



Sustainability Incorporated

How to Integrate Sustainability into Business





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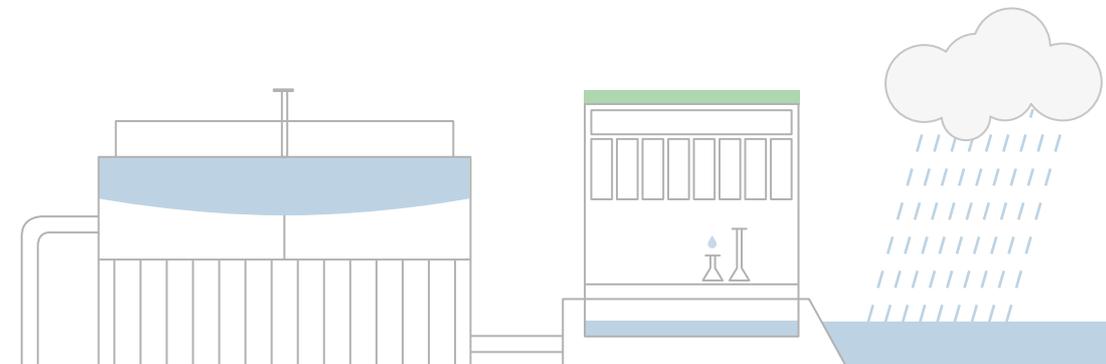
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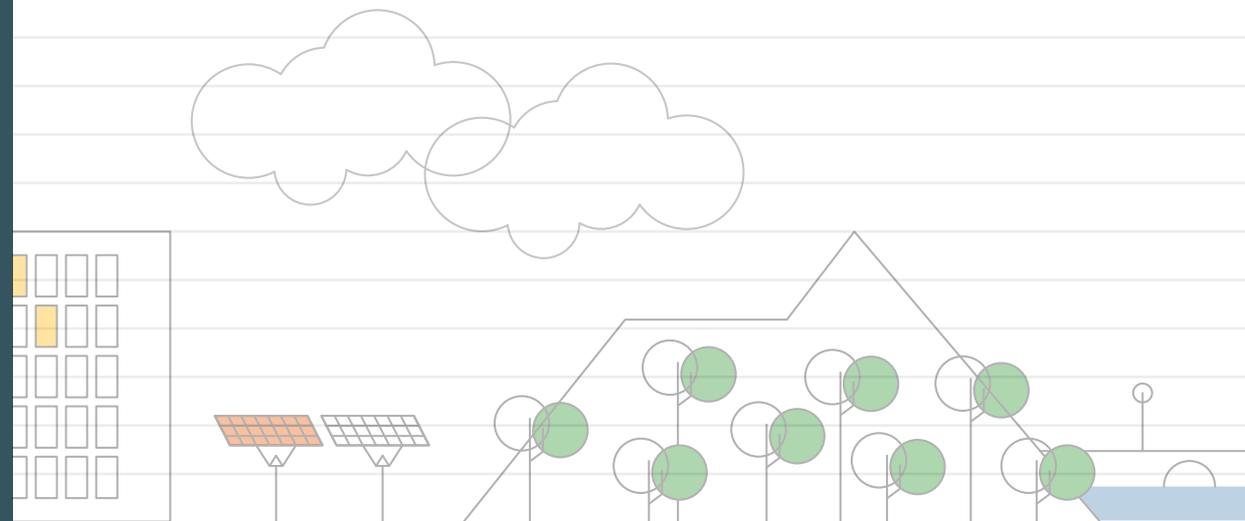


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EXECUTIVE SUMMARY

Executive Summary

Many companies claim that sustainability is embedded in their DNA or sits at the heart of their business. The reality is that very few corporations have fully integrated or embedded sustainability into their business models. While corporate sustainability programs have made significant progress on initiatives like reducing carbon emissions, conserving water and improving labor conditions, few have broken out of the sustainability silo and been embedded into the company's main strategy to form a fundamental part of business value creation.

The need for integrated sustainability is urgent: in order to address today's pressing global issues such as resource scarcity, climate change and inequality, the private sector must integrate environmental and social considerations into every business decision. Embedding sustainability into business not only helps secure a sustainable future but it also benefits companies, enabling them to prepare for future risks, act on opportunities and create more value for the business and its stakeholders. And yet, we acknowledge the challenge business faces in trying to do this as it operates within the larger global system of markets, policies and stock exchanges in which financial capital is ranked above all other forms of value. This larger system discourages attempts to integrate sustainability in ways that are material. We therefore see the need to integrate sustainability simultaneously into business and larger global systems.

In *Sustainability Incorporated* we focus on ways in which business can integrate sustainability into its core strategies and business models. In order to do this, our research indicates that the commitment of senior leadership is critical to making substantial progress. Yet even in the absence of such leadership we see opportunities for sustainability practitioners at all levels to move ahead and advance sustainability into their business in different ways. Through our research we highlight five pathways that practitioners can leverage to further integrate sustainability into the business. While these pathways are not the only ways to embed sustainability, they have proven useful for numerous companies and align in practical ways with many of the existing responsibilities of practitioners. We summarize these five pathways on the following pages.

Pathways to Integration

● Employing business model thinking

Building an understanding of how the business creates value can help identify areas where sustainability can be further embedded in the company. The process of mapping the business model can help develop a deeper understanding of the business' value proposition and purpose and also engage internal stakeholders. A visual illustration of the business model is often helpful to share both internally and externally.

● Putting materiality to use

A materiality assessment positions a company to align financial and sustainability materiality and embed sustainability issues into the core business strategy. By focusing on one or a select few issues, companies can identify how the issues impact the business, dedicate resources to establishing goals and metrics, and fully embed the issue into the business. Once the company has integrated one issue, it can then focus on embedding more issues into the core strategy.

● Applying a sustainability lens to products and services

Developing sustainable products and services can foster the integration of sustainability more deeply into business by engaging numerous departments. By applying a sustainability lens through scorecards, lifecycle analysis and indices, companies can embed sustainability issues into the company's operations and also engage customers.

● Tapping into culture

Corporate culture plays an important role in the integration of sustainability and is closely tied to a company's leadership. While cultures that embrace innovation and collaboration can foster the integration of sustainability, cultures that are risk-averse

and change-resistant can also be dramatically shifted or strategically leveraged to further embed sustainability into the core business.

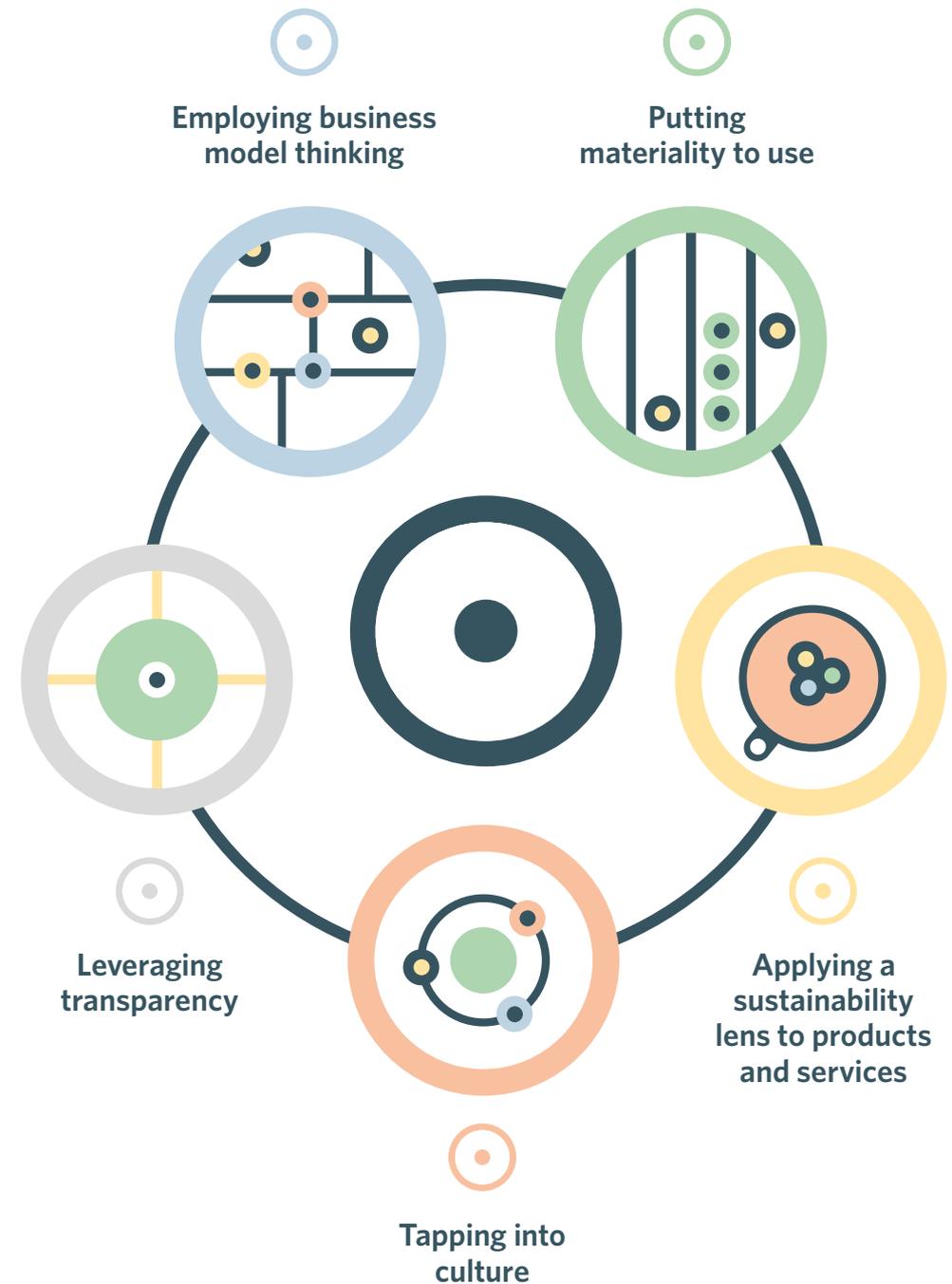
● Leveraging transparency

Integrated reporting is one aspect of transparency that can be used to both drive and reflect a company's integrated approach to sustainability. The process of creating an integrated report can bring together cross-functional teams, foster greater understanding about how the company creates value and spotlight areas ripe for further integration. Integrated reporting can also help companies communicate the integrated nature of their business model.

These five pathways are not the only ways to integrate, nor is leadership the only critical support in the embedding process. The methods and means of embedding sustainability will be different for each company depending on its stage of integration, its culture, the issue being addressed and the external context. That said, our research shows that these pathways have proven to be promising approaches to integrating sustainability within a number of leading companies, and we feature examples of integration leadership built on these five pathways throughout this report.

We also distill lessons learned on integration from two regions of the world where we noticed particular dynamism and potential: South Africa and key Asian markets. We encourage practitioners to explore our findings, follow these pathways and continue their work integrating sustainability into business and into the broader global systems at play.

We focus on ways in which business can integrate sustainability into its core strategies and business models.





INTRODUCTION

Introduction

Over the last several decades there have been significant efforts to integrate or embed sustainability more fully into business, and encouraging progress has been made. Businesses have reduced carbon emissions, conserved water, improved human rights policies and developed more and better eco-friendly products. But there remains a valid—and growing—argument that we are not going fast or far enough to address global challenges such as climate change, inequality and resource scarcity. While many companies claim that sustainability is ‘in their DNA,’ and there are numerous examples of companies making progress on specific initiatives, sustainability often remains in a programmatic silo, separate from core strategy rather than fundamental to the business model. A 2015 BSR/GlobeScan survey finds that only 13% of companies surveyed say that sustainability is extremely well integrated into their organizations.¹ Very few companies have truly integrated sustainability such that their business models create substantial social and environmental value in addition to financial returns.

This lack of an integrated approach limits the impact of a company’s sustainability efforts, its ability to resiliently thrive in the future and its opportunities to address today’s most urgent problems. The public is increasingly looking to the private sector to address problems such as dwindling resources, climate change and inequality.² And these problems are becoming increasingly dire; in the first eight months of 2015 the world’s population used more natural resources than the planet can produce in a full year.³ Simply put, environmental and social considerations must be embedded into every business decision to guarantee our flourishing future.

The promising news is that some companies are successfully integrating sustainability deeply into their businesses in ways that contribute to solving global challenges at the same time as delivering business benefits. Unilever, a frequently referenced integrated leader, has successfully embedded sustainability by implementing its Sustainable Living Plan and working towards an ambitious goal of doubling revenue while halving its environmental footprint. The company’s supportive leadership and its work to integrate sustainability into its strategy have differentiated the company and helped it maintain its ranking as a global sustainability leader for the fifth consecutive year per the GlobeScan/

SustainAbility Leaders Survey.⁴ Another integrated leader, Interface, illustrates how embedding sustainability generates value for the company as well as for the environment and society. Interface’s inspiring former leader Ray Anderson established an integrated strategy, Mission Zero, that aims to eliminate all negative environmental impacts by 2020. The company now seeks to be a restorative organization and has been gaining benefits of its integrated work in the form of a positive reputation, leadership in ratings and rankings,⁵ and top talent recruitment.⁶

In addition to the benefits experienced by Unilever and Interface, research indicates that integrating sustainability can help companies prepare for future risks and gain access to capital. The Prince’s Accounting for Sustainability Project notes: “Embedding sustainability into an organization’s strategy and decision-making processes helps to reduce future regulatory, resource and price risks and provides a vision of how business may be impacted by short, medium and long term environmental and social changes.”⁷ Evidence connecting sustainability and financial success further elevates the case for integration: a recent study firmly links robust sustainability practices with lowered cost of capital and better operational performance of firms.⁸ Integrating these practices into the heart of a business will strengthen these results.



Very few companies have truly integrated sustainability such that their business models create substantial social and environmental value in addition to financial returns.

And yet despite the benefits and the urgent need for integration, few companies are deeply embedding sustainability into their business models. The lack of widespread integration is due to a number of challenges such as unsupportive leadership, lack of agreed upon definitions of sustainability, different value systems and the prioritization of financial capital above other forms of capital. Another significant barrier is companies' dependencies upon wider systems and norms in which they operate. We therefore identify two distinct but related ways in which sustainability must be integrated: systemic integration and business integration.

Integration in the larger sense – what we might call systemic integration – entails far-reaching, long-term shifts in market structures, institutions and policy frameworks that will bring global capitalism and sustainable development into greater alignment. At the most basic level, this means we cannot continue valuing financial returns above all else. Separately, integration within industries and individual companies – what we think of as business integration – involves both fundamental, strategic change within an individual

business (including, perhaps, transformation of the very business model) and tactical efforts to provoke greater sustainability awareness and leadership internally. Companies that embrace business integration generate social, environmental and financial value and signal to the outside world that sustainability is key to the company's future.

Viewed in these terms, pursuing comprehensive sustainability integration presents a kind of chicken and egg problem. On the one hand, no company or industry can truly integrate sustainability, nor be completely successful once it is integrated, unless larger, systemic changes enable it to do so. On the other, it is largely because of the tremendous accumulation of knowledge, frameworks and practices to date, much of it undertaken within individual companies, that the larger challenge – and possibility – of systemic integration has even come into view. It will require both types of integration to create the sustainable economy for which we are striving. For the purposes of this report, we are focused on business integration, which we believe can and will contribute to greater systemic integration. We anticipate and welcome further research and exploration of the theme of systemic integration.

Sustainability Incorporated



With this report, our 2015 *Engaging Stakeholders* network research provides insight into the business integration of sustainability generally, and specifically examines the role of sustainability practitioners to incorporate sustainability into their companies.

