INTEGRATING SOCIAL AND ENVIRONMENTAL SUSTAINABILITY

The business case for integrating agendas

FORUM FOR THE FUTURE

In Partnership with

idh
transforming markets

MARS
Tomorrow starts today

FOREWORD

Our planetary systems are in crisis. There is an urgent need for transformative action on environmental and social issues such as climate change, biodiversity loss, poverty and inequality. Yet there is a tendency towards meeting complex and fast-moving challenges by simplifying them and breaking them down into separate, smaller issues to tackle. Instead for long-lasting change, companies need an integrated and systemic approach that recognizes the interconnectivity of the challenges across environmental and social issues and is embedded within their working strategies.

This vision of integration requires robust exploration. IDH and Mars commissioned this research with Forum for the Future to inform our own approach and collaborative actions. We want to unlock opportunities by ensuring that environmental and social agendas are not dealt with in isolation, risking ineffectiveness and potentially bad business. This report builds the case for an integrated sustainability strategy that cuts across boundaries and realizes systemic environmental and social solutions.

By framing solutions that recognise and engage with the interconnected nature of the sustainability challenges that we face, we believe we can create transformative change. This is the action that we urgently need for the planet, for societies, and for our own businesses. We hope that trailblazing companies absorb the ideas within this report and set out on their own journeys of finding integrated solutions to the environmental and social issues that they identify. Those who do so will be contributing to a fundamental reorientation of the purpose of business to serve people, planet and prosperity.

Signed:

Lisa Manley, Global Vice President of Sustainability, Mars
Dr. Sally Uren, Chief Executive, Forum for the Future
Ruchira Joshi, Global Director Agri-commodities, IDH

EXECUTIVE SUMMARY

WHY TAKE AN INTEGRATED APPROACH?

As our civilization confronts an unprecedented polycrisis, the need for more effective action from the private sector to the compounding environmental and social challenges we face has never been clearer. However, developments in regulation and reporting frameworks can encourage carbon tunnel-vision and reinforce the artificial separation between social and environmental agendas. Despite this, leading businesses are increasingly seeking to design more effective interventions that address multiple related issues simultaneously, rather than misguidedly seeking to address these interconnected issues via piecemeal interventions targeting just one issue at a time. This report outlines a clear business case for greater resilience, productivity and growth in companies that adopt this more effective integrated approach to social and environmental challenges and impacts.

THE CONTRIBUTION OF THIS REPORT

In researching this report, we found that the vast majority of businesses are managing their environmental and social agendas in isolation, and even the case studies we could identify only go so far towards full integration. There was unanimous consensus among the businesses we interviewed that although an integrated approach to social and environmental agendas has potential to drive impact and unlock business benefits, the approach remains relatively unexplored. This report not only reflects the well-researched impacts of environmental issues on social issues, but also clarifies the practical arguments for addressing social issues in order to facilitate the transformational changes required for our civilization to return to operating within planetary boundaries.

> " The world is a complex, interconnected, finite, ecological–social–psychological–economic system. We treat it as if it were not, as if it were divisible, separable, simple, and infinite. Our persistent, intractable global problems arise directly from this mismatch. "
>
> —Donella Meadows, Thinking in Systems

A BUSINESS PLAYBOOK FOR ADOPTING AN INTEGRATED APPROACH

Designing smarter interventions that tackle related social and environmental issues in an integrated way requires a more integrated approach to sustainability governance, so that all employees can understand and act on sustainability as a function of their role, and as fundamental to their organisation and its goals.

We have developed six key recommendations for critical areas of action that can move an organisation from a typical approach that isolates sustainability, and distinguishes climate, nature and social impact as separate topics, towards an integrated approach to sustainability governance:

HARD GOVERNANCE

1. **UNLOCK STRATEGIC SYNERGIES:** Identify the synergies between business and sustainability strategies, embed sustainability goals and establish systems which demystify sustainability.

2. **RESTRUCTURE TO INTEGRATE:** Utilise business structure as a provocation, at board level and by establishing connective internal roles.

3. **LEVERAGE FORMAL PROCESSES:** Employ formal policies and incentive structures that ensure employees see social and environmental sustainability as integrated and fundamental to their role and what counts as success.

SOFT GOVERNANCE

1. **SHOW VISIONARY LEADERSHIP:** Leaders must accept a new role in a changing world - acting with courage and building skills to see the connections between business, society and environment.

2. **CREATE A COLLABORATION CULTURE:** Unlock a culture of interconnectedness through a deeper understanding of company culture and creating the conditions for true collaboration.

3. **LEVERAGE INFORMAL POWER:** Critically reflect on the nature of decision-making throughout the organisation to challenge how priorities are siloed and how decisions around this are influenced.

Businesses that embrace this approach and find more effective ways to address interconnected social and environmental issues together will not just be making their organisations more future-fit through greater productivity, resilience and growth; they will be contributing to a much more fundamental shift: a reorientation of the purpose of business to serve people, planet AND prosperity.

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INTRODUCTION

INTRODUCTION

The term 'polycrisis' is used with increasing frequency to describe the overlapping and intersecting nature of the multiple challenges we face as a society. Environmental crises such as the climate emergency, extreme weather events, permanently shifting weather patterns, mass extinction and biodiversity collapse, interact with social crises such as gender and racial inequality, income and wealth inequality and human rights abuses.

In this report, we argue that by taking an integrated approach to tackling these social and environmental challenges, businesses can both accelerate their positive impact and unlock business benefits. Our research supports the hypothesis put forward by Mars Incorporated and IDH that the vast majority of businesses are managing their environmental and social agendas in isolation. Furthermore, these agendas are not yet integrated internally across core business functions such as procurement, finance, marketing, innovation and corporate affairs.

We first describe the **current state of sustainability regulation and reporting**, and how regulation and reporting frameworks are creating carbon tunnel-vision and implementation challenges which reinforce the artificial separation between social and environmental agendas. We then outline the **impact case** for integrating social and environmental agendas, and how identifying the environmental impacts on social outcomes, or vice versa, can help accelerate positive impact and anticipate unintended consequences. Next, we highlight the business case for taking an integrated approach to solving environmental and social challenges and how synergistic approach can unlock business benefits though supporting resilience, productivity and growth. In Part Two, we set out **practical guidance** for any businesses looking to take their own journey towards integrating these agendas, articulating both what isolated and integrated governance looks like and the practical steps companies can take to integrate their governance.

