EVERYTHING OR ANYTHING

HOW BUSINESSES CAN START WITH THE SDGS

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ABSTRACT

Purpose
The purpose of this paper is to investigate how companies are reacting to the launch of the United Nations' Sustainable Development Goals, either by updating their existing sustainability initiatives or launching new programs.

Methodology
Interviews were performed with more than 60 multinational corporations, SMEs, startups, investors and financial institutions, NGOs and industry associations.

Findings
The field of reporting on SDG impacts is in flux, but most companies that have sustainability programs are aware for the UN's 2030 Sustainable Agenda and are trying to figure out how they can use their current approaches to sustainability to map their efforts to the SDGs. Companies just starting the sustainability journey have a wealth of options to choose from for measurement, disclosure and crafting strategy.

Originality/value
Our survey of companies' approaches to aligning their sustainability programs with the SDGs sheds light on a wealth of strategies and best practices to pursuing this course of action.

KEYWORDS

Sustainable Development Goals, Sustainability, ESG, Disclosure, Corporate Governance

1. INTRODUCTION

Over the past six months, we have interviewed some 50 organizations worldwide – global corporations, mission-driven companies, investors, thought leaders, think tanks and industry associations – about their approach to using the United Nations' Sustainable Development Goals (SDGs) in a business context. We approached the subject with the thesis that more companies were using the SDGs to realign their business strategy and change their operations to improve their competitive posture and help meet the goals for society and the environment. In the process we became familiar with a wide range of philosophies, systems and methods for operationalizing the SDGs for business. In this paper we cover our discoveries from our conversations with leaders of the corporate sustainability movement.

1.1 Now there's a plan

And just like that, suddenly, the earth has a strategy: The release of the United Nations' Sustainable Development Goals in 2015 was the culmination of an over century-long, international evolution in our understanding of social and environmental issues. But more than this, the business world too has a new pilot in its social journey. The global consensus represented by the launch of the SDGs is intimately connected to the development of corporate philosophy and practices, in particular to an understanding of the responsibilities of business that goes back to the mid-20th century.

Starting from the idea of the social responsibility of businesses – way before the concept of Corporate Social Responsibility (CSR) as we know it today – a public discussion arose during the expansion of the industrial revolution that includes a focus on environmental and community issues. These ideas coalesced in the 1990s into a well-defined set of criteria that companies needed to understand, report and improve upon: their Environmental, Social and Governance, or ESG, positions.

From that decade till now, ESG has transformed from being a generally agreed upon but loosely defined concept with which to identify businesses' obligations to society, to one that has a robust ecosystem of principles, frameworks and standards bodies for understanding, measuring, reporting and defining strategy around ESG issues and the broader – and highly relevant – practice of sustainability in a corporate context.

This paper will discuss: how companies can make business cases for sustainability reporting and strategy development; whole systems approaches to understand how their companies exist within their marketplaces, value chains and communities; what options they have to do the most relevant reporting and operations transformations today; and how the SDGs will transform all these threads into a new, integrated whole approach to business.

2. EVERYTHING OR ANYTHING: How businesses can start with the SDGs

2.1 It starts with the 'Triple Bottom Line'

No single person can claim to be the originator of the ESG concept, but 25 years ago serial entrepreneur John Elkington coined the phrase Triple Bottom Line (TBL) to put at the center of the conversation the idea that companies should examine their social, environmental, and economic impacts when assessing their performance. Elkington popularized his concept, which he also presented as a focus on "People, Planet and Profit," in the 1997 book "Cannibals with Forks: The Triple Bottom Line of 21st Century Business."[i]

TBL was key in changing the way we think about sustainability in two important ways. First, it introduced the idea that companies should focus on stakeholders rather than shareholders. In the modern business era, the objective of "maximizing shareholder value" had been considered, up until that point, the gold standard of best practices in business. Elkington sought to shift the focus away from pure value maximization for shareholders to understanding how value is created for all of a company's stakeholders (which do include, of course, shareholders as well). Second, TBL laid the foundation for a new kind of accounting, integrated reporting, materiality, impact measurement, impact investing and the like.

The problem for companies that wanted to embrace TBL concepts was that while it is easy to measure financial inputs and outcomes, it is more difficult to quantify social and environmental aspects. The TBL approach thus required new frameworks and metrics in order to assess the value of environmental and social impacts.

Organizations and associations that support the evolution of the sustainability as a discipline, such as Sustainability Accounting Standards Board (SASB; www.sasb.org), Global Impact Investing Network (GIIN; https://thegiin.org), Global Reporting Initiative (GRI; www.globalreporting.org) and Dow Jones Sustainability Index (DJSI), trace their origins back to Elkington's TBL-based ideas and work. Many of the concepts and entities that TBL spawned are now core to the work of sustainability. CSR officers around the world and newly named sustainability officers, are increasingly being asked to participate in key business functions such as strategy, finance and marketing.

Elkington, though, is not satisfied with the direction that TBL has evolved in a corporate context, particularly in regards to the heavily financial and accounting role that TBL is often used for in practice. "The

original idea was wider still, encouraging businesses to track and manage economic (not just financial), social, and environmental value added – or destroyed. This idea infused platforms like the Global Reporting Initiative and Dow Jones Sustainability Indexes, influencing corporate accounting, stakeholder engagement and, increasingly, strategy," Elkington said in an article in the Harvard Business Review this year. "But the TBL wasn't designed to be just an accounting tool. It was supposed to provoke deeper thinking about capitalism and its future, but many early adopters understood the concept as a balancing act, adopting a trade-off mentality."[ii]

The SDGs may offer an antidote, with a broader context and more natural fit with how businesses think strategically about opportunities. They offer an opportunity to extend the TBL way of thinking beyond the domains of accounting and finance to strategy, operations and community engagement.

2.2 The importance of investment

While companies today often discuss the TBL concept of People, Planet and Profit in their sustainability initiatives, most of the practical conversations in businesses around measurement and reporting of impacts on the SDGs proceed from the starting point of ESG. From this reporting perspective, the ESG criteria today underpin our understanding of not only how companies operate in society, but also whether they are good investments for managers of capital. Indeed, the investment angle has brought the most pressure to bear on businesses to improve their impact on society.

While some companies and communities have adopted TBL accounting to be good corporate citizens, even more listed businesses inevitably come into contact with requirements of institutional investors and money managers who are using ESG frameworks to avoid risk and improve performance against the markets.

This approach took off in the first decade of the twenty-first century with the appearance of the first modern investment funds that made their decisions based on a belief that awareness of ESG issues would lead to better financial performance. Money managers came to see that an internal focus on ESG at a business could lead to a better view into a company's own operations, resulting in reduced costs, improved revenue and recognition of new business opportunities; reduction of risk to the business from internal and external factors; and an improved public image among employees and customers. They believed that applying an ESG filter to their investments would therefore lead to lower capital risk from their target investments and a chance to outperform the market.

