Act

Create resilient business strategies, governance, and management approaches that ensure achievement of sustainable business goals.

STRATEGY AND VALUE CREATION
Resilient business strategies address sustainability challenges and take into full account all the ways that the world around us is changing.

GOVERNANCE
Boards and senior executives have the expertise, insights, and information necessary to plan for a sustainable future over the long term, while also overseeing sustainability performance today.

LEADERSHIP AND MANAGEMENT
Structures, processes, and relationships exist that make sustainability an essential part of company decision-making and operations, built upon an ethical organizational culture that sustains integrity and supports sustainability innovation.

Strategy and Value Creation

The world is changing, with massive implications for business strategy and value creation. Whether it is new energy systems, disruptive technologies, new business models, changing demographics, hyper-transparency, or rising geopolitical uncertainty, the operating context for companies is evolving.

STOP

Focusing on separate sustainability strategies rather than business strategy

Setting sustainability priorities that are driven by risk management

Being constrained by investor "short-termism"

INNOVATE

Create resilient business strategies that view progress on sustainability as a means of long-term value creation and innovation

Conduct scenario planning and strategic foresight

Engage investors in a long-term vision of business

We believe the best response to this situation is not to continue integrating sustainability into company strategy, but to develop a completely new way of designing business strategy and creating value. The era of stand-alone sustainability strategies, with subsequent integration of sustainability into company strategy, needs to end; the creation of resilient business strategies that take sustainability as their foundation needs to begin.

There are three major changes that need to happen for this new era to emerge. First, we need to create resilient business strategies that take sustainability as their foundation. Second, we need to emphasize long-term value creation, and find ways to move beyond short-term performance pressures that can prevent progress on sustainability. Third, we need new tools and approaches that prioritize and measure the impact of sustainability in a language that resonates with business.

As one executive told us, "Most big businesses have been working on sustainability with reasonable success for the last 10 to 15 years, but we have been picking the low-hanging fruit, and the next phase will be much more difficult. It is about what you buy and what you sell; it goes into the heart of your commercial operations and investment decisions."

Resilient Business Strategies

Rather than integrate sustainability into company strategy, we believe companies need to create resilient business strategies.

Resilient business strategies are based on an understanding that the rapidly-shifting external context—our changing demographics, disruptive technologies, economic dislocation, and natural resource scarcity—are not "only" sustainability issues, but also business issues. Resilient business strategies are based on the view that issues such as climate change, women's empowerment, and the changing nature of work are not "only" for sustainability strategy, but are issues of business strategy and crucial conversations for the boardroom.

In many ways, sustainability issues and business issues have converged. As one executive argued, "Sustainable business is better business, and a sustainable future is a better future. Tesla has built a better car, not just a more sustainable car. I've stopped talking about sustainability as a trade-off because I think it's the opposite. Sustainability makes us more innovative, more flexible, and more resilient."

A resilient business strategy will be different from industry to industry and from company to company, but there are several elements that will be common to all businesses:

Products and services as sustainability solutions: Generating revenue growth by developing products, services, and solutions that meet sustainability needs, such as reducing greenhouse gas (GHG) emissions, achieving the UN Sustainable Development Goals (SDGs), or reaching underserved customers. This requires that we view the sustainability challenge not as a risk to be mitigated, but as a driver of innovation for new products, services, and technologies. As one interviewee noted, "Our innovation teams are now a part of our sustainability governance. Before we make investments in intellectual property or pursue a new joint venture, there are social and environmental attributes we look for as part of the gating process. We also team with innovators and entrepreneurs on sustainability. We're not thinking about 'venture capital' but the 'venture customer,' as we want to be the first customer of these innovators."

The era of stand-alone sustainability strategies, with subsequent integration of sustainability into company strategy, needs to end; the creation of resilient business strategies that take sustainability as their foundation needs to begin.

Futures thinking and strategic foresight: Resilient business strategies require that companies contend with rapid change, uncertainty, and complexity. Futures thinking, also known as strategic foresight, provides structured ways to identify signals of change on the horizon, explore multiple possible futures, and create fit-for-purpose strategies that account for a turbulent external context.

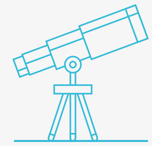
Capital assets and allocation: As the world changes to address sustainability challenges—such as modernized energy systems, upgraded urban infrastructure, and circular economy models—companies will need to rethink the allocation of capital. As one interviewee explained, "As we start to do two-degree scenario planning and talk about stranded assets, we will need to have more conversations at the board level to understand what it means to reduce the carbon footprint by a significant amount in the next 35 years and what this means for our capital assets."

