KPMG
Private Enterprise

Business Matters

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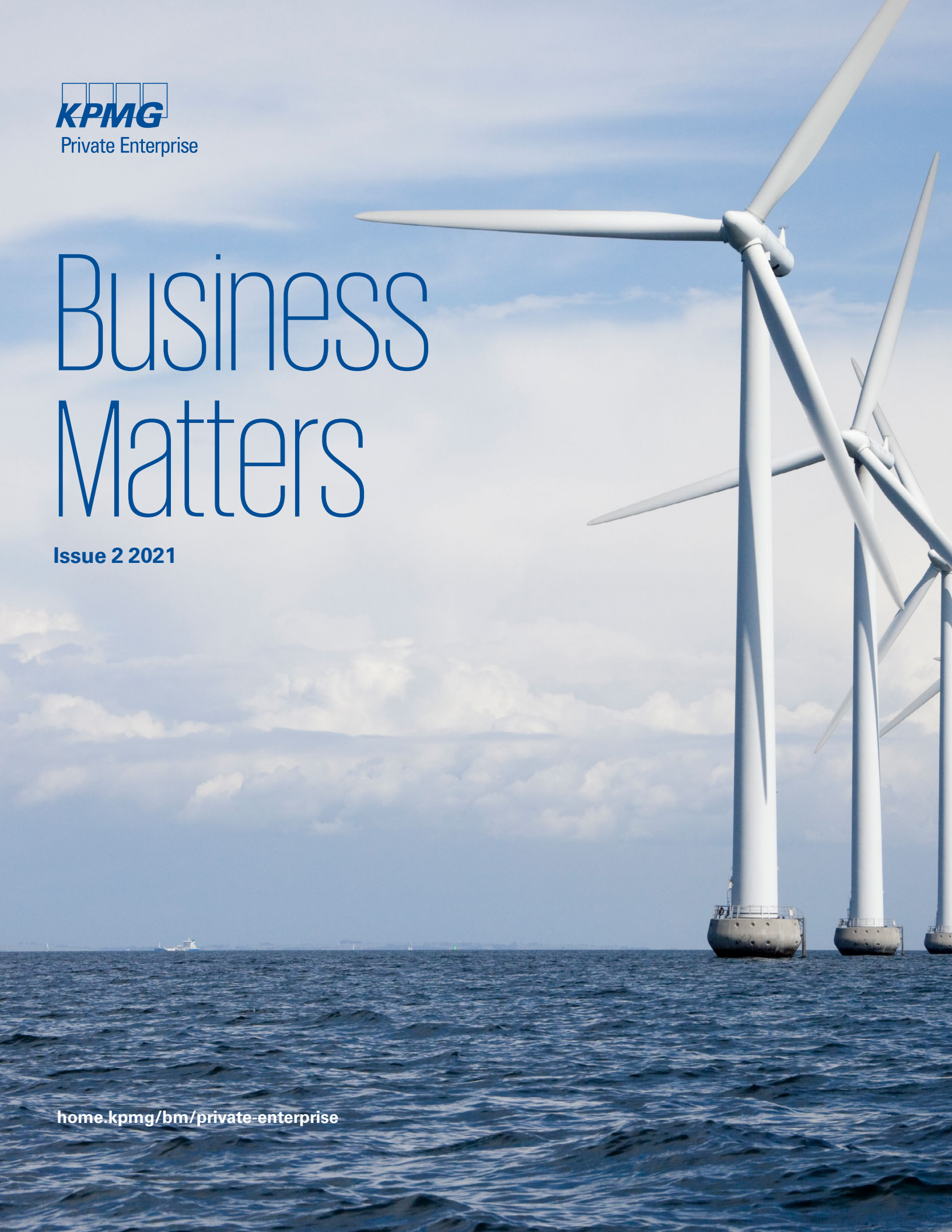

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What is your Impact?

Environmental, Social and Governance (ESG) factors have become critical to the success of businesses across all sectors. There's growing demand for companies to consider how their business impacts the world, their contribution to society and how they conduct themselves.

From strategy development and implementation to sustainable finance to assurance and reporting, our team can support you on your ESG journey.

