LEVERAGING THE BUSINESS SECTOR FOR A SUSTAINABLE FUTURE

Achieving the UN Sustainable Development Goals through Corporate Sustainability

May 2018 Report

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Private sector investment, innovation, and implementation capabilities will be essential to achieve the Sustainable Development Goals (SDGs). It will not be possible to reach the scale of corporate and investor engagement needed without establishing common standards, goals, and metrics for leveraging resources and comparing each market actor’s contributions to sustainable development. Over the past two decades, a vanguard of pioneering companies and alliances has demonstrated the value of these joint actions. The challenge now is to make them a mainstream element of business and investment activities.

— Nelson, Jane. “Collective Action on Business Standards, Goals, and Metrics to Achieve Scale and Impact for the SDGs”. In Kharas, Homi et al, From Summits to Solutions, Brookings, 2018
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The concept for this study was initiated and overseen by George Ingram. The core of the research was conducted by Milan Kaur and Mai Nguyen between November 2017 and April 2018 as their capstone project for the Global Human Development Program at Georgetown University. Manize Rahman, a student at Wellesly College, undertook additional research on corporate alliances.
EXECUTIVE SUMMARY

Achieving the United Nations Sustainable Development Goals (SDGs) by 2030 requires transformational change. The study examines the role of the business sector in the delivery of the SDGs through the lens of corporate sustainability. Corporate sustainability is an evolving management paradigm that aligns the pursuit of business profits with environment protection, social justice, economic development, and ethical governance. Compared to corporate social responsibility, which is driven more by external reasons and the aim of giving back to the society, corporate sustainability is driven internally by companies with the aim of creating shared value for both shareholders and other stakeholders. Corporate sustainability is about transforming the business model.

The study aims to understand the nature and extent of business sector engagement with SDGs. Through research and analysis, the study presents a 'theory of change' that, when put in practice, can lead to higher contribution by the business sector toward achieving the SDGs.

**Theory of Change**

As business drivers and expected rewards to engage with the SDGs and take on corporate sustainability are aligned, companies strengthen their contribution to the SDGs’ achievement by integrating sustainability into the business.

Using this 'theory of change', the study reviews how corporate sustainability rests within various business models and industries and identifies its emerging practices. The key questions examined under the study are:

- What is the nature and extent of engagement with the SDGs by companies?
- What are the motivations for corporate sustainability and engagement with the SDGs?
- What practices emerge as essential to the integration of sustainability in the business model?

**Extent of Corporate Engagement with the SDGs**

There is a high level of alignment with the SDGs among the companies in the sample, but the depth of the engagement varies. While most companies refer to the SDGs in their publications, less than half map their corporate and sustainability goals or activities to specific SDGs.

Companies tend to prioritize goals that are most relevant to their business. SDG 8, 12, and 17 receive the highest level of attention while SDG 1, 2, 14 receive the lowest level of
attention from companies. The lack of awareness of the SDGs by internal and external stakeholders and the challenge of measuring sustainability impacts are the most frequently mentioned obstacles to deeper engagement with the SDGs by companies.

**Motivations for Corporate Sustainability and SDG engagement**

Sustainability is about taking the long-term perspective on how a business creates value. Understanding and articulating the drivers for sustainability enable companies to clearly make a case for their transition toward a more sustainable business model. While the drivers are highly contextual, they all can be categorized as *business-case* or *value-based drivers*. Most of the companies interviewed and researched identify strongly with the business imperatives of sustainability. However, a handful of leading companies have begun to articulate corporate sustainability through their own value systems in which the business of business is sustainability. Companies engage with the SDGs because alignment to the Global Goals fits their existing corporate and sustainability strategy. The goals provide companies with a useful framework to examine their sustainability issues and an opportunity to demonstrate corporate citizenship.

**Emerging Practices of Corporate Sustainability Integration**

While leading companies are still progressing on their transition towards a sustainable model, several effective practices of strategic, operational, and organizational integration of sustainability have emerged. There is a growing convergence of business and sustainability strategy that leads to the creation of shared value. However, operationalizing sustainability remains a challenge, particularly through issues arising out of obstacles in measuring social and governance impact. Leading companies deeply involve their stakeholders in the sustainability process, especially with setting sustainability goals, and regularly communicating with them via continuous and integrated reporting. While corporate philanthropy is still prevalent and valued, many companies engage in win-win corporate sustainability partnerships and alliances. For corporate sustainability to become more pervasive, companies echo the need for top leadership to champion sustainability. Successful integration also requires a clear governance structure and all employees on board. The latter aspect is still fraught with obstacles, particularly in the involvement of middle managers.

**Key Takeaways**

Most companies see their contribution to the SDGs directly through existing sustainability goals and practices. Thus, to leverage the business sector’s support for the global development agenda, it is imperative to focus on having more companies integrating and improving corporate sustainability practices.
Key Findings on SDGs Engagement and Corporate Sustainability of Sample Companies

➢ Most companies reviewed in this study see their contribution to the SDGs directly through existing corporate sustainability goals and practices. While most refer to the SDGs in their publications in general, less than half track their corporate and sustainability goals or activities against specific SDGs.

➢ Companies tend to prioritize SDGs that align with their core business, rather than taking an all-encompassing approach. SDG 8, 12, and 17 receive the highest level of attention while SDG 1, 2, 14 receive the lowest level of attention from companies.

➢ The drivers for a company to take on sustainability can be categorized as business-case drivers or value-based drivers, and there are overlapping features between these two categories.

➢ Over 80% of companies identify most strongly with business-case drivers. Some companies are driven both by business imperatives and value systems. Only a handful of companies identify purely with value-based drivers.

➢ The average number of environmental, social, and governance (ESG) impact areas identified by the companies in the sample is four. It means that a company is taking sustainability actions in at least four key areas at a given time.

➢ Measuring ESG impact remains a big challenge for companies. All 14 companies interviewed echo the struggle with impact measurement metrics. While companies report ESG indicators, environmental indicators are the most well established in their reports and the categories related to governance are least represented.

➢ Overall, around 75% of the companies are moving along the integrated approach to building a sustainability governance structure. These companies usually have at least one or two of the following sustainability leadership practices: an executive providing oversight on sustainability, a board-level committee dedicated to sustainability, or cross-functional management of sustainability.

➢ Companies express that the day-to-day work of integrating sustainability is often fraught with obstacles and delays, particularly in instilling a sense of ownership on sustainability issues among employees.
INTRODUCTION

The catalyst for this research project is the growing evidence of business commitment to sustainability and engagement with the Sustainable Development Goals (SDGs) – some 7,500 companies issuing annual sustainability or corporate responsibility reports in accordance with the Global Reporting Initiative and the Dow Jones Sustainability Index assessing the commitment to sustainability of 3,400 companies -- and an interest in understanding why and how.

During the past decade, the business sector has increasingly played a more integrated role in the discussion and programming of the global development agenda. In 2015, the United Nations Sustainable Development Goals (SDGs), a collection of 17 goals and 169 targets, set forth a broad scope of development objectives for all countries and called for action by actors beyond government. For the first time, the business sector fully participated in the creation of SDGs and was recognized as an essential partner in the achievement of the goals. In contrast to the Millennium Development Goals (MDGs), adopted in 2000 and targeted at increasing donor assistance for developing countries, the SDGs are a broader set of goals that are universal in applying to all nations and targeted at all financing and players, particularly the private sector.

The importance of the engagement of the private sector is underscored by Goal 17, which emphasizes the need for enhanced public-private partnerships to mobilize and share knowledge, technology, and financial resources for the Global Goals. There are many ways in which the business sector can be a key engine for sustainable development. These include filling the financing gap, driving innovation, expanding access, creating job opportunities, building inclusive businesses, and producing goods and services that address development challenges.

While definitely leading the trend, the manner in which the financial sector in the Netherlands is engaging the SDGs represents what the global business community is and can do. In a 2016 report “Building Highways to SDG Investing” eighteen Dutch financial institutions that manage assets worth 2900 billion euro present how to collaborate in financing the global goals.1 The two largest Dutch pension funds, ABP and PFZW have set a target of investing 58 billion euros in SDG investments by 2020. 2

1 Vermogensbeheer, Verantwoord Beleggen, “Dutch Financial Sector Backs the SDGs”, blog, December 7, 2016
2 “Institutional Investment into the Sustainable Development Goals”, press release
Looking globally, in May 2018 twenty-six banks from nineteen countries announced a global initiative for banks to align their business practices with the SDGs and the Paris Climate Agreement.  

Larry Fink, chairman and CEO of Black Rock, the world’s largest equity fund, caused a stir with his 2018 letter to CEO’s in stating: "stakeholders are demanding that companies exercise leadership on a broader range of issues ....ability to manage environmental, social, and governance matters ...which we are increasingly integrating into our investment process”. Businesses are being offered guides to incorporating the SDGs in their strategies, including by the World Business Council for Sustainable Development, Accenture Strategy and econsense, EMPEA, and the Silicon Valley Community Foundation.

As to whether the SDGs make business sense, the 2017 Commission on Sustainable Business, chaired by Mark Mallock-Brown, identified a 12 trillion market in four of the SDGs by 2030. A 2015 Harvard Business School study of 180 U.S. companies found that over more than a decade, companies that scored well on ESG factors also achieved significantly returns. The SCR300 "SDG Commitment Report" reports that of 400 of the world’s largest companies with a market cap of more than 25 trillion dollars, 300 disclose commitment to the SDGs and that for 2017 the UNGSII SCR300 Global Sustainability Fund outperformed market benchmarks, such as Dow Jones and Standard & Poor’s.

This study looks at the role of the business sector in the delivery of the SDGs through the lens of corporate sustainability. The underlying theory of change is that when companies fully integrate sustainability into their business strategy and operations, they will transition to sustainable business models that contribute to the SDGs through innovations, greater efficiencies, and shared value. As companies navigate their journey toward sustainability, the SDGs can serve as a guiding framework for a cohesive vision of environmental, social, and governance (ESG) sustainability that catalyzes opportunities for business growth and longevity.

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3 UNEP Finance Initiative, 26 UNEP FI BANKING MEMBERS WORKING TOGETHER TO REDEFINE HOW THE BANKING INDUSTRY DELIVERS A SUSTAINABLE FUTURE”, MAY 29, 2018  
5 Accenture Strategy & econsense, “How Companies can Improve their Impact on the Sustainable Development Goals (SDGs) and Harness the Power of Digitalization”  
6 EMPEA, “Private Equity’s Role In Delivering The SDGs, 2018  
8 Daniella Ballou-Aares, “Investing $20tn to change the world”, The Guardian, February 20, 2018  
9 (SCR300, “SDG Commitment Report” empowering investors on both: Profit and Impact”)
The SDGs align development goals (inclusive growth, social equity, environmental protection) with key business imperatives (revenue growth, resource productivity, risk management) and create a business case for the business sector’s involvement in global development. This focus has come at the right time as companies are moving from uncoordinated corporate responsibility programs toward a more systematic integration of social, environmental, and governance concerns into their core business strategy. While these efforts vary widely by country, industry, company size, and individual company, companies increasingly recognize the importance of sustainability to the future of their businesses. This is because they must confront and adapt to intense business competition, uncertainty over access to energy and materials, climate change threats, and greater scrutiny from the public and their own employees about corporate practices.

Considering this dual integration of the business sector into the global development agenda and of corporate sustainability into the business strategy, this exploratory study aims to provide insights into the emerging practices of corporate sustainability activities in relation to the SDGs. Through this exploration, the study hopes to shed light on the synergy between the SDGs and corporate sustainability activities and a probable framework for the business transition towards a sustainable future.

**Key Concept: Corporate Sustainability**

Corporate sustainability is an evolving management paradigm that aligns the pursuit of business profits with environment protection, social justice, economic development, and ethical governance. Corporate sustainability practices have evolved over the past decade, from being philanthropic in nature to becoming more intertwined with business imperatives and core expertise of companies.
As a company evolves from corporate philanthropy to corporate sustainability, the motivation changes from mere awareness of giving back to the community in which it operates to integrating sustainability in the business model. The higher degree of intentionality leads to a deeper impact on the company’s strategy and decisions. Sustainability activities are no longer one-off occasions led by marketing, communications, or human resources function. Instead, sustainability is built into corporate vision and plan, with specific goals, measures, and activities implemented by a clear sustainability management system involving top leadership and functions throughout the business. As a result, the accrued benefits are long-term, and the creation of financial gains are intertwined with positive environmental, social, and governance impact.