"Sustainable business is better business, and a sustainable future is a better future. Tesla has built a better car, not just a more sustainable car. I've stopped talking about sustainability as a trade-off because I think it's the opposite. Sustainability makes us more innovative, more flexible, and more resilient."

Business continuity and resilience: Ensuring that enterprise risk management (ERM) processes fully consider sustainability challenges such as climate resilience, natural resource availability, and social volatility. As one executive told us, "Risk awareness needs to become much greater now that we are living in a much riskier world, and facing issues such as the rise of authoritarianism, cybercrime, and migration. We will see companies having much greater oversight of risk, and investors will be much more demanding of this than in the past."

Elements of Resilient Business Strategies

PRODUCTS AND SERVICES AS SUSTAINABLE SOLUTIONS



FUTURES THINKING AND STRATEGIC FORESIGHT

CAPITAL ASSETS AND ALLOCATION

BUSINESS CONTINUITY AND RESILIENCE

TALENT ACQUISITION AND RETENTION

Talent acquisition and retention: Attracting and retaining employees with alignment to the company's values, purpose, and sustainability impacts, and with the diversity needed to address customer expectations. One banking executive told us, "Millennials have different expectations of the workplace. They expect to work for a company whose values are aligned with theirs, and sustainability has to play a role in that."

Long-Term Value Creation

We believe that resilient business strategies will enable companies to navigate our era of profound change and create sustained long-term value for investors.

We say this with full awareness of the intense pressures companies can receive from activist investors to generate short-term financial returns, often at the expense of long-term value creation. In our view, this reflects a misunderstanding and a misalignment of shareholders' true interests, which are better served if companies can successfully prioritize long-term thinking.

Indeed, the interests of shareholders are as complex and varied as those of any other kind of stakeholder, and many shareholders have a clear and growing interest in sustainability and long-term value creation. To combat short-termism in corporate strategy, companies can actively seek to attract and retain shareholders with longer-term and more sustainable agendas. As one interviewee said to us, "There are different kinds of shareholders, and the long-term shareholders are the ones I like to focus on. They want a business that can continue. They also want a business that considers a changing global landscape, including environmental and social factors."

We believe that resilient business strategies are an essential response to the short-term vs. long-term debate. They provide a new way for business leaders to demonstrate that sustainability delivers value for investors in both the short and long term.

"There are different kinds of shareholders, and the long-term shareholders are the ones I like to focus on. They want a business that can continue. They also want a business that considers a changing global landscape, including environmental and social factors."

Specifically, there are three steps companies can take to increase appreciation for resilient business strategies by investors:

STEP **1**

Create the resilient business narrative
Establish a compelling long-term value creation story that asserts the central role that sustainability plays in business success. This will flow naturally from resilient business strategies.

STEP **2**

Engage investors on the vision for resilient business
Proactively communicate the long-term value creation story to investors as a core element of mainstream investor communications, as well as via webinars, roadshows, or other communications targeted at specific analysts. These proactive communications should be prioritized over reactive approaches, such as responding to questionnaires or validating ratings reports, which have come to occupy a disproportionately large share of company attention and resources.

STEP **3**

Know the audience
Prioritize communications with the asset managers that hold (or might hold) their shares, and who are longer-term investors, rather than shorter-term activists. As the CEOs at Blackrock,[1] Vanguard,[2] and State Street[3] have all recently made clear, many mainstream investors are seeking increased engagement with companies on issues of good governance and long-term value creation. These long-term investors, including pension funds, insurance funds, mutual funds, and sovereign wealth funds, constitute a majority of shareholders—and they invest on behalf of long-term savers and tax payers.

In short, companies can and should be more assertive in communicating their long-term value creation stories, rather than waiting for investors to state their interest. This will help close the current trust gap. As one interviewee noted, "Investor questionnaires and shareholder resolutions continue to grow because of a huge dysfunction in the marketplace. If companies were more effective at disclosure and proactive communication with investors, these things would go away."

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1 https://www.blackrock.com/corporate/en-us/investor-relations/larry-fink-ceo-letter
2 https://about.vanguard.com/investment-stewardship/governance-letter-to-companies.pdf
3 https://www.ssga.com/investment-topics/environmental-social-governance/2017/long-term-value-begins-at-the-board-eu.pdf

Tools and Solutions

There are four important tools and solutions to advance resilient business strategies.

