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Is your business goal-ready to move beyond 2020?

Inside

Explore a new generation of emerging sustainability goals that are unlocking business returns and driving transformational change.

MOVING THE GOAL POSTS

SALTERBAXTER
An **MSL** Company

Sustainability goals

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The need for a new game plan

The sustainability agenda has taken some big steps forwards in the last ten years. From IBM's Smarter Planet to Syngenta's Good Growth Plan, we've seen powerful examples of companies defining ambitions and approaches that are deeply rooted in corporate strategy and performance.

Sustainability goals provide the substance at the heart of any good framework and there's no doubt they've played a major part in redefining leadership in recent years. But the global landscape is shifting quicker than ever and the stakes are high. From the inundation of data and urgency of development needs to evolving regulation, pressure on business is rising.

Big mainstream investors in particular are really starting to understand how these factors contribute to long-term growth and the sustainability of the business model and they're looking closely to see whether companies are seriously tuning in to the agenda.

With many companies' ambitions ready for a reset in 2020 we find ourselves at a crossroads. The goal posts have already moved and a lack of serious action is no longer about falling behind, it's about falling out, and noises and nudges just aren't going to do it.

> **"...today we are seeing a new generation of goals emerge that are much more akin to corporate strategy goals.**

A new generation is emerging

Getting goals right matters. They define your ambition in tangible terms, demonstrate real commitment and act as a rallying call internally and externally. They also require a lot of time and resource to deliver.

From conventional targets...
Traditional sustainability KPIs have largely been driven by reporting frameworks. The result is that many company targets today are defined through a disclosure lens. These conventional targets – often covering a wide range of issues – are similar to financial metrics enabling markets to understand the basic health of an organisation.

They'll remain important measures and as Steve Waygood of Aviva Investors emphasises (see page 2) many stakeholders, including investors, will continue to push for greater harmonisation as they seek to benchmark performance.

To unique goals...
But on their own these targets are no longer enough. That's why today we are seeing a new generation of goals emerge that are much more akin to corporate strategy goals, allowing companies to manage risks and opportunities unique to their sector and business, often in deeply commercial and strategic ways.

Why the anatomy of a goal matters

The issue with conventional targets and KPIs is that they're just not that useful to companies *themselves*.

One example is diversity. Walmart has seen an increase in the appointment of female executives in the last year, but the overall percentage of women in the workforce has been on a decline. While gender diversity at the top can signal progress in diverse leadership, it does not tell you anything about the systemic barriers that hinder women from rising up the ranks. And even when all the numbers are strong, they don't tell you what your diversity advantage is for the business.

Conventional goals may tell the outside world you're making progress but how you conceive, develop and frame a goal is fundamentally important to the actions, behaviours and ultimately the outcomes it achieves.

Driving change where it's needed most
Another good example is climate change. Most large companies have greenhouse gas (GHG) reduction targets, some of which may extend to scope three emissions from things like employee travel or the use of sold products. These are important outcome metrics to track and disclose, but on their own they can be blunt instruments.

In developing goals companies should be asking:

- What are the key risks and opportunities that lie inside these reduction targets?
- Where do we need to focus our actions most?
- What levers do we need to pull to drive performance?

Although the answers will be different from company to company, the result will be much more specific, targeted goals that respond to things like future customer demand, the long-term value of assets, the exposure or growth of your product portfolio, climate-linked incentives for management, internal carbon pricing that aligns with future policy, or even revenue generation linked to low-carbon products.

These sorts of goals may ultimately drive the same overall GHG reductions but they will target the right type of action where it's needed most and are far more likely to deliver return on investment.

A game-changing movement

BlackRock's CEO Larry Fink may have been sending letters to portfolio companies on value creation and ESG risks for years, but the significant interest from his most recent letters is the true indication of an industry-wide sea change.

Steve Waygood
Chief Responsible Investment Officer, Aviva Investors

We asked Steve Waygood, Chief Responsible Investment Officer, to weigh-in on this shift within the investment community and what businesses can expect as the momentum grows.

Exploiting employees, treating customers unfairly or abusing the rights of local communities have always been a dangerous strategy. This is particularly true in today's social media maelstrom. But markets can be short-term and good companies are often not sufficiently rewarded with a lower cost of capital when compared with their unsustainable peers. This needs to change.

For decades, our investment philosophy has set out that we believe that companies which conduct their business in a sustainable manner are more likely to succeed over time. The best companies we see embed sustainability throughout the business from the top down.

