to agree two unprecedented global commitments around sustainable development and climate change – and to achieve them by 2030. The Sustainable Development Goals (SDGs) and the Paris Agreement on climate change put difficult challenges under the spotlight and signal a switch from short to long-term strategies to deliver change.

Significant investment will be required to tackle these major world issues and, in my view, business will be the critical player in their success. The business community can expect a new wave of goals related regulation and policy. But I believe that business will be the driving force behind achieving the Global Goals in its own right, whatever the regulation brings. This global commitment to longer term outcomes is a unique opportunity for CEOs to think about their decision making and strategy through a new lens - one that considers, as well as the usual financials, the value of their contribution to society and their impact on achieving the Global Goals.

To maintain an open dialogue with government and other stakeholders, CEOs will want to understand the impact their business has (both positive and negative) and how it helps or hinders a government to achieve its aims. This means measuring business impact and putting a value on the outcomes and contribution to society, and then using this knowledge to shape strategy and investment choices in line with the SDGs. This approach has the makings of a win:win situation.

In this year's PwC 19th Annual Global CEO Survey, CEOs admit they are feeling the pressure to address wider stakeholder needs but, perhaps surprisingly, also stating that it's a profitable approach. This is where business is often seen at its best, when it brings scalable and profitable solutions to market that benefit society and business performance simultaneously.

- 84% of CEOs say they are expected to address wider stakeholder needs and 76% say that business success is about more than financial profit alone
- 52% of CEOs say creating value for wider stakeholders drives profitability and 27% say customers seek relationships with organisations that address wider stakeholder needs

The tone from the top is a positive picture of how CEOs perceive their business's contribution to, and its relationship with, society – a quick glance at the highlights opposite reinforces this. All the signs point to business embedding sustainability thinking, with the result that it's becoming a mainstream approach to business-as-usual. This shouldn't be surprising as it's common sense that business gives priority to its own longevity and reputation, risk management and resilience, in effect the cornerstones of sustainability.

Malcolm Preston
Global Sustainability &
Climate Change Leader

PwC 19th Annual Global CEO Survey

The CEO findings in this report are taken from 'Redefining business success in a changing world' which explores how CEOs are addressing current issues. We surveyed 1,409 CEOs in 83 countries and a range of industries in the last quarter of 2015, and conducted face-to-face interviews with 33 CEOs.

Highlights from the PwC 19th Annual Global CEO Survey

84% of CEOs said that they are expected to address wider stakeholder needs



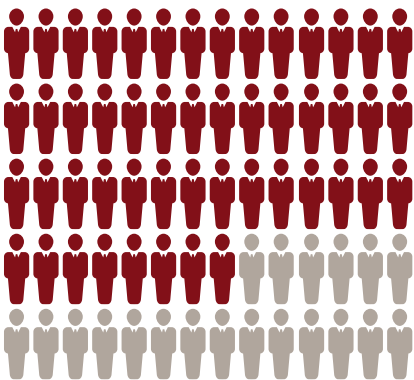
82% of CEOs say they prioritise long-term profitability over short term



76% of CEOs say business success is about more than just financial profit



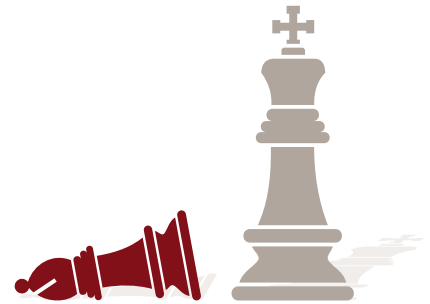
72% of CEOs say they report on non-financial matters as well as financial



67% say their purpose is centred on creating value for their stakeholders



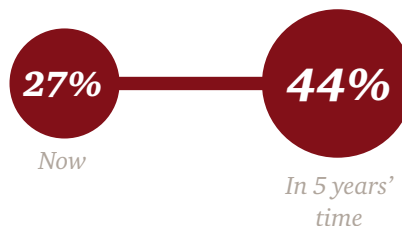
69% of CEOs say that governments and regulators have a high or very high impact on business strategy



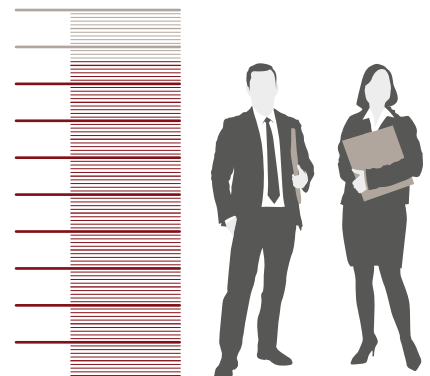
79% of CEOs said that they are concerned about over regulation being a threat to business growth



27% of CEOs said that their customers seek relationships with organisations that address wider stakeholder needs (44% of CEOs agreed customers will over the next 5 years)



86% of CEOs say they are changing how they measure success and what they hold themselves accountable for



Report notes:

- Not all figures add up to 100% due to rounding of percentages and exclusion of 'neither/nor' and 'don't know' responses
- The base for figures is 1,409 (all respondents) unless otherwise stated

The business environment is changing

“There’s always that challenge of determining whether the metrics of success will be for today or for the future. Looking at the short term and the long term there’s always been that trade-off between the business imperative and the social imperative. I believe that they both have to strike the right balance but the challenge is how to get that right balance. I also believe strongly that the search for responsible private profit can sometimes lead to the creation of social good.”

Larry Ettah
Group Managing Director,
UAC of Nigeria
Source: PwC 19th Annual
Global CEO Survey

As the global population grows and everyone seeks a better lifestyle, pressure on the planet and its finite resources grows too. The implications are significant for everyone – poverty, hunger, health, access to water, energy and work, resource scarcity and the impact on the environment. It is reason enough for 193 UN member states to come together to confront these major issues, driving an agenda centred on ‘dignity for all’ and ‘leaving no-one behind’.

It’s an agenda that will that will have a significant impact on business and start to shape its strategy. As targets and indicators are put in place, action plans are implemented, and regulation and policy enforced, so business will feel the impact.

But are the business models of today equipped to deal with this? Those focused purely on profit with a by-product of depletion and damage will find themselves operating in a more difficult environment. In many ways, business no longer has the luxury of operating in isolation.

It shares infrastructure, land, resources, people, energy, water and so on with the community. So as governments attempt to set the bar higher for society, business will feel the effects too. A healthy relationship with society and government is critical.

This new emphasis on the wider influences on business, the focus on broader impacts and stakeholders, is a fundamental shift. It is one that is not lost on CEOs either. In PwC’s 19th Annual Global CEO Survey 84% of CEOs said that their business is expected to address wider stakeholder needs. CEOs also recognise the power governments and regulators exert on their business, with 69% saying they have a high or very high impact on their organisation’s strategy.

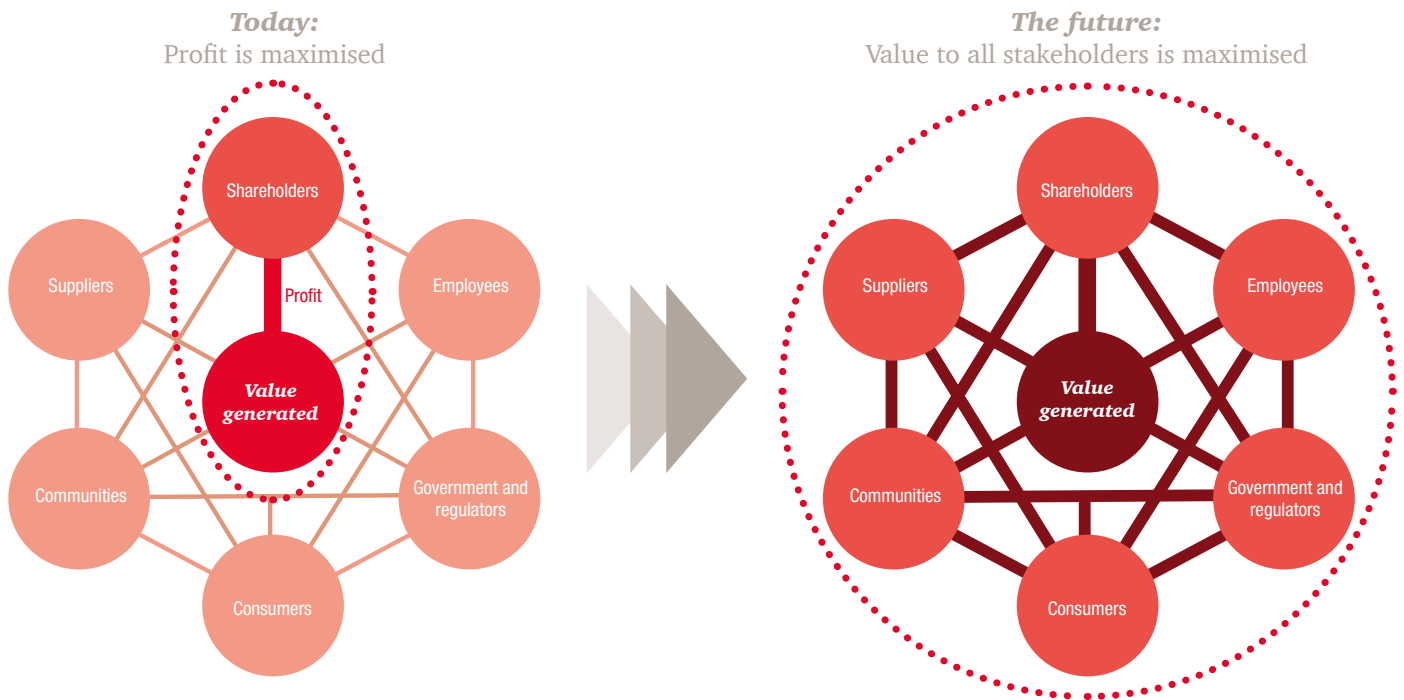
What does this look like in practice? Who are these stakeholders and what are their demands on business? How will relationships with governments change? Here we explore the survey findings through a new strategic lens that focuses on the role of business in society, sharing CEOs’ thoughts on the issues and challenges that they face, and the implications for business.¹ For more CEO views from the main report, go to www.pwc.com/ceosurvey

Moving from shareholder to a stakeholder

Moving away from a shareholder-centric position to one that takes into consideration other influencers is a very different way to look at business (see Figure 1: Moving from a shareholder to a stakeholder model), and one that could drive very different strategies and outcomes. Shifting the emphasis from shareholder and share price, and appeasing investor pressure for results in the short term, is difficult – it takes a clear vision and strong

¹ Unless otherwise stated the statistics presented in this report reflect the findings of the PwC 19th Annual Global CEO Survey

Figure 1: Moving from a shareholder to a stakeholder model



Source: PwC

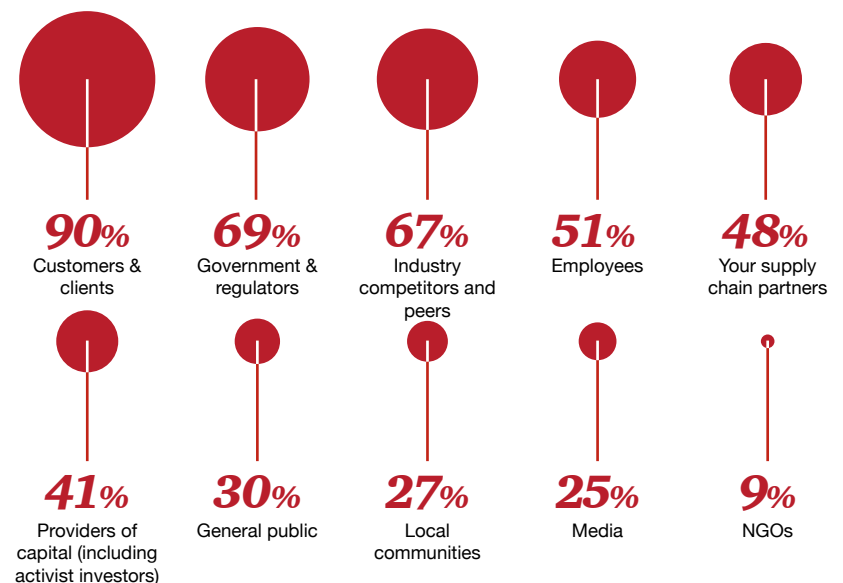
leadership to achieve. But CEOs tell us they are moving down this road. They say they are in it for the long haul (82% of CEOs say they prioritise long-term profitability over short term) and recognise that their reason for being is centred on creating value for their stakeholders, not just their shareholders (67% of CEOs said yes, increasing to 76% for CEOs running larger \$10bn+ firms).

