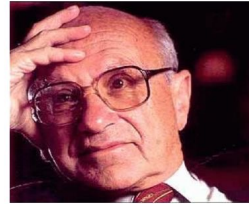


### A Word From Milton Friedman

*“There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”*



*The Social Responsibility of Business is to Increase its Profit (1970)*

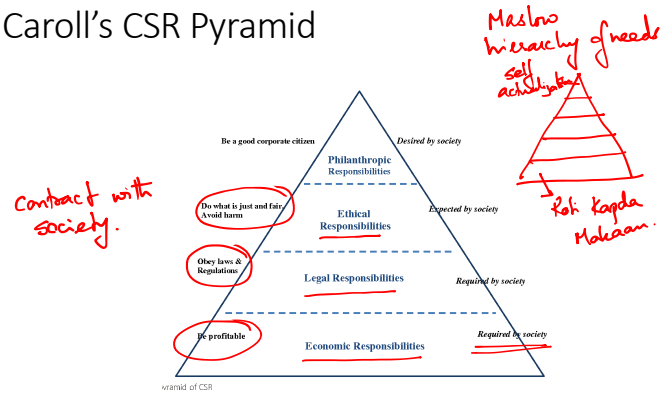
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### What is CSR?

portion of profits → social welfare.  
↑  
manpower resources  
welfare ↔ business make.

2

### Carroll's CSR Pyramid



3

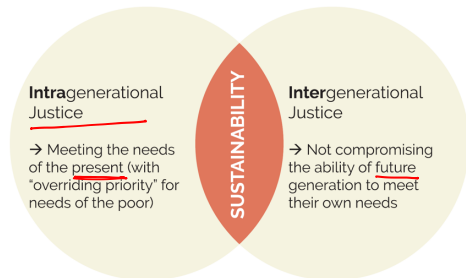
### Role of companies

- To improve its sustainability, a company needs to balance a multitude of interests
- Not seldom, interests of various stakeholders (e.g., employees, investors ...) collide
- Sustainability awareness is currently diverse and not everyone attaches great importance to it
- The management of sustainability is a complex endeavour

4

## Sustainable Development

MAIN ELEMENTS OF SUSTAINABLE DEVELOPMENT ACCORDING TO WCED (1987)



5

5

## Indicators for achieving intragenerational justice

*Wealth of Nation.*

- Population living in poverty as an indicator for intragenerational justice effort
- Poverty decreased significantly since industrial revolution
- However, welfare of a nation should not be measured by wealth alone
- "Human Development Index (HDI)" used as a composite figure
- Includes aspects of life expectancy, education, and living standards as a measure of welfare
- HDI increased in the majority of countries, declines in war-affected regions

6

6

## IPAT equation

**Impact = Population x Affluence x Technology**

- "Impact" refers to the ecological footprint of any population
- Illustrates the human impact on Earth ecological systems
- Changes in the factors population, affluence, or technology can lead to changes in the ecological footprint
- Approach to reduce complexity and illustrate options to especially improve intergenerational justice

7

7

## China's development example of potential tradeoffs

- Poverty rate was reduced from almost 90% in 1990 to less than 10% due to economic growth
- However, this led to a tripling of CO<sub>2</sub> emissions per capita
- Increased demand for food, water, energy, and other resources
  - Increasing pressure on the natural environment
  - May limit opportunities for future generations and intergenerational justice
- However, denying (formerly) poor people the right to increase consumption by spending newly acquired wealth is hardly an option

8

8

Non market environment.

# Stakeholder Management

9

9

## Non-market environment

The diagram on the left shows concentric circles representing the 'Company's Market Environment' (Company, Competitors, Suppliers, Customers, Media, Activists) and the 'Company's Nonmarket Environment' (Regulators, Governments, Citizens, NGOs). A red 'Mick' is written near the Company circle.

The graph on the right plots 'impact' against 'Time'. It shows two curves: a solid line for 'Firm impact on the issue' which rises over time, and a dashed line for 'Issue impact on the firm' which falls over time. The x-axis is divided into stages: 'Issue identification', 'interest group formation', 'legislation', 'administration', and 'enforcement'. Red circles highlight the two impact curves.

10

10

## Designing Sustainability Initiatives

Carroll's Corporate Social Performance Model

The diagram is a 3D cube representing Carroll's model. The vertical axis is 'Social Responsibility', divided into 'Discretionary (Philanthropic) Responsibilities', 'Ethical Responsibilities', and 'Economic Responsibilities'. The horizontal axis is 'Social Issues (Stakeholders) Involved', including 'Shareholders', 'Occupational Safety', 'Product Safety', 'Environment', and 'Consumerism'. The depth axis is 'Philosophy (Mode) of Social Responsiveness', including 'Proaction', 'Accommodation', 'Defense', and 'Reaction'. A red triangle is drawn on the left side of the cube.

