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Practitioners' Guide to Embedding Sustainability

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Table of Contents

INTRODUCTION	5
DEFINING EMBEDDED SUSTAINABILITY	5
EMBARKING ON THE EMBEDDED SUSTAINABILITY JOURNEY	7
SECTION I: DESIGN YOUR CORPORATE STRATEGY	7
Step 1. Determine Material ESG for Your Company	7
Figure 1. "Corporate Sustainability: First Evidence on Materiality," Khan, Serafeim, and Yoon, HBS, 2015.	8
Step 2. Map and Engage Stakeholders	9
Figure 2. Modes of Engagement with Stakeholders (Esty and Winston, Green to Gold, 2007)	12
Figure 3. Goodyear's Stakeholder Engagement	13
Step 3. Create a Materiality Matrix	14
Figure 4. Unilever 2020 Materiality Matrix	15
Step 4. Develop Your Sustainable Business Strategy	16
Figure 5. Unilever Compass Plan	18
Step 5. Develop Organization-Wide Key Performance Indicators	18
Figure 6. Diversity, Equity, and Inclusion: Inputs, Outputs, Outcomes, Impacts	19
Figure 7. Unilever Compass Plan: "Brands for Good"	20
Step 6. Develop and Implement Action Plans for Meeting Sustainable Business Goals	21
Step 7. Identify and Recruit Partners and Collaborators	21
Step 8. Understand and Track Your Return on Sustainability Assessment (ROSI)	22
Figure 8. Sustainability Drivers of Financial Performance & Competitive Advantage - ROSI Framework	22
SECTION II: CREATE A CULTURE OF SUSTAINABILITY	23
Step 1. Develop the Components of Corporate Culture	24
Vision and Mission	
Purpose	
Values	
Ethics	
Step 2. Address Employee Relations and Diversity, Equity, and Inclusion	26
Employee Satisfaction	26
Diversity, Equity, and Inclusion (DEI)	27
Step 3. Assess and Manage Culture Change	28
Figure 9. World Economic Forum and Accenture - Shaping Change Through Sustainability DNA	29
Employee Training	29
SECTION III: GOVERNANCE AND ORGANIZATIONAL STRUCTURE	32
Board Governance	32
Figure 10. Illustration of Arca Continental's Governance Structure	34
Figure 11. Goodyear's Better Future Governance Structure	35
Leadership, Management, and Accountability	35

Sustainability and the C-Suite	35
Figure 12. Sustainalytics ESG Pay-Link by Region	36
Structure of the Sustainability Function	37
Organization-Wide KPIS and Work Plans	38
Capital Allocation	38
SECTION IV: COMMUNICATIONS AND REPORTING	39
Employee Communications	39
Corporate Communications	40
Investors Communications	40
Supplier Communications	41
Communications with Customers and Consumers	42
SECTION V: NAVIGATING BARRIERS	44
CONCLUSION	49
EMBEDDED SUSTAINABILITY SELF-ASSESSMENT (A SUSTAINABILITY MATURITY MODEL)	50
APPENDIX:	57
Standards	57
Stakeholder Management Tools	57
Sources	57

ABOUT NYU STERN CENTER FOR SUSTAINABLE BUSINESS

The NYU Stern Center for Sustainable Business (CSB) was founded on the principle that sustainable business is good business. We provide education, conduct research, and influence industry practice by proving the financial value of sustainability for business management and performance. At CSB, we aim to equip future and current corporate leaders with updated business frameworks that embrace proactive and innovative mainstreaming of sustainability, resulting in competitive advantage and resiliency for their companies as well as a positive impact for society.

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INTRODUCTION

Embedding sustainability is emerging as the next wave of total quality management. Companies that embed sustainability into the core of their business strategy will be best positioned to attract and retain talent; secure the funds needed for implementation and innovation; mitigate environmental, social, and governance (ESG) risks; and increase sales and customer loyalty. Our research into [Return on Sustainability Investment \(ROSI™\)](#) finds a strong causal relationship between well-executed, embedded sustainability strategies, and better management and financial performance.

Nevertheless, companies need help in navigating this new approach to strategy and management. Some companies are making sustainability commitments but struggling with how best to implement an effective strategy—which requires internal transformation as well as the development of new tools and processes. Others are just beginning their exploration of the topic.

This guide takes the reader through practical steps to embed sustainability into a company's business strategy. We begin by showing you how to map your ESG materiality issues and conduct stakeholder research to develop a materiality matrix. We explain how to make the business case for investment in sustainability initiatives, train existing employees and attract talent, and optimize your governance structure in the short and long term to ensure successful outcomes. Section 1 focuses on corporate strategy, section 2 on culture, section 3 on governance, section 4 on communications, and section 5 answers questions on navigating barriers to implementing sustainability initiatives. We then provide a Sustainability Maturity Model as a tool for determining your company's level of embedded sustainability.

DEFINING EMBEDDED SUSTAINABILITY

The first working definition of sustainability was developed in 1987 by the World Commission on Environment and Development (known today as the Brundtland Commission), which described it as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” As the focus turned more specifically to corporate sustainability, newer definitions also favored the notion of balancing the triple bottom line, specifically citing the need to harmonize the needs of people, planet, and profit—or equity, economics, and environment.

More recently, the term ESG (environmental, social, and governance) has emerged, applied originally to investing but now also to corporate sustainability. The difference between ESG and corporate sustainability is that ESG does not explicitly include profitability, and corporate sustainability does not have as pronounced a focus on governance.

ESG also tends to be used by investors as a reporting and disclosure framework. From a corporate perspective, material ESG issues help design the sustainability strategy, while ESG reporting metrics provide a disclosure framework. Both differ from CSR (corporate social responsibility) in that they refer to changing the way a business does its business, rather than its philanthropic and community-relations activities (as important as those are), which CSR addresses.

At the corporate or investor level, sustainability is about a new mode of management and engagement, one that recognizes that profitability relies on sustainable, equitable approaches to workers, communities, and the environment.

This emerging approach aims to create value for shareholders and stakeholders, and requires companies to truly embed sustainability in their overall business strategy, rather than to manage it reactively—in other words, to design an innovative business strategy that creates competitiveness in a low-carbon transition economy, rather than reactively reducing emissions in response to regulation.

Sustainability is embedded when the proactive management of material ESG issues and a balanced approach to the needs of stakeholders (including shareholders) are completely and effectively integrated into the company's business strategy, with the goal of creating positive societal value together with better financial returns.

In the past, corporate leaders would often dismiss the negative societal impacts of their businesses as externalities for which they need not be responsible. In one noteworthy example, [a U.S. timber company](#) sold the rights to a local community's drinking water to a water-bottling company. Both companies seemed to think that the impact on water cost and availability for the local community was irrelevant. Not surprisingly, a major battle ensued. In another example, retailers and restaurants have traditionally paid workers as little as they can—with negative consequences for workers, including poverty and lack of medical care—leaving taxpayers to pick up the costs.

But externalities like these are increasingly becoming internalized. Take climate change. Fees are being charged for carbon emissions; investors are asking for an assessment of climate risks and penalizing companies with high carbon exposures; and companies and consumers are looking to reward carbon-positive companies and products. In 2021, for example, [carbon-labeled consumer packaged goods \(CPGs\) represented \\$3.7B in sales](#), two years after this type of labeling was introduced!

Risks and opportunities associated with material ESG issues are now becoming part of everyday management concerns and need to be incorporated into strategy and day-to-day management. But as with any change management or transformational process, that integration is easier said than done. The transformation to digital, for example, required significant change management and investment, and some companies did it better than others. Some failed completely: Kodak's decision to delay pivoting to digital cameras and other related products led to its bankruptcy.

Embarking Upon the Embedded Sustainability Journey

SECTION I: Design Your Corporate Strategy

We start with the premise that sustainability must be incorporated into corporate strategy, instead of being a stand-alone strategy. That means approaching the sustainability landscape the same way you would approach your business planning, by understanding the relevant sustainability trends and associated risks and opportunities. Use the sustainability lens to ask yourself the following questions: What are the material ESG issues for our sector/business? What is the competition doing? What behavior and attributes will delight and engage customers? How do we recruit and retain the best employees? Where is regulation going? What type of technologies might help? With whom might we collaborate to meet our goals?

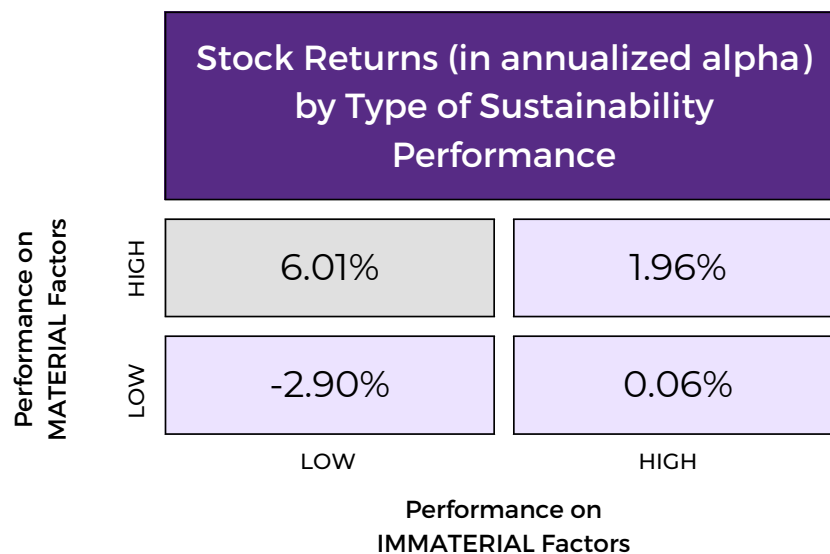
In addition to the steps we recommend in this guide, companies can also consider embedding a triple-bottom-line approach by becoming a [public benefit corporation](#) (a legal designation in the U.S.) and/or a B Corp, certified by [B Lab](#) (a global, voluntary designation). The B Corp Certification process provides a robust methodology for managing a company's environmental and social impacts as well as its profitability. Some companies go through the [assessment process](#) just for the improvements and insights it offers, without moving to full B Corp Certification.

Step 1: Determine Material ESG Factors for Your Company

The first step is to assess and prioritize your company's material ESG issues. Material means financially relevant in the short and long term—for your company AND other stakeholders such as workers and society. In addition, materiality includes issues that your company significantly impacts as well as issues that have or could have an impact on your company. For example, an oil and gas company has a material impact on climate change, but climate change will also have a material impact on the company as governments legislate a low-carbon economy and citizens sue the sector. This happened in the successful class-action suit filed in the Netherlands against Shell, a decision that [“obliged” Shell to reduce](#) carbon-dioxide emissions by 45% by the end of 2030 relative to its 2019 levels. For chocolate manufacturers and brands, child labor in cocoa production in West Africa is a material issue, and companies can build successful business models that directly and transparently address this issue. [Tony's Chocolonely](#) is an example of a company whose business strategy is built on eradicating slave labor in cocoa production. With this strategy, which includes transparency in their supply chain and profit sharing, Tony's Chocolonely has seen tremendous results, growing from €1 million in gross revenue in 2011 to [over €100 million in revenue in 2021](#).

A [seminal study](#) of the stock market performance of 2,300 companies over a 20-year period based on their performance on material and immaterial ESG issues found that those that performed well on material ESG issues outperformed the rest by 6%. Those that performed well on both material and immaterial issues outperformed by close to

Figure 1. “[Corporate Sustainability: First Evidence on Materiality](#),” Khan, Serafeim, and Yoon, HBS, 2015



2%, while those that performed well solely on immaterial issues outperformed by only .06%, and those companies that did not manage for ESG underperformed by -2.9% (see Figure 1). Interestingly, this research implies that managing for all ESG factors results in a company being spread too thin and not performing as well as those that focus on material issues. That said, the underperformance of companies that chose to ignore ESG issues entirely, material or otherwise, also provides a cautionary tale.

Also of interest is a [2020 study](#), which found that ESG performance has a positive effect on stock returns, and when financial relevance and financial intensity of materiality are taken into account, the market seems to reward companies operating in industries that focus on the most material ESG issues versus those with a broader list of material issues (based on a large sample of Russell 3000 U.S.-headquartered companies from January 2008 to June 2019). Even when the [Sustainable Accounting Standards Board \(SASB\)](#), which is now part of the International Financial Reporting Standards Foundation ([IFRS](#)), identified a high number of material issues within an industry, the report stated that it may be most effective to choose a subset—i.e., the most material of the material issues—to embed into a strategy and then communicate that choice to investors.

Although there are a number of tools for assessing material ESG issues, they are in flux as governments get into the act (another reason to get ahead!). The place to start is with sustainability reporting standards such as the SASB, soon to become ISSB – International Standards Board) and the [Global Reporting Initiative \(GRI\)](#). There are also standards that provide additional guidance on the materiality of specific topics, such as the [Taskforce on Climate-related Financial Disclosures \(TCFD\)](#) and the [Taskforce on Nature-related Financial Disclosures \(TNFD\)](#).

Reviewing what those multi-stakeholder standards have identified as material for your will provide a helpful preliminary screen, but this will only be the beginning of your work on materiality, not the end.

First, the standards are necessarily broad, and your business may differ from their analysis in certain aspects. The SASB, for example, focuses on areas of interest to investors. The GRI was developed by and for a broader group of stakeholders and includes additional issues. Both standards were developed through consensus, which makes them more meaningful, but also means that they might not include something you have independently determined is material. As such, you should align your materiality analysis with a standard, but be prepared to adjust it to the uniqueness of your company.

Second, you will need to prioritize your focus and investments based on your unique business model. Your pathway to diversity and inclusion, for example, will vary according to your current employee diversity level, the kind of culture you have, the types of positions you have available, and so on.

Third, you will need to reach out to internal and external stakeholders to incorporate their feedback on what is material (more on this in step 2). Otherwise, you may miss something that an external stakeholder thinks you should elevate, or deprioritize something that your employees believe needs to be top priority. Companies may be less comfortable with engaging with external stakeholders, but those stakeholders may have real insight into emerging issues that you would not otherwise take into account. For example, many businesses were blindsided by the campaigns and public policies attacking ocean-bound plastic waste that emerged virtually overnight in 2018–2019. Had they engaged with environmental groups, they may well have planned for the emergence of that particular issue. The weighting of stakeholder perspectives is an art, not a science, but there are both software solutions and consulting organizations that can help.

Fourth, keep in mind that standards are reporting standards, not management standards, so they are process- and output-based, not performance- and outcome/impact-based. To explain this important distinction further: Reporting standards combine their view on what is material in an industry with reporting criteria against which any one company can report. As there is no baseline or benchmarking possible for diverse industries, a standard can identify that chemicals management is important for an apparel company, with criteria that are confined to tracking chemical use and a policy that aims to reduce that use, without requiring the reduction of a specific chemical or a substitution with new technologies. So, a company that has a policy for chemicals management will be treated the same as a one that has developed an innovative new manufacturing process that eliminates chemicals, waste-disposal costs, and regulatory risks, and produces a competitive advantage with customers. Obviously, the latter will create value for the company and its stakeholders while the former may not.

Once your materiality mapping and stakeholder research (see step 2) has been completed, you will produce a materiality matrix (see step 3) that will help you begin to prioritize, manage, and communicate why you are focusing on certain issues and not others. These three steps together will provide the background foundation for assessing ESG risks and opportunities, and embedding a sustainability strategy into your business strategy.

