Article 6

Shifting the landscape

What a wellbeing focus could mean for business

By Alex Mitchell

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He has a keen interest in public policy, including in the area of tax reform, and more generally around the impact of wider government policy-making on individuals, businesses and the economy.

The Government's focus on wellbeing has the potential to shift the traditional economic landscape – what could this mean for New Zealand business?

In Budget 2018 the Government reiterated its commitment to put people's wellbeing and the environment at the heart of its policies, including reporting against a set of wellbeing indicators in future budgets.[1]

But more broadly, the Government has also indicated that the 'Wellbeing Budget' in 2019 will simply be a marker on a journey towards embedding wellbeing in New Zealand's public policy.[2]

What is clear is that the Government's focus on wellbeing will involve much more than simply putting a wellbeing spin on Budget 2019 through the publication of some non-economic measures. The desire to embed wellbeing in policy development runs deeper than that, which could have profound implications for the economy, and therefore for business. So, what could implementing wellbeing look like for the private sector?

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Other articles in this State of the State series have sought to explain what wellbeing is and how it can be measured. Broadly, however, in order to move toward a greater focus on wellbeing, there is likely to be a rebalancing of government policy around the Four Capitals in Treasury's Living Standards Framework – natural, social, human and financial/physical.[3]

Herein lies the potential for wellbeing to have an impact on business. The weight put on the relative importance of financial/physical capital has shifted, as the importance of other capitals to society more broadly has grown. An example of this is included in our first article in this series. World Economic Forum studies have shown a rising disconnect between countries' per capita GDP and citizens' wellbeing as economic growth – that is not necessarily equally shared – has impacts for health and the environment that are viewed with increasing importance.[4]

Anecdotally, this is true to some extent in New Zealand. Some commentators have theorised that the change in government at last year's election was due in part to an increasing national discomfort with economic inequality and environmental concerns.

That is not to say that the Government does not value financial capital. Clearly there is recognition that financial/physical capital can and does make important contributions to wellbeing. The question that may impact business, however, is how government might look to strike a balance between the four Capitals so that investment in financial/physical capital remains strong, and the related economic growth supports investment in the other three capitals.

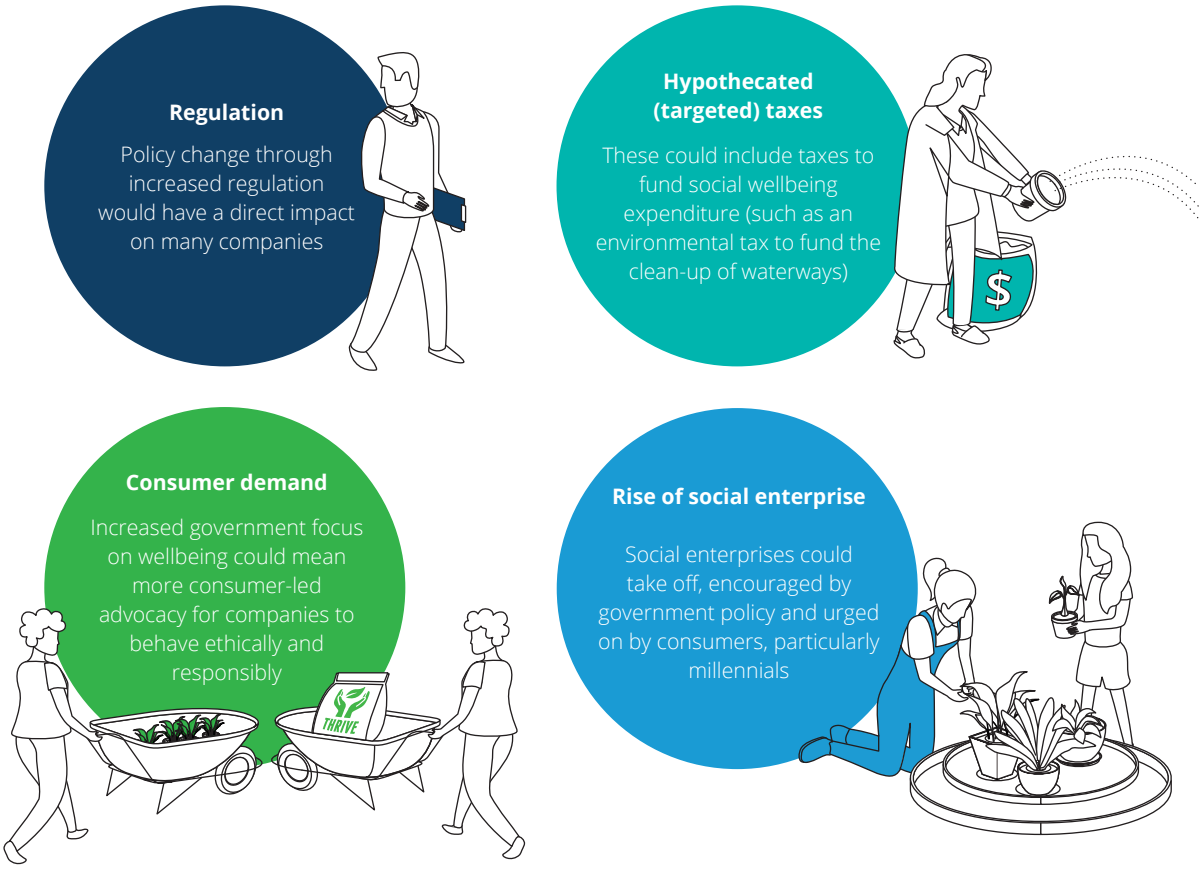
This question arises in a context where there have already been some highly publicised policy changes that appear to put less emphasis on financial/physical capital. For example, the Government's decision to ban offshore oil and gas drilling[5] could be viewed in light of the four capitals, and a political decision made that put natural capital above others – even arguably above social capital, given the possible impact of the decision on some communities.