1

Sustainability as a business development opportunity: Companies can proactively seek out the business development and revenue growth opportunities that arise from sustainability strategy. For example, many companies have established teams whose sole function is to identify new sustainability opportunities, such as new products and services, or better-informed market entry strategies. Said one interviewee, “We need to focus primarily on how sustainability supports growth—how does solving major sustainability challenges create new revenue opportunities for the company? We need sustainability teams focused on business development, and we need to recognize that company products, services, and technologies can sometimes be more important for sustainability than corporate processes and procedures.”

3

Materiality and enterprise risk assessment (ERM): Resilient business strategies require a different approach to ERM that is much more effective at incorporating sustainability risks of material significance to the company. Referring to the need for holistic approaches, one interviewee observed: “Companies that have a well-developed ERM process are far better at managing sustainability issues.” We also believe that there is an opportunity for ERM processes to utilize the outputs of sustainability-oriented materiality assessments, and for those two processes to be much more closely aligned. This requires that sustainability-oriented materiality assessments are much more rigorous at defining what sustainability issues may be material to business success. As one interviewee explained, “sustainability needs to be part of the ERM process, and we need to clearly distinguish between what is a business risk and what is not. We need to act decisively on material sustainability risks, but people will get tired if we claim all sustainability issues are also business risks.”

“Scenario planning is not a prediction of the future, but a way to understand how our business would look in a new environment and to test the resilience of the business in the future. Sustainability considerations such as planetary boundaries, water scarcity, and climate change must be central to the strategic planning process.”

2

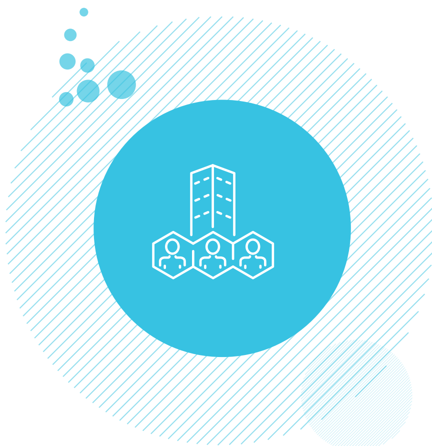
Scenario planning and strategic foresight: Sustainability is inherently a forward-looking field with long time horizons, volatility, and uncertainty. For this reason, there is an opportunity to use scenario planning and futures thinking to help companies build strategies that are fit for purpose in a fast-changing world. As one interviewee explained, “Scenario planning is not a prediction of the future, but a way to understand how our business would look in a new environment and to test the resilience of the business in the future. Sustainability considerations such as planetary boundaries, water scarcity, and climate change must be central to the strategic planning process.” Rather than integrating sustainability into strategy, scenario planning and strategic foresight present a significant opportunity to create strategy based on a thorough understanding of sustainability context. It is for these reasons that BSR launched a Sustainable Futures Lab in 2017 to enable strategic foresight-driven engagement with our member companies.

4

Capitals approach: An emerging capitals approach encourages companies to examine the resources that they depend on or impact using a comprehensive framework. This means considering manufactured, financial, social, human, and natural capital. Examples of initiatives promoting the capitals approach include the International Integrated Reporting Council, the Natural Capital Coalition (the “Natural Capital Protocol”) and the WBCSD (“Social Capital Protocol”). These approaches offer a clear framework for understanding overall corporate value creation in one integrated model. As one interviewee stated, “We have been tinkering around the edges without really grappling with the bigger challenges of what the business model is and what it means for society. The capitals force you to think about the fundamental business. It moves from just measuring what we do to actually understanding the strategic value.”

Governance

The creation of resilient business strategies that embrace sustainability requires that boards play a much more significant role in the sustainable business agenda.



STOP

Treating sustainability as separate from business strategy, rather than as a core issue of strategic foresight and planning

Perceiving that sustainability falls outside core board duties

INNOVATE

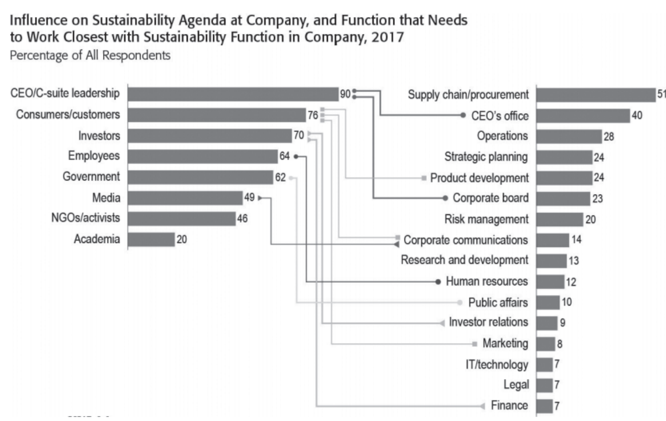
Recruit board members with expertise relevant to sustainability