Step 2: Map and Engage Stakeholders

In today's hyper-connected, transparent, and social media-dominated world, stakeholders of all kinds can have a significant impact on your business success. A tweet from a disgruntled employee, a photograph of problematic labor conditions, or a social media campaign by an activist group can go viral overnight. Stakeholders represent a risk to be managed far more proactively and authentically than in the past. But stakeholders also offer an opportunity for improving credibility, reputation, reach, strategic planning, competitive advantage, and coalition-building to tackle sustainability challenges.

A company needs to map the importance and influence of its stakeholders as well as what they care about through the lens of ESG, to determine how the company should interact with them on those topics. For example, a company could collaborate with a stakeholder or just monitor them (see Figure 2). Stakeholder importance differs from influence; a stakeholder group may be important for a company's business success—think tomato farmers for a ketchup company—but not individually influential, whereas a large retail customer will be very influential for that same company. Specific stakeholders vary depending on the industry and company, but there are general categories that are relevant for most. In addition, the opinions of internal stakeholders should be treated separately from those of external stakeholders and show up on two different axes in a materiality matrix.

Employees. There are many categories of employees that companies need to engage and listen to regarding their top ESG concerns. While companies say their employees' views are important, usually there are some (those at the top of the organization) who are treated as more important than others (e.g., factory or warehouse workers). In addition to including rank-and-file workers, companies need to expand their outreach to a diverse pool of employees to ensure the inclusion of a wide range of views. Employees in positions that are out-sourced or off-shored typically are not consulted for feedback, as with Facebook's out-sourced employees who complained about poor working conditions and [PTSD associated with reviewing violent and disturbing posts](#). The employees of a company's suppliers and vendors may also be important constituencies, depending on how integral they are to the company's business (e.g., the views of apparel workers in a supplier's factory should be relevant to a branded apparel company).

Investors/Shareholders. For public and private companies, investors are an important constituency. Again, it will be important to segregate different types of investors. Institutional investors such as pension funds have a longer-term perspective than hedge funds. Investors with an ESG tilt or impact focus will have different concerns than short-term corporate raiders who are looking for the company to reduce costs (often relating to labor). The short-term investors looking for financially engineered short-term results will usually be against more sustainable practices because they see them as a source of cost. On the other hand, most investors, including mainstream banking institutions and passive fund managers such as BlackRock and Vanguard are beginning to take ESG seriously and build it into their due diligence, credit ratings, and investment strategies.

Customers. Just as a business subdivides its customers to improve service, it should also segment and understand its customers according to ESG considerations. B2B businesses need to understand their clients' sustainability commitments; this kind of company can create a competitive advantage by offering products and services that will help its clients meet their sustainability commitments as well as reduce risk for itself. If a company sells directly to consumers, it should understand how those consumers feel about sustainability. Until recently, companies claimed that consumers were not particularly eager for sustainable products or willing to pay a premium. However, that belief has been debunked: the NYU Stern Center for Sustainable Business (CSB)—which [tracks consumer purchasing](#) of 36 out of 40 CPG categories (representing more than 100K products) on a rolling 5-year average—has found that sustainability-marketed products have been responsible for 32% of the growth in CPGs, commanding a 29% premium on average.

Suppliers. Conventional supply-chain relationships tend to be transactional in nature and aim to optimize financial performance through reducing redundancies and inventory. Suppliers are told to deliver a certain product with certain specs at a specific price at a specific time. As companies are increasingly held accountable for ESG issues in their supply chain, however, they need to deepen their understanding of the material ESG risks for their suppliers and help those suppliers join them in a partnership to tackle the ESG issues of greatest concern. This may include a careful collaboration among competitors that source from the same supplier.

Vendors. Vendors of non-supply-chain-related products such as office supplies or electronics can also be important sources of ESG challenges and opportunities as well as partners in addressing those challenges. Vendors may be part of a company's diversity commitment, for example, or provide energy efficient products.

Competitors. Material ESG issues in your sector will affect your competitors

as well. Understanding what they see as important and how they are tackling shared challenges and opportunities will be very useful, and can also create the opportunity to collaborate on issues that are bigger than one company, through pre-competitive collaboration.

Industry Associations. Many industry associations are tackling ESG issues in their sector by publishing research reports, supporting collaborations, and creating industry-wide sustainability standards. They often establish a committee of sustainability leaders from within their membership—a useful group for outreach.

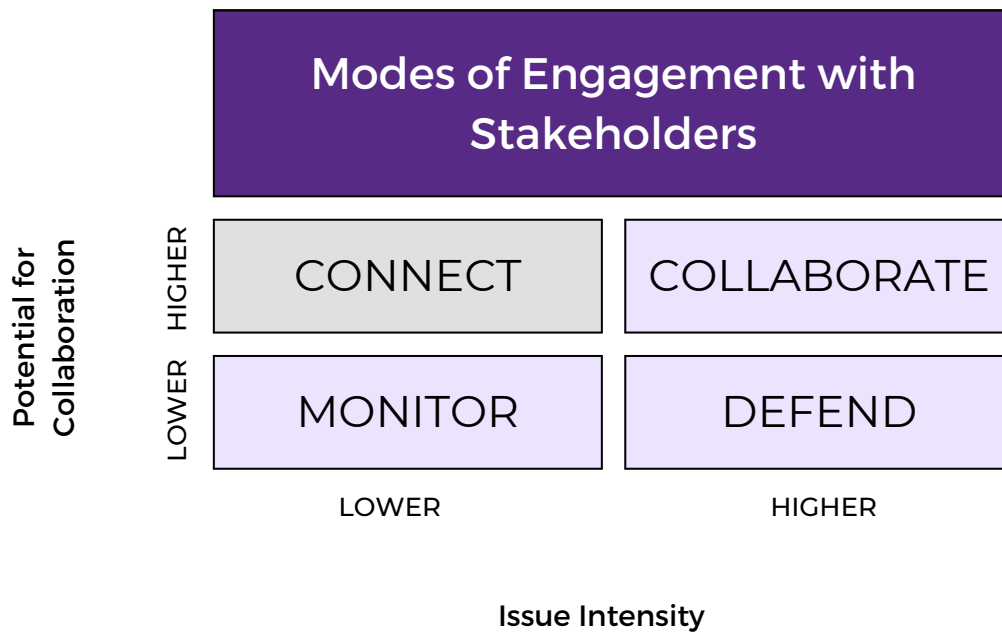
Civil Society. Civil society is a large, diverse, and important group, whose segmentation and engagement will be key for global and regional brands. Depending on the company's ESG issues, there may be international, national, and local environmental and social groups tracking and communicating about the company's behavior. There will be consumer groups concerned about impacts on their constituents, and academics studying and writing about corporate entities and sustainability. In mapping these groups, a company will want to determine which ones can provide insight into ESG risk, or opportunities to partner on solving a particular sustainability challenge such as child labor.

Media. Media outlets are increasingly eager to cover sustainability issues, usually to catch companies behaving badly, but also to tell positive stories about successful solutions and collaborations. In addition to the mainstream media and relevant social media, there are a growing number of media outlets focused on sustainability such as Bloomberg Green and the Financial Times' Moral Money.

Regulators. Companies need to keep an eye on local, national, and international regulatory trends related to ESG as these grow and change rapidly. Identifying key regulators to contact for feedback on material ESG issues will be critical for a company's strategic planning.

This list may seem overwhelming, especially as you customize it with the specific sub-groups under each of these categories. Remember, you do not necessarily need to engage or collaborate with all of these groups; your goal is to understand their position on the ESG issues that are material for your success and discover if they have any insights that might add to, delete, or change the prioritization of the ESG issues you've identified. Initially, you are looking for input into your materiality assessment, but as you develop your sustainability strategy, you will need partners, be they employees, suppliers, or civil-society players. This mapping will help you determine how to interact with key groups. Figure 2 provides one framework for categorizing the modes of stakeholder engagement.

Figure 2: Modes of Engagement with Stakeholders (Green to Gold, Esty and Winston, 2007)



Let’s look at the coffee company Nespresso, as an example. Nespresso sources high-quality coffee from more than 120K farmers all over the world and sells it to food-service providers such as hotels and restaurants, its members, and consumers through its shops, direct selling, and third-party services such as Amazon. Its material ESG issues include climate change and farmer poverty and welfare, among others. Climate change is reducing coffee quality and farm productivity, while low prices coupled with the lack of farmer pensions are causing people to leave farming and sell their land. For Nespresso to stay in business, it needs to improve the social and environmental conditions facing farmers—an important, though not necessarily influential, stakeholder group. The company has partnered with a wide variety of civil-society players, ranging from the Rainforest Alliance, who worked with Nespresso to develop and implement its sustainable “AAA” coffee standard, to Fair Trade who helped Nespresso develop a farmer pension program. Nespresso has also partnered with farmers, working closely with the National Federation of Colombian Coffee Growers (which represents, trains, and supports 540K small coffee farmers) to provide training on the company’s AAA standard and recruit new farmers into Nespresso’s supply chain. The company partners with IUCN and the Aluminium Stewardship Initiative to create and follow responsible aluminum sourcing and recycling standards. Nespresso has also created its own [Sustainability Advisory Board](#) composed of civil-society leaders that meets once a year to provide feedback and insights to Nespresso executives. Another example of sound stakeholder management is the approach taken by Goodyear. Building on information that it

gathers during its materiality assessments, Goodyear has defined its modes of interaction for each stakeholder group, including the channels (e.g., emails, calls, meetings, or visits) and frequency.

Figure 3: Goodyear’s Stakeholder Engagement

STAKEHOLDER ENGAGEMENT Goodyear gathers stakeholder feedback, building on information gathered during materiality assessments	
STAKEHOLDER GROUP	REGULAR STAKEHOLDER INTERACTION
Board Members	<ul style="list-style-type: none"> • Board meetings • Committee meetings • Annual shareholders meeting
Customers	<ul style="list-style-type: none"> • Daily communication via email, calls and meetings • Occasional on-site visits • Annual customer conferences
Distributors	<ul style="list-style-type: none"> • Daily communication via email, calls and meetings • Occasional on-site visits • Annual customer conferences
Suppliers	<ul style="list-style-type: none"> • Daily communication via email, calls and meetings • Occasional face-to-face meetings at Goodyear or supplier facilities
Regulators	<ul style="list-style-type: none"> • Engagement with governments in countries of operation, as necessary
Industry Association and Non-Governmental Organizations	<ul style="list-style-type: none"> • Tire Industry Project and ongoing working groups • Trade Associations • Frequent interactions with NGOs

Investors	<ul style="list-style-type: none"> • Quarterly earnings calls • Annual shareholders meeting • Frequent investor calls and emails
Collaborators	<ul style="list-style-type: none"> • Various collaborator engagements throughout the year on a variety of projects
Community Members	<ul style="list-style-type: none"> • Communication with and contributions to charity • Regular volunteer activities • Community program development

Step 3: Create a Materiality Matrix

A materiality matrix is the foundation for a company’s embedded sustainability strategy. It combines an internal analysis of the company’s material ESG issues with stakeholder perceptions and feedback. It maps the issues onto a matrix, its vertical axis aligned with stakeholder perception of the importance of a given ESG issue, and its horizontal axis aligned with the internal perception of an issue’s importance to business success. The matrix helps prioritize company investment, with the top right-hand corner being the most important area to both the company and stakeholders, and where the company should focus on excelling. That said, any ESG issue that is mapped anywhere on the matrix is important and should be monitored and managed, though the level of effort may vary. For example, issues in the top left corner, which are of top importance to stakeholders but lesser importance to the company, should still be monitored as they may well become more critical over time.

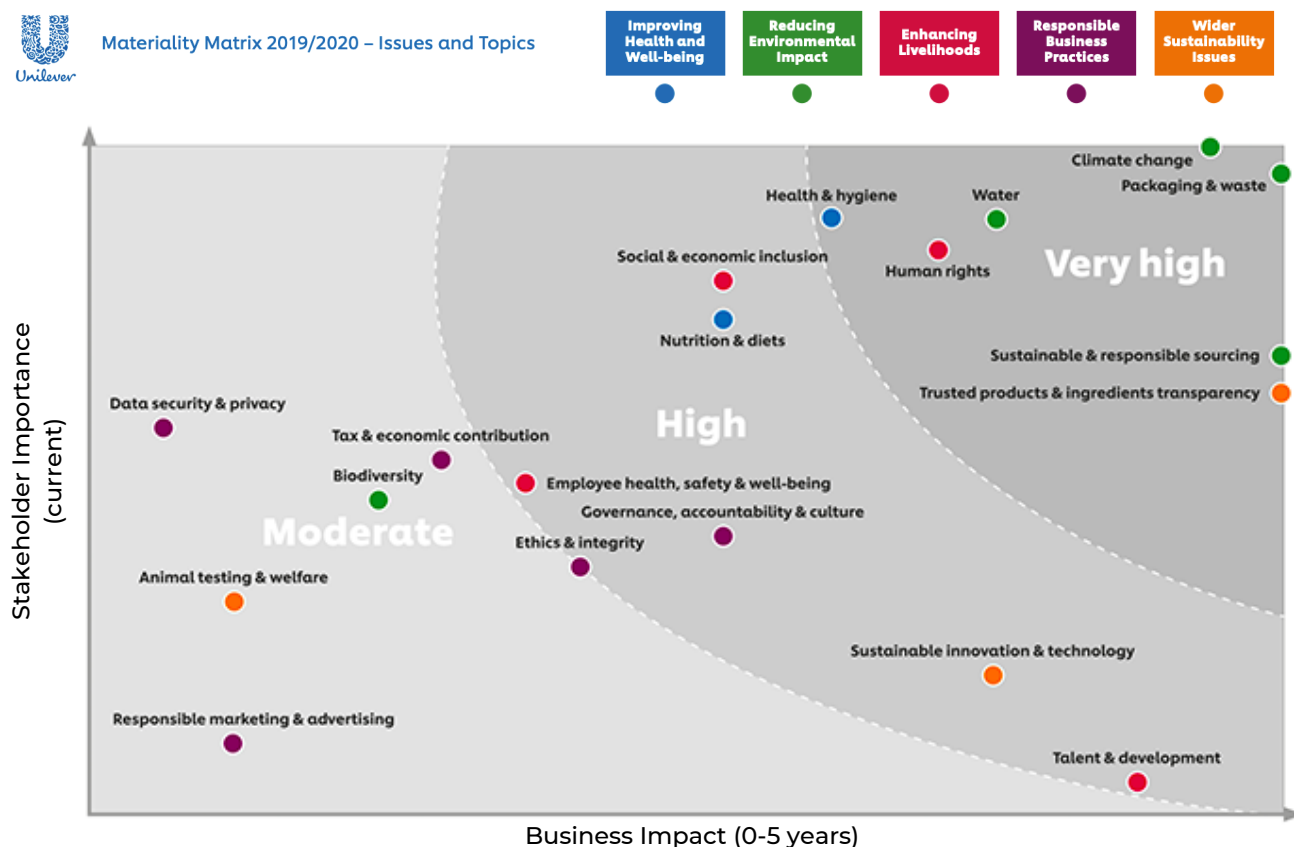
Clearly, stakeholders are not a monolith—they will most likely rate different ESG issues differently. These variations can be addressed through the weighting mentioned earlier under stakeholder mapping, or more informally by the company’s own best assessment. Creating a materiality matrix is a data-driven art, not a science, and the results will vary significantly even for similar companies within the same sector. [NYU Stern CSB’s Sustainability Materiality Matrices Explained](#) provides more insight into the topic. To get an understanding of how similar businesses analyses of materiality may differ, take a look at the Unilever materiality matrix presented below in Figure 3; after you have reviewed it, examine the [2020 matrix created by Nestlé](#) (which is a similar business). Note the similarities and differences in both the issues and their placement on the matrices.

