KPMG

Boardroom Questions

Lawful but awful

Doing the right thing

2/3 of customers now buy based on their **ethics and beliefs**

2018 Edelman Earned Brand Study

76% of customers say **CEOs should take the lead on change**, rather than waiting for government to impose it

2019 Edelman Trust Barometer

Expectations in society are changing. Organizations that do not keep pace may lose out to competitors in the markets for **talent, customers and finance**. Compliance with legal and regulatory requirements is not enough: businesses must try harder to be **responsible corporate citizens**, to make a **positive contribution to society** and **minimize any negative environmental impact.**

'Lawful but awful' perceived businesses are likely to suffer. Increased **transparency** and **stakeholder voice**, amplified through **social media**, is leaving many businesses vulnerable

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Mounting pressure from all directions

Consumers and clients: Many consumers are **aligning their purchasing decisions with their ethics and beliefs**. Similarly, companies choosing suppliers of goods and services are extending their consideration to whether those suppliers 'do the right thing'

Talent: People are looking to work with ethical companies which are improving our world, with 2/3rds expecting prospective employers to join them in **taking action on societal issues**. Social media amplifies the voice of staff who speak out when they find their employer is not 'doing the right thing'

Institutional shareholders: These influential asset owners are increasingly:
- **Pressing investee** companies to **perform better on environmental, social and governance issues**
- **Divesting** where investee companies are not 'doing the right thing'
- **Rapidly scaling** social impact and green investment portfolios

Civil society: Civil society campaigns, amplified through social media and activist shareholders, are **vocally challenging corporate practices**. Some faith leaders are also using their influence and convening power to call for ethical, responsible, sustainable business conduct

Governments: Public policy is responding when market failures damage society and the environment, for example on carbon, plastics and sugar. Accelerated change can be expected with 193 countries committed to enhance policy coherence for sustainable development, and **renewed climate pledges** in 2020 and 2025

Getting ahead – what does good look like?

Purpose and value: Companies are redefining their wider purpose and taking a more holistic view to value creation, supportive of the Paris Agreement on Climate Change and the Sustainable Development Goals[1]. Some are even registering as B Corps (social enterprises)[2] and many are taking a stand on societal issues

Culture and compliance: Leading companies focus on developing an ethical culture of 'doing the right thing', supported by a robust ethics and compliance framework enhanced through automation and data analytics. They recognise trust and reputation as their most valuable assets – to be earned and protected

[1] *Fuse Gen Z Report on Social Activism and Cause Marketing*

[2] *Source: www.edie.net/news/7/B-Corp-businesses-grow-28--faster-than-national-average/*

Boardroom Questions

1. Have we defined the company's **purpose** and what the company stands for?

2. How do we know what **stakeholders** expect of us and can we respond to those expectations?

3. Are our strategy and policies consistent with **national and global expectations** set out in the Paris Agreement on Climate Change and the Sustainable Development Goals?

4. What more could and should we do to be **trusted and trustworthy**?

5. How do we take the **pulse and evaluate** whether we are 'getting it right'?

6. Does our **ethics and compliance framework** align with our strategy and risk tolerance?

7. Do we have the **right metrics** in place for ethics, compliance, reputation and trust?

8. Are we appropriately leveraging technology for **automation and data analytics** to enhance our ethics and compliance function?

9. Does our stance on **transparency** support our reputation and trust objectives?

10. How will we respond when there is a **breach** and we have not done the right thing?

11. Do we responsibly design **Artificial Intelligence tools and machine learning** with due consideration of ethical issues including **bias, privacy, transparency and accountability**?

Contact:

Jonathan Ho
Head of Internal Audit,
Risk & Compliance
Head of Enterprise Market
KPMG in Singapore
T: +65 64118336
E: jho1@kpmg.com.sg

Tea Wei Li
Partner, Risk Consulting
KPMG in Singapore
T. +65 64118114
E. wtea@kpmg.com.sg