Overall, this transition at the individual company level can be presented through three phases: Awareness, Action, and Integration.

**Awareness:** This is the phase when a business is aware of corporate responsibility but does not take any action that is not driven purely by external factors. These factors can include specific government mandated corporate social responsibility contributions, negative publicity, or pressure from consumers. For example, in 2015, India mandated compulsory Corporate Social Responsibility contribution to the tune of 2% of net profit for three consecutive years. Although this increased the corporate participation, such contributions were limited in their intentions and impact. This phase is prevalent when a company is at the beginning of the spectrum i.e. engaging in purely philanthropic activities.

**Action:** The differentiating factor between the awareness and the action phase is the intentionality of the business. An action-oriented company is more aware of its role in the society and begins to initiate specific corporate responsibility activities. Many activities start out being philanthropic in nature, such as employee contribution to humanitarian crises, community activities, or participation in charities in the place where the company operates in order to improve community relations. Over time, the activities can become more intentional in their utilization of the company's core competencies. This phase involves a company moving along the spectrum from philanthropy to corporate social responsibility.

**Integration:** After undergoing the initial transformation, corporate sustainability is integrated into business activities. Organizations can now recognize the benefits of being a sustainable business through market penetration, cost efficiency, production innovation, risk mitigation, among many things. Under this phase, companies perceive business opportunities in operationalizing sustainability into other functions and aligning their corporate responsibility activities with their core competencies. This phase is present when a company is fully embracing corporate sustainability.
Objective & Scope

The study aims to understand how the business sector engages with the SDGs. It identifies how companies leverage corporate sustainability activities to articulate their contribution to the SDGs. The study examines emerging practices that define corporate sustainability.

The scope of the study covers companies that are recognized as sustainability leaders under various sustainability-related rankings and indices. Using publicly available information on the companies in the study’s sample and information gathered through interviews, the study explores three key questions:

- What is the extent and nature of engagement with the SDGs by companies?
- What are the motivations to incorporate corporate sustainability and engage with the SDGs?
- What practices emerge as essential to the integration of corporate sustainability in the business?

The exploration of these questions generates insights into the emerging practices of corporate sustainability activities in relation to the SDGs. The insights serve as a basis to:

1. Provide the business community with emerging approaches to integrate environmental, social, and governance sustainability concerns in core business operations;
2. Provide stakeholders, potential partners, and other parties interested in understanding the role of the business sector in global development and in advancing the SDGs with knowledge of the strategies and challenges that companies have in creating sustainable development impact through their business models.

Methodology

Data Collection

The data collected is based on a desk review and interviews with company executives. The desk review combines existing literature on the topic with an analysis of corporate sustainability activities and SDGs engagement by a sample of 40 companies, out of which 14 were interviewed. The resources that were closely examined include company websites, sustainability reports, and annual reports between 2012 and 2017.
Company Selection

The 40 companies explored in the study are chosen from a list of four recognized rankings that profile the most sustainable companies in the world and the authors’ network (See Appendix 1 for the complete list). Data from the latest available rankings, 2017 and 2018, is used to generate this list. The rankings include:

- Fortune’s Change the World
- Forbes’ World’s Most Sustainable Companies
- Barron’s 100 Most Sustainable Companies
- Dow Jones Sustainability World Index Industry Wide Leader

All companies in the study are multinational businesses. Most have annual revenues of at least $1 billion or more, are publicly traded, and have headquarters in the U.S. or Europe. Only three companies are privately held or a cooperative, and only eight companies are non-U.S. and European. Small and medium-enterprises and national companies are precluded from the study due to the lack of publicly available data and limited outreach capacity of the authors.

16 companies in the list of 40 are included because of the ease of outreach within the authors’ network for interview purpose. It is worth noting that all these companies have sustainability operations which inform findings in the study, especially from private companies which are not included in most sustainability rankings. 12 out of these 16 companies are present in at least one of the four rankings.

For the remaining 24 companies, the top 25 companies from each of the above four lists are chosen to form an aggregated list of 100 companies. These companies are then categorized by industry, and 24 companies are randomly selected (4 companies for each industry).

The 40 companies included in the study represent the following industries:

1. Food, Beverage and Consumer Goods (10 companies)
2. Healthcare and Life Sciences (6 companies)
3. Energy, Natural Resources, and Chemicals (5 companies)
4. Industrials, Manufacturing, and Constructions (6 companies)
5. Financial Services (6 companies)
6. Information Technology Services and Communication (7 companies)

Analysis Framework

The analysis framework is built around the following three key questions:
• What is the nature and extent of engagement with the SDGs by companies?
• What are the motivations for corporate sustainability and engagement with the SDGs?
• What practices emerge as essential to the integration of sustainability within the business model?

Under each question, specific indicators are used to assess the company’s activities. Insights from interviews are incorporated to enrich the analysis. A Full explanation of the analysis framework, assessment methodology, and interview questionnaire is included in Appendix 3 and 4.

**SDGs Engagement**
- Does company make reference to the SDGs?
- Does company explicitly support specific SDGs?
- Does company align its corporate sustainability and business activities to the SDGs?

**Motivation**
- What are the reasons to align with the SDGs?
- What are the reasons to undertake corporate sustainability?

**Emerging CS Practices**
- How are its business and sustainability strategy articulated?
- How does it define sustainability goals, measure, and report ESG impact?
- How does it engage stakeholders on sustainability issues?
- How does it approach corporate sustainability partnerships?
- How does it structure its organization to manage sustainability?

*Figure 2. Key Analysis Questions*

**SDGs Engagement**: The study assesses how companies perceive the SDGs and make commitments to them. The framework analyzes the extent to which companies align with the SDGs, from merely making a single reference to the goals to making public commitments. Insights from interviews are incorporated to highlight the benefits and challenges that companies perceive in their engagement with the SDGs.

**Motivation**: The study examines what drives companies to take on corporate sustainability and engage with the SDGs. It looks at how sustainability and the SDGs are articulated in the company’s publications, business mission, corporate sustainability vision, and CEO’s statements. The drivers and approaches that motivate companies are assessed and categorized based on the methodology outlined in Annex 3.
Emerging Practices: The study examines the practices that companies take to integrate sustainability from three lenses:

- **Strategic Integration:** how business and sustainability strategy are intertwined.
- **Operational Integration:** how a company incorporates sustainability goals, measurement and reporting, stakeholder management, and partnership approach in relation to its strategy.
- **Organizational Integration:** how sustainability management and governance are structured and implemented.
ANALYSIS & KEY INSIGHTS

The following section provides findings from the study’s examination of 40 companies under three main areas:

I. The Extent of Companies’ Engagement with the SDGs
This part assesses the level at which sample companies recognize and make a commitment to specific SDGs and the challenges they face in aligning their business and sustainability activities to the Global Goals.

II. Motivations for Companies to Integrate Corporate Sustainability and the SDGs
This part examines the nature of motives for companies to adopt corporate sustainability and how these business drivers are aligned with reasons to support the SDGs.

III. Emerging Practices that Define Corporate Sustainability Integration
This part identifies emerging practices that companies demonstrate to integrate sustainability into the business model across three aspects: strategic, operational, and organizational integration.

In addition to findings from the desk review and interviews of sample companies, insights gathered from the literature review are also incorporated.
I. Extent of Engagement with the SDGs

Understanding the current level of engagement with the SDGs by companies considered to be leaders in sustainability can illuminate the extent to which the SDGs are supported by the business sector and what the challenges are.

The study identifies the following key trends on SDG engagement based on an analysis of 40 sample companies:

- Most companies see their contribution to the SDGs in terms of corporate sustainability goals and practices.
- While most companies refer to the SDGs in their publications in general, less than half track corporate and sustainability goals or activities against specific SDGs.
- While there are varying levels of engagement with the SDGs by individual companies within an industry, companies in the Food, Beverage and Consumer Goods industry overall have the strongest level of engagement.
- Companies tend to prioritize SDGs that align with their core business, rather than taking an all-encompassing approach. SDG 8, 12, and 17 receive the highest level of attention while SDG 1, 2, 14 receive the lowest level of attention from companies.
- The lack of awareness of the SDGs among the internal and external stakeholders and the challenge of measuring ESG impact are the most frequently mentioned obstacles to a company’s deeper engagement with the SDGs.

1) Extent of Recognition and Commitment to the SDGs

There is a high level of alignment with the SDGs among the companies in the sample, but the level of commitment can be deepened. Data collected from companies’ websites, annual corporate sustainability reports, and interviews reveal that most companies see their contribution to the SDGs directly through existing corporate sustainability goals and practices. While 80% of companies recognize the importance of the SDGs in their communication materials, only 63% explicitly disclose support for specific SDGs.

The authors are aware of the self-selection bias with regards to SDGs engagement. Since companies examined in the study are considered as sustainability leaders, they are more likely engage with the SDGs than the average company.
Furthermore, less than half map their existing corporate sustainability goals and activities against specific SDGs.

Highlighting the limited depth of engagement, only two companies go beyond the exercise of aligning their activities to the Global Goals and make specific commitments to individual SDGs (See example in Figure 4 below). On the other hand, a small group of companies have not engaged with the SDGs at all, despite having corporate sustainability activities. These companies may be missing the opportunity to enhance their corporate citizenship image and global presence by not communicating on their commitment to the Goals.
2) Industry & Regional Perspective

Companies in the Food, Beverage and Consumer Goods industry have the highest level of overall engagement with the SDGs. In comparison to others, this industry provides goods and services that are highly consumer-facing and dependent on ever-evolving consumer trends. Companies in the Food, Beverage and Consumer Goods industry also deal with a complex supply chain, along which there are many sustainability hotspots, particularly concerning material sourcing, production process, consumer use, and waste disposal. Because of these, more pressure is exerted on consumer product companies to adopt corporate sustainability and by extension the SDGs. The Healthcare and Life Sciences industry is also highly engaged with the SDGs as the missions of companies in this space are closely aligned with SDG 3 on Good Health and Well-Being. The Financial Services industry has the lowest level of commitment, particularly in mapping activities against the SDGs.

![SDG Recognition by Industry](image)

*Figure 5. Levels of SDG Recognition by Industry*

Non-U.S. companies demonstrate a deeper level of commitment to the SDGs than U.S. companies. As the sample only features eight non-US or European companies that are
considered sustainability leaders, the high level of engagement with the SDGs by these companies is not necessarily reflective of the trends from their countries and regions. Further study that specifically examines multinational or national companies outside of the U.S and Europe is necessary to provide more evidence on regional trends.

As articulate by Jane Nelson in the quote at the forefront of this report and detailed in "Collective Action on Business Standards, Goals, and Metrics to Achieve Scale and Impact for the SDGs“¹¹, alliances, both solely among corporates and jointly with public and civil society, are a key mechanism for raising the bar on corporate ESG and engagements with the global goals. Her research reveals some 300 business-led coalitions.

The sample companies for this research participate in one-to-fourteen alliances, with the average being just over three. More than half of the companies take an active part in leading global platforms and alliances that work to connect the business sector with the SDGs. 60% of companies in the sample are part of the UN Global Compact, an initiative that encourages businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. 30% are part of the World Business Council on Sustainable Development (WBCSD), a premier CEO-led organization of over 200 leading businesses working to accelerate the transition to a sustainable world.

Other studies have also reflected similar trends on the business sector’s engagement to the SDGs. The United Nations Global Sustainability Index Institute (UNGSII) surveying the top 100 global companies by revenues finds that companies disclose their SDGs commitment at

¹¹ " (in Homi Kharas et al, From Summits to Solutions, Brookings, 2018)
varying levels. While over 80% of companies refer to the SDGs, only 25% of companies explicitly reference specific Goals. The companies that explicitly mention specific SDGs represent some of the most effective communicators on ESG issues, highlighting their interests to investors. UNGSII also shows that European companies performed better than North American companies in demonstrating their commitment to the SDGs. A PwC study in 2016 finds a high level of SDG awareness among the business community at 92%, however, only 52% identify SDGs that are relevant to their business and 34% identify specific projects that will contribute to the SDGs.

