

MANAGING IN AN ERA OF TRANSFORMATION

How business leaders can navigate changing times



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“Business transformation is about “making fundamental changes in how business is conducted in order to help cope with a shift in market.””

Harvard business review

Foreword

Change is not a new phenomenon and every business needs to adapt and regenerate to be successful. But while change is constant and management is all about reaction and progression, there is no doubt that the pace of technological, societal and corporate change has accelerated remarkably in recent years impacting the speed of business transformation.

Consider some statistics. It took airlines 68 years to reach their first 50 million customers. It took the automobile industry 62 years to hit 50 million drivers, and it took 50 years for the telephone to reach 50 million users. Yet, more recently, it took 14 years for computers to reach 50 million users. It took seven years before 50 million people were using the internet. Within three years, 50 million people were using Facebook, and within 19 days, 50 million people were playing Pokemon Go.

Businesses of different sizes in different sectors experience change in different ways, but no business is immune from the need to flex and adapt within a rapidly changing world. The challenge is to make transformation sustainable by building agility into an organisation through cultures and behaviours, rather than focusing too heavily on policies and procedures. If you are in a high growth phase having these in place could be fundamental to attracting the right customer and/or investment.

Trowers & Hamlins, in conjunction with the Confederation of British Industry (CBI), held a roundtable discussion with corporate leaders across a variety of sectors to discuss the changing nature of their businesses and how they are managing these challenges. The roundtable revealed many valuable insights into the drivers of change in recent years, the challenges now facing business leaders, and what they are doing to future-proof their businesses.

The nature of the workplace is transforming with continued technological advances such as the use of artificial intelligence (AI) and automation; the rise of agile and virtual working; more generations in the workforce than ever before; and new expectations emerging of the role of business in society. All of these have implications for business operations, training and skills, management and productivity. As new business practices emerge, they present both challenges and great opportunities for those who are able to adapt. Over the following pages, we consider these changes and their impact, summarise the key points raised at the roundtable discussion, provide insights from experts at Trowers and present a toolkit for businesses to assist with driving and achieving transformation, efficiencies and productivity.

We hope you will find these insights and the toolkit valuable. If you would like to discuss any of the issues raised, or participate in future events and discussions, please get in touch.



Alison Chivers
Partner, Corporate
Trowers & Hamlins
achivers@trowers.com



Tim Nye
Partner, Corporate
Trowers & Hamlins
tnye@trowers.com

Roundtable discussion and insights

Roundtable attendees

Trowers & Hamlins Alison Chivers – Partner
Tim Nye – Partner
Helen Randall – Partner

Confederation of British Industry James Challinor – Account Executive
John Cope – Head of Education & Skills
John Stevens – Associate Director
Nicholas Trower – Senior Policy Advisor

NPS Group Marina Robertson – Senior Director

Price Bailey Martin Clapson – Managing Director

Design Council Ambreen Shah – Director of Policy and Research

BGF Claire Lamb – HR Director

Ipsos Mori Claire Timmins – HR Director

Ark-H Handling Limited Fiona Strong – Managing Director

BSI Group Howard Kerr – Chief Executive

The Regus Group Isobel McKenna – Director, Strategic Accounts

The Instant Group John Duckworth – Managing Director UK & EMEA

Angela Mortimer John Mortimer – Co-Founder and CEO

Tideway Julie Thornton – HR Director

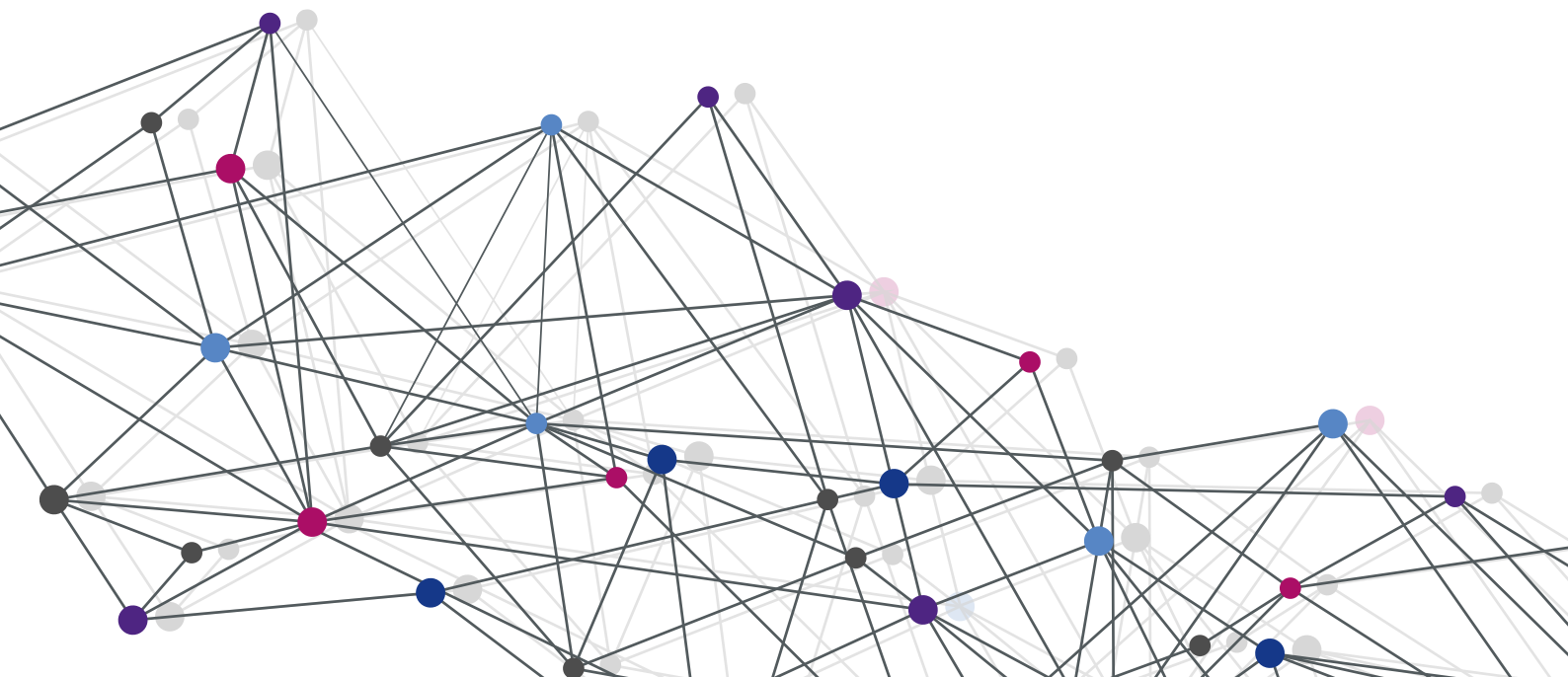
Sage Publishing Katherine Jackson – COO, CFO and Deputy MD

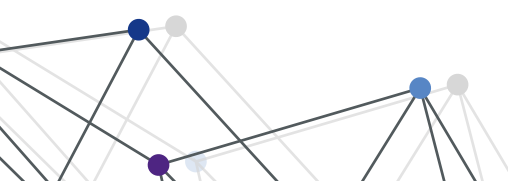
Encocam Ltd Mike Ashmead – Founder and Chairman

Osborne Sarah Taylor – Group People Director

Insights

Trowers & Hamlins Yvette Bryan – Partner
Mark Kenkre – Partner
Katharine Lewis – Partner





Key themes

01



Technology

- Growth in technology and automation
- Creating demand for new skills
- Requiring diversity of thought to drive innovation
- Driving a need for retraining and upskilling
- Forcing educators and employers to offer more adult learning opportunities
- Pushing businesses to embrace technology as an enabler

02



Workspace

- The rise of agile and virtual working
- Changing requirements for office space
- Requiring new employment policies and procedures
- Using technology to increase productivity
- Creating challenges around teamwork and collaboration
- Attracting a diverse workforce and fostering a culture of inclusion

People

- A workforce of five generations creates new management challenges
- People are working longer and must embrace re-skilling
- Younger employees have markedly different attitudes
- Millennials prioritise flexibility, progression, culture and ethics
- Employer brand moves up the agenda
- Diversity and inclusion becomes a priority

Expectation

- New expectations of business in society
- Employees look for purpose, values and integrity
- Customers and investors favour companies making a positive contribution to society
- Environmental impact key to younger consumers and staff
- Call for business to represent society with greater diversity and inclusion
- Regulators increasingly focused on ethics, provenance and values
- Relationships with stakeholders depend on clarity of message

03



04



A view from the CBI

The CBI has a team of six people working on education and skills on behalf of our members. The reason for this commitment is clear – not only are education and skills the number one drivers of productivity, they are also the drivers of a fairer, more prosperous society.