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## Triple Bottomline

12

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## Sustainability at IKEA Group

*furniture → wood → forest*  
*furnishing*

- Sustainability became IKEA Core business strategy
  - A role of CSO was created
- NGO* → Steve Howard was the 1st CSO
  - Grow and be Sustainable
- The sustainability group had 4 teams:
  - 1** • Communication – To develop sustainability communication strategy
  - 2** • Innovation – To develop innovative solutions
  - 3** • Policy – To improve the guidelines *Saf*
  - 4** • Retail – To inculcate sustainable practices at the stores

*Chief Sustainability officer.*



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## IKEA Group's sustainability

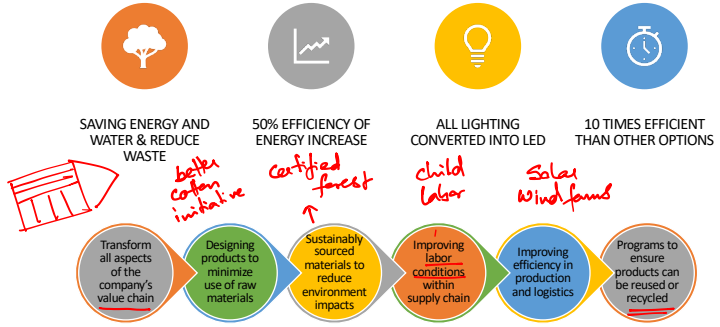
People and Planet Positive strategy

-  A more sustainable life at home for consumers
-  Resource and energy independence for the company
-  A better life for people and the communities touched by IKEA

*Stakeholder.*

14

## IKEA Group's sustainability



SAVING ENERGY AND WATER & REDUCE WASTE

50% EFFICIENCY OF ENERGY INCREASE

ALL LIGHTING CONVERTED INTO LED

10 TIMES EFFICIENT THAN OTHER OPTIONS

Transform all aspects of the company's value chain

Designing products to minimize use of raw materials

Sustainably sourced materials to reduce environment impacts

Improving labor conditions within supply chain

Improving efficiency in production and logistics

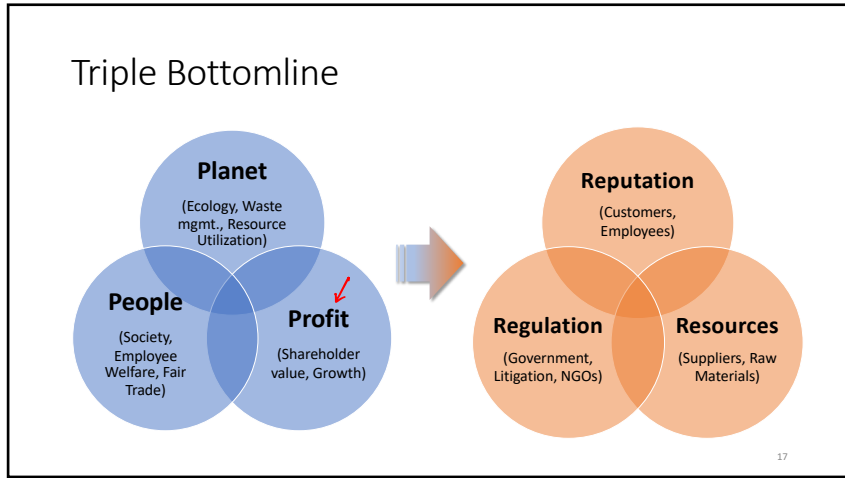
Programs to ensure products can be reused or recycled

15

## The “three Ps” of people, planet, and profit: The Triple-Bottom-Line

- Managing sustainability is a task with many potential fields of action
- Idea of the three pillars of “economic, ecological, and social responsibility” is to make sustainable development more comprehensible and manageable at the company level
  - Economic pillar** (profit): Businesses generate profits to be sustainable in an economic sense
  - Ecological pillar** (planet): Focusing on issues such as achieving resource efficiency
  - Social pillar** (people): Covers topics such as social justice and equal opportunity

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*CSV - Part 1.*

## Creating Shared Value

18

### The Role of Business in Society

- Societies everywhere are facing significant **social, environmental and economic development** challenges
- Government and NGOs **lack sufficient resources and capabilities** themselves to fully meet these challenges
- Business is the only institution that can actually **create wealth and prosperity**
- Company engagement in society continues to grow, but the **legitimacy of business has fallen**

