



# — Redefining Sustainable Business

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**MANAGEMENT FOR A RAPIDLY  
CHANGING WORLD**

JANUARY 2018



**BSR**<sup>®</sup>

## About This Report

This report was written by Aron Cramer, Dunstan Allison-Hope, Alison Taylor, Beth Richmond, and Charlotte Bancilhon, with additional guidance and insights provided by Angie Farrag-Thibault, Tara Norton, Meghan Ryan, and Sara Enright. Any errors that remain are those of the authors.

Drawing on BSR's 25 years of experience working with companies and their stakeholders from corporate headquarters to remote operations and sourcing locations, this report presents our view of how companies can transform their strategies, governance, and management so that they are fit for a disruptive world.

This report builds on interviews with 50 senior sustainability leaders at our member companies and our 2017 survey with GlobeScan on the State of Sustainable Business.

### **ACKNOWLEDGMENTS**

We would like to thank all member companies that agreed to provide their insights for this report.

### **DISCLAIMER**

BSR publishes occasional papers as a contribution to the understanding of the role of business in society and the trends related to corporate social responsibility and responsible business practices. BSR does not aim to act as a representative of its membership, nor does it endorse specific policies or standards. The views expressed in this publication are those of its authors and do not reflect those of BSR member companies.

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# Overview and Methodology

The role of business in addressing sustainability challenges has never been more important than it is today. Since BSR was founded in 1992, progress has been made on a wide range of issues, such as climate change, human rights, and transparency.

However, many companies continue to struggle to incorporate sustainability into their strategy, governance, and management structures.

This report provides a blueprint for putting sustainability at the center of business to enable companies to play their full part in the creation of a just and sustainable world. It focuses on how sustainability is implemented inside companies with regard to strategy, governance, and management.

**Strategy** involves setting business goals and prioritizing scarce resources to achieve those goals. Business success is increasingly dependent on ambitious and resilient business strategies that embrace sustainability.

**Governance** refers to the mechanisms, processes, and relationships by which companies are controlled and directed, and includes the processes through which strategic goals are set, pursued, and tracked. Companies that fully incorporate sustainability into company governance will create resilient business strategies.

**Management** refers to the deployment of financial, natural, human, and technological resources

for the achievement of corporate goals. The implementation of resilient business strategies requires that sustainability be fully embedded in company management.

BSR has been working with companies for 25 years to develop strategies, governance structures, and management approaches fit for the sustainability challenge. This report draws upon insights from multiple sources, including the following:

**BSR learnings:** Lessons learned from thousands of projects with hundreds of BSR member companies, including both one-to-one consulting engagements and multicompany or multistakeholder collaborations.

**Interviews with leaders:** 50 detailed interviews with sustainability leaders inside companies and opinion leaders outside companies, conducted during 2017.

**BSR survey:** Results of the 2017 BSR/GlobeScan Survey on the State of Sustainable Business.

**Literature review:** A desk-based review of key literature relating to sustainability strategy, governance, and management.

We hope this report will provide a blueprint for companies to design approaches to company strategy, governance, and management that are fit for our sustainable development challenge. We invite our member companies and other interested stakeholders to engage with us and continue to shape the future of sustainable business.

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**1,000+**

#### PROJECTS

Lessons learned from thousands of projects with hundreds of BSR member companies.

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**50+**

#### INTERVIEWS WITH SUSTAINABILITY LEADERS

Conversations with professionals inside companies and opinion leaders outside companies, conducted during 2017.

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#### BSR SURVEY

Results of the 2017 BSR/GlobeScan Survey on the State of Sustainable Business.

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#### LITERATURE REVIEW

Desk-based review of key literature relating to sustainability strategy, governance, and management.

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# Executive Summary

The world around us is changing more rapidly than ever before, with massive implications for how we can achieve a just and sustainable world.

Whether it is new energy systems, disruptive technologies, new business models, changing demographics, hyper-transparency, or rising geopolitical uncertainty, the context for business is radically different than it was when BSR was established 25 years ago.

We believe that the best response to this situation is not to continue advocating for further integration of sustainability into business strategy, but to change the very way that companies design strategy and create value. The era of stand-alone sustainability strategies, with subsequent integration of sustainability into company strategy needs to end; the creation of resilient business strategies that take sustainability as their foundation needs to begin.

The future of sustainable business lies in the creation of resilient business strategies that respond to this rapidly shifting external context as interconnected business matters, rather than as a collection of isolated sustainability issues, which will require cohesive and holistic business leadership.

Resilient business strategies will be most effective if they are based upon an “act, enable, influence” approach to company strategy, governance, and management. This “act, enable, influence” framework is our blueprint for the future of sustainable business.

## Act

Create resilient business strategies, governance, and management approaches that ensure achievement of sustainable business goals.



## Resilient Business Strategies



## Companies can “act” within their own company boundaries.

**Strategy and value creation:** Resilient business strategies address sustainability challenges and take into full account all the ways that the world around us is changing.

**Governance:** Boards and senior executives have the expertise, insights, and information necessary to plan for a sustainable future over the long term, while also overseeing sustainability performance today.

**Leadership and management:** Structures, processes, and relationships exist that make sustainability an essential part of company decision-making and operations, built upon an ethical organizational culture that sustains integrity and supports sustainability innovation.

## Enable

Catalyze sustainability action by building mutually beneficial relationships and collaborating with stakeholders and partners across the whole value chain.

Companies can “enable” sustainability beyond their own company boundaries by building positive relationships with external stakeholders and maintaining transparent communications so that their assets, products, and services catalyze action elsewhere in their value chain.

**Engagement and collaboration:** Mutually beneficial relationships exist with stakeholders and systemic challenges are addressed through collaboration with others.

**Reporting and disclosure:** Company disclosures provide decision-useful sustainability information for shareholders and other stakeholders. Ethical organizational culture that sustains integrity and supports sustainability innovation.

## Influence

Promote policy frameworks that strengthen the relationship between commercial success and the achievement of a just and sustainable world.

Companies can “influence” sustainability beyond their own company boundaries by acting to promote policy frameworks that strengthen the relationship between commercial success and the achievement of a just and sustainable world.

**Company law and regulation:** Support for regulatory frameworks and rules for due diligence and disclosure that drive sustainable business.

**Advocating for sustainable business:** Speaking out in favor of policies that enable a just and sustainable world and promoting the interests of sustainable business, especially during times of political uncertainty, economic nationalism, and protectionism.

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We believe the fundamental tenets of the “act, enable, influence” blueprint will remain constant, and we look forward to the opportunity to further refine this approach in partnership with our member companies.

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The sustainable business field has made significant progress over the past 25 years, developing separate parts of this “act, enable, influence” framework and learning many lessons along the way. We believe that now is the right time to take stock of the progress we have made, stop doing things that are not fit for purpose, and innovate in important ways.

We have no doubt that the implementation of the perspectives shared in this paper will evolve as the world changes around us. However, we believe the fundamental tenets of the “act, enable, influence” blueprint will remain constant, and we look forward to the opportunity to further refine this approach in partnership with our member companies.



## Act

Create resilient business strategies, governance, and management approaches that ensure achievement of sustainable business goals.

- Create resilient business strategies that account for disruptive change
- Deploy strategic foresight processes and futures methodology
- Proactively communicate resilient business strategies with investors
- Use sustainability solutions as a business development opportunity
- Strengthen board stewardship of sustainability
- Recruit and develop board-level sustainability expertise
- Align incentives with sustainability performance
- Build new leadership competencies

## Enable

Catalyze sustainability action by building mutually beneficial relationships and collaborating with stakeholders and partners across the whole value chain.

- Collaborate with stakeholders to address systemic sustainability challenges
- Use stakeholder relationships as a source of innovation
- Engage a broad range of stakeholders beyond the “usual suspects” — and use business functions beyond the sustainability team
- Develop coalitions to advance progress on major sustainability challenges
- Provide disclosures that inform diverse audiences
- Focus company reporting on value creation and performance improvement

## Influence

Promote policy frameworks that strengthen the relationship between commercial success and the achievement of a just and sustainable world.

- Identify the legal and policy instruments that support sustainable business
- Align business strategy, sustainability, and government affairs agendas
- Demonstrate sustainability as an enabler of business strategy and social benefit
- Communicate internally and externally about company ethics, vision, and values
- Advocate for sustainable and resilient business models
- Advocate for sustainability policies at the regional, national, and global levels

# Act

Create resilient business strategies, governance, and management approaches that ensure achievement of sustainable business goals.



## **STRATEGY AND VALUE CREATION**

Resilient business strategies address sustainability challenges and take into full account all the ways that the world around us is changing.



## **GOVERNANCE**

Boards and senior executives have the expertise, insights, and information necessary to plan for a sustainable future over the long term, while also overseeing sustainability performance today.



## **LEADERSHIP AND MANAGEMENT**

Structures, processes, and relationships exist that make sustainability an essential part of company decision-making and operations, built upon an ethical organizational culture that sustains integrity and supports sustainability innovation.

# Strategy and Value Creation

The world is changing, with massive implications for business strategy and value creation. Whether it is new energy systems, disruptive technologies, new business models, changing demographics, hyper-transparency, or rising geopolitical uncertainty, the operating context for companies is evolving.



## STOP

Focusing on separate sustainability strategies rather than business strategy

Setting sustainability priorities that are driven by risk management

Being constrained by investor “short-termism”

## INNOVATE

Create resilient business strategies that view progress on sustainability as a means of long-term value creation and innovation

Conduct scenario planning and strategic foresight

Engage investors in a long-term vision of business

We believe the best response to this situation is not to continue integrating sustainability into company strategy, but to develop a completely new way of designing business strategy and creating value. The era of stand-alone sustainability strategies, with subsequent integration of sustainability into company strategy, needs to end; the creation of resilient business strategies that take sustainability as their foundation needs to begin.

There are three major changes that need to happen for this new era to emerge. First, we need to create resilient business strategies that take sustainability as their foundation. Second, we need to emphasize long-term value creation, and find ways to move beyond short-term performance pressures that can prevent progress on sustainability. Third, we need new tools and approaches that prioritize and measure the impact of sustainability in a language that resonates with business.

As one executive told us, “Most big businesses have been working on sustainability with reasonable success for the last 10 to 15 years, but we have been picking the low-hanging fruit, and the next phase will be much more difficult. It is about what you buy and what you sell; it goes into the heart of your commercial operations and investment decisions.”

## Resilient Business Strategies

Rather than integrate sustainability into company strategy, we believe companies need to create resilient business strategies.

Resilient business strategies are based on an understanding that the rapidly-shifting external context—our changing demographics, disruptive technologies, economic dislocation, and natural resource scarcity—are not “only” sustainability issues, but also business issues. Resilient business strategies are based on the view that issues such as climate change, women’s empowerment, and the changing nature of work are not “only” for sustainability strategy, but are issues of business strategy and crucial conversations for the boardroom.

In many ways, sustainability issues and business issues have converged. As one executive argued, “Sustainable business is better business, and a sustainable future is a better future. Tesla has built a better car, not just a more sustainable car. I’ve stopped talking about sustainability as a trade-off because I think it’s the opposite. Sustainability makes us more innovative, more flexible, and more resilient.”

A resilient business strategy will be different from industry to industry and from company to company, but there are several elements that will be common to all businesses:

**Products and services as sustainability solutions:**

Generating revenue growth by developing products, services, and solutions that meet sustainability needs, such as reducing greenhouse gas (GHG) emissions, achieving the UN Sustainable Development Goals (SDGs), or reaching underserved customers. This requires that we view the sustainability challenge not as a risk to be mitigated, but as a driver of innovation for new products, services, and technologies. As one interviewee noted, “Our innovation teams are now a part of our sustainability governance. Before we make investments in intellectual property or pursue a new joint venture, there are social and environmental attributes we look for as part of the gating process. We also team with innovators and entrepreneurs on sustainability. We’re not thinking about ‘venture capital’ but the ‘venture customer,’ as we want to be the first customer of these innovators.”

**Futures thinking and strategic foresight:**

Resilient business strategies require that companies contend with rapid change, uncertainty, and complexity. Futures thinking, also known as strategic foresight, provides structured ways to identify signals of change on the horizon, explore multiple possible futures, and create fit-for-purpose strategies that account for a turbulent external context.

**Capital assets and allocation:** As the world changes to address sustainability challenges—such as modernized energy systems, upgraded urban infrastructure, and circular economy models—companies will need to rethink the allocation of capital. As one interviewee explained, “As we start to do two-degree scenario planning and talk about stranded assets, we will need to have more conversations at the board level to understand what it means to reduce the carbon footprint by a significant amount in the next 35 years and what this means for our capital assets.”