Looking from the inside out and adapting the model to maximise value to stakeholders, not just shareholders, makes good business sense. It's about understanding who has influence on an organisation's strategy and respecting their interests (see Figure 2: Who's influencing my strategy?).

For CEOs, their customers, government and competitors/peers have a big influence on business strategy. Understanding their needs and working towards addressing them, can help maintain reputation and a licence to operate.

Figure 2: Who's influencing my strategy?

Q: What impact do the following wider stakeholder groups have on your organisation's strategy?
 Respondents who stated 'high' or 'very high impact'



Source: PwC 19th Annual Global CEO Survey

A thriving society in a thriving environment – business in context

Taking a step back again and looking from the outside in, where does business really fit in to the bigger picture? It's generally acknowledged that a thriving society in a thriving environment is good for us all and welcome. If this outcome takes a central position, what role does business play in achieving it?

“...businesses in the future – in order to be properly measured – should take into account all the impact they have on society, not just the financial ones.”

Fernando Gonzalez Olivieri
CEO, CEMEX, Mexico
Source: PwC 19th Annual
Global CEO Survey

“The industry is changing very fast, and we need to change with it... It's an exciting area, where daily life, the economy, geostrategic considerations, regulations, etc., intersect. It's the world's future.”

Jean Bernard Lévy
CEO and Chairman,
EDF, France
Source: PwC 19th Annual
Global CEO Survey

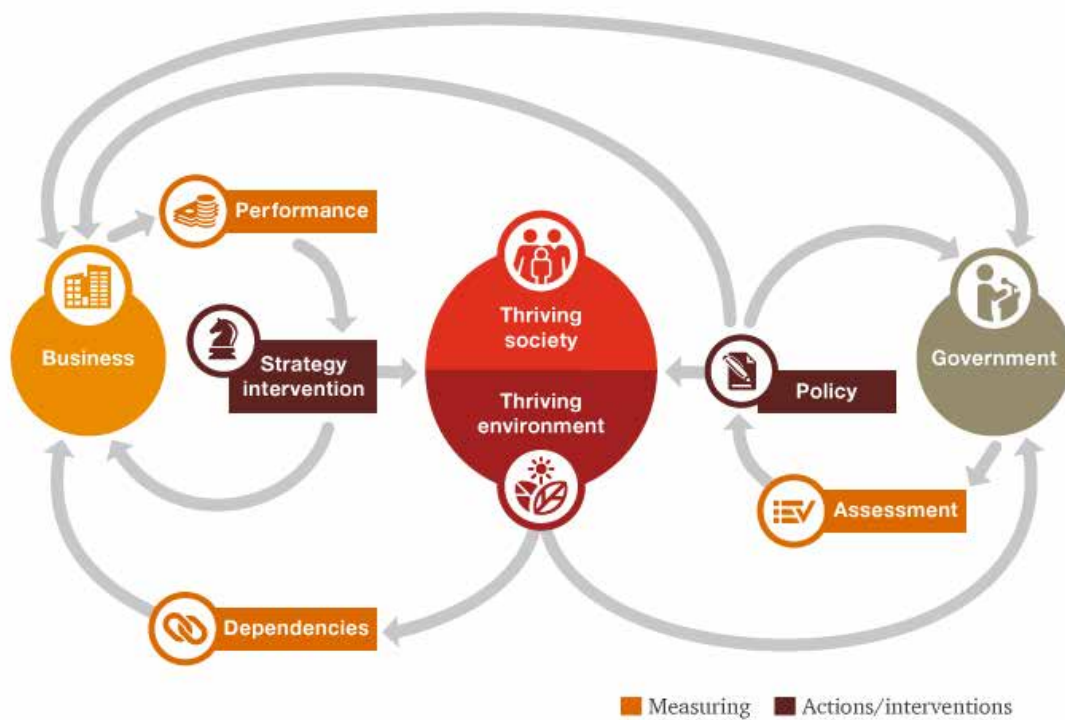
We all have a basic expectation for clean air and water, safe streets and housing, human rights, a job, peace and so on. It sounds like a low bar to reach, but for many it is still not a reality. When it does happen, it's not by accident – it takes planning, consensus, investment, enforced regulation, commitment and stability – and two key institutions drive it, government and business (see Figure 3: Interconnected – business in context).

Government and business make and implement decisions that can have a real and lasting impact on society and the environment, for the better or the worse, and across the short and long term. Government defines and drives policy and regulation; and business defines and drives its strategy. Business, alongside government, has a key role in driving the ability for a society to thrive... or decline.

It works in the best interests of business to be operating in a thriving society in a thriving environment, as it's not all one way ... society provides the votes, taxes, the employees and customers, and the environment provides the land, the resources, the water and the air. There are very clear relationships, responsibilities and dependencies which need to be recognised and managed.

CEOs are aware of their business dependencies – without customers, there is no business; with non-compliance comes fines or even closure; without workers, revenue declines. In fact, 90% of CEOs say their customers and clients have a high or very high impact on their organisation's strategy; 69% of CEOs say that governments and regulators do as well; and 51% of CEOs point to employees as a big influence.

Figure 3: Interconnected – business in context



Watch the video 'Business as a pivotal driver of a thriving society in a thriving environment' to bring to life the model 'Interconnected - business in context'.
Malcolm Preston, Global Sustainability Leader, explores how business fits into the bigger picture.



www.pwc.com/businessincontext

Source: PwC (find out more at www.pwc.com/BusinessInContext)

The 'Interconnected - business in context' model acknowledges the importance of the relationships and the interconnectedness of the actors involved. A business that is considering its wider impacts and stakeholders understands how it fits into this bigger picture – it recognises that its activities have consequences for others and understands its contribution (positive and negative).

In the past, for some companies, the relationships between business and society and business and the environment were conveniently overlooked. Much was hidden from view, happening behind the scenes. However, with new technology for data and image collection and storage, and the ability to share quickly and widely, secrets are harder to keep and old school behaviours are easily exposed.

There is an added complexity nowadays too – it's no longer sufficient for a business to do just enough. In recent years, tax decisions have been in the spotlight, with certain companies paying the right amount of tax in the eyes of the law,

but not in the eyes of the people (or necessarily the government). Issues around a moral acceptability and accountability are coming into play. It's further evidence for how interconnected business is within society and the importance of identifying, acknowledging and navigating all the material relationships effectively.



When you think about your stakeholders, who's influencing your strategy and how?

Your stakeholders have differing needs. How do you balance them effectively and deliver optimal solutions?

How can you improve the relationship with your stakeholders to better manage their expectations?

Shaping business strategy

“A highly-profitable modern company has to invest in its employees, the global environment, and a better life for others.”

Herman Gref
CEO and Chairman of the Executive Board, Sberbank, Russia
Source: PwC 19th Annual Global CEO Survey

The impact business has on society and environment is often talked about, whether it's through advertising or annual reports, or updates in the news about site closures, profit announcements, relocations or failures to meet minimum standards and expectations. What we hear less about though, is its dependencies. Business is dependent on society for its customers, employees and reputation; it's dependent on the environment for its basic materials, resources and land. Both influence decisions and shape strategy as these dependencies often manifest themselves as risks.

A dependency on society

Skills and employment is one example of a dependency business has on society. Concerns over the availability of key skills is a real issue for CEOs, so much so that 75% think it is a priority for business. 53% of CEOs say that a skilled, educated and adaptable workforce should be a priority for government, but only 26% think that the government is effective in creating it (see Figure 4: Perspectives on employees). CEOs are having to take action themselves to address the issue, identifying and quantifying the risk, and implementing initiatives to make sure productivity is maintained. Increasingly, business is becoming aware of how dependent it is on society to provide the right talent and the need to take ownership to ensure the right skills are available to not only operate but grow.

Consider the case of Ghanaian cocoa farmers – with an average age of 50 and an average life expectancy of 60, cocoa production looked set

to decline rapidly over 10 years. Companies along the value chain needed to engage with and invest in skilled workers to maintain supplies. Understanding the specific issues impacting on talent was fundamental as well as developing new business and financing models to address them.² It's no longer sensible or sufficient just to focus on the inputs and outputs, there's a requirement to understand and manage the dependencies too, in order to reduce potential risks in the supply chain.

Figure 4: Perspectives on employees

- Q: Which three of the following outcomes do you think should be priorities for business to help deliver in the country in which you are based? Respondents who stated 'A skilled, educated and adaptable workforce'
- Q: Which three of these outcomes do you think should be government priorities, in the country in which you are based? Respondents who stated 'A skilled, educated and adaptable workforce'
- Q: How effective do you think government has been in achieving a skilled, educated and adaptable workforce in the country in which you are based?

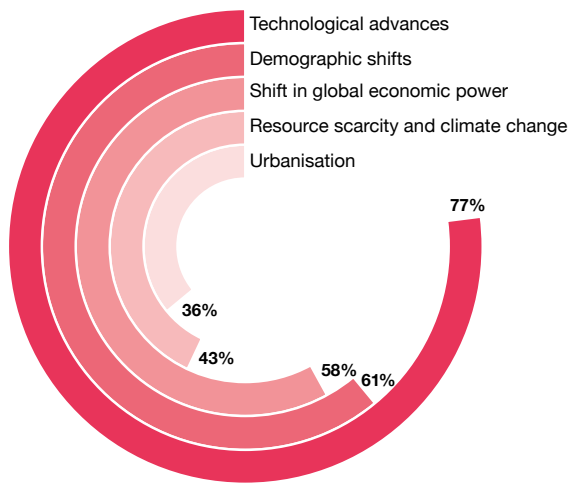


2 Future of chocolate: Attracting the next generation of cocoa farmers By Oliver Nieburg+, 02-Jul-2014

Source: PwC 19th Annual Global CEO Survey.

