Key Factors for Integrating Sustainability

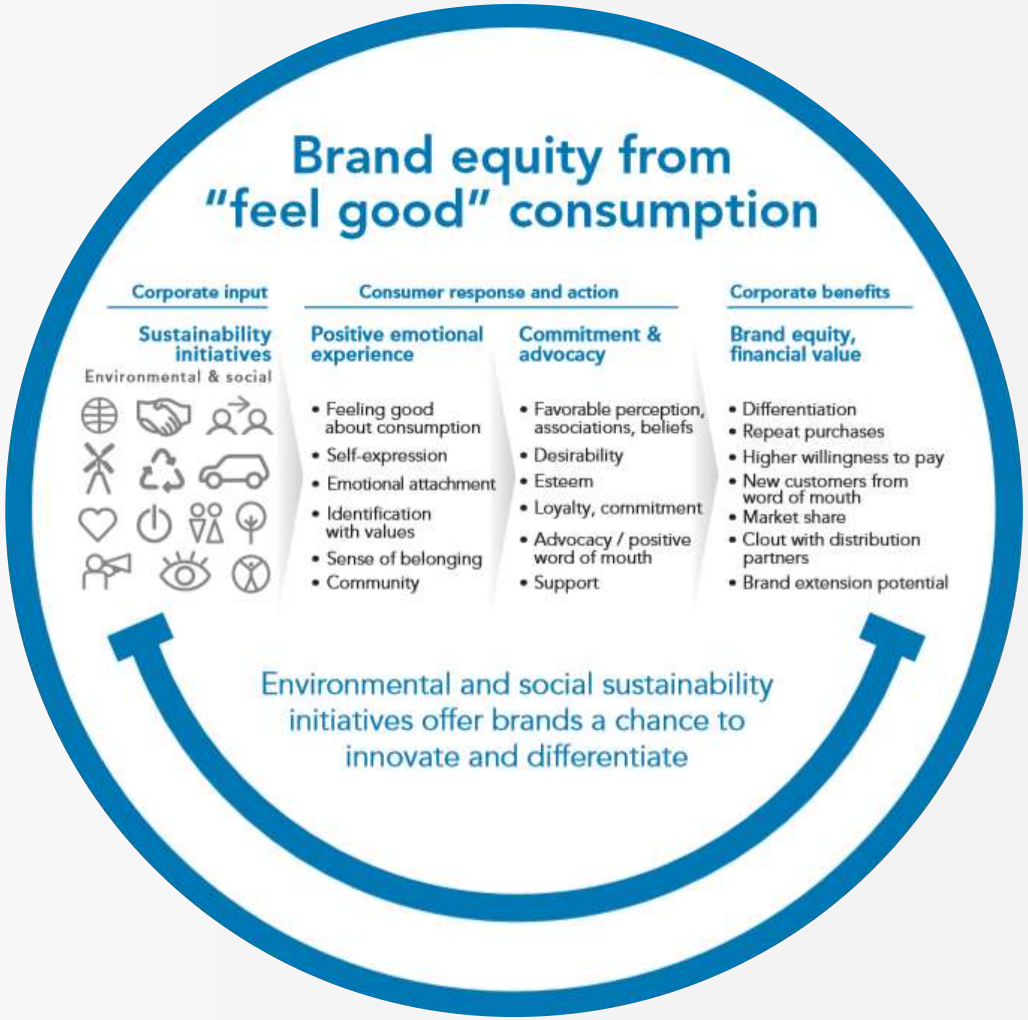
Corporate Sustainability Leadership

This report is based on interviews with senior practitioners working for companies considered to be leaders in integrating sustainability into their business strategy and advancing the sustainable development agenda.

Companies may want to consider **embedding sustainability** into how they operate. Such an approach can **improve business performance** and be a meaningful **brand differentiator** for buyers.

A meta-study based on analysis of approximately 190 different sources confirmed that there is a *remarkable correlation between good business practices in sustainability and economic profitability*.

- **90 percent** of studies on the cost of capital show that sound **sustainability standards lower companies' cost of capital**.
- **88 percent** of research shows that **solid environmental, social, and governance (ESG) practices result in better operational performance** of firms.
- **80 percent** of studies show that **companies' stock price improves with good sustainability practices.**



Source: Consumers' Attitudes about Sustainability, The Conference Board

So, how does a company create the conditions that help embed sustainability in its strategy and operations?

