



True Value

**Enhancing impact in a rapidly
changing world**



True Value

Enhancing impact in a rapidly changing world

We are living in a VUCA¹ world. The digital transformation is changing the way we live and work and leads companies to evaluate the risk of being disrupted. In this digital age an even more profound transformation is taking place. The rate of change may be a little slower, but the impacts of it are already being experienced and can be more significant: the transformation to a sustainable society.

As economic, social and environmental megaforces are transforming the operating landscape for businesses, the disconnect between corporate and societal value creation is disappearing. New regulations, growing stakeholder influence and changing market dynamics are driving the internalization of business externalities at an increasing rate. Externalities are now part of every company's value creation story.

Business leaders and their investors need to be aware of these new dynamics in order to assess their resilience and unlock value creation opportunities. They need to identify and quantify the impact from and influence on these megaforces, recognize what is driving these and understand the implications for corporate value. They will then be in a stronger position to develop response strategies that protect and create value both for shareholders and for society.

This is what
True Value
does.

¹VUCA stands for Volatile, Uncertain, Complex and Ambiguous

Sustainability as a strategic focus

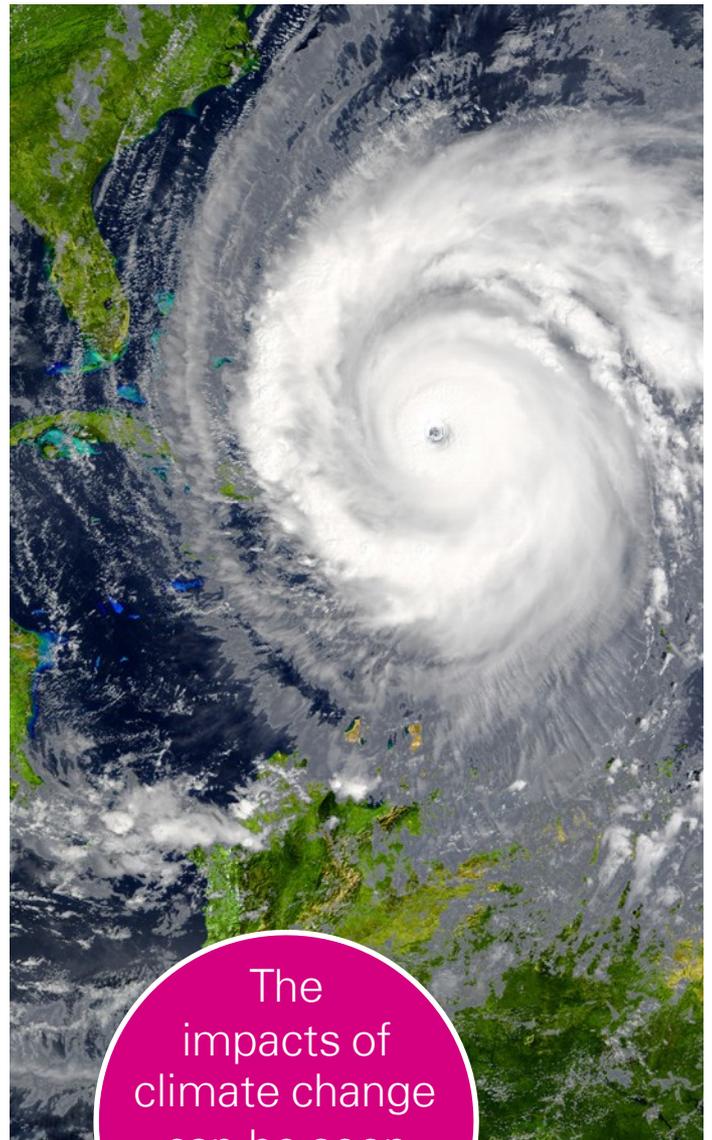


Nowadays, most companies have understood that sustainability is not just some trend. The impacts of climate change can be seen around us with extreme weather events and the impacts of the energy transition impacting our daily lives. Furthermore, topics like circular economy (for example around plastics), health and human rights are transforming the way we look at global supply chains, nature, cities and our food system.