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In this edition

A renewed focus on sustainability

Attention to ESG grows amongst CEOs amidst COVID-19

By Richard Threlfall
Global Head of KPMG IMPACT and
Global Head of Infrastructure, KPMG International

As the COVID-19 pandemic gathered pace earlier this year, I feared that the diversion of the world's attention to the immediate threat would set back the sustainability agenda by precious, irreplaceable years. But to my joy, and frankly astonishment, the reverse has happened and attention on sustainability is growing, particularly amongst business leaders. It seems that the vulnerability of our society that COVID-19 has revealed has been taken as a sharp reminder that what we take for granted can easily be lost.

That renewed focus by business is not just on climate change, but across the broad spectrum of Environment, Social and Governance (ESG). My colleagues and I at KPMG have witnessed this in countless client conversations since we all started taking to Zoom and Microsoft Teams. A year ago when we broached the subject of sustainability with the CEO of a company, the odds were that we would be politely referred to the Director of Sustainability, if the company had such a post.

Now we are being approached every day by CEOs asking for support on their ESG agendas. **It is the top boardroom issue.**

The evidence for this shift was powerfully reinforced in the KPMG 2020 CEO Outlook: COVID-19 Special Edition. It confirms that business leaders are taking the opportunity to re-evaluate their organisation's sense of purpose, are feeling the need to take a stance on societal issues, and to take action on climate change.

KPMG initially surveyed 1,300 CEOs in January and February of 2020, before many key markets were beginning to feel the full impact of the crisis. Then from 6 July - 5 August 2020, we conducted a follow-up survey of 315 CEOs to understand how their thinking has evolved. All respondents have annual revenue over US$500M and a third of the companies surveyed have more than US$10B in annual revenue.

As I read the resulting report, I was struck by how strongly many of the findings resonated with what we are seeking to drive through KPMG IMPACT, our own platform to support and empower KPMG professionals, to assist our clients in fulfilling their purpose and help deliver on the UN Sustainable Development Goals. In particular, it shows that businesses are more purpose-focused than before: 79 percent say they feel a stronger emotional connection to their purpose since the crisis began, and the same percentage say they have had to re-evaluate their purpose.

The change in consciousness was underway before the pandemic. Even in January 2020, only 23 percent of CEOs saw their organisation's purpose solely in terms of delivering shareholder value, and 22 percent said their primary objective was to improve society.

The report also shows that CEOs are now more likely to take a public stance on issues of public concern. 76 percent said they had a personal responsibility to be a leader for change on societal issues. For example, they are more likely to speak out in support of Black Lives Matter.

And climate risk remains high in CEO consciousness. Nearly two thirds (65 percent) recognise that managing this risk will play a part in whether they keep their jobs over the next five years. The realisation has finally sunk in that climate risk is something that every company needs to evaluate and manage.

Some may feel all this has come a bit late. But I welcome what I sense is a real deep-rooted authenticity, in the focus on sustainability from the individuals who lead some of the world's biggest corporations. Now we need to see those good intentions translated into action.

For more information on KPMG's IMPACT and ESG programs, please contact us.