When we consider the challenges facing the United Kingdom – globalisation, an aging population, technological change, and increasing fairness – education is an essential part of the answer. On globalisation, where products were once tangible, now they are much more conceptual, innovative, and digital. Previously, competitors and supply chains were in a nearby town or city, now they are just as likely to be in a different continent. This demands a different skillset, a greater cultural awareness and a greater emphasis on broader skills such as creativity, critical thinking, leadership and teamwork.

The second issue we face is an aging population. Life expectancy has dramatically increased over the last century: in the previous century, for every four hours that passed, life expectancy increased by one hour. As a result, people will typically work five, ten, even 20 years longer than their parents, well into their seventies, meaning the need to retrain and re-skill is incredibly clear. It also means we must forget the idea, if it were ever the case, that teachers can equip young people with all the education and skills they need at the start.

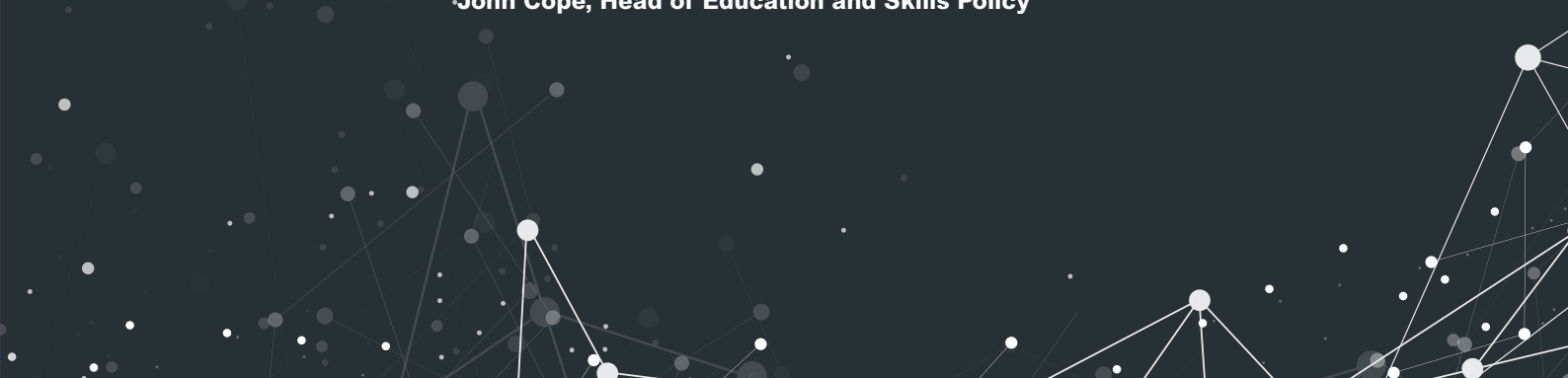
The third challenge we are wrangling with is the impact of automation, AI and new technology. This means that what we consider to be 'core education' has shifted significantly. Digital literacy is now just as important as traditional numeracy and language skills. Another impact of automation and AI is a growing demand for higher-level skills. When we conducted the annual CBI education and skills survey, we asked our members where the skills gaps are in their businesses – the trend is clear. The centre of gravity is shifting upwards over time and the largest gaps are at a higher level – not necessarily at degree level – but certainly at A-level, the soon to be 'T-level', and higher apprenticeships.

Finally, the fourth challenge is improving fairness and social mobility. There is an expectation by consumers, and a right expectation, that a modern business should be diverse and inclusive, meaning it represents the society it seeks to serve and the customers it seeks to reach. One of the big priorities in education therefore is seeing the gap between disadvantaged young people and their more advantaged peers close at school and college. This isn't a nice-to-have or a fluffy concept – if young people fall behind in education, the impact is very real. We lose out on talent, innovators, scientists and business leaders of the future.

We see these four challenges: globalisation, an aging population, technological change, and increasing fairness, as central to our work in education and skills. Over the coming months, we are working closely with our members to help make sure young people are work ready, adults have the opportunity to retrain and upskill, the apprenticeship levy is reformed and refined, and education funding is prioritised in the Government's Spending Review.

If we are to meet the challenges, we will meet them through investing in people, especially young people. Or not at all. Only education can prepare us for a world that's more dynamic, more fluid, more global, more competitive, and more demanding of human skills than ever before.

