


Who To Fall In Love With & Why The Sustainability Governance Scorecard?

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If someone asked you: Would you rather fall in love with a person with an ability to create short term profit or a person with an ability to create long term sustainable value? How would you answer?

What is the difference between success that creates wealth in our lifetime and an achievement with a longer-term sustainable value for generations to come?

Who knows the names of the wealthy people from the last century? How about Plato, Mevlana or Edison? An ability to create sustainable everlasting value is a special concept. It requires a person to strive for positive change that will have an impact not only on our lifetime but also on next generations. A more practical example could be a lawyer advocating a fundamental change in a justice system associated with a basic human right or a doctor finding a cure that will remedy a fatal illness.

You may end up admiring both a wealthy person with good business acumen as well as the individual who created a lasting change but it is likely you would choose the latter rather than the former.

WHICH COMPANY WOULD YOU FALL IN LOVE WITH?

The primary reason why we undertook this research is to assist boards, investors, regulators and change agents to be able to identify companies that focus on long-term value creation.

If you were a fund manager - let's say managing 1 bn US dollars – what would be the criteria you use to assess whether to invest in a company? Would you focus on companies with short-term profits? Or would your choice be for a company with sustainable long-term returns that has a total value chain approach, adopts a share of the accountability for everything that it can influence and uses it brand name to realize a positive social mission?

Most investors are well aware that it is not easy for a corporation to adapt a multi stakeholder plan. Yet firms that decide to go for this plan are more likely to build trust and subsequently alleviate risks, retain talent and therefore drive innovation, influence their customers with a purpose behind their brands and consequently grow faster.

Sustainable investing is becoming more and more mainstream but some things are still done in old ways– which is the area of culture, values and ethics. Sometimes corporations may demonstrate strong data for reporting purposes but their culture may not change accordingly. Also, there is still little indication for applying management rigor to sustainability practices. What investors are looking for is evidence that a company is integrating sustainability into its core value proposition, processes, skills and culture.

Furthermore, investors realize that they have started playing an indirect but important role in contributing to the SDG's. They know their influence can be relevant if they can successfully identify companies capable of long-term value creation. They also know the current reality for the SDG's looks very bleak. According to estimates, missing on six specific UN SDG targets could result 44 million unnecessary deaths between 2019 and 2030; 6% of the world's population living in extreme poverty (failure of SDG 1)[i] ; leaving close to two billion people without access to sanitation (failure of SDG 6); and keeping 850 million women and girls at risk of violence (failure of SDG 5). [ii]

Considering all these facts and arguments, if you were an investor, would you rather pick a company with an ability to generate strong short-term profits or long-term sustainable value? Probably you would like both of them as an investment idea but pick the latter rather than the former.

WHY THE SUSTAINABILITY GOVERNANCE SCORECARD AND WHAT DOES IT DO?

The global sustainability agenda needs more attention than it is currently receiving and it would have higher chances to succeed if the following happened: 1) sustainability data could become more consistent and accepted, 2) more awareness were created to encourage the realization of SDG's and 3) attempts were made to ensure the "sustainability" of sustainability efforts for a better world.

The Sustainability Governance Scorecard (SG Scorecard) is an impact-research conducted to help improve the state of the world by speeding up learning from peers. It aims to motivate the business world to act for a more sustainable future by highlighting good practices in sustainability governance and provides measurement tools for long-term value creation. What differentiates the SG Scorecard from other sustainability-indexes is its focus on assessing the quality of decision-making as evidenced through the company's public disclosures.

Furthermore, the SG Scorecard helps the sustainability data to be more clear and consistent, which may lead the global sustainability agenda to be more successful. Investors are often are confused by the sustainability information. SG Scorecard intends to bring more clarity to sustainability metrics by providing an assessment of reporting practices with regard to decision-making processes and more consistency by encouraging adoption of best practices in sustainability reporting.

SUSTAINABILITY GOVERNANCE SCORECARD

In addition, our research raises much needed awareness for the SDGs. The SG Scorecard promotes best examples of how to adopt SDG goals in strategy process, how to set targets and how to mobilize relevant stakeholders for action. The results highlight which SDGs attract the attention of leading companies and which are lagging, providing the groundwork for international organizations to focus their efforts going forward.

