



# Breakfast with Paul Polman

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KPMG Board Leadership Centre



Paul Polman, Chair of the International Chamber of Commerce and former CEO of Unilever Plc, joined our FTSE350 breakfast to share his thoughts on corporate responsibility, purpose and sustainability. His remarks were both passionate and inspirational. Here we look at some of the key themes arising.

In the world today we can see that more people have been lifted out of poverty than ever before, more have access to education, healthcare and clean water, and people live longer. But, our ecosystem is unsustainable. We have massive over consumption, enormous debt and people are being left behind. Key issues to address include climate change; equality and income; diversity and inclusion.

## Climate change

Climate change trumps everything else and according to the latest Intergovernmental Panel on Climate Change report, time is running out. The coral reefs are disappearing and that means livelihoods are already being destroyed. Air pollution is causing 8 million premature deaths a year; and the world's tropical forests are so degraded that instead of absorbing emissions they now release more carbon annually than all the traffic in the US.

**//** *We are worshipping an invisible god, but destroying a visible world.*

Irreversible climate change is not unavoidable, all that is missing is the will power. By and large, people, companies and governments don't care – but we should all care.

## Income and equality

With too many people being left behind, ultimately society will rebel – we are already starting to see it with the 'yellow jackets' demonstrating in France. Oxfam recently reported that the world's least wealthy 3.8 billion people have suffered a decline in net wealth of 11%; whereas the richest people are getting richer.

The number of people living in hunger is on the rise, yet we still actively waste food – and not just in the richer economies. *From a business perspective, if 800 million people no longer go hungry, that is a big opportunity for a food producer.*

If one fights for those living in hunger and do it well, then shareholders do well too.

Achieving the Global Sustainable Development Goal of 'not leaving anyone behind' would cost \$3-4 trillion – which is only 3-4 percent of the global economy. But such a figure dwarfs today's combined global government aid budgets. Business has to act - the cost of not acting is greater than the cost of acting.

## Diversity and Inclusion

Putting aside the economic arguments, the diversity and inclusion agenda has - at its heart - basic human rights. Around 15% of the population are disabled - yet only 1-2% of the employed workforce have a disability.

**//** *Governments with more women are more engaged with the development agenda.*

'Women on boards' in the UK should be business as usual by now, but the FTSE350 are still short of the 30 percent aspiration. Why do some boards find it difficult to sign-up to such a commitment? We need to articulate a better case for those people who are not bought into this. We also need to be aware of unconscious bias. Artificial Intelligence can help provide objectivity toward decision-making here (but AI systems are not an answer in isolation).

## Global governance and societal challenges

Based on a post WW2 paradigm where 95% of the world's economic activity was in Europe and the US, the global governance system no longer reflects today's economic reality and is unable to respond effectively to many of the global challenges faced today.

The rapid pace of urbanisation creates another challenge. City dwellers are more removed from the natural environment which makes it difficult for them to fully appreciate the impact of climate change, plasticisation and other environmental challenges.

Technology – for all the good it has done – is arguably having a detrimental impact on some aspects of society. With people increasingly removed from traditional human interaction, questions arise as to whether people’s basic humanity is being eroded.

## Regaining the public’s trust

In today’s world we have to accept that there are new social norms and stakeholders are shunning companies that aren’t seen to care. A trivial Christmas bonus might be interpreted as nothing more than an attempt to buy employee goodwill, or at best just reward for a job well done. Protect your license to operate by showing a positive contributions to society. If business is to regain the public’s trust, companies need to start behaving differently.

**//** *The definition of insanity is doing the same thing over and over again, but expecting different results.*

Business needs to be transparent and clear about its role in society. It’s a good thing to pay taxes. It’s a good thing to fight fraud. Citizens expect companies to take responsibility. They expect the CEO to stand up and take a position on the issues of the day. We need more transparency around what companies stand for – for example, Unilever has produced a human rights report, but few if any, other companies have followed suit. Why is that?

## What it means for the board

If governments can’t act, then business has to act responsibly and fill the void. Many boards are reactive to short-term pressures such as Brexit and digital transformation, yet miss the bigger picture. What use is digital transformation if the planet warms by more than 2°C?

By working with governments, business can help de-risk the process – whether that be working in parallel with politicians on the broad climate change agenda and giving them the courage to (say) sign-up to the Paris accord; or at a more granular level to (say) lobby to change the Take-over Code to something more appropriate for a world in which intangible assets are a greater part of corporate value and in which there are fewer long-term shareholders.

Do we have the right business leaders? Do boards have the right composition to deal with the challenge? The right depth, experience, commitment and drive? How many of our board members are climate competent?

*Why do we all sit on boards - do we really care? We are the two percent that have the freedom to do what we want. We should think about putting ourselves to the service of the other 98 percent.*

Looking at director’s duties through a long-term multi-stakeholder lens is paramount if success and longevity are to be sustained. Businesses are created to solve problems – as Larry Fink has suggested, companies must have a sense of purpose. If companies don’t have a purpose, then why do they exist? For Unilever, the journey started with bath soap. Soap helps combat infectious diseases and in turn this helps fight poverty and premature mortality.

**//** *What is ‘your’ company’s purpose?*

How can your company use its value chain to drive environmental and social change while also creating value for shareholders?

Ultimately, business needs to attack the underlying issues and work with all stakeholders to remove the big four barriers: build long-termism into the investment process, de-carbonise, move to a holistic economy that places value on human and natural capital; and ensure labour is rewarded **as well** as financial capital.

**//** *A company’s ability to manage environmental, social and governance matters demonstrates the leadership and good governance that is essential to sustainable growth.*

### Six calls to action

1. Understand the severity of the challenges the world faces
2. Lead from the front foot - because doing the ‘right’ thing creates value for shareholders and other stakeholders alike
3. Ensure the board has the ‘right’ people to address the challenge
4. Understand your purpose – both corporate and personal. Why does your company exist?
5. Approach your directors’ duties with a multi-stakeholder lens. Shareholder value is the *result* of having a clear mission and set of values that motivate employees to serve customers and society at large
6. Work with governments – give them the courage to do what’s ‘right’.

## Contact us

**Timothy Copnell**  
KPMG Board Leadership Centre  
T: +44 (0)20 7694 8082  
E: [tim\\_copnell@kpmg.co.uk](mailto:tim_copnell@kpmg.co.uk)

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