

Creating common purpose

Executive Summary “Repurposing economies—and businesses”

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Overview

How can we reconcile these two apparently conflicting scenarios? The first is that, over the past 70 years, a billion people have been lifted out of poverty,ⁱ world capita income has quadrupled,ⁱⁱ global average life expectancy has increased from 48 years in 1955ⁱⁱⁱ to 72 in 2016^{iv} and more than 300,000 people are gaining access to electricity and clean drinking water daily^v.

The second is that large-scale mistrust and dissatisfaction with many of our institutions is growing all over the world. In recent years, we have seen unexpected election and referendum results, the polarisation of communities, an erosion of trust in media and business, and regular protests as people make their discontent known.

The sobering reality is that these two scenarios are not only compatible but the logical outcome of a system that is built on the premise that businesses could make the most effective contributions to society by focusing on profit. The economic and business worlds have been underpinned by this principle for many decades. Arguably, it worked: Both countries and businesses were most successful when they drove this agenda.

But it's not hard to see that today this premise no longer holds true. Our global context has changed dramatically since the 1990s, transformed by the combined forces of globalisation, financialisation and technology. For the last seventy years or so, there has been an emphasis on short-term financial performance as the primary measure of economic and business success. We are now living in a changed world of technology-led disruption, disaggregated supply chains, global scale and capacity, and truly global market access for supply and demand. The economic system that was intentionally designed to deliver on societal progress by emphasising financial performance has lost its purpose. The entire system has established norms at every level which are primarily financial and short term. This needs to change.

What's needed, right now, is a realignment of our societal and economic systems – including changes to the role that business plays in both. This means transforming current business models and norms, introducing broader measures of success that move beyond financial outcomes such as GDP and shareholder value, focusing on life-

long learning and reskilling in the workplace, and managing emerging technologies so they meet human needs.

What follows are eleven principles that can help address the change that is needed. None will be effective on their own and each have an impact on the other. However, when understood and implemented as a whole, these principles can help reshape our economic system and the role of business as it was originally intended - to advance the interests of society. They are not exhaustive, but these principles are an invitation to debate, challenge and contribute to the conversation.

1. Redefine the purpose of an economy so that it delivers for society

One of the assumptions underpinning our current system has been that economic growth per se will automatically deliver societal progress. But this no longer holds true. It is time to redefine our economies, along with their supporting models, assumptions and principles so that they truly deliver for society and do so in a manner which builds trust in our societies. For that to happen we need a better lens to understand society's priorities in a changing world so that our economies can meet these needs.

In recent years a number of initiatives – including the OECD's Better Life Index and the Social Progress Index - have sought to reflect a vision of the world in which people's needs come first. Perhaps though it is the United Nations Sustainable Development Goals (SDGs) that offer the most comprehensive blueprint. The SDGs are complex and challenging but they potentially offer a truly global and consistent approach to defining the societal goals and outcomes to which countries wish to aspire, and for which, by definition, all countries will be relying on economic activity in one form or another to deliver on. New Zealand's announcement of its first Wellbeing Budget is one example of a country aiming to deliver better living standards in line with the government's belief that economic growth is a means to an end and not an end in itself.

2. Rewire business so that it delivers on profit and purpose

Every business must focus on making money as a consequence of delivering on its purpose, and must do so in a manner that is aligned to the interests and objectives of broader society. Economic and business operating models and assumptions - including what is taught about business - need to be rewired to support this overarching objective.

For too long the singular pursuit of profit clouded this broader responsibility to society – so much so that the many of the institutional frameworks set up to help business function effectively (including legal, investment, regulatory, management and governance) were designed to focus the activities of corporations on primarily financial and typically short-term results.

These frameworks need to be redesigned to explicitly define the expectations of business in a broader manner and tackle the related changes needed in terms of governance, regulation and management. The United Kingdom's new Corporate Governance Code is among current initiatives that go furthest by stating that the board must establish the company's purpose but others are underway elsewhere too, for example, in France. Within this context, profit continues to be a necessary and appropriate consequence of a business delivering on its purpose from the perspective of customers, employees and other stakeholders, including shareholders.

