



Prioritizing in a pandemic

How COVID-19 is impacting the corporate ESG agenda



Introduction

Since the COVID-19 pandemic struck in early 2020, businesses - along with the rest of the world - have scrambled to make sense of the new reality.



While many governments have committed to investing in a green recovery, it is less clear what the pandemic means for environmental, social and governance (ESG) programs at major companies. Some commentators say that, in a crisis situation, everything – and ESG in particular – takes a back seat to economic survival. Others say that the pandemic provides a unique opportunity to put ESG at the center of corporate recovery strategies.

We at KPMG in the Netherlands set out to form a better understanding of how COVID-19 is impacting the corporate ESG agenda. We interviewed senior executives from 20+ leading European companies¹ to seek their views on the crisis and ask them how it has impacted ESG at their own organizations. We found that the urgency of the crisis has sparked new ways of working with significant implications for the way large companies approach ESG. I hope you find the results as enlightening as I have.



We at KPMG in the Netherlands set out to form a better understanding of how COVID-19 is impacting the corporate ESG agenda.

¹ See page 14

Quick-read summary

The research suggests that some companies are still in survival mode, focusing on controlling costs and keeping their people safe.

Established patterns of office-based working and business travel are likely to be forever changed, forcing many sectors to adapt or risk extinction. Yet, the urgency of the crisis has also catalyzed levels of creativity and action never seen before.

COVID-19 appears to be prompting improvements in the governance of ESG at large companies as well as fresh understanding of the importance of the company's role in, and impact on, society. While environmental issues remain a key focus, social issues like people's safety, physical and mental health, loneliness and social inclusion have become a new priority. Mitigating the impact of COVID-19 on the supply chain is a critical priority for business; at the same time the crisis is leading to a reassessment of the complex global supply chains developed over the last 20-30 years and increased interest in localized and circular supply models that may be more resilient to disruption.

The crisis has catalyzed a new level of co-operation between governments and business as both understand the risks if they fail to respond to the needs of society at a potentially volatile time in our history. Investor interest in ESG continues unabated with a focus on what companies are doing to support and protect their workforces. The key message from those interviewed from this report is to expect the unexpected. The importance of understanding, and responding to, the needs and wants of society has never been higher. 'License-to-operate' is not just an ESG buzzword, it is now arguably the most critical element of corporate value.



Section 1

How has COVID-19 affected the way companies work?

Some companies are still in survival mode

The executives we spoke to were clear that when the crisis struck the urgent and critical challenge was simply to ensure the survival of their businesses. Companies in some sectors are still operating in that survival mode; others are confident they have made it through the most dangerous period and still others are finding that COVID-19 has brought new opportunities – however, all remain in stormy and uncharted waters. Their captains are trying to steer a steady course through a situation they have never faced before and were not trained to handle at business school. At the same time, corporate leaders are thinking ahead and striving to make sense of the new reality by working out what COVID-19 will mean for their businesses not only now, but also in the mid to long-term future.

Cost control and people are the immediate priorities

The pandemic has seen a return to two fundamentals: cost control and people. Leaders face the conundrum of how to reduce costs as much as they can while protecting as many people as they can. All those interviewed stressed

that when the pandemic broke out, their immediate priority was to change ways of working to ensure the safety of their employees and to make best efforts to avoid redundancies.

The business world will never be the same

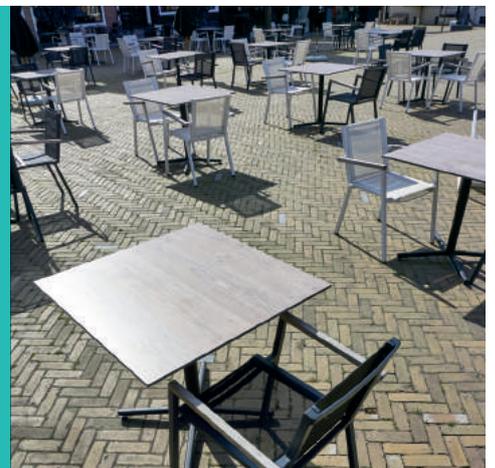
Expectation is high that the business world will be forever altered by COVID-19. Many long-held norms of living, working and doing business have now changed and are not expected to return to pre-pandemic patterns. In this new reality, some established business models are likely to struggle, leading to tough choices for some sectors to innovate and adapt or die: business conferences and exhibitions as well as travel were among the sectors our interviewees highlighted as potentially at risk. Real estate, hospitality, transport and other sectors whose traditional business models rely on large numbers of people travelling daily to their workplaces are also seen as under threat. On a broader level, COVID-19 is seeing the emergence of a new consciousness among corporate leaders that the role of business in society is changing.