This report focuses on **corporate sustainability leadership** and draws upon lessons from companies that have successfully integrated sustainability into their business strategy.

The pool of companies considered is based on earlier research by The Conference Board, including

- Unlocking Growth through Sustainable Innovation,
- Sustainable Procurement: Lessons from Leading Companies, and
- Total Impact Valuation: Overview of Current Practices.

Semi-structured interviews were conducted with chief sustainability officers at 10 companies from different industry sectors, including **chemical, consumer goods, logistics, materials,** and **mobility**.

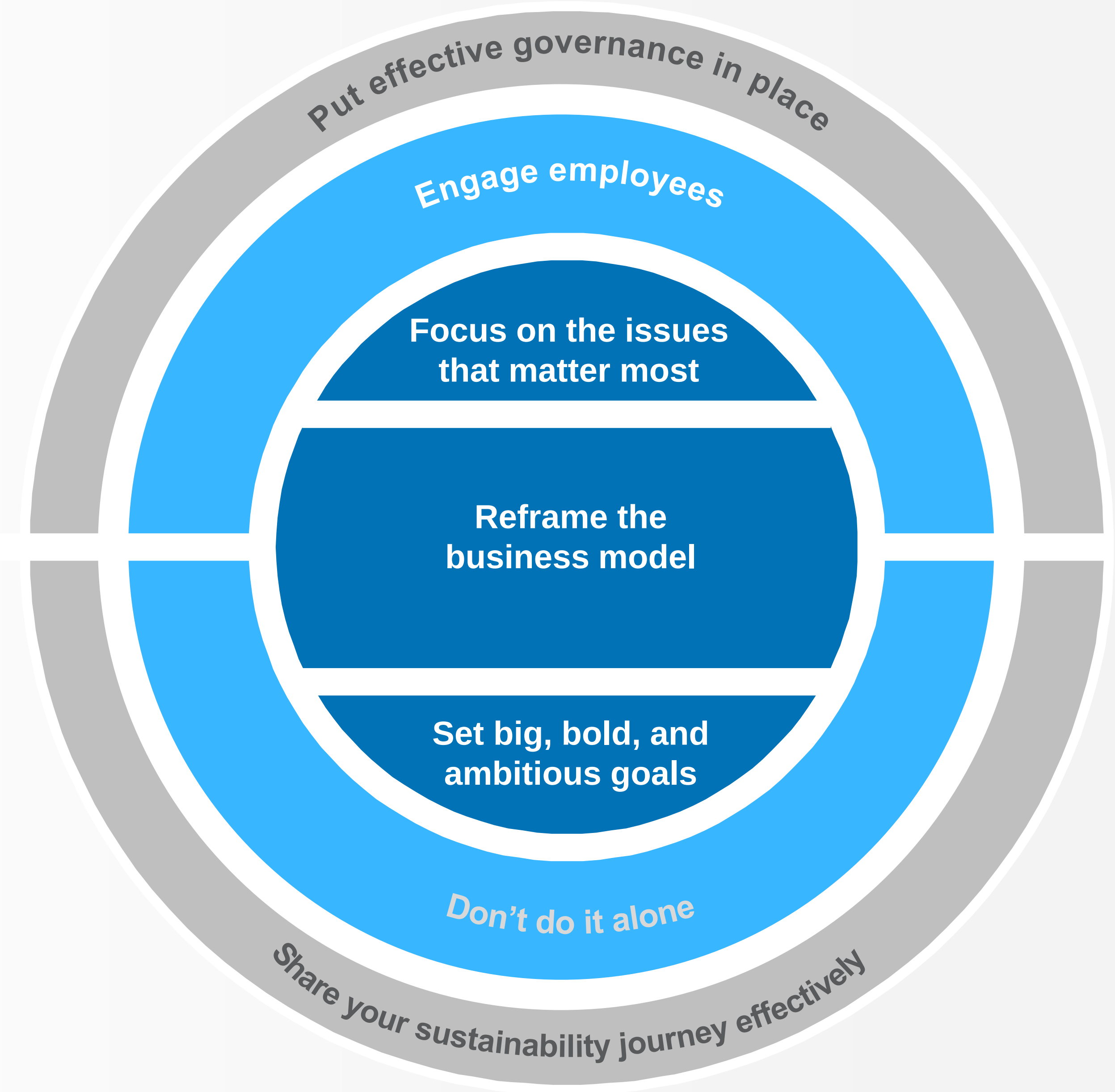
Based on information from the interviews, we have identified seven **key factors** that can help companies **embed sustainability** into their strategy to pursue growth and advance sustainable development.