The report highlights five pathways capable of furthering sustainability integration in business:

- **Employing business model thinking**
Build an understanding of how the business creates value by creating a visual map of the business model
- **Putting materiality to use**
Focus and act upon key issues in ways directly tied to core business activity
- **Applying a sustainability lens to products and services**
Add a sustainability lens at decision-making points in product and service design lifecycles

- **Tapping into culture**
Understand aspects of the company's culture that can drive sustainability outcomes
- **Leveraging transparency**
Use transparency—and integrated reporting specifically—to both drive and reflect integrated thinking

There are many other pathways, tools and enablers of integration aside from these five, such as incentives and remuneration, governance structures, collaboration with peer companies, scenario planning,

metrics development and employee training. We chose to focus on these five pathways due to their potential impact, practicality and proven results. Numerous interviewed companies highlighted the effectiveness of these five pathways, while existing guidance and research reinforced their importance.

These pathways also align with the existing responsibilities of practitioners, making them actionable. We advise that the pathways be explored along with other approaches to integration that may be unique to each company.





About this research

We embarked on this research project on behalf of our Engaging Stakeholders members, a group of companies committed to embedding sustainability into their businesses. *Sustainability Incorporated* follows 2014's *See Change*, which explored the role of transparency in driving performance.

See Change identified integration as a key element of transparency, positing that companies undertaking three key steps (understanding their material issues, accounting for externalities and integrating this information into corporate strategy) are on the path to effectively leveraging transparency for greater sustainability. Our *See Change* research raised further questions about how to integrate sustainability issues into corporate strategy; hence, we undertook this project.

In developing *Sustainability Incorporated* we spoke to 60 corporate practitioners and sustainability thought leaders in Australia, Brazil, Canada, China, Hong Kong, Italy, Germany, Japan, Malaysia, the Netherlands, the Philippines, Singapore, South Africa, the UK and the US. We also reviewed several integration frameworks and tools, conducted desk research and consulted the work of experts on this topic.

Based on these efforts, we focused on the five pathways noted above because they show particular promise in enabling the integration of sustainability into business. To help readers explore these five pathways we provided context as well as examples of companies putting these ideas into practice to meaningful effect.

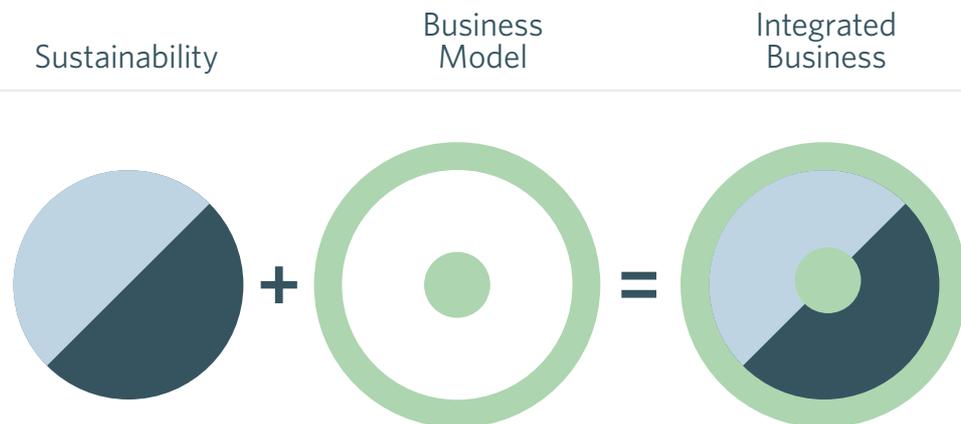


INTEGRATION DEFINED; LEADERSHIP EXPLORED

Integration Defined; Leadership Explored

Integration is such a broad and deep concept that it runs the risk of meaning everything and nothing at the same time. As we have explored this theme, we have come to define integration - which we also refer to as "embedding" - as incorporating sustainability into the business strategy such that the business model creates social and environmental value in addition to financial value. In other words, by the very act of succeeding as a business, a company creates greater value for society and the environment.

We also note the important relationship between integrating sustainability and integrated reporting. We explore this in more depth on page 83. We believe the definition of integrated thinking from the International Integrated Reporting Council (IIRC) is complementary to our own understanding of integration: "Integrated thinking is the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term."⁹



The breadth of the topic of integration is reflected in the diverse ways that sustainability practitioners interviewed for this research project describe integration:



"To integrate sustainability, you need to connect dots between the sustainability function, which has been traditionally siloed, and what it means to other departments. The first step is to define what sustainability means for each business unit and function - up, down, and across the organization."



● **Rachel Fleishman,**
Business Development Asia Pacific, BASF



"In an integrated future, sustainability issues and opportunities have the same seat at the table as fuel economy, product attractiveness, revenue and so on. Each skill team or functional unit has sustainability metrics that feed directly into corporate business plans."

● **Carrie Majeske,**
Associate Director of Global Sustainability Integration,
Ford Motor Company



“From an organizational perspective, it would be ideal if corporate responsibility is a lean function that supports the business to consider and respond to big societal challenges that are material to our sector. Our Corporate Responsibility team is having, and will have, the role of understanding what’s going on outside the company, making sense of societal trends that might become material, being change agents, working with the business to see societal challenges through sustainability lenses and finally integrating the insights into the business, always with the aim of creating value for business and society.”



● **Michael Fuerst,**
Senior Manager, Corporate Responsibility, Strategy & Innovation, Novartis



“Everyone is held accountable to understand how their actions affect broader sustainability and business goals.”

● **Colleen Vien,**
Global Sustainability Director, Timberland



“Over many years, Westpac has fostered a deep recognition that every person in the business - not just the sustainability team - is accountable for the organization’s sustainable performance. In practice, each sustainability performance target is owned by a leader from different parts of the organisation. My vision is that I could talk to any Westpac employee and they could tell me a story of how sustainability comes to life for them and their role.”

● **Siobhan Toohill,**
Head of Group Sustainability, Westpac



“The goal is to move corporate responsibility from ‘something we do’ to ‘how we do everything.’”

● **Kevin Hagen,**
Director Corporate Responsibility, Iron Mountain



“Incorporating sustainability into the business strategy such that the business model creates social and environmental value in addition to financial value.”

● **SustainAbility’s** definition of integration

The Role of Leadership

Our research indicates that support from senior leadership is critical to making real progress on integrating sustainability into the business. Without senior level buy-in, embedding sustainability deeply into the business model will be an uphill battle, if not impossible. Many thought leaders and practitioners call out the importance of supportive leadership: Mervyn King, Chairman of the IIRC, notes, “Without leadership there cannot be change...[the] CEO or CFO must be perceived to be fully behind the move to integrated thinking.”¹⁰ Ceres recently released a report on the role of boards and sustainability, noting: “Corporate boards must take a leading role in championing sustainability across the entire business enterprise.”¹¹ The Prince’s Accounting for Sustainability Project also notes that senior leadership is critical for integrated thinking and integration, stating: “Senior management needs to be committed to the process of embedding sustainability. In particular, the Chief Executive needs to show urgency in both action and message.”¹² Given these perspectives, it’s no coincidence that Unilever has successfully integrated sustainability into many parts of its core strategy and has a CEO who is immensely supportive of this approach. The team at Vodacom affirmed this point of view further, commenting on the importance of a supportive CEO when reflecting on which factors were critical to their integrated thinking and reporting success: “[Integrated thinking and reporting] is not feasible if you do not have their buy-in – do not even try!”¹³

Gaining the support of leadership often requires one of the most difficult kinds of change: a change in mindset. In order to effectively prioritize sustainability, a mindset that understands and appreciates the interconnected and interdependent nature of the environment, society and markets is needed. Jib Ellison, Founder and CEO of Blue Skye, and Ram Nidumolu, former COO of Blue Skye, highlight the importance of this perspective, explaining: “This new mindset would see business, civil society and nature as deeply and existentially interconnected, acknowledging the limitations of what can be formally analyzed or valued in the marketplace. We call this the integrated mindset.”¹⁴

This worldview is not yet common among CEOs of multinational companies and yet it is essential for making progress toward a sustainable future. Jo Confino, Executive Editor of Impact & Innovation at Huffington Post, highlights the importance of this perspective,

noting, “...personal transformation and raising our own awareness and consciousness is critical if we are to have a hope of creating a society truly based on sustainable principles.”¹⁵ Even when changing leaders’ mindsets is difficult, sustainability practitioners can still engage leaders and gain their buy-in for integrating aspects of sustainability into the core business—specifically by ensuring that robust data and stakeholder input is available to executives on the company’s most material issues. Practitioners can also engage leadership in strategic ways, such as using business language that resonates with their priorities, focusing on issues that align with requests from investors and introducing ideas for embedding sustainability early in the planning process.

While many practitioners may wish they had a leader like Unilever’s Paul Polman at the helm, their leaders may be more supportive than they think but express their support differently. Leadership sometimes takes the form of Polman-esque, highly visible public statements, yet in other cases it is a subtler approach featuring little fanfare that leads to great progress. It is also important to acknowledge the risk of depending on individual leaders for action, as we have seen a company’s focus shift away from sustainability after the departure of a leader with a compelling vision; therefore, integration cannot be wholly dependent on one leader’s buy-in.

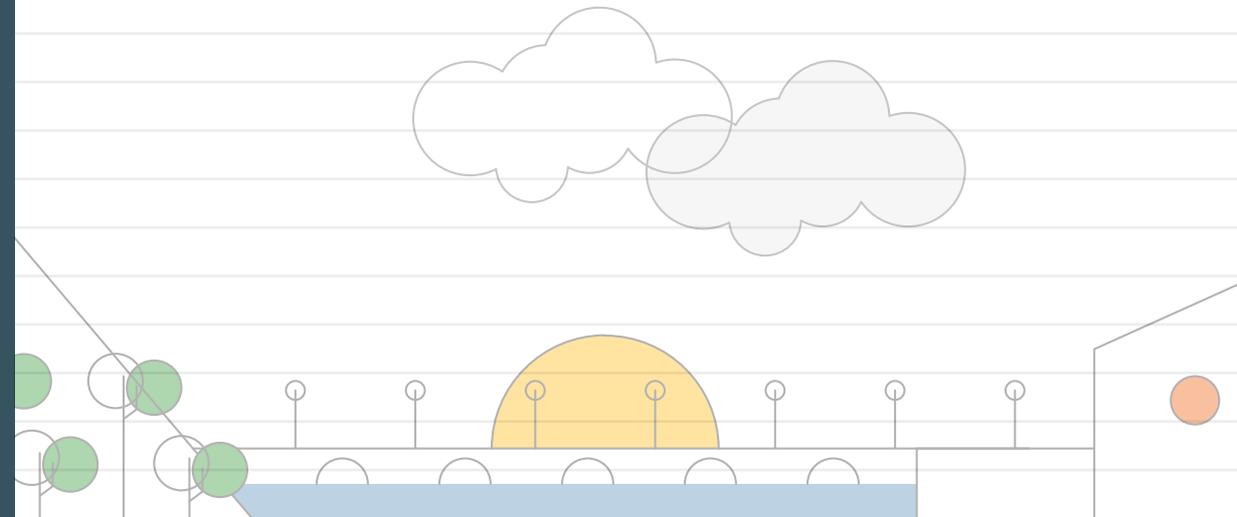
In other words, in spite of the importance of leadership, and notwithstanding the above mentioned dire warning from the Vodacom team, we believe the stakes are too high and the opportunities too great to “not even try.” And we believe the five pathways outlined in this report offer guidance that can be applied by practitioners in any company, regardless of their leadership’s level of ambition.



“It helps enormously to have a chairman who gets it. When management comes to these issues on its own, there is a real sense that the issues need to be addressed.”

● **Pat Dwyer,**

The Purpose Business and Former Director of CSR and Sustainability for Shangri-La Hotels and Resorts



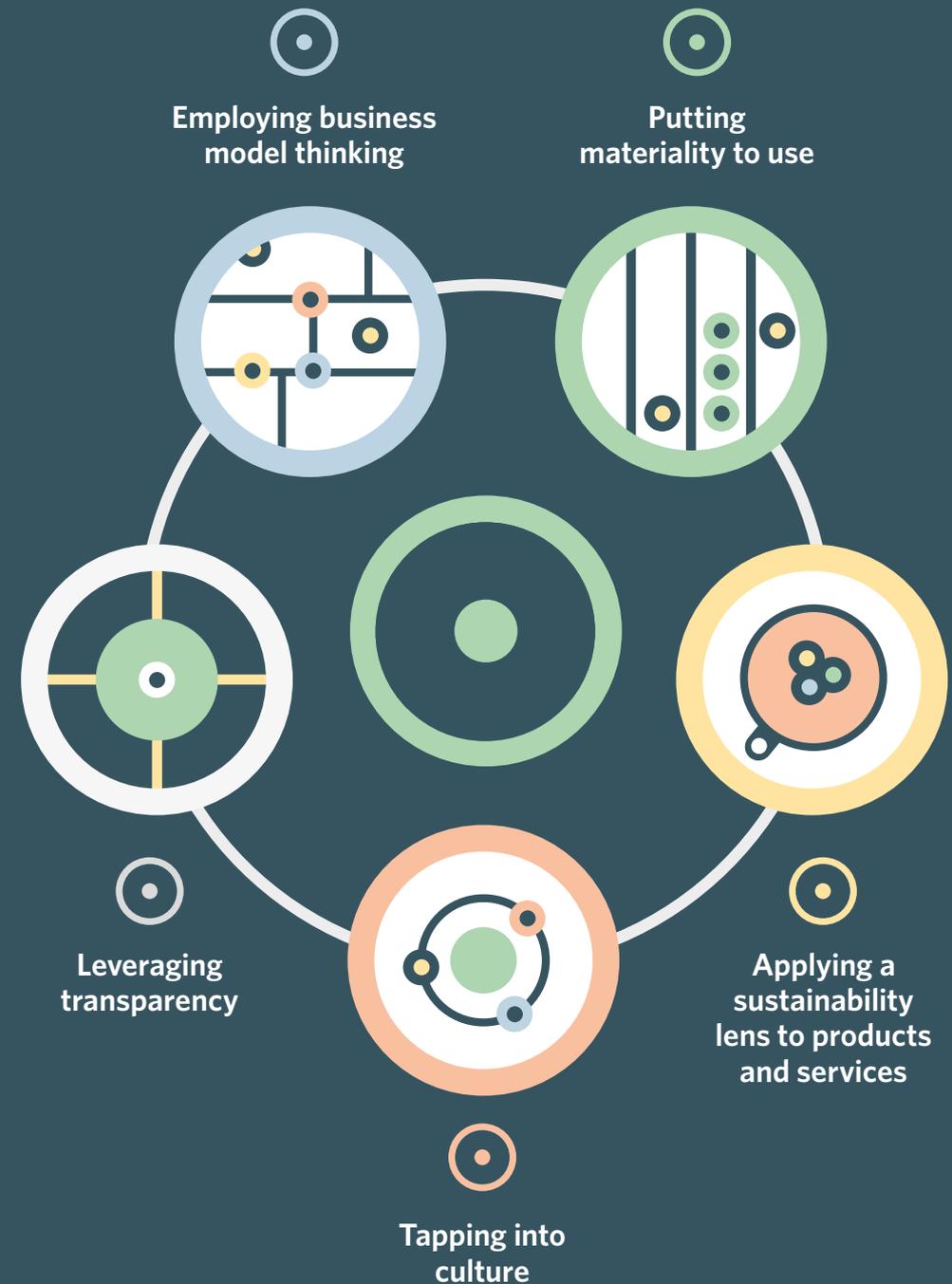
PATHWAYS TO INTEGRATION

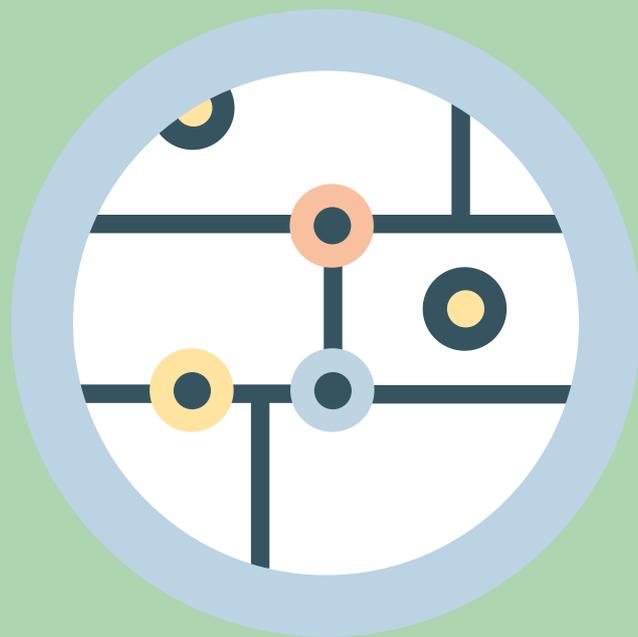
Pathways to Integration



Sustainability Incorporated highlights five promising pathways to accelerate integration – themes that practitioners can leverage to further embed sustainability into the business. While there are many other pathways and enablers of integration such as incentives, governance structures, metrics and employee training, we chose to focus on these five pathways due to their potential impact, practicality and proven results.