One of Heineken's core strengths is its strong presence in the hospitality sector. Now with Covid-19, that great asset may see its present and future development compromised.

Benjamin Gatland,

Global Director Social Sustainability, Heineken



From crisis comes creativity and action

The urgent need to respond quickly and decisively to the COVID-19 crisis left no time for dither or delay. Executives reported that a new culture of instant creativity and action rapidly emerged out of the initial shock and chaos; corporate leaders gave their teams free rein to do whatever was necessary, and do it quickly. COVID-19 became a catalyst to do things faster. As a result, long-established silos and separations between functions began to dissolve, decisions were taken more quickly and efficiently than before, and people learned that they can and must work with less information.

The crisis brought a new pragmatism and clarity of focus, with a shared understanding between people that only the projects that mattered most should be prioritized. An unprecedented attitude of enthusiasm and collaboration emerged as the crisis brought to the surface the core values of both the company and its employees.

The challenge now is that the energy levels catalyzed by the initial urgency of the crisis are beginning to decline. This is leading companies to question how they can sustain the drive and momentum to see them through the remainder



In times of crisis, people are more willing to let go of existing processes.

Anne Schreuder,
CSR Director, Shell Netherlands

Anna Dumanska,
Investor Relations Officer, Shell Netherlands

of the crisis and retain the benefits of this new agility; how they can maintain the improvements in innovation, speed and efficiency that COVID-19 has generated. As one interviewee remarked: "The question is, how do we learn from this and how do we take it forward?"



COVID-19 has shown us we can do things that did not seem possible before or that would have taken a lot of time to implement.

Willem Mutsaerts,
Head of Global Procurement
and Sustainability, Givaudan



Section 2

How is COVID-19 affecting the corporate ESG agenda?

Corporate governance of ESG is improving

The pandemic has triggered improvements in the way ESG is governed and managed. The sense of urgency around the crisis has driven closer engagement between corporate risk, strategy and sustainability teams and resulted in new perspectives; several interviewees reported these functions collaborating more closely than before to identify ESG trends, assess potential risk exposure, find opportunities, and plan the company's response. With regard to corporate reporting, ESG is expected to move even closer to the center of their organization's corporate disclosures. This may be because corporate leaders understand that the pandemic is shining a new light on their company's role in, and impact on, society.

“ In [our] business strategy, sustainability was already a focus. It is now integrated in the core, and the transformation we aim for is to embed sustainability in every decision that we make.

Catherine Bals,

Head of Reputation & Sustainability, Proximus

“ The invisible hand of the market turns green. ESG is still on the agenda, that means that there is a tectonic shift happening that COVID-19 wasn't able to break.

Matthias Berninger,

SVP Public Affairs & Sustainability, Bayer



“ The crisis shows the urgency. We need to use the moment of reflection to converge the business to become more sustainable.

Robert Metzke,

Vice President, Global Head Sustainability, Royal Philips



To be able to reach ESG targets, it is necessary to transform the way we work to a stronger focus on implementation and driving action. It's a shift companies need to make.

Magali Anderson,
Chief Sustainability Officer, LafargeHolcim

A new emphasis on purpose is emerging

The pandemic is forcing companies to pay more attention to their role in society, their impact on the world, and what society expects from them. Some interviewees said that investors – pension funds in particular– are asking for a more comprehensive story on the company's role in society and its purpose beyond making money for its shareholders. This is putting pressure on companies to clearly articulate the value they bring to society. In COVID-19 times, moral and ethical considerations are having greater influence on decisions that might previously have been taken purely on the basis of the business case.