In order to understand whether a company was serious about its approach to ESG, it was necessary to bring in a proper structure for measuring inputs and outputs, collecting and disclosing the relevant data, setting standards to follow, identifying materiality and financial impact of actions and changes, reporting on adherence to standards, crafting strategies to implement and improve upon sustainable programs, and setting goals and targets to encourage more sustainable thinking.

The focus of investors on ESG issues rolled down to businesses that need to meet the standards set by fund managers in order to reduce their cost of capital. While it would be nice to think that companies adopting sustainable strategies just wish to do good for society, the reality is that avoiding risk, primarily, and discovering new opportunities, secondarily, are most important. Listed companies today cannot ignore the requirement to do some kind of ESG reporting through the frameworks available in order to satisfy external stakeholders and to remain competitive against peers in the market who are already advancing such sustainability-related actions.

The introduction of the SDGs with the 2030 Agenda for Sustainable Development thus comes at a moment when investors and businesses are themselves looking at their contributions to or against a host of social and environmental issues, not to mention their own self-governance. While the SDGs are positioned at a country level and do not place direct requirements on businesses, their impact will be inevitably felt. The UN's 2030 Agenda puts pressure on national governments to meet the targets of the SDGs by the year 2030, meaning that a variety of policy changes and incentives across industry sectors will come into place to induce companies to contribute to achieving the goals.

ESG, as it is understood and measured today, does not translate in a one-to-one manner to the SDGs' country-level expectations. There are gaps in the coverage of each. But that will change quickly as academics, NGOs, investor and business associations, government ministries and agencies, and commercial interests are all working toward mapping an ESG-style of understanding business actions to the SDG's 169 targets and 232 indicators.

While measurement, standards, frameworks, reporting, benchmarking and other approaches are in flux, it would be an understatement to say that companies must engage in whatever way they can today to prepare for the new expectations for how they operate. And as these ways of looking at how a company operates sustainably become more broadly accepted and taken for granted as a business requirement, it will be more difficult for companies to hide behind bold declarations while taking minimal actions.

2.3 What's driving this shift?

Before delving deeper into approaches to measurement, it's important to examine what's behind the shift towards the view of sustainability as a "business critical" activity.

2.3.1 Shift in societal mindset

Companies large and small are in the spotlight more than at any point in history. As citizens have become more skeptical of governments, many take the view that companies are better actors for societal change. The Trust Barometer from communications firm Edelman, which has tracked changes in people's trust of various institutions around the world for almost 20 years, noted in their most recent survey that among the general population, 52 percent trust business, nearly on par with the trust level of NGOs at 53 percent. Trust for government and the media in contrast stands at just 43 percent.[iii]

It is often said, "With great trust comes great responsibility." Consumers and customers are also looking at companies more closely to see if their mission, activities, and products align with their own. This desire to support "companies with purpose" is even stronger among Millennials, who were born approximately from 1981 to 1996, and Generation Z, born approximately from 1997 to 2012.

A recent study by American Express found that 76 percent of Millennials said that businesses need to have a genuine purpose which resonates with people[iv] and, perhaps most concerningly for business, their view of business is dimming, with only 47 percent agreeing in Deloitte's annual global Millennial Survey that "Business leaders are committed to helping improve society," a 15-point drop from the previous year.[v] Generation Z's views on this topic are even more pronounced with a recent survey from Cone Communications finding that 94 percent of that generation believe companies should address social and environmental issues, versus 86 percent of the general population.[vi]

2.3.2 Mission driven businesses moving from niche to mainstream

The Triple Bottom Line approach also spawned a host of companies built from the ground up around this framework. Not only have they managed to build companies that successfully take an integrated approach to assessing impact, but they are increasingly outpacing the average growth of their respective sectors. Recent analysis of B Corp certified companies, which are required to consider the impact of their decisions and actions on their workers, customers, suppliers, community and the environment, found that such entities in the Fast Moving Consumer Goods (FMCG) space grew at an average of 27 percent in 2017, versus a national average of 3 percent for typical FMCG businesses. Research from Nielsen in 2017 found that consumers are not only highly interested in these products, but willing to spend more – 73 percent – for goods and services that have positive impact.[vii]

These aren't all start-ups. Many of these companies are well past that stage and have built large, multinational, durable companies. Some of the leading mission-driven companies are noted in the table below. Corporations in various sectors are closely following these companies, and some, as noted the below table, have made moves over the years to acquire these new insurgents firms.

Table 1: Mission Driven Company Examples

Companies	Sectors
Patagonia	Apparel
Method Home (acquired by SC Johnson)	Home Care
KEEN	Footwear and Accessories
Eileen Fisher	Apparel
Ben & Jerry's (acquired by Unilever)	Dairy (ice cream, yogurt)
Kickstarter	Crowdfunding Platform
Pukka teas	Teas & Supplements
Mrs Meyers (acquired by SC Johnson)	Home Care
Novo Nordisk	Pharmaceuticals
Barilla	Packaged Foods
Bolton Group	Packaged Foods, Personal Care and Beauty, Home and Laundry Care, Adhesives
Natura	Personal Care, Cosmetics
Aveda (acquired by Estee Lauder)	Personal Care, Cosmetics
Ragn-Sells	Waste Management
Danone North America	Packaged Foods (Dairy, Water)

2.3.3 Climate and other material business risks

Investors' emphasis in the early days of ESG tended to be on the "G" as investors understood Governance as having the strongest direct link to performance. Companies embraced this as well, as it was about improving their view on their own operations rather than changing their touchpoints to society and the environment. As the impact of climate change has become more evident, though, investors' perspective has shifted.

Climate change has been on investors' radar for several years as a key material risk to business. The "E" in ESG has transformed in the past two decades from addressing pollution to being largely defined by climate change. Investors have been using ESG criteria to screen investments, and financial institutions have been developing ESG-related investment instruments in recent years to offer solutions to investors for whom this is a criteria for placing funds. In fact, ESG investing today accounts for approximately $20 trillion in assets under management (AUM) around the world.[viii]

The Paris Climate Agreement made it patently clear that climate change is a pressing worldwide problem, with significant risk for society and the planet unless substantial steps to halt its progression are taken. Investors have woken up to the potentially calamitous impact climate change and businesses risks in sectors such as agriculture, beverages and water, commercial fishing and insurance.[ix]

These factors coupled with the changing demographics of investors, which now include more participation in the market from younger generations and an increase in the number of women working in the field, is resulting in a heightened urgency among investors to understand companies' climate risk exposure and exposure to other materiality risks, such as food crises or social instability, and how their strategies to avoid or mitigate them. With both institutional and retail investors alike increasing their holdings in ESG related assets, there's strong evidence that the approach investors take to valuing enterprises is changing. Even institutional investors such as the world's largest pension fund, Japan's Government Pension Investment Fund (GPIF; https://www.gpif.go.jp/en/investment/esg.html), with $1.1 trillion in assets, and the Dutch National Civil Pension Fund (ABP; www.abp.nl/english/) are increasing their ESG positions or specific ESG and/or climate-related goals.[x]

While Asia has been thought to lag on climate and the environment, there are strong signs that the region will make significant strides, with several nations leading the charge on technologies that will power sustainable transportation infrastructure and renewable energy, and a growing middle class that is increasingly demanding about environmental issues.[xi]

It is inevitable that these dynamics will positively influence Asia's investor class as well. Where previously companies could do the bare minimum to show they were taking some action on these risks, investors want to see concrete, and even ambitious, actions by companies demonstrating they have robust plans in place to deal with various material risks. With this increased investor interest and investment in organizations that are high performing on ESG and now SDG criteria, both investors and companies are looking for better tools, methodologies and frameworks for issues that often hard to quantitatively assess.

