Covid-19: A Wake-Up Call to the Future of Management in the Era of the SDGs

July 2020
Executive Summary

Pandemic risks were addressed by the SDGs; Covid-19 gives us a glimpse of a 2030 world where the SDGs are failed

While unprecedented in the developed world, pandemic risks were well identified in the SDGs, with the experience of fighting HIV/AIDS under the banner of the MDGs informing the agenda

Rich lessons to be learned from the fight against AIDS, e.g. on the dilemma of the need for contact tracing and to protect the human rights of high-risk groups

Some African nations responding to Covid more rapidly and effectively than many rich countries despite fragile healthcare systems, thanks to those experiences

The “E-S” interlinkages are key as highlighted by “Planetary Health”

Planetary Health is an inter-disciplinary field of research investigating the human health impacts of disruptions to the natural world caused by human activities

The Ebola, bird flu, MERS, SARS, West Nile and Zika viruses, and now Covid, are all so-called a zoonosis. The main drivers of the increased frequency of such infectious diseases are thought to be human activities such as deforestation, mining, intensive farming and road/dam building

Already a megatrend pre-Covid, de-carbonization and circular economy will likely become even more imperative after this pandemic

A V-shaped recovery will only bring us to square one; CSV/Sustainability will be the main differentiators in the competition to “Build Back Better”

UN Secretary-General Antonio Guterres has called on governments to make the pandemic the opportunity to “build back better”, making commitments to green jobs and sustainable growth conditional to corporate bailouts

The EU will likely accelerate its Green Deal as economic recovery package post Covid

Governments in France and Austria are imposing conditionalities to bailouts for airline companies such as reduction of short-haul flights, working with railway companies, increased use of sustainable biofuels. Similar demands may be put by capital markets and NGOs
Companies at a crossroads – How should Sustainability be deal with in Covid-19 Crisis?

As national governments in various countries greatly restricted production activities in response to the spread of Covid-19, many companies were swamped with tasks at hand to address this restriction, such as basic infection prevention measures and remote working. Nevertheless, companies have not yet started on revising their business strategies to reflect the fundamental economic and social changes this pandemic is likely to bring, although they are at a crossroads.

Before the pandemic, many companies mentioned “SDGs” (the UN’s Sustainable Development Goals), and “sustainability” as keywords alongside “globalization” and “digital transformation”, while developing their purpose, long term (2030, 2050) vision and medium-term management plans. How will and should these items be addressed in the era with/after-Covid?

The contributors to this article were among the authors that wrote the publication “The Future of Management in the Era of the SDGs” (Monitor Deloitte, Nikkei Business Publications, 2018, Japanese and Korean only) which indicated strong awareness of what we call the “Social Issue Boomerang” — the idea that business models that pursue short-term profits without adequately considering non-economic, external factors will eventually strangle the company’s own business — as a background to answering the key question: “why sustainability has been appearing in the management agendas of leading multinationals?” (figure 1).

This shows us the points company leadership should learn from the SDGs: companies must not only identify short- and medium-term opportunities (for offense strategies) and threats (for defense strategies), but also understand the social issues that need to be solved for the company’s long-term growth to be possible, and use all of that to devise a business model (foundation) in which society improves the more the company’s revenue increases (figure 2).

Different companies strategically position sustainability in different ways, and those companies that have long realized that sustainability is indispensable to their long-term growth, and have attempted to position it as the foundation of their purpose and strategies will likely use this Covid crisis as a watershed moment to further accelerate the integration of sustainability with their management strategies. On the other hand, companies that have not seen the need to reform any part of their core business and view the SDGs as a mere communication tool, or companies who view the SDGs only as potential new business areas to consider as fiscal capabilities allow, may, in the face of deteriorating performance due to the pandemic, rush to rebuild the core business while deprioritizing sustainability which they see as costs to be minimized.