The challenge is to be very clear about the value you offer to society. COVID-19 has accelerated this.

Anne Schreuder,
CSR Director, Shell Netherlands

Anna Dumanska,
Investor Relations Officer, Shell Netherlands



The COVID-19 situation has given us a deeper understanding into our purpose: it [purpose] has to be a win for the people, win for the climate and win for the P&L. If companies don't know how to combine those three, the company has an expiry date.

Juencio Maeztu,
Chief Financial Officer and Deputy CEO,
Ingka Group (IKEA)

“ Covid-19 has made existing vulnerabilities of people more visible and created others... It is important that the governance structure supports timely decision making to enable the organization to take action.

Greg Priest,
Head of Social Impact and Human Rights, Inter IKEA Group

Alenka Rosenqvist,
Co-worker Relations Manager, Inter IKEA Group

Awareness of corporate social impact surges, environment stays

At many organizations, environmental issues such as carbon emissions, water use and waste have historically dominated the ESG agenda. COVID-19 has changed this. At many of the companies we spoke to, awareness of how the business impacts people has surged because COVID-19 is a people-centered crisis.

The priority for business leaders has been to understand how the pandemic is affecting people within the company's sphere of influence – from employees and local communities to customers and suppliers – and to work out what the company can do to mitigate those impacts. For example, social issues like safety, physical and mental health,

loneliness and social inclusion have taken on a stark new importance as people struggle with new situations like working from home, teaching and learning online and losing the freedom to socialize.

At the same time, interviewees stressed that corporate attention on environmental issues has not disappeared. In fact, the environmental impacts of business are predicted to take on even more importance after the pandemic passes as COVID-19 increases public scrutiny on companies' role in society. However, at the organizations we spoke to, COVID-19 is likely to ensure that the company's social impact remains at the top of the corporate ESG agenda alongside the environmental issues and is treated with equal importance.



The COVID-19 crisis made us realize that the basics in life that we value most are so basic that they are fundamentals. We focus on family, home, food, health, socializing.

Juvencio Maeztu,
Chief Financial Officer and Deputy CEO,
Ingka Group (IKEA)

The supply chain is center stage

The crisis has thrown the resilience of global supply chains into doubt. It has forced companies to take whatever action they need to in order to protect essential supplies. For example, some companies have accelerated payment terms, guaranteed purchases or invested directly to help shore up their business-critical suppliers. Small and medium-sized suppliers have moved up the ladder of importance as they need extra support to stay afloat under the pressures of the pandemic. Yet, many companies have still seen their supplies interrupted or key suppliers go out of business.

In this context, companies are considering alternative scenarios for their supply chains and, in some cases, questioning whether the complex global supply chains built up over the last 20 to 30 years are the right model for the future. In some sectors, particularly in consumer goods, the crisis has also increased pressure on large companies

to take responsibility for the smallest and most vulnerable players in their supply chains – smallholder farmers in the developing world that produce cotton or cocoa for developed markets, for example.



There is a ripple effect down supply chains. COVID-19 has a direct, negative impact on the weakest actors.

Lena Staafgard,
Chief Operating Officer, Better Cotton Initiative



Should we be maintaining more local supply chains?

Brechtje Spoorenberg,
Head of CSR, KPN



Supply chains for the future will need to be flexible, with enough diversity to ensure continuity of supply during unusual events. Now it's COVID-19 that really challenged us, but the same will apply when climate change or another disruption forces us to shift supply chains rapidly.

Megan Hellstedt,
Vice President Health & Sustainability, Royal Ahold Delhaize

COVID-19 is driving a move to circular models

Several companies have stepped up their programs to reuse and recycle more materials and products, as a strategy to protect themselves from COVID-19-related supply chain disruption. Several predicted that a move towards circular supply chains will change the landscape: some suppliers will become more valuable and successful in a circular supply chain while others, if they fail to adapt, face becoming obsolete.



The expected scarcity of critical raw materials increases the urgency of our circularity program.