*“Sustainable business is better business, and a sustainable future is a better future. Tesla has built a better car, not just a more sustainable car. I’ve stopped talking about sustainability as a trade-off because I think it’s the opposite. Sustainability makes us more innovative, more flexible, and more resilient.”*

**Business continuity and resilience:** Ensuring that enterprise risk management (ERM) processes fully consider sustainability challenges such as climate resilience, natural resource availability, and social volatility. As one executive told us, “Risk awareness needs to become much greater now that we are living in a much riskier world, and facing issues such as the rise of authoritarianism, cybercrime, and migration. We will see companies having much greater oversight of risk, and investors will be much more demanding of this than in the past.”

The era of stand-alone sustainability strategies, with subsequent integration of sustainability into company strategy, needs to end; the creation of resilient business strategies that take sustainability as their foundation needs to begin.

## Elements of Resilient Business Strategies



PRODUCTS AND SERVICES  
AS SUSTAINABLE SOLUTIONS



FUTURES THINKING AND  
STRATEGIC FORESIGHT



CAPITAL ASSETS AND  
ALLOCATION



BUSINESS CONTINUITY  
AND RESILIENCE



TALENT ACQUISITION  
AND RETENTION

**Talent acquisition and retention:** Attracting and retaining employees with alignment to the company's values, purpose, and sustainability impacts, and with the diversity needed to address customer expectations. One banking executive told us, "Millennials have different expectations of the workplace. They expect to work for a company whose values are aligned with theirs, and sustainability has to play a role in that."

## Long-Term Value Creation

We believe that resilient business strategies will enable companies to navigate our era of profound change and create sustained long-term value for investors.

We say this with full awareness of the intense pressures companies can receive from activist investors to generate short-term financial returns, often at the expense of long-term value creation. In our view, this reflects a misunderstanding and a misalignment of shareholders' true interests, which are better served if companies can successfully prioritize long-term thinking.

Indeed, the interests of shareholders are as complex and varied as those of any other kind of stakeholder, and many shareholders have a clear and growing interest in sustainability and long-

term value creation. To combat short-termism in corporate strategy, companies can actively seek to attract and retain shareholders with longer-term and more sustainable agendas. As one interviewee said to us, "There are different kinds of shareholders, and the long-term shareholders are the ones I like to focus on. They want a business that can continue. They also want a business that considers a changing global landscape, including environmental and social factors."

We believe that resilient business strategies are an essential response to the short-term vs. long-term debate. They provide a new way for business leaders to demonstrate that sustainability delivers value for investors in both the short and long term.

*"There are different kinds of shareholders, and the long-term shareholders are the ones I like to focus on. They want a business that can continue. They also want a business that considers a changing global landscape, including environmental and social factors."*

Specifically, there are three steps companies can take to increase appreciation for resilient business strategies by investors:

## STEP 1

### Create the resilient business narrative

Establish a compelling long-term value creation story that asserts the central role that sustainability plays in business success. This will flow naturally from resilient business strategies.

## STEP 2

### Engage investors on the vision for resilient business

Proactively communicate the long-term value creation story to investors as a core element of mainstream investor communications, as well as via webinars, roadshows, or other communications targeted at specific analysts. These proactive communications should be prioritized over reactive approaches, such as responding to questionnaires or validating ratings reports, which have come to occupy a disproportionately large share of company attention and resources.

## STEP 3

### Know the audience

Prioritize communications with the asset managers that hold (or might hold) their shares, and who are longer-term investors, rather than shorter-term activists. As the CEOs at Blackrock,<sup>1</sup> Vanguard,<sup>2</sup> and State Street<sup>3</sup> have all recently made clear, many mainstream investors are seeking increased engagement with companies on issues of good governance and long-term value creation. These long-term investors, including pension funds, insurance funds, mutual funds, and sovereign wealth funds, constitute a majority of shareholders—and they invest on behalf of long-term savers and tax payers.

In short, companies can and should be more assertive in communicating their long-term value creation stories, rather than waiting for investors to state their interest. This will help close the current trust gap. As one interviewee noted, “Investor questionnaires and shareholder resolutions continue to grow because of a huge dysfunction in the marketplace. If companies were more effective at disclosure and proactive communication with investors, these things would go away.”

We believe that resilient business strategies will enable companies to navigate our era of profound change and create sustained long-term value for investors.

*“Investor questionnaires and shareholder resolutions continue to grow because of a huge dysfunction in the marketplace. If companies were more effective at disclosure and proactive communication with investors these things would go away.”*

1 <https://www.blackrock.com/corporate/en-us/investor-relations/larry-fink-ceo-letter>

2 <https://about.vanguard.com/investment-stewardship/governance-letter-to-companies.pdf>

3 <https://www.ssga.com/investment-topics/environmental-social-governance/2017/long-term-value-begins-at-the-board-eu.pdf>

# Tools and Solutions

There are four important tools and solutions to advance resilient business strategies.

1

## **Sustainability as a business**

**development opportunity:** Companies can proactively seek out the business development and revenue growth

opportunities that arise from sustainability strategy. For example, many companies have established teams whose sole function is to identify new sustainability opportunities, such as new products and services, or better-informed market entry strategies. Said one interviewee, “We need to focus primarily on how sustainability supports growth—how does solving major sustainability challenges create new revenue opportunities for the company? We need sustainability teams focused on business development, and we need to recognize that company products, services, and technologies can sometimes be more important for sustainability than corporate processes and procedures.”

3

## **Materiality and enterprise risk**

**assessment (ERM):** Resilient business strategies require a different approach to ERM that is much more effective at

incorporating sustainability risks of material significance to the company. Referring to the need for holistic approaches, one interviewee observed: “Companies that have a well-developed ERM process are far better at managing sustainability issues.” We also believe that there is an opportunity for ERM processes to utilize the outputs of sustainability-oriented materiality assessments, and for those two processes to be much more closely aligned. This requires that sustainability-oriented materiality assessments are much more rigorous at defining what sustainability issues may be material to business success. As one interviewee explained, “sustainability needs to be part of the ERM process, and we need to clearly distinguish between what is a business risk and what is not. We need to act decisively on material sustainability risks, but people will get tired if we claim all sustainability issues are also business risks.”

*“Scenario planning is not a prediction of the future, but a way to understand how our business would look in a new environment and to test the resilience of the business in the future. Sustainability considerations such as planetary boundaries, water scarcity, and climate change must be central to the strategic planning process.”*

2

## **Scenario planning and strategic foresight:**

Sustainability is inherently a forward-looking field with long time horizons, volatility, and uncertainty. For this reason, there is an opportunity to use scenario planning and futures thinking to help companies build strategies that are fit for purpose in a fast-changing world. As one interviewee explained, “Scenario planning is not a prediction of the future, but a way to understand how our business would look in a new environment and to test the resilience of the business in the future. Sustainability considerations such as planetary boundaries, water scarcity, and climate change must be central to the strategic planning process.” Rather than integrating sustainability into strategy, scenario planning and strategic foresight present a significant opportunity to create strategy based on a thorough understanding of sustainability context. It is for these reasons that BSR launched a Sustainable Futures Lab in 2017 to enable strategic foresight-driven engagement with our member companies.

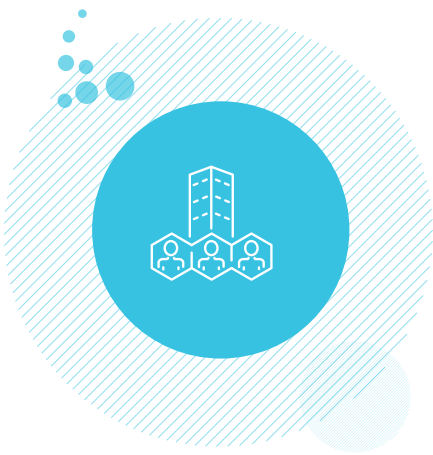
4

## **Capitals approach:**

An emerging capitals approach encourages companies to examine the resources that they depend on or impact using a comprehensive framework. This means considering manufactured, financial, social, human, and natural capital. Examples of initiatives promoting the capitals approach include the International Integrated Reporting Council, the Natural Capital Coalition (the “Natural Capital Protocol”) and the WBCSD (“Social Capital Protocol”). These approaches offer a clear framework for understanding overall corporate value creation in one integrated model. As one interviewee stated, “We have been tinkering around the edges without really grappling with the bigger challenges of what the business model is and what it means for society. The capitals force you to think about the fundamental business. It moves from just measuring what we do to actually understanding the strategic value.”

# Governance

The creation of resilient business strategies that embrace sustainability requires that boards play a much more significant role in the sustainable business agenda.



We believe there are specific steps that companies can take to achieve this outcome. The increased attention generated by global sustainability challenges in recent years—everything from the UN Sustainable Development Goals to the Paris Agreement on Climate Change and the UN Guiding Principles on Business and Human Rights—has significantly increased the pool of leaders in the private sector capable of and willing to rise to this challenge.

Research shows that boards and executive leadership are paying more attention to sustainability issues than ever before.<sup>4</sup> However, the BSR/ GlobeScan 2017 annual survey found that, while 90 percent of respondents believe the CEO and C-Suite leadership has significant influence over the sustainability agenda, only 40 percent of sustainability teams were prioritizing engagement with the CEO’s office. An MIT Sloan and Boston Consulting Group (BCG) survey was similarly stark: While 86 percent of respondents believe that boards should play a strong role in their company’s sustainability efforts, only 30 percent believe that their sustainability efforts had strong board-level oversight.

## STOP

Treating sustainability as separate from business strategy, rather than as a core issue of strategic foresight and planning

Perceiving that sustainability falls outside core board duties

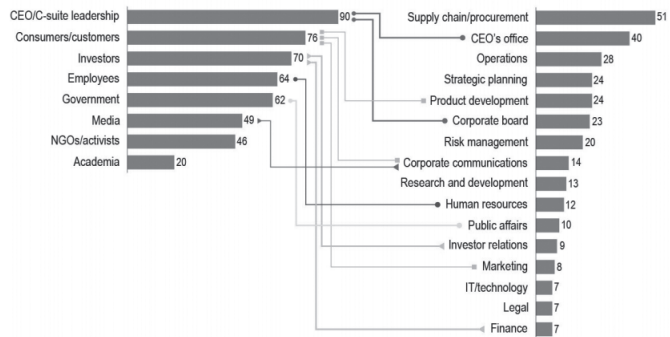
## INNOVATE

Recruit board members with expertise relevant to sustainability

Invest in external advisory councils

Align incentives with sustainability performance

**Influence on Sustainability Agenda at Company, and Function that Needs to Work Closest with Sustainability Function in Company, 2017**  
Percentage of All Respondents



While these findings reflect a concerning lack of urgency and engagement with sustainability issues on the part of the board, we believe that solutions are available to turn the situation around.

4 For example, the Ceres Gaining the Ground report found that 32 percent of company boards had sustainability oversight in 2014, compared to 28 percent in 2012.



## Barriers to Effective Board Governance of Sustainability

Before moving to the solutions, it is useful first to diagnose the barriers to effective board governance of sustainability. We believe there are five.

**Unclear business case:** Without a clear business case for sustainability, it can be difficult to engage boards. One interviewee explained that while board members and senior executives are genuinely concerned about societal issues, they “are unable to clearly articulate the link to the business and drive a management response.” Others believe sustainability is “societal noise because it is not reflected into price signals.”

**Conformism:** Addressing sustainability challenges often requires addressing difficult issues head on, but some interviewees expressed the view that boards and executive leadership do not create the space for this to happen effectively. One interviewee said, “Staff incentives when engaging board members is to be very risk-averse and to ‘toe the party line,’ as the information they provide is vetted by executive management before being shared with the board. This leads to self-censorship and information filtering to align with what’s deemed acceptable.” This conformism exists at the board level too. As one interviewee noted, “rather than groupthink, board members need an intellectual curiosity and emotional strength that is disturbing and nonconformist.”

**Limited board bandwidth:** New corporate governance regulations have expanded board roles, responsibilities, and duties over recent years, and very little bandwidth remains to tackle issues that seem less immediate. One interviewee at a company undergoing significant structural changes emphasized “the challenge of surfacing sustainability issues when the very existence of the company is at stake.”

While 90 percent of respondents believe the CEO and C-Suite leadership has significant influence over the sustainability agenda, only 40 percent of sustainability teams were prioritizing engagement with the CEO’s office.

