

Creating **common** purpose

Change is required to focus economies on their original purpose – to deliver societal progress

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Realigning business, economies and society

Over the past seventy years, three distinct forces - globalisation, 'financialisation' (a focus on financial metrics as the primary measure of success) and technology - have driven enormous progress in the global economy and societies worldwide. Between 1945 and 2008, these forces saw economic growth go hand-in-hand with social development. But over time, these forces have combined in a new and less beneficial way, resulting in the economy – the engine for matching human needs with opportunities – becoming separated from its core function of delivering progress for society.

Our system is facing multiplying stresses and is no longer functioning effectively

This failure is creating systemic stresses that are growing in intensity, particularly in the West but elsewhere too. Examples include the widening global disparities in wealth and opportunity, and the rise of populist movements around the world. Even where people feel better about their national economies than they did before the 2008 financial crisis, many are not optimistic about their children's futures. And many are ever more concerned about the implications of technology on everything from employment to privacy to politics.

The outcome is that we're now at a fork in the road, facing a stark binary choice: continue as we are, accepting more of the same, or choose another route by redesigning the system. In our view, staying on our current path is not an option. A fundamental realignment of our societal and economic systems is needed – including changes to the role that business plays in both.

Faced with today's global challenges, it's easy to blame one or other part of the current system for bringing them about. However, most components of the system are interdependent, and the strains on it interconnected. Only by looking beyond the *symptoms* of stress and addressing their underlying *causes*, will we be able to redesign our current system so the economy once again delivers for society.

How can we respond?

Our premise is that we must challenge three fundamental assumptions that have underpinned our current system for decades – namely that:

- 1. Economic growth delivers societal progress.** This can no longer be assumed. And even when it does deliver progress (in terms of the overall average), too many people are excluded from the benefits, and don't believe "the system" is acting in their interests.
- 2. Financial returns are an acceptable end in themselves.** In fact, they're the means to deliver for society. The purpose of an economy or individual business is not just to deliver financial outcomes. Unless a business delivers financial results in a way that is acceptable to broader stakeholders, it will endanger its licence to operate. Similarly, an economic system must deliver to the society within which it operates, or risk being rejected by it.
- 3. There is a systemic equilibrium that can be maintained through the status quo.** The reality is that the system is non-linear, constantly in flux and will always be dynamic. The 'wiring' of the system – and its institutions – must be redesigned to enable decision-making that's more agile and integrated, recognises interdependencies, and delivers desired societal outcomes on a sustainable basis.

We must also re-examine our beliefs and expectations in the context of environmental boundaries that we're continuing to breach to our own detriment and that of future generations. Previous industrial revolutions advanced economic development but have largely come at the expense of the planet. Today, there is a mounting scientific consensus that Earth's systems are under unprecedented pressure – with a number of 'planetary boundaries' already crossed. Risks will only heighten as population growth is accompanied by increasing demands for food, materials and energy.

None of the issues confronting us today – be they global or inherently local – exist in isolation. Each is intimately connected to the others, and many are actually symptoms of underlying systemic strains that will shape our long-term tomorrow. What's more, the forces driving the strains are accelerating. It follows that we must solve the short term with the long term in mind, by responding to today's challenges in ways that move us towards the future we wish to create.

Why a common purpose matters

Challenging these assumptions requires a fundamental re-think of many of the elements of an economic (and therefore business) system which we have taken for granted for many decades. No-one would suggest that market economies have functioned without problems in that period, but they have been underpinned by these assumptions. Rethinking the assumptions requires these foundations to be re-examined, and this raises some essential, complex and deeply important questions. For example:

- *What is the purpose of an economy (if we can no longer assume that delivering only in financial terms is sufficient, sustainable or acceptable)?*
- *What is the purpose of a business (if financial results are not the only acceptable outcome)?*
- *How should the purpose of an economy be defined, measured and reported?*
- *How can this be done, recognising the realities of a globalised, interdependent world, balanced by the interests of local communities and regions?*
- *How can the implications of extraordinary technology innovations of all kinds be managed in this context?*

If we have a sense of what economies should be focused on delivering in broad terms, how do we ensure that the behaviours of individual economic actors are broadly consistent with these objectives? Or put another way, how do we create commonality of purpose between economies at a macro level and individual businesses?

In an economic system in which there is increasing evidence of divergence from what is considered to be acceptable and sustainable in societal terms, this issue of commonality of purpose is perhaps the most significant challenge of all. It points to the scale of the rethinking and redesign of economic and business fundamentals required.

There are some immediate and obvious (albeit complex) steps to focus on. Economies need not only financial but also societal goals that reflect the needs of local communities, cities, regions and countries; prioritising basic human needs; and looking beyond simplistic indicators of success, such as GDP.

