# A Review of “A New Vision of Value” – Old Wine, New Bottle

| Purpose | This paper is a review of KPMG’s true value methodology; it highlights how a positive for the methodology is its advance of a systemic perspective, with the challenge being its furthering of an agenda of corporate centricity where money is the mediator for societal decisions. |
| Design/methodology/approach | This paper draws on existing literature to develop its arguments. |
| Findings | The paper highlights how the true value methodology has merit for furthering a move towards the embrace of more systemic thinking by business leaders; for example how organisations are nested in society, not separate from society. However the methodology is cause for concern because in order for “true value” (ibid, p.3) to be identified; albeit the notion of true value is one that stuns with its hubris, there is a requirement to monetise all exchanges and have corporations make societal well being decisions based on monetary calculations as opposed to moral or ethical considerations. Thus the methodology is advancing a corporate centric and narrowly defined perspective on what constitutes societal progress. |
| Research Limitations/Implications | This paper is a review of the methodology with some critique. |
| Practical | The arguments presented highlight how the methodology furthers a particular perspective and thus should, like all tools, be used with an understanding of its limitations. |
| Social Implications | A key social implication brought forward in the paper is a corporate centric perspective on societal progress. This corporate centric perspective ensures that although a more systemic perspective is taken, society is viewed as little more than a servant of the corporation. |
| Originality/value | In drawing on existing literature the originality lies in its |
combination of arguments brought together to realise the central claims.
Introduction

This paper reviews a 2014 report by KPMG, the global network of professional firms providing audit, tax and advisory services, titled “A New Vision of Value: Connecting Corporate and Societal Value Creation” (KPMG International, 2014, p.1). To develop the review, the paper first outlines key components of the report that describe the three step “true value” (ibid, p.3) methodology. Once this outline is complete some implications are discussed.

Pen Portrait of KPMG International Report (2014) – A New Vision of Value

The report opens by claiming, “companies have always created societal value in the course of doing business” (KPMG International, 2014, p.4), in so much as organisations provide individuals with goods and services, pay taxes and in so doing create wealth. However the report also outlines that the gains facilitated by organisations have come at a price and that price has been externalities. Externalities being costs not borne by the organisation but rather external parties, a typical example being the costs of cancer treatments from individuals smoking tobacco products being borne by society rather than the tobacco companies. The report highlights how although historically “externalities have had little or no impact on the cash flows or risk profiles of most companies” (ibid, p. 6) that situation is now changing and organisations must consider how externalities, both positive and negative, impact the value of the organisation. It is argued that this understanding is required because for organisations “to do well in today’s business environment” (ibid, p.4) they need to “measure, understand and proactively manage the value...[they]... create, or reduce for society and the environment as well as shareholders” (ibid, p.4). It is rationalised that this understanding of how an organisation creates or destroys value outside of its own organisational boundaries is required because an array of “social and environmental mega-forces are transforming the operating landscape for business” (ibid, p.6). These mega-forces are précised as being globalisation, digital connectivity, the financial crisis (albeit which one is not made clear), population growth, the growth in middle-income earners and climate change.

After this opening, the next two chapters of the report are a discussion of externalities and the drivers of change that are requiring organisations to consider whether externalities should be internalised. Key to this part of the report is the
argument that organisations have neither been fully recompensed for positive externalities nor fully paid for negative externalities. The report argues that this situation has arisen because of a historic perspective that society value and corporate value are separate concerns. In this regard, the report is acknowledging that business thinking has been infused with dualistic thinking. Examples, offered by the report, of positive externalities that an organisation might produce are a business buying recycled metal inputs that might otherwise have gone to landfill and or investing in the education and training of its workforce. Examples of negative externalities include, the discharging of hazardous chemicals that impact the health of a local community or when workers are injured in accidents on an assembly line.