**Gaps in board competency:** Without adequate expertise, it is difficult for boards to engage executive leadership on the viability of long-term strategy and vision. In its Gaining Ground Report, Ceres analyzed the makeup of board committees with sustainability oversight responsibilities and found that of the 774 directors who sit on such committees, only 19 percent had discernible or specific sustainability expertise in environmental, social, or governance issues. One interviewee from a healthcare company stated that his board’s background and experience is “too narrowly defined” and that “despite strong business, scientific, and medical representation, the board lacks capabilities to manage societal corporate responsibility and sustainability issues.” The interviewee felt that the board would benefit from representatives with nontraditional backgrounds and expertise.

### Lack of relevant information:

Many of the people we interviewed for this report are responsible for regular board briefings on sustainability issues, and a common theme many of them noted was a lack of clarity about the type and volume of sustainability information that should reach the board: Too much, and credibility is lost by sharing unimportant information; too little, and the board is unable to conduct effective analysis. One interviewee expressed frustration that sustainability issues were treated as a “palate cleanser” by the board—an artificial sweetener of “good works” that made the board feel positive amid poor overall business performance, rather than a substantive review of sustainability strategy.

## Solutions and Innovations

Six innovations can be made to enhance the ability of boards to establish the resilient business strategies needed to create long-term value.

1

### Emphasize long-term value creation over sustainability oversight and performance scrutiny.

Interviews for this report suggested that although boards are increasingly effective at providing oversight on current practices, they fall short of providing insight on how long-term trends will affect the company's ability to achieve its strategy. As one company interviewee stated, "Today, the role of the board's corporate responsibility committee is to hold the company to account, rather than provide insight into long-term trends. This is a missed opportunity, and the Board should increase focus on ensuring the company remains fit for purpose in the longer term." An interviewee from an energy company made similar comments: "The company's vision is a sustainable energy future, and the Board needs to understand what this means. However, our Board doesn't have the right expertise. They ask questions about execution, but don't have insight into strategic priorities, such as two-degree scenario planning."

*"Today, the role of the board's corporate responsibility committee is to hold the company to account rather than provide insight into long-term trends. This is a missed opportunity and the Board should increase focus on ensuring the company remains fit for purpose in the longer term."*



5%

of companies placed sustainability oversight with the board at large

2

### Strengthen board stewardship of sustainability:

There is no "one-size fits all" to governance systems formalizing the sustainability stewardship responsibilities of the board. Sustainability issues can be integrated in the mandates of the board at large, of an existing board committee, or of a committee dedicated specifically to sustainability. A 2014 study of the S&P 500 found that 45 percent of companies did not demonstrate board oversight of sustainability issues, 33 percent integrated sustainability into a committee, 18 percent had a standalone sustainability committee, and 5 percent placed oversight with the board at large.<sup>5</sup>

3

**Align of incentives to sustainability performance:** Integrating sustainability performance in executive compensation can increase the engagement in sustainability issues. Glass Lewis found that 39 percent of companies in the United States, Canada, Australia, the UK, Norway, the Netherlands, Brazil, Spain, France, Switzerland, and Germany link executive compensation to sustainability factors, and that 81 percent of compensation schemes linking executive remuneration to sustainability performance did so through short-term incentive packages.



81%

of compensation schemes linking executive pay to sustainability performance did so did so through short-term incentive packages

4

**Recruit board members with expertise to understand the strategic implications of sustainability issues:**

Boards need sufficient expertise on material sustainability issues to effectively support, inform, and question executive leadership on its business strategy. This means recruiting board members with expertise relevant to sustainability.

While some have recommended the recruitment of “stakeholder directors” to represent stakeholder groups at the board level, we tend to favor recruiting board members with specific skills and expertise related to material issues. While inviting representatives of stakeholder groups on boards may seem like a panacea to ensure that boards consider the interests of company stakeholders, it will be difficult to ensure one or two individuals can represent the breadth and depth of stakeholder views, and it is easy to see how a “pro-stakeholder” representative could be a marginalized “party of one” at the board table. By contrast, directors with specific areas of expertise on relevant sustainability issues could provide significant added value to board discussions.

5

**Provide training on material sustainability issues:**

In parallel to building a board with relevant sustainability qualifications, companies can provide training to current board directors. The focus of the training will vary by industry. For example, an oil and gas company will want to provide training on climate mitigation and adaptation, while a healthcare company will focus on access to care. Training can also be augmented, as is the case in many companies, with site visits and briefings from external experts. As one interviewee emphasized, it is essential that the capacity of board members is enhanced by being exposed to different perspectives and voices: “Board members typically lack access to independent experts in relation to core business issues and their sustainability dimension. They are often exposed to a very small number of senior managers, and a more in-depth onboarding of people joining boards and board committees is needed.”

*“Rather than groupthink, board members need an intellectual curiosity and emotional strength that is disturbing and nonconformist.”*

6

**Create external advisory councils:**

External advisory councils can be an extremely valuable tool to bring in views from a diverse set of stakeholders, without being constrained by the formalities of company board structure. Successful advisory councils display certain important characteristics, such as being well resourced, engaging with the right senior company decision-makers, having the appetite to listen to divergent views and perspectives, and including technical experts—on climate change, technology, or geographies, for example—rather than just sustainability generalists. One interviewee described how their external sustainability advisory council “drives change by keeping the company fresh and letting it know when it is screwing up.” Another interviewee described the thoughtful use of their external sustainability advisory council to engage company leadership on the strategic business implications of sustainability challenges.

# Leadership and Management

The creation and implementation of resilient business strategies will require new types of executive leadership that support organizational leadership on sustainability issues.



## STOP

Positioning the sustainability department as the team that is designed mainly to respond to external pressure

Using impenetrable terminology

Trying to address all issues, all the time

## INNOVATE

Frame sustainability as an opportunity for growth and value creation

Reimagine the sustainability function as the creator of value, as futurists, as change agents, and as builders of coalitions

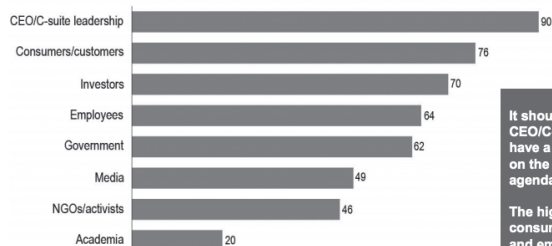
Set a sustainability tone from the top

We believe this executive leadership transformation needs to take place in three areas—diversity, leadership style, and innovation.

The creation and implementation of resilient business strategies will also require an overhaul of the sustainability function. We believe that the sustainability function should reimagine its future in four main ways: as the creator of value for companies, as futurists, as change agents, and as coalition-builders. This requires a more deliberate, structured, and thoughtful approach to working with other functions. But if it succeeds in these four areas, then sustainability functions will thrive as an engine of innovation at a time when innovation is sorely needed.

The importance of these transformations is indicated by the 2017 BSR/ GlobeScan annual state of sustainable business survey, which revealed the misalignment that exists between the external stakeholders who most influence companies' sustainability agenda and the internal departments that are most frequently engaged on sustainability issues.

**Influence on Sustainability Agenda at Company, 2017**  
(Percentage of All Respondents Identifying Groups as "Influential"\*)



\*Percentage of respondents who selected 5, 6 or 7 on a 7-point scale where 1 is "No influence at all" and 7 is "A very significant influence"

It should be expected that the CEO/C-Suite of the company will have a very high degree of influence on the company's sustainability agenda.

The high degree of influence of consumers/customers, investors and employees should be prompting specific engagement and communication activities targeted at these groups.

Though customers, investors, employees, and the government were seen as important stakeholders by over half of our survey respondents, there was much less appreciation of the need to engage directly with the internal functions that work with these stakeholders on a daily basis. While more than half of respondents agreed with the need to engage with procurement departments, less than 30 percent saw a need to work closely with functions such as strategy, product development, risk, or investor relations, and less than 10 percent saw any need to prioritize legal or finance teams. New types of executive leadership and a reimagined sustainability function will address these challenges and increase company capability to design and implement resilient business strategies.

## The Leadership Challenge

Providing meaningful leadership on sustainability issues and creating resilient business strategies requires that companies consider culture, which is the product of norms, values, structures, and incentives. Leaders in an organization have an outsize role to play in setting culture because they are responsible for socializing and integrating employees into the system. They communicate rules, norms, processes, and tasks. Employees will closely watch and absorb how leaders behave and the explicit and implicit signals they

We believe that sustainability leaders should reimagine their job functions in four key ways: as the creator of value for companies, as futurists, as change agents, and as coalition builders.

give, and they will modify their own activities and communications accordingly. This is the real meaning of “tone at the top.”

There is plenty of evidence that corporate leaders are struggling to adapt to today’s disruptive environment and have lost the trust of the public. The 2017 Edelman Trust Barometer found that the credibility of CEOs fell by 12 points to an all-time low of 37 percent, albeit remaining higher than trust in the government or the media.<sup>6</sup> A 2016 study by Nik Gowing and Chris Langdon found that executives are struggling to adapt to the pace of change in geopolitics, technology, and society, increasingly finding that “business as usual” approaches don’t cut it, but lacking the willingness or ability to embrace the less risk-averse approach needed to meet these challenges.<sup>7</sup>

We believe that companies need to reconsider the behavior and traits that are sought and rewarded in their senior executives and their approaches to organizational leadership on sustainability issues. We believe this leadership transformation needs to take place in three areas—diversity, leadership style, and innovation.

**Diversity:** There is a wealth of research suggesting that more diverse leadership teams are smarter and make better decisions.<sup>8</sup> A 2015 study by McKinsey found that the most diverse leadership teams worked in companies that had higher financial returns, were more innovative, and were less prone to groupthink. However, many private sector organizations still reward the “traditional” traits of competitiveness, risk-taking, and a controlling leadership style, and these biases are difficult to shift.

The ongoing dramatic shifts in the operating context require more diverse and ethical leadership teams that prioritize pro-social behavior over relentless self-interest and are open to collaborating with diverse external stakeholders to drive innovation. As one interviewee noted, “The need for collaboration is increasing over time. As you start reaching into a wider set of communities with localized contexts you need to get away from the uniform approaches that multinationals have developed, and partners

6 [www.edelman.com/news/2017-edelman-trust-barometer-reveals-global-implosion/](http://www.edelman.com/news/2017-edelman-trust-barometer-reveals-global-implosion/)

7 <http://thinkunthinkable.org/downloads/Thinking-The-Unthinkable-Report.pdf>

8 For example, Katherine W. Phillips, “How Diversity Makes Us Smarter,” *Scientific American*, October 1 2014, [www.scientificamerican.com/article/how-diversity-makes-us-smarter/](http://www.scientificamerican.com/article/how-diversity-makes-us-smarter/), and David Rock and Heidi Grant, “Why Diverse Teams Are Smarter,” *Harvard Business Review*, November 1, 2016, <https://hbr.org/2016/11/why-diverse-teams-are-smarter>

help close that gap.” The need for more diversity at the top of organizations is not just about the scale of the societal challenges we face, it is also about the increasingly visible connections and dependencies across value chains and countries. The successful companies of the future will reward collaboration over competition as the best route to operational and financial success.

**Leadership style:** Traditional concepts of leadership involve the accumulation and exercise of power by those at the top of the pyramid. An alternative concept—“servant leadership”—is based on the leader serving the interest of the organization and the people within it, rather than the other way around. The servant leader is defined by humility and perseverance and focuses on behaving ethically, creating value for the community, and building problem-solving skills and task knowledge. It creates psychological safety in teams, emphasizes talent development, and leads to a much greater dispersion of power within an organization.

We believe that more resilient business strategies will arise from servant leadership styles. While humans tend to seek more dominant leadership figures in times of uncertainty, organizations that pursue more distributed leadership models are much better positioned to respond to a world where political power is more multipolar, humans are more mobile and have rising expectations, and debate is less top down and more diffuse. The emergence of a new generation of leaders who are focused on broader concepts of value is essential for addressing sustainability challenges.

*“The need for collaboration is increasing over time. As you start reaching into a wider set of communities with localized contexts you need to get away from the uniform approaches that multinationals have developed, and partners help close that gap.”*

**Innovation and differentiation:** Compelling examples of organizational leadership in sustainability all have two things in common—the ability to differentiate the company’s efforts from that of its peer group and a conscious decision to do something that competitors are not. This is true of all transformational strategic efforts, but it has particularly important consequences for sustainability because it will help investors and the public push other companies to meet the same standards and “raise the floor” in terms of what is expected of business. Today, far too many sustainability management efforts begin with benchmarking what other companies are doing, which drives convergence to the median and limits potential for change.





## Sustainability Function as a Value Creator

When sustainability teams were first created by companies, they often had a reactive function—responding to social controversies and concerns raised by external stakeholders—and tended to focus on tangible risk mitigation, such as reducing environmental impacts or addressing labor violations in supply chains. These remain important objectives, but they alone do not constitute a viable future for the sustainability function.