These pathways resonated with many of our interviewees and were also highlighted in existing research and frameworks. We advise that these five pathways be explored along with other approaches to integration that may be unique to each company. In this section we detail these pathways and present examples of companies employing them to advance integration efforts.





Employing business model thinking

Build an understanding of how the business creates value by creating a visual map of the business model

One fundamental step towards integrating sustainability into a business is to employ business model thinking. Business models can be described as “the fundamental structures for how companies create, deliver and capture value.” Understanding how the business creates social, environmental and financial value can provide increased clarity into the company’s value proposition and purpose. Knowledge of the business model also enables greater awareness of how and where sustainability can be more deeply embedded in the company. One way to foster business model thinking across the company is to engage cross-functional colleagues in the process of creating a map or illustration of the business model. Business model mapping is closely related to – and in some minds synonymous with – value chain mapping; in both cases, the key is understanding exactly how the business generates financial and non-financial value. We note the importance of understanding business models and a company’s value generation in our research on business model innovation, *Model Behavior: 20 Business Model Innovations for Sustainability*, in which we state, “The inner workings of a business model—its products and processes, its interactions with stakeholders, what and how it measures, the transactions it requires—influence a company’s ability to thrive in the future, and shape its impacts on people and the planet.”¹⁶

Gaining an understanding of a company’s business model before attempting to more fully integrate sustainability increases the likelihood of success. Business model mapping can align the language used across the business, reveal areas where sustainability may already be integrated, and generate new insights into how and where sustainability has the highest potential to be further integrated into the company’s operations.

While mapping the business model may seem like a rather rudimentary activity, our work and conversations with sustainability practitioners revealed how few of them

have actually taken this step; studies show that between 60% and 85% of most firms' employees do not know or understand their organization's strategy, including its business model.¹⁷

We recognize that mapping the business model can be a daunting exercise for large companies with complex or multiple business models. For businesses with multiple models, focusing on mapping one business model or one division can be a useful starting point. For companies both large and small, undergoing the process of mapping the business model presents a significant opportunity to gain greater perspective on ways to increase sustainability impact and innovation.

Several interviewees mentioned the importance of understanding the business model to not only better engage with colleagues across the business, but also to gain a shared understanding of what sustainability means for a company. Having a shared meaning of sustainability and language to use to describe its role and impacts is critical to embedding it deeply into the business. Michael Fuerst, Senior Manager, Corporate Responsibility, Strategy & Innovation at Novartis, reinforced this idea when he explained, "In the future, corporate responsibility professionals need to be more knowledgeable about and have a deep understanding of the strategic and operational side of the business and the needs of business managers. In order to work with the business on sustainability innovations at scale, corporate responsibility professionals need to have a high level of credibility with the business, understand the pressures and drivers business managers are confronted with as well as understand and speak the language of business."

Pat Dwyer, former Director of CSR and Sustainability for Shangri-La Hotels and Resorts, referenced the importance of speaking the same language and comprehending the business model. "The language of sustainability and integration needs to change within the business so that it's more palatable and familiar. We need to use business terms, and that requires sustainability teams to understand the business first," Dwyer said.

Gary Kendall, Sustainability & Strategy Specialist at Nedbank, also points to the importance of deeply grasping the role of the business, noting, "Integration starts with an introspection within the organization. You must ask: Why does the company exist? What purpose does it have? You then must try to understand the role of the organization within the broader macro-environment."

Being aware of how the business model works is important for external as well as internal stakeholders. We have noted already the importance of internal stakeholders understanding how the company creates value, but it is important that external stakeholders share this awareness as well. Multiple institutions and initiatives have developed guidance to support companies' communications about their business models through reporting and other channels. The IIRC highlights business model mapping in its framework for integrated reporting by recommending companies include an explanation of the business model as one of the eight content elements in their integrated reports. Lisa French, Technical Director at the IIRC, explains: "We want companies to think about their value proposition and connect the dots in terms of how the company creates value, its strategy and its business model."

Many companies that have tackled integrated reporting (a theme we explore on page 83) have used business model mapping as a key part of the larger integration process. To do this, sustainability practitioners need the input of cross-functional colleagues whose diverse points of view are essential to mapping the nodes of value exchange and creating a visual reference for future planning and reporting efforts. Such cross-functional teams are also adept at identifying where the most material issues occur within the business model, often pinpointing or highlighting the intersection between the way the company creates value and the most relevant sustainability impacts of the business. There are also a variety of tools that can help teams map their business models, such as the business model canvas developed by Alex Osterwalder and Yves Pigneur, or value chain mapping exercises that focus on visualizing points of transaction in the company's business.



Understanding how the business creates social, environmental and financial value can provide increased clarity into the company's value proposition and purpose.

An increasing number of companies are providing business model graphics in their reporting to help explain the fundamentals of the business itself and its sustainability approach. For example, the pharmaceutical company AstraZeneca provides a simple graphical overview of its business model in its 2014 annual report (see page 36).¹⁸ The diagram includes the key inputs and outputs of the business, as well as a simplified representation of how the company creates value over the lifecycle of the medicines it develops and brings to market. Several key sustainability factors appear in this business model graphic, from addressing unmet health needs to community development impacts.

The simple graphic offers a common language to articulate the way the company understands its value creation and its relationship with key issues and stakeholders, and it provides a clear indication of where sustainability can be further embedded in its model. AstraZeneca has continued to revise and improve its business model mapping as its strategy and reporting have developed.

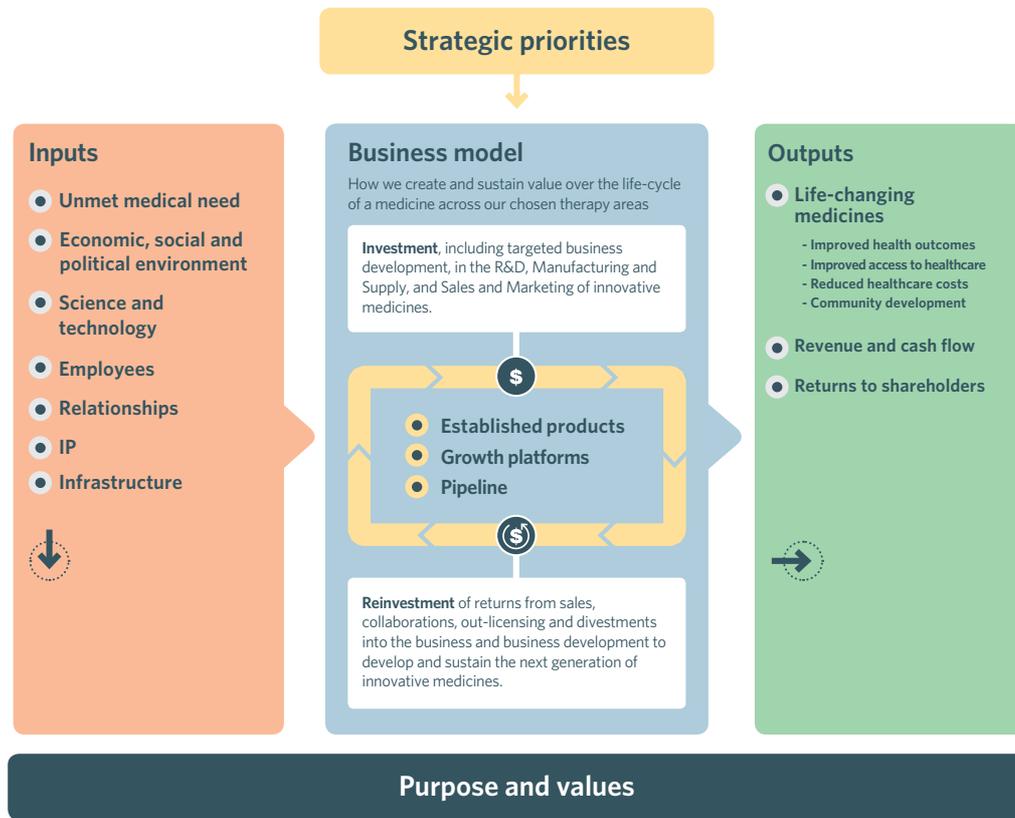
Novelis is another company that has used a business model visual to depict how the organization has been evolving to become more sustainable. In its 2014 report, the company illustrates its value chain and then indicates how its shifting business model will help advance the company from the current state to the point where the company can gradually “close the loop” on the aluminum value chain (see graphic on page 35).¹⁹ Through this business model map, Novelis highlights impacts such as less waste and reduced GHG emissions as well as new economic opportunities such as post-consumer collection of beverage cans. Novelis first provided a similar graphic in its 2012 report so that internal and external stakeholders could see how the process of closing the loop evolves over time, where the greatest impacts and opportunities remain and how the company plans to shape its business going forward.

We anticipate more companies will follow suit and develop and communicate business model maps as interest in integration grows and as the need for a common language and deeper understanding become more widely appreciated. On the following pages we explore how Fibria, a global pulp producer, has used business model mapping to further embed sustainability.

● **Novelis' circular business model diagram**



● **AstraZeneca’s** business model diagram



“To move towards integration in our projects, we analyzed our value chain and processes for sustainability risks and opportunities. This led to the crafting of our Four Focus Areas, which we embedded in each step of our project development processes, to ensure that most if not all our products possess these sustainability attributes.”

● **Anna Gonzales,**
Sustainability/Planning Manager, Ayala Land, Inc.



Fibria explores its business model

Fibria's business model mapping approach depicts how its material issues align and enables the company to better understand the value it creates today and how it might produce value differently in the future.

One company that has applied business model mapping to fostering sustainability integration at a new level is the Brazilian company Fibria. The world's largest pulp producer, Fibria is exploring adjusting the elemental ways it creates value, increasingly positioning itself as a forestry management company as opposed to solely a pulp supplier.

Fibria was first motivated to map its business model in order to better understand how it creates value as well as to inform the development of long-term targets. To map its business model Fibria used fundamental elements of systems thinking and engaged team members from all departments. Over a six-month period Fibria developed a highly complex map of its business. "Mapping our business model helped us internally understand what sustainability means for Fibria and for each department and how our financial and nonfinancial variables relate to each other," Cristiano de Oliveira, Consultant at Fibria, noted. Fibria recognized both the internal and external value of mapping its business model and decided to share its initial business model illustrations in its 2012 integrated report. "We decided the best way to tell our company story was in an integrated way with visualizations. The business model map helps communicate to stakeholders Fibria's role in society, how we're mitigating our impacts and how we're strategizing for the future," de Oliveira said.



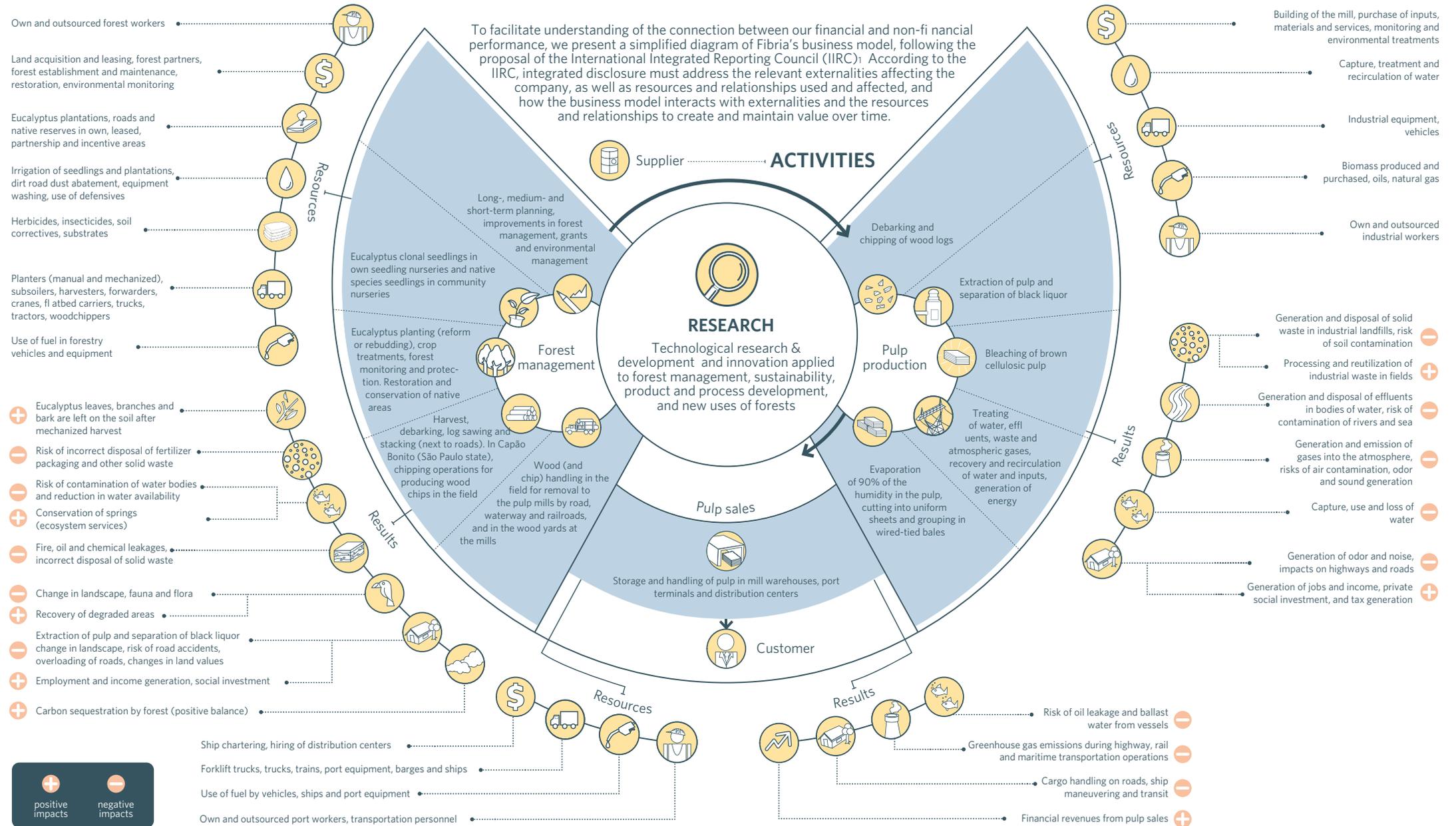
Fibria has continued to evolve its mapping; its diagrams now include positive and negative externalities, financial and non-financial information, material issues and their alignment with the business model, as well as how the company's strategic priorities relate to materiality results and value creation. The graphics are quite complex and it may take a reader some effort to fully comprehend the images. The company has heard and shared transparently in its reports that some external stakeholders find the graphics overly complicated and unhelpful.²⁰ At the same time, internal stakeholders attest to the value of creating the infographics, explaining that the cross-functional dialogue required to identify where issues sit, how the pieces fit together, and whether externalities are positive or negative have proven hugely valuable to the business. This supports the idea that business model mapping to enable greater sustainability integration is both effective and more widely beneficial too. Fibria's success in integrating sustainability into the business is evident in its integrated strategic targets, such as reducing by one-third the land needed for pulp production.