Brechtje Spoorenberg,
Head of CSR, KPN

Section 3

How is COVID-19 affecting relationships with stakeholders?

Governments and businesses are collaborating

The crisis has prompted close engagement between companies, their peers and governments to work together in finding solutions in a short space of time. Several interviewees felt that the crisis has caused governments in particular to become more aware of people's concerns and conscious of the need to reassure them that their interests are being seen, heard and acted upon. In the context of COVID-19, governments have become more active in driving a symbiotic relationship with business to tackle the crisis for the benefit of society. While views of COVID-19-related collaboration between governments and business were largely positive, there was also a feeling that there is a great deal at stake. People are under pressure and if business leaders and politicians get it wrong, the result could be a massive erosion of trust resulting in social unrest.



The pace with which the government but also banks helped companies, showed that we became very conscious of what we can make possible in a very short time frame; quick collaboration is possible when it's needed.

Alain Cracau,

Executive Director, Head Sustainable Business, Rabobank



If we don't get our act together – business, science and politics – the backlash could be dramatic.

Matthias Berninger,

SVP Public Affairs & Sustainability, Bayer



Investor influence on ESG continues to increase

Investor scrutiny on companies' ESG performance continues to grow; no one interviewed for this research reported that investor interest in ESG had abated during the COVID-19 crisis. With regard to COVID-19 responses specifically, executives reported that investors recognize that a healthy, stable and productive workforce is critical for business continuity. For that reason, many investors want to know what the company is doing to keep its employees safe through the crisis and support them through emerging COVID-19-related challenges such as social isolation and mental health issues.

How will COVID-19 shape the future?

COVID-19 has had a permanent and indelible effect on business. No one saw it coming, few were prepared. While many companies continue to fight for survival, business has risen to the challenge in a way that few would have thought possible. The key message from those interviewed for this report is to avoid complacency and expect the unexpected – be ready for further disruption. Future resilience relies on reassessing, and potentially redesigning, the value chain and the company's role in it.

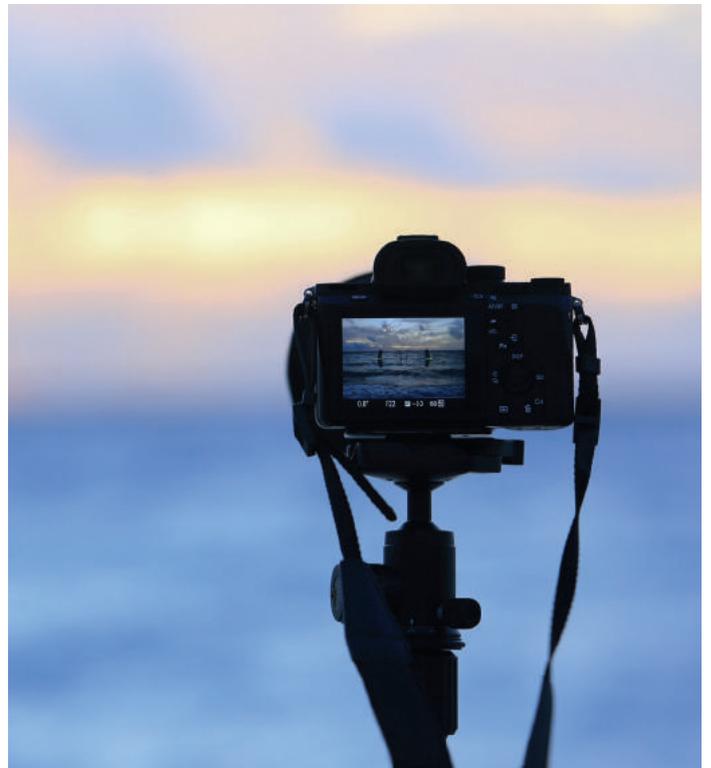
At the same time, the importance of being agile when it comes to understanding, and responding to, the needs and wants of society has never been higher.



COVID-19 has made us realize how vulnerable the system is. We have to be prepared for the worst and do our best.