↓

We need a **new approach**

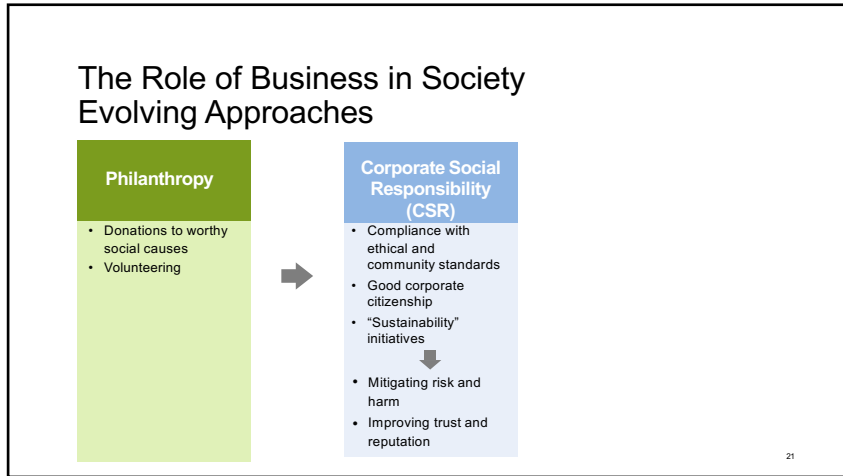
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### The Role of Business in Society Evolving Approaches