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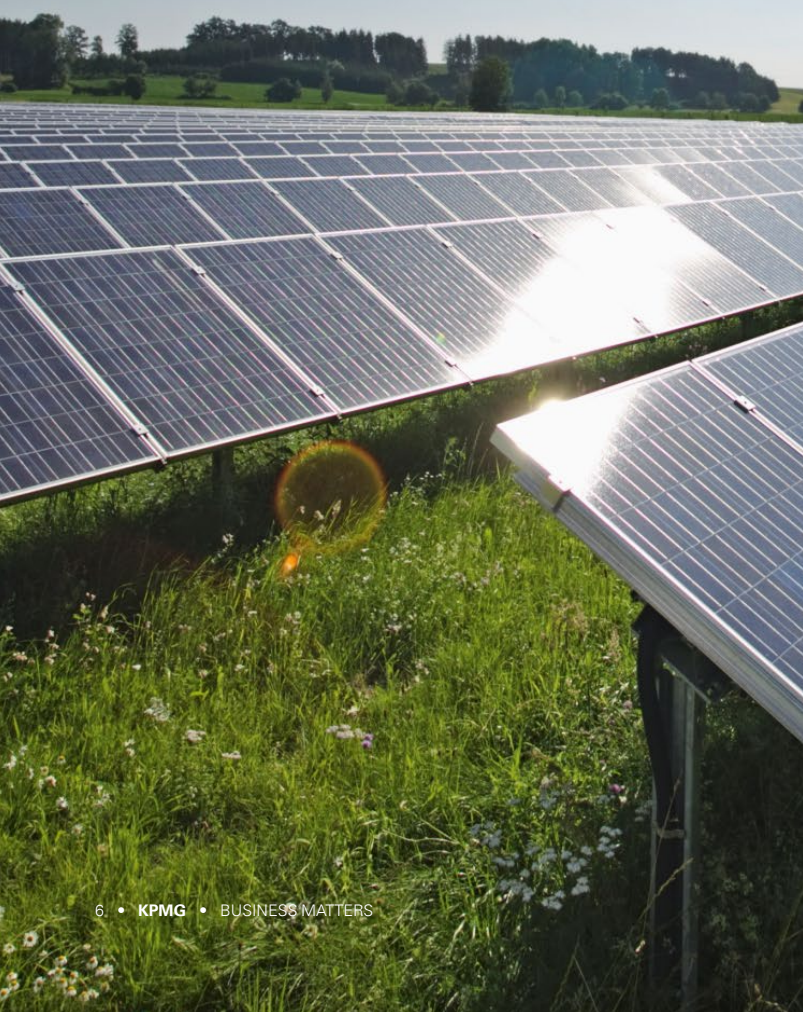
Family businesses are transforming ESG

How a new generation of family business leaders can change the ESG mindset

By: Tom McGinness
Partner, Global Leader, KPMG Private Enterprise Family Business Centre of Excellence, KPMG International



The founder of a family business recently told me how he and his family have responded to the impact of COVID-19 on his business, family and the wider communities in which they operate. "It's important for me to believe that what I'm doing during this time is meaningful. Not just for the well-being of my business and family, but to the broader communities where we live and work, to our employees, customers and suppliers."

As the report "ESG Strategy and the Long View" [1], published by the KPMG member firm in the US, points out, companies of all sizes and sectors are beginning to apply as much focus and discipline to environmental, social and governance (ESG) as other strategic initiatives aimed at creating long-term value.

The unique advantage of family businesses

However, I believe the family business sector has a unique advantage when it comes to ESG. It's no secret that one of their key differentiators is the close connection that family members have with the financial and non-financial goals of their businesses.

As highlighted in the recent Successful Transgenerational Entrepreneurship Practices (STEP) 2019 Global Family Business Survey[2] (developed through a strategic alliance with KPMG Private Enterprise), this connection between business and family goals is often reflected in what is known as the family's 'socio-emotional wealth'… the important emotional value that the family receives as a direct result of owning and managing their business[3].

Socio-emotional wealth underpins many family businesses that have been on the ESG page for some time as they build environmental and social goals directly into their business strategies.

What can we learn from family businesses?

There are lessons to be learned from this mindset. For one, it isn't the 'corporate social responsibility' of old, which focused on fixing the mistakes of the past. It also doesn't compartmentalise ESG in a 'triple bottom line' type of measurement. Instead, it reflects a commitment to the success of their businesses and families, while also making a positive contribution to the social and economic environments in which they live and work.

Refreshing our thinking

I believe there's a unique generational viewpoint that affects the family ESG mindset as well. I have observed a new generation of family members who are successfully, injecting fresh thinking to rejuvenate their businesses in response to the new reality created by COVID-19. In some cases, this has led family leaders to accelerate their succession plans to allow the next generation to take on more immediate and substantial roles.

1. ESG, strategy and the long view
2. Millennial CEOs are ready to take over, according to STEP 2019 Global Family Business Survey released today.
3. Gómez-Mejía, L. R., Haynes, K. T., Núñez-Nickel, M., Jacobson, K. J., & Moyano-Fuentes, J. (2007). Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. Administrative Science Quarterly, 52(1), 106-137.

For these regenerative leaders, issues such as sustainability, climate risk, and poverty are higher on the agenda than they might have been for previous generations, leading to more open discussions within families and bringing together the views and values of all generations.

What lies ahead?

I foresee a rise in family offices or charitable foundations led by this next generation that put their family resources to work on issues of high importance for the entire family value chain.

A new generation of customers is applying pressure as well, dictating the kinds of products and services they want to buy… and who they want to buy them from. Likewise, funders are looking at the degree to which target companies have implemented a responsible approach to ESG issues, and making it an increasingly critical decision point.