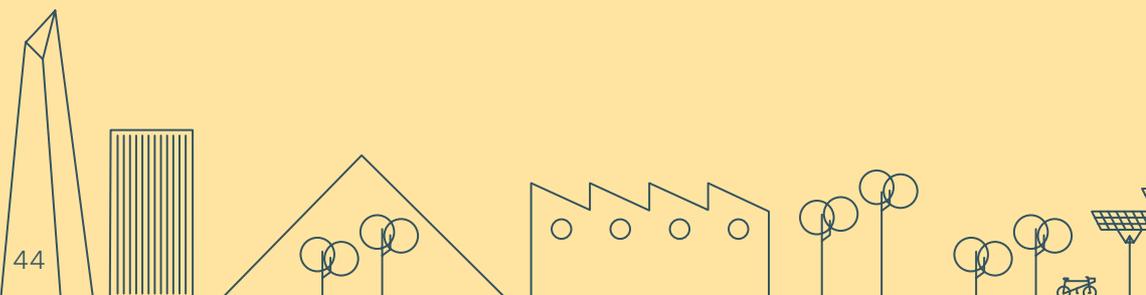
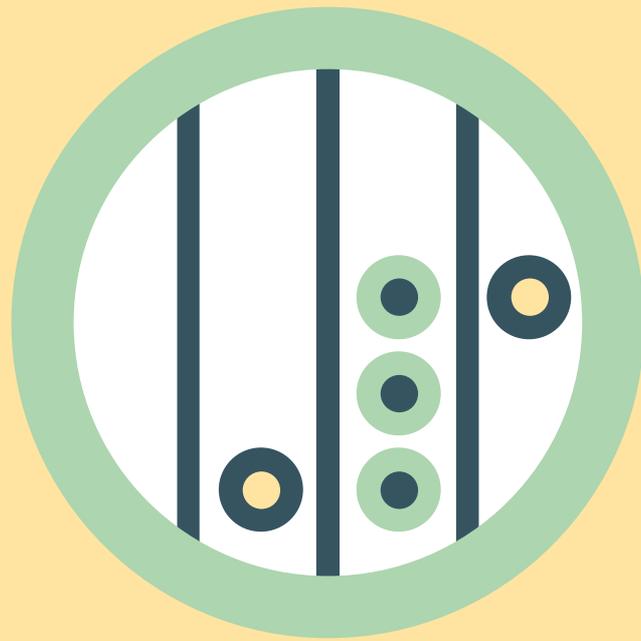


"The business model map helps communicate to stakeholders Fibria's role in society, how we're mitigating our impacts and how we're strategizing for the future."

● **Cristiano de Oliveira,**
Consultant at Fibria

● Fibria's 2012 business model diagram





Putting materiality to use

Focus and act upon key issues in ways directly tied to core business activity

Integrating environmental and social considerations into every aspect of the business is complex, especially in a large business where sustainability has not previously been a strategic priority. Materiality is an important tool that can help focus on—and prioritize—truly strategic sustainability issues. In our 2014 report on the future of transparency, *See Change*, we discussed how materiality is a critical element of effective transparency and how companies can leverage a short list of material, or most important, issues to inform strategy and reporting. We also called out the importance of working toward a 'one materiality' future where companies will have one list of financially, environmentally and socially material issues that inform company strategy and decision-making.²¹ In our research on integration we return to materiality as a critical tool that practitioners can use to embed sustainability more deeply into strategy and operations. Materiality can be an exceptionally useful tool due to its high adoption rate by companies and its ability to foster alignment between internal teams by enabling discussions about the most important issues facing the business.

In many large companies today, some effort to identify and prioritize the most important sustainability issues has been undertaken. While many companies have conducted a materiality assessment, we often note a lack of strategic focus in these processes, which inhibits deep embedding. Here we explore how such focus can be employed to integrate sustainability more effectively. We advocate that businesses and practitioners focus on a select few issues (or even just one) in order to achieve the most progress. Practitioners can then better resource and act on the issues, making clear how they impact the business and establish goals and metrics that enable progress and build accountability. Once a company has effectively integrated those selected issues into its business, it can then consider integrating additional sustainability issues.

Focusing on a narrow set of issues

Carefully selecting just one or a few sustainability issues for initial embedding across the business can be an important means for effectively driving integration. Many companies attempt to prioritize and embed too many issues, from carbon to inequality, and fail to gain real traction on any of them. We have seen companies break this cycle by focusing on a few significant issues and incorporating those into corporate strategy, design processes, department goals and staff targets. One example that we explore below in more detail is Starbucks and its focus on ethically sourced coffee.

Choosing which issue(s) to embed into the business should be guided by a materiality assessment or one of the many related prioritization tools available. Materiality assessments enable companies to identify and prioritize the sustainability issues throughout their value chains that matter most to the business and its stakeholders. Guidance on how to conduct materiality abounds. Reporting frameworks such as the Global Reporting Initiative's (GRI) G4 guidelines provide instruction for how to identify and report on material issues. Emerging standards from the Sustainability Accounting Standards Board (SASB) present companies with sector-specific lists of material issues and performance indicators. In recent years, new digital tools have emerged that sharpen issue selection and prioritization. For example, the Convetit online engagement platform has embedded a materiality tool into its virtual "think tanks," which allows large numbers of stakeholders to efficiently plot issues on a matrix. eRevalue Datamaran offers a powerful "emerging issues radar" which allows companies to scan their sector and understand the degree of peer information disclosure on various issues, including those deemed most material.

These tools can help zero in on a relevant array of issues that matter most to companies. From there it takes decisive focus to select 1-3 issues that will be fully integrated. Once a company has identified the few material issues to focus upon, it must embed the issues across the business. While many companies have gotten to the general materiality assessment stage, few have leveraged the outcomes to inform strategy and embed issues deeply. We note in *See Change* that materiality presents a great opportunity to link key issues to the business model, engage other departments and inform strategy.

The process of integrating issues into the business model and strategy will vary depending on the issue itself—for example, embedding human rights will involve different internal stakeholders and processes than embedding water conservation. However, if the issue is truly material to the business then the case for integration should be supported by data that has been collected over time.

Acting on the key issues

To begin acting on the material issues most ripe for integration, a company needs to understand how each issue relates to different parts of the business. This can be done by mapping the business model (further explored in page 31) and speaking with other functional units to better understand the impacts and opportunities related to the issue. For example, a practitioner might engage with the finance department to explore how a prioritized issue aligns with topics already identified or how it could affect capital expenditure; the risk department to understand whether and how the issue is identified on the company's risk registers; or the HR department to discuss how the issue plays into training, talent acquisition and retention. As Pamela Mar, Director of Sustainability for Fung (1937) Management / Fung Group notes, "Sustainability practitioners need to apply a strong filter about what's most material and translate it into language of the business that will incentivize and inspire colleagues to act." Understanding how each material issue affects functional units and roles throughout the company is key to the process of embedding it into corporate strategy and ensuring it is supported by appropriate goals and targets.



We advocate that businesses and practitioners focus on a select few issues (or even just one) in order to achieve the most progress integrating them into the business.

Setting goals related to a material sustainability issue enables functional units and employees to better understand how it relates to their roles, builds wider ownership for the issue and related outcomes, and helps ensure that the issue is being managed at a strategic level across the business. There are many excellent resources available to support effective goal setting. For example, the recently released Sustainable Development Goals present specific targets within 17 areas which can inform goal-setting for issues relevant to the company and within the global context.

The Natural Step Canada and the 3D Investment Foundation's Future Fit Benchmark offers guidance on setting goals that enable companies to be "fit for the future." Authors Chris Laszlo and Nadya Zhexembayeva present useful directions for moving from incremental to breakthrough goals in their book *Embedded Sustainability*. In our 2013 report *Changing Tack*, we discuss goals as a key part of corporate leadership, emphasizing the importance of developing science-based, long-term goals that are ambitious and supported by stakeholder perspectives. We note: "Goals help to further define both the destination and critical waypoints on the journey. When they are precise, relevant and ambitious, they can generate added trust and engagement from stakeholders, spark innovation and drive progress toward even larger, more ambitious goals and the overall vision of a firm. Better goals—both large and small—are also a critical means for understanding and prescribing more systemic solutions to many sustainability challenges." In this report we also explore an example of a company setting "fair share" goals, which effectively take into account relative impacts within external contexts, in the case study on Nedbank on page 51.

There are a number of companies that effectively identify and prioritize one or a very narrow set of issues and then successfully integrate the issue(s) into the business by setting goals and tracking progress. One such example is Starbucks, which has long identified sustainable and ethical sourcing as one of the most critical issues to its business. In its 2007 sustainability report the company identified coffee purchasing practices as the most material issue in its materiality matrix and since then, the company has expanded its work and communication on this topic. Starbucks has maintained a focus on ethically sourced coffee as one of its three most material issues and has worked to embed it as a priority across the business. Starbucks set an ambitious goal of ensuring that 100% of its coffee would be ethically sourced by 2015 and developed its own sustainable coffee standards, the Coffee and Farmer Equity (C.A.F.E.) Practices, as well as a partnership with Conservation International to work

toward meeting that goal. In 2015, after investing over \$70M on improving sourcing, Starbucks reported that 99% of its coffee was ethically sourced. While recognizing the 99% threshold may be a practical limit given that some new suppliers will always be in the process of getting certified to Starbucks standards, the company continues to pursue ethically sourcing 100% of its coffee. Starbucks is also working to make coffee the world's first sustainably sourced commodity and thus influencing the industry overall.

Swiss food company Nestlé has also placed a particularly sharp focus on one of the many issues it manages closely, human rights, in order to more effectively embed it into multiple parts of the business and supply chain. Working with the Danish Institute for Human Rights, Nestlé developed an eight pillar Human Rights Due Diligence Programme and established a cross functional working group to oversee the effort. Nestlé also incorporated human rights considerations into its supplier code and implemented an ambitious human rights training program, training 49,444 employees in 64 countries. Nestlé also set and achieved a goal to measure and reduce human rights violations across all 12 commodity categories within Nestlé's Responsible Sourcing Guide. After focusing on one material issue, Nestlé is now working to integrate other issues into its business as well, including nutrition and rural development.

The Starbucks and Nestlé examples illustrate how focusing on a single issue can help a company integrate a single issue throughout the business. Once a company has embedded one issue, it is well-positioned to continue addressing material issues. We explore a more detailed example of how Nedbank has used materiality to integrate sustainability into its core strategy.



Setting goals related to a material sustainability issue enables employees to better understand how it relates to their roles, builds wider ownership for the issue and related outcomes, and helps ensure that the issue is being managed at a strategic level across the business.



Nedbank's integrated strategy

Nedbank, one of the largest banks in South Africa, has integrated its key material issues into its strategy and is evolving its business to create value across economic, environmental and social areas of impact.

Informed by an internal materiality process and a changing external context, Nedbank began to recognize the role of environmental limits such as climate change and access to fresh water in exacerbating inequality and increasing the potential for conflict in South Africa. The bank and its leadership saw the need to respond to these pressures through its strategy.

Using its materiality process, the bank focused on issues such as the environmental and socioeconomic impacts of lending, investments and other products and services. It then worked to embed these issues into its refreshed strategy by developing a mechanism, dubbed Fair Share 2030, to gradually shift financial capital away from areas that contribute to societal risks and toward areas that build long-term resilience and wellbeing.²²

In order to carry out this shift in lending, Nedbank created eight Long-term Goals to guide its decision-making. In doing so, it took into consideration the Millennium Development Goals, the UNEP Green Economy Initiative and the UN Framework Convention on Climate Change.

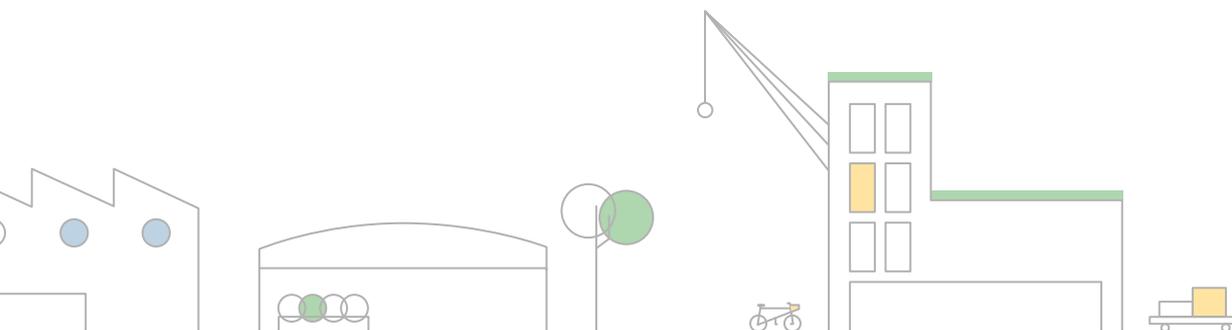
South Africa



Nedbank also incorporated a South Africa-specific angle on its goals by factoring in the country's National Planning Commission Diagnostic Report, which highlighted the most pressing development challenges facing the country. Finally, Nedbank reviewed its core activities to assess which goals could be addressed through the bank's fundamental purposes and processes.

From these inputs, Nedbank developed eight goals with specific targets to help guide its decision-making around lending and enable it to positively contribute to society. The Long-term Goals relate to the issues of decreased carbon emissions and water extraction, better jobs, increased clean energy and increased responsible savings, among others.

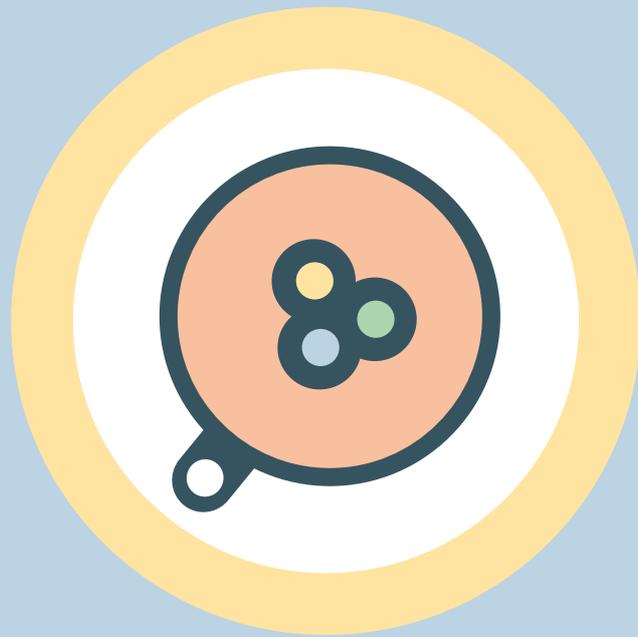
Nedbank calculated that to achieve the Long-term Goals by 2030, funding equivalent to 2% of the South African gross domestic product (GDP) would have to be invested and lent differently into the economy annually. Nedbank calculated what its 'fair share' would be in terms of lending toward activities that help to address its priority areas and close the implied funding gap. The bank's fair share is linked to its market share of debt provision in the economy, and as a result, has set a lending target of 6 billion South African Rand for 2015. CEO Mike Brown has driven much of the strategy process and has recognized sustainability as an integral part of the business. "The most important thing is to not think of sustainability issues as separate. You have to think of business strategy and sustainability at the same time," says Brown.²³ By understanding and acknowledging the company's most material issues and its role in society – and, most importantly, using this understanding to shape its core business offerings – Nedbank has unified its business and sustainability strategies while also creating a significant opportunity to drive larger, systemic change.