We believe the long-term impact and viability of sustainability teams resides instead in identifying opportunities to create business value. One interviewee summarized this view well, saying: “We need to focus primarily on how sustainability supports growth—how does solving major sustainability challenges create new revenue opportunities for the company? This means integrating the global Sustainable Development Goals into business planning, and ensuring that sustainability teams are focused on business development.”

Many subjects that have traditionally been considered sustainability issues can be used to generate revenue, reach nontraditional markets, and innovate. One obvious example is climate change, where financial institutions are creating offerings—such as green bonds and new insurance products—premised on the notion that climate change is having immediate impacts. Pharmaceu-

*“We need to focus primarily on how sustainability supports growth—how does solving major sustainability challenges create new revenue opportunities for the company? This means integrating the global Sustainable Development Goals into business planning, and ensuring that sustainability teams are focused on business development.”*

tical, retail, and food companies have embraced consumer interest in health and wellness as a growing market. Consumer products for people in the fast-growing cities of the Global South often require new business models to meet the reality of people’s lives in those locations. The focus on the circular economy is giving rise to innovative business models that deliver value while driving down the need for natural resources.

The sustainability function will deliver greater value by playing a catalytic role in generating such opportunities. The good news is that the ability to deliver on this vision relies upon many of the core skills developed by sustainability leaders over the past two decades: engagement with people and institutions not traditionally addressed by large companies; an orientation toward change; and attention to underserved populations, all of which can be strong drivers of innovation. The change in mindset requires sustainability leaders to explore the creation of market opportunities, not only the adverse social impact of market failures.

## Sustainability Leaders as Futurists

Focusing on value creation also means that sustainability teams need to re-orient their perspective more toward future opportunities and aspirations. However, while sustainability functions can identify long-term sustainability factors that drive risk and generate value, they will also need to engage with the uncertainty, complexity, and volatility of how consumers, policy makers, and other key stakeholders respond to these long-term sustainability factors. To achieve this, sustainability professionals can facilitate cross-functional approaches that bring together insights from strategy, research and development, government affairs, and other areas to achieve a shared understanding of how addressing sustainability issues can create value over the long term.

As stewards of the long-term perspective within companies, sustainability professionals are wellpositioned to drive more future-oriented strategic foresight into the business and cultivate new perspectives.



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## Value Creators

Identify opportunities to create business value and play a catalytic role in generating such opportunities.

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## Change Agents

Enhance and leverage organizational change and influence skills.

# New Job Descriptions for Sustainability Professionals

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## Coalition-Builders

Seek traction in the areas where the company has the most advanced and innovative thinking and adopt a more structured way of thinking about sustainability's place in the organization.

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## Futurists

Identify long-term sustainability factors that drive risk and generate value; engage with the uncertainty, complexity, and volatility of how consumers, policy makers, and other key stakeholders respond to these long-term sustainability factors.

*“The scope of the sustainability team is evolving. Sustainability people are translating what is happening in society to the company and vice versa. I don’t see anyone else in the company playing this role. For this, brand new competencies are needed.”*

## Sustainability Leaders as Change Agents

The increased investment in sustainability at companies over the past 25 years has resulted in sustainability becoming more professionalized and defined. However, the competencies that companies seek for their sustainability teams vary by industry—for example, environmental science might be desirable for a chemical manufacturer, while a consumer-focused company might seek to hire marketing professionals—and little thought has been given to the skills needed by sustainability professionals to create value for their employers.

We believe that change management and influence skills are a core sustainability competency across all industries. One interviewee noted, “Organizational change and change management is under-regarded in the field of sustainability. Most of the sustainability team’s job is more about organizational change than subject matter expertise. To engage the executive committee, we tailor language and shape

messages for each. I also use external voices and pressures to move lines.” A practitioner at a different company said, “The scope of the sustainability team is evolving. Sustainability people are translating what is happening in society to the company and vice versa. I don’t see anyone else in the company playing this role. For this, brand new competencies are needed.”

We also believe that different types of change management techniques should be deployed at senior- and middle-management levels. Senior executives are often very receptive to the inspiration, purpose, and reputational value that sustainability can provide, and they have a longer-term, more strategic, and existential perspective on the organization. However, without meaningful thought to how sustainability commitments get translated into what line managers reward and prioritize, it is difficult to embed this commitment into the organization. As one experienced practitioner explained, “Some of the sustainability arguments that would work for the CEO are less likely to carry water with a mid-level executive. Part of this is a consequence of risk aversion—but these individuals also have more near-term goals and are on the hook to deliver. Many sustainability programs fail because operating results are the hammer point where the trade-off between now and the future is most acute.”

Given the degree of consensus that organizational change and influence skills are a core element of success for the sustainability function, the next step toward defining the field would be to expand and extend this capability among sustainability professionals.

## Sustainability Function as Coalition-Builders

There are many opportunities for sustainability teams to increase collaboration with key internal departments on a sustainability agenda, and it makes sense to seek traction in the areas where the company has the most advanced and innovative thinking. These will vary from company to company. As one interviewee noted, “All functions have a role to play, from finance to marketing, but making sustainability succeed in the organization means understanding that organization’s specific dynamics and character.”

For companies in engineering, natural resources, and manufacturing, long experience and rigor in risk management, oversight, and compliance mean that the organization may be better able to incorporate the long-term risks presented by sustainability, but struggle to implement opportunities. By contrast, for companies in consumer sectors, product development and marketing may provide the strongest lever for progress. This contrast suggests that sustainability practitioners need to move on from a “whatever works” mindset and adopt a more structured way of thinking about their place in the organization.

*“Organizational change and change management is under-regarded in the field of sustainability. Most of the sustainability team’s job is more about organizational change than subject matter expertise.”*

We believe that starting with an organizational materiality principle make sense. This involves using the findings from a materiality assessment to design an internal engagement program focused on departments with the most potential influence and expertise for the sustainability agenda. In this way, teams can target their efforts where they are best placed to gain traction, and build visibility and support in the process.

Sustainability practitioners need to move on from a “whatever works” mindset and adopt a more structured way of thinking about their place in the organization.

# Enable

Catalyze systemic progress by building mutually beneficial relationships and collaborating with stakeholders and partners across the entire value chain.



## **ENGAGEMENT AND COLLABORATION**

Mutually beneficial relationships exist with stakeholders and systemic challenges are addressed through collaboration with others.



## **REPORTING AND DISCLOSURE**

Company disclosures provide decision-useful sustainability information for shareholders and other stakeholders.

# Engagement and Collaboration

Stakeholder engagement needs an overhaul. The practice of stakeholder engagement emerged to help companies build greater trust with societal groups that might negatively affect the delivery and success of their business strategies in a material way.



## STOP

Viewing stakeholder engagement primarily as a means to improve company reputation

Restricting external stakeholder engagement to large organizations and “usual suspects”

Treating stakeholder engagement as a one-time activity

## INNOVATE

Take a systems-thinking approach to capture more diverse and emergent voices and understand emerging issues, conversations, and networks

Develop stakeholder relationships that support company strategy

Use stakeholder relationships as a source of innovation

All too often stakeholder engagement remains a limited reputational risk exercise that misses opportunities to support resilient business strategy.

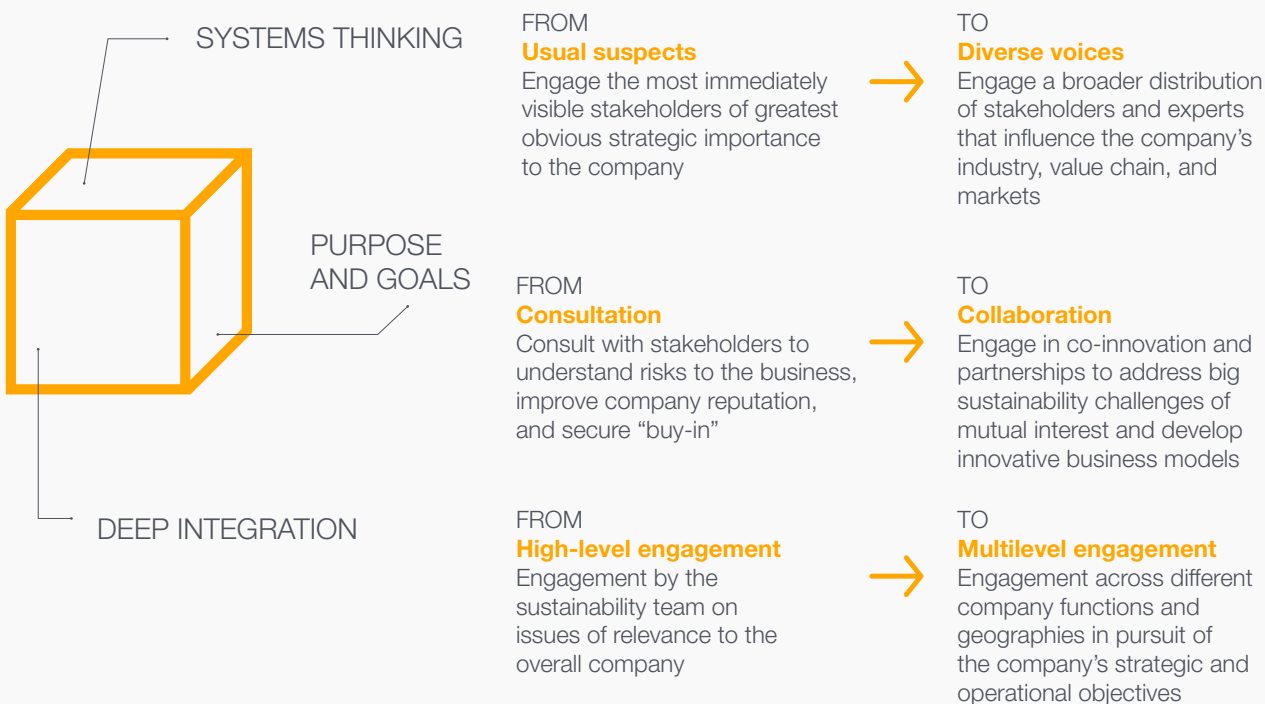
We believe it is time for an approach where stakeholder engagement practices are fully equipped to support all aspects of company strategy and operations and enable meaningful interaction with a rapidly changing external environment. We believe that innovation in stakeholder engagement offers the potential to integrate new ideas into business strategy, enable the business opportunities of the future, and support the development of more inclusive societies.

Implementing this new approach will see stakeholder engagement become a critical component of corporate value and the creation of resilient business strategies, rather than a tool to manage reputational risk and avoid crises. This will lead to fundamentally new thinking about how to structure organizations, drive innovation, and measure value.

We believe that effective stakeholder engagement will require innovation in three main areas: using systems-based approaches that capture more diverse voices; altering the purpose of engagement from consultation to collaboration; and reforming internal company engagement mechanisms to ensure that stakeholder perspectives support business strategy.<sup>9</sup>

<sup>9</sup> This model was first published in “The Future of Stakeholder Engagement: Transformative Engagement for Inclusive Business,” BSR, 2016, [https://www.bsr.org/reports/BSR\\_Future\\_of\\_Stakeholder\\_Engagement\\_Report.pdf](https://www.bsr.org/reports/BSR_Future_of_Stakeholder_Engagement_Report.pdf).

## Three Dimensions of Innovation in Stakeholder Engagement



### Systems Thinking

Companies that wish to anticipate changes in the business environment and ensure that they are wellpositioned to succeed can take a systems approach to stakeholder engagement. Deploying systems thinking requires looking at all actors, including commercial actors (such as suppliers, business partners, and customers) and noncommercial actors (such as governments, communities, and users), and considering their relationships with each other.

This means moving beyond the dominant model of conducting focused and time-bound consultations with the companies' most direct and visible stakeholders and acknowledging that in today's disrupted environment, civil society organizations alone do not provide full insight into stakeholder needs and expectations.

Systems thinking involves purposefully analyzing the broader environment in which the company operates, with an understanding that the company is just one actor in a wider social system that is linked to, and dependent on, external actors. This thinking can enable companies to look beyond short-term solutions and toward root causes, adapt to a more complex and hyper-connected environment, and collaborate for

*"We live in a world of peer-to-peer activity, of emergent voices, and of pop-up coalitions. To understand how the world around us will impact our business in the future, it is essential that we move beyond the usual suspects we already know and discover new perspectives."*

large-scale change. Given substantive progress in the availability of big data and artificial intelligence tools, understanding and mapping a wider system of relationships is now achievable, enabling companies to map emerging conversations and networks and act on their findings.