2.3.4 New principles for investing and financing

Again, it is impossible to overstate the importance of investors and financiers as drivers. The Forum for Sustainable and Responsible Investment found in 2016 that there were 1,820 institutional investors, money managers and community investment institutions in the U.S. alone that applied various ESG criteria in their investment analysis and portfolio selection, representing $8.10 trillion in U.S. based assets.

ESG is fundamentally a simple concept that redefines shareholder value in asking businesses to include – beyond profit – a focus on the environment, social impact, and internal governance. There is no governing body behind ESG or set of universally promoted and accepted standards. There are, however, a couple of sets of principles for investors that have been developed to define approaches to place their capital, which have a direct impact on what companies must do to participate in markets that are expressing these new requirements.

2.3.5 Principles for Responsible Investment

The Principles for Responsible Investment (PRI; www.unpri.org) was created by the UN in 2005 and has 1,449 reporting signatories this year. Signatories agree to follow the following six principles:

1. We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles

The PRI today does not include any obligation to use a particular framework or set of standards for signatories to determine if they are satisfying their commitment. The organization have released this year a Blueprint for Responsible Investment that does list a voluntary reporting framework based on recommendations from the Task Force on Climate-related Financial Disclosures (TCFD; www.fsb-tcfd.org).

While there is a focus on asset owners, financial systems and markets in the blueprint, its main purpose is to have the owners of their target investments, listed corporations, understand and report on how climate change may affect them. TCFD says its 513 supporting organizations "will consider the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries" and "help companies understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors' needs."

2.3.6 Equator Principles

The Equator Principles goes a step beyond the PRI commitment by creating a "risk management framework" for the 94 banks that have adopted them "for determining, assessing and managing environmental and social risk in projects." The financial institutions that have signed on to the Equator Principles since its launch in 2006 have agreed to only provide loans to projects worth more than $10 million that have followed a set of steps that cover:

1. Review and Categorization
2. Social and Environmental Assessment
3. Applicable Social and Environmental Standards
4. Action Plan and Management System
5. Consultation and Disclosure
6. Grievance Mechanism
7. Independent Review
8. Covenants
9. Independent Monitoring and Reporting
10. EPFI Reporting

The due diligence performed in the application of these principles is considered a minimum standard for making responsible decisions about risk. The principles themselves are aligned with the Performance Standards of the World Bank's International Finance Corporation (IFC; www.ifc.org), which "define IFC clients' responsibilities for managing their environmental and social risks." To give a sense of how many projects the Performance Standards impact, IFC invested $23 billion in 2018.

Besides the general requirements for proper disclosure, communication and management in the 10 principles, Principle 3, "Applicable Social and Environmental Standards," should be of interest to any businesses that seeks funds through financing. The standards in Principle 3 are fundamentally based on compliance for host country laws, but can extend to a banks internally set standards for approving financing for a project. And based alone on the Equator Principles as the stand, banks have rejected projects that they deem not to meet their standards.

There are many more banks that have not adopted the Equator Principles than have, but the existence of this initiative is putting pressure on any financial institution that wants to join a syndicate that includes such members.

2.5 The business case – Addressing the "Why"

While in theory the arguments are evident for an organizational transformation towards a sustainability/SDG-based model, the reality is that companies will first need to make a clear business case for their key stakeholders. Many companies will jump first to trying to quantify the financial impact (cost and revenue) this fundamental shift will have on their business model. But there's several important factors that lay the foundation for the business case and ultimately address "why" an organization would make this shift. These fall into two categories, organizational and market factors that are detailed in Figure 1.

Figure 1: Organizational Factors

Most organizations will need many of these factors to be present before deciding to make this fundamental shift in their business model. Once they do, organizations will need to determine the concepts, tools, and frameworks to enable them to make the important decisions and define the key actions they'll need to take to adopt a sustainability/SDG-based business model. The question around which methods to use can be a daunting one. A wide range of methods exist around the world, which makes the decision even more complex. All organizations will test various methods, but ultimately will settle on the one or ones that best suits each organization's unique culture, mission, capabilities, product portfolio and people.

2.6 From Understanding to Measurement: The concepts, tools and frameworks that enable the shift to Sustainability

Once an organization's leadership have embraced the business case for moving to sustainability/SDG-based business model, it's useful to think in regards to in which stage of the transformation process the organization actually is. We've identified what we refer to as a Sustainability Operationalization Process (Figure 2) which specifies the key stages that an organization generally proceeds through when transitioning to this transformative business model.

Figure 2: The Sustainability Operationalization Process

We'll use this process to provide an overview of various concepts, tools, and frameworks, highlighting how they can be most useful to organizations. The concepts, tools, and frameworks included here are those we found to be the most widely used among the organizations we interviewed or studied over the course of our research.

Our focus within the process flow will be on the stages "Understand the Context" and "Assess Impact," as this is where we believe the various concepts, tools and frameworks deliver the most insight and value.

The first stage: Understand The Context

There are four models that we find are particularly helpful in the "Understand the context" stage: Planetary Boundaries, Circular Economy, Natural Capital, B Impact Assessment, and SDG-linked Frameworks. While applicable throughout the Sustainability Operationalization Process, at the start they help organizations set off on their journey by revealing a 360 degree view of their current state in regards sustainability. These models can answer questions such as:

- How are we performing along various sustainability-related criteria?
- How are we doing versus our peers?
- What are the elements that are most material for our organization and our stakeholders?
- What are the key sustainability issues we should be considering as an organization?
- What is the current context in regards to environmental, governance, and social factors?
- How are we as a business performing in regards to the SDGs?
- Which SDGs are we impacting?
- Which SDGs connect with topics that are most material for our business and stakeholders?
- How do our business activities align with the SDGs?
- What is the current state of play as regards climate change and how do its effects impact our business?