John Cope, Head of Education and Skills Policy



Technology and automation

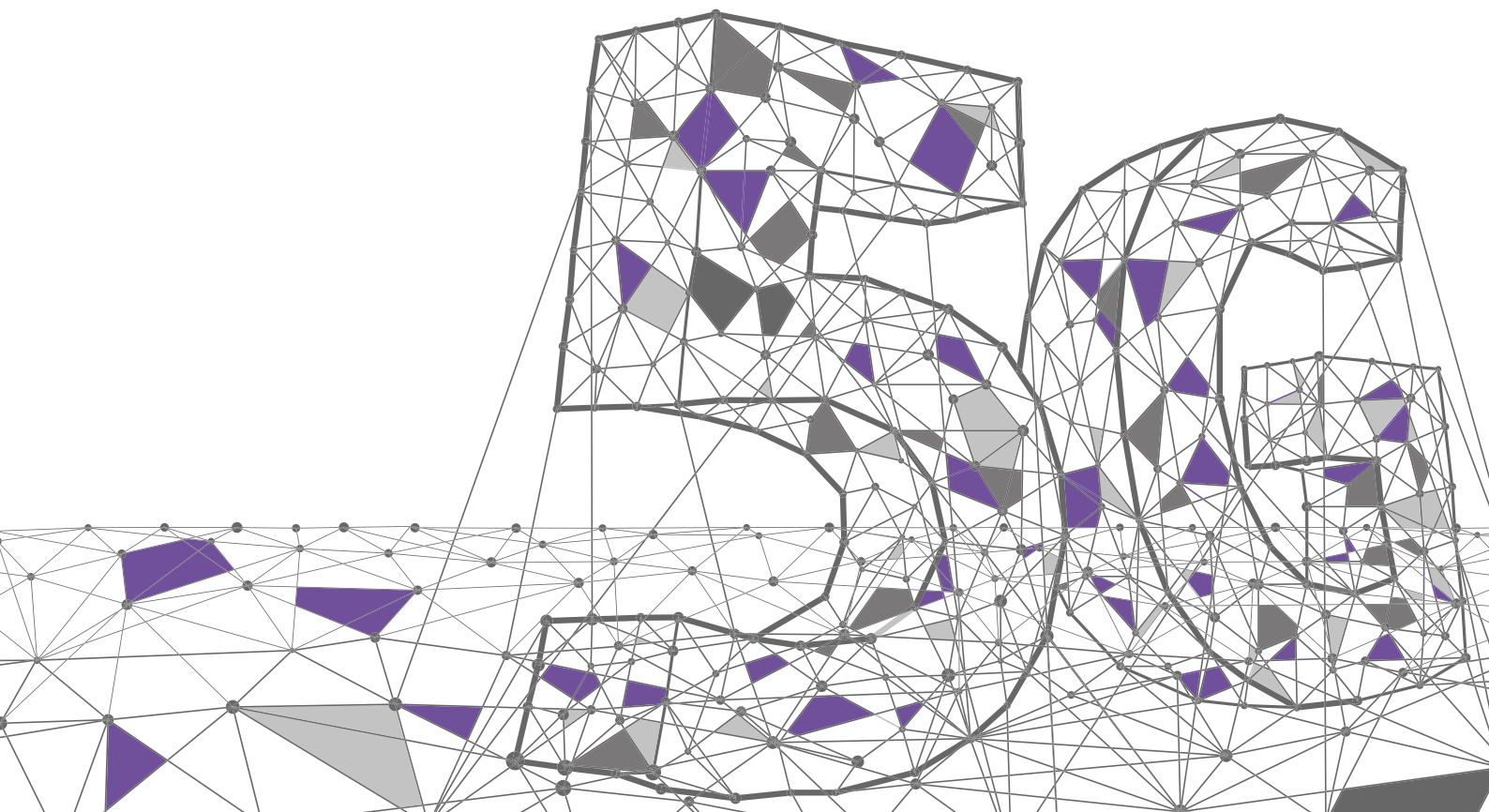
Insights on transition

The impact of new technologies, automation and AI on UK businesses in the last five years has been significant in many sectors, and technological change promises to continue to have far-reaching implications for our labour requirements. Digital transformation is taking place across industries and in a variety of forms, as businesses increasingly move from paper to more digitalised solutions, offerings and operational structures, consequently demanding new financial models to achieve their objectives. AI introduces the prospect of machine-learning robots to undertake routine tasks in place of low-skilled or trainee workers, as the value of data and intellectual property overtakes real assets at a remarkable rate.

A case in point is the fifth generation of mobile technology, dubbed 5G, which is due to succeed 4G technology in the UK towards the end of 2019. The technology will fundamentally change the way we live and work in years to come, providing the catalyst to develop the next generation of technology for concepts like the internet of things and Smart Cities. Businesses will benefit not only from faster communications, but from greater data-sharing potential and more mobile technology, allowing for higher levels of productivity and efficiency.

Such transformation can require substantial investment on the part of businesses to stay competitive in the face of rapid technological advances. But while spending on technology has increased significantly as a percentage of business fee income in the past five years, many companies are yet to demonstrate corresponding upticks in productivity and profits – simply put, the investment made does not yet seem to be having a corresponding direct impact on the bottom line.

Meanwhile, technology brings with it many new challenges too, as the takeover of menial tasks by machines demands different skills of workers taking on enhanced roles such as managing people.



The challenges facing business

Aside from the pressure to stay competitive by investing wisely in appropriate technologies, the pace of technological transformation is forcing business leaders to reconsider business models. The leaders that participated in our roundtable discussion identified many ways in which technology is currently putting pressure on the bottom line.

Katharine Jackson, COO, CFO and Deputy MD at academic publisher Sage Publishing, said: “In what we do, there is clearly a shift to digital content as people seek increasing accessibility. But managing both print and digital at the one time is an increasing challenge, and there are a lot of pressures on publishers’ margins at the moment.”

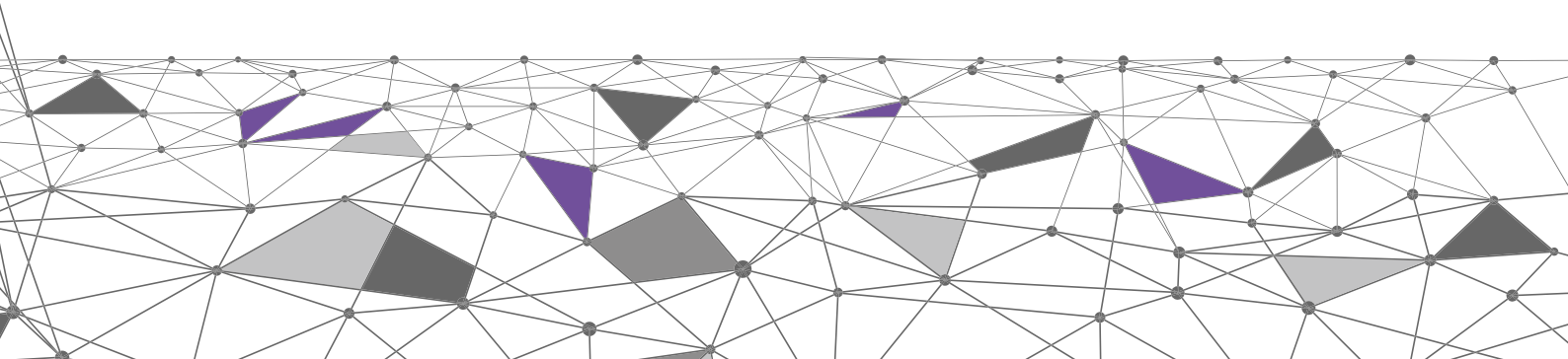
Technological change is also driving an increasing requirement for a range of skills that are currently in short supply but will be of ever-increasing importance moving forward.

Alison Chivers, partner at Trowers & Hamblins, said:

“Everyone we are engaging with is telling us that critical thinking, logical problem solving, judgement and communication are going to be some of the most valuable skills in a future workforce – so businesses should consider how it can recruit those skills, train those skills and retain those skills.”

As automation leads to computers taking over many of the more routine tasks within their operations, managers tell us they will need to hire not just analysts, programmers and data scientists, but also strategic leaders and those more adept at soft skills. Such skills become ever-more important in the face of AI and robotics in the workplace, which do not deal with nuance or specific business needs, or with tactful communication and the application of facts to a specific set of circumstances. Businesses will need to place greater investment into soft skills to build and run effective teams, driving collaboration across business lines and borders – which calls for character, judgement, creativity and language skills.

Traditional career paths also look set to be upended by technology. In many industries, including professions such as law and accountancy, newly-qualified junior employees have learned their trade through administrative tasks and working on junior roles that in the future are likely to be undertaken by AI. This means graduates missing out on knowledge and skills early on in their careers as tasks such as large-scale contract reviews and repeat transactional due diligence are potentially replaced by automation. Questions will need to be asked about how new entrants to an industry can learn the ropes if these tasks are to be performed by computers.



In a similar vein, business leaders find themselves newly responsible for upskilling and retraining employees whose roles are being transformed by technology. As workforces require adaptation driven by automation, robotics and AI, the onus will be on employers to find ways to hold on to high-potential talent as jobs are re-engineered, and that requires far more sophisticated investment in training and development initiatives to deliver lifelong work opportunities.

Julie Thornton, HR Director at Tideway, the infrastructure business building a 25km super sewer under the River Thames in London, spoke at the roundtable about her company's focus on redeveloping the skills of its workforce. As hers is a business based on a project, resourcing requirements are based on the project's lifetime and Tideway recognises that it will not reap the rewards of much of its investment in training and developing its staff, but it is committed to helping people move from one job to the next, recognising in part that offering these opportunities is itself an incentive to ensure talent remains until the end of the project.

Thornton said: "Our CEO says if you want to be a lion tamer, then fine, we'll talk to you about becoming a lion tamer, because we are trying to get people to think about their development re-skilling piece and what happens next."

In 2018, the government launched its National Retraining Partnership, bringing together government officials and union and industry leaders to begin work on a national retraining scheme, aimed at boosting productivity and tackling skills shortages by driving up adult learning and retraining. Businesses could adopt this way of thinking and get government help for learning and development.

Tim Nye, partner at Trowers & Hamblins, said:

“Businesses will need to explore new and novel ways of training staff. We may see more partnering of business with local further education colleges or external training providers, to ensure that business-critical skills are being trained in the most effective way.”

With technology now creating an almost ongoing need for new skills just as it makes others redundant, companies will also need to invest in creating a culture of not just lifelong learning but lifelong employability, which means constantly investing in the skills base of the business to meet emerging needs.