The materiality matrix should not be static or only a picture of current challenges; it should also capture material trends. In order to keep up with very fast-moving developments around sustainability, it will need to be adjusted every two years. Its

function is to provide the building blocks for a company's sustainability strategy by facilitating a process for prioritizing what is most material for the company and its stakeholders.

Figure 4 shows Unilever's 2020 materiality matrix. It's worth reading the company's summary of how it uses its materiality assessment, which includes the following: "A sustainability issue is material to Unilever if it meets two conditions. Firstly, if it is considered a principal risk or an element of a principal risk, which could impact our business or performance. And secondly, if it is deemed to be important to our key stakeholders, including: our people, consumers, customers (retailers), suppliers & business partners, planet & society (citizens, NGOs, governments) and our employees. We use our sustainability materiality assessment to identify priority sustainability issues across our value chain so that we are able to report on the issues of most interest to our stakeholders."

Figure 4: Unilever 2020 Materiality Matrix



Looking at the matrix quadrants, the issues at top right are where you are ambitious and transformative, and where you play offense. Issues of external stakeholder concern that are less important to internal stakeholders are areas that should be monitored and

reviewed. Internal priorities that do not rise to the top for external stakeholders are either operational essentials, or your messaging is not resonating. Everything else will need to be reported on but may only require you to meet peer standards.

Step 4: Develop Your Sustainability Business Strategy

Let's say you have completed your materiality matrix, inclusive of stakeholder mapping and engagement. What do you do next?

First, brainstorm the risks and opportunities associated with the prioritized ESG issues and then explore how you might tackle them. For example, if water use is a big challenge for your business, you will need to understand where those risks are found in your supply chain and explore potential solutions. You will also need to define the future state that you would like to achieve and how you can get there. If you use a lot of water in manufacturing facilities that are located in regions with water-quantity and -quality issues, and local water supplies in those regions are threatened by extreme weather events related to climate change and poorly managed water withdrawals, then you will need to explore strategies such as watershed conservation and protection as well as technologies and procedures that reduce your own water footprint.

Second, define goals and objectives: What is your baseline (i.e., how much water are you using now)? How much water reduction is needed to be truly ambitious relative to peer standards, how much is feasible, and what is your action plan? Are you developing the opportunities as well as tackling the risks? For example, maybe the development of a new water-conservation technology can provide a competitive advantage with customers or become a product that you sell to competitors. To seize that opportunity, you will need to understand your current water-use performance, benchmark against competitors, explore technologies that can reduce water use, and reach out to key stakeholders such as NGOs, community groups, and regulators that are working on water issues in your operating regions.

Third, build the ESG goals and strategies into your business plan. Using the example of water use in your factories, you will likely have overall goals related to the optimal functioning of those factories, including operational costs, quality of goods produced, capital investments planned, etc. Improving those factories' performance on water becomes part of your overall goals associated with manufacturing. Investing in better water management can reduce costs (less water in, less wastewater out, thereby reducing the likelihood of factory shutdowns due to lack of water) and improve performance (better community reputation and relationship with regulators, etc.).

Each industry has a set of commonplace and cutting-edge sustainability strategies as well as a set of practices associated with each strategy. Our research has identified eight [sustainability strategies for apparel](#) and [12 for food and agriculture](#), for example. Looking across the value chain for each strategy, there will be a set of practices that a company can pick to drive better societal and financial performance. Companies can identify different levels of effort for different strategies—they may wish to perform in the middle

of the pack for an issue they see as table stakes, but take a leadership role that drives innovation in an area that is ripe for competition. Because the type of strategy and related practices will vary widely for each industry and each company, it is impossible to provide guidance on specific strategic opportunities in an industry-agnostic guide such as this. However, mapping the strategies and practices for your industry, as we have done in the examples cited above, will be a very helpful exercise.

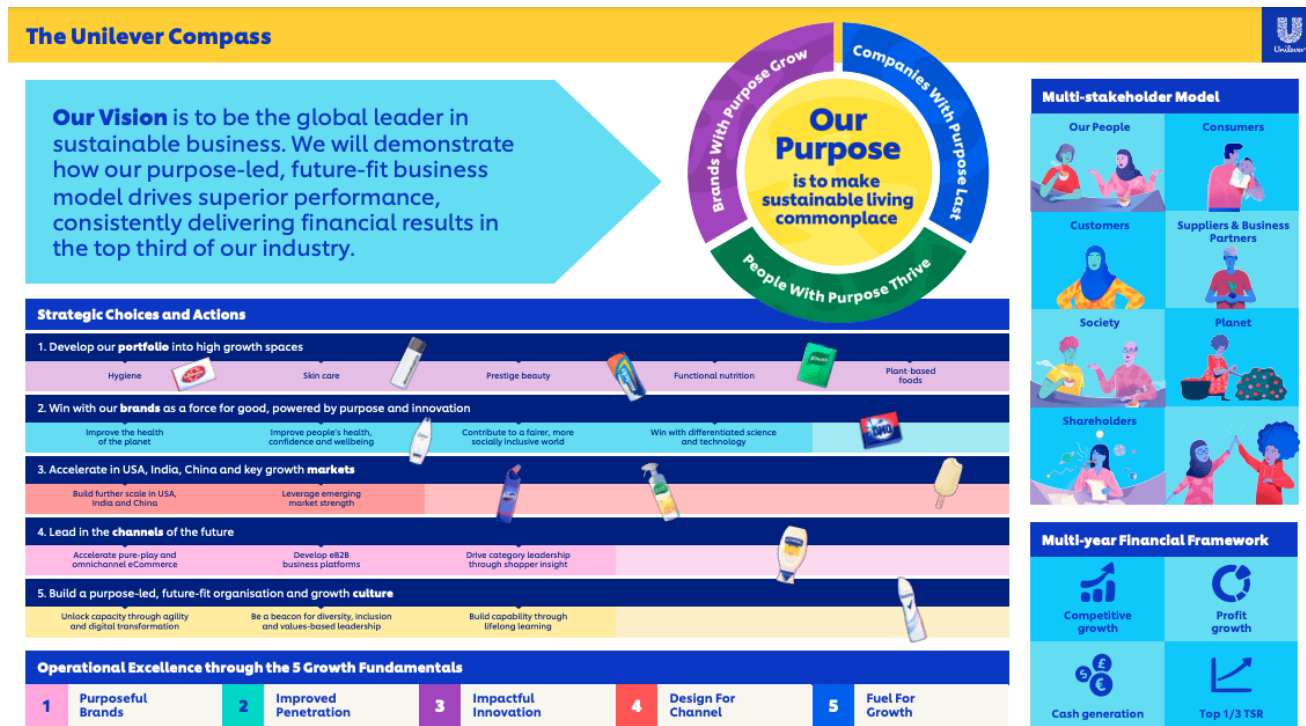
For example, waste is an extremely material issue for the apparel sector. There is waste at every step of the process—from the extraction of the raw material to the production waste associated with manufacturing, to the waste generated by consumers who use a garment a few times and discard it. Not only are regulators beginning to take notice, but consumers are as well. Leading apparel companies are developing solutions which are creating market advantage. Nike, for example, developed the Flyknit technology which reduces waste by 80% and also takes back used sneakers and converts the soles for reuse. Flyknit sneakers have become the dominant technology used and the technology has been a category disruptor, with other shoe companies following suit.

Let's take a look at Unilever's integrated sustainability and business strategy, Unilever Compass (see Figure 5). "Our Vision is to be the global leader in sustainable business. We will demonstrate how our purpose-led, future-fit business model drives superior performance, consistently delivering financial results in the top third of our industry." The company's purpose is to "make sustainable living commonplace."

In reviewing the goals in Figure 5, you will see that two core components of their strategy are "Win with our brands as a force for good, powered by purpose and innovation," and "Build a purpose-led, future-fit organisation and growth culture." Their five growth fundamentals include two related to sustainability: purposeful brands and impactful innovation. You will see the strategies and KPIs associated with how they demonstrate that their brands are indeed a force for good, contributing positively to material ESG issues.

Unilever's purpose-led brands have [out-performed their conventional brands](#), and most of the former have become billion-dollar brands. The company has facilitated the pivot into sustainability through robust stakeholder partnerships with suppliers, NGOs, and regulators, among others, as well as promoting their pivot to customers and consumers through educational messaging and traditional brand messaging. They have also incentivized their suppliers to invest in the pivot through preferred supplier relationships that offer premiums and/or other benefits, and their employees through strategic plan-aligned KPI bonuses and incentives.

Figure 5. [Unilever Compass Plan](#)

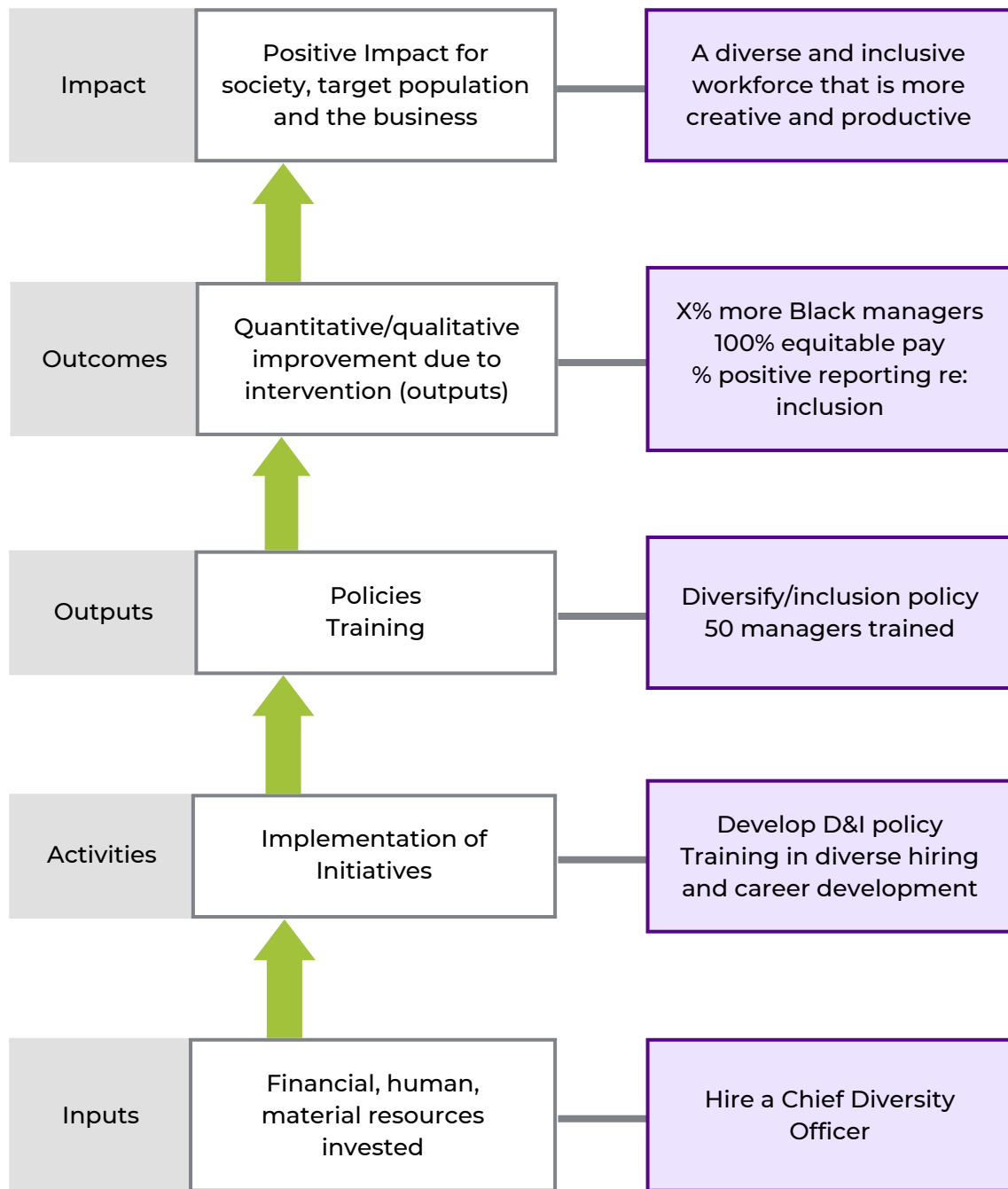


Step 5: Develop Organization-Wide Key Performance Indicators

As mentioned earlier, most reporting and disclosure standards have process-based KPIs. That may be acceptable for reporting, but to improve management and performance, companies need to develop outcome and impact-based KPIs. To help explain the difference: let's say a company aims to improve diversity and inclusion (see Figure 6). To do so, it may hire a diversity officer, which is an input; publish a diversity, equity, and inclusion policy, which is an output; and train 50 people in diversity and inclusion, also an output. The outcomes are the results of these inputs (e.g., 20% managers of color, 100% pay equity). Assessing the impact of those outcomes will require the company to determine what state it needs to achieve for it to be diverse and inclusive, and drive better results such as increased productivity and creativity.

Organizational sustainability KPIs should tie back to the business strategy and provide accountability for executive leadership as well as rank and file. As we will discuss later, companies are beginning to tie compensation to sustainability performance and financial performance. The KPIs should be focused on material ESG issues and avoid complexity or tackling too many issues. It should be possible to assess and track them. The Unilever Compass plan (Figure 7) provides an example of how one company has tackled KPIs for its material ESG issues across the three pillars of its business strategy.

Figure 6: Diversity, Equity, and Inclusion: Inputs, Outputs, Outcomes, Impacts

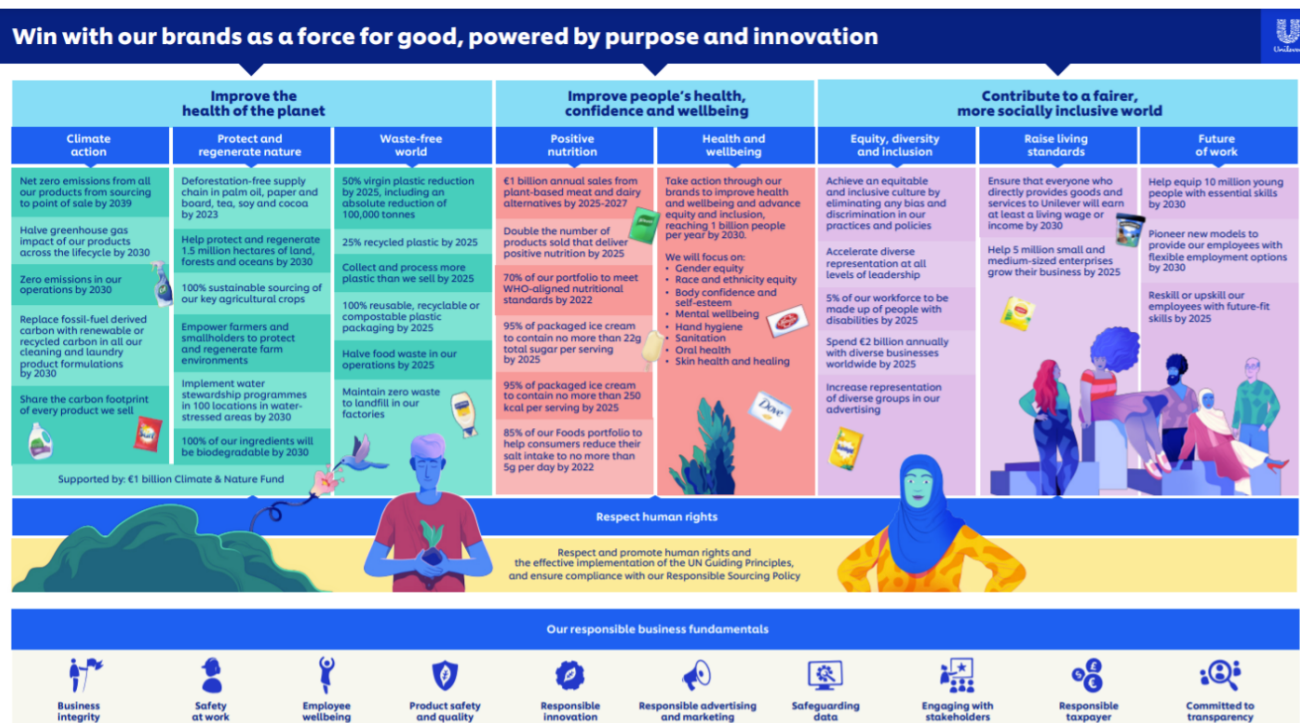


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Figure 7: Unilever Compass Plan: "Brands for Good"



Step 6: Develop and Implement Action Plans for Meeting Sustainable Business Goals

Having developed your KPIs, you now need to develop a plan to operationalize them, including timing, resources, and activities. How many years/months do you need to meet your goals? What are the interim dates? What types of activities must you implement? What human resources are needed? What technological and financial resources do you require? What type of internal reporting and oversight is needed?