2.6.1 Planetary Boundaries

In 2009, the Stockholm Resilience Center (SRC) proposed the Planetary Boundaries framework, based on earth systems science, to show the limits of what humans could do to the environment without upsetting the

ecological balance irreparably. In a corporate context, the focus is on the "resilience" of an organization, which SRC defines as follows:

Resilience is the capacity of a system, be it an individual, a forest, a city or an economy, to deal with change and continue to develop. It is about how humans and nature can use shocks and disturbances like a financial crisis or climate change to spur renewal and innovative thinking.[xii]

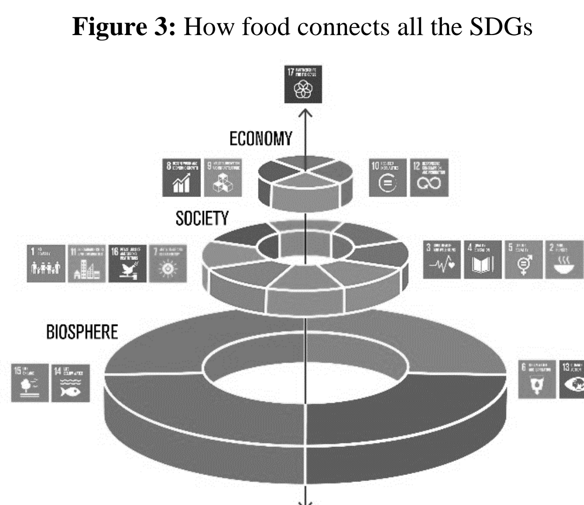
SRC says that this framework is underpinned by three pillars:

1. There are complex interdependencies between ecosystems and people
2. Our growth based system since WWII as ushered in a new age, namely the Anthropocene Age, or Age of Man, where humanity, like nature, is influencing every aspect of the earth
3. Innovation, which has put us in our current predicament, can also be used to get us out

Drawing on a science-based approach, the framework identifies nine planetary boundaries within which the planet is in a "safe space for human development". Recent studies have shown that due to human actions, four of the nine boundaries have already been crossed: climate change, loss of biosphere integrity, land-system change, and altered biogeochemical cycles (phosphorus and nitrogen). This approach advocates for more ecologically literate solutions, which the SRC recognizes the private sector, via development of new products and services and direct investment, will play an important role.

How this model is helpful:
The Planetary Boundaries proves quite useful when examining how an organization's actions connect to and impact the 17 SDGs. SRC has developed a "wedding cake" diagram which transforms the SDGs from an action list into a dynamic, holistic view that illustrates how the SDGs are part of a system in which economic actions are at the service of society and evolve within the constraints of the biosphere. This model was used to advance the principal conclusion from recent research by SRC's Johan Rockström and Pavan Sukhdev that all the SDGs are in essence connected in some way to food.[xiii]

Figure 3: How food connects all the SDGs



Source: Azote Images for Stockholm Resilience Centre

For companies in the food, beverage, ingredients and agricultural sectors, this conclusion easily resonates. For other sectors, Rockström and Sukhdev's research makes a strong case that organizations should take an approach that helps them understand how their actions impact and connect with SDGs beyond those that at first glance appear most directly connected to their business.

SRC's exploration of these subjects has also resulted in seven principles that are helpful when moving beyond the Understand the Context stage of the process to making choices about and executing on actions:[xiv]

1) Maintain diversity and redundancy (in systems)
2) Manage systems connectivity
3) Manage slow variables and feedbacks
4) Foster complex adaptive systems thinking
5) Encourage learning
6) Broaden participation (internationally within your organization and externally)
7) Promote polycentric governance

2.6.2 Circular Economy

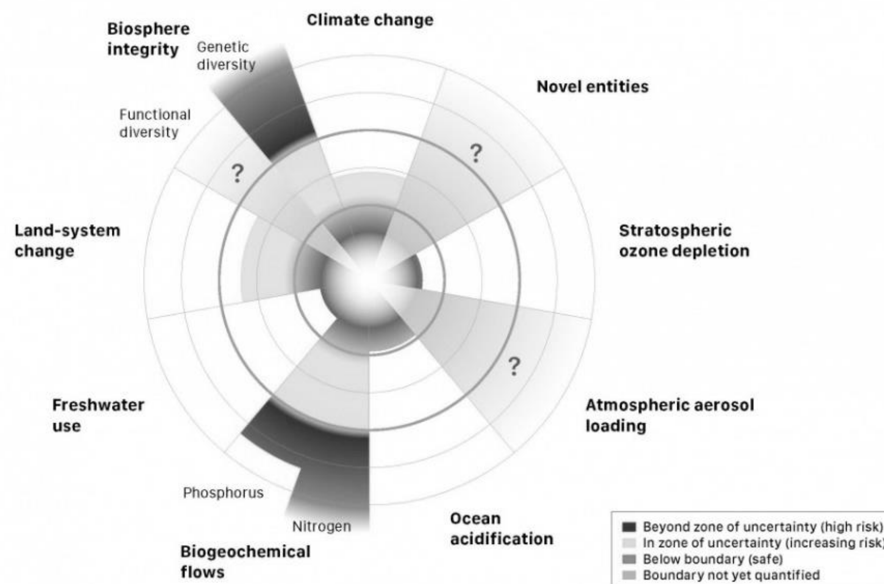
The Circular Economy aims to gradually decouple economic activity from the consumption of finite resources, and designing waste out of the system, according to the Ellen MacArthur Foundation, the pre-eminent thought leader and think tank on the concept that originates back in the 1960s.

Circular Economy is based on three principles:

1) Design out waste and pollution
2) Keep products and materials in use
3) Regenerate natural systems

The model itself distinguishes between technical and biological circular cycles: Biological cycles are the only ones where consumption happens, with food and other bio-based materials feeding back into the system through composting and anaerobic digestion. In technical cycles, there are clear opportunities for recovery and restoration of products, components and materials, via reusing, repairing, and, as a last resort, recycling them.

Figure 4: The Planetary Boundaries



Source: Steffen et. al., 16 January 2015, Science.

Where many other frameworks and methodologies can seem too theoretical to apply to businesses, Circular Economy is the one that is the most tangible and easy to understand for them. It was the methodology that from early on was targeted at businesses, as the business case around circular initiatives was clearest. There is a proven business case that demonstrates how improving waste disposal, building more durable products, recycling, or developing products based on recycled components can have a direct impact on a company's revenue and cost base. All of the large organizations we spoke to during our research were implementing circular initiatives in some way. Whether at flavors and fragrance company Givaudan who have made green chemistry a core part of their operations and sustainability efforts, or footwear manufacturer KEEN, who've eschewed the fast fashion model to build shoes that last, or hotelier Hilton's ambitious soap recycling and food waste reduction programs, many industry leaders have put into place ambitious actions rooted in circularity.

