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Embedding sustainability
into your organisation's DNA

Right thinking

There is growing awareness that value creation is a long-term construct and that companies must strike the right balance between financial imperatives and obligations associated with other 'capitals'. Corporate Australia is replete with examples of the impacts of getting this balance wrong. Companies should be deeply considering the sustainable development issues and risks that will impact their ability to create value over the long-term, and hardwiring their responses into their strategies and business models.

For millenia, First Nations peoples have recognised that the health of the land and the prosperity of its people are intertwined. As custodians, those that live here have a responsibility to care for it, and it is clear that as a society we have failed to do this.

The 2019-2020 Black Summer bushfires were the most devastating in the continent's history. The fires burned an estimated 18.6 million hectares; an ecological catastrophe that, the Bushfire Royal Commission stated in no uncertain terms, was driven by climate change.

We are seeing inaction on climate change by political leaders and in the private sector we are seeing more and more companies' attention turn to the implications of climate change. Over the years we have seen this take on many forms: ESG, sustainable capitalism, sustainable development, sustainability, social license to operate.

Regardless of the label, what it speaks to is the need for companies to acknowledge the role they play in society however big or small. Whether it is climate change, gender inequality, modern slavery and abuses along the supply chain it is clear that these issues are ones that in today's context can impact a company's long-term performance. While these issues have been present, and pressing, for decades it seems that their prominence has been elevated in the last year or two and is getting a head of steam even among the most cynical public company executives.

There are many motivators for the increased attention being given to social, environmental and governance issues by boards and executives. For some there may be opportunities in the green recovery, concerns about long-term 'investability' or protection of long-term revenues. For others it may be protecting against reputation risk, pressure from NGOs, customers and regulators and perhaps even a moral imperative. Whatever the motivation, the fact remains that these issues are rising up the executive and board agenda.

Massive global asset managers and institutions like the UN and the business roundtable are endeavoring to lead the charge. CEO of Principles for Responsible Investment Fiona Reynolds notes that COVID-19 has 'served as the first real proof-point for sustainability, underlining the fact that ESG investing doesn't come at a cost, but more than that can future-proof investments and in some cases boost returns, all the while helping to shape a better future. In the face of this crisis, the facts are now proving the resilience of sustainable investing' (Reynolds, 2020).

The cost of inaction

Corporate Australia is replete with examples of the impacts of getting it wrong. Just last year we saw shareholders protesting against AMP's handling of sexual harassment allegations against a senior executive resulting in the Chair's resignation. When Rio Tinto destroyed two culturally significant rock shelters at WA's Juukan Gorge, which had evidence of continual human occupation dating back at least 46,000 years, it prompted a federal parliamentary inquiry and led to shareholders demanding the resignation of chief executive Jean-Sebastien Jacques and two of his deputies.

A company's social license to operate can quickly come under threat if consumers, investors, the media or regulators believe the organisation has operated in bad faith or has ignored a material non-financial issue. Those that fail to understand the importance of sustainability will be critically assessed by investors and risk jeopardising access to future capital support. Internally this can lead to losing the fight for talent; employees are attracted to organisations that walk the talk on ESG and are expecting more from employers in this space.

The need for a holistic and integrated approach

There is growing awareness that value creation is a long-term construct and that companies must strike the right balance between financial imperatives and obligations associated with other 'capitals' (human, social, natural, relationship, etc.). Trust is engendered only if organisations truly understand who they are serving and their long-term expectations, and then create transparency about their strategic plans and accountability mechanisms for implementation.

However, even companies that embrace sustainability risk being accused of greenwashing if their adoption is superficial and the claims cannot be substantiated.

Sustainability and social license issues should be central to companies' conversations about purpose, culture, strategic choices, investment decisions, initiative prioritisation, measurement and executive compensation, and assessment and reporting.

