

THE BUSINESS TIMES

## A force for good

Deloitte's global chairman Steve Almond believes measuring social progress comprehensively and rigorously can help rid the world of economic and social ills.

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DELOITTE'S global chairman believes he has the answer to the world's economic and social ills. It may sound like a lofty claim, but Steve Almond has had front-row seats to much of the economic and social turbulence the world has experienced. The 57-year-old has been a partner with the professional services firm for close to three decades - with his main focus being the financial services sector - and serves on organisations such as the Social Progress Imperative (SPI) and the World Business Council for Sustainable Development.

The SPI, in particular, has given him much insight into tackling the world's problems.

A non-profit organisation based in the United States, the SPI has launched - with the support of businesses such as Deloitte - the Social Progress Index, created by a team led by Professor Michael E Porter of Harvard Business School.

The SPI cited Mr Almond's "expertise in finance and sustainable development" when it announced his appointment as a board director in May 2014, saying that it looked to the Deloitte chief to "bring both rigour and vision to decisions about how to use scarce resources to create the most social progress possible".

What sets the index apart, Mr Almond tells BT during a visit to Singapore, is that it measures a country's progress using not just traditional economic measures, such as gross domestic product (GDP) per capita, but "all sorts of other indicators around the basic building blocks of welfare, sanitation, shelter. . . (and higher-level measures, such as) access to tertiary education, personal freedom and so on".

It is, as he puts it, "a better way to assess social progress. . . in order to achieve sustainable growth and strengthen society".

Elaborating, he says: "What it shows is that, for developing countries, there is a very strong correlation between GDP per capita and social progress. But, as you move up the curve of GDP per capita, there is a real divergence (between GDP per capita and) social progress. "For example, Malaysia does better than the other countries in South-east Asia on social progress, but not as well, relatively, as it does on GDP per capita. Which means that Malaysia has some work to do, relative to its economic prosperity; and it scores relatively less well on areas such as personal rights and attitudes to inclusion. The Philippines, by contrast, does much better on its social progress than its performance on GDP per capita. It scores well on access to advanced education, scores pretty well on personal freedom."

Singapore was not included in the 2014 index because of some data issues, but it would likely have scored well in many areas, Mr Almond says. What does all this have to do with curing the world's social ills?

"For policy-setters, for governments of democracies or governments concerned with popular support, this index shows that they should always seek to have their performances in the Social Progress Index at least as well as their performance on GDP per capita.

"What this index helps identify is how and where the policy-making authority area of government can combine best with the power of NGOs (non-governmental organisations) and civil society - using the depth of resources and expertise that resides in businesses like Deloitte - and come together in collaboration to deal with

some of the most pressing environmental and social issues the world is facing." He says that such projects also benefit Deloitte's clients - some of the biggest multinational companies in the world - and work towards restoring the trust in business that was shattered by the recent global financial crisis.

"I think an increasing number of CEOs in major companies recognise that they need to do something about (restoring the trust in business) and, therefore, are looking to address and respond to the needs of a broader range of stakeholders, as opposed to just financial reporting to capital markets. And they're looking to articulate a sense of purpose for their enterprise that goes beyond the profit motive, and demonstrate that their business can be a force for good in responding to some of the world's most pressing environmental and social challenges."

### **Broader range of stakeholders**

Linked to this is the work that Deloitte does on the International Integrated Reporting Council (IIRC). The IIRC is seeking to bring about a single framework of reporting for companies, called the Integrated Report (IR) Framework. Launched in December 2013, the framework is a means to provide greater insight into the resources and relationships ("capitals") used and affected by a company; it seeks to explain how the business interacts with the external environment and the capitals to create value over the short, medium and long-term.

Conscious of the increasing reporting and compliance demands on companies around the world, the framework is touted to produce better reporting - not more reporting - that more effectively communicates to a company's stakeholders the full range of factors that materially affect its ability to create value over time.

Mr Almond believes the work of the IIRC is "a big way forward".

"When I first got involved in all these different bodies, on behalf of Deloitte, through them, I met and learnt about many other NGOs or not-for-profits. There are literally hundreds of such organisations, each with their own particular point of view or type of measurement or reporting that they are exhorting businesses to comply with.

"And it felt to me like swimming in minestrone soup," he quips. "Because we couldn't see where we were trying to get to, with all these conflicting demands on companies to measure, to report, to account.

"I think Integrated Reporting offers a move away from minestrone, to consomme - where we have clarity about what we're trying to achieve for all stakeholders."

He admits it's still a long way to go. "But, I think, bringing all those together, a combination of the Social Progress Index - which provides a pathway or a picture of where all the most compelling needs are - and Integrated Reporting, which provides a framework to enable business to provide a coherent and consistent way of accounting for itself, those two things together offer a lot of promise for the future."

He adds : "There are a growing number of major companies' CEOs who are taking ownership for this. And in my experience, when a CEO takes personal ownership for something, champions that cause in their executive meetings and in their communication with all of their people, then progress can begin to happen."