Willem Mutsaerts,

Head of Global Procurement and Sustainability,
Givaudan



Every challenge is also an opportunity. We need to find solutions in dilemmas. And we need to collaborate and engage with many people as ESG cannot be led by the few. To make a change ESG demands leadership and commitment from us all.

Juvenio Maeztu,

Chief Financial Officer and Deputy CEO, Ingka Group (IKEA)

The KPMG View

Having advised multinationals on ESG for more than 20 years, I was intrigued to discover the results given the unprecedented times we now live in.



Like everyone else, I have never been through a challenge like COVID-19 before and was not sure what to expect from these conversations. The results have been eye-opening for me and led me to consider what the key implications are for the way companies handle ESG in the future. I have three key observations to share. Firstly, companies need to **get serious about purpose**. COVID-19 is showing us that a well-defined and authentic corporate purpose is no longer an optional extra, it is a business essential. Understanding and articulating why your company exists (beyond making profits) is critical not only for maintaining public trust in your business, but also provides a reliable compass to guide your approach to ESG and keep you on course. An inspiring tagline is not enough; a true corporate purpose must be made real through clear goals and KPIs embedded into both the culture and the operational DNA of the organization. I expect this to be an ESG priority for business through and post COVID-19.

Secondly, **the “S” of corporate ESG performance – i.e. the social aspect – has come of age**. Environmental issues had a head start of at least a couple of decades in terms of public and business awareness and attention. While some sectors, such as extractives, have out of necessity long had a focus

on social issues, it has been a relatively recent agenda item for many others. COVID-19 has shown companies in all sectors they will be held responsible, by governments and investors and society at large, for the wellbeing of the people their organization touches. For that reason, companies need to have a very clear view of i) how their organization impacts people, ii) who and where those people are and iii) what action could and should be taken to care for and protect them.

Finally, COVID-19 – despite its challenges – has changed the culture within organizations and created conditions where **the impossible has become possible**. The sense of urgency, energy and creativity from these interviews was palpable. If these qualities can be sustained, harnessed and wisely directed, companies have the potential to make a quantum leap in terms of delivering on their purpose, improving ESG performance and building the trust of employees, stakeholders and society – bringing clear opportunities to enhance resilience and future financial performance.



COVID-19 – despite its challenges – has changed the culture within organizations and created conditions where the impossible has become possible.

Executives from the following companies contributed to the research:

Company interviewed	Name(s)	Position(s)
Achmea	Anne van Hall	Director Strategy
Aegon	Philip Rompa	Head of Corporate Strategy & Sustainability
Akzo Nobel N.V.	Klaas Kruihof	Chief Technology Officer
Amfori	Stephanie Luong	Vice President - Public Affairs
Bayer AG	Matthias Berninger	SVP Public Affairs & Sustainability
Better Cotton Initiative	Lena Staafgard	Chief Operating Officer
Coca-Cola European Partners	Hans van Bochove	Vice-President Public Affairs and Government Relations
Dutch Railways (NS)	Sacha Götdeke-Mulder	Director Sustainability
Givaudan	Willem Mutsaerts	Head of Global Procurement and Sustainability
Heineken	Benjamin Gatland	Global Director Social Sustainability
Ingka Group (IKEA)	Juvenio Maeztu	Chief Financial Officer and Deputy CEO, Ingka Group (IKEA)
Inter IKEA Group	Alenka Rosenqvist Greg Priest	Co-worker Relations Manager Head of Social Impact and Human Rights
LafargeHolcim	Magali Anderson	Chief Sustainability Officer
Mars Wrigley	Alastair Child	Vice President, Global Sustainability
Port of Rotterdam	Nico van Dooren	Director New Business Development, Corporate Social Responsibility & Business ethics
Proximus	Catherine Bals	Head of Reputation & Sustainability
Rabobank	Alain Cracau	Executive Director, Head Sustainable Business, Rabobank
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Royal KPN	Brechtje Spoorenberg	Head of CSR, KPN
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KPMG IMPACT is a newly-established initiative of KPMG International. KPMG IMPACT brings together professionals and subject matter experts from across KPMG's global network of member firms to support the delivery of the United Nations Sustainable Development Goals (SDGs).



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