We share the perspectives of the former, and believe that Covid should work as a wake-up call for companies to adopt more sustainable management, for the following three reasons:

![Figure 1: The social issue boomerang due to business models that pursue short-term profits](image_url)
1. The Covid crisis has shown a glimpse of a world of 2030 where the SDGs have not been achieved

The Covid pandemic is being described as an unprecedented crisis in Japan and other developed nations but in actuality, the world had already faced a serious pandemic by the time of the MDGs: Millennium Development Goals (the predecessors to the SDGs) era of 2001 – 2015. The first cases of HIV/AIDS was discovered in the US in the 1980s, but it then quickly ravaged poor nations such as those in Africa fueled by poverty and discrimination, and had catastrophic social ramifications; by the time the MDGs were adopted, average life expectancy in some nations had already fallen to thirties. The affected countries and the international community mobilized resources and policies to tackle the AIDS crisis under the banner of the MDGs, and demonstrated that pandemic could be put under control. The lessons learned during this intervention included the need to protect the privacy of those tested positive with the virus and the human rights of the high-risk populations in order to encourage them to seek testing and treatment, which is vital for preventing the wider spread of the virus. For this and other reasons, the AIDS crisis really does hold many implications about the questions we are facing with the Covid crisis.

In fact, to date, some African countries, with their accumulated experience in fighting the AIDS pandemic, have actually managed to prevent an overshoot of Covid infections better than Japan and the rest of the world by taking more rapid and comprehensive measures, despite the fragile health systems and some housing conditions such as slums hindering social distancing practices. South Africa for example, instituted a lockdown before anyone had died of the disease, PCR-tested more than 10,000 people a day, and sent alerts and health information to residents via a mobile application that would later be recommended by the WHO. Thanks to these and other measures, South Africa has managed to avoid a major outbreak at the time of writing this report. When its number of infected persons reached 158, Kenya also took numerous actions in rapid succession including instituting a nationwide lockdown; cutting income, corporate, and value-added tax rates; providing cash payments and tax exemptions for low-income households; creating new jobs with national hygiene programs; removing service charges on remittances made from mobile phones; and increasing limits on bank loans.

In contrast to the MDGs, which only targeted the 3 most infectious diseases of AIDS, tuberculosis, and malaria, the SDGs expanded this scope to include neglected tropical diseases (NTDs), hepatitis, waterborne diseases, and other infectious diseases. The true message in that expansion is the determination to use the knowledge and experience gained from the MDG era to eradicate the sufferings that any infectious disease causes. The fact that countries who experienced the diseases in the MDGs are using those experiences in their Covid measures says a lot.

It is also worth noting that the MDGs from its outset always faced criticisms that the agenda failed to address systemic issues such as economic and gender inequalities and climate change that were behind the issues the agenda did aim to tackle such as pandemics and absolute poverty. The SDGs were adopted in response to these criticisms and the actual emergence of those very issues that were neglected by the MDGs during the

Figure 2: Positioning of SDGs in the eyes of company leadership

SDGs inspiring business opportunities
- “Society 5.0”
- Markets originating from social issues
- Expanded market for renewable energy
- Formation of rules that fit external stakeholders’ interests

SDGs heightening stakeholder scrutiny and demands
- ESG investment
- Regulations on CO2 emissions after the Paris Agreement
- UN’s guiding principle of “business and human rights”
- The OECD’s regulation on corporate tax avoidance

SDGs posing fundamental questions on the sustainability of existing economic models
- Political instability against a backdrop of inequality and exhaustion of natural resources resulting in loss of markets and business opportunities
- Climate change and depletion of natural resources making supplies unstable and raising costs
- A diminishing middle class (the core consumer segment) meaning scramble for skilled talents
MDG era. While deprioritizing the SDGs as a peace-time agenda may seem like a natural response to the Covid crisis, an appropriate historical understanding is essential of how the world came to need the SDGs as a response to the insufficiencies of the crisis-responding MDGs, in order to rival those global leading companies that have engaged with the global agenda since the MDGs.

2. The interlinkages between the “E” and the S*: perspectives of “planetary health”

“Planetary health” is a new concept launched jointly by the Rockefeller Foundation and the internationally renowned medical journal, The Lancet, which looks into the “health of human civilization and the state of the natural systems that it depends on”. Under this concept, various interdisciplinary researches are being implemented to investigate the human health consequences of the disruptions to the eco-systems caused by human activities⁹.