The intensity of action is incontrovertible – particularly in assessment, reporting and disclosure – through the work of organisations such as the Sustainability Accounting Standards Board, the Australian Sustainable Finance Initiative, and the International Integrated Reporting Council. These are important initiatives, but it's our contention that companies should be deeply considering the sustainability and social license issues and risks that will impact their ability to create value over the long-term, and *hardwiring* their responses into their strategies and business models. Assessment, reporting and disclosure are out workings of that effort.

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Building the evidence base

As a B Corp and a firm that helps organisations that do good do better, Right Lane has long been interested in sustainability and social license issues, whether working with our asset owner clients or global and local responsible investing initiatives, conducting materiality reviews or developing social impact measures for clients' balanced scorecards.

Now, we want to better understand the extent to which companies are deeply considering these issues and risks that will impact their value creation theses and doing the hardwiring we referred to above.

We are currently in the midst of a research effort, talking to super funds, investor organisations and ASX200 companies to get a better sense of the answer to this question. Below we share a handful of early observations, illuminated by quotes from Australian executives who've participated in our study:

For some it's a compliance exercise, without much real impetus:

- 'We've responded but not out of a deep-rooted commitment by management … rather because of interest from regulators and our shareholders … they're asking what we're doing to reduce our carbon footprint, on renewables and on modern slavery.'
- 'Not everyone agrees that these things are legitimate business issues. One of the barriers is generational change in listed companies. Old white men don't really get that things have changed.'

For others it's a deep-seated commitment:

- 'Climate change is central to us … sustainability sits in Finance with the other [drivers of financial reporting] … that's the best thing for integrated thinking – talent matters, emissions matters, next to the hard financial numbers … how these sustainable issues impact the financial metrics.'

There is still a degree of equivocation by some:

- 'We are truly embracing long-term thinking. It's sort of going further than Simon Sinek in that part of the 'why' is tied into it … this long-term sustainable role in the world. Australia Post, AMP and Rio … What was OK in the past is not OK [now]. The question for me is: is this a moment in time? I don't know.'
- 'Our businesses aren't yet thinking in that long-term way because it's too hard to know … If you are really looking to the long-term, you are trying to see what the world will look like in the future. To me the health of the business in 20 years depends on what the world is like in 20 years.'

It's linked to leadership, but not driven consistently out of one area:

- 'One of the challenges for this is the typical tenure for CEOs … when you get a new CEO you get a repositioning … you'd have to think carefully regarding hardwiring to protect against changes of leadership.'
- 'Internally we'll be getting reward systems and KPIs all aligned to longer-term objectives and organisational rather than individual initiatives. My team is working on climate, labour rights … we're also seeing transformation in diversity and gender equality. The change is coming from the board.'

It's increasingly seen as common sense:

- 'It's [about] how do you become a modern business and what are the public expectations of a modern business.'

Steps to take

A good place to start if you are not already there is to define the sustainability topics that are material for your organisation and its theory of value creation. Some organisations, including our own, are developing SDG impact theses, as a way of connecting strategic objectives and initiatives to these sustainability topics.

We've seen a resurgence of scenario planning last year with the elevated levels of uncertainty facing our clients. Planners should seize the opportunity to expand this thinking, engaging top teams in discussions about what might change in the world, including black swans, and what it means for their companies. If they aren't already, sustainability topics that are material for your organisation's value creation thesis should be considered within your investment criteria and decision-making processes.

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want to know more?

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Right Lane is a flourishing, top quality, management consulting firm.

We employ our distinctive ideas and processes, and our absolute commitment to delivery, to help clients we care about pursue their inspiring missions.

We work alongside clients who do great work within the sectors they operate, and we are excited to be involved in creating outcomes that truly make a difference.

We are an ethical consulting firm with a strong belief in the work we do, and with a passion to give back to the broader community with the skills and expertise available within our walls.

Right Lane was established in 1997 to help private, not for profit and public sector clients to clarify and accelerate their future plans. Over the past 24 years, we have helped the executive teams and boards of around 300 organisations to define and adapt their direction and strategy, identify and clarify their priorities, align their efforts with their aspirations, get their major projects started and finished, and measure and improve their performance.

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