Figure 5: What's set to transform wider stakeholder expectations?

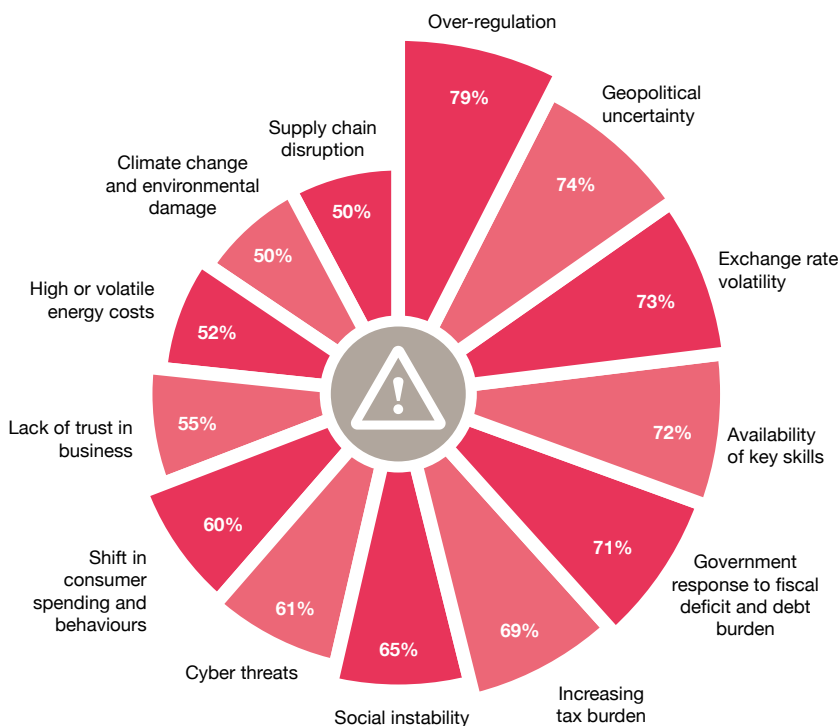
Q: How concerned are you about the following potential economic, policy, social and environmental threats to your organisation's growth prospects?



Source: PwC 19th Annual Global CEO Survey.
Note: Percentage of respondents ranking first, second or third

Figure 6: Key threats to business growth

Q: How concerned are you about the following potential economic, policy, social and environmental threats to your organisation's growth prospects? Respondents who stated 'extremely' or 'somewhat concerned'



Source: PwC 19th Annual Global CEO Survey

Business is dependent on other factors grounded in society and the environment too. We see this in the megatrends that CEOs believe will be transformational (see Figure 5: What's set to transform wider stakeholder expectations) and the threats to growth that they face (see Figure 6: Key threats to business growth). For business to survive, not only understanding these dependencies, but also quantifying their impact and predicting the timing, will be crucial.

A dependency on the environment

The physical environment and climate are both areas CEOs would no doubt want to be able to control and predict, but both have a significant direct and indirect impact. What does it mean for risk exposure and managing business continuity? It reinforces how interconnected business is with and dependent on society and the environment. For more on dependencies see 'When risks bite back' on page 15.

Business has an impact on the environment. For example, it changes land use to grow crops or extract resources or build factories etc, or diverts rivers to provide water and power – it can have a significant impact on bio-diversity and ecosystems. And when it's a negative impact, e.g. pollution or CO2 emissions, it gets extensive coverage in the media.

But it's not all one way as CEOs are all too aware of the impact the environment has on their business too (see Figure 7: Climate change is on the CEO agenda). 50% of CEOs are concerned about climate change and environmental damage and 43% ranked resource scarcity and climate change in their top three megatrends that will transform their business.

The pressure on resources is mounting so business is right to recognise this as a risk. Business is dependent on all manner of resources including water, energy, oil, land, chemicals and agricultural commodities too. All are required in the right quantities, quality and price, and delivered at the right time – too much, too little, too late or too expensive can result in unexpected costs and delays.

Extreme and variable weather patterns have their impact too. Floods, extreme temperatures and higher wind intensities damage infrastructure, change land use and disrupt business by preventing supplies arriving, delaying distribution to market and damaging product.

Perhaps the easiest way to assess the physical impacts of a changing climate is to look at how insurers view the risk. An industry that builds its reputation on accurately quantifying risk, it will be the first to adjust premiums and capital reserves in line with any climate change risk. In the UK, The Met Office and the Association of British Insurers (ABI) joined forces to estimate the financial impact of climate change. Extensive actuarial modelling, suggest that a 21% rise in premiums and a 30% rise in capital to insure flood losses would be needed to cover the increase in risk.³

More research from the ABI, this time looking at the US and Japan, suggests insurers' capital requirements could increase by over 90% for US hurricanes, and by around 80% for Japanese

typhoons under high emission scenarios where carbon dioxide levels double. In total, an additional \$76bn could be needed to cover the gap between extreme and average losses resulting from tropical cyclones in the US and Japan. Higher capital costs combined with greater annual losses from windstorms alone could result in a 60% rise in premium in these markets.⁴

These figures consider more than commercial financial losses alone (residential and societal costs, e.g. to schools and hospitals are included too) but nevertheless the impact on business from climate change cannot be underestimated as it shares the same infrastructure. The impact of climate change will hit the bottom line, not just in terms of physical damage to property or product, but also in terms of delays in distribution as roads or railways are damaged or suppliers are no longer able to fulfil orders. In addition, there is the potential for customers to no longer be in a position to buy.

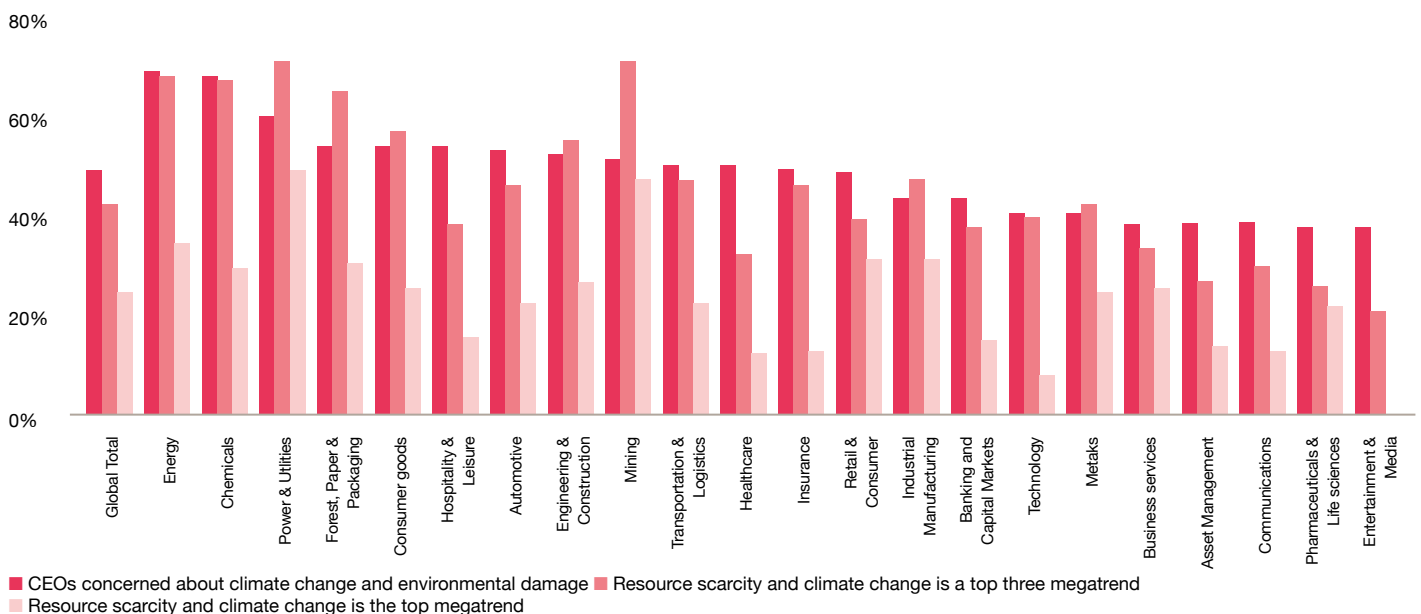
"... the planet's natural resources are limited. The Sacyr Group is prepared for the global threats of water shortages, energy demands and preserving biodiversity, not only to lessen the impact they could have on our business, but also to help societies and governments manage these scant resources."

Manuel Manrique
President and CEO,
Sacyr, Spain
Source: PwC 19th Annual
Global CEO Survey

Figure 7: Climate change is on the CEO agenda

Q: How concerned are you about the threat of climate change and environmental damage to your organisation's growth prospects? Respondents who stated 'extremely' or 'somewhat concerned'

Q: Please rank the top three global trends most likely to transform wider stakeholder expectations of businesses within your sector over the next five years? Respondents who ranked 'Resource scarcity and climate change' in their top three / top



Source: PwC 19th Annual Global CEO Survey

How CEOs view resource scarcity and climate change differs dramatically depending on their industry. One quarter of CEOs view resource scarcity and climate change as their top megatrend set to transform wider stakeholder expectations, rising to half of power and utility CEOs and 48% of mining CEOs (see Figure 7: Climate change is on the CEO agenda). It's likely that there are two factors driving this – the impact of the megatrend itself and the potential for regulation to have a significant influence too. And regulation is only set to strengthen.

Managing regulation and climate change risks

In 2015, 195 governments adopted the Paris Agreement and committed to cutting greenhouse gas emissions in order to avoid more change in the climate. The aim is to achieve net zero emissions by the end of this century and limit warming to 1.5°C – it's a stretch goal, one that's more ambitious than the 2°C many expected. But the deal itself recognises the big gap between the overall global goal and current national climate policies and emissions targets.

Companies now have to manage the risks of both climate policy that aims for a 1.5-2.5°C rise (affecting their operations and markets) and potential climate impacts of 3-4°C of warming. In particular, companies may start to consider the following:

- How do you assess climate change risks? What are the most material risks?
- What are the climate risks (physical & policy) associated with new projects?
- Can an internal carbon price support cleaner investment decisions?
- What is the appropriate level of disclosure related to climate risks and how might this change in future?

Lenders, investors and asset managers will want to assess how these risks affect their portfolios.

“What has changed recently is our sharper focus on low-carbon electricity. Responsibility is also an important factor for us, because we sell a vital product and have a mission to provide a public service.”

Jean Bernard Lévy
CEO and Chairman,
EDF, France
Source: PwC 19th Annual
Global CEO Survey

Our Low Carbon Economy Index estimates that to limit warming just to 2°C, the world economy needs to decarbonise at a rate of 6.3% every year. The current Nationally Determined Contributions (or national emissions targets), only achieve an average decarbonisation rate of 3% per year, leading to roughly 3°C of warming. This suggests that business faces both the risks arising from increasingly ambitious policies and regulations designed to reduce emissions and accelerate the low carbon transition and the physical risks implied by 3°C of warming.