As sustainability tends to require execution across an organization, you will likely need multi-divisional engagement to design those work plans. For example, many companies set public goals for significant carbon reductions. Some have already thought through how they are going to achieve those goals, while others set goals that are in line with what science recommends without having figured out how to get there. In both cases, the step after making those commitments and determining KPIs is to develop action plans.

You will need to assess the following: How do your goals translate into quantitative and qualitative targets, and what are the steps that need to be taken to meet them? Who are the stakeholders that need to be involved to design and implement an actionable plan? How do you ensure that individuals who do not report to a sustainability lead will effectively implement sustainability initiatives?

While your organization's structure is important for many reasons related to sustainability, it can be particularly important when it comes to the implementation of plans to meet your sustainability goals. Who in the organization is translating social and environmental ESG topics into the language of sustainable business? An example would be translating the issue of climate change into supply-chain disruptions, operational continuity, and raw-material prices so that the organization can get behind the implementation of your plan. In an earlier example, having an ESG Committee within the Board of Directors can be helpful here. There are other approaches that companies are applying to ensure cross-functional responsibility and accountability so that the projects necessary to meeting sustainability goals are implemented. These are practices that can be adapted for your context and structure.

Step 7: Identify and Recruit Partners and Collaborators

To successfully implement your sustainability strategies, you will need partners and collaborators. Partners can include NGOs (such as Rainforest Alliance, which works closely with businesses to improve environmental and social practices), employees, community organizations, regulators, consumers (who are very important for circular projects) and suppliers, among others. The stakeholder mapping you did to assess materiality will be a useful source for ideas about the type of stakeholders who can help you with material issues, such as Improving the sustainability of a supply chain.

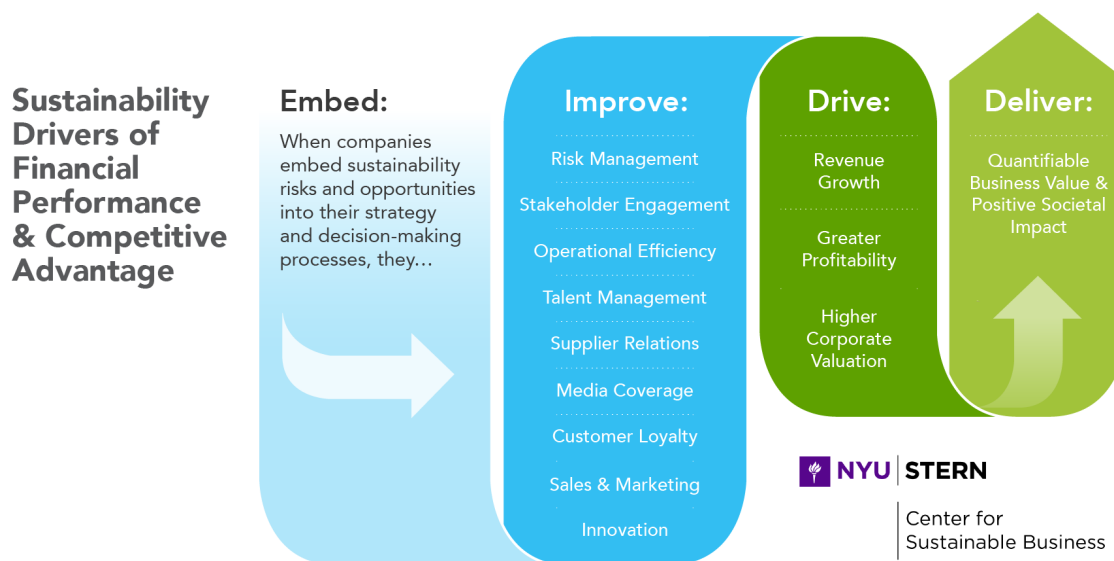
For example, [IKEA is working with 1,600 suppliers](#) to convert them to 100% renewable energy, thereby reducing IKEA's scope 3 carbon emissions. Bel Brands USA and Land O'Lakes, two companies in the agribusiness and food-industry value chain, have

[partnered to pilot a sustainable agriculture program](#) that’s designed to enable the adoption of more sustainable farming methods in the dairy industry, promoting soil health and reducing greenhouse-gas emissions. The partnership leverages Land O’Lakes’ Truterra™ Insights Engine to track crop-system changes on participating dairy farms, providing data and actionable insights, including economic implications. The pilot has since been expanded to five more Land O’Lakes-member dairy farms, with plans to expand into other parts of the value chain—a nondairy cooperative that produces feed for cows.

Step 8: Understand and Track Your Return on Sustainability Assessment (ROSI)

Assessing the business case for any investments that may be needed to implement or maintain, sustainable business initiatives, and incorporating that investment into the capital allocation process will be critical for success. Our Return on Sustainability Investment (ROSI™) framework has been used by companies as a decision-making tool to unlock investment in sustainability initiatives. ROSI can also be employed during Step 6, to assess the financial viability of various solutions.

Figure 8: Sustainability Drivers of Financial Performance & Competitive Advantage - ROSI Framework



ROSI is built on the premise that embedding sustainability at the core of business strategy unlocks improvements through a number of mediating factors: improved risk management, stakeholder engagement, operational efficiency, talent management, supplier relations, media coverage, customer loyalty, sales and marketing, and innovation. These improvements result in revenue growth, greater profitability, and higher corporate valuation, ultimately generating an increase in business value and positive societal impact.

The ROSI methodology can be applied to past sustainability initiatives, to determine financial outcomes, as well as to proposed sustainability initiatives, to assess different scenarios. Typically, it is applied to the specific practices a company has implemented to address a sustainability strategy such as waste management. An auto company may decide to reuse old auto components, for example, in order to reduce waste. By applying ROSI, you can find operational efficiencies (eliminating the cost of new parts or waste disposal), marketing benefits (conscious consumers), free media coverage, and supplier-relations benefits (greater resiliency due to less dependence on global supply chains). Once you have identified the potential benefits, you can develop the approaches to monetizing the actual financial returns. (ROSI tools are available free of charge [here](#)).

ROSI is best deployed with input from a multi-functional team, including key input from the finance and accounting function. Some of the value that is recognized via ROSI includes avoided costs, which are not typically recognized in traditional accounting but are a key component of decision-making processes and the monetization of benefits.

EILEEN FISHER is an example of a company that has used ROSI. Although air cargo allows companies to increase speed to market, it is also the most expensive transport mode by average unit cost, and has the highest emissions. In an effort to reduce greenhouse-gas emissions and transportation costs, [EILEEN FISHER moved away from air cargo](#) from 2015 to 2019, shifting to sea and trucking transportation modes instead. As a result, the company reduced its transportation costs by ~\$1.6 million over that same period. In 2020, COVID-19 caused a surge in air-transport prices, leading to 186% higher transport costs per unit, which led to even greater savings. In addition, EILEEN FISHER was able to achieve a cumulative societal benefit of ~\$150,000 (the social cost of carbon) during this time period. This example shows the importance of looking more broadly at tangible and intangible benefits when assessing the returns on sustainability investment.

In a forward-looking example, [Canada Power](#) was assessing the financial impact of whether to leave the coal market earlier than required by the government. After undertaking a conventional financial analysis, they used ROSI to assess additional factors—such as employee retention and productivity as well as the cost of capital—and determined that with those additional costs, it indeed made sense to exit coal as soon as possible.

Section II: Create a Culture of Sustainability

To be successful in implementing your sustainability strategy, you will need to ensure that your company's culture embraces sustainability. Corporate culture is shaped by a clear vision, mission, purpose, and shared values, including a strong ethical base that's supported by employee policies and practices that mirror and reinforce these values and shape how your employees work, make decisions, and treat one another. To embed

sustainability, these cultural factors need to incorporate a sustainability lens. Sustainability-related KPIs are not sufficient to develop a culture of sustainability; creating a culture requires careful thought, planning, and communication. In this section, we examine four elements that shape culture: vision, purpose, values, and ethics. In addition, we discuss the treatment and engagement of employees, as they are the ones who will support or reject the corporate culture. Finally, we take a look at change management—how can a company transform a less sustainable corporate culture?

Step 1: Develop the Components of Corporate Culture

Vision and Mission

A company's vision is its aspirational ideal—what you aim to achieve in the world over the long term, which is typically articulated as a 10–15-year goal. As part of your culture update, you will want to ensure that sustainability is embedded in that vision. McCormick & Company, a global flavor company, articulates its vision as “A World United by Flavor—where healthy, sustainable and delicious go hand in hand.” This vision underscores the company's goal of achieving harmony across the three elements. Tesla's vision is “to create the most compelling car company of the 21st century by driving the world's transition to electric vehicles.” Companies should examine whether their vision evokes a sustainable future or is solely focused on shareholder returns. A vision statement that reads like this one is not likely to motivate anyone: “Maximize shareholder returns by delighting customers or creating the best widgets or...”

The mission is the roadmap for how the company aims to achieve its vision. For example, Unilever's vision for its home-care business is “Clean Home. Clean Planet. Clean Future.” Its mission is “We're reimagining the future of cleaning and it starts with reinventing a century-old history of chemistry.”

Purpose

A company's purpose can be confused with its vision, mission, or values. That's because a purpose is supported by all three and acts as a strong motivator for employee engagement. This Forbes article provides a useful framework for thinking about purpose. The author writes, “In my experience, an organization's purpose is best found by asking, as a company, why you are doing the work you are doing. What great problem are you solving, or what movement are you championing? If you don't do it, what are the consequences? Who loses?”

Unilever's purpose is to “make sustainable living commonplace.” That purpose creates a rallying cry for its employees. A company looking to embed sustainability should align its purpose with the sustainable future that it seeks to create. These statements guide how decisions are made, and inconsistencies will lead to confusion, and even mistrust, among employees. In 2018, Patagonia changed its mission from “Build the best product,

cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis” to the clearer and crisper purpose-driven mission “Patagonia is in business to save our home planet.”

Values

Values, also called principles, should be the bedrock upon which a company achieves its mission and expresses its purpose. More than 80% of large American corporations publish their official corporate values on their website, but these values do not always manifest in the company’s behavior. Wells Fargo is a case in point. Prior to the scandal that involved more than 5,000 Wells Fargo employees who were caught building two million fake accounts for customers in order to meet sales quotas, the company published a robust vision and values centered on serving the customer, teamwork, and ethics. The company stated: “Our values should guide every conversation, decision, and interaction. Our values should anchor every product and service we provide and every channel we operate. If we can’t link what we do to one of our values, we should ask ourselves why we’re doing it. It’s that simple.” Clearly it was not that simple...

Values, when well-embedded, govern how employees should work and what to prioritize. Review your company’s existing values and determine if these create an environment where employees are encouraged to prioritize sustainability goals as well as financial goals, for example. McCormick’s values include: “Driven to Innovate,” “Passion for Flavor,” and “Purpose-led Performance.” Defining values that set expectations for employees will help them meet corporate goals in a values-driven way, and will also help in recruiting new employees who share these values.

Some companies go a step beyond communicating values to translating them into more specific practices or behaviors that ensure clarity of expectations within the company. Being clear about practices and behaviors creates the conditions and mindset for sustainability implementation. If two values are teamwork and innovation, for example, a company can be explicit about expectations, such as “innovation is our individual and collective responsibility,” which informs employees that they can and should be innovative within their teams and in their individual work.

Ethics

Ethics in the workplace cover the written and unwritten moral codes that set expectations for employee conduct as it relates to the treatment of each other, business decisions, and interactions with stakeholders. The existence of rigorous policies and training on topics such as conflict of interest and workplace harassment are important, but the company should also promote and enforce these policies. Setting a tone of zero tolerance for unethical behavior from the top of the organization sends a clear message. Many corporate scandals ensue from leadership that stresses financial returns to the exclusion of all else, despite stated values and mission. As its employees were opening unauthorized accounts for existing customers to meet sales targets, Wells Fargo’s statement on ethics said: “Our ethics are the sum of all the decisions each of us makes

statement on ethics said: “Our ethics are the sum of all the decisions each of us makes every day. If you want to find out how strong a company’s ethics are, don’t listen to what its people say. Watch what they do. This is even more important in our industry because everything we do is built on trust.”

As a sustainability practitioner, you may not be responsible for defining, promoting, or enforcing your company’s ethical code, but a sustainable business is an ethical business, and vice versa. Your role may be to highlight how internal ethics affect trust and credibility with stakeholders as well as the ability to build relationships to further sustainability goals. In addition, much unsustainable behavior is also unethical. In one example, Carnival Corporation and its subsidiary Princess Cruises were fined \$20 million by the U.S. Department of Justice for violating probationary terms that had been set after their earlier dumping of oil-contaminated waste, as they continued to dump plastic and other waste overboard. This was inconsistent with Carnival’s values statement which read, “...we work in an environment where safety, hospitality, teamwork, and respect for the environment and each other are essential.”

Step 2: Address Employee Relations and Diversity, Equity, and Inclusion

Employee Satisfaction

Bringing the right employees on board, retaining them, and incentivizing them to support and deliver on the company’s goals will be critical to a company’s success in all areas, including sustainability. Fortunately, a growing number of employees value working for a company that has a commitment to sustainability. A 2019 study by Fast Company showed that of the 1,000 employees of large U.S. companies that were surveyed, more than 70% said that they were more likely to choose to work for a company with a strong environmental agenda. Employees are also thinking about the social aspects of sustainability, such as DEI, and how these relate to their jobs and work environments. As such, it is important to design and implement employee policies that reflect a company’s commitment to internal and external stakeholders.

This is another area where a sustainability practitioner is unlikely to have direct oversight, as these matters are generally managed by Human Resources, but you can highlight the importance of employee engagement and satisfaction in helping a company become truly sustainable. You can also work with Human Resources to collect data on employee sentiments about sustainability and how these translate to employee engagement.