We cannot afford to ignore these social and environmental challenges, and the window of opportunity to address them is closing rapidly. It is our view that the fundamental purpose of business should be to help solve these challenges, and that businesses have an essential and positive role to play. However, in order to do so, businesses need a clear rationale of the business benefits to enable their contribution.
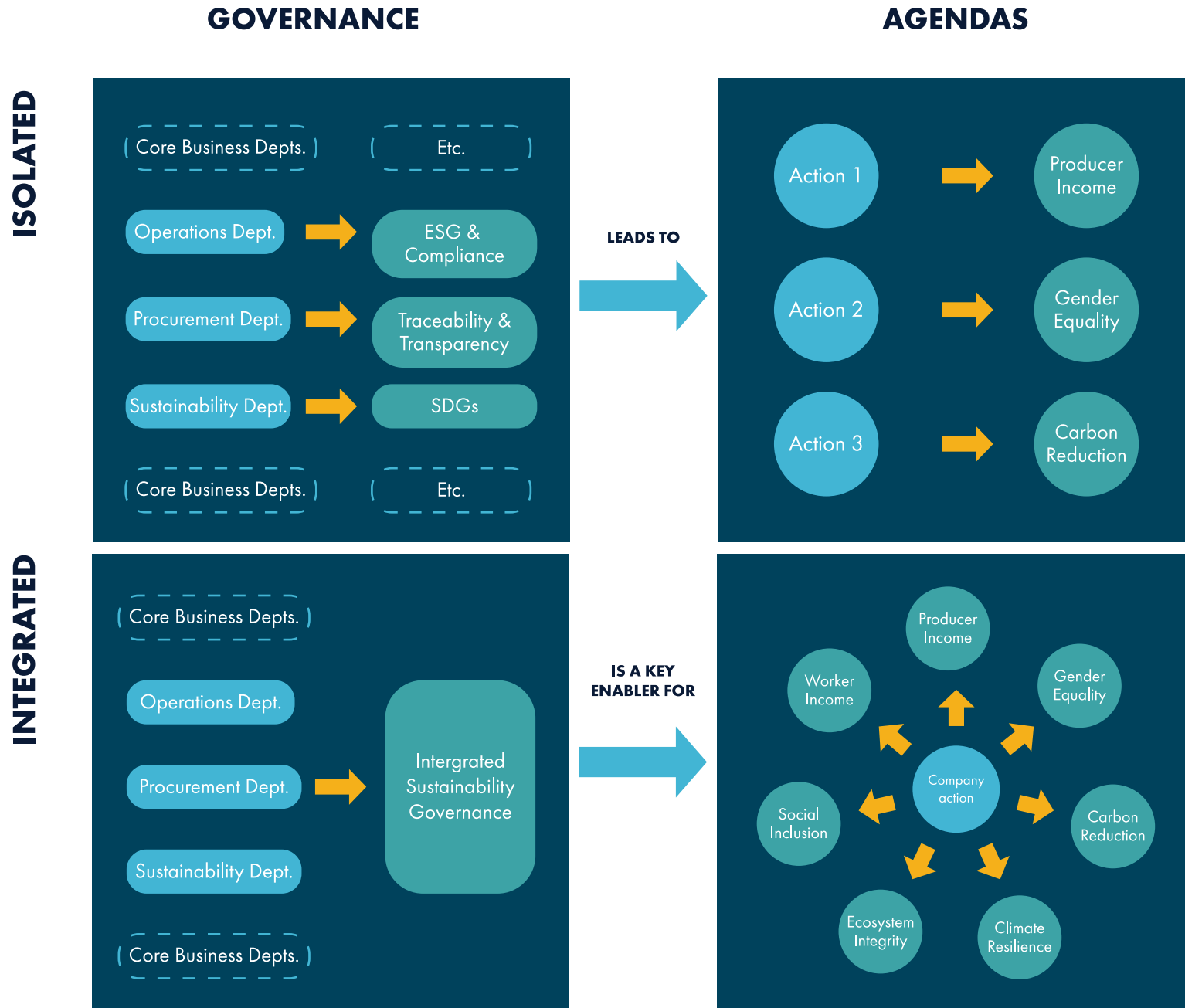
DEFINITIONS & METHODOLOGY

WHAT WE MEAN BY ISOLATED AND INTEGRATED AGENDAS AND ISOLATED AND INTEGRATED GOVERNANCE

When we refer to '**sustainability agendas**', we are describing the business activities designed to create impact and address sustainability related risks and opportunities. These can be designed and delivered in either an isolated or integrated fashion. The '**integrated approach**' we are advocating for entails designing sustainability agendas in such a way as to simultaneously achieve multiple positive social and environmental outcomes.

When we refer to '**governance**', we are describing the system of rules, practices and processes by which these activities are organised and implemented. Integrated in this context has two complementary meanings. The first is that sustainability is integrated throughout an organisation and across business functions as standard practice. The second meaning is that integrated governance incorporates both social and environmental aspects of sustainability in a synergistic manner.

GOVERNANCE

AGENDAS

ISOLATED

Core Business Depts. — Etc.

Operations Dept. → ESG & Compliance

Procurement Dept. → Traceability & Transparency

Sustainability Dept. → SDGs

Core Business Depts. — Etc.

LEADS TO

Action 1 → Producer Income

Action 2 → Gender Equality

Action 3 → Carbon Reduction

INTEGRATED

Core Business Depts.

Operations Dept.

Procurement Dept. → Intergrated Sustainability Governance

Sustainability Dept.

Core Business Depts.

IS A KEY ENABLER FOR

Company action

Producer Income · Gender Equality · Carbon Reduction · Climate Resilience · Ecosystem Integrity · Social Inclusion · Worker Income

Figure 1: A visual representation of what we mean by isolated and integrated governance, and isolated and integrated agendas.

THE METHODOLOGY BEHIND OUR RESEARCH

This report builds on the hypotheses put forward by Mars and IDH, as well as Forum's pre-existing work, leveraging decades of collective experience in sustainability and business. The content is informed by desk-based research and in-depth interviews with sustainability leaders in the private sector and in the third sector. The research was carried out over a three-month period from June 2023 to August 2023 by Forum's project team, with support from IDH and Mars colleagues.

To capture the current state of sustainability regulation and reporting, we used sources from leading management consultants, academic institutions such as the Diligent Institute and sustainability publications such as Edie. We synthesised analyses of sustainability reporting trends, critiques of the level of action versus required need, and broad picture perspective on legislative agendas.

The theoretical business case and playbook draws on Forum's existing thinking and frameworks, including the Business Transformation Compass, IDH's portfolio on sustainable trade and private sector engagement on agriculture, and Mars' thought leadership around aspects such as gender, livelihoods, and procurement as a tool for supply chain resilience. In addition to this body of work, we drew on the insights from a diverse array of institutions for theoretical argumentation and background, including B-Lab, the World Benchmarking Alliance, Said Business School, Shift, Harvard Business Review, Cambridge institute for Sustainable Leadership, and UNDP, amongst others. Specific references to relevant sources are hyperlinked in the body of this report. Case studies were identified via interviews, research and existing networks and knowledge. As far as possible, evidence for case studies was collected from multiple sources to verify impact.

Finally, interviews were a major source of evidence. Over the course of the project, nine sustainability leaders from global companies, including leading multinationals, contributed their insights via interviews or roundtable discussion. In addition, we spoke to representatives from leading conservation or sustainability organisations such as WWF and B-Lab, as well as Forum's CEO Dr. Sally Uren, a world-leading voice on sustainability. In totality, we believe these interviews provided an evidence base that overcomes the absence of quantitative evidence on this emerging topic, and established the argumentation for the report.

THE CURRENT STATE OF SUSTAINABILITY REPORTING

HOW REGULATION AND REPORTING FRAMEWORKS CREATE CARBON TUNNEL-VISION AND IMPLEMENTATION CHALLENGES

The context of sustainability commitments and disclosures from large companies demonstrates the pace and complexity of change underway. Just 18% of the N100 reported on sustainability in 2003, by 2020 this had risen to 80%. The Taskforce for Climate-related Financial Disclosures (TCFD) was launched in 2019, yet adoption has doubled in 2 years among the world's largest companies. Disclosure frameworks such as the Global Reporting Initiative (GRI) and CDP (formerly known as the Carbon Disclosure Project) have grown in importance as the vehicle for private sector reporting on environmental impacts. Alongside reporting and disclosure have come time-bound commitments, with the most common being net-zero or reduced emission targets, typically set for 2040 or 2050. At time of writing, more than 700 of the largest 2000 publicly tendered companies have made commitments to achieve net-zero CO2 emission.