"By looking through the most important issues facing the country and sorting out which ones relate to the business and which ones we can influence through our lending, we were able to create a business strategy and not a separate sustainability strategy."

● **Gary Kendall,**
Sustainability & Strategy Specialist at Nedbank

The Nedbank example illustrates how using materiality to focus—and then act—on the issues by setting goals can help companies embed the issues into the core business. By understanding how one or a few material issues play out across a business and relate to the company's core offerings, companies can incorporate sustainability issues into their business models.



Applying a sustainability lens to products and services



Add a sustainability lens at decision-making points in product and service design lifecycles

A company's products and services are at the very core of what it brings to the marketplace, and therefore they offer a key leverage point for integrating sustainability. Many companies have identified ways to modify existing products or services—or to develop new ones—with sustainability factors top of mind in the process. Applying such a sustainability lens to products and services can result in a shift in the internal design process as well as change externally by way of supplier and consumer behaviors and expectations.

While product and service innovations may not constitute a dramatic change to a sustainable business model (product innovation may result in “less bad” products while still falling short of making the business that produces it completely sustainable), it presents a compelling pathway with high potential impact if a wider audience adopts the improved product or service. Developing sustainable products and services can also help build the case for further integration of sustainability, especially as the demand for such products is growing. A recent study by the Conference Board found that revenues from sustainable products and services from leading companies climbed 91% between 2010 and 2013 whereas overall sales grew just 15%.²⁴ The financial benefits of applying a sustainability lens to products and services can help make the case for embedding sustainability into other parts of the business such as strategy and operations. This pathway also offers a tangible, day-to-day approach to sustainability that can involve, and thus influence, multiple business units such as product development, purchasing and sales and marketing, sowing the seeds for further integration.

Our desk research highlighted many ways in which companies already apply a sustainability lens to products and services. Typically these efforts form part of a broader sustainability strategy—often explicitly called out in a “Products” pillar in sustainability reports and constituting one of the more visible, well-communicated

areas of the company's efforts given the customer-facing nature of products and services. Based on the interviews we conducted, we learned that this is also one of the greatest opportunities to inform and engage sales teams, who are an extremely important part of the company's—and sustainability team's—success.

There are several ways in which a sustainability lens can be applied. Companies can apply tools such as lifecycle analysis (LCA) or align a product portfolio to an overall sustainability strategy in order to meet corporate goals. Companies can also create internal sustainability scorecards that prioritize sustainability aspects of a product or service in its development stages or external scorecards that influence suppliers and raw material sourcing. Many companies do a mix of all of the above and also set goals around sustainable products and services as they integrate sustainability into their core offerings. Below we focus on what we call “technical lenses” and scorecards.

Technical lenses

The application of more technical tools such as LCA is one way to use a sustainability lens to improve products and services. One of the best-known examples of this approach is at Interface, the world's largest designer and maker of carpet tiles. Its design process draws upon one part of its strategy that expressly seeks to “redesign products and processes to close the technical loop using recycled and bio-based materials.” Drawing on ideas from biomimicry, LCA and dematerialization strategies, the principles of sustainable design are directly incorporated into the product development process.²⁵ Interface's work to embed sustainability considerations into all design processes has enabled the company to set an ambitious strategy, Mission Zero, which aims to eliminate all negative impacts the company has on the environment by 2020. Interface's tactical approach, coupled with its strategy, is aimed at enabling the company to become a fully sustainable, regenerative business. While applying a sustainability lens to products and services does not necessarily integrate sustainability into the business model or fully bring sustainability out of its silo, such a focus can have a ripple effect to other areas within the business.

We explore BASF as an example of a company that has applied a sustainability lens to its products and services to drive integration on page 59.

Scorecards

Johnson & Johnson, an American healthcare company, has become a leader in the internal scorecard approach. In 2009, the company developed its Earthwards program, a process integrated across the company to engage product development teams to embed principles of sustainability into products across the full lifecycle. The Earthwards program considers seven impact areas when assessing the sustainability of products including: packaging, water reduction, positive social impact or benefit, and product innovation.²⁶ Johnson & Johnson partners with a third-party auditor to review products using the Earthwards framework and has a recognition program for products and teams that achieve meaningful progress against the framework. As of 2014 the company had included 73 products in the Earthwards portfolio, valued at more than \$8 billion.²⁷

The scorecard used by the world's largest retailer, Walmart, known as the Sustainability Index, is a supplier tool that was first developed in the US in 2009 and continues to be applied to new product categories. By 2017 it is expected that 70% of the merchandise sold in Walmart's US stores will have been sourced from suppliers who use the index, highlighting the degree to which sustainability principles are being integrated into purchasing by the world's largest retailer.²⁸ To support further integration at the consumer level, Walmart launched a “Sustainability Leaders” portal on walmart.com in early 2015 where suppliers meeting the Sustainability Leader criteria in a product category are recognized as more sustainable options in a highly visible manner for online shoppers. While Walmart's approach is still a fairly broad one (the company provides a caveat noting that listed products are not necessarily sustainable but the supplier has met a threshold level of disclosure about sustainable practices), it highlights the opportunity to integrate sustainability factors by applying a lens such as a scorecard to practices from supply chain through to point of sale.



BASF's Sustainable Solution Steering™

BASF's Sustainable Solution Steering™ methodology evaluates the sustainability of its product portfolio, enabling the company to understand the environmental, social and financial value of its products and focus on developing more offerings that bring value across these three areas of impact.

German chemical producer BASF has become increasingly aware of numerous external pressures such as the cost and availability of raw materials, new regulations related to carbon emissions and evolving consumer expectations. The company's Corporate Sustainability Board and staff have worked to address these changing needs by integrating sustainability into its product portfolio and its core business.

A key tool for this work has been BASF's Sustainable Solution Steering™ methodology, an evaluation and decision-making process for shaping the company's product portfolio. The process uses cross-functional workshops with staff members from product safety, strategy, marketing, sales, communication, regulatory units and sustainability to discuss questions such as, "Does our solution meet the current and future basic performance and sustainability requirements of the industry? Does the solution provide a significant contribution to the sustainability needs of our customers?"

Germany



The methodology accounts for industry and region-specific customer viewpoints and competing solutions, and also takes into account the product lifecycle. The group then ranks the products according to their sustainability performance into one of the following four categories:

-  **Accelerator** A solution with a substantial sustainability contribution in the value chain
-  **Performer** A solution that meets the basic sustainability standards in the marketplace
-  **Transitioner** A solution for which a specific sustainability issue is actively addressed
-  **Challenged** A solution with a significant sustainability concern identified and for which an action plan is under development

Since BASF launched the Sustainable Solution Steering™ in 2011, the company has engaged more than 2,000 employees from marketing, sales, R&D and sustainability in workshops to assess the sustainability of products; evaluated its entire 60,000 product portfolio, and; identified 14,000 Accelerator solutions.²⁹ Today, over 74% of BASF's sales revenues are from products that meet basic sustainability standards in the marketplace (Performer level) and 23% of products make a substantial contribution to sustainability (Accelerator level).³⁰

These numbers show that about a quarter of the portfolio already makes a substantial contribution to sustainability and these products are expected to fit into BASF's growth strategy—BASF set a goal to increase the sales share of Accelerator products to 28% by 2020.³¹ The Sustainable Solution Steering™ methodology supports BASF in developing more sustainable products and discontinuing some of its products that do

not fit into the company's sustainability minimum requirements. For example, BASF used its methodology to assess its paper coatings and classified some of them in the Challenged category due to environmental concerns about polyfluorinated substances. BASF decided to stop selling these products and instead developed safer, biodegradable and recyclable products. The two new products, ecovio® and Epotal®, are both categorized as Accelerator and offer a more sustainable product.³²

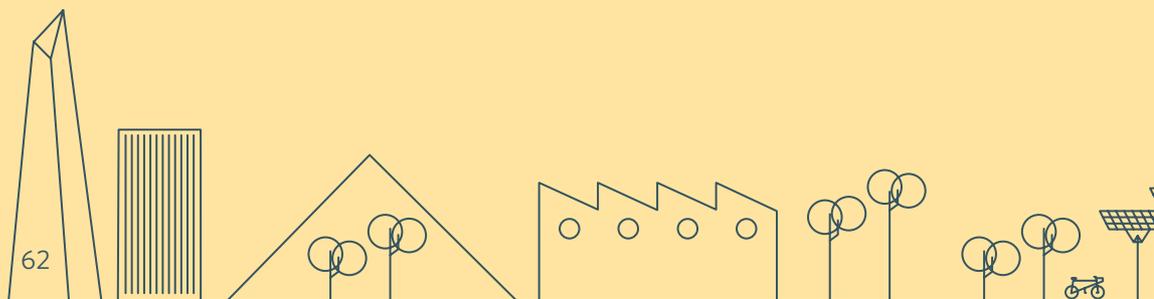
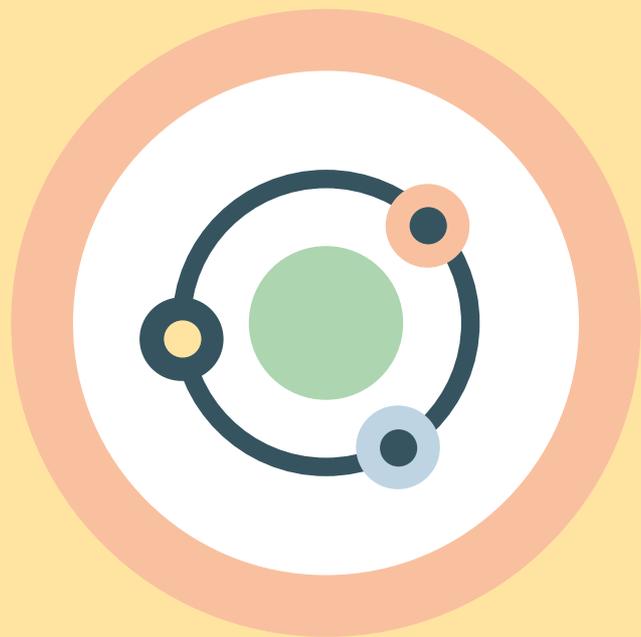
BASF's Director of Corporate Sustainability Relations, Thorsten Pinkepank, highlights the success of evolving the company's product portfolio, saying, "This approach has enabled us to show our internal and external stakeholders how we fulfill the sustainability needs of our customers with innovative solutions [and to demonstrate] that we expect these products to outperform market growth. This has allowed us to position sustainability as not just a means of avoiding risk but as a real growth driver."



"This detailed analysis and transparent classification allows us to both improve individual solutions and steer the entire portfolio. It also enables further integration of sustainability into our strategic, R&D and customer support processes."³³

 [BASF's Sustainable Solution Steering™ Brochure](#)

This case study illustrates how assessing the sustainability of a product portfolio and setting goals around sustainable products can help embed sustainability into business units and into the core strategy.



Tapping into culture

Understand aspects of the company's culture that can drive sustainability outcomes

Culture is difficult to define and may be described simply as "how we do things around here." But an organization's culture also can be thought of as a system of shared meaning jointly held by employees and other stakeholders that distinguishes the entity from other enterprises.³⁴ Such shared meaning is critical to sustainability integration; employees must have a mutual understanding of sustainability issues in order to fully integrate them into the company's decision-making. It is important to note that leadership plays a significant role in company culture and can enhance or diminish shared understanding of sustainability. We discuss leadership further on page 24.

Our research indicates that it is possible for corporate cultures to change given the right conditions and that progress can be made even within corporate cultures that do not have a deeply shared understanding of sustainability. With this in mind, we explore ways practitioners in organizations—whether large or small, innovative or risk-averse—can leverage existing aspects of their corporate cultures to integrate sustainability.

Many experts have noted the importance of culture to integrating sustainability into business. The Prince's Accounting for Sustainability Project identifies culture as critical to fostering integrated thinking, saying, "Creating a culture of sustainability begins with staff, throughout the organization, understanding not only what sustainability means generally, but what it means and why it is important in their specific context."³⁵ Forming a culture that enables employees to understand what sustainability means for both their specific company and their roles within the company is necessary in order to embed sustainability more deeply into the business.

Another important aspect of culture in the context of integrating sustainability is an openness to change and innovation. Harvard Business School Professor Robert Eccles and his co-authors point to the importance of certain cultural characteristics that may allow integration to flourish, noting, “Companies with an established organizational culture that includes strong capabilities for change, a commitment to innovation and high levels of trust have a significant advantage. When these elements are missing, becoming a sustainable company is more difficult.”³⁶ At SustainAbility we explored the relationship between culture and innovation in our research report *Model Behavior II: Strategies to Rewire Business*, highlighting four aspects of culture that enable innovation: supportive senior leadership, non-hierarchical structures, freedom to fail, and an ethos that encourages collaboration.



Employees must have a mutual understanding of sustainability issues in order to fully integrate them into the company’s decision-making.

Creating a new culture

While the cultural characteristics described in *Model Behavior II* are ideal to have when pursuing integration, many sustainability practitioners work within multinational companies that have risk-averse corporate cultures lacking these characteristics. Companies may have risk-averse cultures due to a number of reasons including but not limited to: leadership, external conditions, mergers and acquisitions, the natural inclination of incumbents, and local culture and traditions. And yet there are examples where corporate cultures, risk-averse or not, have transformed to further embrace sustainability. Barclays is an example of an organization that has worked to change its corporate culture by using a tool, the Barclays Lens, developed in 2013, to incorporate social and environmental considerations into decisions.

The Lens consists of five questions designed to help employees consider the broader impacts of their decisions on customers, clients and communities in the short- and long-term. Barclays aims to train over 10,000 of its employees to use the Lens by the end of 2015, thus shifting the corporate culture to embrace sustainability at the core of its daily decision-making. Similarly, Enel, an Italian electricity and gas company, went through a cultural transition that enabled the business to deeply embed sustainability issues and values and better focus on innovation. The company began by identifying the long-term risks of dependence on a fossil fuel-based portfolio and made a strategic decision to shift its business to focus on renewables, the modernization of grids, operational efficiency and thermoelectric capacity. To support this shift in business focus, a cultural shift was also necessary. Enel replaced many of its board members, appointed new sustainability leadership, and mixed personnel from diverse parts of the business in a new sustainability team. This structural change helped move the company’s “business as usual” culture and approach to one that incorporated innovation and sustainability as core tenets of its strategy.

The Barclays and Enel examples illustrate that it is possible to work towards meaningfully changing a company’s culture to be more open to innovation and sustainability. And where such dramatic change is not as possible, practitioners can still work within their existing cultures to drive integration.

Working with existing culture

Sustainability practitioners in change-resistant organizations can identify aspects of business culture that align with sustainability issues as a means to start embedding sustainability into their corporate culture. For example, in a conservative engineering firm a practitioner might leverage the high regard for quantitative assessments and apply tools such as LCA as a way to illustrate environmental risks or opportunities. Or in a company that values robust systems and processes, a practitioner could embed steps within existing methodologies to ensure sustainability issues are considered.