There are various schools of thought and resources on this concept. One of the more well regarded outside of the Ellen MacArthur Foundation is the Cradle-to-Cradle Institute, developed from the popular book by William McDonough and Dr. Michael Braungart Cradle to Cradle: Remaking the Way We Make Things. The institute awards a certification based on the sustainability of a company's products and design which isn't about simply checking boxes, but rather is an important tool for organizations to understand how their product

performs in regards to material health, material reutilization, renewable energy and carbon management, water stewardship, and social fairness.[xv]

Even if a company doesn't aim to have its products certified by Cradle-to-Cradle in the short-term, the certification criteria are a good way for an organization to understand how their products are performing at each stage of its production. Home cleaning products company, Method Home have gotten most of their product portfolio Cradle-to-Cradle certified, which they emphasize also serves as a good verification along with their B Corp status that the products they produce deliver on their sustainability promise.

How this model is helpful:

The frameworks around Circular Economy are rooted in understanding operations, organizations, and production systems. They offer various tools that can give organizations a complete picture of their product and organization's circularity.

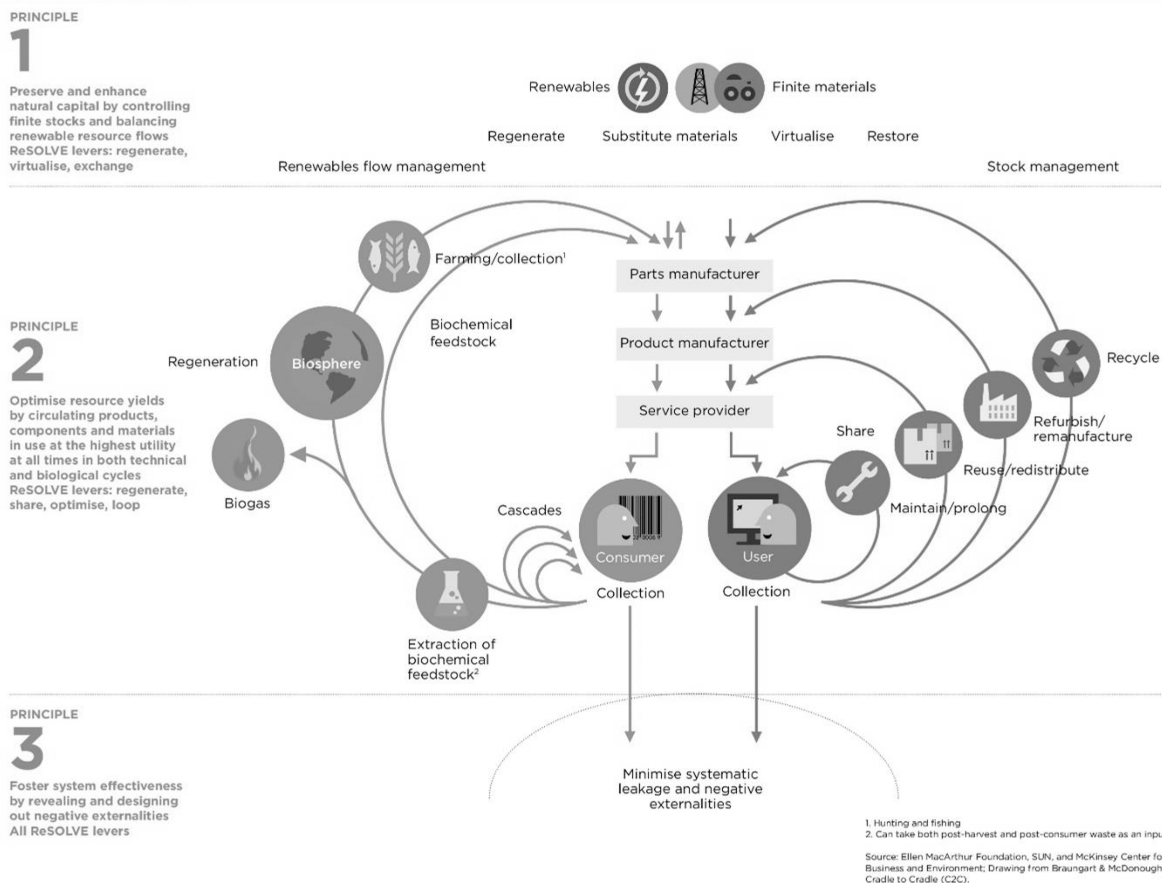
One useful tool from the Ellen MacArthur foundation to help organizations make assessments at the front end of the transformation process and measurements on the back end, is the Circularity Indicators (Figure 4). The Circularity Indicators seek to measure at the product level the extent to which a linear flow has been minimized and a restorative flow maximized, and how long and intensively it is used compared to a similar industry product. Taking into account the material flows results in a Material Circularity Indicator, or MCI. The MCI gives a value between 0 and 1, where 1 indicates higher circularity.

To calculate MCI, there are four key inputs that are used:

1) Input in the production process: How much input is coming from virgin and recycled materials and reused components?
2) Utility during use phase: How long and intensely is the product used compared to an industry average product of similar type? This takes into account increased durability of products, but also repair and maintenance and shared consumption business models.
3) Destination after use: How much material goes into landfill (or energy recovery), how much is collected for recycling, which components are collected for reuse?
4) Efficiency of recycling: How efficient are the recycling processes used to produce recycled input and to recycle material after use?

If a company has multiple products in a portfolio, this approach advocates identifying a reference product, grouping similar products with those products, and determining an MCI for each reference product group. There are complementary risk and impact indicators which can be used in conjunction with MCI to provide additional insights.[xvi]