Since 2015's Paris Climate Accords, a significant emphasis has been placed on climate action, in particular limiting greenhouse gas emissions. The result of this has been significant, with net-zero commitments made at national and local levels, and from across the private sector. These commitments have accelerated action on climate and the development of frameworks, for example the Science-Based Targets initiative and the GHG protocols, as well as an explosion of growth in carbon markets, the financialisation of the drawdown or reduction of carbon emissions. Terminology such as "net-zero", "1.5 degrees" and "climate mitigation" have entered the public lexicon and orient the media attention of sustainability. Although this has catalysed far greater action from a much broader range of actors, it has centred climate as the priority over other issues, including biodiversity loss and poverty. Private sector willingness to engage with climate is facilitated by the fact that carbon accounting frameworks are more developed relative to other issues, which is more aligned with data-driven business decision-making and strategy setting. There is no established or widely recognised methodology for identifying the 'scope 3' indirect effects of social issues, for example from decisions to locate manufacturing facilities on the broader labour market conditions in the communities surrounding those sites.

However, a "tsunami" of regulation is beginning to address both social and environmental issues, led by the EU, and increasingly from the US, UK and other regions. Legislation, for example the EU's Corporate Sustainability Reporting Directive (CSRD), the US's Uyghur Forced Labor Prevention Act, and the UK mandating TCFD disclosures, create unparalleled pressure on business leaders to confront sustainability - environmental and social - issues as a part of effectively managing the complexities of their business and supply chains.

Despite rising volumes of reporting and disclosure, a gap between intention and reality remains. Of the 34% of the world's largest companies with net-zero commitments, 93% will fail to reach their goal with their existing plans. Sixty per cent of the companies in the 25 highest emitting regions globally still do not have a net-zero target. Biodiversity, gender and livelihood issues, areas lacking the attention paid to climate emissions, lag further behind. Less than half of the 5,800 companies surveyed in KPMG's annual survey of sustainability reporting disclose biodiversity loss, or acknowledge social elements as a risk to their business. The Kunming-Montreal Global Biodiversity Framework at COP15 in 2022 may precipitate a greater emphasis on nature, but that emphasis remains discrete and siloed from other sustainability concerns.

The causes of inadequate integration of environmental and social aspects within action, planning or strategy are many. Frameworks focusing on social agendas require greater harmonisation, and social interventions are not yet matched with the more robust, comparable data that has supported climate commitments and action. ESG-linked financing may be surging, but public companies must continue to prioritise action that brings short-term gain to shareholders. Private companies may be freer to experiment, but also less constrained by external pressures to act. Regardless of ownership structure, many companies continue to be challenged by integrating sustainability into structure, strategy and processes. For example, responsibility for sustainability is frequently attributed to the chief executive, but without clarity or accountability in relation to what this means. Across business functions environmental impact is often siloed in a single department and not linked to other areas of the organisation. Conversely, issues relating to social impact may be spread across departments, such as HR, legal and sustainability, yet lack the required coordinating and connective roles to ensure effective integrated action.

> **"**ESG issues are often deeply linked, so taking an integrated approach can lead to greater efficiency and impact. For example, nature-based solutions and landscape approaches can reinforce climate interventions, as well as driving sustainable livelihoods and resilient communities. The companies that we see taking this more integrated approach are delivering far greater impact for their ESG goals. "
>
> — Sarah Giles, WWF

02

THE IMPACT CASE

THE IMPACT CASE FOR INTEGRATING SOCIAL AND ENVIRONMENTAL AGENDAS

The social and environmental challenges we face are locked in reinforcing feedback loops, such that one accelerates the other. This section of the report breaks down these causal relationships to reveal how isolated activity that impacts one side of the nexus can indirectly impact the other. However, through this analysis we can also identify how actions to intentionally address both sides simultaneously can accelerate positive impact, anticipate negative unintended consequences, and make interventions more effective.
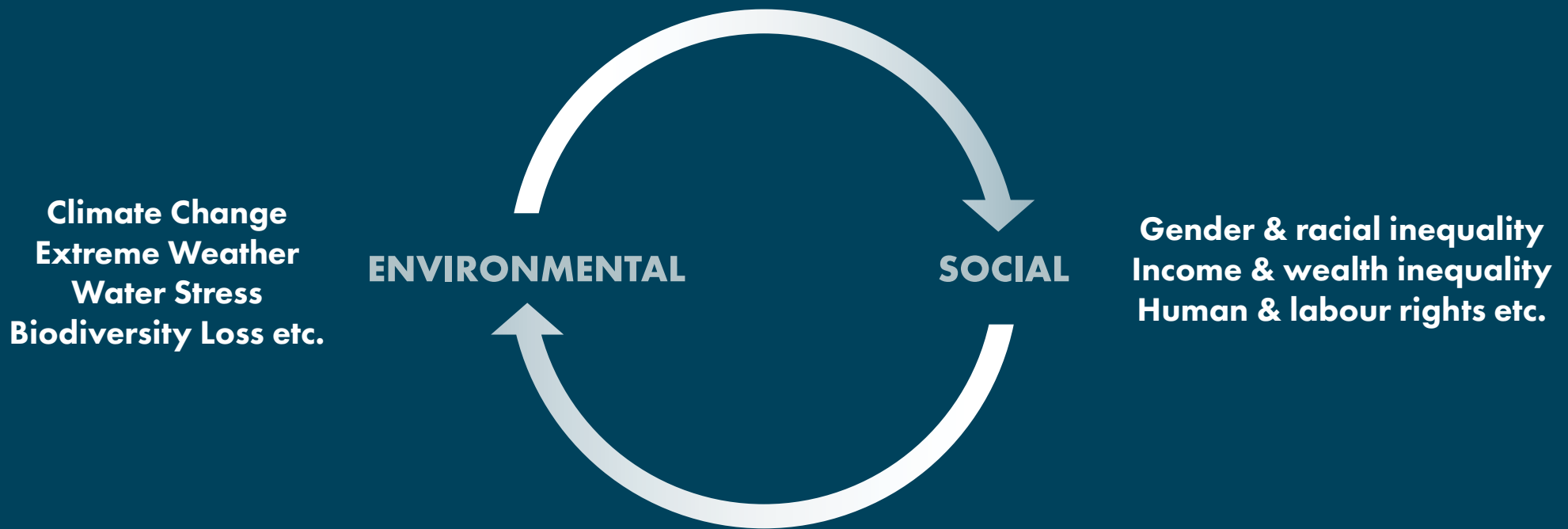
**Climate Change
Extreme Weather
Water Stress
Biodiversity Loss etc.**

ENVIRONMENTAL

SOCIAL

**Gender & racial inequality
Income & wealth inequality
Human & labour rights etc.**

Figure 2: The relationship between social and environmental challenges

IDENTIFYING THE ENVIRONMENTAL IMPACTS ON SOCIAL OUTCOMES

As of 2023, the policy commitments made by companies and governments are on track to deliver approximately 2.7˚C warming by 2100, and the World Meteorological Society anticipates we could temporarily breach the 1.5˚C warming threshold by as early as 2027. This will have devastating chronic and acute effects such as sea level rise, shifting weather patterns and extreme weather events, creating cascading social impacts such as food insecurity, hunger, water stress, migration, political instability and conflict. These effects will disproportionately impact specific groups such as women, racial minorities and people with disabilities. For example, some 80% of people displaced by climate change are estimated to be women, and women are 14 times more likely to die during environmental disasters due to their caring roles, limited mobility and lack of access to warning systems.