There's a transformation happening with reporting as well, with new guidelines developed by business for business introduced at the World Economic Forum in Davos this year. Family businesses are beginning to incorporate ESG goals into family members' and senior management's individual goals. All of this makes sense to me in a family business environment where the achievement of an ESG strategy is woven into the very fiber of the family business. I believe non-family businesses have an opportunity to adopt similar models.

Adopting a new ESG mindset

As business families review their business plans in the broad daylight of disruptive change, there are a few questions that I believe are worth considering:

- Do you consider ESG goals to be important?
- Do you consider ESG achievements to be a strategic priority for your business, family, customers, suppliers and communities?
- How might ESG considerations reshape your thinking about your business and family purpose, values, and operations?
- How might you embed a wider social purpose in your business operations and culture?
- Why *wouldn't* you choose to focus on a strategy that brings you closer as a family and also helps to galvanise the trusted relationship you have with your customers, suppliers, funders, and the community in which you operate?

There is no question in my mind that a long-term strategic approach must be taken for ESG to be successful, and the family business model is a worthy one to follow.

I encourage you to follow our regular KPMG Private Enterprise series of blog posts. Here,we share insights from across our global network on how to embrace the new reality of a post COVID-19 world.

For more on this article or on how we can assist Family Businesses, please contact us.

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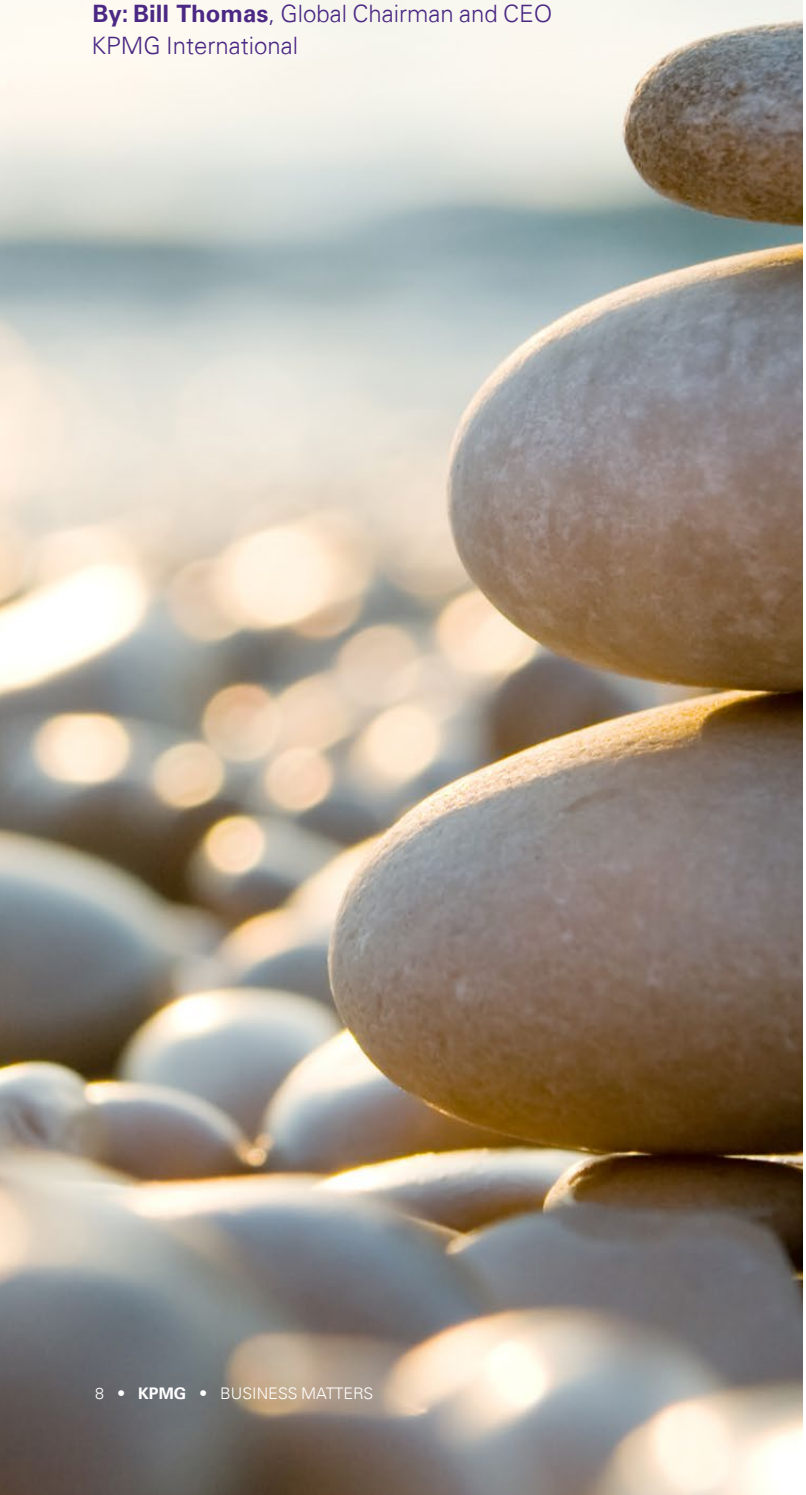
Now is the time for more accountability