Invest in external advisory councils

Align incentives with sustainability performance

We believe there are specific steps that companies can take to achieve this outcome. The increased attention generated by global sustainability challenges in recent years—everything from the UN Sustainable Development Goals to the Paris Agreement on Climate Change and the UN Guiding Principles on Business and Human Rights—has significantly increased the pool of leaders in the private sector capable of and willing to rise to this challenge.

Research shows that boards and executive leadership are paying more attention to sustainability issues than ever before.[4] However, the BSR/GlobeScan 2017 annual survey found that, while 90 percent of respondents believe the CEO and C-Suite leadership has significant influence over the sustainability agenda, only 40 percent of sustainability teams were prioritizing engagement with the CEO's office. An MIT Sloan and Boston Consulting Group (BCG) survey was similarly stark: While 86 percent of respondents believe that boards should play a strong role in their company's sustainability efforts, only 30 percent believe that their sustainability efforts had strong board-level oversight.



While these findings reflect a concerning lack of urgency and engagement with sustainability issues on the part of the board, we believe that solutions are available to turn the situation around.

4 For example, the Ceres Gaining the Ground report found that 32 percent of company boards had sustainability oversight in 2014, compared to 28 percent in 2012.

Barriers to Effective Board Governance of Sustainability

Before moving to the solutions, it is useful first to diagnose the barriers to effective board governance of sustainability. We believe there are five.

Unclear business case: Without a clear business case for sustainability, it can be difficult to engage boards. One interviewee explained that while board members and senior executives are genuinely concerned about societal issues, they "are unable to clearly articulate the link to the business and drive a management response." Others believe sustainability is "societal noise because it is not reflected into price signals."

Conformism: Addressing sustainability challenges often requires addressing difficult issues head on, but some interviewees expressed the view that boards and executive leadership do not create the space for this to happen effectively. One interviewee said, "Staff incentives when engaging board members is to be very risk-averse and to 'toe the party line,' as the information they provide is vetted by executive management before being shared with the board. This leads to self-censorship and information filtering to align with what's deemed acceptable." This conformism exists at the board level too. As one interviewee noted, "rather than groupthink, board members need an intellectual curiosity and emotional strength that is disturbing and nonconformist."

Limited board bandwidth: New corporate governance regulations have expanded board roles, responsibilities, and duties over recent years, and very little bandwidth remains to tackle issues that seem less immediate. One interviewee at a company undergoing significant structural changes emphasized "the challenge of surfacing sustainability issues when the very existence of the company is at stake."

While 90 percent of respondents believe the CEO and C-Suite leadership has significant influence over the sustainability agenda, only 40 percent of sustainability teams were prioritizing engagement with the CEO's office.

Gaps in board competency: Without adequate expertise, it is difficult for boards to engage executive leadership on the viability of long-term strategy and vision. In its Gaining Ground Report, Ceres analyzed the makeup of board committees with sustainability oversight responsibilities and found that of the 774 directors who sit on such committees, only 19 percent had discernible or specific sustainability expertise in environmental, social, or governance issues. One interviewee from a healthcare company stated that his board's background and experience is "too narrowly defined" and that "despite strong business, scientific, and medical representation, the board lacks capabilities to manage societal corporate responsibility and sustainability issues." The interviewee felt that the board would benefit from representatives with nontraditional backgrounds and expertise.

Lack of relevant information:
Many of the people we interviewed for this report are responsible for regular board briefings on sustainability issues, and a common theme many of them noted was a lack of clarity about the type and volume of sustainability information that should reach the board: Too much, and credibility is lost by sharing unimportant information; too little, and the board is unable to conduct effective analysis. One interviewee expressed frustration that sustainability issues were treated as a "palate cleanser" by the board—an artificial sweetener of "good works" that made the board feel positive amid poor overall business performance, rather than a substantive review of sustainability strategy.

Solutions and Innovations

Six innovations can be made to enhance the ability of boards to establish the resilient business strategies needed to create long-term value.