This relationship means that any action to mitigate climate change and address other environmental challenges can indirectly reduce a key driver of social inequality. However, doing so without examining the implications of environmental action on social outcomes risks creating unintended consequences.

On the other hand, using a systemic lens we can intentionally design targeted interventions to simultaneously achieve both environmental and social outcomes. Anticipating and accounting for the social impacts of environmental actions can ensure popular support for these initiatives, thereby making them more effective and impactful. This could be through targeted interventions aimed at supporting those most vulnerable to adapt to the changing climate, or ensuring that historically disadvantaged communities and identities are first in line to benefit from investments to move away from the fossil fuel economy rather than being left behind once again by industrial transformations. For example, in Sierra Leone, where only 6.4% of the country's rural population has access to electricity, the Solar Harnessed Entrepreneurs project has opened up work and business opportunities for women, by providing female entrepreneurs with priority access to decentralised, renewable mini grids.

IDENTIFYING THE SOCIAL IMPACTS ON ENVIRONMENTAL OUTCOMES

Arguments for addressing environmental challenges and eliminating social inequalities tend to appeal to moral sentiments. While we see these arguments as entirely valid, they overlook the fact that reducing inequality is both a moral and pragmatic necessity.

While it is clear that social and economic disadvantage make certain communities more vulnerable to the effects of climate change, the causal relationship between social inequality and environmental outcomes is more complex and subtle. Reducing social inequalities by creating the conditions for the economic empowerment of disadvantaged groups helps both to increase their resilience to environmental impacts and, crucially, to increase their capacity to contribute to addressing these crises.

Action to reduce social inequality and improve economic empowerment can therefore indirectly improve environmental outcomes. However, doing so without examining the implications of social action on environmental outcomes risks creating unintended consequences. Economists have long debated the relationship between income and environmental degradation, and driving economic empowerment could unintentionally increase the environmental harms associated with increased consumption.

Once again, using a systemic lens we can intentionally design targeted interventions to simultaneously achieve both social and environmental outcomes. For example, Nestlé is improving the livelihoods and economic resilience of smallholder farmers by providing cash transfers to support their capacity to introduce regenerative farming practices in Nestlé's supply chain. Similarly, ensuring that indigenous communities benefit financially from nature-based solutions can increase the resilience of those interventions by removing the financial barriers that prevent them from being active stewards of their local environment.

These examples illustrate how integrating social and environmental considerations in the design of sustainability agendas can help accelerate impact and design more effective, self-sustaining solutions to the critical social and environmental challenges we face, while mitigating risks by anticipating the unintended consequences of these actions.

03

THE BUSINESS CASE

THE BUSINESS BENEFITS OF INTEGRATING SOCIAL AND ENVIRONMENTAL AGENDAS

The business case for pursuing sustainability goals has been well established. This case is becoming ever more compelling and unavoidable as social and environmental crises increasingly damage the health of the operating context a business depends on for its continued operation and success. Many studies have also identified a correlation between strong environmental, social and governance performance and profitability, while the number of assets under management which take account of ESG factors continues to rise.

The objective of this report is not to make the case for sustainability in general, but to identify the business benefits of integrating business, social and environmental sustainability agendas compared to treating these agendas as isolated issues.

We have identified a number of case studies to illustrate the business benefits of integrating social and environmental agendas. Where attempts have been made to quantify the impacts and estimate the financial value of these intangible assets, we have included this in the case study.

INTRODUCING THE BUSINESS VALUE LEVER FRAMEWORK

When making investment decisions, it is crucial that companies consider the 'value to gain', alongside the 'value at risk'. In order to build a business case for integrating sustainability agendas, we have systematically explored the ways in which adopting this approach can drive value creation and, conversely, the ways in which an isolated approach can erode value and create opportunity costs.

There are many frameworks used to articulate and categorise business value, each with their own strengths and weaknesses. Our framework identifies three broad categories through which integrated sustainability action can either create or erode long-term economic value for a business, through business resilience, productivity and growth.

RESILIENCE

IMPROVING SUPPLY CHAIN RESILIENCE

Integrating social and environmental agendas when making climate adaptation investments can improve the resilience of supply chains. Supply chains are only as strong as their weakest link. Given that all supply chains are run by people embedded in physical landscapes who depend on critical public infrastructure, efforts to improve community resilience to environmental impacts in key sourcing regions will reduce supply chain risks and their associated costs. Empowering workers on the ground can increase their ability to provide consistent, high-quality ingredients and materials, and similarly, establishing long-term, mutual relationships with these supply chain workers can reduce a company's exposure to increasingly volatile commodity markets. These initiatives also reduce the need for expensive water efficiency and replenishment technologies and reduce operating costs by alleviating pressure on water prices in those regions.

Conversely, treating social and environmental agendas as isolated when in fact they are closely linked can create blind spots in the risk assessment process. 'Top-down' environmental programmes rolled out without consideration of social implications or consultation with the communities most affected can create significant social backlash and transition risks. Anticipating potential negative impacts of environmental transitions and designing these out from the start can remove public resistance and accelerate the implementation of sustainability measures.

CASE STUDY: DIAGEO TAKING AN INTEGRATED APPROACH TO WATER STEWARDSHIP

Diageo is an example of a corporation taking an integrated approach to both risk assessment and strategy in response to water scarcity. Water availability is already affecting their ability to continue production in water-stressed areas. Their response includes both a typical approach to improving water efficiency and social programmes to improve water security and community resilience in 'priority water basins' in their key sourcing regions. Examples include working with government, NGOs and local stakeholders to restore a wetland treating wastewater in Mexico, improving irrigation networks with farmers in Turkey, desilting dams to increase water infiltration in India, and providing access to water for many smallholder farming communities in Tanzania, Ghana, Brazil, Mexico, Uganda, Kenya and India. (Reference, page 79 in document)

CASE STUDY: ADVANCING COCOA AGROFORESTRY TOWARDS INCOME, VALUE AND ENVIRONMENTAL SUSTAIN-ABILITY (ACTIVE)

The United States Agency for International Development (USAID) has partnered with Mars to promote evidence-based sustainable cocoa agroforestry practices, thereby improving the resilience of their cocoa supply chain via a project designed to deliver both social and environmental outcomes. The project aims to help 9,000 farmers in Indonesia adapt to climate change and manage their cocoa farms with sustainable practices. This has the potential to reduce an estimated 650,000 tons of carbon dioxide equivalent (CO_2e), increase farmers' cocoa yields by 30 percent, and increase their incomes by 15 percent.

In its first year, ACTIVE developed an agroforestry curriculum, training materials, and training tools to be used in improving the capacity of cocoa farmers to manage their farms sustainably. In partnership with Mars, ACTIVE provided crop insurance to 1,475 cocoa farmers to provide coverage for excessive land moisture, an innovative product for farmers. (Reference)

Integrating social and environmental agendas represents an opportunity to reduce risks that will ultimately reduce expected cost on the road towards achieving social and environmental targets, which themselves are designed to mitigate risks to long-term value creation.