Their boards set appropriate standards and values. They define strategic goals that are material to the company and tied into incentive structures both at executive and operational level. They are ambitious in meeting the Sustainable Development Goals (SDGs) and the Paris Agreement. And they are visionary in how they communicate their role to society.

We want to see this behaviour permeate throughout the business community. But although the past few decades have seen a revolution in corporate transparency on their sustainability performance, it is not enough.

We see the next wave of progress coming from making sustainability a competitive advantage. One way of doing that is by making corporate performance credibly and publicly benchmarked so that everyone can see just how well companies are really doing. This is why we are so proud to be involved in establishing the World Benchmarking Alliance, which will take the SDGs and produce public, international league tables that measure and compare corporate performance for all to see and act upon.

> **…global development needs represented by the SDGs are the result of market failures. Failures that, if corrected, could unlock significant returns in the form of growth…**

This isn't about 'more disclosure' – these rankings will help turn the SDGs into a competitive sport, rewarding companies that manage and leverage sustainability issues for business and societal benefit.

The global development needs represented by the SDGs are the result of market failures. Failures that, if corrected, could unlock significant returns in the form of growth, innovation and competitive advantage. This is what will separate the winners from the losers, with sustainable companies rewarded for their leadership and foresight.

Q+A

Dr. Juan Gonzalez-Valero, Head of Public Policy and Sustainability, Syngenta

Dr. Juan Gonzalez-Valero
Head of Public Policy and Sustainability, Syngenta

SB: What sustainability goals do you think are needed to drive change, support innovation and build capability and expertise?

JGV: It starts by understanding the material challenges in regards to the business environment and its widest sphere of influence with both internal and external stakeholders. It also begins with truly understanding what is the contribution you can make to society. Only then can you start framing the ambition of what you want to achieve. Most companies take a standard operational view.

We questioned if that was good enough for us and what we are really doing as a business. We develop products to control crop pests, improve crop yield and help farms get a good return on investment. But the reality is that we are innovating for the people who actually manage the land and our tools enable them to manage it in a more sustainable way.

Done right, this is the true product of innovation. We were then able to look hard at measurement and whether our metrics provide insights on our ability to help people manage their land in a way that goes beyond the immediate effects of the product. This defines a totally new metric. Counter-intuitively, in order to truly benefit, businesses often need to be looking at sustainability the other way around. It's not how sustainability helps the business, it's how the business helps sustainable 'fill in the blanks'. For us, it was sustainable agricultural production.

> **It's not how sustainability helps the business, it's how the business helps sustainability 'fill in the blanks'.**

SB: The Good Growth Plan goals link to specific SDGs. Have you found that this explicit link has changed your approach?

JGV: We started considering the strategic framing of the Good Growth Plan in 2009, and finalised it in 2013, well before the introduction of the SDGs. But the truth is that businesses need a more holistic and integrated approach to solving global development challenges and they also need to be more inclusive of a broader set of stakeholders. This idea is central to the SDGs and the Good Growth Plan. The SDGs help in communicating our contribution within a bigger agenda. Without that context, the Plan would need much more explanation. All the stakeholders have an interest to push them. If you can show how you are advancing them, then it makes the communication much easier by placing your actions on a wider scale.

SB: If you could go back, would you do anything differently in setting the goals?

JGV: In hindsight, we should have made the Plan more explicitly linked to the global agenda priorities from the beginning. For example, climate change and sustainable agriculture. The relationship there is very complex and we were trying to be too formulaic in the approach as with everything else. It would have been better to draw the link making the global agenda issues more visible. But there is a balance that needs to be weighed. You don't want the business' plan to be entirely based on an outside world agenda that is irrelevant to what you are doing as a company. You need a more holistic and connected approach.

Playing to win: The fundamentals of next generation goals

The exact anatomy of this new generation of goal will vary depending on the issues, industry and company in question. And in many ways, that's the key point. However, we are observing some core characteristics.

Maintaining focus
The first point to make is an obvious one – be focused. These sorts of goals should be reserved for those issues that will have the greatest influence on your future success and where your actual or potential impacts are biggest.

Operational targets for things like carbon emissions, water and waste are likely to continue to be set by most companies post 2020 – the weight of expectation to have them makes this unavoidable – but are they strategic for an educational publishing company when compared with the access and affordability of educational products?