It's also a sentiment that Mr Almond abides by in his own life.

"Having a real sense of purpose in life - whether it's your personal life or your professional life - is, to me, very important.

"Having that sense of purpose, beyond the financial concerns, is a way of unlocking enormous potential in yourself or your colleagues, and can unlock tremendous collective effort and creative energy. And I do genuinely think that is the way to solve most of the social issues and social ills that face us."

As for solving the world's economic ills, following on from what he said earlier about restoring trust in business, Mr Almond adds there is still much more that regulators, businesses and the profession can do to restore confidence in the global financial system.

"Clearly, the financial crisis revealed that the regulatory environment and approaches were too light-touched in some critical areas. And, if you look back to pre-crisis days, where many of the world's leading banking groups were producing returns on equity (ROE), year in, year out, of between 20 per cent and 25 per cent, why did anybody think that was a sustainable position?"

### **Regulatory pendulum**

"What history showed is that that level of ROE was only achieved by taking risks and leverage at levels not sufficiently robust or resilient in times of crisis."

He adds: "Obviously, the regulatory system has changed radically and dramatically since then and there's no doubt that, once completed, the major global regulatory financial reforms will lead to a much more resilient financial system."

"My concern is that, in some ways, the regulatory pendulum has now swung to the other extreme, such that it's having unintended consequences in terms of ability or appetite of banks to extend credit where it's most needed. A particular concern is that, applying a one-size-fits-all set of regulatory standards - and this is not just about capital liquidity but also about anti-money laundering, anti-corruption, things like that - can lead to the risk of financial exclusion for some of the communities or emerging markets." Mr Almond - who also serves as managing partner of International Markets at Deloitte LLP in the United Kingdom - has made recommendations to address such concerns to the G-20 (the Group of Twenty forum for the governments and central bank governors from 20 major economies), from his vantage point as a member of the B-20, a grouping that conveys the views of the international business community to the G-20 Summit.

Among the recommendations that the B-20 made to the G-20 this year are that major projects on global financial regulation "should be rolled out in a way that is consistent and transparent but at the same time is cognisant of the specific needs of the emerging markets", he says.

As for the accounting profession, the Deloitte global chairman believes that, while it has proved itself in trying times, it can do more to meet the challenges and opportunities proffered in this post-crisis environment.

"What the financial crisis showed was that there was an expectation gap between what an external audit was designed to do - which is to focus on whether the client's financial reporting is in accordance with relevant accounting standards, and applying auditing standards to get to that point - and what stakeholders would like you to do.

### **Delivering trust**

"The statutory audit opinion on a set of financial statements actually proved fairly resilient through the financial crisis. I don't think the crisis revealed instances where financial statements were wrong; there were other things that were wrong that were not addressed by that. As a core product, the statutory audit will endure delivering that assurance to capital markets, delivering trust around external financial statements."

But, he adds, "I don't think we have closed that expectation gap as a profession today." There is, however, "a far greater understanding nowadays of what a statutory audit is designed to do and a greater understanding in our profession of what stakeholders would like you to do", he points out.

"As a profession, we are working hard and investing a lot in innovation, both in how we report but also different ways in which we could provide assurance on different aspects of a company's operations. I think the profession is very committed to

continuing to invest in audit quality - the core product - but also to explore ways in which that core product could be developed to meet a broader range of expectations, a broader range of stakeholders."

It's a journey that will soon have to be continued and led by others - Mr Almond is completing his fourth and final year as Deloitte's global chairman this year and, after having been admittedly "pretty full on" for most of his career, is looking forward to not taking on any new commitments after his retirement.

As for the life that he will soon leave behind, he believes he has much to be proud of.

"I think I would look back, with real satisfaction, on having made an impact that matters in my professional life in Deloitte.

"And it's very comforting to have secured the financial security for my family.

"But what matters at the end of the day is that my wife and I have succeeded in nurturing and developing three kids, who are, hopefully, happy and well adjusted and have a sense of shared values."

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## **STEVE ALMOND**

### **Global Chairman, Deloitte Touche Tohmatsu**

**1957** Born in Preston, UK

**1978** Graduated from the University of London; joined Deloitte

**1987** Made Partner at Deloitte

**1997** Appointed to the Deloitte UK Board

**2003** Appointed Global Managing Director of Audit at Deloitte

**2007** Appointed Deputy Global Chief Executive Officer of Clients at Deloitte

**2011** Appointed Managing Partner of International Markets at Deloitte LLP in the UK; appointed Chairman of Deloitte Touche Tohmatsu's Global Board of Directors

Appointed as Deloitte's representative to:

World Business Council for Sustainable Development (2011); International Integrated Reporting Council (2011); World Economic

Forum Global Agenda Council on Anti-Corruption (2012); Prince of Wales Accounting for Sustainability Advisory Board (2013);

Social Progress Imperative (2014)

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