CASE STUDY: SOCIAL BACKLASH TO GREEN INFRASTRUCTURE IN BANGLADESH

Many companies such as Coca-Cola are investing in water desalination plants to address water scarcity. However, this can adversely affect fishing and coastal communities, leading to social backlash and migration. Taking a social lens to assess the risk associated with this environmental solution may shift the balance of costs and benefits in favour of other solutions such as green infrastructure and demand-based strategies. This was the case in Khulna, Bangladesh, where the government invested in a system of green infrastructure to reduce salinity and transfer freshwater from one river system to a coastal area. However, this too had unintended social consequences by raising the salinity in the source river system and affecting livelihoods in the region. The project's environmental impact statement focused narrowly on the site itself and only accounted for the impacts of its construction. The failure to consult local communities in the region to account for the social impacts, or to consider combining green infrastructure with other 'social' solutions such as demand-response measures with local industries, led to prolonged protests against the scheme. (Reference)

" *As there's increasing regulation and legislation around both environmental and social sustainability, having one integrated approach allows you to more effectively adhere to that, which is what we're working towards."*

—Alex Sykes, Diageo

ANTICIPATING REGULATORY COMPLIANCE

As discussed earlier in the report, the regulatory landscape is evolving extremely rapidly, with voluntary ESG frameworks such as the Taskforce on Climate-related Financial Disclosures either becoming mandatory or being incorporated into new legislation such as the EU's Corporate Sustainability Reporting Directive. As these frameworks become more mature, we are seeing early signs of greater integration of social and environmental factors.

CASE STUDY: SCIENCE BASED TARGETS FOR NATURE (SBTN)

The SBTN's corporate guidance already suggests "supporting local community rights and safeguards" as part of a strategy to transform underlying systems, at multiple levels, to address the drivers of nature loss. Getting ahead of this regulation to begin integrating social and environmental agendas will reduce the risk of being caught out at a later date as the frameworks catch up with the latest evidence of the importance of this approach. (Reference)

" *Having an integrated approach means you are able to consider all risks and opportunities together and are able to prioritise with all of these in mind. It helps decision-making by having a more holistic view of everything that needs to be prioritised."*

—Simon Tucker, Fonterra

PRODUCTIVITY

DRIVING OPERATIONAL EFFICIENCY

Integrating social and environmental agendas can be a more efficient means of investing for impact, effectively achieving multiple outcomes for every dollar invested. An integrated strategy opens up a broader, less siloed view of the complex systems a business is trying to influence, allowing for more synergistic programme design.

CASE STUDY: VITTEL

The Vittel brand, now owned by Nestlé Waters, was one of the first companies in the world to voluntarily introduce a payment for ecosystem services (PES) scheme. In the early 1980s, the company realised that the intensification of agriculture upstream in the Vittel catchment area posed a risk to the nitrate and pesticides level in their product, and consequently their brand. Options for addressing this problem, such as installing water filtration equipment, relocating, buying land upstream or threatening legal action were all prohibitively expensive. Instead, the company opted to financially incentivise farmers to voluntarily change their farming practices to reduce nitrate run-off, thereby reducing Vittel's operating costs while diversifying the income of farmers in their local community.

Commercial Impact: It is estimated that Vittel spent an estimated €980 per hectare of land per year. This is equivalent to €1.52 per m3 of bottled water produced. The French National Agronomic Institute demonstrated that under the assumption that one hectare of well-managed pasture produced 3000m3 of mineral water every year, the scheme was financially cost-effective. ([Reference](#))

RECRUITING AND RETAINING THE BEST TALENT

It is well documented that sustainability is a key driver of talent acquisition. The key to retaining these recruits is to ensure their expectations are met. An integrated approach to these agendas can ensure employees feel the company is motivated by the desire to drive impact, rather than simply comply with regulation. Employees may instinctively begin to recognise the interactions between social and environmental agendas, but feel constrained by a governance structure that prevents them from taking advantage of these synergies.

CASE STUDY: PATAGONIA

Patagonia's purpose and holistic approach to sustainability is well known and wide-ranging. The company's history on sustainability has included noteworthy campaigns such as "Don't buy this jacket" and DIY-repair, to being an early and consistent pioneer of recycled fibres and ensuring Fairtrade certified supplier manufacturing facilities. This integrated approach to issues relating to the company is founded on a company culture and philosophy that, in addition to driving action the company is widely recognised for, also influences employees in their day-to-day lives.

Commercial Impact: In 2019, Patagonia announced they had a 4% turnover rate for employees, the average rate for retail was 13%, with employee satisfaction at 91% against a US company average of 57%. A Trust Index Survey found "Environment", "People" and "Mission" as the three most common words that are used to describe why Patagonia is a great place to work. ([Reference](#), [Reference](#))

> **"** *If you have an integrated approach throughout your business, people can see it in their day to day - this is real, the Silicon Valley walk-out a few years ago precipitated a raft of bold commitments from Silicon Valley companies - employees want to see a well-run business as much as any other stakeholder."*
>
> *—Ben Kellard, Cambridge Institute for Sustainable Leadership*

GROWTH

NURTURING INNOVATION

Applying concepts of human-centred design to product innovation is already a well-established practice in businesses, which puts people at the centre of the innovation process to create products and services which resonate with their needs. Applying a social lens to environmental initiatives an be seen as an extension of this logic, putting people at the heart of environmental innovations . This means innovations are less likely to lead to unintended consequences. Furthermore, solving for multiple challenges simultaneously can lead to unexpected and more disruptive game changing innovations, which can unlock new market opportunities that were previously hidden. Caroline Criado-Perez has documented the myriad of ways in which data sets, innovations and user-centred design contain implicit gender bias. Applying a gender lens to environmental innovations can give a competitive advantage to appeal to 51% of the population.

CASE STUDY: UNILEVER REUSABLE PACKAGING TRIAL

Reusable packaging models can unintentionally increase carbon emissions and material costs over single-use packaging, if the reusable alternatives are not used a sufficient number of times to compensate for the additional material needed to make packaging more robust. This is largely down to consumer behaviour, and their perceptions around cost, convenience and the value of environmental benefits. In 2022, Unilever worked with Asda to address these social challenges, by innovating the way consumers interact with refill zones in stores by combating uncertainty, improving consumer understanding and making the experience more engaging.

Commercial Impact: During Unilever's period of in-store promotional activity they reported an average increase of nearly 2.5x in participation across the brands which took part. Following on from the intervention period they have seen a longer-term impact on the rate of sales with a 10% increase on their leading brand, implying long-term effects on consumer behaviour. (Reference)

Taking an integrated approach to innovation can also bring multiple perspectives to a challenge, unlocking new opportunities and disruptive innovations which simply wouldn't have been visible using an isolated approach.

CASE STUDY: NOVAMONT BIOREFINERIES

Novamont, in Italy, is using renewable resources to develop bioplastics and biochemicals made from raw materials such as waste and low-input crops from marginal land. This innovation was unlocked through the use of biorefineries built on decommissioned industrial sites close to the source of the waste feedstocks. This also brings benefits to the local communities and agricultural sector by enlisting local workers and skills, and partnerships with farmers.