3. Measure and report on societal outcomes – not just financial ones

Just as the institutional frameworks of business must be reshaped so too must the ways we measure and report on performance. Current macro economic as well as corporate reporting are neither sufficient nor effective in the context of broader societal objectives as they put an almost exclusive emphasis on short-term financial results. A clearer relationship is also needed between macro economic and corporate reporting so that businesses demonstrate how their activities align with the interests of the society in which they operate and account for their long-term impact rather than just short-term profits. This will involve, at a minimum, the measurement of, and reporting on, environmental, social and governance (ESG) issues. It will also require far more ambitious thinking to create a new set of macro measurement standards that help companies understand the total impact and value of the business world to society.

4. Balance responsibilities to shareholders with those of stakeholders

In many legal systems around the world, businesses are required to operate in a manner that is primarily responsible to shareholders. This presents obvious problems because, for too long, shareholder interests have been seen as separate from and often in conflict with the needs of greater society. It's clear that a thorough review of corporate governance is needed to address the nature of corporate purpose and to align shareholder and other stakeholder interests.

This is not to reduce the importance of financial performance but rather to examine how financial success can be a (worthy and desirable) consequence of a business operating successfully in overall alignment with the interests of society. This

will require a new frame of reference for business management and culture and more action to provide the investment framework which supports alignment between financial performance and returns on the one hand with sustainable environmental and societal impact on the other. For example, the United Nations Environment Programme (UNEP) Finance Initiative and Principles for Responsible Investment (PRI), representing more than 1,800 organisations with combined approximately \$80 trillion in assets under management, are working with the UN Global Compact to create innovative financial products that have the potential to redirect public and private finance towards critical infrastructure and solutions that are integral to the SDGs.

5. Change the financial model so that it reflects our world

Economic and financial models can sometimes treat costs - such as environmental costs - as "externalities", effectively outside the scope of the model. This can mean that models don't always reflect the actual costs involved, which can result in understated risks, misallocation of capital, as well as challenges in dealing with some of the major issues facing our planet.

It is essential that we rethink and redesign the factors we consider to be external to a company's performance in order to better align with societal needs. One example underway is the International Integrated Reporting Council's principles for integrated thinking and reporting, another is the drive for UK banks to recognise financial risks on their balance sheets that are attributable to climate change.

We should also not assume that all human needs must fit into an economic model — many critical aspects of human well-being are by definition outside the scope of the market and outside the scope of economic activity. Put another way, we now need to stop explaining why the world doesn't fit with our original economic and business models, and change the models to ensure that they reflect our world.

6. Pay attention to communities, not just averages

A central paradox of our current global economic system is that, while it has delivered massive social progress in overall terms, many people feel left behind and excluded from the benefits. The reality is that average progress is meaningless if you do not enjoy the benefits or if it appears to be happening at your expense.

Progress on average is not a sufficient measure of success. More action is essential to focus policies, investment and new business models in communities where they are most needed. In severely disinvested US neighbourhoods, for example, the notion of “community wealth building” was developed to start systems change, with its roots at the local level. Similarly, in the northern town of Preston, United Kingdom, the local city council took an “ultra-localist” approach to economic policy in the wake of the last recession. The Saigon South Urban Development Project in Ho Chi Minh City, Vietnam, adopted a dedicated focus on job creation, education and infrastructure investments, and has built up a new sustainable, inclusive, knowledge-based urban centre.

These strategies should be diverse and unique to the local circumstances of the communities concerned, but all should have a common commitment to improving the lives of people, matching human needs with human opportunities, and using business as a critical enabling vehicle to make this happen in collaboration with good policy designed to achieve this. We need hope and care in our economic and business models.

7. Fix the system, not just the symptoms

Our economic engine — our operating system — now needs to be oriented to recognise and deliver on what makes communities and societies successful. We must support people to thrive from the outset

rather than excluding them and then trying to manage the consequences. It is not acceptable to leave demographics or regions behind. And there are going to be even more acute challenges associated with technology.