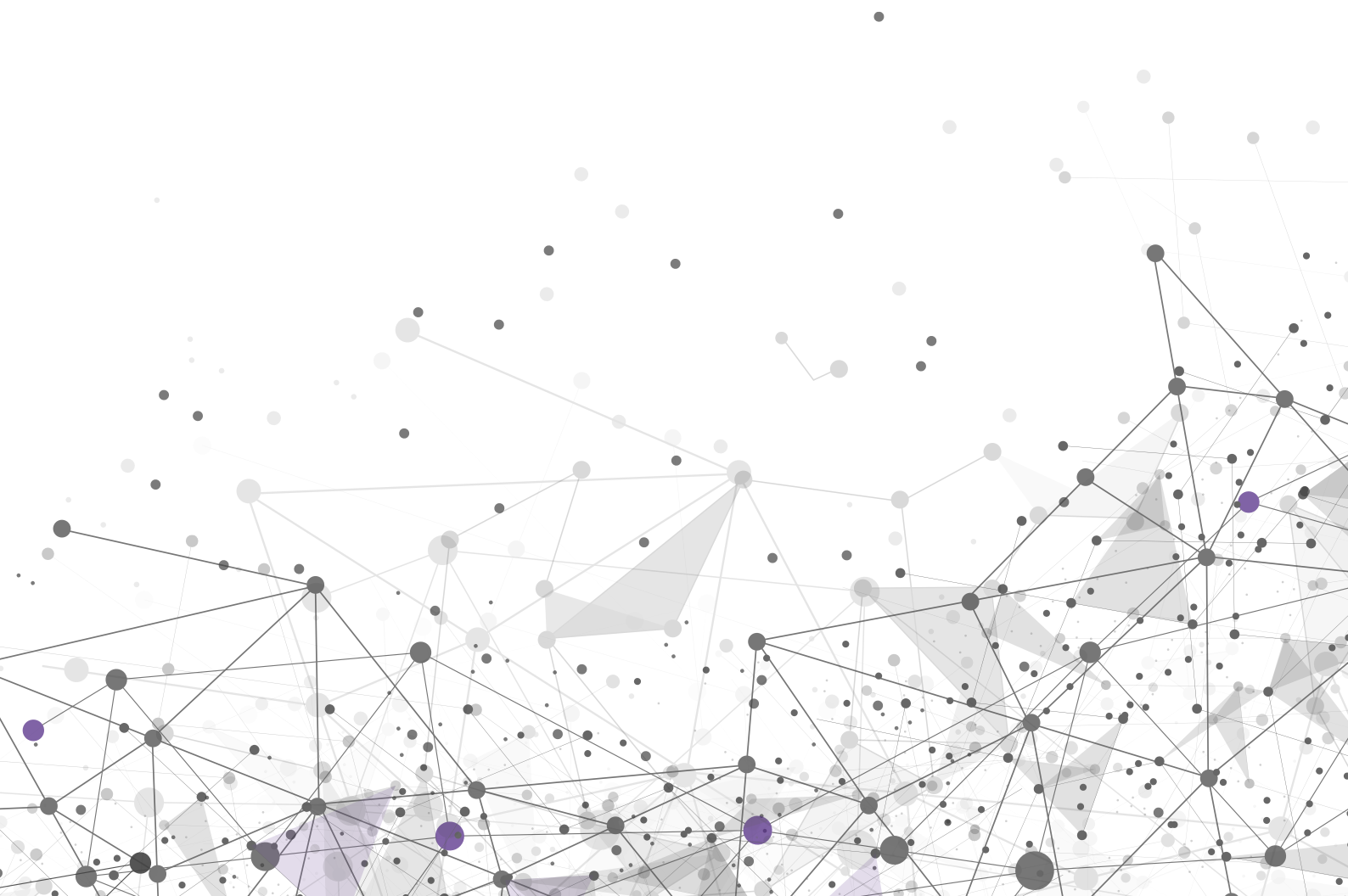


Tools for business transformation

- **Invest to create a culture of lifelong employability** – by focusing on training and development within the business and encouraging good people to move and grow within the business.
- **What cannot be automated will become more valuable** – promote skillsets such as creativity, innovation, collaboration, resilience and ingenuity.
- **Encourage diversity of thought in your teams** – by building a diverse and inclusive workforce, thereby driving innovation and better capitalising on opportunities.

The UK's first 5G testbed

In January 2019, Trowers & Hamblins advised The West Midlands Combined Authority on the innovative 5G testbed roll-out that sees the West Midlands region become the first in the UK to trial the new advanced connectivity. Not only will the project provide opportunities for local businesses to contribute to the innovative ecosystem, the advanced connectivity will also seek to support the region's growing digital start-ups and SME's whilst also enhancing public and private collaboration.



Workspace

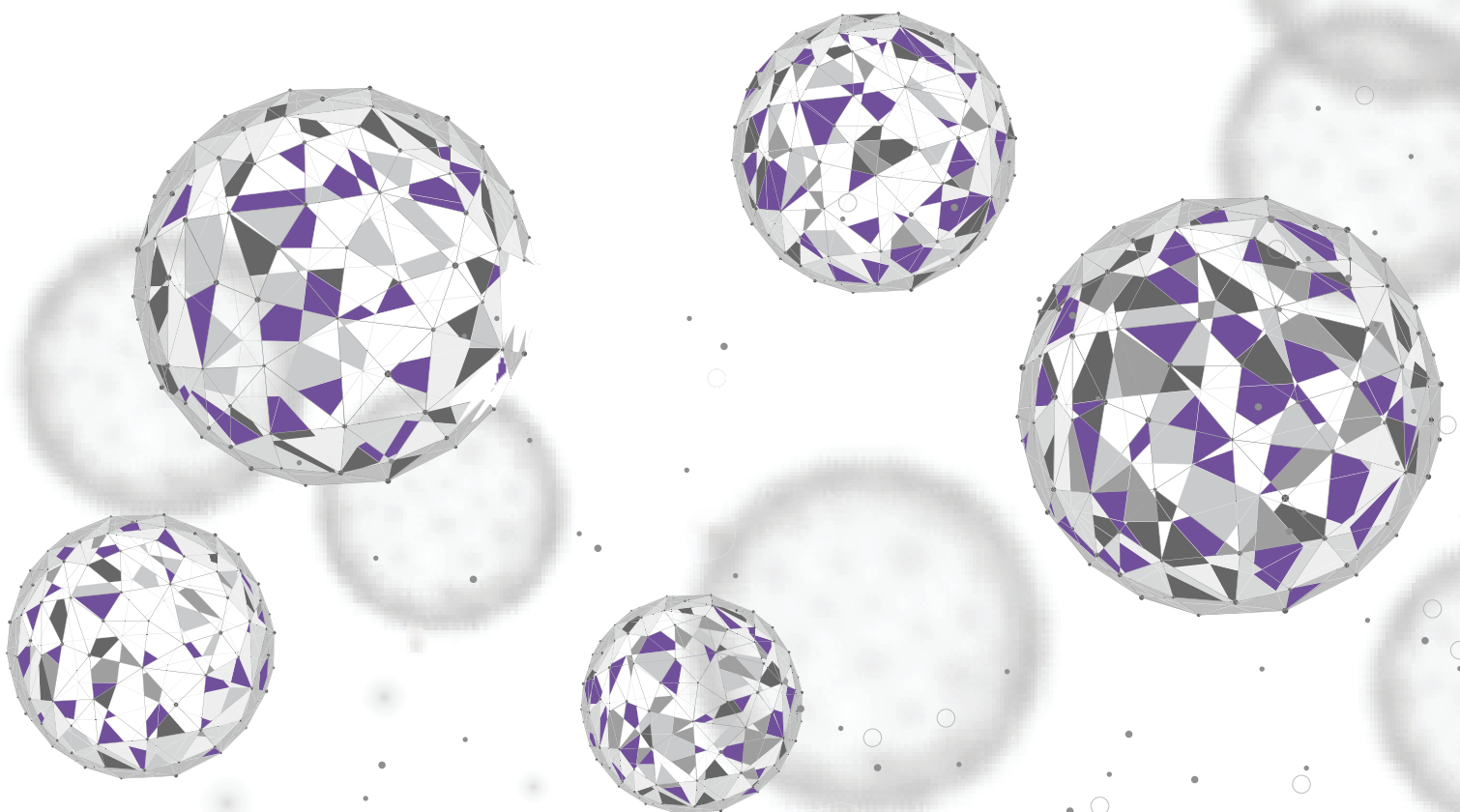
Insights on transition

In less than a decade, the UK corporate population has undergone a revolution in flexible working, changing business models, team dynamics, remuneration structures and office space arrangements. In an agile working environment, an employee has some say over how, where and when they work, whether that involves working from home, working part-time, job-sharing or having the freedom to work in the evenings after picking up the children from school.