Organization leaders may use these insights to evolve or develop how they integrate sustainability into their company's strategies and operations.

This report was jointly developed with input and support from Airbus, a member of The Conference Board Sustainability Center.

Further reading Throughout the report we have included links to references that you can visit for more information.

Key factors for **integration of sustainable business** practices



Source: The Conference Board

Integrating **sustainability into the business** strategy is a long-term endeavor

Companies that successfully integrated sustainability into their business practices implemented the seven key factors presented here:

Reframe the business model
It is not about making little tweaks around the edges. Instead, it's about starting from the core to weave sustainability into the company's DNA.

Focus on the issues that matter most
Not all issues are equal. Pursue opportunities with the most potential for high growth and positive impact.

Set big, bold, and ambitious goals
Instead of focusing on targets that will only have an incremental impact, set ambitious targets that will have a greater positive impact; set science-based targets where appropriate.

Engage employees
Communicate the connection between each employee's work and the company's sustainability goals. At the same time, treat sustainability as an enterprise-wide responsibility, thus promoting cross-functional collaboration.

Don't do it alone
Actively collaborate with external partners, industry peers, and special interest groups to speed up sustainable development initiatives.

Put effective governance in place
Go beyond merely describing governance systems. Also disclose how these are used to guide key sustainability strategies and decisions.

Share your sustainability journey effectively
Present information on the company's material issues in a transparent and concise manner, focusing on value creation; provide a more forward-looking performance outlook.

Reframe the business model

Transforming an organization to become more sustainable cannot happen by solely making changes along its edges or developing sustainable products or services. Purpose, vision, and aspiration play an important role. Businesses that build sustainability into their purpose will be more likely to make the new business model or solution happen.

Sustainable business models aim to generate profit by delivering novel solutions that address environmental and social challenges.

Having a clear sense of societal purpose can have a powerful impact and help guide sustainability transformation.

Ørsted

From Fossil Fuels to Green Energy

Ørsted—previously known as DONG Energy (Danish Oil and Natural Gas)—was founded in the early 1970s as a state-run business to manage oil and gas resources in the North Sea. It was predominantly a coal- and natural gas-dominated utility company until 2008, when it embarked on a transformation program to become a renewable energy business. The decision to transform was guided by evolving societal trends and sensitivity toward carbon and green energy, along with regulatory pressures involving carbon emissions and pricing.

As part of a rebranding effort in 2017, Ørsted set a new vision: to create a world that runs entirely on green energy. Today, it has become the fastest growing utility company in Europe and has outperformed its peer group, showing that pursuing sustainability can be financially attractive.

By 2025, Ørsted plans to be the first carbon neutral utility company. It is seeking to phase out coal by 2023 and reduce carbon emissions by 98 percent by 2025, against a 2006 baseline.

Royal DSM

From Dutch State Mines to Doing Something Meaningful

Royal DSM (DSM)—a global science-based company active in nutrition, health, and sustainable living—has evolved several times during the past 100 years. But the transformation over the past 12 years, where the company changed from a traditional chemical firm to a forward-looking, sustainable life sciences group, is probably the most impressive. A primary reason for DSM's success has been having a purpose and then tying all actions to that purpose.

For example, it has systematically and strategically aligned its commercial strategy with five of the United Nation's Sustainable Development Goals (SDG): zero hunger, good health and wellbeing, affordable and clean energy, climate action, and responsible consumption and production.

Its new product range, Brighter Living Solutions, has less impact on the environment and people than equivalent mainstream solutions. Today, this range accounts for nearly two-thirds of the firm's sales.

