Part 2

EMBEDDING SUSTAINABILITY AS A CORE STRATEGIC FOCUS AREA

In this, the second part of our series on sustainability and IR, we explore the methodology issuers can adopt in developing a credible sustainability strategy that caters to the needs of an increasingly diverse stakeholder base.

Defining corporate purpose, mission and values

Most companies now recognise the multi-faceted benefits of having a sustainability strategy in place, although many are yet to develop a clear business case for such a strategy. The approach thus far for the majority has centred around downside protection and risk minimisation, as opposed to exploring the upside potential and maximising potential opportunities from embracing a true sustainable agenda. As the need to focus on these elements grows at Board and Management level, Investor Relations can play a critical role in the development and execution of an appropriate strategic direction.

To begin with, defining a clear mission for the business will help clarify the positive role it can play in society at all levels. Distilling this down further, the company needs to outline how it aims to deliver its vision within a framework that is easy to follow both internally and externally. To this end, the natural place to begin would be the UN Sustainability Development Goals (UNSDG) which outline the UN's blueprint for a more sustainable future for all. They can help define a company's purpose as well as formalise ambitions, and result in developing clear strategic priorities. Ultimately, in the long run, the core purpose for any company should be to minimise the negative effects it has on a given ecosystem and deliver positive responses, which will invariably result in improved long-term financial results.

IROs can support senior Management and the Board in formulating a clear sustainability-driven mission by addressing a few simple questions, such as:

- What is our engine of growth and area of expertise?
- How do we apply our expertise to one or several of the 17 UN Sustainable Development Goals?
- How do these goals tie back to our current business plan and programme?
- What are the values and behaviours we want to live by or foster in our organisation to be able to achieve these goals?
- What are the resulting consequences and anticipated changes in the organisation?

The last question will help prompt critical thinking about the strategic direction the company should embark on to live up to its defined corporate ambitions. In order to distill this sustainability strategy into specific objectives in terms of practices, operations, enablers and levers, including incentivisation mechanisms, it will require the identification and prioritisation of key issues from a risk management, as well as opportunities, perspective. The simplest way to do it will be through the development of a materiality matrix.

Develop a Materiality Matrix

According to the Global Reporting Initiative (GRI), materials are topics defined as having “a direct or indirect impact on an organisation’s ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large”. Within this context, a materiality analysis helps identify where the company and its management team can provide the most value, allocate effort and resources, and direct their reporting.

In an ideal scenario, the materiality assessment should reflect the input of all stakeholders on a weighted basis, depending on their impact to the business, and compare the factors material to the business against those that are material to the stakeholders.

As outlined in Part 1 of this paper, Investor Relations is well positioned to develop the materiality matrix and act as a sounding board to assess the issues of greatest relevance for the stakeholders. A potential framework for IR to follow is outlined below:

- Identify areas of importance for the Company and its stakeholders
- Prioritise these areas according to the company and its stakeholders
- Align the sustainability strategy with business objectives
- Outline KPIs and measure impact

Whilst there is no standardised list for any sector, below is an example of a number of key materiality items to consider. Enumerating each topic will enable the company to place them accordingly on the materiality matrix and see their relevance.

Climate, of which

1. Emissions
2. Water consumption
3. (Non)Hazardous waste
4. Energy waste
5. Energy consumption
6. Conflict minerals
7. Financing transitions to … (low carbon economy for example)

Governance, Policies & Practices, of which

8. Environmental
9. Social
10. Governance
11. Supply chain management
12. Code of conduct / Business partner code of conduct
13. Human rights / Animal welfare
14. Data privacy
15. Health and safety

Social & Human impact, of which

16. Philanthropy
17. Community engagement
18. Diversity
19. Equal remuneration / compensation
20. Talent attraction / retention
21. Employee training
22. Working conditions

Economic, of which

23. Growth strategy
24. Corporate risks
25. Regulation
26. Policy influence
27. Tax / Tax strategy
28. Procurement
29. Risks and crisis management

Markets and Customers, of which

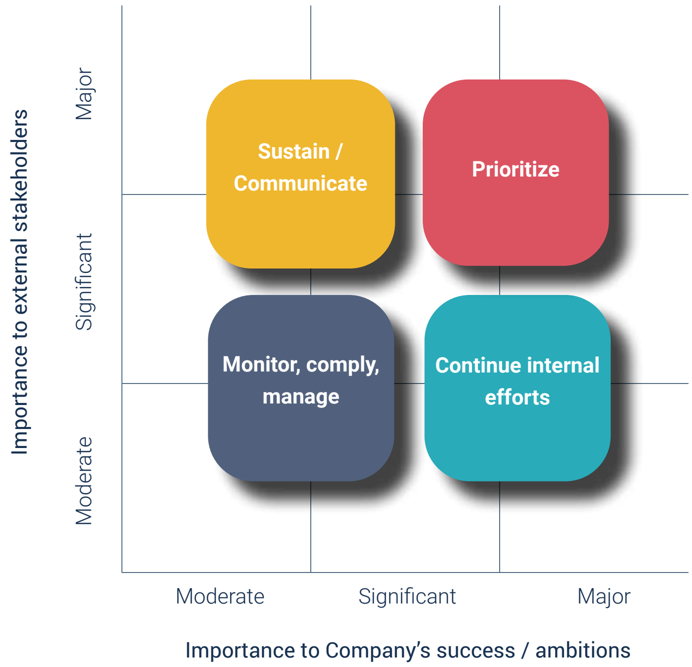
30. Marketing practice
31. Clients satisfaction
32. Safety, efficacy, counterfeiting
33. Product quality
34. CRM