One example of a company that has leveraged its existing culture is Novelis, the aluminum products manufacturer. In 2012/2013 Novelis was aligning its diverse global operations under the One Novelis banner and also embarking on its ambitious 80% recycled aluminum goal which had a significant impact on the company's operations. In order to position the company well to progress toward its new goal under and banner, the sustainability team tapped into the existing Novelis culture. The team focused on the international nature of their facilities, including operations in Asia, Europe and North and South America, and the common theme of a passion for sport, particularly World Cup soccer, across the company. Novelis brought together co-ed sports teams comprised of Novelis staff members from around the world to compete at the Novelis World Cup in soccer and volleyball. Teams gathered for the first time as One Novelis and participated in a team-spirited global event where they raised funds for charities. Leveraging the grassroots love of sports that was engrained within its manufacturing hubs, the company was able to rally together at a key moment as it underwent a significant shift towards a more sustainable business model, using culture to build cohesion and enthusiasm.

In the following section, we explore further how aspects of culture can be leveraged to integrate sustainability through two detailed examples, a large financial institution and Campbell Soup Company.



“Correctly reading a company’s culture – and aligning sustainability objectives to business goals—can really accelerate the shift towards sustainability. We need to position sustainability as something that helps the company to achieve its other financial, product or market-related goals.”

- **Pamela Mar,**
Director – Sustainability for Fung (1937)
Management / Fung Group



“The Barclays Lens is creating an opportunity for our senior leaders and decision makers to open up a new conversation about how we should be thinking about and factoring in the broader implications of our business into our decisions every day. It has also been enabling a conversation about the role of a bank in society, how do those responsibilities play out, and what are our responsibilities to move beyond regulatory requirements.”



- **Kate Millar,**
Head of Thought Leadership, Learning and Innovation, Barclays

A large financial institution leverages banking culture to embed sustainability

The existing culture at a large financial institution is leveraged alongside a new service offering to create opportunities for sustainability integration.

A large financial services company has been able to apply its investment banking culture—one driven by financial performance—to partially embed sustainability issues into its strategy and services through the issuance of green bonds.

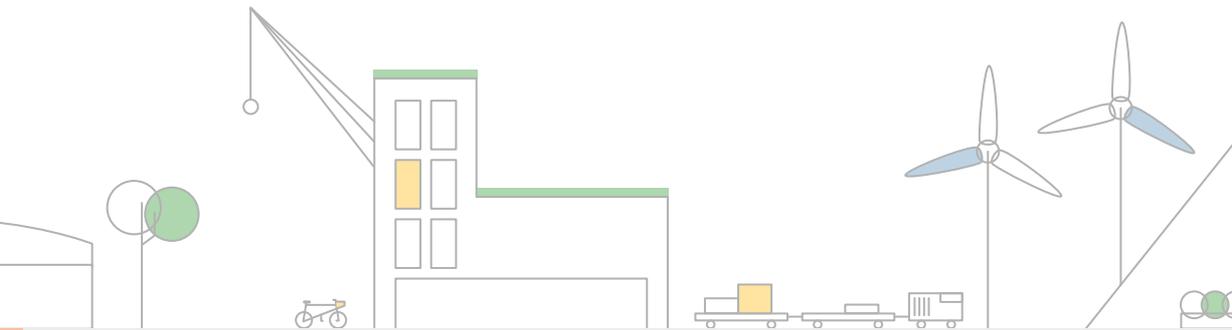
Demand for green bonds has grown significantly since their introduction to the market in 2008. These instruments serve as a means to fund projects with positive environmental benefits through a variation on the traditional bond model. Nearly \$36.6 billion in green bonds were issued in 2014, making them a growing service offering for financial institutions, and especially this firm.

As green bonds have increased in popularity, the firm has engaged parts of its banking team to issue these bonds, which simultaneously prompted them to develop greater expertise around sustainability issues. The banking teams who prepare and issue green bonds must be versed in sustainability issues such as climate change, biodiversity and renewable energy in order to make sound investment decisions. While the banking teams that issue green bonds are traditionally not very informed about the sustainability agenda, their work on green bonds has familiarized them with some of the most important sustainability issues.



A member of the company's Global Environmental & Social Risk Management team highlights this dynamic, saying, "When you structure green bonds you have to put together detailed documents to explain to investors how the bond will work and how the proceeds will be used for green projects, so the banking teams are becoming increasingly exposed to these ideas."

By playing to industry norms and the bank's existing culture and prioritization of growth opportunities, green bonds have created the opportunity for sustainability to be further embraced at the company. While it is difficult to say exactly how quickly and significantly the issuance of green bonds is affecting bankers and the company's overall prioritization of sustainability, the green bonds are fostering a deeper awareness of sustainability issues within a culture that did not necessarily prioritize such issues. A member of the company's Global Environmental & Social Risk Management team notes, "The growth in the green bonds space will almost certainly spur innovation as new sectors and clients are considered for their eligibility to be green bond issuers."



This case study illustrates opportunities to further expose employees to environmental and social issues by leveraging existing cultural norms and service offerings.



Campbell Soup Company & Plum Organics' Influence

The Campbell Soup Company (Campbell) is leveraging the innovative culture of a recently acquired company to drive further integration of sustainability.

Campbell has worked to promote global nutrition and wellbeing through its products portfolio, which includes soups, pasta sauces, cookies and juices. Some of its recent efforts have been inspired by the company's acquisitions of other companies such as Plum Organics, an organic baby food company. This has helped inform Campbell's efforts to take bolder, more innovative actions to foster a culture of sustainability and innovation and to pursue ambitious goals. The acquisition has also improved visibility into Campbell's efforts in sustainability.

As a B Corp and Public Benefit Corporation, Plum Organics has integrated sustainability into its core by prioritizing societal wellbeing along with financial wellbeing. The company was founded with the idea that business can be a source for positive change in the world and it has taken innovative approaches to its strategy and product offerings.

Campbell's acquisition of Plum Organics as well as other expansions such as with Bolthouse Farms helped inform Campbell about sustainable and innovative strategies.



Campbell has launched a line of organic soups and announced it would begin more sustainably sourcing five of the key ingredients used in its products — tomatoes, carrots, celery, jalapeños and potatoes.³⁷ Campbell has enabled its newly acquired product lines to maintain more of their unique branding and cultures.

Campbell has also learned from Plum Organics' candid and accessible approach to customer feedback and has embraced the company's efforts to meaningfully respond to, rather than just acknowledge, customer suggestions. Dave Stangis, Vice President of Public Affairs & Corporate Responsibility at Campbell notes: "We identify Plum as a challenger brand that challenges us to think more creatively and ambitiously. We're learning a lot from them -- they're very responsive to customer engagement and open to innovation and change." Plum Organics has also benefited from its parent company's guidance around structured and careful strategic planning, increased resources and infrastructure, and overall business acumen.

This example illustrates the opportunity for holding companies to leverage their most innovative brands to further embed sustainability into their own strategy and into their other brands.



"Part of what I've been helping to drive is a culture change. Plum Organics is mission-driven and lives its beliefs. I have been able to leverage their stories and innovation to help extend that type of culture inside Campbell."³⁸

● **Dave Stangis,**
Vice President, Public Affairs & Corporate Responsibility,
Campbell Soup Company



Integration Lessons from Hong Kong, China, Singapore, Malaysia, Japan and the Philippines

Key Asian markets provide an interesting study in the market pressures that can both help and hinder the integration of sustainability.

We spoke to practitioners in China, Hong Kong, Singapore, Malaysia, Japan and the Philippines and found that they are eager to accelerate the process of integrating sustainability. We see regulation and global customer demand putting pressure on companies to embed sustainability but, as with many markets, there are not yet clear signals from consumers for sustainable products and services.

Leading practitioners in the region suggest there is a clear case for integration, as evidenced by activity happening at a number of companies. For example, CLP Group (formerly China Light and Power) has developed a 3 part model (Innovate, Incubate, Integrate) enabling the company to develop and integrate the new capabilities and functions needed across the Group for a sustainable business over the long term. Below we explore some of the dynamics in the region that we believe will play a role in fostering future integration.



“To embed the principles of sustainability into the business to enable the company to exist for decades to come - that is integration, and that is what MTR strives for.”

● **Janice Lao,**
Sustainability Manager, MTR Corporation Ltd.



The dominance of family-owned conglomerates

Family ownership of companies is a somewhat unique structural characteristic in the region and it can have a strong influence on the degree to which sustainability is embedded. Between 80 and 90% of companies in Southeast Asia (not including China and India) are family-owned.³⁹

When the chairman or CEO is committed to sustainability, as is the case with Hongkong and Shanghai Hotels Ltd or Pacific Andes International Holdings Ltd, it can trigger a strong focus on sustainability throughout the company. And since leaders of family-owned businesses typically remain in their positions for some time, this commitment to sustainability can have long-term impacts. For example, John Swire & Sons, whose businesses include Cathay Pacific Airways Ltd as well as maritime and mining operations, will celebrate its 200th anniversary next year, and Chairman Barnaby Swire has said that the business will be judged on its impact

on the environment and the community. Head of Sustainable Development Mark Watson has a dual reporting line to the Chairman of Swire Pacific (the publicly listed entity) and to the John Swire & Sons finance director (private group), and he is mandated to drive strategy to ensure enhanced sustainable development performance across the group.

As new generation family members take on greater leadership roles in their companies, they often bring their perspectives and learning from overseas education. This trend may shift the prevalent culture of valuing consensus and humility in parts of the region, which, in the past, has challenged shifts to greater transparency and engagement.



Global customer demand

Social, environmental and economic change is transforming how business is run in many parts of Asia. Companies that represent major parts of the supply chain for global brands, such as Li & Fung Ltd or with accelerated international growth like Huawei which has expanded into 170 countries in less than 20 years, have been strongly encouraged by their customers to improve the sustainability of their practices.



“Successful integration involves every department, not just the sustainability department.”

● **Natalie Chan,**
 Director, Corporate Responsibility & Sustainability, The Hongkong and Shanghai Hotels Ltd

Importance of regulation and reporting

Government action and stronger reporting requirements are crucial in this part of the world to drive business action on integration. The Hong Kong Stock Exchange (HKEx) has signaled its intent to use listings requirements to improve sustainability reporting similar to exchanges in Malaysia and Singapore. This is significant as many Chinese companies are listed in Hong Kong. In sharp contrast to reporting practices of South African companies, which we explore further on page 96, currently only 46% of companies listed in Hong Kong report on sustainability performance.⁴⁰

Bodies like GRI see this change as a positive development not only for promoting corporate transparency in the region but also positive for the global economy.⁴¹ Local practitioners are hopeful that this driver will start to shift the growth- and compliance-driven mentality where the primary responsible business lens is philanthropy and CSR, and even eventually influence the mass of small- and medium-sized enterprises that make up the majority of the business community in these key markets.

Aligning with national development

Many companies are aligning their sustainability efforts with, or are encouraged by, national development plans. In Singapore, for example, the government has made strides to increase the number of green buildings, while China’s latest Five Year Plan has led to business innovations in the area of renewable energy.

In the Philippines, real estate company Ayala Land Inc. is aligning itself with national development goals and pioneering a holistic approach to urban development and renewal as well as infrastructure creation. Its vision, mission and core value statements indicate its founder’s commitment to long-term value creation. Since 2007, the company has continuously sought ways to integrate sustainability into its business model. By starting to analyze its value chain in the past two years, it came up with four sustainability focus areas that cover site resilience, pedestrian and transit connectivity, eco-efficiency and local economic development.

The role of technology

Many practitioners in the region find the intersection between technology, innovation and sustainability promising. Technology can improve efficiency, widen the lens of transparency and advance employee engagement. For example, Cathay Pacific Airways Ltd has launched an online application that encourages employee-led innovation on how to make the airline more sustainable.

More broadly, practical, scalable solutions like animations shown in multiple languages in factory canteens and take-home DVDs improve worker and family education and foster engagement on topics like water conservation and safety.





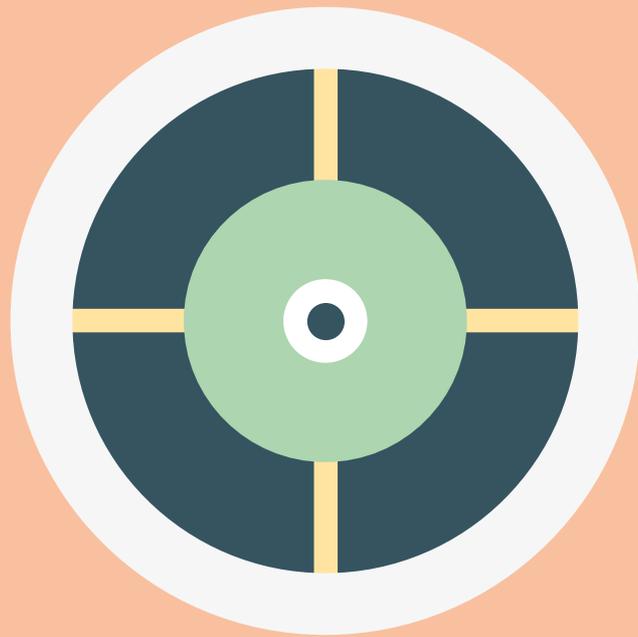
Section Conclusion

Overall, practitioners across the region are ambitious – with a healthy dose of restlessness – regarding the progress of integration. Yet through the work of the tenacious and experienced sustainability practitioners we spoke to, gears are clearly shifting within businesses, especially larger ones. It will take time, but there is no doubting the rising levels of competency and ambition that will drive larger scale change.

“We’ve seen an increase in capacity of the sustainability practitioner base in Hong Kong, driven by greater awareness of the strategic opportunities to be gained from the incorporation of sustainability within business operations. Further integration of sustainability into core business functions will follow as these practitioners move up and around the business and into other positions of influence.”

● **Mark Harper,**
Senior Manager - ESG Advisory,
Business Environment Council





Leveraging transparency

Use transparency—and integrated reporting specifically—to both drive and reflect integrated thinking.

SustainAbility has long recognized that corporate transparency is integral to sustainability. We have been active contributors to the evolution of sustainability reporting, from publishing our Global Reporters series (1994-2008) to developing and applying our report assessment methodology, to fundamentally questioning reporting's present day value in our 2014 report *See Change: How Transparency Drives Performance*. Ultimately, we recognize that reporting is just one tactic in a much broader, more strategic transparency evolution. With this in mind we explore how an emergent aspect of transparency – integrated reporting – can both drive and reflect larger integration efforts.

Integrated reporting is a tool practitioners can use to further integrate sustainability into the business and/or to demonstrate or explain a company's degree of integration to stakeholders. By intentionally shifting reporting towards an integrated model, practitioners can foster integrated thinking and accelerate embedding sustainability into their companies.

Integrated reporting is still mostly the exception rather than the rule. Most companies' investor-facing reports still limit themselves to describing the value they create in financial terms. But the idea of providing a more comprehensive look at value creation, in environmental and social as well as financial terms, is gaining traction. Novo Nordisk, rare in developing integrated reports for 10 years, has now been joined by upwards of 150 public and private organizations, all reporting in part or fully according to the IIRC framework that was first released in 2013. GRI, the pioneer of sustainability reporting, acknowledges the importance of integrated reporting, saying it is a "necessary innovation of corporate reporting."⁴² Still though, there are challenges to integrated reporting that prevent more companies from experimenting with it and realizing its benefits. We highlight some of these challenges—as well as benefits—on page 95.



Integrated reporting can *drive* integration

More companies are pursuing integrated reporting for the benefits that can be attained from the process as well as the most obvious output, an integrated report. A 2014 IIRC study found that 96% of integrated reporters saw an impact on internal engagement and noted silos breaking down and mutual respect increasing between departments as a result of integrated reporting. The study also noted that 92% of integrated reporters saw an increased understanding of value creation across their organizations.⁴³

The research and interviews conducted for Sustainability Incorporated revealed the importance of integrated reporting in providing structure and guidance for thinking in an integrated way and progressing integration more widely. AES Brasil, an electricity company, highlights how integrated reporting has helped the organization work toward integration. “[AES] believes that working with the integrated reporting framework has helped it move in the right direction to embed sustainability and move towards integrated thinking. Sustainability goals are now integrated into the corporate strategy, which has helped streamline processes as there are no longer overlapping conversations tying goals to multiple strategies.”⁴⁴ Another integrated reporter, HSBC, has found the IIRC’s six capitals concept to be a powerful tool for broadening internal thinking about performance.⁴⁵ Thorsten Pinkepank, Director of Corporate Sustainability Relations at BASF notes the value of integrated reporting as well, stating, “Through integrated reporting we have started seeing interconnectivity between our economic, environmental and social performance.”