We should expect this to be the first in a range of material policy decisions that place less weight (at least overtly) on financial/physical capital. Where natural capital is valued above other measures, expect new regulation in recognition of this. And where there is a sense of inequality, expect a focus on human and social capital to come through – think Fair Pay Agreements.

For business, and the economy in general, the shift to a greater emphasis on holistic wellbeing is relatively uncharted territory. However the more broadly it is understood, and the particular policy directions taken by Government anticipated by the market, the smoother the transition will be. Business above all else values certainty within a stable economic environment. In this context, change at the right pace is important – a balancing act between the Government delivering on its promises around wellbeing, while keeping the financial/physical capital pillar stable. It is also important that the Government brings business on the journey, because substantive change is unlikely to be successful without government, business and communities working together to

Government's focus on wellbeing

The impact on business



some extent. There are already signs of business taking steps in this direction (see sidebar Climate Leaders Coalition – business steps up).

Policy change through regulation is perhaps the most obvious direct impact that the Government's focus on wellbeing could have on business. This could include change through the tax system, for example an increase in taxes to fund social wellbeing expenditure, including possibly the introduction of hypothecated taxes targeted to pay for certain wellbeing measures (e.g. an environmental tax to fund the clean-up of waterways). The Tax Working Group is looking into possible policy changes like these and will be considering whether it is appropriate to use the tax system to influence behaviours, as opposed to targeted regulation. We will see the first hint of what might be coming when their interim report is released in September.

Of course, change is not always necessarily driven by government policy and regulation. Over the past two decades we have seen more and more businesses measuring their success, and impact, beyond just financial measures. For the most part, this has not been driven by government requirements, but rather by consumer preferences for companies to behave ethically and responsibly, including taking responsibility for the entire supply chain. In fact, businesses that have been operating with a wellbeing lens for some time might view the interest from government as being slightly 'late to the party.'

For example, the growing market for products that support ethical and sustainable business practices are tied to the social and natural capitals, and therefore in step with – and in many ways leading – the wellbeing movement. Similarly, businesses that voluntarily adopt the living wage could be said to fall into this category.

On one hand, socially conscientious businesses might welcome the Government articulating a plan to enhance wellbeing, as it goes hand in hand with their products and services. There is potential upside to these businesses, to the extent that government – or members of it – are 'influencers', as this could also

The rise of social enterprise

A global trend identified by Deloitte is the increase in social enterprises (companies looking beyond revenue and profit) which explicitly acknowledge that they operate as part of an ecosystem. And we expect to see the growth of social enterprises in New Zealand continue to accelerate.

Deloitte's *2018 Global Human Capital Trends: The rise of the social enterprise* identified three macro forces driving the urgency of this change.[7]

First, the power of the individual is growing, with millennials at the forefront. 86 percent of millennials think that business success should be measured in terms of more than just financial performance. Millennials comprise a majority of the workforce in many countries, and their purchasing power will likely grow over time. This shift in power to the individual is being propelled by today's hyper-connected world, which enables people to track information about companies and their products, express their opinions to a wide audience and sign onto social movements globally and in real time.