Implications for business

Coal is being targeted, as countries try to accelerate decarbonisation – in Paris, reductions in emissions from coal-fired power plants were and remain at the forefront of many national pledges. It means significant change for the coal mining and energy production industries. It will mark the end of an era, as governments scale back investment in and ultimately close down ageing coal-fired power stations, and encourage greater investment and innovation in cleaner fuel sources instead.

As governments closely monitor national emissions to stay on track, there will be increasing pressure on industry to report and reduce carbon emissions. More and more governments are putting a price on carbon – whether through a tax or a cap and trading scheme. Giving carbon emissions a value encourages polluters to cost it into their investment decisions and products and/or reduce the amount of greenhouse gas they emit into the atmosphere. Perhaps passing carbon costs on to consumers might be considered no bad thing, as increasing the price of carbon-intensive goods should ultimately shift demand away to lower carbon options, opening up opportunities for alternative or recycled materials. Staying competitive becomes a balancing act – who will want to be the first to increase prices? And how will international companies comply – adopt multiple standards to meet individual government requirements or a universal best practice that might exceed requirements in some countries?

3 The financial risks of climate change <http://www.metoffice.gov.uk/services/finance/abi-report>

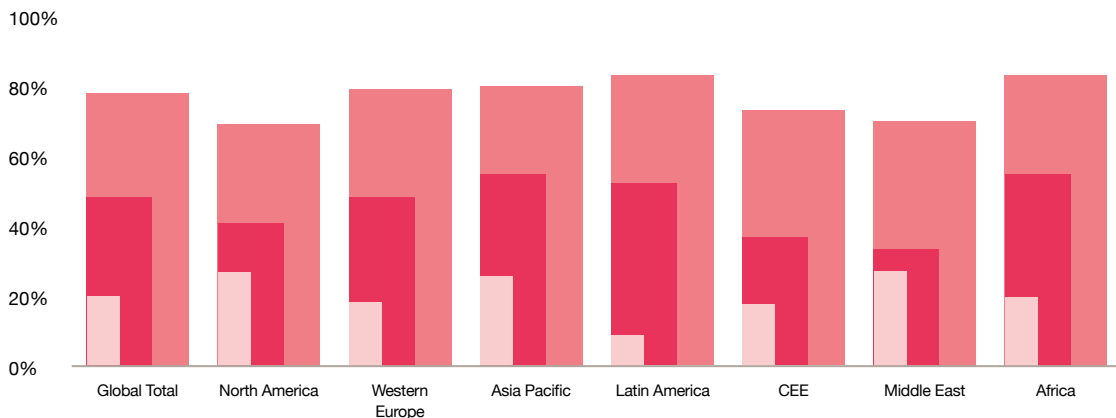
4 Financial risks of climate change, ABI, June 2005
<http://insurance.lbl.gov/documents/abi-climate.pdf>

Figure 8: Environment is a concern, not a priority?

Q: Which three of the following outcomes do you think should be priorities for business to help deliver in the country in which you are based? Respondents who stated 'Reduced environmental impacts'

Q: How concerned are you about the threat of climate change and environmental damage to your organisation's growth prospects? Respondents who stated 'extremely' or 'somewhat concerned'

Q: To what extent are you making changes in response to changing stakeholder expectations in... How you minimise social and environmental impacts of your business operations?



■ Reducing environmental impacts should be a priority for business to deliver ■ CEOs concerned about climate change and environmental damage ■ CEOs who are making changes to minimise their social and environmental impacts

Source: PwC 19th Annual Global CEO Survey

Business will therefore have to pay even more attention to the impact the environment has on its strategy and manage the risks effectively. The direction of travel is very much around decoupling the relationship between economic growth and carbon intensity, and reducing carbon consumption will play out through regulation and incentives. Business will need to respond, building carbon costs into investment decisions and pricing structures, reshaping product portfolios, and reviewing lifecycles to incorporate new thinking e.g. around the circular economy (re-use, refurbishment, remanufacturing and recycling) in attempts to maintain competitive advantage.

Despite all these environmental issues circling industry, CEOs have mixed views about their role in creating a thriving environment. Half of CEOs are concerned about climate change and environmental damage and 80% of CEOs say they are making changes to minimise the social and environmental impacts of their operations, but only 21% of CEOs say reducing environmental impacts should be a priority for business (see Figure 8: Environment is a concern, not a priority?)

If CEOs don't view the environment as a priority for themselves or government, is the dependency that exists going unnoticed, and therefore unquantified, increasing any exposure to risk. This is one area that is difficult to control or predict, but has significant impact both direct and indirect (the impact of others' actions has a knock-on effect too). Again, it reinforces how interconnected business is with and dependent on society and the environment.



What are the risks your business will face as a result of a changing climate?

If you're dependent on resource that's becoming scarce (including water in your local area), how are you adapting?

How will new carbon legislation impact your business? What will your response be?



How do you manage your dependencies to reduce your risks?

Do you know when you'll need to take action to internalise externalities and how much it will cost?

What initiatives are required to internalise some of the risks your business faces?

When it comes to understanding your impact and taking responsibility for your environmental impact, are you ignoring it or actively engaging?

When risks bite back

Risk management is fundamental to business success and it is high on the agenda of CEOs. It's the mandate of the CEO to continually take calculated risks, for example, currency exchange movements, labour market growth, hedging resource prices and consumer preferences. They continually monitor the outcomes too to make sure competitiveness isn't impaired and to put in place interventions to reduce risks where possible. Risks take many forms, but the ones that are often missed tend to be driven by things that are either taken for granted (e.g. water, land) or are the consequences of doing business that society (and other businesses too possibly) picks up, but identifies as an unacceptable cost (e.g. pollution).

It's easy to be dependent on things that you take for granted, especially if they don't come with a ready price e.g. clean water. Often when things are free, they are not valued with rigour. For instance, if a business is tied to coastal environments for water, increases in flooding events and sea level rises will affect its operating environment. It may not always be front of mind to measure or manage such things, to invest in contingency plans or alternative solutions, or to have updated insurance in place.

Equally, business operations too often result in costly headaches for others – externalities. When these costs aren't factored into the

business's profit and loss account (P&L), it's left to society and the taxpayer to bear the brunt of the problem. If a business takes too much water from local sources, the local community could suffer shortages resulting in, for example, insufficient water to irrigate crops and for basic hygiene resulting in reduced income, malnutrition and disease. Air and water pollution are other examples – the business may not directly bear the costs of cleaning up pollution or the time and medicines required to treat those affected. But increasingly businesses are now having to take on board these costs themselves (internalising the externalities), be it directly through regulation, taxes, reduced operating hours, or the loss of a licence to operate, or indirectly through consumer behaviour or via the knock-on effects of environmental degradation on the business's operations (e.g. reduction in soil fertility on crop production).

Understanding dependencies in full, recording and calculating the real value to business accurately in the P&L will help identify potential risks. Knowing there is a risk is only the first step. It is important to quantify risk exposure to manage it effectively, and make a business more resilient and less open to expensive and unplanned surprises. Business can gain competitive advantage by proactively addressing its dependencies and negative impacts in this way, not only for direct operations but throughout the value chain as well.



Engaging with government to achieve common goals

Business and government have a close relationship. Taxes need to be paid, regulation needs to be complied with, contracts need to be secured and a licence to operate needs to be maintained. It's about a two-way dialogue with government looking to sustain a thriving society and achieve economic growth, and business wanting to stay in business and remain competitive. We're seeing government appetite for change come through in the Paris Agreement, but governments have a lot more on their agenda now too.

“That’s going to be the model for the future. If a leader’s only responsibility is an old-world definition of capitalism, he or she had better expand that definition or they’ll lose confidence from the governments they interface with and from their customers.”

John Chambers
Executive Chairman of the Board, Cisco Systems, Inc., US
Source: PwC 19th Annual Global CEO Survey

In September 2015, 193 UN member states came together to ratify the Sustainable Development Goals. These cover 17 major world issues: everything from ‘no poverty’ and ‘good health and well-being’, to ‘decent work and economic growth’ and ‘climate action’. They’re to be achieved in developed countries as well as developing countries. The challenge ahead for governments is daunting, with significant commitment and investment required to drive any real change:

- 1) Governments will seek to achieve their targets and goals by devising and implementing new policy and regulation, and promoting new incentives. Defining limits and boundaries on negative influences, and encouraging positive behaviours and initiatives will shape a new direction for a country and, collectively, for the world.
- 2) Governments will also need to invest heavily in data – identifying data gaps, establishing new data sources, implementing data collection procedures and managing the data for comparison and analysis. They’ll do this not only to establish their starting point on the targets they’re trying to achieve, but also to monitor their progress and manage the impact of their interventions, so they know when they’ve succeeded. Ideally, they’ll want it in a more realistic real time too, without years long delays.

The implications for the business community are significant. There is growing recognition that business will play an important role in helping governments achieve their targets, not by donating funds to useful projects, but by reviewing their activities and behaviours to identify where they make a positive contribution towards the SDGs and where they don't. It could be the tipping point where reducing negatives is no longer enough and the accepted norm becomes achieving an impact that's net positive.

Business, government and society, for that matter, will have to come together in a way that's not been seen or tried before. The emphasis on achieving these goals will start to define business as the critical element in the solution that delivers them, not just a possible contributor to the problem causing them.

Will the Global Goals bring government and business closer?