Many companies find that the value associated with the integrated reporting process exceeds the base production and publication of the report itself. Since the IIRC’s reporting framework calls for insights into the company’s business model, the interconnectedness of issues and impacts up and down the value chain, the process requires input from across the company, reaching far beyond the sustainability team. The Brazilian bank Itaú Unibanco has experienced the benefits of this cross-functional approach. Denise Nogueira, Sustainability Manager at Itaú Unibanco, notes, “When we talk about integrated reporting we are not talking about the publication. We are talking about an integrated process of defining what’s relevant and collecting the information. The importance is the process, not the report itself.”

Integrated reporting can *reflect* integration

While integrated reporting can spark further integration of sustainability into business, reporting can also be used as a tool to communicate a company's integrated strategy. To this end, the IIRC's framework was developed with the investor audience as one key user of an integrated report. The integrated reporting framework enables companies to articulate how the business is assessing its risks and opportunities in the long term and helps the company communicate its value proposition effectively. The majority (91%) of 27 integrated reporters surveyed by the IIRC and corporate communication firm Black Sun in 2015 saw a positive impact on external engagement and approximately half of integrated reporters (56%) note improved relations with institutional investors as a result of producing an integrated report.⁴⁶ While investor interest in integrated reporting is still relatively low, there are indications that integrated communications will have more impact in the future as uptake of integrated thinking and reporting grows.

One example of a company using integrated reporting to reflect integration is Natura, a Brazilian direct sales cosmetics and personal care company. Natura has been working towards integrated thinking and reporting for several years, simultaneously prioritizing financial and sustainability success. Natura has established executive bonus structures that require attainment of both sustainability and financial objectives and implemented other strategic initiatives that prioritize sustainability.

Natura has also employed integrated reporting as a way to communicate its integrated approach to its stakeholders, noting that it has improved employee understanding of the business and has enhanced the company's comprehension of the main risks and opportunities it faces. It also highlighted the external benefits such as increased brand value due to a more positive perception of the company overall.⁴⁷ Lisa French, Technical Director at IIRC, comments, "Sustainability is incredibly ingrained in Natura's business and its reporting is now following its thinking."

Integrated reporting is an effective way to communicate that a company is taking a comprehensive view of its impacts and the ways in which it creates value. The most

practical guidance available for advisement on developing an integrated report is the IIRC's reporting framework. Companies that have produced strong integrated reports following the IIRC's guidance include AkzoNobel, Crown Estate, Eni, Natura, Philips and Sasol.



We explore two more examples of integrated reporting and its relationship to integration in the pages to follow. We first explore how AkzoNobel reflects the evolution of embedded sustainability through its reporting and then we review how Sasol is leveraging integrated reporting to drive further sustainability integration.

AkzoNobel

AkzoNobel's integrated reporting reflects an integrated strategy

AkzoNobel, the Netherlands-based chemicals company, took on integrated reporting as part of a larger strategic shift towards integration, illustrating how integrated reporting can support such a transition.

Like other companies exploring integrated reporting, AkzoNobel first experimented with combining their financial and sustainability reports. The company soon realized that real integration, whereby sustainability is part of the core business strategy, was necessary. AkzoNobel began analyzing external trends such as a growing population, the importance of cities, the need for closed loop production and more efficient products, and customer demands for sustainable products. From this analysis the company began to identify sustainability as an opportunity for growth and innovation for the company and a way to ensure its viability into the future. Given this new framing, the company's CEO and supervisory board took an interest in integration, leading the risk management team to incorporate sustainability issues as part of the risk management processes and resulting in the development of 60 financial and non-financial targets. The company soon began publishing integrated reports to help reflect its integrated strategy.

AkzoNobel found that the process of creating an integrated report also helped to further strengthen its integrated strategy. Ivar Smits, Sustainability Reporting Manager at AkzoNobel noted, "Integrated reporting led to additional internal insights, which led to better management decisions in some cases."⁴⁸

Netherlands





Additionally, the CEO observed that four different internal processes – a strategy review, financial review, risk management process and sustainability materiality analysis – were all probably trying in different ways to understand what is most material for the company. By going through the exercise of integrated reporting, the multiplicity and overlap of processes or strategies that could hopefully be significantly streamlined was brought to light.

Even at AkzoNobel, where the company has actively integrated sustainability into its core business strategy, there is distance to cover yet. It is now seeking to improve its impact upon human, social and natural capital, along with financial capital. To that end, the company recently undertook a pilot project, a 4D impact assessment, at AkzoNobel's Pulp and Performance Chemicals business and five other sites in Brazil with partners True Price and GIST Advisory.⁴⁹ Attaching economic value to both positive and negative impacts revealed insight into natural and social capital where the company previously did not have visibility. For example, it was clarified that the company's employee training programs provided significant human capital results whereas the negative impacts from its natural capital could be improved with the use of hydropower.⁵⁰ As companies and investors increasingly consider the full range of capitals affected by business, an assessment of a company's externalities, such as AkzoNobel's 4D assessment, sets a higher bar for integrated companies and integrated reporters.

AkzoNobel's integrated reporting efforts enabled the company to further embed sustainability into its core business strategy. Its work to value externalities such as natural and social capital are pushing into the realm of systemic integration, signaling to markets that capitals other than financial capital can and must be quantified and valued in order to progress towards a sustainable future.



“How do we align our report with our material issues? We have four different processes: a strategy review, financial review, risk management process and sustainability materiality analysis. Aren't they all four facets of the same process?”

● **André Veneman,**

Director of Sustainability, AkzoNobel



Sasol's integrated reporting drives integration

Sustainability integration efforts inside South Africa-based chemicals and energy company Sasol demonstrate how integrated reporting can help create a strategy that incorporates sustainability issues.

Sasol boasts a strong reporting history. The company published its first environmental report nearly two decades ago and released a fully integrated report in 2015. Various factors prompted this, including early involvement in the IIRC of Stiann Wandrag, Sasol's Head of Sustainable Development Performance Tracking and Reporting, who shepherded Sasol's constantly maturing reporting process internally.

Sasol also recognized the potential value gained by conducting integrated reporting. As an extractives company, Sasol has a strong awareness of the context and environment in which it operates. This made considering different forms of capital in order to better show social, environmental and financial value creation a natural path. "It is critical that we can show the golden thread from the board and how the board directs senior management in value creation for shareholders and stakeholders," says Alexandra Russell, Vice President of Strategy, Policy and Sustainability at Sasol.

The sustainability and finance teams led the transition to integrated reporting, but several enablers helped them gain buy-in. For instance, a strong history of environmental and sustainability reporting meant that a substantial amount of relevant data was already available.

South Africa



The company also communicated to colleagues the benefit of having an opportunity to discuss topics that are not often brought to attention. Sasol also gained buy-in from leveraging its well-governed materiality assessment to serve as the basis of conversations about integrated reporting. However, the company still faces a number of challenges related to integrated reporting and integration more broadly. “What we’re still developing is the overall strategy that then drives how Sasol holistically deals with the relative issues in the focus areas. We have been very good at identifying the issues and getting the relevant people talking about them. The challenge is getting them to fit strategically,” Alexandra Russell says.

Sasol’s advanced thinking on capitals is being used strategically to apply the IIRC’s six capitals, such as natural, human, and social capital, as integrated investment criteria. From proposing new projects to fulfilling new country entry requirements, colleagues throughout the business must demonstrate the impacts and expected results of the proposal on the resources and relationships underpinning all six capitals.

In Sasol’s experience, investors are also starting to take notice and increasingly basing their decisions on social and environmental strategy and performance. The integrated annual report helps Sasol communicate its integrated social, environmental and financial approach to shareholders and other stakeholders by highlighting the interconnections and dependencies among the capitals.

Sasol is now at an inflection point: Where is the company on the integration journey? What is the future? What is its ambition level? These questions regarding Sasol’s integration strategy are now top of mind and the company is working to use the building blocks of integrated reporting to think about next steps.

As many companies are in the early stages of considering integrated reporting, it is helpful to consider the challenges and benefits of undertaking this new approach to communicating a company’s value creation.

The *challenges* of integrated reporting...

- **Data maturity and quality discrepancies:** sustainability data is generally not yet as robust as financial data.
- **Potential loss of information:** elements of sustainability reporting may be excluded from an integrated report due to limited space or level of data quality.
- **Increased risk:** forward-looking statements may present legal or liability concerns.
- **Level of investment required:** additional resources may be necessary in the initial phases of integrated reporting.
- **Investor uptake still unclear:** despite being the main audience of integrated reporting, investors are still not fully referencing integrated reports to gather information.

The *benefits* of integrated reporting...

The overarching benefit of integrated reporting is its role in driving the integration of sustainability issues into the core business. In addition we identify the following benefits:

- **Greater understanding of value creation:** integrated reporting increases business model comprehension and identifies areas ripe for innovation.
- **Better data on capitals:** a broader definition of value beyond financial value will foster better data collection and performance related to other capitals such as natural and human capital.
- **Improved internal communication:** the cross functional collaboration needed to create the report can improve internal flows of information.
- **Meet investor needs:** integrated reporting meets growing investor and stock exchange requests for integrated information on corporate performance.





Integration Lessons from South Africa



The research underpinning *Sustainability Incorporated* shows that how practitioners go about integrating sustainability into business varies depending on where the company is on its sustainability journey, the business culture, and external drivers like regional culture and regulation. This last factor—regulation—plays an important role in integration. South Africa is particularly interesting in this context due to its advanced integrated reporting regulatory environment. Below we explore the current state of sustainability integration in South Africa and highlight applicable learning for practitioners.

In 1994, in response to challenging post-Apartheid societal struggles and corporate failures and to promote higher standards, South Africa's King Committee, chaired by retired Supreme Court judge Mervyn King (now Chair of the IIRC), published the *King Report of Corporate Governance*. The guidance represented absolute international best practice at the time and encouraged an

integrated governance approach that considered a wide range of stakeholder perspectives. In 2009 the *King III Report* was issued, this time broadening the scope of corporate governance to encompass leadership, sustainability and corporate citizenship. Subsequently, the Johannesburg Stock Exchange (JSE) issued a mandate that required listed companies to produce annual integrated reports starting in 2011 based off of the *King III Report*.⁵¹

As a result of the *King III Report* and the JSE requirement, today South Africa has one of the highest levels of integrated reporting in the world. As we discuss on page 83, integrated reporting is one pathway that is spurring the integration of sustainability into business.

However, while many companies are producing integrated reports in South Africa, our research indicated that few companies have effectively integrated sustainability into their core businesses, underscoring that simply producing integrated reports is not a proxy for integration. Mervyn King points out the limitations of reporting: "It is more important than ever to acknowledge that good reporting does not necessarily equate to good corporate behavior."⁵²

Other thought leaders in South Africa also call out the discrepancy between the quantity of integrated reports coming out of South Africa and the degree of true integration of those companies. Jonathan Hanks, founding partner at Cape Town-based consulting firm Incite Sustainability, describes this incongruity: "There is a false illusion that integrated reporting means that deep integrated thinking within the core of the business has been achieved. There are pockets of excellence but it's patchy."

While South Africa's regulations for integrated reporting have driven some leadership in both integrated reporting and deep integration—as seen with Sasol, Vodacom, Discovery and Nedbank—the majority of integrated reporters in South Africa have not yet truly embedded sustainability into the business. Roy Andersen, Chairman of the South Africa Institute of Chartered Accountants Integrated Thinking Project Group, notes that, "There is no doubt that integrated reporting has been a significant push factor in South African companies applying integrated thinking, with 78% of the executives in the survey acknowledging this. However, this is not to say that our companies are fully adept in integrated thinking – many of the survey participants recognize it's a journey and that they have some way to go."⁵³



Integration Lessons from South Africa (continued)

The state of integrated reporting and integration in South Africa points to two important learnings:

- While disclosure regulations alone will not drive deeper integration of sustainability into business, these regulations can be part of a wider set of conditions that enable progress, and
- Practitioners can leverage integrated reporting as a pathway toward integration, but must be aware that simply producing an integrated report does not mean the company has achieved integration.

To illustrate how companies are experiencing and responding to these external conditions, we explore Nedbank and Sasol as cases of integrated leadership on pages 51 and 93, respectively.



“We have a unique social and political context in South Africa that has led to specific rules and mandates about social inclusion and economic empowerment, and this has been an important driver of integrating sustainability.”

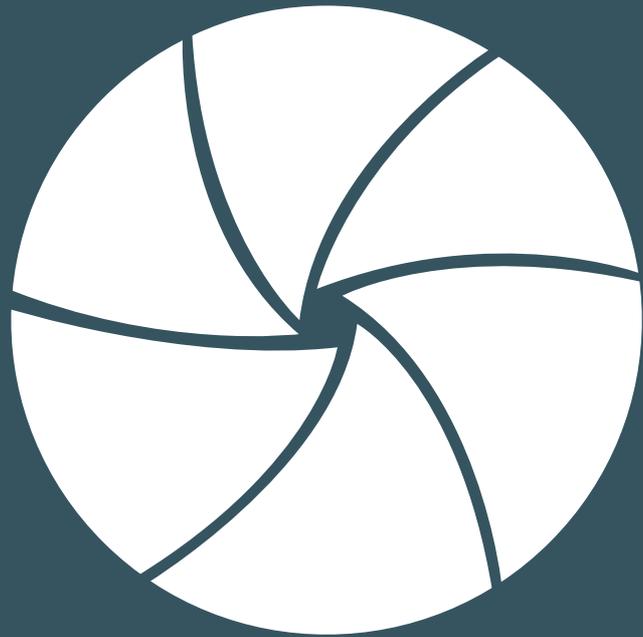


- **Justin Smith,**
Head of Sustainability, Woolworths Holdings



“Integrated reporting can foster strategic thinking around sustainability and we’re starting to see change. Integrated reporting is bound to drive further integration of sustainability into business.”