Then, the SG Scorecard provides an assessment of sound decision making mechanisms and deployment of this system throughout the organization to ensure the implementation of sustainable business practices. Good governance improves the ability to make better strategic choices, more efficient and effective resource allocations, and sound risk management, as well as ensuring continuity of responsible and accountable leadership. We measure good governance based on 4 steps in a continuous cycle covering guidance, implementation, oversight and learning.

Finally, on more practical terms our research focuses on a number of pillars that ensure the sustainability at an organization. It checks if policies for these pillars are in place, are being measured and disclosed in a transparent manner. This includes supply chain oversight, diversity at employee and board level, linkage between executive compensation and sustainability performance, environmental and product stewardship.

WHY MATERIALITY MATTERS

Materiality analysis plays a very important role in sustainability governance and in our research. In simple terms, it allows a company to define "what matters". Materiality analysis serves a dual purpose: First, it enables the board to build a strategy and defines the scope of its playing field. Second, it helps build a framework and is used as a sound reporting practice.

Material subjects are normally defined, as per GRI guidelines, as issues that have impact on an organization's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large."

In other words, materiality analysis guides you to what extent of influence an organization can possibly have and where it would run out of options to have an influence.

Materiality analysis is closely tied to stakeholder engagement because it allows management to decide how to select the right stakeholders to engage as well as how to engage. In order to reach out to stakeholders, you need to develop these relationships. First exploring and then explaining the reasons for engagement may be a good first step before actual engagement takes place. Adopting a proactive approach to stakeholder engagement and an open attitude for understanding other perspectives are essential for this process to be successful.

Developing relationships results in increased trust. When trust is there, people are more likely to work closely together. More resources will be accessed on all sides. Stakeholder relationships can also give a purpose for the actions of an organization. This will lead to higher confidence and better results.

Once there is a deep engagement of stakeholders of the company, it will also be easier to work towards SDG goals as it makes the eco-system of suppliers, customers, and other stakeholders working towards a common purpose. Again, an organization on its own cannot contribute to all 17 goals. By assessing the materiality of goals and prioritizing those that are relevant, businesses can mobilize their resources and capabilities towards progress for a sustainable future.

For each stakeholder segment, the SG Scorecard pays attention to relevant metrics, which can be used to understand vibrancy of engagement with SDG goals. Assessment is focused on transparent disclosure of policies, targets, results and assessment of results.

· For employee engagement: we measure diversity and inclusion metrics, assess the granularity of information on different levels of the workforce, level of training in sustainability-related areas etc.

· For supply chain, we measure the strength of the relationship by searching for data such as percentage of local sourcing, prioritization of stakeholders based on level of risk, the process of conducting an audit (internal and independent third party).

· For customer engagement: we look for data such as rates of customers satisfaction and perception, including product quality, product safety and reputation (for example sourcing by ethical criteria or adequate waste reduction for packaging).

· For community engagement: we assess whether societal contribution is part of the value creation model, whether impacted communities are treated as a stakeholder and an active engagement approach is adopted, whether investments and targets on community initiatives are reported

· For engagement with the environment: we evaluate whether the company's policies, KPIs, targets and results include environmental metrics, stakeholder engagement in establishing materiality thresholds, environmental stewardship covering the entire product life-cycle, internal and independent audit coverage of environmental issues.

Engaging various stakeholders requires time and resources, but it is necessary for the company's success and viability in the long run. Corporations need to redefine the scope of their stakeholders to encompass society and the environment, actively solicit input from different stakeholder groups. By working with them as joint forces, the chances will be much higher for an organization to achieve a meaningful contribution for a better world.

[i] Kharas, H., McArthur, J. and Rasmussen, K. (2018) How Many People will the World Leave Behind? Assessing current trajectories on the Sustainable Development Goals, Global Economy and Development at Brookings Working Paper 123, September 2018.
[ii] Kharas, H., McArthur, J. and Rasmussen, K. (2018) September 2018, op.cit.