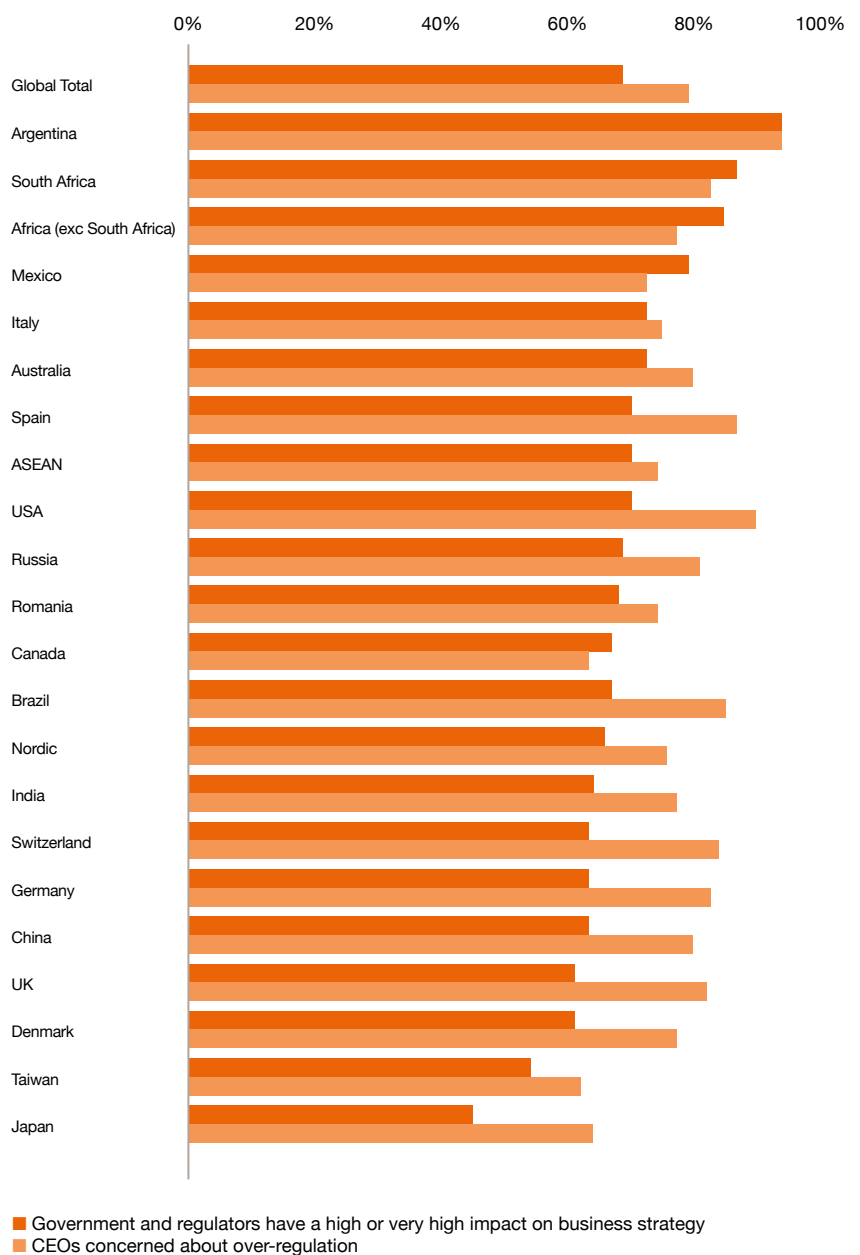
CEOs recognise that governments have a significant impact on their business strategy. The regulation, policy and tax incentives that government puts in place either serve to incentivise and promote best practice or set boundaries for behaviour and potentially restrict growth. As we have noted, 69% of CEOs recognised that government has a high or very high impact on their business strategy and 79% of CEOs said that they are concerned about over regulation being a threat to business growth. Investing in a two-way dialogue is very much to be encouraged to help facilitate fair regulation and maintain business continuity.

There is no uniform approach from government; each country defines its own laws so it's no surprise that the experience of CEOs differs – over 80% of CEOs in Argentina and South Africa report that governments have a very high or high impact on business strategy (see Figure 9: Government has a big impact on business). This has implications for doing business in these countries, not only for domestic organisations, but also for those seeking to expand operations. It has implications for business when it comes to governments achieving the SDGs – will businesses here have even more demanded of them?

Figure 9: Government and regulators have a big impact on business (by country)

Q: What impact do Government and regulators have on your organisation's strategy? Respondents who stated 'high' or 'very high impact'

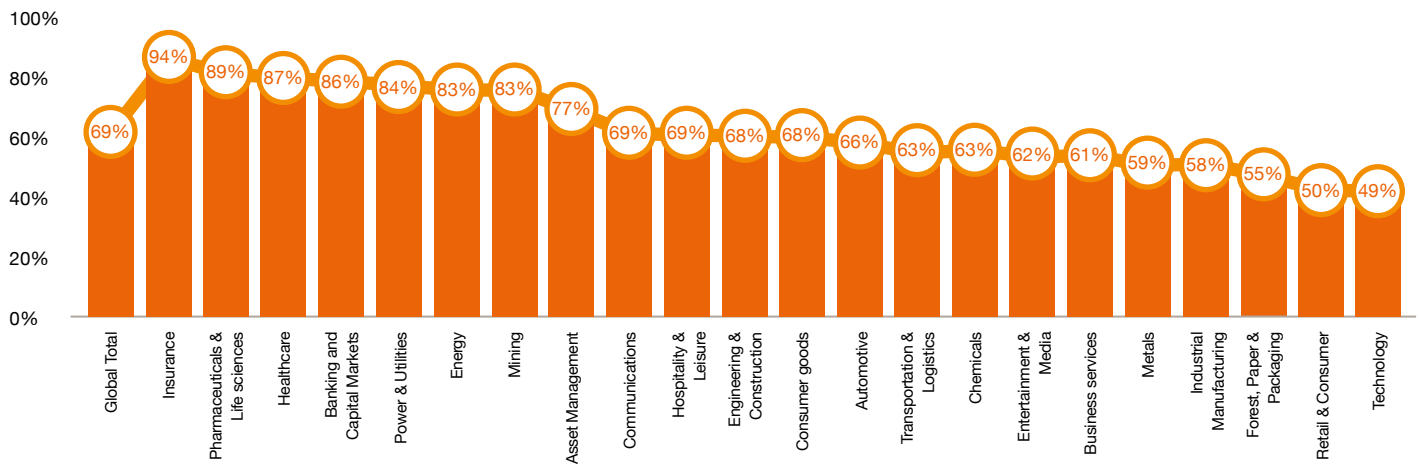
Q: How concerned are you, if at all, about Over-regulation? Respondents who stated 'somewhat' or 'extremely concerned'



Source: PwC 19th Annual Global CEO Survey

Figure 10: CEOs say government has a very high impact on business strategy (by industry)

Q: What impact do ...Government and regulators... have on your organisation's strategy? Respondents who stated 'high' or 'very high impact'



Source: PwC 19th Annual Global CEO Survey

By industry, it's evident that government has a strong grip on some industries and a light touch on others (see Figure 10: CEOs say government has a very high impact on business strategy). Although 69% of CEOs say that government has a high or very high impact on business strategy, there is a broad spectrum with over 94% of CEOs from Insurance and 89% of CEOs from Pharmaceuticals and Life Sciences agreeing, compared to half of CEOs from Retail and Technology. Again, when governments implement plans to achieve the SDGs, will these industry CEOs be the ones reporting even greater levels of government impact, and will other industries start to feel the bite of regulation and what it means to operate in a more structured / regulated environment?

New government regulation is a risk businesses will need to factor in to their business planning and strategies. It's a dependency that shouldn't be overlooked, especially by those companies which have not experienced significant regulation to date. There are usually cost implications associated with change – in the US, academics estimated that regulation would cost the American economy \$1.882 trillion in 2015.⁶

CEOs would be wise to calculate the costs to their own business, both in investment terms to meet new requirements, e.g. upgrading existing technology, and R&D if current practices are ruled defunct or become too expensive to continue with.

There will be opportunities too. Once targets are in place and governments have established a route to achieve them, business may find useful incentives introduced to encourage adoption of new behaviours. Spotting these opportunities and avoiding risks ahead of the competition, will enable some companies to establish a competitive advantage. Working through the SDGs and understanding the business impact is therefore an imperative, but working out where to start can be daunting. For one approach, see 'Where do you start? Navigating the Global Goals'.

“However, there is so much coming in terms of new rules and regulations, and there is so much coming in terms of additional capital requirements and liquidity requirements, that it starts to pose a threat to economic recovery on one side. But it also starts to become a threat for regulators to really have the right and complete picture, because a lot of this regulation comes at us in a very uncoordinated way from different regulatory bodies.”

Ralph Hamers
CEO, ING Group, Netherlands
Source: PwC 19th Annual Global CEO Survey

⁶ Tip of the Costberg, 2016, Wayne Crews

Where do you start? Navigating the Global Goals

There are 17 Sustainable Development Goals, but with the best will in the world, business will struggle to tackle all 17 head on. In fact, in our PwC SDG Engagement research⁷, only 1% said that they would even be assessing their impact across all 17, let alone tackling all of them – with most planning to prioritise them. There’s a lot at stake – missed growth opportunities if SDGs fail, ill-advised capital investment or talent recruitment, reputational damage...

So what’s the best approach to identify the Goals that you have the greatest impact on (both positive and negative) or see an opportunity in? Where can you make the most positive contribution? And what’s the value at risk for your business for the Goals failing to be delivered where you operate?

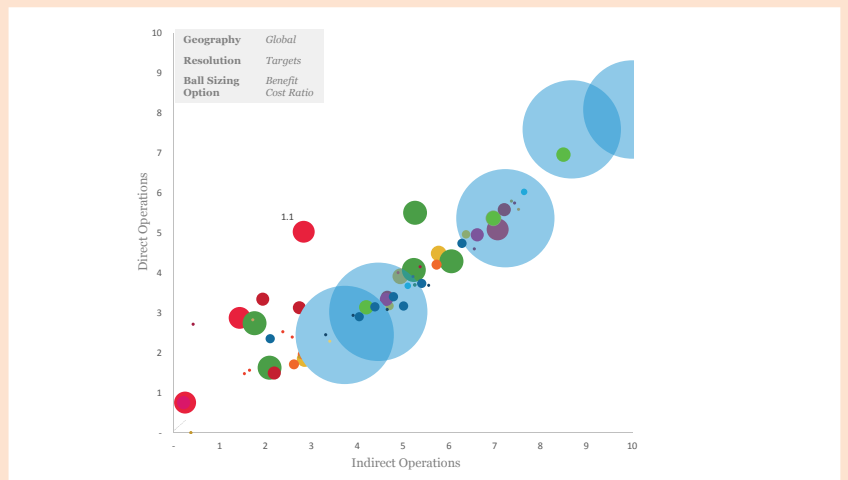
Our research also showed that just 13% of the companies surveyed had identified the tools to assess their impact, which is perhaps understandable considering the newness of the SDGs. But even in five years, only 30% think they will have.

We recognise that engagement will be slow without the basic tools in place to start the process, so PwC has developed the Global Goals Business Navigator to help businesses identify which of the Global Goals are most relevant, given the countries and sectors they operate in. It identifies how each country is currently performing against its SDG goals and targets, and uses input output modelling techniques to highlight relevance across both direct operations and the wider supply chain. It also draws on economic research to identify where value could be at risk from countries failing to achieve their SDG commitments and the potential opportunities (i.e. where business activities could help significantly more), on a country by country basis. It thereby helps business map out and visualise their strategic priorities:

Example output:



Example output:



Source: PwC



What’s your value at risk if the SDGs aren’t delivered?

Government influence and impact varies by country. How significant is the government’s impact on your agenda in the countries you operate in?