A systems-thinking approach means gathering diverse and sometimes conflicting perspectives from a wider range of stakeholders who influence the sector and company through their actions, opinions, and decisions. As one interviewee said, “I’m a big believer in the age of unlikely alliances and talking to people we don’t usually talk to. There is a herd mentality within organizations, and it’s really important to be exposed to people who disagree with you.” Another interviewee noted, “We live in a world of peer-to-peer activity, of emergent voices, and of pop-up coalitions. To understand how the world around us will impact our business in the future, it is essential that we move beyond the usual suspects we already know and discover new perspectives.”

At a practical level, companies can use systems thinking by conducting network analysis to understand a broader and more diverse range of groups and identify key connections, influencers,

partners, and adversaries. This can enable much deeper insight into emerging strategic, political, and economic risks and opportunities and enable the company to more easily engage with a broader range of issues and organizations. Rather than thinking about the immediate impacts of a company, project, or operation, it enables a forward-looking consideration of how different forces and interests might intersect and evolve over time. It can also help companies move out of a cycle of responding to concerns from activists and instead proactively shape their agenda with engagement on the issues of most material importance. By viewing engagement as both broader and deeper than messaging and communication, companies are in a far better position to shape the public narrative and share their concerns and challenges.

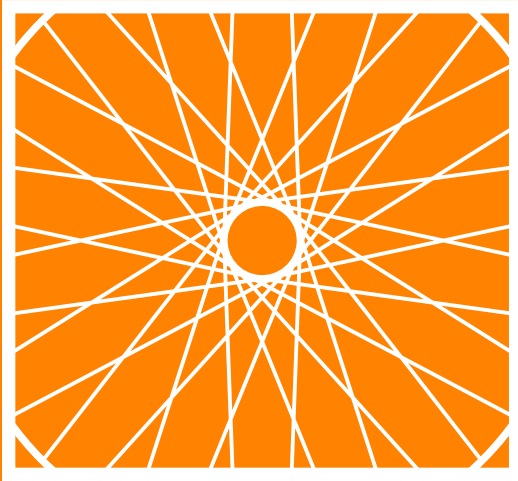
To take one example, mining companies are assembling independent coalitions of government and civil society actors to make decisions on social investments. This can be an effective way to involve all relevant actors with a view toward understanding the relationships between them, and not only with the company, resulting in less community conflict and more impact.

## Purpose and Goals of Stakeholder Engagement

Over recent years the sophistication of stakeholder engagement by companies has grown. Robust frameworks are increasingly deployed to identify and prioritize groups and individuals, examine their relevance, expertise, and influence, and assess the degree to which they take a combative or collaborative approach to working with business.<sup>10</sup>

However, it is striking how often stakeholder engagement is undertaken by companies because they have a sense that they should, rather than with a clear goal in mind—or to manage reputation, rather than to create value. Too often companies still rely on approaches that have been, to a degree, disintermediated by new technologies and societal norms. Stakeholder

We believe that innovation in stakeholder engagement offers the potential to integrate new ideas into business strategy, enable the business opportunities of the future, and support the development of more inclusive societies.



## Spoke-and-Wheel

This approach, which puts the company at the center as the “spoke,” can be characterized by primarily focused and time-bound consultations with the companies’ most direct and visible stakeholders, who are seen and engaged through the lens of their relationship to the company, as opposed to in relation to the broader ecosystem.



## Systems Thinking

Systems thinking involves purposefully analyzing the broader environment in which the company operates, with an understanding that the company is just one actor in a wider social system that is linked to, and dependent on, external actors.



engagement has not gone digital to the same degree the rest of business has.

We believe that companies would benefit from infusing their stakeholder engagement activities with much clearer direction. This might include:

**Collaboration for systemic change:** We have witnessed an increase in the number and scale of initiatives designed to address systemic societal challenges as diverse as sustainable palm oil, freedom of expression, and climate change. These collaborations build long-lasting relationships with trusted partners and often result in the most durable approaches to global challenges. We expect their impact and prevalence to grow. As one interviewee bluntly told us, “It’s the system, stupid.”

While collaboration is the only option for companies that wish to address challenges they cannot solve alone, collaboration is difficult, time consuming, and resource intensive. Many collaborations fail because organizations either are unable to commit the time of senior decision-makers or because the issue is not compelling enough to keep all stakeholders at the table. While the goals of collaborations will vary, success factors, in our experience, include a clearly defined purpose, working with the right stakeholders in the right roles, and governance and accountability.

**Product and service development:** When companies integrate the needs of traditionally disadvantaged or excluded groups in society into the process for designing products and services, they can also generate business benefits, such as market access, innovation, and workforce engagement. Similarly, efforts by governments, civil society organizations, and companies to advance the SDGs may provide massive new revenue growth opportunities for business. Companies would be well-served by including key stakeholders and beneficiaries when exploring how new product, service, and technology innovations can help achieve the SDGs. This kind of thinking also can transform stakeholder engagement from a reputational risk exercise to a tool for business value.

As one interviewee explained, “We have radical inclusivity in mind as we develop our company’s strategy and use radical inclusivity to be ahead of our time. We can build products and business models that truly service the poorest of the poor and work successfully in low- and middle-income countries.” However, there is no reason why such inclusive approaches should be limited to consumer-facing companies in emerging markets. Inclusive product and service development processes can be just as valuable in business-to-business settings in developed markets as well. One interviewee in a business-to-business company said, “We need to harness stakeholder engagement for value creation, and make a strategic link between stakeholder engagement and market-based needs. We provide solutions, so we need to ask, what is it going to take to solve their problem?”

**Identify emerging issues:** We believe a core role of the sustainability function is to anticipate emerging issues (sometimes called “weak signals”) and to consider the long-term future and business model of the company. Identifying stakeholders who are developing expertise and impact in new and emerging fields is essential and can help the company drive innovation and reach new markets. Moreover, understanding the relationships that stakeholders have with each other can provide the ability to anticipate emerging risks so that the company is not caught out and driven into crisis-response mode. This requires that companies engage beyond the usual suspects and deploy approaches based on futures thinking. By deliberately seeking diverse perspectives and emerging ideas, companies can ensure they don’t fall prey to organizational groupthink, conformity, and caution. These ideas can challenge company leadership and enable innovation. As new technologies emerge to map conversations, networks, and ideas, gathering these insights is becoming more achievable, but it still requires effort and commitment from the organization.

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We believe that stakeholder engagement should not be considered the sole preserve of the sustainability function.

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## Deep Integration

We believe that stakeholder engagement should not be considered the sole preserve of the sustainability function. Through consideration of the sustainability priorities and needs of different functions, companies can enable innovative thinking across the company. This involves a more deliberate approach to stakeholder engagement deeper inside the business, and ensuring that a wider range of company leaders and functions are directly involved.

As one interviewee explained, “We have to be looking at signals in the external world on a long-term basis. But to achieve this, we need to build mechanisms inside our company to internalize external signals.” Another interviewee noted, “Planning for external signals has to be something that people live on an ongoing basis, and this can be accomplished by empowering people to take ideas from the outside and bring them to management.”

For example, a company that thinks holistically about stakeholder engagement will identify the aspects of the company’s work that most affect the external environment, and then assign responsibilities to teams across the company to ensure that partnership and collaboration with external organizations is sought and internalized into business activities. This can be particularly important in market entry or at the start of new projects.

There is also a need for an internal engagement plan for many sustainability initiatives. As discussed above, sustainability teams can act as internal collaboration builders and drive change across the organization. This requires identifying the most important departments and individuals that oversee a company’s most material sustainability issues and ensuring that they have incorporated sustainability considerations. Sustainability teams can act as drivers of innovation in these teams by raising awareness of long-term considerations and emerging risks and opportunities.

*“Planning for external signals has to be something that people live on an ongoing basis, and this can be accomplished by empowering people to take ideas from the outside and bring them to management.”*

# Reporting and Disclosure

Sustainability reporting has been disrupted in two important ways over the past decade, and these changes are only likely to accelerate further over the coming decade.



**Breadth and Format:** An abundance of disruptive technologies and new communications platforms has massively increased expectations for what, how, and when companies communicate.

**Depth:** The strengthening of expertise on a wide range of sustainability topics—from climate change and human rights to privacy and labor standards—has significantly increased expectations for the level of detail and sophistication provided by companies in their communications.

## STOP

Using single long-form sustainability report format

Confusing “reporting” with “communications”

Trying to be all things to all people

## INNOVATE

Target different reports at different audiences

Emphasize value creation

Experiment with how to apply different reporting standards simultaneously

Connect “numbers” and “narrative” much more closely

These disruptions are especially challenging for sustainability reporting because they run counter to the prevailing view that companies also need to focus on the sustainability issues that matter the most and reduce the length of sustainability reports.

We believe that sustainability reporting<sup>11</sup> should not happen for its own sake, but have a clear and compelling purpose. BSR’s vision for sustainability reporting is the achievement of two important outcomes: informed decision-making by stakeholders (including shareholders) and improved sustainability performance at companies. However, this vision can only be maintained in today’s transformed communications context if the predominant model for sustainability reporting undergoes a significant overhaul.

Fortunately, the solution to this overhaul is within reach. We believe that companies can fulfill the purpose of sustainability reporting by deploying a model based on two simple ideas: a triangular reporting framework that targets different types of information at different report users, and a much closer connection between “numbers” and “narrative.”<sup>12</sup>

Reporting Purpose	Reporting Solution
Enable informed decision-making	Apply the “BSR Reporting Triangle”
Improve sustainability performance at companies	Combine “Key Performance Indicators” with “Key Performance Narratives”

11 By “sustainability reporting” we mean the disclosure of sustainability governance, management, or performance information, whether in the form of sustainability reports or other formats, such as websites, issue-specific reports, or integrated into financial reports.

12 This model was first published in “Triangles, Numbers, and Narratives: A Proposal for the Future of Sustainability Reporting,” BSR, 2016, [www.bsr.org/reports/BSR\\_Future\\_of\\_Reporting\\_2016.pdf](http://www.bsr.org/reports/BSR_Future_of_Reporting_2016.pdf).

## Enable Informed Decision-Making

There is a range of audiences for sustainability information. Investors want information that is material for investment decisions, but other important stakeholders, such as civil society organizations, employees, or policy makers, may have different but equally valid priorities and information needs.

There is also a range of different perspectives on the level of detail required from companies. For some audiences—those that want an overall snapshot and understand key performance drivers—brevity is essential. But for other audiences—those that are expert in a specific field where specialist information is needed—the details are what make the report worthwhile.

The BSR “reporting triangle” is an attempt to reconcile these different needs. The higher up the triangle, the less targeted the audience and the less detailed the information; the lower down the triangle, the more targeted the audience and the

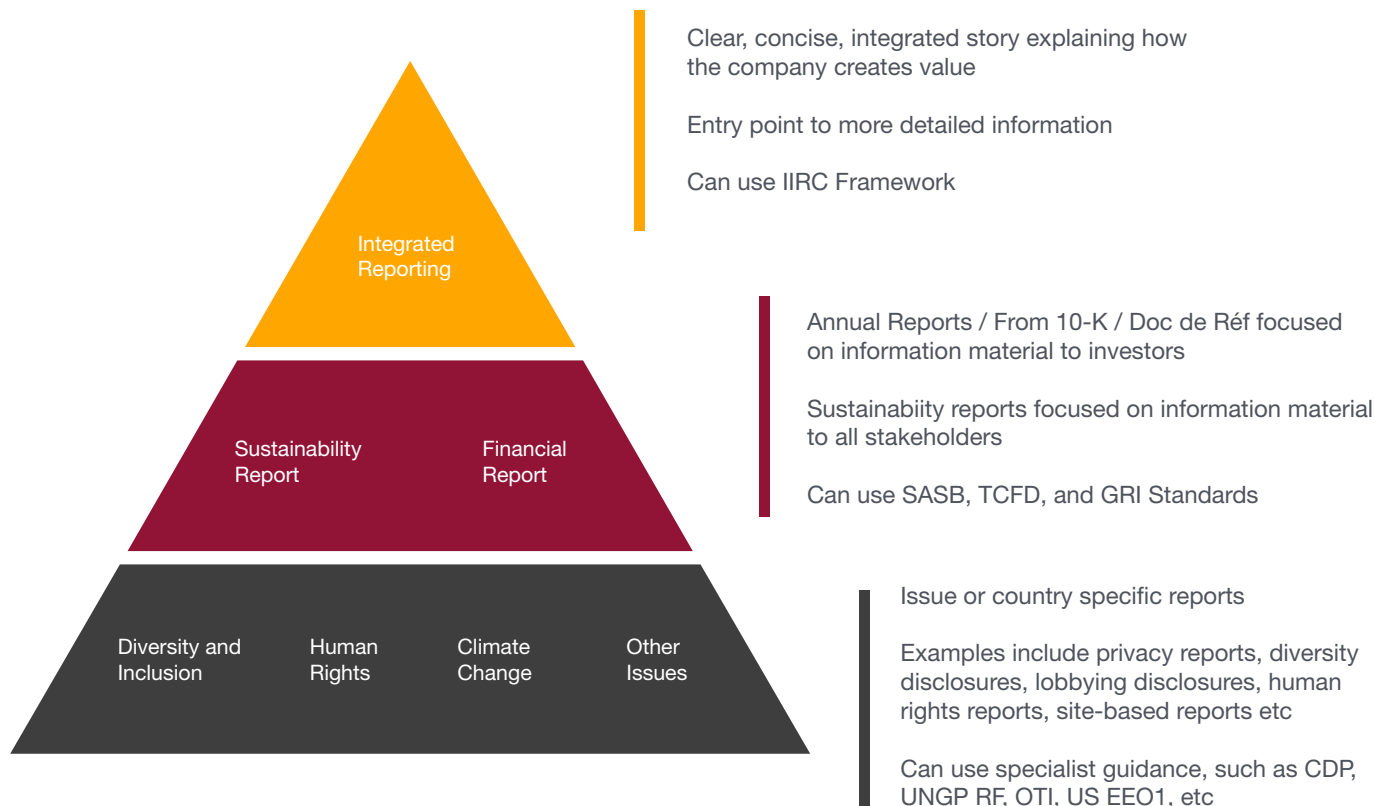
more detailed the information.