Flexible working has been suggested by the CBI as a means by which employers can attract a broader range of people from varied social backgrounds, age groups, races and genders, and there are signs that the tradition of sitting at a desk from 9am until 5pm, five days a week, is no longer the default. A recent YouGov survey revealed that only 6% of working the UK working population now work those hours, with 73% working either part-time or with some form of flexible working arrangement. And, while flexible working allows employees to have more bespoke working hours, so agile working allows that work to be done in atypical places outside the office, with virtual working utilising technology to support further variety.

It is also argued that flexible working can help address skill and labour shortages by making work more accessible to older people or those with caring responsibilities, that it can improve productivity by increasing motivation, and can boost job satisfaction and aid retention. Alongside the increased use of technology, agile working can also free up office space and in so doing, have a considerable impact on profitability, given how property costs are the biggest overhead for many businesses.

Workspace needs to create a feeling of community and wellbeing for employees, and office spaces need to keep up with trends in order to attract staff. There is clearly a growing need for business properties to adapt and change, as no one size fits all and the future of the workplace changes rapidly in response to fast-changing technology and advances in work culture.



The challenges facing business leaders

Despite its many recognised benefits, the rise of flexible working also creates challenges for employers, who must meet employees' demands for agility while still bringing teams together in a way that facilitates effective collaboration and management. However, not every industry is suited to flexible working in the first place, as Fiona Strong, Managing Director at Ark-H Handling, explained: "I'd love to be able to give my team flexible working, but if you've got a production line of 15 people and one of them decides to work from home, the other 14 are stuffed! The youngsters we are employing have very good but very different values and they want different things out of the workplace, but because we're operating a very traditional business, that can be difficult to accommodate."

In other businesses, remuneration and performance management often require re-engineering as flexible working models take hold, as the focus shifts to outputs rather than inputs, which can be harder to measure and define.

Then there are the fundamental shifts in the way workspaces are designed and used, which are disrupting the property industry. In a recent Trowers & Hamlins report on The Future of Workplace Investment, we noted that the advance of AI and automation alongside agile working means workspace is increasingly about providing employees with an environment in which to be creative and insightful, which requires a high level of capital expenditure to create a fresh, flexible environment. The real estate industry is witnessing the rapid rise of the co-working space, with flexible leases, high service levels and a community feel.

Isobel McKenna, Director of Strategic Accounts at The Regus Group, said: "For us, the biggest change is the real shift from organisations taking flexible workspace as just swing space or to increase space and instead now viewing flexible space as a core building block that underpins their real estate strategy. That's a massive change driven by businesses wanting to make savings where they can and inject more agility. But it is also about people and attracting and retaining talent to improve their productivity."

John Duckworth, Managing Director UK & EMEA at The Instant Group, said: "We see this challenge on the definition of a traditional office space as being that place to coalesce processes and people and the second biggest line item cost to the business. That space needs to adapt quickly to meet the modern business needs. The question of agility is huge, and how you bring teams together within the building to drive the best performance for a company. The new wave of talent, the Millennial talent that's coming through, is fundamentally wanting to experience something completely different in the workspace."

The concern expressed by business leaders at our roundtable centred around a fear that by implementing more agile working, something of the company's culture may be at risk, and indeed things might fall through the cracks if performed by team members working in different locations at different times of day.



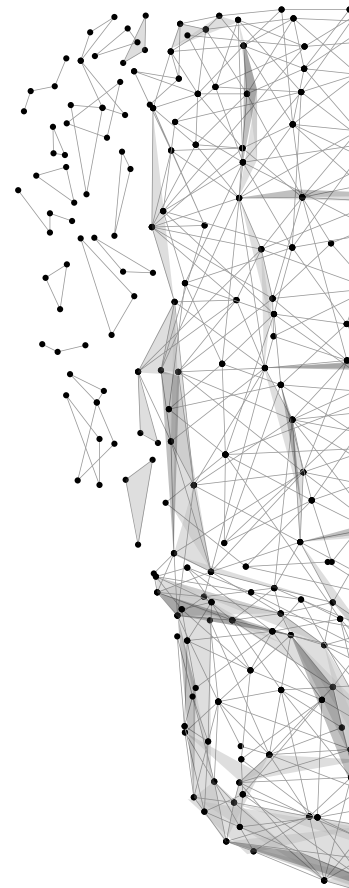
Tim Nye, partner with Trowers & Hamblins, said: “Culture has always been important in terms of attracting and retaining talent, but perhaps the rise in agile working is making it harder to cultivate that culture, as people are working remotely from different locations. Then business needs to look to its brand and its core values – and how you communicate these and live these when you don’t have all of your employees in the same physical location.”

From a legal perspective, employers face new exposure to risks associated with people working from home, including in relation to data security and protecting business assets. For example, by adapting policies to suit these needs, one of the first decisions that employers need to make is whether they provide staff with IT equipment for agile working or initiate a ‘bring your own device’ policy. Whilst the former can come with a significant and on-going capital investment, the latter requires an employer to place trust in its employees and, specifically, the devices that they will be connecting to its network. Culturally, therefore, it is essential that employers prioritise good cyber hygiene, which means educating staff and having strong policies and procedures in place.

Of course, these steps should be followed irrespective of which route is chosen to facilitate agile working – the evidence of steps taken and issues considered will go a significant way to protecting the data of both the employee and the employer.

In markets where competition for talent is intense, offering greater flexibility has been shown to attract people, encourage them to stay and help them reach their full potential. Workspace sits at the heart of this transition. Helen Randall, partner with Trowers & Hamblins, said: “Now is the time for businesses to ask: how is the use of workspace changing for creative minds? How will tech impact workplace culture and how is it impacting now? What is your business going to look like in five years’ time and how are you going to get there?”

Our recent report on ‘The Future of Workplace Investment’ looked at what investors, developers and operators should consider in the future workplace. Yvette Bryan, partner at Trowers & Hamblins, says: “In the past, investors have been able to put their money in safe commercial stock and expect a solid return. The rise in profile of co-working and flexible workspaces, and occupier demand for more fluidity, means landlords are having to do more to keep up with the competition. Forward-thinking investors are seeing the value in taking greater risks and managing their assets creatively, through innovative design, better amenity, services and connectivity, flexible leasing and branding buildings to attract the best occupiers – who can then win and keep the best talent.”



Tools for business transformation

- **Get creative with people and places** – by introducing agility into workspaces and investing in the technology to support flexible working practices, a more diverse workforce can be created and an enhanced culture of inclusion.
- **Future-proof your flexible working policies** – to take account of the need for regular face-to-face meetings, to address exposure to new legal risks, and with remuneration practices that reward outputs rather than inputs.
- **Be a leader** – by creating a positive work culture, embracing the tools and technologies that can support agile working, and placing trust in staff, there is evidence that you can improve productivity, and enhance recruitment and retention.
- **Create future value** – with investors, developers and operators taking greater risks and managing their assets more creatively.



People

Insights on transition

One of the megatrends impacting every business has been the fact that corporates are working with an aging population, raising the prospect of many more people working into their seventies. For the first time in history, companies now see five generations of employees working together.