1

Emphasize long-term value creation over sustainability oversight and performance scrutiny. Interviews for this report suggested that although boards are increasingly effective at providing oversight on current practices, they fall short of providing insight on how long-term trends will affect the company's ability to achieve its strategy. As one company interviewee stated, "Today, the role of the board's corporate responsibility committee is to hold the company to account, rather than provide insight into long-term trends. This is a missed opportunity, and the Board should increase focus on ensuring the company remains fit for purpose in the longer term." An interviewee from an energy company made similar comments: "The company's vision is a sustainable energy future, and the Board needs to understand what this means. However, our Board doesn't have the right expertise. They ask questions about execution, but don't have insight into strategic priorities, such as two-degree scenario planning."

"Today, the role of the board's corporate responsibility committee is to hold the company to account rather than provide insight into long-term trends. This is a missed opportunity and the Board should increase focus on ensuring the company remains fit for purpose in the longer term."

5%

of companies placed sustainability oversight with the board at large

2

Strengthen board stewardship of sustainability: There is no "one-size fits all" to governance systems formalizing the sustainability stewardship responsibilities of the board. Sustainability issues can be integrated in the mandates of the board at large, of an existing board committee, or of a committee dedicated specifically to sustainability. A 2014 study of the S&P 500 found that 45 percent of companies did not demonstrate board oversight of sustainability issues, 33 percent integrated sustainability into a committee, 18 percent had a standalone sustainability committee, and 5 percent placed oversight with the board at large.[5]

3

Align of incentives to sustainability performance: Integrating sustainability performance in executive compensation can increase the engagement in sustainability issues. Glass Lewis found that 39 percent of companies in the United States, Canada, Australia, the UK, Norway, the Netherlands, Brazil, Spain, France, Switzerland, and Germany link executive compensation to sustainability factors, and that 81 percent of compensation schemes linking executive remuneration to sustainability performance did so through short-term incentive packages.

81%

of compensation schemes linking executive pay to sustainability performance did so did so through short-term incentive packages

5 https://irrcinstitute.org/wp-content/uploads/2015/09/final_2014_si2_irrci_report_on_board_oversight_of_sustainability_issues_public1.pdf.

4

Recruit board members with expertise to understand the strategic implications of sustainability issues: Boards need sufficient expertise on material sustainability issues to effectively support, inform, and question executive leadership on its business strategy. This means recruiting board members with expertise relevant to sustainability. While some have recommended the recruitment of "stakeholder directors" to represent stakeholder groups at the board level, we tend to favor recruiting board members with specific skills and expertise related to material issues. While inviting representatives of stakeholder groups on boards may seem like a panacea to ensure that boards consider the interests of company stakeholders, it will be difficult to ensure one or two individuals can represent the breadth and depth of stakeholder views, and it is easy to see how a "pro-stakeholder" representative could be a marginalized "party of one" at the board table. By contrast, directors with specific areas of expertise on relevant sustainability issues could provide significant added value to board discussions.

5

Provide training on material sustainability issues: In parallel to building a board with relevant sustainability qualifications, companies can provide training to current board directors. The focus of the training will vary by industry. For example, an oil and gas company will want to provide training on climate mitigation and adaptation, while a healthcare company will focus on access to care. Training can also be augmented, as is the case in many companies, with site visits and briefings from external experts. As one interviewee emphasized, it is essential that the capacity of board members is enhanced by being exposed to different perspectives and voices: "Board members typically lack access to independent experts in relation to core business issues and their sustainability dimension. They are often exposed to a very small number of senior managers, and a more in-depth onboarding of people joining boards and board committees is needed."

> *"Rather than groupthink, board members need an intellectual curiosity and emotional strength that is disturbing and nonconformist."*

6

Create external advisory councils: External advisory councils can be an extremely valuable tool to bring in views from a diverse set of stakeholders, without being constrained by the formalities of company board structure. Successful advisory councils display certain important characteristics, such as being well resourced, engaging with the right senior company decision-makers, having the appetite to listen to divergent views and perspectives, and including technical experts—on climate change, technology, or geographies, for example—rather than just sustainability generalists. One interviewee described how their external sustainability advisory council "drives change by keeping the company fresh and letting it know when it is screwing up." Another interviewee described the thoughtful use of their external sustainability advisory council to engage company leadership on the strategic business implications of sustainability challenges.

Leadership and Management

The creation and implementation of resilient business strategies will require new types of executive leadership that support organizational leadership on sustainability issues.