Data collected from interviews and other studies shows that the business sector’s engagement with the SDGs is likely to increase in the future, particularly by developing products or services that provide solutions in line with the goals. Contribution to the SDGs through increasing philanthropic contributions or providing financing for solutions are the least preferred way of supporting the achievement of the SDGs.

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12 Schatz, Roland. SDG Commitment Report 100: Tracking companies’ efforts to contribute to the Sustainable Development Goals. UNGSII, 19 April 2017.


Among sample companies that explicitly disclose their support for the Goals, most tend to pick specific SDGs that are most relevant to their business and corporate sustainability activities. A pattern emerges as to which SDGs companies perceive to be the most important (See Figure 7). The top three Goals that companies have demonstrated a commitment to are: SDG 8 (Decent Work and Economic Growth), SDG 12 (Responsible Production and Consumption), and SDG 17 (Partnerships for the Goals). SDG 1 (No Poverty), SDG 2 (Zero Hunger) and SDG 14 (Life Below Water) have the least attention of companies in the sample.

Other studies surveying business and sustainability leaders also reflect the patterns described in the ranking above. According to these studies, SDG 8 and SDG 12 consistently appear among the top five while SDG 14, SDG 1 and SDG 2 consistently appear in the bottom half, regardless of the industry. Other SDGs that usually appear to be most important for businesses are SDG 3 (Good Health and Well-Being) and SDG 9 (Industrial Innovation and Infrastructure), while SDG 10 (Reduced Inequality) and SDG 16 (Peace Justice and Strong Institutions) are among the least prioritized.\(^\text{15}\)

Given the significant role of the business sector in employment creation, driving economic growth, and providing goods and services, SDG 8 and SDG 12 are a natural fit. Data collected from interviews and communication materials reflect that companies highly value partnerships (SDG 17) as part of implementing their corporate sustainability activities and contributing to the SDGs. Meanwhile, companies often view the bottom-ranked goals, particularly SDG 1, SDG 2, SDG 10, and SDG 16, as areas where governments have more responsibility and where there is least potential for companies to create impact or find business opportunity.

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\(^{15}\) Combination of SDGs rankings outlined in "Engaging with the Sustainable Development Goals" and "Sustainability Trends for 2017 - Radar" and "Evaluating Progress Towards the Sustainable Development Goals."
Prioritizing which SDGs to support helps companies create a more strategic link between their corporate sustainability activities and contribution to global development. Interviews with companies illuminate that almost all companies pick specific SDGs that fit with their existing sustainability framework. While focusing on the SDGs that are most relevant to their business provides an effective engagement strategy to start with, companies must be aware of not “cherry-picking” areas of the SDGs in their comfort zones, but also addressing areas that are indirectly linked to their corporate activities. Further studies would provide deeper insights as to why some SDGs consistently rank top or bottom for companies so that organizations looking to work with the business sector on specific SDGs can better navigate their engagement.

4) Challenges for Companies to Engage with the SDGs

The main challenge in engagement with the SDGs is the lack of awareness of the goals among stakeholders. Many companies consult external stakeholders during the process of developing and validating their corporate sustainability strategy, and direct references to the SDGs are not articulated by many stakeholders, even if they bring up issues related to the SDGs. Thus, limited stakeholder demand hinders broader executive engagement on the SDGs. According to a 2017 GlobeScan study on European companies’ engagement with the SDGs, business leaders see the government as the key actor that can help address the goals. If governments were to demand more reporting or action around the SDGs or to help provide a framework for business to prioritize and operationalize the SDGs, this would drive more executives to become more engaged.

Awareness of the SDGs is also limited among internal stakeholders. Based on the interviews, most respondents are not aware of employee engagement activity related to corporate sustainability that places the SDGs at the front and center of sustainability efforts. Only one respondent extensively describes her company’s corporate sustainability activities designed to engage employees on actions around different themes of the SDGs. Other studies also find limited SDG knowledge among internal

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16 GlobeScan. *The Sustainable Development Goals (SDGs): The Value for Europe.* GlobeScan, 16 May 2017
stakeholders. According to the 2017 GlobeScan study, while top management and CSR or sustainability-related functions are aware of the SDGs, only 11% of business leaders believe that the SDGs are well known among middle management.17

A challenge that companies echo in the interviews is the difficulty of measuring companies’ impact on the SDGs. The challenge of determining impact applies in general for corporate sustainability activities, and not just specifically to the SDGs. While some companies map their existing corporate sustainability activities against the SDGs, they do not necessarily track how these activities progress year-to-year. Interview respondents express a lack of consistent tools and methodologies to assess impact, particularly for more subjective areas under social and governance sustainability. Companies might measure outcomes at the program level but face difficulty aggregating them and determine their total impact. As the SDGs are broad in nature and have a contribution from a range of actors, some respondents express that it is difficult and not necessary for companies to determine their impact at the individual company level.

Another study finds that large enterprises seem to have a heightened awareness of the SDGs compared to SMEs.18 For companies to help drive fulfillment of the Global Goals and fully leverage the business benefits, it will be important for companies to more deeply engage middle management and employees to raise awareness and interest in the SDGs. It is also critical to engage further with SMEs on the global goals, especially in emerging economies where SMEs are important drivers of employment and economic growth.

17 Ibid
Finally, a general challenge that encompasses corporate sustainability and SDGs activities is the lack of clarity on how these activities relate to their core business. While leading companies on corporate sustainability find aligning with SDGs to be a natural extension of their existing framework, companies at the beginning stage of corporate sustainability have more trouble articulating the relevance of the Global Goals. As companies further develop their corporate sustainability strategy, they should encounter and create more tools to direct their engagement with the SDGs.\textsuperscript{19}

As the business sector looks to deepen its engagement with the SDGs, it is important for companies to align and map their specific corporate sustainability goals and activities to specific SDGs. This practice makes the engagement with the global goals more meaningful by the way of measuring and tracking their contribution. Furthermore, it is an opportunity for companies to use the SDGs as another framework to think through their corporate sustainability strategy, publicly demonstrate the corporate citizenship, and have a presence in the global dialogue on sustainable development.

\textsuperscript{19} PricewaterhouseCoopers. \textit{Make it your Business: Engaging with the Sustainable Development Goals}, 2015.
II. **Motivations for Corporate Sustainability and SDGs Alignment**

The study analyzes the motivations for companies to integrate corporate sustainability and align corporate activities with the SDGs, first in isolation and then together. Categorizing these motivations reveals that there are several interlinkages between what drives these companies to undertake the two activities in terms of growth opportunities and risk mitigation. Similarly, there is an alignment between expected rewards through value enhancement for both business and society. This insight provides the following theory of change, which asserts that undertaking corporate sustainability will drive the transformational change needed for the business sector to enhance contribution to the SDGs.

**Theory of Change**

As business drivers and expected rewards to engage with the SDGs and take on corporate sustainability are aligned, companies strengthen their contribution to the SDGs’ achievement by integrating sustainability into the business.

This section first examines the sustainability drivers using existing literature and then introduces insights from the analysis of corporate sustainability activities and SDGs alignment of the sample companies. Overall, most companies have made a clear case for why they incorporate sustainability based on business imperatives and/or their values. Companies see their contribution to the SDGs through the light of their corporate sustainability goals and activities.

The main findings are:

- The drivers for companies to undertake sustainability are contextual and dependent on the nature of their business, the interests of their stakeholders, and the business environment.

- There is a strong alignment between the drivers to take on corporate sustainability and engage with the SDGs.

- All drivers can be categorized as business-case drivers or value-based drivers, although there are some overlapping features.

- Over 80% of companies identify most strongly with business-case drivers. Some companies are driven both by business imperatives and value systems. Only a handful of companies identify purely with value-based drivers.
Companies engage with the SDGs because alignment with the goals fits with their corporate sustainability strategies.

The SDGs provide companies with a useful framework to examine corporate sustainability issues and an opportunity to demonstrate corporate citizenship.

1) What is driving Corporate Sustainability?

The literature on corporate sustainability drivers is diverse with different sources citing varying reasons for companies to incorporate sustainability. McKinsey identifies three broad categories of drivers for companies to integrate corporate sustainability based on business growth, risk management, and returns to capital.\(^{20}\) Other sources approach identifying drivers based on internal and external factors.\(^{21}\) Examples of internal factors include proactive leadership or demands from employees on corporate sustainability efforts. External factors include customer expectations, regulations and legislation, and negative publicity. These external and internal factors interact with each other, providing the underlying push for companies to address sustainability issues.

Drivers are the factors or motivations that push companies to take certain actions

Building upon this literature, the study identifies the main sustainability drivers using the categories outlined above and an analysis of the statements expressed in the executive interviews and corporate sustainability reports. The key words emerging from this analysis are:

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\(^{21}\) Lozano, Rodrigo. *A Holistic Perspective on Corporate Sustainability Drivers*, 3 April 2013.
Based on evidence from the literature and the analysis above, it is clear that the motivations for companies to undertake corporate sustainability vary significantly. These drivers may depend upon several factors such as the type of industry, the external business environment, and the customer base and markets. Further, while it is hard to capture all the corporate sustainability drivers, they can be categorized as either internally or externally motivated. External drivers tend to result in reactive measures, being less likely to help move towards integrated sustainability, whereas internal drivers generate a more proactive approach.\textsuperscript{22}

The study identifies two different categories of drivers for companies to undertake corporate sustainability.

### Two categories of drivers for corporate sustainability

**Business-case drivers:** When sustainability action is motivated internally to expand the growth opportunities for the business or to mitigate the risk and externally through managing stakeholders and regulatory environment.

**Value-based drivers:** When the sustainability action is driven by a company’s values, mission and vision. Such drivers are always internally motivated.

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Insights from sample companies

The sample of 40 companies, consistent with the available literature, supports the business case that drives companies to incorporate sustainability. The study finds that 84% of the companies identify strongly with the business drivers, demonstrating that the business case is well-supported by companies considered to be sustainability leaders. This finding is consistent with other studies surveying the most common drivers of business sustainability. For example, Frost & Sullivan’s annual survey of CEOs around the world found that in 2007, 69% of business leaders saw investment in sustainability as an area of competitive advantage while 67% saw it as a growth opportunity for the company. By 2016 the same annual survey showed that these numbers had both increased beyond 75%.

Many companies, on the other hand, are not purely motivated either by the business case or the values, but rather by a combination of both. For example, Novartis identifies growth opportunities with the aim of giving back as the essential driver in its corporate sustainability report. Having recognized its drivers as both business and value-based, the company has successfully created a comprehensive sustainability plan, generating increased value through better healthcare outcomes.

The study uncovers that a small number of companies credit their sustainability transition to a set of values and beliefs, rather than a business case. These companies, including Johnson & Johnson, Tata Group, IBM, and Henkel AG, articulate the same set of values for both their corporate mission and sustainability vision. For a company purely driven by its values, the benefits accrued through sustainability activities are part of the core business.

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When Nestlé encountered complex supply chain issues, it initiated a plan to source cocoa sustainably. The company invested in research and development and ended up sourcing 12 million stronger and more productive plants starting in 2009 and continuing to date. These efforts, still underway, help local cocoa farmers get trained in efficient and sustainable methods, allowing Nestle to purchase beans from farms that deploy best practices. Also, these efforts helped Nestlé tackle major global issues such as child labor, lack of access to affordable and good quality healthcare, and lack of quality education.

Nestlé actions were first triggered by external factors, starting its sustainability journey. Through the awareness of some of its missteps, Nestlé was able to undertake actions as a means of damage control. Over time these actions became more intentional, and today Nestlé stands out as an exemplary case of an integrated sustainability strategy.

2) **What is driving SDG engagement?**

As observed in sample companies, a company’s corporate sustainability strategy is the starting point for companies to engage with the Global Goals. None of the companies see it the other way around; in other words, the SDGs are not the reasons for companies to pursue their sustainability goals. Most companies view their SDGs commitment as a befitting enhancement to existing corporate sustainability strategies.

**Aligning Motivations for Actions on the SDGs and Corporate Sustainability**

Many organizations, alliances, and platforms have made a business case for companies to increase meaningful engagement with the SDGs. The business drivers that compel companies to take on the SDGs can be broadly organized into two categories:
**Growth Opportunities:** Driving growth, by providing opportunities for innovation, market development, cost efficiency, and brand building.