Employee pay and benefits, workplace conditions (e.g., remote work, health, and safety), career development, and employee policies are fundamental to a company’s reputation and the retention and engagement of its workforce. Too often, corporate leadership looks to reduce investment in its workers in order to deliver greater returns to shareholders. Instead, it will be critical to ensure that the company is living out its mission and values for its employees, and is tracking and understanding how employee needs may evolve.

Diversity, Equity, and Inclusion (DEI)

DEI makes its way onto many materiality matrices. It is called out separately here due to its importance to employees. According to BCG, 76% of employees are looking for a diverse workforce environment. Studies by McKinsey & Company and others demonstrate that a diverse workforce improves productivity and performance. Diversity should be sought at all levels in the company and should reflect the broader population. For example, if women make up 50% of the population, the company's leadership should be 50% women. If an underrepresented group makes up 15% of the population, in most cases it should be represented as such across the company. While DEI typically falls under Human Resources, it is detailed here because DEI has a strong connection to embedding sustainability and is often highlighted as a stand-alone category, as seen in Target's CRR Report. The following are a few of the steps and questions you can consider regarding your company's DEI approach:

1. Start by determining what to measure. DEI needs will differ by country and region, so what you measure, in terms of representation of underrepresented groups, will differ. It is important to look not just at Board composition and management, but at all levels of the broader workforce. Many companies have a diverse workforce at the lower levels but that diversity does not continue up the ranks. Beyond aiming for a percentage of underrepresented groups that reflects the broader population, you should also measure inclusion. Microsoft measures an Inclusion Index, which the company defines as a measure of employee sentiment on transparency, belonging, authenticity, team culture, and a belief in Microsoft's commitment to diversity. Determine how you will measure and how frequently; typically, this will be through HR data and annual surveys, though there are companies that use more frequent sampling. Microsoft's Inclusion Index is measured annually through an employee engagement survey. Reporting DEI results publicly will hold your company accountable for meeting its goals.
2. Map your entire DEI chain, assessing strengths and weaknesses.
 - a) Start with the pipeline. Where are you finding talent? Are you reaching out to sources of diverse talent?
 - b) Next, look at recruitment. Do you have barriers to diverse talent in the form of algorithms, biased reviewers, onerous requirements, etc.?
 - c) Once you have diverse talent on board, how are you treating them? Do they feel included, supported, part of the team?
 - d) What about career advancement? Are women and people of color advancing at the same rate as white males? If not, why not?
 - e) What about pay equity? Have you assessed pay across positions and addressed any inequities?
 - f) Are you retaining your diverse talent? If not, why not? What do you need to change to do so? Are parents supported with child care and flexible schedules, for example? Salesforce has a very comprehensive

approach to DEI and has made considerable progress (though the company will tell you that it is at the beginning of its journey; the Chief Equality Officer's [annual report](#) is worth reviewing for ideas.

3. Other important questions to analyze cross-functionally: Are managers and executives incentivized to ensure that they are supporting and advancing a diverse talent pool? Is the Board providing oversight and accountability? Do diverse employees see people like themselves in the company's choice of speakers and other visible representatives? Is the company sourcing from diverse suppliers and vendors? This last question, which refers more to procurement/sustainable sourcing, may be handled by its own manager and team, but there is a connection to overall sustainability.

Step 3: Assess and Manage Culture Change

As is the case with any change-management process, a pivot to embedded sustainability requires understanding the status quo, and what will need to change to further incorporate sustainability within a company's culture. For companies that have been in business for decades but are still relative newcomers to sustainability, a change-management strategy may need to be developed to embed sustainability within the culture of that organization. For a large corporation, this may include engaging a consultant to work with Human Resources and leadership to develop a change-management strategy.

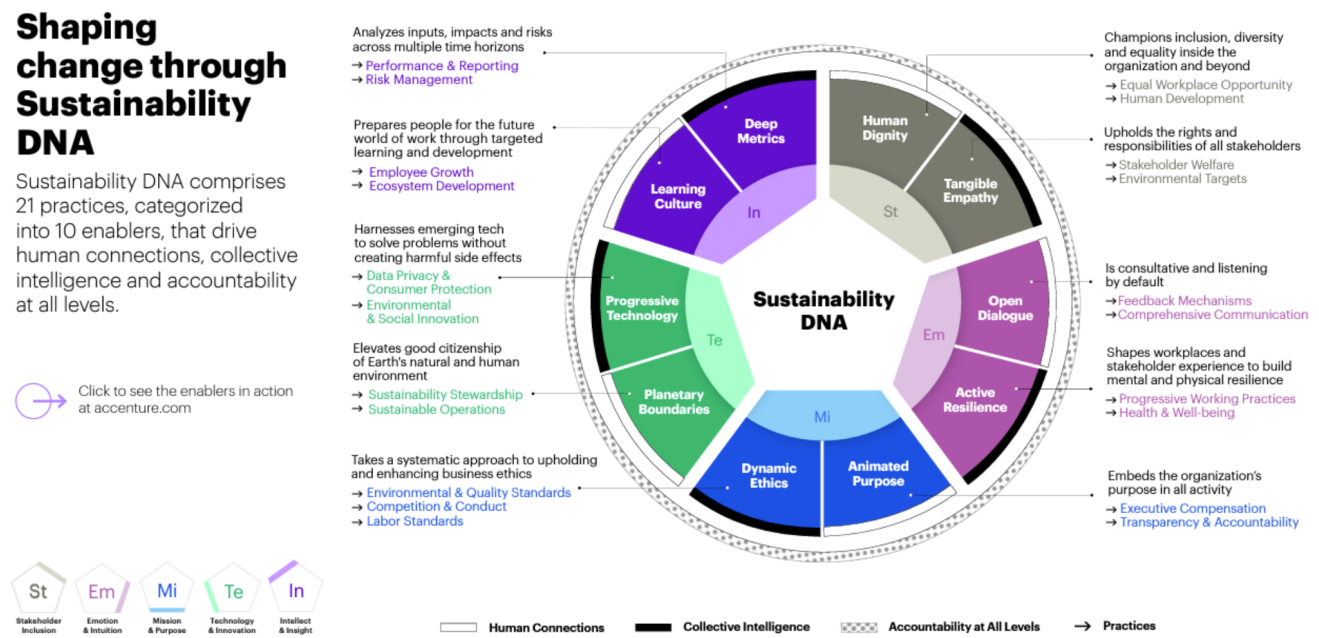
In addition to communicating with and engaging employees on the changes, it is also important to understand their work processes and how they are evaluated in light of the company's commitment to sustainability. These steps should be rolled out as part of the change-management strategy. For example, an employee working in strategic sourcing may not buy into the culture change if they are still being rewarded only for low-cost and on-time delivery. They should also be rewarded for meeting greenhouse-gas reduction targets. How about employees whose roles generate waste but who are not consulted about how they might reduce it? Align the things you say and promote with the way that you ask your employees to work.

To promote a culture of sustainability, employees must be engaged and treated in ways that align with sustainability. Understanding what employees are thinking and feeling about the current culture is an important step, and a well-designed survey is a great tool for achieving this. Trane Technologies defined its sustainability goals in 2020 and took the opportunity to revitalize and refocus its culture. It recognized that it would need to engage deeply with its employees to implement its new strategies effectively. The company developed a survey to regularly assess how employees feel about workplace topics—including ethics, manager support, inclusion, career development, and work-life

balance—as a way of collecting information to obtain guidance on needed improvements. It also designed an [Employee Value Proposition \(EVP\)](#) to further connect employees to the company's purpose, strategies, and leadership principles.

Accenture has published a [report](#) in collaboration with the World Economic Forum that looks at how to bring sustainable DNA into your company. As seen in Figure 9, they identify 21 practices and 10 enablers (e.g., learning culture, planetary boundaries) that can help a company with its sustainability transformation.

Figure 9. World Economic Forum and Accenture - Shaping Change Through Sustainability DNA



Employee Training

Creating a culture of sustainability requires that employees have a toolkit that enables them to design and implement sustainability initiatives. Hiring talent with appropriate sustainability skills is one way to increase the knowledge of your employee and management base. But if you wish to gear up quickly and change your culture at scale, it will also be important to provide training opportunities for existing employees.

Employees typically need training in three categories: industry-specific ESG issues, systems thinking, and stakeholder management.

a. Understanding Industry-Specific ESG Issues

Traditional on-the-job training for employees rarely includes an orientation to the material ESG issues that affect the sector, e.g., climate change impacts on real estate. It is critical that all employees be made aware of the material ESG issues for their sector, receive some training in those issues, and understand their relevance to the business. In addition,

leadership should fully understand the potential impact of ESG-related future risks (e.g., regulation, extreme weather, employee turnover) in order to develop effective strategies. Organizations such as SASB and GRI offer training in ESG materiality that's related to their reporting standards. Companies can also bring in external trainers or develop in-house training capacity. KPMG, for example, is working with Cambridge University and New York University to train its employees in ESG. The depth of knowledge needed will differ by employee, but without a basic understanding of material ESG issues, they will lack the grounding to develop effective strategies and implementation processes.

b. Systems Thinking

Teaching sustainability teams and the employees with whom they work how to think about systems helps them understand the interconnectedness of embedded sustainability work. Systems mapping, and understanding how dependent the whole system is on the functioning of individual components, identifies dependencies and opportunities, and aids with relationship-building. Developing circular-economy strategies (where waste is designed out of the system) requires systems thinking. The Ellen MacArthur Foundation's "[butterfly diagram](#)," which visualizes the circular economy diagram, demonstrates how systems thinking can provide new business insights.

Using a circular approach, a coffee supply chain can turn its waste into products. The coffee we drink comes from coffee cherries. When these cherries are harvested, dried, and de-husked through a dry or "natural" process, the dried husks that are removed can be converted to fertilizer or to biomass for energy, made into paper, or used to make a beverage called cascara. After the roasted coffee is brewed and consumed, the used coffee grounds can be [utilized to grow mushrooms](#) or made into soap. Another example is upcycling waste to create new products, such as the litter picker developed by UK company [Waterhaul](#), made with recycled facemasks that it sources from the country's National Health Service.

c. Stakeholder Management

As discussed in the previous section, successfully tackling sustainability issues requires the engagement of a significant number of stakeholders, some of whom have agendas that compete or differ from the company and each other. Training in mapping these stakeholders, managing them, problem-solving and negotiating win-win solutions will help ensure that sustainability professionals and their business unit counterparts can effectively manage this key success area. Nespresso has long focused on building engagement with its myriad stakeholders to improve the

sustainability of coffee production and consumption—working with farmers, NGOs, academics, governments, and others, often with the help of a Sustainability Advisory Board composed of key stakeholders. Its employees regularly engage with the Advisory Board and other key stakeholders, initially through a process Nespresso termed “EcoCollaboration.” Business for Socially Responsibility (BSR) has developed a useful guide to stakeholder mapping and engagement.

Training can be provided by universities, consultants, industry associations, or NGOs. Depending on the skill level of the company’s sustainability team, you may be able to provide training to other parts of the organization, elevating the profile of the sustainability function and building relationships in the process. For example, the sustainability team at Hero Group provides sustainability training for its employees as well as for the global procurement team, on topics that include responsible procurement, sustainability risk assessments, and the measurement, reduction, and reporting of scope 3 greenhouse-gas emissions. These trainings are delivered to teams from different countries, bringing together procurement functions to get teams from various locations on the same page, while allowing opportunities to explore country-specific nuances. Hero Group also partners on training; for example, in the U.S., the company worked with the Rochester Institute of Technology (RIT) to devise a reduce-reuse-rethink/redesign strategy that led to the formation of a Green Team, composed of employees and management, to drive change. Companies may also bring in external speakers and/or faculty to train their Board of Directors, management teams, or individual product teams or business units for specific initiatives.

Some firms create sustainability “ambassadors” within their companies to assist with culture change. Unilever has an employee ambassador program, for example; 76% of its employees state that they are actively engaged with the company’s sustainability efforts and half of its new employees cite Unilever’s sustainability commitments as the reason they joined the company. Another example is Henkel, a German multinational chemical and consumer goods company, which has a sustainability ambassador training program that encourages employees to contribute to sustainable development in their daily business lives and as members of society. Their sales representatives are also provided with training in sustainability which they use to bring in new clients or to make existing relationships more “sticky.”

Section III Governance and Organizational Structure

There are a variety of governance issues to tackle if a company is to embed sustainability effectively. Unfortunately, due to the diversity of the corporate sector, there is no one-size-fits-all approach, but there are a set of topics to explore:

- Board governance
- Leadership, management and accountability
- Structure of the sustainability function
- Organization-wide KPIs and work plans
- Capital allocation

Board Governance

In 2018, NYU Stern CSB analyzed the [individual ESG credentials of 1,188 Fortune-100 Board Directors](#), based on regulatory filings and company bios (assuming credentials deemed important by the company would be included), and found that less than one-third (29%) had relevant ESG expertise listed, with only 6% mentioning environmental credentials and the same percentage listing governance credentials. In a world where climate change is directly impacting many industries, only three Board members had climate credentials. PwC's 2022 [Annual Corporate Directors Survey found that](#) only 27% of companies surveyed felt their Board members understood ESG risks very well.

On the other hand, analysts are increasingly asking ESG questions during quarterly calls, investors are concerned about climate risk, among other topics, and ESG proxy resolutions are growing in number and success. Exxon Mobil Board members were ousted by shareholders and replaced by individuals who had energy and climate expertise. Finally, regulators in Europe and the U.S. are promulgating ESG requirements and reporting, and scrutinizing corporate claims.

While they vary according to industry, sustainability issues are increasingly material to business risk and opportunity, and an area for which Board oversight will be scrutinized. The Board should have some members with expertise in the company's material ESG issues. Questions to ask relating to sustainability and your Board include: Board background and familiarity with material ESG topics; which topics will be brought to the Board by company leadership; which Board committees tackle which ESG-related content; and whether or not the Board should have a full-time sustainability/ESG committee.

Board Expertise

If a survey of the Board uncovers a lack of sustainability expertise, you can provide Board-wide training as well as recruiting a few Board members with relevant expertise. [NACD, Competent Boards](#), and other organizations (including NYU Stern CSB) offer ESG training programs for Boards of Directors. In addition to Board training for all, it would be helpful to recruit a few Board members who have sustainability expertise—such as Chief Sustainability Officers, ESG investors, and heads of relevant major NGOs—to

provide direct expertise from people who will know the right questions to ask. For transformative material issues, such as addressing climate change or DEI, you may wish to recruit Board members with specific expertise. As Boards improve their diversity, they are moving away from a focus on former CEOs, which also creates an opportunity to recruit Board members with ESG/sustainability expertise.

Board Committees

There are differing approaches to the placement of sustainability within Board-committee structure. Many claim the topic is covered by the whole Board, which in practice may mean that it is not covered. In reality, most Board committees should include relevant aspects of sustainability. The nominating committee can tackle Board expertise and credentials. The audit committee should review ESG risks, reporting, and disclosure. The compensation committee should include ESG metrics (increasingly 20% of compensation is tied to them). However, because sustainability is truly material to overall company strategy and performance, and because significant change management and capital allocation may be needed, a Board-level sustainability/ESG committee may also be warranted.

In its publication [Focus 15: Sustainability Committees Structure and Practices](#), the IFC shows how to use a Board sustainability committee as a mechanism for managing and governing sustainability within a corporation. The sustainability committee should be made up of independent Directors with ESG experience or training. The committee's key roles can include: 1) reviewing proposed company sustainability strategy and policies, 2) reviewing progress against sustainability KPIs, and 3) oversight of sustainability reporting. Some companies choose to have a cross-functional management-level sustainability committee instead of or in addition to a Board-level committee. These management committees can be important for operational oversight, but additional oversight from a Board sub-committee or the overall Board is still critical for embedding sustainability.