As we consider these steps, the United Nation's Sustainable Development Goals (SDGs) provide a very useful platform to build on. Among the many benefits it brings, the SDG framework offers the potential to move beyond commitments *among* countries to understand more deeply what people need most urgently *within* them. At the same time, a nation's progress against the SDGs can help clarify what people within local communities, cities and regions value most highly. Armed with these insights, we can look at their desired outcomes in a global context to ask: 'what is an economy for?' And we can use the answer to help reinstate the economic engine as the mechanism for matching an infinite variety of human needs with diverse opportunities – contributing to societal goals on a sustainable basis.

Every business must focus on purpose...

This change in the system must be reflected in business. Each business must define, deliver on and constantly update an explicit purpose that governs all its decisions and informs its corporate culture. This purpose must be clear on the societal need that the organisation fulfils as well as its financial objectives and outcomes. As events over recent times have demonstrated, failing to define such a purpose is increasingly perilous: as soon as a

company subjugates its purpose to the purely financial, it risks losing its way. And when defining its purpose, the SDGs can again act as a useful framework to help a company clarify its contribution to society.

...and new metrics to navigate by

A common thread of the changes we are describing is that achieving financial goals is not an end in itself. Instead, it's the *means* to create the wealth to deliver on a societal vision at a nation state level, and on a purpose at a corporate level. It follows that the metrics to assess and monitor performance at both levels must be expanded beyond the purely financial. These metrics must guide reporting to maximise accountability, and to enable leaders to understand both the progress they're making against multiple goals and where course corrections are needed to maintain the balance among them.

The need to 'rewire' the system

The move to this new framework is a huge and complex task, and will require further research, analysis and consideration. At its core is the need to establish the link between macro-level outcomes and micro-level behaviours – the creation of common purpose that will recouple societies and economies. The change also requires us to confront a key question: What needs to change in our current system to enable a transition to a new one?

How should the 'wiring' that guides all activity within today's system – regulation, incentives, investment objectives, reporting etc. – be reconfigured to power the new one? It is hard to overstate the significance of this question, and it goes to the heart of the ability to create commonality of purpose. Our existing system of incentives - regulation, responsibilities, expectations etc. - has built up over decades with the express objective of requiring and encouraging businesses to focus primarily on financial outcomes. Without a redesign, without a re-think of the elements of this system which foster, necessitate or prioritise these behaviours, we will not change course: we will simply have more of the same, with growing divergence and the frustration which follows.

Questions to guide us

Questions around the rewiring of the economy are complex, and will inevitably lead to others. What are the implications of this transition for leaders across government, business and civil society? And how can they strike a balance between delivering on their commitments within the current system while changing it to be sustainable for the future?

Technology raises further questions still. How can technology help us find creative solutions to everyday – existing and emerging - societal problems?

Re-thinking our current system will also require us to reconcile several dualities – delivering local outcomes in a globalised economy, realising societal *and* financial outcomes, and leveraging technology to fulfil human potential. We'll now look at some principles to guide us in doing this.

Four principles to help focus on common purpose

1. *Global connectivity and local initiative must go hand-in-hand*

Global problems must be dealt with at a global level. At the same time, local solutions yield visible progress at pace, and are a powerful complement to national government policy on universal challenges around economic productivity, liveability, environmental protection and social development. Action at a local level can also generate socio-economic co-benefits where they're most needed.

As we seek to realign the system, we need to continue to reflect on the global realities, but with much greater emphasis on delivering locally. While 'localisation' is often understood to represent a focus on place, it can also be defined by other shared interest: perhaps a manufacturing sector facing disruption, or rural households struggling to access broadband. Localisation in developed economies – and rapid urbanisation in developing ones – are creating the space for cities, regions and places to play a greater role in policy development and problem-solving, especially where local action is aligned with global and national priorities. In fact, it is essential that local action reflects the global context – and vice versa.

A further aspect of localisation is that it is increasingly cities rather than nations that are inspiring and driving change. As devolutionary forces continue to take effect, a new generation of cities are being thoughtfully

(re)designed with people at their centre. These reinvigorated modern cities are more connected – both physically and digitally – and increasingly people-centric, matching human needs with opportunities. They also exhibit higher productivity and waste fewer resources than their older counterparts.

Cities and regions also have the tools needed to solve problems, and have proven to be adept at fostering public/private collaboration. And cities can engage more easily on cross-border global issues – such as climate change – because the stakes are lower than for nations. For example: how mayors and cities worldwide stepped up to support the Paris climate accord after the US announced its withdrawal. Not surprisingly, another unifying theme is technology – which has emerged as a vital enabler of the smart city, facilitating choice, resilience, flexibility, creativity and innovation, and creating a more joined-up living experience.

An increasing and necessary emphasis on addressing issues at a local level in a global context also raises key questions about governance, and the role of the nation state.

2. Look beyond financial performance

Financial performance is a necessary but not a sufficient element of success in a market economy. We need to define sustainable societal outcomes and then measure progress against them in a holistic and integrated way.