**Growth Limiters:** Using SDGs to outline potential risks and managing, mitigating or eliminating those risks that negatively impact business growth.

Similarly, these two categories also represent the motivation for companies to take on corporate sustainability. Thus, there is a clear synergy between integrating the SDGs and integrating corporate sustainability because through these integrations, companies are given a dual framework to examine opportunities that drive growth and eliminate risks to the business.

The general positivity with which the companies perceive the SDGs is also a driving factor for their alignment. Analysis of companies’ statements on the SDGs reveals that most companies recognize the inclusiveness of the goals and welcome their emphasis on cross-sector collaboration. There is also a general recognition of the importance of the goals in creating a globally agreed framework on sustainability. Several companies mention the value of the SDGs as one input to help them think about their sustainability approach and identify the key issues to which they can contribute. The Global Goals offer a framework for companies to assess risks that might affect their business and opportunities where they can make an impact. Companies also express their SDG engagement through the lens of further communicating and demonstrating their corporate citizenship. This is particularly important for companies with global operations and reputation.

Finally, there is a small set of companies that have not directly engaged with the SDGs even if they have developed a corporate sustainability strategy. Based on the interviews, the lack of explicit support for the SDGs stems from the perception that SDGs are designed for developing countries or government actors to take on, and thus less relevant to their business. One company expressed that since their revenue stream derives mostly from the domestic market, the SDGs are not on the radar of interest for their core stakeholders. Another company described the SDGs as being developed by those who do not understand business, and therefore, are not as relevant to the company.

**Aligned Rewards for SDGs and Corporate Sustainability Integration**

The eventual goal or vision for both the SDGs and corporate sustainability is a sustainable future for society and business. In this vision, societal interests and business interests are aligned; thus, when a business creates financial values, ESG values are deeply embedded.
Enhancing Business Capabilities through Corporate Sustainability

The business sector is well-positioned to bring new solutions for the attainment of the Global Goals because of its capabilities in filling the resource gap, increasing efficiency, driving innovation, and expanding access through its on-ground networks. The SDGs present opportunities for the business sector to open new market opportunities and attract new private investments in sustainable development by leveraging companies’ core competencies, expertise, and resources. At the same time, government and social sector organizations are increasingly operating in a resource-crunch environment, while being expected to deliver on the SDGs. Against this backdrop, public-private partnerships can be key in scaling the impact on the SDGs.

SPOTLIGHT
Examples of the business sector’s capabilities leveraged for development: Self-cleaning toilets (SDG 6); disabled people playing soccer enabled by low-cost prosthetics (SDG 3); and nanobots used in cancer surgeries at one-tenth the cost (SDG 9).

Coca-Cola, which operates in all but two countries in the world, presents an excellent example of a well-built on-ground network that can be leveraged for last-mile access. The company has used its distribution network to improve public health services through the Project Last Mile.

The role of business in enabling the achievement of the global development agenda is crucial. However, to fulfill this role, companies will have to more deeply embrace sustainability concerns in their vision and business operations so that the financial values are not at the expense of societal, environmental and governance interests. Moving towards a sustainable business model requires companies to think ahead about reducing inefficiencies created by resource wastage, innovating their products and markets, unlocking the new power of private capital through impact investing, and embracing shared value creation as part of shareholder value creation. In other words, their own business capabilities can be enhanced when sustainability is used as the driving force.
Leveraging Corporate Sustainability Will Lead to SDGs Achievement

A growing number of companies are closing the gap between corporate sustainability goals and business goals. Therefore, it is recommended that governments, policy-makers, intergovernmental organizations, and business corporations use the concept of corporate sustainability to the maximum advantage to accelerate the business sector's contribution to the SDGs and the overall achievement of the global development agenda.

As companies set up a sustainability mandate and engage with the SDGs, it is necessary to discuss the motivation behind the growing number of activities in this space. Since sustainability is about taking the long-term perspective on how a business creates value, it is imperative to understand and articulate the drivers that enable the companies to clearly make a case for their transition toward a more sustainable business model and for efficient allocation of resources in this endeavor.

Identifying the key drivers for the corporate sustainability strategy and SDGs engagement is the important first step in the integration process. An approach that categorizes the drivers as business-case or value-based inextricably links the sustainability strategy to the core business mission and vision, making it easier for the companies to devise the next steps in creating their sustainability strategy.

When SDGs came along, we sat inside and said here is an opportunity to continue the momentum that we have and let’s think about the commitment that we can make to the new set of goals.

(Representative from a Healthcare and Life Sciences company)
III. Emerging Practices of Corporate Sustainability Integration

Corporate sustainability is an evolving corporate management paradigm that aligns the pursuit of business profits with environment protection, social justice, economic development, and ethical governance. This section uncovers the following emerging practices underlying the sustainability integration of leading companies in this space:

**Strategic Integration**
- A growing number of companies envision their business and sustainability through the same lens in which both are grounded in the same set of corporate values.
- The average number of ESG impact areas identified by the companies in the sample is 4. This means that a company is taking sustainability actions in at least 4 key areas at a given time.

**Operational Integration**
- Measuring ESG impact remains a big challenge for companies. All 14 companies interviewed echo the struggle with impact measurement metrics.
- While companies report on ESG indicators, environmental indicators are the most well established in their reports, while the categories related to governance are least represented.
- Leading companies undertake a continuous and integrated reporting approach to communicate on sustainability issues and progress with internal and external stakeholders.
- 68% of companies have undergone rigorous materiality analysis which involves stakeholders in identifying and reporting sustainability issues most material to the business.
- Most companies engage in win-win corporate sustainability partnerships that go beyond philanthropy. Disagreements over common goals, changes in leadership, and lack of alignment in terms of resources and commitment are the greatest obstacles in building effective partnerships.
Organizational Integration

➢ Top leadership needs to champion sustainability in order for it to take off, but successful integration requires all hands-on board.

➢ Overall, around 75% of the companies studied are moving along the integrated approach to building a sustainability governance structure. These companies usually have at least one or two of the following sustainability leadership practices: an executive providing oversight on sustainability, a board-level committee dedicated to sustainability, and cross-functional management of sustainability.

➢ Companies echo that the day-to-day work of integrating sustainability is often fraught with obstacles and delays. One of the common challenges involves changing the culture of the company to get everyone onboard with the sustainability agenda.

Corporate Sustainability Integration

To fully integrate corporate sustainability in the business, companies have to fully consider three functional aspects:²⁴

- **Strategic Integration**: how business and sustainability strategy are aligned

²⁴ Adapted and expanded from United Nations Global Compact. Three Lenses to Integration – Roadmap for Integrated Sustainability.
• **Operational Integration**: how sustainability goals, measurement and reporting are set; how a company manages stakeholders and approaches partnership in relation to corporate sustainability.

• **Organizational Integration**: how sustainability governance is structured and implemented.

1) **Strategic Integration**

**From Creating Shareholder Value to Creating Shared Value**

In business terms, the main purpose of a company's existence could be condensed to 'maximizing shareholder value'. Shareholder value is the benefit delivered to the shareholders of the company through a healthy return on invested capital. A continuous healthy performance on variables such as management’s ability and revenue growth results in strengthened share prices and positively impacts a company’s ability to generate a higher value for its investors.

While maximizing shareholder value continues to be a prime goal for a company, the factors that impact it are far more intricate. Over time, external factors existing in operational ecosystem of a business become an essential consideration for the longevity of the business. Mostly such external factors relate to environmental, societal, economic, and governance dimension. Better performance on these factors can generate a higher shareholder value, because of better risk management and growth opportunities.

Successful management of these factors rests on a comprehensive business or corporate strategy. According to Michael D. Watkins, a strategy is a set of guiding principles that provides a clear roadmap as to how resources are allocated, and decisions are made within a company to accomplish key objectives. In other words, strategy is a roadmap to generate an intended reward or objective – increasing the wealth of shareholders. An all-inclusive strategy, one that considers the essential internal business capabilities as well as the external variables related to environment, social, and governance, is a critical determinant of long-term success of a company.

**Internal factors**: Internal factors directly impact the profitability of the business and relate to how the operations are conducted by a company. These include management’s ability, innovation, improved technology, higher sales, and better marketing.

**External factors**: External factors, on the other hand, indirectly impact a company’s profitability. These are centered in the environment in which the company operates and the ecosystem it impacts. These could include environmental, societal, economic, and
governance factors and can either negatively or positively impact a company’s license to operate as well as its brand and reputation, which indirectly affect a company’s profitability.

<table>
<thead>
<tr>
<th>Internal factors</th>
<th>External factors</th>
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<tr>
<td>Management</td>
<td>Government Policy and Regulations</td>
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<tr>
<td>Sales and Revenue</td>
<td>Environmental Impact</td>
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<tr>
<td>Technology</td>
<td>Societal Impact</td>
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<tr>
<td>Research &amp; Development</td>
<td>Ethics</td>
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<td>Organizational Culture</td>
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The interaction between the external and the internal factors affects a company’s profitability and ultimately shareholders’ value. Given the paramount importance of maximizing shareholder value to the business, the corporate strategy and the corporate sustainability strategy should converge with time, i.e. both should represent the same idea, mission, vision, approach and end goal. In other words, companies that have fully integrated corporate sustainability into their business should have the same business and sustainability strategy.

The end goal of having this duality in a company strategy is to guide the company in the creation of shared value. Shared value is a management strategy in which companies find business opportunities in social problems.25 While philanthropy and CSR efforts focus on giving back or minimizing the harm business has on society, shared value focuses company leaders on maximizing the competitive value of solving social problems through new customers and markets, cost savings, talent retention, and more. In other words, shared value is driven by the business case.

As discussed earlier, approximately 83% of the companies studied are driven by the business case to undertake sustainability. This means the concept of shared value will become increasingly critical for companies rethinking their strategies with the aim of incorporating sustainability. Building on this framework, the section underscores the emerging iterations to the corporate strategy with the aim of seeking this duality in the company strategy.

Criteria
For total integration of the corporate sustainability, the strategy of the company should reflect both these elements – to increase the profitability and to generate positive environmental, social and governance (ESG) impact.

25 Shared Value Initiative. [https://www.sharedvalue.org/](https://www.sharedvalue.org/)
Insights from Sample Companies

Out of the 40 companies in the sample, 31 companies have a clearly defined strategy that takes into consideration both the profitability and ESG impact goals in the company vision, mission or strategy. Only 18% or 7 companies were lacking in these elements. For the remaining two companies, their strategies were unclear.

![Figure 12. Prevalence of Twin Goals](image)

Further, this trend illustrates that a growing number of companies envision their business and sustainability through the same lens, grounded in the same corporate values.

Johnson and Johnson’s business strategy to “embrace innovation—bringing ideas, products and services to life to advance the health and well-being of people around the world” is inextricably linked to its corporate sustainability strategy to promote the health of its employees, the communities in which it operates and the planet. Both are grounded in its corporate values, famously called “Our Credo”.

Secondly, although US companies are over-represented at 15 companies out of 40, it is worth noting that out of the seven companies where the duality in the strategy is lacking, five are U.S. based companies. Additionally, out of the 2 companies with unclear strategy, one is a U.S. based company.

Another important trend is that a high number of companies integrate corporate
sustainability reporting into their annual report. The annual reports for these companies not only include the multiple sustainability initiatives carried by the company, but also their ESG impact in numbers. This serves as a leading indicator in changing practices in how a company views corporate sustainability as a core part of its business and reporting progress on sustainability to its shareholders.

The convergence of profitability and sustainability into a coherent strategy is a positive direction toward the creation of shared value by companies. Having this strategy will help companies over time to:

- Reconceive products and markets – new products for new markets including the bottom of the pyramid
- Redefine productivity in the value chain – driving productivity through better resource utilization
- Enable local Cluster Development – enhancing skills levels, and supporting institutions that boost productivity, innovation, and growth.\(^\text{26}\)

> “The idea was to come up with an integrated and coordinated strategy that would go beyond check book philanthropy and apply to the issue of corporate citizenship the same kind of core element that was behind the idea of business strategy. This is to say that the development of new product and service that provide sustainable resource.”