- **Corli le Roux,**
Head of SRI Index & Sustainability,
Johannesburg Stock Exchange



AN INTEGRATED FUTURE

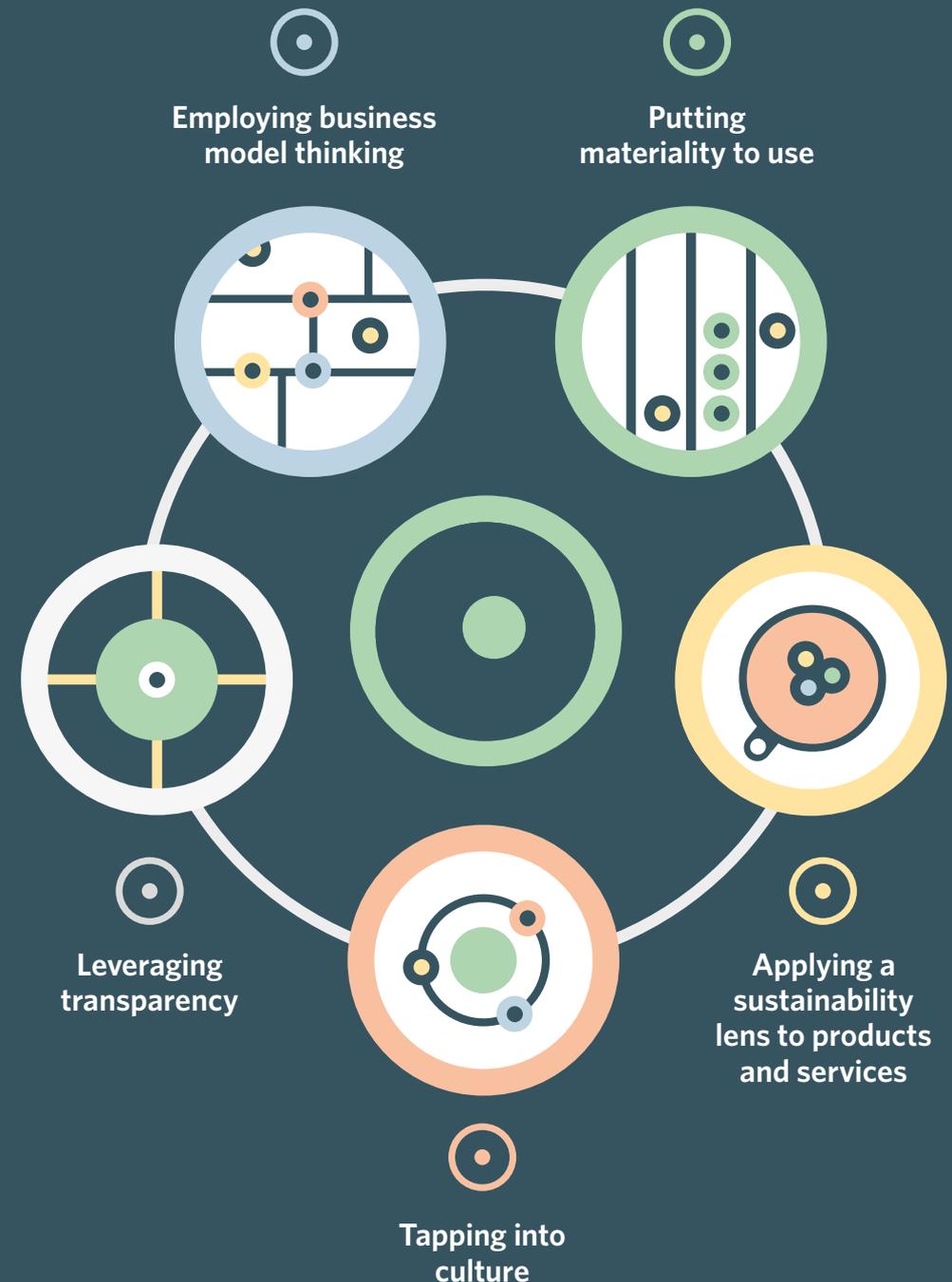
An Integrated Future

In selecting integration as the topic for our 2015 *Engaging Stakeholders* research, we knew we were entering challenging territory. Given the range of sustainability issues, the unique cultures of organizations, different levels of leadership support, and the varying degrees of integration within companies, we expect that integration will be difficult as well as different for every company. Beyond this, we recognize that integration cannot be delivered by sustainability practitioners alone or even by individual companies in isolation. Ultimately we need to see larger systemic changes that shift the way in which we understand and reward business value creation.

Even with such organizational and systemic challenges, our research indicates that progress can and is being made by sustainability practitioners at many companies around the world. Perhaps most crucially, *Sustainability Incorporated* highlights five pathways that are leading companies towards greater integration:

- **Employing business model thinking**
- **Putting materiality to use**
- **Applying a sustainability lens to products and services**
- **Tapping into culture**
- **Leveraging transparency**

While there is certainly more to be done, practitioners heading down these pathways are making real progress within their companies and industries, and it is worth understanding and sharing their stories. We envision a future where business creates financial value in ways that increase social and environmental performance as a natural part of fulfilling its core purpose—a future where sustainability is truly integrated into business. We are encouraged today by the increasing number of integration examples within companies, the growing expectation of stock exchanges to consider integrated reporting, and the overall deepening of quality information and tools to chart the way forward. Increased momentum towards integration is possible in the near term and with the evolution of these five pathways we look forward to playing a role in that growing momentum.



Appendix: Existing Integration Tools



Much has been written about how to integrate sustainability into business and experts have developed many frameworks, guidebooks and roadmaps. We have conducted a comprehensive review of this literature and highlighted the most useful frameworks for practitioners to consider in their work.

● IIRC's Integrated Reporting Framework

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies and NGOs that developed a framework to guide companies to think and act in more integrated ways. The IIRC's framework helps companies demonstrate how they create value across a number of capitals, beyond just financial capital, and holistically communicate their risks and opportunities to investors. The framework is intended to standardize and accelerate the evolution of corporate reporting, incorporating recent developments in financial governance, management commentary and sustainability reporting. The framework is intended to help businesses make informed decisions that lead to efficient capital allocation and the creation and preservation of value.

Upwards of 150 public and private organizations currently report in part or fully according to the IIRC's framework. As discussed on page 83, integrated reporting can both reflect and drive integration within business

● Embedded Sustainability

Chris Laszlo and Nadya Zhexembayeva, authors of *Embedded Sustainability, the Next Big Competitive Advantage*, present four interdependent and interconnected lines of action to guide companies through the transformative process from bolt-on sustainability efforts to embedding sustainability into the core business. They base their framework on the assumption that companies in any sector that build a brand or culture based on creating stakeholder value gain a competitive advantage.

They structure the work around four action points, including taking advantage of low-hanging fruit, building internal buy-in, setting strategic goals and following through for the long term.⁵⁴

● Mervyn King's Integrated Framework

Mervyn King is the Chairman of the IIRC and helped develop the IIRC Integrated Reporting Framework. He is a former judge of the Supreme Court of South Africa and was the chairman of The King Committee on Corporate Governance, a group convened by the government of South Africa in 1994 to improve corporate governance in the newly democratic country, with an emphasis on ethics and transparency. In 2013 King co-authored *Integrate: Doing Business in the 21st Century* in which he presents a framework for fostering integrated thinking. King's Integration Framework contains four main elements and related guidance regarding stakeholder relationships, integrated thinking, governance and reporting.

● Jay Galbraith's 'Star Model'

Developed over forty years ago by Jay Galbraith, noted organizational management expert and professor at the International Institute for Management Development, the "Star Model" is one of the most widely used and accepted organizational design frameworks. Integrating sustainability into business shares many characteristics with general change management and the integration of new cultural norms into business, giving this model significant relevance.

The model identifies five key "levers" – strategy, structure, process, people and rewards – by which managers can shape employee and company behavior toward a desired outcome.⁵⁵



Appendix: Existing Integration Tools (continued)

● Benefit Corporations

A benefit corporation is a new class of corporation that includes the legally defined goal of having a positive impact on society and the environment, in addition to earning a profit, therefore enabling the integration of sustainability issues into the core of the business. Benefit corporations are for-profit corporations that have been publicly registered, or amended their articles and re-incorporated, as benefit corporations in a state in which benefit corporation status is available (currently available in 30 US states and the District of Columbia as of December 2015).

Benefit corporations have a corporate purpose to create a material positive impact on society and the environment; they are required to consider the impact of their decisions not only on shareholders but also on their employees, community, and the environment. The benefit corporation law lets business leaders commit their for-profit ventures to a specific public good, elevating their purpose-led mission to the same priority as profit maximization.

A few examples of well-known benefit corporations include Patagonia, Method, Plum Organics, King Arthur Flour, Solberg Manufacturing, and Rasmussen Colleges.

● Shared Value Framework

Shared Value focuses on the creation of meaningful economic and social value – new benefits that exceed the costs for the business and society. The Shared Value framework defines a new role for business in society that goes beyond traditional models of corporate social responsibility. Rather than focus on mitigating harm in the company's existing operations, shared value strategies encourage businesses to harness innovative approaches to sustainability challenges to advance social and environmental progress.

Three central components to the Shared Value framework include reconceiving products and markets, redefining productivity in the value chain, and creating local clusters in the marketplace.⁵⁶

● Future-Fit Business Benchmark

The Future-Fit Foundation aims to equip business leaders and investors with the means to quantify how their actions are contributing to a flourishing future. The Foundation's research highlights that not only is business as usual not enough, but that "change as usual" is also not enough to ensure a flourishing future. The Foundation created a framework, the Future-Fit Business Benchmark, in order to provide guidance on how companies can change their strategies and approaches in order to be fit for the future. Released in October 2014, the Future-Fit Framework is a collaborative, open-source initiative that provides 21 ambitious goals for businesses across nine impact areas. The Benchmark is designed to help companies measure and manage the gap between what companies are doing today and the action required for them to thrive in a sustainable future.

Because this is a crowd-sourced initiative, Future-Fit Foundation recently released its second draft and is currently asking for public feedback to help further refine the goals and develop supporting science-based Key Performance Indicators (KPIs).⁵⁷

● Accounting for Sustainability

Accounting for Sustainability (A4S) was founded by Prince Charles in 2004 with the goal of catalyzing action in the accounting and finance community to support a fundamental shift towards resilient business models and a sustainable economy. A4S is one of many sustainability endeavors led by Prince Charles, who also launched The Prince's May Day Network in 2007, which encourages businesses to take action on climate change, and is a founding member of the Natural Capital Coalition, which is driving the development of accounting methodologies for natural capital.

A4S has identified the 10 main elements required to successfully embed sustainability into an organization, covering a breadth of issues from engagement of the board and senior management to internal training and processes to monitoring and reporting.

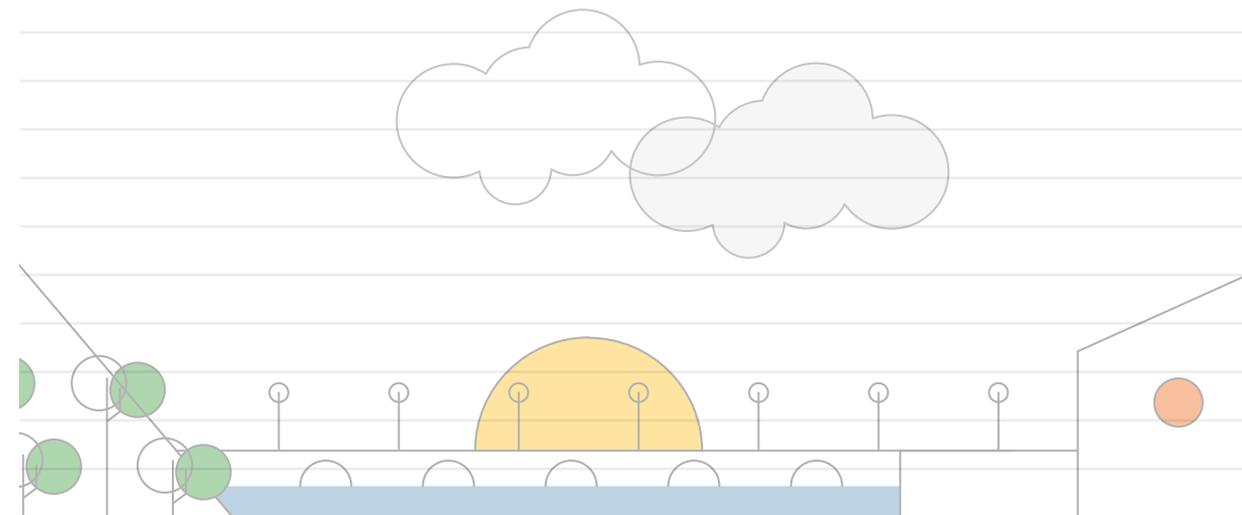
Appendix: Existing Integration Tools (continued)



A4S also created a web-based tool to ensure that sustainability issues are more robustly and consistently taken into account in day-to-day decision-making. The organization has also founded two networks, the A4S CFO Leadership Network launched by Prince Charles in 2013, which works to support the CFO community in the development of sustainable business models, and the A4S Accounting Bodies Network, which reaches over two million accountants (representing close to two-thirds of accountants globally) to engage the global accounting community on the importance of accounting for sustainability.

● Sustainable Development Goals

The United Nations released the Sustainable Development Goals (SDGs) in September 2015 as part of its refreshed sustainable development agenda, which seeks to build on the progress made by the Millennium Development Goals (MDGs) that were created in 2000. The new agenda was launched at the Sustainable Development Summit after an extensive global consultation process with corporate and civil society stakeholders. The SDGs aim to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. Each SDG has specific targets to be achieved over the next 15 years.⁵⁸ There are 17 goals with 169 targets. Together they form a comprehensive, triple-bottom line approach to “The Future We Want,” referencing the key focus of the Rio +20 Summit in 2012. The SDGs provide a unique framework, one which can guide companies to address some of the world’s most pressing issues by integrating SDG-related goals into their own sustainability and wider corporate goals.



Appendix: Interviewees



Company	Interviewee Name	Company	Interviewee Name
AkzoNobel	André Veneman	Itaú Unibanco*	Denise Nogueira
Anglo American/DeBeers	Frank Schwegler and Zak Wood	Johannesburg Stock Exchange	Corli le Roux
Ayala Land Inc	Anna Gonzales	John Swire and Sons	Mark Watson
Barclays	Kate Millar	Jones Lang Lasalle	Susannah West
Barclays (Asia)	Clare Williams	JP Morgan	Paul O'Connor
BASF	Thorsten Pinkepank	Leaders' Quest	Sayo Ayodele
BASF (Asia)	Rachel Fleishman	Microsoft	Steve Lippman
Brown-Forman*	Jennifer O'Neil	Mitsubishi	Steve Woerner and James Gomme
Business Environment Council	Mark Harper	MTR	Janice Lao
Campbell Soup Company	Dave Stangis	Nedbank	Gary Kendall
Case Western Reserve University	Chris Laszlo and Lori Kendall	Novartis*	Michael Fuerst
Cathay Pacific Airways Ltd	Evelyn Chan	Novo Nordisk*	Anne Gadegaard
CIMA Investment Bank	Iqbal Abdul Rahim	Pacific Gas & Electric*	Elizabeth Liedel and Christopher Benjamin
CLP Group	Jeanne Ng	PepsiCo*	Andrew Slight and Janis Herzig
Consumer Search Group	Angus Yip	Philips	Thomas Marinelli
CSR TV	Irene Lau	PwC	Hannah Routh and Douglas Johnson
Edelman	Ashley Hegland	S3	David Lubin
EDF Energy	Poppy Maltby	SAP	Thomas Odenwald
Enel	Andrea Valcada	Shell*	Peter Milhofer and Beatrix Wiecezorek
Ford Motor Company*	Carrie Majeske	Social Ventures (Hong Kong)	Francis Ngai
Fung (1937) Management/Fung Group	Pamela Mar	Standard Chartered	Mark Devadason
Future Fit Benchmark	Geoff Kendall	The Purpose Business	Pat Dwyer
Gap*	Dana Veeder and Melissa Fifield	The Walt Disney Company	Alex Hausman, John Kim and Emily Cichy
Hong Kong Airport Authority	Mike Kilburn and Elizabeth To	Timberland	Colleen Vien
Hongkong and Shanghai Hotels, Ltd (The Peninsula Hotels)	Natalie Chan	Unilever	Jonathan Atwood
Huawei Technologies	Robert Hansor	University of Michigan	Andrew Hoffman
Incite Sustainability	Jonathon Hanks	Westpac	Siobhan Toohill and Laura Reed
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Additional companies consulted in a group setting: Becton Dickinson*, Nielsen, Pearson, Etsy and Johnson & Johnson*.
* indicates Engaging Stakeholders member



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A key benefit of the network is access to our annual research output, developed with our members, to be of greatest relevance to their roles as sustainability practitioners. This year's report, *SustainAbility Incorporated*, builds upon our first report, *See Change*, which explored the role of transparency in driving performance. In this latest report we explore the topic of integrating sustainability for greater impact. Members contributed to the research by selecting the topic through Convetit, a virtual think tank, and by sharing their ideas through interviews, case studies and ongoing discussions with team members at SustainAbility.

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