After discussing externalities, the report outlines the drivers of internalisation and argues that understanding these drivers and externalities will allow organisations to begin to understand their “true value” (ibid, p.3). The three drivers of internalisation outlined are, (1) regulations and standards, (2) stakeholder action and (3) market dynamics. Regulations and standards concern government regulation and reporting and disclosure requirements. Stakeholder actions concern civil society, communities and workers who are “increasingly acting to protect their interests” (ibid, p.11). Market dynamics concern resource scarcity, extreme weather events and disruptions to the “historical patterns of supply and demand” (ibid, p.11). After supporting its claims for each of the three broad drivers of internalisation, the three steps of the methodology are outlined.

Step one is to assess an organisation’s “true earnings” (ibid, p. 42), step two involves understanding the future earnings at risk and step three is about understanding the potential value of an investment from a corporate and societal perspective. To explain, step one involves identifying and quantifying the positive and negative externalities of an organisation across the three conceptual spaces of economic, social and environmental and monetising each. To help identify positive and negative externalities the report offers a table that acts as a guide to positive and negative externalities across the three conceptual spaces. With regard to the monetisation of the identified externalities, the report outlines that monetisation is a requirement to enable externalities to be compared and contrasted. Further it posits that monetisation puts externalities into terms that “business managers are familiar with” (ibid, p.44). A tacit admission that perhaps business managers have undeveloped moral and ethical skills and or the language of business is money, or
alternatively KPMG consider that the language of business should be money, as money and the concomitant figures can be accounted for, accounting being one of KPMG’s core business areas. Building upon this, a significant part of the report’s message concerns calculating a monetary value for externalities and the use of integrated reporting which utilises the six capitals framework (financial, manufactured, intellectual, human, social and relationship and natural) to do so. The report discusses how the integrated reporting framework will allow a profit and loss account for human capital to be created and ultimately enable standard currencies across all capitals. In this context the report argues that the three step “true value methodology” (ibid, p. 45) is an enabler for KPMG and integrated reporting; especially as KPMG’s “sights are ultimately on a double-entry accounting system for all six capitals” (ibid, p.45). Such a statement is not surprising given KPMG authored the report; however it should remind the reader that the ultimate aim of the report and methodology is for KPMG to sell more services.

Step two of the methodology is to understand the future earnings at risk and explore the risks of internalisation of the externalities through the framework of the three drivers, (1) regulations and standards, (2) stakeholder actions and (3) market dynamics. This step of the methodology involves applying risk factors to the externalities.

The final step of the methodology involves quantifying the Net Present Value (NPV) of potential investments for an organisation, including the likely impact of the internalisation of externalities. The aim of this step is to enable investment decisions to be reduced to an NPV, a number. To explicate this step the report offers examples of an investment such as rainwater harvesting and how this will reduce an organisation’s water bill thus improving corporate value, while also decreasing the impact on groundwater supplies and thus such action also improves societal value.

Having outlined the methodology some case studies are presented. The first is a gold mine in South Africa, the second a brewery in India and the third a plastics plant in the United States of America. The three case studies highlight how societal and corporate value are considered; for example the mine case study highlights how an investment in renewable energy should be pursued because it creates positive corporate value by saving the organisation money and creates positive societal value by reducing greenhouse gas emissions. However, if the mine were to invest in improving wages and working conditions, this would create positive societal value,
but a larger negative corporate value because of the increased costs to the organisation of improved wages; thus investments in wages and working conditions should not be pursued. For the brewery, the case is made that it should invest in burning agricultural waste to generate energy but not in cultivating drought resistant barley. While for the plastics plant it should invest in products that prevent energy losses through insulation because such products are in demand and this will increase corporate value, while also creating societal value through energy savings. Whereas investing in the ability to recycle or reuse waste plastics from the production process will increase societal value through lowering feedstock requirements and waste requirements, the societal value is not enough to offset the negative corporate value (cost) of investing in the ability to reprocess waste plastics.

In closing the report outlines how the methodology is about enabling a “new vision of value in which corporate and societal value creation are fully aligned” (p.90), albeit as indicated above, two of the case studies show that corporate value is prioritised over societal value and is a necessary precondition for any investment.