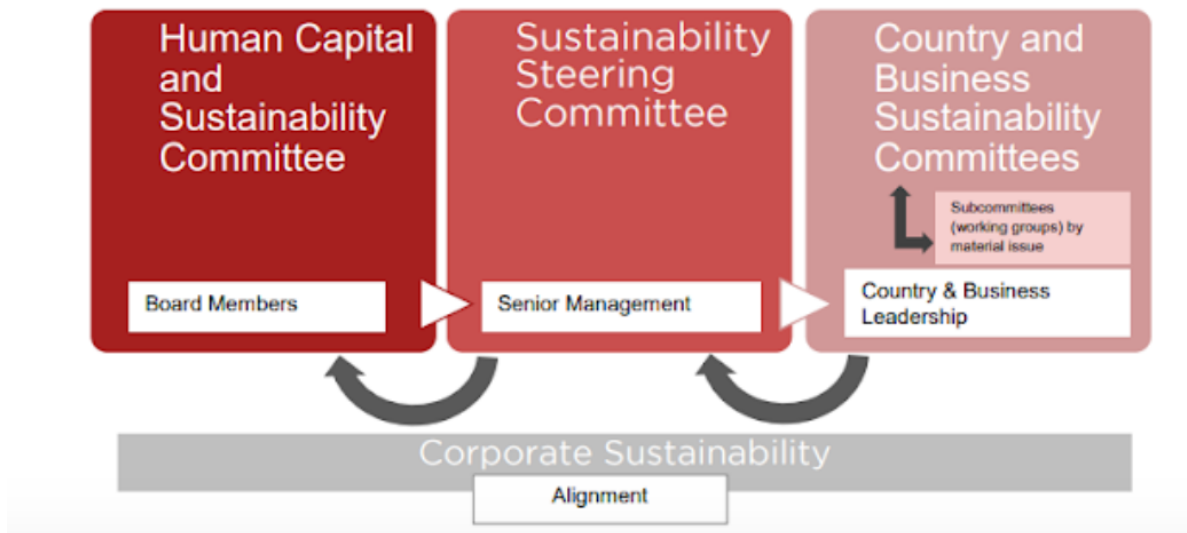
[Arca Continental](#)—a Mexican multinational company that produces, distributes, and markets beverages under The Coca-Cola Company brand as well as other brands of snacks and dairy products—has both Board- and managerial-level sustainability committees. Arca Continental developed a Board-level sustainability committee to focus on the strategic importance, visibility, and shared ownership of sustainability. The committee has oversight of sustainability and Human Resources. The Corporate Sustainability Team includes the Human Capital and Sustainability Committee of the Board of Directors; a Sustainability Management Committee representing the Executive Management Team; and Country-Specific Sustainability Committees. This structure ensures that sustainability issues are deliberated and discussed at high levels within the company, and across countries and business units, and that these decisions are operationalized. It also creates a platform for sharing best practices and achieving alignment on sustainability issues across countries.

Figure 10: Arca Continental's Governance Structure

Figure I: Arca Continental's Governance Illustration.



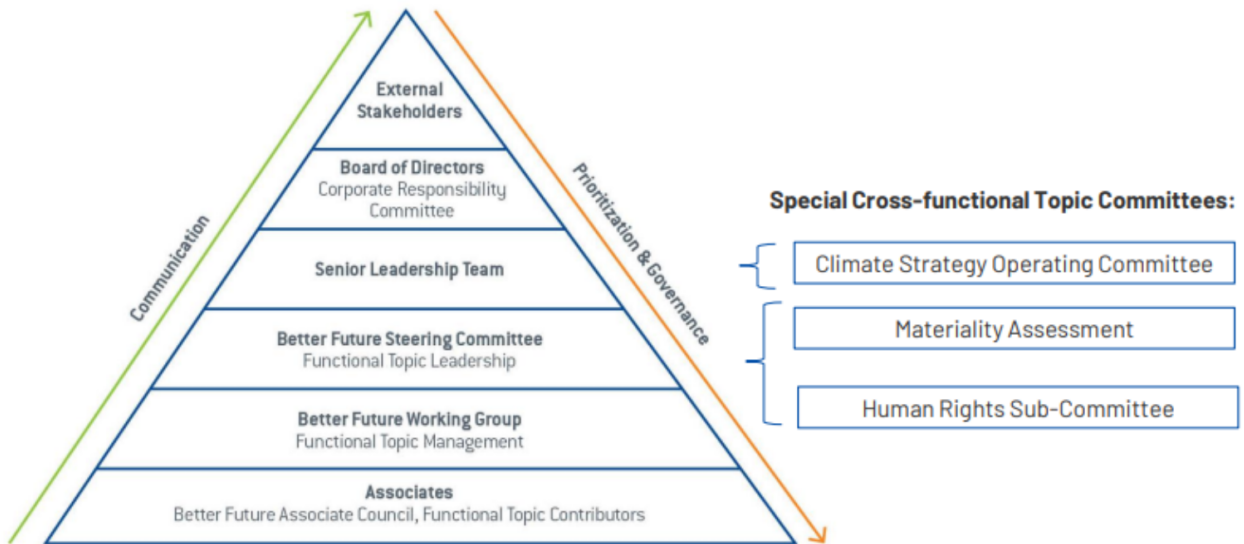
Figure II: Arca Continental's Sustainability Committees Illustration.



In 2018, Goodyear launched Better Future, a sustainability framework that promotes communication and awareness, and drives alignment with its corporate strategy and stakeholder priorities. Incorporating sustainable sourcing, responsible operations, advanced mobility, and inspiring culture, Better Future integrates responsibility among all levels of the organization. From a governance perspective, Better Future drives communication on sustainability topics to the top of the organization for prioritization and decision-making that flow through to other parts of the organization. The Special Cross-functional Topic Committees address climate strategy, materiality, and human rights. As seen earlier, this structure promotes transparency, and alignment with business and stakeholder priorities.

Figure 11: Goodyear's Better Future Governance Structure

BETTER FUTURE GOVERNANCE STRUCTURE



Leadership, Management, and Accountability

Sustainability and the C-suite

C-suite leadership will be critical to the success of your embedded sustainability efforts. The CEO needs to see this as a priority, but so does the CFO, CMO, HR Officer, Legal Counsel, and others. There should be a Chief Sustainability Officer as well (more on that position later). Cross-divisional C-suite engagement supports the organizational transformation as you build sustainability into the business strategy, the enterprise risk-management system, the organizational goals, the hiring priorities, and decision-making on capital allocation. Without it, even motivated employees will feel as though they are pushing a boulder uphill.

Phil Knight’s commitment to embedded sustainability at Nike—as demonstrated through his personal engagement in hiring, setting goals, and prioritizing investments—has been highlighted in a [HBS business case](#) as one of the main ingredients for Nike’s successful pivot to a radical redesign of the environmental processes associated with shoe production. Indra Nooyi (PepsiCo), Paul Polman (Unilever), and Yvon Chouinard (Patagonia) are examples of former CEOs who led their companies well on their way to being sustainable, and succeeding CEOs have followed their path.

Sometimes, sustainability has been made the purview of the Chief Communications Officer because the strategies are often developed in reaction to outside pressure or to attract new customers, and indeed it will be critical to have that function actively engaged. However, communications/marketing should not lead sustainability strategy

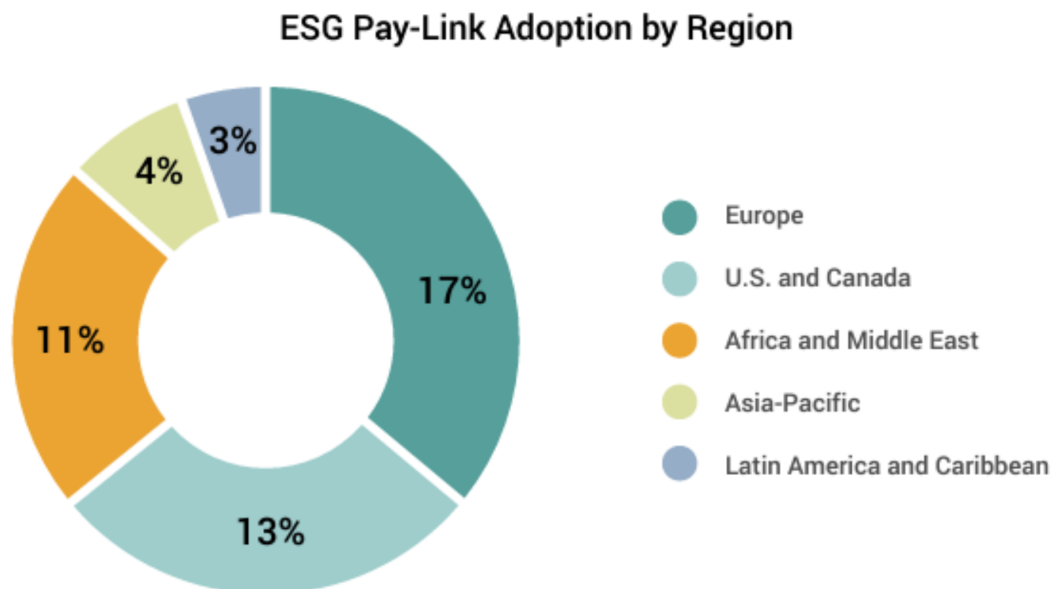
as the process needs real corporate transformation and investment behind it. Traditionally, CFOs have not been active on the topic, which often means that sustainability efforts get stuck when they need funding and lack scale. If the HR Officer is not involved, then sustainability training, employee engagement, and recruitment will likely suffer. Similarly, if procurement/supply chain leaders are not involved, then there will be a lot of pushback on changing requirements for suppliers because of concerns about pricing and bureaucratic inertia.

We will discuss the role of the Chief Sustainability Officer and the rest of the C-suite later in this section.

Executive Compensation

Organization-wide KPIs, Board oversight, and executive compensation that's tied to the ESG KPIs for each member of the C-suite and their direct reports will all be useful in aligning executive performance with the sustainability directive. A recent Sustainalytics [report](#) offering advice on ESG-linked executive compensation found that 13% of U.S. and Canadian businesses have linked ESG to compensation. Figure 12 shows the breakdown. According to Sustainalytics, three leading brands with ESG-linked payment systems are Apple, Mastercard, and Siemens. Apple, for example, announced in 2021 that 10% of cash incentives would be tied to meeting ESG metrics. Arca Continental has also tied a percentage of executive compensation to meeting sustainability goals. Arca Continental's senior management and managers from each of the manufacturing facilities the company operates work toward efficiency-related objectives that are linked to environmental indicators, and these individuals receive variable compensation that is tied to meeting these objectives.

Figure 12: Sustainalytics ESG Pay-Link by Region



Structure of the Sustainability Function

McKinsey & Company published a [report](#) that provides some interesting insights on how to structure the sustainability function, a few of which are summarized below:

1. CEO prioritization and visibility. Whether you have the sustainability function report directly to the CEO, or ensure visibility via Board-level or Executive-level sustainability committees that have regular opportunities for dialogue, CEO leadership and prioritization sends a strong message to employees and stakeholders that sustainability is a key consideration in all strategic decisions.
2. Company-wide alignment. The sustainability function aligns with the way the rest of the organization works. Sustainability professionals have to understand how the rest of the organization is structured, how decisions are made, and how work gets done within the organization, and should be aligned accordingly.
3. Authority across the board. The sustainability function has the authority to have cross-departmental and cross-functional reach. This authority needs to come from and be reinforced by executive leadership. Many, if not most, decisions on new products, new territories, capital investments, are made with cross-functional input.
4. Buy-in by the finance function. In some cases, though not typically, the sustainability function reports directly to the finance function.

Most importantly, the sustainability leader should be a CSO and part of the C-suite. Too often, companies create lower-level positions that report into communications or philanthropy and community relations. Sustainability is a core business function and needs to be treated accordingly. While it would be ideal for the CSO to report to the CEO, there may be compelling reasons to have the position report to the CFO or Procurement instead—if, for example, most of the company's sustainability issues are found there.

The CSO will have a wide range of responsibilities and will need to understand the organization well in order to identify sustainability risks and opportunities, and co-develop strategies that address them. The CSO will be working with strategy, enterprise risk, procurement and supply chain, marketing and brand managers, corporate communications, employee relations, and legal and investor relations, among other functions. While some of the CSO's work will be related to ESG reporting, that should not be the majority of it—as is all too common in many sustainability departments today. Reporting is the final step after sustainability has been embedded into company strategy, and may be better housed in finance as regulatory focus grows.

As we discussed earlier, the CSO runs the ESG materiality process and stakeholder outreach. They work with the C-suite to incorporate those findings into business strategy and organization-wide KPIs. They help develop an organization-wide process of employee engagement to execute and improve the strategy. They assist HR with needed ESG training programs. They provide business units with referrals for consultants, tools, and approaches that will help with implementation. They work with

risk, government affairs, and legal on regulatory issues. In sum, they and their team function as a center for sustainability excellence within the organization, lead cross-functional coordination, and serve as a resource to all and a key strategic asset.

There is a robust discussion about whether the CSO's office should become obsolete as after sustainability is embedded and becomes everyone's job. Our experience finds that the function will remain necessary much in the same way that communications remains necessary, even if it too is part of everyone's job. Every company will need a team to keep up on the latest strategies, tools, technologies, and trends as well as to support coordination and strategy across the organization. That said, the CSO should work with the rest of the C-suite to install robust sustainability leaders and structure in every division, rather than building a centralized sustainability empire. Depending on the size of the organization, each division may have a full-time sustainability leader, supported by people throughout the division who have some sustainability goals. Those division leaders should establish a cross-organizational committee that is supported by the CSO's office. It may be useful to create lower-level sustainability committees as well, as part of the cultural-transformation and ownership process.

Some organizations are creating a [Chief Impact Officer](#) role and/or a Chief Purpose Officer role. As these are two new titles, the definitions of what they do and how they differ from CSOs can be unclear. Chief Impact Officers focus on the external impact of the organization, with a goal of ensuring that it produces a net positive impact. This clearly relates to the work of the CSO as well as philanthropy, HR, and other divisions. Chief Purpose Officers are more internally focused—helping to embed the corporate purpose throughout the organization.

Organization-Wide KPIs and Work Plans

In a previous section of this guide, we discussed how best to define organization-wide ESG KPIs, but it is worth reiterating here that this will be a critical element of effective governance and one that the sustainability office can help support. Every individual in the company should be clear on how they contribute to the organization's top-line ESG KPIs through their workplans; receive the training, tools, and budget they need to be successful; and ultimately, be rated on their ESG performance annually.

Capital Allocation

One of the most common challenges that arises when executing sustainability strategies is a resistance to allocating the required investment. Often corporate commitments are set without understanding the budgetary implications. CFOs are juggling multiple demands for investment and tend to see sustainability as a lower priority—a defensive measure that costs money rather than one that saves money or brings in revenue. The methodologies for assessing compliance with internal hurdle rates often underestimate the benefits as they fail to include avoided cost coming from operational efficiencies or intangible benefits such as employee retention.