⁷ PwC SDG Engagement Research - Make it your business: Engaging with the Sustainable Development Goals, 2015

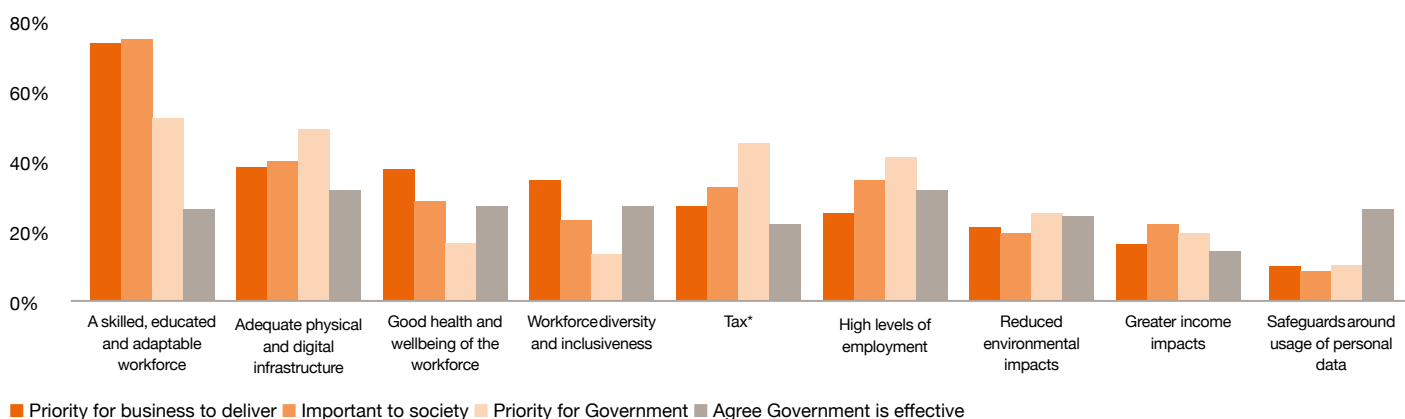
Figure 11: Priorities and progress

Q: Which three of the following outcomes do you think should be priorities for business to help deliver in the country in which you are based?

Q: Which three of the following outcomes do you think are most important to society today, in the country in which you are based?

Q: Which three of these outcomes do you think should be government priorities, in the country in which you are based?

Q: How effective do you think government has been in achieving these outcomes in the country in which you are based? Respondents who stated 'effective' or 'greatly effective'



Source: PwC 19th Annual Global CEO Survey.

* Tax viewed in two ways – for society and government as a clearly understood, stable and effective tax system or for business as included as part of business strategy which reflects its impact on society

Will business want to engage with governments' Global Goals?

With such an influence on business strategy and growth, business will continue to engage with government and no doubt look to open a dialogue about the SDGs. But do CEOs believe governments are focused on the right things or the right priorities or even the issues that matter to business? And do CEOs think they're making progress?

We asked CEOs what they thought the top three priorities were for government, society and themselves and how effective governments were in delivering them (see Figure 11: Priorities and progress). Having a skilled, educated and adaptable workforce stood out – 76% of CEOs told us that it is the most important outcome to society today and the top priority for business and government too. Adequate physical and digital infrastructure, employment and tax structures were also flagged as priorities across all three groups. CEOs were quite harsh in their appraisal of government effectiveness – in tackling any one of these priorities, at most, only 32% of CEOs thought governments were doing a good job.

There's no sense that CEOs believe in the power of government to create the sort of environment that they want to operate in. So will business be interested in supporting governments to achieve the Global Goals – the key issues that government is driving? When there is no sign of any belief in their effectiveness to do so, will they be forced to take matters into their own hands?

In previous PwC research, 49% of businesses felt it was governments' primary responsibility to deliver the Sustainable Development Goals (SDGs), but 71% had already started making plans to respond to them.⁸ So regardless of who is leading the charge, business recognises it has an important role to play. This research highlighted SDG 8 (Decent work and economic growth) as top of the business agenda for both impact and opportunity. And when it comes to the workforce, CEOs are clearly saying skills, health and diversity are priorities for them.

The investment across these priorities will no doubt support governments to achieve their goals.

⁸ PwC SDG Business Engagement Survey, Make it your business: Engaging with the Sustainable Development Goals, 2015

But this prioritisation by CEOs doesn't seem to stretch to the environment, income equality or, interestingly, safeguards on personal data. CEOs thought these were not really a top three priority for anyone – themselves, government or society. It suggests some risks haven't really hit home yet – CEOs view safeguarding personal data of low priority across the board, but it's an issue that business is suffering with more and more as the impact of cyber fraud increases and reputation loss mounts up, and they're having to invest heavily to combat it too. Security of data is a dependency and risk that needs to be managed well. The government focus on Global Goals will perhaps bring focus on these issues and be a catalyst for change.

When the Global Goals are estimated to need \$11.5trillion to achieve (with a good slice of that coming from private sector sources), business will want to make sure that any investment achieves its objectives and that they capture any opportunities that this level of investment must surely create.⁹ Actively engaging with the dialogue on them can help business achieve its own aims in tandem with government and ultimately improve its own operating environment as well as move society forward.

Critics may believe this self-interest is to be discouraged, but identifying the growth potential of responsible environmental and societal strategies, i.e. the Triple Bottom Line¹⁰ lies at the heart of sustainable business. When business profits from solving social problems, when it makes profit while benefiting society and business performance at the same time, it creates solutions that are scalable.¹¹ Certainly, consumers are happy for business to increase profits at the same time as generating economic and social benefits (80% are in agreement, up from 74% in 2015)¹² and as we have seen, CEOs say their customers have a very high impact on their strategy.

“I would say that the most significant measure of success for an organisation is examining whether the company, with the products and services that it offers, is really useful to humanity. If I'm really meeting a need or solving a problem for society, my company is successful by this measure.”

David Bojanini
President, Grupo SURA,
Colombia
Source: PwC 19th Annual
Global CEO Survey

“If you put this in financial or accounting terms, we are driven by the bottom line in our balance sheet. I am convinced, however, that this result is really genuine as long as it observes the sustainability principles. This for me is an indicator of success.”

Luis Pagani
Presidente, Grupo Arcor,
Argentina
Source: PwC 19th Annual
Global CEO Survey



How will your dialogue with governments change when SDGs are on the agenda?

As the SDGs bring change, are you thinking through and quantifying future risk scenarios for your business that government interventions might carry?

What new opportunities will result from engaging with SDGs?

Knowing that the majority of consumers say it's OK to make a profit at the same time as generating economic and social benefits, what can your business do differently?

Are you taking the initiative and talking to governments, or waiting to be taken by surprise?

9 Final push for milestone event to finance development, UN DESA <https://www.un.org/development/desa/en/news/financing/final-push-for-ffd3.html> and Investment Needs to Achieve the Sustainable Development Goals Understanding the Billions and Trillions, Sustainable Development Solutions Network <http://unsdsn.org/wp-content/uploads/2015/09/151112-SDG-Financing-Needs.pdf>

10 Michael Porter, Rethinking Capitalism, <https://hbr.org/2011/01/the-big-idea-creating-shared-value>

11 Michael Porter, Creating shared value

12 Source: Edelman's Trust Barometer 2016

Looking from the inside out

“Today a company’s relationship with the community has to be much more open and committed; it doesn’t just involve social responsibility developed through one or more particular projects that the company helps with, but is part of the policy and strategy for any company that wants to be sustainable. To do this, the company has to progress over time, interacting with all the players over which it could have some kind of influence.”

Guillermo Tagle
Chairman, Credicorp
Capital, Chile
Source: PwC 19th Annual
Global CEO Survey

“I think this is about really taking a view on long-term, sustainable, responsible growth, which, if you do that properly and if you tell the story properly, will be rewarded.”

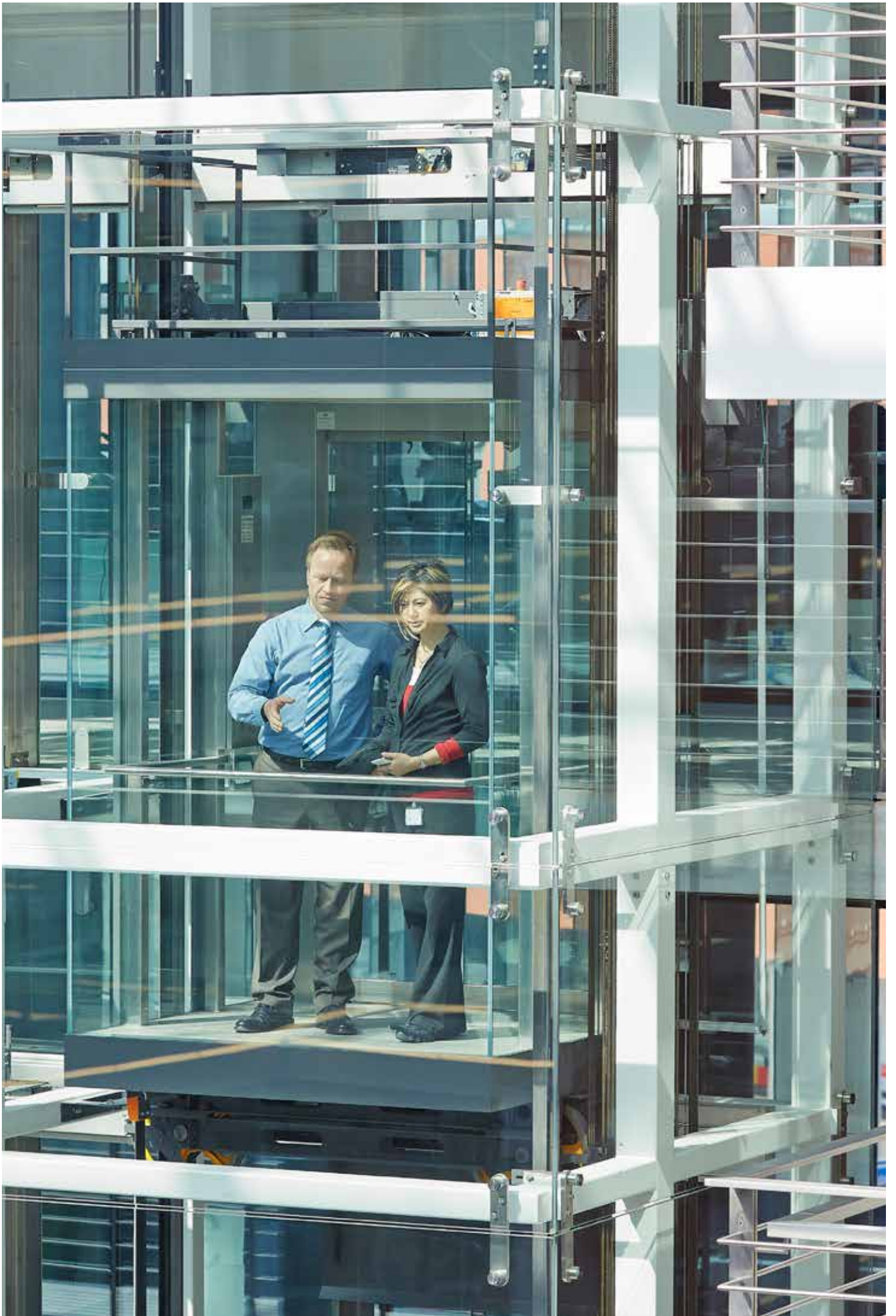
Johan Dannelind
CEO, TeliaSonera AB, Sweden
Source: PwC 19th Annual
Global CEO Survey

CEOs are cognisant of how their business activities play out on the public stage, and are redefining what they do, the way they do it and how they communicate it as a result. When business makes a judgement error on what’s important, there are serious consequences – the public takes notice of the environmental devastation (e.g. buildings collapse, terrain destroyed, rainforests flattened, water polluted), the human rights abused, the lives lost from poor health and safety practices etc. And for a business, this manifests itself in fines, closure, bankruptcy, reputation damage, erosion of trust etc. It hits and hurts the bottom line as well as society and the environment, and can generate a government reaction and new regulation in response.