This is a very different premise from simply attempting to address and rectify the implications of disrupted communities or regions by focusing primarily on redistribution, for example. Instead we need systemic change that takes into account not only those who currently participate in the economy but also those who are excluded, or are at risk of being so. We need to create an economic system that is inclusive and that enables human flourishing.

8. Transform government policy and market response

The effective functioning of a market economy has always required some degree of regulation or intervention, not least to preserve the essential characteristics of a functioning market, notably competition.

However, striking the right balance between “intervention” by government on the one hand and the effective functioning of the market economy on the other has long been a source of debate. While market economies have always been guided by a policy framework which reflects political and societal context we now need to reshape those policies so they are anchored in the purpose of the economy to support societal interests. That doesn’t mean sacrificing the pursuit of profit but instead setting policies to encourage sustainable investment and growth.

In Germany, for example, government policy ensures the same level of infrastructure (broadband, roads, etc.) across different regions to drive private sector and small and medium sized enterprise (SME) activities outside of primarily large, urban centres, and to create more opportunities in all regions of the country. The implications of China’s Belt and Road Initiative will continue to be debated but it

nonetheless provides another example of how a country or region can establish a vision in which economic activity is intentionally used to deliver broader outcomes. It is only by creating the right environment that a variety of models can emerge and coexist.

9. Use – and manage – technology while keeping our focus on humanity

Technology is neither inherently good nor inherently bad, but its deployment is having an unprecedented impact on human beings and society more broadly. The blistering speed with which technological developments have unfolded has left little time for citizens, governments, academics and business leaders to consider what we are gaining and losing as a result of new technologies coming into play.

Certainly there is a huge opportunity for technology to help businesses and therefore economies address social needs. Already the Fourth industrial Revolution – harnessing the power of Artificial Intelligence (AI), the Internet of Things, 3D printing and Big Data – is reshaping many parts of daily life. But even as technology offers great opportunities for a more sustainable future it also poses significant risks and challenges both in relation to the implications for employment and, more broadly, in terms of data acquisition and usage. It is critical, therefore, to ensure that technology is actively managed to align with societal needs.

10. Protect people, not jobs

One of the most disruptive elements in the new technological revolution is the transformation in the way we work. Automation and “thinking machines” are replacing human tasks and jobs at a rapid rate and changing the skills that organisations are looking for in their people. These changes raise huge

challenges at a time when business leaders are already wrestling with unprecedented risk, disruption and societal upheaval.

As individual tasks become automated through robotics, AI and algorithms some roles, and indeed, entire sectors and sections of the workforce will lose out. A whole new set of jobs will likely be created however. We need to be deliberate in the way we allow technology to develop and how it affects society. It will be critical to nurture adaptability and re-skilling in the workplace as well as educate people entering the workforce how they can best succeed in the new era of technology and automation. Businesses have a responsibility to their people, governments have a responsibility to their citizens and both need to work together to prepare for the scale of the challenges and opportunities which technology will deliver.

11. Make sure governance reflects global and local needs

The degree of interdependence in our global economy (and our environment generally) is both significant and complex, and cannot function without a common framework. The same logic applies to a range of issues which cross national boundaries, from terrorism to migration to health. And perhaps the most compelling example, of course, is the sustainability of our planet in response to climate change.

In all these cases, however, we must be willing and able to articulate the value of multilateral approaches in terms which resonate with individual communities and in individual countries while governance of those approaches must be sufficiently flexible to address different needs from local households all the way through to the global stage. The purpose of multilateral institutions must be clear in terms of their purpose, and this must align with the needs of the communities and societies that they support.

Concluding remarks

The key message here is simple. Market economies have been the most successful means of delivering societal progress for many decades based on a primary emphasis on financial performance, typically in the short term. This premise is now challenged. There is a growing misalignment between economic activity on the one hand and the delivery of sustainable societal outcomes on the other. We need to question the principles that underpin our current system and change them. Although this task may appear complex, it is possible. The system can adapt and evolve so that that the economic engine matches human needs and opportunities, and the profit motive is aligned with societal progress. The systemic transformation needed will require imagination and collaboration among stakeholders as well as a willingness to experiment and learn as we go. We all have a role to play.

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