Discussion

As indicated in the review of the report the broad thrust of KPMG’s “true value” (p. 3) methodology is positive as it is pursuing a more systemic perspective, a perspective that is aligned with the broad requirements for a more sustainable society. Thus the methodology is at its most basic furthering an understanding that organisations do not operate in a separate space to society, but rather are nested within society. By extension the implication is that for organisations to continue they must ensure they do not erode society but rather help improve society. Such a perspective is both more systemic and positive, because for too long organisational theory has been hampered by a dualistic perspective that separates the organisation from all that surrounds it (Gladwin, et al, 1995). A dualistic understanding of organisations that separates society and organisation has been argued as a limiter to the realisation of sustainable outcomes, whereas a systemic, entwined perspective is argued as an enabler (for example see: Egri & Pinfield, 1999; Katz & Gartner, 1988; McAuley, et al., 2007). Consequently it could be argued that the methodology proffered by KPMG can ultimately be seen in the light of enabling more sustainable outcomes. However that positive is ultimately surface deep, as the methodology is clear that monetisation of every interaction and the putting the corporation first is what really
matters. In this regard the methodology can be seen as simple a method for helping businesses navigate a more complex context.

Thus while the report has a surface level and laudable claim of enabling a more systemic perspective, at the same time, the methodology’s focus on quantifying and monetising positive and negative externalities, and then reducing them to an NPV calculation where the decision makers are the leaders of the focal organisation is one that concurrently drags with it concerns. The dangers of monetising all externalities both positive and negative, via a capitals framework such as that offered by integrated reporting, and thus reducing everything to economic criteria has been discussed extensively elsewhere, for example see Barter (2015).

Key to note with monetisation is that it can result in individuals prioritising cents over sense and thus perpetuating a situation where the only morality is a bigger or smaller number depending on if revenues are to be raised or costs reduced. In turn the concurrent inputs and outputs of those numbers and the ecological and societal baggage associated with them are lost to the morality of whether the number should be increased or reduced. Notwithstanding monetisation, further contra-indications of the methodology to sustainable outcomes is its use of the NPV calculation and its corporate centric perspective on what is good for society being dependent on the precursor of ensuring the corporation has a positive outcome.

To explain further, sustainable development is defined as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987, p. 8). This definition is critiqued (for example see Banerjee, 2003; Carruthers, 2001; Tulloch, 2013; Tulloch & Neilson, 2014); however, it is generally accepted as a heuristic to guide humanity’s societal and ecological development (Carruthers, 2001; Tulloch, 2013). Central to sustainable development is the concern for future generations and the placing of them as of equal concern to present generations, a notion captured in the definition. This concern for future generations places the KPMG methodology at odds with sustainable outcomes because it advocates the calculating of NPV. NPV is a calculation that discounts the importance of future earnings; in so doing it discounts the importance of future generations’ exchanges and as such the importance of future generations. In this regard, the methodology is directly counter to the thrust of sustainable development.

While an NPV calculation is at odds with sustainable outcomes, the more concerning challenge of the methodology is its corporate centricity. The methodology
is clear that it explores societal value from the organisation’s perspective, not a societal perspective. Thus the methodology is putting the levers of what makes for a good and bad society in the hands of business decision makers. The failings of such framing are made evident by an example in the report that highlights how it is not worthwhile for a mining company to invest in the working conditions and pay of it employees because although this improves societal value it negatively impacts corporate value. By extension, the implication of this is that any investments by the company into societal value will only happen if corporate value is also increasing. In this regard a key shortcoming of the methodology is that it is wittingly or unwittingly reinforcing a perspective that societal improvements are dependent on corporate improvements. Thus society is a servant of the corporation, not an equal partner or a precursor. Such a corporate centric perspective is to be expected given the methodology is aimed at corporate decision makers and the aim of KPMG is to sell services to such individuals.