(Representative from an ICT company)

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\(^{26}\) Ibid
2) **Operational Integration**

*Impact Goals, Measurement, and Reporting*

According to the latest McKinsey Global Survey on the topic of sustainability tracked since 2012, in 2017 a larger share of respondents than ever before say the top reason for a successful implementation of a sustainability agenda is better alignment between an organization’s practices and its goals, missions, or values.\(^\text{27}\) Setting sustainability goals, measuring impact, and reporting are part of such practices. The importance of setting impact goals and measuring them is in the ability to better support internal and external decision-making on sustainability-related risks and opportunities. This, in turn, can influence capital allocations by investors – making more sustainable businesses more successful.\(^\text{28}\)

Additionally, reporting on the impact of corporate sustainability activities is useful as communication and engagement tool with stakeholders on the most relevant social, environmental, governance, and economic issues affecting their business success.

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<th>Criteria</th>
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<td>Impact Measurement is defined as an evaluation of the impact that businesses have through corporate sustainability practices, with a primary focus on three categories – environment, social, and governance. These impact categories serve as the key performance indicators (KPIs) of companies for sustainability activities. For a fully integrated corporate sustainability practice, the following elements are necessary:</td>
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<tr>
<td>- Identified areas of importance or impact</td>
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<td>- Clear KPIs under each of these categories</td>
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<td>- Continuous reporting on key performance indicators (five years or more)</td>
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<td>- Integrated reporting i.e. reporting of sustainability-related KPIs in the annual report</td>
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The study also includes the reporting on standardized guidelines such as GRI guidelines or IIRC\(^\text{29}\) as an important element of tracking impact but does not deem this as a necessary condition to identify the impact.

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\(^{28}\) Ibid

\(^{29}\) GRI (Global Reporting Initiative) and IIRC (International Integrated Reporting Council) are two main reporting standards that companies adopt to report their sustainability progress. These standards promote value creation as the next step in the evolution of corporate reporting.
**Insights from Sample Companies**

**A. Impact Areas and Goals**

A total of 38 unique areas of impact are identified among the goals of the sample companies. These are then organized into environmental, social, and governance categories (See Figure 13). The sample of companies collectively has the highest number of different areas under the category of social impact at 22, then environment at 12, and governance at three. It is to be noted that the social category of impact includes topics as health, nutrition, and inclusive development and is far broad than the other two.

The average number of impact areas identified by the companies in the sample is 4.6. This means that a company is taking sustainability actions in at least 4 key areas at a given time. According to McKinsey Global Survey, companies with a unified strategy and no more than five strategic priorities are almost three times as likely to be among the strongest performers, both financially and on measures of sustainability.\(^\text{30}\) The idea is for companies to be able to focus on the issues that are most critical to their business and where they could

\(^{30}\) Ibid
have the largest contribution. This is important to avoid resource wastage, so efforts are not too fragmented, and create deep value either for the business or for the society.

Other studies have found that 94% of the top 200 in the Fortune Global 500 companies generally identify at least one category of impact. Most companies in the sample cover the basics on environmental footprint – climate, energy, water, and waste. However, there is growth of activities in the other two categories, especially in the social areas. In both social and governance categories, the growth has been from a fraction of companies to about half. However, it is worth noting that the change is in categories where numeric targets are hard to measure.31

Organizations lack specific and measurable goals to drive results. For tracking and measuring the success of a company’s corporate sustainability, it is important to set goals that are specific, measurable, and against established baseline.32 Only 50% of the companies in the sample set goals that include these characteristics.

B. Measurement

Measuring ESG impact remains a big challenge for companies. All 14 companies interviewed echo the struggle with impact measurement metrics. The wide variety of impact areas along with the lack of standardized metrics aggravate the problem. Companies in general report environmental, social, and governance indicators.

Environmental indicators are the most comprehensive in the reports, while governance indicators are least represented. Almost all companies map their activities against the environment indicators.

Impact measurement is limited by resource constraints, with corporations having to incur a

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huge cost for the assessment with limited visible value-add. As a result, the capability of a company to undertake a comprehensive measurement and reporting is dependent upon its capacity. Interestingly, one of the smallest companies in the sample dropped corporate sustainability reporting for two straight years. In comparison, one of the largest companies in the sample is already out with its 2017 sustainability report.

C. Reporting

Approximately 82.5% of the study sample follows Global Reporting Initiative (GRI) guidelines for reporting. GRI standards help businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being. This shared understanding and communication enable concrete action to create social, environmental, and economic benefits. In fact, according to GRI, 93% of the world's largest 250 corporations now use GRI standards for reporting.33

GRI guidelines also provide a framework for companies to assess their impact. Companies in the sample that integrate GRI guidelines have more integrated and comprehensive reporting on indicators. Further, these companies have well-defined KPIs for the business, which are based on these guidelines.

Continuous and integrated reporting are important practices that leading companies are undertaking to communicate on sustainability with internal and external stakeholders. Regarding continuous reporting, 32 companies (80%) of the companies surveyed have conducted sustainability reports for five years or more; only 20% have been reporting for less than five years. Half of the companies are presenting their sustainability performance in their annual reports.

The sustainability reporting field has made huge leaps over the past decade, including substantial improvements to reporting frameworks and standards, new entrants into the sustainability reporting ecosystem, increased transparency on sustainability issues, and new technologies for communication and engagement.34 However, the reporting procedures and

33 Global Reporting Initiative. https://www.globalreporting.org/
guidelines are still evolving and sometimes lack agreement in the reporting practices, resulting in many different guidelines (See Annex 5 on Reporting). With more than 100 sustainability raters and almost 500 ESG or sustainability themed indexes (2016), there are no common standards and companies have difficulty sorting through which to use\(^{35}\).

Some of the challenges listed by Business Social Responsibility, which has extensively covered sustainability reporting, are:

- Multiple Reporting frameworks with varying conflicting metrics, definition, and priorities.
- Practitioners are increasingly aware of a need to tailor sustainability reports to their target audiences but remain challenged to develop reports that provide their diverse set of stakeholders with the “right” disclosures to inform the “right” decisions.
- Competing interest in simplifying reports while companies are challenged to balance the depth of demand.

**D. Stakeholder Management**

As corporate sustainability becomes more integrated within a company’s business, sustainability activities are determined using a more rigorous approach that gauges the interests of its stakeholders, both internal and external. A corporate stakeholder is a person, group, or organization that has an interest or concern in a company. Stakeholders can affect or be affected by the organization’s actions, objectives, and policies. Traditional business tends to think about stakeholders narrowly as employees, shareholders, and customers. However, a combination of factors is driving the broadening view of stakeholders, ranging from customers, suppliers, investors, employees, governments, civil society organizations, the media, and local communities. These factors include:

- The public is more knowledgeable about environmental risks and human rights in relation to company’s activities.
- Higher expectations for corporate behaviors, especially in highly scrutinized industries such as fast consumer moving goods or extractives.
- Governments are held more accountable for public safety and to promote local economic interests through policies, regulations, and taxes. These can change quickly adding to the operating risks of companies.
- Corporations have themselves become more socially conscious and mindful of the need to give back to the communities in which they operate.

\(^{35}\) Nelson, Jane. “Collective Action on Business Standards, Goals, and Metrics to Achieve Scale and Impact for the SDGs”. In Kharas, Homi et al, *From Summits to Solutions*, Brookings, 2018
Stakeholder engagement is a key part of corporate responsibility since the process allows companies to understand which social, environmental, and governance issues matter most to its stakeholders. Furthermore, the engagement process is necessary to determine how best to involve stakeholders in a company’s problem-solving and decision-making process. One such practice of stakeholder management is achieved through the process of conducting a materiality analysis. The core of materiality analysis rests in identifying the issues that matter the most for the company and its stakeholders and where the company can have the most impact, called issue identification. These issues are then prioritized in keeping with the company’s strategy, mission, vision, goals and values. Companies can use these priority areas to decide the strategic areas under which it will take its sustainability activities. The importance of this process is accentuated in measuring and tracking ESG impact, which remains a prime challenge for many companies.

Criteria

Thoughtful planning and engagement with all stakeholders that may directly and indirectly influence the sustainability and profitability of a company is essential. The three critical elements of effective stakeholder management include:

- Identifying and articulating the complete set of stakeholders
- Defining a clear engagement strategy for each stakeholder group
- Involving stakeholders in the process of sustainability issue identification and follow-up

As corporate sustainability is driven by many internal and external drivers that concern stakeholders, the above three elements in tandem could prove to be critical to the success of the corporate sustainability strategy.36

Insights from Sample Companies

Balancing different interests and needs of various stakeholders can sometimes be a challenge in developing a coherent corporate sustainability strategy. However, conducting regular issue identification processes by the way of materiality analysis limits them to a few key stakeholders. Depending upon a company’s priority, a complete stakeholder management analysis can also be conducted. Of the 40 companies in the sample, 27 perform rigorous materiality analysis (68%). This means that the companies have identified all the key stakeholders and sustainability issues material to them. The frequency of conducting the materiality analysis also varies for companies from yearly to once in two or three years. Companies are communicating on this aspect. Approximately 78% of the companies in the sample present the issues most material to them either on their website or in corporate

36 Adapted from Baddache, Farid and Jonathan Morris. Five-Step Approach to Stakeholder Engagement. BSR, 14 November 2011.
reports. 72% of companies identify the stakeholder groups that directly or indirectly influence their business in their report.

It is difficult to identify the most critical stakeholder group that a company needs to engage with to advance its sustainability strategy, as companies reflect in the interviews that each group is important in its own way and dependent on the specific sustainability issue. A main obstacle in stakeholder management is maintaining regular dialogue with stakeholders. This challenge is important to address because part of the strategic value of sustainability comes from continually talking with and learning from key stakeholders. Through regular dialogue with stakeholders and continual iteration, a company with a sustainability agenda is better positioned to anticipate and react to economic, social, environmental, and regulatory changes as they arise.37

There are multiple tools available for companies to formulate a stakeholder management strategy. According to Business for Social Responsibility, a successful shareholder management strategy should encompass the following:

- Reviewing past engagements, determining the company's motivation for the engagement, and defining the objectives.
- Defining criteria for identifying and prioritizing stakeholders and reflecting on the best engagement mechanism such as a single meeting, open forum, social media, or an ongoing stakeholder panel.
- Defining short- and long-term goals and setting rules for the engagement.
- Conducting the engagement itself by focusing the conversations, making the most of engagement sessions, and mitigating tension when it arises.
- Using stakeholder feedback to improve business strategy and operations, build trust with stakeholders, and identify opportunities and plan for future engagements.38

E. Partnership Approach

As businesses are increasingly called upon to chart a path forward on sustainability, collaborations will become an increasingly important tool for companies and other actors to tackle complex environmental, social, and governance challenges. Collaborations can take place between industry peers or multi-industry companies as well as between companies and governments, multilaterals, and civil society organizations. With time, corporate sustainability partnership approach has evolved from being philanthropic in nature to leveraging core competencies of both the company and its partner organizations, creating a win-win situation.

Criteria

An effective partnership that delivers shared value should allow a company to go beyond philanthropy in its corporate sustainability strategy. The study assesses whether corporate sustainability partnership enables a company to improve the sustainability of operations by utilizing the expertise of the partners or leveraging its own core competencies.

Insights from Sample Companies

All companies in the sample participate in at least one type of partnership and most participate in multiple partnerships with a range of different actors. There is a general acknowledgement that no one actor - business, government, or non-profit - can work alone in solving sustainable development challenges. Partnership is an essential means of collective action that is necessary to achieve scale and magnified impact. Collaboration can also be useful in improving the quality of standards and tools used by industries to achieve consistency of practices, increasing transparency and accountability, and assuring buy-in and credibility among peers and stakeholders.