GDP cannot answer the question: is life actually better or worse for most people? So, instead of GDP, we need better, more integrated metrics at a macro level to tell whether the economy is delivering for citizens in line with the priorities they have both for themselves and society. These metrics must capture how life is changing over time, and whether wellbeing today is being achieved at the cost of depleting resources for tomorrow. The Organisation for Economic Co-operation and Development (OECD) has explored this issue through the ‘Better Life Index’¹ and the ‘New Approaches to Economic Challenges’² initiative.

At a corporate level, the most critical contribution any business makes to society is transforming ideas into products and services that solve problems and meet needs – a process intimately connected to its purpose. This contribution cannot be captured by shareholder value, but only by integrated metrics that reflect broader measures of business success and the multiple ways business maintains its social contract and licence to operate, again within the context of its purpose.

However, corporate pioneers are currently swimming against the tide. In PwC’s 21st Annual Global CEO Survey³, 66% of business leaders said businesses and society are moving towards measuring prosperity through multifaceted metrics, including indices measuring quality of life, but fundamental and widespread changes are required to enable this to happen at a meaningful scale.

3. Technology doesn’t care, but we must

Automation, machine intelligence, and disruption of communities are just some of the threats technology poses to large parts of the global population. But emerging technology also promises to help us create new industries and jobs, and find new ways of meeting human needs. So, adjusting our global and local economic systems to foster a beneficial place for technology in our society is critical.

Today, technology has put us in uncharted waters, as its advances intersect, combine and permeate every aspect of human life. There is no historical precedent for the velocity, scope and system-wide impacts of this technological explosion. Its impacts range from massive disruption to most industries – and therefore employment - to concerns over the threat that cyberattacks pose to political systems. And as technology advances, it is changing both our needs as humans and also our ability to meet these needs.

So, how to meet these challenges? Given the difficulty of assessing the future impacts of technologies such as AI, the way forward lies in drawing on a broad range of expertise, and taking a systems-wide approach. At a macro level, the SDGs can help policymakers work out how to apply technology to solve humanity’s most pressing challenges. Examples include the potential to use Fourth Industrial Revolution (4IR)⁴ technologies to enable a

¹ <http://www.oecdbetterlifeindex.org/#/11111111111>

² <http://www.oecd.org/naec/>

³ Source: <https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2018/gx.html>

⁴ Source: <https://www.weforum.org/about/the-fourth-industrial-revolution-by-klaus-schwab>

clean energy grid aggregating billions of emerging renewables sources⁵. At a corporate level, a business's purpose will be key in helping it identify how to use technology to greatest effect. In financial services, for example, Fintech is enabling better access to the financial system for the unbanked.

However, creating innovations that add value for society requires a move away from the focus on short-term goals and financial outcomes, to create space for discussions about not just what technology *can* do, but what we *want* it to do at a societal level. For example, we need AI systems to be conscientious, fostering co-evolution of humans and technology in hybrid thinking systems where humans are ultimately in control. More generally, we must continue to consider and research the effects that new technologies will have on individuals and societies

4. Educate for the future

Last, but never least, people need the right skills for a successful future. Cooperation between governments and businesses should be scaled up to ensure that our global workforce can thrive in an increasingly technology-enabled environment.

As machines perform more and more predictable, cognitive work, people will need to acquire new skills, adaptability and creativity, and apply these alongside digital and technical competencies. Education and training will need to be rethought, to equip young people with the skills to work in a global, interconnected labour market. Lifelong learning will become the norm, with the appropriate public and private sector support.

Since these effects will transcend national boundaries, cooperation across and between governments and businesses will be vital. This will also require a new problem-solving mindset – one based on framing explicit target outcomes for all stakeholders, and delivering solutions through an integrated, agile network of participants. While technology is often seen as the 'bad guy', the reality is it is indifferent to its impact on people, and is essentially a tool that people apply. So the biggest challenge for organisations is not technology but people, as they strive to transform their workforces while allowing for continuous success in the digital age.

Throughout, we must keep our focus on humanity – and businesses must manage the transition within their organisations in a humane way, continuing to match human needs and opportunities linked to societal outcomes. This brings us back to purpose, and to the key question: what is business there to do?

Conclusion

The scale of the challenges described can feel daunting - but this simply reinforces their importance. It is also possible to see a path forward. Human societies have always evolved and adapted their systems – economic and otherwise – to focus on the human-centric outcomes they wish to see delivered. We are probably at another great inflection point in this process – reflecting the need for the re-design of our current system, based on putting human-centred needs and opportunities of today's world at the heart of the process. Creating this commonality of purpose will be the key to progress.

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⁵ Source: <https://www.pwc.co.uk/sustainability-climate-change/assets/enabling-a-sustainable-fourth-industrial-revolution.pdf>