Figure 5: Circular Economy System Diagram



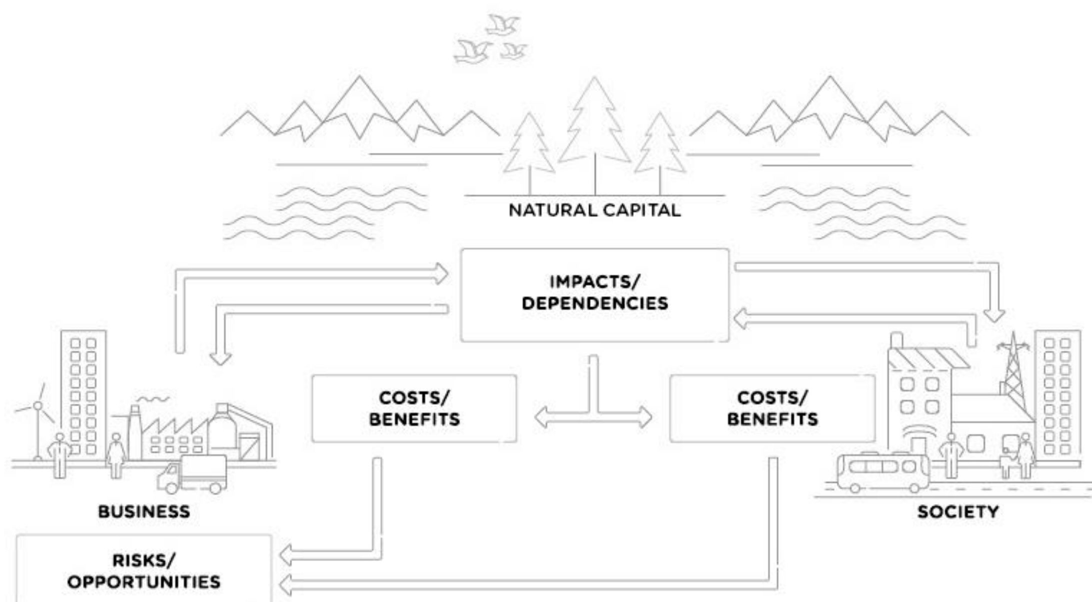
Finally, as Circular Economy can be considered a concept, rather than a framework, it has spawned innovative thought leadership around the world. As concerns around waste disposal and the proliferation of plastic increase in Asia, the need for circular principles and related thought leaders and experts is set to rise. One emerging open source leader is Circular Economy Asia (CEA), who are developing frameworks that can be used by businesses to hasten change. This fall CEA are announcing the Asian Packaging and Plastics Agreement, which is being rolled out to governments, businesses and other key stakeholders. The Agreement sets long-term targets for all plastics and packaging to be collected, recyclable, or reusable by 2050. These targets can also be helpful guides for companies as they look to prioritize which activities or areas within their supply chain to probe first.

2.6.3 Natural Capital

The forms of capital which are best understood by businesses and governments typically include financial, human, manufactured, social and intellectual capital. Natural Capital refers to another type, the stock of renewable and non-renewable resources such as plants, animals, air, water, soils and raw materials that combine to bring benefits to people. These include shelter, food, medicine, water and more, which can be used to develop products for human consumption. Natural capital supports the other forms by providing the resources needed to achieve a flourishing and healthy society.[xvii]

The Natural Capital concept argues that all businesses depend on natural capital to some extent and consequently experience risks or opportunities as a result of its own positive or negative impact on it. It is key that businesses understand their impact to and dependencies on Natural Capital.[xviii]

Figure 6: Natural Capital Model



Source: Natural Capital Coalition

How this model is helpful:
The Natural Capital Coalition has translated this concept into the Natural Capital Protocol Framework which aims to help businesses make better decisions and generate value through leveraging the principles of Natural Capital. While this framework focuses on Natural Capital only and doesn't integrate the SDGs, it does provide a particularly helpful method for integrating the principles throughout strategy development, execution, and measurement business cycle. At the Understand the Context stage, it enables businesses to answer key "why" and "what" questions: Why should you conduct an assessment? What is the objective? What is an appropriate scope? What is material?

In addition, The Natural Capital Coalition has also produced step-by step industry-specific guidance to help guide companies through the process that makes use of a full range of approaches, including Circular Economy, GRI, SASB, GHG Protocol, Climate Disclosure Standards Board (CDSB) and more. Available industries include apparel, food and beverage, forest products and finance.

2.6.4 B Impact Assessment

A B Corporation (or B Corp) is a company that's been certified by B Labs, a U.S.-based non-profit, as an organization whose mission and operations meet the highest standards of performance against environmental, social and financial measures. This certification differs from a legal corporate structure, such as a benefit corporation, which exists in approximately 33 states in the U.S. and in similar forms in Italy and Colombia. However, B Labs does actively advocate for the expansion of benefit corporation legal structures throughout the U.S. and internationally.

In order for an organization to obtain the B Corp certification, they need to achieve a passing Impact Score on the B Impact Assessment. The assessment is structured around three activities with questioning on a set of subject areas for each activity:[xix]

1) Assess: Question areas include governance, workers, community and environment
   a) Example questions
      i) Governance: Has the Company worked within its industry to develop social and environmental standards for your industry?
      ii) Environment: Which is the broadest community with whom your environmental reviews/audits are formally shared?

iii) Community: Which of the following underserved populations does your business impact or target (check all that apply)? If you are a business-to-business focused company, think of who the ultimate user of your product or service is.
iv) Workers: Based on the results of your employee satisfaction assessment (conducted within the past 2 fiscal years), what percent of your employees are 'Satisfied' or 'Engaged'?

2) Compare: Compares answers against those of thousands of other businesses to provide a benchmark
3) Improve: Create a customized improvement plan

As of spring 2018, over 2,000 companies around the world had been certified as B Corps, with the most well-known organizations including Patagonia, Etsy, Method Home and Ben & Jerry's. In April, B Corp welcomed its largest member to date, Danone North America.[xx]

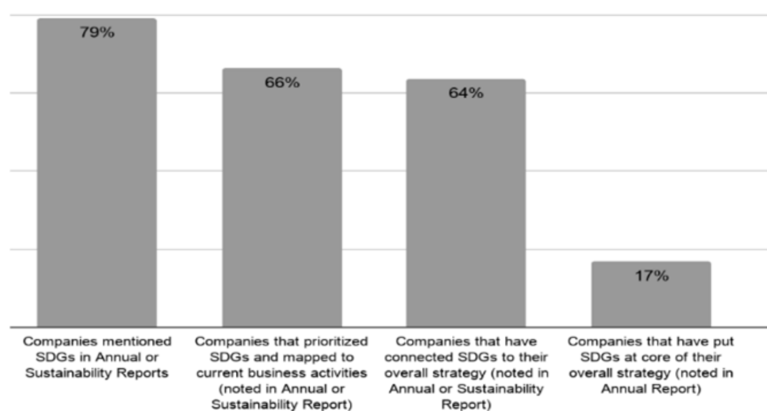
How this model is helpful:
The B Impact Assessment is an open, free tool that any business can use to assess its impact on its community, the environment, employees and customers. According to B Labs, 50,000 companies have used the B Impact Assessment tool. The assessment itself is thorough, challenging companies to provide responses on numerous criteria that any company that has a clear Triple Bottom Line mission would meet.

As it is free and online, it offers businesses of all sizes, in all locations a low risk opportunity to get a thorough assessment of how well their business is performing on key sustainability criteria. The learnings that come out of the assessment provide organizations with a clearer picture of where they perform best and areas where they need to improve, helping organizations to better facilitate questions and choices later at the stages following the Understand the Context step, when they'll need to make clear choices around actions to enable their transformation towards a more sustainability/SDG-based business model and put in place a plan to execute against them.

2.6.5 SDG-linked assessments

The SDGs have resonated strongly with many organizations, moving them to examine how to align their current business activities around one or more of the 17 SDGs and, if their current business activities are inadequate, move to new ones. In our recent review of annual and sustainability reports of over 70 leading companies from around the world (Chart 1), we found that the vast majority of companies were aware of the SDGs and indicated their importance to their business. The bulk of them also have prioritized the SDGs that they feel are most relevant to their business, mapped current business activities to them, and made a connection to company strategy. Still, when it comes to integrating their medium- to long-term business strategy in the SDGs, only a handful have moved on to do this. Nevertheless, companies are starting to act.