Many CEOs tell us they are building their business with Corporate Responsibility (CR) at the centre of its activity - 64% of CEOs saying it is core to everything they do. CR is often the starting point for more responsible business practices, but it needs to be embedded right across the business and decision making. In recent years, CR and the positive communications that have emanated have been tainted by accusations of greenwashing as other parts of the business lag behind in their sustainable thinking.

Even so, there are signs that traditional business models are changing. More CEOs are saying that they report on non-financial matters as well as financial (72% of CEOs now, growing to 81% of CEOs saying they would be doing this in five years’ time). Keeping tabs on traditional financial metrics is vital, but increasingly, so are measuring and monitoring those metrics that aren’t demanded by reporting standards but that nonetheless have an impact on the business, influence management decisions and have the potential to damage reputation. This holistic perspective is a must if CEOs are to feel confident that they are running a business with no surprises.

To this end, 80% of CEOs are making some change or significant change to minimise the social and environmental impacts of their business operations. (74% of CEOs said that they were also looking at their supply chain in the same way).



Is the profit-centric business model a thing of the past?

No doubt it will always be said that business exists to make a profit. To a great extent this is true; if a company doesn't make a profit, it'll soon be out of business. But there is real recognition that it's not all about making a profit. 82% of CEOs say they prioritise long-term profitability over short-term and 76% of CEOs say business success is about more than just financial profit (see Figure 12: CEOs take a new perspective on profit).

It is a difficult path to take though. Consumers demand a less profit-orientated persona of business - they're not saying no profit though. 80% of consumers are happy for business to increase profits at the same time as generating economic and social benefits (according to Edelman's Trust Barometer 2016). But they are cynical over how evident it is in practice. The same survey reports that 67% of the general population believe there is too much focus on short-term financial results and 57% think there is not enough focus on positive long-term impact. It means there is quite a 'believability' gap, especially when only 16% of CEOs say they prioritise short-term profitability ahead of long-term. It shows CEOs have some way to go to evidence more effectively their approach to profitability and planning.

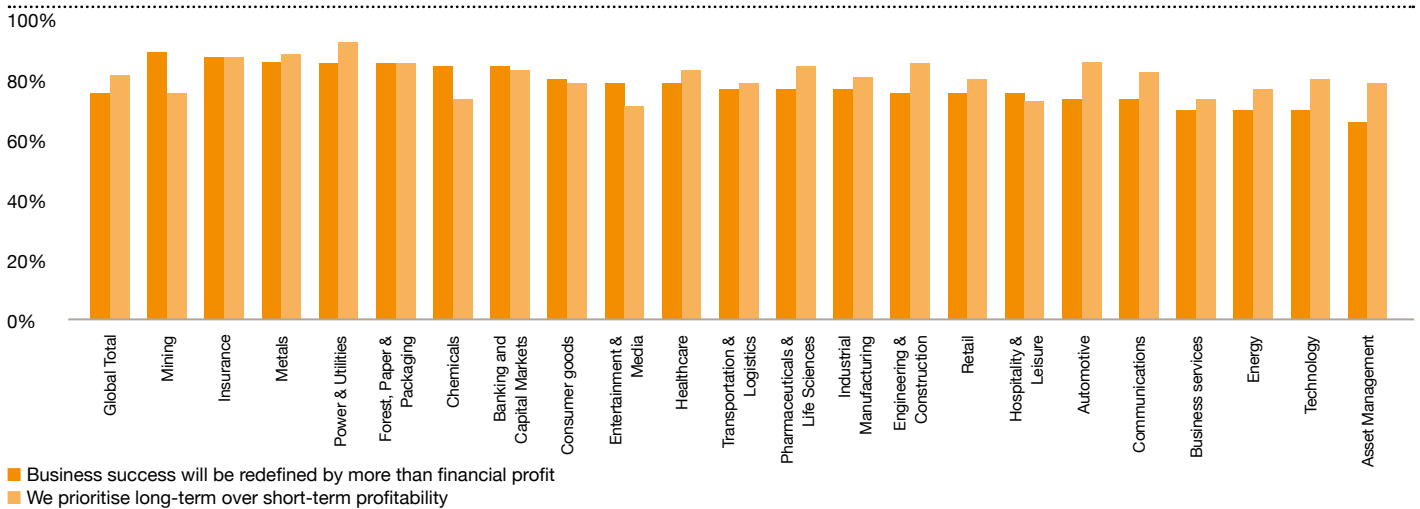
"We measure success by the traditional financial means... as well as total return for our shareholders. But we also consider some things that might not have a financial metric. One is, are we living our purpose? We believe that doing so will make us a better company for all of our stakeholders that you not only can make a profit, but you can make a difference."

Denise Morrison
President and Chief Executive Officer, Campbell Soup Company, US
Source: PwC 19th Annual Global CEO Survey

Figure 12: CEOs take a new perspective on profit

Q: To what extent do you agree that business success in the 21st century will be redefined by more than financial profit? Respondents who stated 'agree' or 'strongly agree'

Q: Thinking about the wider stakeholder expectations you see, which of these statements best describes your organisation today? We prioritise long-term over short-term profitability



Source: PwC 19th Annual Global CEO Survey

“You need to be profitable consistently and if you want to be profitable consistently, you need to provide your customers with value in the way they measure it. So, you also need to address measures of success such as the satisfaction of the customers. You need also to measure levels of success, such as the impact you have in the communities you serve, the impact you have in the society you are a part of and, above all, you need to do this in a consistent and coherent way.”

Eduardo Stock da Cunha
CEO, Grupo Novo Banco,
Portugal
Source: PwC 19th
Annual Global CEO Survey

Will CEOs ever win back trust?

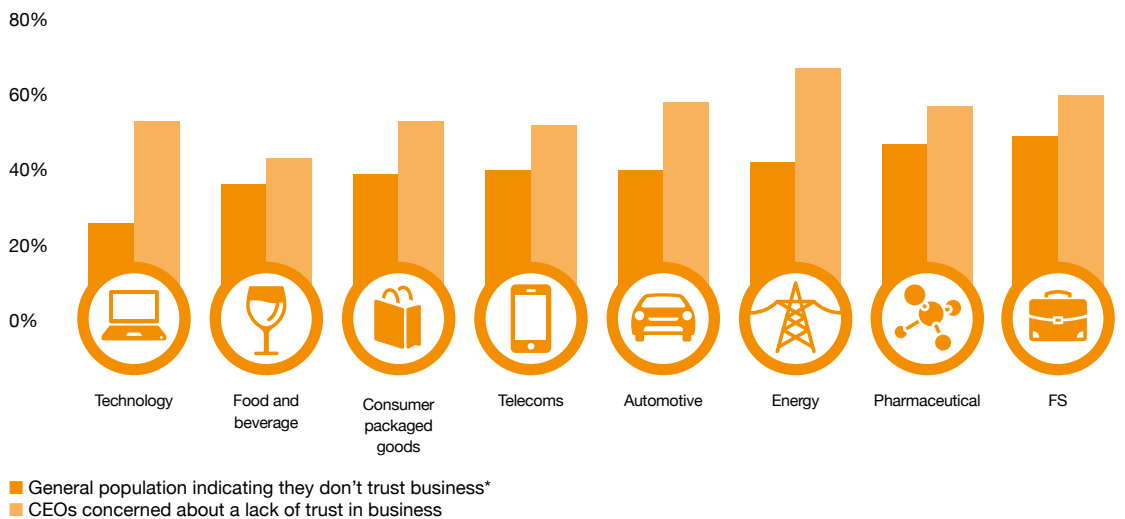
With Edelman reporting high levels of consumer disbelief, it can be no surprise that as much as CEOs are driving positive change, they are finding it hard to win over their cynics. 55% of CEOs are concerned about the lack of trust in business, i.e. over half of CEOs are worried that trust is missing. But perhaps what’s worse is that this concern has been growing for four consecutive years now. Whatever inroads are being made to bridge the trust gap, CEOs aren’t confident that they’re working.

CEOs are quite realistic about the harsh reality of trust. Those industries the population trusts less (Financial Services, Pharmaceuticals and Energy) are also those with the highest percentage of CEOs saying they are concerned about the lack of trust (see Figure 13: Trust: it’s a matter of perspective). Technology and Food & Beverage seem to be on the front foot when it comes to trust. What are they doing differently or better to deserve it?

Figure 13: Trust: it’s a matter of perspective

Q: Please indicate how much you trust business in each of the following industries to do what is right. Again, please use the same nine-point scale where one means that you “do not trust them at all” and nine means that you “trust them a great deal”. (Top 4 Box, Trust) General Population, 25-country global total. (From 2016 Edelman Trust Barometer)

Q: How concerned are you, if at all, about ... Lack of trust in business? Respondents who stated ‘somewhat’ or ‘extremely concerned’ (From PwC 19th Annual Global CEO Survey. Matched PwC sectors to Edelman)



Source: *2016 Edelman Trust Barometer; PwC 19th Annual Global CEO Survey

You are what you do

Building trust through better communications may be one approach to tackle this – although it has to be remembered, “you are what you do, not what you say you do”. With a focus on financial metrics alone, it’s hard to create a holistic view of your business and the impact it has. When inputs and outputs are the focus of attention, the impacts and outcomes are lost and the real value and contribution a business makes never sees the light of day.

CEOs identified several areas that they believe deserve better communication (see Figure 14: Improving measurement and communication) including purpose, non-financials and their impact on wider communities, all of which could help bridge the gap and evidence how embedded in society business is. CEOs may miss the mark though – most CEOs aren’t planning to do more to measure their impact or the value they generate in these areas, so it could be difficult to communicate a new point of view about what they are actually doing and its impact.

“...we say as a company we need to ‘be good’ and ‘do good’... ‘Be good’ is making good food, doing the right thing for the environment, doing the right thing for our employees, developing them. The ‘do good’ part is, well, how are you going to use that organisation, that structure that’s in place, to maybe do something else than just sell products and make money?”

Dirk Van de Put
CEO, McCain, Canada
Source: PwC 19th Annual Global CEO Survey

Figure 14: Improving measurement and communication

Q: In which of the following areas do you think business should be doing more to measure/communicate impact and value for wider stakeholders?



Source: PwC 19th Annual Global CEO Survey

“Today’s consumers make choices not only based on the quality of the service provided, but even based on the causes that a company supports. In fact, we are living in the era of the good consumer.”

Wilson Ferreira Jr.
CEO, CPFL Energia, Brazil
Source: PwC 19th Annual Global CEO Survey

Do CEOs think this focus on wider stakeholders is good for business?