Sustainability & Enabling Sustainable Growth, Ørsted
Creating Better Lives for All, DSM

Focus on the issues that matter most (cont'd on next page)

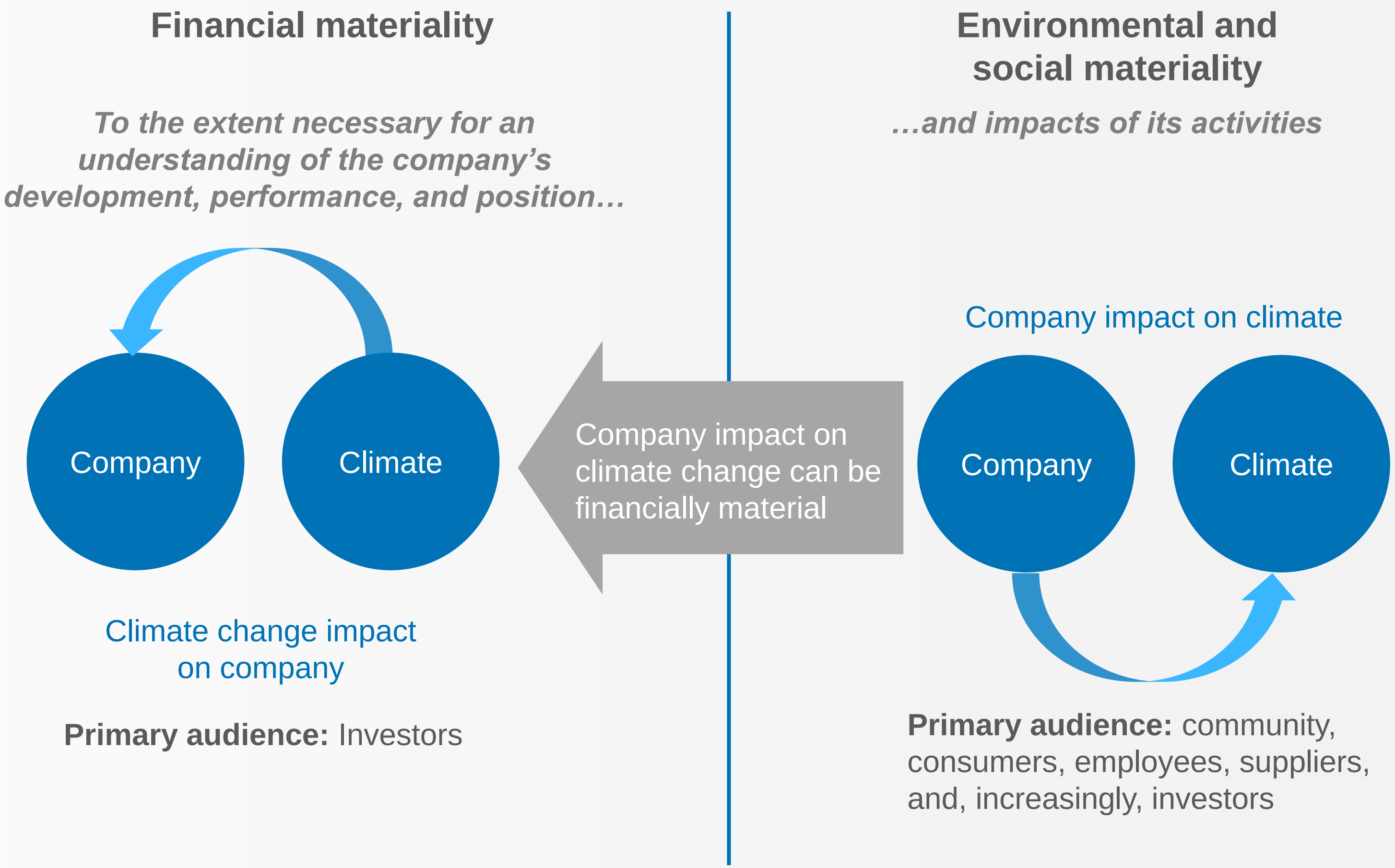
An effective sustainability strategy is not about addressing the long list of potential sustainability issues. Instead, companies need to identify and understand the sustainability issues that are most material to them.

Several reporting frameworks, such as the **GRI, IIRC,** and **SASB**, provide standards and guidelines to help companies identify material issues depending on stakeholder needs. In 2019, the EU Non-financial Reporting Directive (NFRD) introduced the concept of "double materiality" to help companies adopt a more encompassing approach to materiality. The double materiality perspective includes both financial materiality and environmental and social materiality.