Figure 7: Sample of global companies approach to the SDGs



As they start the process of understanding how they perform against and contribute to the SDGs, companies are immediately confronted with a critically important question: Should they focus on one to a handful of SDGs to examine further or should they do so across all 17 goals? In our research, this question has been a hot topic of debate among sustainability directors and practitioners since the SDG's launch.

In order to avoid an "SDG washing" or "rainbow washing" situation where organizations eschew the hard work of aligning their strategy, supply chain and activities to the SDGs and opt only to focus on the SDGs at a very superficial level, we believe that companies should move to assess their performance on all of the SDGs as a first step in the process. They shouldn't focus their analysis only on the SDGs that they deem to be most relevant for their business; instead, businesses should aim to analyze their performance on all 17 SDGs, to get a full picture of their organization's impact.

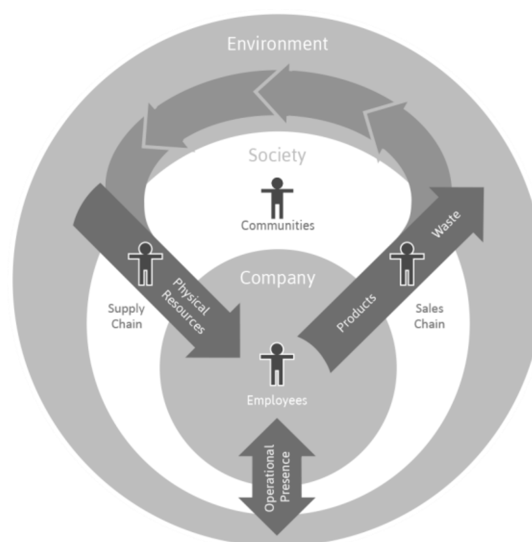
There are several frameworks emerging that help organizations to assess their SDG performance. We've identified three over the course of our research that we found particularly useful: Future Fit Benchmark from the Future-Fit Foundation, The Five Dimensions of Impact Model from Impact Management Project, and Impact Management for Everyone by Karl H. Richter. All are structured around an approach that compels companies to examine their impact across all areas of sustainability or, in the case of the SDGs, goals, and incorporate an element of assessing organizations' positive and negative impact along key dimensions. We'll explore one of these in more detail, the Future Fit Benchmark, which has proved to be particularly helpful in giving organizations a fuller understanding of their SDG performance.

2.6.6 Future-Fit Benchmark

The Future-Fit Benchmark (FFB) is a science-based framework that helps businesses respond successfully to societal challenges. It focuses on companies as a social system which needs to be understood in regards to its activities, active and passive stakeholders and its resulting impact. This system should not undermine society's future fitness, rather it should foster wellbeing, respect nature, optimize resources, and strengthen society.

The benchmark is the model used to assess the impact of the company as a system via 23 FFB goals. Businesses complete a self-assessment on all 23 goals and are determined on each to have a Positive, Negative, or a Break-even impact. Although very few companies will ever achieve positive impact on all 23 FFB goals, Future Fit argues that all companies should be able to, at a minimum, eventually get to a Break-even, i.e. "cause no harm," status on each goal. This broad approach helps companies identify blind spots on goals that they may previously have not considered. In addition, the benchmark is structured in such a way that companies can use it for measurement as well.[xxi]

Figure 8: Future-Fit Societal System model



Source: Future-Fit Foundation

As these goals are very much in the same spirit as the SDGs and their indicators, Future Fit have linked all of the 23 FFB goals to the SDGs. Although a fairly new benchmark, it is rapidly being taking up by organizations, including The Body Shop, DeBeers, Eileen Fisher, Grant Thorton and Novo Nordisk.

"We argue that it's fine for companies to focus on one or two or three SDGs," said Susanne Stormer, the Vice President of Corporate Sustainability at Novo Nordisk. "We do the same to looking at SDG 3 (good health and well-being) and SDG12 (responsible consumption). But you still need to consider your impact against all of the SDGs. This is why the Future Fit works because at a minimum you need to get to break-even and do no harm."

How this model is helpful:

The Benchmark offers organizations extensive guidance on how they can apply the framework. The Benchmark itself was developed with extensive input of business, so it takes a practical and straightforward approach to assessing a company's current position on the 23 FFB goals and the SDGs. The fact that it is a fairly new framework is a strong point in its favor in that the SDGs naturally connect with Future Fit's 23 goals, making it much easier for organizations to understand their impact in regard to the SDGs and to also be able to use the Benchmark as a measurement tool to track their performance over time on the SDGs.

2.7 Assess impact: Measure, Disclose, Strategize

2.7.1 Measure and Disclose

So far we have reviewed a number of principles, models and methods for understanding the business case for aligning a company with the SDGs, the current status of a company in its sustainability journey, and the pressures from investors and external risks on businesses today. For investors to keep the commitments they make with PRI, for banks to apply the risk framework of the Equator Principles, and for companies to discover where their current state of play, all these parties must determine what specifically to measure within an organization and how it should be publicly reported.

A range of different protocols, standards and benchmarks have been created to facilitate this process. Two of them are typically the first step for companies starting their sustainability journey: the Global Reporting Initiative (GRI; www.globalreporting.org) Standards; and the GHG Protocol (https://ghgprotocol.org), which is the result of a partnership between the World Resources Institute (WRI; www.wri.org) and the World Business Council for Sustainable Development (WBCSD; www.wbcsd.org).

These two standards make it possible to perform what can be considered a minimum of sustainability reporting by covering what Corporate Knights Capital, a Canadian media, research and financial information products firm, calls the "first-generation" sustainability indicators:

1. Pay equity (Payroll)
2. Carbon emissions and other GHGs
3. Energy use
4. Water use
5. Waste generation
6. Rate of employee turnover
7. Rate of employee injury

2.7.2 Global Reporting Initiative

Many companies that have started their sustainability journeys will be familiar with GRI and the GHG Protocol already. GRI is an independent NGO founded in 1997 that offers three universal standards – Foundation, General Disclosures and Management Approach – and three standards for reporting information on an organization's material impacts as they relate to Economic, Environmental and Social topics. These free reporting frameworks take the form of Requirements, Recommendations and Guidance, that are applied to produce a standardized sustainability report.

Reporters can upload their results into a public Sustainability Disclosure Database hosted by GRI to "contribute to the comprehensive pool of data used by a variety of stakeholders."[xxii] The tools to assess and report in the GRI format are easy to use, with reporting more descriptive than quantitative, open-ended in its self-reporting expectations, and short in number of items to disclose in each topic. The standards apply across industry sectors, making for an uncomplicated baseline for sustainability disclosure.