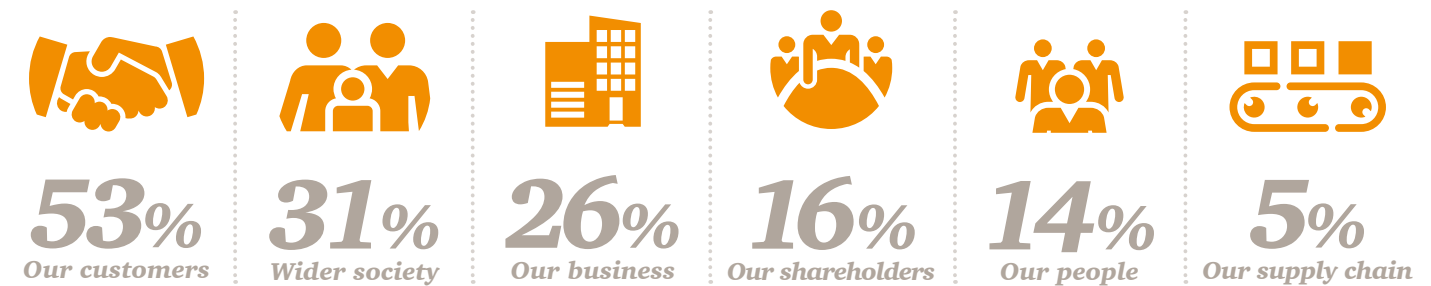
It’s evident that CEOs feel the pressure to address wider stakeholder needs, but what’s not clear is whether or not it drives profit too. 84% of CEOs say they are expected to address wider stakeholder needs and 74% recognise that their purpose revolves around more than their business, in descriptions of their purpose. (see Figure 15: What is the purpose of your organisation?) In fact, only 16% mentioned creating value for their shareholders in descriptions of their purpose. From the outside looking in, it feels like a fundamental shift in focus, expanding the field in view to include wider stakeholders as well as shareholders, but is it one that is reaping rewards?

We asked CEOs whether ‘profitability helps to provide value for wider stakeholders’ or ‘creating value for wider stakeholders drives profitability’. The response was an almost 50:50 split - reflecting a split in perception between those using profits made for good purposes and those doing good while actually making the profit.

What this does highlight is that many CEOs (52%) are saying that they are converting a focus on wider stakeholders into profit (see Figure 16: Is a focus on wider stakeholders good for business?). This exemplifies business working at its best, embedding sustainability principles into business-as-usual to provide optimal value to its stakeholders, with potentially all parties benefiting.

Figure 15: What is the purpose of your organisation?

Q: In your words, what is the purpose of your organisation today? To create value for...



Source: PwC 19th Annual Global CEO Survey. Base: 1,982 (includes additional interviews in some countries)

Note: Respondents may have highlighted more than one dimension in response to this question

Figure 16: Is a focus on wider stakeholders good for business?

Q: Thinking about the wider stakeholder expectations you see, which of these statements best describes your organisation today?



Source: PwC 19th Annual Global CEO Survey



Must profit be maximised for shareholders to be happy; and at what cost to other stakeholders?

What are the enablers to creating value from addressing wider stakeholder needs – how can you close the gap?

Are you measuring the right things and sharing what your stakeholders actually want to find out more about?

With a data revolution on its way, how might you take advantage of the data analytics possibilities?

Although some may see addressing wider stakeholder needs as a means to reduce risk or a necessary burden, others are embracing it as an opportunity for their business. Closing the gap and addressing wider stakeholder while making a profit is a win:win scenario for business and society. Perhaps this is where new business models might come into their own, for example, a focus on inclusive business or inclusive capital or the sharing economy.

It's not simple though. Additional costs can be difficult to pass on to customers, especially in a business-to-business environment. 31% of CEOs say they encounter customers' unwillingness to pay when responding to wider stakeholder expectations, but this jumps to 44% for Engineering & Construction CEOs, the industry in which CEOs are also least likely to say that creating value for wider stakeholders helps them to be profitable. It could be that other business customers are more unwilling to pay. When purchasing is handled through procurement teams, the demand for best price doesn't necessarily always take into consideration the supplier's wider motivations and ambitions. It's a tightrope walk to manage margins and the expectations of other stakeholder groups simultaneously. Or are customers voting with their feet and opting for alternatives?

If costs are going up and customers aren't willing to accept them, how will business tackle the impasse? To be successful going forward, CEOs will need to find an answer to this – rethinking their business model seems a sensible starting point.



Measuring your impact – a new perspective on performance

The more governments start to look at how business contributes to achieving the Global Goals and society is ever more vigilant at spotting and reporting poor business behaviours, the more important it is for business to understand that it's not just economic contribution and profits that people are interested in, but their total impact. It's looking at impact in a holistic way. But how do you measure 'impact'?

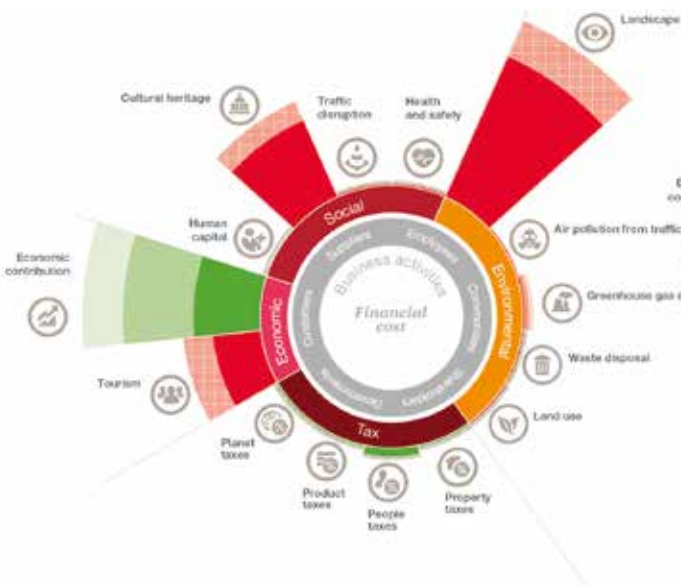
Total Impact Measurement and Management (TIMM) provides a new 'language' that generates hard numbers (equivalent to the new ways of evaluating national output and wellbeing that governments use). TIMM enables management to develop a better understanding of the social, fiscal, environmental and economic impacts of their activities, while still, of course, making a profit. This exercise is, in itself, interesting and helps support a business's licence to operate and its dialogue with its stakeholders.

But the value comes in evaluating options to identify and optimise trade-offs, i.e. to make more informed decisions. TIMM gives business leaders the ability to compare strategies and investment choices using quantified data, and assess the total impact of each decision and choice they make. Being able to measure, understand and compare the trade-offs between different options means decisions can be made with more complete knowledge of the overall impact they will have and a better understanding of which stakeholders will be affected by which decisions.

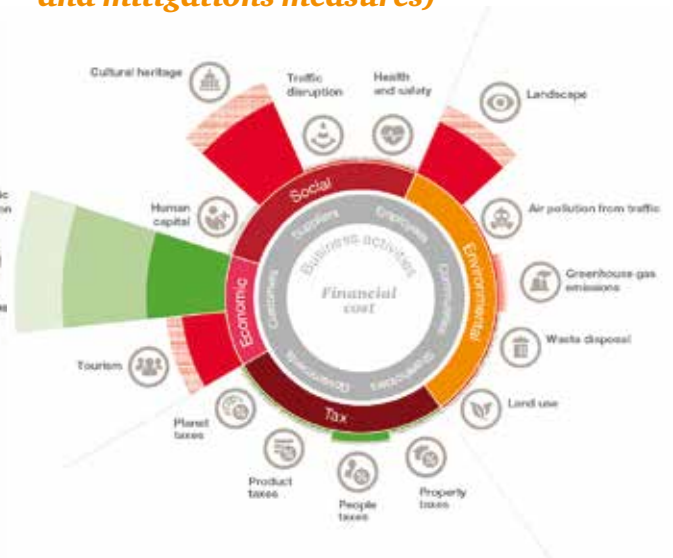
It can help a business understand how it is contributing towards the achievement of a government Global Goal and be useful in discussions with governments to evidence potential impact or how impact is changing over time, e.g. to show how well an initiative is working to reduce a negative impact.

Here's an example: An energy provider wanted to understand the impact of building a transmission line as planned and with interventions and mitigation measures. The company want to pin point the value of the additional investment made.

The original plan



The new plan (built with interventions and mitigations measures)



Key Bar size represents the magnitude of our impact

Green represents a positive contribution

- Direct
- Indirect
- Induced

Red represents a negative contribution

- Direct
- Indirect
- Induced

Definitions

Direct Impacts from business operations

Indirect Impacts through the effects on organisations in our supply chain

Induced Impacts through the spending by our employees, or suppliers' employees, in the wider economy

Source: PwC (Find out more at www.pwc.com/totalimpact)

Redefining business success

We all know what gets measured gets managed, so it's interesting to see that measuring success is no longer confined to a simple set of financial metrics to keep shareholders and investors on side. 86% of CEOs are already responding to changing stakeholder expectations by making changes to how they measure success and what they hold themselves accountable for and 76% of CEOs agree that business success in the 21st century will be redefined by more than financial profit. CEOs are pushing the boundaries on their business, wanting to take responsibility for impacts beyond financials and therefore have tighter control on a wider set of risks too.

“We believe that the issue of sustainability may have been optional for companies in the past, but today it is a must. We also have a very clear vision that we are living in an era of change. In other words, we have moved from the era of shareholder value to an era of stakeholder value.”

Wilson Ferreira Jr.
CEO, CPFL Energia, Brazil
Source: PwC 19th Annual
Global CEO Survey

It comes at a time when business' role in society is coming into sharper focus. Business has got personal. CEOs are thinking about their wider stakeholders both in terms of addressing their needs and the impact they have on their business, its strategy, its reputation, its licence to operate. An approach to doing business that doesn't engage effectively with stakeholders will meet resistance.

CEOs recognise that customers' perspectives are changing too. With a clear demand for an alternative being expressed, 27% of CEOs said that their customers seek relationships with organisations that address wider stakeholder needs, rising to 44% over the next five years. It's becoming a two-way dialogue – CEOs actively recognising and engaging with the wider stakeholders they impact and stakeholders looking out for it. If this was only matched by consumers putting a premium on the way companies conduct themselves in a global society, it would ease the transition and no doubt maintain the momentum. But the reality is, business needs to adapt to this new normal. CEOs must feel the pressure to make addressing wider stakeholder needs work for their business, especially as this is the direction of travel they're predicting.

Business has an integral role in creating a thriving society in a thriving environment. Embracing the relationship with society, the environment and government creates a new strategic lens through which to view and judge progress and success.

“I wish we could measure pride for making impact and changing lives. That would be a great measure. It's hard to measure, but it's very much felt. When you interact with people who are proud of making a difference and an impact in society, then you know what I'm talking about and, of course, it's very hard to measure. But if there's one measure I'd like to develop, that would probably be it.”

Johan Dannelind
CEO, TeliaSonera AB, Sweden
Source: PwC 19th Annual
Global CEO Survey

Contacts

The role of business in society is changing as stakeholders exert their influence and expect transparency and an open dialogue. If you'd like to talk about how your business engages with society and government, please do get in touch:

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