Driving transformation
The second point is that big goals absolutely have to drive meaningful transformation inside and outside the business.

We're willing to come out and say this transformation should be anchored first and foremost on sales and growth.

It may sound hard-nosed but for leading businesses like Unilever, IKEA and M&S there's no doubt this is the primary driver. In fact, as we illustrate on page 6, some of the best goals we see explicitly focus on commercial aspects like R&D, revenue and new market entry.

But underneath this there's often a sophisticated understanding of what's ultimately going to be needed to drive long-term growth. This can be quite layered with very different expressions from company to company, but we see big ambitions emerging in three areas:

- **Driving exponential change within the business:**

  Next generation goals need to either be driving 'moon shot' breakthroughs in product innovation or achieving massive improvements on positive or negative impacts across operations and supply chain.

- **Leading transformation across the value chain:**

  The biggest barriers to long-term growth and resilience often appear across other parts of the value chain. Leading companies are setting ambitious and creative goals that zero in on key pinch-points relating to things like policy, consumer behaviour, financial barriers or changes to public infrastructure.

- **Influencing wider ecosystems:**

  The most progressive goals reach beyond the value chain and attempt to move the needle on big cross-sector issues like gender equality or corporate transparency.

Companies that set goals like these accept there are external influences beyond their direct control. But they're also clear that the goal itself is the result, not the objective.

Ambition in action: Five emerging characteristics

Within this context, here are some other characteristics we see emerging in the most forward-thinking companies:

1

Scenario-driven goals:

Set in line with future scenarios and based on best available science, context-based goals benchmark companies against the future. This is a much better yardstick for long-term growth and resilience than a baseline year or your competitors' goals.

2

SDG-growth goals:

The SDGs are a blueprint for a new global growth agenda. Connecting the commercial opportunity offered by the SDGs into the heart of your goals aligns your growth to an agenda that will have an unprecedented level of resource and momentum behind it. But to be authentic you need to be aligning your big strategic bets with big societal shifts.

3

Unusual goals:

As companies begin making big transformations in the pursuit of growth and resilience, we are starting to see unusual goals emerge. These goals are more linked to practices and behaviours than issues, focusing on things like collaboration, policy, transparency and behaviour change.

4

Likely to change:

As leading companies push the envelope of ambition or venture into uncharted territories with unfamiliar types of goals, things become uncertain. The best goals often come with the caveat that they're likely to change. This is far from a cop out; it's a necessary symptom of ambition.

5

Ability to inspire action:

As we've said before sustainability can sometimes be lacklustre and goals in particular can be dry. The best goals have a narrative alongside them that's built not only to appeal to both sides of the brain – the rational and emotional – but also to tap into the unique spirit and culture of the company.

A symptom of success

These characteristics demonstrate the need to think outside the box about the sorts of goals needed to drive long-term transformation. But they also present challenges. Challenges to help stakeholders understand what they mean, why they are important, and what they are making possible.

Winning examples

Here are a few companies taking the lead in aligning sustainability goals to key business drivers.

DUPONT 'Double investment to $640 million in R&D programmes with direct, quantifiable environmental benefits for our customers and consumers. Introduce at least 1,000 new products or services that help make people safer globally.'	**Business driver** **Revenue growth** DuPont directly aligns their customers' sustainability-related challenges to commercial opportunities by setting R&D and revenue-related goals.
Ford 'Deliver our Ford Smart Mobility Plan, with a focus on emerging opportunities in mobility. And by transforming to be a leader in both automotive and mobility, we are better positioned to help create a more sustainable world.'	**Business driver** **New market entry** While this is a relatively broad goal, within Ford's Smart Mobility Plan the company explicitly aims to leverage emerging opportunities in mobility to drive up transactions by scaling new commercial 'mobility as a service' business models which offer enhanced value to both customers and society.
Landsec 'Landsec commits to reduce GHG emissions 40% per square meter by 2030, from a 2014 base-year. This will set the company on the path to accomplish an 80% carbon intensity reduction by 2050 from the same base-year.'	**Business driver** **Company resilience** Through its science-based GHG reduction goal, Landsec not only demonstrates its fair share contribution to reducing built-environment climate impacts, but perhaps more importantly aligns itself to the future policies and physical risks associated with a 2-degree warming scenario.
H&M 'To develop and use reward systems that can best create and accelerate progress towards our sustainability goals and vision.'	**Business driver** **Changing behaviours across the value chain** H&M's reward systems goal specifically aims to bring norms in the behaviours and actions of management, business partners and customers in line with H&M's wider sustainability goals.