According to such research, most of the new diseases that have emerged in recent years such as the ebola, bird flu, the Nipah virus, MERS, SARS, West Nile fever, and the Zika fever are zoonoses (or zoonotic diseases; diseases that pass between humans and animals/insects). Covid-19, which is thought to have originated in bats⁹, is another example. Increased opportunities for human-animal contact due to the shifting of wild animals’ habitats is thought to be behind the frequent occurrence of zoonoses, and human activities such as deforestation, natural resource extraction, farmland clearing, road construction, dam construction, irrigation, coastal development, and urbanization are drivers of habitat shift⁷. The environmental group WWF has calculated that 60% of the species on the planet have become extinct over the last 50 years⁵, while Unicef’s statistics show that the number of new infectious diseases discovered have quadrupled over the last century⁴.

Loss of biological diversity also damages nature’s climate stabilizing function, which accelerates global warming more so than the direct effects of manmade greenhouse gas emissions, and has started a chain reaction

<table>
<thead>
<tr>
<th>SDG</th>
<th>Effects due to Covid-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>No poverty</td>
<td>• Reduced incomes and increased stigma toward vulnerable groups (e.g., foreigners, irregular employees, the self-employed, single parents, sex workers, African Americans in the US, foreign trainees in Japan)</td>
</tr>
<tr>
<td>Zero hunger</td>
<td>• More hunger due to less international aid and supply chain breakdowns (the WFP says we are approaching a situation where 265M people will be hungry by the end of 2020)</td>
</tr>
<tr>
<td>Good health and well-being for all</td>
<td>• Vulnerable groups avoid testing due to fears of discrimination if they test positive, and the pandemic lasts longer (as was the case with AIDS/tuberculosis)</td>
</tr>
<tr>
<td>Quality education for all</td>
<td>• Children miss out on education opportunities due to extended school cancellations and inadequate online learning environments (according to the UN, more than 1.5 billion children cannot go to school because of Covid)</td>
</tr>
<tr>
<td>Gender equality</td>
<td>• Increase in domestic violence due to spending more time at home</td>
</tr>
<tr>
<td>Clean water and sanitation</td>
<td>• Clean water shortages in the Middle East and Africa due to decreased aid</td>
</tr>
<tr>
<td>Affordable and clean energy</td>
<td>• (Positive) Temporary decreases in the consumption of energy resources</td>
</tr>
<tr>
<td>Decent work and economic growth</td>
<td>• Mass unemployment and falling GDPs due to a worsening economy</td>
</tr>
<tr>
<td>Industry, innovation, and infrastructure</td>
<td>• Drastic revisions of supply chains</td>
</tr>
</tbody>
</table>

Figure 3: Effects of Covid-19 on the 17 SDGs (preliminary version)

<table>
<thead>
<tr>
<th>SDG</th>
<th>Effects due to Covid-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced inequalities</td>
<td>• Differences in infection risk and access to support further stratify society along existing boundaries (e.g. cleaning staff, food delivery drivers, and other low-wage workers; the severely disabled; foreigners)</td>
</tr>
<tr>
<td>Sustainable cities and communities</td>
<td>• Increased bullying of such people’s families</td>
</tr>
<tr>
<td>Responsible consumption and production</td>
<td>• Cities’ finances become strained due to long-term suspensions of economic activity, shrinking/deterioration of the infrastructure &amp; government services that support city life</td>
</tr>
<tr>
<td>Climate action</td>
<td>• After a temporary reduction in greenhouse gas emissions, climate change measures are deprioritized or postponed, lessening the chances of avoiding catastrophic climate change</td>
</tr>
<tr>
<td>Life below water</td>
<td>• (Positive) Increased biodiversity due to a decrease in ocean pollution</td>
</tr>
<tr>
<td>Life on land</td>
<td>• (Positive) Possibility of increased biodiversity due to a reduction in ingresses by non-native species</td>
</tr>
<tr>
<td>Peace, justice, and strong institutions</td>
<td>• Human rights are gradually chipped away due to data use that starts as a means of tracing infection routes</td>
</tr>
<tr>
<td>Partnerships</td>
<td>• Many countries adopting an “us first” policy leads to a breakdown of international cooperation structures; SDG and pandemic prevention measures, particularly in developing nations, fail due to lack of resources</td>
</tr>
</tbody>
</table>

Sources: public information, Deloitte’s global knowledge
that leads to further loss of species. This vicious circle further increases the risk of future pandemics.