The top of the triangle should contain a clear, concise, and integrated story that describes the company’s resilient business strategy and explains how the company creates long-term value for both shareholders and society at large. Content at the top of the triangle should provide an entry point to more detailed information available elsewhere.

The middle of the triangle should contain more detailed information that is targeted at the needs of investors and other stakeholders, such as civil society organizations and employees. For investors, documents such as the Form 10-K (in the United States) and the Doc de Réf (in France) are the key channels for disclosing financial performance and the information necessary to make informed investment decisions. This should include sustainability issues used by investors for decision-making.

For other stakeholders (including investors with objectives beyond financial return), the sustainability report is a key channel for

### The BSR Reporting Triangle



We believe that companies can fulfill the purpose of sustainability reporting by deploying a model based on two simple ideas: a triangular reporting framework that targets different types of information at different report users and a much closer connection between “numbers” and “narrative.”

disclosing sustainability performance. This should include sustainability issues used by a range of stakeholders for decision-making.

The bottom of the triangle should contain issue-specific or geography-specific reports that go into the immense detail required by issue experts, but would be impractical to include higher up in the triangle. Regular topics that are already reported this way include law enforcement relationship reports published by internet and telecommunications companies, supply chain reports published by consumer brands, human rights reports published by food, agriculture, and extractives companies, and political lobbying disclosures made by many U.S. companies.

There is evidence that companies are naturally beginning to move into this triangular direction. One interviewee spoke for many when he said, “Our audiences are totally separate, we think about them separately, and we report to them separately.” That view was confirmed by another interviewee, who noted, “Shareholders and stakeholders each need their own reports. For the foreseeable future, you’ll have an annual report and a sustainability report.” Microsoft’s CSR reports hub<sup>13</sup> is an excellent example of

implementing the bottom of the triangle with many detailed reports on different topics.

A common complaint in the sustainability reporting field relates to the proliferation of reporting frameworks and standards for each of these reports. One interviewee said, “It is like the wild west out there in terms of what is reported we would really like to see the reporting standards organizations get together and streamline.” However, while the existence of multiple reporting frameworks can appear confusing and conflicting, each has its own purpose and rationale, and the triangle is designed to illustrate how they relate to one another.



#### **International Integrated Reporting Council (IIRC):**

Provides a framework for companies to explain how they are creating value and resides at the top of the triangle.

#### **Sustainability Accounting Standards Board (SASB):**

Provides standards to help companies disclose information to investors in mandatory filings, and resides in the middle of the triangle. Similarly, the FSB Task Force on Climate-related Financial Disclosures (TCFD) provides a helpful framework for investor-relevant climate disclosures.

**Global Reporting Initiative (GRI):** Provides standards to help companies communicate their sustainability impacts to a range of stakeholders and resides in the middle of the triangle.

At the bottom of the triangle sits a range of reporting frameworks designed to help companies publish detailed reports on specific topics, such as human rights, privacy, climate change, diversity, and water.<sup>14</sup>

BSR is encouraged by increasing signs that the various reporting framework and standards-setting organizations are emphasizing their complementarity. As Tim Mohin of the GRI and Jean Rogers of SASB described in a joint statement earlier this year, “Rather than being in competition, GRI and SASB are designed to fulfill different purposes for different audiences. For companies, it’s about choosing the right tool for the job.”<sup>15</sup> We agree, and look forward to companies using both the GRI and SASB standards in combination.

This triangular model, and the concept that the various reporting framework and standards setting organizations complement one another, comes with one important caveat. Many sustainability practitioners have shared with BSR the need for much greater harmonization between the various reporting frameworks. For example, an indicator on water withdrawal or renewable energy use should have consistent definitions across all frameworks. We are some distance from this ideal today, and improvement will require various reporting framework and standards-setting bodies undertaking further work to harmonize guidance, definitions, and compilation methodologies.

## Improve Sustainability Performance

The second element of our model is a much closer relationship between numbers and narrative in reporting, based on the appreciation that numbers alone can never provide sufficient insight to inform decision-making, but require an accompanying narrative. We often hear about the importance of identifying a small number of key performance indicators (KPIs) to distinguish

*“Rather than being in competition, GRI and SASB are designed to fulfill different purposes for different audiences. For companies, it’s about choosing the right tool for the job.”*

the signal from the noise; our proposition is that these KPIs are only effective at providing the all-important signal if they are accompanied by key performance narratives (KPNs).

This point—that numbers require an accompanying narrative—is a statement of the obvious. However, in our view this statement of the obvious also represents one of the greatest weaknesses in sustainability reporting today, and provides a key to improving the relationship between sustainability reporting and improved sustainability performance. As one interviewee powerfully concluded, “When reviewing sustainability performance with the CEO and senior executives on a quarterly basis, the moment of transformation was when we started to use KPIs to forecast the future, not scrutinize the past. This led to big changes, such as redesigning processes and goals in anticipation of new product launches.”

Too often in today’s sustainability reports, quantitative performance data lacks an accompanying explanation describing why the number is going up or down, whether that is a good thing or a bad thing, and what can be expected in the future. Rather, it is important that narrative complements the number by providing additional insight.

**Future direction matters:** Numbers in a sustainability report moving up or down or being higher or lower isn’t necessarily good or bad.

<sup>14</sup> Examples include the UN Guiding Principles Reporting Framework (human rights), CDP (climate change and water), Open Technology Institute (privacy), and EEO1 (diversity).  
<sup>15</sup> <https://www.sasb.org/blog-sasb-gri-pen-joint-op-ed-sustainability-reporting-synchronicity/>

Narrative is needed to describe what is really happening in the number, the likely direction in the future, and a consideration of the various factors influencing indicator direction.

**Context matters:** Company performance information needs to be placed in its broader strategic, operational, and sustainability context to be properly understood by the reader. For example, the interpretation of water use data will be very different for a company operating in water-stressed regions.

**Business models vary:** No two companies are the same, so quantitative KPIs are never a like-for-like comparison. A narrative would provide a consideration of different business models, organizational boundaries, or sustainability context factors that impact the interpretation and comparability of the KPI. For example, the interpretation of GHG emissions data will be very different for a company undertaking its own manufacturing compared to one that has outsourced.

We believe that the practical implication of this is simple and brilliant in equal measure. It is simple because all companies need to do is provide additional narrative (KPNs) directly alongside the numbers (KPIs) they are already reporting. It is brilliant because it is precisely this link that will enable a much more effective integration of sustainability into company decision-making and performance review.

*“When reviewing sustainability performance with the CEO and senior executives on a quarterly basis, the moment of transformation was when we started to use KPIs to forecast the future, not scrutinize the past. This led to big changes, such as redesigning processes and goals in anticipation of new product launches.”*

## How Can Companies Present Key Performance Narratives?

Category	Indicator	2014	2015	2016	Chart	Narrative
<b>Employees</b>	Total employees				▶	▶
	Gender diversity – female employees				▶	▶
	Leadership roles				▶	▶
	Technical roles				▶	▶
	Non-Technical roles				▶	▶
<b>Environment</b>	Total GHG Emissions				▶	▶
	Scope 1				▶	▶
	Scope 2				▶	▶
	Scope 3				▶	▶
	Total energy use				▶	▶
	Renewable sources				▶	▶
	Total water use				▶	▶
	High risk areas				▶	▶
	Extremely high risk areas				▶	▶
	Total waste				▶	▶
Hazardous waste				▶	▶	
<b>Another Category</b>	Landfill diversion				▶	▶
	Another indicator				▶	▶
	Relevant segment				▶	▶
	Another indicator				▶	▶

**Key Performance Narrative**

- » Various business model, organizational boundary, or sustainability context factors that impact the interpretation and comparability of the KPI.
- » The strategic, operational, and performance context of the company.
- » Explanation of the indicator direction to date, and likely direction in the future, including a consideration of the various factors influencing indicator direction.





## Reporting with a Purpose

Many express skepticism about the value of reporting, arguing that time spent on reporting is time not spent on strategy or performance. As one interviewee complained, “Sustainability teams need to be story-makers, not storytellers, yet too often reporting reduces bandwidth for half the year and prevents us from doing our job.”

Worse still, the emphasis on reporting can result in sustainability being cast as a communications issue, not as a strategic priority. It becomes all too easy for the sustainability team to prioritize responding to external requests at the expense of proactively informing the strategic direction of the company.

Others are much more positive, making the argument that the discipline of publishing information in the public domain creates a powerful incentive for performance improvement and drives focus. This is especially true in the context of communications with investors. As one interviewee noted, “Integrating sustainability information into the Form 10-K has forced us to grapple with the question of where sustainability is in terms of business strategy.”

We believe there are elements of truth in both cases, but that the path forward is remarkably simple.

We believe in a world where companies create resilient business strategies and publish sustainability information that enhances decision-making by shareholders and other stakeholders. We do not believe that both outcomes should be pursued by the same team. Just as the company strategy function doesn’t write the Form 10-K, so the company sustainability function shouldn’t write the sustainability report.

We believe that companies should seek synergy between resilient business strategy and reporting.

*“Sustainability teams need to be story-makers, not storytellers, yet too often reporting reduces bandwidth for half the year and prevents us from doing our job.”*

Strategy comes first, and the reporting should communicate progress toward implementing strategy, but reporting also provides the basis for much higher-quality dialogue with stakeholders and further refinement of the strategy. Reporting is an essential source of internal and external performance accountability.

Ultimately, we believe in re-establishing a focus on the two main reasons for sustainability reporting: providing sustainability information upon which stakeholders (including shareholders) can make informed decisions, and improving sustainability performance at companies.

This point was best summed up by a civil society interviewee reflecting on how NGOs have used reporting to incentivize action at companies: “In doing this, we don’t want companies to think there is a checklist of exactly what is needed to ‘get stakeholders off their back.’ We don’t want them to report because they feel they have to. We want companies to take a holistic view of sustainability and design it in from the start. We want disclosure to inform our work, but we don’t want this to become a paper-pushing exercise to the detriment of actually doing things.”

# Influence

Promote policy frameworks that strengthen the relationship between commercial success and the achievement of a just and sustainable world.



## **COMPANY LAW AND REGULATION**

Support for regulatory frameworks and rules for due diligence and disclosure that drive sustainable business.



## **ADVOCATING FOR SUSTAINABLE BUSINESS**

Speaking out in favor of policies that enable a just and sustainable world and promoting the interests of sustainable business, especially during times of political uncertainty, economic nationalism, and protectionism.

# Company Law and Regulation

We believe that companies can be bolder in developing a point of view on the company law and regulatory frameworks that are needed to achieve sustainability and be more proactive in advocating for that point of view.



## STOP

Misalignment between business strategy, sustainability, and government affairs agendas

Business from focusing policy engagement on traditional issues of tax, trade, and regulation

## INNOVATE

Reach a point of view on the legal instruments that will support sustainable business in the long term

Influence future legal frameworks through leadership by example

This report so far has focused on actions companies can take to improve their strategy, governance, and performance. However, it is unlikely that this will achieve its potential without legal frameworks that create incentives for all companies to take the steps we have outlined here. Without reforms on items such as due diligence and disclosure requirements, there are limits on how far companies can go in creating a just and sustainable world.