STOP

Positioning the sustainability department as the team that is designed mainly to respond to external pressure

Using impenetrable terminology

Trying to address all issues, all the time

INNOVATE

Frame sustainability as an opportunity for growth and value creation

Reimagine the sustainability function as the creator of value, as futurists, as change agents, and as builders of coalitions

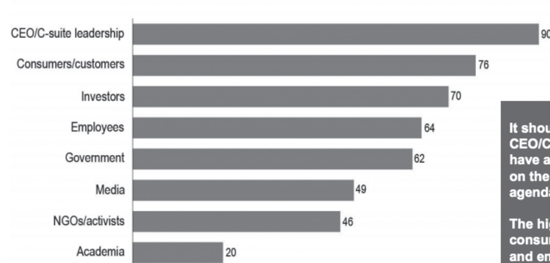
Set a sustainability tone from the top

We believe this executive leadership transformation needs to take place in three areas—diversity, leadership style, and innovation.

The creation and implementation of resilient business strategies will also require an overhaul of the sustainability function. We believe that the sustainability function should reimagine its future in four main ways: as the creator of value for companies, as futurists, as change agents, and as coalition-builders. This requires a more deliberate, structured, and thoughtful approach to working with other functions. But if it succeeds in these four areas, then sustainability functions will thrive as an engine of innovation at a time when innovation is sorely needed.

The importance of these transformations is indicated by the 2017 BSR/GlobeScan annual state of sustainable business survey, which revealed the misalignment that exists between the external stakeholders who most influence companies' sustainability agenda and the internal departments that are most frequently engaged on sustainability issues.

Influence on Sustainability Agenda at Company, 2017
(Percentage of All Respondents Identifying Groups as "Influential"*)



*Percentage of respondents who selected 5, 6 or 7 on a 7-point scale where 1 is "No influence at all" and 7 is "A very significant influence"

It should be expected that the CEO/C-Suite of the company will have a very high degree of influence on the company's sustainability agenda.

The high degree of influence of consumers/customers, investors and employees should be prompting specific engagement and communication activities targeted at these groups.

Though customers, investors, employees, and the government were seen as important stakeholders by over half of our survey respondents, there was much less appreciation of the need to engage directly with the internal functions that work with these stakeholders on a daily basis. While more than half of respondents agreed with the need to engage with procurement departments, less than 30 percent saw a need to work closely with functions such as strategy, product development, risk, or investor relations, and less than 10 percent saw any need to prioritize legal or finance teams. New types of executive leadership and a reimagined sustainability function will address these challenges and increase company capability to design and implement resilient business strategies.

The Leadership Challenge

Providing meaningful leadership on sustainability issues and creating resilient business strategies requires that companies consider culture, which is the product of norms, values, structures, and incentives. Leaders in an organization have an outsize role to play in setting culture because they are responsible for socializing and integrating employees into the system. They communicate rules, norms, processes, and tasks. Employees will closely watch and absorb how leaders behave and the explicit and implicit signals they give, and they will modify their own activities and communications accordingly. This is the real meaning of "tone at the top."

We believe that sustainability leaders should reimagine their job functions in four key ways: as the creator of value for companies, as futurists, as change agents, and as coalition builders.

There is plenty of evidence that corporate leaders are struggling to adapt to today's disruptive environment and have lost the trust of the public. The 2017 Edelman Trust Barometer found that the credibility of CEOs fell by 12 points to an all-time low of 37 percent, albeit remaining higher than trust in the government or the media.[6] A 2016 study by Nik Gowing and Chris Langdon found that executives are struggling to adapt to the pace of change in geopolitics, technology, and society, increasingly finding that "business as usual" approaches don't cut it, but lacking the willingness or ability to embrace the less risk-averse approach needed to meet these challenges.[7]

We believe that companies need to reconsider the behavior and traits that are sought and rewarded in their senior executives and their approaches to organizational leadership on sustainability issues. We believe this leadership transformation needs to take place in three areas—diversity, leadership style, and innovation.

Diversity: There is a wealth of research suggesting that more diverse leadership teams are smarter and make better decisions.[8] A 2015 study by McKinsey found that the most diverse leadership teams worked in companies that had higher financial returns, were more innovative, and were less prone to groupthink. However, many private sector organizations still reward the "traditional" traits of competitiveness, risk-taking, and a controlling leadership style, and these biases are difficult to shift.