Second, businesses are being expected to fill a widening leadership vacuum in society. Across the globe, people trust business more than government. The 2018 Edelman Trust Barometer reported that people worldwide place 52 percent trust in business to do what is right, versus just 43 percent in government.[8] Citizens are looking to business to fill the void on critical issues such as income inequality, health care, diversity, and cybersecurity to help make the world more equal and fair. Organisations that engage with people and demonstrate that they are worthy of trust are winning allies. Companies that appear aloof, tone-deaf, or disengaged face harsh headlines, negative social media and tough questions from stakeholders.

Third, technological change is having unforeseen impacts on society even as it creates massive opportunities to achieve sustainable, inclusive growth. Advances in artificial intelligence (AI) and new communications technologies are fundamentally changing how work gets done, who does it, and how it influences society. Many stakeholders are alarmed, and they expect businesses to channel this force for the broader good, balancing the use of technology with people to ensure a fair and productive society.

further shape consumer preferences. And consumer preferences are changing rapidly in the era of internet/social media based campaigning where it doesn't take much to shape a trend and achieve meaningful results quickly. The response from many businesses to the campaign against plastic bags is a recent example.

In particular, social enterprise businesses could really take off, encouraged by government policy and urged on by consumers, especially millennials, with an appetite for any mix of social enterprise and ethical and sustainable businesses that demonstrate purpose beyond profit (see sidebars: The rise of social enterprise and B Corp movement in New Zealand).

However, to the extent that greater regulation is used as part of the toolkit by government, inevitably there will be some industries or sectors that are adversely impacted. The potential effects of measures to protect the environment could, for example, put pressure on parts of the agriculture sector; for instance there is a trade-off between production and limiting nutrients to safeguard our waterways. There is also the inherent risk that regulation has unintended outcomes, for example a flow-on impact to the price of goods if supply is reduced.

Policy decisions should be made carefully to ensure that, where measures designed to encourage wellbeing could have an adverse impact on financial/physical capital, the extent and pace of change reflects views from business, communities and government.

Encouraging greater research and development (R&D) – both public and private – is also a crucial tool that could enhance wellbeing, with less potential for an adverse impact on financial/physical capital. R&D, particularly in the environmental space, has the potential to solve concerns that would otherwise be the target of regulation (smart businesses are innovating now to reduce plastics and waste, for example). Positively, there is recognition by the Government that New Zealand needs to up its game with respect to our level of R&D, and it is proposing a new tax credit regime to lift R&D from 1.3 percent of GDP to 2 percent by 2027.[6]

Rather than elevating the importance of other capitals in isolation, the Government should also consider to what extent financial/physical capital can be used to support and enhance the other capitals. For example, policies designed to drive the growth of financial/physical capital in New Zealand can have positive spill-over benefits (such as, encouraging savings and investment in capital markets). Such policies do not need to be at the expense of social, human or natural capital, but could in fact have benefits for all of those over the long term. While in the past spill-over benefits have not always come to pass (in particular for those most in need) an important part of the wellbeing framework is ensuring that resources are directly appropriately to the communities who would benefit most.

It is important that none of the four capitals is taken for granted. We know for example, not to take our natural capital for granted. The same should be true for financial/physical capital. The New Zealand economy is in an envious position compared to many developed nations, and underlying the narrative around wellbeing is a requirement for the economy to function in a way that supports all capitals. However, economies are subject to shocks and New Zealand is no different – whether that shock be driven globally or domestically. It is therefore important that change occurs at an acceptable pace, with an appropriate balance between all capitals, and one eye firmly on the economic implications of policy developments that have a wellbeing lens.

B Corp movement in New Zealand

B Corp certification is to sustainable business what Fair Trade certification is to coffee.[9]

B Corporations represent an emerging group of companies that are using the power of business to create a positive impact on the world and generate a shared and durable prosperity for all.

Certified B Corporations have undertaken the B Impact Assessment, scored over 80 and have signed a term sheet that declares that they will consider all stakeholders. It is a rigorous assessment that explores a company's governance, transparency, environmental and social impact. B Corps voluntarily hold themselves to a higher level of accountability in these areas.

Globally, there are more than 2000 Certified B Corporations representing more than 130 industries in 50+ countries. In New Zealand, there are currently 13 B Corps.[10]

Climate Leaders Coalition: Business steps up

Major companies in New Zealand have grouped together and recently launched the Climate Leaders Coalition.[11] CEOs of 60 businesses, including Deloitte, have signed the CEO Climate Change Statement, committing their company to measuring and reporting their greenhouse gas emissions to align with the Paris Agreement.

Together, the 60 company signatories are responsible for almost half of New Zealand's emissions. Like other signatories to the Statement, Deloitte believes an equitable transition to a low emissions economy will improve New Zealand's overall prosperity and wellbeing.

End notes

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