At first glance, the pre-pandemic socio-economic megatrends such as circular economy and decarbonization seem set to be overshadowed by the short-term impact of Covid-19 and take a backseat to other priorities in the post-crisis world. However, given that the way in which we use resources for economic activities is behind the current and future likely pandemics, there is actually a greater scientific case for those megatrends to gain further momentum.

3. Resisting the urge for a V-shaped recovery: emerging “build back better” conditionalities to corporate bail-outs

The Japanese government is planning budgets and other measures for a V-shaped recovery after the state of emergency declaration is lifted. However, the international community and capital markets are demanding that companies shift to a new economic system that places sustainability at the center. In his message on the International Mother Earth Day, United Nations Secretary General Antonio Guterres stressed the need to use the Covid pandemic as an opportunity to “build back better” and proposed “6 climate-related actions” that included requiring companies to commit to achieving green jobs and sustainable growth as a condition for receiving taxpayers’ money in relief funds.

Similar developments are happening at the national level. In Europe, at the urging of some members of the European Parliament, 180 government leaders, corporate executives, and representatives of unions, NGOs, and think tanks are calling on member states to place the EU’s recently announced Green Deal at the center of post-Covid economic recovery efforts. The Green Deal calls for an accelerated transition to a carbon neutral economy. Some governments are implementing policies that impose requirements on companies to reduce their environmental footprints such as in the case of airlines, who are finding themselves in a precarious situation due to lockdowns. In response to their requests for bailout, some governments are requiring the airlines to commit to decarbonization efforts such as reducing short-haul routes, working with railway operators, and using biofuels as a condition for receiving state aid.

Moreover on April 23, the International Corporate Governance Network (ICGN; assets managed: approx. USD 54 trillion), which is composed of asset management companies and the pension funds of more than 45 countries, published an open letter urging companies to avoid layoffs and reduce dividends and executive compensation. This signifies that institutional investors’ view that a company’s treatment in tough times of its workforce who support it in normal times is especially indicative of its potential for long-term growth.

Through the spread of Covid-19 and each country’s response to it, differences in infection rates, death rates, and access to government cash payments become direct manifestations of preexisting economic inequality, discrimination based on employment, and social inequalities due to gender, disability, etc. These differences
are sowing the seeds for further social stratification after the crisis. It is possible that the ESG investment community, which previously tended to focus on the E (environmental) aspects, will also prioritize the S (social) and G (governance) aspects in the future.

This hints at the possibility that going forward, companies will be expected to have deep insights into the leakages between multiple social issues and establish business models that aim to simultaneously solve multiple issues, rather than thinking of social issues individually in a "silo" manner. For example, in the case of decarbonization (which is necessary to reduce the economy's footprint on the environment), labor unions and NGOs are calling for an inclusive transition that brings with it many new jobs in order not to repeat the collateral damage of massive unemployment that accompanied the previous energy shift from coal to oil. This idea, known as "Just Transition", has now been incorporated into the Paris Agreement, and the UN's Principles for Responsible Investment has released a guide for investors on the topic. Approaches such as Just Transition that integrate the environment and social aspects of ESG investment, are likely to be demanded more as part of sustainable management practices.

**Strategy for the “New Normal”**

Although the exact form of the post-corona world is yet to reveal itself, it seems reasonable to anticipate that one feature of the emerging “New Normal” will be that sustainability (SDGs and ESG) will be viewed as a must, as opposed to optional, where a company’s sustainability efforts will be a major driver of its competitiveness.

With this New Normal in mind, what strategy approaches will companies take?

First, Covid’s social impacts can be grasped in a comprehensive manner when measured against the SDGs. Monitor Deloitte’s CSV/Sustainability Strategy team has utilized its own global knowledge and publications from NGOs, international organizations, and other experts to prepare a preliminary summary of the main effects Covid will have on each of the 17 SDGs (figure 3). The main finding is that there will be negative effects in nearly all of the goal areas. This is particularly true for the “S”-related goals. As stated above, inequalities that existed before the Covid crisis based on income, gender, disability, race/ethnicity, and employment status have become more apparent in the form of more dire outcomes, i.e. differences in infection rates, death rates, access to preventative measures (e.g. social distancing capabilities), access to healthcare, and access to economic support. Conversely, the indicators for “E”-related goals are temporarily improving due to suspended economic activity. However, since this is no result of proactive efforts to move our economic models away from reliance on fossil fuels and the linear economy based on massive resource consumption, the indicators will most likely bounce back to deterioration once the economy is operational.