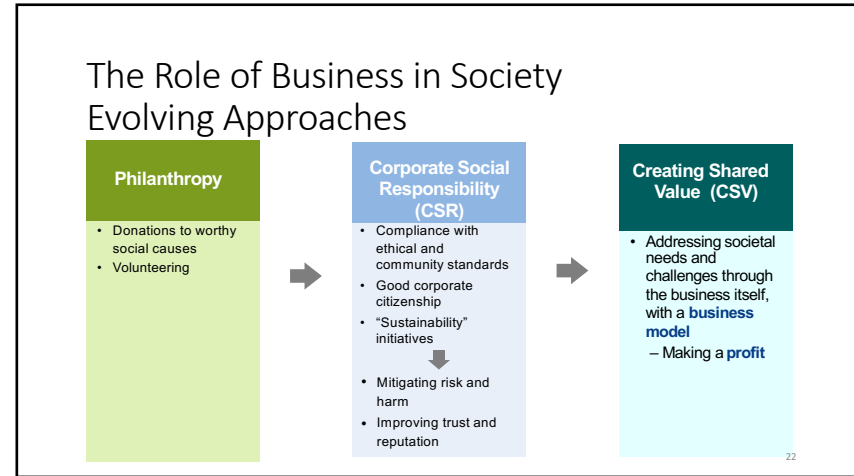
**Philanthropy**

- Donations to worthy social causes
- Volunteering

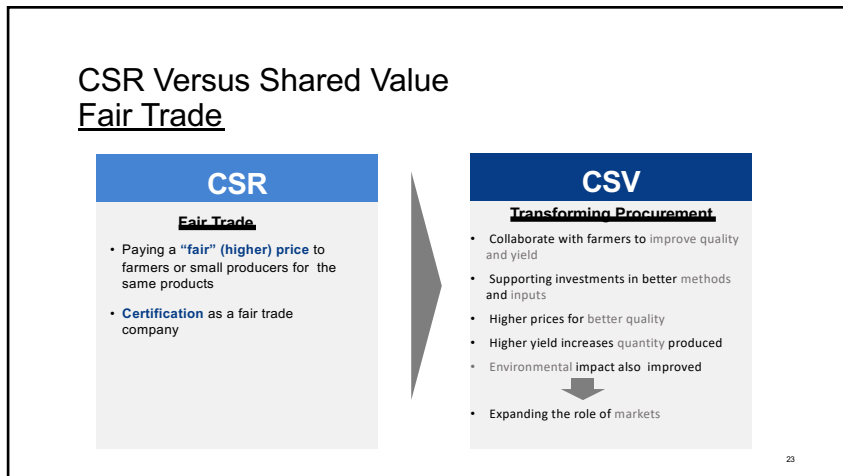
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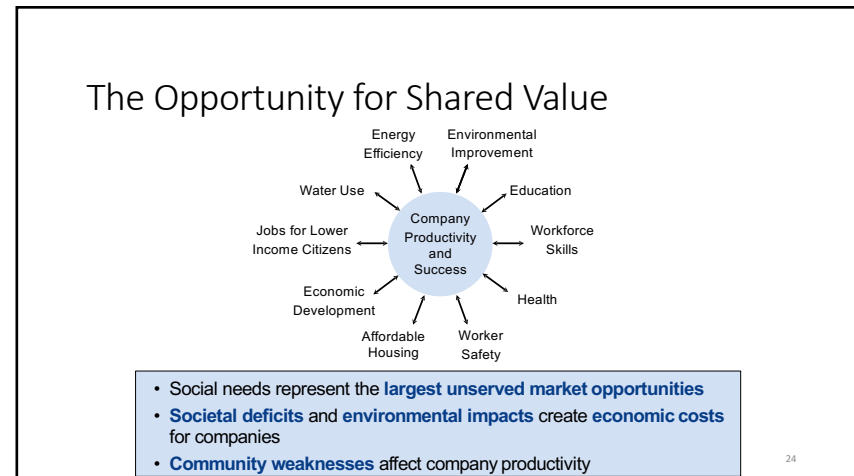
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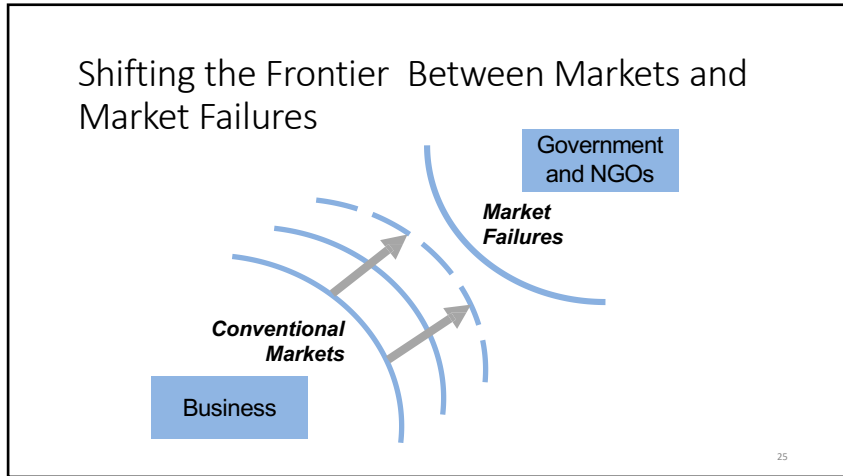
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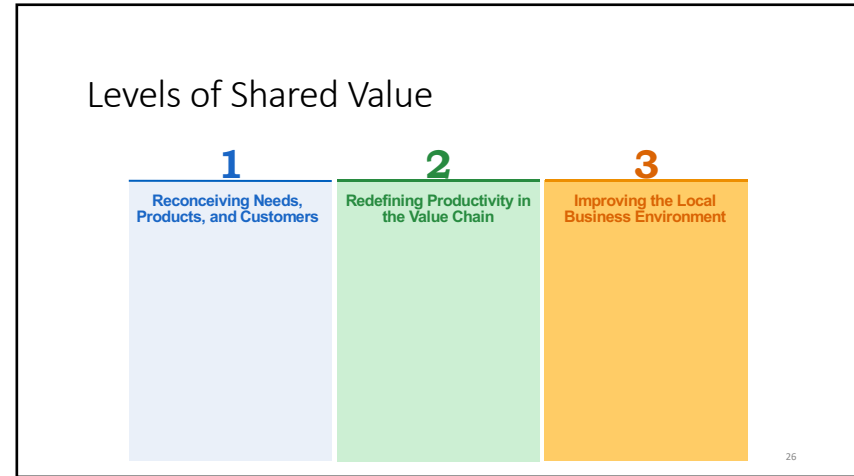
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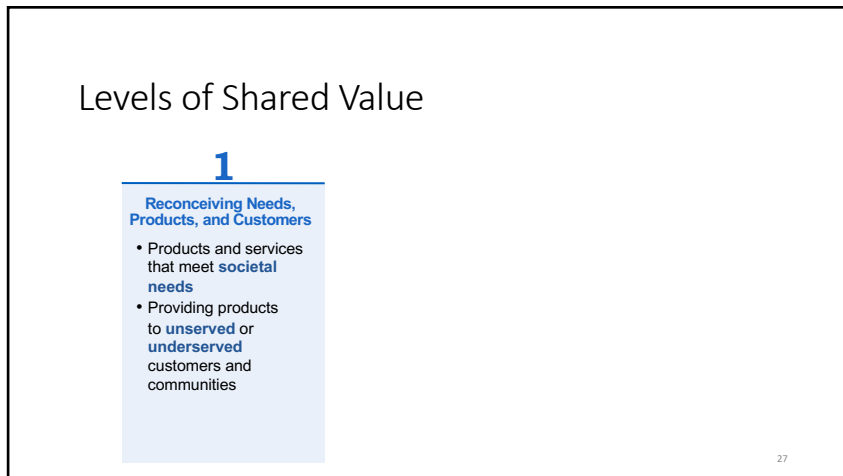
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### Shared Value in Products and Markets

Jain Irrigation Systems Ltd.

- **Micro-irrigation equipment** for small farmers in India
  - Customized to the crop type, soil, and weather patterns
- Farmer agronomic and technical support
- **Intensive training** for farmers on more productive growing techniques
- Serves more than **4 million farmers** worldwide as of 2012

↓

- The company is the **2<sup>nd</sup> largest worldwide** and has **55% market share in India**
- Annual revenue of \$960 million; **CAGR of 39%**
- **Crop yield increased by 230%**
  - Water usage decreased by 70%, compared to flood irrigation techniques

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## Unlocking Shared Value in Products and Customers

- Rethink the business around **unsolved customer/societal problems or needs**, not traditional product definition/segmentation
- Identify customer groups that have been **poorly served or overlooked** by the industry
- Think in terms of **improving lives**, not just meeting conventional needs
- Start with **no preconceived constraints** about product attributes, channel configuration, or the economic model of the business
  - e.g., small loans are unprofitable