The traditional company response to deal with these topics has been to develop a sustainability policy, set up a sustainability department, and report about performance in an annual sustainability report. In many cases this has led to significant improvements in sustainability performance. Many companies have also made the connection to the 17 UN Sustainable Development Goals (SDGs) and communicate about the contribution they make on specific SDGs, like Climate Action, Quality Education, and Sustainable Cities and Communities. Yet, few companies take a strategic view on the sustainability challenges, for instance by using the SDGs as a strategic framework, providing a blueprint of what our society may look like in 2030 and beyond, rather than 're-labeling' their efforts in sustainability against the SDGs.

Even fewer companies take a 'Doughnut Economics'² perspective on the companies' ability to create value for shareholders and society, by considering the impact of planetary boundaries (i.e. the levels around specific environmental topics beyond which profound environmental degradation and tipping points in the earth's systems are expected to occur) and social floors (minimum levels of performance derived from internationally agreed social standards).

Due to their limited strategic view on sustainability many companies may, similar to the developments in the digital transformation, be at risk of being disrupted, as they fail to prepare for a society in which societal impact will be seen as equally important for (and actually, contributing to) financial value.



The
impacts of
climate change
can be seen
around
us.

²Doughnut Economics – book by Kate Raworth, published in 2017

Need to understand and improve societal impact



Recently the 'Business Roundtable'³ in the US issued a statement supported by almost 200 CEOs who committed to leading their companies for the benefit of all stakeholders, i.e. customers, employees, suppliers, communities and shareholders. This statement is another illustration of the wider trend of companies wanting to understand and enhance the impact they have in society, as they are under increasing pressure to show that they make a positive contribution to society as well as generate profits for shareholders.

Focusing on the financials alone is no longer enough. In business, it is often said that you can't manage what you don't measure. This is just as true when it comes to how businesses affect society. In recent years, methodologies to measure an organization's impacts – both positive and negative – have become much more sophisticated.

A growing trend is to express all economic, social and environmental impacts in a common financial metric; doing this can inspire productive conversations in the boardroom and management meetings, and help to change thinking and action within organizations⁴, as (maybe a bit ironically) 'money still talks'.

This focus on measurement has also led the business community organizing itself around standardization of impact measurement and valuation, for example in the Value Balancing Alliance⁵, which is a non-profit organization founded in 2019 by eight international companies. It is supported by KPMG and the other major accountancy firms, the OECD, leading universities and other stakeholders from government, civil society and standard-setting organizations. The Value Balancing Alliance aims to create a standardized Model for measuring and disclosing the environmental, human, social and financial value which companies provide to society.

Focusing
on the
financials alone
is no longer
enough.