To identify material issues:

1. Understand both the potential impact that your company can have on society and the environment and the potential impact that sustainability can have on your company's bottom line.
2. Map priorities: responsibilities, risks, and opportunities.
3. Set goals and targets.

Double materiality perspective in the context of reporting climate change-related information



Source: Adapted from EU NFRD

Focus on the issues that matter most (cont'd from previous page)

Maersk
A Novel Approach to Materiality

A.P. Moller - Maersk—an integrated container logistics company—assesses and groups sustainability issues as either risk, responsibility, or shared value. Compared to a traditional materiality matrix (2x2) approach, this novel method allows Maersk to have a different perspective on the nature and impact of issues.

This illustration shows the input and assessment criteria Maersk uses to analyze material issues across each of the three dimensions, and the resulting groups of material issues.

Source: Maersk

Sustainability at A.P Moller - Maersk

Set big, bold, and **ambitious goals**

Sustainability can be a differentiator, and today, more and more companies are setting big, bold, and ambitious targets to achieve "net positive" impact.

In relation to carbon commitments, companies must consider both "scope" and "science-based targets."

- Ideally, a company should have an **encompassing target** that includes: **Scope 1** (from direct activities); **Scope 2** (indirect, from electricity and heat); and **Scope 3** (from the full value chain, often the largest).
- GHG emissions reduction targets are considered "**science-based**" if they are in line with what the latest climate science says is necessary to meet the goals of the **Paris Agreement**—to limit global warming to well below 2°C above preindustrial levels and to pursue efforts to limit warming to 1.5°C.

Microsoft
Negative Is the New Positive

Over the past 12 months, an increasing number of countries have committed to a net-zero emissions goal and a handful of companies have gone a step further by setting targets to become carbon negative.

Microsoft has committed to be carbon negative by 2030, and by 2050, to remove all the carbon the company has emitted since it was founded in 1975.

"Reducing carbon is where the world needs to go, and we recognize that it's what our customers and employees are asking us to pursue. This is a bold bet—a moonshot—for Microsoft. And it will need to become a moonshot for the world."

Brad Smith, President, Microsoft

Unilever
Creating a Circular Economy for Plastics

In 2019, Unilever became the first consumer goods company to commit to absolute plastic reduction across its portfolio. As part of its commitment, by 2025 it will halve its use of virgin plastic and help collect and process more plastic packaging than it sells. One way it is reducing plastic use is by applying a "Less, Better, No" framework to explore and introduce new ways of packaging and delivering products.

"Our vision is a world in which everyone works together to ensure that plastic stays in the economy and out of the environment. Our plastic is our responsibility and so we are committed to collecting back more than we sell, as part of our drive towards a circular economy."

Alan Jope, CEO, Unilever

Carbon Negative by 2030, Microsoft
Waste-Free World, Unilever

Engage employees

Successfully executing sustainability strategy requires **behavior** and **culture change**.

"Companies that are winning the sustainability battle have created the conditions for their stakeholders to own sustainability."

CB Bhattacharya, Author

Companies need to make sustainability personally relevant to everyone's job as well as an enterprise-wide responsibility—doing these will turn the sustainable business model into business as usual. Creating cross-functional ownership of sustainability issues prevents it from being perceived as "someone else's job."

Companies can adopt a dual-engagement model—company-wide efforts and localized, site-specific initiatives—to engage employees on sustainability.

Eight Ways to Engage Employees in the Company's Sustainability Journey

1. Define the company's long-term purpose.
2. Spell out the economic case for sustainability.
3. Create sustainability knowledge and competence.
4. Make every employee a sustainability champion.
5. Cocreate sustainability practices with employees.
6. Encourage healthy competition among employees.
7. Make sustainability visible inside and outside the company.
8. Showcase higher purpose by creating transformational change.

Source: SSIR

Covestro
Everyone Is an Innovator

Covestro—one of the world's largest polymer companies—launched a "Start-up Challenge" to engage employees while empowering them to contribute new ideas for sustainable innovation. The program is underpinned by the ethos that innovation is not limited to R&D and that everyone can be an innovator.