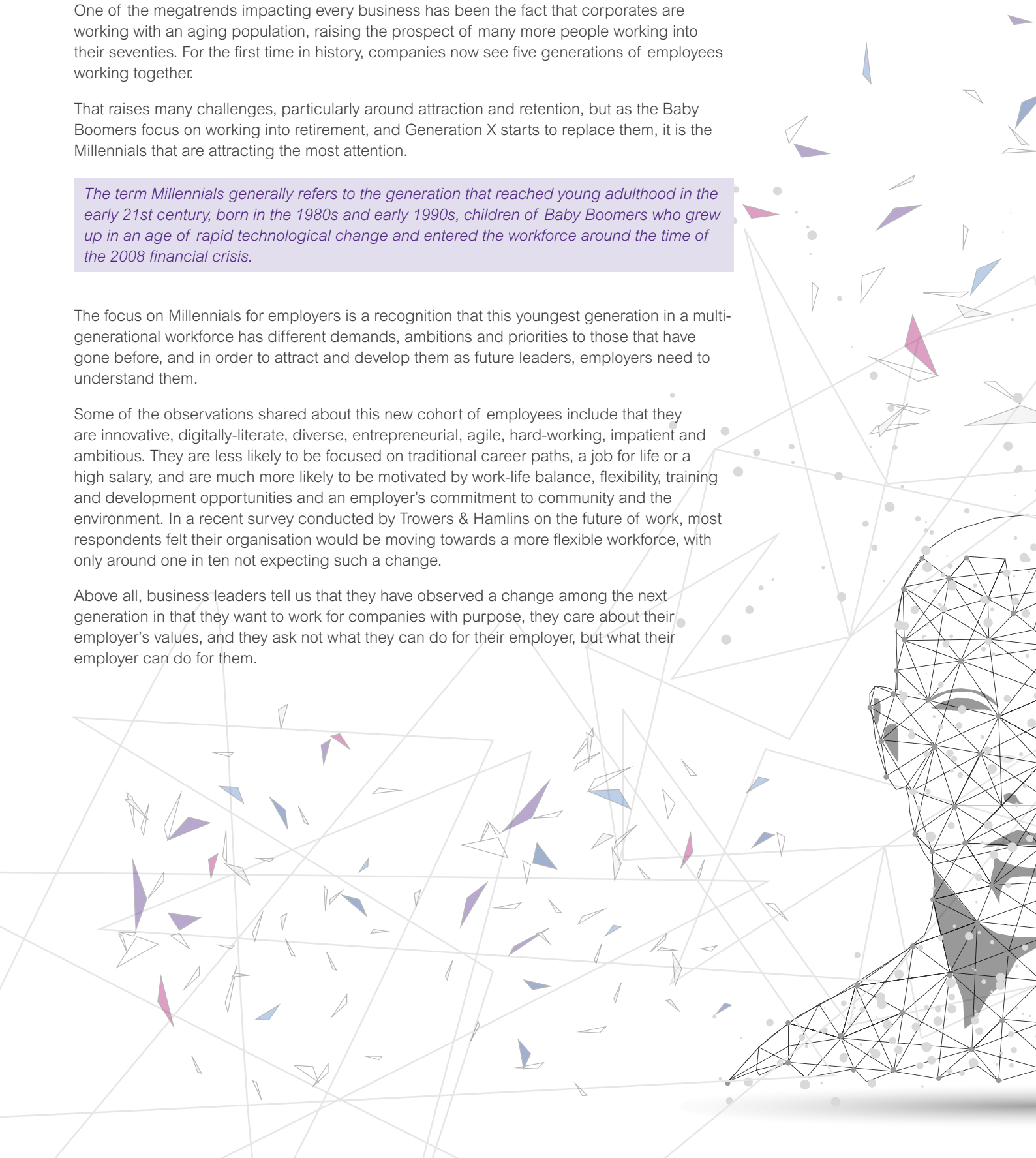
That raises many challenges, particularly around attraction and retention, but as the Baby Boomers focus on working into retirement, and Generation X starts to replace them, it is the Millennials that are attracting the most attention.

The term Millennials generally refers to the generation that reached young adulthood in the early 21st century, born in the 1980s and early 1990s, children of Baby Boomers who grew up in an age of rapid technological change and entered the workforce around the time of the 2008 financial crisis.

The focus on Millennials for employers is a recognition that this youngest generation in a multi-generational workforce has different demands, ambitions and priorities to those that have gone before, and in order to attract and develop them as future leaders, employers need to understand them.

Some of the observations shared about this new cohort of employees include that they are innovative, digitally-literate, diverse, entrepreneurial, agile, hard-working, impatient and ambitious. They are less likely to be focused on traditional career paths, a job for life or a high salary, and are much more likely to be motivated by work-life balance, flexibility, training and development opportunities and an employer's commitment to community and the environment. In a recent survey conducted by Trowers & Hamblins on the future of work, most respondents felt their organisation would be moving towards a more flexible workforce, with only around one in ten not expecting such a change.

Above all, business leaders tell us that they have observed a change among the next generation in that they want to work for companies with purpose, they care about their employer's values, and they ask not what they can do for their employer, but what their employer can do for them.



The challenges facing business leaders

Given that there are now far more generations being employed in a business at any one time, there are a host of new challenges for managers to contend with. In addition to concerns around attracting and retaining Millennials, one big issue is how to manage a much more age-diverse working population, including the dynamics across generations and hierarchy.

Martin Clapson, Managing Director at accounting firm Price Bailey, said: “The biggest challenge we have is that there are senior people in the firm and they are senior because they are open-minded and they love change and embrace technology, so they get behind the investment appreciating that our clients demand it. Our young people coming through use technology all the time. But our challenge is what I call ‘middle management blockers’, who are resistant to change because they have always done things a certain way. There can be a deliberate hindrance when we look at introducing new technology, and that is a challenge.”

A related challenge is developing policies and approaches that work for people across their work-life journey, which means accepting that some team members may need more support with upskilling in new developments, while others may be worthy of promotion despite having fewer years’ experience than the current crop of managers. Agile working arrangements and lifelong learning opportunities can appeal equally to every generation, addressing a range of challenges including a long commute to work, caring responsibilities and retirement funding. The issue for managers is to create an environment in which a diverse array of inputs is welcomed and embraced, rather than focusing too heavily on the demands of seniors or juniors, at the expense of others.

Martin Clapson said: “We have people who do not want to be forced into flexible working. We have employed people from the age of 16 to 70, from all different backgrounds, and some of them feel a pressure to work flexibly. I prefer to call it smart working – I say to people, just work when it suits you – work in the office, work at home, work in a café, work at 10pm at night or work on a Sunday – but if you want to come into the office from 9am to 5pm, that is fine too.”

Alison Chivers, partner with Trowers & Hamblins, said: “There is no one size fits all approach. Business leaders need to look at what works in their business and in their sector and there may be some trial and error involved. The danger is making assumptions about the expectations and aspirations of different generations in your workforce: broad generalisations are dangerous as every individual is different – so businesses should be engaging with their own workforce and asking them what they want to see.”

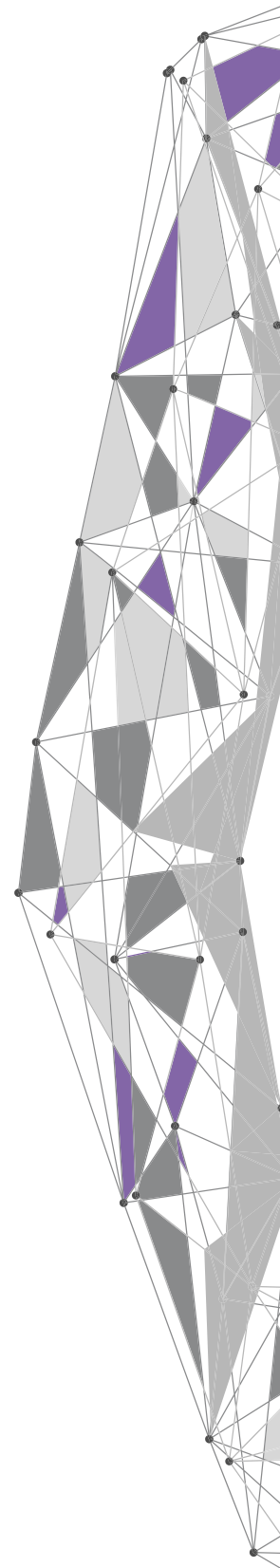
One of the biggest new phenomena to emerge from the arrival of the Millennials is the concept of ‘employer brand’, whereby the need for companies to be attractive to this new cohort of future leaders has a huge impact on business strategy. Millennials appear to prioritise the values and ethics of businesses much more than any generation that has gone before and wish to work for companies that have strong environmental, societal and governance standards as well as thriving cultures and clear beliefs in diversity and inclusion. They want to enjoy their working experience, they expect to be engaged, mentored, motivated and supported, and they are much more relationship-focused, caring about collaboration and communication rather than opaque hierarchies and historic formalities.