³ <https://www.businessroundtable.org/>

⁴ See www.kpmg.com/truevalue for some inspiring case studies

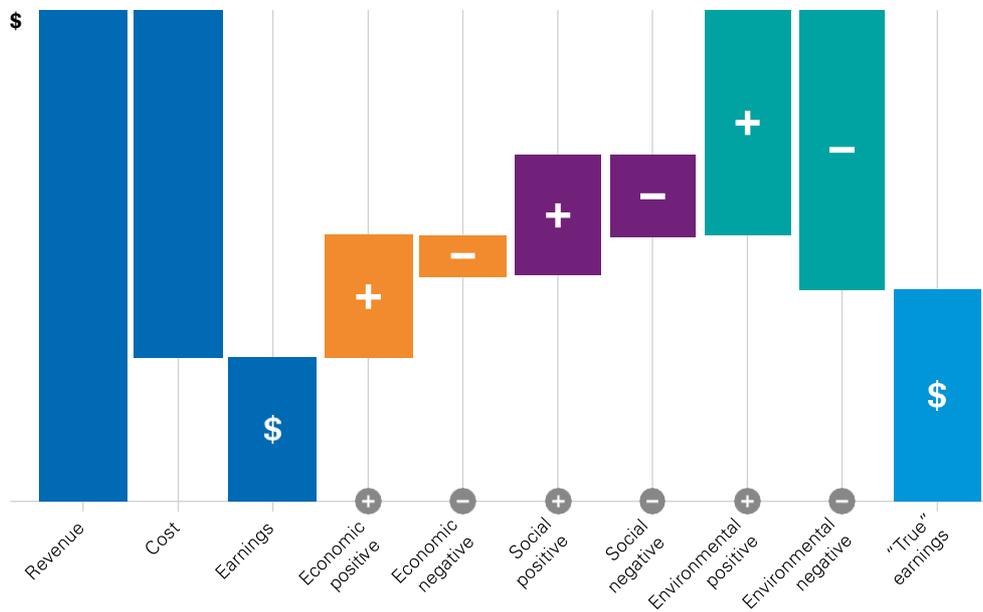
⁵ <https://www.value-balancing.com/>

The results of the KPMG True Value analysis are typically visualized as a KPMG True Value Bridge

The KPMG True Value Bridge enables managers to compare and contrast the company’s diverse impacts using a common financial metric. It also helps leaders to understand how the company’s “true” earnings (including its socio-economic and environmental impacts) compare to its financial earnings.



A generic KPMG True Value Bridge



Earnings



Economic value



Social value



Environmental value



"True" earnings

Integrating societal value creation into business processes



In our work with clients we have found that the best way for companies to start dealing with sustainability topics strategically and to better understand and improve their societal impact is by focusing on the following business processes:



Investment decision-making

When it comes to selecting which projects and activities to pursue, KPMG True Value helps corporate decision-makers to look further than financial return-on-investment. By providing data-driven insight into impacts on people and the environment, it helps business leaders factor these considerations into investment decisions, alongside conventional financial data. This can help companies reduce risks and enhance drivers of growth.



Reporting and stakeholder engagement

KPMG True Value can provide a far richer view of a company's contribution to society than conventional financial or sustainability reporting alone. That's why many companies use KPMG True Value to enhance their corporate reporting. Transparency around social and environmental impacts can help strengthen corporate relationships with critical stakeholders like investors, governments, customers and NGOs. It may also help improve the performance in corporate sustainability ratings.



Innovation

KPMG True Value helps innovators measure the impacts of products and services on people and the environment. With pressure growing on businesses to demonstrate a (net) positive contribution to society, KPMG True Value can play an important role in the Innovation process. It can help companies maximize the positive impact of their products and services, thereby creating a point-of-difference in the marketplace and a potential competitive advantage.

We have observed that companies that integrate True Value considerations into their core business processes have a more profound understanding of the impact of economic, environmental, and social megaforges on their (future) performance. The better understanding of the interconnection between those megaforges and the way the company is

able to create value lets them reinforce the way the company deals with risks and opportunities and evaluate its resilience. It is our strong belief that only those companies that have this understanding and act upon the insights gained will be able to succeed in our rapidly changing world.

Contact us



Arjan de Draaijer
Partner, Global
True Value lead

+31 20 656 79 43
deDraaijer.Arjan@kpmg.nl



Anthony Cowell
Partner, Head of
Asset Management

+1 345 914 4338
acowell@kpmg.ky



Richard Scott-Hopkins
Partner,
Asset Management

+1 345 815 2638
richardscotthopkins@kpmg.ky



Niko Whittaker
Partner,
Business Development

+1 345 9144 369
nwhittaker@kpmg.ky



Ben Blair
Director,
Asset Management

+1 345 914 4439
benblair@kpmg.ky



Claire Crawford
Senior Manager,
FRM/Actuarial Services

+1 345 914 4493
clairecrawford@kpmg.ky



Jodie McTaggart
Senior Manager,
Advisory

+1 345 914 4434
jodiemctaggart@kpmg.ky

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG, a Cayman Islands partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.