Views from the front line

We asked sustainability experts from various industries to share their perspectives, experiences and insights.

Ebba Larsson
Sustainability Business Development and Controlling Manager, H&M

"From our experience, previous goals were set taking the current status into account rather than the need to change.

Goals were based on 'what can we achieve?' rather than 'where do we need to go?' We realised that we needed to provide a clearer direction and to really make our high ambition level clear. In order to get there, setting goals based on year-on-year improvements are simply not good enough. The goals needed to mirror the end destination and then we could backtrack our needed progress from there. That's why we choose to set our goals in terms of 100% rather than improvement from current state. In order to set these goals, we use a science-based approach wherever possible. This is to take the goals from 'what can we achieve' to 'where does the world need us to be?'

Kevin Moss
Global Director of the Business Center, WRI

"The businesses we work with are increasingly seeing that with the right business models, resource limits shift from a business risk to a competitive advantage.

Incremental improvements serve only to lull one into a false sense of security; increasing share of a dwindling fast-fashion market or more efficiently using a resource that is nevertheless approaching exhaustion. In taking a holistic perspective, science-based targets are an effective catalyst for a business to see the full scale of change needed and move from the equivalent of achieving improvement in camera film design to redesigning the business to win a big share of the digital camera market. The companies that make transformational changes to their business models will be the ones that are best placed to thrive and serve the exploding middle class of tomorrow's markets within the confines of the planet's resources.

Anthony Abbotts
Director, Group Sustainability, Rockwool

"Companies need to have a holistic focus...and set goals that focus on the most significant lifecycle impacts.

Using CO_2 savings as an example, a traditional goal would focus on reducing CO_2 emissions in the production phase. However, this goal does not reflect the different lifetimes of products and the impact that has on CO_2 performance nor does it account for a product's potential to save CO_2. So not only is it not unique enough to the business, but it also falls into the trap of focusing only on doing less bad. Instead of just setting goals based on reducing negative impacts, more goals should focus on increasing positive impacts that can often lead to success both from a commercial and sustainability perspective.

Pulling it all together

While we see characteristics emerging across several companies and sectors, no one company has completely nailed it. Getting the right blend of goals and balancing strategic substance with clear communications is difficult. However, Dow's suite of 2025 goals is a great example to explore all the moving parts, including how goals fit within a wider strategy framework.

Dow's strategy is by far one of the most comprehensive sustainability systems created by a business, and while there's a lot of brilliant thinking, its comprehensiveness could also be seen as its weakness.

Opposite, we take a deep dive into Dow's strategy and goals to surface some useful observations and lessons.

Dow's Approach

Footprint	Handprint	Blueprint
World-leading Operations Performance	Product Solutions to World Challenges	Dow's Thought Leadership and Actions

DOW 2025 Sustainability Goals

Unlocking the potential of people and science	Valuing nature	Building courageous collaborations
The passion and creativity of people drives innovation at the intersection of the sciences, generating value for business, humanity and the environment	Too frequently taken for granted, nature provides valuable services – like clean air and water – to us all. Dow considers nature in strategic decisions because it is the right thing to do for people, planet and business.	The health of people, planet and business are intrinsically linked. Collaboration in new and deeper ways across the public and private sectors is essential for the transition to a sustainable planet and society.

① **Delivering breakthrough innovations**
Dow's product portfolio will have a six-fold net positive impact on sustainable development.

② **Engaging employees for impact**
Dow's employees worldwide will apply their talents to positively impact the lives of 1 billion people.

③ **World-leading operations performance**
Dow will protect the health and safety of Dow people and others touched by our supply chain, while maintaining world-leading environmental operations performance.

④ **Valuing nature**
Dow will deliver $1B USD in net present value through projects that are good for business and good for ecosystems.
Dow will evaluate the impact on nature and the business benefits that nature can provide in capital, real estate and R&D projects.

⑤ **Leading the blueprint**
Dow will lead a collaborative effort to develop a blueprint for a sustainable planet and society, integrating public policy, science, technology, and value chain innovation.

⑥ **Advancing a circular economy**
Through innovation and collaboration, Dow will help facilitate the world's transition to a 'Circular Economy,' where 'waste' is designed into new products and services.

⑦ **Increasing confidence in chemical technology**
Through transparency, dialogue and unprecedented collaboration, Dow will increase confidence in the safe use of chemical technology.