With this global outlook, companies will need to strengthen their “sensing” function on changing demands from stakeholders such as the civil society, especially regarding “social” and “governance”-related items, which have to date not been sufficiently prioritized by businesses. They will also need to be on the lookout for the earliest signs of rule formation in capital markets and from regulatory authorities.

In addition, business leaders will find the “zoom-out / zoom–in” approach (figure 4) helpful both in moving away from the “mid-term planning” mindsets that try to predict the future by extrapolating the known pasts, and in making short-term investment decisions on digital transformations while having a confident sense of long-term direction of where the market is heading over the coming 10 and 20 years.

Taking this approach helps to construct a business model where society improves the more your company’s sales increase; for example, a data service that eliminates the tradeoffs between infection tracing and privacy and human rights as part of Covid prevention measures, or a service that monitors land use changes to help improve planetary health. Scenario planning methods like those implemented at leading oil and gas companies regarding energy transitions are also in line with the zoom out / zoom in approach, enabling those companies to make flexible and robust preparations against the uncertainties of the future.

It is undeniable that Covid-19 brings with it many uncertainties. However, one thing seems already certain – the Future of Management in the Era of the SDGs has become a necessity sooner than originally expected.
Contact information

Deloitte Tohmatsu Consulting LLC
Monitor Deloitte
CSV/Sustainability Strategy Team

Authors:

Takumo Yamada
Specialist Lead (Sustainability)

Akira Kato
Manager

Related book
“The Future of Management in the Era of the SDGs”
(Monitor Deloitte, Nikkei Business Publications, 2018, Japanese and Korean only)

About Monitor Deloitte
Monitor Deloitte is Deloitte’s strategy consulting team. We help leading global organizations to navigate the future with confidence by making clear, timely, and inspirational strategic choices that deliver growth in a dynamic, disrupted world. We achieve this through a combination of deep industry experience, cutting-edge capabilities, and an entrepreneurial mindset, which allows us to collaborate with our clients to resolve their most critical decisions, drive value, and achieve transformational success.
4. Based on reports from Japanese participants in South Africa during the Africa Japan Forum’s Zoom seminar “Covid-19: Thinking about Reports and Media Problems shared by Members in South Africa”
5. Based on a Facebook post by Tomohiko Sugishita, professor of global health studies at Tokyo Women’s Medical University
7. http://www.ungap.org/sdgs/goals/goal03.html
10. Joel Makower, “Biodiversity, pandemics and the circle of life”, https://www.greenbiz.com/article/biodiversity-pandemics-and-circle-life?utm_source=newletter&utm_medium=email&utm_campaign=greenbuzz&mktojdk=v235IR2M3RDEyVFDUk1dEgyMzh6Ctk3Z2F4b20oYI1UNcXVNNSHBYQm13bUHRD9FPH7bTVxWEjsaGZmVh5TgPa2tDandjTTFNevNEWG6NWV0MFZcLOpkaayZydVBNVhseDElfQ%3D%3D
Deloitte Tohmatsu Group (Deloitte Japan) is a collective term that refers to Deloitte Tohmatsu LLC, which is the Member of Deloitte Asia Pacific Limited and of the Deloitte Network in Japan, and firms affiliated with Deloitte Tohmatsu LLC that include Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and Deloitte Tohmatsu Corporate Solutions LLC. Deloitte Tohmatsu Group is known as one of the largest professional services groups in Japan. Through the firms in the Group, Deloitte Tohmatsu Group provides audit & assurance, risk advisory, consulting, financial advisory, tax, legal and related services in accordance with applicable laws and regulations. With more than 10,000 professionals in over 30 cities throughout Japan, Deloitte Tohmatsu Group serves a number of clients including multinational enterprises and major Japanese businesses. For more information, please visit the Group’s website at www.deloitte.com/jp/en.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organization”) serves four out of five Fortune Global 500 companies. Learn how Deloitte’s approximately 312,000 people make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

Monitor Deloitte.

Member of Deloitte Touche Tohmatsu Limited

© 2020. For information, contact Deloitte Touche Tohmatsu Consulting LLC.