In this chapter, we set out a BSR point of view on what these company law frameworks should be. This chapter is focused primarily on legal frameworks as they relate to the governance of sustainability inside companies—such as sustainability reporting and supply chain management—and not legal frameworks on performance regarding specific issues, such as climate change, environmental resources, or human rights. These are covered in the next chapter.

There is one supremely important item of context that is relevant for both chapters. Many of the world's most significant sustainability challenges are global (such as climate change) or cross-border (such as the sourcing of raw materials). However, the world's most powerful governance systems are often national or regional, and as a result often ill-suited to addressing major sustainability challenges. It is beyond the scope of this paper to address this contradiction, and we acknowledge up front that much of what follows suffers from this inherent limitation. That said, we are heartened by the progress that we believe can be made by adopting the proposals that follow.

We believe that companies can be bolder in developing a point of view on the company law and regulatory frameworks that are needed to achieve sustainability and be more proactive in advocating for that point of view.

## Company Law Today

At the time of writing, we are seeing conflicting trends on company law as it relates to sustainable business, with wildly different approaches across regions and even within countries at city, state, and national levels.

In some jurisdictions, new legal requirements are being introduced. The U.K. Modern Slavery Act,<sup>16</sup> the EU Non-Financial Disclosure Directive,<sup>17</sup> and the French Duty of Vigilance Law<sup>18</sup> all increase the sustainability management expectations of business. The “Carrots and Sticks” database found almost 400 sustainability reporting instruments in 64 countries in 2016, up from 180 instruments in 44 countries in 2013, with the growth of reporting instruments in Europe, Asia-Pacific, and Latin America being particularly strong.<sup>19</sup> Recently introduced environmental reporting instruments include efforts to improve company disclosure of greenhouse gas emissions in Spain, Mexico, and the U.K., while in France, listed companies are required to disclose risks related to the effects of climate change.

In other jurisdictions, most notably the United States, the opposite trend is currently in play.

Moves to repeal all or parts of the Dodd-Frank Act would eliminate requirements to disclose payments to host governments by extractives companies listed with the U.S. Securities and Exchange Commission (SEC), as well as obligations to report on conflict minerals due diligence. Avenues to improve the quality of company transparency on sustainability issues—such as the SEC’s consultation in 2016 on enhanced sustainability disclosures in Form 10-K reports—are almost certainly closed off for the time being.

In this context, we believe that companies would be well served by reaching a stronger point of view on the types of laws, regulations, and other legal instruments that are most likely to support effective due diligence and disclosure regarding sustainability issues, and integrate this point of view into public policy plans and strategies. This point of view should cover soft law (instruments without binding legal force), hard law (binding legal instruments), and international law (relations between states and nations, which may become hard or soft law).

## Company Law as It Should Be

In this section, we address a few key questions relating to company law on due diligence and disclosure as we think it should be:

- **What is the “right” framework for company law on due diligence and disclosure?**
- **What legal frameworks for sustainable business are sound, scalable, and conceptually robust?**
- **What norms, behaviors, and principles could usefully be built into legal frameworks?**
- **What is the right balance between soft law, hard law, and international law?**
- **What policy positions on due diligence and disclosure should business be advocating for?**

<sup>16</sup> <http://www.legislation.gov.uk/ukpga/2015/30/contents/enacted>

<sup>17</sup> [https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en)

<sup>18</sup> <https://www.legifrance.gouv.fr/eli/loi/2017/3/27/2017-399/jo/texte>

<sup>19</sup> See [www.carrotsandsticks.net/](http://www.carrotsandsticks.net/). In this survey “instruments” can mean mandatory or voluntary regulations, guidance, and codes of conduct issued by a government, stock exchange, or financial market regulator.

We propose four underlying principles for “the law as it should be.” Our intention is that these underlying principles can be used by companies to shape their own public policy positions, generate alignment between business strategy, sustainability, and government affairs agendas and shape engagement with public officials.

These principles can also be used by industry associations, trade bodies, and multistakeholder organizations to form their advocacy positions. Indeed, misalignment between business strategy, sustainability, and government affairs agendas is most acute—often jarringly so—when trade associations intervene with policy makers on these issues.

Finally, we believe these principles can be used by regulators, policy makers, and governments as they seek to make better policy.

The principles we outline here are based on our experience working with companies to implement sustainability management in practice, including lessons learned achieving compliance with today’s laws and regulations.

**Consistent with international norms:** Over the past two decades, several multilateral organizations have undertaken extensive processes to create

norms for responsible business conduct, such as the OECD Guidelines for Multinational Enterprises, the G20/OECD Principles of Corporate Governance, and the UN Guiding Principles on Business and Human Rights. These norms are credible, robust, and have extensive backing across the business, civil society, and labor constituencies. Laws and regulations on these topics should be based upon the key concepts contained in these codes and guidelines, such as the role played by due diligence and disclosure in defining company action and accountability, and should certainly not run counter to them. While not all the concepts in these norms lend themselves to hard law (such as the cause, contribute, and linked framework in the UNGPs), these norms provide essential conceptual underpinning for company law on sustainable business.

**Causes, not symptoms:** Laws and regulations should be attentive to the broad desired outcomes they are seeking to achieve. For example, by focusing on the Democratic Republic of Congo and surrounding countries, and just the four metals of tin, tantalum, tungsten, and gold, the SEC conflict minerals rule has skewed responsible raw materials sourcing efforts toward a sub-set of a broader problem. One of the most frequent unintended consequences of regulation is that companies tend to focus on meeting

What is the “right” framework for company law on due diligence and disclosure?

What legal frameworks for sustainable business are sound, scalable, and conceptually robust?

What norms, behaviors, and principles could usefully be built into legal frameworks?

What is the right balance between soft law, hard law, and international law?

What policy positions on due diligence and disclosure should business be advocating for?

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# Know

## DUE DILIGENCE

- Identify, mitigate, prevent, and account for potential impacts
- Seek and obtain all information necessary for making decisions
- Cover all potentially relevant sustainability issues, not only those included in today's legal frameworks
- Include issues that are material to society, not only those that are material to stakeholders

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# Show

## DISCLOSURE AND ADVOCACY

- Consider the information needs of “the reasonable citizen,” not just “the reasonable investor”
- Be more assertive in promoting the development of fresh public policy frameworks that are more supportive of sustainable business, are capable of harnessing cross-party support, and enable the long-term investments required for sustainable business success
- Combine individual business action with coordinated policy advocacy coalitions with like-minded companies and external stakeholders with overlapping priorities
- Encourage policy innovation in individual jurisdictions, including at the subnational, regional, national, and international levels

specific requirements rather than addressing the broad issue or principles. Laws and regulations should be drafted in ways that mitigate this tendency.

**Material:** Laws and regulations should be focused toward those companies and industries that can make a material difference to the sustainability challenge at hand. Importantly, this does not mean restricting attention to only those companies for whom the sustainability issue has a material impact on the company; it also means focusing on those companies having a material impact on the sustainability issue. The recent recommendations of the Task Force on Climate Related Finance Disclosures set good direction by making a clear distinction between what all companies should report on and deeper guidance for industries with more material climate risks. As we set out in the reporting chapter above, this is an example of a transparency requirement that will have a positive impact on performance.<sup>20</sup>

**Comprehensive:** The extensive progress made on sustainability issues by global companies over the past two decades is such that many new legal requirements simply confirm the existing practice of many companies. This is not necessarily a bad thing, because company-led innovation to address societal expectations before they become law can identify effective strategies and increase the effectiveness of law once they are introduced. However, not all companies innovate in this way, so laws and regulations on sustainable business can play an important role in bringing laggard companies up to a higher level by ensuring that laws apply to all companies having a material impact on sustainability issues, thereby creating a level playing field. The EU Non-Financial Disclosure Directive is a good example of this in practice; leading companies are already in compliance, but laggard companies need to up their games.

## A ‘Know and Show’ Framework for Company Law

The UN Guiding Principles on Business and

Human Rights state that businesses “need to know and show that they respect human rights,”<sup>21</sup> where “know” means due diligence, and “show” means external communication that demonstrates performance. While originally written for human rights, we believe that this “know and show” model provides an excellent conceptual foundation for legal and regulatory frameworks for other due diligence and disclosures on sustainability. However, a “know and show” model should exist alongside performance standards on a range of subjects, not instead of them.

**“Know” – due diligence:** The concept of due diligence features highly in existing international codes and guidelines. The UN Guiding Principles on Business and Human Rights state that companies should undertake due diligence to identify, prevent, mitigate, and account for how they address their adverse human rights impacts, and they base a significant portion of the guidance on the implementation of due diligence. The revised OECD Guidelines for Multinational Enterprises contain a new and comprehensive approach to due diligence, including as it relates to responsible supply chain management. Importantly, the concept of “duty of care” is one of the three pillars of state corporate law in the United States, and means that corporate directors have a responsibility to undertake due diligence by seeking and obtaining all information necessary for making decisions for which it is responsible. This all points to the conclusion that company laws and regulations that seek to require or incentivize due diligence—such as the new French Duty of Vigilance Law—are working with the grain of existing company sustainability management efforts.

**“Show” – disclosure:** Disclosure requirements have long played an important role in efforts to advance sustainable business, and the discipline of public disclosure is known to incentivize improved sustainability performance. And like due diligence, the concept of transparency features highly in existing international codes and guidelines, as a necessary minimum for companies to demonstrate what they are doing. For example, the UN Guiding Principles on Business and Human Rights state that companies should communicate how they

20 [www.fsb-tcfd.org/](http://www.fsb-tcfd.org/)

21 [http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR\\_EN.pdf](http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf)

We believe it is wise to require companies to disclose information of material interest to society (“the reasonable citizen”), even if that information is not of material interest to investors.

address human rights issues externally, while the OECD Guidelines for Multinational Enterprises state that companies “should be transparent in their operations and responsive to the public’s increasingly sophisticated demands for information.” Both the G20/OECD Principles of Corporate Governance and the OECD Guidelines emphasize the foundational role that transparency plays in ensuring a well-functioning corporate governance system and responsible business conduct. This all points to the conclusion that laws and regulations that seek to require or incentivize company transparency on sustainability topics—such as the EU Non-Financial Disclosure Directive—also work with the grain of existing sustainability management efforts.

There are many examples today that have deployed the due diligence and disclosure concepts. However, it is instructive to compare these to our four underlying principles above to identify where improvements in legal frameworks can be made. We believe there are three main areas where legal frameworks for sustainable business need to alter course.

**Highly fragmented due diligence requirements:** While due diligence features

highly in today’s legal frameworks, it is often limited to a specific topic or issue area. As noted in the introduction to this section, this can be due to multiple jurisdictions acting on individual issues. In the United States, the focus has been on anti-corruption, money laundering, and conflict minerals due diligence. The French Duty of Vigilance Law only covers human rights issues in the supply chain. The U.K. Modern Slavery Act and the California Transparency in Supply Chains Act focus on the important issues of slavery and human trafficking, but not other human rights violations that we know take place in global supply chains.

Each of these initiatives is valuable in its own right, but taken together we are missing the most important point of all about company due diligence—that due diligence should surface all information necessary for making decisions. This issue-by-issue approach to lawmaking risks making progress on some issues at the expense of others, and over time may result in an ever-growing list of rules, rather than a more strategic approach. Instead of specifying particular areas for due diligence, company law should require due diligence across all potentially relevant sustainability issues. Among other things, this more holistic approach can be framed as guiding companies away from siloed efforts where different departments (such as procurement, compliance, and sustainability) work separately, and toward efforts where company-wide and whole value chain approaches are taken. It is important to note that issue-by-issue guidance can certainly sit alongside this more holistic approach.

**Material to sustainability, not just material to shareholders:** The resilient business strategies we advocate for in part one of this paper will be much more effective if they are accompanied by disclosure of sustainability issues of importance to all relevant stakeholders, not just investors.

Many legal frameworks today focus on the information needs of investors and operate on the assumption that investors require improved sustainability disclosures to make informed investment decisions. Indeed, as SASB rightly highlights, it is already a legal requirement for companies to disclose their approach to sustainability issues of material significance to investors.



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Many issues may be material to the creation of a just and sustainable world, but may not be material to shareholders today or in the foreseeable future. We believe that the pursuit of sustainability is important regardless of its significance to investors, and that introducing a legal requirement for companies to disclose their management of sustainability issues they identify as being of material significance to society seems reasonable. The EU Non-Financial Disclosure Directive gets close to this, though it is ambiguous on “material to whom” when stating that companies should disclose their management of material issues.