Including ESG-focused metrics in financial reporting to drive tangible action

By: Bill Thomas, Global Chairman and CEO
KPMG International



Businesses are being held to account for far more than they have in the past. More and more, success is no longer solely measured by profit, but more by its positive impact across society. It's a trend that will certainly continue long after the world has pulled itself out of this tragic pandemic. Clients and consumers, employees and owners, citizens and governments—all stakeholders— are demanding more because the problems society faces are global in scope and existential in threat.

Climate change, inequality and the building back of our economies after this pandemic are challenges where solutions are needed now, not later. Real tangible action is needed. The good news is that, for some things, there is already a model to borrow from to help measure and drive the change we want to see. Consistent and transparent financial reporting standards have helped investors measure business success for decades, albeit through a very narrow lens. We don't need to reinvent the model, we just need to expand the scope.

Now that business has become more acutely aware of its role in addressing societal and environmental issues, we need reporting standards that match. After all, business is far more complex than simple dollars and cents or profits and losses. Moving towards ESG-focused metrics that are responsive to the needs and demands of far more stakeholders, will help ensure that we all collectively make a difference where it counts.

As always, capitalism works best with better information, and we now have the technology and tools to more accurately measure value creation and wealth. A task force led by the International Business Council of the World Economic Forum and composed of subject matter professionals from Bank of America, KPMG and the other Big4 organisations, published a paper with a proposed set of ESG metrics and reporting disclosures that can be adopted today.

The report found that nearly 85 percent of corporate respondents agreed that reporting on a set of universal, industry-agnostic ESG metrics and disclosures would be useful for their company. Moreover, almost 65 percent are willing or able to report on the core metrics and disclosures in their mainstream annual report. Most encouragingly, 90 percent of corporates said that they agree that reporting a set of universal and industry-agnostic ESG metrics and disclosures is useful for financial markets and the economy.

The initiative has further stimulated dialogue between standard setters – a start on the path towards global convergence in this space that I strongly support. Adoption of the metrics will bring consistency, comparability and transparency to the reporting of non-financial information and the ESG aspects of business performance. All of this is critical to demonstrating long-term value creation. In the long run, this will strengthen our capital markets

and work towards fixing some societal inequities by harnessing the awesome power of capitalism and refocusing it on long-term value creation, rather than allowing it to cannibalise itself.

Perhaps most encouragingly, this report was the culmination of many stakeholders from every continent, across industry sectors and with input from both private and public organisations. Although I am proud to lead KPMG and help with this initiative, adopting ESG-metrics is far more important than any one company's contribution. The only way this works and we see the change needed to confront these enormous challenges is if everyone sees its holistic value and works together to achieve it.

More than ever, companies need to do better for the communities they serve. It's not only the right thing to do, but together, we can create a virtuous cycle that benefits a wider slice of the general population, engage more stakeholders as we do it, and attempt to solve the world's great problems.

If there was ever a time to work better, together, now's that time.

Do you have questions on this article or want to talk further? Contact us today!