The ongoing dramatic shifts in the operating context require more diverse and ethical leadership teams that prioritize pro-social behavior over relentless self-interest and are open to collaborating with diverse external stakeholders to drive innovation. As one interviewee noted, "The need for collaboration is increasing over time. As you start reaching into a wider set of communities with localized contexts you need to get away from the uniform approaches that multinationals have developed, and partners

6 www.edelman.com/news/2017-edelman-trust-barometer-reveals-global-implosion/
7 http://thinkunthinkable.org/downloads/Thinking-The-Unthinkable-Report.pdf
8 For example, Katherine W. Phillipps, "How Diversity Makes Us Smarter," Scientific American, October 1 2014, www.scientificamerican.com/article/how-diversity-makes-us-smarter/, and David Rock and Heidi Grant, "Why Diverse Teams Are Smarter," Harvard Business Review, November 1, 2016, https://hbr.org/2016/11/why-diverse-teams-are-smarter

help close that gap." The need for more diversity at the top of organizations is not just about the scale of the societal challenges we face, it is also about the increasingly visible connections and dependencies across value chains and countries. The successful companies of the future will reward collaboration over competition as the best route to operational and financial success.

Leadership style: Traditional concepts of leadership involve the accumulation and exercise of power by those at the top of the pyramid. An alternative concept—"servant leadership"—is based on the leader serving the interest of the organization and the people within it, rather than the other way around. The servant leader is defined by humility and perseverance and focuses on behaving ethically, creating value for the community, and building problem-solving skills and task knowledge. It creates psychological safety in teams, emphasizes talent development, and leads to a much greater dispersion of power within an organization.

We believe that more resilient business strategies will arise from servant leadership styles. While humans tend to seek more dominant leadership figures in times of uncertainty, organizations that pursue more distributed leadership models are much better positioned to respond to a world where political power is more multipolar, humans are more mobile and have rising expectations, and debate is less top down and more diffuse. The emergence of a new generation of leaders who are focused on broader concepts of value is essential for addressing sustainability challenges.

"The need for collaboration is increasing over time. As you start reaching into a wider set of communities with localized contexts you need to get away from the uniform approaches that multinationals have developed, and partners help close that gap."

Innovation and differentiation: Compelling examples of organizational leadership in sustainability all have two things in common—the ability to differentiate the company's efforts from that of its peer group and a conscious decision to do something that competitors are not. This is true of all transformational strategic efforts, but it has particularly important consequences for sustainability because it will help investors and the public push other companies to meet the same standards and "raise the floor" in terms of what is expected of business. Today, far too many sustainability management efforts begin with benchmarking what other companies are doing, which drives convergence to the median and limits potential for change.

Leadership Transformation

Sustainability Function as a Value Creator

When sustainability teams were first created by companies, they often had a reactive function—responding to social controversies and concerns raised by external stakeholders—and tended to focus on tangible risk mitigation, such as reducing environmental impacts or addressing labor violations in supply chains. These remain important objectives, but they alone do not constitute a viable future for the sustainability function.

We believe the long-term impact and viability of sustainability teams resides instead in identifying opportunities to create business value. One interviewee summarized this view well, saying: "We need to focus primarily on how sustainability supports growth—how does solving major sustainability challenges create new revenue opportunities for the company? This means integrating the global Sustainable Development Goals into business planning, and ensuring that sustainability teams are focused on business development."

Many subjects that have traditionally been considered sustainability issues can be used to generate revenue, reach nontraditional markets, and innovate. One obvious example is climate change, where financial institutions are creating offerings—such as green bonds and new insurance products—premised on the notion that climate change is having immediate impacts. Pharmaceutical, retail, and food companies have embraced consumer interest in health and wellness as a growing market. Consumer products for people in the fast-growing cities of the Global South often require new business models to meet the reality of people's lives in those locations. The focus on the circular economy is giving rise to innovative business models that deliver value while driving down the need for natural resources.

The sustainability function will deliver greater value by playing a catalytic role in generating such opportunities. The good news is that the ability to deliver on this vision relies upon many of the core skills developed by sustainability leaders over the past two decades: engagement with people and institutions not traditionally addressed by large companies; an orientation toward change; and attention to underserved populations, all of which can be strong drivers of innovation. The change in mindset requires sustainability leaders to explore the creation of market opportunities, not only the adverse social impact of market failures.

"We need to focus primarily on how sustainability supports growth—how does solving major sustainability challenges create new revenue opportunities for the company? This means integrating the global Sustainable Development Goals into business planning, and ensuring that sustainability teams are focused on business development."