The "Start-up Challenge" has helped encourage entrepreneurial thinking and drive culture change to promote sustainable innovation.

"Our contest helps encourage everyone in the company to make good ideas ready for the market as quickly as possible and turn them into genuine innovations."

Dr. Markus Steilemann
CEO, Covestro

Engaging Employees to Create a Sustainable Business, Stanford Social Innovation Review
Covestro Start-up Challenge

Don’t do it alone

No one company or individual has all the best ideas. And, the interconnectedness and complexity of sustainability drive the need to collaborate.

Building alliances and partnerships can help speed up the transition to a sustainability-focused business model. When companies collaborate, they can tap into resources that were not available to them previously. Collaborations are most successful when companies choose partners who share the same vision—this will allow both parties to work toward achieving the same purpose.

Collaboration between different types of organizations can produce previously unimagined solutions.

Initiatives such as the **Alliance to End Plastic Waste**—a cross-value chain initiative founded by companies that make, use, sell, process, collect, and recycle plastics—exemplify how different stakeholders can come together to address and manage specific issues.

The **Partnerships for the SDGs’** online platform provides a global registry of voluntary commitments and multistakeholder partnerships made in support of sustainable development.

P&G
Open Innovation

The Procter & Gamble Company (P&G), a global consumer goods multinational, has established a model for fostering collaborative networks for innovation.

Its “Connect + Develop” program uses a technology-enabled platform to gain input from multiple stakeholders (e.g., academics, customers, individuals, small- and medium-sized enterprises, and startups) to cocreate and crowdsource.

This approach has enabled P&G to establish more than 2,000 successful agreements with innovation partners. More than 35 percent of P&G’s new products have elements that originated from outside P&G.

Successful examples of open innovation at P&G include partnering with Ecolab to create a refillable antistatic dryer block for one of its laundry product brands and collaborating with Braskem SA to source 100 percent recyclable packaging material made from ethanol derived from sugarcane.

Sustainability through Partnerships, Network for Business Sustainability

Partnering for Mutual Value, P&G

Put **effective governance** in place

Good governance for sustainability goes beyond having a person nominated to oversee sustainability at the board level and having a sustainability committee within the organization to serve as a strategy-setting body. It's also about integrating sustainability into the structure, processes, and culture of an organization. Embedding sustainability will have an impact on how key decisions are made in the organization.

Companies should create a board that is competent in all aspects of sustainability. If this isn't possible, the board should be able to work with independent experts or a sustainability advisory board. This way, the board can engage thoughtfully on material social, environmental, and governance issues as one cohesive deliberative body.

Currently, most conversations about sustainability focus on environmental and social impacts, with less attention given to governance issues. Governance gets precious little attention, as do ESG-related issues associated with strategy.

To be successful in the next decade, companies need to emphasize the sustainability conversation within the context of materiality and governance.

Solvay
Governance for Sustainability

As part of its approach to engage the board on sustainability, Solvay delivered a half-day training to its board focusing on various aspects of sustainability. The objective of the training was to give board members a common vocabulary to talk about sustainability issues and get the board to understand why sustainability matters to Solvay and what they can do about it.

After the training, the board discussed and concluded that sustainability issues are an integral part of the business and it is best to integrate the "management of sustainability" in the normal functioning of the board. It updated the governance charter of the board to incorporate sustainability and gradually incorporated sustainability into the activity of each board committee.

The governance arrangement is supported and complemented by Solvay Way—a reference framework that translates sustainable development ambitions into concrete actions and clear responsibilities for its employees.

This has contributed to empower employees at all levels to champion sustainability.

How Board Governance Can Drive Sustainability Performance, CERES
Governance in Practice, Solvay

Share your sustainability journey effectively

As sustainability performance becomes increasingly linked to reputational value and ultimately how long-term company performance is perceived, companies will need to provide an authentic narrative of how they behave and where they are going when it comes to sustainability.

Stakeholders want to understand a company's exposure to material sustainability issues. They also want the organization to disclose the measures it's taking to manage the exposure and to provide a forward-looking sustainability performance outlook.