93% of companies have at least one partnership that utilizes their partners’ expertise to help them improve sustainability activities. Under this approach, a company might look to partner with organizations that can fill the gaps in their knowledge or help them to improve expertise in a certain area. For example, most companies in the Food, Beverage, and Consumer Goods industry partner with several organizations with expertise in human rights, supply chain management, certification, or local knowledge to help them enhance the sustainability of their value chain. As indicated earlier, companies also engage in one or more industry alliances or global partnerships that advance ESG within a sector or a global public good. They participate in order to raise the standard of conduct for the entire sector, for knowledge and information sharing, benchmarking themselves against competitors, and/or maintaining a presence in the greater conversation on sustainability.
78% of companies have at least one partnership that allows them to leverage their core competencies. This approach to partnership is more prevalent among companies that have been able to articulate how their core business aligns with their corporate sustainability approach. Companies utilize their products, services, or capabilities in distribution, marketing, finance, research, or other business functions in a partnership to address an environmental or social challenge (See Spotlight on Mars’ partnership approach). These approaches are not meant to be mutually exclusive. In fact, many of the best partnerships combine both approaches to create a win-win situation for companies and their partners.

Although companies in the sample are moving toward an integrated approach to sustainability, they have activities spreading across the spectrum from philanthropy to corporate sustainability. For example, 62% of companies engage in philanthropic activities through a dedicated foundation arm. Many of them feature these activities prominently on their website and sustainability reports. However, only one company in the sample has a corporate sustainability strategy that rests entirely on philanthropic activities. The majority uses philanthropy as only one part of the broader corporate sustainability and citizenship strategy.
Philanthropy remains the prevalent practice because companies still see the value of charitable contributions and corporate sponsorship as tools to enhance community relations. Some companies align philanthropic activities with their core business (e.g. a healthcare company giving grants to public health organizations). Other companies use philanthropic arm to advance their sustainability goals. For example, AB InBev set up a separate foundation dedicated to its work around reducing harmful drinking, one of the company’s key sustainability goals. The foundation arm allows AB InBev to engage better with public health experts and build the credibility and focus necessary to achieve its goals.

**SPOTLIGHT**

Farmer Income Lab is an innovative collaborative think-do-tank established with the aim to improve farmer income. It was founded by the Mars, Inc. to test measurable frameworks and new business models. It aims to spark action and commitment from other businesses, governments, and NGOs by sharing the solutions.

The idea behind partnerships is to convene to foster action. Farmers Income Lab is an exemplary innovative partnership by Mars that has successfully incubated a think-tank with the main purpose to inspire action within the ecosystem. Mars utilizes its own business need to curate solutions for sustainable agriculture that will eventually generate higher income for the farmers, an idea arising directly out of its own business needs. Further, the think-tank has been set up to contribute towards inclusive growth by partnering with governments and sharing solutions with competitors.

**Challenges to Building Win-Win Partnerships**

As important as collaboration is for achieving greater impact, companies express that partnership can be difficult to get right. Disagreements over common goals, changes in leadership, and lack of alignment in terms of resources and commitment appear as a running theme across the interviewed companies. Several companies mentioned that the expectation for them to build a partnership based on purely financial contribution is still prevalent, particularly in their engagement with non-profit organizations. These factors pose big challenges throughout the course of partnership development and maintenance.
Companies also brought up the challenge of building trust at the personal and organizational level between partners. Different organizations come with their own set of values, cultures, and frames of understanding sustainability issues; learning to speak each other’s languages is an important part of the trust-building process. Overall, the most frequently mentioned ingredients that companies in the sample identified during the interviews as key to a successful partnership are:

### Top 5 Ingredients for Partnership Success

1) Alignment of goals and shared outcomes  
2) Commitment to bringing resources and competencies  
3) Maintaining open dialogue and trust  
4) Agreement on realistic timeline of collaboration  
5) Appreciation of each other’s values and differences

### 3) Organizational Integration

Implementing sustainable business practices and integrating the SDGs are about more than technical and financial capabilities - it is about organizational management. Since sustainability involves taking a long-term perspective, the drive toward sustainability necessitates an integrated management approach to operationalize sustainability in a systematic way across different business units, functions, geographies, and network of employees to ensure that the sustainability vision is championed by top leaders embedded throughout the company.

**Management Structure**

For the organizational and cultural integration of sustainability, it is essential to have:

1. An employee engagement strategy on the company’s corporate sustainability strategy.  
2. Top-down push to integrate sustainability into an organization’s culture.  
3. Identification of key groups within the organization, besides thought leadership, in operationalizing and executing its corporate sustainability strategy.

These elements of committed leadership, employee buy-in, and clear direction require a well-defined sustainability governance structure. This allows a company to implement a
sustainability strategy across the business, manage goal-setting and reporting processes, strengthen stakeholder relations, and ensure overall accountability. There is no cookie-cutter structure that can be applied; every company in the study’s sample has tailored its approach to what best fits with its business model, company organization, resources, and level of sustainability integration.

Depending on where the company is in its sustainability journey, there are three main approaches: centralized, integrated, and embedded. The centralized approach is more likely to appear at the beginning stage when a sustainability vision is beginning to form. When sustainability efforts start to spread across the company, it is more likely to take the integrated approach. The embedded approach is reached when a company is at high stage of having a sustainability mission as core to the overall corporate mission. As a company moves from a centralized governance structure to a more embedded one, the sustainability vision is more effectively implemented by both the top level and other levels across the business.

**Incentive Structure**

Literature shows that a small number of firms have started to base their top executives’ compensation on how successfully they accomplish corporate sustainability goals. This practice, known, as CSR contracting, has been questioned on whether it generates greater sustainability activities, or it is another greenwashing tool. The first study on the effect of CSR contracting by Northwestern University found that between 2004 and 2013, the rate of CSR contracting for 500 public companies in Standard & Poor’s 500 Index increased from 12 percent to 40 percent. Companies in the emission-intensive industries like mining, energy, and transportation were twice as likely as the average company to utilize this practice. In terms of the effect, the study found that, after controlling for other variables, a CSR contract

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led to improvement in sustainability practices. In particular, it led a company to cut emission by nearly nine percent, increase green patents by three percent, and receive a five percent higher CSR rating. Furthermore, the practice helped company’s value to increase by three percent over the next year instead of providing a trade-off with the bottom line. CSR contracting, however, is not a silver bullet to incentivize more action and results. The study found that companies adopting CSR contracting only see its benefits if they are rigorous about setting sustainability goals, measurement, and implementation plans.

**Criteria**

Having a clear governance structure that brings top-level support and oversight for ESG issues is key to organizational integration of corporate sustainability. (See Appendix 6)

Companies are assessed against the following elements:

- Having an executive who has corporate sustainability as his or her main responsibility
- Having an executive-level structure that manages sustainability across the business
- Having a board-level committee dedicated to sustainability

**Insights from Sample Companies**

Interviewed companies agree that top leadership is key in driving and sustaining corporate sustainability efforts. However, sustainability cannot just be a CEO or one leader's project but must have agreement among key leaders in the company. While having an executive leader as a champion of sustainability is very powerful, without extending the strategy below, companies risk losing momentum and support when the executive departs.

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Companies acknowledge the importance of operationalize sustainability through dedicated sustainability teams across the business. There is a consensus among interviewed companies that corporate sustainability cannot be a siloed function within the business or bolted on. It must be integrated into core corporate strategy, implemented with cross-functional collaboration, and have a clear governance structure in order to drive actions, ensure accountability, and achieve results.

**Governance Structure**

Companies in the sample are spread out among the three approaches (centralized, integrated and embedded) and have different practices of governance structure. Overall, around 75% of the companies in the sample are moving along the integrated approach to organizational management of sustainability. These companies usually have at least one or two of the three sustainability leadership practices: an executive providing oversight for the strategy and execution of sustainability, a board-level committee dedicated to sustainability, or a cross-functional management of sustainability.

It starts with the CEO. You need to have the total commitment and passion of the CEO. You need to have total buy-in, **total support of the Board**, the leadership team within your company. Clients, social responsible investment firms, there is no end to the internal stakeholders that are critical to you. But in terms of the quality of the work, you **must do in full collaboration with external stakeholder**.

(Representative of an ICT company)
45% of companies have a person in executive leadership who oversees corporate sustainability as part of his or her main responsibility.

63% of companies have a cross-functional management structure that oversees the strategy and execution of corporate sustainability.

45% of companies have a Board Committee dedicated to corporate sustainability.

88% of companies have a cross-functional management structure for corporate sustainability that explicitly describes the responsibility of the structure.

5 out of 40 companies implement all three practices of corporate sustainability leadership (Total SA, Coca-Cola, Johnson & Johnson, Novartis, IBM).

5 companies do not have any explicit corporate sustainability governance structure (Commonwealth Bank of Australia, Ant Financial, BlackRock, Centene, Flowserve).
Challenges to Managing Sustainability

Companies echo that the day-to-day work of integrating sustainability is often fraught with obstacles and delays. One of the common challenges involves changing the culture of the company to get everyone onboard. Even if there is strong senior executive leadership and grassroots momentum, some companies express that sustainability is not bottom up or top down but rather middle out. Practices to engage middle managers across business functions such as marketing, finance, product development, and integrating sustainable thinking are still nascent. Managers are often focused on their specific functions such as increasing sales or driving research so that sustainability is seen as a distraction or burden. They might also not share the same language as the sustainability team. For example, the procurement team might think about access to raw materials while the sustainability team might think about supply chain traceability. Both sides are discussing the same roots issues and the solutions are often mutually beneficial; however, understanding nuances and getting these teams to be on the same page take time.

Some companies are taking steps to bridge the gap between sustainability and other functions. Mars, Inc., for example, recently changed the title and responsibility of the Chief Sustainability Officer to Chief Sustainability and Procurement Officer as a way to signal

Historically, there have been people so focused on delivering sales and processes that it is sometimes hard to get their attention on some of these issues. It certainly helps if these topics are reported to the CEOs and are what the executive committees are paying attention to. That helps. But making sure these types of self-expanding agendas reach our divisional leaders, that is the challenge.

(Representative from a Healthcare and Life Sciences company)
the merging of sustainability as a core business function. Philips, another example, combines the function of sustainability with strategy and innovation team because it believes that sustainability is the driver for innovation of the company.

Companies are also still at the early stages of employee engagement even though they acknowledge that this element is critical to achieving sustainability goals. Companies have yet to move from simply informing employees about sustainability initiatives to inspiring them to participate. Some discuss building the right incentive structure for sustainability action such as integrating sustainability goals into individual annual performance reviews or using rewards and recognition programs to encourage employee participation.

Another challenge that companies have to wrestle with is how to have a globally integrated sustainability strategy while allowing for enough decentralization for different geographies to adopt the most relevant aspects and innovate solutions. For companies with global operations, the added challenge is to deliver sustainability in a way that fits with how government, civil society, and culture operate in different places.

When we launched our sustainability plan, which is value-chain approach, one of the things we realized was that for us, most of the impact was happening in our supply chains. We realized there were many linkages between our sustainability function and procurement, so our Chief Sustainability Officer is now our Chief Procurement Officer.

(Representative from a Food, Beverages, and Consumer Goods company)
CONCLUSION

Successful integration of sustainability into the business model enables companies to better contribute to the SDGs and accelerate the achievement of the goals. Based on the exploration of 40 companies considered to be leaders in sustainability practices, the study draws three key insights that can be useful for companies looking to integrate corporate sustainability and for organizations looking to partner with companies on sustainable development.

Engagement with the SDGs
Insight 1: Companies see contribution to the SDGs through existing corporate sustainability

More than half of companies in the sample recognize specific SDGs to which they plan to contribute. Companies tend to prioritize the goals that are most relevant to their existing corporate sustainability and core business strategy. The SDGs are useful as a framework to organize thoughts around sustainability risks and rewards; and thus, they can inform a company’s development of corporate sustainability strategy. Companies can deepen their engagement with the Global Goals by aligning and tracking their specific goals and activities to the goals.

For organizations looking to engage with companies on global development, utilizing the lens and language of corporate sustainability can be helpful. By articulating the business drivers behind sustainability and where the SDGs can align with or enhance corporate sustainability and business strategy and goals of companies, organizations can better draw the business sector’s support for the SDGs.