29

29

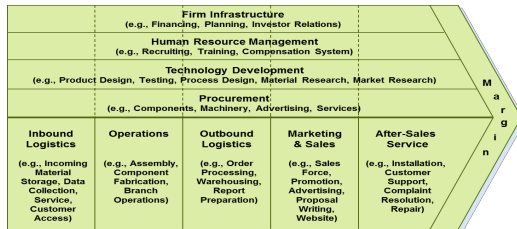
## Levels of Shared Value



30

30

## Shared Value in the Value Chain



- Procurement that **enhances supplier capabilities and efficiency**
  - **Resource efficiency** across the value chain that improves the **environment**
  - Redesigning or recycling to minimize or eliminate **waste**
  - Minimizing **logistical intensity**
  - Improving **employee health and safety**
- Better wages, benefits, training and career paths for **lower income** employees **raises productivity and retention**
  - Recruiting that reflects the **diversity of customers** and the served **communities**, enhances effectiveness
  - Others...

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## Shared Value in the Value Chain

Fibria, Brazil

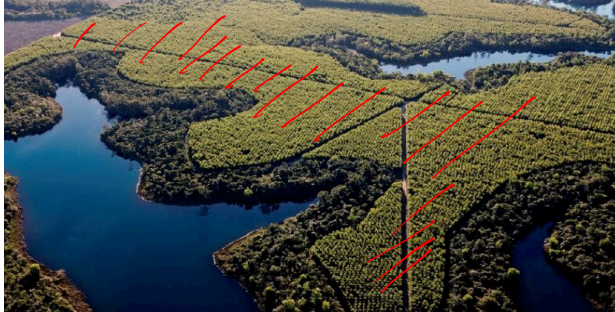


- World's leading manufacturer of chemical pulp integrates planted eucalyptus trees with native habitat to **dramatically reduce the land required** for wood fiber cultivation and improve **sustainability**
  - Encourages **small-scale producers** near its mills to plant eucalyptus **in conjunction with other crops**, providing technical training and inputs
- ↓
- Far greater **land and water efficiency** compared to traditional plantation methods. **35% of planted areas** preserved as native forest
  - Small scale producers currently contribute **27% of raw material volume** used in Fibria mills
  - Over **4,000 households** have significantly increased employment and incomes

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## Integrating Plantation and Rainforest



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## Shared Value in the Value Chain Arvind Eye Care

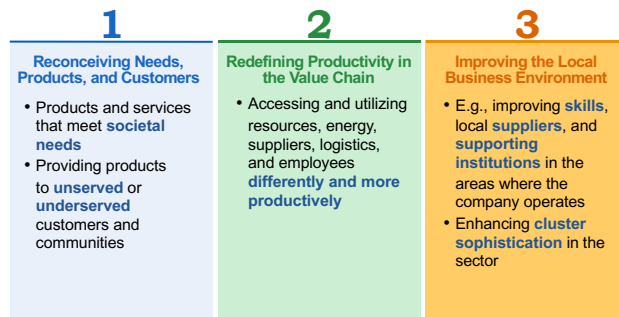


- **Cross subsidy model** of healthcare delivery
    - Customers choose between a **paying hospital and free hospital**; facilities and service vary accordingly
    - Doctors are rotated between paying and free hospital to maintain **standard quality of healthcare delivery**
  - Arvind introduced multiple innovations in the delivery of **cataract surgeries** in India
    - In house **manufacturing** of intraocular lenses
    - **Training** for hospital administrators, and employees
  - Establish **Africa's largest eye hospital (Nigeria)** in 2015
- ↓
- **32 million patients treated** and 4 million cataract surgeries
    - The hospital performs **5 times** the average number of surgeries that are performed in India; 16 times more than the U.S.
    - **Infection rate is 33% lower** than international standards
  - Single handedly responsible for **decreasing cataract-related blindness in India**

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## Levels of Shared Value



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## Improving the Business Environment: Japanese Tea Cluster



- **ITO EN** is the world's leading producer and marketer of loose leaf and bottled green tea
  - Partners with Japanese farmers and other stakeholders to utilize **abandoned agricultural land**
  - Provides **assistance in modern farm management practices** to growers to meet ITO EN standards, and **purchases farmers' entire crop** to encourage investment and **lower selling costs**
  - **Motivates and trains young people** for careers in tea growing when older farmers retire
- ↓
- Farmer **incomes have risen** due to increased quality and efficiency
  - Land **abandoned** by retiring farmers has been **restored** to production
  - **Supply** has expanded, **quality** is higher, and **costs** are lower

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## Shared Value and Strategy

- Shared value opens up new **needs** and **customer segments**, and new ways of **producing and delivering**
- Shared value creates new **value propositions**, new opportunities for **strategic positioning**, and new **competitive advantages**

↓

- Shared value strategies are often **more sustainable** than conventional cost, feature, and quality advantages

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## Creating Shared Value: Where is the Opportunity?