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The Bermuda Chamber of Commerce AGM

Richard Threlfall
KPMG's Head of Infrastructure and Global Head of KPMG IMPACT

The Bermuda Chamber of Commerce is proud to be once again working with KPMG in Bermuda for the AGM 20/21, to be held on 29 April 2021. Headlining our lunchtime presentation will be Mr. Richard Threlfall, KPMG's Head of Infrastructure and Global Head of KPMG IMPACT, covering sustainability, climate change and economic and social development. This year's format will be virtual via Zoom and is open to both members and non-members.

In making the announcement, Kendaree Burgess, CEO of the Chamber of Commerce said, "We are especially thrilled to have Richard speak to us – his deep knowledge is very relevant for us locally and is globally impactful. We look forward to hearing from him. Economic, social and governance (ESG) is a high priority for a board's agenda and certainly this will have a major impact on Bermuda."

Steve Woodward, Managing Director and Sector Lead, KPMG Private Enterprise stated, "ESG issues are a high priority for organisations. The world has changed. Consumers and employees have increasingly different expectations, and business leaders are under pressure to prove that their organisations are acting responsibly and acting sustainably. Under the umbrella of KPMG IMPACT, our firm is looking to make a positive impact towards the ESG agenda and sustainability by creating an inclusive workplace, empowering our community, helping to preserve natural resources in the jurisdictions in which we live and work, and helping businesses build a sustainable future that can drive growth and profitability. The pandemic has put a spotlight on sustainability, especially here in Bermuda. We have been resilient, but we need to be mindful of the future. We look forward to insights that Richard will share to see what global organisations and other jurisdictions are doing across the ESG spectrum, where they are focused and how it can impact Bermuda."

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Retailing in the new reality

Our reflections on the NRF 2021 retail's big show Chapter 1

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The National Retail Federation's Big Forum – Chapter 1, the world's largest on-line retail event, took place over several weeks in January 2021. NRF Chapter 2 is planned to take place in New York in June 2021.

In KPMG's latest blog, Retailing in the new reality – our reflections on the NRF 2021 retail's big show Chapter 1, focuses on the four key themes that have been reinforced for 2021. These include:

1. Consumer commerce is emerging;
2. Business models are rapidly evolving;
3. Making costs sustainable; and
4. Putting purpose at the core.

In this article, we will focus on the 'Consumer commerce is emerging' trend.

All signs suggest we are witnessing the evolution of 'retail' into 'consumer commerce' where, increasingly, consumer expectations dictate the model, demand shapes the value chain, and consumer-facing businesses offer products and services without first having proven themselves as a store-based retailer.

In this future 'consumer commerce' landscape, traditional retailers with a heritage in bricks and mortar will compete against businesses with deep capabilities in data, technology and supply chain. In some cases, the only real common denominator between these businesses will be the fact that they all sell products and services to the consumer. Store-based companies will compete against digital-only brands and hybrids alike; there is room for a range of models to succeed and win.

It is clear that pandemic-related shifts in consumer expectations have been influencing business model decisions for many retailers. The immediate tactical necessity in the pandemic was to shift the 'path to purchase' and create or expand BOPIS and BOPAC (that's Buy online pickup in store and Buy online pickup at curbside) capabilities.

Customer experience also required urgent focus in the pandemic, but in many cases remains a work in progress. Indeed, there seems to be a general recognition that, broadly speaking, customers are not yet entirely satisfied with the omni-channel and digital experiences they are receiving today. Missed expectations on deliveries and fulfillment are also creating challenges for some.

During Target's recent Elevate Conference held in India, Target's CIO, Mike McNamara, talked about the challenges delivering an exceptional and consistent experience to customers across physical and digital assets. For Target, the answer was to build their own systems, capabilities and tools to essentially combine all

of their customer data in one place. McNamara admitted that this strategy might not be practical for retailers with smaller IT budgets. For many, partnerships may offer a more viable path.

A number of retailers are also talking about how they use data and analytics to prioritise their customer investments and resources during lockdowns. Retailers remain deeply focused on ensuring their most valuable and vulnerable customers are being properly taken care of throughout the crisis. And they are rapidly harnessing customer data and analytics capabilities to do that. Retailers are also noting and noticing the impact on the customer experience of those who, presumably, were deemed lower priority. The connection between purpose and the evolving 'consumer commerce' marketplace is clear.