Earlier, we looked at ROSI as a tool for making the internal business case for sustainability. Many companies have standard requirements for the approval of capital investment projects. Success will require close work with the CFO along the lines described below:

1. Meet with finance to explain how you want to present and promote the financial analysis of sustainability initiatives, and agree on formats that are in line with decision-making for other types of projects; following existing processes will help with buy-in, as will consulting with finance to figure out formats.
2. Meet with a broader range of internal stakeholders to understand where data may live in the organization for the different types of initiatives that you are leading.
3. Standardize a ROSI approach to assessing the financial returns of sustainability initiatives as a means of shaping the way that internal and external stakeholders think about these projects and their value.
4. Ensure that Investor Relations, the executive committee, and the Board are all able to speak knowledgeably about sustainability initiatives—not just mastering the metrics, but also demonstrating a full understanding of the company’s long-term view on investing in sustainability.

Arca Continental, supported by ALO Advisors and using ROSI, conducted an analysis of the financial implications of “business as usual” for water risk and recycled plastics, two material sustainability issues. This served as a baseline of sorts for making the business case for early investment. It was important to the sustainability team to be able to present information in ways that executive leadership—and finance, in particular—were accustomed to seeing. They have identified additional opportunities for further standardization of these formats for sustainable investment, with the suggestion that finance and sustainability work together to ensure that the formats and processes can be used for a broader range of sustainability initiatives across operations.

Section IV: Communications and Reporting

In this section, we will look at corporate communications and reporting as well as marketing. Corporate communications include internal communications to employees as well as external messaging about sustainability that’s shared on the company’s website and social media, in press releases, in corporate speeches, etc. Corporate ESG reporting and disclosure include communications with investors, regulatory filings, and ESG reporting to customers, civil society, and international standards. Finally, corporations may also market their sustainability efforts to customers.

Employee Communications

To build a culture of sustainability and reap the benefits in the areas of employee recruitment, engagement, and retention, it’s critical to communicate your sustainability

agenda, challenges, and accomplishment to your employees. In addition, it will be important to create two-way communication to ensure that employee ideas and concerns regarding sustainability KPIs and initiatives are communicated up through the chain. Each organization has its own employee communications mechanisms, from virtual town-hall meetings to regular employee newsletters; you should ensure that the company's sustainability agenda is a highly visible part of those communications. As we discussed earlier, sustainability ambassadors may also be empowered to write about sustainability from their experience and perspective. Nespresso, for example, encourages its employees to send videos, blogs, etc. about their sustainability perspectives to their colleagues; employees who travel to coffee-producing countries send back videos of their visits to sustainable coffee farms.

Corporate Communications

Some companies are hesitant to talk about what they are doing in sustainability. They worry about accusations of greenwashing and the fact that not all of their products or services can be called sustainable. But credibly and transparently communicating about your company's sustainability accomplishments is an important part of embedding sustainability—unlocking the business value that will enable continued investment in sustainability practices, and ensuring that sustainability remains an ongoing priority.

Starting with your website, the company's sustainability focus should be easy to find on the main page. It should provide an overview of the organization's material ESG issues, how they have been built into the business strategy, the KPIs used to measure progress (and annual results), and interesting stories that bring the topics to life for the reader. Ideally, the sustainability theme is also woven throughout the site's description of the organization's purpose, products, and services, to demonstrate that it truly is embedded.

Typically, companies issue a sustainability report alongside an annual report. As with your website, it will be important to explain your material issues, strategy, goals, progress toward goals, and impact. Reporting is not done just for the sake of it; it's about accountability and improvement. If possible, integrate the sustainability results into the overall annual report, and ensure that the ESG reporting metrics are audited alongside the financial results. If the organization still needs to issue a separate sustainability report in order to ensure sufficient attention, that is acceptable.

Transparency is key. If the company missed its goals or faced the eruption of a sustainability issue, it is best to deal with these matters frankly and explain how you plan to tackle them moving forward. [Target's](#) corporate responsibility report provides an example of comprehensive and transparent reporting, including the company's failures.

A company's social-media presence should contain regular sustainability messaging—not just for campaigns, but as part of the overall profile of the organization. One mistake we see companies making is that they treat sustainability only as a campaign, with a barrage of messages around Earth Day, for example, but they do not include the theme on an on-going basis. That can lead to questions of authenticity. Over-claiming can also lead to problems—be very careful not to overstate the fact you are on a journey and still learning!

A GreenBiz [article](#) recommends that companies follow these five tips: localize your messaging (sustainability does not mean the same thing to everyone); seek certification (third-party standards will push you harder and validate your efforts); aim for transparency (this should be clear); visualize and humanize (sustainability topics make compelling storytelling); and communicate the concrete benefits of sustainability (expressing the product attributes in easy-to-understand terms, such as the amount of avoided plastic waste).

The decision to take positions on “political” issues—such as immigration, abortion, voting rights, or climate change—is a hot topic these days, with corporate leaders often attacked by one or both sides no matter what position they take. Taking no position, however, is sometimes seen as taking a position, so CEOs cannot always avoid the problem by keeping quiet. Generally, if an issue is material to the company, and part of the materiality matrix, you will already have begun to communicate on it via your sustainability or CSR reports. In that case, it may make sense for there to be a coordinated statement on emerging issues related to the topic. But your company's own behavior needs to align with that statement; if a company takes a position on Black Lives Matter, for example, it should be working toward a diversified employee pool at all levels in the organization, committing to supplier diversity, etc. [Corporate communications researchers](#) recommend that companies and leaders ask themselves three questions: 1) Does the issue align with your corporate mission and values? 2) Can you meaningfully influence the issue (relative to materiality issues in your company, for example)? 3) Will your constituents (e.g., employees, customers, community) agree with what you have to say?

Investor Communications

Investors are increasingly asking for reporting on ESG. For public companies, there are several venues for this reporting: the SEC 10K report, investor days, quarterly calls, annual reports, investor questionnaires, and personal engagement. How well a company manages its material ESG issues gives investors another view into the quality of management at the firm. The 10K report should identify material ESG risks (it is

critical to get this right, as the executive leadership will be held to account on these issues). The investor days and quarterly calls should include information about the financial impact of your sustainability initiatives. Once a year, provide investors with your overall embedded sustainability strategy and targets, together with the expected return on investment, and then report on your progress quarterly. NYU Stern CSB has researched ways to bring ESG information to investors, which you will find in this [article](#). For private markets, asset owners are increasingly asking private equity firms to demonstrate ESG management and impact as well.

In its 2019 report [Change the Conversation: Redefining How Companies Engage Investors on Sustainability](#), Ceres makes recommendations on how companies can satisfy investors' increasing need for sustainability information. The organization recommends being proactive and communicating sustainability investments to investors just as your company would for any other elements of the business. Your C-suite and Board of Directors should be as conversant as the Investor Relations department on issues of sustainability.

As discussed previously, ESG reporting should be done to one of the global standards and should map your management KPIs to the reporting standard's metrics. However, we also recommend reporting on your performance as well as specific innovations and impacts. Reporting should be audited to ensure credibility.

Supplier Communications

Supplier communications are critical to embedding sustainability in a company. The strategic sourcing/procurement function is the primary point of contact with suppliers. The sustainability team should work with them to define a supplier code of conduct that covers social, socioeconomic, and environmental requirements, some of which may come from the materiality matrix, and may differ based on regions (e.g., conflict minerals, commodities/regions with high historical incidence of child labor). The communications loop with suppliers should be:

- Communicate expectations (i.e., what suppliers are required to do) and how these requirements will be measured and monitored. Third-party verification is the most credible option.
- Define the carrots and sticks for performance—e.g., strong performance can put the supplier on a “preferred supplier list” while poor performance might result in remedial status
- Secure funds from your company to provide support and explore partnerships that may be closer to supplier locations. Communicate with suppliers on how this support can be accessed. Early engagement on supplier readiness can save a company and its suppliers lost revenue and line shutdowns versus addressing poor performance after it has occurred.

Communications with Customers and Consumers

Whether your company is B2B or B2C, you will need a marketing strategy that credibly communicates the sustainability (and other) attributes of your product or service. There is not a lot of good guidance on sustainability messaging, but there are a few dos and don'ts.

DO...

- communicate the product/service attributes with sustainability embedded in them; in other words, people want to know that the product will work well as a first-order issue, prior to focusing on sustainability.
- have fun with your sustainability messaging; there are many stories that can be developed with a people or planet message
- be credible in your claims; third-party certification can help, as can providing claim documentation on your website

DON'T...

- lecture
- employ guilt heavy-handedly
- overclaim
- oversimplify

[ISEAL's Sustainability Claims Good Practice Guide](#) defines sustainability claims as a message used to promote a product, process, business, or service that references one or more of the three pillars of sustainability—social, economic and/or environmental. These claims can be in the form of a logo, text, or a link to additional information.

B2B strategies will likely concentrate on how a product or service can help the client meet its own sustainability commitments as well as market them to its customers. It is critical that salespeople are comfortable with the sustainability attributes of the offering and able to communicate them to their clients. Domtar, a North American pulp and paper company, works closely with its clients, including retailers, to provide them with the [information](#) they need to communicate their sustainable sourcing efforts.

[The Hartman Group's Sustainability 2021: Environment and Society in Focus](#) states that two-thirds of consumers say they always/usually base their product choices on sustainability considerations, and over a quarter do so at least sometimes, representing a nearly 80% increase from 14 years ago.

NYU Stern CSB publishes an annual [Sustainable Market Share Index](#) based on 36 CPG product groups; in 2021, it reported that products marketed as sustainable grew 2.7x faster than products not marketed as sustainable, and achieved a 6-year CAGR of 7.3% compared to 2.8% for its conventional counterparts from 2018 to 2021. It also found that sustainability-marketed products enjoyed a sizable price premium of 29% in 2021 vs. their conventional counterparts, and that one out of every two new products sold in 2021 had one or more sustainability-marketed attributes.

On-pack claims need to be carefully and honestly crafted. [A class action lawsuit](#) has been filed alleging that ALDI's use of statement "Simple. Sustainable. Seafood." on packaged salmon products was misleading to consumers who might believe that the salmon were farmed in compliance with credible standards. Keurig was [successfully sued](#) over recyclability claims for its Green Mountain coffee pods, ultimately settling for \$10 million. The company was forced to add language that clearly communicates to consumers that the cups cannot be recycled in many communities. The Federal Trade Commission (FTC) publishes [green guides](#) to help companies stay within the lines and are a useful resource for corporations, even those operating outside of the U.S. Another resource is the use of third-party certifications based on standards developed through a multi-stakeholder process. The process of crafting on-pack claims also offers an opportunity for training, ensuring that communications teams are aware of lawsuits and other trends, and learn how to communicate credibly.

Communications with Government/Regulators

Many government agencies and regulators (with some exceptions) are encouraging companies to be more sustainable. Many are offering incentives for investing in and adopting more sustainable practices and technologies, ranging from subsidies to tax credits, and penalizing unsustainable behavior. In addition, some governments are unlocking their own purchasing power to require sustainable attributes.

Regulators are also focusing on false or misleading claims and are beginning to inspect and fine companies who overclaim, as discussed earlier.

To help tackle the challenges of scale and adoption, it's useful to engage with government and regulators—to understand their areas of concern and provide useful guidance on where businesses need help becoming more sustainable. This engagement can happen in coalition with other businesses through industry associations or organizations such as World Business Council for Sustainable Development.

Section V: Navigating Barriers

We've laid out the steps for embedding sustainability in your company. We do, however, recognize that you are likely to encounter many challenges in your journey. This section provides practical guidance on how to overcome some of the more common barriers.

I had difficulty making the business case for sustainability initiatives early enough to reap the full benefits, so it is hard to secure sufficient funding now because the business case is not as strong.

You can't change what has happened in the past, so focus instead on making the case going forward. The [ROSI Methodology](#) is a great tool for assessing and monetizing the tangible and intangible benefits of the initiative you are considering. First, outline the

practices you are proposing that are related to the initiatives that you want to implement—what will you actually be doing (e.g., investing in LED lighting)? Next, map out the tangible and intangible benefits of those practices. Some areas to look at are increased customer loyalty, operational efficiency, risk management (including addressing climate change and legislation), and sales and marketing. You can compare business as usual with the initiatives that you propose. For example, Arca Continental identified \$200 million of regulatory and reputational risk associated with continuing business as usual in plastic packaging into 2030. They can use this to assess scenarios with different interventions to make the business case for investment.

Our CEO is concerned about the perception that ESG is part of a “woke agenda” and that it is a fad. How do I convince them of the positive benefits that ESG can bring to our organization?

As we noted earlier in the guide, research supports the idea that strong ESG performance correlates with financial performance. In a NYU Stern CSB [2020 study](#) of 1,141 primary peer-reviewed papers and 27 meta-reviews (based on ~1,400 underlying studies) that were published between 2015 and 2020, the authors found that 58% of the studies identified a positive correlation between corporate sustainability and better financial performance (only 8% found a negative correlation), and 33% of the studies found a positive correlation between ESG investing and alpha—better performance than conventional (only 14% found a negative correlation).

ESG risk management is becoming an imperative: The National Center for Environmental Information created a billion-dollar [disaster and risk mapping tool](#) for the U.S. that shows the effects of climate change. According to [CSB’s Sustainable Market Share Index](#), consumers are paying a 29% premium on average for sustainability-marketed products. Many studies show that employees are interested in working for companies that are committed to sustainability; one of these studies, from the [IBM Institute for Business Value](#), shows that 71% of employees and employment seekers say that environmentally sustainable companies are more attractive employers. To dismiss these changes as fads puts companies at a significant competitive disadvantage.

Our employees know that sustainability is important, but they don’t have the knowledge they need to take action.

We have discussed setting KPIs, and training employees and management to help them be successful in meeting your company’s goals. Start by understanding the knowledge gaps and then figure out how to address them through training, tools, etc. In some cases, you may be able to conduct some of the training yourself. For more technical issues, you may need to bring in consultants, academics, or other practitioners. To raise the sustainability knowledge of the broader employee base, or that of senior management, you can work with academic institutions or others that provide executive-education courses. If there are budget constraints, you may be able to share the cost across departments or include it in the budget for the following year.

Some organizations such as SASB and GRI offer training in ESG materiality related to their reporting standards. Companies can bring in external trainers or develop in-house training capacity as well. For example, KPMG is working with Cambridge University and New York University to train its employees in ESG. There are in-person, virtual, and asynchronous course options, making it easier to choose the programs that best meet your needs.

We have conflicting KPIs across departments.

We often hear that sustainability KPIs conflict with procurement KPIs that are focused on cost, as discussed in this 2021 [McKinsey & Company study](#) of 20 Chief Procurement Officers from 20 large European companies; only 20% said their organizations used sustainability measures as the primary criteria in sourcing decisions or supplier reviews, and less than 10% said that sustainability was included in their category strategies. The sustainability function could build a team across business units to identify these conflicts and bring them to a Sustainability Committee at the Executive level for resolution.

Some historical measurements do not capture my current sustainability needs and have to be altered (e.g., we have consistently measured energy use but not the percentage that's from renewable sources).

Where historical data exists, go back and include it. Using the example of historical energy use, there may be data within the organization about sourcing renewable energy, but it is not easily available. It could also be calculated using a credible proxy, e.g., percentages that are collected from providers. Finally, if the data simply does not exist, start tracking it now to obtain a baseline. Transparency about the need to start tracking something new is much better than reporting incorrect data, particularly with increased scrutiny on calculation methodology and verifiable data.

There is a lot of information to help me set my environmental goals, but not as much on the social side. Where can I start?