**Disclosure for “the reasonable citizen”:**

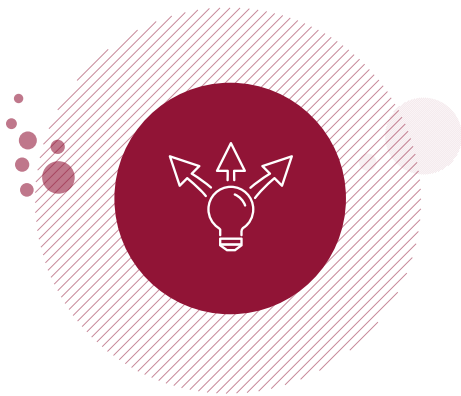
There has been significant progress in recent years on requirements for companies to disclose sustainability information. Many of these developments have focused on the mix of information that “the reasonable investor” would require to make decisions and have relied upon the enlightened shareholder model—the idea that enlightened shareholders recognize the importance of various sustainability issues for long-term financial success—to require increased disclosure.

However, we believe that sustainability is too important to link solely to the information needs of “the reasonable investor,” and we propose the use of additional sustainability reporting requirements based on the information needs of “the reasonable citizen.” We believe it is wise to require companies to disclose information of material interest to society (“the reasonable citizen”), even if that information is not of material interest to investors. However, this also implies that using investor-oriented bodies (such as the SEC in the United States) to achieve these outcomes may not be the right approach, and that alternative channels (such as departments of trade or commerce) may be more appropriate.



# Advocating for Sustainable Business

The essence of sustainable business is ensuring positive outcomes for society, and the business voice in critical debates is an important tool that companies have at their disposal.



## STOP

Letting the sustainable business agenda be set by others

Inconsistency between lobbying and stated sustainability commitments

Over-reliance on trade associations to represent the business view on key issues

## INNOVATE

Use the business voice to advocate for policy frameworks that support resilient business

Align business strategy, sustainability commitments, and policy engagement

Demonstrate the potential for sustainability to generate economic benefit for all

The sustainable business movement has focused much of its attention on ensuring that environmental, social, and governance issues have been integrated into business strategies and operations. This makes good sense, as we believe that it is the core of business that presents the greatest opportunity to mitigate sustainability risks and maximize the positive impact of business.

At the same time, companies have an important role to play in the public debate as well. This can include debates on policy, but also business practices that can support sustainable development.

We live in an age of major public debates of huge significance to sustainable business, such as the future of privacy in the age of big data, the future of work in the age of automation, and a changing energy system needed to tackle climate change. Business leaders have informed perspectives on these debates, and it is essential that these viewpoints become much more widely known. And as we noted in the last section, the mismatch between global issues and approaches focused on national jurisdictions means that reliance on nation-states might not deliver needed action.

Over the past year, many U.S. companies and individual business leaders have spoken out in favor of policies on climate change, diversity, and immigration, as well as values and principles they consider important for business. We hope that this is not a case-specific response, but rather reflective of a new way of thinking that recognizes the business and public benefit from business advocacy on relevant matters.

We believe there are two primary and interrelated venues for business advocacy on sustainability—with policy makers and with the public. While the nature of company engagement in these venues is often quite different, the common thread is being more assertive in developing a point of view on the importance of sustainable business models and more confident in communicating that perspective in external forums.

The essence of sustainable business is ensuring positive outcomes for society, and the business voice in critical debates is an important tool that companies have at their disposal.

## Influencing Policy Makers

We believe that companies can be more assertive in shaping effective public policy frameworks that promote key sustainability objectives that are also central to the long-term success of businesses and economies.

By directly connecting sustainability to business and economic success, business leaders have an opportunity to bridge political divides that often oversimplify the role of the private sector as either needing more regulation or being freed from it. As one interviewee said, “I’m tired of sustainability regulations being part of the left-right divide, and exhausted by the debate that there is either too much regulation or not enough regulation. We don’t need more regulation or less regulation, we need better regulation that politicians on all sides have reason to support.”

Achieving such a policy consensus is clearly an enormous practical challenge. However, the increasing prominence of the business voice on issues such as climate change, human rights, and

diversity suggests a path forward. Business participation in initiatives such as the “We Are Still In” network declaring continued action on climate change despite the U.S. withdrawal from the Paris Agreement; the “America’s Pledge” effort to tally the climate actions of states, cities, colleges, and businesses across the United States; and the “Climate Leadership Council” effort to promote a carbon tax and dividends framework shows that policy consensus on sustainable business issues is achievable, and may increase over time. The UNHCR has launched a global initiative to drive business support for refugees, including public policy advocacy. At the time of writing, the Financial Reporting Council in the U.K. is planning to open consultation on changes to the U.K. Corporate Governance Code, including the need for companies to link corporate governance to purpose, engage with a broader group of stakeholders, and consider how business benefits wider society.<sup>22</sup>

Approaches that combine individual business action with coordinated policy advocacy efforts can be undertaken in spheres where change is accelerating, including energy and climate change, environmental protection, employment, privacy, corporate transparency, and human rights, among others. Given the reality that policy lags significantly behind social change, the business need for engagement is more

*“I’m tired of sustainability regulations being part of the left-right divide, and exhausted by the debate that there is either too much regulation or not enough regulation. We don’t need more regulation or less regulation, we need better regulation that politicians on all sides have reason to support.”*

urgent than ever. A critical precondition of this approach is alignment around resilient business strategies that embrace sustainability, rather than a rehashing of the very real, but ultimately unproductive, “battle” between sustainability and government affairs teams. It will require a commitment to prioritizing what is right for sustainable business in the long term, rather than being tempted by narrow or short-term commercial gains.

This approach also needs to clearly convey the idea that sustainability enhances long-term competitiveness—that the connections between sustainability, business success, and economic growth are strengthening, and that all modern economies require investment in sustainable business models, technologies, and products. Sustainable business leaders have a unique opportunity to help bridge political divides with a vision for shared economic prosperity.

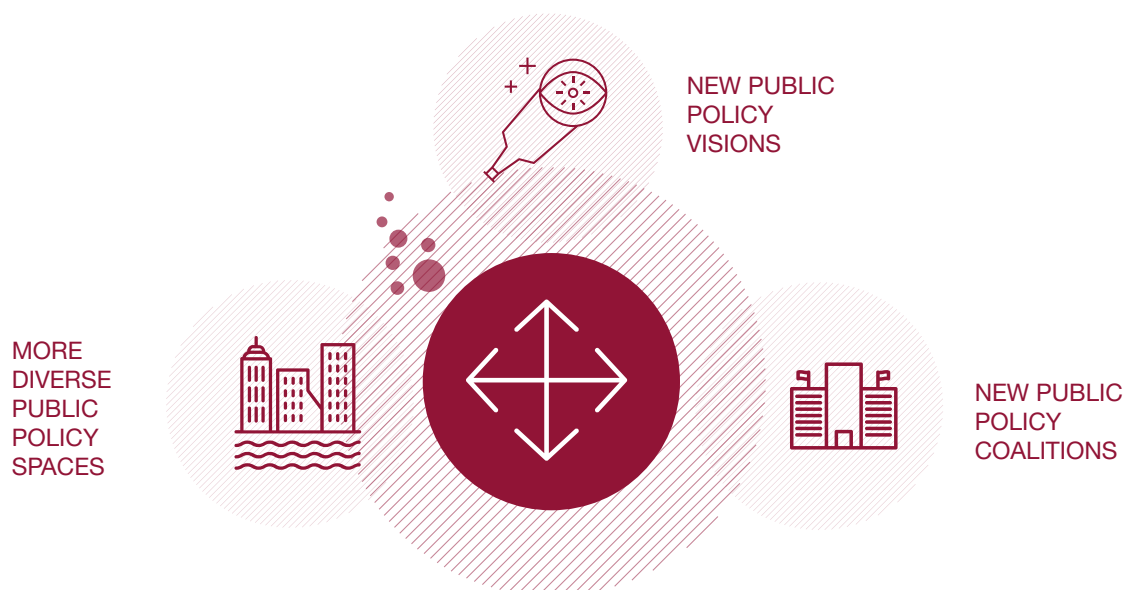
We believe there are three opportunities for action.

**New public policy visions:** Companies can promote the development of fresh public policy frameworks that are more supportive of sustainable business, are capable of harnessing cross-party support, and enable the long-term investments required for sustainable business success. Today’s global political uncertainty creates an opportunity to envision new public policy approaches that incorporate lessons

learned from previous failures, reduce policy volatility and uncertainty, and are more robust when placed under challenge. Important priorities for these public policy visions relevant to sustainable business include climate change, human rights, rule of law, women’s empowerment, freedom of expression, and support for civil society.

**New public policy coalitions:** Sustainable business efforts do not exist in isolation, but are closely connected with other entities and sectors—such as civil society organizations, customers, investors, academics, and communities—that also have a deep interest in sustainable business success. Collaboration across sectors is essential, and this opens opportunities for new public policy coalitions with like-minded companies and external stakeholders with overlapping priorities. The success of the We Mean Business coalition on climate change or the B Team’s coalition on tax transparency could be replicated in other spheres.

**More diverse public policy spaces:** As we noted earlier, policy on global sustainability challenges happens at multiple venues—not only nationally, but also at subnational, regional, and international levels. Cities, for example, have led the way on climate action and resilience and are often able to move more quickly and nimbly than national governments.



## Three Opportunities for Action



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While the business voice matters greatly, it is also crucial to acknowledge that business does not always possess the legitimacy to exert influence on sustainability issues.

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While policy consistency across jurisdictions is appealing and ultimately ideal, policy innovation in individual jurisdictions offers opportunities for both new approaches and more rapid action. While the business voice matters greatly, it is also crucial to acknowledge that business does not always possess the legitimacy to exert influence on sustainability issues. The two primary reasons for this are a disconnect between company statements on, and commitments to, sustainability and their lobbying efforts, as well as inconsistency between what companies say and what the trade associations they rely upon say and do. In our view, these disconnects are a hindrance to business and should be sharply curtailed. Without that, the business voice on key issues will not be heard and trust in business will continue to languish.

## Influencing the Public

Public dialogue and expectations on sustainability issues have undergone a transformation in recent years. The growing middle class, particularly in the Global South, is increasingly focused on individual empowerment and access to health, education, and opportunity. Issues such as environmental protection and human rights have long been a focus of public concern, but activism is increasing in new areas, such as corruption, privacy, automation, climate justice, and access to healthcare. These debates have been sharpened and made more pressing by a transformation in

the transparency environment, and companies are struggling to adapt to a new world where corporate confidentiality is no longer assured and management of legal risk is not a reliable proxy for reputational exposure. Activists driven by ethical, human rights, and transparency goals are increasingly coordinated, empowered, and focused on business as a driver of change.

Abdicating from debates in the interest of political or policy neutrality is increasingly difficult. Companies need to make rapid decisions on which social and environmental issues to engage on, and how.

In this context, it is essential that business leaders become more effective at connecting sustainability challenges with priorities that resonate with the public—such as employment, competitiveness, and fairness—and demonstrate the relevance and benefits of sustainable business. It is also important for business to stand up for key concepts—such as science, trade, and innovation—that are essential for both business success and long-term global prosperity. As business increasingly becomes the primary source of expertise on key areas of innovation—such as climate research, artificial intelligence, and data analytics—and academia is facing increasing pressure to commercialize its activities, there is a need for more transparency and engagement to drive innovation for the greater good. Early examples include Elon Musk's decision to make

Tesla's patents publicly available for the greater good, and collaboration between scientists and healthcare companies on innovative research. We hope these are early examples of a longer-term trend.

We believe there are several opportunities for companies to engage.

**Communicating about company mission, vision, and values:** This can include examples of how these are being applied throughout the business, such as in the areas of equal treatment of employees, investment in quality jobs, or maintenance of sustainability commitments. Key international agreements, such as the SDGs, Women's Empowerment Principles, and UN Guiding Principles on Business and Human Rights, provide key touchstones.

**Identifying opportunities for CEO and senior executive statements and/or speeches to reinforce sustainability publicly:** A recent survey of nearly 1,300 U.S. employees of Fortune 1000 companies by Povaddo LLC found strong support for employer environmental and social action across age, gender, region, employment level, ethnicity, income, and company size, with little real difference across the left-right political spectrum.

**Examining opportunities for social investment capital to be deployed in ways that meet current needs in communities:** This can include partnerships with civil society organizations, especially those focused on the needs of underserved communities in need of economic regeneration, or those increasing economic opportunities for vulnerable populations.

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BSR is a global nonprofit organization that works with its network of more than 250 member companies and other partners to build a just and sustainable world. From its offices in Asia, Europe, and North America, BSR develops sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. Learn more about BSR's 25 years of leadership in sustainability.

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