Sustainability Leaders as Futurists

Focusing on value creation also means that sustainability teams need to re-orient their perspective more toward future opportunities and aspirations. However, while sustainability functions can identify long-term sustainability factors that drive risk and generate value, they will also need to engage with the uncertainty, complexity, and volatility of how consumers, policy makers, and other key stakeholders respond to these long-term sustainability factors. To achieve this, sustainability professionals can facilitate cross-functional approaches that bring together insights from strategy, research and development, government affairs, and other areas to achieve a shared understanding of how addressing sustainability issues can create value over the long term.

As stewards of the long-term perspective within companies, sustainability professionals are wellpositioned to drive more future-oriented strategic foresight into the business and cultivate new perspectives.

New Job Descriptions for Sustainability Professionals

Value Creators
Identify opportunities to create business value and play a catalytic role in generating such opportunities.

Change Agents
Enhance and leverage organizational change and influence skills.

Coalition-Builders
Seek traction in the areas where the company has the most advanced and innovative thinking and adopt a more structured way of thinking about sustainability's place in the organization.

Futurists
Identify long-term sustainability factors that drive risk and generate value; engage with the uncertainty, complexity, and volatility of how consumers, policy makers, and other key stakeholders respond to these long-term sustainability factors.

"The scope of the sustainability team is evolving. Sustainability people are translating what is happening in society to the company and vice versa. I don't see anyone else in the company playing this role. For this, brand new competencies are needed."

Sustainability Leaders as Change Agents

The increased investment in sustainability at companies over the past 25 years has resulted in sustainability becoming more professionalized and defined. However, the competencies that companies seek for their sustainability teams vary by industry—for example, environmental science might be desirable for a chemical manufacturer, while a consumer-focused company might seek to hire marketing professionals—and little thought has been given to the skills needed by sustainability professionals to create value for their employers.

We believe that change management and influence skills are a core sustainability competency across all industries. One interviewee noted, "Organizational change and change management is under-regarded in the field of sustainability. Most of the sustainability team's job is more about organizational change than subject matter expertise. To engage the executive committee, we tailor language and shape messages for each. I also use external voices and pressures to move lines." A practitioner at a different company said, "The scope of the sustainability team is evolving. Sustainability people are translating what is happening in society to the company and vice versa. I don't see anyone else in the company playing this role. For this, brand new competencies are needed."

We also believe that different types of change management techniques should be deployed at senior- and middle-management levels. Senior executives are often very receptive to the inspiration, purpose, and reputational value that sustainability can provide, and they have a longer-term, more strategic, and existential perspective on the organization. However, without meaningful thought to how sustainability commitments get translated into what line managers reward and prioritize, it is difficult to embed this commitment into the organization. As one experienced practitioner explained, "Some of the sustainability arguments that would work for the CEO are less likely to carry water with a mid-level executive. Part of this is a consequence of risk aversion—but these individuals also have more near-term goals and are on the hook to deliver. Many sustainability programs fail because operating results are the hammer point where the trade-off between now and the future is most acute."

Given the degree of consensus that organizational change and influence skills are a core element of success for the sustainability function, the next step toward defining the field would be to expand and extend this capability among sustainability professionals.

Sustainability Function as Coalition-Builders

There are many opportunities for sustainability teams to increase collaboration with key internal departments on a sustainability agenda, and it makes sense to seek traction in the areas where the company has the most advanced and innovative thinking. These will vary from company to company. As one interviewee noted, "All functions have a role to play, from finance to marketing, but making sustainability succeed in the organization means understanding that organization's specific dynamics and character."

For companies in engineering, natural resources, and manufacturing, long experience and rigor in risk management, oversight, and compliance mean that the organization may be better able to incorporate the long-term risks presented by sustainability, but struggle to implement opportunities. By contrast, for companies in consumer sectors, product development and marketing may provide the strongest lever for progress. This contrast suggests that sustainability practitioners need to move on from a "whatever works" mindset and adopt a more structured way of thinking about their place in the organization.

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We believe that starting with an organizational materiality principle make sense. This involves using the findings from a materiality assessment to design an internal engagement program focused on departments with the most potential influence and expertise for the sustainability agenda. In this way, teams can target their efforts where they are best placed to gain traction, and build visibility and support in the process.

Sustainability practitioners need to move on from a "whatever works" mindset and adopt a more structured way of thinking about their place in the organization.