The Old Order	Aspiration
From	*To*
Backward looking and short term	Forward looking and longer term
Generic disclosure on all issues	Concise and focused disclosure on material issues
Aimed at conforming to reporting standards	Focused on value creation and impact
General purpose	Sensitive to audience needs
Long and static	Short and technology enabled

Source: Bridging the Disclosure Gap, The Conference Board

Recommendations

Focus on value creation

Refine sustainability reporting in a way that tells the value creation story and focus on disclosing material ESG issues.

Disclose ESG governance systems

Communicate how sustainability is integrated into overall strategy, governance, and management.

Adopt a framework and standards specific to your company

Determine the reporting framework that is appropriate, given your company's industry and business.

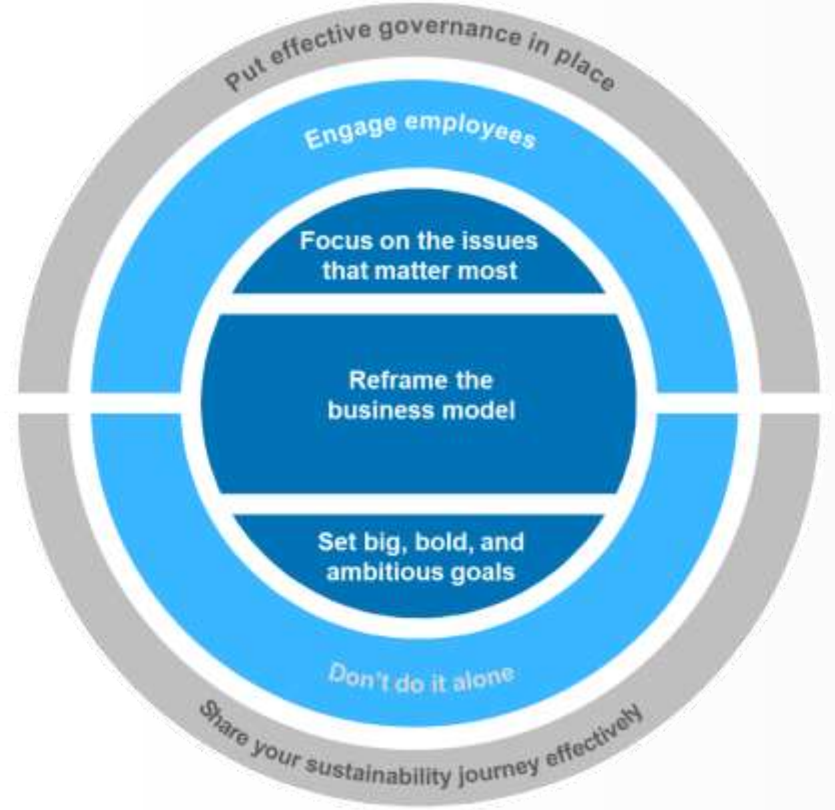
Ensure data is reliable

Treat financial and nonfinancial data disclosures with equal rigor. Obtaining external assurance for material ESG information can help build credibility and trust with stakeholders.

[Integrated Reporting Examples Database](#)
[Sustainability Practices, The Conference Board](#)

Companies will need to execute multiple initiatives to help them successfully navigate the current crisis and prepare for the future. **Sustainability can help** organizations **realize economic benefits** in an uncertain economic and commercial environment.

To recap, companies can consider these seven key factors when building sustainability into how they operate:



Source: The Conference Board

The questions below can help companies reflect on their approach to sustainability.

- **How is sustainability** and the drive to deliver long-term value to society **integrated into our company's purpose**?
- **How are sustainability** issues linked and embedded into our company's strategic and operational **processes**?
- **How can we evolve our materiality process** to use it as a strategy development tool based on the impact on our business and the ability to impact/influence?
- **Do our sustainability goals demonstrate leadership** the world needs?
- **How engaged are our employees** on the sustainability agenda?
- **How effectively do we tell our sustainability story**, including quantifying the environmental and social impacts?

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About The Conference Board Global Sustainability Center

The vision of the Global Sustainability Center is to drive the integration of sustainability, enabling companies to create value and positive impact. We support member companies to pursue a growth strategy that creates long-term value by balancing opportunities and risks related to economic, environmental, and social impact.

The Global Sustainability Center, which is based in Europe, works in collaboration with The Conference Board Environmental, Social & Governance Center, which is based in the United States.

For additional information, please visit:
conference-board.org/eu/sustainability

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