**SHARED VALUE PROJECT**

**Shared Value Recap**  
Definition of Shared Value

**Shared Value is:**  
Policies and practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates

**Shared Value is NOT:**

- Sharing the value already created (philanthropy)
- Personal values
- Balancing stakeholder interests
- Compliance with local regulations

• Opportunities to create shared value are **inevitably tied closely** to a company's particular set of businesses

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## The Purpose of Business

- The purpose in business is to create economic value in a way that **also creates shared value for society**
- Businesses **acting as businesses**, not as charitable givers, are arguably the most powerful force for addressing many of society's pressing issues
  - Innovation and scalability
- Shared value opens up **major strategic opportunities** to create **competitive advantage**, while driving the next wave of **innovation, productivity, and economic growth**
- Realigning company strategy around shared value gives **greater purpose** to the corporation and to **capitalism itself**

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PRME  
↓  
United Nations

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“The United Nations Sustainable Development Goals” as a guideline to sustainability

- The United Nations Sustainable Development Goals (SDGs) were developed in 2015 as a more fine-grained and actionable pathway for sustainability
- Set of **seventeen** aspirational goals to influence and provide guidance for everyone in achieving sustainability
- Each target is then broken down into various **sub-targets, 169** in total

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UN SDG

THE 17 UN SUSTAINABLE DEVELOPMENT GOALS

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Benefits and difficulties of the SDG framework

- SDGs can be used as a holistic set of aims
- Allows to guide activities and to review approaches (partly even to measure progress)
- SDGs are more detailed in contrast to the vague ideas of intra- and intergenerational justice or the broad approach of the triple bottom line
- Companies tend to refer to the SDGs to express their commitment to sustainable development
- Companies often first refer to those goals that fit best with their business model and activities
- Holistic approach toward sustainability comes with difficulties, e.g. SDG country ranking:
  - Top of the list mostly filled with wealthy OECD countries; high scores due to usually good performance in fighting poverty, hunger, illiteracy and good situation in infrastructure, or peace and justice
  - Same countries are usually the most environmentally unsustainable which contribute to unsustainability in other countries

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## Codes of conduct (also: code of ethics)

- Sets of commitments that define certain attitudes, behaviors, or actions
- Soft law (i.e., quasi-legal instrument without legally binding force)
- Do not have to cover sustainability-related topics, but often include certain environmental, social, ethical, or governance issues

	Within Company Boundaries	Beyond Company Boundaries
Environment	Energy management and climate protection, waste preventions and water management	Environmental performance and behavior of partners along value chain (e.g., foster product stewardship, regulate investments, credits, and insurances for environmental issues)
Social	Responsibilities towards own employees (e.g., payment issues, work time models, training and education, employment rights, operational safety and health protection, equal opportunities and gender diversity)	Similar issues as above along value chain (e.g., working conditions and human rights along the value chain)
Governance	Anti-corruption policies, political influence, handling of taxes and subsidies, regional responsibilities related to cultural issues	

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## Principle-based and rule-based codes

### Principle-based codes

- Short list of general statements that can cover a wide variety of issues
- Statements do not target specific behaviors or actions
- Meant to guide behavior more generally in a variety of contexts
- Rather flexible and relevant over longer periods of time
- Express expectations as yardsticks instead of regulating behavior

### Rule-based codes

- Usually larger lists of more specific statements and behavioral commitments
- Tell individuals more precisely what they can(not) do
- Provide clear indication of expected behavior
- Easier to measure
- Unlikely that very situation of behavior can be influenced by exact rules → gaps likely
- Need to constantly update to address omission and changing situations

Effective codes often combine both elements

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## Further categorizations for codes of conduct

- Target audiences
  - E.g., restricting/guiding company behavior or suppliers or being a model code for others
- Comprehensive vs. selective in breadth of covered topics
- Level of voluntariness
  - Nobody can force an individual or company to adhere a certain code
  - However, a code can also have certain mandatory characteristics
- Evolvement over time
  - Codes are no static instruments but can be modified by their issuer
  - Many codes exist in their second, third, or even more recent edition

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## The UN Global Compact - Basics

*"I propose that you, the business leaders gathered in Davos, and we, the United Nations, initiate a global compact of shared values and principles, which will give a human face to the global market."*

UN Secretary General Kofi Annan at the World Economic Forum 1999

- Launched in 2000
- Voluntary multistakeholder (yet business-led) initiative
- Enlists corporations in support of ten universal principles
- Does not regulate corporate behavior but provides basic idea of what is regarded as universally valid values
- In 2020, > 10.000 business participants

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## The UN Global Compact - Principles

- **Human Rights**
  1. Businesses should support and respect the protection of internationally proclaimed human rights; and
  2. make sure that they are not complicit in human rights abuses.
- **Labor**
  3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
  4. the elimination of all forms of forced and compulsory labor;
  5. the effective abolition of child labor; and
  6. the elimination of discrimination in respect of employment and occupation.
- **Environment**
  7. Businesses should support a precautionary approach to environmental challenges;
  8. undertake initiatives to promote greater environmental responsibility; and
  9. encourage the development and diffusion of environmentally friendly technologies.
- **Anti-Corruption**
  10. Business should work against corruption in all its forms, including extortion and bribery.