NGO standard-setters may be able to help you explore and tackle the social challenges in your operations and supply chains as well as provide guidance for setting social KPIs. For smallholder agricultural supply chains, for example, [Fairtrade International](#) has standards that address social, socioeconomic, and environmental issues. For the apparel industry, the [Fair Labor Association](#) is a good resource. For DEI goals, the [Corporate Racial Equity Alliance](#) has a [2021 CEO Blueprint for Racial Equity](#) and is also developing [Corporate Performance Standards on Racial & Economic Equity: Developmental Approach and Methodology](#). Accenture has a methodology that it used to [set its ID&E goals](#) (its terminology). The UN Global Compact provides tools and resources aligned with the [UN Guiding Principles for Business and Human Rights](#) to aid in understanding issues that may need to be addressed within your supply chain.

I am having some difficulty in making the consumer argument. Marketing says that

there may be a higher COGS, uncertain price elasticity, and lack of customer pull. Is there information to support the argument that consumers want these products and will pay more for them?

NYU Stern CSB's [Sustainable Market Share Index](#) examined 36 CPG categories and found that sustainability-marketed products commanded a price premium of 29% over conventionally marketed products in 2021. The data also demonstrated lower price sensitivity among consumers for most sustainable product alternatives. In fact, one out of every two new CPG products sold in the US in 2021 had sustainability attributes. Using this data, along with the development of a business case that looks at the tangible and intangible benefits of the initiatives you are considering, can also help you make the argument. For example, are there legislative changes afoot that might require a change in the future? Is there a first-mover advantage? Will the new sustainable product help you attract new customers with a lower customer acquisition cost? These considerations can be modeled and presented as a business case. Finally, it is helpful to engage and talk with the consumers (with a focus on the demographic that's the most relevant to your company) to learn more about their sustainability interests and concerns.

We are concerned about setting aggressive public (or even internal) goals for fear of missing them. We want to go far enough, while also being realistic.

This is a great question to ask at a time when lawsuits are being filed against companies that do not meet publicly stated goals because these can be seen as false marketing claims. An example of this is the [lawsuit against TotalEnergies](#), France's largest energy company, accusing it of misleading consumers about its efforts to fight climate change, as well as not being on track to meet its goals. It is important for your goals to be meaningful and your progress (good and bad) to be transparent. Putting robust effort into determining your targets and action plans as well as the investment needs for meeting those targets will be key. Use processes like ROSI to make the business case for investing in those changes. You should also be sure to coordinate with your legal team. One final thought: many companies have seen that setting stretch goals enables them to progress further than they might have with more "achievable" goals. As long as you are transparent about what you have done to meet those goals, why you failed, and what you plan to do to address that failure, you are unlikely to face criticism.

I feel stuck in bureaucratic inertia.

Change can feel slow. Go through the steps that we have outlined and work your way through them. Some of the points are sequential while others can occur out of sequence. If you are waiting for a full change-management strategy, start the process yourself by offering to hold sustainability discussions at department meetings. This can help you identify internal sustainability champions in different departments to whom you can start asking the right questions and get the ball rolling. If you have already identified training needs, see if you can obtain approval for the departments and/or

individuals that need the training the most while you wait for the rest of the company to come along.

Do I have to do this alone?

Many companies are approaching certain sustainability topics from a pre-competitive advantage perspective and are partnering with NGOs, suppliers, governments, and others to tackle sustainability challenges together. Tom's of Maine, for example, developed the first recyclable toothpaste tube and promptly made the process available to the industry, free of charge. Chocolate brands established the World Cocoa Foundation so that they could work together to tackle social and environmental challenges on cocoa farms. Unilever worked with Walmart on a consumer-education campaign to inspire consumers to recycle more of their plastic packaging.

Conclusion

Embedding sustainability is a marathon, not a sprint. But the urgency of material ESG issues such as climate change means that companies need to embark on a transformation journey quickly and with adequate resources that are backed by sufficient corporate commitment. Every journey is different. But as laid out in this guide, there are a series of steps and a set of best practices that all can learn from and embrace. Partnering with other businesses through industry sustainability groups as well as attending sustainability conferences and engaging with civil society and academia will provide access to additional learning, tools, and collaborators. There is no need to go it alone.

In our experience, people working on corporate sustainability really enjoy what they do, despite the difficulty of managing a business-transformation process. They have the opportunity to learn about other parts of the company as well as an entirely new set of environmental and social issues. And most importantly, they have the opportunity to help make their company a better place to work and the planet a better place to live. Best of luck to you!

NYU Stern CSB Embedded Sustainability Self-Assessment (A Sustainability Maturity Model)

Embedded corporate sustainability is about a new mode of management and engagement, one that recognizes that profitability relies on sustainable, equitable approaches to workers, communities, and the environment. This approach focuses on creating value for shareholders and stakeholders. Sustainability is embedded when the proactive management of material ESG issues and a balanced approach to the needs of stakeholders (including shareholders) are completely and effectively integrated into a company's business strategy, with the goal of creating positive societal value as well as better financial returns.

This NYU Stern CSB [Embedded Sustainability Self-Assessment](#) complements the "Practitioners' Guide to Embedding Sustainability," providing practitioners with a framework to assess their company's sustainability approaches and practices within four areas: Corporate Strategy, Governance, Culture, and Communications. You will be asked to answer and score the questions, and then use the results to determine your total weighted score (out of 100%). The results will help you determine where you are on your journey, and the Practitioners' Guide will help you tackle areas of weakness and opportunity.

Scoring

Each section is scored separately, on its own scale (e.g., 0–3). The score builds upon itself, indicating that companies with higher scores have more advanced approaches and/or higher levels of integration of sustainability into business strategy and process.

[Access the self-assessment here to calculate your score.](#)

Weighting

Corporate Strategy: This section evaluates to what degree sustainability is integrated into core business operations. It has a higher weighting, as it is the backbone of embedding sustainability. 40%

Governance: This section evaluates the structural processes in place to promote and monitor sustainability integration across business functions. 30%

Culture: This section evaluates a company's beliefs, attitudes, and values at the core of its business operations and how these affect employee engagement. 15%

Communications and Reporting on Sustainability: This section evaluates how a company embodies its sustainability values across its communications channels. 15%

Section 1: Corporate Strategy (40% Weighting) (0-15 points)

Sustainability must be a core component of a company's corporate strategy if sustainability is to become embedded within the company. In some cases, the sustainability strategy and the corporate strategy are one and the same. The following questions explore the relationship between understanding key sustainability issues and addressing them sufficiently within the company's broader corporate strategy.

1. Materiality Assessment. Has the company conducted a materiality assessment to identify current and future environmental, social, and governance risks and opportunities material to the business? (0-3 points)

- a. 0 - No materiality assessment
- b. 1 - Just starting and/or in progress
- c. 2 - Completed and identified material ESG issues
- d. 3 - Completed and a process is also in place for biennial evaluation

2. Materiality Matrix. Has a materiality matrix been developed that effectively defines and develops strategies for addressing the material ESG issues identified in the company's materiality assessment (Question 1)? (0-3 points)

- a. 0 - No matrix
- b. 1 - Materiality without prioritization
- c. 2 - A matrix with effective prioritization and stakeholder support
- d. 3 - An effective matrix (as per c) with strategies developed for all topics

3. Stakeholders. Have stakeholders been mapped and prioritized, and is there an appropriate level of engagement with them? (0-3 points)

- a. 0 - No mapping
- b. 1 - Just starting and/or in progress
- c. 2 - Stakeholders have been identified, ranked, and contacted
- d. 3 - Response c has happened, plus there is also a process in place to engage with and communicate with stakeholders over the long term, including through the development of partnerships

4. Key Performance Indicators (KPIs). Are effective KPIs in place to measure sustainability performance and track improvements? (0-3 points)

- a. 0 - No KPIs
- b. 1 - Robust KPIs that are tied to the strategies identified in the matrix
- c. 2 - KPIs designed to effectively show measurable and meaningful performance improvements
- d. 3 - KPIs, as per response c, and also aligned or integrated with other conventional business KPIs

5. Measuring Returns. Investment in sustainability initiatives may not meet the typical requirements for other types of investments (e.g., payback periods). Does the company have a robust process for measuring return on sustainability investments that consider a more robust set of tangible and intangible benefits, and does it use this process for decision-making? The [Return on Sustainability Investment \(ROSI™\) Framework](#) is a model that can be used for this (0–3 points)

- a. 0 - No explicit tracking of returns on investments in sustainability
- b. 1 - Returns on sustainability investments are sometimes considered when deciding on investment in sustainability projects
- c. 2 - ROSI decision-making criteria is endorsed by the finance function and used consistently across business functions for sustainability investments
- d. 3 - All of the above, AND ROSI is used to track and report on metrics to the C-suite and Board

Section 2: Governance (30% Weighting) (0-16 points)

Along with a corporate strategy that includes sustainability within its development, it is essential to have a governance structure that supports the funding and implementation of sustainability initiatives. Key decision-makers should have the experience and organizational structure to support sustainability.

1. Board. How much sustainability experience exists on the Board? (0–3 points)

- a. 0 - There is little or no sustainability expertise on the Board
- b. 1 - Board expertise in one ESG pillar only
- c. 2 - Board expertise in all three pillars
- d. 3 - Board expertise in all three pillars, and the Board has oversight of progress on ESG KPIs and reporting

2. Executive Leadership. How competent and committed is Executive leadership on sustainability issues? (0–3 points)

- a. 0 - Executive leadership has no direct experience or competency in sustainability
- b. 1 - There is competency but no public or monitored commitment to sustainability
- c. 2 - There is competency, public commitments have been made, and cross-divisional engagement in sustainability implementation is supported
- d. 3 - All of the above occurs, and executive compensation is tied to KPIs that are related to ESG metrics

3. Organizational Structure. Is the sustainability function positioned for success within the organizational structure? (0–3 points)

- a. 0 - The organizational structure doesn't designate sustainability responsibility by department or by role within the company's operations
- b. Choose how many of the following characteristics are true for the company and score yourself either 1, 2, or 3 points accordingly: The characteristics are:
 - i. CSO/C-suite level position
 - ii. CSO has real authority as well as responsibility
 - iii. CSO coordinates sustainability across the organization, is active in setting business strategy, and operates sustainability as a center of excellence

4. Key Performance Indicators (KPIs). KPIs are essential for governance. They are even more credible, internally and externally, when progress is audited by a third party (0–4 points)

Response range is 0–4. For this question, use your score from “KPIs” under the Corporate Strategy category above (question 4) and add 1 point if your KPIs are audited by a third party.

5. Capital Allocation. If no process is in place to ensure that sustainability projects are funded, they can be deprioritized in favor of projects with a faster payback. Does the company have a capital-allocation process in place that incorporates sustainability? (0–3 points)

- a. 0 if the answer is none of these, and 1 point each for the existence of each of the following, up to a maximum score of 3:
 - i. CFO buy-in and engagement
 - ii. Full ROSI program
 - iii. Capital-allocation alignment with ESG commitments

Section 3: Culture (15%) (0–13 points)

Culture speaks to the way that companies actually work, the formal and informal processes and beliefs that define what is expected and prioritized. If sustainability is not part of the culture, companies are less likely to be effective in implementing sustainability or tapping into sustainability innovation.

- 1. Vision & Mission. Do the Vision and Mission address sustainability? (0–1 points)
 - a. 0 - Vision and Mission do not address sustainability, or conflict with sustainability
 - b. 1 - Vision and/or mission include sustainability
- 2. Purpose. Does the company's Purpose incorporate sustainability? (0–1 points)

- a. 0 - Purpose does not address sustainability, or conflicts with sustainability
- b. 1 - Purpose includes sustainability

3. Values. Do the company's Values align with sustainability? Values include value statements that the company communicates internally and externally to employees and stakeholders. (0-1 points)

- a. 0 - Values do not address sustainability, or conflict with sustainability
- b. 1 - Values include sustainability

4. Ethics. Does the company prioritize ethics, and does it act ethically? (0-2 points)

- a. 0 - Ethics violations at the company have been reported by the press within the past two fiscal years
- b. 1 - There is no code of ethics but no violations or legal actions have been reported
- c. 2 - A code of ethics exists, employees are trained on its content, and no violations or legal actions have been reported (Note: If violations have been reported, the score is 0, even if the company has a code of ethics.)

5. Employee Relations. Does the company prioritize understanding and address Employee Relations issues? (0-3 points)

- a. 0 - The company does not survey its employees to determine their job satisfaction
- b. 1 - The company conducts employee surveys on job satisfaction that cover topics such as pay, benefits, work/life balance, corporate purpose, and sustainability
- c. 2 - The company publishes survey results and actively addresses employee concerns
- d. 3 - The company does all of the above and documents improved performance on employee satisfaction annually

6. Diversity, Equity, Inclusion (DEI). Does the company prioritize and address DEI? (0 points if a, and add 1 point each for b, c, or d, for a maximum of 3 points)

- a. 0 - Company diversity, particularly at the manager level and above, is not in line with the demographics of the local population
- b. 1 - Pay equity has been assessed, and inequities addressed transparently
- c. 2 - Company and Board diversity is in line with the demographics of the local population
- d. 3 - Employees report positive assessment of inclusion practices through surveys or other methods

7. Sustainability Training. Does the company prioritize and address meaningful sustainability-training opportunities? (0–2 points)
- a. 0 - No sustainability training is provided
 - b. 1 - Sustainability training is provided broadly, but without customization for different roles or business functions
 - c. 2 - Sustainability training is based on employees' needs, as determined by employee surveys and job requirements

Section 4: Communications and Reporting on Sustainability (15% Weighting) (0–13 points)

Companies that have embedded sustainability communicate with internal and external stakeholders about plans, progress, and even the missing of targets. Transparency allows stakeholders to reward companies for actions taken and allows the companies to maximize the benefits of investing in sustainability.

1. Internal Communications. How well does the company communicate internally about sustainability topics?

- a. 0–3 with 1 point allocated for each of the three areas (0–3 points)
 - i. Comprehensive - Employees understand the full suite of sustainability strategies and actions underway/planned
 - ii. Two-way - Employees are given opportunities to weigh in and participate in sustainability initiatives
 - iii. Transparent and authentic – Company communicates successes and failures/learning opportunities against reported KPIs

2. External Communications. How well does the company communicate externally about sustainability topics? (0–4 points, with 1 point allocated for each of the areas noted, up to 4)

- a. Embedded (e.g., sustainability integrated into annual report)
- b. Credible (no overstating of actions or impact, and audited where appropriate)
- c. Accessible (understandable by a broad audience)
- d. Transparent and authentic (communicates successes and failures/learning opportunities against reported KPIs)

3. Investor Communications. How well does the company communicate to investors about sustainability topics? (0–3 points - 0 if the company does not communicate sustainability actions and progress in any of its investor calls and then 1 point for each of the 3 options below, up to 3)

- a. ESG in 10Ks
- b. ESG in quarterly calls
- c. ESG investor days

[Access the scoring sheet here to calculate your score.](#)

0–25 - Beginner. You are taking the right steps by accessing this guide! Every company has had to start somewhere. With this guide and the resource list assembled here, you will be able to take action.

26–50 - Explorer. Your company has clearly started to think about and implement sustainability initiatives and ESG, and it is poised to move forward by taking a more holistic approach. You may have opportunities in one or all of the four areas.

51–75 - Integrator. Your company has implemented multiple initiatives and has probably seen success in raising the profile of sustainability in many aspects of its work.

76–100 - Embedder. Your company has many initiatives that show that it has embedded sustainability in many or all of the four identified areas. Congratulations, but don't stop here! Keep learning and innovating because the sustainability landscape is constantly evolving.

Appendix

Standards

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[International Finance Reporting Standards Foundation \(IFRSF\), ifrs.org](https://ifrs.org)

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