Motivations to Integrate Corporate Sustainability and the SDGs
Insight 2: Drivers and rewards for the SDGs engagement and corporate sustainability are similar

The study established two categories of drivers for taking on corporate sustainability - business-case and value-based drivers. Business-case drivers include maximizing growth opportunities through brand building, production innovation, cost efficiency, and market development. They also include risk management such as compliance with government regulations, and maintaining reputation and social license to operate. The rewards are financial gains as well as positive environmental, social, and governance impact.
Identifying and understanding the business drivers for sustainability is an important first step for companies. As companies are required to justify benefit against cost incurred and make effective resource allocations during the transition, having a clearly articulated driver for corporate sustainability can be the foundation for a company to take the longer-term perspective. Whether the company is motivated by maximizing growth opportunities or minimizing risks, these drivers require explicit internal acknowledgment and consensus. Companies can take a more systematic approach in identifying drivers and make use of assessment tools such as issue identification. Issue identification is the process by which companies identify the issues that matter most to them and their stakeholders. Inevitably, such a process will propel companies to think about key drivers and knowing what matters most to their business.

**Emerging Practices to Integrate Corporate Sustainability**

**Insight 3: Embedding corporate sustainability in the business happens in three key arenas: strategic, operational and organizational integration**

**Strategic integration**
To incorporate sustainability, companies first seek strategic integration in which they set forth a working vision that shifts the business strategy from creating shareholder value to creating shared value. Redefining strategy as a mix of environmental, social, and governance, as well as a financial value, has massive implications for all stakeholders. How the strategy is articulated differs for each company in the sample; how the strategy evolves increasingly reflects the duality of maximizing shareholder value and the ESG impact.

**Operational integration**
To operationalize a corporate sustainability strategy, companies need to develop specific, measurable, and time-bound goals as well as build communication tools to report on their progress. The difference between the aspiration to achieve “education for all girls” and to achieve “educating 500,000 girl students by 2020” is quite evident. Not only publicly communicating quantifiable goals motivates companies, but also forces them to allocate resources, promote accountability, and track and measure performance for informing future goals.

Companies in the sample tend to build their goals around four or five impact areas. Going beyond this optimal number of impact areas, companies risk diluting their efforts and consequently, the results that they can achieve. In terms of measuring impact, companies are currently facing more difficulty in social and governance areas, where indicators are not as clear-cut and science-based as those in environmental areas. Helping companies improve
measurement in ESG areas presents an excellent opportunity for organizations with expertise in these areas to engage with companies on sustainable development. Companies determine key impact areas by engaging stakeholders in the process of identifying and managing sustainability issues that are likely to affect the business the most and where company can have the greatest impact. Stakeholder engagement is critical because if corporate sustainability goals do not respond to concerns of key stakeholders, they would diminish the interests behind the company’s corporate sustainability and result in dispersed efforts that ultimately underwhelm corporate goals. On the other hand, a well-thought-out stakeholder management approach that considers all stakeholders, issues that matter to them, and different ways to engage them, creates value not only for these stakeholders, but also for the company in informing business operations and strategy.

Companies in the sample recognize that the most effective and innovative partnerships to advance sustainability are based on mutual interest and take advantage of unique strengths of each partner. As business, public, and non-profit organizations get together to advance sustainable development, they should look beyond philanthropic types of partnerships and think about where best to apply and enhance core capabilities of business for ESG impact - from production, marketing and distribution, human resources, to research and development.

**Organizational Integration**
Companies in the sample express that top leadership needs to champion corporate sustainability; however, successful integration requires all hands on board. To manage sustainability operations effectively, companies are building an integrated sustainability governance structure to organize their efforts. Behind a successful sustainability strategy is a strong thought leadership of the Board of Directors Committee and Executive Management, managing and identifying sustainability issues by cross-functional working group committees, and finally day-to-day execution that brings together other business functions with the sustainability team. Setting up an entire sustainability department embedded within the business is a long process. Therefore, starting with a small sustainability team that intimately understands the sustainability issues is a stepping stone towards a fully integrated sustainability department whose capabilities eventually cuts across other business functions of the company.

**Final Takeaways**
The study recognizes that answering the question of how to embed corporate sustainability remains a challenge. This challenge is a result of heterogeneity in the business practices of companies, which depend on their industry, size, competitors, stakeholders, and the regulatory environment in which they operate. From decision-making process to on-field execution, there is no one identified best practice that results in sure shot success. The
companies in the study’s sample are moving toward a full integration of sustainability in the business, yet the current activities in their transition can be located across the spectrum from corporate philanthropy to corporate sustainability in terms of intention, impact, and benefits to the company.

The following six common practices are enabling companies in the sample to move toward fully integrating sustainability in their business. These practices serve as necessary but not sufficient conditions for the success of a corporate sustainability strategy. A successful sustainability strategy will depend on leadership at the top as well as talent on-the-ground and the resource capacity to hire this talent. Further, the lack of universally accepted and standardized practices in corporate sustainability limits the performance-benchmarking of the companies. Nevertheless, as the companies test and evolve their practices over time, there are certain elements that become a building block of that next best practice.

### Six Practices of Companies Integrating Sustainability

- Identify the drivers for the companies to take on sustainability
- Formulate a strategy that encompasses both the sustainability and business goals
- Have specific, measurable, and time-bound sustainability goals and build an integrated communication tool to report on their progress
- Create a stakeholder management strategy that involves them on sustainability issues
- Build partnerships and alliances that leverage core capabilities of the company and the partners
- Embed and integrate sustainability within the main business functions
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## APPENDICES

### Appendix 1: Company Sample

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<tr>
<td>35</td>
<td>Accenture</td>
<td>Information Technology &amp; Telecommunication</td>
<td>Ireland</td>
<td>Public</td>
</tr>
<tr>
<td>36</td>
<td>IBM</td>
<td>Information Technology &amp; Telecommunication</td>
<td>USA</td>
<td>Public</td>
</tr>
<tr>
<td>37</td>
<td>Nokia OYJ (Nokia)</td>
<td>Information Technology &amp; Telecommunication</td>
<td>Finland</td>
<td>Public</td>
</tr>
<tr>
<td>38</td>
<td>Konica Minolta Inc</td>
<td>Information Technology &amp; Telecommunication</td>
<td>Japan</td>
<td>Public</td>
</tr>
<tr>
<td>39</td>
<td>Apple</td>
<td>Information Technology &amp; Telecommunication</td>
<td>USA</td>
<td>Public</td>
</tr>
<tr>
<td>40</td>
<td>SAS Institute Inc.</td>
<td>Information Technology &amp; Telecommunication</td>
<td>USA</td>
<td>Private</td>
</tr>
</tbody>
</table>

The companies represent the following industries:

1. Food, Beverage and Consumer Goods (10 companies)
2. Healthcare and Life Sciences (6 companies)
3. Energy, Natural Resources, and Chemicals (5 companies)
4. Industrials, Manufacturing, and Constructions (6 companies)
5. Financial Services (6 companies)
6. Information Technology Services and Communication (7 companies)
# Appendix 2: Companies Interviewed

<table>
<thead>
<tr>
<th>No.</th>
<th>Company</th>
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<tbody>
<tr>
<td>1</td>
<td>Chevron</td>
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<tr>
<td>2</td>
<td>JPMorgan Chase</td>
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<tr>
<td>3</td>
<td>Land O'Lakes</td>
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<tr>
<td>4</td>
<td>AB InBev</td>
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<tr>
<td>5</td>
<td>Coca Cola</td>
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<tr>
<td>6</td>
<td>Nestlé</td>
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<tr>
<td>7</td>
<td>Walmart</td>
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<td>8</td>
<td>Mars</td>
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<tr>
<td>9</td>
<td>Johnson &amp; Johnson</td>
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<tr>
<td>10</td>
<td>Novartis</td>
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<tr>
<td>11</td>
<td>Bechtel</td>
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<tr>
<td>12</td>
<td>Tata Sons (Tata Group)</td>
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<tr>
<td>13</td>
<td>Accenture</td>
</tr>
<tr>
<td>14</td>
<td>IBM</td>
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</tbody>
</table>

Interviews are conducted with representatives from corporate sustainability, corporate citizenship or public affairs team.
**Appendix 3: Analysis Framework and Methodology to Assess Corporate Sustainability and SDGs Engagement of Companies**

Data collected from company websites, 2015 to 2017 corporate sustainability reports and/or annual reports

<table>
<thead>
<tr>
<th><strong>Strategy</strong></th>
<th></th>
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<tbody>
<tr>
<td><strong>Indicator 1:</strong> Does the company articulate twin goals (profitability and ESG impact) in the corporate strategy?</td>
<td></td>
</tr>
</tbody>
</table>
| • Yes: The company articulates twin goals  
  • No: The company does not articulate twin goals | Method: Qualitative analysis of company’s mission |
| **Indicator 2a:** Has the company identified key drivers for its corporate sustainability strategy? |  |
| • Yes: The company identifies key drivers  
  • No: The company does not identify key drivers | Method: Qualitative analysis of corporate mission and description, corporate sustainability mission and description, letters of CEO or Sustainability Officers in reports to determine drivers |
| **Indicator 2b:** If yes, what are the main drivers articulated? |  |
| • Key words for drivers | Method: Same as Indicator 2a |
| Example: Company’s values, growth opportunity, license to operate |  |
| **Indicator 3:** What are the main approaches to implement corporate sustainability? |  |
| • Key words for approaches | Method: Same as Indicator 2a and review of company’s main areas of sustainability activities |
| Example: Product innovation, supply chain transparency, reducing carbon footprint, increasing safety of workers |  |

| **Impact Goals, Measurement, and Reporting** |  |
| **Indicator 1a:** Does the company have sustainability commitments? |  |
| • Yes: The company makes specific sustainability commitments  
  • No: The company does not make any specific sustainability commitment | Method: Review the company’s sustainability goals or commitments as stated on its website or reports |
| Example: Become carbon neutral by 2025, Develop and deliver innovative, life-changing solutions to address the world’s major health challenges |  |
| **Indicator 1b:** If yes, what are the specific impact areas of the commitments? |  |
| • Key words for impact areas | Method: Review the commitments and categorize them into areas such as Environment, Ethics, Education, Clean Energy |
**Indicator 2: Do the commitments have specific targets and/or indicators?**
- Yes: The commitment has specific targets and/or indicators
- No: The commitment does not have any specific target and/or indicator
Method: Review the explanation of company’s commitments to find specific target or indicator
Example: Together with partners, train 30,000 skilled birth attendants to assist 6 million births by 2025

**Indicator 3: Does the company track the progress of their sustainability commitments?**
- Yes: The company track the progress annually
- No: The company does not track the progress annually
Method: Review sustainability reports for at least 2 years and websites to find annual tracking activity or progress update of their sustainability goals
Note: Companies that only recently established their goals in 2017 were excluded from this indicator

**Indicator 4: Does the company have continuous sustainability reporting for at least 5 years?**
- Yes: The company have continuous reporting for at least 5 years
- No: The company does not have continuous reporting for at least 5 years
Method: Review sustainability report archive and Google search to determine if there is continuous reporting going back to 2012/2013

**Indicator 5: Does the company integrate corporate sustainability or ESG reporting into the Annual Report?**
- Yes: The company integrate corporate sustainability or ESG reporting into the annual report
- No: The company does not integrate corporate sustainability or ESG reporting into the annual report
Method: Review annual report since 2015
Note: Some companies have an integrated annual report combining financial reporting with sustainability reporting. Other companies still have a separate sustainability report but also integrate in the most important parts of the sustainability report into the annual report. In this case, the company is determined “Yes” to this question

**Indicator 6a: Does the company use a standardized guideline for reporting?**
- Yes: The company use a standardized guideline
- No: The company does not use a standardized guideline
Method: Review sustainability and annual reports since 2015

**Indicator 6b: If yes, what is the guideline used?**
- The type of guideline used
Method: Same as Indicator 6a
Example: There are several reporting guidelines such as GRI (Global Reporting Initiative), Human Rights reporting or industry reporting guideline such as IPIECA/API/IOGP for oil companies

**Indicator 7: Is the corporate sustainability report or integrated annual report externally assured?**
• Yes: There is a statement of external assurance in the report
• No: There is no statement of external assurance in the report
Note: Sustainability reporting is audited by different companies and to different extents. This indicator does not evaluate the quality and completeness of the external audit (such as having all ESG indicators and progress audited externally), only whether the sustainability report was externally audited

**Stakeholder Management**

**Indicator 1: Has the company identified and articulated a set of stakeholders?**

• Yes: The company has identified and articulated a set of stakeholders
• No: The company has not identified and articulated a set of stakeholders

Method: Review company website and latest corporate sustainability report
Example: Consumers, customers, employees, shareholders, government, media

**Indicator 2: Does the company have an engagement strategy for stakeholders?**

• Yes: The company has a stakeholder engagement strategy
• No: The company does not have a stakeholder engagement strategy

Method: Review company website and latest corporate sustainability report
Example: Town hall meetings with employees, quarterly meeting with shareholder, hotline for consumers

**Indicator 3: Has the company engaged its stakeholders in identifying key sustainability issues?**

• Yes: The company has engaged stakeholders in identifying sustainability issues
• No: The company has not engaged stakeholders in identifying sustainability issues

Method: Review company website and latest corporate sustainability report to find activities that help companies consider perspectives of stakeholders on the most material sustainability issues
Example: Issue identification activities, materiality analysis involving stakeholders, convening meetings with external stakeholders to discuss sustainability issues.