Our thoughts on Dow's seven goals

1. Delivering breakthrough innovations
This is perhaps the most impressive of the goals. Dow not only pins its sail to the mast with a specific net positive goal for its products, it commits to this at scale across its portfolio and markets. This is the sort of goal that's really hard to get buy-in for from those who have to deliver in the business and usually takes the longest to get over the line, but it's usually worth it. Marketing and communications will be delighted.

2. Engaging employees for impact
Most companies put employee volunteering in the 'how' category rather than making it a big goal in itself. Dow has clearly identified this as an important organisational enabler, perhaps because of the scale of business transformation they're pursuing. They cleverly connected tangible everyday employee actions to a larger impact KPI, namely the 'sum of people whose sustainable development challenges have been positively impacted.'

3. World-leading operations performance
The headline promises much in terms of driving exponential change within the business but falls short through a lack of specific targets – this is where you would expect them most.

4. Valuing nature
This one has the sustainability lead written all over it, and is probably the most elegant goal. What's really smart is that Dow's brought in a $1bn net present value KPI. This not only gives it a commercial value it also brings future savings into the present. It paves the way for rich thought leadership. But it's also tactical – we know from experience that applying natural capital tools are a great platform for getting key senior decision makers around the table.

5. Leading the blueprint
The ultimate 'influencing the wider ecosystem' goal, this blurs the lines between a goal and a vision – it's almost too big in ambition and too broad in focus. Although, it's certainly true to their maxim of courageous collaborations. The three-tier structure helps, with some specific milestones helping to ground and focus the wider goal between 2017-2020.

6. Advancing a circular economy
One of the weaker goals, the overarching ambition is somewhat vague. Although it has a number attached (implement six major projects that...advance the circular economy), 'major' isn't defined with specific outcomes. There's little else to ground the goal, giving a nod to the circular zeitgeist.

7. Increasing confidence In chemical technology
Contender for Dow's most unusual goal, addressing transparency, dialogue, collaboration, research as well as company actions. It combines an overarching KPI (100% support for safe use of chemical technology among key stakeholders) with practical milestones such as the integration of toxicology and exposure modelling capabilities into product development.

Observation 1:
The structure is just as important as the substance
The first layer, referred to as 'Dow's Approach', is undeniably one of its more memorable components, with the strategy organised against: **Footprint, Handprint and Blueprint.** Frequently cited, this simple structure shows Dow's desire to drive transformation across the business, their product portfolio and the wider system, and paves the way for a mix of different goals that, together, create a roadmap to 2025.

Dow then adds a second layer of three pillars to frame and structure their goals: **Unlocking the potential of people and science, Valuing nature, and Building courageous collaborations**. This layer is one too many and fails to serve either the approach or the goals well. It doesn't connect Footprint, Handprint and Blueprint clearly to the individual goals, and also falls short in organising the goals in a way that makes sense.

Observation 2:
It's all in the detail
The **2025 sustainability goals** combine internal transformation, breakthrough 'net positive' product innovations and wider system changes. They combine a healthy mix of outcomes and impacts with more practical activity-based goals where first steps are required to scale new types of activity. They've also used a neat three tier structure to help explain and communicate progress on each goal – measuring our progress, milestones, and recent successes (see left).

Observation 3:
It's only as good as your ability to communicate it
A clear and simple structure and narrative is not exactly the strategy's strongest suit. That being said, when it comes to the goals themselves Dow uses iconography to capture the essence of each one. Within each icon is an underlying story brought to life through a compelling video and narrative. This is probably the best example we have seen when it comes to bringing goals to life and turning them into something more than just a set of targets.

Preparing for what's around the corner

It's important to remember that the types of goals we have outlined are not completely new concepts.

On the contrary.

But what we have highlighted is that there are some fundamentals in getting sustainability goals right. While there is a clear push from all sides to be more robust in the detail, the messaging and communications of that detail is equally important. One is not successful without the other.

We've shared a number of strong examples of businesses that are already developing ambitious strategically-driven goals signalling a shift in the right direction. They are actively raising the bar and offer a window into tomorrow's standard practice. But as we get closer to 2020, tomorrow is just around the corner and the need for transformation becomes greater.

We believe corporate sustainability is at a critical juncture. If you are interested in speaking with us about your sustainability strategy and goals, please get in touch and we would be happy to discuss.

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