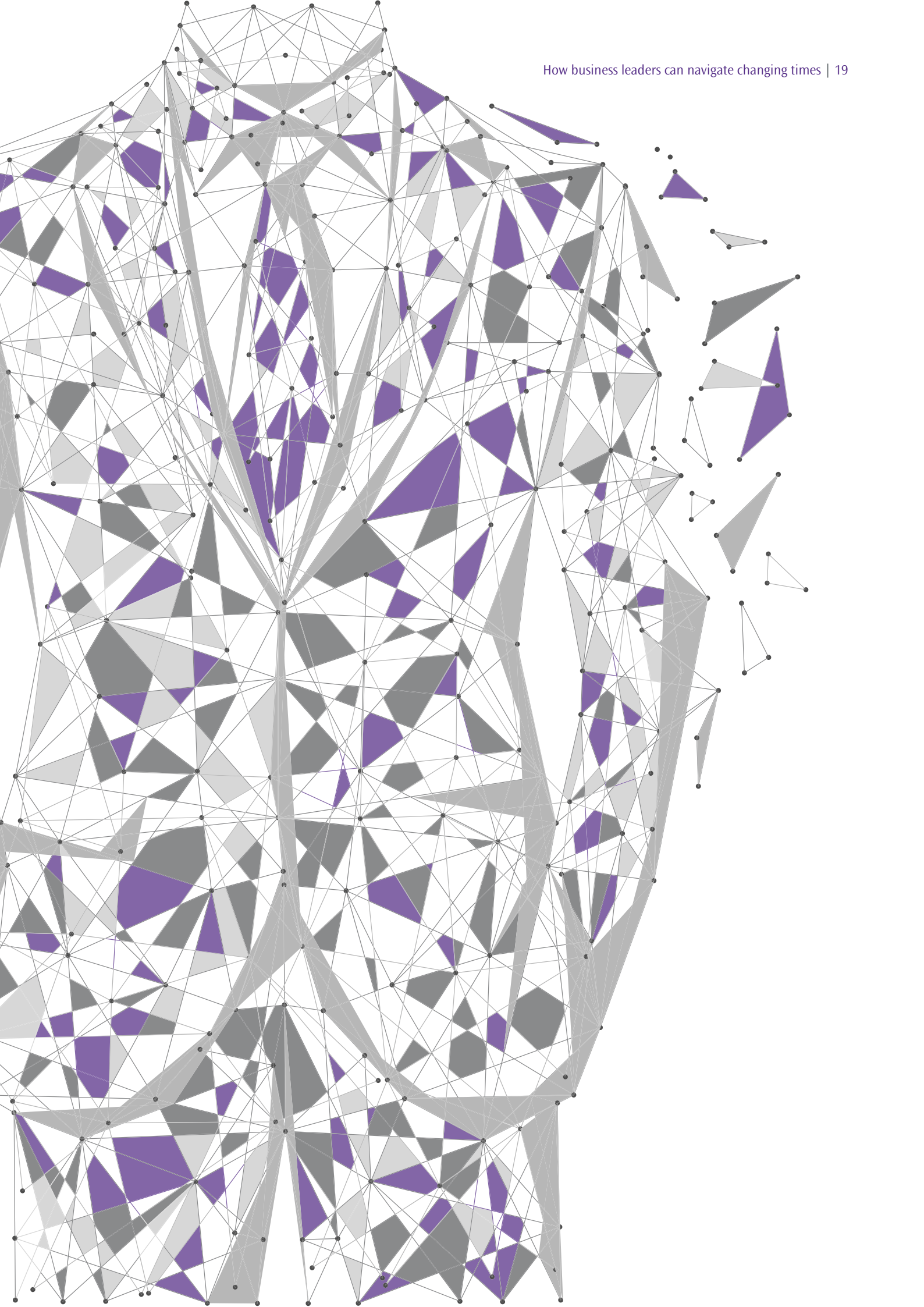
Diversity and inclusion is another issue that employees want to see taken seriously. Julie Thornton, HR Director at Tideway, said: “Our CEO set us a target of having gender parity by the end of the project, so that’s obviously quite challenging when you think that most of the people coming through with engineering degrees are men. Many of the women that do graduate in engineering do not stay in the industry. So that is difficult for us to address.”

Helen Randall of Trowers & Hamblins added: “It is clear that diversity and inclusion is key to success and productivity, but it needs to be a living, breathing part of the business and not just a static policy. Businesses that are most inclusive will find that diversity is a natural consequence and productivity increases as a result.”

Tools for business transformation

- **Think about policies that work for everyone** – by focusing on inclusion first, tailoring incentives, benefits and procedures not just to Millennials but also to suit a much more diverse range of needs and desires.
- **Prioritise your employer brand** – because building a brand that takes the environment, community, diversity and ethics seriously now adds genuine value in terms of employee satisfaction, while also attracting recruits, customers and investors alike.
- **Embrace and encourage innovation and change** – by prioritising entrepreneurialism, dynamism and progress, you create an agile organisation and disincentivise ‘blockers’ of growth and development.
- **Take diversity and inclusion seriously** – as your workforce encompasses people of all ages, genders, backgrounds and cultures, building an inclusive environment encourages broader contribution and drives better outcomes.
- **Encourage diversity of thought in your teams** – by building a diverse and inclusive workforce, thereby driving plurality of thought, innovation and better capitalising on opportunities.





Expectations

Insights on transition

Given ever-growing concerns about climate risk and environmental impact around the world, another noticeable shift for business leaders in the recent past has been an increasing pressure to focus on their environmental and social impact. Whether driven by the customer base, employees, potential recruits, investors or regulators, corporate leaders are being asked for more detail than ever before on the way that their operations affect society, which requires a much deeper knowledge of impact across the supply chain and far more diligence around ethics and corporate governance.

In 2018, the UK's Financial Reporting Council published a revised UK Corporate Governance Code that places far more emphasis on businesses building trust by forging strong relationships with stakeholders and aligning their culture with promoting integrity and diversity. One of the Code's key principles states that, "A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society."

When taken alongside legislation focusing on good governance across the supply chain, such as the UK Bribery Act and new laws around modern slavery, it is clear that regulators are increasingly taking company purpose and impact more seriously and management cannot afford to ignore such issues.

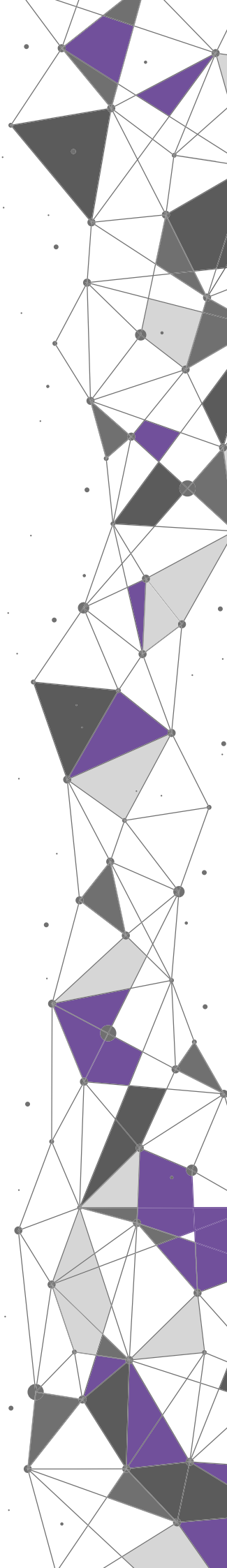
The Code also calls for boards to, "establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture."