Penultimately, it has been argued that in society we are currently “haunted by the belief that the only meaningful concepts are those capable of mathematical elucidation” (Gladwin, Newburry and Reiskin, 1997, p. 248; see also, Cummings 2005; Boisot and McKelvey, 2010). Further this mathematical elucidation is a type of rationalism that “supports the doctrine that facts are separate from values…and that truth is a function of objective reality” (Gladwin, et al., 1997, pp. 248). The KPMG methodology and the so-called “true value” (KPMG International, 2014, p.3) it identifies clearly reinforce such a rationalism. As indicated, this rationalism has little room for morals, values, ethics and purpose and in the trade off between numbers, the quantum of the figure becomes important and the assumptions, concerns, narratives and purpose are lost in the discussion of the desired quantum. In this regard, an unfortunate by product of the methodology is that an individual armed with the outputs of such a methodology and the mathematical elucidation it enables likely has a strengthened argument for societal value and corporate value being aligned because they are arguing using the false objectivity of numbers and the screen of an endorsed methodology.

Outside of the above some considerations are what the impact of the methodology might be on leadership, management and culture in an organisation. When considering the impact on leadership and management it is worthwhile considering how these two areas are defined. This paper does not have the space to
engage in extensive discussion of the two terms and thus for brevity it will draw on the arguments proffered by Burns (1996) who reviewed leadership definitions and the work of Barker (2001) who discussed the nature of leadership. Barker (2001) and Burns (1996) both discuss leadership as incorporating civic responsibility and significantly as a process that reflects the collective will, is morally uplifting, adaptive and ultimately transformational. In making their claims Barker (2001) and Burns (1996) argue that management is transactional and concerned with stability making the case that management is not concerned with transformation. Thus management is not concerned with what should be, but delivering within existing frameworks.

In the context of the arguments of Barker (2001) and Burns (1996) it is difficult to see how the true value methodology will transform the requirements of organisational leadership as opposed to reinforce existing paradigms and decision frames. As this paper has hinted the methodology may encourage a wider perspective of organisational leaders, but at the same time it is a methodology that is helping to justify decisions that impact beyond the organisation through the narrow lens of monetary gains and losses. Consequently, because the methodology provides a monetary form of justification for decisions it is at the same time potentially obfuscating leaders from the moral and ethical dimensions of their decisions. The justification for decisions through the vehicle of this methodology can ever more be reduced to dollars and cents. In this regard it is difficult to argue that the methodology impacts leadership beyond arguably reinforcing the status quo. With regard to management, if the arguments of Barker (2001) and Burns (1996) are accepted, that management engages in the transactions defined by leadership, then all this methodology will do is provide a new set of transactions to be accounted for.

Outside of leadership and management the impact on culture is also worthy of consideration. Alvesson (2013) argues that culture is a subject that like management and leadership is challenged by singular definitions and thus a multiplicity of definitions arise. However, Alvesson (2013) argues that culture can be considered as “shared and learned world of experiences, meanings, values and understandings which inform people and which are expressed” (p.3). If this understanding of culture is accepted, the impact of the true value methodology on organisational culture is likely to be marginal. The methodology does not challenge the lexicon of business particularly as KPMG understand it. A point made clear by KPMG’s arguments that transforming all concerns to the language of business requires transforming them into
the language of money because this is what managers are familiar with (KPMG, 2014). As such, it is unlikely the methodology will challenge culture and an absence of challenge is unlikely to change culture. Rather the methodology would appear to reinforce existing culture and in this regard it could be argued that the methodology will help move business managers to evermore become economic agents whose decision framework is continually reducible to monetarily profitable decision frames as opposed to ethically and morally profitable decision frames.

To close, there are a number of drawbacks with the methodology from a sustainability perspective and it is recognised that no methodology can be perfect and equitable to all. All tools inherently frame a problem in a particular manner to allow the tool to be applied. If I have a hammer, every problem is a nail. Thus in summary, it is not a surprise that KPMG (a major international advisory organisation) is through its publications promoting a methodology that furthers its aims, panders to a corporate centric perspective (the buyers of KPMG’s services) and is reductionist in terms of reducing complex concerns to numbers. Although it may be desirable to have KPMG, a critically important influencer on the behaviour of corporations, foster a more balanced perspective that is perhaps beyond their current capabilities. Consequently, in sum the methodology has some positives but it is also an evolution of corporate centricity framed within the language of societal outcomes, thus perhaps it is just old wine in a new bottle.

References


United Nations Secretary – General’s High Level Panel on Global Sustainability


Oxford: Oxford University Press.