**Partnership Approach**

**Indicator 1a: Do the company’s partnerships help it implement corporate sustainability strategy beyond philanthropy?**

• Yes: At least one of the company's partnerships helps the company implement its corporate sustainability beyond philanthropy

Example:
• Active technical assistance that uses a company's or business association's core expertise, or that of its staff: corporate volunteerism by engineering staff on youth STEM programs, logistics assistance with humanitarian crisis through a company's distribution network
• In-kind donations of a company's products: in-kind hardware or software donations to schools by a software company; use of a mobile money company's platform to build capacity and response by rural health facilities.
• Utilization of partner's expertise to enhance the sustainability of company's operations: partner with human rights organization to tackle child labor or slavery in supply chain, partner with environmental organization to tackle carbon footprints of production activities
- Active participation in alliances or platforms to promote better practices across the industry of the company

- No: None of the company's partnerships helps the company implement its corporate sustainability strategy beyond philanthropy

Example:
- All the company's partnerships are philanthropic in nature e.g. The company provides support to local communities where it operates, primarily for the purpose of community relations; the company only provides only financial contributions

Method: Review partnership activities described on website and/or reports

<table>
<thead>
<tr>
<th>Indicator 1b: If yes, does the company leverage its core competencies in a corporate sustainability partnership?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Yes: The company leverages a core competency in at least one partnership</td>
</tr>
<tr>
<td>Example:</td>
</tr>
<tr>
<td>- Active technical assistance that uses a company's or business association's core expertise, or that of its staff: corporate volunteerism by engineering staff on youth STEM programs, logistics assistance with humanitarian crisis through a company's distribution network</td>
</tr>
<tr>
<td>- In-kind donations of a company's products: in-kind hardware or software donations to schools by a software company; use of a mobile money company's platform to build capacity and response by rural health facilities.</td>
</tr>
<tr>
<td>• No: The company does not clearly leverage a core competency in any partnership</td>
</tr>
<tr>
<td>Example:</td>
</tr>
<tr>
<td>- Partnerships are unrelated to business partner's industry or expertise: - contributions to child welfare or primary school students and school systems by companies unrelated to educational products</td>
</tr>
<tr>
<td>- Does not provide technical capacity other than access to its network (often relevant to business associations): a TB prevention initiative for employees of local chamber of commerce members</td>
</tr>
<tr>
<td>- Provides only financial contributions: - employee matching programs or donations to a relief agency during a humanitarian crisis</td>
</tr>
</tbody>
</table>

Method: Same as Indicator 1 above

<table>
<thead>
<tr>
<th>Indicator 2: Does the company engage in philanthropic activities?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Yes: The company engages in philanthropic activities</td>
</tr>
<tr>
<td>• No: The company does not engage in any philanthropic activities</td>
</tr>
</tbody>
</table>

Example:
- The company has a philanthropic foundation
- The company provides support to local communities where it operates, primarily for the purpose of community relations e.g. support to community health initiatives by companies
unrelated to health products, support to youth not directly related to livelihoods or employability in the sector of the company.

- The company provides humanitarian aid e.g. donations to social contributions, advocacy campaigns or relief efforts, and any contribution for which the sole benefit to the business is for employee morale or corporate image

Method: Same as Indicator 1 above

### Organizational Management

#### Indicator 1: Does the company have an executive with corporate sustainability as his or her main responsibility/part of his or her main responsibility?

- **Yes**: There is an executive whose main responsibility or one of his/her main responsibility is providing oversight on sustainability issues
- **No**: There is no executive whose main responsibility or one of his/her main responsibility is providing oversight on sustainability issues

Method: Review executive leadership and sustainability governance structure

Example: Company has a Chief Sustainability Officer featured in the executive leadership. Depending on the business nature and strategy, the company might not use the exact same title; however, the description of the role reveals that the executive oversees sustainability issues. Other possible titles include Chief Innovation and Strategy Officer, VP for Corporate Affairs and Citizenship.

#### Indicator 2: Does the company have an executive-level integrated structure to manage corporate sustainability?

- **Yes**: There is an executive-level structure to manage corporate sustainability
- **No**: There is no executive-level structure to manage corporate sustainability

Method: Review sustainability governance structure

Example: Company has a sustainability committee or working group comprises of senior leaders across different business units, functions, or geographies to coordinate and manage sustainability. The titles for the committee or working group varies. Examples include Sustainability Committee, Corporate Social Responsibility Task Force.

#### Indicator 3: Does the company have a board-level committee dedicated to providing oversight on sustainability?

- **Yes**: There is board committee dedicated to corporate sustainability
- **No**: There is no board committee dedicated to corporate sustainability

Method: Review sustainability governance structure and board committees

Example: Company has a board committee tasked with educating and involving board members in sustainability issues defined broadly. This represent the highest level of leadership on sustainability. The titles for the committee or working group varies. Examples include Corporate Sustainability Committee, Governance and Corporate Citizenship Committee.

### SDGs Engagement

#### Indicator 1: Is there any reference to the SDGs in the company’s publications?

- **Yes**: There is a direct reference to the SDGs
- **No**: There is no direct reference to the SDGs

Method: Review website, sustainability reports, annual reports for mentions of the SDGs
Example: Company may include a statement such as:
“For this reason, we are signing up for the 2030 UN Sustainable Development Goals—the world’s roadmap for progress—and dedicating our expertise, ideas and ingenuity to catalyze efforts where we are uniquely positioned to create sustainable and scalable impacts.”

“The material issues were categorized according to the five areas identified by the United Nations, which encompass the 17 Sustainable Development Goals, in order to align the strategies and programs for addressing these issues with the SDGs and their targets.”

**Indicator 2: Does the company explicitly state support for specific SDGs?**
- Yes: There is an explicit endorsement and support for specific SDGs
- No: There is no explicit endorsement and support for specific SDGs

Method: Review website, sustainability reports, annual reports for statements indicating the company’s commitment focusing on specific SDGs

Example: Company may include a statement such as:
“That is why we have committed to support UN Sustainable Development Goals, specifically SDG 3 to ensure healthy lives and promote well-being and SDG 12 to enable sustainable consumption and production patterns.”

“The SDGs underscore the relevance and significance of our Good Growth Plan. Its six commitments directly contribute to SDG2 - Zero hunger - and significantly support seven of the other goals...”

**Indicator 3: Does the company align its goals and activities to specific SDGs?**
- Yes: The company align its own goals and activities to specific SDGs
- No: The company does not align its own goals and activities to specific SDGs

Method: Review website, sustainability reports, annual reports for instances where the company maps its activities to specific SDGs.

Example: Company provides a description of how a goal or an example activity relates to specific SDGs. Company designates specific SDG icons next to its goals and activities in sustainability reports.

**Indicator 4: Does the company make any extra commitment to the SDGs beyond its own goals and activities alignment?**
- Yes: The company makes explicit commitment to further contribute the SDGs outside of how its own goals and activities already align to the SDGs
- No: The company does not make any such commitment.

Method: Review website, sustainability reports, annual reports for instances where the company states how it wants to contribute to the SDGs beyond its existing goals.

**Indicator 5: Is the company a member of the UN Global Compact and/or the World Business Council on Sustainable Development (WBCSD)?**
- Yes: The company is a member of the UN Global Compact and/or WBSCD
- No: The company is not member of the UN Global Compact and/or WBSCD

Method: Review membership of UN Global Compact and WBSCD.
## Appendix 4: Interview Questionnaire Template

### Strategy
- What are the main drivers behind the company’s current sustainability strategy?
- How did the company decide on its impact areas and related goals and targets?
- How does the SDGs play into your sustainability strategy, if at all?

### SDGs
- How far along is the company in aligning its sustainability strategy to the SDGs?
- What are the benefits of aligning with the SDGs? Is there any challenge?
- Does the company plan to track and measure its contribution to the SDGs?

### Impact Measurement and Reporting
- Which impact areas does the company measure well? Which areas does it face challenge?
- Why do you select the current measurement and reporting standards?

### Stakeholder Management
- What is the company's stakeholder management strategy for sustainability issues?
- Which internal stakeholder is most critical in driving the success of the sustainability strategy?
- Which external stakeholders are most important to engage with on sustainability issues?
- What challenges does the company face in engaging with its external stakeholders on sustainability issues?

### Partnership Approach
- What are the drivers behind your partnership approach?
- What are some challenges in partnering with industry peers? Governments? Non-profits?
- How does the company deal with situations in which your partner’s sustainability values might not align with its sustainability values?

### Organizational Management
- What are some management practices that the company undertakes to drive forward its corporate sustainability?
- What challenges does the company face in operationalizing sustainability across the business and down the organizational hierarchy?
- What other practices will be necessary to undertake in order to fully integrate corporate sustainability?

### Closing
- Given your experience, what is one learning that you can share with companies trying to move toward a more sustainable business model?
## Appendix 5: List of Sustainability Reporting Standards

| International Integrated Reporting Council Integrated Reporting Framework |
| Global Reporting Initiative Sustainability Reporting Standards |
| Sustainable Accounting Standards board |
| Carbon Disclosure Project |
| Climate Disclosure Standards Board |
| Open Technology Institute Transparency Reporting Toolkit |
| Human Rights Reporting and Assurance Frameworks Initiative |
Appendix 6: Sustainability Governance Structure

- **Head of Sustainability:** Several companies have a dedicated executive-level head to ensure that there is focus on driving sustainability strategy and to signal the company’s commitment to internal and external stakeholders. There are varying levels and titles for the dedicated sustainability leaders, such as Chief Sustainability Officer (Inditex), VP of Environment, Policy and Social Initiatives (Apple), Chief Strategy and Innovation Officer (Philips).

- **Formal Board Committee:** Sustainability oversight by the Board of Directors increasingly is integrated across several formal board committees or handled by a dedicated committee. This is an important vehicle for engaging the board on sustainability issues and demonstrating commitment to sustainability at the highest levels. There are also varying titles for these committees such as Strategy & CSR Committee (Total SA), Sustainability Committee (Nestle), Science, Technology and Sustainability Committee (Johnson & Johnson).

- **Cross-Functional Executive Sustainability Committee:** This cross-functional executive committee usually sits below the board level and engages leadership across business units, regions, and functions to provide strategic oversight and guidance. For example, Nestlé has a Nestlé in Society Board chaired by the CE and composed of senior leaders across the company.

- **Sustainability Teams:** Some companies have a dedicated sustainability team to coordinate the daily activities and company-wide initiatives. While this is a common practice, companies also caution against it being a siloed function within the company. Tata Group, for example, has a very well-integrated Sustainability Group that is driven by the mission to guide, support, and provide thought leadership to all Tata group companies in embedding sustainability in their business strategies.
• **Sustainability Supporting Structures:** Working groups or committees can assist integration of strategy and goals by supporting and even substituting sustainability teams. Individuals in these support structures may be the “owners” of priority sustainability topics and are responsible for implementing strategies, tracking performance, and engaging employees. Representatives may come from real estate and facilities, communications, human resources, risk management, supply chain, and other groups. For example, IBM has a Corporate Responsibility Working Group that meets monthly.

• **External Advisory Councils:** While external advisory councils may not officially be part of the governance structure, they can serve as a valuable mechanism to advance the company’s agenda and get outside perspective on a variety of ESG issues. AB InBev, for example, has an independent Technical Advisory Group made up of experts in alcohol science, health communication, and measurement who advise the company on implementing evidence-based and credible initiatives in support of their Global Smart Drinking Goals.