There is growing evidence that investors are taking environmental, social and governance (ESG) responsibilities far more seriously when making investment decisions. According to a Morgan Stanley report published in 2017, a younger generation of investors now overwhelmingly believes that investment decisions should be made with a view to making an impact. The Institute for Sustainable Investing report found 86% of Millennials to be interested in sustainable investing, with that generation twice as likely as the overall investor population to invest in companies targeting social or environmental goals.

Millennials, keenly focused on company values and sustainability, are set to inherit \$24 trillion of wealth in the US alone over the next 15 years and will seek the investment opportunities to match, according to a recent Deloitte report on The Future of Wealth in the United States. Furthermore, a review by Hermes Investment Management shows that companies with good or improving social factors have outperformed other companies by 15bps per month over a decade and good governance generates a 24bps per month elevated return. A focus on the E in ESG – environmental – meanwhile has no penalising effect on returns, and companies with strong environmental policies do better in downturns by 19bps than their peers.

A new impact investing technology platform

In November 2018, Trowers & Hamlin advised impact investing platform, The Big Exchange, on its initial fundraising. The Big Exchange, whose founders include The Big Issue Group, Aberdeen Standard Investments, Columbia Threadneedle, Alliance Bernstein and Alquity, aims to launch a mobile-first investment platform designed to bring social and environmental impact funds directly to a retail audience.



The challenges facing business leaders

Companies are increasingly achieving competitive advantage by making significant commitments to environmental or societal initiatives in response to consumer demand, as evidenced by the headlines generated when supermarket Iceland committed in 2018 to stop selling own-brand products containing palm oil, the use of which is accused of devastating rainforests in Asia.

But as a growing number of new businesses define their brands based on fair trade sourcing or minimising their carbon impact, more established companies are having to adapt in order to woo consumers, investors and other stakeholders. No longer is it enough to pay lip service to corporate social responsibility, as the next generation of consumers and employees views sustainability as a fundamental priority. The largest global corporates are taking action because they are in the spotlight, but a trickle-down effect is both inevitable and apparent, putting pressure on small and medium-sized businesses to find ways of appealing to the socially-conscious population using strategies that will simultaneously benefit the bottom line.

Katharine Lewis, partner at Trowers & Hamblins, said: “Sustainability is rapidly becoming one of the key measures for corporate success and is, increasingly, being linked to financial stability. Many businesses now incorporate sustainability in their annual reporting or prepare a separate report detailing their environmental, social and governance activities, as businesses with strong environmental, social and governance metrics are perceived to be more disposed to long-term strategic thinking and planning, and are considered more resilient and better able to anticipate climate-related risk.”

Alison Chivers of Trowers & Hamblins added: “We are seeing an increasing number of investors establishing funds that have, as their focus, investment in environmentally-sustainable technologies and/or social impact. There is huge scope for businesses operating in those areas to grow rapidly in the coming years, and that is why investment in those areas is so attractive, as well as being a good news story for investors themselves.”

Companies are well advised to consider how they can define their purpose, values and impact, and to investigate steps that will make the business more environmentally friendly with a view to engaging staff, improving productivity and reducing cost. Day-to-day initial changes may involve putting recycling stations within easy reach of every desk, switching from plastic to glass bottles or moving towards paperless offices, while longer term steps could include moving to electric fleet vehicles, improving water usage efficiency, addressing pollution across the supply chain or sourcing materials more sustainably. Profit in itself is no longer enough for some stakeholders – there is now a requirement to generate profit with a social purpose.

Tools for business transformation

- **Put impact and purpose at the heart of strategy** – to improve engagement with potential recruits, employees, customers and investors and add value to your brand.
- **Build sustainability into everyday decisions** – by finding ways to cut pollution, reduce waste or make a positive contribution to the community that also create efficiencies and inspire stakeholders.
- **Walk the talk on diversity and inclusion** – because if businesses are to better engage with society, they need strong ethics and clear values, which often start with a proactive approach to building a diverse and inclusive workforce.

BUSINESS TOOLKIT

Following our roundtable, our toolkit for transformation was designed to help businesses operate, grow and succeed.

Prioritise your brand – the environment, community, diversity and ethics add genuine value in terms of employee satisfaction and recruitment, winning customers and investors alike

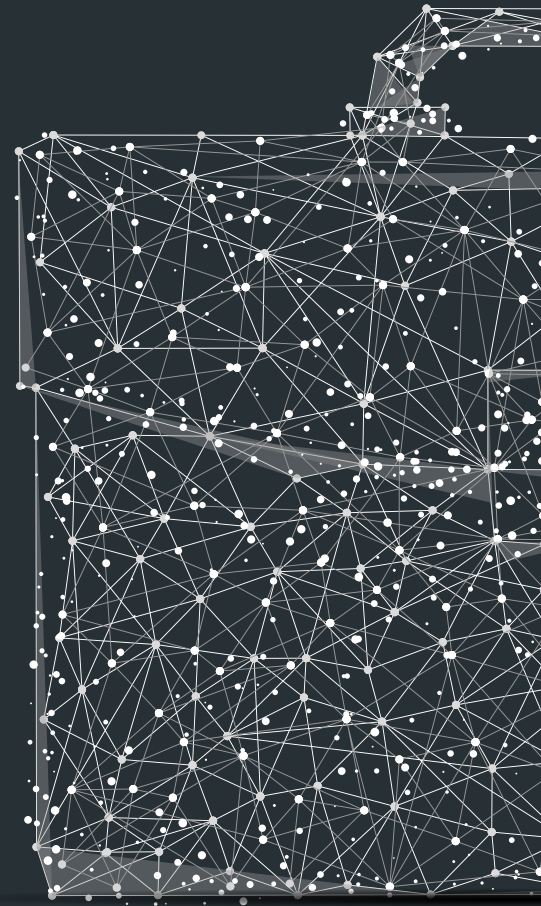
Have a clearly defined mission, business value and strategy – this will help drive decision-making


Build sustainability into everyday operations – by finding ways reduce waste or make a positive contribution to the community that also create efficiencies and inspire stakeholders

Create an agile business – by prioritising entrepreneurialism, dynamism and progress and disincentivise ‘blockers’ of growth and development

Future-proof working practices and policies – embrace a culture driven by output rather than visibility only as part of remuneration. Ensure your policies are fit for purpose and address exposure to new legal risks such as data privacy, and health and safety and manage risk.

Get creative – what can't be automated will become more valuable - focus on promoting creativity. Skillsets such as creativity, innovation, collaboration, resilience and ingenuity.





Value your people and build a culture of lifelong employability – invest in training and development and encouraging good people to move and grow within the business.

Put purpose and impact at the heart of strategy – to improve engagement with potential recruits, employees, customers and investors and add value to your brand.

Walk the talk on diversity and inclusion – to better engage with society, start with an inclusive environment that encourages broader contribution. By focusing on inclusion first, tailoring incentives, benefits and procedures (not just to Millennials) but to a diverse range of needs and desires in today's workforce.

Invest in technology to better serve your customers and clients – how can AI and automated processes drive efficiency and profitability, and improve service.

Commercialise your workspace and drive asset value – by demanding more of your real estate assets, as investors, developers and operators all move to manage assets more creatively, with better design, more amenities, enhanced connectivity and greater flexibility. Depending on your type of business, think about multi-use and how you can commercialise your existing asset to broaden commercial activities and to potentially grow your revenue and profit.

Use technology to support your employee working practices – technologies that support multiples ways of working, and placing trust in staff to work flexibly.

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