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## Requirements and achievements by the UN Global Compact

- Provides a variety of engagement mechanisms (e.g., working groups and local networks)
  - Local networks operate in >90 countries
  - Strong local networks positively affect relationship between duration of membership and level of implementation of principles
- **Idea:** To take global solutions and best practices downstream for replication → Push innovative local solutions upstream for dissemination
  - Aims at continuous improvement processes regarding social and environmental performances
  -
- Companies have to report on their progress regularly
  - Different forms of disclosure to accommodate different levels of engagement
- Companies with longer commitment to UN Global Compact took more action than those that joined recently

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## The Case for Sustainable Business Has Come of Age



UN SDGs are driving a global commitment to sustainability



COVID-19 has spurred economic upheaval and The Great Reset



Inequality is driving activism



Climate change is driving corporate strategy

**“ Within the next 5 years all investors will measure a company's impact on society, government, and the environment to determine its worth”**  
 - Larry Fink, BlackRock CEO

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## What is ESG?

ESG addresses many topics and stakeholders.

ESG represents the company's efforts to **systematically assess, manage, and monitor risks of material potential impact to the strategic and financial decisions of the company.**

The term ESG is often used as a synonym for sustainability, CSR, public relations, social investment, or environmental compliance. While some of these elements may factor into an ESG program, at the center of ESG is the **management of risk and the preservation of shareholder value.**



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### ESG is a global issue

As outlined, there is pressure on companies to enhance their ESG management and disclosure from every region of the world.

**USA**

*"acting in pursuit of the public interest and acting to maximize the bottom line are complementary"*

SEC Chair Allison Herren Lee

**EU**

*SFDR is being "enacted to address the twin objectives of increasing transparency of sustainability-related disclosures and to increase comparability of disclosures for end investors."*

ESMA

**UK**

*"While the world moves towards a single standard, BlackRock continues to endorse TCFD- and SASB-aligned reporting."*

TCFD, SASB, BLACKROCK Larry Fink

**Canada**

*Issuers are required to state whether they have made disclosures consistent with the recommendations of TCFD or explain if they have not done so.*

Financial Conduct Authority, TCFD

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### Changing Attitudes of Investors Towards ESG

**Drivers for Change:**

- Transition of the debate on E&S issues from values-based argument to long-term value creation and risk assessment.
- Pressure on financial institutions to demonstrate sustainable business practices in the aftermath of the 2008 Financial Crisis and major industrial disasters.
- Increased momentum of ESG stewardship initiatives and proliferation of codes of best practices.

#### PRI Signatory Growth

Year	Assets under management (US\$ trillions)	AIAUM (US\$ trillions)	Number of AIs	Number of Signatories
2006	~5	~1	~10	~10
2007	~10	~2	~15	~15
2008	~15	~3	~20	~20
2009	~20	~4	~25	~25
2010	~25	~5	~30	~30
2011	~30	~6	~35	~35
2012	~35	~7	~40	~40
2013	~40	~8	~45	~45
2014	~45	~9	~50	~50
2015	~50	~10	~55	~55
2016	~55	~11	~60	~60
2017	~60	~12	~65	~65
2018	~65	~13	~70	~70
2019	~70	~14	~75	~75
2020	~75	~15	~80	~80

Source: UN PRI

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### Key Components of ESG

- Corporate governance issues apply universally across all industries.
- Good governance of corporate, environmental, and social issues creates sustainable companies
- Material environmental and social issues vary significantly by industry and may even be company-specific, depending on the level of materiality of each factor.

#### Corporate Governance

- Board Quality**
  - Independence
  - Skills and Qualifications
  - Diversity
  - Refreshment
  - Board Leadership
- Management Incentives**
  - Pay-for-Performance Alignment
  - Ownership Requirements
  - Metrics and Goals
  - Severance / CIC Payouts
  - Claw-back Provisions
- Shareholder Rights**
  - Board Accountability to Shareholders
  - Shareholders' ability to act
  - Voting Rights

#### Environmental

- Climate Change**
  - Carbon Emissions
  - 2-Degree Alignment
  - Fossil Fuel Reserves
  - Energy Efficiency
  - Renewable Energy
- Resource Management**
  - Water Management
  - Raw Materials
  - Energy Sources
- Environmental Impact**
  - Air Quality
  - Ecological Impacts
  - Critical Incidents (accidents)
  - Waste Management
  - Plastics

#### Social

- Workforce & Human Capital**
  - Inclusion and Diversity
  - Supply Chain Labor
  - Workplace Health and Safety
  - Gender Pay Gap
- Value Chain (Suppliers and Customers)**
  - Product Health and Safety
  - Data Privacy
  - Data Security
  - Predatory Sales / Pricing
- Society and Communities**
  - Community Relations
  - Economic Impacts
  - Human Rights
  - Corruption
  - Political Activities

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### ESG as Part of a Company's Core Strategy

An ESG strategy cannot be separate from the broader organizational strategy. The further development of an ESG strategy effectively means the integration of sustainability elements to a company's core strategy.