Business critical, of which

35. R&D
36. Safety, efficacy, counterfeiting
37. Routes to market / distribution
38. End product pricing
39. IP
40. Innovation management

2. Prioritise these areas according to the company and its stakeholders

It is imperative to understand the relative importance of each of the areas outlined above and the challenges and opportunities that they present on an individual and collective basis, as well as outlining the pathway to creating long-term value. In addition, it is also critical to factor in the concerns raised by the stakeholders relating to the company, its ambitions, industry and other areas of focus. As feedback from stakeholders is gathered, IR should rank these topics with relevance to the UNSGD and further cascade them into relevant divisions or business units for a comprehensive overview.



3. Align with business objectives

Whilst a growing number of companies are addressing sustainability issues, there remains a fundamental distinction between those that have a sustainability strategy and those that are merely reporting on a series of initiatives or activities. Developing a credible sustainability strategy requires an objective view into the risks and opportunities that the business is facing and could likely result in difficult decisions as consequences of the strategic path chosen by the Board and management team. In order to explain these decisions appropriately, IR can support the development of the narrative that highlights the opportunities whilst addressing key concerns amongst various audiences by working through a series of questions outlined below:

- What are the benefits this sustainability strategy brings to the business?
- What risks does it alleviate and how does it improve resilience?
- How can the Company benefit from changes in fundamentals, such as new megatrends, policies, legislations and regulations, eligibility for additional external funding or (tax) incentives?
- Is the Company setting new trends or standards in the industry and how does this translate into a competitive advantage?
- How will this strategy create new engines of growth and what is the impact on new revenue streams in the long term?
- What are the primary assumptions of the business plan? (e.g. Payback scenario, ROI, redistribution of costs, capex or increases in resources needed etc.)

- Which other benefits, such as improved corporate reputation, the power of the brand or employee retention amongst others will this strategy yield?

Developing a sustainability strategy that is fit for the business involves not only considering how issues might change over time but also understanding the consequences of transitions and their impact on the materiality items outlined for the Company. If ceasing some activities because of their impact on the environment means proceeding to restructuring or potentially closing businesses, it will also be paramount for IR to anticipate these events in order to explain why, in the long term, they would not be detrimental to the social and human goals of the company.

Finally, IR will also be best placed to benchmark some of the "claims" against peers to either stress test the differences or to show how, as good citizens, companies in the same sector can rally together on certain causes in order to achieve specific ambitions and in doing so, create new opportunities.

4. Outline KPIs and measure impact

As with any strategic venture, defining clear targets and KPIs to track is critical in ensuring buy-in, both internally and externally. Although there is no unified reporting methodology related to sustainability at present, increasingly there are clear precedents being set across sectors and companies can use these as references for comparative purposes. Targets can be set on an annual basis or within a multiyear horizon; whichever path is chosen, it will be key to demonstrate progress and strike a balance between long-term transformation and short-term developments.

It is also important to note that, as there is no defined way to measure positive impact, quantitative examples in the business can sometimes still be most relevant. In this context, certificates such as CDP for Emissions, Water and Forest, or labels such as EcoVadis from the customer's standpoint can be more relevant than quantified targets. As such, besides choosing commonly adopted standards or targets, the onus is on each issuer to define their own ambitions and the pathway to achieving their unique objectives.

Outlined below are some commonly used references to gauge sustainability credentials in an ever evolving world.

REPORTING / NORMS	GRI	TCFD Climate	SASB	SGS
CERTIFICATES / AWARDS	CDP Enviroment	EDGE Social	ecovadis Customers	Sedex Suppliers
(ESG) RATINGS	vigeo eiris	SUSTAINALYTICS	glassdoor Employees	
ESG INDICES	EURONEXT	MSCI	FTSE4Good	

The approach outlined above is to start small and what we describe can provide a structured pathway for issuers to develop the framework for a credible sustainability strategy for Board and the management to assess within the broader strategic context. Managing expectations, both internally and externally, will be key in determining the success of the chosen initiatives and consistent reporting of progress will build confidence in the plan.

From an investor relations perspective, the growing focus on sustainability across the board presents a unique opportunity to further position the IR function as a key strategic influencer to the Board and Management. This evolution will create opportunities that will benefit the IR programme on numerous fronts, including the availability of greater resources and budgets.

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