Commercial Impact: In total, Novamont has invested €500 million in converting six post-industrial biorefineries. Just one of these refineries can produce 30,000 tonnes per year of low-impact bio-butanediol, a precursor of substances such as bioplastics and solvents. Novamont estimates that every 1,000 tonnes of bioplastics produced can create 100 new jobs in the local economy. (Reference)

> **Bringing the issues together unlocks the potential for transformation."**
>
> **—Ilaria Ida Walton, Mars**

BUILDING CUSTOMER PREFERENCE

An integrated agenda can improve customer loyalty when they feel they are part of addressing multiple solutions by purchasing that product. There is also greater brand recognition and media interest that comes from a smarter approach to integrating sustainability agendas.

CASE STUDY: INTERFACE NET-WORKS

In 2012, Interface partnered with the Zoological Society of London (ZSL) to establish Net-Works, an integrated supply chain solution that collects discarded fishing nets from impoverished fishing communities and recycles them into nylon yarn. It also provides social benefits by bringing marginalised communities into a global supply chain and providing access to finance through community banks. Net-Works has established over 66 local community banks that facilitate savings and loans. The programme is active in 36 coastal communities in the Philippines and Cameroon.

Commercial Impact: In 2015, Interface was able to connect Net-Works directly to over $23.5 million of sales, based on an initial investment of less than $1 million, with 83% of the sales team reporting that Net-Works has helped initiate or strengthen relationships with customers. By manufacturing yarn from recycled nylon, Interface's supplier Aquafil generates substantial environmental and financial savings. In 2013, it reported 12,600 tons of waste was eliminated, 70,000 barrels of oil saved, 42,000 tons of CO_2 avoided and 865,000 GJoules of energy saved. ([Reference](#))

04

THE PLAYBOOK

A PRACTICAL PLAYBOOK TO DRIVE IMPACT AND UNLOCK BUSINESS BENEFITS

HOW INTEGRATED GOVERNANCE ENABLES INTEGRATED AGENDAS

Unlocking an integrated agenda requires an organisational approach to sustainability that enables all employees to understand and act on social and environmental issues as a function of their role, and as fundamental to their organisation and its goals.
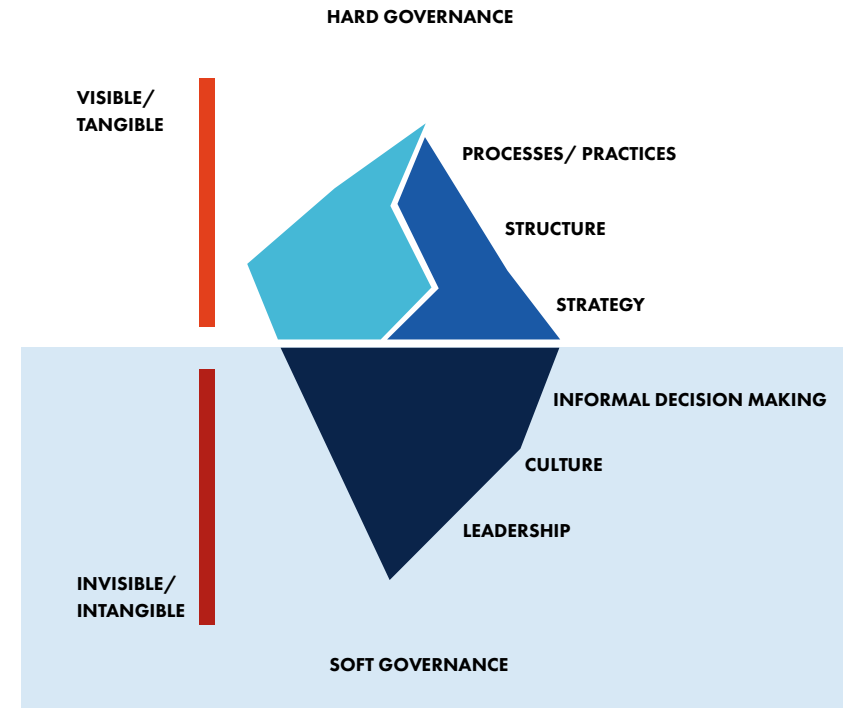
This meaning of "integration" enables the integrated approach articulated in the first sections of this report. Once integrated culturally, strategically and structurally, the collective knowledge of all stakeholders, their focus areas and their expertise contribute to a broadened perspective of how the organisation is already or can interact with society, nature and the environment, creating the conditions for interconnectivity and intersectionality in sustainability agendas.

THE LEVERS OF CHANGE

We define governance as the forms, structures and social processes that people and institutions use to create and shape their collective activities. How we relate, work together and organise are key to change, making governance an area of untapped potential for enabling transformation.

The iceberg diagram demonstrates how soft governance -the intangible, less visible factors of leadership, culture and informal decision-making -act as the often-neglected basis and driver of hard governance - strategy, structure and processes -that are more tangible and therefore receive much more focus. These levers are interdependent and interconnected. Approaching them as such creates a powerful change-making tool. This section follows the iceberg, first outlining the tangible and visible hard governance elements, before going on to the foundational soft governance elements, and how each can act as an area for change toward a fully integrated approach.

We have developed 3 recommendations for each hard and soft governance levers as critical areas of action that can move an organisation from a typical approach that isolates sustainability, and distinguishes climate, nature and social impact as separate topics, towards an integrated approach to sustainability governance.

HARD GOVERNANCE

VISIBLE/ TANGIBLE

PROCESSES/ PRACTICES

STRUCTURE

STRATEGY

INFORMAL DECISION MAKING

CULTURE

LEADERSHIP

INVISIBLE/ INTANGIBLE

SOFT GOVERNANCE

HARD GOVERNANCE: MAKE IT INTEGRATED AND EFFECTIVE

WHAT

Hard governance refers to the explicit and visible components of an organisation. It is more tangible, as strategy, structure and formal policies and processes are typically set out explicitly, then implemented and embedded in the business through visible chanes to how things are done. Although seemingly easier to identify with clear problem-to-solution tactics, hard governance factors can be too rigid and fixed, resulting in people working within them being bound by constraints or by inherited "best practice". Hard governance is also how employees are most commonly engaged, via KPIs and targets, reporting structures, and job descriptions.

HOW IT RELATES TO INTEGRATING SOCIAL AND ENVIRONMENTAL AGENDAS

As the means through which stakeholders participate in the organisation, for example in how they understand their role and objectives, hard governance can be an enabler for connecting social and environmental to their work. If sustainability is consciously and consistently embedded throughout the organisation, employees, executives and board members will be able to link their role with existing or emergent issues.

For example: An IT department may be aware of the carbon emissions related to data servers, but not the conditions in which the servers were built. Through hard governance, stakeholders in that team are incentivised and enabled not only to find efficiencies and reduce emissions but also to identify solutions that incorporate social considerations too.

SOFT GOVERNANCE: THE FOUNDATION OF INTEGRATED GOVERNANCE

WHAT

Soft governance refers to the sometimes implicit and less formalised cultural components of how people relate and organise within a company. Soft governance is less tangible and consequently, harder to shift. These levers are often submerged implicitly within a company, however surfacing them and making them explicit can create much deeper change toward integrated strategies.

HOW IT RELATES TO INTEGRATING SOCIAL AND ENVIRONMENTAL AGENDAS

Unlocking the interconnection and intersectionality of social and environmental agendas calls for visionary leadership to go beyond tangible roadmaps and a culture that fosters connections and collaboration between teams, regions and hierarchical levels. For example, in the current context, issues of a social nature such as poverty reduction, gender equality, social inclusion and community resilience can be challenging to define and measure, comparative to greenhouse emissions, with consequences for how easily it can be integrated within a business' strategy, prioritisation, resource allocation and decision-making. Whilst this can and does inhibit progress, trailblazing leaders may acknowledge this issue, but emphasise innovation and opportunities for "no-regrets" synergies between different issues, linking impact to the organisation's purpose and values, and drive action.