2.7.3 The GHG Protocol

The GHG Protocol Corporate Standard is well known among companies that have started their sustainability journey as it provides a number of industry-specific tools for measuring and reporting on carbon and other greenhouse gas emissions. With the connection of carbon emissions into the atmosphere with the onset of climate change, GHG reporting has been at the top of the minds of investors, banks and company management that want to reduce their impacts on the environment and risks from environmental disaster. It is in a sense the proverbial "low hanging fruit."

The GHG Protocol process is illustrative of how many standards and frameworks approach understanding sustainability. The protocol follows a well-considered and logical series of steps:

1. GHG Accounting and Reporting Principles
2. Business Goals and Inventory Design
3. Setting Organizational Boundaries
4. Setting Operational Boundaries
5. Tracking Emissions over Time
6. Identifying and Calculating GHG Emissions
7. Reporting GHG Emissions

These steps can be taken across a range of activities inside and outside your business, grouped as Scope 1, 2 and 3. Scope 1 includes all direct emissions within your business from fuel combustion, production and company vehicles. Scope 2 is determined from the usage of energy purchased by outside generators. And Scope 3 includes all indirect emissions that might occur outside the immediate business operations, from extraction and production of purchased materials to transportation via non-company vehicles for supply and delivery, and the use of outsourced products and services. Often Scope 3 emissions make up the bulk of a business' GHG responsibilities.

The GHG Protocol recognizes that context is everything when it comes to measuring emissions, and offers a number of calculation tools that are cross-sector, sector specific, country specific, as well as standards and tools separately for countries, cities and projects.

Given the importance of reducing emissions – as an end in and of itself, plus to protect companies from policy changes that will impact them upon the finalization of the Paris Agreement's rulebook in 2018 – GHG protocol is part of a whole microcosm of carbon-related corporate initiatives that represent an end-to-end approach for measurement, disclosure, decision-making, setting strategy and driving change through principled investment. This realm includes the Carbon Disclosure Project for reporting with likeminded companies (CDP; www.cdp.net); the Science Based Targets, a partnership between the UN's lead group in engaging businesses in achieving the SDGs, the UN Global Compact (UNGC; www.unglobalcompact.org), and CDP, the World Wildlife Fund (WWF) and the World Resources Institute (WRI; www.wri.org/), that is designed for setting internal goals for reductions within your own business (https://sciencebasedtargets.org); and the Portfolio Decarbonization Coalition (PDC; http://unepfi.org/pdc), which was cofounded by the United Nations Environment Programme Finance Initiative and asks institutional investors commit to decarbonizing their portfolios.

2.7.4 SASB and Materiality

One of the most important new important measurement frameworks to come up in our discussions with companies was the relatively new sustainable accounting standards – launched in 2011 – from the independent non-profit Sustainability Accounting Standards Board. SASB takes a quantitative approach to measurement and disclosure by only identifying material sustainability issues that clearly have an impact on the risk profile, finances and/or business performance of an organization, including cost of materials, products and services, cost of capital, assets and liabilities, and intangible assets.

The concept of materiality is a powerful way to account for the value of environmental and social actions. Generally materiality is understood as data that would affect investors' decisions about a company, or help company management to determine sustainability strategies by unearthing the most important issues within their business. Its power comes from creating a shared language among investors, CFOs and regulators when it comes to discussing sustainability in an accounting context.

SASB's free online Materiality Map tool identifies the most important disclosure issues by industry, which include ten sectors which each have four to fifteen subsectors: Health Care, Financials, Technology & Communication, Non-Renewable Resources, Transportation, Services, Resource Transformation, Consumption, Renewable Resources and Alternative Energy, and Infrastructure. Each is matched to 30 possible sustainability issues grouped under 5 themes: Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance.

With the members of SASB's Investment Advisory Group holding more than $20 trillion AUM, the conceptual framework and disclosure system is quickly becoming a gold standard in the path to reporting on and achieving meaningful sustainability results. Not only that, but investors that have monitored the material sustainability issues of organizations find that those with a superior performance on these topics are more competitive than their peers.

3. CONCLUSION

3.1 The SDGs: A step change for business and assessment, measurement, and reporting

It is fairly well-accepted now that the SDGs have the potential to bring about a step change in how business functions and impacts the world. As sustainability moves from a "nice, right thing to do" paradigm to a business critical one, stakeholders will become increasingly demanding about seeing demonstrated results.

This, in essence, changes the role that the numerous tools, frameworks, concepts, and assessments will play. They will become increasingly important and, as a result, will become more central to day-to-day operations, shifting their use beyond the CSR or sustainability function to areas like marketing, finance, production, and procurement. Having set standards would certainly help to quickly their use to a wider range of sectors and business activities.

However, assessing and measuring sustainability and performance the SDGs is bound to be a complex process. The organization itself, its people, mission, structure and more, will be a driver of which assessment and measurement approaches will be most appropriate. In addition, that there are such as wide array of approaches available reveals the constant evolution and innovation in tools and frameworks to best enable businesses to successfully proceed through the Sustainability Operationalization Process that we laid out earlier. Although there are some core approaches that will be considered "table stakes" approaches – that is, the minimum required to play in these areas – which the vast majority of organizations will use, such as SASB Materiality and the GRI, GHG Protocol and ESG-based models, organizations will need to identify the approaches that best suit their unique situation.

Having to comb through the available concepts, frameworks and tools to identify what works best for each organization should not be a reason for inertia. Companies we interviewed stressed that as sustainability is fairly new as a business discipline, the Sustainability Operationalization Process and the methods and tools used to support it will necessarily experience a bit of trial and error initially. How this process plays out will vary by company to company. It is most important that organizations get started and just try something, as was emphasized to us by Rebecca Self, CFO of Sustainable Finance at HSBC, during the UN's High Level Political Forum SDG & Business Forum in New York this summer: "Don't wait for perfection. Try any of the options available and start to align your reporting with the SDGs however you can today."

How many approaches to use is also varies and will continue to do so by organizations. Some such as HSBC have used unique approaches, including turning to the London and Hong Kong stock exchange listing rules to develop a set of principles. Others, such as Novo Nordisk, opt for an approach based on a new but well-structured framework that relies on the Future-Fit Benchmark. Others still, such as Hilton, chose to use a myriad of approaches at any point in time. When we asked Danielle Foster, Senior Director of Global Corporate Responsibility at Hilton, what Hilton uses, she replied "We use everything, because our executives took the opportunity to align with the SDGs seriously enough that we didn't want to miss anything. When you are in hospitality, you inevitably will touch upon every SDG. So were able to secure the funds internally to implement every standard we might consider."

May your organization be so lucky, and if it is not, then just proceed today with whatever you can. Many organizations are still at the beginning of their journey. Fortunately there are many approaches that will enable businesses to see their organizations through a successful business transformation.

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