The landscape is also being transformed by the shifting expectations of the Baby Boomer generation. Throughout the pandemic, they have remained the most financially stable. Yet they are also the most concerned about the health risks of COVID-19. Their adoption of digital channels represents a massive change in buying patterns for a key demographic.

Retailers continue to struggle with the implications, scale and pace of this change. Baby Boomers have not traditionally been the focus of digital marketing campaigns and customer experience improvement initiatives in the past. Many retailers are now exploring how they might rebalance their allocation of capital and update their digital marketing strategies in order to meet the needs of this demographic.

In KPMG International's report on the Future of retail, six key drivers of consumption were identified that are shaping consumer purchasing decisions going forward: value, convenience, experience, choice, privacy, and purpose. Understanding their influence on each of your customer segments will be key.

Are you interested in reading about the remaining trends? Visit: https://bit.ly/3aUv5zK.

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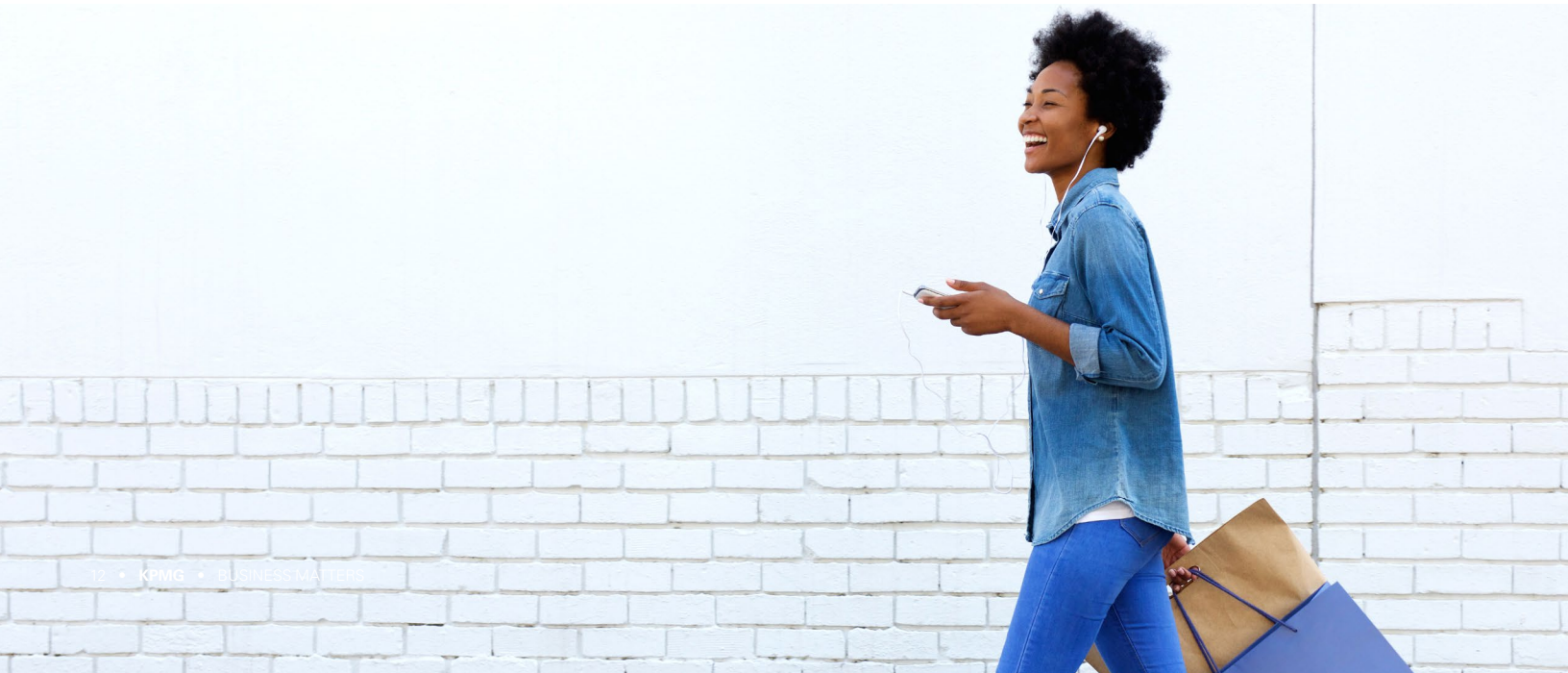

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