HARD GOVERNANCE

RECOMMENDATION 1: UNLOCK STRATEGIC SYNERGIES

Identify the synergies between business and sustainability strategies and establish systems which demystify sustainability and trigger new ideas.

1.1 Leading with strong leadership and with support from provocative, critical internal or external partners, **bring together key personnel** in strategy and sustainability teams to **identify synergies, and any barriers** to integrating the two.

1.2 Move toward an integrated organisational governance by **developing systems and tools** which demonstrate how sustainability interacts with functions. Most importantly, by **aligning these systems with an integrated strategy can trigger new thinking** and open up new opportunities.

> " *It isn't a sustainability strategy, it's a sustainable business strategy, sustainable growth, sustainable profit...*"
> **—Nick Mazzei**

> " *Starting with the mission and the point of the business - how do you actually integrate ESG into this - what is your understanding of the ESG implications (of ESG) on your business?*"
> **—Katie Hill, B-Lab**

> " *A business struggles to deliver on one strategy, let alone two...*"
> **—Anonymous**

Example - Linking history and the future in strategy:

Multinational health insurer and healthcare company Bupa has chosen to focus on the interrelationship between planetary health and human health in its sustainability strategy. Doing so demonstrates an understanding what sustainability means for Bupa, and how it relates to their history, purpose and goals. In addition, through its marketing, Bupa links the health of the planet to the societal health it specialises in. Its strategy therefore highlights the organisation's area of expertise and indicates why this is linked to sustainability. This golden thread is an effective and clear strategic focus. Bupa's Director of ESG links this with culture: "it really helps to have a shared purpose for everybody that works in the company.... it really means that everybody lives and breathes it, and it is built into the company strategy."

Example - Rabobank, democratising sustainability:

For new projects, the Dutch multinational bank provides team members (not in the sustainability team) with a matrix which contains the 25 impact areas (covering a broad range of sustainability issues) the organisation has identified as most pertinent to its business. In order for the project to move ahead, project teams must de-select those areas they do not perceive as material and then provide a justification for removing it from the project's consideration. Experts then review that justification and assess its validity.
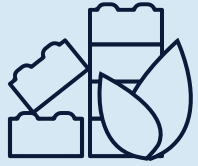
RECOMMENDATION 2: RESTRUCTURE TO INTEGRATE

Utilise business structure as a provocation, at board level and by establishing connective internal roles.

2.1 Ensure sufficient provocation and expert oversight at board level by **establishing an independent advisory board** stocked with individuals with extensive and broad experience **across a range of sustainability issues**, who also understand the nature of business.

2.1 Create roles that act as **connective tissue between business functions and the executive** and board. **These individuals should have an intersectional background** that enables them to perceive interconnections and moves the organisation toward integration.

> **❝** *Have an independent sustainability advisory panel - what we call our critical friends, and ask them for guidance on various issues."*
>
> *—Simon Tucker, Fonterra*

> **❝** *What could be helpful are things like sub-committees of the board who can be an internal critical friend and provide coordination – companies often jump from strategy to operations, missing the tactical gap, the connective tissue that can see the integration both horizontally across functions like procurement and marketing and vertically through the hierarchy."*
>
> *—Ben Kellard, Cambridge Institute for Sustainable Leadership*

Example - Faith in Nature's world first:

Appointing Nature to the board and giving it a vote is a unique provocation to the organisation and to the board. It ensures that every strategic decision must be considered in relation to its impact on nature, and enables that relationship to be adaptive to the changing world in which business operates.

Example - Innovating roles and responsibilities in multinationals:

Mars' have made Barry Parkin both Chief Procurement Officer and Chief Sustainability Officer, sending an important signal to the whole organisation about both of these critical functions. Diageo have hired Kate Gibson in the newly created role of Director of Diageo in Society that demonstrates the organisation's commitment to society and its targets.

RECOMMENDATION 3: LEVERAGE FORMAL PROCESSES

Employ formal policies and incentive structures that ensure employees see sustainability as integrated and fundamental to their role and what counts as success.

3.1 **Employ remuneration practices** that drive integrated and effective action by **incorporating social and environmental measures** that are equally measured alongside other business critical indicators.

3.2 **Approach metric setting creatively**, with an understanding of how impacting harder to measure areas, for example in social elements, can positively change more quantifiable measures such as climate or materiality in nature.

> **"***Look at the incentive structure - we're not there yet with how businesses are set up legally. Look at articles of incorporation, and make purpose more intrinsic - it isn't going to be about saying a specific thing on emissions, it's about a purpose which considers impact embedded at that level"***
>
> ***—Laura McGonigal, former head of sustainability at Aesop***

Example - Schneider Electric's 64,000 employee wide scheme:

Schneider Electric's short term incentive scheme is linked with overall company performance and individual performance. However, the company also assesses success via two schemes, the Schneider Sustainability Impact (SSI), a selection of 11 transformative programmes, and more recently the Schneider Sustainability Essentials (SSE), which tracks annual progress with 25 quantitative KPIs and some additional qualitative programmes. The annual short-term incentive scheme covers the Group's executives and around 64,000 eligible employees, and the weighting of the SSI criteria has increased from 6% to 20%.

RECOMMENDATION 1: SHOW VISIONARY LEADERSHIP

Leaders must accept a new role in a changing world - acting with courage and building skills to see the connections between business, society and environment.

1.1 Act with courage, speak with conviction - **CEOs must now emphasise clearly the need to embed sustainability** in everything the organisation does and be clear on what that means for each function of the business. They must **"own the problem** and then **extend and infuse the feelings of ownership** and connection across their own world".

1.2 **Equip Leadership** with the **capability to navigate complexity** and the **language to communicate** it, not relying on sustainability training that reinforces siloed thinking.

> " *To be a brilliant CEO in the future, you'll have to know the value of risk from all these environmental and social factors. How we drive resilience and success is shifting in society and in organisations."*
>
> *—Dr. Sally Uren, Forum for the Future*

> " *Persuasive communication and education is critical to change hearts, minds and behaviors in the C-suite and beyond. We should not piece-meal this communication issue by issue, but rather we should help executives, employees and informed consumers understand why and how its important to develop socially and economically while reducing impacts on the natural environment."*
>
> *—Lisa Manley, Mars*

> " *Integration cannot be completely achieved without a clear understanding of both environmental and social agendas, and how they relate to each other. We all need to understand our social and carbon footprints to see the opportunities, priorities and risks across social and environmental agendas for integration"*
>
> *—Alexander Sykes, Diageo*

Example - Unilever's Alan Jope, standing firm in front of shareholder pressure:

2022 saw a sensational story as the account manager of one of the largest shareholders, in Unilever, Fundsmith, criticised the organisation for pushing its sustainability credentials, as they saw it at the expense of profit. Despite the company's consistent growth over the past decade, and during his tenure, Unilever's CEO Alan Jope was singled out as "ridiculous" for linking the purpose of one of the company's brands, Hellmans, to tackling food waste. In spite of this criticism, the company has stuck with its commitments, instead doubling down by adding activist investor Nathan Peltz to the board. As of 2023, Fundsmith remains a significant investor in Unilever.