- Emphasis on Material Issues:** Priority is given to the most material issues from a financial, environmental, and social standpoint.
- Strategic Alignment:** The emphasis on materiality allows for the development of an ESG strategy that is fully integrated with the broader strategy.
- Board Leadership and Oversight:** The Board and top management will own the strategy and oversee its implementation.
- Innovative Programs and Policies:** Introduction of new policies, procedures, and technologies to achieve the company's long-term strategic objectives.
- Metrics and Goals:** The implementation program includes quantitative and qualitative objectives which can be monitored to measure the company's progress towards its goals.
- Monitoring:** The implementation should allow for regular assessment of the effectiveness of the various programs, so that the company can make adjustments for improvement.

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## The 7 Sins of ESG Management

The following are a few of the most common misconceptions and problematic practices among companies when dealing with the management of ESG issues:

- 1. Excessive Focus on Ratings:** A company approach that focuses exclusively on improving the company's rating is at risk of allocating more resources to "checking boxes" instead of developing a strategy that is tailored to the company's unique outlook and exposure to risk.
- 2. Treating ESG Solely as a Communications Effort:** Communications can help the company amplify its messaging, but they cannot substitute for a robust management system that addresses material risks.
- 3. Lack of Board and Management Oversight:** The company's ESG management strategy should be positioned as a core part of the company's vision and values. The involvement of the board and senior management is key.

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## The 7 Sins of ESG Management

The following are a few of the most common misconceptions and problematic practices among companies when dealing with the management of ESG issues:

- 4. Disconnect from Business Strategy:** An ESG strategy that does not consider the company's strategic objectives and does not inform the main corporate strategy fails to serve its purpose.
- 5. Compliance-Oriented Approach:** An approach to ESG management focused on compliance with rules and regulations may appear as reactive and indicate a reluctance to go above and beyond minimum requirements.
- 6. Inconsistencies across the Firm:** Lack of a company-wide strategy and coordination leaves significant gaps in the company's ESG management programs, with potential exposures to risk.
- 7. Lack of Assessment and Monitoring:** Lack of effective monitoring of ESG performance impedes the company's ability to make progress and receive full credit for its ongoing initiatives through reporting.

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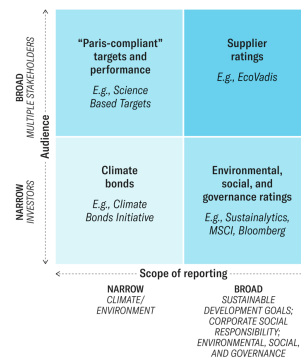
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## Blurred boundaries between terminologies

- Sustainability management encompasses a multitude of activities and potential fields of action ranging from economic issues to ecological and social issues
- Many of these issues are discussed in concepts such as corporate social responsibility (CSR), too
- Distinction between sustainability management and CSR is blurred
- Irrespective of which term is used, the tasks and topics are quite similar

### Choosing the Right Sustainability Ratings

The size of your audience and what you are reporting on matter.



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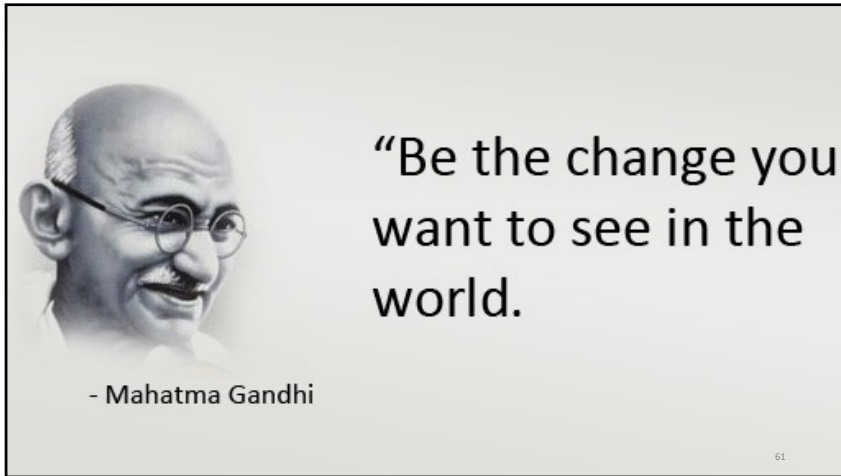
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## Recap

- Carroll's CSR Pyramid
- Sustainable Development
- Triple Bottomline
- Corporate Social Responsibility
- Creating Shared Value
- United Nations Sustainable Development Goals
- United Nations Global Compact

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