Example - Aviva builds capacity on understanding finance within interconnected systems

AVIVA Investors, along with the School of System Change and Forum for the Future co-created the "School of System Change in Finance", a course to support Finance Leaders (including AVIVA investors Leaders and other finance professionals from outside the business) to understand the business (Finance) in an interconnected and systemic way. Making connections with environmental, social questions, but also building systemic Leadership capacity: helping participants to refine their own role as a changemaker, and identify where and how they can exert influence for most impact.
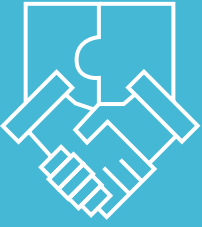
RECOMMENDATION 2: CREATE A COLLABORATION CULTURE

Unlock a culture of interconnectedness through a deeper understanding of company culture and creating the conditions for true collaboration.

2.1 **Build a deeper understanding of how employees perceive sustainability efforts** and drive culture through **establishing fora for informal knowledge sharing**, enabling seeing opportunities for cross-collaboration.

2.2 Enable a **step change in radical collaboration** across the business by ensuring business units from all over the organisation **are included in collaborative opportunitie**s. Internalising **social and environmental understanding for all employees** can create a culture of **unconscious competence** and drive integration.

> " *"The environment is dominant in ESG, with most of the focus and priority being placed on the environment side, especially climate. The conversation around social isn't yet integrated, which makes it more challenging, but we need to start bringing these conversations together as the social implications of environmental challenges are increasingly becoming clear."*
>
> *—Simon Tucker, Fonterra*

Example - Chanel, creating a culture of interconnectivity:

Multinational health insurer and healthcare company Chanel's newly hired Global Head of Sustainability Transformation is an indication of the organisation's willingness to make connections such as how human rights and environment can come together. The organisation emphasises the importance of having internal fora that can bring different voices and allow people to work collaboratively. Chanel is also centring the concept of intersectionality, connecting issues of gender, feminism and the environment, with a strong commitment towards long term and quality over quick- wins. This is linked to the organisation's history and legacy, and aligns perfectly with its long-term vision.

Example - A "Good Together" culture at Fonterra:

Fonterra, as a global, employee-owned organisation, worked hard on internal culture as a key ingredient for change, tying their "Culture for Performance" to their organisational purpose. Doing so links the organisation's particular history to its renewed sense of purpose and contributes to high employee satisfaction due to optimism and sustainability work.

RECOMMENDATION 3: LEVERAGE INFORMAL POWER

Critically reflect on the nature of decision-making throughout the organisation to challenge how priorities are siloed and how decisions around this are influenced.

3.1 Get started on **understanding the complex ways in which decisions are made** at every level in your organisation by **bringing groups together** to reflect. Go beyond board level to identify how **middle-managers are either driving or stifling action**, and how this impacts culture and ultimately, the ways in which the business operates.

> **" An organisation might have good sustainability KPIs, but it may only be one among many others. In their mind leaders will still be weighing their KPIs, commercial and sustainability – with some more important than others."**
>
> **—Johan Verburg, Rabobank**

> **" We listen a lot to our stakeholders - you have to be curious and genuinely listen to other people's perspectives, as that is what shapes sustainability… no single department or single person can do it alone."**
>
> **—Ida Krabek, Ørsted**

Example - Educating employees beyond their area of activity:

In 2002, Patagonia began educating its employees on factory workplace issues from within its supply chain. The intention of this practice was to broaden employees'; perspectives on the impacts of their actions, how they might cause stress, long-hours and other issues at supplier factories, and thus for this to change their decision-making.

CONCLUSION

A CALL TO ACTION

This report aims to build the case for an integrated sustainability agenda and how this can drive value for the business and provide the practical steps organisations can take to move toward integrating social and environmental issues within governance. Our planetary systems are in crisis, and with this comes the need for transformative changes to our societies and ultimately business too. Action is needed, urgently. We hope that trailblazing businesses take this report as encouragement to set out on a journey of integrated response to environmental and social issues themselves and experiment, using our suggestions as provocations for going further. Those who do so will be contributing to a fundamental reorientation of the purpose of business to serve people, planet AND prosperity.

Forum for the Future, IDH and Mars welcome feedback and reflections on the contents on this report, as well as contributions to how the ideas and suggestions in this report could be developed and advanced.

ACKNOWLEDGEMENTS

DISCLAIMER

ABOUT THE ORGANISATIONS

ABOUT FORUM FOR THE FUTURE

Forum for the Future is a leading international sustainability non-profit. For 25 years we've been working in partnership with business, governments and civil society to accelerate the transformation toward a just and regenerative future.

We use our systems change and futures expertise to help tackle critical global challenges: the climate emergency, transforming our food and farming systems, and ensuring supply chains are more resilient and more equitable. We also enable long- term, transformative change by equipping individuals and organisations to act more systemically.

We are working towards a vision of a just and regenerative future, where people and nature are thriving together. In this future, the systems we rely on, from food to energy to governance, have been reconfigured to restore and replenish our ecosystems and promote dignity, fulfilment and equity for everyone. The purpose of the economy has shifted to meet the needs of society, create value fairly, and to operate in harmony with nature and within planetary boundaries. We have addressed the root causes of today's biggest challenges: our climate and biodiversity crises and structural inequality. And we have built capacity for ongoing resilience to adapt to and address challenges of the future.

Find out more about our work at forumforthefuture. org, thefuturescentre.org, or via LinkedIn, Twitter and Facebook.

ABOUT IDH

IDH seeks to transform markets through collaborative innovation, convening and investment in inclusive and sustainable solutions that enable businesses to create value for people and planet. To achieve this, IDH brings together coalitions of committed stakeholders from across global value chains towards joint visions and program agendas for sustainable trade.

IDH is a global organisation, built from a network of around 400 staff including experts who are embedded in key agricultural, manufacturing, apparel and commodity value chains. In 15 years of operation, IDH has mobilised private sector investment and support to test and innovate new business models designed to create better jobs, better incomes, a better environment, and gender equity for all.

To learn more about IDH, visit www. idhsustainabletrade.com or find us on Facebook, Twitter, LinkedIn, Instagram and YouTube.

ABOUT MARS, INCORPORATED

For more than a century, Mars, Incorporated has been driven by the belief that the world we want tomorrow starts with how we do business today. This common purpose unites our 140,000+ Associates. It is at the center of who we are as a global, family-owned business, and it fuels how we are transforming, innovating, and evolving to make a positive impact on the world.

Every year, our diverse and expanding portfolio of quality confectionery, food, and pet care products and services delight millions of people and supports millions of pets. With more than $47 billion in annual sales, we produce some of the world's best-loved brands including CESAR®, Ben's Original™, PEDIGREE®, ROYAL CANIN®, Cocoavia®, DOVE®, EXTRA®, KIND®, M&M's®, SNICKERS® and WHISKAS®. We are creating a better world for pets through nutrition, breakthrough programs in diagnostics, wearable health monitoring, DNA testing, pet welfare and comprehensive veterinary care with AniCura, BANFIELD™, BLUEPEARL™, Linnaeus and VCA™.

We know we can only be truly successful if our partners and the communities in which we operate prosper as well. The Mars Five Principles – Quality, Responsibility, Mutuality, Efficiency and Freedom – inspire our Associates to take action every day to help create a world tomorrow in which the planet, its people and pets can thrive.

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